

Rating Rationale

Brickwork Ratings assigns 'BWR BBB-' for Avantha Realty Ltd.'s Bank Loan facility of INR 59 Crore with a tenor up to six years

Bank Loan Rating: BWR BBB-

Outlook: Stable

Brickwork Ratings has assigned **BWR BBB-** (Pronounced BWR Triple B Minus) rating with stable outlook for Avantha Realty Ltd.'s (ARL or "the Company") Bank Term Loan Facility of ₹ 59 Crore. Brickwork Ratings' '**BWR BBB-**' stands for instruments that are considered to have **moderate degree** of safety regarding timely servicing of financial obligations. Such instruments carry moderate credit risk.

The rating has, inter alia, factored the Company's substantial lease/rental income and the support it receives from the group Companies. The rating is however constrained by the Company's cumulative losses, contingent liabilities, dependence on rental and income from investments.

The proceeds of the term loan issue will be used for repayment of existing loans, construction related expenses and general corporate purposes.

Background:

ARL is the real estate arm of Avantha Group, was incorporated in 1981 in West Bengal in the name of Janpath Investment and Holdings Limited. In August 2009, the name of the Company was changed to Avantha Realty Limited (ARL). ARL is primarily engaged in the business of purchase, sale, ownership, development, improvement, leasing, exchange, hire or otherwise acquiring and / or disposing off lands and immovable properties of any tenure or interest and holding certain investments in group companies.

ARL is having free hold and lease hold residential properties, commercial properties across the country besides huge land bank in Haryana, U.P. and Maharashtra. ARL also has some subsidiaries which own more than 500 acres of land bank in various part of the country. ARL is holding equity /preference shares / bonds in group companies besides having strategic holding of approximately 16% in Lavasa Corporation Limited. Mr. Gautam Thapar, along with his six nominees is having 100% shareholding in ARL.

Avantha Group is one of the India's leading business conglomerates. The Group has business interests in diverse areas, including pulp and paper, power transmission and distribution equipment and services, food processing, farm forestry, chemicals, energy, infrastructure, information technology (IT) and IT-enabled services. With an impressive global footprint, the Group operates in more than 10 countries with 20,000 employees of 20 nationalities. Group companies include Crompton Greaves Limited, India's largest power equipment company,

and Ballarpur Industries Limited (BILT), India's largest paper manufacturer, both listed on the Indian stock exchanges.

Financial Performance:

During FY11 (15 Months), the Net income from operation increased from ₹ 13.86 Crore in FY2010 (12 Months) to ₹ 21.09 Crore in FY11. However, total income increased from ₹ 15.53 Crore in FY10 to ₹ 57.50 Crore which includes trading income of ₹ 29.85 Crore in FY11. (The Company has clarified that the trading income will not be any significant source of income in future). EBIDTA has increased from ₹ 12.24 Crores in FY10 to ₹ 15.04 Crore in FY11 and PAT showed improvement from ₹ 1.30 Crore in FY10 to ₹ 5.48 Crore in FY11. However, cumulative losses and contingent liabilities stood at ₹ 63.92 Crore and ₹ 365.18 Crore respectively in FY11. Contingent liabilities of the Company are mainly towards credit facility/guarantee provided to subsidiaries and other Companies. As of June 2011, the Company received ₹ 16.84 Crs in the form of rent from AHL, BILT and CGL.

Borrowings of ARL have been increased from ₹ 106.12 Crore in FY10 to ₹ 214.46 Crore in FY11 in the form of unsecured loan of ₹ 186.05 Crore. Net current assets stood at negative ₹ 38.66 Crore in FY11 as compared to negative ₹ 105.30 Crore in FY10. ARL's interest cost increased moderately about ₹ 11.45 Crore in FY11 from ₹ 11.33 Crore in FY10.

Abridged Balance sheet, P&L and Key financial ratios for the period FY09 – FY11 have been given in Annexure I, II and III respectively.

Term Loan Structure:

The Company proposes issuing term loan with tenure of 6 years including moratorium of 6 months. The proceeds of the term loan issue will be used for repayment of existing loans, construction related expenses and general corporate purposes. The repayment shall be done in 66 EMIs from the aggregate monthly rentals of about ₹ 140 lacs received from Ballarpur Industries Ltd. (BILT), Avantha Holdings Ltd. (AHL) and Crompton Greaves Ltd. (CGL). However, it has been clarified by the Company that the lease contracts with the group Companies of Avantha Group are perpetual.

Rating Outlook:

Avantha Realty Limited is the Real Estate arm of Avantha Group which is experienced and has demonstrated its ability to execute through various companies like BILT, Crompton Greaves etc. The given rating majorly factors factored the Company's substantial lease/rental income, land bank owned through its subsidiaries and the support it receives from the group Companies. The rating is however constrained by the Company's cumulative losses, contingent liabilities, dependence on rental income from group Companies and income from investments made in other entities.

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Key Financials - Avantha Realty Ltd.

Annexure I: Balance Sheet

S. No	Particulars (in ₹ Crores)	June-11 (15 M)	Mar-10 (12 M)	Mar-09 (12 M)
A	SOURCES OF FUNDS			
	SHARE HOLDERS' FUNDS	191.70	157.99	159.69
1	Share Capital	22.41	98.99	98.99
2	Share Capital Suspense	36.51	0.00	0.00
3	Reserves and Surplus	132.79	59.00	60.70
4	Bond Application Money	0.00	40.50	0.00
	LOAN FUNDS	214.46	106.12	153.87
5	Secured Loans	28.41	31.83	44.04
6	Unsecured Loans	186.05	74.29	109.83
	TOTAL	406.16	304.60	313.56
B	APPLICATION OF FUNDS			
7	Gross Block	140.43	126.74	111.33
8	Less: Accumulated Depreciation	6.07	4.39	3.43
9	Net Block	134.36	122.35	107.90
10	Capital Work-in-progress	3.42	0.62	0.47
11	INVESTMENTS	244.82	219.24	194.13
	CURRENT ASSETS, LOANS & ADVANCES	65.89	31.89	27.13
12	Sundry Debtors	6.74	5.10	0.00
13	Cash and Bank Balances	21.44	0.51	1.07
14	Loans and Advances	36.54	26.28	26.06
	LESS: CURRENT LIABILITIES AND PROVISIONS	104.54	137.20	86.83
15	Current Liabilities	93.45	133.55	83.43
16	Provisions	11.09	3.64	3.40
	NET CURRENT ASSETS / (LIABILITIES)	-38.66	-105.30	-59.70
	Profit & Loss Account	62.22	67.70	70.75
	TOTAL	406.16	304.60	313.55
	Contingent Liability	365.18	348.14	0.00

Annexure II: Abridged Profit and Loss

S. No	Particulars (in ₹ Crores)	June-11 (15 M)	Mar-10 (12 M)	Mar-09 (12 M)
1	Operating Income	21.09	13.86	5.41
2	Trading Income	29.85	0.00	0.00
3	Other Income	6.56	1.67	25.89
	Total Income	57.50	15.53	31.30
	EXPENDITURE			
4	Increase/(Decrease) in Stocks	10.73	0.00	0.00
5	Cost of Trading goods purchases	18.55	0.00	0.00
6	Administrative and other expenses	3.39	1.61	3.98
7	Loss on sale/transfer/adj. for investments (net)	2.45	0.00	15.54
8	Balances written off	0.08	0.00	0.08
9	Donation of Freehold Land			4.19
10	Misc. Exp.	0.68	0.00	0.00
	Total Expenditure	35.89	1.62	23.79
	PBITDA	15.04	12.24	-18.38
11	Interest and Finance Charges	11.45	11.33	18.57
12	Depreciation, obsolescence, amortisation and impairment	1.68	0.97	1.03
	Profit / (Loss) before taxation	8.46	1.60	-12.09
13	Provision for Tax	2.98	0.30	0.01
	Profit / (Loss) After taxation	5.48	1.30	-12.11
14	Provision written back	0.00	0.05	0.00
	Balance brought forward from last year	-69.40	-70.76	-58.64
	Adj. Profit / (Loss) for the year	-63.92	-69.40	-70.75

Annexure III: Ratio Analysis*

S. No	Particulars	June-11 (15 M)	Mar-10 (12 M)	Mar-09 (12 M)
1	Debt - Equity Ratio (Times)	2.75	1.59	1.73
2	Interest Coverage Ratio (Times)	1.31	1.08	-0.99
3	DSCR (Times)	0.44	0.08	0.18
4	Net Worth (₹ Crore)	91.27	88.59	88.94
5	Operating Margins (%)	88.80	88.35	-51.29
6	Profitability Margin (%)	25.99	9.38	NM
7	ROCE (%)	7.96	5.91	5.33
8	Net Cash Accruals to total Debt (%)	2.47	1.88	-7.20
9	Current Ratio (Times)	0.63	0.23	0.31

*Calculation has been done based on BWR ratio definition