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## Rating Rationale for Ackruti City Limited's secured Non Convertible Debenture (NCD) Issue of INR 100 Crores with a tenure of 2 years

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**NCD Issue Rating: BWR BBB-**

**Outlook : Stable**

Brickwork Ratings (BWR) has assigned BWR BBB- (Pronounced BWR Triple B Minus) Rating for **Ackruti City Ltd.'s** proposed ₹ 100 crore secured NCD issue. Instruments with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations. Such instruments carry moderate credit risk.

The rating has factored, inter alia, Ackruti City Limited's experience in real estate, focus on participation in Slum Rehabilitation Schemes, and the shift towards residential projects in line with current market dynamics. The rating is however constrained by unfavorable coverage ratios, high level of outstanding debtors, stretched working capital cycle, few instances of delay in interest payments and the current situation in the real estate industry.

### **Brickwork Ratings reaffirms the following outstanding rating of Ackruti City Limited:**

Instrument	Amount	Rating	Assigned / Reaffirmed	Issue Date
Long term Secured NCD Issue	₹ Cr 75	BBB-	Reaffirmed	May 5th, 2011

### **Ackruti City Limited (ACL)**

Incorporated in 1989 by Mr. Hemant Shah and Mr. Vyomesh Shah, ACL is a construction and real estate group involved in the development, sale and lease of commercial, residential, retail, and industrial property. It operates in several real-estate verticals such as Residential, Commercial, IT Parks, SEZs, SRA, Biotech Parks, Retail and Hotels. Its operations are focused primarily in Western India - Mumbai, Pune, Thane, Ahmedabad, Vadodara and Surat. In Mumbai, the company has a major presence in Central & Western suburbs covering ~80% of their area under construction in the city. ACL executes projects both on its own and through Joint ventures with other developers.

ACL's business model includes the development of Slum areas (under Slum Rehabilitation Schemes) and projects undertaken in PPP with State Governments. This has enabled the company to acquire land at competitive prices. Till date the Ackruti group has completed construction of 13 million sft. of which 8.10 million sft. is under Slum Rehabilitation Schemes.

ACL executes some of its projects through joint development agreements with other real estate players. It currently has approximately 68.51 million sft. under its management from various projects including joint ventures and public-private partnerships. Of this, ACL's share is 35.10 million sft. ACL's offering is primarily focused on residential projects, which currently account for 78% of its Area under Development, while commercial projects account for 22%.

### **Management Profile**

Ackruti City is backed by management experience of almost 3 decades in construction and engineering. It is led by Mr. Hemant Shah, who is the Chairman and Mr. Vyomesh Shah, the Managing Director of ACL. There are 4 Non-executive Directors on the Board, in addition to a Whole time Director.

We have taken cognizance of fact that in Dec 2010, SEBI, by an ex-parte interim order banned the company's promoters from dealing in their own shares. However the management has confirmed that this order does not bar the company from raising any further capital either through rights issue, FPO or QIP. Further, the promoters have been permitted by the Securities Appellate Tribunal (SAT) vide its order dated 15<sup>th</sup> Dec 2010 to pledge the shares of the company as security for raising loans by company and also for topping up against margin calls.

### **The Project**

The Project consists of (i) the Government Component and (ii) the Company Allocation, which ACL receives in lieu of the work done for the Government.

**Government Component:** Construction and development on a BOT basis for the Government of Maharashtra (a) 240 quarters on the Chunnabhati Plot, with built up area of approx. 161,800 sft; (b) Udyog Bhavan building on part of Andheri Plot with a built up area of approx. 161,800 sft and a double storeyed underground parking complex with built up area of approx. 66,600 sft.

**Company Allocation:** Construction, development and sale of a residential-cum-commercial complex on part of the Andheri Plot.

**NCD Issue:**

The NCD issue of ₹ 100 crores is by way of a private placement for financing the construction and development of the above-mentioned Project. The debentures have a tenure of 2 years, and are redeemable at the end of the term at a premium, such that the debenture holders receive a pre-determined pre-tax IRR on the subscription amount. The coupon rate is 12% p.a. payable half-yearly, subject to a moratorium during the first year. The issuer has the option of accelerating the redemption of the debentures during the last 6 months of the tenure, subject to the conditions laid out in the Terms of the Issue.

The NCD issue is secured by the following:

1. Second charge on (a) the Company Allocation saleable area and (b) all advances and receivables generated by it. (The first charge is held by Central Bank of India, for provision of a Project Loan Facility of Rs. 100 crores for the same project.)
2. Personal guarantee of Mr. Vyomesh Shah and Mr. Hemant Shah.

IL&FS Trust Company Ltd has been appointed as Debenture Trustee to the issue.

**Key financial information:**

As of 31<sup>st</sup> March 2011, ACL's net worth was ₹ 1618 crores and borrowings were ₹ 1853 crores. ACL recorded net sales of ₹ 677 crores in FY11, at a modest y-o-y growth of 16.8%. Rising input costs have led to downward pressure on margins. Operating profit has declined to ₹ 360 crores in FY11 from ₹ 383 crores in FY10, while PAT margin in FY11 was 22.3%, down from 28.4% in FY10. The Company has a reported net profit of ₹ 151 crores.

The debt levels of the company have increased steadily from ₹ 829 crores in FY08, to ₹ 1306 crores in FY10 and ₹ 1853 crores in FY11. The current Debt/Equity ratio stands at 1.39 times. Interest expense as a percentage of sales has increased from 29% in FY10 to 31% in FY11. Consequently, Interest Coverage ratio has fallen from 1.49 to 1. ACL's ability to generate cashflows from sales and contain its debt levels in future, is a key rating sensitivity.

Average Creditor Days for FY11 have increased to 84 from 62 in FY 10, while Average Collection Period for FY11 and FY10 was 202 and 243 days respectively. This reflects a stretched working capital cycle. Sundry Debtors has increased from ₹ 321 crores in FY10 to ₹429 crores in FY11.

**Table 1: Abridged Consolidated Balance Sheet**

(in ₹ Cr)

Year Ended	31-Mar-07	31-Mar-08	31-Mar-09	31-Mar-10	31-Mar-11
<b>Liabilities</b>					
Share Capital	66.7	66.7	66.7	72.7	72.7
Reserves	437.9	729.5	979.8	1405.9	1545.0
<b>Networth</b>	<b>504.6</b>	<b>796.2</b>	<b>1046.5</b>	<b>1478.6</b>	<b>1617.7</b>
Total Secured Loan	282.0	552.0	848.9	1081.6	1480.1
Unsecured Loan	205.9	277.2	208.0	223.9	372.5
<b>Total Borrowings</b>	<b>487.9</b>	<b>829.2</b>	<b>1056.9</b>	<b>1305.5</b>	<b>1852.6</b>
Current Liabilities	92.2	214.7	238.3	316.0	494.4
<b>Total Liabilities</b>	<b>1084.9</b>	<b>1842.6</b>	<b>2341.8</b>	<b>3100.2</b>	<b>3964.8</b>
<b>Assets :</b>					
Net Block	89.1	104.4	65.0	141.1	221.81
Capital Work-in-Progress	0.2	10.5	33.1	98.9	110.3
Goodwill	-	-	162.4	96.9	173.8
Investments	274.9	227.8	302.5	356.3	292.1
Current Assets	720.7	1500.1	1768.3	2402.0	3161.3
Deferred Tax Assets	-	-	10.4	5.0	5.4
<b>Total Assets</b>	<b>1084.9</b>	<b>1842.6</b>	<b>2341.8</b>	<b>3100.2</b>	<b>3964.8</b>

Source: Company Data

**Table 2: Abridged Income Statement**

(in ₹ Cr)

Income Statement	31-Mar-07	31-Mar-08	31-Mar-09	31-Mar-10	31-Mar-11
<b>Net Sales</b>	<b>189.5</b>	<b>439.8</b>	<b>397.1</b>	<b>579.6</b>	<b>676.8</b>
Expenditure	84.1	65.9	25.4	197.1	316.5
<b>Operating Profit</b>	<b>105.4</b>	<b>373.8</b>	<b>371.7</b>	<b>382.6</b>	<b>360.2</b>
Depreciation	6.2	6.9	5.7	7.1	12.9
EBIT	99.1	366.9	366.0	375.4	347.4
Other Income	9.1	36.0	57.7	38.5	36.6
Interest	20.0	61.5	140.2	168.0	209.2
PBT	<b>88.3</b>	<b>341.3</b>	<b>283.5</b>	<b>245.9</b>	<b>174.7</b>
Tax	10.7	41.9	23.2	80.9	24.0
<b>PAT</b>	<b>77.6</b>	<b>299.4</b>	<b>260.3</b>	<b>165.0</b>	<b>150.7</b>
PAT on Income %	40.9%	68.1%	65.5%	28.5%	22.3%
Increase in sales	-	132.1%	-9.7%	46.0%	16.8%
Increase in PAT	-	286.0%	-13.1%	-36.6%	-8.7%

Source: Company Data

**Table 3: Key Ratios \***

	31-Mar-07	31-Mar-08	31-Mar-09	31-Mar-10	31-Mar-11
Debt/Equity Ratio	1.14	1.19	1.28	1.03	1.39
Interest Cover (x)	2.86	4.35	1.81	1.48	1.00
Debt Service Coverage Ratio	N.A	0.60	0.98	0.51	0.39
Tangible Net Worth (₹)	504.6	796.2	884.1	1381.7	1443.9
NPM (%)	40.9%	68.1%	65.5%	28.5%	22.3%
ROCE (%)	9.9%	22.5%	17.4%	13.5%	10.01%
Net Cash Accruals / Total Debt	0.13	0.30	0.23	0.12	0.07
Current Ratio	1.21	1.23	1.59	1.84	1.73

\* As per BWR workings

### Rating Outlook:

ACL's profit margins are benefitted by its low cost of land, which it acquires in lieu of SRA projects executed for the government. However, most of the residential saleable area that ACL acquires by way of SRA projects will materialize in FY12 onwards. Till then, the Company is dependent on sale/lease of commercial space and sales from its affordable housing projects for its actual revenues. ACL's performance is dependent on sustainability of its margins, its ability to generate cash flows from new sales, and the real estate industry's performance amid rising interest rates, input costs and scarcity of adequate finance.

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