Rating Rationale **for Parsvnath Developers Ltd's proposed secured Non Convertible Debenture (NCD) Issue of ₹200 Crore**

Issue Rating: BWR BBB (SO)	Outlook: Stable

Brickwork Ratings (BWR) has assigned BWR BBB(SO) (Pronounced BWR Triple B Structured Obligation) Rating for Parsvnath Developers Ltd's (PDL) proposed ₹ 200 crore secured NCD Issue. 'BWR BBB (SO)' stands for an instrument that is considered to offer Moderate credit quality / safety in terms of timely servicing of principal and interest obligations. The ratings factors PDL's low cost land bank, substantial debt reduction through various strategic decisions, and focus on residential housing and integrated townships. However, rating is constrained by low coverage ratio, delay in payment of few financial obligations in FY09, volatility of PDL stock and the fact that more than 80% of promoter holding is pledged currently.

BWR has essentially relied upon the audited financial results of PDL, projected financials and information and clarification provided by the issuer and its promoters, Term sheet outlining the structure of the deal, the legal Opinion, and collateral value analysis.

Background

Parsvnath Developers Ltd (PDL), promoted by Mr. Pradeep Jain in the year 1990, is one of India's leading real estate developers. It has a diversified portfolio which includes Integrated Townships, Group Housing, Commercial Complexes, Hotels, I.T. Parks, BOT Projects with DMRC, SEZs and 3rd Party Contracting. PDL has pan India presence across 45 cities in 16 states and has completed 39 projects with area of 11.89 mn sq ft. Presently 49 projects with a total area of 79.24 mn sq ft are under development/ construction and 5 Projects with 1.79 mn sq.ft are under third party contracts.

Parsvnath Developers Limited (PDL) has formed a subsidiary entity, Parsvnath Hotels Limited (PHL) to provide value added real estate services. It has tied up with Fortune Park Hotels Ltd., a subsidiary of ITC Ltd. and Royal Orchid Hotels to manage and operate hotels. PDL has entered into a BOT arrangement with Delhi Metro Rail Corporation envisaging construction of 13 malls along the railway tracks on DMRC land.

Two real estate funds namely Red Fort Capital and Sun Apollo have invested in Premium luxury housing project La Tropicana, Delhi and premium residential project Parsvnath Exotica Part – II, Gurgaon respectively. To reduce its debt PDL monetized few of its non strategic assets and delayed projects, through which it raised Rs.350 cr in February 2010 to June 2010 period, company also raised Rs.168 crore in June 2009 to September 2009 quarter through QIP route.

BWR has taken cognizance of the fact that the Company was subject to income tax search on May 13, 2010. The reply of the company for the same is as mentioned below:-

The IT Department conducted search of our company on May 13, 2010 at its Regd office as per authorisation dated May 6, 2010 issued under Section 132 of the IT Act and Section 37A of the Wealth Tax Act. During search certain documents of our company were seized. Thereafter the Dy. Director of IT, Faridabad issued summons requisitioning further information and documents which were provided by the company.

The company does not envisage any substantial financial implication of this search. We are also enclosing the Information Memorandum of the Debenture Issue.

Proposed Issue:

Parsvnath Developers Limited propose to raise about ₹ 200 Crore through issue of structured secured non convertible debentures (800 NCD's of Rs. 25, 00,000 each) with a tenor of 36 months. Company intends to use NCD proceeds towards general corporate purpose, normal capital expenditure and augmenting long term working capital.

The NCDs would be secured by

1. English mortgage of immovable property situated at Parsvnath Mall, Rohini, New Delhi with step in rights to develop the said property and charge on all the cash flows and receivables of the issuer from Parsvnath Mall. This cover shall be 2 times the amount of outstanding amount of NCDs.
2. Pledge of fully paid up freely transferable equity shares of PDL having market value of 1.25 times of outstanding amount.
3. Irrevocable and unconditional personal guarantee of Mr. Pradeep Kumar Jain.

Security & Top up Triggers:

If the market value of the Immovable Property falls below 1.75 times the outstanding Obligations, the Issuer shall top the security cover by providing cash collateral or pledge of free Shares of Issuer within 3 Business Day of occurrence of such shortfall. This property is currently valued at ₹400 cr by JLL in its report dated 27th August 2010. As per term sheet PDL is expected to get this valuation revalidated every 6 months form JLL at its own cost.

As per term sheet of this structure, there will be a No lien account with bank acceptable to investors and all the receivables of Rohini Project will route through this account. This money will be used for interest payments, payments of trustee and other fees, redemption of NCD's, and towards reserve for payment of interest equivalent to one quarter interest payment. Balance will go to company only if PDL maintain security cover of 2x in respect of immovable properties and 1.25x in respect of pledge of shares

If the market value of the Pledged Shares falls below 1.1 times of the outstanding Obligations, the Issuer shall arrange to pledge additional Shares of Issuer or provide cash collateral to increase the security cover at least to 1.25 times of the outstanding Obligations.

If share price falls more than 30 % from the Inception Price or if the pledged shares (for this issue) constitutes or exceeds 50% of the outstanding paid up equity capital of the Issuer then the top up will only be by cash, which should be deposited in escrow account and shall be used for redemption of debentures on Call Option dates or on Redemption dates as the case may be. The issuer shall not have any right to require withdrawal of said amount.

Other Important Clauses:

The Issuer shall have the right to exercise call option at the end of 12 months from the deemed date of allotment. Interest would be payable quarterly and default interest at 1% p.m. would be payable for the period of default. The redemption would be made in four equal installments on the last day of 27/30/33/36th month from the allotment date.

PDL Share Price Analysis:

Table 1: Key data

CMP *	135
1Yr high	146.9
1 Yr low	99.05
Mkt Cap (Cr)	2686
Free Float	25%
3 mth volatility	35.39% Vs 8.36% for Index
1 Yr volatility	70.77% Vs 16.73% for Index

As on 30th August 2010

Table 2: Turnover

	Value(in Cr)	Volume (no of shares)
6 mth Average	4.67	372967.72
1 yr Average	7.72	805686.62
3 yr average	15.89	894090.79
1 yr max	144.01	10018400.00
1 yr min	0.09	16400.00

PDL Vs NIFTY performance

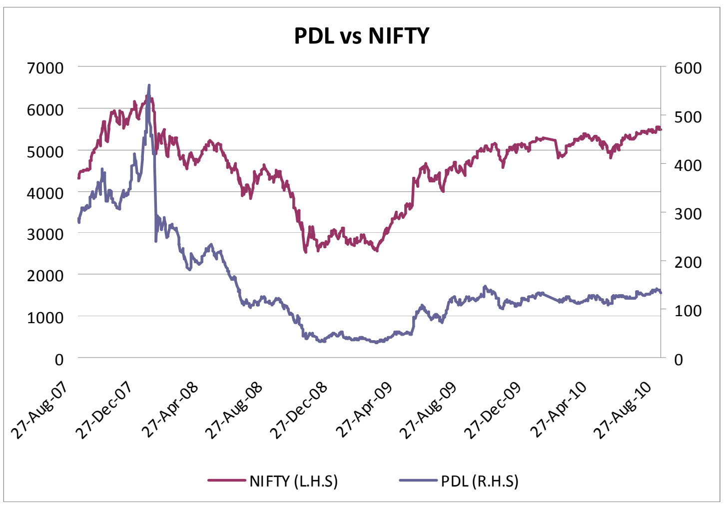

Table 3

	FY08	FY09	FY10
RoE	22.46%	5.63%	6.13%
EPS	22.98	6.11	7.08
Tangible BVPS	102.3	108.5	113.4
Price/Book(x)*	1.9	0.33	1.0
P/E*	8.8	5.94	16.0

** considered share price as on 31st March for calculation of P/BV and P/E*

PDL stock has shown high volatility in past few years compared to the market. The return on equity and EPS has deteriorated in since FY08 mainly due to demand slowdown, increase in interest cost and overall global financial crises. The tangible book value per share has grown marginally from 102.3/share in FY08 to 115/share in FY10.

Financial Profile:

PDL report its revenues as per percentage of completion method, it recognizes after 30% of estimated cost is incurred and this includes land cost. PDL's sales from operations and PAT declined by 60.5% and 73% respectively from FY08 to FY09 due to significant demand slowdown in real estate (due to global crises coupled with unsustainable prices in FY08, here the demand was more investor driven and there were not many end users) and increase in interest cost during this period. However company increased its sales and Profits by 35% and 25% respectively during FY10. Company's EBITDA margins declined from 29.7% to 26.6% during FY10, however due to focus on affordable housing and rent income from DMRC projects, going forward, the margins are expected to enhance from this level.

Company's ROE and ROCE has reduced substantially from 22% and 20% respectively in FY08 to 6.1% and 7% respectively in this FY10. The company is constantly pursuing several policies to reduce the debt burden from its stretched balance sheet. So far the de-leveraging effort has also been boosted by its successful introduction of FDI partners in SPVs of two premium projects. The company has raised ₹ 168 Cr through the QIP in October 2009 through an issue of 13.9mn shares at INR121 per share. Post the QIP, promoters' stake was reduced by 6% to 74.73% and debt-equity ratio to 0.7 from 0.8.

Though company's interest coverage ratio at 2.5x, shows comfort for interest payments, however, adjusted DSCR has been 0.62x for FY10, 0.76x for FY09 and 2.07x for FY08 this shows that company did not had enough internally generated funds to pay back financial obligations due in FY09 and FY10.

Table4: Key Financials

	2010	2009	2008
Net Sales (INR mn)	940.73	698.40	1771.32
EBITDA (INR mn)	250.48	207.65	614.45
PAT (INR mn)	140.61	112.82	424.37
Networth (INR mn)	2251.52	2004.69	1889.69
Total Debt (INR mn)	1709.79	1931.02	1820.52
Equity Capital (INR mn)	198.55	184.69	184.69
Total Debt/Tangible Networth (x)	0.78	0.99	0.98
Interest Coverage (x)	2.53	2.41	14.03
Debt-Service coverage ratio (x)	0.62	0.76	2.07
Operating Margins (EBITDA/ Op Income) (%)	26.63	29.73	34.69

	2010	2009	2008
Profitability margins (PAT/Op Income) (%)	14.95	16.15	23.96
Return on capital employed (%)	7.01	5.51	20.61
Net cash accruals to total debt (x)	0.09	0.07	0.21
Current ratio (x)	2.36	2.65	2.59

Industry Background

The Indian economy witnessed a gradual slow down in its growth during global crisis with a similar impact on the money supply that led to some serious funding problems specifically for real estate developers as traditional banking channels tightened lending and consumer demand also witnessed a slump. All these factors forced developers resort to alternative revenue generation strategies such as stake sale, sale of non-core assets, offer incentives to the consumers and even reduced property prices on an average by 20-30% to stimulate demand. The price correction provided an opportunity for those consumers who earlier could not afford to purchase house due to steep property prices and many developers switched to offering affordable housing. Rapid urbanization in India, rising income levels and economic growth has created sizable middle class that is expected to boost demand for affordable housing. Further, an increase in the tax slabs in the Budget 2011 will lead to a rise in disposable income of individuals and increase their affordability.

In the residential segment, property rates have started increasing in the recent months especially in cities like Mumbai and Delhi. After a year-long stagnation in property sales renewed demand in the residential space has boosted the confidence of developers. It has also resulted in increase in prices which has led to improved liquidity position of real estate companies.

However any continuous hardening of the prices and the current inflationary situation may affect affordability and affect demand.

The commercial real estate segment has shown signs of recovery in the second half of 2009 mainly due to decline in rentals and realty rates, easing of liquidity conditions and the corporate sector returning to expansion mode. The leasing activity has gained momentum and there appears to be a rise in the buy-out of office space too, however, occupancy levels still have not seen full-fledged recovery compared to FY08 because of the oversupply situation still persists and is expected to keep prices under pressure in the near future. GDP growth in FY10 was estimated at 7.2% and going forward the growth rate is expected to be stable if not better. Thus, few companies are now in a better position to hold on to prices.

Rating Outlook:

We believe the rating for this structure is sensitive to PDL's stock performance and effective monitoring of structure and share price by debenture trustees is. The enforcement of security on behalf of debenture holders within 3 business days of happening of an event of default is a function of effectiveness of debenture trustee. Should there be any necessity of having to resort to enforcing the security, looking at past one year average volume traded of PDL, it may take about 15 days to sell the pledged shares in the market.

Currently 80% of promoter shares are pledged and after this issue approximately 90% of promoter holding will be pledged. Company is expecting release of some shares currently pledged with various banks, in next 45 days. According to company after this release ~70% of promoter holding will remain pledged. However, currently company has very small cushion to pledge additional shares in case of share price going southward. The additional shares available with promoter can cover down side of ~35% if there is no subsequent new pledge of shares after this issue.

This rating is subject to total adherence of the Company to the final Information Memorandum signed by the Chairman of Parsvanath Developers Ltd on 28th August 2010, as shared with Brickwork Ratings.

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Brickwork Ratings (BWR) has adopted SEBI's standardized Rating Symbols and their definition advised vide SEBI circular CIR/MIRSD/4/2011 dated June 15,2011, with effect from June 21, 2011. While there is no change in the Rating symbol as a consequence to the above, for the amended definition of the Rating, please refer to http://www.brickworkratings.com/scale.html. It is clarified that the said change in the definition should not be construed as a change in the Rating.

Annexure I: Abridged Balance Sheet (Consolidated)

(In Rs. Crore)

Particulars	2009-10	2008-09	2007-08
Sources of Funds			
Share Capital	198.55	184.70	184.69
Reserves & Surplus	2093.58	1818.00	1705.00
Share Application Money	2.00	2.00	-
Minority Interest	30.86	1.32	1.39
Secured Loans	1312.94	1907.37	1722.67
Unsecured Loans	396.87	23.67	97.85
Total Sources of Funds	**4034.8**	**3937.06**	**3711.61**
Application of Funds			
Gross Block	202.61	202.18	165.45
Depreciation	94.38	73.54	45.69
Net Block	108.23	128.64	119.76
Capital W-I-P	325.52	223.62	143.74
Pre Operative Expenditure	11.18	5.53	1.37
Goodwill on consolidation	42.60	-	-
Investments	28.92	29.55	14.42
Deferred Tax Asset	4.62	4.86	0.94
Current Assets, Loans & Advances			
Inventories	2513.63	2457.42	2261.08
Sundry Debtors	1405.64	1146.60	1281.39
Cash & Bank Balance	204.71	270.96	422.84
Loans & Advances	651.03	706.12	747.72
Sub Total	4775.01	4581.10	4713.03
Less: Current Liabilities & Provisions	1261.28	1036.24	1281.65
Net Current Assets	3513.73	3544.86	3431.38
Total Application of Funds	**4034.79**	**3937.06**	**3711.61**

Annexure II: Abridged Profit and Loss (Consolidated)

(In Rs. Crore)

Particulars	2009-10	2008-09	2007-08
Income from operations	940.73	698.40	1771.32
Other Income	47.45	30.81	65.80
Total Income	**988.18**	**729.21**	**1837.12**
Expenditure:			
Cost of Construction/development	617.27	399.82	1076.22
Personnel Cost	31.72	42.87	41.05
Selling, Administration and other expenses	41.26	48.05	39.60
Total Expenditure	**690.25**	**490.74**	**1156.87**
PBIDT	297.93	238.47	680.25
Cost of Borrowings	61.63	45.53	35.88
Depreciation	21.49	28.12	23.91
PBT	196.19	136.95	617.22
Taxes	55.58	24.13	192.85
PAT	**140.61**	**112.82**	**424.37**

Annexure III: Performance for quarter ended 30th June 2010

(In Rs. Crore)

Particulars	Quarter ended	
	30.06.2010	30.06.2009
Net Sales	252.79	113.73
Other operating income	4.28	1.57
Net Sales	**257.07**	**115.30**
Expenditure		
Cost of construction and development	167.23	54.89
Depreciation	3.94	5.29
Employee Cost	7.80	8.17
Other Expenditure	11.33	9.14
Total Expenditure	**190.30**	**77.49**
PBIDT	66.77	37.81
PBT	53.60	22.13
PAT	40.13	13.81