Rating Rationale for Puravankara Projects Ltd's secured redeemable Non-Convertible Debentures Issue of ₹150 Crore with a tenor of 36 months

NCD Issue Rating: BWR A- (SO)	Outlook : Stable

Brickwork Ratings (BWR) has assigned BWR A-(SO) [Pronounced BWR A Minus (Structured Obligation)] Rating for Puravankara Projects Ltd secured NCD Issue of ₹ 150 Cr with a tenor of 36 months. 'BWR A-' stands for an instrument that is considered to offer **adequate** credit quality / safety in terms of timely servicing of principal and interest obligations.

The rating has factored, inter alia, the branding, the benefits of a dual market positioning strategy between affordable and premium housing, and the underlying securities proposed to secure the NCD issue. The rating is however constrained by Project risk and risk of sustainability of property prices and margins.

Background

Puravankara Projects Ltd (PPL) was incorporated in the year 1986 as Puravankara Constructions Pvt. Ltd in Mumbai. The company was converted into a public limited company and the name was changed to Puravankara Projects Ltd in 1992. The company got listed on BSE and NSE in 2007. PPL is promoted by Mr. Ravi Puravankara (Chairman and Managing Director) who holds around 90% of equity shares in the company. PPL is engaged in the development and construction of residential and commercial properties. It has presence in both premium and affordable housing segment under the brands - Purva and Provident respectively. It has a major presence in South India and has executed various projects across Bangalore, Chennai, Hyderabad, Cochin, Kolkata, Coimbatore, Mysore and Mumbai.

Until now PPL has executed 34 residential projects and has 14 ongoing residential and 2 commercial projects. The company also has presence in Colombo and United Arab Emirates (UAE) and has a representative office in United Kingdom and USA. PPL has been awarded the Finaliste, International Prix d' Excellence for its residential project "Purva Park" in Bangalore by FIABCI, Paris, the International Federation of Real Estate and it also got a Plaque for excellence in financial reporting for FY08 from the Institute of Chartered Accountants of India (ICAI).

Management Profile

Mr. Ravi Puravankara (Chairman and Managing Director) has over 33 years of experience in real estate industry and was former president of the International Real Estate Federation, Indian Chapter Paris. Mr. Ashish Puravankara (Joint MD), son of Mr. Ravi Puravankara, holds an MBA degree from Willamette University in Salem, Oregon. Mr. Nani R Choksey (Deputy MD) has over 33 years of experience in real estate industry and has been associated with company since its inception.

Project Details

The company plans to build a residential project at Medavakkam, Chennai. About 54 acres of land has been acquired for the project but the construction is yet to start. The regulatory approvals for the project are in final stages. The project will be completed in two phases- phase-I to be launched in Mar 2011 and phase-II in Jan 2012. Both the phases will take around four years to complete. Medavakkam is in the southern suburbs of Chennai and is in close proximity to Chennai airport and IT corridor OMR. It has got good presence of schools & colleges, shopping centers, health care centers etc. in its vicinity. The project cost is estimated to be around ₹810 Cr, which will be funded through NCD issue of ₹150 Cr, Bank debt of ₹75 Cr, Promoter Contribution of ₹58 Cr and balance funding through customer advances. ₹177cr towards cost of land has already been incurred. The company expects sales of around ₹ 1146 Cr from this residential project.

The NCD Issue & Its Redemption

The NCD is being offered at an annual coupon rate of 15.5 % for tenor of 36 months. As per the term sheet, NCDs for ₹75 Cr will be issued initially and the balance of ₹75 Cr will be issued after the issuer obtains necessary approvals and permissions for the project to be developed. In respect of repayment of principal amount of NCDs, the company expects to start redeeming the NCDs from Sep 2012 (21 months from the date of issue) in 6 quarterly installments. Redemption would be done under following condition (a) If Cumulative cash inflows from project is upto ₹ 300 Cr, then ₹ 50 Cr can be used for general corporate purpose and balance ₹ 250 Cr can be used for meeting cost of the project. (b) If cumulative cash inflows from project is above ₹300 Cr, then 40% of cash inflows above ₹ 300 Cr will be utilized towards payment of interest on the debt on the project and redemption of debenture and repayment of construction finance. The escrow account will be managed by Kotak Mahindra Bank Ltd. The Company holds following call options for redemption with respect to the NCD issue: (a) Within 18 months by paying 2%

additional premium, (b) After 18 months where amount of debenture to be redeemed shall not be less than ₹16.67 lakh per debenture of face value ₹ 1 Cr.

Security

The NCD is secured by a first charge created on the property by way of a registered Mortgage of the property on approx 54 acres of land & structure to be constructed thereon property situated at Chennai, First charge over and acceptable Escrow mechanism in respect of all cash flow from the secured property to be routed through a Designated Account, Personal guarantee of Promoters and Post Dated cheque for repayment of liability. A security cover of 2x is to be maintained on outstanding amount during the tenor of the NCD.

Consolidated Financial Performance

PPL witnessed a marginal growth of 7% in its top line from ₹445 Cr in FY09 to ₹478 Cr in FY10. On a nine-month basis, PPL reported sales of ₹444 Cr in Dec'10 as compared to ₹356 Cr in Dec'09, a growth of around 25% on y-o-y basis. This is due to an improvement in the market conditions as well as due to higher sales realizations resulting from better growth in the premium housing sales (78%) than in the affordable housing sales (-34%) in this period. PPL sold 842 premium units and 909 affordable units in 9M2010. It sold 474 premium units and 1367 affordable units in 9M2009.

PAT however decreased by 1% from ₹102 Cr in Dec'09 to ₹101 Cr in Dec'10. For Q3 2010, PAT margin decreased by about 6% YoY due to 3.5x increase in tax provision and decrease in share of profit in associates. DSCR for the company works out to be less than 1. D/E is comfortable at 0.59 in Fy10 and 0.60 in FY09 .The total debt increased from ₹815 Cr in FY09 to ₹881 Cr in FY10.

Risk Factors

The project has a gestation period of about 4 years, hence the sustainability of the prices and the margins and the timely completion of each phase of the project remain the risk factors for this NCD. The IT corridor in Chennai has been reported to be facing a little oversupply of commercial space over the last two years. This can have a shadow effect on the residential prices as well given the supply demand situation.

Rating Outlook

There is an inventory of about 3.5 mn sq ft left to be sold and the company expects revenue visibility of about ₹1200cr over next 6 months. Puravankara has got very good response in its previous project launches in Chennai and given the good location of this project, the company expects a similar response.

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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.

Key Financials for Puravankara Projects Ltd (Consolidated)

Annexure I: Balance Sheet

₹ Crore

As on March 31	2010	2009	2008
SOURCES OF FUNDS			
Paid -Up Capital	107	107	107
Reserves	1379	1258	1106
Networth	**1485**	**1365**	**1213**
Secured Loan	873	811	577
Unsecured Loan	9	4	75
Total Borrowed funds	**881**	**815**	**652**
Net Deferred Tax	1	2	1
Total Funds	**2367**	**2182**	**1866**
APPLICATION OF FUNDS			
Net Fixed Asset	**36**	**46**	**50**
Investment	119	103	89
Properties Held For Development	1353	1392	1292
Current Asset, of which	**1266**	**1105**	**909**
Sundry Debtors	111	115	82
Loans & Advances	288	277	288
Cash & Bank Balances	78	27	35
Current Liabilities & Provisions	**407**	**466**	**473**
Net Current Assets	859	639	436
Total Assets	**2367**	**2181**	**1866**

Annexure II: Abridged Profit and Loss (Consolidated)

₹ Crore

As on March 31	2010	2009	2008
Income	**478**	**445**	**566**
Total Expenses	310	309	353
EBITDA	**168**	**136**	**213**
Depreciation	10	4	5
Interest & Finance Expenses	124	114	91
PBT	175	147	247
Tax	30	3	7
PAT	**145**	**144**	**240**

Annexure III: Ratio Analysis

	2010	2009	2008
Debt Equity Ratio (x)	0.59	0.60	0.54
Interest Coverage (x)	2.49	2.36	3.63
Debt-Service coverage ratio (x)	0.50	0.51	0.63
Net cash accruals to total debt (x)	0.15	0.18	-0.07
Current ratio (x)	1.76	1.48	1.21
Return on capital employed (%)	12%	11%	15%
Profitability margins (%)	30%	32%	42%
Networth(cr)	1485	1365	1213