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## **Rating Rationale for Rohan Builders and Developers Pvt. Ltd's Secured Redeemable Non-Convertible Debentures Issue of ₹ 50 Crore with tenor of 30 months**

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**NCD Issue Rating: BWR BBB+ (SO)**

**Outlook : Stable**

Brickwork Ratings (BWR) has assigned BWR BBB+(SO) [Pronounced BWR Triple B Plus(Structured Obligation)] Rating for Rohan Builders and Developers Pvt. Ltd's ("RBDPL" or "the Company") proposed secured NCD issue of ₹ 50 crore. 'BWR BBB+' stands for an instrument that is considered to offer **Moderate** credit quality / safety in terms of timely servicing of principal and interest obligations.

The rating factors, inter alia, track record of the Group in Pune real estate market, RBDPL's low gearing level, project parameters and the Escrow mechanism for meeting the NCD obligations. The rating is however constrained by sensitivity of the cash flows to project completion risk, present conditions in the real estate industry and concentration of the projects in Pune.

### **Background**

The Rohan Group was incorporated in 1993 and promoted by Mr. Suhas Lunkad. The Group, through other group companies, has diversified its business into infrastructure and industrial construction and has executed projects for large clients like Bajaj Auto Ltd, Coca Cola, Hindustan Lever, LG, Toyota etc.

Rohan Builders & Developers Pvt Ltd (RBDPL) is the flagship company of Rohan Group in the real estate segment and was incorporated in the year 2001. RBDPL has completed construction of residential real estate projects mainly in Pune and few projects in Bangalore.

The proceeds of the current issue are proposed to be utilized for General Corporate Purpose – working capital requirements, investments in SPVs etc.

### **Management Profile**

Mr. Suhas Lunkad is the Founder and CMD of the Rohan Group. He holds a degree in B.E (Civil) from Pune University and has wide experience of around 28 years in project planning and execution. The Board of Directors comprises of family members of Mr. Suhas Lunkad and oversee other functions of the Group and have experience in various domains of real estate business.

### **The Project – Rohan Garima Phase II**

Rohan Garima is residential projects planned on a 24104 sq.mt of land divided into Phases I & II and executed by RBDPL. Phase I consisted of 6 buildings (A, B, E, F, G & H) that were completed in 2004. Phase II consists of four 11-storey buildings (C, D, I & J). The Project was launched in December 2010 and expected to be completed by March 2013. Presently land development/excavation had been going on at the project site.

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The project is located near Shivaji Nagar in central Pune and is in close proximity to Shivaji Nagar Railway Station (about 2 kms). Accessibility to prominent places like Ferguson College, Symbiosis Institute of Management Studies and Pune University is within 2-3 kms range and other civic amenities like school, market, hospital etc are in the immediate vicinity. Regulatory approvals and layout plans are in place for the proposed project.

### **Issue Details**

Fully secured redeemable NCD of face value of ₹ 1 Crore each aggregating ₹ 50 Crore at a coupon rate of 16.5 % for tenure of 30 months.

Receivables from this project will be utilized for servicing interest and principal obligations. The receivables will be routed through a designated escrow account which shall be opened with Kotak Mahindra Bank Ltd and IL&FS Trust Company would act as escrow agent. Besides, land admeasuring about 27581.32 sq.mtrs situated near Pune airport valued at about ₹103 Crore will also be mortgaged to secure the issue, which will provide security cover of 2 times the issue amount.

The Company will commence redemption of principal after a moratorium of 18 months from the date of allotment. Redemption will take place in 5 equal quarterly installments starting from May, 2012. The Debenture carries a coupon rate of 16.50% per annum payable on quarterly basis from March 2011 till the respective redemption date. The cash flows from the proposed project are however sensitive to adverse business conditions including decline in sale price/increase in construction costs and project execution risk.

### **Business Operations**

Rohan Builders & Developers Pvt Ltd (RBDPL) is the flagship company of Rohan Group in the real estate segment and was incorporated in the year 2001. RBDPL has completed construction of around 24 residential real estate projects concentrated in Pune (~90%) and few projects in Bangalore. The company is also planning to execute few projects in Mumbai. The Company markets its products under brand names – “PLUS Homes” (Perfect ventilation, Lively light, Utmost privacy and Smart space), “Eco Homes”, “Smart Homes” and “Open Homes” with a focus on achieving customer satisfaction by offering unique designs, better construction quality and timely delivery.

The Company has a huge land bank of saleable area of around 231 lakh sq.ft. Company also intends to launch 5 projects in Pune: (Bhavdhan, Hadapsar, and Vimannagar). RBDPL currently has 8 ongoing residential projects of saleable area of 17.36 lakh sq.ft in both Pune and Bangalore. Pune has gained prominence in the country as an infotech city serving as the IT Hub for large Indian and multi-national corporate such as Infosys, Wipro Cognizant, Symantec etc. As a result there has been surge in demand for residential properties and property prices have been increasing.

### **Financial Performance**

The Company follows Project Completion method of revenue recognition due to which there is wide fluctuation in sales. Income from operations increased from ₹ 8.53 Crore in FY09 to ₹ 88.29 Crore in FY10 registering a growth of about 934%. This growth is mainly attributed to revenue from its Rohan

Tarang (Phase I) apartments. This has reflected in PBITDA growing from ₹ 0.94 Crore in FY09 to ₹ 21.02 Crore in FY10 while PAT has grown from ₹ 0.65 Crore in FY09 to ₹ 53.03 Crore in FY10.

Current Ratio of the Company has increased from 1.27 in FY09 to 1.82 in FY10. Increase in sundry debtors, cash and bank balances and loans & advances was the main reason for increase in Current ratio.

While the total Loans have increased from ₹ 22.44 Crore in FY09 to ₹ 29.18 Crore in FY10, the reserves and surplus of the company increased substantially from ₹ 55.68 in FY09 to ₹ 108.21 in FY10 as a result Debt to equity ratio improved to 0.36x in FY10 from 0.54x in FY09. Contingent liabilities comprised mainly corporate guarantee given by the Company to the group companies and stood at ₹ 100.8 Crore in FY10 as compared to ₹ 74.8 Crore in FY09.

Key financials for the Company are as per the table below.

₹ in Crore	2010	2009	2008
<b>Operating Income</b>	<b>88.29</b>	<b>8.53</b>	<b>10.21</b>
Expenditure	56.70	25.48	9.13
<b>PBIDTA</b>	<b>21.02</b>	<b>0.94</b>	<b>1.77</b>
Less: Depreciation	0.44	0.43	0.24
Less: Interest	0.02	0.01	0.26
Add: Other Income	42.35	0.15	0.61
<b>PBT</b>	<b>62.90</b>	<b>0.65</b>	<b>1.88</b>
<b>PAT</b>	<b>53.03</b>	<b>0.65</b>	<b>1.05</b>
Equity Paid Up	0.50	0.50	0.50
<b>Net worth</b>	<b>108.71</b>	<b>55.68</b>	<b>55.04</b>
Total Loans	29.18	22.44	22.89
Contingent Liabilities	100.88	74.84	75.48
Net Block	3.05	2.46	2.03
<b>Key Ratios<sup>1</sup></b>			
Total Debt / Equity ratio (x)	0.36	0.54	0.55
Interest cover (x)	1000.13	71.77	6.70
DSCR (x)	10.93	-0.10	-0.24
Net worth (₹ Crore)	108.71	55.68	55.04
NPM (%)	60%	8%	10%
RoCE (%)	19%	1%	2%
Cash accrual to total debt (x)	183%	5%	6%
Current Ratio (x)	1.82	1.27	0.96

As per the Provisional Financials for half year ended September, 2010, RBDPL's Networth had enhanced marginally to ₹ 110.30 Crore while Total Loans stood at ₹ 23.72 Crore. Income from Operations stood at ₹ 12.94 Crore through sale of TDR while PBT was ₹ 1.59 Crore.

<sup>1</sup> Ratios of one year may not be comparable to other year due to project completion method of revenue recognition followed by the company. As a result sales of one year could be significantly higher/lower than other year.

## Industry Outlook

Real estate industry has registered a healthy recovery compared to the sluggish growth of demand in last year. The demand for residential properties has surged sharply over the past one year with a steep price rise in metros and major cities across the country. However residential property prices, which were rising constantly since the past few months, appear to be stabilizing.

Sudden and steep escalation in prices of real estate properties of late has caused concern as to their sustainability and availability of funds from the lending institutions has become scarce. In addition, the recent reports of dubious practices adopted by some players in the industry has affected credibility in the industry making it difficult to raise funds from the lending Institutions and the Markets and may result in cash flow issues.

## Rating Outlook

RBDPL is an established player in Pune residential real estate sector. However, focus on single real estate market exposes the company to geographical concentration risks. The Company's ability to adopt appropriate strategies for timely completion of projects, controlling costs, maintaining competitive pricing and margins coupled with ability to raise cost effective funds to finance projects would be vital for its performance.

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