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## **Rating Rationale for Total Environment Living Spaces Pvt. Ltd's secured redeemable Non-Convertible Debentures Issue of ₹ 84 Crores with a tenor of 48 months**

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**NCD Issue Rating: BWR BB- (SO)**

**Outlook : Stable**

Brickwork Ratings (BWR) has assigned BWR BB-(SO) [Pronounced BWR Double B Minus (Structured Obligation)] Rating for Total Environment Living Spaces Pvt. Ltd's secured NCD Issue of ₹ 84 Cr. 'BWR BB-' stands for an instrument that is considered to offer **Inadequate** credit quality / safety in terms of timely servicing of principal and interest obligations.

The rating has factored, inter alia, the unique market positioning of the company and the in-house expertise in design and delivery. The rating is however constrained by Project risk, risk of sustainability of property prices and margins and unavailability of consolidated financial statements at the group level.

### **Background**

Total Environment Living Spaces Pvt. Ltd. (TELS), an SPV formed in Nov. 2010, is the issuer of the NCD and Total Environment Building Systems Pvt. Ltd. (TEBS) is its parent company, which was established in 1996 by Mr. Kamal Sagar. The parent company is engaged in Construction & Development of Real Estate and Maintenance of buildings with projects located in Bangalore, Pune and Hyderabad. The business model is based on providing premium residential housing with emphasis on aesthetics & theme based design. The parent company has received many awards and recognition - CNBC Asia Pacific Residential Property Award for Best Architecture in 2009, The Habitat Award for Apartment Planning in 2006 to name a few.

The company has introduced few innovations such as Cantilevered Terrace Gardens, Technology assisted project customization by clients through an in-house design tool called 'e-build'. Until now TEBS has executed 14 residential and 8 commercial projects and has ongoing 4 residential and 2 commercial projects.

### **Management Profile**

Mr. Kamal Sagar is the Founder Director who is a B.Arch from IIT. He has previously worked with Poonawalla Group of Companies (Pune) and Samuel Halley Architects, Kentucky, USA. Mrs. Shibanee Sagar, wife of Mr. Kamal Sagar, is the second director on the board. There are no independent directors on the Board.

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## **About the Project**

The company plans to build a residential project at JP Nagar 7<sup>th</sup> Phase, Bangalore. About 3.6 acre of land has been acquired for the project but the construction is yet to start. The project will take 4 years to finish and is planned to be finished by FY15. There will be 240 units in all - 3 towers with 22 floor each - and saleable area per unit will range from 2100- 3600 sqft. JP Nagar 7<sup>th</sup> Phase is one of the prime locations in Bangalore with all major facilities like Healthcare, schools, restaurants, malls and offices etc within short distances. Project is estimated to cost around ₹ 350 Cr.

## **The NCD Issue & Its Redemption**

The NCD is being offered at an annual coupon rate of 22 % for tenure of 48 months and was subscribed by Kotak Mahindra Trusteeship Service Limited in November, 2010. In respect of payment of principal amount of NCDs, the company expects to start redeeming the NCDs anytime after April 2012 (18 months from the date of issue). The escrow account will be managed by IDBI Debenture Trusteeship Services Limited. 90% of the Free Cash Flows of the project available at the end of each financial quarter shall be applied towards NCD payments.

## **Security**

The NCD is secured by a Charge created on the property by way of an Equitable Mortgage of the property in favor of the Debenture Trustee by depositing original title deeds in relation to the property.

## **Financial Performance**

Project cost is estimated to be around ₹ 350 Cr, which will be funded through NCD issue of ₹84 Cr, OCD issue of ₹10.5 Cr, Bank debt of ₹25 Cr and balance funding through customer advances. The company expects sales of ₹ 555 Cr from this residential project. Assuming 25% NCD redemption in FY13 and 75% in FY14, the average DSCR for TELS comes at comfortable 2.65 and ISCR at 2.57.

The consolidated book of accounts at the group level was not available for analysis. There have been occasional delays in payment of interest and statutory dues in FY10.

The parent company TEBS witnessed an increase in sales from ₹84 Cr in FY 09 to ₹107 Cr in FY10, an increase of around 27 % on y-o-y basis. Operating income also showed a growth of about 9 % in FY10 on y-o-y basis. PAT increased from ₹5.19 Cr in FY09 to ₹7.6 Cr in FY10, a YoY increase of about 46%. The total debt increased from ₹85 Cr in FY09 to ₹167 Cr in FY10, which resulted in D/E rising to 8.28 from 6.48. DSCR is at 0.28 in FY09 and -0.13 in FY10 and ISCR is 1.07 in FY09 and 1.41 in FY10. The current ratio is at 0.92 in Fy09 and 1.23 in FY10.

### Risk Factors

The project has a long gestation period of 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.

### Rating Outlook

The parent Company expects strong cash flows from similar high-end residential projects in the next 6-8 months and also plans to consolidate its current market positioning through increased marketing and branding exercises.

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