

## EXPAT ENGINEERING INDIA LIMITED

### Ratings

| Facilities                 | Amount (Rs. crore) | Ratings <sup>1</sup>              | Remarks  |
|----------------------------|--------------------|-----------------------------------|----------|
| Long-term Bank Facilities  | 9.60               | <b>CARE B+</b><br>[Single B Plus] | Assigned |
| Short-term Bank Facilities | 1.00               | <b>CARE A4</b><br>[A Four]        | Assigned |
| <b>Total Facilities</b>    | <b>10.60</b>       |                                   |          |

### Rating Rationale

The ratings assigned to the bank facilities of Expat Engineering India Limited (EEIL) are constrained by the implementation risk associated with its debt-funded project, delay in project execution due to delay in regulatory approvals and risk inherent to the real estate sector with competition from other real estate players. The ratings, however, derive strength from the experience of the promoters in the real estate industry, moderate order book showing the revenue visibility for the next two years, increase in operating income over the last three years, and comfortable capital structure.

The ability of EEIL to complete the project within envisaged cost and time in light of competition is the key rating sensitivity.

### Background

Incorporated in 1999, the Expat Properties India Limited, part of the Expat Group, was setup to develop a project belonging to the Expat Group. Later in the year 2007, this division emerged as a new entity of the Expat group under the name of Expat Engineering India Limited (EEIL) in Bangalore. This restructuring was done in order to expand the operations to construction of residential buildings other than the group projects. EEIL, promoted by Mr Santosh Balakrishna Shetty, Mr Santosh Bothello and several others, is engaged in executing contracts for land & infrastructure development and construction of residential & commercial buildings for projects belonging to the Expat group as well as others. In 2010, EEIL entered into a strategic alliance with a US-based firm, TMAD-Taylor & Gaines, in order to execute the international projects. However, no international project has been executed till now. EEIL is currently executing four projects, which are expected to be completed by the end of 2013. The projects belonging to the Expat group are allotted to EEIL on part basis and once a part of work order is finished, next work order is issued.

### Credit Risk Assessment

#### Project implementation risk

EEIL is currently executing four projects as below:

**Sparsh:** Sparsh is a project belonging to EEIL's group company Expat Projects & Development Pvt Ltd, for which, EEIL is executing construction activities of 80 Chalets (1 BHK) at Karjat, Maharashtra. The total cost of the project is Rs.16.20 crore to be financed through the promoter's contribution of Rs.2.51 crore and remaining amount of Rs.13.69 crore through advance against sales received from the customers. This project commenced on August 1, 2012, and is expected to complete by May 2013.

**Brigade Orchards:** Brigade Orchids is a project outsourced to EEIL by BCV Developers Pvt Ltd for executing construction activities of civil works only for Villas under the name of package C & E at Brigade Orchards, Devanahalli (35 Km from Bangalore). Package E was scheduled to be completed within nine months from the start date i.e. on July 2012. This project was delayed because of delay in regulatory approvals and now it is scheduled to be completed by July 2013. The total cost of the project is Rs.4.65 crore to be financed through the promoter's contribution of Rs.1.25 crore and remaining amount of Rs.3.40 crore through advance against sales received from the customers.

**Solitude Enclave:** Solitude Enclave is a project belonging to EEIL's group company Expat Projects & Development Pvt Ltd, for which, EEIL is executing construction activities of villas and apartments in Tivim, Goa. EEIL has been issued the work order for construction up to plinth level. The total value of the project is Rs.8.10 crore; however, the value of issued work order is Rs.67

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

lakh. The project is expected to be completed by December 2013. The total cost of the project is Rs.0.67 crore to be financed through the promoter's contribution of Rs.0.22 crore and remaining amount through advance against sales received from the customers.

**Wisdom Tree:** Wisdom Tree is a project belonging to EEIL's group company Expat Projects & Development Pvt Ltd, for which, EEIL is executing construction activities of residential apartments of the area ranging from 1,221 sq.ft to 1,780 sq ft in Bangalore. EEIL has been issued the work order for construction of marketing office. About 75% of the construction work for the marketing office has been completed. The total value of the project is Rs.50.50 crore; however, the value of issued work order is Rs.35 lakh.

The ability of the company to complete all the projects within the scheduled timeframe and without cost overrun remains critical. Also, as major part of funding for all the projects is advances received from the customers, any delay in receiving advances might lead to a delay in project execution and affect the company's ability to complete the projects on time.

#### **Delay in project execution due to delay in regulatory approvals**

Delay in regulatory approvals for project execution has resulted into a slowdown in the execution of the projects by the company. For many projects, commencement of EEIL's work depends upon the completion of earlier phases of the project, which in turn, depends upon obtaining regulatory approvals. Furthermore, EEIL's performance is highly dependent on the project received from its group companies and regulatory approvals for the same. During FY12, the company received many work orders from the group; however, few projects got delayed on account of delay in obtaining regulatory approvals by the client.

#### **Risk inherent to the real estate sector with competition from other real estate players**

The property markets closely tracks the interest rate cycle. Globally, the real estate markets react negatively to the rising interest rates as it impacts the customer cash flows to finance the projects. Lower interest rates on the commercial projects from the retail banks and housing finance companies and favorable tax treatment of the loans had fueled the recent growth of the Indian real estate market. The series of the interest rate hikes in the past (though the trend has started to reverse recently) as a part of the monetary tightening indicates that the cost of construction has gone up for the developers. The banks have already taken a cautious approach to the real estate lending and reduced their exposure to the sector, and hence, most developers now rely on private players for the project funding. Furthermore, a slow progress in the projects and delayed payments from contractees have resulted in elongated working capital cycle, thereby, increasing reliance of the companies on external funds deteriorating their capital structure. In addition to this, increased competition from other established players in the market shrinks the profitability margins.

#### **Longstanding experience of the promoters in the real estate industry**

EEIL was established in 2007 and has developed many residential & commercial projects, including construction of Pre Engineered Building structures and commercial complexes, and land & infrastructure development. The promoters of the company have more than two decades of experience in the area of property consultancy, infrastructure-cum-housing development projects through its group company. Mr Vijendra Rao, CFO, has 31 years of experience in this industry. Mr Arvind, CEO is associated with EEIL since 1999 through its group company. He earlier worked with Karnataka Housing Board and also partnered in establishing a company (Ace Construction) in the construction field. The directors are assisted by senior level management team and functional heads of Engineering, Marketing, Finance and Operations.

#### **Moderate order book showing the revenue visibility**

EEIL has moderate order book of Rs.150.60 crore to be executed over the next two years, most of which belong to the Expat group. Current order book shows revenue visibility and execution capability of the company.

#### **Increase in operating income over the last three years and comfortable capital structure**

The total operating income increased at a Compounded Annual Growth Rate (CAGR) of 49.47% during the period FY10 to FY12 due to increase in number of projects. The debt equity ratio and the overall gearing as on March 31, 2012, stood comfortable at 0.13x and 0.91x, respectively, on account of accretion of profits into networth. Furthermore, the interest coverage ratio stood satisfactory at 2.99x during FY12 on account of increase in PBILDT.

## Financial Performance

(Rs. Cr)

| For the period ended / as at Mar.31,       | 2010     | 2011     | 2012     |
|--|----------|----------|----------|
|  | (12m, A) | (12m, A) | (12m, A) |
| <b>Working Results</b>                     |          |          |          |
| Net Sales                                  | 12.03    | 21.81    | 26.78    |
| Total Operating Income                     | 12.04    | 21.95    | 26.78    |
| PBILDT                                     | 0.60     | 1.46     | 1.29     |
| Interest                                   | 0.31     | 0.35     | 0.43     |
| Depreciation                               | 0.12     | 0.24     | 0.31     |
| PBT  | 0.17     | 0.88     | 0.54     |
| PAT (after deferred tax)                   | 0.07     | 0.58     | 0.36     |
| Gross Cash Accruals                        | 0.19     | 0.82     | 0.68     |
| <b>Financial Position</b>                  |          |          |          |
| Equity Capital                             | 6.71     | 6.72     | 6.72     |
| Networth                                   | 9.65     | 10.29    | 10.66    |
| Total Debt                                 | 3.48     | 8.70     | 9.75     |
| Total capital employed                     | 13.13    | 18.99    | 20.41    |
| <b>Key Ratios</b>                          |          |          |          |
| Growth                                     |          |          |          |
| Growth in Total income (%)                 | 27.42    | 82.36    | 22.54    |
| Growth in PAT (after D.Tax) (%)            | (10.83)  | 755.69   | (38.09)  |
| Profitability                              |          |          |          |
| PBILDT/Total Op. income (%)                | 4.97     | 6.67     | 4.79     |
| PAT (after deferred tax)/ Total income (%) | 0.57     | 2.66     | 1.34     |
| ROCE (%)                                   | 3.87     | 7.65     | 4.94     |
| Solvency                                   |          |          |          |
| Long Term Debt Equity ratio (times)        | 0.07     | 0.12     | 0.13     |
| Overall gearing (times)                    | 0.36     | 0.85     | 0.91     |
| Interest coverage(times)                   | 1.93     | 4.16     | 2.99     |
| Term debt/Gross cash accruals(years)       | 3.52     | 1.50     | 2.08     |
| Total debt/Gross cash accruals(years)      | 18.56    | 10.61    | 14.42    |
| Liquidity                                  |          |          |          |
| Current ratio(times)                       | 1.43     | 1.24     | 1.19     |
| Quick ratio(times)                         | 0.42     | 0.55     | 0.53     |
| Turnover                                   |          |          |          |
| Average collection period (days)           | 120      | 118      | 143      |
| Average creditors period (days)            | 48       | 43       | 38       |
| Average inventory period (days)            | 283      | 239      | 244      |
| Operating cycle (days)                     | 355      | 314      | 349      |

A – Audited;

### DISCLAIMER

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

CARE is headquartered in Mumbai, with Offices all over India. The office addresses and contact numbers are given below:

## HEAD OFFICE: MUMBAI

**Mr. D.R. Dogra**  
Managing Director  
Mobile : +91-98204 16002  
E-mail : [dr.dogra@careratings.com](mailto:dr.dogra@careratings.com)

**Mr. Suryanarayan Iyer Rangaswamy**  
Senior Vice President – Marketing  
Mobile: +91 9867365827  
E-mail: [R.Suryanarayan@careratings.com](mailto:R.Suryanarayan@careratings.com)

**Mr. Rajesh Mokashi**  
Dy. Managing Director  
Mobile +91-98204 16001  
E-mail: [rajesh.mokashi@careratings.com](mailto:rajesh.mokashi@careratings.com)

**Mr. Ankur Sachdeva**  
Vice President – Banks & Financial Services  
Mobile: +91-9819698985  
Email [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

## CREDIT ANALYSIS & RESEARCH LTD

**HEAD OFFICE** 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022 | Tel: +91-022- 6754 3456 | E-mail: [care@careratings.com](mailto:care@careratings.com) | Fax: +91-022- 6754 3457.

**KOLKATA** | **Ms. Priti Agarwal** | Cell: +91-98319 67110 | Tel: +91-33- 4018 1600/ 1602 | E- mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com) | 3rd Flr., Prasad Chambers (Shagun Mall Bldg), 10A, Shakespeare Sarani, Kolkata -700 071

**CHENNAI** | **Mr. V Pradeep Kumar** | Cell: +91 9840754521 | Tel: +91-44-2849 7812/2849 0811 | Fax: +91-44-2849 0876 | Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com) | Unit No. O-509/C, Spencer Plaza, 5th Floor, No. 769, Anna Salai, Chennai - 600 002

**AHMEDABAD** | **Mr. Mehul Pandya** | Cell: +91-98242 56265 | Tel: +91-79-40265656 | Fax: +91-79-40265657 | E-mail: [mehul.pandya@careratings.com](mailto:mehul.pandya@careratings.com) | 32, Titanium, Prahaladnagar Corporate Road, Satellite, Ahmedabad - 380 015.

**NEW DELHI** | **Ms. Swati Agrawal** | Cell: +91-98117 45677 | Tel: +91- 11- 2331 8701/ 2371 6199 | E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com) | 3<sup>rd</sup> Floor, B -47, Inner Circle, Near Plaza Cinema, Connaught Place, New Delhi - 110 001.

**BENGALURU** | **Mr. Dinesh Sharma** | Cell: +91 9900041975 | Tel: +91-80-22117140 | E-mail: [dinesh.sharma@careratings.com](mailto:dinesh.sharma@careratings.com) | Unit No. 8, I floor, Commander's Place, No. 6, Raja Ram Mohan Roy Road, (Opp. P F Office), Richmond Circle, Bangalore - 560 025.

**HYDERABAD** | **Mr. Saikat Roy** | Tel: +91-40-40102030 | E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com) | 401, Ashoka Scintilla | 3-6-520, Himayat Nagar | Hyderabad - 500 029.

**PUNE** | **Mr. Rahul Patni** | Cell: +91-78754 33355 | Tel: +91-20- 4000 9000 | E-mail: [rahul.patni@careratings.com](mailto:rahul.patni@careratings.com) | 9th Floor, Pride Kumar Senate, Plot No. 970, Bhamburda, Senapati Bapat Road, Shivaji Nagar, Pune - 411 015.

**JAIPUR** | **Mr. Rahul Jain** | Cell: +91-9314921496 | Tel: +91-0141-4020213/14 | E-mail: [rahul.jain@careratings.com](mailto:rahul.jain@careratings.com) | 304, Pashupati Akshat Height, s Plot No. D-91, Madho Singh Road, Near Collectorate Circle, Bani Park , Jaipur – 302016.