

October 08, 2013

Facilities/Instruments	Amount (Rs. Crores)	Rating
Term Loan	19.75	SMERA B/Stable/Assigned

SMERA has assigned a rating of '**SMERA B**' (read as SMERA Single B) to Rs.19.75 crores long term facilities of Darvesh Properties Private Limited (DPPL). The outlook is '**Stable**'. The rating is constrained because of the company's relatively weak financial profile, geographic concentration, presence in the inherently cyclical real estate sector, and project completion risks. However, the rating derives benefit from DPPL's experienced management and high saleability observed in the past projects under the group (the company is part of the Darvesh group of companies).

The company's financial profile is weak and is constrained because of low net worth of Rs.0.34 crores and very high gearing (considering unsecured loans as debt) at 122.54 times as on March 31, 2013. All unsecured loans are also interest bearing. DPPL is currently executing two projects; 'Darvesh Royale', a Mumbai-based residential-cum-commercial project and 'Darvesh Platina', a Pune-based residential project with a total cost of Rs.61.0 crores and Rs.10.0 crores respectively. DPPL is yet to book revenues from both the projects as the construction work is in process. The company has completed ~70 per cent of the construction of Darvesh Royale as on July, 2013 and the entire project is likely to be completed by June 2014. Further, the construction of Darvesh Platina is likely to be completed and revenue to be realized by March 31, 2014; however, this project's saleability (till July 2013) is less than 20 per cent. This exposes the project to significant execution and market risks. SMERA believes the inherent project completion and saleability risks will constrain the company's credit risk profile over the medium term.

The real estate industry in India is highly fragmented and most developers have a city-specific or region-specific presence. DPPL has work-in-progress (WIP) amounting Rs.82.77 crores as on March 31, 2013. SMERA believes that execution delays could further expose the project to significant cost and time overruns consequently impacting the company's debt repayment. The quarterly debt repayment is scheduled to commence from Q2 2013-14.

The rating is supported by the company's experienced management. Mr. Usman A. Darvesh has four decades of experience and the other directors have two decades of experience in the real estate industry. As a group level, the management has executed around 30 residential and commercial projects. SMERA has observed higher than average saleability in the group's earlier projects. Around 70 per cent to 80 per cent of the flats free for sale in Darvesh Royale, Bandra have been

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booked till July 2013. However, the company has observed less than 20 per cent saleability in Darvesh Platina, Pune (where 90 per cent of the work has been completed).

## Outlook: Stable

SMERA believes DPPL's outlook will remain stable given the timely execution of the current projects so far, healthy bookings and steady receipt of advances from customers. The outlook may be revised to 'Positive' if DPPL successfully executes the projects in a timely manner and generates healthy cash flows. The outlook may be revised to 'Negative' in case of any delay in project execution of lower-than-expected sales realization, or higher-than-expected debt funding.

## About the company

DPPL was incorporated in 1988. The company has an experienced management team headed by Mr. Usman A. Darvesh, Mr. Mehboob U. Darvesh and Mr. Nadeem U. Darvesh. DPPL is a small regional player with major focus in Mumbai. The group has executed around 30 projects so far, DPPL has not executed any project in the last seven years. Currently, DPPL has two ongoing projects (Darvesh Royale, Mumbai and Darvesh Platina, Pune) and three projects in hand at Mumbai, where the constructions are yet to start.

## About the projects

Darvesh Royale is a Bandra-based residential-cum-commercial project (including two basements + ground + two podiums + fourteen floors). The construction involves re-development of an existing property of Pluto Co-operative Housing Society Limited. The company has entered into a registered re-development agreement with the society and the project cost is estimated at Rs.61.0 crores, which is likely to be funded through a mix of unsecured loans from the promoter's family and friends, customer advances and bank borrowings. The estimated sales realization is Rs.75.0 crores.

Darvesh Platina is a Pune-based residential project (including ground + nine floors). The project cost is estimated at Rs.10.0 crores, which is likely to be funded through a mix of unsecured loans from promoter's family and friends and customer advances. The estimated sales realization is Rs.12.5 crores.

DPPL has not booked any revenues in FY2012-13 (refers to financial year, April 01 to March 31) as the projects were still under construction. The company's WIP stood at Rs.82.77 crores as on March 31, 2013 as compared with Rs.59.98 crores as on March 31, 2012. The company's net worth stood at Rs.0.34 crores as on March 31, 2013 as compared with Rs.0.72 crores as on March 31, 2012.

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