

Raheja Universal Limited

CRISIL IPO Grade 3/5 (Average)

August 16, 2010

Grading summary

CRISIL has assigned a CRISIL IPO grade of '3/5' (pronounced "three on five") to the proposed IPO of Raheja Universal Ltd (RUL). This grade indicates that the fundamentals of the IPO are average relative to the other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, its future market price or suitability for a particular investor.

The assigned grade reflects RUL's strong position in the real estate business in Mumbai. RUL and its promoter group companies have developed close to 4.9 mn square feet of real estate across 40 projects largely in the Mumbai Metropolitan Region (MMR). The company has been able to establish a strong brand thanks to high quality construction and execution track record. And, due to its strong brand name, RUL has been able to command premium prices over its competitors in most of the locations. Further, the company has a land bank of close to 1,202 acres across eight cities in India. Of this, 577 acres is in MMR and the remaining in the cities of Pune, Chennai, Hyderabad, Panchkula, Goa, Mangalore and Nagpur - either owned by the company or held through joint ventures or joint development agreements.

The grade takes into account a strong second line of management and independent directors who are experienced in legal and taxation fields. To avoid any conflict of interest, the promoters have signed a non-compete agreement with the company. The agreement states that subject to the exceptions mentioned herein, the promoters shall not undertake the development of any land or construction of building(s) thereon under the brand name "Raheja Universal" or any other brand.

The grade is constrained by the inherent cyclical nature in the real estate business, significant exposure to high gestation and capital-intensive commercial projects, and entry into new markets outside MMR where the company has limited experience. RUL has significant exposure to large commercial real estate projects, including the Raheja International Corporate City (RICC) in Jui Nagar, Navi Mumbai, which will require significant funds thereby reducing the company's financial flexibility. Also, the company has limited experience in executing large commercial real estate projects.

Historically, the company has had high leverage which has resulted in lower margins. Further, the company's aggressive land acquisition strategy has led to losses during the downturn.

The company's consolidated revenues amounted to Rs 3.6 bn during the first half of FY10; the operating margin was 25.5% and net margin was negative 3.3%. The total consolidated debt as on September 30, 2009 was Rs 8.9 bn in comparison to the total net worth of Rs 3.3 bn.

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About the company

Raheja Universal Ltd (RUL) is promoted by Mr Suresh Raheja. He is the son of late Mr Lachmandas Raheja who founded the K Raheja Group of companies in 1956 with operations in the real estate sector. The family underwent a separation in 1986 and Mr Suresh Raheja started operations under the brand of K Raheja Developers, which was subsequently consolidated under Garden View Properties and Hotels Private Limited, incorporated on November 5, 1980 under the Companies Act, 1956 in Mumbai. In order to create a distinct brand, the name of the company was changed to K Raheja Universal Private Limited on March 28, 2003 and to Raheja Universal Private Limited on September 25, 2009. On January 25, 2010 the company's name was further changed to Raheja Universal Limited, a public limited company.

Till date the company has developed 2.8 mn sq. ft. of gross saleable area in MMR, out of which 2.3 mn sq. ft. of saleable area is under the residential segment and 0.5 mn sq. ft. is under the commercial segment. The promoter group, including RUL under Mr Suresh Raheja, has developed close to 4.9 mn sq. ft. of gross saleable area.

As of January 31, 2010 RUL has 1,202 acres of land bank across eight locations, of which approximately 48% is in MMR. RUL is planning to develop ~70 mn sq. ft. of saleable area (of which ~73% of saleable area is in the MMR), of which 44 mn sq. ft. is in the residential segment and 26 mn sq. ft. in the commercial segment.

Issue details

Shares offered to public	Not available at the time of grading
As per cent of post issue equity	Not available at the time of grading
Object of the issue	<ul style="list-style-type: none"> To meet construction and development expenses of RICC – I - Tower 1, a commercial ongoing project – Rs 3,149 mn Acquisition of land and/or land development rights – Rs 1,750 mn Pre-payment and/or re-payment of certain loans availed by the company – Rs 1,585 mn General corporate purposes – not mentioned
Amount proposed to be raised	Rs 8,640 mn (approximate)
Price band	Not available at the time of grading
Lead managers	Kotak Mahindra Capital Company Limited, Enam Securities Private Limited, Citigroup Global Markets India Private Limited, Morgan Stanley India Company Private Limited

Detailed Grading Rationale

A. Business Prospects

- *Strong brand image*

The company and its promoter group entities have developed 40 projects in MMR. The promoter family has been in the business of real estate since 1956; independently, the promoter had been in this business since 1986. RUL boasts a very strong brand name “Raheja Universal” thanks to premium quality construction and timely execution of the projects. The company has created a niche for itself in the highly competitive MMR market and the “Raheja Universal Brand” commands premium prices compared to most of its competitors in the same location. However, RUL is not the only company building projects under the “Raheja” brand, other players are also using the same brand which has created confusion in the market and poses a risk for RUL.

- *Fairly large portfolio of developable land bank across the country*

As on January 31, 2010 RUL has a land bank of approximately 1,202 acres, out of which about 52% is owned by RUL and its subsidiaries, while the rest is held through JDs and JVs. Of the total land bank, about 577 acres is in MMR and the rest in other parts of the country. With the exception of historical land parcels like Raheja Reflections most of the land parcels agreements were executed during 2006 and 2007 except for Raheja International Corporate City (RICC) III, Jui Nagar, MMR project, which was acquired in 2008. RUL has enough land to develop over the next 12 years. The company has obtained approvals for construction/ development as may be applicable for its ongoing projects. However, the company has to obtain certain approvals including special township approvals and also have to make balance payment for certain land parcels/ refundable deposits of its forthcoming and pipeline projects.

- *Experienced second line of management*

RUL has an experienced second line of management with clearly defined roles and responsibilities. The senior management team is led by promoters and also includes senior executives from the architecture, liaison, construction, sales, business development, and finance and accounts departments. Most of them have been with the company and / or the promoter group for more than a decade.

- *Cautious geographical diversification strategy to pay off only in the long term*

RUL's primary area of operation till date has been concentrated in the MMR only. The company's strategy is to enter markets outside MMR where the presence of big and reputed national players is limited, enabling it to create a strong brand in these markets over a period of time. However, given that real estate is a local business and knowledge of local laws and business environment is developed over a period of time, success in one region may not be replicated in another region. RUL's strategy to develop land in these markets through JDs and JVs with established local partners is likely to mitigate some risks of geographical diversification.

- *Aggressive land acquisition strategy with significant leverage has made company vulnerable to downturns in the industry*

RUL has built a healthy land bank of 1,202 acres. Funding for the same has led to significant stress on

the capital structure. The financial leverage of the company makes it vulnerable to the inherent cyclicity of the real estate business and any subsequent downturn in the market could impact the company's financial flexibility. The company incurred an exceptional loss of Rs 1.0 bn in H1FY10 due to its decision to wind up potential projects before the commencement of construction and also to de-leverage itself.

- *Significant exposure to extremely competitive and capital-intensive commercial real estate projects over the next five-six years*

Till date, RUL has developed 0.53 mn sq. ft. saleable area of commercial real estate. Going ahead, it plans to develop about 26 mn sq. ft., which accounts for 37% of its total saleable area that is under different phases of ongoing, forthcoming and pipeline land bank development cycle. Approximately 99% of the total planned commercial development of the company is coming up in MMR, including Navi Mumbai, with only one project of 0.2 mn sq. ft. in Hyderabad. RUL's flagship project - RICC - will have a total saleable area of 20 mn sq. ft. and is expected to be completed by 2018. Unlike residential projects where construction is funded largely through customer advances, commercial projects are more capital-intensive and require the developer to incur the cost of construction upfront. Hence, the company would require significant funds for commercial development, for which it is dependent on the internal accruals from the sale of residential projects and fresh debt. Significant funding requirement and exposure to the more volatile commercial segment could lead to volatility in profitability and stress on the capital structure.

- *Significant increase in scale of operations*

Till date, RUL has developed 2.8 mn sq. ft. Over the next 10-12 years the company will develop close to 70 mn sq. ft. of saleable area which will require strong execution capabilities. This requires significant scaling up of manpower and execution capabilities. If the company is unable to put in place adequate manpower, systems and processes there could be delays in execution given the size and complexities of these projects. This may impact RUL's future financial performance.

B. Financial Performance

RUL recorded healthy revenue CAGR of 144% between FY05 (Rs 544 mn) and FY08 (Rs 6,962 mn), largely driven by strong sales of residential and commercial apartments. Operating margins improved from 3.4% in FY05 to 39% in FY08 due to significant increase in capital values during the same period and monetisation of the commercial properties. Though net margins improved from 3% in FY05 to 24% in FY08, they were lower compared to peers due to high leverage. The gearing of the company dipped from 6.0 times in FY05 to 3.4 times in FY09.

In FY09, the company faced pressure on revenues due to the economic slowdown and turnover declined by 49% y-o-y to Rs 3,520 mn. FY09 operating margins declined to 14.5% and net margins to 10% due to the downturn in the real estate market.

In H1FY10, the company posted revenues of Rs 3,572 mn. This was mainly due to a revival in the real estate market. For the same period, operating margins were 25% and net margins were negative 3.3%. The loss was mainly on account of an exceptional item, which was due to the company's decision to sell a land parcel which has been bought by the company in MMR with an intention to use for a commercial project. As of September 30, 2009 the company had a debt of Rs 8,857 mn and gearing ratio of 2.8 times. (This included 12% Optionally Convertible Debentures worth Rs. 1,170 mn pertaining to a subsidiary which houses Raheja Winterwoods project. This subsidiary is a JV between RUL and Urban Infrastructure Fund).

Financial performance snapshot

		H1FY10	FY09	FY08	FY07
		Actual	Actual	Actual	Actual
		6 months	12 months	12 months	12 months
Operating income	Rs mn	3572	3552	6969	3353
Operating margins	%	25.2	14.5	39.3	27.1
Net profits	Rs mn	-118	356	1636	540
Net margins	%	-3.3	10.0	23.5	16.1
ROCE	%	NA	3.3	24.7	14.5
RONW	%	NA	10.3	65.5	49.4
Basic EPS	Rs	-8.0	24.2	111.2	36.6
Diluted EPS	Rs	-8.0	24.2	111.2	36.6
No. of equity shares	Mn	14.7	14.7	14.7	16.6
Net worth	Rs mn	3341	3476	3457	1536
Book value (FV Rs 10)	Rs	NA	236	235	104
Debt-equity ratio	Times	2.8	3.4	3.3	4.2

* Note1: Numbers have been re-classified as per CRISIL standards

*Note2: ROCE, RONW and Book value are annual figures

Source: DRHP

C. Management Capabilities and Corporate Governance

Mr Suresh Raheja has a good understanding of MMR's administrative, political and economic environment. He has more than three decades of experience. His sons, Mr Rahul Raheja and Mr Ashish Raheja, also have over a decade of experience in this market. To avoid any conflict of interest, the promoters have signed a non-compete agreement with the company. The agreement states that subject to the exceptions mentioned herein, the promoters shall not undertake the development of any land or construction of building(s) thereon under the brand name "Raheja Universal" or any other brand.

RUL has a strong second line of management with significant experience in their respective domains. Most of the department heads have been associated with the company or promoters over the past one or two decades. There is a strong integration between departments which helps the company take well-informed decisions. For instance, heads of all departments including sales and marketing, liaison, architecture, operations, construction and finance are involved in taking all decisions on land acquisition.

RUL has highly experienced independent directors in general / risk management, audit, taxation and legal fields. Three out of six directors are independent and comprise 50% of the board strength. Decisions related to operations such as land acquisition, product pricing and diversifications are only reported to the board currently. RUL needs to strengthen its board practices especially pertaining to reporting standards, which includes defining limits on the size of transactions that require board approval.

Annexure I Business Profile

Traditionally, RUL has been a MMR-based real estate company focused on premium residential projects. However, recently the company has started focusing on the commercial segment. The company has completed 26 projects (both residential and commercial) comprising 2.8 mn sq. ft. of saleable area. Overall, the promoter and the promoter group have developed a total of 40 real estate projects with a gross saleable area of ~ 4.9 mn sq. ft. Due to a strong brand, contemporary architecture and superior quality construction, RUL properties command a premium over its competitors in the same locality.

Summary of completed, ongoing, forthcoming and pipeline projects										
	Completed by RUL		Completed under the RUL / promoter group		Ongoing		Forthcoming		Pipeline	
Mn sq. ft.	Saleable Area	No of Projects	Saleable Area	No of Projects	Saleable Area	No of Projects	Saleable Area	No of Projects	Saleable Area	No of Projects
Residential	2.3	19	3.8	30	6.1	6	18.1	9	20	2
MMR	2.3	19	3.8	30	5.7	5	0.03	1	20	2
Outside	NA	NA	NA	NA	0.4	1	18.1	8	NA	NA
Commercial	0.5	7	1.2	10	15.5	4	0.8	3	9.8	3
MMR	0.5	7	1.2	10	15.5	4	0.6	2	9.8	3
Outside	NA	NA	NA	NA	NA	NA	0.2	1	NA	NA
Total	2.8	26	4.9	40	21.6	10	18.9	12	29.8	5
Source: DRHP										
NA: Not Applicable										

Residential segment

In the residential segment, RUL along with the promoter group has developed 30 properties with a total saleable area of 3.8 mn sq. ft. Out of this, 19 projects with a saleable area of 2.3 mn sq. ft. are under RUL. RUL properties have a strong brand image due to the high quality execution and design of the projects. For instance, Raheja Legend at Worli, Mumbai and Raheja Exotica have received the “Best Developer – Residential Future Award” from Cityscape in 2007 and 2009 respectively.

In the future, RUL plans to develop 44.1 mn sq. ft. of saleable area, out of which 25.7 mn sq. ft. will be in MMR. The remaining will be in Hyderabad, Panchkula, Pune, Mangalore, Goa and Nagpur. These projects will include apartments, villas and townships.

Commercial segment

In the commercial segment, RUL along with the promoter group has developed 10 properties with a total gross saleable area of ~1.2 mn sq. ft. Out of this, seven projects with a saleable area of 0.5 mn sq. ft. come under RUL. Though small, commercial properties have attracted reputed buyers in the past. For instance, Raheja Titanium I, completed in 2007 with a saleable area of 0.2 mn sq. ft. in Goregaon (East), Mumbai was sold to Standard Chartered Bank in 2007. This building was awarded the best project execution award at the CNBC Awaaz CRISIL Real Estate Awards in 2008. Raheja Chromium, completed in 2009 with a saleable area of 0.1 mn sq. ft. in Prabhadevi, Mumbai (0.05 mn sq. ft. attributable to RUL) was sold to Motilal Oswal Financial Services Limited in 2009.

In the future, RUL plans to develop 26.1 mn sq. ft. of commercial office space, out of which 25.9 mn sq. ft. will be in MMR and 0.20 mn sq. ft. in Hyderabad.

The flagship project of the company - Raheja International Corporate City (RICC) in Jui Nagar, Navi Mumbai - will come up in three phases. The first two phases will form a part of the ongoing projects and the third phase will be a part of pipeline projects. It is a centrally-located plot close to the Mumbai-Pune Highway and the intersection point of Thane and Navi Mumbai. The project is spread over ~138 acres, with a saleable area of 20.3 mn sq. ft. The project commenced in 2009 and is scheduled to be completed in phases by 2018. The construction of incubation centres for RICC I and II commenced in 2009 and the construction of Tower 1 at RICC I is expected to commence in October 2010. The project is conceptualised as a corporate / IT park with office space for IT / ITeS, banking, financial services and insurance companies, amongst others. It also has the potential to house residential, hospitality, retail and social infrastructure.

Management and Board Profile

Raheja Universal is run by its promoters - Mr Suresh Raheja, Chairman; Mr Rahul Raheja, Vice Chairman; and Mr Ashish Raheja, Managing Director.

Mr Suresh Raheja was appointed as a Director on January 30, 1981 and has been the Chairman of the company since January 15, 2004. He completed his second year in engineering from B. M. Sreenivasiah College of Engineering, Bangalore. He has more than three decades of experience in the real estate industry and is responsible for developing projects. He focuses on both architectural and aesthetic aspects of such projects.

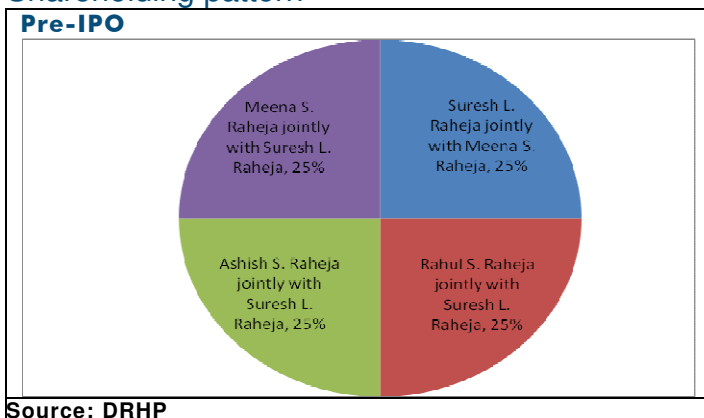
Mr Rahul Raheja was appointed as a Director on August 29, 1992 and has been the Vice-Chairman of the company since January 15, 2004. He is a Bachelor in commerce from the University of Mumbai and has a Master's degree in management from the London Business School. He has over a decade of experience in the real estate industry and is responsible for corporate liaison, purchases, contracts and facilities management.

Mr Ashish Raheja was appointed as a Director on April 10, 1996 and as a Managing Director of the company on January 15, 2004. He is a bachelor in commerce from Sydenham College of Commerce and Economics. He has over a decade of experience in the real estate industry, and is responsible for land identification, acquisition and project conceptualisation.

The second line of management includes Mr Omprakash Dhupar (SVP – Finance and Accounts), Captain T. Venugopalan (SVP - Operations), Ms Anita Kataria (SVP – Sales and Marketing), Mr Kamal Kumar Khemani (GM – Architecture), Mr Yomesh Rao (SGM – Liaison), Mr M. C. Lalla (SGM – Construction) and Mr Mahesh Sadarangani (SVP – Business Development).

The company's board comprises six directors which include three independent directors, who are highly experienced and qualified in their respective fields. All the three independent directors were appointed on February 1, 2010. One director, Mr Vivek Nair, is the Vice-Chairman and Managing Director of Hotel Leelaventure Ltd. He has over three decades of experience in the hotel industry. Mr Kaiwan Kalyaniwalla is a solicitor and advocate of the Bombay High Court and is enrolled as a solicitor of the Supreme Court of England and Wales. He is a partner at the law firm Maneksha & Sethna, which has been advising RUL and its promoters for more than two decades. Dr. Pravin P.Shah is a qualified chartered accountant and cost and works accountant, and has over four decades of experience in financial consultancy, taxation and auditing.

Shareholding pattern



Annexure II: Profile of the Directors

Name	Designation	Age	Qualification	Exp (yrs)	Previous Employment	Some key directorships / partnership in other entities
Suresh L. Raheja	Chairman & Executive Director	63	Second year of engineering from B. M. Sreenivasiah College of Engineering, Bangalore	30+		Directorships <ul style="list-style-type: none"> Dynasty Realty Private Limited Raheja Regency Apartments Private Limited Shreekrishna Agencies Private Limited Surmee Agencies Private Limited Three Raheja International Corporate City Private Limited Vaishnav Properties & Investments Private Limited Pegaus Properties Private Limited Portofino Properties Private Limited Dreamscapes Properties Private Limited Vistana Properties Private Limited Partnerships <ul style="list-style-type: none"> K. Raheja Developers Trusteeships <ul style="list-style-type: none"> Raheja Legacy Trust Lachmandas Sewaram Charities Marg Enterprises
Rahul S. Raheja	Vice-Chairman and Executive Director	36	B.Com, Mumbai University Master's in Management, London Business School	10+		Directorships <ul style="list-style-type: none"> Surmee Agencies Private Limited Three Raheja International Corporate City Private Limited Vaishnav Properties & Investments Private Limited Pegaus Properties Private Limited Portofino Properties Private Limited Dreamscapes Properties Private Limited Vistana Properties Private Limited Partnerships <ul style="list-style-type: none"> K. Raheja Developers Trusteeships <ul style="list-style-type: none"> Raheja Legacy Trust Lachmandas Sewaram Charities Marg Enterprises
Ashish S. Raheja	Managing Director	32	B.Com, Sydenham College, Mumbai	10+		Directorships <ul style="list-style-type: none"> Chalez Properties & Investments Private Limited Dynasty Realty Private Limited Havana Properties Private Limited Kartik Properties Private Limited K. Raheja Developers Private Limited Odyssey Developers Private Limited Papeyon Developers Private Limited Prayag Agencies Private Limited Radha Krishna Properties Private Limited Raheja Hospitality Private Limited Raheja Pride Developers Private Limited Partnerships <ul style="list-style-type: none"> K. Raheja Developers Trusteeships <ul style="list-style-type: none"> Raheja Legacy Trust Lachmandas Sewaram Charities Marg Enterprises

Dr. Pravin P. Shah	Independent Director	65	B.Com Doctorate in Finance, Mumbai University Chartered Accountant Cost & Works Accountant	40+	Directorships <ul style="list-style-type: none"> Adani Enterprises Limited Bombay Rayon Fashions Limited Claris Life sciences Limited JM Financial Limited Jai Corp Limited JM Financial Consultants Private Limited Proprietorships <ul style="list-style-type: none"> Pravin P. Shah & Associates PPS & Associates Partnerships <ul style="list-style-type: none"> Pravin P. Shah & Company
Vivek Nair	Independent Director	58	B.A., St. Xaviers College, Mumbai Hotel Management, Cornell University's School of Hotel Administration	30+	Directorships <ul style="list-style-type: none"> Leela Lace Holdings Private Limited Rockfort Estate Developers Private Limited Standard Precious Alloy Industries Private Limited Leela Lace Real Estate Developments Private Limited Hotel Leelaventure Limited Kerala State Industrial Development Corporation Limited Tourism Finance Corporation of India Limited VIP Industries Limited Mumbai International Convention and Exhibition Centre
Kaiwan Kalyaniwalla	Independent Director	45	Bachelor's in Economics, Political Science & Law, Mumbai University Solicitor & advocate of Bombay High Court Enrolled as Solicitor of Supreme Court of England & Wales	20+	Directorship <ul style="list-style-type: none"> Ecu International N.V. Sealand Ports Private Limited Avash Logistic Park Private Limited Gujarat Integrated Maritime Complex Private Limited Huzur Hotel Private Limited Allcargo Global Logistics Limited Hindustan Cargo Limited Great Offshore Limited Others <ul style="list-style-type: none"> The Bombay Incorporated Law Society

Disclaimer

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