Press Release

Kalati Constructions Private Limited

February 20, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 27.19 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B+**' **(read as ACUITE B plus)** to the Rs. 27.19 crore bank facilities of Kalati Constructions Private Limited (KCPL). The outlook is **'Stable'**.

Mumbai based KCPL, incorporated in September 1988, and is promoted by Mr. Prem Kalati, Mr. Nandkumar Kalati and Mr. Rishabh Kalati. The company generates revenues from leasing out commercial properties and financing activities. The company has leased out a property called 'DURU House' - developed in 2003 located at Juhu, Mumbai having total leasable area of 15,000 square feet.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Kalati Constructions Private Limited to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

  Mr. Prem Kalati, Mr. Nandkumar Kalati and Mr. Rishabh Kalati are the promoters of company. Mr. Prem Kalati has more than a decade of experience in construction and leasing out properties.

- **Stable rental flow from diversified counter parties**

  KCPL has constructed commercial property named 'DURU House' with total of ground floor plus four floors. It is leased out to counter parties like HSBC Limited and Regus Business Centre Private Limited. It has a total leasable area of 15,000 sq. ft. with 100 percent occupancy rate. The leave and license agreement, includes the rentals and Common Area Maintenance (CAM) charges, and also has factored in escalation clause of 15 percent every three years. KCPL reported rent and amenities receipts of Rs. 3.43 crore in FY2018 as against Rs.2.18 crore in FY2017.

Weaknesses

- **Agreement renewal risk**

  KCPL's ability of timely renewal of lease rental agreements at envisaged terms and variation in the credit profile of Licensee constitute key rating sensitivity.

- **Susceptibility to generate sufficient surplus cashflows**

  KCPL primarily generates cash flows from leave and license agreements with its existing tenants at the commercial property – 'DURU House'. The rental income has an escalation clause of 15 percent every three years. For FY2018, the company has rental income of Rs.3.50 crore against debt obligation of Rs.3.92 crore. Further, for FY2019 the rental income is expected around Rs. 3.71 crore against debt obligation of Rs.3.69 crore. The company has also earned interest income of Rs.2.73 crore from financing activity for FY2018. The company's ability to meet its future debt obligations will be dependent on the continued and timely flow of rentals under the leave and license arrangement and income generated from financing activity.

Outlook: Stable

Acuité believes KCPL will maintain a 'Stable' business risk profile over the medium term on the back of its experienced management and reputed tenants. The outlook may be revised to 'Positive' in case the company is able to renew its lease agreement within stipulated time frame along with excess cash flows generated from rental income. The outlook may be revised to 'Negative' in case of deterioration in the company's financial risk profile and liquidity position.

Liquidity position

KCPL has ballooning repayment schedule for lease rental discounting loans. The company has used the loan for financing activity for real estate project execution under proprietorship concern, Duru Reality. It earns interest income at around 10 percent on such loan. For FY2018, the company has rental income of Rs.3.50 crore and income from financing activity of Rs.2.73 crore against debt obligation of Rs.3.92 crore.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	3.43	2.18	2.55
EBITDA	Rs. Cr.	2.70	0.87	1.63
PAT	Rs. Cr.	2.05	0.79	1.24
EBITDA Margin	(%)	78.76	40.10	64.20
PAT Margin	(%)	59.77	36.27	48.82
ROCE	(%)	15.27	8.24	17.39
Total Debt/Tangible Net Worth	Times	2.14	2.17	0.05
PBDIT/Interest	Times	1.82	1.78	21.16
Total Debt/PBDIT	Times	4.82	12.58	0.27
Gross Current Assets (Days)	Days	3,361	4,441	158

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

No Information

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
- Entities In Services Sector -https://www.acuite.in/view-rating-criteria-8.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	11.56	ACUITE B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	15.63	ACUITE B+ / Stable

Contacts

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.