

Press Release

Kalati Constructions Private Limited

March 31, 2021



Rating Upgraded

Total Bank Facilities Rated	Rs.27.19 crore
Long Term Rating	ACUITE BB/ Stable (Upgraded from ACUITE B+/Stable)

* Refer Annexure for details

Rating Rationale

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

The rating upgrade is on account of improvement in the overall business risk profile of the company marked by a steady increase in the operating revenue and improvement in profitability levels. Acuité believes that the entity would sustain the revenue growth and improved profitability going forward too, resulting in better cash accruals. The higher accruals would, in turn, translate into improvement in their capital structure and debt protection measures.

Incorporated in 1988, KCPL 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 KCPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

The promoter of the company, Mr. Prem Kalati has around three decades of experience in construction, developing and leasing properties. Acuité believes that KCPL will continue to benefit from its experienced management, established track record of operations and long-standing relationships with their clientele over the medium term.

- **Steady revenue stream from reputed clientele**

The company has entered into long term lease agreements with reputed clientele including Regus Business Centre Private Limited (Regus) and Hong Kong and Shanghai Banking Corporation Limited (HSBC) with long tenure of 10 years, along with a lock-in period of 3 years, providing adequate revenue visibility and assured cash inflows over the medium term. Regus's monthly lease rent is subject to escalation at the rate of 7.5 per cent on the last paid rent, every two years. HSBC's monthly lease rent is subject to escalation at the rate of 15 per cent on the last paid rent, every three years. Acuité believes that long-term lease agreement and adequate cushion in the form of lease rentals would support the business risk profile of the company over the medium term.

Weakness

- **Moderate financial risk profile**

The company's financial risk profile is marked by modest net worth, moderate gearing and healthy debt protection metrics. The net worth of the company stood at Rs.18.98 crores as on March 31, 2020 as compared to Rs.15.79 crores as on March 31, 2019, due to retention of profits. The company has moderate gearing at 1.33 times as on March 31, 2020 as against 1.67 times as on March 31, 2019. The total debt facility of Rs.25.24 crores comprises of long term debt of Rs.23.91 crores maturing obligations of Rs.1.26 crores as on March 31, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.46 times as on March 31, 2020 as

against 1.82 times as on March 31, 2019. The debt protection metrics of the company is marked by Interest Coverage Ratio at 2.55 times as on FY2020 against 2.27 times as on FY2019 and Debt Service Coverage Ratio at 1.60 times as on FY2020 against 1.55 times as on FY2019. Acuité believes going forward with no debt funded capex plan, the financial risk profile is expected to improve over the medium term.

• **Agreement renewal risk**

The revenues of the company are derived by way of rent from reputed corporates. The company ensures that credit quality is satisfactory. Conversely, the counterparty risk is high in case of occurrence of any events such as changes in policy decisions by top management for not willing to continue with the agreement. In the event of non-renewal by the existing lessee, the future cash flows will be impacted, thereby translating to further weakening of debt protection indicators. Timely renewal or leasing at similar or better terms than the existing agreements will remain a key rating sensitivity factor. However, this risk is partially mitigated by the long-term relationship with reputed tenant base, which will support the business profile as witnessed in the past.

Rating Sensitivity

- Timely receipt of long lease rentals
- Improvement of financial risk profile

Material Covenants

None

Liquidity Profile: Adequate

The company's liquidity is adequate marked by cash accruals of Rs.3.20 crores in FY2020 as against Rs.1.26 crore maturing obligation over the same period. The cash and bank balance stood at Rs.0.06 crore as on March 31, 2020. KCPL's surplus cash after payment of salaries, Common Area Maintenance (CAM) and other expenses, is expected to be above Rs.6.28 crores, against repayment obligations in the range of Rs.3.66 crores to 4.20 crores over the medium term. The company has neither availed loan moratorium nor covid loan. Hence, Acuité believes that going forward, the company's liquidity position would improve on account of adequate cash flows from the long lease agreement with Regus and HSBC over the medium term.

Outlook: Stable

Acuité believes that the outlook of KCPL would remain stable on account of the consistent revenue visibility expected through lease rental and experienced management. The outlook may be revised to 'Positive' in case of consistent healthy cash accruals or early repayment of its term loan leading to improvement of its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any further debt funded capex or less-than-expected cash accruals leading to deterioration of its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20(Actual)	FY19(Actual)
Operating Income	Rs. Cr.	7.13	6.59
PAT	Rs. Cr.	3.18	2.60
PAT Margin	(%)	44.63	39.47
Total Debt/Tangible Net Worth	Times	1.33	1.67
PBDIT/Interest	Times	2.55	2.27

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

None

Any other information

Not Applicable

Applicable Criteria

- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition -<https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Entities- <https://www.acuite.in/view-rating-criteria-51.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
20-Feb-2019	Term loan	Long Term	11.56	ACUITE B+/Stable (Assigned)
	Term loan	Long Term	15.63	ACUITE B+/Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs.) Crore	Ratings/Outlook
Term Loan	Not available	Not available	Not available	11.56	ACUITE BB/Stable (Upgraded from ACUITE B+/Stable)
Term Loan	Not available	Not available	Not available	15.63	ACUITE BB/Stable (Upgraded from ACUITE B+/Stable)

Contacts

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About Acuité Ratings & Research:

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