

Press Release

Lokhandwala Kataria Construction Private Limited

November 20, 2020



Rating Reaffirmed & Assigned

Instrument Rated*	Rs.250.00 Cr. (Non-Convertible Debentures)
Long Term Rating	Provisional ACUITE C (Reaffirmed)
Instrument Rated*	Rs.100.00 Cr. (Non-Convertible Debentures)
Long Term Rating	Provisional ACUITE C (Reaffirmed)
Instrument Rated*	Rs. 50.00 Cr. (Non-Convertible Debentures)
Long Term Rating	ACUITE C (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has converted its provisional rating on NCDs issue of Rs.50.00 crore of Lokhandwala Kataria Construction Private Limited (LKCPL) to final rating of '**ACUITE C**' (**read as ACUITE C**).

Acuité has reaffirmed the long-term rating of '**Provisional ACUITE C**' (**read as Provisional ACUITE C**) on the Rs.250.00 crore Proposed Non-Convertible Debentures of Lokhandwala Kataria Construction Private Limited (LKCPL).

Further, Acuité has reaffirmed the long-term rating of '**Provisional ACUITE C**' (**read as Provisional ACUITE C**) on the Rs.100.00 crore Proposed Non-Convertible Debentures of Lokhandwala Kataria Construction Private Limited (LKCPL).

Mumbai based, LKCPL was incorporated in 1998 and is owned by the Lokhandwala family viz. Mr. Mohammed A Lokhandwala, Mr. Mohammed Moiz Lokhandwala and Mr. Alisagar Lokhandwala. LKCPL is a part of Lokhandwala Group.

The company is currently developing a project by the name of "Minerva" in Mahalaxmi region of Mumbai for the construction of 10 rehabilitation buildings, a School, a maternity/municipal clinic, a welfare Centre, a Balwadi and a saleable building 362 apartments. The project began in May 2011 and is estimated to be completed in September 2021.

The provisional to final conversion is subject to the finalization and vetting of the following requirements by Acuité:

- Finalisation of term sheet
- Conformation from debenture trustee

Acuité reserves the right to withdraw/modify/alter the rating prior/after 90 days in case of occurrence of any material credit event. Acuité reserves the right to extend the provisional rating if necessary.

About the Group

Lokhandwala Group comprises of Lokhandwala Shelters India Private Limited, Saikrupa Builders and Developers Private Limited, Ratan Real Estate Services Private Limited, Lokhandwala Universal Private Limited, Lokhandwala Infrastructure Private Limited and Lokhandwala Kataria Constructions Private Limited. The group is engaged in the business of undertaking the construction of various commercial and residential projects.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the LKCPL to arrive at this

rating.

Key Rating Drivers

Strengths

- Experienced management and long track record of operations**

LKCPL is promoted by Mr. Mohammed A Lokhandwala, Mr. Mohammed Moiz Lokhandwala and Mr. Alisagar Lokhandwala who are all seasoned industry veterans managing the day to day operations of the company. The promoters of the company have amassed more than two decades of experience in the real estate industry via their association with the group companies. Further, the company has a track record of operations of more than two decades in the aforementioned line of business. The vast experience of the management, coupled with the long track of operations of the company has enabled LKCPL to execute numerous big projects in the region of Mumbai as well as overseas.

Acuité believes that the company will continue to benefit through the promoter's extensive industry experience over the medium term.

Weaknesses

- Low financial flexibility along with stretched liquidity position**

LKCPL has significantly leveraged capital structure marked by poor net worth and debt protection metrics. The company had a gearing of (61.48) times in FY2020 (Provisional), (58.92) times in FY2019 and 55.40 times in FY2018. The total outside liability to total net worth (TOL/TNW) of the company stood at (98.97) as on March 31, 2020 (Provisional) as against (113.37) times in the previous year. Further, the interest coverage ratio stood at (175.70) times for FY2020 (Provisional) as compared to (816.88) times for FY2019. The debt service coverage ratios stood at (0.02) times as on March 31, 2020 (Provisional) vis-à-vis (0.20) times as on March 31, 2019. The deterioration in the financial risk profile is further emphasized by the decline of the net worth of the company to (15.07) crores in FY2020 (Provisional) from (12.29) crores in FY2019.

In addition to the deterioration in the financial risk profile of the company, there is a significant deterioration in the liquidity position as reflected by the negative net cash accruals of (2.40) crores in FY2020 (Provisional) against maturing debt obligations of 117.39 crores for the same period. Going ahead, the financial flexibility and liquidity of the company will be a key rating sensitivity.

- Susceptibility to Real Estate cyclical and regulatory risks**

The real estate industry in India is highly fragmented with most of the real estate developers, having a city specific or region-specific presence. The risks associated with the real estate industry are cyclical in nature of business (drop in property prices) and interest rate risk, among others which could affect the operations. LKCPL is exposed to the risk of volatile prices on account of frequent demand supply mismatches in the industry. The Real Estate sector is under high stress on account of large amounts of unsold inventory and high borrowing costs. This is primarily attributable to the high residential property prices due to persistent rollover of bank debt which has a cascading effect on the overall finance costs. Given the high degree of financial leverage, the high cost of borrowing inhibits the real estate developers' ability to significantly reduce prices to augment sales growth. Further, the industry is exposed to regulatory risk, which is likely to impact players such as LKCPL, thereby impacting its operating capabilities. In addition to the above, due to the advent of COVID-19 Pandemic, the real estate sector has been one of the worst hit sectors.

Liquidity Position: Poor

LKCPL has poor liquidity marked by the negative net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.(4.06)-(2.40) crore during the last three years through 2018-20 (Provisional), while its maturing debt obligations were in the range of Rs. 110.58-117.39 crore over the same period. The current ratio of the company stood moderate at 1.89 times as on March 31, 2020 (Provisional). Acuité believes that the liquidity of the company is likely to remain poor over the medium term on account of negative cash accrual as against debt repayments over the medium term.

Outlook: Not Applicable

Rating Sensitivities

- Timely servicing of debt obligations.

Material Covenants

None

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	200.07	141.05
PAT	Rs. Cr.	(2.79)	(22.67)
PAT Margin	(%)	(1.39)	(16.07)
Total Debt/Tangible Net Worth	Times	(61.48)	(58.92)
PBDIT/Interest	Times	(175.70)	(816.88)

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

Not Applicable

Any other information

Acuité takes a note of the concerns expressed by the auditors of the company in the annual reports for the period FY2017-19. The company has various legal cases filed against it by the financial creditors in the National company law tribunal (NCLT), the company has been irregular in payment of various statutory dues and including the payment of tax deduction at sources (TDS, service tax and payment of provident fund etc. Further the parent company Lokhandwala Infrastructure Private Limited which has a major shareholding in LKCPL has bankrupted.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Real Estate Entities - <https://www.acuite.in/view-rating-criteria-63.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
02-Apr-2020	Proposed NCD	Long term	300.00	Provisional ACUITE C (Assigned)
29-Sep-2020	Proposed NCD	Long term	300.00	Provisional ACUITE C (Reaffirmed)
	Proposed NCD	Long term	100.00	Provisional ACUITE C (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed NCD	Not Applicable	Not Applicable	Not Applicable	250.00 (Revised from Rs. 300.00 Cr.)	Provisional ACUITE C (Reaffirmed)
Proposed NCD	Not Applicable	Not Applicable	Not Applicable	100.00	Provisional ACUITE C (Reaffirmed)
NCD	October 2020	7.00%	October 2026	50.00	ACUITE C (Assigned)

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About Acuité Ratings & Research:

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