

Press Release
LOKHANDWALA KATARIA CONSTRUCTION PRIVATE LIMITED
February 04, 2022
Rating Assigned and Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Shc R
Non Convertible Debentures (NCD)	199.00	ACUITE C Reaffirmed	-
Non Convertible Debentures (NCD)	201.00	Provisional ACUITE C Assigned	-
Total Outstanding Quantum (Rs. Cr)	400.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its rating of 'ACUITE C' (read as ACUITE C) on NCDs issue of Rs.149.00 crore of Lokhandwala Kataria Construction Private Limited (LKCPL).

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

Acuité has assigned the long-term rating of 'Provisional ACUITE C' (read as Provisional ACUITE C) on the Rs.101.00 crore Proposed Non-Convertible Debentures of Lokhandwala Kataria Construction Private Limited (LKCPL).

Further, Acuité has assigned 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).

About the Company

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. Aliasgar 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 January 2023.

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 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. Aliasgar 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 (24.01) times in FY2021 as against (33.22) times in FY2020, (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 (30.56) as on March 31, 2021 as against (56.96) as on March 31, 2020. Further, the interest coverage ratio stood at (3110.70) for FY2021 as against (426.09) times for FY2020 and (816.88) times for FY2019. The debt service coverage ratios stood at (0.23) times as on March 31, 2021 as against (0.12) times as on March 31, 2020. The deterioration in the financial risk profile is further emphasized by the decline of net worth of the company to (53.66) crores in FY2021 from (26.21) crores in FY2020. 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 (27.10) crores in FY2021 against maturing debt obligations of 6.40 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 COVID19 Pandemic, the real estate sector has been one of the worst hit sectors.

ESG Factors Relevant for Rating

For the construction industry, it is important to take environmental considerations like ecological and biodiversity impact of its activities and the safety of their employees is of paramount importance. Upholding business ethics and fundamental values is the foremost material issue for the specialized construction industry. On the social front, the company has provided homes for more than eight thousands of families from the weaker sections of society and have also provided medical, educational and other social amenities to them. These include redevelopment projects and beautification of various public spaces in the city. On the governance part, there has been instances of irregularity and delays in various payment including statutory dues and payments in the past and absence of adequate information is observed while conducting the audit showing absence of proper internal control.

Rating Sensitivities

Timely servicing of debt obligations.

Material covenants

None.

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.(27.10)-(13.50) crore during the last three years through 2019-21, while its maturing debt obligations were in the range of Rs.6.40-118.70 crore over the same period. The current ratio of the company stood at 4.21 times as on March 31, 2021. 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

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	252.73	200.07
PAT	Rs. Cr.	(27.45)	(13.93)
PAT Margin	(%)	(10.86)	(6.96)
Total Debt/Tangible Net Worth	Times	(24.01)	(33.22)
PBDIT/Interest	Times	(3110.70)	(426.09)

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 FY2020-21.

Supplementary disclosures for Provisional Ratings

A. Risks associated with the provisional nature of the credit rating

1. Absence of any entity to take appropriate measures to protect the interest of the debenture holders in case of any breach of the trust deed or law.
2. In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuite will withdraw the existing provisional rating and concurrently, assign a fresh final rating in the same press release, basis the revised terms of the transaction.

B. Rating that would have been assigned in absence of the pending steps/ documentation

The rating would be equated to the standalone rating of the entity: ACUITE C

C. Timeline for conversion to Final Rating for a debt instrument proposed to be issued:

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
09 Dec 2021	Proposed Non Convertible Debentures	Long Term	100.00	ACUITE Provisional C (Withdrawn)
	Proposed Non Convertible Debentures	Long Term	101.00	ACUITE Provisional C (Withdrawn)
	Non Convertible Debentures	Long Term	50.00	ACUITE C (Reaffirmed)
	Non Convertible Debentures	Long Term	149.00	ACUITE C (Reaffirmed)
04 Dec 2020	Proposed Non Convertible Debentures	Long Term	101.00	ACUITE Provisional C (Reaffirmed)
	Non Convertible Debentures	Long Term	50.00	ACUITE C (Reaffirmed)
	Non Convertible Debentures	Long Term	149.00	ACUITE C (Assigned)
	Proposed Non Convertible Debentures	Long Term	100.00	ACUITE Provisional C (Reaffirmed)
20 Nov 2020	Proposed Non Convertible Debentures	Long Term	250.00	ACUITE Provisional C (Reaffirmed)
	Non Convertible Debentures	Long Term	50.00	ACUITE C (Assigned)
	Proposed Non Convertible Debentures	Long Term	100.00	ACUITE Provisional C (Reaffirmed)
29 Sep 2020	Proposed Non Convertible Debentures	Long Term	300.00	ACUITE Provisional C (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	100.00	ACUITE Provisional C (Assigned)
02 Apr 2020	Proposed Non Convertible Debentures	Long Term	300.00	ACUITE Provisional C (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	INE999H07033	Non-Convertible Debentures (NCD)	02-11-2020	7.00	26-10-2026	50.00	ACUITE C Reaffirmed
Not Applicable	INE999H07058	Non-Convertible Debentures (NCD)	01-12-2020	7.00	26-10-2026	149.00	ACUITE C Reaffirmed
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	101.00	Provisional ACUITE C Assigned
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	100.00	Provisional ACUITE C Assigned

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About Acuité Ratings & Research

Acuité Ratings & Research 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 8,850 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 Kanjurmarg, Mumbai.

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