

Press Release

Lokhandwala Kataria Construction Private Limited

November 02, 2022



Rating Assigned and Reaffirmed

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|---------------------|---|----------------------|
| Non Convertible Debentures (NCD) | 274.00 | ACUITE C Reaffirmed | - |
| Non Convertible Debentures (NCD) | 36.00 | Provisional ACUITE C Reaffirmed | - |
| Non Convertible Debentures (NCD) | 90.00 | ACUITE C Assigned Provisional To Final | - |
| Total Outstanding Quantum (Rs. Cr) | 400.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has reaffirmed its long term rating of 'ACUITE C' (read as ACUITE C) on NCDs issue of Rs.274.00 crore of Lokhandwala Kataria Construction Private Limited (LKCPL).

Acuite has reaffirmed its long-term rating of 'Provisional ACUITE C' (read as Provisional ACUITE C) on the Rs.36.00 crore Proposed Non-Convertible Debentures of Lokhandwala Kataria Construction Private Limited (LKCPL).

Further, Acuite has converted from provisional to final rating of 'ACUITE C' (read as ACUITE C) on NCDs issue of Rs.90.00 crore of Lokhandwala Kataria Construction Private Limited (LKCPL) on account of receipt of the final term sheet.

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

Finalisation of term sheet Conformation from debenture trustee.

Acuite reserves the right to withdraw/modify/alter the rating prior/after 90 days in case of occurrence of any material credit event.

Acuite reserves the right to extend the provisional rating if necessary.

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.

Analytical Approach:

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

Key Rating Driver

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 (3.21) times in FY2022 as against (24.01) times in FY2021. The total outside liability to total net worth (TOL/TNW) of the company stood at (4.23) as on March 31, 2022 as against (30.56) as on March 31, 2021. Further, the interest coverage ratio stood at (0.52) for FY2022 as against (3110.70) times for FY2021. The debt service coverage ratios stood at (0.51) times as on March 31, 2022 as against (0.23) times as on March 31, 2021. The deterioration in the financial risk profile is further emphasized by the decline of net worth of the company to (446.91) crores in FY2022 from (53.66) crores in FY2021. 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 (392.95) crores in FY2022. 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 Sensitivity

Timely servicing of debt obligations.

Material Covenants

None

Liquidity Position

Poor

LKCPL has poor liquidity marked by the negative net cash accruals. The company generated cash accruals of Rs.(392.95)-(13.50) crore during the last three years through 2020-22. The current ratio of the company stood at 2.98 times as on March 31, 2022. 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

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 22 (Actual) | FY 21 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 15.77 | 252.73 |
| PAT | Rs. Cr. | (393.19) | (27.45) |
| PAT Margin | (%) | (2493.49) | (10.86) |
| Total Debt/Tangible Net Worth | Times | (3.21) | (24.01) |
| PBDIT/Interest | Times | (0.52) | (3110.70) |

Status of Non-cooperation with previous CRA (If Applicable)

None

Supplementary disclosures for Provisional Ratings

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.

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

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.

Any Other Information

None

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>
- Real Estate Entities: <https://www.acuite.in/view-rating-criteria-63.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|-------------------------------------|-----------|-----------------|-----------------------------------|
| 05 May 2022 | Proposed Non Convertible Debentures | Long Term | 25.00 | ACUITE Provisional C (Reaffirmed) |
| | Non Convertible Debentures | Long Term | 149.00 | ACUITE C (Reaffirmed) |
| | Non Convertible Debentures | Long Term | 75.00 | ACUITE C (Assigned) |
| | Non Convertible Debentures | Long Term | 50.00 | ACUITE C (Reaffirmed) |
| | Proposed Non Convertible Debentures | Long Term | 101.00 | ACUITE Provisional C (Reaffirmed) |
| 04 Feb 2022 | Non Convertible Debentures | Long Term | 50.00 | ACUITE C (Reaffirmed) |
| | Proposed Non Convertible Debentures | Long Term | 100.00 | ACUITE Provisional C (Assigned) |
| | Proposed Non Convertible Debentures | Long Term | 101.00 | ACUITE Provisional C (Assigned) |
| | Non Convertible Debentures | Long Term | 149.00 | ACUITE C (Reaffirmed) |
| | Proposed Non Convertible Debentures | Long Term | 100.00 | ACUITE Provisional C (Withdrawn) |

| | | | | |
|-------------|-------------------------------------|-----------|--------|-----------------------------------|
| 09 Dec 2021 | 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) | Nov 2 2020 12:00AM | 7.00 | Oct 26 2026 12:00AM | 50.00 | ACUITE C Reaffirmed |
| Not Applicable | INE999H07058 | Non-Convertible Debentures (NCD) | Dec 1 2020 12:00AM | 7.00 | Oct 26 2026 12:00AM | 149.00 | ACUITE C Reaffirmed |
| Not Applicable | Not Applicable | Non-Convertible Debentures (NCD) | Not Applicable | Not Applicable | Not Applicable | 90.00 | ACUITE C Assigned Provisional To Final |
| Not Applicable | INE999H07074 | Non-Convertible Debentures (NCD) | Apr 20 2022 12:00AM | 7 | Oct 26 2026 12:00AM | 75.00 | ACUITE C Reaffirmed |
| Not Applicable | Not Applicable | Proposed Non Convertible Debentures | Not Applicable | Not Applicable | Not Applicable | 11.00 | Provisional ACUITE C Reaffirmed |
| Not Applicable | Not Applicable | Proposed Non Convertible Debentures | Not Applicable | Not Applicable | Not Applicable | 25.00 | Provisional ACUITE C Reaffirmed |

Contacts

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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