

L&W Construction Private Limited

October 08, 2018

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Non-fund based Facilities	1600.00	[ICRA]A2+; Assigned
Unallocated Limits - Fund Based	300.00	[ICRA]A-(Stable)/[ICRA]A2+; Assigned
Total	1900.00	

* Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the rating of [ICRA]A- (pronounced ICRA A minus)/[ICRA]A2+ (pronounced ICRA A two plus) to the Rs. 300.0-crore fund based unallocated limits of L&W Construction Private Limited (LWCPL). ICRA has also assigned the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) to the Rs. 1600.0-crore short-term non-fund based limits of the company. The outlook on the long-term rating is Stable.

Rationale

The assigned ratings draw comfort from LWCPL's strong parentage and the Group's track record of demonstrated execution capability. Further, ICRA draws comfort from the company's reputed clientele and the repeat orders received from them. ICRA also notes that the company's demand prospects are favourable in the near term, given the steady growth in demand for Grade-A office space in the company's key markets of operation. The company's outstanding order book, of Rs 1310 crore as on date, provides revenue visibility till FY2020. ICRA also positively factors in the debt-free status of the company as on date.

The ratings, however, remain constrained by the intense industry competition, which restricts the company's profit margins and return indicators. LWCPL is exposed to high order concentration risks, with the top five orders contributing to over 80% of the outstanding order book. The assigned ratings are also constrained by the high working capital requirement, inherent in the contracting business. The company funds the requirement through mobilisation advances and trade creditors; and hence it has no borrowings on its books. The company's 'Total outside liabilities/Tangible net worth' ratio was high at 2.27 times as on March 31, 2018 (Provisional). The company's proposed residential and industrial development projects are exposed to funding, execution and market risks.

Outlook: Stable

ICRA believes that LWCPL will continue to benefit from its strong promoter profile and execution ability. The outlook may be revised to Positive if better-than-expected growth in revenue and profitability improves the working capital cycle, thereby strengthening its financial risk profile. The outlook may be revised to Negative in case of dip in revenue/profitability, stretch in the working capital cycle or higher-than-expected debt-funded real estate development programme.

Key rating drivers

Credit strengths

Strong promoter profile – LWCPL is a 100% subsidiary of Lee Kim Tah Woh Hup Pte Ltd from Singapore (LKTWH). LKTWH, in turn, is a 50:50 joint venture between Lee Kim Tah Holdings Ltd and Woh Hup Holdings (Pte) Ltd, two of Singapore's oldest construction companies with a long track record of successful project completions across Singapore, Thailand, Malaysia, Indonesia, Myanmar, Middle East, Sri Lanka and the Philippines. The companies have constructed iconic buildings in Singapore, South-East Asia, China, Australia and London.

Reputed clientele – The company's clientele consists of reputed Grade-A real estate commercial developers and Information Technology companies such as Ascendas, Capgemini, RMZ, Qualcomm, Netapp and Honeywell. The company's proven ability to execute projects within the stipulated time and as per the prescribed standard has resulted in repeat work orders. The company's near-term demand prospects are favourable, given the steady growth of Grade-A office space in the company's key markets.

Adequate order book size – The company has an outstanding order book of Rs 1310 crore as on September 21, 2018. The outstanding order book is 1.4 times of FY2018 operating income providing revenue visibility for FY2019 and FY2020.

Geographic diversification – LWCPL's presence across major IT/ITES hubs in India including Bangalore, Chennai, Pune, Hyderabad and Gurgaon mitigates risks arising out of geographic concentration to some extent.

Credit challenges

Highly competitive industry – LWCPL is a mid-sized player undertaking Engineering, Procurement and Construction (EPC) projects largely in the commercial segment (>90%). Since the company caters primarily to private real estate developers, any change in the economic scenario that has a bearing on the real estate industry impacts the company's order book, top line, margins and working capital cycle. The industry is intensely competitive, resulting in thin profit margins.

High customer and order concentration – The company's order concentration is high; the top five customers contributed 93-94% to the total sales in FY2017 and FY2018, 77% in FY2018 and over 80% of the current outstanding order book. This client concentration exposes the company to risks pertaining to project progress and bill receipt.

Working capital intensive operations – The working capital requirement is high because of the nature of the contracting business. The company funds the requirement primarily through mobilisation advances and trade creditors, and hence there is no borrowings on the company's books. The company's 'Total outside liabilities/Tangible net worth' ratio was high at 2.27 times as on March 31, 2018.

Initiatives to diversify into residential and industrial real estate development – LWCPL plans to diversify into real estate development with the proposed launch of a new residential project in FY2020 on a 25-acre land parcel it owns in Devanahalli, Bangalore (close to the international airport). The project is expected to be launched in phases and each phase is expected to cost Rs 250-300 crore. The company has taken a land parcel of five acres on a 999-year lease in Chennai for a consideration of Rs 11.45 crore in FY2018. The company plans to undertake industrial space construction over the said land with a project cost of Rs ~30 crore. The construction on the project is expected to start by early 2019. These projects expose the company to funding, execution and market risks. The proposed development projects are expected to increase the company's leverage.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Construction Entities](#)

Group profile

L&W Construction Private Limited (LWCPL), incorporated in Bengaluru, is a 100% subsidiary of Lee Kim Tah Woh Hup Pte Ltd (LKTWH) and was incorporated in 2006. LKTWH, in turn, is a 50:50 joint venture company between Lee Kim Tah Holdings Ltd and Woh Hup Holdings (Pte) Ltd, two of Singapore's oldest construction companies with a track record of successful project completions across Singapore, Thailand, Malaysia, Indonesia, Myanmar, Middle East, Sri Lanka and the Philippines. LWCPL primarily undertakes civil construction for Grade-A commercial office space and has presence across the major information technology hubs in the country. The company also undertakes construction for hotels, residential buildings, industrial complexes and shopping malls.

LWCPL has two subsidiaries, L&W Builders Private Limited (LWBPL) and L&W Building Solutions Private Limited (LWBSPL). While, LWPL undertakes construction of residential project, LWBSPL undertakes interior and landscaping works. LWBSPL has in May 2018 incorporated a 100% subsidiary named Invreco Private Limited.

Key financial indicators (standalone)

	FY2017	FY2018 Provisional
Operating Income (Rs. crore)	657.79	929.27
PAT (Rs. crore)	22.78	29.81
OPBDIT/OI (%)	5.26%	4.86%
RoCE (%)	10.54%	10.14%
Total Debt/TNW (times)	0	0
Total Debt/OPBDIT (times)	0	0
Interest coverage (times)	8.72	8.48

Source: Company, ICRA; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; TNW: Tangible Net Worth; RoCE; Return on Capital Employed; OI: Operating Income

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument		Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					October 2018			
1	Non-fund based Facilities	Short Term	1600.00	442.3	[ICRA]A2+	-	-	-
2	Unallocated Limits (Fund Based)	Long Term / Short Term	300.00	0.00	[ICRA]A-(Stable)/[ICRA]A2+	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Bank Gaurantee/ Letter of Credit	April 2016	NA	NA	1600.00	[ICRA]A2+
NA	Unallocated (Fund Based)	NA	NA	NA	300.00	[ICRA]A-(Stable)/ [ICRA]A2+

Source: L&W Construction Private Limited

ANALYST CONTACTS

Shubham Jain

+91 0124 4545 306

shubhamj@icraindia.com

Mathew Eranat

+91 80 4332 6415

mathew.eranat@icraindia.com

Adarsh Reddy

+91 80 4332 6405

adarsh.reddy@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 6606 9999

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