

September 29, 2023

L&W Construction Private Limited: Ratings reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---------------------------|--------------------------------------|-------------------------------------|--|
| Non-fund based facilities | 1708.10 | 1900.0 | [ICRA]A (Stable)/[ICRA]A2+; reaffirmed |
| Unallocated limits | 191.90 | 0.00 | - |
| Total | 1900.00 | 1900.00 | |

*Instrument details are provided in Annexure I

Rationale

ICRA has taken a consolidated view of L&W Construction Private Limited (LWC), which includes its subsidiaries and step-down subsidiary companies, while assigning the credit ratings, given the common management and significant operational and financial linkages between the entities.

The reaffirmation of ratings factors in LWC's increased scale of operations with revenue growth of 42% to Rs. 1,426 crore in FY2023, which ICRA expects to remain strong in FY2024e on the back of a strong order book position (~Rs. 4,269 crore translating into OB/OI at 3 times FY2023 revenues). Operating leverage benefits as well as focus on higher margin projects should result in sequential improvement in its operating margins going forward, which remains modest at present (~4.8% in FY2023). ICRA takes note of LWC's strong parentage, the Group's demonstrated execution capability in the commercial building construction segment and its reputed clientele consisting of reputed Grade-A real estate commercial developers and Information Technology (IT) companies. Also, the company has adequate liquidity with free cash of Rs. 134.7 crore as on March 31, 2023, coupled with minimal utilisation of working capital limits in the past 12 months.

The ratings, however, remain constrained by the intense competition in the industry, high order concentration, and the susceptibility of its profitability to fluctuations in input prices. The working capital requirements increased in FY2023 due to high billing in March 2023 and high WIP inventory owing to milestone-linked billing. The company funds its working capital requirement primarily through mobilisation advances and trade creditors. Hence, it reported a high net Total Outside Liabilities/Tangible Net Worth (TOL/TNW) of 4.0 times as on March 31, 2023, which increased from 2.6 times as on March 31, 2022 due to higher mobilisation advances availed for its new projects. Nevertheless, the debt coverage metrics continue to remain healthy with PBDIT/interest expenses of more than 3.7 times for FY2023 as these mobilisation advances are interest free. Going forward, company's ability to judiciously manage its working capital cycle and improve its operating profitability remain a key monitorable.

The Stable outlook on the ratings reflect ICRA's opinion that LWC's business profile will continue to benefit from its healthy revenue growth, expected improvement in operating margins and timely receipt of payments.

Key rating drivers and their description

Credit strengths

Healthy order book provides medium-term revenue visibility – The outstanding order book is estimated to be around Rs. 4,269 crore (compared to Rs. 3,418 crore as on March 31, 2022), which stood at 3.0 times of its revenues in FY2023, thus providing adequate medium-term revenue visibility. The company has been able to cross the pre-Covid revenue levels with revenue of Rs. 1,426.3 crore in FY2023, reflecting a healthy year-on-year (YoY) growth of 42% from Rs. 1,002.8 crore in FY2022. With a strong outstanding order book, it is expected to report a growth of more than 12% in FY2024.

Reputed clientele – LWC’s clientele primarily consists of reputed Grade-A real estate commercial developers and Information Technology (IT) companies such as Keppel, RMZ, Hewlett-Packard India and Qualcomm, among others. Despite the Group’s high project concentration (top five projects comprised 77% of its outstanding order book as on March 31, 2023), the company’s proven ability to execute projects within the stipulated time and as per the prescribed standard resulted in repeat work orders from its customers.

Strong promoter profile – LWC is directly held by Lee Kim Tah Woh Hup Pte Ltd of Singapore (LKTWH). LKTWH, in turn, is a 50:50 joint venture (JV) 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 completion 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.

Credit challenges

Low profitability levels although on an improving trend – The company’s profitability margins are susceptible to fluctuations in input prices, which are not fully covered under the price escalation clauses. In FY2022, LWC’s operating profitability declined by 150 bps to 4.6% in FY2022 owing to inflationary pressure and delays in receiving necessary approvals towards the price escalation from some of the customers. The operating profitability marginally recovered to 4.8% in FY2023. However, the same continues to remain lower than the earlier levels of ~6%-6.6%. Nonetheless, its operating margins are expected to improve going forward with necessary approvals towards the price escalations, softening of commodity prices and diversification of order book.

High TOL/TNW due to reliance on mobilisation advances from customers – The working capital requirement increased in FY2023 due to high billing in the last month of the fiscal and high WIP inventory owing to milestone-linked billing for the new projects. The company funds its working capital requirement primarily through mobilisation advances and trade creditors. Hence, this resulted in high net Total Outside Liabilities/Tangible Net Worth (TOL/TNW) of 4.0 times as on March 31, 2023. The same has increased from 2.6 times as on March 31, 2022 due to higher mobilisation advances availed for its new projects.

Stiff competition in industry – LWC is a mid-sized player undertaking engineering, procurement and construction (EPC) projects for office and industrial buildings, primarily in the IT/ITES segment. The fresh/repeat orders from clients in these segments has a key bearing on the company’s order book, revenues, margins and working capital cycle. The industry is intensely competitive, resulting in thin profit margins.

Liquidity position: Adequate

LWC’s liquidity is likely to remain adequate, backed by its low working capital intensity, along with free cash and investments of around Rs. 134.7 crore as on March 31, 2023. The company has funded majority of its working capital requirements through mobilisation advances from customers and back-to-back payment terms with its creditors. Absence of any major capital expenditure plans and nil term debt payments support its liquidity profile.

Rating sensitivities

Positive factors – ICRA could upgrade LWC’s ratings if there is a sustained improvement in revenues and profitability, along with diversification in the company’s customer profile. Specific credit metrics, which could lead to a rating upgrade, include net TOL/TNW less than 1.75 times on a consistent basis.

Negative factors – Pressure on LWC’s ratings could arise in case of reduction in fresh order inflows, or if there is an elongation in its cash conversion cycle. Specific credit metrics, which could lead to a rating downgrade, include PBDIT/Interest below 4.0 times on a sustained basis.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable rating methodologies | Corporate Credit Rating Methodology Construction Entities |
| Parent/Group support | Not applicable |
| Consolidation/Standalone | ICRA has taken a consolidated view on LWC, which includes its subsidiaries and step-down subsidiary companies, while assigning the credit ratings, given the common management and significant operational and financial linkages between the companies. |

About the company

L&W Construction Private Limited (LWC), 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 JV 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 completion across Singapore, Thailand, Malaysia, Indonesia, Myanmar, Middle East, Sri Lanka and Philippines.

LWC primarily undertakes civil construction, interiors, landscaping and mechanical, engineering and plumbing (MEP) works for Grade-A commercial office space and has presence across major information technology hubs in the country. The company undertakes work for hotels, residential buildings, industrial complexes and shopping malls. LWC has three subsidiaries, L&W Builders Pvt Ltd, L&W Building Solutions Pvt Ltd, LWK Development Pvt Ltd and one step-down subsidiary, Invreco Pvt Ltd.

Key financial indicators

| Consolidated | FY2021 | FY2022 | FY2023* |
|--|--------|---------|---------|
| Operating income | 775.3 | 1,002.8 | 1,426.3 |
| PAT | 13.1 | 9.4 | 12.7 |
| OPBDIT/OI | 6.1% | 4.6% | 4.8% |
| PAT/OI | 1.7% | 0.9% | 0.9% |
| Total outside liabilities/Tangible net worth (times) | 2.9 | 2.6 | 4.0 |
| Total debt/OPBDIT (times) | 1.1 | 1.0 | 0.6 |
| Interest coverage (times) | 3.9 | 2.8 | 2.9 |

Source: ICRA Research, Company

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore, * Provisional

| Standalone | FY2021 | FY2022 | FY2023* |
|--|--------|--------|---------|
| Operating income | 702.8 | 972.6 | 1,355.0 |
| PAT | 7.7 | 4.6 | 3.4 |
| OPBDIT/OI | 6.2% | 3.6% | 3.9% |
| PAT/OI | 1.1% | 0.5% | 0.2% |
| Total outside liabilities/Tangible net worth (times) | 3.1 | 2.9 | 4.6 |
| Total debt/OPBDIT (times) | 1.2 | 1.2 | 0.8 |
| Interest coverage (times) | 3.6 | 2.4 | 2.5 |

Source: ICRA Research, Company

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore, * Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | Type | Current rating (FY2024) | | Chronology of rating history for the past 3 years | | | |
|-----------------------------|--------------------------|--------------------------|--|---|--------------------------------|-------------------------|-----------------------------------|
| | | Amount rated (Rs. crore) | Amount outstanding as on March 31,2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
| | | | | Sep 29, 2023 | Jun 30, 2022 | - | Mar 26, 2021 |
| 1 Non-fund based facilities | Long-term/ Short-term | 1900.00 | NA | [ICRA]A (Stable)/ [ICRA]A2+ | [ICRA]A (Stable)/ [ICRA]A2+ | - | [ICRA]A- (Positive)/ [ICRA]A2+ |
| 2 Unallocated limits | Long-term/ Short-term | - | - | - | [ICRA]A (Stable)/ [ICRA]A2+ | - | [ICRA]A- (Positive)/ [ICRA]A2+ |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|--|----------------------|
| Long-term/Short-term – Non-fund based facilities | Very Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#).

Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|---------------------------|------------------|-------------|----------|--------------------------|--------------------------------|
| NA | Non-fund based facilities | NA | NA | NA | 1900.00 | [ICRA]A (Stable)/ [ICRA]A2+ |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

| Company Name | IOCL Ownership | Consolidation Approach |
|---|---|------------------------|
| L&W Builders Pvt Ltd | 70% | Full Consolidation |
| LWK Development Pvt Ltd | 61% | Full Consolidation |
| L & W Building Solutions Pvt Ltd (LWBSPL) | 61% | Full Consolidation |
| Invreco Private Limited | 100% held by LWBSPL (Step-down subsidiary) | Full Consolidation |

Source: Company

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About ICRA Limited:

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