

December 06, 2024

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	1900.00	1830.00	[ICRA]A (Stable)/[ICRA]A2+; reaffirmed
Term loan	0.0	70.00	[ICRA]A (Stable); reaffirmed
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 (LWCPL), which includes its subsidiaries and step-down subsidiaries, while assigning the credit ratings, given the common management and significant operational and financial linkages among the entities.

The reaffirmation of ratings continues to take comfort from LWCPL's strong parentage, the Group's demonstrated execution capability in the commercial building construction segment and its reputed clientele comprising Grade-A real estate commercial developers and Information Technology (IT) companies. LWCPL's outstanding order book of Rs. 2,886 crore as on June 30, 2024, which translates into OB/OI of 2.0 times of FY2024 revenue, provides adequate visibility over the medium term. The ratings also factor in the recovery in operating margin to 5.7% in FY2024 from 4.3% in FY2023, supported by no major write-offs as well as cost control measures and expectation of range-bound improvement in the near to medium term. Also, the company has adequate liquidity with free cash and cash equivalents of Rs. 82.4 crore as on September 30, 2024, 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. ICRA notes that owing to operational upgradation during the last year, the company slowed on order bidding resulting in muted order inflow and subsequent reduction in mobilisation advances. This, coupled with temporary support to Group company, Alexandrite ITP, increased working capital requirements for LWCPL. With the expected recovery of funds from the Group company in H2 FY2025, coupled with new order inflow from Q4 FY2025, LWCPL is likely to witness reduction in working capital requirements in the near term.

The company continued to report high net total outside liabilities (TOL) /tangible net worth (TNW) of 2.75 times as on March 31, 2024, which reduced from 3.5 times as on March 31, 2023, due to lower mobilisation advances availed for its new projects. Nevertheless, the debt coverage metrics continue to be healthy with PBDIT/interest expenses¹ of more than 5.1 times for FY2024. Going forward, the company's ability to judiciously manage its working capital cycle and improve its order book position remain a key monitorable.

The Stable outlook on the rating reflects ICRA's opinion that LWCPL's business profile will continue to benefit from its established track record of execution, its reputed client base, and manageable debt levels.

¹ Adjusted for lease liabilities

Key rating drivers and their description

Credit strengths

Established track record of promoters – LWCPL is directly held by Lee Kim Tah Woh Hup Pte Ltd of Singapore (LKTWH), which 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, West Asia, Sri Lanka and the Philippines. The companies have constructed iconic buildings in Singapore, Southeast Asia, China, Australia and London.

Adequate order book provides medium-term revenue visibility – The outstanding order book as on June 30, 2024, was Rs. 2,886 crore (FY2023: Rs 4,269 crore), which stood at 2.0 times of its revenues in FY2024. With the implementation of ERP system, the company has not bid for any new order over the last 1.5 years, resulting in muted order inflow and reduction in order book position. Hence, revenue growth was modest at 1% to Rs. 1,447.9 crore in FY2024. However, the order book continues to provide adequate medium-term revenue visibility.

Reputed clientele – LWCPL's clientele primarily consists of reputed Grade-A real estate commercial developers and IT companies such as Keppel, RMZ, Hewlett-Packard India and Qualcomm, among others. Despite the Group's high project concentration (top five projects comprised 92% of its outstanding order book as on June 30, 2024), the company's proven ability to execute projects within the stipulated time led to repeat orders from its customers.

Credit challenges

Low profitability levels although on an improving trend – The company's profit margins are susceptible to fluctuations in input prices, which are not fully covered under the price-escalation clauses. In FY2024, LWCPL's operating profitability recovered by 140 bps to 5.7% supported by no major write-offs, as witnessed in FY2023, as well as cost control measures implemented by the Group. While the operating margin remains lower than the peak levels of 6.6% in FY2019, it is expected to improve sequentially going forward with receipt of timely price escalation, increasing scale and diversification of order book.

High TOL/TNW due to reliance on mobilisation advances from customers – The reduction in mobilisation advances, led by muted order inflow, has resulted in lower TOL/TNW. However, it remained high at 2.75 times as on March 31, 2024. LWCPL has provided temporary support to Group company, Alexandrite ITP, which increased its working capital utilisation to Rs. 45 crore as on March 31, 2024. With the expected recovery of funds from the Group company in H2 FY2025, coupled with new order inflow, LWCPL is likely to witness reduction in working capital requirements. However, TOL/TNW is expected to remain high with increase in mobilisation advances, as the company builds up its fresh order portfolio.

Stiff competition in industry – LWCPL is a mid-sized player undertaking engineering, procurement and construction 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 remains intensely competitive, resulting in modest profit margins.

Liquidity position: Adequate

LWCPL's liquidity is likely to remain adequate, backed by its low working capital intensity, along with free cash and investments of ~Rs. 82.4 crore as on September 30, 2024. 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, nil scheduled term debt repayments in FY2025 and Rs. 8 crore in FY2026, support its liquidity profile.

Rating sensitivities

Positive factors – ICRA could upgrade LWCPL’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 TOL/TNW less than 1.75 times on a consistent basis.

Negative factors – Pressure on LWCPL’s ratings could arise in case of reduction in fresh order inflows or if there is a material 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
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA has taken a consolidated view on LWCPL, which includes its subsidiaries and step-down subsidiaries, while assigning the ratings, given the common management and significant operational and financial linkages among the companies.

About the company

LWCPL, incorporated in Bengaluru, is a 100% subsidiary of LKTWH and was incorporated in 2006. LKTWH is a 50:50 JV between Lee Kim Tah Holdings Ltd and Woh Hup Holdings (Pte) Ltd, two of Singapore's oldest construction companies with successful project completion records across Singapore, Thailand, Malaysia, Indonesia, Myanmar, West Asia, Sri Lanka and Philippines.

LWCPL primarily undertakes civil construction, interiors, landscaping and mechanical, engineering and plumbing works for Grade-A commercial office spaces and has presence across major information technology hubs in the country. The company undertakes work for hotels, residential buildings, industrial complexes and shopping malls. LWCPL 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 (audited)

Consolidated	FY2023	FY2024*
Operating income (Rs. crore)	1,427.5	1,447.9
PAT (Rs. crore)	19.7	34.3
OPBDIT/OI (%)	4.3%	5.7%
PAT/OI (%)	1.4%	2.4%
Total outside liabilities/Tangible net worth (times)	3.5	2.75
Total debt/OPBDIT (times)	0.7	1.2
Interest coverage (times)	2.6	2.8

Source: Company, ICRA Research; All ratios as per ICRA’s calculations; *Provisional

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Standalone	FY2023	FY2024*
Operating income (Rs. crore)	1,349.8	1,414.6
PAT (Rs. crore)	8.1	19.0
OPBDIT/OI (%)	2.9%	4.5%
PAT/OI (%)	0.6%	1.3%
Total outside liabilities/Tangible net worth (times)	4.4	3.5
Total debt/OPBDIT (times)	1.1	1.6
Interest coverage (times)	1.8	2.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; *Provisional

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current (FY2025)		Chronology of rating history for the past 3 years							
		Amount Rated (Rs Crore)	Dec 06, 2024	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating		
Non-fund based facilities	Long-term/short-term	1830.00	[ICRA]A (Stable)/[ICRA]A2+	Sep 29, 2023	[ICRA]A (Stable)/[ICRA]A2+	Jun 30, 2022	[ICRA]A (Stable)/[ICRA]A2+	-	-	-	-
Term loan	Long-term	70.00	[ICRA]A (Stable)	-	-	-	-	-	-	-	-
Unallocated limits	Long-term/short-term	-	-	-	-	Jun 30, 2022	[ICRA]A (Stable)/[ICRA]A2+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-Fund based facilities	Very Simple
Term Loan	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	1830.00	[ICRA]A (Stable)/[ICRA]A2+
NA	Term loan	FY2025	8.75%	FY2030	70.00	[ICRA]A (Stable)

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	LWCPL 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

ANALYST CONTACTS

Ashish Modani
+91 22 6169 3300
ashish.modani@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Chintan Dilip Lakhani
+91 22 6169 3345
chintan.lakhani@icraindia.com

Ritik Sundarka
+91 80 4332 6414
ritik.sundarka@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (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



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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