

## Lancor Holdings Limited

September 09, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	258.47	<b>CARE BB+; Stable</b> <b>(Double B Plus; Outlook: Stable)</b>	Assigned
Short term Bank Facilities	5.00	<b>CARE A4+</b> <b>(A Four Plus)</b>	Assigned
<b>Total Facilities</b>	<b>263.47</b> <b>(Rupees Two hundred sixty three crore and forty seven lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Lancor Holdings Limited (LHL) are constrained by moderate size of operations which are primarily confined to Chennai region, relatively large debt repayment obligations in the medium term & exposure to saleability risk associated with old /ongoing projects, project implementation risk associated with the ongoing/new projects, inherent cyclical and intense competition in the real estate industry.

The rating derives strength from the long standing experience of the promoter in the real estate industry, established track record of operation in the Chennai market and moderate land bank availability providing scope for future developments.

Ability of the company to clear the unsold inventories pertaining to projects completed earlier in a time bound manner, improve the sales momentum of the ongoing projects, diversify its operations which are confined to Chennai region and any significant change in debt levels will be the key rating sensitivity

### Detailed description of the key rating drivers

#### Key rating weakness

#### Exposure to saleability risk associated with old/ongoing projects

Total inventories outstanding as on March 31 2019 stood at Rs.229 crore, of which unsold inventories stood at Rs.40 crore. Of the total unsold inventories around 68% is pertaining to old projects which are completed earlier. During the period from FY15 to FY17, LHL has completed the construction of around eleven projects involving saleable area of 9.56 lsft, of which around 0.69lsft pertaining to six projects is to be sold as on March 31, 2019.

With respect to ongoing projects, apart from TCP Altura, other projects were located in the outskirts of the city. Lumina project is located at Guduvancheri which is an upcoming suburb in the southwest of Chennai situated between Chengalpet and Tambaram junction of the Grand Southern Trunk Road (GST) at a distance of 35 km (Approx) from Chennai central. Harmonia Town & Country is located at Sriperumbadur which is situated in NH4 (Chennai- Bangalore highway) around 40km from Chennai central. While both Guduvancheri and Sriperumbadur are witnessing fast developments due to presence of or upcoming automobile companies and IT Parks, it is to be noted that both these markets are located in the outskirts of Chennai with more scope for development as a result demand is moderate.

#### Project implementation risk

The total project cost for the ongoing project is Rs.264 crore which includes land cost of Rs.41 crore, construction cost of Rs.180 crore and interest cost of Rs.43 crore. Of the total construction cost for the ongoing projects, around Rs.80 crore (44% construction cost) is incurred as on May, 2019. The remaining cost required to complete the construction cost of the ongoing project is Rs.100 crore. It is to be noted that around Rs.63 crore term loan is left to be availed for the project and around Rs.4 crore is to be received from customers for the units which are sold already, proceeds of which will be used to fund the project. The remaining amount required to complete the construction cost of the project is expected to be met through fresh sales of the units of the ongoing projects. With moderate reliance on customer advances and debt already tied for the project the funding risk is largely mitigated.

#### Exposure to intense competition in the real estate industry

Chennai is home to quite a few IT/ ITES, manufacturing and logistics companies and has been the preferred destination for these industries since the last few years. This has led to high growth in the residential market in Chennai. Nevertheless, the project returns are exposed to current slowdown in the overall real estate market, the tight credit market for real estate funding and the project profitability vulnerable to fluctuations in construction material and labour costs.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

The real estate market in Chennai is highly fragmented with a large number of developers. The projects completed in the past and ongoing projects are situated in the Chennai region. This exposes LHL to the regional concentration risk which is partly mitigated by the brand image enjoyed by the company in Chennai market.

### Key rating strengths

#### Long standing experience of the promoter & established track record of operations in the Chennai market

LHL was incorporated in the year 1985 and has over 30 years of operations in the Chennai market. LHL is promoted by Mr.R.V. Sekhar who has more than 40 years of experience spanning FMCG, IT & Real estate. LHL's board consists of seven members which includes one non-executive chairman, four independent directors and two non-independent directors. Until 2014, Mr. R.V. Sekhar (Chartered Accountant) was the Managing director of the company and from 2015 he has become the non-executive chairman of the company. Mrs.Mallika Ravi who is a Chartered Accountant with more than 25 years of industry experience across IT & Real estate sector has been the Chief Executive Officer (CEO) of the Lancor group from 2009. LHL has so far completed around 59 residential projects involving saleable area of 42.62 Isft which includes few major projects in Chennai namely, The central park at sholinganallur (8.81 Isft completed in three phases), Abode valley at Potheri (8.31 Isft completed in three phases) and The Atrium at Thiruvanmiyur (3.49 Isft) among many. This apart, LHL has also developed 10 commercial properties in the past involving area of 5.79 Isqft.

#### Moderate land bank availability in relation to existing size of operations thereby providing scope for future development of projects

LHL has planned for three new projects namely 1.) Harmonia (senior citizen villa at sriperumbudur) 2.) Lancor Infinys (Flats at Keelkattalai) and 3.) Townsville E (Flats at sriperumbudur). Harmonia is a Joint Venture project involving no investment in land. It is to be noted that LHL holds a land bank of around 35 acres in above locations. With respect to Keelkattalai project, LHL has planned to develop residential apartments on 64,904 sqft. The land cost for the project is funded through term loan. The total estimated sales from the above projects is Rs.286 crore which is around 3.3x times of existing FY19 revenue thereby providing revenue visibility.

#### Liquidity: Stretched

The cash balance as on March 31, 2019 stood at Rs.12 crore. While the repayment obligation for LHL is low at around Rs.2 crore (current maturities of long term debt as on March 31, 2019) for FY20, the same increases and stood at around Rs78 crore in FY20 and Rs.116 crore in FY21. In view of the same, ability of the company to monetize/sell the units and realize money on a timely manner is crucial from debt servicing point of view.

#### Analytical approach:

*Standalone*

#### Applicable Criteria

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

#### About the Company

Incorporated in the year 1985, Lancor Holdings Limited (LHL) is promoted by Mr.R.V. Sekhar which is engaged primarily in development of residential real estate projects in Chennai, Tamil Nadu. LHL has also developed few commercial properties in the past. LHL has completed fifty nine residential projects involving area of 42.62 Isf, ten commercial properties involving 5.79 Isft in the past and is currently executing two residential projects with a saleable area of 6.99 Isf.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)*
Total operating income	66	87
PBILDT	21	23
PAT	6	4
Overall gearing (times)	1.02	1.03
Interest coverage (times)	1.09	1.02

*A: Audited; \* based on limited audit review published in the stock exchange*

#### Status of non-cooperation with previous CRA:

Crisil has conducted the review on the basis of best available information and has classified the LHL as "Not cooperating" vide its press release dated April 26, 2019

**Any other information:**

Not Applicable

Rating History for last three years: Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	May 2023	224.89	CARE BB+; Stable
Fund-based - LT-Working Capital Limits	-	-	-	33.58	CARE BB+; Stable
Fund-based - ST-Bank Overdraft	-	-	-	5.00	CARE A4+

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan-Long Term	LT	224.89	CARE BB+; Stable	-	-	-	-
2.	Fund-based - LT-Working Capital Limits	LT	33.58	CARE BB+; Stable	-	-	-	-
3.	Fund-based - ST-Bank Overdraft	ST	5.00	CARE A4+	-	-	-	-

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact us

### Media Contact

Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Group Head Name – Mr.Sudhakar P

Group Head Contact no.- 044 – 2850 1000

Group Head Email ID- [p.sudhakar@careratings.com](mailto:p.sudhakar@careratings.com)

### Relationship Contact

Name: Mr.Pradeep Kumar

Contact no. : 044 – 2850 1000

Email ID : [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

### About CARE Ratings:

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