

Lancor Holdings Limited

December 03, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	182.41 (Reduced from 258.47)	CARE BB-; Negative (Double B Minus; Outlook: Negative)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Short Term Bank Facilities	5.00	CARE A4 (A Four)	Revised from CARE A4+ (A Four Plus)
Total Bank Facilities	187.41 (Rs. One Hundred Eighty- Seven Crore and Forty-One Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Lancor Holdings Limited (LHL) factors in the lower than expected sales momentum and collection during FY20 (refers to the period from April 01 to March 31) in respect of on-going projects, further moderation in sales momentum and collection during H1FY21 (refers to the period from April 01 to September 30) due to COVID-19 induced economic slowdown and resultant impact on the credit risk profile of the company. It is to be noted that LHL is also in the process of restructuring some of its loans in view of the relatively large repayment obligation in the medium term.

The ratings continues to be constrained by moderate size of operations which are primarily confined to Chennai region, exposure to saleability risk associated with old /on-going projects, project implementation risk associated with the on-going/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 operations in the Chennai market and moderate land bank availability providing scope for future developments.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in the sales and collection in respect of on-going projects along with reduction in debt on a sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Slowdown in the sales momentum of the on-going projects on a sustained basis
- Deterioration in the capital structure on a sustained basis

Outlook: Negative

The revision in the outlook from 'Stable' to 'Negative' factors in the likely further weakening of debt protection metrics of the company in case of delay in recovery of collection and sales momentum. The outlook may be revised to stable upon significant improvement in sales, collections, and resultant improvement in the credit risk profile of the company.

Detailed description of the key rating drivers

Key rating weaknesses

Exposure to sales risk associated with old/on-going projects with moderate booking status

Total inventories outstanding as on March 31 2020 stood at Rs.280 crore, of which unsold inventories stood at Rs.47 crore. During the period from FY15 to FY17, LHL has completed the construction of around eleven projects involving saleable area of 9.56 lsf (lakh square feet) of which some portion remain unsold as on March 31, 2020.

With respect to ongoing projects, apart from TCP Altura, other projects were located in the outskirts of the city. Sales booking and construction progress in respect of TCP Altura is relatively better as compared to other projects. Lumina project is located at Guduvancheri which is an upcoming suburb in the southwest of Chennai situated between Chengalpeta and Tambaram junction of the Grand Southern Trunk Road (GST) at a distance of 35 km (approx) from Chennai central. Guduvancheri is surrounded by IT parks like Mahindra World City, Shriram Gateway and automobile giants like Ford, Renault Nissan, BMW and Bharat Benz. Townsville, Town & Country, Harmonia is located at Sriperumbudur which is situated in NH4 (Chennai- Bangalore highway) around 40km from Chennai central. Sriperumbudur is home to many automobile companies and few IT companies. While both Guduvancheri and Sriperumbudur are witnessing fast developments due to presence of /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. Excluding Town & Country and Harmonia which are villa project, total construction progress achieved in ongoing projects is 54% as against this sales booking stood moderate at 31% as on September 30, 2020.

Lower than expected sales velocity and collection during FY20; During H1FY21 sales velocity and collection witnessed further moderation due to impact of COVID-19

During FY20, LHL sold around Rs.59 crore and collected around Rs.63 crore as against total sales of Rs.59 crore and collection of Rs.61 crore during FY19. During 7mFY21, on account of the covid-19 induced economic slowdown, sales momentum and collection witnessed further moderation. LHL sold around Rs.18 crore and collected around Rs.16 crore during 7mFY21. In view of the relatively large repayment obligation in the near term, ability of the company to improve the sales and collection is crucial from debt servicing perspective.

Project implementation risk

The total construction cost for the ongoing projects is Rs.204 crore, of which around Rs.109 crore (54% of construction cost) is incurred as on September,30 2020. The remaining cost required to complete the ongoing project is Rs.95 crore. It is to be noted that around Rs.41 crore term loan is left to be availed for these projects and around Rs.5 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 project is Rs.49 crore which will be met through fresh sales of the units of the ongoing projects. The civil works are being outsourced to two companies namely PR Engineering & Contractors and Sri Suraj Builders. LHL provides money in the form of mobilization advances to the contractors to start the project. Remaining money will be released by LHL based on the milestone achieved by the contractors for every stage of construction.

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.

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 35 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 eight members which includes one non-executive chairman, one executive managing director, 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 is the Managing Director of the company since 2019 prior to which she was the Chief Executive Officer (CEO) of the Lancor group from 2009 to 2019. LHL has so far completed around 62 residential projects involving saleable area of 40.59 Isf which includes few major projects in Chennai namely, The Central Park at Sholinganallur (8.81 Isf completed in three phases), Abode valley at Potheri (8.31 Isf completed in three phases) and The Atrium at Thiruvannamiyur (3.49 Isf) among many. This apart, LHL has also developed 8 commercial properties in the past involving area of 4.68 Isf.

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.) Town & Country (land sale at Sriperumbudur) 2.) Lancor Infinys (Flats at Keelkattalai) and 3.) Townsville E (Flats at Sriperumbudur). Both the projects Harmonia & Townsville E are extension of earlier projects and hence lands are already secured. With respect to Keelkattalai project, LHL has planned to develop residential apartments of 64,904 sq.ft. The land cost for the project is Rs.40.32 crore, of which entire Rs.40.32 crore is incurred. The total estimated sales from this three projects is Rs.237 crore which is around 3.6x times of existing FY20 revenue thereby providing revenue visibility.

Liquidity: Stretched

The cash balance as on March 31, 2020 stood at Rs. 5.20 crore while the repayment obligation of LHL for FY21 is at around Rs.53 crore (current maturities of long term debt as on March 31, 2020). It is to be noted that LHL has availed moratorium on

its bank facilities/borrowings for the period from March 2020 to August 2020 and in respect of some of the borrowings it is in the process of applying for restructuring.

Analytical approach: *Standalone*

Applicable Criteria

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

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

[CARE's methodology for Real estate sector](#)

[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 sixty two residential projects involving area of 40.59 Isf, eight commercial properties involving 4.68 Isf in the past and is currently executing two residential projects with a saleable area of 6.99 Isf.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	87	60
PBILD	23	20
PAT	4	(6)
Overall gearing (times)	1.03	1.29
Interest coverage (times)	1.02	0.74

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Complexity level of various instruments rated for this company: Please refer Annexure 3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN No	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	153.39	CARE BB-; Negative
Fund-based - LT-Working Capital Limits	-	-	-	-	29.02	CARE BB-; Negative
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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan-Long Term	LT	153.39	CARE BB-; Negative	-	1)CARE BB+; Stable (09-Sep-19)	-	-
2.	Fund-based - LT-Working Capital Limits	LT	29.02	CARE BB-; Negative	-	1)CARE BB+; Stable (09-Sep-19)	-	-
3.	Fund-based - ST-Bank Overdraft	ST	5.00	CARE A4	-	1)CARE A4+ (09-Sep-19)	-	-

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Working Capital Limits	Simple
2.	Fund-based - ST-Bank Overdraft	Simple
3.	Term Loan-Long Term	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us

Media Contact

Mradul Mishra

Contact no. – +91-22-6754 3573

Email ID – 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

Relationship Contact

Name: Mr.Pradeep Kumar

Contact no. : 044 – 2850 1000

Email ID : pradeep.kumar@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

CARE's ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**