August 04, 2023

Star Infratech: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based facilities	77.00	154.00	[ICRA]A- (Stable); reaffirmed
Term loan	20.00	5.00	[ICRA]A- (Stable); reaffirmed
Non-fund based facilities	408.25	541.00	[ICRA]A- (Stable)/ [ICRA]A2+; reaffirmed
Unallocated limits	194.75	-	-
Total	**700.00**	**700.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in Star Infratech's (SI) healthy order book of Rs. 6,674.9 crore (6.4 times of FY2023 revenue) as on March 31, 2023 providing medium-term revenue visibility. ICRA notes that the firm's revenues declined by 21% to Rs. 902.1 crore in FY2023 from Rs. 1,138.1 crore in FY2022 due to delay in receipt of three major projects. However, in the backdrop of its strong order book, the revenues are expected to witness healthy growth in FY2024e. ICRA expects the order inflow to remain strong in the near to medium term, which along with healthy order execution should support growth over the medium term. The coverage metrics remains comfortable with interest cover of 6.2 times in FY2023, which is likely to sustain going forward. The ratings note the diversified order book across multiple segments and reputed client base, consisting of Government bodies like Krishna Bhagya Jala Nigam Ltd. (KBJNL), Health & Family Welfare Department (H&FWD), Bruhat Bengaluru Mahanagara Palike (BBMP), Bangalore Development Authority (BDA) and Cauvery Neeravari Nigama Limited (CNNL), etc. The longstanding track record of the promoters in the civil construction business provides comfort.

The ratings are, however, constrained by the firm's exposure to geographical concentration risk with ~100% of the order book limited to Karnataka and high project execution risk with 79% of the outstanding order book in the nascent stages of execution (with less than 10% execution). SI being a partnership firm is exposed to the risk of capital withdrawal, which may affect its capital structure and liquidity position. Nevertheless, ICRA notes that a major share of capital withdrawal by partners in the recent past was deployed towards purchase of assets, which were placed as collateral for availing incremental bank financing for SI. The firm primarily fund its working capital requirement from the credit period from sub-contractors as well as customer advances, resulting in moderate leverage (TOL/TNW) of 1.4 times as of March 2023. Further, the operating margins remain moderate at 9.7% with around 50% of works subcontracted. The ratings note the stiff competition in the construction sector, which limits the pricing flexibility and SI's exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, mobilisation advance and retention money. Nonetheless, ICRA draws comfort from its execution track record and absence of invocation of guarantees in the past.

The Stable outlook on the long-term rating reflects ICRA's opinion that the firm is expected to sustain the revenue on the back of healthy order book position and timely receipt of payments from its key clients.

Key rating drivers and their description

Credit strengths

Healthy order book provides medium-term revenue visibility – SI has a healthy order book of Rs. 6,674.9 crore (6.4 times FY2023 revenue) as on March 31, 2023, which provides medium-term revenue visibility. Although the revenues declined to Rs. 902.1 crore in FY2023 from Rs. 1,138.1 crore in FY2022 owing to a delay in order receipt, the firm is expected to witness healthy growth in revenues in the medium term, supported by its strong order book position.

Reputed client profile – The firm has a diversified order book across multiple segments and reputed client base, consisting of Government bodies like KBJNL, H&FWD, BBMP, BDA, CNNL, etc. ICRA notes that timely recovery of payments from its clients has helped SI to maintain low working capital cycle over the years.

Credit challenges

Geographically concentrated order book – The firm's orderbook is geographically concentrated as all the ongoing projects are in Karnataka. This exposes SI to risks arising out of any economic or political factors/changes, thereby adversely impacting its revenues or cash flows. Nevertheless, the track record of regular order inflows and robust order book mitigate this risk to an extent.

Moderate operating margins – The operating margins remained moderate within 7.2%-9.7% during FY2019-FY2023. The operating margins are expected to remain at similar levels going forward, given the sizeable subcontracting undertaken by the firm. In FY2023, around 50% of the revenues were derived from the works' subcontracted. Further, SI faces stiff competition in the construction business with the presence of several players, which limits pricing flexibility. However, presence of price escalation clauses mitigate the risk to an extent. The firm primarily funds its working capital requirement through credit period from sub-contractors as well as customer advances, resulting in moderate leverage (TOL/TNW) of 1.4 times as of March 2023. Nonetheless, the coverage metrics remains comfortable with interest cover of 6.2 times in FY2023.

Partnership nature of constitution – SI being a partnership firm is exposed to the risk of capital withdrawal, which may affect the capital structure and liquidity position. Nevertheless, ICRA notes that a major share of capital withdrawal by partners in the recent past was deployed towards purchase of assets, which were placed as collateral for availing incremental bank financing for SI.

Liquidity position: Adequate

The firm's liquidity position is adequate with sufficient cushion in working capital limits. The average working capital utilisation for the past 12 months ending June 2023 remained moderate at 70%. The company has debt obligations of Rs. 37.9 crore, which can be comfortably met through its estimated cash flow from operations.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings in case of an improvement in the scale of operations and profitability margins, and business diversification. Further, maintaining a comfortable liquidity position and strong debt coverage indicators would support a rating upgrade. Specific credit metrics that could lead to an upgrade in ratings include TOL/TNW remaining below 1.25 times on a sustained basis.

Negative factors – Pressure on the ratings could arise in case of a significant delay in project execution or a stretch in the working capital cycle adversely impacting the firm's earnings profile. Further, sizeable capital withdrawn by partners, which can adversely affect its leverage or liquidity position will be a credit negative. Specific credit metrics that could lead to a downgrade in ratings include TOL/TNW remaining above 1.75 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit rating Methodology](#) [Rating Methodology for construction entity](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Star Infratech (SI) was founded in 2011 as Star Builders and Developers. Its name was changed to SI in January 2018. The firm is an engineering, procurement and construction (EPC) contractor and takes up projects such as construction and repair of roads, canals, bridges, buildings, irrigation projects across Karnataka with most of the clients being Government departments. Mr. Venkataramane Gowda is the Managing Partner of the firm.

Key financial indicators (audited)

	FY2021	FY2022	FY2023
Operating income	1128.8	1138.1	902.1
PAT	51.3	58.0	46.6
OPBDIT/OI	7.7%	8.6%	9.7%
PAT/OI	4.5%	5.1%	5.2%
Total outside liabilities/Tangible net worth (times)	1.8	2.3	1.4
Total debt/OPBDIT (times)	0.5	0.5	1.2
Interest coverage (times)	9.4	11.8	6.2

Source: ICRA Research, Company; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022		Date & Rating in FY2021
					Aug 04, 2023	Jun 20, 2022	Jun 16, 2022	Feb 2, 2022	Apr 30, 2021	Sep 07, 2020
1	Fund-based facilities	Long-term	154.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable); Withdrawn	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
2	Non-fund based facilities	Long-term/ Short-term	541.00	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2; Withdrawn	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB (Stable)/ [ICRA]A3+

3	**Term loan**	Long-term	5.00	4.91	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	-	-	-	-
4	**Unallocated limits**	Long-term/ Short-term	-	-	-	**[ICRA]A- (Stable)/ [ICRA]A2+**	-	**[ICRA]BBB+ (Stable)/ [ICRA]A2; Withdrawn**	**[ICRA]BBB+ (Stable)/ [ICRA]A2**	**[ICRA]BBB (Stable)/ [ICRA]A3+**
5	**Interchangeable facilities**	Long-term/ Short-term	-	-	-	-	-	**[ICRA]BBB+ (Stable)/ [ICRA]A2; Withdrawn**	**[ICRA]BBB+ (Stable)/ [ICRA]A2**	**[ICRA]BBB (Stable)/ [ICRA]A3+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based facilities	Simple
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	**Fund-based facilities – Cash Credit**	NA	NA	NA	154.0	[ICRA]A-(Stable)
NA	**Non-fund based facilities – Bank Guarantee**	NA	NA	NA	541.00	[ICRA]A-(Stable)/[ICRA]A2+
NA	**Term loan**	FY2022	NA	FY2027	5.0	[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 - Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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