January 31, 2024

STUP Consultants Private Limited: Rating upgraded to [ICRA]BBB+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based - OD	15.0	15.0	[ICRA]BBB+ (Stable); rating upgraded from [ICRA]BBB (Stable)
Long-term – Non-fund Based - Bank guarantee/ Letter of credit	70.0	70.0	[ICRA]BBB+ (Stable); rating upgraded from [ICRA]BBB (Stable)
Total	**85.0**	**85.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade for STUP Consultants Private Limited (STUP) factors in the improvement in financial performance with recovery in operating profits [operating profit of Rs. 13.1 crore in FY2023 (OPBDITA/OI at 7.5%) post reporting an operating loss of Rs. 15.9 crore in FY2022], coupled with maintenance of comfortable coverage indicators (interest coverage expected to remain above 7 times over the medium term), adequate liquidity and moderate working capital intensity post writing-off receivables. Post-acquisition by Assystem S.A. (Assystem, new promoter/management), the company had written off debtors to the extent of Rs. 130 crore over FY2021-FY2022, thereby resulting in a sharp decline in its tangible net worth to Rs. 103.5 crore as on March 31, 2022 from Rs. 238.9 crore as on March 31, 2020. The same had improved to Rs. 124 crore as on March 31, 2023. ICRA is given to understand that there won't be any material write-offs in the receivable going forward. Any further write-offs, which could have a material impact on the net worth, profitability, or leverage indicators, will be a credit negative.

The rating positively factors in the healthy unexecuted order book position of Rs. 327 crore as on September 30, 2023, which is ~1.9 times of its operating income (OI) in FY2023, providing adequate medium-term revenue visibility. On January 03, 2024, STUP acquired 100% stake in L&T Infrastructure Engineering Limited (LTIEL), a wholly owned subsidiary of L&T, for a consideration of approximately Rs. 60 crore, funded through internal accruals. The acquisition is expected to provide synergistic benefits to SCPL, as the combined entity will be able to undertake more technical work, given the expertise of LTIEL in certain fields like ports, urban planning, geo-technical work, etc. It would enable for bidding of high value projects as it would meet the eligibility criteria with consolidated OI projected to remain over Rs. 200 crore. The credit profile draws comfort from the strong parentage (Assystem S.A.) and close operational, managerial, and financial linkages with the parent entity. The entire bank lines of STUP are backed by guarantee/letter of comfort from the parent entity. The rating continues to note STUP's professional management setup, established track record in executing consultancy and design solution projects for both private as well as public sectors entities and financial flexibility arising out of being a part of strong promoter group, i.e., Assystem S. A.

The rating continues to remain constrained by STUP's moderate scale of current operation, with an OI of Rs. 173.6 crore in FY2023 and modest operating margin, given the high employee and sub-contracting charges. Although the same has improved to 7.5% in FY2023, it remains lower than historic levels of 15%-16% reported in FY2019-FY2020. Going forward, STUP's ability to ramp-up its operations and substantially improve the profitability remains a key rating driver.

ICRA takes note of STUP's sectoral concentration risk with the highway and Railway & metro division accounting for 44% of the unexecuted order book as on September 30, 2023, and project execution risk with 59% of projects in the nascent stage (with less than 25% execution), besides vulnerability of new order inflows to the macro-economic cycle and stiff competition from established local, multi-national and boutique firms in the domestic market. The company has exposure to sizeable contingent liabilities in the form of bank guarantees (of ~Rs. 41.2 crore as on September 30, 2023) on account of submission of bid-bond, performance and other guarantees. Nonetheless, ICRA draws comfort from its past track record and absence of invocation of guarantees in the past.

The Stable outlook on the rating reflects ICRA's opinion that STUP will continue to benefit from the extensive experience of its promoter and adequate liquidity position. ICRA expects the company to continue its growth trajectory, with benefits of the consolidation with LTIEL from Q4 FY2024 onwards, coupled with the Government's continuing thrust on infrastructure.

Key rating drivers and their description

Credit strengths

Established track record in providing consultancy services in infrastructure domain and strong sponsor – STUP offers integrated planning, architectural, engineering and project management services across various sectors such as roads, major structures, airports, railways, highways, water resources, environmental and public heath engineering, among others. The company has a rich experience of more than five decades and an established reputation in the industry, as evidenced by its strong client portfolio in the domestic market. The new promoter, Assystem S. A., also brings with it an experience of more than five decades in consulting services. ICRA expects company to benefit in form of financial flexibility arising out of being a part of strong promoter group, i.e., Assystem S. A.

Strong and diversified client profile including reputed names from varied sectors – STUP's customer profile includes reputed players such as the National Highway Authorities of India (NHAI), Mumbai Metropolitan Region Development Authority (MMRDA), Rail Vikas Nigam Ltd. (RVNL), etc. lowering the counterparty risk. It also receives work orders from the overseas markets such as Bangladesh, Maldives, which are primarily funded by the Government agencies. STUP's customer base remained well diversified with its top 10 clients generating ~44% of the total sales in FY2023 (~42% in FY2022).

Comfortable capital structure – The company's tangible net worth lowered to Rs. 103.5 crore as on March 31, 2022 from Rs. 238.9 crore as on March 31, 2020 due to the write off of receivables, despite improvement to Rs. 124 crore as on March 31, 2023. Nonetheless, STUP's financial profile continues to be supported by low dependence on debt. Its capital structure has historically remained healthy, as reflected by TOL/TNW of 0.7 times as on March 31, 2023. With no further write-off expected, coupled with ramp-up in operations and improvement in profitability, the debt coverage indicators are likely to improve over the near to medium term.

Healthy unexecuted order book position provides revenue visibility; timely execution remains crucial – As on September 30, 2023, STUP had an unexecuted order book of over Rs. 327 crore, which is ~1.9 times of its OI in FY2023. Further, it added orders of ~Rs. 76 crore in Q3 FY2024. ICRA notes that the company has a healthy order book, which provides medium-term revenue visibility and shall further strengthen its order book position with the consolidation with LTIEL in Q4 FY2024.

Credit challenges

Moderate scale of operation and subdued operating margin – The company's scale of operations continues to be moderate, with OI of Rs. 173.6 crore in FY2023 and Rs. 92.7 crore in H1 FY2024. However, given its healthy order book status and consolidation with LTIEL, the OI is expected to witness a healthy y-o-y growth of ~40% in FY2025. The operating margins, though recovered to 7.5% in FY2023 (operating profit of Rs. 13.1 crore in FY2023 post reporting an operating loss of Rs. 15.9 crore in FY2022), remains lower than the historic margin of 15%-16%, given the high employee and sub-contracting expenses. Scaling up of operations and improvement in earnings remain important from the credit perspective.

Vulnerability to macro-economic scenario and sectoral concentration risks – Highway projects (21%) and Railway and Metro projects (23%) constituted 44% of the unexecuted order book as on September 30, 2023, exposing the company to sectoral concentration risk. Nevertheless, STUP's plans to expand its presence in the energy vertical will help in diversifying its revenue profile over the medium to long term. ICRA also takes note of the vulnerability of order inflows to macro-economic scenario as capex spends are cyclical in nature.

Intense competition in industry – The company faces competition from several large and established consulting companies, which constrains the pricing flexibility. However, technical expertise as well as strong track record of operations are likely to support STUP's revenue growth over the medium term.

Liquidity position: Adequate

The company's liquidity position is adequate, reflected by free cash and liquid investment of ~Rs. 13 crore as on December 31, 2023 and unutilised fund-based working capital limits (of Rs. 15.0 crore). Further, STUP benefits from the parentage, which lends strong financial flexibility. Its non-fund based working capital utilisation remains moderate with cushion of Rs. 44 crore as on September 30, 2023. With no long-term repayment liabilities and absence of any major capex plans, ICRA expects its liquidity profile to remain adequate in the near term.

Rating sensitivities

Positive factors – The rating may be upgraded if the company demonstrates a sustained improvement in its earnings, along with business diversification, yielding significant improvement in its net worth and liquidity while maintaining strong debt coverage metrics.

Negative factors – Downward pressure on the rating could arise in case of a deterioration in the company's working capital cycle leading to an adverse liquidity position. Additionally, any material decline in revenues and profitability indicators and/or increase in debt levels resulting in weakening of key debt protection metrics on a sustained basis, could warrant a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent Company: Assystem S. A. ICRA expect STUP's parent, Assystem S. A., to be willing to extend financial support to STUP, should there be a need, given the high strategic importance that STUP holds for Assystem S. A. for meeting its diversification objectives and out of its need to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	Standalone

About the company

STUP Consultants Private Limited (STUP) is a full-service design, engineering and project delivery consultancy company offering services for urban and territorial infrastructures, civil engineering, complex buildings, transportation infrastructures, energy etc. It has been acquired by the French engineering group Assystem S.A. in July 2021. The board members at STUP consists of senior members from its Assystem including the global CFO and Deputy CEO.

Key financial indicators (audited)

	FY2021	FY2022	FY2023
Operating income	158.9	166.8	173.6
PAT	-69.0	-98.4	20.5
OPBDIT/OI	7.6%	-9.5%	7.5%
PAT/OI	-43.4%	-59.0%	11.8%
Total outside liabilities/Tangible net worth (times)	0.4	0.8	0.7
Total debt/OPBDIT (times)	-	-	-
Interest coverage (times)	4.8	-7.1	8.6

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

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
					Jan 31, 2024	Nov 15, 2023	Oct 31, 2022	Jul 13, 2021	Feb 24, 2021
1	Fund-based – OD	Long term	15.0	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
2	Cash credit	Long term	-	-		-	-	[ICRA]BBB+ &	[ICRA]BBB+ (Stable)
3	Non-fund based Bank guarantee/ Letter of credit	Long term	70.0	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB+ &	[ICRA]BBB+ (Stable)

&: Rating Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – OD	Simple
Long-term – Non-fund Based – Bank guarantee/ Letter of credit	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	Fund-based - OD	NA	NA	NA	15.0	[ICRA]BBB+ (Stable)
NA	Non-fund based Bank guarantee/ Letter of credit	NA	NA	NA	70.0	[ICRA]BBB+ (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis- Not applicable

ANALYST CONTACTS

Rajeshwar Burla
+91 40 6939 6443
rajeshwar.burla@icraindia.com

Ashish Modani
+91 20 6606 9912
ashish.modani@icraindia.com

Ritu Goswami
+91 124 4545826
ritu.goswami@icraindia.com

Anuja Shah
+91 79 4027 1530
anuja.shah@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

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.

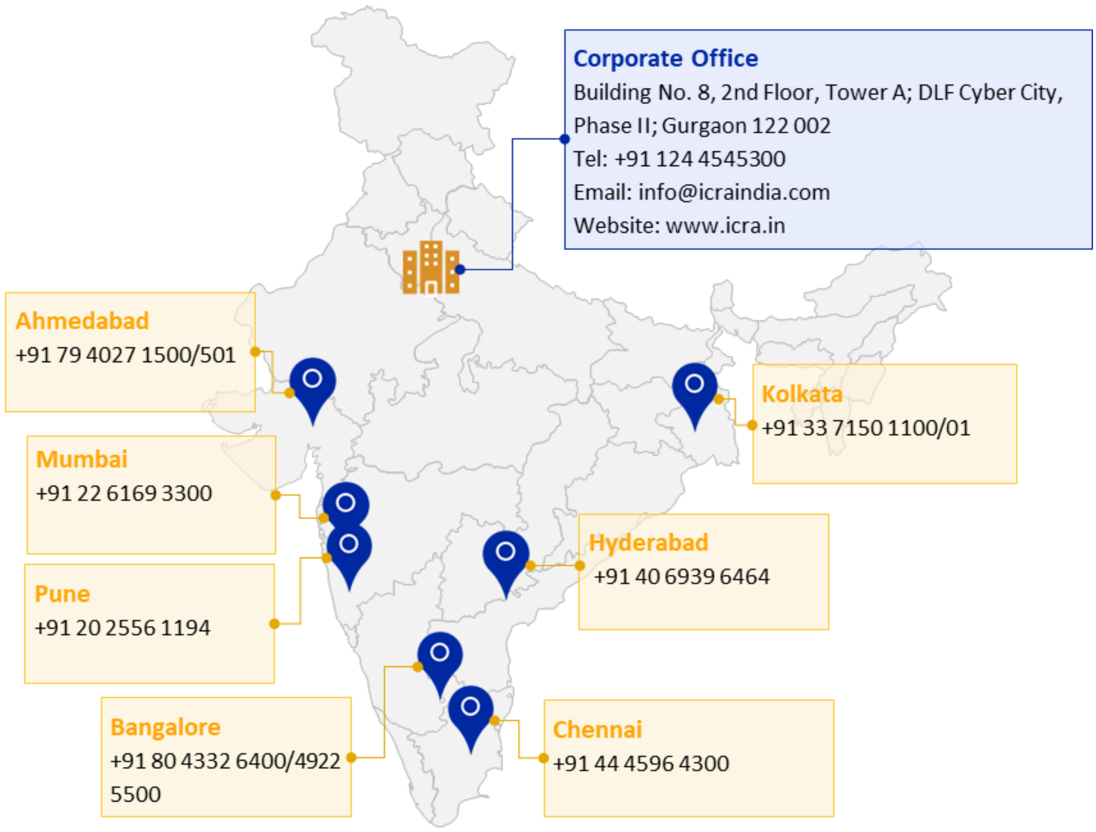
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



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