

October 14, 2024

Star Infratech: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based facilities	278.00	325.00	[ICRA]A-(Negative) reaffirmed
LT- Fund-based- Proposed limits	47.00	0.00	-
Non-fund based facilities	513.24	775.00	[ICRA]A-(Negative)/ [ICRA]A2+; reaffirmed
LT / ST – Non-fund-based facilities- Proposed	261.76	0.00	-
Total	1100.00	1100.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in outlook to Negative reflects ICRA's expectation that the credit profile of Star Infratech (SI) could come under pressure in the near to medium term, owing to the increase in working capital cycle because of higher receivable days and sizeable sub-contractor advances. The stretch in working capital cycle was largely funded by external debt, as reflected in rise in debt levels (Rs. 381.2 crore as on March 31, 2024 from Rs. 108.3 crore as on March 31, 2023), resulting in deteriorated debt coverage metrics and leverage (TOL/TNW increased to 1.8 times as on March 31, 2024 from 1.0 times as on March 31, 2023). Notwithstanding the improvement in its operating margins (10.2% in FY2024 from 9.7% in FY2023) due to lower sub-contract expenses, the interest coverage declined to 3.8 times in FY2024 from 6.0 times in FY2023 because of higher interest expense. With expected reduction in working capital cycle on realisation of sub-contractor advances, the leverage, liquidity position and coverage indicators are likely to improve in the near term and remains a key rating monitorable.

The ratings are constrained by the firm's exposure to geographical concentration risk with ~100% of the order book limited to Karnataka. SI, being a partnership firm, is exposed to the risk of capital withdrawal, which may affect the capital structure and liquidity position. It is also vulnerable to the cyclicity inherent in the construction industry and intense competition in the tender-based contract award system, resulting in the risk of volatility in order inflows, revenues, and pressure on profit margins. However, its long presence and established relationships with clients, provide comfort. It is also exposed to sizeable contingent liabilities in the form of BGs (~Rs. 449.8 crore as on July 31, 2024), mainly towards performance guarantee, mobilisation advances and raw material advances. Nonetheless, ICRA draws comfort from SI's healthy execution track record and no invocation of guarantees in the past.

The ratings, however, favourably factor in the healthy order book of Rs. 5,844.0 crore as on June 30, 2024 providing medium-term revenue visibility. The rating positively considers the diversified order book profile with presence in layouts, buildings, irrigation, and road segments. SI executes works for Karnataka state government agencies, which results in low counterparty credit risk. The firm's key clientele includes Krishna Bhagya Jala Nigam Limited (KBJNL), Karnataka Health System Development & Reform Project (KHSDRP), Cauvery Neeravari Nigama Limited (CNL) among others. It has an established track record of more than three decades in the construction industry with prior experience in buildings, roads, bridges, irrigation, and layout segments for various Karnataka state government departments.

Key rating drivers and their description

Credit strengths

Healthy order book provides medium-term revenue visibility – SI's order book position is healthy at Rs. 5,844.0 crore as on June 30, 2024 providing medium-term revenue visibility. Although the order addition is lower in FY2024, it is expecting healthy order addition in the current year from Karnataka state departments across irrigation, bridges, and buildings segments, supporting its order book position.

Order book diversified across segments and reputed client profile – The order book is diversified with presence in layouts, buildings, irrigation, and road segments. The segment concentration is moderate with top two segments (layout development and building) accounting for 68% of the order book as on June 30, 2024. SI executes works for the state government agencies of Karnataka, which results in low counterparty credit risk. The firm's key clientele includes KBJNL, KHSDRP, CNNL and among others.

Established track record of operations – The firm has an established track record of more than three decades in the construction industry. It has completed works in buildings, roads, bridges, irrigation, and layout segments in the past for various departments of the Karnataka Government.

Credit challenges

Increased working capital intensity resulting in higher debt levels – The firm's working capital intensity increased to 33% in FY2024 from 13% in FY2023 mainly on account of higher receivable days and sizeable sub-contractor advances. The average working capital limit utilisation remained high at 81.7% for the past six months and reduction in working capital cycle remains crucial for improvement in its liquidity position.

Deteriorated financial risk profile – The firm's debt levels rose to Rs. 381.2 crore as on March 31, 2024 from Rs. 108.3 crore as on March 31, 2023 owing to increased working capital borrowings and project-specific debt availed for order execution. Resultantly, the leverage marked by TOL/TNW deteriorated to 1.8 times as on March 31, 2024 from 1.0 times as on March 31, 2023. Although its operating margins improved to 10.2% in FY2024 from 9.7% in FY2023, the interest coverage deteriorated to 3.8 times in FY2024 from 6.0 times in FY2023 due to higher interest expense. With expected reduction in working capital cycle, the leverage, liquidity position and coverage indicators are likely to improve in the near term and remains a key rating monitorable.

Risks associated with partnership nature of business, construction sector including volatility in operating profits and sizeable non-fund-based exposure – SI, being a partnership firm, is exposed to the risk of capital withdrawal, which may affect the capital structure and liquidity position. It is also vulnerable to the cyclicity inherent in the construction industry and intense competition in the tender-based contract award system, resulting in the risk of volatility in order inflows, revenues, and pressure on profit margins. However, its long presence and established relationships with clients, provide comfort. It is also exposed to sizeable contingent liabilities in the form of BGs (~Rs. 449.8 crore as on July 31, 2024), mainly towards performance guarantee, mobilisation advances and raw material advances. Nonetheless, ICRA draws comfort from SI's healthy execution track record and no invocation of guarantees in the past.

Liquidity position: Adequate

SI's liquidity position is adequate with free cash and bank balances of Rs. 17.9 crore as on July 31, 2024. It is also supported by cushion in working capital limits with average working capital utilisation of 82% for the last six months ending July 2024. The firm has debt repayment obligations of Rs. 36.4 crore and low capex plans for FY2025, which can be comfortably met through its estimated cash flow from operations.

Rating sensitivities

Positive factors – The outlook could be revised to Stable, if there is a material improvement in working capital intensity resulting in improved liquidity position and debt coverage metrics on a sustained basis.

Negative factors – Inability to reduce the working capital intensity or decline in scale of operations weakening its liquidity position will be a credit negative. Further, increase in debt levels, or sizeable capital withdrawals by partners adversely affecting its leverage metrics would put pressure on the ratings. Specific credit metrics that could lead to a downgrade include interest cover remaining 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	Standalone

About the company

Karnataka-based M/S Star Infratech (SI, formerly known as Star Builders and Developers) was initially founded as a proprietorship concern in 1991 by Mr. C.S Doreswamy and later converted into partnership firm in 2011 with the joining of Mr. Venkatramane Gowde. In FY2024, Mr. Venkataramane Gowda retired from the firm, while his son Mr. Chiranth took over the business operations. SI is a civil contractor, which is primarily executes projects pertaining to roads, bridges, buildings, layouts, canal, drains and water works for various departments of the Karnataka Government.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	902.1	1154.2
PAT	46.6	54.8
OPBDIT/OI	9.7%	10.2%
PAT/OI	5.2%	4.8%
Total outside liabilities/Tangible net worth (times)	1.0	1.8
Total debt/OPBDIT (times)	1.2	3.2
Interest coverage (times)	6.0	3.8

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	Type	Current (FY2025)				Chronology of rating history for the past 3 years					
		FY2025				FY2024		FY2023		FY2022	
		Amount Rated (Rs Crore)	Oct 14, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Long term / short term-	Long Term	0.00	-	25-SEP-	[ICRA]A-(Negative	-	-	-	-	-	-

proposed-non fund based	/ Short Term			2024)/ [ICRA]A2 +						
Long term / short term-bank guarantee-non fund based	Long Term / Short Term	775.00	[ICRA]A-(Negative) / [ICRA]A2 +	25-SEP-2024	[ICRA]A-(Negative) / [ICRA]A2 +	04-AUG-2023	[ICRA]A-(Stable) / [ICRA]A2+	16-JUN-2022	[ICRA]A-(Stable) / [ICRA]A2+	30-APR-2021	[ICRA]BB B+ (Stable) / [ICRA]A2
				-	-	-	-	20-JUN-2022	[ICRA]A-(Stable) / [ICRA]A2+	02-FEB-2022	[ICRA]BB B+ (Stable) / [ICRA]A2; withdraw n
Long term-proposed-fund based	Long Term	0.00	-	25-SEP-2024	[ICRA]A-(Negative)	-	-	-	-	-	-
Long term-cash credit-fund based	Long Term	325.00	[ICRA]A-(Negative)	25-SEP-2024	[ICRA]A-(Negative)	04-AUG-2023	[ICRA]A-(Stable)	16-JUN-2022	[ICRA]A-(Stable)	30-APR-2021	[ICRA]BB B+ (Stable)
				-	-	-	-	20-JUN-2022	[ICRA]A-(Stable)	02-FEB-2022	[ICRA]BB B+ (Stable); withdraw n
Unallocated limits	Long - term / Short - term							20-JUN-2022	[ICRA]A-(Stable) / [ICRA]A2+	30-APR-2021	[ICRA]BB B+ (Stable) / [ICRA]A2
										02-FEB-2022	[ICRA]BB B+ (Stable) / [ICRA]A2; withdraw n
Interchangeable facilities	Long - term / Short - term									30-APR-2021	[ICRA]BB B+ (Stable) / [ICRA]A2
										02-FEB-	[ICRA]BB B+ (Stable) / [ICRA]A2;

										2022	withdrawn
Long term-loan-fund based	Long Term					04-AUG-2023	[ICRA]A-(Stable)	20-JUN-2022	[ICRA]A-(Stable)		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based facilities	Simple
Non-fund based facilities	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 facilities – Cash credit	NA	NA	NA	325.00	[ICRA]A-(Negative)
NA	Non-fund based facilities – Bank guarantee	NA	NA	NA	775.00	[ICRA]A-(Negative)/ [ICRA]A2+

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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