

Press Release
Star Infratech

December 01, 2021

Rating Assigned



Product	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	510.00	510.00		ACUITE A2+ Assigned
Bank Loan Ratings	90.00	90.00	ACUITE A- Stable Assigned	
Total	600.00	600.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE A-**' (read as **ACUITE A Minus**) and short-term rating of '**ACUITE A2+**' (read as **ACUITE A Two Plus**) to the Rs. 600.00 Cr bank facilities of Star Infratech. The outlook is '**Stable**'.

The rating assigned to the firm takes into account, the experience of the promoters in infrastructure construction industry, healthy order book position, consistent improvement in operating performance, healthy financial risk profile coupled with adequate liquidity. The aforementioned rating strengths were tempered due to volatility in material prices, tender based nature of operation, geographic concentration of projects and partnership nature of constitution of the firm.

About the Firm

Star Infratech is a partnership firm established in 2011 and based out of Bangalore. Mr. C. S. Doreswamy started the business as proprietorship concern in 1991 and later it was converted into Partnership firm in 2011 with Mr. Venkataramane Gowda joining the firm as managing partner. The firm is an EPC contractor engaged in execution of government projects such as hospitals, housing colonies, layouts, roads, canal, bridges, water works and drains. The firm is Class 1 contractor and cater to construct the civil projects in the state of Karnataka. The firm has executed Key projects with the Karnataka Housing Board, Karnataka Health Systems Development & Reforms Project, BDA, APMC, BBMP, PWD, CNL, KNL, KRDC, VJNL, KRIES, Police Housing Corporation etc. The firm has executed worth projects to the tune of Rs.3000 Cr in the past 5 years.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Star Infratech to arrive at the credit rating.

Key Rating Drivers

Strengths

Experienced promoters

Star Infratech is an EPC contractor engaged in execution of government projects such as hospitals, housing colonies, layouts, roads, canal, bridges, water works and drains. The firm is Class 1 contractor and has more than 3 decades of experiences in infrastructure industry. The firm is ably supported by the current partners, which is also reflected in the healthy

compounded annual growth rate (CAGR) of the revenues. The revenue of the firm improved from Rs 415.17 Cr in FY19 to Rs 1,128.84 Cr in FY21 (CAGR of ~65 per cent over past 3 years). Acuite believes, experience of the promoters will help the firm to improve the scale of operations.

Healthy order book position and favorable bid success ratios

Star Infratech has projects worth Rs 2,915.86 Cr to be executed in hand to be completed over next 12 - 36 months. This provides adequate revenue visibility for medium term. The bidding success ratio for the firm has been favorable and is in the range of 70 per cent. The firm subcontracts around 40 percent of the work and the same is dependent on the margin of the projects. Acuite expects the orders in hand to provide revenue visibility for near to medium term.

Strong operating performance

The revenue of the firm improved from Rs 415.17 Cr in FY19 to Rs 1,128.84 Cr in FY21 (CAGR of ~65 per cent over past 3 years) while maintaining the operating margins. The operating margin of the Firm was stable in the range of 7.22 per cent to 7.71 per cent over past 3 years ended FY21 despite the impact of the disruptions caused by COVID-19 pandemic. Further to this, the net profit margins were strong in the range of 4.10 per cent to 4.54 per cent over past 3 years ended FY21. Acuite believes, considering the healthy order book position and strong execution capacity, the firm will be able to improve its scale of operations in medium term.

Healthy Financial Risk Profile

Financial risk profile of the firm remains healthy as observed from the strong net worth position and capital structure, and adequate coverage indicators. The net worth improved to Rs 153.38 Cr in FY21 as compared to Rs 96.28 Cr primarily due to accretion of profits to reserves. The capital structure was strong as observed from adjusted gearing in the range of 0.24 times to 0.29 times over the past 3 years ended FY21. Further to this, the total outside liabilities to net worth was in the range of 1.42 times to 2.30 times over the past 3 years ended FY21. The adjusted gearing is expected to improve with repayment of existing equipment loans availed by the Firm over FY22-24 and is expected to be in the range of 0.13 times to 0.27 times. The coverage indicators were adequate with DSCR in the range of 4.36 times to 6.59 times over past 3 years ended FY21 and Interest coverage in the range of 5.99 times to 9.40 times over the same period.

Acuite believes, the Firm will maintain the financial risk profile over medium term, considering stable revenue and operations and absence of any planned capex.

Weaknesses

Volatility in raw material prices and tender based nature of operations impacting profitability

Most EPC projects undertaken by the firm has a gestation period of 12-36 months, and during this time period, profitability remains susceptible to fluctuations in the input prices. However, majority of orders in hand have a built-in inflation index-linked price escalation clause, depending upon the extent of coverage of the actual increase in input prices, which mitigates the risk to an extent.

Star Infratech operates in infrastructure construction industry which is highly competitive with presence of large number small, regional and large players. EPC projects executed by the Firm are tender based with wins going to, the lowest bidder qualifying the terms and conditions stipulated by the respective agencies floating the bids. This puts strain on profitability of the Firm where the bidding can get aggressive.

Geographic concentration of projects

All of the projects executed by the Firm are based out of Karnataka. This exposes the Firm to considerable amount of geographic and geopolitical risks. Any slowdown in project announcements by the governments of these states, or external factors such as socio-political unrest, change in governments policies could adversely affect the Firm's revenue and

operations.

Partnership Nature of Business

The constitution of the firm is partnership and risk of capital withdrawal persists. Management has conveyed that, over the past 3 years, the capital withdrawal has been minimal and any withdrawal is utilized for acquisition of property which is utilized as collateral for the requirements of the firm. The firm has submitted minimum net worth undertaking and the same will be key monitorable. Any withdrawal of the net worth is expected to negatively impact the credit profile of the Firm.

ESG Factors Relevant for Rating

Not Applicable

Liquidity Position: Adequate

Liquidity profile of the firm is adequate as observed from the net cash accruals were in the range of Rs 19.72 Cr to Rs 54.93 Cr in excess of repayment of the equipment loans. Further to this, the utilization of the fund based limits for past 6 months ended September 2021 is 14 per cent. Further, the Firm has sufficient bank guarantee limits to bid and secure new orders. Further to this, the gross current assets days improved from 119 days in FY19 to 75 days in FY21. Going forward, the liquidity is expected improve with net cash accruals in the range of Rs 65-88 Cr over FY22-24.

Acuite believes, the liquidity profile is expected to improve going forward with improvement in execution.

Rating Sensitivities

- Improvement in financial risk profile
- Capital withdrawal
- Elongation in working capital cycle and delays in collecting receivables
- Any geopolitical disturbances impacting the ongoing projects or order book of the Firm

Material covenants

None

Outlook: Stable

Acuite believes that Star Infratech will maintain stable credit profile on account of its stable operating performance. The outlook may be revised to 'Positive' on case of significant improvement in scale of operations while improving the financial profile. Conversely the outlook may be revised to 'Negative' in case of any further elongation of working capital cycle and delay in realization of bills from the government institutions.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	1128.84	660.84
PAT	Rs. Cr.	51.25	27.07
PAT Margin	(%)	4.54	4.10
Total Debt/Tangible Net Worth	Times	0.28	0.43
PBDIT/Interest	Times	9.40	5.99

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	30.00	30.00	ACUITE A2+ Assigned
Catholic Syrian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	76.20	76.20	ACUITE A2+ Assigned
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	63.00	63.00	ACUITE A2+ Assigned
ICICI Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	25.00	25.00	ACUITE A2+ Assigned
Karnataka Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	60.00	60.00	ACUITE A2+ Assigned
Kotak Mahindra Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	14.50	14.50	ACUITE A2+ Assigned
Not Applicable	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	149.30	149.30	ACUITE A2+ Assigned
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	50.00	50.00	ACUITE A2+ Assigned
Yes Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	9.00	42.00	ACUITE A2+ Assigned
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	2.00	ACUITE A- Stable Assigned
Catholic Syrian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	5.00	ACUITE A- Stable Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	8.00	ACUITE A- Stable Assigned
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	5.00	ACUITE A- Stable Assigned
Karnataka Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	15.00	ACUITE A- Stable Assigned
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	3.00	ACUITE A- Stable

Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	5.00	Assigned ACUITE A- Stable Assigned
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	8.00	Assigned ACUITE A- Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	39.00	39.00	Assigned ACUITE A- Stable Assigned

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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