

Press Release

Star Infratech

May 17, 2023



Rating Reaffirmed

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

Rating Rationale

Acuite has reaffirmed 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**) on the Rs. 600.00 Cr bank facilities of Star Infratech. The outlook is '**Stable**'.

Rationale for reaffirmation

The rating reaffirmation continues to take cognizance of experience of the promoters in infrastructure construction industry, healthy order book position, healthy financial risk profile coupled with adequate liquidity. Revenue from the operations of the firm has improved marginally from Rs.1128.84 Cr in FY2021 to Rs. 1138.08 Cr in FY2022, stable growth in revenue from operations is supported by healthy order book. Furthermore, the firm has recorded operating revenues of Rs. 902.61 Cr till March 2023, the dip in revenue in FY2023 is primarily due to delay in tendering process which has led to delay in commencement of works and billing for some of the projects. However, firm has received the delayed order in March 2023 which led to improvement in order book to Rs.6108.41 Cr which provides adequate revenue visibility over medium term. However above strengths are partially offset by volatility in raw material prices, tender based nature of operations, geographical concentration of risks 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. Doeswamy 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, KNNL, KRDCL, 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 and established track record of operations

Star Infratech is an EPC contractor engaged in the execution of government projects such as hospitals, housing colonies, layouts, roads, canal, bridges, water works and drains. The firm is a Class one contractor operating with a rich experience of more than three decades in the infrastructure industry. The firm along with its experienced managers - has been able to establish strong ties with the stakeholders, resulting in repetitive orders. Acuite believes, the experience of the promoters will help the firm to improve the scale of operations.

Healthy order book position and favourable bid of success ratios

Star Infratech has projects worth Rs 6,108.41 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 favourable 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.

Stable operating performance

The revenue of the firm improved from Rs 1,128.84 Cr in FY21 to Rs 1,138.08 Cr in FY22 while maintaining the operating margins. The operating margin of the company was improved from 7.71 per cent in FY2021 to 8.61 per cent in FY2022. Further, the net profit margins improved from 4.54 per cent to 5.10 per cent in FY22. However, operating revenue declined to Rs. 902.61 Cr in FY2023 due to the delay in tendering process, which has led to delay in commencement of work and billing for the operations. However, firm has received these orders in Q4 FY2023 which has led to improvement in order book to Rs. 6,108.41 Cr as on March 2023. Providing the adequate revenue visibility, due to a strong order book position and 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 180.50 Cr in FY22 as compared to Rs 153.38 Cr primarily due to accretion of profits to reserves. The capital structure was strong as observed from gearing ratio of 0.29 times as on March 31st 2022 as against 0.28 times as on March 31st FY2021. Further to this, the total outside liabilities to net worth stood at 1.90 times as on March 31st 2022 as against 1.42 times as on March 31st 2021. The debt protection metrics of interest coverage ratio and debt service coverage ratio stood at 11.81 times and 8.21 times respectively as on March 31st 2022 as against 9.40 and 6.59 times respectively as on March 31st 2022.

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 reoperations.

Partnership nature of business

Star Infratech is a partnership firm and is exposed to the likeliness of the partners withdrawing capital from the business. It can be observed that the Net worth of the firm has witnessed a moderate growth over the last 3 financial years through FY2022 on account of capital withdrawal by the partners. Acuite believes that any substantial withdrawal of capital by the partners is likely to have an adverse impact on the capital structure.

ESG Factors Relevant for Rating

The infrastructure development industry has a significant social impact as it is a labour intensive business. Social issues significant for the industry are community support and development, employee safety and human rights. Governance issues relevant include board and management compensation, shareholder's rights and board diversity. The extent of direct or indirect emissions and the efficiency of deployment of vehicle fleets and heavy machinery has a considerable impact in the environmental performance of this industry. Since material costs are relatively high, strategies should be in place to reduce wastages and recycle raw materials to the extent possible to minimize the environmental impact.

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 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, KRDCL, VJNL, KRIES, Police Housing Corporation etc.

Star Infratech has moderate policies in corporate governance category on board independence, key management retention and business conduct and ethics.

Rating Sensitivities

- Improvement in financial risk profile.
- Any significant withdrawal of capital by partners.
- 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

Liquidity Position Adequate

Liquidity profile of the firm is adequate as observed from the net cash accruals were in the range of Rs 55.83 Cr to Rs 69.24 Cr against repayment obligations of Rs.5.2 Cr to Rs.10.00 Cr for equipment loans for the same period. Further to this, the utilization of the fund based limits for past 6 months ended March 2023 is ~55.41%. Further, the company has sufficient bank guarantee limits to bid and secure new orders. Further to this, the gross current assets days stood between 75 days to 116 days during last 3 years. Going forward, the liquidity is expected improve with net cash accruals in the range of Rs 52-83 Cr over FY23-25.

Outlook: Stable

Acuité 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.

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 22 (Actual) | FY 21 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 1138.08 | 1128.84 |
| PAT | Rs. Cr. | 58.03 | 51.25 |
| PAT Margin | (%) | 5.10 | 4.54 |
| Total Debt/Tangible Net Worth | Times | 0.29 | 0.28 |
| PBDIT/Interest | Times | 11.81 | 9.40 |

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|------|--------------------------------|------------|-----------------|---------------------------------|
| | Proposed Bank Facility | Long Term | 37.00 | ACUITE A- Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 30.00 | ACUITE A2+ (Reaffirmed) |
| | Bank Guarantee | Short Term | 76.20 | ACUITE A2+ (Reaffirmed) |
| | Cash Credit | Long Term | 5.00 | ACUITE A- Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 14.50 | ACUITE A2+ (Reaffirmed) |

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|-------------|------------------------|------------|--------|---------------------------------|
| 16 Feb 2022 | Cash Credit | Long Term | 15.00 | ACUITE A- Stable (Reaffirmed) |
| | Cash Credit | Long Term | 5.00 | ACUITE A- Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 25.00 | ACUITE A2+ (Reaffirmed) |
| | Cash Credit | Long Term | 3.00 | ACUITE A- Stable (Reaffirmed) |
| | Cash Credit | Long Term | 2.00 | ACUITE A- Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 70.00 | ACUITE A2+ (Reaffirmed) |
| | Cash Credit | Long Term | 5.00 | ACUITE A- Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 63.00 | ACUITE A2+ (Reaffirmed) |
| | Bank Guarantee | Short Term | 50.00 | ACUITE A2+ (Reaffirmed) |
| | Cash Credit | Long Term | 10.00 | ACUITE A- Stable (Reaffirmed) |
| | Cash Credit | Long Term | 8.00 | ACUITE A- Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 60.00 | ACUITE A2+ (Reaffirmed) |
| | Bank Guarantee | Short Term | 121.30 | ACUITE A2+ (Reaffirmed) |
| | | | | |
| | Bank Guarantee | Short Term | 42.00 | ACUITE A2+ (Assigned) |
| | Bank Guarantee | Short Term | 30.00 | ACUITE A2+ (Assigned) |
| | Cash Credit | Long Term | 2.00 | ACUITE A- Stable (Assigned) |
| | Bank Guarantee | Short Term | 60.00 | ACUITE A2+ (Assigned) |
| | Bank Guarantee | Short Term | 14.50 | ACUITE A2+ (Assigned) |
| | Bank Guarantee | Short Term | 25.00 | ACUITE A2+ (Assigned) |
| | Bank Guarantee | Short Term | 63.00 | ACUITE A2+ (Assigned) |
| | Cash Credit | Long Term | 3.00 | ACUITE A- Stable (Assigned) |
| | | Short | | |
| 01 Dec 2021 | Bank Guarantee | Term | 149.30 | ACUITE A2+ (Assigned) |
| | Proposed Bank Facility | Long Term | 39.00 | ACUITE A- Stable (Assigned) |
| | Bank Guarantee | Short Term | 76.20 | ACUITE A2+ (Assigned) |
| | Cash Credit | Long Term | 8.00 | ACUITE A- Stable (Assigned) |
| | Cash Credit | Long Term | 15.00 | ACUITE A- Stable (Assigned) |
| | Cash Credit | Long Term | 8.00 | ACUITE A- Stable (Assigned) |
| | Bank Guarantee | Short Term | 50.00 | ACUITE A2+ (Assigned) |

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|--|-------------|-----------|------|-------------------------------|
| | Cash Credit | Long Term | 5.00 | ACUITE A- Stable (Assigned) |
| | Cash Credit | Long Term | 5.00 | ACUITE A- Stable (Assigned) |
| | Cash Credit | Long Term | 5.00 | ACUITE A- Stable (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Complexity Level | Quantum (Rs. Cr.) | Rating |
|----------------------|----------------|----------------------------------|------------------|----------------|----------------|------------------|-------------------|---------------------------------|
| HDFC Bank Ltd | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 63.00 | ACUITE A2+ Reaffirmed |
| Axis Bank | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 30.00 | ACUITE A2+ Reaffirmed |
| Kotak Mahindra Bank | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 14.50 | ACUITE A2+ Reaffirmed |
| Union Bank of India | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 50.00 | ACUITE A2+ Reaffirmed |
| Karnataka Bank Ltd | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 60.00 | ACUITE A2+ Reaffirmed |
| ICICI Bank Ltd | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 25.00 | ACUITE A2+ Reaffirmed |
| Catholic Syrian Bank | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 76.20 | ACUITE A2+ Reaffirmed |
| Yes Bank Ltd | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 70.00 | ACUITE A2+ Reaffirmed |
| HDFC Bank Ltd | Not Applicable | Cash Credit | Not Applicable | 10.75 | Not Applicable | Simple | 8.00 | ACUITE A- Stable Reaffirmed |
| Yes Bank Ltd | Not Applicable | Cash Credit | Not Applicable | 9.50 | Not Applicable | Simple | 10.00 | ACUITE A- Stable Reaffirmed |
| Axis Bank | Not Applicable | Cash Credit | Not Applicable | 10.55 | Not Applicable | Simple | 2.00 | ACUITE A- Stable Reaffirmed |
| Kotak Mahindra Bank | Not Applicable | Cash Credit | Not Applicable | 9.75 | Not Applicable | Simple | 3.00 | ACUITE A- Stable Reaffirmed |
| Union Bank of India | Not Applicable | Cash Credit | Not Applicable | 10.700 | Not Applicable | Simple | 5.00 | ACUITE A- Stable Reaffirmed |
| Karnataka Bank Ltd | Not Applicable | Cash Credit | Not Applicable | 11.60 | Not Applicable | Simple | 15.00 | ACUITE A- Stable Reaffirmed |
| ICICI Bank Ltd | Not Applicable | Cash Credit | Not Applicable | 9.75 | Not Applicable | Simple | 5.00 | ACUITE A- Stable Reaffirmed |
| Catholic Syrian Bank | Not Applicable | Cash Credit | Not Applicable | 11.00 | Not Applicable | Simple | 5.00 | ACUITE A- Stable Reaffirmed |
| Not Applicable | Not Applicable | Proposed Long Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | Simple | 37.00 | ACUITE A- Stable Reaffirmed |

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|-------------------|-------------------|--|-------------------|-------------------|-------------------|--------|--------|-------------------------------|
| Not Applicable | Not Applicable | Proposed Short Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | Simple | 121.30 | ACUITE A2+ Reaffirmed |
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Contacts

| Analytical | Rating Desk |
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| Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Gnanreddy Rakesh Reddy Senior Analyst-Rating Operations Tel: 022-49294065 rakesh.reddy@acuite.in | Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in |

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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