

December 14, 2022

Starlite Global Enterprises (India) Limited: [ICRA]BB- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Unallocated	24.00	[ICRA]BB- (Stable); assigned
Total	24.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned rating for Starlite Global Enterprises (India) Limited (SGEIL) factors in the good track record of the Starlite Group's promoters, led by Mr. Ram Gopal Patwari in the real estate sector, in Hyderabad, for more than a decade. The rating considers SGEIL's healthy revenue diversification with presence in commercial real estate, solar power plant and land plotting in Hyderabad.

The rating is, however, constrained by SGEIL's modest scale of operations with revenues of Rs. 7.7 crore in FY2022 and high tenant concentration risk in the operational commercial project with top five tenants occupying ~40% of the total area. Given the short lease tenures, any vacancy by major tenants will impact the revenues, profits and debt coverage metrics. The company is undertaking a large capex plan towards construction of a retail mall of 0.5 million sq. ft (msf) in Balanagar, Hyderabad, at a total cost of Rs. 105 crore (excluding land). It is exposed to execution risk as the pending project cost, as of October 2022, stood at around Rs. 67.5 crore, which is expected to be funded by a debt of Rs. 24.0 crore, promoter support and internal accruals. The company is exposed to funding risk as debt is yet to be tied up. Further, it is exposed to market risk due to low pre-leasing. The timely completion of the project, along with healthy leasing tie-ups, will remain the key rating monitorable.

Key rating drivers and their description

Credit strengths

Revenue diversification with presence in commercial real estate, solar plant and land plotting – SGEIL primarily has three lines of business - a commercial leased space, a solar power plant, and sale of land/plots. It has entered into a joint venture agreement with the promoter, Ram Gopal Patwari, and others for developing and renting Shangrila Plaza, a commercial building, based in Hyderabad, which contributed to around ~70% of the total revenues in FY2022. Moreover, it commissioned a 3-MW solar power plant, at its Sadashivpet unit, in July 2015, which generated around ~30% of the total revenue in FY2022. Further, SGEIL plans to sell 38 residential plots in 3-acre land parcel in Sadashivpet area, which has a revenue potential of Rs. 15-20 crore and the proceeds will be utilised towards the under-construction project.

Moderate track record of operations – SGEIL is classified under the Starlite Group, headed by Mr. Ram Gopal Patwari and his two sons, Mr. Sandeep Patwari, and Mr. Sanjay Patwari. The Starlite Group has operations in commercial, and residential real estate sector. The Group is into trading of commodities, renewable energy, and textiles business with track record of more than a decade.

Credit challenges

Low scale of operations – SGEIL recorded revenues of Rs. 7.7 crore in FY2022, and the scale of operations has remained modest at similar levels over the past years. The scale is expected to improve post completion and leasing of the under-construction project at Balanagar.

Large capex plans and exposure to funding and market risks – The company is undertaking a large capex plan towards construction of a retail mall of 0.5 msf in Balanagar, Hyderabad, at a total cost of Rs. 105 crore (excluding land). It is exposed to execution risk as the pending project cost, as of October 2022, stood at around Rs. 67.5 crore, which is expected to be funded by a debt of Rs. 24.0 crore, promoter support and internal accruals. SGEIL is exposed to funding risk as the debt is yet to be tied up. Further, it is exposed to market risk due to the low pre-leasing for only around 20% of the total leasable area. The timely completion of the project, along with healthy leasing tie-ups, will remain key rating monitorable.

High lessee concentration and lease renewal risk – The lessee concentration risk is high as top five tenants occupy close to 40% of the total leasable area. Given the short lease tenures, any vacancy by major tenants will impact the revenues, profits, and debt coverage metrics. The tenants occupying close to 16% of the leasable area are due for lease expiry in FY2024. Timely renewals with implementation of rental escalations will be a critical factor for maintaining a comfortable debt coverage metrics.

Liquidity position: Stretched

SGEIL's liquidity position is stretched with cash balance of Rs. 0.87 crore as on March 31, 2022. It has repayment obligations of Rs. 2.6 crore in FY2023 and Rs. 2.7 crore in FY2024, which will be serviced from its cash flow from operations. The company has pending capex of Rs. 44.5 crore, which is expected to be incurred in Q4 FY2023 and FY2024. However, the debt funding for the same is yet to be tied up.

Rating sensitivities

Positive factors – ICRA could upgrade SGEIL's rating if there is an increase in the occupancy of operational assets, timely completion and leasing of under-construction project resulting in improved scale of operations and debt coverage metrics on a sustained basis.

Negative factors – ICRA could downgrade the company's rating if there is any material decline in occupancy, or delay in completion of the ongoing projects resulting in weakening of debt coverage metrics and liquidity position on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals Rating Methodology for Solar Power
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

SGEIL is classified under the Starlite Group, headed by Mr. Ram Gopal Patwari and his sons, Mr. Sandeep, and Mr. Sanjay Patwari. The company earns revenues from the commercial project, 3-MW solar power plant and through selling of land/plot in the Hyderabad region.

Key financial indicators (audited)

	FY2021	FY2022
Operating income (Rs. crore)	7.7	7.7
PAT (Rs. crore)	0.3	0.3
OPBDIT/OI (%)	51.1	50.7
PAT/OI (%)	-3.3	-4.4
Total outside liabilities/Tangible net worth (times)	1.9	2.4
Total debt/OPBDIT (times)	6.5	9.1
Interest coverage (times)	1.9	3.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Annual reports, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sl. No.	Instrument	Current rating (FY2023)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
1	Unallocated	Long-term	24.00	0.00	Dec 14, 2022 [ICRA]BB-(Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Unallocated	NA

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	Unallocated	-	-	-	24.00	[ICRA]BB- (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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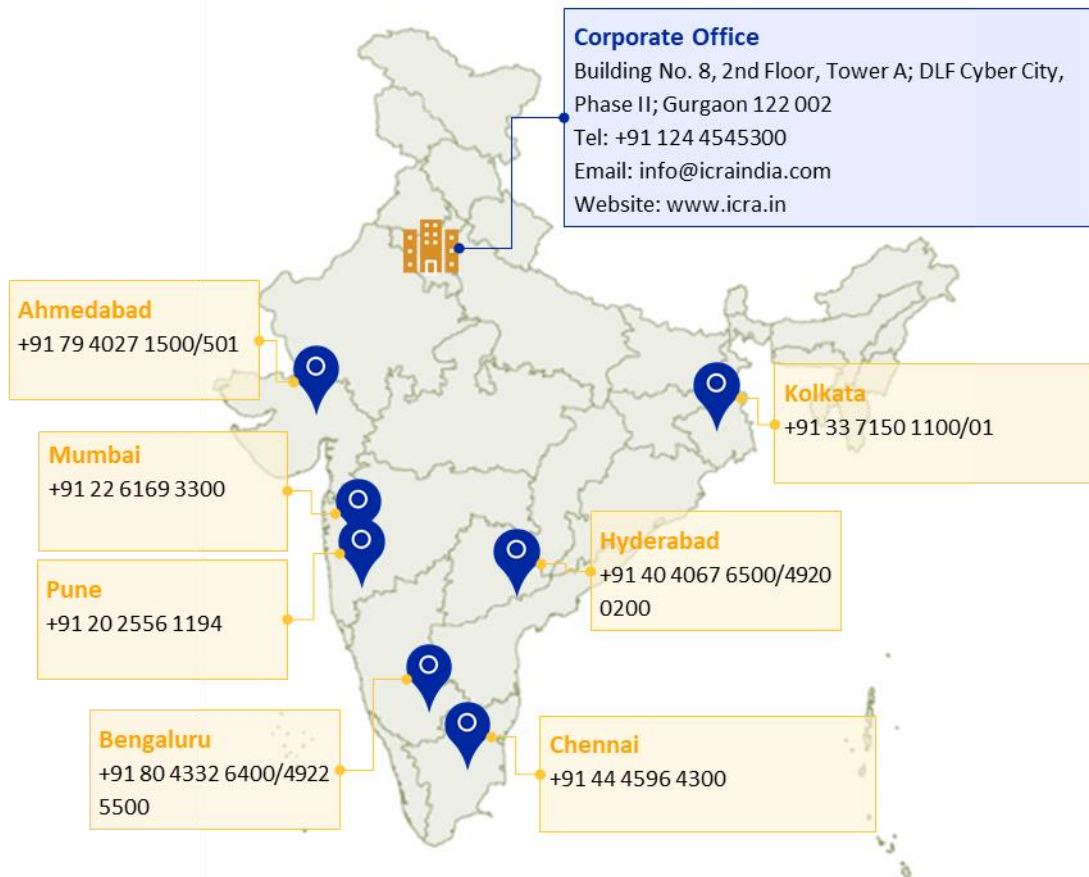
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