Ircon International Limited

October 04, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term/short-term bank facilities	6,500.00	CARE AAA; Stable/CARE A1+ (Triple A; Outlook: Stable/A One Plus)	Reaffirmed
Total bank facilities	**6,500.00 (₹ Six thousand five hundred crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the rating assigned to the bank facilities of Ircon International Limited (IRCON) continues to derive strength from its Government of India (GoI) ownership with a 73.18% stake, its significant project execution capabilities in railways established by its long track record of implementing domestic and overseas railway projects, and its strong order book position as on June 30, 2022, with around 52% of the projects from the Ministry of Railways (MoR) on a nomination basis having a cost-plus margin structure.

While domestic railway projects are now being tendered through MoR's new competitive bidding system, CARE Ratings Limited (CARE Ratings) expects IRCON to be well placed to participate and procure a significant proportion of such tenders, as demonstrated by the company, wherein, it has secured new projects amounting to around ₹16,000 crore during FY22, of which around ₹7,900 crore worth of projects pertaining to the railway segment, thereby mitigating the business risk.

The rating also favourably factors in the company's low counterparty risk with primarily strong government entities as counterparties, low gearing with minimal reliance on external debt and strong liquidity position.

The rating strengths are, however, partially tempered by its investments, loans and advances extended to subsidiaries and joint ventures (JVs), and the competitive and fragmented nature of the industry amid rising input costs, which has resulted in moderation of profitability margins. CARE Ratings expects the margins of the company to be under pressure in the medium term as a significant proportion of the projects have been acquired through competitive bidding. High contingent liabilities in the form of corporate guarantees (CGs) extended to its subsidiaries, primarily to the hybrid annuity model (HAM) and toll road projects, are other credit monitorable. With increase in exposure to subsidiaries, IRCON's ability to unlock its capital in those projects upon achievement of commercial operations date (COD) shall also be crucial.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:
Not applicable

Negative factors – Factors that could lead to negative rating action/downgrade:

- Any change in the ownership pattern of the entity on account of further divestment by the GoI
- Weakening of the managerial and financial linkages with the MoR
- Significant decline in scale of operations and deterioration in profitability
- Significant debt funded exposure in its subsidiaries and JVs
- Significant increase in working capital requirement of the company leading to high reliance on external borrowings

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers

Key rating strengths

Significant linkages with the GoI and the MoR: IRCON was incorporated in 1976 and is a Mini Ratna Category-I public sector undertaking (PSU) since 1998, wherein, the GoI holds 73.18% equity. IRCON is one of the few agencies through which the MoR has implemented railway projects throughout the country for over four decades and has completed more than 398 infrastructure projects in India.
As on June 30, 2022, the board of IRCON is headed by Yogesh Kumar Misra, Chairman and Managing Director (CMD). He holds a BTech. degree in Civil Engineering from the Indian Institute of Technology (IIT), Delhi, with over three decades of rich and varied experience in railways, project development, and consultancy for turnkey railway and highway projects involving detailed survey, alignment design, tunnels, bridges, etc.
IRCON holds strong linkages with the MoR and is professionally managed by the board of directors comprising four whole-time directors along with the CMD and one government nominee director. The managerial and financial linkages with the MoR provide support to the rating and will continue to remain a key monitorable.

Strong order book position: IRCON caters to both, domestic as well as international markets and receives orders on a tender basis. Earlier, the company used to be nominated by the MoR for various railway projects, which shifted to a competitive bidding basis in FY21. The order book position as on June 30, 2022, stood at around ₹42,066 crore (₹34,300 crore as on June 30, 2021) which translates into around 6x of the total operating income (TOI) in FY22, thereby providing healthy revenue visibility. CARE Ratings takes cognisance of IRCON procuring a significant proportion of the orders through competitive bidding, wherein, it has secured new projects amounting to around ₹16,000 crore during FY22, of which around ₹7,900 crore worth of projects pertaining to the railway segment. CARE Ratings further believes that IRCON will continue to secure a significant portion of such tenders under the bidding system by its long-standing experience in executing railway projects. Of the total order book outstanding as on June 30, 2022, around 52% of the orders are received on a nomination basis from the MoR.
The projects on nomination from the MoR are 'cost-plus' in nature, wherein, IRCON receives non-interest-bearing advances from the MoR for project execution. These project advances serve as working capital for the execution of the projects. IRCON is not required to furnish performance or advance bank guarantees (BGs) for these cost-plus projects.

Established track record and proven project execution capabilities: The company began operations in 1976 as a railway construction company and diversified progressively into other construction activities. Railways and highways continue to be the core areas of operations, reflected by around 92.44% (PY: 85.19%) and 7.19% (PY: 14.52%) revenue contributed by these two segments, respectively, in FY22. The company has demonstrated capabilities for executing projects of large scale in both, domestic and international markets (having a presence in Bangladesh, South Africa, Algeria, Sri Lanka, and Nepal).

Low counterparty risk: Domestic projects made up the bulk of the order book, with around 93% of the order book to be executed within India as on June 30, 2022. The company's client list is dominated by Central and state government undertakings such as zonal railways, the National High-Speed Rail Corporation Limited (NHSRCL), the Dedicated Freight Corridor Corporation of India Ltd (DFCCIL), and the National Highways Authority of India (NHAI), among others, which mitigates the counterparty risk to a large extent.
As on June 30, 2022, the company is also executing 7% of its projects in foreign countries; hence, it is exposed to regulatory risks on account of local conditions in the respective countries.

Comfortable financial risk profile: The company continues to enjoy a favourable financial risk profile on account of its project management capability, allowing the company to scale up its operations to ensure healthy cash generation. IRCON reported around a 40% growth in its TOI, of around ₹6,910 crore in FY22 as against around ₹4,955 crore in FY21. The profitability margins of the company, however, have moderated during FY22 and stand at a moderate level, with the profit before interest, lease rentals, depreciation and taxation (PBILDT) at 5.23% (PY: 7.88%) and profit-after-tax (PAT) at 7.88% (PY: 8.16%), owing to rising input prices and increased competitive bidding.

The company does not have any fund-based working capital limits and has low reliance on external borrowings for meeting business requirements. For its operations, IRCON depends on project advances, mobilisation advances, as well as internal accruals. The majority of the project advances availed by the company are interest-free (primarily for railway projects); however, the NHAI charges interest at bank rates for the mobilisation advances availed. The overall gearing (including mobilisation advances) remained comparatively stable as on March 31, 2022, at 0.97x (PY: 0.94x).

During FY18, IRCON availed a pass-through term loan of ₹3,200 crore (outstanding ₹1,230.62 crore as on March 31, 2022) from the Indian Railway Finance Corporation (IRFC), which in turn, has been advanced to the Railway Land Development

Authority (RLDA; custodian of all government land holding) for undertaking a commercial development project with no liability on IRCON. As per the memorandum of understanding (MoU) entered between the RLDA and IRCON, all instalments of principal and interest, and other costs, expenses and charges associated with the loan will be paid by RLDA to IRCON, at least five days before their respective due dates. As on April 15, 2022, four instalments have been received from the RLDA and paid off to IRFC, while the balance one will be due in April 2023.
The adjusted gearing of IRCON (excluding the IRFC pass-through debt and including corporate guarantees extended for road projects) stood at 0.93x as on March 31, 2022, as against 0.60x as on March 31, 2021.

Key rating weaknesses

Exposure to the group, associates and subsidiaries: As on March 31, 2022, IRCON has nine special purpose vehicles (SPVs) for executing the NHAI road projects, of which two toll road projects and one HAM project are operational and six HAM projects are under construction. This apart, IRCON is also a stakeholder in five JV projects incorporated to undertake rail connectivity from coal fields, wherein, it holds a 26% stake and the balance is held by the respective Coal India Limited (CIL) subsidiaries operating the coalfield and state governments. IRCON is also executing a 500-megawatt (MW) solar power project with a 74:24 shareholding with Ayana Renewable Energy Limited. IRCON's total equity investments in its subsidiaries and JVs as on March 31, 2022, stood at ₹836 crore (PY: ₹684.87 crore) and ₹652.12 crore (PY: ₹529.25 crore), respectively. As on March 31, 2022, the company also has an additional equity commitment of approximately ₹1,000 crore in the projects to be met in the next two to three years. IRCON generated annual accruals to the tune of ₹500-600 crore and has a cash balance of ~₹1200 crore as on June 30, 2022 which shall be used to fund these equity commitments. This apart, IRCON has been able to recover the loans and advances given to its subsidiaries by replacing the loans extended to the subsidiaries by raising external borrowings at the subsidiary level. Consequently, the loans and advances outstanding as on March 31, 2022, stood at ₹313.90 crore (PY: ₹1,477.96 crore). As, such the total exposure including loans and advances to subsidiaries and joint ventures as on March 31, 2022 stands at ₹1,802.91 crore (PY: ₹2,692.08 crore) forming 39% of the tangible net worth.
Furthermore, IRCON has extended a limited period of CGs for its under-construction HAM projects, which also increases the potential indebtedness of the company, and will continue to be a key rating monitorable. With increase in exposure to subsidiaries, IRCON's ability to unlock its capital in those projects upon achievement of commercial operations date (COD) shall also be crucial.

Moderate profit margins: The profitability parameters of the company have been moderate within the range of 5-7% and the margins are expected to be range bound as the projects acquired through competitive bidding will form a higher proportion of the turnover. Going forward, significant deterioration in profitability impacting the debt protection metrics shall be a key rating sensitivity.

Inherent challenges associated with the construction industry: The disproportionate hike in commodity prices as compared to inflation indexation, aggressive bidding, delay in the achievement of financial closure, or delay in project progress due to the unavailability of regulatory clearances may affect the credit profile of the contractors and exert pressure on the margins of the entities in the industry.

Liquidity: Strong

The liquidity profile of the company remains strong, with free cash and bank balances of around ₹1,200 crore as on June 30, 2022. IRCON has not availed any working capital bank lines. The working capital requirement for the projects is mainly met through client advances. As on March 31, 2022, the company also had client funds of ₹3,291 crore pertaining to cost-plus projects earmarked for execution. The company has been generating steady cash accruals in the range of ₹500-600 crore per annum against no long-term debt servicing obligations.

Analytical approach

Standalone; factoring parent notch up due to GoI ownership and also taking into account the equity commitments and CGs provided or to be provided in underlying subsidiaries.

Applicable criteria

Policy on Default Recognition
Factoring linkages government support
Financial ratios – Non-financial sector
Liquidity analysis of non-financial sector entities
Rating outlook and credit watch

[Policy on Default Recognition](#)
[Factoring linkages government support](#)
[Short-term instruments](#)
[Construction](#)
[Policy on Withdrawal of Ratings](#)

About the company

IRCON was incorporated in April 1976 as Indian Railway Construction Company Limited, mainly for the construction of railway projects in India and abroad. IRCON is a Mini Ratna Category-I PSU since 1998. It is a Central Government company under Section 617 of the Companies Act, 1956, with a 73.18% shareholding held by the GoI. The company has diversified into roads, buildings, electrical substation and distribution, airport construction, commercial complexes, and metro segments, but mainly earns its revenue from the railway segment. The company raised funds through an initial public offering (IPO) in September 2018 through an offer for sale and was listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) on September 28, 2018.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)*
TOI	4,955.42	6,909.53	1,897.20
PBILDT	350.43	361.28	108.43
PAT	404.56	544.33	123.13
Overall gearing (times)	0.94	0.97	NA
Interest coverage (times)	25.92	34.81	90.36

A: Audited; UA: Unaudited; NA: Not available.
*Q2FY23 financials are yet to be published by the company.
Note: Financials classified as per CARE Ratings' internal benchmarks.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC	NA	-	-	-	6500.00	CARE AAA; Stable/CARE A1+

NA: Not applicable.

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST*	6,500.00	CARE AAA; Stable/	-	1)CARE AAA; Stable/ CARE A1+	1)CARE AAA; Stable/ CARE A1+	1)CARE AAA; Stable/ CARE A1+

				CARE A1+		(October 06, 2021)	(October 06, 2020)	(September 12, 2019)

*Long-term/Short-term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1.	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of the bank facilities, please click here.

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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