

IRCON International Limited

October 06, 2021

Ratings

Facilities/Instruments	Amount (Rs. 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 (Rs. Six thousand five hundred crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of IRCON International Limited (IRCON) continues to derive strength from its Government of India (GoI) ownership with 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, 2021, with 76% of the projects from Ministry of Railways (MoR) on nomination basis. While, going forward, domestic railway projects are likely to be tendered through MoR's new competitive bidding system, CARE Ratings expects IRCON to be well placed to participate and procure a significant proportion of such tenders, thereby mitigating the business risk. The ratings also favourably factor in the company's low counterparty risk with primarily strong government entities as counterparties, its favourable financial risk profile with comfortable profitability, low gearing and strong liquidity position.

The rating strengths are, however, partially tempered by its investments, loans & advances extended to subsidiaries and joint ventures (JVs). High contingent liabilities in the form of corporate guarantees extended to its subsidiaries—primarily to hybrid annuity model (HAM) and toll road projects are other credit monitorable.

Rating Sensitivities

Negative Sensitivities:

- Any change in ownership pattern of the entity on account of further divestment by GoI
- Weakening of managerial and financial linkages with MoR
- Significant decline in order book position of the company leading to lower revenue visibility
- Higher than envisaged exposure in its subsidiaries and JVs

Detailed description of the key rating drivers

Key Rating Strengths

Significant linkages with the GoI and MoR

IRCON was incorporated in 1976 and is a Mini Ratna Category – I Public Sector Undertaking since 1998. During FY21 (refers to the period April 1 to March 31), divestment of ~16% stake was done through an offer for sale in compliance to Minimum Public Shareholding (MPS) requirement as per the Securities Contracts (Regulation) Rules, 1957 and presently GoI holds 73.18% equity in IRCON. IRCON is one of the few agencies through which MoR has implemented railway projects throughout the country for four decades and has completed more than 300 infrastructure projects in India.

As on September, 2021, the Board of IRCON is headed by Mr. Yogesh Kumar Misra (Chairman and Managing Director). He holds B.Tech degree in Civil Engineering from 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 MoR and is professionally managed by the Board of Directors comprising three whole-time directors and two government nominee directors. The managerial and financial linkages with MoR give support to the ratings and would continue to remain a key monitorable.

Strong order book position with around 76% of the orders from MoR on nomination basis

IRCON caters to both domestic as well as international markets and receives orders on tender basis. Earlier, the company used to be nominated by MoR for various railway projects which shifted to competitive bidding basis since FY21. The order book position as on June 30, 2021, stood at around Rs. 34,300 crore (Rs. 30,713 crore as on March 31, 2020) which translates into 6.63 times of the total operating income in FY21, thereby providing healthy revenue visibility. The company secured additional contracts of approximately Rs.4150 crore from MoR in FY21 via bidding process. CARE Ratings believes that IRCON will continue

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

to secure a significant portion of such tenders under the bidding system by virtue of its long-standing experience in executing railway projects. Out of the total order book outstanding as on June 30, 2021, 76.31% of the orders are received on nomination basis from MoR.

The projects from MoR are 'cost plus' in nature wherein IRCON receives non-interest bearing mobilization advance from MoR for project execution. These project advances serve as working capital for execution of the projects. IRCON is not required to furnish performance or advance bank guarantees for these cost-plus projects.

Established track record and proven project execution capabilities in varied construction activities

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 85.19% (PY: 81.08%) and 14.52% (PY: 18.51%) revenue contributed by these two segments, respectively, in FY21. The company has demonstrated capabilities for executing projects of large scale in both domestic and international markets (having 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 95% of the order book to be executed within India as on June 30, 2021. The company's client list is dominated by central and state government undertakings such as MoR, Northern Railways, Dedicated Freight Corridor Corporation of India Ltd, National Highway Authority of India (NHAI) etc., which mitigates the counterparty risk to a large extent.

As on June 30, 2021, the company is executing three railway projects in foreign countries; hence it is exposed to regulatory risk on account of local conditions in the respective countries.

Comfortable financial risk profile

The company continues to enjoy a favourable financial risk profile despite witnessing disruptions in its operational performance during FY21 largely attributed to Covid 19 pandemic. IRCON reported total operating income of Rs.5,172.02 crore in FY21 as against Rs.5,398.68 crore in FY20. The company's operations being labour intensive were impacted by reverse migration of labour as reflected in slow execution of orders and thereby lower profitability. Consequently, the PBILDT and PAT margins dipped to 10.96% (PY: 12.05%) and 7.82% (PY: 9.07%) respectively during FY21. With gradual recovery in operations in Q1FY22, the total income of the company rose by 115% at Rs. 1,103.49 crore (PY: Rs.513.48 crore).

The company does not have any fund-based working capital limits. For its operations, IRCON depends on the project advances, mobilization advances as well as internal accruals. Majority of the project advances availed by the company are interest free (primarily for railway projects); however, NHAI charges interest at bank rate for the mobilization advances availed. The overall gearing (including mobilization advances) improved to 0.95x as on March 31, 2021, as against 1.18x as on March 31, 2020, on account of lower reliance on debt and accretion of profits.

During FY18, IRCON availed a pass-through term loan of Rs.3,200 crore (outstanding Rs. 1846 crore as on March 31, 2021) from Indian Railway Finance Corporation (IRFC), which in turn has been advanced to Railway Land Development Authority (RLDA - custodian of all government land holding) for undertaking commercial development project with no liability on IRCON. As per MoU entered between RLDA and IRCON, all installments of principal and interest, and other costs, expenses and charges associated with the loan shall be paid by RLDA to IRCON, at least five days prior to their respective due dates. As on April 15, 2021 three installments have been received from RLDA and paid off to IRFC, while the balance two will be due in April 2022 and April 2023, respectively.

The overall gearing of IRCON (excluding the IRFC pass through debt) stood at 0.53x as on March 31, 2021, as against 0.58x as on March 31, 2020.

Key Rating Weaknesses

Exposure to group/associates/subsidiaries

As on March 31, 2021, IRCON has five special purpose vehicles (SPVs) for executing NHAI road projects, out of which two toll road projects, one Hybrid Annuity Mode (HAM) project are operational and two HAM projects are under construction. Apart from this, IRCON is also a stakeholder in five JV projects incorporated to undertake rail connectivity from coal fields, wherein it holds 26% stake and the balance held by respective coalfields and state governments. IRCON's total equity investments in its subsidiaries and JVs as on March 31, 2021, stood at Rs. 684.87crore (PY: Rs. 679.82 crore) and Rs. 529.25 crore (PY: Rs. 497.25 crore) respectively. As on March 31, 2021 the company has additional equity commitment of approximately Rs.238.18 crore in group companies to be met in the next 1-2 years. Apart from this, it has also given loans and advances of Rs. 1458.96 crore as on June 30, 2021 (Rs.589.50 crore recovered in July'21 from IRCON Vadodara Kim Expressway by raising external borrowing at subsidiary level) to its subsidiaries and JVs. As articulated by the company, further recovery of loans and advances given to

subsidiaries is expected once the latter raise external borrowing at their level. The loans and advances given to two of the HAM projects have since been recovered.

Furthermore, IRCON has extended unconditional and irrevocable corporate guarantees for its under-construction HAM projects, till the receipt of first annuity from NHAI, which also increases the potential indebtedness of the company.

Liquidity: Strong

The liquidity profile of the company remains strong with free cash and bank balances of Rs.494.21 crore as on March 31, 2021. IRCON has not availed any working capital bank lines. The working capital requirement towards the projects is majorly met through client advances. As on March 31, 2021, client funds of Rs. 2018.35 crore pertaining to projects were outstanding. The company has been generating steady cash accruals in the range of Rs.400-500 crore per annum against nil debt servicing obligations.

Analytical approach: Standalone, factoring in GoI ownership and also taking into account the equity commitments and corporate guarantees provided/to be provided to the underlying subsidiaries.

Applicable Criteria

[Criteria on assigning Rating Outlook and Credit Watch](#)

[CARE's Policy on Definition of Default](#)

[Financial Ratios – Non-financial Sector](#)

[Criteria on rating of Short-Term Instruments](#)

[Criteria on rating methodology- Construction Sector](#)

[Liquidity Analysis of Non-Financial Sector entities](#)

[CARE's Policy on Curing Period](#)

[Factoring Linkages Government Support](#)

About the Company

IRCON International Ltd (IRCON) was incorporated in April 1976 as Indian Railway Construction Company Limited mainly for the purpose of construction of railway projects in India and abroad. IRCON is a Mini Ratna Category – I Public Sector Undertaking since 1998. It is a Central Government company under Section 617 of the Companies Act, 1956, with 73.18% shareholding held by the Government of India. The company has diversified into roads, buildings, electrical substation and distribution, airport construction, commercial complexes and metro segments but majorly earns revenue from the railway segment. The company raised funds through an Initial Public Offer in September 2018 through offer for sale and was listed on BSE and NSE on September 28, 2018.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	5398.68	5172.02
PBILDT	650.76	567.03
PAT	489.78	404.56
Overall gearing (times)	1.18	0.95
Interest coverage (times)	31.51	41.94

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISI N	Date of Issuance	Coup on Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	6500.00	CARE AAA; Stable / CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - LT/ ST-BG/LC	LT/ST*	6500.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (06-Oct-20)	1)CARE AAA; Stable / CARE A1+ (12-Sep-19)	1)CARE AAA; Stable / CARE A1+ (07-Jan-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities-NA**Annexure 4: Complexity level of 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 bank facilities please [click here](#)

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

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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