IRB Infrastructure Developers Limited

April 07, 2021

Ratings

Instruments	Amount (Rs. crore)	Ratings	Rating Action
Non-Convertible Debentures	200.00	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)
Total Long-Term Instruments	200.00 (Rs. Two Hundred Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to IRB Infrastructure Developers Ltd (IRB). takes into cognizance increase in debt over envisaged levels attributed to large debt funded investment in IRB MP Express way Ltd compounded with underachievement of revenue from construction activity in 9M FY21 (refers to the period April 1 to March 31) mainly due to slower pace of execution in some of the ongoing build-operate-transfer (BOT) projects and modest order book position. The same is expected to moderate the leverage levels marked by increased total debt/PBILDT for the IRB group (IRB Standalone plus Modern Road Maker [MRM, rated 'CARE A; Stable / CARE A(CE); Stable / A1 (CE)'*] standalone) on sustained basis. However, CARE Ratings notes that with enhanced impetus on highway construction by National Highway Authority of India (NHAI) and Ministry of Road Transport & Highways (MoRTH) resulting in high project awards, IRB's order book position is likely to improve in near term. Moreover, cost over-run in some of the BOT projects transferred to private InvIT had resulted in large receivables on consolidated balance sheet of IRB whose recovery is estimated to be elongated as the same are contingent on realization of claims from NHAI. CARE has not considered any realization of such claims in the base case analysis. The rating strength continues to be tempered by working capital intensive operations of IRB at combined level.*

However, the rating continues to derive strength derived from the experience of promoters in the BOT road projects, strong overall order book position (including O&M contracts), in-house project execution capability resulting in healthy profitability margin, demonstrated financial flexibility due to InvITs floated by the company and moderate liquidity profile. Ongoing support from affiliates of GIC demonstrated by bringing in 2nd tranche of capital infusion of Rs 250 crore towards their pending share along with support towards IRB MP Expressway in the form of 3-year bonds of Rs 750 crore has imparted liquidity to meet contracted commitments. Additionally, rebound in toll collections since Q3FY21 across most of its project SPVs amid covid-19 is a credit positive. Further, recent successful fund-raising exercise by IRB from overseas market in the prevailing scenario to majorly refinance its impending debt obligations and meeting capex requirements depicts the capability of managing liquidity in the Company.

Considering delays in project execution, and lower than expected toll collection in the projects transferred to Private InvIT and various debt related covenants in the underlying subsidiaries/affiliates; availability of surplus cash flows for up streaming is crucial. Nonetheless, access to surplus from subsidiaries including IRB MP Expressway Ltd and long concession periods of the project SPVs offer refinancing ability to IRB.

<u>Rating Sensitivities</u>

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Significant upstreaming of surplus cashflows from operational projects/ private InvIT
- Growth in firm EPC order book to construction revenue above 2.25x imparting revenue visibility in medium term
- Improvement in Total Debt/PBILDT to 2.5x on combined basis; (excluding unsecured borrowings from group companies and related parties)

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

- Higher than envisaged shortfall/ equity requirement to group projects owing to delays in commissioning and/or lower than estimated toll collection in underlying project SPVs.
- Higher than expected equity/cost overrun support to group companies towards ongoing and future projects.
- Delay in the receipt of project receivables and adverse outcome of Ahmedabad Vadodara project impacting the funding requirement of IRB
- Increase in Combined Total debt/PBILDT beyond 5x going on sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Robust experience and significant presence in infrastructure especially road sector

The promoter and CMD of the group, Mr Virendra D. Mhaiskar has more than two decades of experience in the infrastructure sector especially roads well-supported by experienced professionals.

As on December 31, 2020, IRB has a portfolio of fully owned 3 BOT (Ahmedabad-Vadodara, Thane-Ghodbunder and Pune-Nashik), 1 Toll-Operate-Transfer (TOT) (Mumbai Pune expressway) and 2 Hybrid Annuity Model (HAM) (Vadodara-Kim section and recently bagged Gandeva to Ena section in Gujarat) assets aggregating to around 2,590 lane kms; 51% holding in a Private InvIT which has 9 BOT projects, of which 5 projects are in the operational BOT space (including COD received for 4 projects & PCOD received for 1 project) and remaining 4 projects are under tolling and construction phase aggregating in total to around 5,892 lane kms. IRB also holds 16% as a sponsor in a public InvIT (IRB InvIT Fund) which has 7 BOT projects in its portfolio of around 4,055 lane kms. The total road length under portfolio stood at 12,537 lane km with 8,809 lane km operational and 3,728 lane km under development (including projects under public and private InvIT). All 12 BOT projects (including 9 projects under Private InvIT) are generating revenues.

In-house project execution capability resulting in healthy profitability margins

With construction and O&M activity for IRB's SPVs being carried in-house by IRB's wholly owned subsidiary, MRM, dependence on subcontracting for order execution remains low. This enable maintaining healthy construction PBILDT margin as against its peers. CARE expects the same to remain in the range of 28% to 30% for the combined entity. Any significant deviation in the same owing to fixed price contracts with groups SPVs would be a monitorable.

Financial flexibility through InvIT structure

IRB launched IRB InvIT Fund (Public InvIT) in May 2017 on transferring seven BOT operational projects for 16% stake in the trust along with upfront cash of ~Rs 2200 crore providing liquidity for meeting ongoing as well as proposed capex plans.

Subsequently, IRB Infrastructure trust (Private InvIT) was launched in February 2020 with transfer of 9 under construction BOT projects in partnership with affiliates of GIC (GIC) for a 49% stake thereby assisting IRB in reducing its share of equity commitments in the ongoing under-construction projects. Out of the total commitment of GIC amounting to Rs 4,400 crore towards the deal, Rs 3000 crore was utilized for deleveraging of the debt at underlying SPVs and upfront cash consideration of ~Rs 750 crore for IRB. In November 2020, further funds amounting to Rs 250 crore were received from GIC as part of its share in equity commitment. The balance amount of Rs 400 crore is likely to be received in FY22.

InvIT structure helps in upstreaming of surplus cash flows to the sponsors from the beginning of operations, providing flexibility in managing investment requirements. Considering continued delays in project execution and lower than expected toll collection in the projects transferred to Private InvIT during FY21, availability of surplus cash flows for up streaming is highly dependent of achievement of final COD/SSLD (as applicable) and traffic ramp-up as envisaged. Thus, equity/cost over-run support required over and above the envisaged levels would be a key rating sensitivity.

Further, based on the discussion with management, CARE understands that due to pooling of cashflows under private InvIT structure, the underlying SPVs would be self-sufficient in managing shortfall in revenue generation if any with the surplus revenue in other projects under the InvIT and in case shortfall arising of any, the same would be funded by IRB and GIC in the ratio of their shareholding i.e., 51:49. Thus, going forward with remaining five SPVs expected to achieve final completion by FY22, no support from the sponsor is envisaged. Any support requirement arising in future due to inability of sufficient surpluses by underlying SPVs, would be a rating trigger. Contrarily, significant upstreaming of cash flows to IRB would be considered favorably.

Although, the credit profile of IRB has strengthened by deleveraging through Private InvIT, the corporate guarantees extended by IRB to the respective lenders of these project SPVs still continue. CARE Ratings understands that the management is in the process of refinancing the existing debt at individual SPV level by raising debt at Private InvIT level in FY 22 leading to automatic extinguishing of these corporate guarantees or for certain projects on achieving DSCR of 1.10x in any year as per sanctioned terms and thereby releasing IRB of any contingencies going forward towards scheduled debt servicing. CARE will continue to monitor the updated position in this regard.

Various initiatives undertaken by the Government of India (GOI) to improve the prospects of the road construction sector

GOI through National Highways Authority of India (NHAI; rated 'CARE AAA; Stable') has taken various steps to improve the prospects of the road sector. These include bidding of tenders only after 80% land has been acquired for the project, release of 75% of arbitration award against submission of bank guarantee and 100% exit for developers after two years of project completion. After witnessing steady increase in pace of award during last three years, pace of award has declined in FY19 and FY20 due to moderation in the bidding appetite due to challenging fund raising scenario. The length of national highway construction awarded in the current financial year has been scaled up. During April-October'20, 5,778 kms of highway construction has been awarded which is a 94% increase from that in the same period of 2019-20.

NHAI has also made favourable changes in the clauses of model concession agreement of HAM projects in November 2020 and linked interest annuities to average MCLR of top five schedule commercial banks in place of bank rate. This move is expected to resurrect investor confidence and improve bidding appetite for HAM projects. Furthermore, to ease the funding and smoothen the cash flows of the projects during construction phase due to on-going COVID-19 pandemic, NHAI has also permitted to disburse monthly grant/bills against the work billed as against the previous milestone-based payments till June 2021. In addition, recent policy changes made by NHAI with respect to 100% exit for developers after six months of COD as against two years is also positive for the industry. However, competition has increased in the sector during 9MFY21 due to relaxation of norms by NHAI and improved bidding appetite owing aforesaid initiatives.

Key Rating Weaknesses

Delays in execution of some of the BOT projects and covid impact leading to moderation in performance in 9MFY21

On combined basis, (IRB+MRM) posted a CAGR of ~14% in its operating income for the period FY18 to FY20 with a combined operating income of ~Rs 5,700 crore and GCA of ~Rs 1,050 crore (excluding interest on related party debt). Delays in execution of some of the BOT projects with aggregate un-executed value of ~Rs.755 crore as on March 31,2020 (majorly including CGTL, KGTL, IWTL and UTL), the revenue from construction activity has been impacted significantly as compared to industry aggregate for the road construction companies.

Revenue from operations of IRB (at standalone level) during 9M FY21 being 30% lower than the same period last year. Considering the close linkage between MRM and IRB, the contract revenue for MRM reduced by 40% in 9M FY21 over 9M FY20. Correspondingly, PBILDT for the combined entity (without adjusting related party transaction) witnessed de-growth by ~21% during 9MFY21 as compared to 9MFY20 despite reporting growth in other income at IRB standalone level.

At consolidated level, since last 2 years almost 70-75% of the total revenue from operations is contributed by contract revenue and balance 25-30% is contributed by income arising out of toll collections. Toll income which was significantly impacted during Q1FY21 rebounded strong recovery at or above pre-covid levels in Q3 FY21 for majority of its project SPVs.

Increased leverage with debt funded investment in BOT projects and underperformance in 9MFY21

The Company manages its liquidity profile majorly by way of refinancing its impending debt obligations. Ability of the Company to raise debt for managing its liquidity profile though reflects on its financial flexibility but leads to high leverage. CARE Ratings understands that during FY21, IRB at standalone level has raised additional debt amounting to ~Rs 4200 crore by way of bonds/NCDs (including NCD from overseas borrowing through India Toll Roads in Feb 2021) of which total external debt close to Rs 1600 crore has been prepaid besides scheduled debt obligations of Rs 342 crore. This has led to rise in total debt by ~Rs 2200 crore during FY21. Despite financial flexibility from InvIT platform, exposure to BOT projects in the form of investment and loans advances continued to remain higher at above 100% of combined net worth as on March 31,2020 which is expected to increase further by the end of FY21 due to large debt funded investment.

Further, with lower EBIDTA estimated during FY21 attributed to subdued 9MFY21 performance, the debt to PBILDT is also likely to worsen significantly beyond 2.57x reported at the end of FY20.

Moderate EPC order book in 11MFY21 albeit expected to improve with recent receipt of NHAI awards

The order book position of IRB as on December 31, 2020 though stood at Rs 11,309 crore but it majorly comprises of O&M contracts in BOT/TOT projects of longer tenor (till FY30) amounting to Rs 6926 crore (~60%) and balance towards EPC/construction in ongoing BOT/HAM projects amounting to Rs 4383 crore (~40%). EPC order book to construction revenue of IRB at standalone level (FY20) as on Dec 31, 2020 stood at ~1.2x (as against ~2.24x on June 30, 2019.

As majority of projects are envisaged to get completed in FY22, IRB would have EPC contract for 1 project, recently bagged Gandeva Ena section in Gujarat (VM7 expressway) for which though financial closure has been achieved but appointed date yet to be announced and is expected by April 2021 having total project cost of ~Rs 1750 crore (letter of award was received in August 2020). With IRB very recently receiving letter of award for one project in west Bengal with estimated project cost of ~Rs 2400 crore and one HAM project in Himachal Pradesh with estimated IRB's bid project cost of Rs 828 crore, some positive development can be seen for improving revenue visibility. Aggregate equity commitment of the IRB is expected at Rs. 1200 crore post receipt of this project which is expected to be funded through upstreaming of cash surplus from operational SPVs including that of InvIT, cash accrual and mobilization advances.

Large quantum of deferred receivables and ongoing arbitration in one of the SPVs

As part of sale consideration in lieu of transfer of 9 subsidiaries, IRB and MRM on standalone basis has deferred consideration towards such sale amounting to total of ~Rs 3300 crore (IRB- Rs 3,115 crore and MRM - Rs 178 crore) as receivable from IRB Infrastructure Trust (private InvIT) as on March 31, 2020 forming 70% of combined net worth of IRB as on March 31, 2020. Based on our discussion with the management, CARE understands that the same is expected to be recovered from Trust within 2-3 years through surplus from toll collection in private InvIT/ receipt of claims from NHAI in underlying SPVs of the trust. The management has further informed that the amounts of claims raised is substantially higher than the receivables and based on the Group's past experience in realizing claims from NHAI in other projects, settlement process is expected to get resolved favorably. Claims from NHAI is dependent on the timelines for settlement of such claim and the extent to which it gets settled eventually. Considering the uncertainly involved in settlement proceedings, early resolution from NHAI towards the claims submitted is crucial. Though, CARE has not considered any realization of the claims in the base case analysis, timely realization thereof would provide additional comfort. Given the significant premium payment obligations in its under-construction BOT projects, inherent risk related to traffic diversion due to any competing facilities and lower than envisaged toll collection during construction phase, IRB's ability to achieve projected toll collection is the key rating sensitivity.

Continuation of premium deferment obligations for Ahmedabad-Vadodara project by Hon'ble High Court until its arbitration is resolved, has improved the cash flow position of the subsidiary on interim basis. However adverse outcome of arbitration panel shall impact the financial position of IRB and is a key rating sensitivity.

Challenging environment for the construction industry

The construction sector is facing hurdles in fund raising due to delay in enhancement of working capital limits (including non-fund-based limits), delay in financial closure and equity raising plans on account of challenging business environment for the sector and weakened financial health of the banking sector. The inherent risk involved in the construction industry including aggressive bidding, traffic risk, interest rate risk, volatile commodity prices and delay in project progress due to resistance towards land acquisition and regulatory clearances have collectively affected the credit profile of the developers in the past.

Liquidity: Adequate liquidity despite working capital intensive operations

The unencumbered cash and bank balance at IRB standalone level as on February 20, 2021 stood at Rs 1729.72 crore. Further, refinancing of some of the existing debt with a longer maturity debt has imparted the Company with adequate interim liquidity. The average utilization of Cash credit limit for IRB (~Rs 775 crore) for past 12 months ending January 31, 2021 stands at 64%. Average utilization of Non-fund-based limit of IRB amounting to Rs 1200 crore as on February 2021 remained at 30%. In line with RBI circular on moratorium due to Covid-19, IRB had availed moratorium from some lenders owing to the pandemic for 6 months.

MRM has been utilizing on an average 96% of its fund-based CC limit of Rs 625 crore for past 12 months ending on January 31, 2021. Of the total NFB limit (LC/BG) amounting to Rs 550 crore, the average quarterly utilization for last four quarters ending on Dec 31, 2020, stood at 74% with peak utilization in quarter ending March 2020 at 93%.

The working capital intensity though very high at an operating cycle of 136 days and average collection period of 181 days in FY20 for MRM gets moderated when considering the combined position of both MRM and IRB as major part of receivables and retention money for MRM and payables for IRB gets squared off. Thus, the average collection period for the combined entity stood at 78 days with a working capital cycle of 34 days in FY20 as against 92 days and 69 days respectively in FY19. The gross current asset days for the combined entity stood at 120 days. The receivables and inventory of IRB are majorly from its SPVs for which the construction work is being undertaken by IRB/MRM. On combined basis the working capital cycle is moderate.

Analytical approach: Combined (IRB standalone with MRM standalone)

Considering limited fungibility of funds at the discretion of project lenders between SPVs of IRB and the sponsor (IRB), the approach has been revised from consolidated earlier to combined by analyzing the combined financials of IRB (standalone) with its inhouse EPC contractor, MRM (Standalone). The operational and financial linkages between IRB and MRM is considered for funding equity commitments and meeting any shortfall as well as up-streaming of surplus cash flow including from IRB MP Expressway Ltd.

Applicable Criteria

Rating methodology-Construction Sector
Rating methodology-Toll Road Projects
Financial ratios – Non-Financial Sector
Rating Methodology: Factoring Linkages in Ratings
Criteria for Short Term Instruments
Loans by Holding Companies
Liquidity analysis of non-financial sector entities
Consolidation

About the Company

IRB Infrastructure Developers Limited (IRB), incorporated in 1998, is an established integrated surface transportation infrastructure company with expertise in development of BOT Toll Road Projects. The company's business segments are toll roads, construction, airport development and real estate. As on December 31, 2020, IRB has a portfolio of fully owned 3 BOT (Ahmdabad-Vadodara, Thane-Ghodbunder and Pune-Nashik), 1 TOT (Mumbai Pune expressway) and 2 HAM (Vadodara-Kim section and recently bagged Gandeva to Ena section in Gujarat) assets aggregating to around 2,590 lane kms; 51% holding in a Private InvIT which has 9 BOT projects, of which 5 projects are in the operational BOT space (including COD received for 4 projects & PCOD received for 1 project) and remaining 4 projects are under tolling and construction phase aggregating in total to around 5,892 lane kms. IRB also holds 16% as a sponsor in a public InvIT (IRB InvIT Fund) which has 7 BOT projects in its portfolio of around 4,055 lane kms. The total road length under portfolio stood at 12,537 lane km with 8,809 lane km operational and 3,728 lane km under development (including projects under public and private InvIT). All 12 BOT projects of IRB (including 9 projects under Private InvIT) are generating revenues.

Post grant of certificate of registration from SEBI, NOC from NHAI and lenders, IRB transferred nine BOT projects to a Private InvIT (IRB Infrastructure Trust) under partnership with GIC affiliates in February 2020. IRB has management control with 51% stake and balance 49% is with GIC affiliates. As part of the deal, GIC affiliates has to invest Rs 4,400 crore towards deleveraging partial debt and infusion of balance equity in these road projects. Out of this, first tranche amounting to Rs 3,750 crore was received in February 2020, of which Rs 3,000 crore was utilized to reduce debt in project SPVs. Remaining Rs 1400 crore would be utilized to fund the balance equity (GIC's share) for under construction projects in the portfolio. IRB has recently on Nov 17, 2020 closed 2nd tranche of fund raising by way of right issue of units amounting to Rs 510 crore (IRB: Rs 260 crore (51%) and GIC: Rs 250 crore (49%)).

- Of the BOT operational assets under IRB portfolio, concession period for one of the project, Thane Ghodbunder BOT project was expiring on Dec 23, 2020. MSRDC has granted extension in Concession period upto Feb 23, 2021. The same has been successfully transferred back to MSRDC on Feb 23,2021.
- During the year FY21, two of the project SPVs transferred to Private InvIT have received completion certificates and are collecting toll at full rates for complete length of the respective stretches. (Agra Etawah on Nov 24, 2020 and Yedeshi Aurangabad on September 24, 2020).

Brief Financials of IRB Combined (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	5110	5676
PBILDT	1344	1662
PAT	652	866
Overall gearing (times)	0.76x	0.77x
Interest coverage (times)	3.77x	3.60x

A: Audited; Note: Financials are classified as per CARE's internal standards

Brief Financials of IRB Standalone (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	3618	4160
PBILDT	685	691
PAT	329	279
Overall gearing (times)	0.97	2.57
Interest coverage (times)	2.98	2.14

A: Audited; Note: Financials are classified as per CARE's internal standards

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

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

Annexure-1: Details of Instruments

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non-Convertible Debentures	INE821I07086	July 17, 2020	9.55% p.a.	July 16, 2023 (3 years)	200.00	CARE A; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (05-Feb-18)
2.	Debentures-Non-Convertible Debentures	LT	200.00	CARE A; Stable	1)CARE A+; Stable (25-Aug-20)	-	-	-

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

Particulars	Detailed explanation
Financial covenants	The company shall maintain a minimum pledge security coverage of 2 and minimum current assets cover of 1.1. (pledge security: first exclusive charge by way of pledge on 4,00,000 units of IRB Infrastructure Trust (FV-Rs 100 each))
Non-financial covenants	1. The company shall not, till the final discharge date, deal with or dispose-off any security or any part thereof or withdraw any security from the security interest created except with the prior written approval of the trustee. 2. In case of default in payment of interest and principal amount on due date, without prejudice to the right of trustee to call an event of default and accelerate the debentures, additional interest of 2% p.a. over and above the interest for the period that the default continues. 3. In case of default in payment of interest and/or Redemption Amount on relevant due date, additional interest at 2 % p.a. over the Coupon Rate will be payable by the Issuer for the period of default on the unpaid Coupon or redemption amount.

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non-Convertible Debentures	simple

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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