

IRCON Gurgaon Rewari Highway Limited

November 29, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long term bank facilities	309.68	CARE AA- (CE); Stable*	Reaffirmed

Details of instruments/facilities in Annexure-1.

*Backed by unconditional, irrevocable and enforceable corporate guarantee (CG) of Ircon International Limited (IRCON, rated CARE AAA; Stable/CARE A1+) valid till 180 days from the commercial operations date (COD) or the receipt of first annuity, whichever is later.

Unsupported rating	CARE A-[Reaffirmed]
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Note: Unsupported rating does not factor in the explicit credit enhancement

Rationale and key rating drivers for the credit enhanced debt

The reaffirmation of the rating assigned to IGRHL primarily factors the credit enhancement in the form of unconditional and irrevocable corporate guarantee of Ircon International Limited (rated CARE AAA; Stable/ CARE A1+), a Government of India (GoI) enterprise, which is valid till 180 days from COD or the receipt of the first annuity whichever is later, thereby covering the risks associated with the project during the entire construction period.

Detailed rationale and key rating drivers of Ircon International Limited (Guarantor)

The ratings assigned to IRCON continue to derive strength from its Government of India (GoI) ownership with a 73.18% stake, its 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, 2023, which stood at Rs. 32,486 crores, with around 45% of the projects from the Ministry of Railways (MoR) on a cost-plus basis and are directly monitored by the Indian Railways which ensures time bound availability of extensions of time and insulates the company from cost over runs. The ratings also favourably factor in the company's low counterparty risk with primarily strong government entities as counterparties, low leverage with no 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), sharp shrinkage in the Orderbook to TOI ratio, company's sector diversification strategy and competitive bidding which has resulted in moderation of profitability margins. CARE Ratings Limited (CARE Ratings) expects the margins of the company to be under pressure in the medium term due to 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.

Key rating drivers of Ircon Gurgaon Rewari Highway Limited (Un-supported)

The reaffirmation of the rating assigned to the bank facilities of Ircon Gurgaon Rewari Highway Limited (IGRHL) takes into consideration the completion of 42.40% physical progress as of October 31, 2023 in the project stretch factoring the delays in the project stretch attributed to various reasons. Furthermore, the rating takes cognizance of the adequacy of funding availability by way of undrawn debt, balance NHAI grant payments and promoter contribution for completion of balance works in the project stretch, wherein approval for revised extension of time (EOT) is being obtained up to March 31, 2024. Going forward, completion of the project on available Workfront within revised timelines will be a key credit monitorable.

The rating factors in the inherent strengths of hybrid annuity model (HAM) based road projects such as (i) low project funding risk with inflation-indexed annuity to be received for construction and favourable clauses introduced in the concession agreement (CA) to mitigate project execution challenges (ii) lower post-implementation risk on account of inflation-indexed annuity to be received for operations and maintenance (O&M) of the road and (iii) receipt of bank rate-linked interest annuity.

Furthermore, the rating derives strength from the track record of IRCON in constructing roads and highways, low credit risk of counterparty- National Highway Authority of India (NHAI; rated 'CARE AAA; Stable') for receipt of project completion milestone payments and underlying annuity receivables from both during construction and post commencement of operations.

The ratings, however, remains underpinned by presence of various undertakings extended by sponsor IRCON, the proposed liquidity support mechanism such as debt service reserve account (DSRA) and major maintenance reserve (MMR). This apart, presence of adequate gap of 38 days between the annuity due date and the repayment date negates the cashflows mismatch

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

due to delay in receipt of annuities. The project carries comfortable debt coverage ratios while presence of tail period of 4.4 years imparts adequate financial flexibility.

The above rating strengths are, however, tempered by the inherent construction risk associated with the project execution, susceptibility to changes in O&M cost and interest rate.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- Completion of project within the timelines approved by the authority and established track record of timely receipt of annuities post commencement of operations thereby leading to build-up of liquidity at IGRHL.

Negative factors

- Significant deterioration in the credit profile of sponsor (IRCON).
- Deterioration in credit profile of counterparty (i.e. NHAI).
- Absence of need-based support from IRCON.

Analytical approach:

Credit enhancement in the form of an unconditional and irrevocable CG by IRCON, which is valid until the receipt of the first full annuity or 180 days from the COD, whichever is later. Post the validity period of the CG, CARE Ratings Limited (CARE Ratings) has analysed the project on a standalone basis while factoring in the sponsor's undertaking and the strong linkages with IRCON.

Unsupported Rating: Standalone while factoring sponsor's undertaking and track record of sponsor cum engineering, procurement & construction (EPC) contractor.

Outlook: Stable

The Stable outlook assigned to the bank loan facilities of IGRHL factors the expected completion of the balance works and achievement of the provisional commercial operations date (PCOD) within the revised timelines, while considering the support extended by the IRCON by way of corporate guarantee till 180 days from COD or the receipt of the first annuity whichever is later.

Detailed description of the key rating drivers:

Key strengths

Corporate guarantee from IRCON until the receipt of first annuity

IRCON has extended credit enhancement in the form of CG, till the receipt of the first annuity or 180 days from COD whichever is later. The CG is unconditionally, irrevocable and enforceable to cover any event of default on the part of IGRHL towards debt servicing or compliance with any of the terms, conditions and covenants contained in the facility agreements.

With this limited-period guarantee, construction and other risks that might materialize till the commissioning of the project are supported by the guarantor, which is viewed as a comforting factor.

Favourable clauses of hybrid annuity concession

The CA of IGRHL – in line with the model CA for HAM projects – includes clauses that serve to partially secure the project and its lenders against construction risks, including delays in land acquisition. Such clauses include stipulating the achievement of at least 80% right of way (RoW) as a precedent condition for declaring the appointed date for the project. Besides, there is a provision for granting deemed completion of the project in case 100% of the work is completed on the RoW, which becomes available to the concessionaire within 146 days of the appointed date. In addition, stringent clauses for levy of damages, encashment of performance security in case of delay in execution due to reasons attributed to the concessionaire act as significant disincentives against slippages in execution.

Low counterparty credit risk

Incorporated by the GoI under an Act of the Parliament as a statutory body, NHAI functions as the nodal agency for development, maintenance and management of the National Highways in the country. The outlook on NHAI reflects the outlook on the sovereign, whose direct and indirect support continues to be the key rating drive.

Cash flow visibility along with cushion between annuity receipt date and debt repayment date

During the operational phase, cash flow is assured in the form of annuity payments from the NHAI on a semi-annual basis covering 60% of the project completion cost along with interest at the applicable bank rate plus three percent on the reducing balance and inflation-indexed O&M payments. Furthermore, as per the financing plan, the repayment of the term debt commences from seven months and eight days of moratorium from the COD. CARE Ratings expects the continuation of the presence of adequate cushion of 38 days between the principal repayment date and annuity receipt date, which is viewed as a credit positive.

Presence of liquidity support mechanisms such as DSRA and major maintenance reserve account (MMRA)

As per the terms of the facility agreement, there is a stipulation to create and maintain a DSRA such that there is an upfront creation of DSRA equivalent of three months interest obligation upon COD. The facility agreement also stipulates the creation of a MMRA as per the base-case business plan.

Demonstrated track record of IRCON in executing road projects

The company has entered into a fixed-price EPC contract with IRCON, which has executed nation-building infrastructure projects in the roads, buildings, electrical substation and distribution, airport construction, commercial complexes, metro, and railway segments. IRCON has successfully commissioned four road projects in the public-private partnership (PPP) mode and has over four decades of experience in the construction and infrastructure sector. It is ably supported by a team of qualified engineers with significant expertise in road and highway construction.

Presence of strong sponsor support undertakings

IRCON, as the sponsor, has extended undertakings in favour of the lenders to bring additional funds to meet the shortfall, if any, in funds of the borrower for implementation of the project arising out of any overrun in the project cost over & above the estimated project cost as envisaged in the base-case business plan including on account of statutory payments. Furthermore, IRCON has a demonstrated track record of supporting its operational projects in case of any exigencies.

Key weaknesses**Inherent project execution risk:**

Notwithstanding the availability of 84.44% of Right of Way (RoW) based on Independent Engineer report for the month end October 31, 2023, IGRHL is exposed to the inherent construction risk. IGRHL has completed 42.40% of physical progress up to October 31, 2023. Based on the articulation of the management, the company is expected to complete the project stretch by March 31, 2024 as against the initial estimated scheduled commercial operations date (SCOD) of November 24, 2023 due to various delays. Furthermore, the company is pursuing with the authority for receipt of balance land and extension of time (EOT) up to March 31, 2024. The delays were majorly attributed to NGT ban due to pollution on account of construction activities, delay in shifting of utilities, tree cutting and removal of structures along the project stretch. Going forward, achievement of PCOD within the revised timelines, is a credit monitorable.

Inherent O&M risk associated with the project

While the inflation-indexed O&M annuity partly mitigates the O&M risk, the disparate movement in the inflation index (70% wholesale price index [WPI]; 30% consumer price index [CPI]) and the O&M cost heads poses a risk. Besides, being a flexible pavement type, the company can face the risk of a sharp increase in the O&M cost in the event of wear and tear on the road or road facilities, being more than the extent envisaged during the bidding and aggressive bidding in the O&M cost. However, IRCON, has undertaken to arrange to meet the shortfall in routine O&M and major maintenance (MM) expenses and any increase in the O&M costs of the project, over and above the annuity payments, from the authority.

Inherent interest rate risk

IGRHL is exposed to the inherent interest rate risk considering floating rate of interest with spread reset on monthly basis. However, the reimbursement of the interest cost in the form of interest annuity payable by the NHAI biannually at an interest rate equal to the applicable bank rate plus three percent provides comfort to a considerable extent.

Liquidity: Adequate

Adequate liquidity is characterized by the presence of adequate amount of undrawn debt, balance NHAI grant milestone payments and promoter contribution which shall be used to fund the balance capex including EPC works, IDC and other soft costs. IGRHL

also derives strength from sponsor support undertaking from IRCON fund cash shortfall during construction and operational phase.

Assumptions/Covenants- Refer Annexure -3

Environment, social, and governance (ESG) risks

Not Applicable

Applicable criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Credit Enhanced Debt](#)

[Rating Outlook and Credit Watch](#)

[Hybrid Annuity Model based road projects](#)

[Policy on Withdrawal of Ratings](#)

Adequacy of credit enhancement structure:

The CG extended by IRCON is unconditional, irrevocable and enforceable and covers the entire rated amount, which is valid till 180 days from the COD or the receipt of the first annuity, whichever is later. The rating is being reaffirmed as RBI has permitted the previous approach of factoring the credit enhancement based on the existing corporate guarantee till the residual tenure of the loan.

About the Credit Enhancement Provider- Ircon International Limited

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 Navratna Category PSU, which was accorded on October 12, 2023. It is a Central Government company under Section 617 of the Companies Act, 1956, with a 73.18% shareholding held by the GoI as on September 30, 2023. 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. It 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 the National Stock Exchange (NSE) on September 28, 2018

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport infrastructure	Road sssets–Toll, Annuity, Hybrid-Annuity

IRCON Gurgaon Rewari Highway Limited (IGRHL), a special purpose vehicle (SPV) promoted by IRCON International Limited (rated CARE 'AAA; Stable', 'CARE A1+'), has entered into 15 years concession agreement (CA; excluding construction period of 24 months from the appointed date) with National Highways Authority of India (NHAI, rated 'CARE AAA; Stable') for Upgradation of Gurgaon-Pataudi-Rewari Section of NH-352W from km 0.00 to km 43.87 (Design Length 46.11 km) as a feeder route on Hybrid Annuity Mode under Bharatmala Pariyojana in the State of Haryana.

Brief Financials- IGRHL (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	6MFY24 (UA)
TOI	NA	NA	NA
PBILDT	NA	NA	NA
PAT	NA	NA	NA
Overall Gearing (times)	NA	NA	NA
Interest Coverage (times)	NA	NA	NA

Note: 'the above results are latest financial results available' NA: Not Available; Since the company is under implementation phase., UA: Un-Audited, 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**Complexity level of various instruments rated:** Annexure-4**Lender details:** Annexure-5**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan		-	-	November 05, 2034 (Estimated)	309.68	CARE AA- (CE); Stable
Un Supported rating-Un Supported rating (Long term)		-	-	-	0.00	CARE A-

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 2023-2024	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
1	Fund-based - LT-Term loan	LT	309.68	CARE AA- (CE); Stable	-	1)CARE AA- (CE); Stable (02-Sep-22)	1)CARE AA- (CE); Stable (06-Aug-21) 2)Provisional CARE AA- (CE); Stable (05-Apr-21)	-
2	Un Supported rating-Un Supported rating (Long Term)	LT	0.00	CARE A-	-	1)CARE A- (02-Sep-22)	1)CARE A- (06-Aug-21) 2)CARE A- (05-Apr-21)	-

*Long term.

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	
• DSRA	The company shall create and maintain DSRA equivalents to three months of interest obligation and one half-yearly principal instalment.
• Debt Equity Ratio	DER shall not exceed 3:1
B. Non-financial covenants	
• Annual financial	The company shall submit annual audited financial statements within 120 days from the close of the accounting year

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple
2	Un Supported rating-Un Supported rating (Long term)	Simple

Annexure-5: Lender details

To view the lender-wise details of 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:

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