IRCON International Limited (Revised)

December 12, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	9,000.00 (Enhanced from 6,500.00)	CARE AAA; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of IRCON International Limited (IRCON) continues to derive strength from its strong managerial linkages with Government of India (GoI) along with 73.18% of ownership. The ratings also factor its significant project execution capabilities in railways established by its long track record of implementing domestic and overseas railway projects, and adequate revenue visibility as on September 30, 2023, with around 47% of the projects from the Ministry of Railways (MoR) on a nomination basis having a cost-plus margin structure.

CARE Ratings Limited (CARE Ratings) takes cognisance of the further divestment plans indicated by GoI through the offer for sale (OFS) for up to 8% of the shares held by the former. However, GoI shall continue to be the majority shareholder in IRCON post the said divestment, and therefore, the same is not expected to have a material bearing on the credit profile of the company.

The revenue visibility for IRCON, though healthy at present, has moderated compared to the past due to diminution in order addition. The company's orderbook as on September 30, 2023, stood at about 3.24x the FY23 revenue from operations which is in line with other industry leaders. Nevertheless, going forward, addition of work orders remain a key monitorable for the company.

Furthermore, the ratings continue to favourably factor in the low counterparty risk for the orderbook primarily backed by strong government entities as counterparties. Low leverage with minimal reliance on external debt and strong liquidity position are the other credit strengths.

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: Factors likely to lead to rating actions

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

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

- GoI shareholding falling below 51%.
- Significant decline in order book position and dip in profitability.
- External debt (excluding mobilisation advances) to PBILDT exceeding 1.00x.

Analytical approach:

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

Outlook: Stable

The outlook for IRCON is expected to be 'Stable' backed by virtue of its strong financial flexibility on account of it majority GoI holding. Furthermore, low leverage, adequate orderbook position backed by strong counterparties and strong liquidity is expected to render stability to the risk profile of the company.

[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 strengths

Significant linkages with the GoI and the MoR

IRCON was incorporated in 1976 and subsequently granted a Mini Ratna Category-I public sector undertaking (PSU) status in 1998 and has been upgraded to 'Navratna' status during October 2023 by the Department of public enterprises (DPE), Ministry of Finance. Although GoI holds 73.18% equity in IRCON, the same has declared an OFS for dilution of up to 8% shares held by GoI. 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 about 400 infrastructure projects in India. Furthermore, IRCON has also completed about 128 projects in 25 countries across the globe.

As on September 30, 2023, the board of IRCON is headed by Brijesh Kumar Gupta, Chairman and Managing Director (CMD). He holds an M.Tech. degree in applied mechanics from the Indian Institute of Technology (IIT), Delhi, with over three decades of rich and varied experience in railways, especially in execution and management of railway projects. Furthermore, he is also an Additional member (Civil engineering) on the Railway board.

IRCON holds strong linkages with the MoR and is professionally managed by the board of directors comprising four independent directors, three functional directors along with the CMD and one government nominee director. CARE Ratings notes that 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 receive orders by way of nomination from MoR, which shifted to a competitive bidding basis since October 2021. The order book position as on September 30, 2023, stood at around ₹32,153 crore (₹42,066 crore as on June 30, 2022) which translates into around 3.24x of the total operating income (TOI) in FY23, thereby providing healthy revenue visibility. CARE Ratings takes note that the order addition for FY23 and year-to-date-FY24 has remained subdued compared to the order addition of ₹16,182 crore during FY22 through competitive bidding. Of the total order book outstanding as on September 30, 2023, around 47% of the orders are received on a nomination basis from the MoR. Going forward, addition of large orders and diversification of order book shall be key monitorable considering discontinuation of nomination and intense competition in the sector.

The projects received 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 93.87% (PY: 92.44%) and 5.88% (PY: 7.19%) revenue contributed by these two segments, respectively, in FY23. 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, Myanmar and Nepal).

Low counterparty risk

Domestic projects made up the bulk of the order book, with around 92% of the order book to be executed within India as on September 30, 2023. 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 September 30, 2023, the company is also executing 8% 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 44% growth (PY: y-o-y growth at 39%) in its TOI, of around ₹9,925 crore in FY23, as against around ₹6,910 crore in FY22 (FY21: ₹4,955 crore). The profitability margins of the company, however, continue to be at modest level, with the profit before interest, lease rentals, depreciation and taxation (PBILDT) at 5.92% (PY: 5.23%) and profit after tax (PAT) at 7.83% (PY: 7.88%), owing to rising input prices and increase in mix of executed orders from 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) improved as on March 31, 2023, at 0.68x (PY: 0.97x).

During FY18, IRCON availed a pass-through term loan of ₹3,200 crore 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, 2023, the loan has been entirely settled.

Key weaknesses

Exposure to the group, associates and subsidiaries
As on March 31, 2023, IRCON has 10 special purpose vehicles (SPVs) for executing the NHAI road projects, of which three toll road projects and two HAM projects are operational and five 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 76:24 shareholding with Ayana Renewable Energy Limited.
IRCON's total equity investments in its subsidiaries and JVs as on March 31, 2023, stood at ₹1,094 crore (PY: ₹837 crore) and ₹818 crore (PY: ₹652 crore), respectively. As on September 30, 2023, the company also has an additional equity commitment of approximately ₹1,000 crore in the projects to be met in the next two years. IRCON generated annual accruals to the tune of ₹784 crore in FY23 and has a cash balance of around ₹750 crore as on September 30, 2023, which is adequate to fund these equity commitments.
IRCON also has loans and advances to SPVs outstanding as on March 31, 2023 at ₹345 crore. As such, the total exposure including loans and advances to subsidiaries and JVs as on March 31, 2023 stands at ₹2,258 crore (PY: ₹1,772 crore) forming 44% of the tangible net worth (TNW).
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 COD shall also be crucial.

Moderate profit margins
CARE Ratings notes that 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 the 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 ₹750 crore as on September 30, 2023. IRCON has not availed any working capital bank lines. The working capital requirement for the projects is mainly met through client advances. As on September 30, 2023, the overall cash, including client funds pertaining to cost-plus projects earmarked for project execution stood more than ₹5,000 crore. The company has been generating steady cash accruals in the range of around ₹700 crore per annum against no long-term debt servicing obligations.

Assumptions/Covenants
Not applicable

Environment, social, and governance (ESG) risks
The ESG issues are credit neutral or have only a minimal credit impact on IRCON. The same have been enlisted below:

	Risk factors	Mitigating measures
Environmental	1. Material selection 2. Water consumption	The company nominates environment officers for major Indian projects to monitor environment management system (EMS) and compliance of the environmental laws at their respective projects and the same is also

	Risk factors	Mitigating measures
	3. Method of construction 4. Waste management 5. Greenhouse emissions 6. Recycling	incorporated in General Conditions of Contract (GCC) of the Company for implementation of Environmental Management Standards by the Contractor while carrying out the work. Environmental checklists have been developed and maintained by all projects. Further, environmentally-friendly equipment such as solar panels have been installed and are being installed at various offices/projects. Wastewater is recycled at the corporate office through sewage treatment plant (STP), and the same is used for horticulture work. STPs are also being constructed at IRCONs buildings at Noida and Gurugram.
Social	1. Workmen safety 2. Community impact 3. Emergency response planning	Focussing on the Annual Theme – 'Health & Nutrition' as announced by the DPE and to give preference to the Aspirational districts under their CSR, the CSR & sustainability activities of the company comprised conducting health awareness and 66 medical camps in the districts of Jammu & Kashmir for creating general health awareness amongst the villagers; establishing a Vision Centre in Aspirational district Jaisalmer of Rajasthan for detection of visual defects among school children thereby preventing the progress of eye disease through proper care and treatment; empowerment of women through "Skill Development Training Programmes" in Khora Colony, Dist. Ghaziabad, Uttar Pradesh by M/s Bisnouli Sarvodaya Gramodyog Sewa Sansthan (BSGSS).
Governance	1. Stake holder engagement, supply chain management 2. Internal controls 3. Composition of the board 4. Diversity 5. Code of conduct	IRCON is utilising SAP S/4 Hana as Enterprise Resource Planning (ERP) application software in Finance, Controlling and Human Resource Management functions to a large extent. IRCON has a transparent reporting system governed by a board of four functional directors, four independent directors, and one government nominee. There is a defined whistle-blower mechanism, regular internal and external checks for maintaining robust control. Vendor selection, distribution of contracts, etc., are also done through public channels having complete transparency.

Applicable criteria

Policy on default recognition
Factoring Linkages Government Support
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Construction
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil construction

IRCON was incorporated in April 1976 as Indian Railway Construction Company Limited, mainly for the construction of railway projects in India and abroad. IRCON was a Mini Ratna Category-I PSU since 1998 and subsequently upgraded to Navratna status in October 2023. It is a Central Government company under Section 617 of the Companies Act, 1956, with a 73.18% shareholding held by the GoI. Although company has diversified into roads, buildings, electrical substation and distribution, airport construction, commercial complexes, and metro segments, it 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, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	6,909.53	9,924.92	5,509.28
PBILDT	361.28	588.01	343.31
PAT	544.33	776.84	392.10
Overall gearing (times)	0.97	0.68	NA
Interest coverage (times)	34.81	57.59	68.52

A: Audited UA: Unaudited; NA: Not available Note: 'the above results are latest financial results available'

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
Non-fund-based - LT/ ST-BG/LC	Not applicable	-	-	-	9000.00	CARE AAA; Stable / CARE A1+

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	Non-fund-based - LT/ ST-BG/LC	LT/ST*	9000.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (04-Oct-22)	1)CARE AAA; Stable / CARE A1+ (06-Oct-21)	1)CARE AAA; Stable / CARE A1+ (06-Oct-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities-Not applicable

Annexure-4: Complexity level of the various instruments rated

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

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Director **CARE Ratings Limited** Phone: +91-120-445 2007 E-mail: saikat.roy@careedge.in	Rajashree Murkute Senior Director **CARE Ratings Limited** Phone: +91-22-6837 4474 E-mail: rajashree.murkute@careedge.in Maulesh Desai Director **CARE Ratings Limited** Phone: +91-79-40265605 E-mail: maulesh.desai@careedge.in Prasanna Krishnan Lakshmi Kumar Associate Director **CARE Ratings Limited** Phone: +91-120-4452014 E-mail: prasanna.krishnan@careedge.in

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.

For the detailed Rationale Report and subscription information, please visit www.careedge.in