

IRCON Bhoj Morbe Expressway Limited

February 27, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	823.39	CARE AA; Stable	Revised from CARE AA (CE) [@] ; Stable

Details of instruments/facilities in Annexure-1.

[@]Backed by an unconditional and irrevocable corporate guarantee of Ircon International Limited valid until 180 days from the commercial operations date (COD) or receipt of the first full annuity, whichever is later.

Unsupported rating	Withdrawn [Withdrawn]
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Note: Unsupported rating does not factor in explicit credit enhancement.

Rationale and key rating drivers for the credit enhanced debt

Revision in rating assigned to bank facilities of IRCON Bhoj Morbe Expressway Limited (IBMEL) primarily factors strong parentage with the sponsor IRCON International Limited (IRCON; rated CARE AAA; Stable/ CARE A1+). Rating factors explicit sponsor undertakings till the loan tenor and corporate guarantee for a period of 180 days from COD or the receipt of first annuity, whichever is later.

Rating continues to factor inherent strengths of hybrid annuity model (HAM)-based road projects, such as (i) lower project funding rating risk with inflation-indexed annuity to be received for construction and favourable clauses introduced in concession agreement (CA) to mitigate challenges to project execution, (ii) lower post-implementation risk from inflation-indexed annuity to be received for operations and maintenance (O&M) of the road, and (iii) receiving marginal cost of lending rate (MCLR)-linked interest annuity.

Rating derives strength from track record of sponsor- IRCON, in the road construction industry and low credit risk of counterparty- National Highways Authority of India (NHAI; rated 'CARE AAA; Stable').

However, the rating continues to be underpinned by a proposed liquidity support mechanism such as creation of debt service reserve account (DSRA) and major maintenance reserve (MMR). Comfortable debt coverage indicators and competitive floating rate interest on term debt against interest rate applied on interest annuity, are other credit positives for the rating.

However, rating strengths are tempered by absence of cushion between annuity receipt date and debt repayment date, as they fall on the same day, necessitating sponsors to infuse funds in case of any delay in receipt of annuity receipt from NHAI. The promoter support agreement states that they shall bridge gaps to meet shortfall, during the operational period, which gives comfort from credit perspective. Inherent risks associated with project execution within estimated costs and time, and susceptibility to changes in O&M cost are other credit deterrents.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Track record of timely receipt of annuities.

Negative factors

- Deteriorating credit profile of the sponsor, IRCON, or counterparty, NHAI.
- Significantly delaying project progress including achieving project milestones, leading to penalty by NHAI, affecting financial risk profile.

Analytical approach:

Standalone, factoring in strong parentage with promoter company, IRCON, and presence of limited period corporate guarantee and sponsor undertakings for the entire loan tenure.

Outlook: Stable

IBMEL's outlook is expected to be stable. CARE Ratings Limited (CARE Ratings) believes that IBMEL would benefit from support from its promoter, IRCON, which would ensure mitigation of execution risks to an extent. Inherent strengths of HAM-based road projects, including credit quality of underlying annuity provider and liquidity support mechanisms shall render stability of operations post COD.

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

Detailed description of key rating drivers:**Key strengths****Successful track record of IRCON in executing road projects**

IRCON has successfully commissioned three toll road projects and two HAM projects in 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. IRCON currently has a portfolio of four operational road assets comprising two HAM projects and two toll projects. IRCON is also executing three other NHAI-HAM projects apart from IBMEL.

IBMEL has entered a fixed-price engineering, procurement & construction (EPC) contract with IRCON, which has executed nation-building infrastructure projects in roads, buildings, electrical substation and distribution, airport construction, commercial complexes, metro, and railway segments. IRCON also has a demonstrated track record of supporting operational projects in case of exigencies. CARE Ratings expects that with promoter support agreement, support stance shall continue for IBMEL as well.

Sponsor undertakings and guarantees for meeting exigencies

IRCON, as a promoter and sponsor, has executed undertakings in favour of lenders to ensure funding of cost over runs and bridge cash flow mismatch in base case business plan. CARE Ratings understands that undertaking is till final settlement of the facility. This is expected to bridge deficit in construction and operational period. Apart from this, IRCON has extended unconditional and irrevocable corporate guarantee against loan sanction to IBMEL covering the period till first annuity or 180 days from COD, whichever is later.

Favourable clauses of hybrid annuity concession

The CA – in line with the model CA for HAM projects – includes clauses that partially secure the project and its lenders against construction risks, including delays in land acquisition. Such clauses include stipulating achieving at least 80% right of way (RoW) as a precedent condition for declaring appointed date for the project. There is also a provision for granting deemed completion of the project in case 100% work is completed on RoW, which becomes available to the concessionaire within 180 days of appointed date. Stringent clauses for damages, encashing performance security, and additional performance security in execution delay due to reasons attributed to the concessionaire, act as significant disincentives against executional slippages.

Low counterparty credit risk

Incorporated by the government of India (GoI) under an act of the Parliament as a statutory body, NHAI functions as the nodal agency for development, maintenance, and management of national highways in the country. The outlook on NHAI reflects on the sovereign, whose direct and indirect support continues to be the key rating driver.

Cash flow visibility

In the operational phase, cash flow is assured in the form of annuity payments from NHAI on a semi-annual basis covering 60% of the project completion cost, interest at an 'average of one-year MCLR of the top five scheduled commercial banks plus 1.25%' on reducing balance, and inflation-indexed O&M payments. The company shall also receive GST payments at applicable rates, O&M payments, and annuities for the 60% balance project completion cost.

Liquidity support mechanisms such as DSRA and MMRA

Under the terms of facility agreement, there is a stipulation to create and maintain a DSRA equivalent three months' interest and one principal instalment of debt servicing upfront on the COD to be funded from project cost. The facility agreement also stipulates maintaining a major maintenance reserve account (MMRA) under base-case business plan.

Key weaknesses**Inherent project execution risk**

As of December 31, 2023, the project achieved its first milestone with physical progress of 22.40% against estimated timeline of November 2023. Notwithstanding availability of about 95% of RoW and not having significant impact on implementing the main carriageway from non-availability of balance RoW based on the Independent Engineer (IE) report for month ending December 2023, IBMEL is exposed to inherent construction risk. IRCON's demonstrated track record as an EPC contractor in executing large-

sized road projects mitigates execution risk to an extent. IRCON has subcontracted works to J. Kumar Infraprojects Limited, which has a decent track record in roads construction.

No cushion between annuity receipt date and debt repayment date

Under the financing plan, term debt repayment commences from a 6-months moratorium from COD, which also coincides with annuity receipt date. Thus, there is no cushion between principal repayment date and annuity receipt date, viewed as a credit weakness when there is delay in annuity receipt. However, a strong sponsor (IRCON) with a demonstrated track record of supporting its special purpose vehicles (SPVs) lends comfort. The promoter support agreement also states that IRCON shall bridge such gap to meet the shortfall during operational period. CARE Ratings will continue to monitor IRCON's credit profile, as it may have a bearing on IBMEL's credit metrics.

Inherent O&M risk associated with the project

While inflation-indexed O&M annuity partly mitigates O&M risk, disparate movement in inflation index (70% WPI; 30% CPI) and O&M cost poses a risk. The company can also face the risk of a sharp increase in O&M cost in the event of the wear and tear on the road or road facilities being more than the extent envisaged in the bidding and aggressive bidding in O&M cost. However, the sponsor undertaking to fund deficit in annuity payment for non-compliance with maintenance obligations by the borrower mitigates O&M risk to an extent. The loan agreement also stipulates proper arrangements to be main prior to COD for O&M of the project.

Inherent interest rate risk

IBMEL is exposed to inherent interest rate risk, considering floating rate of interest with a reset clause linked to reset of spread every month. However, interest cost the reimbursement from interest annuity payable by the NHAI biannually at an interest rate equal to the average of one-year MCLR of the top five scheduled commercial banks, plus spread of 125 bps on 60% of the project completion cost (on reducing balance) mitigates risk arising in earlier Cas due to lag effect between bank rate and MCLR.

Liquidity: Adequate

Adequate liquidity is characterised by adequate amount of undrawn debt, balance NHAI grant milestone payments and promoter contribution, which shall be used to fund balance capital expenditure (capex) including EPC works, Interest During Construction (IDC) and other soft costs. IASEL also derives strength from IRCON's strong project execution capabilities and sponsor undertakings from IRCON during construction and operational phase.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default](#)

[Factoring Linkages Parent Sub JV Group](#)

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

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Withdrawal Policy](#)

[Road Assets-Hybrid Annuity](#)

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Services	Services	Transport infrastructure	Road assets–toll, annuity, hybrid-annuity

IBMEL, a special purpose vehicle (SPV) promoted by IRCON, entered a 15-year CA (excluding a construction period of 910 days from the appointed date) with NHAI for constructing an eight-lane access-controlled expressway from km 69.800 to km 79.783 (Bhoj to Morbe Section – SPUR of the Vadodara-Mumbai Expressway) in Maharashtra on HAM basis under the *Bharatmala Pariyojana* (Phase-II Package-XVII). The project's BPC project excluding goods and services tax (GST) is ₹1,436 crore.

Brief Financials: Not applicable, since the company is under implementation phase.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of 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		-	-	17-07-2038*	823.39	CARE AA; Stable
Un Supported Rating-Un Supported Rating (Long Term)		-	-	-	0.00	Withdrawn

*Based on the definition provided in financing documents.

Annexure-2: Rating history for 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*	823.39	CARE AA; Stable	-	1)CARE AA (CE); Stable (08-Dec-22)	-	-
2	Un Supported Rating-Un Supported Rating (Long Term)	LT*	-	-	-	1)CARE A- (08-Dec-22)	-	-

*Long term

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

Annexure-4: Complexity level of 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 based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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