

IRCON Ludhiana Rupnagar Highway Limited

February 06, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	570.82	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 the receipt of the first full annuity, whichever is later.

Unsupported rating	Withdrawn [Withdrawn]
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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

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

Rating continues to factor the 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 the concession agreement (CA) to mitigate challenges to project execution, (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 the marginal cost of lending rate (MCLR)-linked interest annuity.

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

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

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Completing project within envisaged timelines.
- Track record of timely receipt of annuities.

Negative factors

- Deteriorating credit profile of the sponsor, IRCON, or counterparty, ie, NHAI.
- Significant delay in project progress including the achievement of project milestones, leading to levy of penalty by the NHAI, thereby affecting the financial risk profile.

Analytical approach:

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

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

Outlook: Stable

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

Detailed description of the 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 the public-private partnership (PPP) mode and has over four decades of experience in the construction and infrastructure sector and 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 besides ILRHL.

ILRHL has entered into a fixed-price engineering, procurement & construction (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 also has a demonstrated track record of supporting its operational projects in case of any exigencies. CARE Ratings expects that with the promoter support agreement in place, the support stance shall continue for ILRHL as well.

Sponsor undertakings and guarantees for meeting exigencies

IRCON, as a promoter and sponsor, has executed a undertakings in favour of the lenders to ensure funding of the cost over runs and bridge any cash flow mismatch in base case business plan. CARE Ratings understands that undertaking is till the final settlement of facility. This is expected to bridge any deficit in construction and operational period. Apart from this, IRCON has extended unconditional and irrevocable corporate guarantee against the loan sanction to ILRHL 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 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 180 days of the appointed date. In addition, stringent clauses for levy of damages, encashment of performance security, as well as the requirement of additional 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 government of India (GoI) under an Act of the Parliament as a statutory body, NHAI functions as the nodal agency for the 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 driver.

Cash flow visibility

During 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 along with interest at an 'average of one-year MCLR of the top five scheduled commercial banks plus 1.25%' on the reducing balance and inflation-indexed O&M payments. The company shall also be receiving GST payments at applicable rates along with the O&M payments and the annuities for the 60% remaining project completion cost.

Presence of liquidity support mechanisms such as DSRA and MMRA

As per the terms of the 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 the project cost. The facility agreement also stipulates the maintenance of a major maintenance reserve account (MMRA) as per the base-case business plan.

Key weaknesses

Inherent project execution risk

As of September 30, 2023, the project has achieved its first milestone with physical progress of 27.32% against the estimated timeline of July 2023. Notwithstanding the availability of about 93.74% of RoW and not having significant impact on the implementation of the main carriageway on account of the non-availability of the balance RoW based on the Independent Engineer (IE) report for the month ending November 2023, ILRHL is exposed to inherent construction risk. Nevertheless, the demonstrated track record of IRCON as an EPC contractor in executing large-sized road projects mitigates the execution risk to an extent. IRCON has subcontracted the works to Ceigall India Limited, which has a decent track record in the roads construction.

No cushion between annuity receipt date and debt repayment date

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

Inherent O&M risk associated with the project

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

Inherent interest rate risk

ILRHL is exposed to the inherent interest rate risk considering the floating rate of interest with a reset clause linked to the reset of spread every month. 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 average of one-year MCLR of the top five scheduled commercial banks plus the spread of 125 bps on 60% of the project completion cost (on the reducing balance) mitigates the risk arising in the earlier CAs due to the lag effect between the bank rate and the MCLR.

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 capital expenditure (capex) including EPC works, Interest During Construction (IDC) and other soft costs. ILRHL also derives strength from IRCON's strong project execution capabilities and presence of sponsor undertakings from IRCON during construction and operational phase.

Assumptions/Covenants: Not Applicable

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 Outlook and Credit Watch](#)

[Hybrid Annuity Model based road projects](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro-economi Indicator	Sector	Industry	Basic Industry
Services	Services	Transport infrastructure	Road Assets–Toll, Annuity, Hybrid-Annuity

ILRHL, a special purpose vehicle (SPV) promoted by IRCON, has entered into a 15-year CA (excluding a construction period of 730 days from the appointed date) with the NHAI for the construction of construction of four/six lane greenfield Ludhiana-Rupnagar NH-205K from junction with NE-5 village near Manewal (Ludhiana) to junction with NH-205 near Bheora Village (Rupnagar) including spur to Kharar with Ludhiana bypass under Bharatmala Pariyojana in the State of Punjab on hybrid annuity mode: Package-3. The BPC of the project excluding goods and services tax (GST) is ₹1,107 crore.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	NA	NA	NA
PBILDT	NA	NA	NA
PAT	NA	NA	NA
Overall gearing (times)	NA	NA	NA
Interest coverage (times)	NA	NA	NA

A: Audited; UA: Unaudited; Note: 'the above results are latest financial results available'; NA: Not Available, 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 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	-	-	-	15-02-2038	570.82	CARE AA; Stable
Un Supported rating-Un Supported rating (Long term)	-	-	-	-	0.00	Withdrawn

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*	570.82	CARE AA; Stable	-	1)CARE AA (CE); Stable (23-Mar-23)	-	-
2	Un Supported rating-Un Supported rating (Long term)	LT*	-	-	-	1)CARE A- (23-Mar-23)	-	-

*Long 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	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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