

IRCON International Limited

January 04, 2018

Ratings

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term/ Short-term Bank Facilities	6500	CARE AAA; Stable/ CARE A1+ (Triple A; Outlook: Stable/ A One Plus)	Reaffirmed
Total	6500 (Rs. Six Thousand Five Hundred Crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of IRCON International Limited (IRCON) continue to derive strength from the established track record and proven project execution capabilities in the railway and road construction sectors, support from Government/Ministry of Railways, healthy order inflow including projects aided by multilateral agencies, established clientele in India and abroad, strong order book position, favorable financial risk profile with zero net debt and comfortable profitability and healthy liquidity position. Going forward, management of risks inherent in the execution of projects, especially in difficult terrains and territories shall remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Government Ownership: IRCON is majority owned by GoI with government holding 99.73% equity. IRCON is a Mini Ratna Category – I Public Sector Undertaking since 1998. Although IRCON comes under the ambit of the Ministry of Railways; neither any government department nor any government company has any supervisory authority over IRCON. It is professionally managed by the Board of Directors, has independent operations and is financially autonomous.

Established track record and proven project execution capabilities in varied construction activities: The company began operations 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 91% and 7% revenue contributed by these two segments respectively in FY17. The company has demonstrated capabilities for executing projects of large magnitudes in both domestic and international markets.

Steady execution and robust order book: The company caters to both domestic as well as international markets and receives orders both on tender basis as well as nomination/ negotiation. The order book position as on September 30, 2017 stood at Rs. 20,809.45 crore translating into 6.48 times of the total operating income in FY17, which provides healthy revenue visibility. Domestic projects made up the bulk of the order book (89.64%) with the company securing Rs. 6163.65 crore of new contracts in FY17, reflecting steady flow of orders. The company's client list is dominated by central and state government undertakings such as Northern Railways, Ministry of Railways, Delhi Metro Rail Corporation Ltd, etc. which reduce the counter party risk to some extent.

Favorable financial risk profile: The financial profile of IRCON is characterized by healthy profitability margins, zero debt and comfortable liquidity position. Total operating income during FY17 has increased by 17.79% to Rs.3208.59 crore on account of strong order book. The PAT for the FY17 stood at Rs.382.75 crore as compared to Rs.364.38 crore in FY16. The gross cash accruals for the company stood at Rs.448.17 crore in FY17.

The company has zero bank debt, mobilization advances with overall gearing of company stands at 0.46x in FY17. Also, the company also has a healthy cash balance of Rs. 4657.53 crore as on March 31, 2017 leading to net overall gearing of zero.

Industry outlook: The operational environment for the sector was highly challenging during FY16-FY17 with general slowdown in the economy, infrastructure projects and increase in raw material prices. However, in FY16, with a stable

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

government and an increased thrust on infrastructure through various policy measures, order inflows have improved significantly. Also, removals of execution hurdles with faster clearances are expected to benefit the sector, going forward. Further, strong thrust of the government towards development of railways is expected to result in increased opportunities for the companies engaged in railways construction segment. Going forward, the ability of the company to implement ongoing projects within timelines and to benefit from opportunities in India as well as in countries like Malaysia, Sri Lanka, Saudi Arabia, Bangladesh etc. will be crucial for its prospects.

Diversification into Build Operate Transfer (BOT) Projects: The company has diversified itself into the BOT projects. The company currently has 3 BOT projects, out of which 1 project was commissioned in the FY11 and other 2 projects are under implementation. Out of the 3 BOT projects, 2 projects are funded by the company's internal loans and advances while one project is funded through mix debt. The company has also recently got one hybrid annuity project.

Key Rating Weaknesses

Risks inherent in execution of international projects: The company is expose to the risk of executing international projects especially in the difficult terrains and territories.

Analytical approach:

Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

IRCON International Ltd (IRCON) was incorporated in April 1976 as Indian Railway Construction Company Limited mainly for the purpose of construction of railway projects in India and abroad. IRCON is a Mini Ratna Category – I Public Sector Undertaking since 1998. It is a Central Government company under Section 617 of the Companies Act, 1956, with 99.73% shareholding held by the Government of India. The company has diversified into roads, buildings, electrical substation and distribution, airport construction, commercial complexes and metro segments but majorly earns revenue from the railway segment.

Brief Financials

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	2724.00	3208.59
PBILDT	531.43	426.71
PAT	364.38	382.75
Overall gearing (times)	0.25	0.46
Interest coverage (times)	12.30	7.04

Status of non-cooperation with previous CRA:

NA

Any other information:

Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact:

Name: Mr. Gautam Bafna

Tel: 011-4533 3256

Mobile: 09891493443

Email: gautam.bafna@careratings.com

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About CARE Ratings:

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ST-BG/LC	-	-	-	6500.00	CARE AAA; Stable / CARE A1+

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Non-fund-based - LT/ST-BG/LC	LT/ST	6500.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA / CARE A1+ (12-Dec-16)	1)CARE AAA / CARE A1+ (20-Jan-16)	1)CARE AAA / CARE A1+ (12-Dec-14)
2.	Fund-based - LT-Line Of Credit	LT	-	-	-	1)Withdrawn (12-Dec-16)	1)CARE AAA (20-Jan-16)	1)CARE AAA (12-Dec-14)

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
 Cell: + 91 98190 09839
 E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
 Cell: + 91 98196 98985
 E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
 Cell: + 91 99675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
 Cell: + 91 98209 98779
 E-mail: saikat.roy@careratings.com

CARE Ratings Limited**(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-9099028864
 Tel: +91-79-4026 5656
 E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
 304, Pashupati Akshat Heights, Plot No. D-91,
 Madho Singh Road, Near Collectorate Circle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 95490 33222
 Tel: +91-141-402 0213 / 14
 E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91 98407 54521
 Tel: +91-80-4115 0445, 4165 4529
 Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh
 Cell: +91 85111-53511/99251-42264
 Tel: +91- 0172-490-4000/01
 Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
 13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
 Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
 9th Floor, Pride Kumar Senate,
 Plot No. 970, Bhamburda, Senapati Bapat Road,
 Shivaji Nagar, Pune - 411 015.
 Cell: +91-98361 07331
 Tel: +91-20- 4000 9000
 E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
 T-3, 3rd Floor, Manchester Square
 Puliakulam Road, Coimbatore - 641 037.
 Tel: +91-422-4332399 / 4502399
 Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD

Mr. Ramesh Bob
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Cell : + 91 90520 00521
 Tel: +91-40-4010 2030
 E-mail: ramesh.bob@careratings.com