

IRCON International Limited

January 7, 2019

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 (Rupees 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 market position, extensive track record backed by project execution capabilities in the railway sector, support from Government/Ministry of Railways, diversified segments, healthy order inflow including projects aided by multilateral agencies, reputed clientele in India and abroad, strong order book position, favorable financial risk and comfortable profitability and healthy liquidity position. Going forward, management of risks inherent to 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 89.18% equity. IRCON is a Mini Ratna Category – I Public Sector Undertaking since 1998. The board of IRCON is headed by Mr. Sunil Kumar Chaudhary (current Chairman and Managing Director). He holds a bachelor's degree in science (civil engineering) from University of Delhi and a master's degree in technology (Management and systems) from the Indian Institute of Technology, Delhi. In the past, he was on the board of companies such as National Buildings Construction Corporation (India) Limited and Housing and Urban Development Corporation Limited and is experienced in handling infrastructure projects such as railways, airports, flyovers and bridges etc. IRCON has a professionally managed by the Board of Directors comprising three whole-time directors, two government nominee directors and six independent directors.

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 74.54% and 21.79% revenue contributed by these two segments respectively in FY18. 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, 2018 stood at Rs. 27,268.53 crore translating into 6.68 times of the total operating income in FY18, which provides healthy revenue visibility. Domestic projects made up the bulk of the order book (94.92%) with the company securing Rs. 959 crore of new contracts in FY18 and Rs. 5168 crore in current FY (till September 2018), 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 reduces the counter party risk to a large extent.

Favorable financial risk profile: The financial profile of IRCON is characterized by healthy profitability margins and comfortable liquidity position. Total operating income during FY18 has increased by 27.35% to Rs.4085.97 crore on account of strong order book and steady execution of projects. The PAT for the FY18 stood at Rs.390.86 crore as compared to Rs.368.85 crore in FY17. The gross cash accruals for the company stood at Rs.413.89 crore in FY18. The company has availed a fresh borrowing of Rs.3200 crore in FY18 from Indian Railway Finance Corporation as a result of

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

which overall gearing stood at 0.85x as on March 31, 2018 as compared with nil debt as on March 31, 2017. The said borrowing is a pass through loan (part of land monetization strategy of the government) which has subsequently been advanced to Railway Land Development Authority (RLDA - custodian of all government land holding) for undertaking commercial development project with no liability on IRCON. IRCON shall be entitled to commission for arranging the deal and finding a suitable developer within a span of 3 years. In case no developer is appointed for the aforesaid project, the entire transaction shall be reversed with the ministry of railways funding RLDA to repay IRCON which in turn shall be utilized to square off loan from IRFC.

Liquidity: The liquidity profile of the company remains strong with a healthy cash balance of Rs.4582.12 crore as on March 31, 2018. Further the company has been generating steady cash accruals in excess of Rs.400 crore for the past few years.

Industry outlook: The prospects for the industry appear optimistic as Government is taking various initiatives for Railways sector which includes prioritizing investments in important areas, viz. dedicated freight corridors, high speed rail, high capacity rolling stock, last mile rail linkages, port connectivity, and attracting private and foreign direct investment. 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 future growth.

Diversification into Build Operate Transfer (BOT) Projects: The Company has diversified into BOT projects as well. 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 exposed 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](#)
[Rating Methodology – Infrastructure Sector Ratings](#)
[Financial ratios – Non-Financial Sector](#)
[CARE's Methodology for factoring linkages in ratings](#)

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 89.18% 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)	FY17 (A)	FY18 (A)
Total operating income	3208.59	4085.97
PBILDIT	426.40	526.24
PAT	368.85	390.86
Overall gearing (times)	0.00	0.85
Interest coverage (times)	7.04	8.15

Status of non-cooperation with previous CRA: NA

Any other information: NA

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.

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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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - LT/ST-BG/LC	LT/ST	6500.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (04-Jan-18)	1)CARE AAA / CARE A1+ (12-Dec-16)	1)CARE AAA / CARE A1+ (20-Jan-16)
2.	Fund-based - LT-Line Of Credit	LT	-	-	-	-	1)Withdrawn (12-Dec-16)	1)CARE AAA (20-Jan-16)

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