

IRCON International Limited

September 12, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term/Short term Bank Facilities	6500.00	CARE AAA; Stable/ CARE A1+ (Triple A; Outlook: Stable/A One Plus)	Reaffirmed
Total Facilities	6500.00 (Rs. Six thousand and five hundred crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of IRCON International Limited (IRCON) continue to derive strength from its established market position, extensive track record backed by project execution capabilities in the railway sector, 89.18% ownership by Government of India, receipt of order on nomination basis ensuring a strong order book position, diversified segments, reputed clientele in India and abroad, favorable financial risk profile with comfortable profitability and healthy liquidity position.

Going forward, the credit ratings would be sensitive to any changes in the ownership pattern of the entity, any deterioration in the business or financial risk profile of the company.

Detailed description of the key rating drivers

Key Rating Strengths

Government Ownership: Government of India holds 89.18% equity in IRCON. The company 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 three 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 85.12% (PY:74.54%) and 12.57% (PY:21.79%) revenue contributed by these two segments respectively in FY19. 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 basis. Majority of orders from railways are received on nomination basis and for other sectors are on tender basis. The order book position as on 31st March 2019 stood at Rs. 33,901.37 cr (Rs. 27,268.53 crore as on 30th September, 2018) which translates into 7.31 times of the total operating income in FY19, thereby providing healthy revenue visibility. Domestic projects made up the bulk of the order book (96.87%). The company secured new contracts of approximately Rs.6,800 crore in FY19. 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 mitigates the counter party risk to a large extent.

Favorable financial risk profile: The total operating income during FY19 has increased by 13.54% to Rs.4,636.83 crore as against Rs. 4,084.05 cr during FY18 primarily on account of strong order book and steady execution of projects. The profitability margins of the company remained stable as reflected by PBILDT and PAT margin of 12.26% (PY: 12.82%) and 9.59% (PY: 9.50%) respectively during FY19.

The company does not have any fund based working capital limits. For its operations, IRCON depends on the mobilization advances as well as internal accruals. Majority of the mobilization advances availed by the company are interest free (primarily for railway projects), however, NHAI charges interest at bank rate for the mobilization advances availed. The

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

overall gearing (including mob advances) improved to 1.42x as on March 31, 2019 as against 1.64x as on 31st March 2018 on account of lower debt outstanding and accretion of surplus to net worth.

During FY18, IRCON availed a pass through term loan of Rs.3,200 crore (O/s Rs. 3076.53 cr as on 31st March 2019) from Indian Railway Finance Corporation which in turn has been advanced to Railway Land Development Authority (RLDA - custodian of all government land holding) for undertaking commercial development project with no liability on IRCON. As per MoU entered between RLDA and IRCON, all installments of principal and interest, and other costs, expenses and charges associated with the loan shall be paid by RLDA to IRCON, at least 5 days prior to their respective due dates.

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.

Key Rating Weaknesses

Exposure to group/associates/subsidiaries: IRCON has created 4 SPVs for executing road projects secured from NHAI and is also a stakeholder in five SPVs to undertake rail connectivity projects for coal movement. IRCON's total equity investments in subsidiaries as on March 31, 2019 stood at Rs. 490.05 cr (PY: Rs.380.05 cr) and Rs. 433.05 cr (PY: Rs.313.09 cr) in joint ventures. The company has additional equity commitment of approximately 178 cr in group companies to be met in next 1-2 years.

Apart from this, the company has also given loans and advances of Rs 1068.44 cr (PY: 805.67 cr) as on 31st March 2019 to its subsidiaries and JVs.

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

Liquidity: Strong

The liquidity profile of the company remains strong with a healthy cash and bank balance of Rs.2,932.74 crore as on March 31, 2019 and liquid investments of Rs. 99.73 cr. Further, the operating cycle of the company stood at 69 days as on 31st March 2019 as against 72 days as on 31st March 2018.

The company has been generating steady cash accruals in excess of Rs.400 crore per annum for the past few years against which there is nil debt servicing obligations.

Industry outlook and prospects:

India has a requirement of investment of Rs.50 trillion in infrastructure by 2022 to have sustainable development in the country. Only 24% of National Highway network in India is four-lane, therefore there is an immense scope. 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 future growth.

Analytical approach: Standalone also taking into account the equity commitment in underlying under construction subsidiaries.

Applicable Criteria

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

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

[Rating Methodology – Infrastructure Sector Ratings](#)

[Rating Methodology - Factoring Linkages in Ratings](#)

[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 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. The company raised funds through an Initial Public Offer in September 2018 through offer for sale and was listed on BSE and NSE on September 28, 2018.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	4084.05	4636.83
PBILDT	523.54	568.39
PAT	387.90	444.68
Overall gearing (times)	1.64	1.42
Interest coverage (times)	8.08	40.43

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST	6500.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (07-Jan-19)	1)CARE AAA; Stable / CARE A1+ (04-Jan-18)	1)CARE AAA / CARE A1+ (12-Dec-16)
2.	Fund-based - LT-Line Of Credit	LT	-	-	-	-	-	1)Withdrawn (12-Dec-16)

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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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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