

## IRCON International Limited

October 06, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	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) continues to derive strength from the Government of India (GoI) ownership with 89.18% stake, its significant project execution capabilities in railways established by its long track record of implementing domestic and overseas railway projects, and its strong order book position with 85% of the projects from Ministry of Railways (MoR) on nomination basis. While, going forward, domestic railway projects are likely to be tendered through MoR's new competitive bidding system, CARE expects IRCON to be well placed to participate in and procure a significant proportion of such tenders, thereby mitigating the business risk. The ratings also favorably factor in the company's low counterparty risk with primarily strong government entities as counterparties, its favorable financial risk profile with comfortable profitability, low gearing and strong liquidity. These rating strengths are tempered to some extent on account of investments and loans and advances provided to subsidiaries and joint ventures and proposed corporate guarantees to its subsidiaries—primarily road hybrid annuity model (HAM) and toll road projects—wherein the debt tie up is under progress, likely to result in increased indebtedness for the company.

### Key rating sensitivities

#### Negative Factors

- Changes in ownership pattern of the entity on account of further divestment by GoI
- Lower managerial and financial linkages of the entity with MoR
- Decline in order book position of the company leading to lower revenue visibility
- Deterioration in financial risk profile of the company
- Higher than envisaged exposure in its subsidiaries and JVs

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Significant linkages with the GoI and MoR:** IRCON was incorporated in 1976 and is a Mini Ratna Category – I Public Sector Undertaking since 1998. Government of India holds 89.18% equity in IRCON. IRCON is one of the few agencies through which the MoR has implemented railway projects throughout the country for four decades and has completed more than 300 infrastructure projects in India

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 is professionally managed by the Board of Directors comprising three whole-time directors, two government nominee directors and three independent directors.

**Strong order book position with 85% of the orders from MoR on nomination basis:** IRCON caters to both domestic as well as international markets and receives orders both on tender basis as well as nomination basis. The order book position as on March 31, 2020 stood at Rs. 30,713 crore (Rs. 33,901 crore as on March 31, 2019) which translates into 5.69 times of the total operating income in FY20, thereby providing healthy revenue visibility. Out of the total order book outstanding as on March 31, 2020 around 85% of the orders are received on nomination basis from MoR.

MoR has, in the past, awarded railway projects to IRCON on nomination basis with approved funding from the Railway Budget. Further, these projects are 'cost plus' in nature wherein the company receives advance funds from MoR for project

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

execution. IRCON is not required to submit performance or advance bank guarantees for these cost plus projects. Moreover, the advances received in these projects are non-interest bearing. These project advances serve as working capital for execution of the projects.

However, from FY20 onwards, due to change in its policy, the MoR will be following a tendering process from the government PSUs thereby following a competitive bidding process for the award of projects. However, the projects will be bid as cost-plus contracts and MoR will give advances for meeting annual execution expenses. CARE believes that IRCON is well placed to participate in such tenders and procure a significant portion of such tenders under the new system since the bidding is expected to be restricted to the domestic PSUs.

**Established track record and proven project execution capabilities in varied construction activities:** The company began operations in 1976 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 79% (PY: 85%) and 18% (PY: 13%) revenue contributed by these two segments respectively in FY20. The company has demonstrated capabilities for executing projects of large scale in both domestic and international markets (having presence in Bangladesh, South Africa, Algeria, Sri Lanka and Nepal).

**Low counterparty risk:** Domestic projects made up the bulk of the order book with around 96% of the order book to be executed within India as on March 31, 2020. The company's client list is dominated by central and state government undertakings such as Northern Railways, Ministry of Railways, Dedicated Freight Corridor Corporation of India Ltd, NHAI etc. which mitigates the counterparty risk to a large extent.

The company is currently executing three railway projects in foreign countries; hence it is exposed to execution risk on account of local conditions in the respective countries.

**Favorable financial risk profile:** IRCON's total operating income during FY20 has increased by 16.43% to Rs.5,398 crore as against Rs. 4,636 crore during FY19 primarily on account of its strong order book and steady execution of projects. The profitability margins of the company remained stable as reflected by PBILDT and PAT margin of 12.05% (PY: 12. 26%) and 9.07% (PY: 9.59%) respectively during FY20.

The company does not have any fund-based working capital limits. For its operations, IRCON depends on the project advances, mobilization advances as well as internal accruals. Majority of the project 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 overall gearing (including mobilization advances) improved to 1.18x as on March 31, 2020 as against 1.51x as on March 31, 2019 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 (outstanding Rs. 2461 crore as on March 31, 2020) from Indian Railway Finance Corporation (IRFC) 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.

The overall gearing of IRCON excluding the IRFC pass through debt stood at 0.58x as on March 31, 2020 as against 0.73x as on March 31, 2019

### Key Rating Weaknesses

**Exposure to group/associates/subsidiaries:** IRCON has created four SPVs for executing road projects secured from NHAI out of which two toll road projects are operational and two Hybrid Annuity Mode (HAM) projects are currently under construction. Apart from this, IRCON is also a stakeholder in five joint venture (JV) projects incorporated to undertake rail connectivity from coal fields wherein it holds 26% stake and the remaining stakes are held by respective coalfields and the respective state governments. IRCON's total equity investments in its subsidiaries and JVs as on March 31, 2020 stood at Rs. 679.82 crore (PY: Rs.490.05 crore) and Rs. 497.25 crore (PY: Rs.433.05 crore) respectively. The company has additional equity commitment of approximately 112 crore in group companies to be met in next 1-2 years. Apart from this, the company has also given loans and advances of Rs 1470.59 crore (PY: 1068.44 crore) as on March 31, 2020 to its subsidiaries and JVs.

The company is in the process of tying up of debt in three of its road SPVs which would result in release of funds to IRCON. Further, IRCON will be extending unconditional and irrevocable corporate guarantee for its under construction HAM projects as per which any shortfall in debt servicing of these entities will be funded by IRCON during the tenor of the debt.

### Liquidity: Strong

The liquidity profile of the company remains strong with free cash and bank balances of Rs.667.34 crore as on March 31, 2020. The company does not have any sanctioned CC limit. The working capital requirement towards the projects is majorly

met through advances received from the client. As on March 31, 2020, client funds pertaining to projects of Rs. 1,825.89 crore were outstanding.

The company has been generating steady cash accruals in the range of Rs.400-500 crore per annum against which there are nil debt servicing obligations.

**Analytical approach:** Standalone factoring in Gol ownership and also taking into account the equity commitments and corporate guarantees provided to underlying under construction subsidiaries.

#### Applicable Criteria

[CARE's criteria on rating outlook and credit watch](#)

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

[Rating methodology-Construction Sector](#)

[Rating Methodology- Consolidation and Factoring linkages in Ratings](#)

[Liquidity Analysis of Non-Financial Sector entities](#)

[Financial ratios-Non Financial Sector](#)

[Short Term Instruments](#)

#### 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.

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

Brief Financials (Rs. crore)	FY20 (A)	FY19 (A)
Total operating income	5398.68	4636.83
PBILDT	650.76	568.39
PAT	489.78	444.68
Overall gearing (times)	1.18	1.51
Interest coverage (times)	31.51	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST	6500.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (12-Sep-19)	1)CARE AAA; Stable / CARE A1+ (07-Jan-19)	1)CARE AAA; Stable / CARE A1+ (04-Jan-18)

## Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Facility- WC	Detailed explanation
A. Financial covenants	NA
B. Non-financial covenants	NA

## Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Non-fund-based - LT/ ST-BG/LC	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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