

Press Release

IRB Infrastructure Developers Limited

December 07, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs.2,600 Cr.
Long Term Rating	ACUITE AA- / Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE AA-**' (read as **ACUITE double A minus**) on the Rs.2,600 crore Proposed Bank Facilities of IRB Infrastructure Developers Limited (IRB). The outlook is '**Stable**'.

Acuite's ratings on the various debt instruments of IRB reflect its established market position in the development of roads and highways, its healthy current order book position and prospects in the infrastructure sector, demonstrated financial flexibility and resource raising ability. These rating strengths are partly offset by an anticipated increase in the debt levels and sizeable equity commitments for newer projects over the medium term, susceptibility of cashflows to traffic volumes and inherent dependence on government spending on infrastructure.

IRB Infrastructure Developers Limited (IRB), incorporated in 1998, is a Mumbai - based Engineering, Procurement and Construction (EPC) company. The company has presence in road and highway, construction, airport and real estate construction segment. The company has three Build-Operate-Transfer (BOT) Projects, two Hybrid-Annuity-Model (HAM) and one Toll-Operate-Transfer (TOT) project. Further, the company also has 2 InvITs, of which 1 is listed on NSE and BSE and the other is private. The group is promoted by Mr. Virendra D. Mhaikar, CMD. IRB is listed on BSE and NSE.

Analytical Approach

Acuite has considered consolidated financials and business profile of IRB and its Subsidiaries to arrive at the rating, together referred to as 'IRB'. Extent of consolidation: Full.

**refer Annexure 2 for list of entities considered in consolidation*

Key Rating Drivers

Strengths

• Established position in EPC and Road Segment

IRB was incorporated in 1998 by Mr. Virendra D. Mhaikar, who has more than two decades of experience in the infrastructure sector. Besides, he is well-supported by experienced professionals, having more than a decade of experience in their respective fields. IRB is one of the leading players in the domestic infrastructure sector. IRB is engaged in EPC and O&M business for roads, airports and real estate segments. IRB has an established track record of more than two decades in executing EPC contracts. The company has constructed more than 12,500 lane kilometres of the road since its inception. As on June 2020, IRB holds three BOT Projects, one TOT Project and two HAM Projects across various states aggregating to 2,500 kms.

Further, IRB has also floated 2 InvITs, Public InvIT which is listed on NSE and BSE (IRB InvIT Fund) and other Private InvIT, namely, IRB Infrastructure Trust (IRB InvIT II) (Provisional ACUITE AAA / Stable). The IRB InvIT II holds 9 BOT-Toll projects of around 5,892 lane kms. IRB holds 51 per cent of the units of the InvIT II and balance 49 per cent is held by GIC affiliates. IRB InvIT II has received first tranche of equity of Rs.3.753 Cr. in February 2020 and second tranche of Rs.250 Cr. in November 2020 The proceeds were partly utilized for repayment of debts to the tune of Rs.3000 Cr. and balance towards funding the under construction projects. IRB holds 16 per cent stake in Public InvIT which has 7 operational BOT projects of around 4,055 lane kms.

The company has in-house Engineering Procurement, Construction (EPC) and Operation & Maintenance (O&M) activities primarily handled by its subsidiary, Modern Road Makers Pvt. Limited, (MRMPL). IRB has low dependency on external subcontracting for order execution which helps the company to maintain a healthy

operating margin in its construction business.

Acuite believes that IRB's established position in the Infrastructure industry and its project execution capabilities across various platforms, namely EPC, BOT and HAM will support its business risk profile over to near to medium term.

- **Healthy order book position**

IRB is engaged in the execution of EPC contracts and BOT road projects for over two decades. IRB had an order book of over Rs.12,500 Cr. as on June 30, 2020 that includes O&M for BOT road projects worth Rs.7,000 Cr., EPC for BOT projects worth Rs.5,800 Cr. The book to turnover (FY2020) ratio stood at 1.8x, thus giving healthy revenue visibility in the near to medium term. Further, IRB also plans to bid for new projects in near term which will further improve the revenue visibility. However, due to COVID-19 outbreak, the construction activities had halted from March 25, 2020 until April 19, 2020 due to the nation-wide lockdown. The EPC and Toll Collection business of IRB has witnessed pickup in Q2FY2021 with toll collection at 80-90% pre COVID levels. The construction activity has gradually picked up in Q2FY2021 as compared to Q1FY2021. Acuite believes the pace of construction is likely to attain normalcy from Q3FY2021 and though the revenues for FY2021 is likely to remain relatively low, a sharp recovery is expected in FY2022.

- **Demonstrated ability of raising capital through InvIT**

IRB has demonstrated an ability to successfully launch 2 InvIT in last 3 years. The company launched its first InvIT in May 2017 which is listed on NSE and BSE. Six of the operational assets aggregating to 4,055 lane kms was transferred to Public InvIT. IRB has received Rs 2,200 Cr of capital from proceeds of the InvIT, post repayment of debt, helping the company fund equity requirement for the ongoing and newly awarded projects.

Later, in February 2020, IRB floated another InvIT which is a private place, namely, IRB Infrastructure Trust (Provisional ACUITE AAA / Stable). Nine BOT-Toll projects of around 5,892 lane kms have been transferred to this InvIT, IRB holds 51 per cent stake and rest 49 per cent stake is held by GIC affiliates (GIC). GIC is a Singapore based sovereign fund. In the first tranche, IRB has raised Rs.3753 Cr. in February 2020 and second tranche of Rs.250 Cr. in November 2020. As part of the deal, GIC is committed to bring in a total of Rs 4,400 Cr for meeting equity requirement for under-construction projects and will be brought in as per the construction progress of these projects.

Additionally, this deal enabled deleveraging at SPV level to the tune of Rs 3,000 Cr. Moreover, the company has the flexibility to transfer its current projects to public/private InvITs which could help unlock its capital. The company has a demonstrated track record of successfully raising capital and deleveraging the balance sheet. Acuite believes, the company may not face any major hindrance in refinancing its debts or raising additional capital to fund its growth.

Weaknesses

- **Sizeable equity commitments and anticipated increase in project debt levels**

The company has a total equity commitment of Rs.4,300 Cr. in next 3 years ending FY2023. Out of total Rs.4,300 Cr., ~Rs.2,700 Cr. is expected towards existing projects and balance towards future projects. In FY2021, the company plans to raise debt of Rs.5,000 Cr. at a corporate level (of which Rs.2,400 Cr. has been raised) and Rs.6,610 Cr. (of which Rs.5,464 Cr. has already been drawn) under its Mumbai Pune TOT SPV, namely, IRB MP Expressway Private Limited. The overall debt on a consolidated basis is expected to significantly increase to ~Rs.18,000 Cr. The toll collection and construction execution has been impacted in H1FY2021 on account of the outbreak of COVID-19, thus impacting the revenues and profitability of the company. On account of a decline in revenues and profitability of IRB and increase in debt levels, the coverage indicators are expected to deteriorate in FY2021 and FY2022.

The net worth stood healthy at Rs.6682 Cr. as on 31 March 2020 as against Rs.6315 Cr. as on 31 March 2019. The gearing was reduced to 1.38 times as on 31 March 2020 as against 2.63 times in the previous year, however, the gearing levels are likely to increase to 3 times as on March 31, 2021. Further, net debt to equity stood at 0.76 times as on 31 March 2020 as compared to 2.11 times as on 31 March 2019. The reduction in debt levels is on account of transfer of debt to IRB InvIT II. Acuite expects the leverage levels to sequentially improve over the medium term in line with a rebound in core business activities leading to improvement in profitability and in turn higher accretion to reserves coupled with scheduled repayment of the long term debt. Furthermore, the coverage indicators stood healthy marked by ICR of 2.04x for

FY2020 as against 2.79x in FY2019. Acuite expects the coverage indicators to be lower in FY2021 and FY2022 on account of lower revenues and absolute EBITDA and significant increase in the debt levels. Interest coverage is expected to fall below 2 times in FY2021 and DSCR tending towards unity. However, majority of the debt is a project based debt and the repayments are mapped with the cash flows from the individual projects. In case of shortfall in project cash flows, the company will be highly dependent on refinancing the maturing debt and elongating the repayment period. Higher than anticipated deterioration in leverage beyond 3 times, and coverage indicators such as Interest Coverage Ratio below 1.5 times or a drop in EBITDA most likely as a result of continuation of muted performance in the EPC segment or in the absence of successfully refinancing its near term obligation may impart a negative bias to the rating.

• **Cash flows susceptible to traffic volumes; revenues linked to tender floated by Government**

IRB is exposed to risks such as delays in receipt of approvals in the infrastructure segment, which may impact operational cash flows. The timely flow of orders and their execution are critical to the maintenance of steady revenue growth. IRB is also required to support the projects until the projects reach optimal utilization.

The cash flows of a toll-based project are dependent on traffic volumes which in turn are largely influenced by the level of economic activity in and around the area of operation. In the event of a project's cash flows being insufficient to meet its debt servicing commitments/maintenance commitments, the support would be required to be extended from IRB. Additionally, lower than expected traffic volumes due to prolonged slowdown in the economic activity due to events such as mining bans etc. may also impact cash flows, causing cash flow mismatches. In such cases, support may be required to be extended to the SPVs.

IRB has a presence in construction industry and faces intense competition from the presence of several mid to large sized players in the said industry. The risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts and susceptibility to inherent cyclicality in the sector. The recent relaxation of qualification norms by the Central Government for undertaking road projects is further expected to intensify the competitive scenario in the industry. However, Acuite believes that IRB is well positioned on account of its established brand position and experience of its promoters spanning over three decades.

Rating Sensitivities

- Significant and sustained growth in order book, execution and operating profits
- Higher than expected increase in debt levels
- Any stretch in working capital cycle and deterioration in liquidity position

Material Covenants

Particulars	Covenants
TOL/TNW	Not over 3.5x & Not over 2.5x
ICR	More than 3.25x & More than 2.50x
DSCR	Minimum of 1.27x
Debt/EBITDA	Less than 5x

Liquidity position - Strong

The company is raising Rs.5000 Cr. (of which Rs.2,400 Cr. has already been raised) which will be utilized for refinancing high cost debt and equity commitment towards its ongoing projects. The company is planning to raise long tenor debt and with IRB's strong track record of refinancing loans, the liquidity position is expected to remain comfortable. The company has cash and cash equivalents of Rs.442 Cr. and bank balance (including Fixed Deposits) stood at Rs.1828 Cr. as on 31 March 2020. Further, the average bank limit utilization for the last six months ending October 2020 stood moderate at 63 per cent. Acuite believes the company's ability to refinance debt in a timely manner and with favourable tenor will remain critical for maintaining strong liquidity position.

Outlook – Stable

Acuite believes that IRB will maintain a stable credit profile on the back of its established presence in the infrastructure sector and the increasing infrastructure spending in the economy. The outlook may be revised to 'Positive' in case of sufficiently higher than expected growth in accruals and a further strengthening in business risk profile or in case of significant deduction in the debt levels. Conversely, the outlook may be revised to 'Negative' in case of a slowdown in the flow of orders, elongation of working capital cycle, significant support required to be extended to its subsidiaries or higher than expected increase in debt levels thus leading to deterioration in the financial risk profile of IRB.

About the Rated Entity – Key Financials[^]

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	6,928.24	6,789.06
PAT	Rs. Cr.	720.86	849.96
PAT Margin	(%)	10.40	12.52
Total Debt/Tangible Net Worth	Times	1.38	2.63
PBDIT/Interest	Times	2.04	2.79

[^]Acuite has its policy of Financial Ratios and adjustments

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition – <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Service Sector – <https://www.acuite.in/view-rating-criteria-50.htm>
- Infrastructure Entities – <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments – <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies – <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure 1 – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/Outlook
Proposed Bank Facilities	Not Applicable	Not Applicable	Not Applicable	2,600.00	ACUITE AA- / Stable (Assigned)

***Annexure 2 – List of entities in consolidation**

Sr. No.	Name of Entity	Holding as on 31 March 2020
	Direct	
1.	Ideal Road Builders Private Limited	100%
2.	Mhaikar Infrastructure Private Limited	100%
3.	Modern Road Makers Private Limited	100%
4.	Aryan Toll Road Private Limited	100%
5.	ATR Infrastructure Private Limited	100%
6.	IRB Infrastructure Private Limited	100%
7.	Thane Ghodbunder Toll Road Private Limited	100%
8.	Aryan Infrastructure Investments Private Limited	100%
9.	IRB MP Expressway Private Limited (formerly known as NKT Road and Toll Private Limited)	100%
10.	IRB Kolhapur Integrated Road Development Company Private Limited	100%
11.	Aryan Hospitality Private Limited	100%
12.	IRB Sindhudurg Airport Private Limited	100%
13.	IRB Goa Tollway Private Limited	100%
14.	IRB PS Highway Private Limited (formerly known as MRM Highways Private Limited)	100%
15.	IRB Ahmedabad Vadodara Super Express Tollway Private Limited	100%
16.	IRB PP Project Private Limited (formerly known as Zozila Tunnel Project Private Limited)	100%
17.	VK1 Expressway Private Limited	100%
18.	MMK Toll Road Private Limited (MMK) (formerly Subsidiary of IRBPL) (upto February 25, 2020)	-
19.	IRB Westcoast Tollway Limited (upto February 25, 2020)	-
20.	Solapur Yedeshi Tollway Limited (upto February 25, 2020)	-
21.	Yedeshi Aurangabad Tollway Limited (upto February 25, 2020)	-
22.	Kaithal Tollway Limited (upto February 25, 2020)	-
23.	AE Tollway Limited (upto February 25, 2020)	-
24.	Udaipur Tollway Limited (upto February 25, 2020)	-
25.	CG Tollway Limited (upto February 25, 2020)	-
26.	Kishangarh Gulabpura Tollway Limited (upto February 25, 2020)	-
27.	IRB Hapur Moradabad Tollway Limited (upto February 25, 2020)	-
	Indirect	
1.	Modern Estate – Partnership Firm	100%
2.	MRM Mining Private Limited (Formerly "J J Patel Infrastructural and Engineering Private Limited")	100%
	Join Ventures	
	Direct	
1.	IRB Infrastructure Trust	51%
2.	MMK Tollway Private Limited	51%
		51%
	Indirect	
1.	IRB Westcoast Tollway Limited	51%
2.	Solapur Yedeshi Tollway Limited	51%
3.	Yedeshi Aurangabad Tollway Limited	51%
4.	Kaithal Tollway Limited	51%
5.	AE Tollway Limited	51%
6.	Udaipur Tollway Limited	51%
7.	CG Tollway Limited	51%
8.	Kishangarh Gulabpura Tollway Limited	51%
9.	IRB Hapur Moradabad Tollway Limited	51%

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About Acuité Ratings & Research:

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