

Press Release

IRB Infrastructure Developers Limited

August 19, 2021

Rating Reaffirmed and Assigned



Total Instruments Rated*	Rs.500.00 Cr.
Long Term Rating	Provisional ACUITE AA- /Stable (Assigned)
Total Instruments Rated*	Rs.25.00 Cr.
Short Term Rating	ACUITE A1+ (Assigned)
Total Bank Facilities Rated*	Rs.2,600.00 Cr.
Long Term Rating	ACUITE AA- / Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the short-term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs.25.00 Cr. Commercial Paper of IRB Infrastructure Developers Limited (IRB).

Further, Acuite has reaffirmed the long term rating of '**ACUITE AA-**' (read as **ACUITE double A minus**) on the Rs.2,600.00 Cr. Proposed Bank Facilities of IRB Infrastructure Developers Limited (IRB). The outlook is '**Stable**'.

Acuite has assigned its long term rating of '**Provisional ACUITE AA-**' (read as **Provisional ACUITE double A minus**) to the Rs.500.00 crore Proposed Non-Convertible Debentures of IRB Infrastructure Developers Limited (IRB). The outlook is '**Stable**'.

The rating on the Rs.500 Cr. NCD is provisional and the final rating is subject to:

- Appointment of a SEBI registered Debenture Trustee
- Receipt of the executed trust deed
- Receipt of final term sheet and confirmation from trustee regarding the compliance with all the terms and conditions

Rationale for rating reaffirmation

The rating reaffirmation takes into consideration, the established market position of IRB in the EPC, highway development and toll collection sector supported by a strong order book position of Rs.14,568 Cr. as on 31 March, 2021. The rating also draws comfort from a significant improvement in toll collection coupled with a step up in construction activities Q1FY2022 subsequent to the taper down of the second wave of the Covid pandemic. While IRB's financial risk profile has seen a deterioration in FY21, its financial flexibility continues to be supported by the company's ability to set up 2 InvITs in the past and the option of transferring road assets to the latter as also the track record of timely refinancing of its existing debt. Nevertheless, the increased debt levels makes IRB susceptible to any continued deterioration in operational performance and will remain a rating sensitivity factor. Further, IRB's cash flows remain susceptible to the traffic volumes, inherent dependence on government spending on infrastructure, and pandemic related disruptions.

About the Company

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 currently has three Build-Operate-Transfer (BOT) Projects, three Hybrid-Annuity-Model (HAM) and one Toll-Operate-Transfer (TOT) project. Further, the company also has 2 InvITs out of which one is listed on NSE and BSE and the other is private. The company is promoted by Mr. Virendra D. Mhaskar, CMD and is currently listed on both BSE and NSE.

Analytical Approach

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

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

Key Rating Drivers

Strengths

• Well established position in EPC and road & highway segment

Mumbai based 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. The company is one of the leading players in the domestic infrastructure sector which is engaged in EPC and O&M business for roads & highways, airports and real estate segments. IRB has an established track record of more than two decades in executing EPC contracts and has constructed more than 12,500 lane kilometres of road since its inception. As on June 2021, IRB holds three BOT Projects, one TOT Project and three HAM Projects across various states of the country.

Further, IRB has also floated two InvITs out of which one InvIT is listed on NSE and BSE viz. IRB InvIT Fund which has 7 operational BOT projects of around 4,055 lane kms where IRB holds 16 per cent stake. The other is a Private InvIT namely, IRB Infrastructure Trust (IRB InvIT II) (Provisional ACUTE AAA / Stable). The IRB InvIT II holds 9 BOT-Toll projects of around 5,892 lane kms where IRB holds 51 per cent of the units and balance 49 per cent is held by GIC affiliates (a Singapore based sovereign fund).

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 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.

• 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. Seven of the operational assets aggregating to 4,055 lane kms was transferred to Public InvIT and IRB has received Rs.2,200 Cr. of capital from proceeds of the InvIT, post repayment of debt, the proceeds helped the company to fund the equity requirement for the ongoing and newly awarded projects.

Later, in February 2020, IRB floated another InvIT which is privately placed, namely, IRB Infrastructure Trust (Provisional ACUTE AAA / Stable). Nine BOT-Toll projects of around 5,892 lane kms has been transferred to this InvIT where 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. Till date, IRB has raised Rs.4,190 Cr. 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.

However, the company is yet to receive proceeds of ~Rs.3300 Cr. from the private InvIT due to the delay in completion of the transferred projects. Out of the total nine projects, 6 projects received COD and one received PCOD in Q4FY2020 whereas two projects are yet to receive COD. The management is expected to recover all the pending receivables in next two years. Nonetheless, the company has the flexibility to transfer its current projects to public/private InvITs which could help unlock its capital and also has demonstrated a track record of successfully raising capital and deleveraging the balance sheet.

• Gained traction in toll collections during Q1FY2022; expected improvement in revenues from FY2022 onwards

After the onset of covid-19 pandemic in March last year, the government had imposed strict nationwide lockdown to curb the virus which restricted the movement of goods and people. The same significantly impacted the toll collections across all the tolls operated by IRB in H1FY2021. After witnessing a gradual recovery in H2FY2021 owing to drop down in cases and relaxations offered by the government, the second

wave of covid-19 pandemic hit the country again in March, April and May 2021. However, the impact of second wave was lesser compared to the first and the toll collections witnessed gradual recovery during Q1FY2022.

With various relaxations announced by various state government and increase in vaccination drive across the country, the movement of goods and people has gained momentum again reflecting a good traction in toll collections during Q1FY2022. Acuite believes that the revenues of the company is expected to improve from FY2022 onwards on account of expected improvement in toll collections going forward.

- **Healthy order book position reflecting healthy revenue visibility over the medium term**

IRB is engaged in the execution of EPC contracts and BOT road projects for over two decades. The company have an order book of Rs.14,568 Cr. as on March 31, 2021 which includes O&M for BOT road projects worth Rs.6,819 Cr. and EPC for BOT projects worth Rs.7,749 Cr. The current order book includes couple of recently bagged projects i.e. one BOT project namely Palsit – Dankuni and one HAM project namely Pathankot Mandi together worth of Rs.3100 Cr. The book to turnover (FY2021) ratio stood at 3.9x, thus giving a healthy revenue visibility in the near to medium term. Further, the company also plans to bid for new projects in medium term which will further improve the order book position of the company.

After a moderate slowdown in construction activities and toll collections due to the onset of second covid-19 pandemic wave in April & May, 2021, the company is witnessing sharp recovery in both toll collections and construction activities from June 2021 after gradual relaxations in various lockdown measures imposed by the government. Acuite believes the pace of construction is likely attain to normalcy from Q2FY2022 and a sharp recovery in revenues is expected in FY2022 onwards.

Weaknesses

- **Deterioration in financial risk profile led by increase in project debt levels and sizeable equity commitments**

The consolidated debt level of the company increased significantly during FY2021 owing to equity commitment majorly towards Mumbai – Pune TOT project. The overall consolidated debt of the company stood at Rs.18,591 Cr. as on 31 March, 2021 including short term borrowings and unsecured loans of Rs.1586 Cr. and Rs.1918 Cr. respectively. Furthermore, the toll collections and construction execution was been impacted in FY2021 on account of outbreak of COVID – 19, thus impacting the revenues and profitability of the company. On account of decline in revenues & profitability followed by increase in debt levels, the coverage indicators are deteriorated significantly for FY2021.

The net worth stood healthy at Rs.6901 Cr. as on 31 March 2021 as against Rs.6683 Cr. as on 31 March 2020. The gearing levels of IRB was increased to 2.69 times as on 31 March 2021 as against 1.38 times in the previous year. Further, net debt to equity stood at 1.99 times as on 31 March, 2021 against 0.76 times same period last year. The debt to EBITDA of the company deteriorated significantly to 7.32 times for FY2021 as against 2.86 times previous year. Furthermore, on account of increase in interest costs and decline in profitability, the coverage indicators deteriorated marked by Interest Coverage Ratio (ICR) of 1.50 times in FY2021 as against 2.04 times in FY2020. Moreover, 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. IRB has equity commitments to the tune of Rs.1825 Cr. in next three years towards various projects out of which the company has equity commitment of Rs.559 Cr. in FY2022 which are expected to be funded from internal accruals. Furthermore, the company is also planning to raise fund via NCDs of Rs.500 Cr. for generate corporate purposes.

Acuite expects the leverage levels to sequentially improve over the medium term in line with 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. However, higher than anticipated deterioration in leverage and coverage indicators or a drop in EBITDA most likely as a result of continuation of muted performance in the EPC segment or in 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 activities 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 cyclicalities 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

- Sustained growth in order book position, toll collections and profitability
- Execution of projects on a timely basis
- Higher than expected increase in debt levels led to deterioration in financial risk profile
- Any stretch in working capital cycle and deterioration in liquidity position

Material Covenants

Particulars	Covenants
Debt/EBITDA (For combined group*)	Less than 5.5x

*Combined group includes only the construction segment of the company

Liquidity position: Adequate

The company generated net cash accruals of Rs.699 Cr. in FY2021 against debt obligations of Rs.497 Cr. during the same period. Furthermore, the company is also planning to raise Rs.500 Cr. via NCDs which will be utilized for general corporate purposes. The company has cash and cash equivalents of Rs.653 Cr. and bank balance (including Fixed Deposits) which stood at Rs.1685 Cr. as on 31 March 2021 reflecting company's adequate liquidity position. Further, the average bank limit utilization for last six months ending June 2021 stood moderate at around 53 per cent. Acuite believes the company's liquidity position will remain adequate over the medium term on account of healthy net cash accruals and ability of raising funds whenever required.

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 with healthy toll collection and order book position. 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 outstanding 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 financial risk profile of IRB.

About the Rated Entity - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	5352	6928
PAT	Rs. Cr.	117	721
PAT Margin	(%)	2.2	10.4
Total Debt/Tangible Net Worth	Times	2.69	1.38
PBDIT/Interest	Times	1.50	2.04

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

Not Applicable

Any other information

Supplementary disclosures for Provisional Ratings

A. Risks associated with the provisional nature of the credit rating

1. Absence of any entity to take appropriate measures to protect the interest of the debenture holders in case of any breach of the trust deed or law.
2. Absence of any structured payment mechanism.
3. In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuite will withdraw the existing provisional rating and concurrently, assign a fresh final rating in the same press release, basis the revised terms of the transaction.

B. Rating that would have been assigned in absence of the pending steps/ documentation

The rating would be equated to the standalone rating of the entity: ACUITE AA- / Stable

C. Timeline for conversion to Final Rating for a debt instrument proposed to be issued:

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

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>
- Criteria For Rating Commercial Paper - <https://www.acuite.in/view-rating-criteria-54.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-Dec-2020	Proposed Bank Facilities	Long term	2600.00	ACUITE AA-/Stable (Assigned)

*Annexure – Details of instruments rated

Lender's Name	Name of the Facilities	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Not Applicable	Proposed Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	500.00	Provisional ACUITE AA- /Stable (Assigned)
Not Applicable	Commercial Paper	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A1+ (Assigned)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2600.00	ACUITE AA- / Stable (Reaffirmed)

*Annexure 2 – List of entities in consolidation

Sr. No.	Name of Entity	Holding
	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	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	100%
15.	IRB Ahmedabad Vadodara Super Express Tollway Private Limited	100%
16.	IRB PP Project Private Limited	100%
17.	VK1 Expressway Private Limited	100%
18.	VM7 Expressway Private Limited	100%
	Indirect	
1.	MRM Mining Private Limited	100%
	Join Ventures	
	Direct	
1.	IRB Infrastructure Trust	51%
2.	MMK Tollway Private Limited	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 Acuite Ratings & Research:

Acuite Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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