

## Press Release

IRB Infrastructure Developers Limited

September 29, 2022

Rating Reaffirmed & Partly Withdrawn



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	2600.00	ACUITE AA-   Reaffirmed & Withdrawn	-
Commercial Paper (CP)	25.00	-	ACUITE A1+   Reaffirmed
Non Convertible Debentures (NCD)	150.00	Provisional   ACUITE AA-   Stable   Reaffirmed	-
Non Convertible Debentures (NCD)	350.00	ACUITE AA-   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	525.00	-	-
Total Withdrawn Quantum (Rs. Cr)	2600.00	-	-

### Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE AA- (read as ACUITE double A minus)**' and short-term rating '**ACUITE A1+ (read as ACUITE A one plus)**' on the Rs. 525 Cr. debt facilities of IRB Infrastructure Developers Limited (IRB). The outlook is 'Stable'.

Acuite has also withdrawn the long-term rating of '**ACUITE AA- (read as ACUITE double minus)**' on the Rs. 2600 Cr. proposed bank loan facilities of IRB. The withdrawal is on account of request received from the client.

The rating on the Rs.150.00 Cr. NCDs is provisional and the final rating is subject to:

1. Receipt of final term sheet
2. Appointment of a SEBI registered debenture Trustee and signing of trust deed
3. Confirmation from trustee regarding the compliance with all the terms and condition of term sheet

### Rationale for the rating

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.16,051 Cr. as on 31 March, 2022. The rating also draws comfort from a significant improvement in toll collection coupled with a step up in construction activities FY2022 subsequent to the taper down of the second wave of the Covid pandemic. IRB's financial risk profile has also seen an improvement in FY2022 on account of fund raising of ~Rs. 5300 Cr. 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, any increase in debt levels makes beyond expected range or lower than expected improvement operational performance 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 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. As of June 2022, IRB has a portfolio of two fully-owned BOT, one TOT and four hybrid annuity mode (HAM) projects. Of the seven projects, one project each in BOT, TOT and HAM are operational, two HAM projects are under construction and the balance one project each in BOT and HAM are awaiting the appointed date. The sponsor has a 51% holding and balance 49 per cent is held by GIC affiliates (a Singapore based sovereign fund) in the Private InvIT, which houses 10 BOT projects, of which nine are operational and one is Tolling+under construction phase, aggregating to ~6,300 lane kms. IRB also holds a 16% stake as a sponsor in a Listed Public InvIT (IRB InvIT Fund), which has five BOT projects in its portfolio of around ~2,231 lane kms. The company is promoted by Mr. Virendra D. Mhaikar, CMD and is currently listed on both BSE and NSE.

## Analytical Approach

### Extent of Consolidation

- Full Consolidation

### Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has considered the consolidated financials and business profile of IRB and its subsidiaries to arrive at the rating, together referred as 'IRB'. \*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 of June 2022, IRB has portfolio of two fully owned BOT, one TOT and four hybrid annuity mode (HAM) projects. Of the seven projects, one projects each in BOT, TOT and HAM are operational, two HAM projects are under construction and the balance one project each in BOT and HAM are awaiting appointed date. The sponsor has 51% holding and balance 49% percent is held by GIC affiliates in Singapore. 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. Acuité 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 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. 16051 Cr. as on March 31, 2022 which includes O&M for BOT road projects worth Rs. 5591 Cr. and EPC for BOT projects worth Rs. 10459 Cr. The current order book includes couple of recently bagged projects i.e. two BOT projects namely Palsit – Dankuni, Ganga Expressway and three HAM projects together worth of Rs. 10000 Cr. The book to turnover (FY2022) ratio stood at 2.74x, 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. IRB's revenue improved to Rs. 5852 Cr. in FY2022 against Rs. 5352 in FY2021. This is primarily on account of rebound post the disruptions caused by spread of Covid 19. However, the revenue has still not reached its pre- Covid levels. Out of the total revenue Rs. 3930 Cr. came from contracting and the toll revenues stood at Rs. 1749. The same stood at Rs. 3724 Cr. and

Rs. 1469 Cr. respectively in FY2021 and Rs. 5108 Cr. and Rs. 1705 Cr. in FY2020. The tolling revenue has shown a sharper recovery compared to contracting. The companies operating profitability remained stable with operating margin of 44.80 percent in FY2022 against 48.04 percent in the previous year.

Acuité believes the pace of construction is likely to improve given the start of work on its recently received orders and improvement in toll revenues expected in FY2022 onwards.

### **Improvement in financial risk profile**

IRBIDL's financial risk profile has shown an improvement primarily on account of successful fund raising exercise. The company raised equity of Rs. 5347 Cr. through an preferential issue to Cintra INR Investments BV (part of Ferrovial group) and Bricklayers Investments Pte (part of GIC). Cintra and Bricklayers has acquired 24.9 and 16.94 percent respectively. The current promoter and promoter group remain in control and the largest shareholders. However, overall promoter's stake has diluted to 34.20 percent in December 2021 from 58.46 percent in September 2021. The company used the additional funds to reduce high-cost debt to the tune of ~Rs. 3000 Cr. and the rest of the funds will be used as capital for current and future orders. Given the above-mentioned changes in IRB's capital structure its gearing has improved to 1.27 times as on March 31, 2022 against 2.69 times as on March 31, 2021. Coverage indicators have also shown an improvement with interest coverage improving to 1.65 times in FY2022 against 1.50 times in FY2021 and Debt service coverage ratio improving to 1.23 times in FY2022 against 1.02 times in the previous year. Debt to EBITDA however remains high at 5.10 times in FY2022 against 7.32 times in FY2021.

Going forward the IRBIDL's debt is expected to increase over the medium term as debt funds for its ongoing projects which are currently at initial stages are disbursed. However, it has expected to have a limited impact on its capital structure given its adequate capital. Further, it has equity commitment from GIC for two of its projects from GIC thus reducing equity commitments required from IRBIDL.

Although Acuite believes IRB's ability to generate adequate operating profitability commensurate with its debt will continue to remain a key rating sensitivity.

### **Weaknesses**

#### **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 cyclicity 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, Acuité believes that IRB is well positioned on account of its established brand position and experience of its promoters spanning over three decades.

### **ESG Factors Relevant for Rating**

#### **Environment**

For the civil engineering industry, considerations for low carbon processes are becoming increasingly important making GHG emissions and energy efficiency material key issues. The

costs incurred by the industry for material inputs are very high, therefore, material efficiency is also a significant issue, similarly establishing a green supply chain is crucial as well. Further, overall environmental management practices including water efficiency and waste are important for the companies in the industry.

#### Social

The civil engineering industry has employees working in high risk settings, therefore, the safety of the employees and employment quality is a key material issue. Further, because of the working conditions, it is important that human rights of the employees is given due importance. The support and development that the companies render to the community is crucial in determining their societal impact. To avoid defects and safety concerns, the product quality is another parameter of crucial importance.

#### Governance

The civil engineering industry has witnessed cases of bribery, corruption and anti-competitive behavior globally. It is in this context that upholding fundamental business ethics is a key material issue for the industry. Other significant issues include compensation of the board and management personnel. Independence and diversity of the board, rights of the shareholders, financial audit and control, audit committee functioning and takeover defense mechanisms are key material issues as well.

### 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

None

### Liquidity Position

#### Adequate

The company has adequate liquidity position marked by healthy net cash accruals of Rs.1044 crores in FY2022 against which the repayment obligations are Rs. 497 crores. The company has cash and cash equivalents of Rs. 52.98 crores and bank balances (including fixed deposits) of Rs. 1,691 crores as on 31 March, 2022. Further, average utilization of the working capital limits in the last six months ended March 2022 stood at around 35 percent.

### Outlook: Stable

Acuité 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.

### Other Factors affecting Rating

None

### Key Financials (Consolidated)

Particulars	Unit	FY2022 (Actual)	FY2021 (Actual)
Operating Income	Rs. Cr.	5852.83	5352.40

Profit after Tax (PAT)	Rs. Cr.	361.40	117.15
PAT Margin	%	6.17	2.19
Total Debt/ Networth	Times	1.27	2.69
PBDIT/Interest	Times	1.65	1.50

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

None

### 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.A. 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

- Application Of 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>

### Note on Complexity Levels of the Rated Instrument

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

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
29 Sep 2021	Proposed Bank Facility	Long Term	2600.00	ACUITE AA-   Stable (Reaffirmed)
	Commercial Paper Program	Short Term	25.00	ACUITE A1+ (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	150.00	ACUITE Provisional AA-   Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	350.00	ACUITE AA-   Stable (Assigned)
19 Aug 2021	Commercial Paper Program	Short Term	25.00	ACUITE A1+ (Assigned)
	Proposed Non Convertible Debentures	Long Term	500.00	ACUITE Provisional AA-   Stable (Assigned)
	Proposed Bank Facility	Long Term	2600.00	ACUITE AA-   Stable (Reaffirmed)
07 Dec 2020	Proposed Bank Facility	Long Term	2600.00	ACUITE AA-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Commercial Paper Program	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A1+   Reaffirmed
Not Applicable	INE821107102	Non-Convertible Debentures (NCD)	30-09-2021	9.55	30-09-2027	350.00	ACUITE AA-   Stable   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2600.00	ACUITE AA-   Reaffirmed & Withdrawn
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	150.00	Provisional   ACUITE AA-   Stable   Reaffirmed

### \*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt Support)

Sr. No.	Name of Entity	Holding
	<b>Direct</b>	
1.	Ideal Road Builders Private Limited	100%
2.	Mhaiskar 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%
	<b>Indirect</b>	
1.	MRM Mining Private Limited	100%
	<b>Join Ventures</b>	
	<b>Direct</b>	
1.	IRB Infrastructure Trust	51%
2.	MMK Tollway Private Limited	51%
	<b>Indirect</b>	
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

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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