Rating Rationale

August 28, 2020 | Mumbai

IRB Infrastructure Developers Limited

Long-term rating downgraded to 'CRISIL A/Stable' ; short-term rating reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.4200 Crore**
Long Term Rating	**CRISIL A/Stable (Downgraded from 'CRISIL A+/Stable')**
Short Term Rating	**CRISIL A1 (Reaffirmed)**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has downgraded its rating on the long term bank facilities of IRB Infrastructure Developers Limited (IRBIDL) to **'CRISIL A/Stable'** from 'CRISIL A+/Stable' while reaffirming the short term rating at 'CRISIL A1'.

The rating action is on account of weakening of the company's financial risk profile because of significant increase in debt owing to higher-than-anticipated investment in the Mumbai Pune Expressway project coupled with lower operating performance due to the Covid-19 pandemic. Additionally, the company's weakened order book is limiting its revenue visibility over the medium term.

Equity requirement of Rs 1,438 crore for the Mumbai Pune Expressway project was expected to be funded by IRBIDL only to the extent of 51% while its financial partner was to fund the remaining 49%. However, due to the Covid-19 pandemic, the financial partner was unable to secure necessary approvals in time to come in as an equity partner and has instead provided debt of Rs 750 crore to IRBIDL. Thus the company's debt has increased to Rs 4,697 crore as on June 30, 2020 from Rs 3,457 crore as on March 31, 2020. High debt coupled with low operating performance due to the impact of the pandemic will weaken the financial risk profile. The debt-to-EBITDA (earnings [excluding non- operating and other operating income] before interest, tax, depreciation and amortization) ratio is expected to increase to over 4.5 times as on March 31, 2021 from 2.3 times as on March 31, 2020. The ability of the company to bring down debt levels through monetisation of the Mumbai Pune Expressway project or realisation of claims from the National Highways Authority of India (NHAI; 'CRISIL AAA/Stable') is a key monitorable.

Furthermore, the order book-to- turnover ratio has deteriorated significantly to 1.2 times as of July 2020 from over 3.4 times as of March 2018. Weakening of the order book is attributable to subdued inflows (while 1 hybrid annuity model [HAM] project was won recently in July 2020) and cancellation of three in-hand orders by NHAI. The order book is concentrated around four large projects; slowdown in any one of these projects can impact performance. IRBIDL's ability to secure new orders in fiscal 2021 to sustain its revenues over the medium term is a key monitorable.

The ratings continue to reflect the company's established track record in the roads and highways sector, backed by prudent project selection and strong execution capabilities, and moderate working capital management. The ratings also factor in IRBIDL's ability to fund ongoing projects through capital unlocked from its Infrastructure Investment Trust (InvIT) platforms. These strengths are partially offset by the weakening of its order book and financial risk profile, significant exposure to under- construction project special-purpose vehicles (SPVs), and susceptibility to intense competition and cyclicality in the roads and highways sector.

Analytical Approach

For arriving at its ratings, CRISIL has fully consolidated the business and financial risk profiles of IRBIDL, with that of Modern Road Makers Pvt Ltd (MRMPL), while moderately consolidating with that of the company's SPVs. MRMPL is the engineering, procurement and construction (EPC) arm of the group, and the 100% subsidiary of IRBIDL. Further, IRBIDL has extended an unconditional and irrevocable corporate guarantee (CG) for the bank facilities availed by MRMPL. IRBIDL has outstanding CGs for some of its operational and under-construction projects. CRISIL expects these CGs to fall-off once the debt servicing conditions are met or on refinancing of the debt in these projects as seen with other projects in the past.

Cost overruns in five of the nine assets that have been transferred to the Private InvIT has resulted in receivables of Rs 3,300 crore on IRBIDL's balance sheet as of March 2020 whose recovery will be through settlement of claims with NHAI which management is confident of recovering over the course of time. As part of the analytical treatment, CRISIL has adjusted IRBIDL's networth to the extent of 50% of these receivables.

Unsecured loans received from subsidiaries have been treated as neither debt nor equity as these loans are subordinate to external debt and the repayments on these loans are minimal. While some of these loans carry interest in order to reduce tax expense at the group level, management has confirmed that there will be nil net outgo from IRBIDL towards servicing of these loans (payment towards interest will be offset against fresh unsecured loans extended to the company by its subsidiaries).

Please refer Annexure - Details of Consolidation, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

*** Established track record in the roads and highways sector**

Established in 1998, IRBIDL is one of the largest players in the domestic roads and highways sector. Over two decades of experience has helped the company establish strong relationships with its stakeholders, which include NHAI, Ministry of Road Transport and Highways, and state government departments.

The company was one of the early entrants in the build-operate-transfer (BOT) segment of the road sector and is one of the largest BOT players in India. It has about 12,500 lane kilometre (km) of projects in operational (includes projects transferred to InvITs) or under-development stages. Its BOT portfolio comprises 14 projects (12 BOT-Toll and two HAM projects) and one toll-operate-transfer (TOT ' Mumbai Pune Expressway) project. The BOT segment includes three operational projects, nine projects transferred to IRB Infrastructure Trust (four operational and five under-construction, wherein tolling has commenced as these are four- to six-lane projects), and two under construction HAM projects. One HAM project is under construction while the other was awarded in July 2020 and is awaiting appointed date. The company also has operations and maintenance contracts (OMT) for seven projects, as a project manager for IRB InvIT.

IRBIDL holds 19% share in India's Golden Quadrilateral and around 70% of Bombay'Delhi National Highway (NH-8). The strong in-house EPC division managed by MRMPL undertakes all project implementation for the BOT/HAM road projects. Prudent project selection and strong execution capabilities help the company maintain strong operating margin of over 20% annually.

*** Moderate working capital management**

Despite inherently large working capital requirement in the roads and highways sector, IRBIDL's working capital cycle is supported by moderate inventory and receivables management. Gross current assets stood at 117 days as on March 31, 2020. IRBIDL executes only BOT/HAM projects for its SPVs and does not execute any EPC contracts, and all the inventory and receivables are towards or from its SPVs, helping maintain moderate working capital cycle.

The company has receivables of over Rs 3,300 crore as on March 31, 2020 from projects transferred to the private InvIT which would be recovered through settlement of claims with NHAI. Realisation of these claims will remain a key monitorable. These receivables can also be settled against the surplus cash distribution of the InvIT as indicated by the management.

*** InvIT platforms to support capital unlocking**

The company launched its public InvIT platform in 2017, and transferred six of its operational assets in May 2017, and an additional asset in September 2017, which helped unlock capital. IRBIDL has received Rs 2,200 crore of capital from proceeds of the InvIT, post repayment of debt, helping the company fund equity requirement for the ongoing and newly awarded projects.

Furthermore, private InvIT set up with GIC affiliates (GIC) helped the company reduce its equity requirement in the under-construction projects. As part of the deal, GIC is committed to bring in Rs 1,400 crore for meeting equity requirement for under-construction projects, of which Rs 753 crore has been brought in till date. The remaining equity commitment will be brought in as per the construction progress of these projects. Additionally, the deal enabled deleveraging of the underlying SPVs through infusion of Rs 3,000 crore from GIC. The InvIT structure helps in upstreaming surplus cash flows to the sponsors from the beginning of operations, providing flexibility in managing the investment requirements. Moreover, the company has the flexibility to transfer its projects to public/private InvITs which could help unlock its capital.

Also, IRBIDL and GIC plan to explore future road sector opportunities in India together through this platform, in which the equity contribution for new projects will be in proportion of their respective shareholdings.

Weaknesses:
*** Deteriorating order book providing low revenue visibility**
The company's order book as of July 2020 stood at around Rs 6,900 crore (this includes all existing EPC orders and O&M orders to be executed over the next 1.5 years). This has significantly reduced from an average order book of over Rs 10,000 crore maintained until March 2019. The order book-to-turnover ratio has declined to 1.2 times today from 2.25 times as on March 31, 2019, due to low order inflows and cancellation of three large orders. Smaller order book limits revenue visibility over the medium term.

Two HAM projects were cancelled in November 2019 due to non-availability of land, while the company's winning bid for a BOT project was annulled in July 2020. As a result, the order book today is concentrated around four large projects; slowdown in any of these projects can, hence, severely impact the company's performance. The company's ability to secure new orders to maintain order book at comfortable levels of over Rs 10,000 crore in fiscal 2021 which would help sustain its revenues over the medium term is a rating sensitivity factor.

*** Weakening financial risk profile and large exposure to project SPVs**
On account of the pandemic, construction activity has witnessed a slowdown from March 15, 2020, due to lockdowns announced by various state governments; all construction activity had halted from March 25, 2020, due to the nationwide lockdown. While work has commenced at all the project sites, it is at a slower pace due to constrain on availability of labour and raw material. In fiscal 2021, revenue is expected to decline by 10-15% while the operating margin is expected to remain stable at 25%, which will impact accrual as well. Accrual in IRBIDL (excluding MRMPL) has reduced from Rs 55 crore in Q1'FY20 to Rs 17 crore in Q1'FY21.

Lower operating performance and increase in debt is likely to weaken the financial risk profile. Debt of Rs 3,457 crore as of March 2020 is expected to increase significantly to around Rs 5,500 crore by March 2021 due to high funding requirement towards Mumbai-Pune Expressway project and expected lower accrual because of the pandemic, thereby impacting the company's debt protection metrics. The debt-to-EBITDA ratio is expected to increase to over 4.5 times by March 2021 from 2.3 times as of March 2020.

Debt which is expected to increase in fiscal 2021, is however expected to reduce in the following year, as the company is expected to dilute its stake in the Mumbai Pune Expressway project thereby resulting in improved debt-to-EBITDA ratio of under 3.5 times by March 2022. Fructification of said stake sale is a key monitorable and a rating sensitivity factor.

The company has large investments in its project SPVs. Furthermore, large part of the investments are towards under-construction projects, involving implementation risk. Its total exposure (in the form of equity investment/unsecured loans) is expected to remain high given the intrinsic holding company structure and large investment requirements. Loans from surpluses of operational SPVs of Rs 2,690 crore as on March 31, 2020 (up from Rs 2,545 crore as on March 31, 2019) mitigate part of the investment exposure. Although the company had entered into HAM projects in 2018 (where the equity requirement is lower than for BOT projects), its focus is on building a BOT portfolio, which will keep equity commitment high.

Furthermore, one of the BOT project SPVs, IRB Ahmedabad Vadodara Super Express Tollway Pvt Ltd, has been facing stabilisation issues on account of traffic diversion to a competing stretch. The SPV filed claims and resolution, which was expected in fiscal 2019, has been delayed. Given the non-receipt of resolution, the SPV petitioned for relief on deferred premium payment in the Bombay High Court in March 2019 and received an order in its favour conferring protection from contingency of default in premium payment until July 2019. In August 2019, the petition moved to Delhi High Court and in October 2019, the SPV received an extension for relief until arbitration proceedings are concluded. A favourable outcome reducing premium payments is critical, given that the project will not be able to support the original premium payments and will require significant support from IRBIDL.

*** Susceptibility to intense competition and cyclicality in the roads and highways sector**
IRBIDL's outstanding orders are entirely from the roads and highways segment. This exposes it to intense competition and sectoral concentration risk. Although the company has diversified into the HAM segment in 2018 from being a pure-play BOT player, its ability to execute orders, grow revenue, and sustain profitability is susceptible to competition in the sector, changes in government regulations and economic conditions. For instance, subdued awarding of projects by NHAI in fiscals 2019 and 2020 and termination of two HAM projects in November 2019 and one BOT project in July 2020 has weakened the order book to Rs 6,900 crore as on date from more than Rs 10,000 crore over the past two years. Limited diversity in revenue will keep IRBIDL susceptible to intense competition and cyclicality inherent in the roads and highways sector.

Liquidity Adequate
Total fund based facility of Rs 1,400 crore (including the overdraft (OD) facility of Rs 775 crore backed by fixed deposits) was utilised to an extent of 67% in June 2020. Total cash and cash equivalent stood at Rs 1,434 crore as on June 30, 2020, while unencumbered cash was moderate at Rs 90 crore. Lower utilisation of OD limits leave some cushion in the otherwise encumbered cash balance. Furthermore, the company holds 15.97% unencumbered stake in the public InvIT, supporting liquidity.

The company refinances its term loans every 2-3 years, making the current portion of long-term debt significantly higher and in fiscal 2021, maturing debt obligation of Rs 570 crore is proposed to be refinanced. IRBIDL has a strong track record of refinancing loans which will continue to support liquidity. The company has raised long-term debt of Rs 2,000 crore so far this fiscal, of which Rs 1,400 crore was towards equity requirement in the Mumbai Pune Expressway project.

Outlook: Stable
IRBIDL will continue to benefit from its healthy business risk profile, supported by an established track record in the roads and highways sector and strong execution capabilities. Financial risk profile is constrained on account of expected lower accruals coupled with higher debt to meet higher than anticipated investments in its BOT/TOT projects.

Rating sensitivity factors
Upward Factors:
* Improvement in debt-to-EBITDA ratio to below 2.5 times
* Annual cash accrual (adjusted for interest payment to related parties) for fiscal 2021 and 2022 exceeding Rs 750 crore along with growth in order book-to-revenue ratio to over 2 times
* Improvement in performance of operational BOT projects leading to significant additional surplus to the company

Downward Factors:
* Construction order book remaining subdued under Rs 10,000 crore by December 2020 limiting revenue visibility
* Annual cash accrual (adjusted for interest payment to related parties) reducing below Rs 550 crore in fiscal 2021 and debt-to-EBITDA ratio continues to remain stretched at over 4 times
* Non-initialisation of stake sale in Mumbai Pune Expressway project by the end of fiscal 2021
* Higher support requirements towards BOT assets due to delays in completion of projects, lower than expected ramp up in their toll collection and/or delay in getting approval on deferment of premium payments
* Higher-than-expected exposure/cost overruns towards project SPVs and sizeable equity investments towards projects thereby weakening the financial risk profile

About the Company
Incorporated in 1998 and promoted by Mr Virendra D Mhaiskar, IRBIDL is an infrastructure development and construction company in India, with extensive experience in the roads and highways sector. The company is also into other business segments in the infrastructure sector, including maintenance of roads, construction, airport development, and real estate activities.

Its portfolio comprises 14 BOT projects (12 BOT and two HAM) projects and one TOT (Mumbai Pune Expressway) project. Of this, 9 BOT projects have been transferred to IRB Infrastructure Trust. The company also has OMT contracts for seven projects as a project manager for IRB InvIT. The company operates largely as a holding company, while construction activities are carried out through its EPC arm, MRMPL.

IRBIDL became a listed company in 2008 by listing its shares on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). In September 2016, IRBIDL received approval from Securities and Exchange Board of India to set up an InvIT. The company listed six of its operational assets through InvIT on BSE and NSE on May 18, 2017. It then transferred another asset to the InvIT on September 28, 2017. IRBIDL undertakes maintenance of these projects and holds 15.97% of the unit capital in the InvIT.

IRBIDL made an announcement of the definitive agreement entered into on August 6, 2019, with GIC for investment in IRBIDL's road portfolio through a private InvIT. Subsequently, on February 26, 2020, the company set up the InvIT, IRB Infrastructure Trust and transferred nine of its BOT assets into the trust, in which it holds a controlling stake of 51%, while GIC holds the remaining 49%. Of the nine projects transferred, two have received commercial operations date (COD), two have received provisional COD, while five are under construction (tolling has commenced as these are four 'to-six lane projects). IRBIDL will undertake the project management of these activities, including maintenance of the projects.

For the three month period ended June 2020, IRBIDL (excluding MRMPL) reported profit after tax (PAT) of Rs 17 crore on revenue of Rs 628 crore as against PAT of Rs 55 crore on revenue of Rs 879 crore for the corresponding period of the previous year.

Key Financial Indicators

As on / for the period ended March 31*		**2020**	**2019**
Revenue	**Rs crore**	**5496**	**4954**
Profit after tax (PAT)	**Rs crore**	**866**	**565**
PAT margin	**%**	**15.8%**	**11.4%**
Adjusted debt / adjusted networth	**Times**	**0.77**	**0.78**
Interest coverage	**Times**	**3.62**	**3.56**

**The financials here represent the consolidated financials of IRBIDL and MRMPL, adjusted for CRISIL internal adjustments*

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in Annexure -- Details of Instrument in this Rating Rationale. For more details on the CRISIL complexity levels, please visit www.crisil.com/complexity-levels.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate %	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Long-term loan	NA	NA	Mar-2029	496.25	NA	CRISIL A/Stable
NA	Long-term loan	NA	NA	Mar-2020	299.60	NA	CRISIL A/Stable
NA	Long-term loan	NA	NA	June-2019	275.45	NA	CRISIL A/Stable
NA	Long-term loan	NA	NA	Sep-2021	200.00	NA	CRISIL A/Stable
NA	Long-term loan	NA	NA	Mar-2021	34.79	NA	CRISIL A/Stable
NA	Long-term loan	NA	NA	Mar-2021	17.63	NA	CRISIL A/Stable
NA	Long-term loan	NA	NA	June-2019	229.47	NA	CRISIL A/Stable
NA	Long-term loan	NA	NA	Mar-2021	300.00	NA	CRISIL A/Stable
NA	Proposed long-term bank loan facility	NA	NA	NA	1146.81	NA	CRISIL A/Stable
NA	Bank guarantee	NA	NA	NA	1200.00	NA	CRISIL A1

Annexure - List of entities consolidated

Entity consolidated	Extent of consolidation	Rationale for consolidation
Modern Road Makers Pvt Ltd	Full	Corporate guarantee extended by IRBIDL
IRB MP Expressway Pvt Ltd	Moderate	To the extent of support towards equity commitment and cash flow mismatches during operations
ATR Infrastructure Pvt Ltd	Moderate	To the extent of support towards cash flow mismatches during operations
Thane Ghodbunder Toll Road Pvt Ltd	Moderate	To the extent of support towards cash flow mismatches during operations
IRB Ahmedabad Vadodara Super Express Tollway Pvt Ltd	Moderate	To the extent of support towards cash flow mismatches during operations
Yedeshi Aurangabad Tollway Pvt Ltd*	Moderate	To the extent of support towards equity commitment and cost overrun during construction and cash flow mismatches during operations
Solapur Yedeshi Tollway Pvt Ltd*	Moderate	To the extent of support towards equity commitment and cost overrun during construction and cash flow mismatches during operations
Kaithal Tollway Pvt Ltd*	Moderate	To the extent of support towards cash flow mismatches during operations
IRB Sindhudurg Airport Pvt Ltd	Moderate	To the extent of support towards equity commitment and cost overrun during construction and cash flow mismatches during operations
VK1 Expressway Pvt Ltd	Moderate	To the extent of support towards equity commitment and cost overrun during construction and cash flow mismatches during operations
IRB Westcoast Tollway Pvt Ltd*	Moderate	To the extent of support towards equity commitment and cost overrun during construction and cash flow mismatches during operations
CG Tollway Pvt Ltd*	Moderate	To the extent of support towards equity commitment and cost overrun during construction and cash flow mismatches during operations
Udaipur Tollway Pvt Ltd*	Moderate	To the extent of support towards equity commitment and cost overrun during construction and cash flow mismatches during operations
Kishangarh Gulabpura Tollway Pvt Ltd*	Moderate	To the extent of support towards equity commitment and cost overrun during construction and cash flow mismatches during operations
AE Tollway Pvt Ltd*	Moderate	To the extent of support towards equity commitment and cost overrun during construction and cash flow mismatches during operations
IRB Hapur Moradabad Tollway Pvt Ltd*	Moderate	To the extent of support towards equity commitment and cost overrun during construction and cash flow mismatches during operations

Annexure - Rating History for last 3 Years

	Current			2020 (History)		2019		2018		2017		Start of 2017
Instrument	Type	Outstanding Am	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating

		ount											
Fund-based Bank Facilities	LT/ST	3000.00	CRISIL A/Stable	05-03-20	CRISIL A+/Stable	27-12-19	CRISIL A+/Watch Developing	29-10-18	CRISIL A+/Positive		--	--
						14-11-19	CRISIL A+/Watch Developing	01-10-18	CRISIL A+/Positive			
						19-08-19	CRISIL A+/Watch Developing					

							ing					
Non Fund-based Bank Facilities	LT/ST	1200.00	CRISIL A1	05-03-20	CRISIL A1	27-12-19	CRISIL A1/Watch Developing	29-10-18	CRISIL A1		--	--
						14-11-19	CRISIL A1/Watch Developing	01-10-18	CRISIL A1			
						19-08-19	CRISIL A1/Watch Devel					

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	**Amount (Rs.Crore)**	**Rating**	**Facility**	**Amount (Rs.Crore)**	**Rating**
Bank Guarantee	**1200**	**CRISIL A1**	**Bank Guarantee**	**1200**	**CRISIL A1**
Long Term Loan	**1853.19**	**CRISIL A/Stable**	**Long Term Loan**	**1853.19**	**CRISIL A+/Stable**
Proposed Long Term Bank Loan Facility	**1146.81**	**CRISIL A/Stable**	**Proposed Bank Guarantee**	**900**	**CRISIL A1**
--	**0**	**--**	**Proposed Long Term Bank Loan Facility**	**246.81**	**CRISIL A+/Stable**
Total	**4200**	**--**	**Total**	**4200**	**--**

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
The Infrastructure Sector Its Unique Rating Drivers
Rating Criteria for Construction Industry
CRISILs Bank Loan Ratings
CRISILs Criteria for Consolidation
CRISILs Criteria for rating short term debt

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