India Ratings & Research
A Fitch Group Company

India Ratings Revises IRB Infrastructure Developers' Outlook to Negative; Affirms 'IND A+'

21

JUL 2021

By Harsha Rekapalli

India Ratings and Research (Ind-Ra) has revised IRB Infrastructure Developers Limited's (IRB) Outlook to Negative from Stable while affirming its Long-Term Issuer Rating at 'IND A+'. The instrument-wise rating action is as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Non-fund-based bank facilities	-	-	-	INR12,000	IND A+/Negative/IND A1+	Affirmed; Outlook revised to Negative
Term loan	-	-	June 2023 -March 2029	INR12,315.3 (reduced from INR20,383.4)	IND A+/Negative/IND A1+	Affirmed; Outlook revised to Negative
Non-convertible debentures (NCDs) ^	-	-		INR12,500	IND A+/Negative	Affirmed; Outlook revised to Negative
Proposed NCDs*	-	--	-	INR2,500	WD	Withdrawn

^Details in Annexure

***Withdrawn as the entity did not proceed with the instrument as earlier envisaged

Analytical Approach: While arriving at the ratings, Ind-Ra has continued to take a consolidated view of IRB and its subsidiaries. Furthermore, Ind-Ra has factored into the ratings any need-based support required by the IRB Infrastructure Trust (IRBIT; IRB's private InvIT in partnership with GIC Affiliates wherein IRB has 51% stake) which has nine build-operate-transfer (BOT) assets under its analysis.

The Outlook revision reflects Ind-Ra's expectation of low execution by IRB in FY22, owing to delays in the receipt of appointed dates for projects awarded in FY21. The agency expects this low execution to lead to low cash flow generation and hence increased borrowings to infuse equity in the awarded BOT and hybrid annuity model projects, which could keep the leverage elevated. The Negative Outlook also reflects delays in the recovery of INR33.1 billion from IRBIT, and in the resolution on the Ahmedabad Vadodara project, leading to higher-than- the agency- expected leverage.

KEY RATING DRIVERS

Construction Order Book's Revenue Visibility Moderate; Moving Order Book only INR29.5 billion: At FYE21, IRB had moderate revenue visibility in the construction segment with an order book of INR77.5 billion (2.1x FY21 construction revenue). However, the execution for INR48 billion worth of orders, that were awarded in FY21, is yet to commence, limiting the moving order book to INR29.5 billion. In addition to the construction order book, IRB also has operations & maintenance segment order book (worth INR68.1 billion at FYE21) which is to be executed over the next eight-to-nine years. The management believes execution will commence across these project sites, post the receipt of appointed dates by October 2021, as two of these projects are in advanced stages of financial closure and one has already received the same.

The agency believes that construction income, on which IRB earns healthy margins of 25%-30%, reducing beyond Ind-Ra's expectation in FY22, could result in low cash flows an increased net leverage (net debt/operating EBITDA) to support the equity requirement of the current under-construction/future projects or support to underperforming projects. Ind-Ra will monitor these developments and significant delays in the timelines are likely to be credit negative.

Significant Pending Receivables from IRBIT: The company has reported significant cumulative cost overruns of 10%-15% in certain projects of its under-construction and completed projects, which have been transferred to the IRBIT. This is mainly on of account of delays in construction, largely due to delays in the receipt of right of way and critical approvals from the project authorities, and the resultant support requirement in the form of interest during the construction and maintenance of the projects. The company has already funded these additional costs through sponsor loans and internal accruals. Resultantly, the gross receivables from the trust and assets under the trust stood at INR33.1 billion at FYE21 (FYE20: INR34.8 billion).

The management has informed the agency that it has filed claims for the projects that have received completion dates and is in the process of filing claims for others for these overruns with the National Highways Authority of India ('IND AAA'/Stable) and expects these funds to be recovered in the next 12-24 months. These funds will be primarily deployed towards reducing the company's standalone gross debt. However, any delay in the receipt of these funds could lead to the leverage remaining higher than Ind-Ra projections.

Construction Segment's Net Leverage Increases Significantly: IRB's construction segment's net leverage increased to 4.2x in FY21 (FY20: 1.4x) following domestic/international debt issuances to fund the equity commitments for the Mumbai-Pune project (INR16.9 billion); the Vadodara Kim Expressway (INR0.9 billion) project as well as the under-construction projects at the IRBIT (INR2.6 billion). However, the agency believes the debt servicing is unlikely to be a concern in FY22 and FY23 as the segment generates at least INR12 billion of EBITDA yoy while the debt obligations (excluding interest) for FY22 and FY23 are INR2.8 billion and- INR3.9 billion, respectively. The entity aims to deleverage the construction segment debt with the expected proceeds from IRBIT for the cost overruns of INR33.13 billion.

The company's consolidated net leverage for FY21 stood at 5.7x in FY21 (FY20: 1.8x) and its interest coverage (EBITDA/gross interest expenses) at around 1.5x (1.9x). As per Ind-Ra estimates, average debt service coverage ratio is expected to be around 1.15x over FY22-FY24.

Liquidity Indicator - Adequate: At FYE21, the company had unencumbered cash and cash equivalents of around INR7 billion. Furthermore, units (16% unitholding in IRB Invit Fund) in the company's public InvIT (worth INR5 billion) along with mutual fund investments (INR3.1 billion) provide additional liquidity avenues. The unutilised fund-based limits were INR5.1 billion at May 2021. The non-fund-based utilisation at March 2021 was 26% out of the total limits of INR12 billion.

At FYE21, IRB had maturities of INR5.4 billion and INR9.5 billion in FY22 and FY23, respectively. Of these repayment obligations, the project debt repayments are INR2.6 billion and INR5.6 billion in FY22 and FY23, respectively. However, the company's net-working capital cycle, although remained negative, elongated to 27 days in FY21 (FY20: 54 days) following an increase in debtors to 40 days (23 days) leading to negative cash flow from operations of INR4.7 billion (INR26.3 billion).

Surplus Cash Flows from Mumbai-Pune Project to Aid in Servicing of Sponsor-Level Debt: In February 2020, IRB was awarded the Mumbai-Pune Expressway and old Mumbai-Pune Highway project on toll-operate-transfer basis for a consideration of INR88.8 billion. The project cost is being funded through debt and equity in the ratio of 74%:26%, resulting in an equity commitment of INR22.7 billion. IRB has already paid equity of INR16.9 billion using its balance sheet cash, internal accruals and additional debt.

As per Ind-Ra's estimates, the surplus cash flows post the debt servicing at the project are enough to service the interest component of the debt raised at the parent for funding the equity commitment and still generate a cash surplus of nearly INR1 billion for the entire debt repayment period till FY29. Ind-Ra draws comfort from the strong financial flexibility of IRB to refinance the debt obligations to be repaid in FY23-FY24 on the equity commitment for the project.

Ahmedabad-Vadodara Project's Improving Collections Inadequate for NHAI Premium Obligations: IRB's Ahmedabad-Vadodara project witnessed only a modest revenue decline of 9% yoy to INR4.3 billion in FY21, despite the COVID-19 pandemic, aided by strong collections in 2HFY21 of INR2.6 billion. However, the project continues to be a drag on the performance of the company, as it generates low EBITDA, given the traffic projections have been lower than the management's initial estimates. The two-month COVID-19 moratorium availed by IRB helped in generating a cash surplus, post debt servicing in FY21 as the premium payments continue being deferred. The project carries a debt of INR31 billion with historically modest cash EBITDA generation of INR3 billion-4 billion.

Additionally, the large premium payments promised as a part of the concession agreement further deteriorates the project's economics. Given the lower-than-expected traffic projections, the company expects to obtain a concession duration extension of a maximum five years. At FYE21, the company had a cumulative liability of deferred premium of INR19.2 billion. Additionally, given a competing local road, the company had filed for compensation claims of INR11 billion over FY17-FY21. As per the management, the matter is pending with an arbitration panel and the company has received an interim relief from the Delhi High Court. However, a ruling against the company could impact its credit profile.

Equity Commitments and Project Support: At FYE21, the company had total equity commitments of around INR8.8 billion across its projects (including IRBIT's projects and excluding the Mumbai-Pune project) to be funded over FY22-FY24. The equity commitments are likely to increase by INR2.5 billion if the financial investor does not invest in the entity's Palsit Dankuni BOT project. Furthermore, to sustain its construction segment revenue growth, the company plans to take on additional BOT and Hybrid Annuity Model projects, which would require further equity. The management expects to win new orders of INR50 billion-60 billion each year, which would have additional equity commitments. According to the management, going forward, about 50% of the equity commitments in the BOT projects awarded (amounting to 12%-15% of the overall project costs) are to be funded by the prospective financial investors, while the company would fund its contribution through internal cash accruals and additional debt.

Standalone Performance: The company reported revenue of INR27.5 billion in FY21 (FY20: INR39.9 billion) while EBITDA was INR3.7 billion (INR5.2 billion), interest coverage was 0.8x (1.6x) and net leverage was 11.6x (2.9x). The standalone interest servicing at IRB continues to be aided by significant interest income of INR1 billion in FY21 (FY20: INR1.4 billion).

RATING SENSITIVITIES

Outlook Revision to Stable: The company's ability to achieve appointed dates for the yet-to-be-commenced projects by October 2021, resulting in healthy growth in the construction revenue leading to an improvement in the credit metrics, along with construction segment revenue visibility sustaining above 2x and an improvement in the operating performance of projects and/or the settlement of claim for the Ahmedabad-Vadodara project and IRBIT projects could lead to the Outlook being revised to Stable.

Negative: The rating can be downgraded if the outcome of the dispute related to the Ahmedabad-Vadodara project goes against IRB, or any impact in the execution ability of the company leading to a construction segment net leverage sustaining above 3.5x FY23 onwards.

COMPANY PROFILE

Incorporated in 1998, IRB Infra is an established integrated surface transportation infrastructure company with expertise in development of BOT toll road projects. The company's business segments are toll roads, construction, airport development and real estate. As on 31 March 2021, the company had a portfolio of seven owned projects, seven projects under operations & maintenance contracts as a project manager for IRB InvIT and nine projects under IRBIT. All the projects are structured into separate SPVs that are wholly-owned subsidiaries of IRB Infra; the construction, and operation and maintenance activity is carried out in-house through Modern Road Makers Pvt. Ltd as well as through sub-contracting.

In September 2016, IRB Infra became the first Indian company to get an approval from the Securities and Exchange Board of India for setting-up an InvIT, whereby six operational assets of the company were transferred to the IRB InvIT Fund. This InvIT has been listed on BSE Ltd and National Stock Exchange Ltd since May 2017.

CONSOLIDATED FINANCIAL SUMMARY

Particulars	FY21	FY20
Revenue (INR billion)	53	68.5
EBITDA (INR billion)	25.1	29.7
EBITDA margin (%)	47.4	43.4
Interest coverage (x)	1.5	1.9
Net adjusted leverage (x)	5.7	1.8
Source: IRB, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook/Rating Watch						
	Rating Type	Rated Limits (million)	Rating	22 July 2020	15 July 2020	8 July 2020	18 June 2020	29 May 2020	28 April 2020	
Issuer rating	Long-term	-	IND A+/Negative	IND A+/Stable	IND A+/Stable	IND A+/Stable	IND A+/Stable	IND A+/Stable	IND A+/Stable	
Term loan	Long-term/Short-term	INR12,315.3	IND A+/Negative/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+	IN
Non-fund-based limits	Long-term/Short-term	INR12,000	IND A+/Negative/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+	IN
NCDs	Long Term	INR12,500	IND A+/Negative	IND A+/Stable	IND A+/Stable	IND A+/Stable	IND A+/Stable	IND A+/Stable	Provisional IND A+/Stable	

ANNEXURE

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
NCDs	21 May 2020	INE821I07029	9.55	May 2023	INR2,000	IND A+/Negative
NCDs	15 June 2020	INE821I07045	9.55	June 2025	INR3,000	IND A+/Negative
NCDs	29 June 2020	INE821I07052	9.55	June 2025	INR2,000	IND A+/Negative
NCDs	2 July 2020	INE821I07060	9.55	July 2023	INR2,000	IND A+/Negative
NCDs	8 July 2020	INE821I07078	9.55	July 2023	INR 1,500	IND A+/Negative
NCDs	17 July 2020	INE821I07086	9.55	July 2023	INR2,000	IND A+/Negative

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Non-fund-based working capital limit	Low
Term loan	Low
NCDs	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

Applicable Criteria

Corporate Rating Methodology

Analyst Names

Primary Analyst

Harsha Rekapalli

Associate Director
India Ratings and Research Pvt Ltd 36 Urban Center, Level 4,Road no.36, Jubilee Hills, Hyderabad - 500 033, India
+91 40 67661922

Secondary Analyst

Karun Tiwari

Senior Analyst
0124 6687272

Committee Chairperson

Vivek Jain

Director
+91 124 6687249

Media Relation

Ankur Dahiya

Manager – Corporate Communication
+91 22 40356121