Afcons Infrastructure Limited

December 19, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Commercial Paper	100.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the commercial paper(CP) of Afcons Infrastructure Limited factors(AIL) in the long and established track record of the company in the construction industry, the technical prowess in executing complex infrastructure projects and experienced promoters and professional management team, strong & well-diversified order book position with continuous addition of orders on a y-o-y basis and healthy execution, resulting in revenue growth at a CAGR of 16% over the last three years ending FY23. The counter party risk also remains relatively lower with the order book comprising projects which are funded by central government and multilateral agencies.

The rating also factors in improvement in PBILDT margin gradually on a y-o-y basis with completion of few fixed-cost/low-margin projects. The PBILDT margin improved from 8.98% in FY22 to 11.03% during FY23 and CARE Ratings Limited (CARE Ratings) expects the margin to remain around 11% in the medium term.

The high arbitration debtors and unbilled due to contractual variations resulted in elongated receivables and Gross Current Assets (GCA)2 in the past. While such extended debtors continue as on March 31, 2023, expansion of scale through addition and execution of new work orders have resulted in steady improvement in GCA days (from 306 days in FY20 to 266 days in FY23) thereby supporting the liquidity profile.

CARE Ratings do not expect any further elongation of GCA days and any improvement from the current level would be viewed as a credit positive. The ratings also favourably factor in strengthening of debt protection indicators and adequate cushion in the working capital utilization with large part of working capital requirements being met through interest-free mobilization advances (around 75-85% of overall advances). The rating also takes cognizance of management's philosophy to maintain undrawn limits, cash balances and undrawn advances to the extent of outstanding standalone commercial paper and their articulation to maintain liquidity coverage of 1.25 x of outstanding CP.

The rating is however tempered by susceptibility of profitability to volatility in commodity prices owing around one-third share of fixed-price contract., working capital intensive operations elevated by extended debtors comprising unsettled claims/variations under arbitration and relatively leveraged capital structure. Going forward, the extent of recovery of aforementioned extended debtors would remain a key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Not Applicable

Negative factors

- Elongation of GCA days to more than 300 days on sustained basis
- Deterioration of PBILDT margins below 9% and adjusted debt/PBILDT exceeding 2.5 times on sustained basis
- Incremental exposure to group companies

Analytical approach: Consolidated

AIL undertakes engineering, procurement & construction (EPC) projects on its own as well as through various JVs/subsidiaries. Given the strong operational and financial linkages between AIL and its subsidiaries along with common management, a consolidated approach has been adopted. The list of companies consolidated is given in Annexure 6

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications
[2] (GCA days include current assets related to operations, retention money, non-Current receivables and unbilled revenue)

Outlook: Not Applicable

Detailed description of the key rating drivers:

Key Strengths

Long and established track record of executing complex infrastructure projects

Over the years, AIL has demonstrated its ability to execute large-scale complex projects in various domains – both in India as well as overseas (Africa, Middle East and South Asia). AIL has executed projects spanning across marine structures, surface transportation (road & railway), elevated and underground metro, hydro and underground tunneling and oil & as segments.

Well-diversified and strong order book position

AIL has an order book of ₹34,878 crore as on September 30, 2023 spread across multiple contracts, which provides revenue visibility for the next 2-3 years. The order book is also well spread across different segments with Underground & Hydro Projects contributing about 24% of the total orderbook, followed by Metro & Urban Infrastructure (36%), surface transport (bridges, roads and railways- 12%), marine works (11%) and oil & gas segment (5%). In terms of geography, about 74% of the book is from domestic (spread across 14 states) and the rest 26% of the order book is from overseas. While international exposure subjects the company to geopolitical risks, the risk is partially mitigated as most of the projects are backed by government of India (GoI) funding. For the domestic projects, AIL undertakes projects which are backed by central government or multilateral agencies where the financial closure has been completed, thereby eliminating the funding risk to an extent. AIL also secured orders of Rs.9,000 crore during H1FY24

Growth in scale of operations with improvement in the profitability & debt coverage indicators

Aided by the strong executional capabilities, the revenue grew at CAGR of 14% from ₹6,551 crore in FY18 to ₹12,706 crore in FY23 with a y-o-y growth of 15% in FY23 over FY22. In the past (FY19-FY22), the margins had been impacted due to cost overrun in certain projects and provisioning incurred for the cost overrun/debtors. AIL reported a growth of 11% in operation income during H1FY24 from Rs.5,871 crore during H1FY23 to Rs.6,571 crore during H1FY24

During FY19-FY22, the company has reported PBIDLT margins around 9% on average. However, with lower provisioning and completion of low-margin project, the margins have seen improvement during FY23 to 11%. PBILDT margins sustained improvement at 10.78% during H1FY24. CARE Ratings expects the margins to remain around 1% in the medium term. In line with the improvement in operating income & PBILDT, the PAT margins also improved from 2.66% in FY19 to 3.23% in FY23.

The adjusted debt (adjusting for interest free mobilization advances)/EBITDA also thereby improved to 1.48x in FY23 from 2.32x in FY22.

Experienced and professional management

AIL is part of the Shapoorji Pallonji group with 99.48% shares being held by Shapoorji Pallonji and Company Private Limited (rated CARE BBB; Negative/ CARE A3) group on a fully-diluted basis as on March 31, 2023. The SP group is an extensive conglomerate with more than 155 years of operations and has business interests in several sectors such as real estate, infrastructure, coal mining, power, ports, roads, biofuels & agriculture, shipping & logistics, consumer products, financial services, etc. AIL on its own has a track record of more than 60 years.

AIL is supported by able top management who has vast experience in the construction industry and the management decisions are taken independently. The day-to-day operations are managed by S Paramasivan who has more than four decades of industry experience.

The advances to SPCPL has been at Rs.269 crore as on September 30, 2023 with no further advances extended over the past 3 years. Orderbook to group companies has also been low at 1.4% as on March 31, 2023. Going forward, no incremental exposure to SPCPL or any other group companies form is expected in the medium term and the same remains a key monitorable.

Improvement in GCA days

The collection period (adjusted for contract liabilities) and GCA has seen improvement over the last two years from 225 days and 282 days in FY21 to 159 days and 266 days in FY23 respectively. Though there is no significant recovery in arbitration debtors, continuous new order addition and execution has resulted in improvement in overall receivable position. During FY19-FY23, the overall debtors have increased by 20% whereas the overall scale of operations grew by 44%. This in turn has positively impacted on the cashflow position of the company. The company does not have any major slow-moving work orders and based on progress of work execution; CARE Ratings does not expect any further elongation of GCA days. Any traction in recovery of arbitration debtors would only further improve the GCA days going forward. The same would therefore be viewed as a credit positive.

Key weakness

Profitability suspectable due to fixed price contracts

Almost 30% of the order book is fixed price contracts thereby exposing AILs profitability to risk due to rise in cost of construction beyond expectations. Most overseas projects are fixed price contracts. Based on the past track record and experiences, AIL builds in contingencies for any cost overrun in projects. In the past there was cost overrun in a few of the projects which has impacted on the margins as well as resulted in debtors built up due to unapproved variation in costs. Thus, the ability of the company to adequately cover for the unexpected cost increase, given the complex nature of works with longer gestation period will be a key rating factor.

Working capital intensive operations

Due to changes in design, delay in receiving certain approvals etc, there has been cost overrun is certain projects for which the company is yet to receive the contractual variation component. The company has initiated arbitration proceedings against such projects and significant portion of the debtors are stuck in various stages of arbitration and unbilled revenue. There has been no significant realization of such arbitration debtors and unbilled revenue (uncertified portion) since the last three years. Arbitration debtors (net of advances received against BG) including the uncertified portion which is yet to be approved by clients due to contractual variation as a percentage of overall debtors and unbilled revenue stood at 25% as on March 31, 2023. Ability of the company to recover the arbitration debtors in a timely manner will remain a key rating driver.

Leveraged capital structure.

AIL has been funding the extended current asset days through mobilization advances and working capital borrowings which in turn has resulted in leverage capital structure. The TOL/TNW has been relatively higher at 3.13x as on March 31, 2023, although the same has witnessed improvement over the last three years from 4.26x as on March 31, 2020.

Liquidity: **Adequate**

The liquidity profile remains adequate with AIL maintaining liquidity buffer close to Rs.400 crore over the last five years (₹661 crore as September 30, 2023). While AIL raises funds through CP issuances to fund working capital requirements, the utilization stands NIL as on March 31, 2023. For the proposed CP issuance, liquidity is supported through expected cash coverage of 1.25x to be maintained against outstanding CPs in the form of free cash and bank balances, un-utilized working capital limits and undrawn advances.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Construction

Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil Construction

- AIL is a part of the Shapoorji Pallonji group and is engaged in EPC services. On a fully diluted basis, the SP group through various companies holds about 99.48% as on March 31, 2023, and the rest is held by employees. AIL commenced operations as a civil construction firm in 1959 and was initially involved in the construction of specialized foundation activities, such as pile foundations, diaphragm walls, geotechnical investigations, drilling and grouting. AIL entered the marine segment in 1963 and subsequently undertook design and build contracts. The core expertise of the company lies in marine, rail, road & bridges, metro, hydro & underground, oil & gas projects. Over the years, AIL has expanded its geographical presence and has executed projects across all major Indian states in addition to overseas projects across Asia, Africa and Middle East.

Brief Financials (₹ crore) – Consolidated	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24(UA)
Total operating income	11,070	12,706	6,571
PBILDT	994	1,401	708
PAT	358	411	195
Overall gearing (times)	1.57	1.48	-
Interest coverage (times)	2.34	3.14	2.57

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Financials are re-classified as per CARE's internal standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper-Commercial	-	-	-	7-364 days	100.00	CARE A1+

Paper (Standalone)						

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Commercial Paper-Commercial Paper (Standalone)	ST	100.00	CARE A1+	1)CARE A1+ (22-Aug-23)	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of subsidiaries consolidated

Name of companies	Country of Incorporation	% of holding as on March 31, 2023
Subsidiaries		
1. Hazarat and Company Private Limited	India	100%
2. Afcons Corrosion Protection Private Limited	India	100%
3. Afcons Hydrocarbons Engineering Private Limited	India	100%

Name of companies	Country of Incorporation	% of holding as on March 31, 2023
4. Afcons Oil & Gas Services Private Limited	India	74%
5. Afcons Infrastructures Kuwait for Building, Roads and Marine Contracting WLL	Kuwait	49%
6. Afcons Construction Mideast LLC	U.A.E.	100%
7. Afcons Mauritius Infrastructure Limited	Mauritius	100%
- Afcons Gulf International Projects Services FZE	U.A.E.	100%
8. Afcons Overseas Singapore Pte Limited	Singapore	100%
- Afcons Infra Projects Kazakhstan LLP	Kazakhstan	100%
- Afcons Overseas Project Gabon SARL	Gabon	100%
9. Afcons Saudi Construction LLC	Saudi Arabia	100%
Joint Ventures		
1. Afcons Vijeta PES	India	100%
2. Afcons Sibmost		100%
3. Afcons Gunanusa		100%
4. Afcons Pauling		100%
5. Afcons SMC		100%
6. Afcons – Vijeta		100%
7. Afcons JAL		100%
8. Transtonnelstroy Afcons		100%
9. Afcons KPTL		51%
10. Ircon Afcons		47%
11. Strabag AG Afcons		40%
12. Afcons Infrastructure Limited and Vijeta Projects and Infrastructures Limited		100%
13. Dahej Standby Jetty Project Undertaking		100%
14. Afcons - Vijeta Joint Venture (Zimbabwe)		100%
Associates		
Afcons Sener LNG Construction Projects Private Limited	India	49%

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact	Analytical Contacts
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Name: Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-67543404 E-mail: saikat.roy@careedge.in	Name: Rajashree Murkute Senior Director **CARE Ratings Limited** Phone: +91-22-6837 4474 E-mail: Rajashree.Murkute@careedge.in Name: Maulesh Desai Director **CARE Ratings Limited** Phone: +91-79-40265605 E-mail: Maulesh.Desai@careedge.in Name: Puja Jalan Associate Director **CARE Ratings Limited** Phone: +91-40-4010 2030 E-mail: puja.jalan@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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