Afcons Infrastructure Limited

Instrument	Amount	Rating Action (September 2016)
Non Convertible Debentures	Rs. 100 crore	[ICRA]AA (Stable) assigned

ICRA has assigned a long term rating of [ICRA]AA (pronounced as ICRA double A)[1] to the Rs. 100 crore[2] Non Convertible Debenture (NCD) programme of Afcons Infrastructure Limited (AIL). The outlook on the long term rating is stable.

ICRA has a long-term rating of [ICRA]AA (Stable) and short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the term loans, fund based and non fund based bank facilities of AIL aggregating to Rs. 12,000 crore. ICRA also has a long-term rating of [ICRA]AA (Stable) outstanding on the Rs. 300 crore NCD programme and short-term rating of [ICRA]A1+ outstanding on the Rs. 700 crore Commercial Paper (CP) programme of AIL.

The assigned rating takes into account the healthy order inflow in the current fiscal with order aggregating to Rs. 4,770 crore received during 3M FY2017 thereby resulting a favourable order-book position, with unexecuted value of work of ~ Rs. 13,451 crore as of June 30, 2016 (excluding escalation) providing visibility to revenues over the near to medium term. Further, the company has orders aggregating to Rs. ~Rs. 2420 crore in the pipeline, where in the company has emerged as the lower bidder, which is further expected to boost the order-book. . The rating continues to factor in AIL's established track record of executing large size projects within stipulated timelines which has enabled it to build up a strong client profile over the years with significant repeat business as well as the professional and experienced management at the helm. The rating draws further strength from the company's strong parentage by virtue of being a part of the Shapoorji Pallonji Group (SPG), its strategic importance to the group as a key entity and the demonstrated track-record of support from SPG over the years. The rating also factors in the geographical diversification in the order book with ~23% of the unexecuted order book as of Jun-16 accounting for international orders (up from 11.3% as of Mar-16) coupled with the improved execution of the slow moving Kolkata based projects. The rating also takes into account AIL's healthy liquidity profile as evidenced by the unencumbered cash balances, significant liquid investments and presence of sizeable undrawn working capital limits.

While assigning the rating, ICRA has taken note of the increase in debt levels in the current fiscal to Rs. 2,030 crore as of March 31, 2016 from Rs. 1,760 crore as of March 31, 2015, primarily on account of working capital requirement, driven by the high inventory levels owing to milestone based billing coupled with pending variation in certain big ticket orders. The proposed NCD is used to refinance an earlier NCD, albeit ahead of the scheduled repayment date (FY2018). AIL had net variations aggregating to upwards of Rs. 700 crore as of H1FY2016, arising out of escalations as well as closure of contracts, of which ~ Rs.116 crore was realised in H2 FY 2016 and ~ Rs. 105 crore was, realized Q1FY2017. The realization of the variations coupled with healthy mobilization advances in the new orders, is expected to have a favourable impact on AIL's working capital intensity of operations and consequently debt levels in the medium term. The rating, however, is constrained by the high concentration in the order-book in terms of exposure to select projects as well as segments. While the increasing focus on executing overseas projects provides the company with the geographical diversity, it could expose the company to exchange rate risks especially since overseas projects are typically fixed-price in nature. The susceptibility of profitability to volatility in exchange rates remains considering that a part of the foreign currency denominated debt remains unhedged. The rating is further constrained by presence of slow moving orders. However the healthy progress achieved in some of these projects coupled with the commencement of a legacy project, which had been temporarily been put on hold, provides some comfort.

Going forward, given AIL's stated focus on executing lesser number of higher-value projects, project concentration risks are likely to continue. Thus, the company's ability to execute the projects with minimal time

[1] For complete rating scale and definitions please refer to ICRA's Website www.icra.in or other ICRA Rating Publications.
[2] 100 lakh = 1 crore = 10 million

and cost overruns, while managing its profitability levels as well as working capital intensity of operations, would be critical from a credit perspective.

Recent Results: In the twelve month period ending March 31, 2016, the company reported a net profit of Rs. 74.35 crore on an operating income of Rs. 4,563.46 crore as against a net profit of Rs. 53.18 crore on an operating income of Rs. 4,015.81 crore in the same period previous fiscal.

Company Profile

AIL, incorporated in 1976 as Asia Foundations and Constructions Limited, is a reputed construction company and is part of the Shapoorji Pallonji Group (SPG). The SPG presently holds the majority stake (97.19%) in AIL. The company operates in several segments such as marine works including construction of jetties and dry docks, offshore oil & gas, bridges and flyovers, road construction, hydro & tunnelling, pipe laying and general civil engineering works. AIL commenced operations as a civil construction firm in 1959 and was initially engaged 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 & build contracts in the marine segment. Over the years, AIL has also increased its presence geographically and has executed projects across all major Indian states in addition to overseas projects in Madagasar, Oman, UAE, Qatar, Yemen, Mauritius, Bahrain, Algeria, Jordan, Liberia and Kazakhstan.

September 2016

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