Afcons Infrastructure Limited

Instrument	Amount	Rating Action (November 2016)
Long-term – Fund-based/CC	Rs. 1,200 crore (enhanced from Rs. 1,100 crore)	[ICRA]AA (stable) reaffirmed
Long-term – Fund-based TL	Rs. 800 crore	[ICRA]AA (stable) reaffirmed
Long-term – Non-fund based	Rs. 9,250 crore (enhanced from Rs. 8,500 crore)	[ICRA]AA (stable) reaffirmed
Short-term – Fund-based	Rs. 750 crore (enhanced from Rs. 400 crore)	[ICRA]A1+ reaffirmed
Short term – Non Fund Based	Rs. 1,200 crore	[ICRA]A1+ reaffirmed
Non Convertible Debenture	Rs. 200 crore	[ICRA]AA (stable) reaffirmed
Commercial Paper	Rs. 900 crore (enhanced from Rs. 700 crore)	[ICRA]A1+ reaffirmed

ICRA has reaffirmed the long-term rating [ICRA]AA (pronounced as ICRA double A) [1] and the short-term rating of [ICRA]A1+ (pronounced as ICRA A one plus) outstanding on the he term loans, fund based and non fund based bank facilities of Afcons Infrastructure Limited (AIL) aggregating to Rs. 13,200 crore[2] (enhanced from Rs. 12,000 crore). ICRA has also reaffirmed the long-term rating of [ICRA]AA assigned to the Rs. 200 crore Non-Convertible Debenture (NCD) programme and short-term rating of [ICRA]A1+ assigned to the Rs. 900 crore (enhanced from Rs. 700 crore) Commercial Paper (CP) programme of AIL. The outlook assigned to the long term rating is stable. ICRA has a long-term rating of [ICRA]AA (Stable) (pronounced ICRA double A) outstanding on the Rs. 100 crore NCD programme of AIL.

The ratings reaffirmation favourably factors in AIL's healthy order-book position, with unexecuted work worth ~ Rs. 15,300 crore as on September 30, 2016 (excluding escalation), providing visibility to revenues in the near to medium term. The order inflow has remained healthy in the current fiscal with orders aggregating to Rs. 8,093 crore bagged in H1 FY2017 and additional orders of Rs. 479 crore in the L1 stage. The ratings continue to factor in AIL's established track record of executing large-size projects within stipulated timelines, enabling it to build a strong client profile over the years while generating repeat business, as well as the presence of professional and experienced management at the helm. The ratings draw 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 ratings also factor in the geographical diversification in the order-book with international orders attributing to~30% of the unexecuted order book as of September 2016 (up from 11.3% as of Mar-16). The ratings also take 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 because of working capital requirement, driven by the high inventory levels. ICRA notes that the milestone based billing in certain contracts, pending variation, claims and other settlements in certain big ticket orders has resulted in an inflated inventory position in the past few years. As of March 31, 2016, nearly Rs. 700 crore was on account of variation, claims & other dues, of which Rs 170 crore has been received in H1 FY2017 and ~Rs .330 crore in H2 FY2017. The company is also expecting to receive ~Rs. 250 crore with respect to arbitration award from central government agencies by the end of this fiscal. The realization of the variations coupled with healthy mobilisation advances in the new orders (ranging from 10% to 20%) is expected to have a favourable impact on AIL's working capital intensity of operations and consequently on the 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

[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

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 the 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 and cost overruns remains critical. Further, the company's ability to realise the claims in a timely manner and improve its working capital intensity of operations, would be other monitorable.

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 and gas, bridges and flyovers, road construction, hydro and tunnelling, pipe laying and general civil engineering works. AIL commenced operations as a civil construction firm in 1959 and was initially involved in the construction of specialised 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. 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, the UAE, Qatar, Yemen, Mauritius, Bahrain, Algeria, Jordan, Liberia and Kazakhstan.

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