March 01, 2017

# Afcons Infrastructure Limited

| Instruments* | Amount Rated (Rs. crore) | Rating Action |
|---|---|---|
| Non Convertible Debentures | 100.0 | [ICRA]AA(Stable) / assigned |

*Instrument details are provided in Annexure-1*

## Rating Action

ICRA has assigned a long-term rating of [ICRA]AA (pronounced ICRA double A) to the Rs. 100 crore[1] non-convertible debenture (NCD) programme of Afcons Infrastructure Limited ("AIL") [2]. The outlook on the long-term rating is stable. ICRA also has a long-term rating of [ICRA]AA (stable) and a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on Rs. 300 crore NCDs, Rs. 900 crore commercial paper programme and Rs. 13,200 crore bank facilities of AIL.

## Rationale

The rating favourably factors in AIL's healthy order-book position, with unexecuted work worth Rs. 15,345 crore as on December 31, 2016, providing visibility to revenues in the near to medium term. In addition, the company has orders of Rs. 6,575 crore in the L1 stage which further aides the revenue visibility. The rating continues 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 ~35% of the unexecuted order book as of December 31, 2016 (up from 11.3% as of March 31, 2016). The rating also takes into account AIL's healthy liquidity profile as evidenced by the unencumbered cash balances and presence of sizeable undrawn working capital limits.

The rating, however, is constrained by the high concentration in the company's 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 company's debt levels have increased in the current fiscal to Rs. 2,550 crore as of September 30, 2016 from Rs. 2,030 crore as of March 31, 2016, primarily because of higher 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. The company has, however, seen significant receipt of arbitration award from central government agencies during H2 FY2017, which coupled with healthy mobilisation advances in the new orders (ranging from 10% to 20%) will have a favourable impact on AIL's working capital intensity of operations. The rating is further constrained by the presence of slow-moving orders, though healthy progress has been achieved in some of these projects over the past year.

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

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.

**Key rating drivers**

**Credit Strengths**

- Strong parentage by virtue of being a part of Shapoorji Pallonji Group
- Healthy order book
  - Unexecuted order book of Rs. 15,345 crore as of December 31, 2016 providing visibility to revenues in the near to medium term.
  - Strong order pipeline provides further boost to the revenue visibility.
  - Increasing focus on overseas projects which inherently are more profitable in nature
- Geographically diversified order book
  - Company's continuous focus on diversifying the order book geographically has led to increase in share of international orders (new orders)
- Adequate liquidity evidenced by availability of sizeable unutilised working capital facilities and access to significant unencumbered cash balances as well as liquid investments; cash flows from settlement and claims across projects to further enhance the liquidity over the near term
- Established track record of completing large-size projects within stipulated timelines enhances ability to garner repeat orders
- Professional and experienced management at the helm

**Credit Weakness**

- Increase in working capital intensity of operation resulting in higher reliance on external sources of funding
  - High concentration in the order-book with significant exposure to construction work in Railways / Metros (31% of the order-book)
- Presence of slow-moving orders, though some of the larger orders have been gaining traction in FY2017.

**Description of key rating drivers highlighted above:**

Afcons Infrastructure Limited (AIL) is a key entity within the Shapoorji Pallonji Group. While Shapoorji Pallonji and Company Private Limited (SPCPL), AIL's holding company, executes projects related to construction of buildings, factories, steel and power plants and real estate development, AIL executes infrastructure construction projects across sectors like marine, roads, urban infrastructure (metros, flyovers), offshore oil & gas, etc. The company's order-book position remains healthy with unexecuted work worth Rs. 15,345 crore (3.49 times the revenues of FY2016) as on December 31, 2016, providing visibility to revenues in the near to medium term. The order inflow remained strong in the current fiscal with orders aggregating to Rs. 11,587 crore bagged in 9M FY2017 and additional orders of Rs. 5,381 crore in the L-1 stage. As of December 31, 2016, AIL's order book comprised of 36 projects. The company's order book, however, has a high concentration to the Railways / Metros sector. In addition, the client concentration also remains high, Given AIL's stated focus on executing smaller number of large-value projects to ensure better monitoring, project concentration risks can be expected to continue. However, ICRA draws comfort from the fact that most of AIL's clients are government agencies with limited / no liquidity risk. Some of the orders had been slow-moving due to land availability issues, as well as geological and terrain related challenges. However, during FY2017, AIL has witnessed considerable progress in some of the larger slow-moving orders.

The healthy order inflow along with pickup in execution pace for some of the erstwhile slow-moving orders has resulted in healthy growth in AIL's turnover to Rs. 3,200 crore for H1 FY2017 (66% y-o-y growth). While the margins remain modest, the company's cash accruals are expected to improve in line with the increase in scale of operations. The company's debt levels have also increased to Rs. 2,550 crore as on September 30, 2016 from Rs. 2,030 crore as on March 31, 2016 with the increasing scale of operations and high working capital intensity in operations. Nonetheless, the company's liquidity profile remains robust with cash & bank balance of Rs 136 crore as on September 30, 2016 and sizeable undrawn fund based working capital lines.

**Analytical approach:** Not Applicable

**Links to applicable Criteria**
**Corporate Credit Ratings: A Note on Methodology**
**Rating Methodology for Construction Companies**

**About the Company:**
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 (97.40%) 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, Gabon, Oman, the UAE, Qatar, Yemen, Mauritius, Bahrain, Algeria, Jordan, Liberia and Kazakhstan.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**
**Table: Rating History**

| S. No. | Name of Instrument | Current Rating | | | Chronology of Rating History for the past 3 years | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Rated amount (Rs. Crores) | Month - year & rating | Month - year & Rating in FY2017 | Month - year & Rating in FY2016 | Month - year & Rating in FY2015 | Month - year & Rating in FY2014 |
| | | | | March 2017 | Nov 2016 | Nov 2015 | Sep 2014 | Oct 2013 |
| 1 | NCD programme | Long term | 100 | [ICRA]AA (Stable) | - | - | - | - |
| 2 | NCD programme | Long term | 300 | [ICRA]AA (Stable) | [ICRA]AA (Stable) | [ICRA]AA (Stable) | [ICRA]AA (Stable) | [ICRA]AA (Stable) |
| 3 | CP programme | Short term | 900 | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |
| 4 | Fund Based (Cash Credit) | Long term | 1,200 | [ICRA]AA (Stable) | [ICRA]AA (Stable) | [ICRA]AA (Stable) | [ICRA]AA (Stable) | [ICRA]AA (Stable) |
| 5 | Fund Based (Term Loans) | Long term | 800 | [ICRA]AA (Stable) | [ICRA]AA (Stable) | [ICRA]AA (Stable) | [ICRA]AA (Stable) | [ICRA]AA (Stable) |
| 6 | Non-fund Based (BG/LC) | Long term | 9,250 | [ICRA]AA (Stable) | [ICRA]AA (Stable) | [ICRA]AA (Stable) | [ICRA]AA (Stable) | [ICRA]AA (Stable) |
| 7 | Fund Based (Short Term Loans) | Short term | 750 | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |
| 8 | Non-fund Based (BG/LC) | Short term | 1,200 | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |

**Complexity level of the rated instrument:**
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

**Annexure-1**

**Details of Instruments**

| Name of the instrument | Date of issuance | Coupon rate | Maturity Date | Size of the issue (Rs. Cr) | Current Rating and Outlook |
|---|---|---|---|---|---|
| Non-Convertible debenture | Mar-15 | 9.99% | Apr-18 | 50.00 | [ICRA]AA(Stable) |
| Non-Convertible debenture | Mar-15 | 9.87% | Apr-20 | 50.00 | [ICRA]AA(Stable) |
| Non-Convertible debenture | Jan-16 | 9.05% | Jan-21 | 100.00 | [ICRA]AA (Stable) |
| Non-Convertible debenture | Sep-16 | 8.60% | Sep-21 | 100.00 | [ICRA]AA (Stable) |
| Non-Convertible debenture | Feb-17 | 8.65% | Feb-22 | 100.00 | [ICRA]AA (Stable) |
| CP programme | Jul-16 to Jan-17 | 6.25% to 8.21% | Mar-17 to Apr-17 | 900.00 | [ICRA]A1+ |
| Fund Based (Cash Credit) | - | - | - | 1,200.00 | [ICRA]AA(Stable) |
| Fund Based (Term Loans) | Jan-14 to Jul-15 | - | Dec-17 to Apr-22 | 505.00 | [ICRA]AA(Stable) |
| Fund Based (Term Loans - Proposed) | - | - | - | 295.00 | [ICRA]AA (Stable) |
| Non-Fund Based (BG/LC) | - | - | - | 9,250.00 | [ICRA]AA (Stable) |
| Fund Based (Short Term Loans) | Mar-16 to Dec-16 | - | Jan-17 to Mar-19 | 580.00 | [ICRA]A1+ |
| Fund Based (Short Term Loans - Proposed) | - | - | - | 170.00 | [ICRA]A1+ |
| Non-Fund Based (BG/LC) | - | - | - | 1,200.00 | [ICRA]A1+ |

Source: AIL

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