Afcons Infrastructure Limited

January 08, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non Convertible Debenture Programme	400	400	[ICRA]AA (Stable); Reaffirmed
Fund based - Term Loan	800	800	[ICRA]AA (Stable); Reaffirmed
Fund based - Cash Credit (long-term)	1,200	1,400	[ICRA]AA (Stable); Reaffirmed
Non-fund based - BG/LC (long-term)	9,250	10,850	[ICRA]AA (Stable); Reaffirmed
Fund based – Short term loans	750	750	[ICRA]A1+; Reaffirmed
Non-fund based - BG/LC (short-term)	1,200	1,200	[ICRA]A1+; Reaffirmed
Commercial Paper	900	900	[ICRA]A1+; Reaffirmed
Total	**14,500**	**16,300**	

*Instrument Details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA (pronounced ICRA double A) and the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the bank facilities of Afcons Infrastructure Limited (AIL) aggregating to Rs. 15,000 crore (enhanced from Rs. 13,200 crore). ICRA has also reaffirmed the long-term rating of [ICRA]AA outstanding on the Rs. 400 crore Non-Convertible Debenture (NCD) programme and the short-term rating of [ICRA]A1+ outstanding on the Rs. 900 crore Commercial Paper (CP) programme. The outlook for the long-term rating is Stable.

Rationale

The reaffirmation of the ratings favourably reflects AIL's well established presence and demonstrated track record in the infrastructure segment reflecting its strong execution capabilities. The ratings derive strength from the strong parentage of AIL by virtue of being part of the Shapoorji Pallonji (SP) Group and the strategic importance of the company for the group. The ratings further factor in the healthy order book position of the company at ~Rs. 26,000 crore as on September 30, 2017 (4 times the revenues of FY2017) supported by the healthy order inflows seen over the past 12-18 months across different geographies. AIL has especially seen healthy increase in its international order book which now forms 39% of its total order book position. The strong operational performance along with a growing order book position led to 45% y-o-y growth in the company's turnover for FY2017, resulting in healthy increase in the cash accruals. The ratings further take into account the healthy liquidity profile of the company with sufficient unencumbered cash balance, adequate liquid investments and sizeable undrawn lines of credit.

The ratings are, however, constrained by the high concentration of the company's order book to select segments especially tunnelling and hydro projects which involves a higher degree of complexity. The ratings also take into account the fixed-price orders received in the current fiscal, mainly from its group companies, which exposes the company's profitability to any sharp movement in input costs. The increasing focus on executing overseas projects also exposes the company to exchange rate risks given that overseas projects are typically fixed-price in nature. The ratings also take into account the increase in the company's debt levels during the current fiscal to Rs. 2,532 crore as on September 30, 2017 from Rs. 2,015 crore as on March 31 2017 which was primarily due to higher working capital requirements though the company has sizeable mobilisation advance yet to be received in the current year which would support the reduction in the overall debt levels. The company's working capital intensity nonetheless continues to remain high, though there has been improvement with realisation of arbitration debtors and pick-up in execution of stalled orders.

Outlook: Stable

ICRA believes AIL will continue to benefit from its strong parentage and healthy order book position. The outlook may be revised to 'Positive' if there is significant improvement in the working capital intensity resulting in reduction in overall borrowing levels. The outlook may be revised to 'Negative' if there are substantial delays in execution of on-going projects resulting in lower than expected cash accruals and weakening of liquidity profile.

Key rating drivers

Credit Strengths

- **Strong parentage –** AIL is a subsidiary of Shapoorji Pallonji and Company Private Limited ([ICRA]AA+ (Stable) /[ICRA]A1+), the flagship company of the SP Group having strong brand value and legacy of over 150 years.

- **Strong execution capabilities –** AIL has a well established track record in the infrastructure segment and is currently executing some marquee projects like Rohtang pass tunnel which is one of India's longest road tunnels , the world's highest rail bridge over river Chenab and India's first underwater metro in Kolkata. The company's consistent focus on quality construction and timely delivery has resulted in acquiring diverse and reputed clientele across segments and geographies, which is an indication of its strong execution capabilities. AIL has completed few of the projects well ahead of scheduled date of completion enabling it to receive bonus for early completion.

- **Healthy order book position -** With strong order inflows in the last 12-18 months, AIL had an outstanding order book position of ~Rs. 26,000 crore as on September 30, 2017 (i.e. about 4 times the revenues of FY2017). The well diversified order book across clientele and geographies provides revenue visibility in the near to medium term.

- **Strong liquidity position –** AIL has a strong liquidity profile characterised by sufficient unencumbered cash balances, adequate liquid investments and sizeable undrawn bank limits. AIL derives additional financial flexibility by being part of the SP Group.

Credit Challenges

- **High working capital intensity –** With realisation of pending receivables and pick-up in execution of stalled projects there has been improvement in the working capital intensity, though it continues to remain high. During FY2017, the company realised arbitration debtors of Rs.160 crore under NITI Aayog circular, while arbitration receivables of Rs.264 crore are yet to be realised. In addition, nearly Rs. 400 crores of works are yet to be realised on account of pending variations, claims and other dues which also results in the high working capital intensity for the company. As a result, the company's borrowings remain high while its debt coverage metrics remains moderate.

- **Contracts from SP Group on fixed-price basis -** AIL has received ~Rs. 4,000 crore from the SP group in the current fiscal for executing various infrastructure projects of which ~70% are on fixed-price basis exposing it to cost over-run risks. The ability of the company to execute the project within the budgeted costs would remain important for its overall profitability.

- **High concentration in the order book –** With almost 30% of the company's order book contributed by tunnelling & hydro projects, AIL remains exposed to execution related risk given the complex nature of such projects.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Construction Entities

About the company

Afcons Infrastructure Limited (AIL), incorporated in 1976 as Asia Foundations and Constructions Limited, is a reputed construction company and is part of the Shapoorji Pallonji (SP) Group. The SP Group holds the majority stake of 97.42% in AIL as on September 2017. 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 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. 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 Madagascar, Oman, the UAE, Qatar, Yemen, Mauritius, Bahrain, Algeria, Jordan, Liberia, Kuwait, Bangladesh and Kazakhstan.

Key Financial Indicators (Consolidated)

	FY2016	FY2017
Operating Income (Rs. crore)	4,352	6,321
PAT (Rs. crore)	78	153
OPBDIT/ OI (%)	10.8%	9.4%
RoCE (%)	12.40%	13.9%
Total Debt/ TNW (times)	1.4	1.2
Total Debt/ OPBDIT (times)	4.4	3.4
Interest coverage (times)	1.7	2.0
NWC/OI	41%	28%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating January 2018	Date & Rating in FY2017 March 2017	December 2016	Date & Rating in FY2016 November 2015	Date & Rating in FY2015 September 2014
NCD	Long Term	100	100	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-	-
NCD	Long Term	300	300	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
Term Loan	Long Term	800	530	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
Cash Credit	Long Term	1400	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
Non-fund based (BG/LC)	Long Term	10,850	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
Short term loans	Short Term	750	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
Non-fund based (BG/LC)	Short Term	1,200	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
CP	Short Term	900	-	[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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE101I08032	NCD	17-Mar-15	9.99%	26-Apr-18	50	[ICRA]AA (Stable)
INE101I08040	NCD	17-Mar-15	9.87%	06-Apr-20	50	[ICRA]AA (Stable)
INE101I08057	NCD	15-Jan-16	9.05%	15-Jan-21	100	[ICRA]AA (Stable)
INE101I08065	NCD	06-Sep-16	8.60%	06-Sep-21	100	[ICRA]AA (Stable)
INE101I08073	NCD	23-Feb-17	8.65%	23-Feb-22	100	[ICRA]AA (Stable)
NA	CP	-	-	7 to 365 days	900	[ICRA]A1+
NA	Term Loan 1	Jun-15	9.90%	Apr-22	200	[ICRA]AA (Stable)
NA	Term Loan 2	Nov-13	9.95%	Dec-20	60	[ICRA]AA (Stable)
NA	Term Loan 3	Feb-17	8.75%	Mar-24	100	[ICRA]AA (Stable)
NA	Term Loan 4	Mar-14	3.41%	Mar-21	70	[ICRA]AA (Stable)
NA	Term Loan 5	Dec-14	9.75%	Jun-19	75	[ICRA]AA (Stable)
NA	Term Loan 6	Nov-13	9.95%	Dec-17	25	[ICRA]AA (Stable)
NA	Proposed Term Loan	-	-	-	270	[ICRA]AA (Stable)
NA	Cash Credit	-	-	-	1,400	[ICRA]AA (Stable)
NA	Short Term Loan	-	-	-	750	[ICRA]A1+
NA	Non-fund based BG/LC	-	-	-	10,850	[ICRA]AA (Stable)
NA	Non-fund based BG/LC	-	-	-	1,200	[ICRA]A1+

Source: Company

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About ICRA Limited:

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