Afcons Infrastructure Limited

January 04, 2019

Summary of rating action

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)	1,400	1,400	[ICRA]AA (Stable); Reaffirmed
Non-fund based - BG/LC (long-term)	10,850	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	**16,300**	**16,300**	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings favourably reflects Afcons Infrastructure Limited's (AIL) well established presence in the infrastructure segment, proven track record of sound project execution and engineering skills. The rating further factors in the healthy order book position of the company at ~Rs. 34,000 crore as on September 30, 2018 (5.2x FY2018 revenues) providing strong revenue visibility in the near to medium term. However, ICRA takes note that substantial portion of its order book is in initial stages of construction. While these projects are recently awarded (or in the process of being awarded), ICRA takes comfort form strong execution capabilities of AIL. The ratings also derive strength from the expertise of its managerial and technical personnel heading the key business verticals.

The ratings, however, remain constrained by high working capital intensity of AIL's operations. Although it has improved on a yoy basis to 26% in FY2018 from 28% in FY2017 on availing high mobilisation advances, nonetheless, it continues to remain high. The working capital intensity remains high on account of high receivables, especially arbitration receivables awarded in AIL's favour, and claims/variations pending with the clients. With healthy cash accruals and sale of liquid investments, AIL has been able to reduce its debt from Rs. 2,016 crore as on March 31, 2017 to Rs. 1,675 crore as on March 31, 2018 leading to improvement in its gearing from 1.24x in FY2017 to 0.94x in FY2018, though with higher mobilisation advances & creditors, ratio of total outside liabilities by tangible net-worth (TOL/TNW)[1] increased from 3.37 times to 3.47 times during the same period. The rating also factors in the modest operating profitability levels and high receivable and inventory levels constraining the return on capital employed.

[1] Ratio adjusted for arbitration receivables realized against submission of bank guarantees which the company has classified as 'advances from customers' pending final settlement of the claim

The ratings also take into account the concentration of company's order book to select segments especially tunnelling (15%) and hydro projects (3%) which involves a higher degree of complexity. The ratings also factor in the fixed-price orders, 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 and geo-political risks.

While reaffirming the rating, ICRA has taken note of the weakening financial profile of AIL's parent company – Shapoorji Pallonji and Company Private Limited (SPCPL, rated at [ICRA]AA&[2]/A1+&), the flagship company of Shapoorji Pallonji (SP) Group. Although the standalone business profile of AIL remains strong and financial linkages to SP Group stand limited to regular dividend pay-outs, any further deterioration in financial risk profile of SPCPL would remain a key rating sensitivity for AIL.

Outlook: Stable

ICRA believes AIL will continue to benefit from strong order inflows 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 or if the financial profile of its parent entity further deteriorates.

Key rating drivers

Credit strengths

- **Strong execution capabilities –** AIL has a well-established track record in the infrastructure segment and has strong engineering skills in executing complex infrastructure projects across diverse segments. The company's strong and reputed clientele across segments and geographies alleviates counter-party credit risk. 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 –** AIL's order book stood at ~Rs. 34,000 crore as on September 30, 2018 translating into 5.2 times the revenues of FY2018. The well diversified order book across clientele and geographies provides strong revenue visibility in the near to medium term.

- **High financial flexibility –** AIL derives strong financial flexibility from its robust operating cash flows, sufficient unencumbered cash balances and sizeable undrawn bank limits.

- **Part of SP Group** – AIL is part of SP Group having strong brand value and legacy of over 150 years.

Credit challenges

- **High working capital intensity –** With significant proportion of its arbitration receivables yet to be realised and high quantum of claims pending with clients, AIL's working capital cycle remains elongated. While out of total arbitration receivables of Rs.648 crore as on March 31, 2018, receivables aggregating to Rs. 235 crores have been realised against submission of bank guarantees, Rs. 656 crore of works are yet to be realised on account of pending variations, claims and other dues. During the current fiscal, the company realised arbitration debtors of Rs.226 crore against final settlement of claims and under NITI Aayog circular.

[2] &: Rating watch with developing implications

- **Modest return indicators –** Although the operating margins improved from 9.43% in FY2017 to 9.86% in FY2018, it continues to remain moderate, which along with high working capital intensity has constrained AIL's RoCE at 15.0% in FY2018.

- **Contracts from SP Group on fixed-price basis -** Orders aggregating to Rs. 3,780 crore accounting for 11% of AIL's order book as on September 30, 2018 are received from SP Group, of which ~80% 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 in order to maintain its profitability.

Liquidity Position:

AIL's liquidity profile remains strong with liquid cash & bank balance of ~Rs. 220 crore as on September 30, 2018 and significant proportion of undrawn bank lines of Rs. 1,031 crore. With low external debt repayment obligations in the near term (Rs. 14 crore in H2FY2019), the near-term liquidity profile is expected to remain comfortable.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group Support	NA
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of AIL. As on March 31, 2018, the company had 13 subsidiaries that are enlisted in Annexure-2.

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 2018. 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, Kazakhstan, Gabon and executing projects in Bangladesh, UAE, Kuwait, Ghana, Tanzania, Zambia, Guinea, Mozambique, Mauritius and Mauritania.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	6,321	6,561
PAT (Rs. crore)	153	164
OPBDIT/OI (%)	9.43%	9.86%
RoCE (%)	13.93%	15.00%
Total Debt/TNW (times)	1.24	0.94
Total Debt/OPBDIT (times)	3.38	2.59
Interest coverage (times)	1.97	2.11

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating January 2019	Date & Rating in FY2018 January 2018	Date & Rating in FY2017 March 2017	Date & Rating in FY2016 December 2016
1	NCD	Long Term	100	100	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-
2	NCD	Long Term	300	250	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Term Loan	Long Term	800	368	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
4	Cash Credit	Long Term	1400	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
5	Non-fund based (BG/LC)	Long Term	13,650	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
6	Short term loans	Short Term	750	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Non-fund based (BG/LC)	Short Term	1,200	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
8	CP	Short Term	900	-	[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
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)
-	NCD	Yet to be placed	-	-	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	-	-	-	13,650	[ICRA]AA (Stable)
NA	Non-fund based BG/LC	-	-	-	1,200	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Hazarat and Company Private Limited	100%	Full consolidation
Afcons Corrorsion Protection Private Limited	100%	Full consolidation
Afcons Offshore and Marine Services Private Limited	100%	Full consolidation
Afcons (Mideast) Constructions and Investments Private Limited	100%	Full consolidation
Afcons Infrastructures Kuwait for Building, Road and Marine Contracting WLL	49%	Full consolidation
Afcons Construction Mideast LLC	49%	Full consolidation
Afcons Gulf International Projects Services FZE	100%	Full consolidation
Afcons Mauritius Infrastructure Limited	100%	Full consolidation
Afcons Overseas Singapore Pte Limited	100%	Full consolidation
Afcons Infra Projects Kazakhstan LLP (Step Down Subsidiary)	100%	Full consolidation
Afcons Overseas Construction LLC (upto September 18, 2017)	49%	Full consolidation
Afcons Saudi Constructions LLC	100%	Full consolidation
Afcons Overseas Project Gabon SARL (Step Down Subsidiary)	100%	Full consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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