July 08, 2019

Afcons Infrastructure Limited: Rating reaffirmed and long-term rating placed under watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	400	300	[ICRA]AA&; Reaffirmed and long-term rating placed under watch with developing implications
Fund based - Term Loan	800	800	[ICRA]AA&; Reaffirmed and long-term rating placed under watch with developing implications
Fund based - Cash Credit (long-term)	1,400	1,400	[ICRA]AA&; Reaffirmed and long-term rating placed under watch with developing implications
Non-fund based - BG/LC (long-term)	13,650	13,650	[ICRA]AA&; Reaffirmed and long-term rating placed under watch with developing implications
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	**19,100**	**19,000**	

*Instrument details are provided in Annexure-1

&: Rating watch with developing implications

Rationale

The ratings reaffirmation favorably factors in Afcons Infrastructure Limited's (AIL) healthy growth in gross billing in FY 2019 by 34% to Rs. 8,727 crore supported by strong execution and healthy fresh order inflows. AIL's order book position is healthy at ~Rs. 34,532 crore (including L1 pending Letter of Award) as on March 31, 2019 which is 4.0 times FY2019 revenues thereby providing strong revenue visibility in the medium term. Further, the order book is well diversified across segments – surface transport (rail, road and bridges - accounting for 48% of order book as on March 31, 2019), tunnelling and hydro projects (21%), marine and industrial (17%), oil and gas (9%) and metro (5%). Further, the order book is geographically well diversified and spread across twelve states accounting for 66% of order book and fifteen countries accounting for 34% of the order book. The ratings also take into account the financial flexibility derived from healthy liquid cash and bank balances of Rs. 343 crore and adequate cushion available within the working capital limits. The average fund based utilisation for FY2019 stood at Rs. 1,036 crore (including utilization of commercial paper) with an average available cushion of Rs. 720 crore. The ratings also derive strength from AIL's proven track record of sound project execution and engineering skills supported by experienced managerial and technical personnel heading the key business verticals with record of completing large-sized marquee projects within stipulated timelines.

The ratings, however, remain constrained by. AIL's high total outside liabilities to tangible net-worth (TOL/TNW)[1] ratio of 4.05 times as on March 31, 2019 as a major part of the working capital funding is being met through mobilisation advances & payables to sub-contractors which are back to back in nature. The ratings also take into account the concentration of company's order book to segments like tunnelling and hydro projects (21%) which involves a higher degree of complexity and are prone to cost and time over runs. 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 geo-political risks.

Long-term rating placed under watch with developing implications

The long-term rating has been placed under watch with developing implications solely on account of the downgrade of the parent company Shapoorji Pallonji and Company Private Limited (SPCPL)[2]. On a standalone basis, AIL's credit profile continues to remain strong and till date the financial linkages to SP Group have remained limited to dividend pay-outs (Rs. 25.19 crore in FY2019). Any form of additional support to SPCPL/ SP Group would remain a key monitorable for AIL. Any further deterioration in financial risk profile of SPCPL, would be the key rating sensitivity for AIL.

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. 34,532 crore (including L1 pending letter of award) as on March 31, 2019 translating into 4.0 times the revenues of FY2019. 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.570 crore as on March 31, 2019, receivables aggregating to Rs. 318 crore have been realised against submission of bank guarantees, Rs. 1,369 crores of works are yet to be realised on account of pending variations, and other dues. The company has been funding its working capital requirements through mobilisation advances & payables to sub-contractors which are back to back in nature. This has resulted in higher total outside liabilities to tangible net-worth (TOL/TNW) ratio – an increase from 3.47 times as on March 31, 2018 to 4.05 times as on March 31, 2019.

[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

[2] Ratings of SPCPL have been revised to [ICRA]AA-/A1+ from [ICRA]AA/A1+ and the long-term rating continues to remain under watch with developing implications

- **Modest return indicators –** The operating margins of 9.60% in FY2019 remain moderate, which along with high working capital intensity has constrained AIL's RoCE at 16.39% in FY2019.

- **Contracts from SP Group on fixed-price basis -** Orders aggregating to Rs. 3,463 crore accounting for 10% of AIL's order book as on March 31, 2019 are received from SP Group, of which 78% 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. 343 crore as on March 31, 2019 and significant proportion of bank lines. The average fund based utilisation for FY2019 stood at Rs. 1,036 crore (including utilization of commercial paper) with an average available cushion of Rs. 720 crore. The external debt repayment obligations stands at Rs. 128 crore in FY2020 which can be comfortably met through the cash accruals.

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, 2019, 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. 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

	FY2018A	FY2019P*
Operating Income (Rs. crore)	6,561	8,876
PAT (Rs. crore)	164	234.44
OPBDIT/OI (%)	9.86%	9.60%
RoCE (%)	15.00%	16.39%
Total Debt/TNW (times)	0.94	0.81
Total Debt/OPBDIT (times)	2.59	1.91
Interest coverage (times)	2.11	2.99

Source: Company, ICRA research
*Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)					Chronology of Rating History for the past 3 years	
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating July 2019	Date & Rating in FY2019 January 2019	Date & Rating in FY2018 January 2018	Date & Rating in FY2017 March 2017
1	NCD	Long Term	-	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-
2	NCD	Long Term	300	250	[ICRA]AA&	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Term Loan	Long Term	800	519.51	[ICRA]AA&	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
4	Cash Credit	Long Term	1400	-	[ICRA]AA&	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
5	Non-fund based (BG/LC)	Long Term	13,650	-	[ICRA]AA&	[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+

&: Rating under watch with developing implications

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&
INE101I08065	NCD	06-Sep-16	8.60%	06-Sep-21	100	[ICRA]AA&
INE101I08073	NCD	23-Feb-17	8.65%	23-Feb-22	100	[ICRA]AA&
-	NCD	Yet to be placed	-	-	50	[ICRA]AA&
NA	CP	-	-	7 to 365 days	900	[ICRA]A1+
NA	Term Loan 1	Jun-15	9.70%	Apr-22	200	[ICRA]AA&
NA	Term Loan 2	Feb-17	9.40%	Mar-24	200	[ICRA]AA&
NA	Term Loan 3	Mar-14	3.41%	Mar-21	70	[ICRA]AA&
NA	Term Loan 4	Mar-19	9.30%	Mar 2026	200	[ICRA]AA&
NA	Proposed Term Loan	-	-	-	130	[ICRA]AA&
NA	Cash Credit	-	-	-	1,400	[ICRA]AA&
NA	Short Term Loan	-	-	-	750	[ICRA]A1+
NA	Non-fund based BG/LC	-	-	-	13,650	[ICRA]AA&
NA	Non-fund based BG/LC	-	-	-	1,200	[ICRA]A1+

Source: Company; &: Rating watch with developing implications

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.

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