February 28, 2020 Revised

Afcons Infrastructure Limited: Long-term rating downgraded to [ICRA]AA-, Short-term rating reaffirmed at [ICRA]A1+; ratings removed from watch with developing implications and 'Negative' outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	400	300	Long-term rating: [ICRA]AA-; downgraded from [ICRA]AA, rating removed from watch with developing implications and 'Negative' outlook assigned
Fund based - Term Loan	800	1,200	Long-term rating: [ICRA]AA-; downgraded from [ICRA]AA, rating removed from watch with developing implications and 'Negative' outlook assigned
Fund based - Cash Credit (long-term)	1,400	1,400	Long-term rating: [ICRA]AA-; downgraded from [ICRA]AA, rating removed from watch with developing implications and 'Negative' outlook assigned
Non-fund based - BG/LC (long-term)	13,650	13,250	Long-term rating: [ICRA]AA-; downgraded from [ICRA]AA, rating removed from watch with developing implications and 'Negative' outlook assigned
Fund based – Short term loans	750	712	[ICRA]A1+; Reaffirmed
Non-fund based - BG/LC (short-term)	1,200	1,238	[ICRA]A1+; Reaffirmed
Commercial Paper	900	900	[ICRA]A1+; Reaffirmed
Total	**19,100**	**19,000**	

*Instrument details are provided in Annexure-1

Rationale

The rating downgrade and the negative outlook primarily reflects the deterioration in the credit profile of Afcons Infrastructure Limited (AIL) on account of increase in total indebtedness, owing to increase in work in progress due to contractual variations and elongation in receivable cycle for few clients. The same has got funded through mobilization advances and stretching its payables, resulting in increase in total outside liabilities to tangible net-worth ratio (TOL/TNW)[1] from 4.05x as on March 31, 2019 to 4.40x as on September 30, 2019. The rating also factors in the increase in financial linkages between AIL and its parent company, Shapoorji Pallonji and Company Private Limited (SPCPL)[2], with SPCPL undertaking external borrowing on its balance sheet against pledge of AIL's shares held by it, contrary to ICRA's expectation of linkages being limited to regular dividend pay-outs. The rating also remains constrained by modest and

[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]A+ from [ICRA]AA- and negative outlook has been assigned via press release dated November 28, 2019

declining operating profitability to 8.21% as on March 31, 2019 from 9.86% as on March 31, 2018 on account of loss making Chennai Metro project and increase in proportion of sub-contracting, consequently constraining the Return on Capital Employed (RoCE) to 16.43% during FY2019. The ratings also take into account the concentration of company's order book to segments especially tunnelling and hydro projects (20%) which involves a higher degree of complexity. Further, notwithstanding the contingencies built-in, fixed price contracts with SP Group companies exposes AIL'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.

The rating, however, favourably factors in AIL's well established presence in the infrastructure segment, its presence in diversified segments, proven track record of sound project execution and engineering skills. AIL'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. The ratings also take comfort from the healthy order book position of ~Rs. 31,222 crore as on September 30, 2019 (3.6x FY2019 revenues) which provides 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, ICRA takes comfort form strong execution capabilities of 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. The ratings also derive strength from the expertise of its managerial and technical personnel heading the key business verticals.

- **Healthy order book position –** AIL's order book stood at ~Rs. 31,222 crore as on September 30, 2019 translating into 3.6 times the revenues of FY2019 providing strong revenue visibility in the near to medium term. The order book is well diversified across segments – surface transport (rail, road and bridges - accounting for 37% of order book as on September 30, 2019), tunnelling and hydro projects (20%), marine and industrial (17%), metro (16%) and oil and gas (10%). Further, the order book is geographically well diversified and spread across eleven states accounting for 72% of order book and eleven countries accounting for 28% of the order book.

- **High financial flexibility –** AIL derives strong financial flexibility from its 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

- **Increase in total indebtedness –** Due to significant increase in AIL's work in progress on account of contractual variations, high amount of arbitration receivables yet to be realised and elongation of receivable cycle for few clients, which are funded through mobilization advances and stretching its payables, has resulted in an increase in total outside liabilities to tangible net-worth ratio. Out of total arbitration receivables of Rs. 542 crore as on September 30, 2019, receivables aggregating to Rs. 322 crore have been realised against submission of bank guarantees and Rs. 1,619 crore of works are yet to be realised on account of pending variations, claims and other dues. AIL's TOL/TNW has increased from 4.05x as on March 31, 2019 to 4.40x as on September 30, 2019. Going forward, a material deterioration in the working capital cycle from current levels over the medium term can impact AIL's liquidity and will be one of the key rating sensitivities.

- **Modest return indicators –** The operating margins of 8.21% in FY2019 remain moderate, which along with high working capital intensity has constrained AIL's RoCE at 16.43% in FY2019. The margins have declined in FY2019 due to loss of ~Rs. 97 crore AIL booked on its Chennai Metro project and high proportion of sub-contracting expenditure which increased to 37% as a percentage of revenue from 20% in FY2018. The operating margins during H1FY2020 have also remained moderate at 8.64%.

- **Contracts from SP Group on fixed-price basis -** Orders aggregating to Rs. 3,017 crore accounting for ~10% of AIL's order book as on March 31, 2019 are received from SP Group, of which 74% 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: Adequate

AIL's liquidity profile is remains adequate with liquid cash & bank balance of ~Rs. 338 crore as on December 31, 2019. The average fund based utilisation for past twelve months stood at Rs. 1,072 crore and the unutilized limits stood at Rs. 428 crore as on January 31, 2020. AIL has debt repayment obligations of Rs. 86 crore falling due in Q4FY2020 and Rs.144 crore due in FY2021.

Rating sensitivities

Positive triggers – The crystallisation of scenarios for rating upgrade is unlikely over the medium term. The outlook may be revised to 'Stable' if there is significant growth in revenue, improvement in profitability along with improvement in the working capital intensity especially through realisation of stuck money in variations, thereby resulting in resulting in reduction in overall outside liabilities. Specific credit metrics will include the TOL/TNW, remaining below 2.5 times on a sustained basis.

Negative triggers – Downward pressure on the rating could emerge if the cash accruals are lower than expected or delay in resolution of disputed receivables and/or elongation in receivable cycle adversely impacts the liquidity position of AIL. The rating may also get impacted if there is further weakening of the financial profile of its parent – Shapoorji Pallonji and Company Private Limited and/or any form of additional financial support extended to SP Group (including significantly higher than anticipated dividend payouts).

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. 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

	FY2018A	FY2019A	6MFY2020P
Operating Income (Rs. crore)	6561	8736	4389
PAT (Rs. crore)	164	234	93
OPBDIT/OI (%)	9.9%	8.2%	8.6%
RoCE (%)	15.0%	16.4%	16.1%
Total Outside Liabilities/Tangible Net Worth (times)	3.60	4.21	4.58
Total Debt/OPBDIT (times)	2.59	2.28	2.82
Interest Coverage (times)	2.11	2.52	2.08
DSCR (times)	1.65	1.69	1.51

Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Rating (FY2020)					Rating History for the past 3 years						
		Type	Amount Rated	Amount O/s	Current rating 28-Feb-2020	Earlier rating 08-Jul-2019	FY2019		FY2018	FY2017			
							24-Jan-2019	04-Jan-2019	08-Jan-2018	01-Mar-2017	02-Feb-2017	01-Dec-2016	15-Sep-2016
1	NCD	Long Term	-	-	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	NCD	Long Term	300	250	[ICRA]AA- (Negative)	[ICRA]AA&	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Term Loan	Long Term	1,200	530	[ICRA]AA- (Negative)	[ICRA]AA&	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
4	Cash Credit	Long Term	1,400	-	[ICRA]AA- (Negative)	[ICRA]AA&	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
5	Non-fund based (BG/LC)	Long Term	13,250	-	[ICRA]AA- (Negative)	[ICRA]AA&	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
6	Short term loans	Short Term	712	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Non-fund based (BG/LC)	Short Term	1,238	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
8	CP	Short Term	900	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[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- (Negative)
INE101I08065	NCD	06-Sep-16	8.60%	06-Sep-21	100	[ICRA]AA- (Negative)
INE101I08073	NCD	23-Feb-17	8.65%	23-Feb-22	100	[ICRA]AA- (Negative)
-	NCD	Yet to be placed	-	-	50	[ICRA]AA- (Negative)
NA	CP	-	-	7 to 365 days	900	[ICRA]A1+
NA	Term Loan 1	Jun-15	9.60%	Apr-22	40	[ICRA]AA- (Negative)
NA	Term Loan 2	Feb-17	9.40%	Mar-24	200	[ICRA]AA- (Negative)
NA	Term Loan 3	Mar-14	3.41%	Mar-21	40	[ICRA]AA- (Negative)
NA	Term Loan 4	Mar-19	9.30%	Mar-26	200	[ICRA]AA- (Negative)
NA	Term Loan 5	Jun-19	9.30%	Jun-26	50	[ICRA]AA- (Negative)
NA	Proposed Term Loan	-	-	-	670	[ICRA]AA- (Negative)
NA	Cash Credit	-	-	-	1,400	[ICRA]AA- (Negative)
NA	Short Term Loan	-	-	-	712	[ICRA]A1+
NA	Non-fund based BG/LC	-	-	-	13,250	[ICRA]AA- (Negative)
NA	Non-fund based BG/LC	-	-	-	1,238	[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

Corrigendum

Document dated February 28, 2020 has been corrected with revision as detailed below:

Revision in instrument wise current rated amount – incorrect figures mentioned earlier have now been rectified.

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About ICRA Limited:

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