

October 29, 2021

Afcons Infrastructure Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	300	300	[ICRA]A+(Negative); reaffirmed
Fund based - Term Loan	1,200	1,200	[ICRA]A+(Negative); reaffirmed
Fund based - Cash Credit (long-term)	1,400	1,400	[ICRA]A+(Negative); reaffirmed
Non-fund based - BG/LC (long-term)	13,250	13,250	[ICRA]A+(Negative); reaffirmed
Fund based – Short term loans	712	712	[ICRA]A1; reaffirmed
Non-fund based - BG/LC (short-term)	1,238	1,238	[ICRA]A1; reaffirmed
Commercial Paper	900	900	[ICRA]A1; reaffirmed
Total	19,000	19,000	

*Instrument details are provided in Annexure-1

Rationale

The rating, affirmation favourably factors in Afcons Infrastructure Limited's (AIL) healthy order book position of ~Rs. 26,864 crore (excluding L1 orders) as on March 31, 2021 (2.9x FY2021 revenues) which provides strong revenue visibility in the medium term. The order book is well diversified across segments – surface transport (rail, road and bridges - accounting for 35% of order book as on Mar 31, 2021), metro (30%), tunnelling and hydro projects (17%), marine and industrial (13%), and oil and gas (5%). Further, the order book is geographically well diversified with domestic orders (spread across twelve states) accounting for 73% of order book and international orders (spread across fourteen countries) accounting for 27% of the order book. AIL has a well-established track record in the infrastructure segment and has strong engineering skills in executing complex infrastructure projects across diverse segments. 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 remain constrained by the company's highly leveraged capital structure with adjusted¹ TOL/TNW of 3.48 times and modest interest cover of 1.88 times as on March 31, 2021 (2.43 times adjusted for one-time write-offs and provisions). AIL has back-to-back arrangement with its sub-contractors for a few projects; consequently, part of the current assets (viz. contractual variations along with high amount of arbitration receivables) are funded by way of stretching the creditors. This along with mobilization advances resulted in high TOL/TNW. Around 37% of AIL's total receivables (excluding retention money) as on

¹Adjusted for arbitration receivables realized against submission of bank guarantees amounting to Rs.271 crore which the company has classified as 'advances from customers' pending final settlement of the claim; and liabilities classified as 'amount due to customers'. Reported TOL/TNW stands at 4.25 times as on March 31, 2021

March 2021 are arbitration receivables (including interest receivable), ~38% of unbilled revenue is towards contractual variations. Timely realisation of these unbilled revenue and arbitration receivables would be key from the credit perspective.

Notwithstanding the contingencies built-in, the fixed price nature of contracts in case of the international orders (27% of AIL's order book) and projects with SP Group companies (5% of AIL's order book exposes AIL's profitability to any sharp movement in input. The increasing focus on executing overseas projects also exposes the company to exchange rate and geo-political risks.

AIL has ongoing arbitration cases and ICRA will continue to monitor developments on this front. ICRA also notes the untoward incident arising out of cyclone Tauktae wherein one of AIL's subcontractor's vessel got damaged leading to loss of lives and property. ICRA is given to understand that most of the damages would be covered under insurance policies taken by AIL and the subcontractor; any unforeseen liability or impact that crystalizes on AIL on account of this incident will be a key monitorable going forward.

The negative outlook factors in the reduced financial flexibility of the group given that the flagship company in the group and AIL's promoter, Shapoorji Pallonji and Company Private Limited (SPCPL, rated [ICRA]BBB+&/A2&) is currently undergoing a one-time restructuring (OTR) exercise. SPCPL's successful exit from the OTR process, remains critical from a group credit perspective. Hence, ICRA shall continue to monitor any further developments in this regard.

Key rating drivers and their description

Credit strengths

Robust execution capabilities – AIL has a well-established track record in the infrastructure segment and has robust 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 resulting in near to medium term revenue visibility – AIL's order book stood at ~Rs. 26,864 crore (including L1 orders the order book stood at Rs. 31,353 crore) as on March 31, 2021 translating into 2.9 times (3.3 times, if L1 orders are included) the revenues of FY2021 providing adequate revenue visibility in the near to medium term. 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.

Diversified order book across segments and geographies - The order book is well diversified across segments – surface transport (rail, road and bridges - accounting for 35% of order book as on March 31, 2021), metro (30%), tunnelling and hydro projects (17%), marine and industrial (13%), and oil and gas (5%). Further, the order book is geographically well diversified with domestic orders (spread across twelve states) accounting for 73% of order book and international order (spread across fourteen countries) accounting for 27% of the order book.

Credit challenges

Highly leveraged capital structure - AIL has back-to-back arrangement with its sub-contractors for a few projects; consequently, part of the current assets (viz. contractual variations along with high amount of arbitration receivables) are funded by way of stretching the creditors. This along with mobilization advances has resulted in high adjusted total outside liabilities to tangible net-worth ratio of 3.48 times as on March 31, 2021. While ~37% of AIL's total receivables (excluding retention money) as on March 2021 are arbitration receivables which are awarded and yet to be realised, ~38% of unbilled revenue is towards contractual variations. The interest coverage also remains moderate at 1.88 times as on March 31, 2021 (2.43 times adjusted for one-time write-offs and provisions). Going forward, any delay in realizations of the receivables resulting into any material deterioration in AIL's liquidity profile will be a key rating sensitivity.

Weakening credit profile of promoter group: The credit risk profile of Shapoorji Pallonji group has weakened in the recent years, which has resulted in reduced financial flexibility given that SPCPL, is currently undergoing a one-time restructuring exercise. In addition to the regular dividend payouts and SPCPL’s borrowing against pledge of shares of AIL in the past, AIL has extended mobilization advances amounting to ~ Rs. 247crore to SPCPL as it has sub-contracted part of the metro works (related to station buildings) to SPCPL. Any incremental financial support to the group companies, which could materially impact liquidity position and cash flows of the company will be a key monitorable.

Overseas and SP Group Contracts on fixed-price basis - Notwithstanding the contingencies built-in, the fixed price nature of contracts in case of the international orders (27% of AIL’s order book) and projects with SP Group companies (5% of AIL’s order book) exposes AIL’s profitability to any sharp movement in input. The increasing focus on executing overseas projects also exposes the company to exchange rate and geo-political risks. The ability of the company to execute the project within the budgeted costs would remain important in order to maintain its profitability. Furthermore, any elongation in the receivables from SP Group on account of group’s overall tight liquidity position would remain a monitorable.

Liquidity position: Adequate

AIL’s liquidity profile is remains adequate with liquid cash & bank balance of ~Rs. 623 crore as on March 31, 2021. The average fund-based utilisation for past twelve months stood at 68%. Hence, the average cushion available in its fund-based limits is 32% (Rs. 493 crore). The company’s cash flow from operations should be adequate to honour its annual debt obligations of Rs 275crore for FY 2022 and Rs. 201crore for FY 2023 respectively.

Rating sensitivities

Positive factors -The outlook may be revised to ‘Stable’ if there is significant improvement in profitability along with improvement in the working capital intensity and liquidity profile. Moreover, successful exit of SPCPL from the OTR and improvement in its credit profile is also crucial for improvement in AIL’s financial flexibility.

Negative factors – Downward pressure on the rating could emerge if the cash accruals are lower than expected 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 credit 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, 2021, the company had 12 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, Mauritania, Maldives and Liberia.

Key financial indicators (audited)

ALL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	10,004	9,348
PAT (Rs. crore)	248	170
OPBDIT/OI (%)	8.91%	9.37%
PAT/OI (%)	2.48%	1.81%
Total Outside Liabilities/Tangible Net Worth (times)*	4.87	4.25
Total Debt/OPBDIT (times)	1.87	1.80
Interest Coverage (times)	2.28	1.88

Source: Company, ICRA Research

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation. All ratios as per ICRA calculations

*TOL/TNW adjusted for arbitration receivables realized against submission of bank guarantees and liabilities classified as "amount due to customers" is 3.48 as on 31st March 2021 (4.69 as on 31st March 2020)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019	
							Oct 29, 2021	Oct 26, 2020	Feb 28, 2020	Jul 08, 2019
1	NCD	Long Term	-	-			-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	NCD	Long Term	300	175	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]AA- (Negative)	[ICRA]AA&	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Term Loan	Long Term	1,200	573	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]AA- (Negative)	[ICRA]AA&	[ICRA]AA (Stable)	[ICRA]AA (Stable)
4	Cash Credit	Long Term	1,400	828	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]AA- (Negative)	[ICRA]AA&	[ICRA]AA (Stable)	[ICRA]AA (Stable)
5	Non-fund based (BG/LC)	Long Term	13,250	10,119	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]AA- (Negative)	[ICRA]AA&	[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+
7	Non-fund based (BG/LC)	Short Term	1,238	-	[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+

&= Under watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD	Simple
Term Loan	Simple
Cash Credit	Simple
Long Term Non-fund based (BG/LC)	Simple
Short term loans	Simple
Short Term Non-fund based (BG/LC)	Simple
CP	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs Crore)	Current Rating and Outlook
INE101I08065	NCD	06-Sep-16	8.60%	06-Sep-21	100	[ICRA]A+ (Negative)
INE101I08073	NCD	23-Feb-17	8.65%	23-Feb-22	100	[ICRA]A+ (Negative)
-	NCD	Yet to be placed	-	-	100	[ICRA]A+ (Negative)
NA	CP	Yet to be placed	-	-	900	[ICRA]A1
Axis Bank	Term Loan-I	Feb-17	-	Mar-24	120	[ICRA]A+ (Negative)
Exim Bank	Term Loan-II	Nov-20	-	Sep-26	200	[ICRA]A+ (Negative)
State Bank of India	Term Loan-III	Mar-19	-	Mar-26	200	[ICRA]A+ (Negative)
SBM Bank (India) Limited	Term Loan-IV	Jun-19	-	Jun-26	50	[ICRA]A+ (Negative)
HSBC	Term Loan - V	Jun-19	-	Jun-25	50	[ICRA]A+ (Negative)
Propose Limits	Proposed Term Loan	-	-	-	580	[ICRA]A+ (Negative)
Axis Bank	Cash Credit	-	-	-	130	[ICRA]A+ (Negative)
Bank of India	Cash Credit	-	-	-	50	[ICRA]A+ (Negative)
BNP Paribas	Cash Credit	-	-	-	115	[ICRA]A+ (Negative)
Bank of Baroda	Cash Credit	-	-	-	150	[ICRA]A+ (Negative)
HSBC	Cash Credit	-	-	-	125	[ICRA]A+ (Negative)
ICICI Bank	Cash Credit	-	-	-	75	[ICRA]A+ (Negative)
IDBI Bank	Cash Credit	-	-	-	10	[ICRA]A+ (Negative)
Indian Bank	Cash Credit	-	-	-	50	[ICRA]A+ (Negative)
Punjab National Bank	Cash Credit	-	-	-	120	[ICRA]A+ (Negative)
State Bank of India	Cash Credit	-	-	-	500	[ICRA]A+ (Negative)

Union Bank of India	Cash Credit	-	-	-	25	[ICRA]A+ (Negative)
UCO Bank	Cash Credit	-	-	-	50	[ICRA]A+ (Negative)
HSBC	Short Term Loan	-	-	-	115	[ICRA]A1
Proposed Limits	Short Term Loan	-	-	-	597	[ICRA]A1
Axis Bank	Non-fund based BG/LC	-	-	-	590	[ICRA]A+ (Negative)
Bank of India	Non-fund based BG/LC	-	-	-	380	[ICRA]A+ (Negative)
BNP Paribas	Non-fund based BG/LC	-	-	-	85	[ICRA]A+ (Negative)
Bank of Baroda	Non-fund based BG/LC	-	-	-	1,180	[ICRA]A+ (Negative)
DBS Bank	Non-fund based BG/LC	-	-	-	200	[ICRA]A+ (Negative)
Exim Bank	Non-fund based BG/LC	-	-	-	1,370	[ICRA]A+ (Negative)
HSBC	Non-fund based BG/LC	-	-	-	515	[ICRA]A+ (Negative)
ICICI Bank	Non-fund based BG/LC	-	-	-	885	[ICRA]A+ (Negative)
Indian Bank	Non-fund based BG/LC	-	-	-	450	[ICRA]A+ (Negative)
IDBI Bank	Non-fund based BG/LC	-	-	-	480	[ICRA]A+ (Negative)
Punjab National Bank	Non-fund based BG/LC	-	-	-	500	[ICRA]A+ (Negative)
State Bank of India	Non-fund based BG/LC	-	-	-	4,740	[ICRA]A+ (Negative)
UCO Bank	Non-fund based BG/LC	-	-	-	250	[ICRA]A+ (Negative)
Union Bank of India	Non-fund based BG/LC	-	-	-	490	[ICRA]A+ (Negative)
Yes Bank	Non-fund based BG/LC	-	-	-	595	[ICRA]A+ (Negative)

Proposed Limits	Non-fund based BG/LC	-	-	-	540	[ICRA]A+ (Negative)
Axis Bank	Non-fund based BG/LC	-	-	-	360	[ICRA]A1
Bank of Baroda	Non-fund based BG/LC	-	-	-	5	[ICRA]A1
ICICI Bank	Non-fund based BG/LC	-	-	-	125	[ICRA]A1
IDBI Bank	Non-fund based BG/LC	-	-	-	100	[ICRA]A1
Punjab National Bank	Non-fund based BG/LC	-	-	-	75	[ICRA]A1
Standard Chartered Bank	Non-fund based BG/LC	-	-	-	25	[ICRA]A1
State Bank of India	Non-fund based BG/LC	-	-	-	200	[ICRA]A1
Union Bank of India	Non-fund based BG/LC	-	-	-	10	[ICRA]A1
Yes Bank	Non-fund based BG/LC	-	-	-	100	[ICRA]A1
Proposed Limits	Non-fund based BG/LC	-	-	-	238	[ICRA]A1

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
Hazarat and Company Private Limited	100%	Full consolidation
Afcons Corrosion Protection Private Limited	100%	Full consolidation
Afcons Hydrocarbons Engineering 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 Saudi Constructions LLC	100%	Full consolidation
Afcons Overseas Project Gabon SARL (Step Down Subsidiary)	100%	Full consolidation

Source: AIL annual report FY2020

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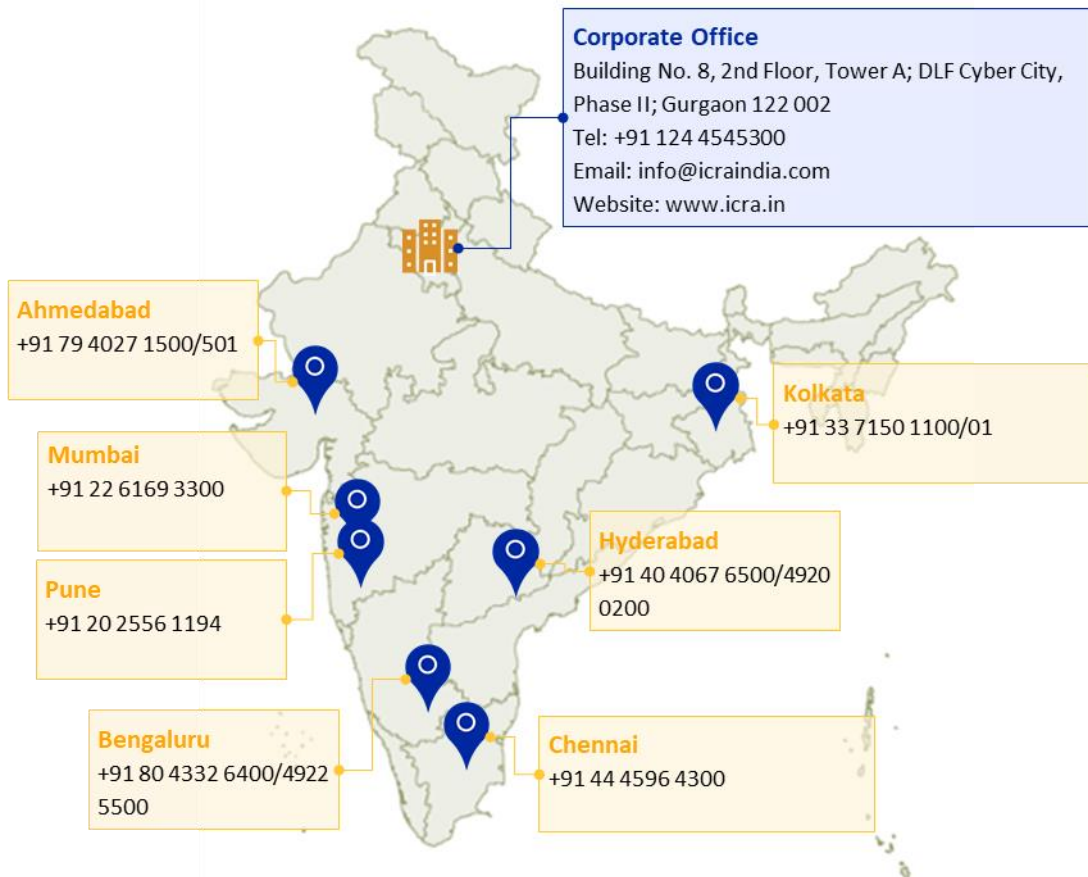
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