September 01, 2022

Afcons Infrastructure Limited: Ratings reaffirmed; outlook revised to Stable

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+; reaffirmed and outlook revised to Stable from Negative
Fund-based – Term loan	1,200	1,200	
Long-term – Fund-based facilities	1,400	1,400	
Long-term – Non-fund-based facilities	13,250	13,250	
Short-term – Fund-based term loans	712	712	[ICRA]A1; reaffirmed
Short-term – Non-fund-based facilities	1,238	1,238	
Commercial paper	900	900	
Total	**19,000**	**19,000**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook to Stable on the long-term rating of Afcons Infrastructure Limited (AIL) factors in the successful exit of one-time restructuring (OTR) plan by AIL's promoter, Shapoorji Pallonji and Company Private Limited (SPCPL, rated [ICRA]A-(Stable)/[ICRA]A2+), the flagship company of the Shapoorji Pallonji (SP) Group on March 31, 2022. The ratings favourably factor in AIL's healthy order book position of ~Rs. 32,577 crore (including L1 order book stood at Rs. 33,914 Crore) as on March 31, 2022 (3.3 times of FY2022 revenues) providing strong medium-term revenue visibility. The operating income (OI) increased by ~19% (PY: de-growth by 7%) in FY2022 to ~Rs. 11,080 crore backed by healthy pick up in execution. The order book is well diversified across segments (metro & urban infrastructure works, tunnelling and hydro projects, surface transport, special projects marine and industrial, and oil and gas) and geographies with domestic orders (spread across twelve states) accounting for 68% and international orders (spread across fourteen countries) constituting 32% of share. AIL has strong track record of executing complex infrastructure projects across diverse segments, which has resulted in acquiring diverse and reputed clientele.

Although AIL's order book comprises technically complex projects, the operating margins remained moderate at ~9% during the past five years on account of provisions and losses incurred (~Rs. 750 crore during FY2018 – FY2022) in two major projects. Going forward, the improvement in profitability margins and return indicators remains a key rating sensitivity. The company has back-to-back arrangement with its sub-contractors for few projects and consequently, part of the current assets (viz. contractual variations along with high amount of arbitration receivables) is funded by creditors. This along with sizeable mobilisation advances resulted in high adjusted[1] TOL/TNW of 3.1 times and moderate interest cover of 2.4 times as on March 31, 2022. Around ~30% of AIL's total receivables (excluding retention money) as of March 2022 are arbitration receivables, which have been awarded and yet to be received, while ~30% of unbilled revenue is towards contractual variations. Timely realisation of these unbilled revenue and arbitration receivables would be the key from the credit perspective.

Notwithstanding the contingencies built-in, the fixed price nature of contracts for international orders and projects with SP Group companies expose AIL's profitability to any sharp movement in input prices. The increasing focus on executing overseas

[1]Adjusted for arbitration receivables realised against submission of bank guarantees 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 3.8 times as on March 31, 2022

projects also exposes the company to geo-political risks. Its ability to execute the projects within the budgeted costs would remain important to maintain its profitability.

ICRA notes that AIL has outstanding advances to parent company, SPCPL, of Rs. 272 crore as on March 31, 2022, which were given for station development works for its metro projects. However, AIL has completed these works on its own due to delay in execution from SPCPL. The management has guided that the said advances are expected to be received in the near term and there won't be any incremental advances to any other Group entities.

The Stable outlook on the long-term rating reflects ICRA's belief that the company would continue to benefit from healthy and well diversified order book position, strong execution capabilities and established relationship with reputed clientele.

Key rating drivers and their description

Credit strengths

Strong execution capabilities – AIL has a strong track record of executing complex infrastructure projects across diverse segments, which has resulted in a reputed clientele across segments and geographies. The ratings derive strength from the expertise of its managerial and technical personnel heading the key business verticals supporting its order execution.

Healthy order book position providing medium-term revenue visibility – AIL's order book stood at ~Rs. 32,577 crore (including L1 order book stood at Rs. 33,914 Crore) as on March 31, 2022 translating into 3.3 times of the revenues of FY2022 providing strong medium-term revenue visibility. Its OI increased by ~19% (PY: de-growth by 7%) in FY2022 to ~Rs. 11,080 crore, backed by healthy pick up in execution.

Diversified order book across segments and geographies – The order book is well diversified across segments – metro & urban infrastructure works (accounting for 33% of order book as on March 31, 2022), tunnelling and hydro projects (22%), surface transport (rail, road and bridges –16%), special projects (16%), marine and industrial (12%), and oil and gas (2%). Further, the order book is geographically diversified with domestic orders (spread across twelve states) constituting 68% and international order (spread across fourteen countries) contributing to 32% of the order book.

Credit challenges

Leveraged capital structure and moderate coverage indicators – AIL has back-to-back arrangement with its sub-contractors for few projects. Consequently, part of the current assets (viz. contractual variations along with high amount of arbitration receivables) is funded by way of stretching the creditors. This along with sizeable mobilisation advances resulted in high adjusted TOL/TNW of 3.1 times and moderate interest cover of 2.4 times as on March 31, 2022. Around ~30% of AIL's total receivables (excluding retention money) as of March 2022 are arbitration receivables, which have been awarded and are yet to be received, while ~30% of unbilled revenue is towards contractual variations. Timely realisation of these unbilled revenue and arbitration receivables would be the key from the credit perspective.

Moderate profitability margins – Although AIL's order book comprises technically complex projects, the operating margins remained moderate at ~9% during the past five years on account of provisions and losses incurred (~Rs. 750 crore during FY2018 – FY2022) in two major projects. Going forward, the improvement in profitability margins and return indicators remains a key rating sensitivity.

Profitability susceptible to variation in input prices, as overseas and SP Group contracts are on fixed-price basis – Notwithstanding the contingencies built-in, the fixed-price contracts for international orders (32% of AIL's order book) and projects with the SP Group companies (3% of AIL's order book) expose AIL's profitability to any sharp movement in input prices. The increasing focus on executing overseas projects also exposes the company to geo-political risks. Its ability to execute the projects within the budgeted costs would remain important to maintain its profitability.

Liquidity position: Adequate

AIL's liquidity profile remains adequate with unencumbered cash and bank balance of ~Rs. 526 crore as on March 31, 2022. The average fund-based utilisation for the past twelve months ending March 2022 stood at 57% with cushion of ~Rs. 500 crore in working capital limits as on March 31, 2022. The company has debt repayment of Rs. 144 crore in FY2023, which can be serviced comfortably from its estimated cash flow from operations. It has capex plans of Rs. 450 crore in FY2023 for purchase of plant and machinery, which is expected to be funded through debt (70%) and internal accruals (30%).

Rating sensitivities

Positive factors – The ratings may be upgraded if there is a significant improvement in profitability margins along with reduction in working capital intensity, thereby resulting in improvement in leverage and coverage metrics.

Negative factors – Pressure on the ratings could emerge if the cash accruals materially decline or deterioration in working capital intensity adversely impacts AIL's liquidity position. The ratings may be downgraded if there is material increase in financial support extended to the 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	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered consolidated financials of AIL. The list of companies that are consolidated to arrive at the ratings are given in Annexure II.

About the company

Afcons Infrastructure Limited (AIL), incorporated in 1976 as Asia Foundations and Constructions Limited, is a reputed construction company and is a part of the SP Group, which holds majority stake of 97.42% in the company. It operates in diverse 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 constructing specialised foundation activities, such as pile foundations, diaphragm walls, geotechnical investigations, drilling and grouting. It entered the marine segment in 1963 and subsequently undertook design and build contracts. Over the years, AIL has increased its presence geographically and has executed projects across all major Indian states in addition to overseas projects in 14 countries.

Key financial indicators

AIL Consolidated^	FY2021	FY2022
	Audited	Provisional
Operating income	9384.2	11082.8
PAT	169.9	357.6
OPBDIT/OI	9.4%	9.1%
PAT/OI	1.8%	3.2%
Total outside liabilities/Tangible net worth (times)*	4.3	3.8
Total debt/OPBDIT (times)	1.8	1.6
Interest coverage (times)	1.9	2.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Source: Company; ICRA Research, ^ratios are as per ICRA's calculations

**TOL/TNW adjusted for arbitration receivables realised against submission of bank guarantees and liabilities classified as "amount due to customers" is 3.1 times as on March 31, 2022 (3.5 times as on March 31, 2021)*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Sep 1, 2022	Oct 29, 2021	Oct 26, 2020	Feb 28, 2020	Jul 08, 2019
1	NCD	Long Term	300	0.0	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]AA- (Negative)	[ICRA]AA&
2	Term loan	Long Term	1,200	546.2	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]AA- (Negative)	[ICRA]AA&
3	Cash credit	Long Term	1,400	1,006.2	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]AA- (Negative)	[ICRA]AA&
4	Non-fund based (BG/LC)	Long Term	13,250	10,070	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]AA- (Negative)	[ICRA]AA&
5	Short-term loans	Short Term	712	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+
6	Non-fund based (BG/LC)	Short Term	1,238	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+
7	Commercial paper	Short Term	900	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+

&= Under watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debenture programme	Simple
Fund-based – Term loan	Simple
Long-term – Fund-based facilities	Simple
Long-term – Non-fund based facilities	Very Simple
Fund-based – Short-term loans	Simple
Short-term – Non-fund based facilities	Very Simple
Commercial paper	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 analysing 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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non-convertible debenture programme	Yet to be placed	NA	NA	300	[ICRA]A+ (Stable)
NA	Fund-based - Term loan	February 2017	NA	September 2026	1,200	[ICRA]A+ (Stable)
NA	Long-term – Fund-based facilities	NA	NA	NA	1,400	[ICRA]A+ (Stable)
NA	Long-term - Non-fund-based facilities	NA	NA	NA	13,250	[ICRA]A+ (Stable)
NA	Fund-based – Short-term loans	NA	NA	NA	712	[ICRA]A1+
NA	Short-term – Non-fund-based facilities	NA	NA	NA	1,238	[ICRA]A1+
NA	Commercial paper	Yet to be placed	NA	NA	900	[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	AIL Ownership	Consolidation Approach
Hazarat and Company Private Limited	100%	Full consolidation
Afcons Corrorsion 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: Company

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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.

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