March 27, 2024

Afcons Infrastructure Limited: Ratings reaffirmed for CP and Bank Facilities; Rated amount enhanced; Ratings reaffirmed and withdrawn for NCD

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	300.0	300.0	[ICRA]A+(Stable); reaffirmed and withdrawn
Long Term - Fund-Based – Term Loan	1,200.0	970.0	[ICRA]A+(Stable); reaffirmed
Long-Term – Fund-Based Facilities	1,400.0	1,900.0	[ICRA]A+(Stable); reaffirmed and assigned for enhanced amount
Long-Term – Non-Fund Based Facilities	13,250.0	17,490.0	[ICRA]A+(Stable); reaffirmed and assigned for enhanced amount
Short-term – Fund-based term loans	712.0	0.0	-
Short-term – Non-fund based facilities	1,238.0	1,600.0	[ICRA]A1; reaffirmed and assigned for enhanced amount
Commercial paper	900.0	900.0	[ICRA]A1; reaffirmed
Total	**19,000.0**	**23,160.0**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has withdrawn the outstanding rating of Rs 300 crore of Afcons Infrastructure Limited (AIL) as there is no amount outstanding against the same. This is in accordance with ICRA's policy on withdrawal.

The ratings for Afcons Infrastructure Limited (AIL) continues to favourably factor in the longstanding track record of its operations in executing complex infrastructure projects, its large scale of operations, diversified order book across segments, clientele and geographies. It had a healthy order book position of ~Rs. 32,556 crore (excluding L1) as on December 31, 2023 (2.6 times of FY2023 revenues) providing strong medium-term revenue visibility. The operating income (OI) recorded a compounded annual growth rate (CAGR) of 14.04% over the last five years ending FY2023, with a year-on-year (YoY) growth of 10.6% in H1 FY2024 to Rs. 6,509.7 crore, backed by healthy pick up in execution. ICRA expects the growth momentum in OI to continue with expected annual revenue growth of 13%-15% and operating margins to remain stable at ~10% over the medium term. AIL has a diversified order book across segments (metro and urban infrastructure works, tunnelling and hydro projects, surface transport, marine and oil and gas), geographies (domestic orders spread across 15 states, accounting for 74% and international orders spread across five countries, constituting 26%) and reputed clientele.

The ratings, however, are constrained by the moderately leveraged capital structure and moderate coverage indicators, although the same has substantially improved from FY2020 levels. High creditors (which funded part of the current assets viz. contractual variations and high amount of arbitration receivables) along with sizeable mobilisation advances resulted in adjusted[1] TOL/TNW of 3.4 times and 3.7 times and moderate interest cover of 3.0 times and 2.4 times as on March 31, 2023 and September 30, 2023, respectively. Around 26% of AIL's total receivables as on September 30, 2023, included arbitration receivables[2] (which have been awarded but yet to be received), while ~23% of unbilled revenue is towards contractual variations. Timely realisation of unbilled revenue and arbitration receivables would be crucial. Notwithstanding the

[1] *Adjusted for arbitration receivables realised against submission of bank guarantees which the company has classified as 'advances due to customers' pending final settlement of the claim. Reported TOL/TNW stands at 3.5 times as on March 31, 2023 and 3.8 times as on September 30, 2023.*

[2] *The company has however realised Rs.323 Crores under the NITI Aayog circular for release of 75% against submission of Bank Guarantee.*

contingencies built-in, the fixed-price nature of contracts for international orders exposes AIL's profitability to any sharp movement in input prices. Its ability to execute the projects within the budgeted costs would remain important to maintain its profitability. Although AIL's order book comprises technically complex projects, the operating margins remained over 9% during the five years ending FY2023; the same stood at 10.7% in FY2023 and 9.9% in H1 FY2024 and are expected to sustain at similar levels going forward. Going forward, the improvement in profitability margins, leverage and coverage indicators remains a key rating sensitivity.

ICRA takes note of AIL's plan to undertake capital expenditure of Rs. 1,900 crore - Rs. 2,000 crore in the next two years (FY2024 and FY2025), mainly towards buying tunnel boring machines for its recently awarded high speed rail project and the same is likely to be funded via foreign currency loan. ICRA also notes that AIL has outstanding advances to the parent company, Shapoorji Pallonji and Company Private Limited (SPCPL), of ~Rs. 270 crore as on September 30, 2023, which were given for station development works for its metro projects. However, AIL 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 recovered from SPCPL by June 2024 end and there will not be any incremental support/advances to any of the SP Group entities.

The ratings factor in the stiff competition in the construction sector and the inherent exposure to sizeable contingent liabilities in the form of bank guarantees (BG), mainly for contractual performance, mobilisation advance and security deposits. While 39% of the order book as on December 31, 2023 is in early stages of execution (with less than 15% progress) and 31% of projects are yet to commence construction, most of these have been awarded recently. Given AIL's strong execution capabilities, the projects are expected to be completed on time and the risk of BG invocation is low.

ICRA notes the change in shareholding of AIL, post conversion of cumulative convertible preference shares (CCPS), resulting in majority (72.35%) shareholding being held by Goswami Infratech Private Limited (GIPL) (nil as on March 2023) and 16.64% being held by SPCPL (March 2023: 68.23%) as on date. That said, at group level, AIL remains majority owned by SP Group (holding 99.48%).

The Stable outlook on the long-term rating reflects ICRA's expectations 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

Healthy order book position providing medium-term revenue visibility – The company has a healthy order book position of ~Rs. 32,556 crore (excluding L1) as on December 31, 2023 (2.6 times of FY2023 revenues) providing strong medium-term revenue visibility. Its OI witnessed a CAGR of 14.04% over the last five years ending FY2023, with a year-on-year (YoY) growth of 10.6% in H1 FY2024 to Rs. 6,509.7 crore, backed by healthy pick up in execution.

Diversified order book – The order book is well diversified across segments – metro and urban infrastructure works (39%), tunnelling and hydro projects (25%), Special projects (11%), surface transport (rail, road, and bridges –10%), marine and industrial (9%), as well as oil and gas (6%) as on December 31, 2023. Further, the order book is geographically diversified with domestic orders (spread across fifteen states) constituting 74% and international order (spread across five countries) contributing to 26% of the unexecuted order book as on December 31, 2023. The order book is fairly diversified in terms of projects and clients, with the top three clients contributing 33% to the total unexecuted order book and the top 10 orders accounting for 55% of the unexecuted order book as on December 31, 2023.

Established track record and strong execution capabilities – AIL has a long track record of operations spanning over six decades, driven by an experienced management and demonstrated capabilities in executing complex infrastructure projects. The ratings derive strength from the expertise of its managerial and technical personnel heading the key business verticals supporting its order execution.

Credit challenges

Moderately leveraged capital structure and moderate coverage indicators – High creditors (which funded part of the current assets viz. contractual variations and high amount of arbitration receivables) along with sizeable mobilisation advances resulted in adjusted TOL/TNW of 3.4 times and 3.7 times and moderate interest cover of 3.0 times and 2.4 times as on March 31, 2023 and September 30, 2023, respectively. Around ~26% of AIL's total receivables as on September 30, 2023, included arbitration receivables (which have been awarded but yet to be received), while 23% of unbilled revenue is towards contractual variations. Timely realisation of unbilled revenue and arbitration receivables would be crucial.

About 39% of order book is in early stages of execution – AIL's revenue remains exposed to inherent time and cost overrun risks, given the complex nature of the projects being executed. While 39% of the order book as on December 31, 2023 is in early stages of execution (with less than 15% progress) and 31% of projects are yet to commence construction, most of these have been awarded recently. Given AIL's strong execution capabilities, the projects are expected to be completed on time and the risk of BG invocation is low.

Profitability susceptible to variation in input prices, as overseas contracts are on fixed-price basis – Notwithstanding the contingencies built-in, the fixed-price international contracts expose AIL's profitability to any sharp movement in input prices. Its ability to execute the projects within the budgeted costs would remain important to maintain its profitability. Although AIL's order book comprises technically complex projects, the operating margins remained over 9% during the five years ending FY2023; the same stood at 10.7% in FY2023 and 9.9% in H1FY2024 and are expected to sustain at similar levels going forward. Going forward, the improvement in profitability margins, leverage and coverage indicators remains a key rating sensitivity.

Liquidity position: Adequate

AIL's liquidity profile remains adequate, with unencumbered cash and bank balance of ~Rs. 660 crore as on September 30, 2023. The average fund-based utilisation for the past twelve months ending on September 30, 2023 stood at 77% with cushion of ~Rs. 400 crore in working capital limits. The company has also secured enhancement in working capital limits, further supporting the liquidity profile. The company has debt repayment of Rs. 214crore in FY2025, which can be serviced comfortably from its estimated cash flow from operations.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if there is a sustained improvement in profitability margins, along with reduction in working capital intensity, thereby resulting in material improvement in leverage and coverage metrics.

Negative factors – Negative pressure on AIL's ratings could emerge if the cash accruals materially decline or deterioration in working capital intensity adversely impacts its liquidity position or debt protection metrics. The ratings may be downgraded if there is a 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 - Construction Policy on Withdrawal of Credit Ratings
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

AIL, incorporated in 1976 as Asia Foundations and Constructions Limited, is a reputed construction entity and is a part of the SP Group, which holds majority stake of 99.48%% 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 fifteen Indian states, in addition to overseas projects in 14 countries. ICRA notes the change in shareholding of AIL, post conversion of cumulative convertible preference shares (CCPS) held by Goswami Infratech Private Limited (GIPL), resulting in majority (72.35%) shareholding being held by GIPL (nil as on March 2023) and 16.64% being held by SPCPL (March 2023: 68.23%) as on date. That said, at group level, AIL remains majority owned by SP Group.

Key financial indicators (audited)

AIL – Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	11,048.6	12,654.8	6,509.7
PAT	357.6	410.9	195.1
OPBDIT/OI	8.8%	10.7%	9.9%
PAT/OI	3.2%	3.2%	3.0%
Total outside liabilities/Tangible net worth (times)	3.8	3.5	3.8
Total debt/OPBDIT (times)	1.7	1.2	2.2
Interest coverage (times)	2.3	3.0	2.4

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31,2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 27, 2024	Sep 29 2023	Sep 1, 2022	Oct 29, 2021	Oct 26, 2020
1	NCD	Long Term	300.0	0.0	[ICRA]A+ (Stable); reaffirmed and withdrawn	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)
2	Term loan	Long Term	970.0	672.0	[ICRA]A+ Stable)	[ICRA]A+ Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)
3	Cash credit	Long Term	1,900	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)
4	Non-fund based (BG/LC)	Long Term	17,490.0	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)
5	Short-term loans	Short Term	0.0	-	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

6	**Non-fund based (BG/LC)**	Short Term	1,600.0	-	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**
7	**Commercial paper**	Short Term	900.0	0.0	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debenture programme	Simple
Long term - Fund-based – Term loan	Simple
Long-term – Fund-based facilities	Simple
Long-term – Non-fund based facilities	Very 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: Click Here

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	300.0	[ICRA]A+ (Stable); reaffirmed and withdrawn
NA	Fund-based – Term loan	February 2017	NA	April 2029	970.0	[ICRA]A+ (Stable)
NA	Long-term – Fund-based facilities	NA	NA	NA	1,900.0	[ICRA]A+ (Stable)
NA	Long-term – Non-fund-based facilities	NA	NA	NA	17,490.0	[ICRA]A+ (Stable)
NA	Short-term – Non-fund-based facilities	NA	NA	NA	1,600.0	[ICRA]A1
NA	Commercial paper	Yet to be placed	NA	NA	900.0	[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	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 Oil & Gas Services Private Limited	74%	Full consolidation
Afcons Infrastructures Kuwait for Building, Road and Marine Contracting WLL	49%	Full consolidation
Afcons Construction Mideast LLC	100%	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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