September 29, 2023

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+(Stable); reaffirmed
Fund-based – Term loan	1,200	1,200	[ICRA]A+(Stable); reaffirmed
Long-term – Fund-based facilities	1,400	1,400	[ICRA]A+(Stable); reaffirmed
Long-term – Non-fund based facilities	13,250	13,250	[ICRA]A+(Stable); reaffirmed
Short-term – Fund-based term loans	712	712	[ICRA]A1; reaffirmed
Short-term – Non-fund based facilities	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 I*

Rationale

The reaffirmation of 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. 30,406 crore (excluding L1) as on March 31, 2023 (2.4 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 including year-on-year (YoY) growth of 14.5% in FY2023 to Rs. 12,654.8 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% for FY2024. 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 14 states, accounting for 70% in terms of revenue and international orders spread across five countries, constituting 30%) and reputed clientele.

The ratings, however, are constrained by the moderately leveraged capital structure and moderate coverage indicators, although the same have 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 moderate interest cover of 3.0 times as on March 31, 2023. Around ~26% of AIL's total receivables as on March 31, 2023, included arbitration receivables[2] (which have been awarded but yet to be received), while ~30% of unbilled revenue is towards contractual variations. Timely realisation of unbilled revenue and arbitration receivables would be crucial. Notwithstanding the 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 improved to 10.7% in FY2023 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.

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[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.*

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

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. 272 crore as on March 31, 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 in FY2024 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 45% of the order book as on March 31, 2023 is in early stages of execution (with less than 15% progress) and 23% 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.

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. 30,406 crore (excluding L1) as on March 31, 2023 (2.4 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 including YoY growth of 14.5% in FY2023 to Rs. 12,654.8 crore, backed by healthy pick up in execution.

Diversified order book – The order book is well diversified across segments – tunnelling and hydro projects (28%), metro and urban infrastructure works (26%), special projects (15%), surface transport (rail, road, and bridges –13%), marine and industrial (10%), as well as oil and gas (8%). Further, the order book is geographically diversified with domestic orders (spread across fourteen states) constituting 70% and international order (spread across five countries) contributing to 30% of the unexecuted order book as on March 31, 2023. The order book is fairly diversified in terms of projects and clients, with the top three clients contributing 29% to the total unexecuted order book and the top 10 orders accounting for 52% of the unexecuted order book as on March 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 moderate interest cover of 3.0 times as on March 31, 2023. Around ~26% of AIL's total receivables as on March 31, 2023, included arbitration receivables (which have been awarded but yet to be received), while ~30% of unbilled revenue is towards contractual variations. Timely realisation of unbilled revenue and arbitration receivables would be crucial.

About 45% 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 45% of the order book as on March 31, 2023 is in early stages of execution (with less than 15% progress) and 23% 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 improved to 10.7% in FY2023 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. 330 crore as on March 31, 2023. The average fund-based utilisation for the past twelve months ending on March 31, 2023 stood at 74% with cushion of ~Rs. 1,000 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. 235 crore in FY2024, which can be serviced comfortably from its estimated cash flow from operations. It has capex plans of Rs. 850 crore in FY2024 for purchase of plant and machinery, which is expected to be largely funded through debt.

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 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

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 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 fifteen Indian states, in addition to overseas projects in 14 countries.

Key financial indicators (Audited)

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

Source: Company, ICRA Research

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

Status of non-cooperation with previous CRA: None

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
					Sep 29 2023	Sep 1, 2022	Oct 29, 2021	Oct 26, 2020
1	**NCD**	Long Term	300	0.0	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Negative)**	**[ICRA]A+ (Negative)**
2	**Term loan**	Long Term	1,200	672.0	**[ICRA]A+ Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Negative)**	**[ICRA]A+ (Negative)**
3	**Cash credit**	Long Term	1,400	-	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Negative)**	**[ICRA]A+ (Negative)**
4	**Non-fund based (BG/LC)**	Long Term	13,250	-	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Negative)**	**[ICRA]A+ (Negative)**
5	**Short-term loans**	Short Term	712	-	**[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**
7	**Commercial paper**	Short Term	900	0.0	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**

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: 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	[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	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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