



Afcons Infrastructure Limited

ICRA has assigned LAA- (pronounced as L double A minus) rating to the Rs. 6.5 billion Fund based Limit¹ and Rs.19.0 billion Non Fund based limit of Afcons Infrastructure Limited (Afcons) indicating high credit quality in the long term. ICRA has also assigned A1+ (pronounced as A one plus) rating to the Rs. 2.5 billion Fund based limit and Rs. 1.0 billion Non Fund based limit indicating the highest credit quality in the short term.

The ratings reflects Afcons' established track record in the construction industry, its strong order book position and reputed client profile, which alongwith the general buoyancy in the construction industry has enabled the company to effect a steady improvement in its financial position over the last few years. The rating also favorably factors in the ownership pattern of the company with 98.44% stake of the Shapoorji Pallonji Group (SPG) and group's demonstrated support to the company in the past. The additional fund infusion by issue of fully convertible preference shares in FY2008, alongwith a change in terms of preference capital extended by SPG has significantly improved Afcons' gearing thereby increasing its financial flexibility. However, the ratings are constrained by highly competitive nature of the industry, vulnerability to increase in prices of raw materials like steel and cement coupled with relatively low operating margin and high working capital intensity of Afcons which may increase the funding requirements going ahead.

¹ Rs.6.5 billion Fund based limits includes Rs. 2.5 billion of Cash Credit limit which is interchangeable with Working Capital Demand Loan rated A1+ on short term scale

Afcons has presence, both in India and abroad, in diversified sectors like marine works, hydro & tunneling, bridges and fly-overs, road construction and general civil engineering projects. Since its inception, the company has built considerable expertise in marine works (construction of jetties, berths, diaphragm walls, etc.), complex bridges and flyovers and hydro & tunnel projects. The company has worked on major marine projects such as construction of civil, transmission pipes and marine works at Jamnagar for Reliance, development of crude unloading jetties for Chennai Petroleum Corporation Limited, Zuari and Saravati bridges over river for Konkan Railway Corporation Limited, modernisation of marine oil terminal berth at Jawahar Dweep, Mumbai for Mumbai Port Trust and Sea Water Intake at Vadinar for Essar. While the core expertise of Afcons continues to be in bridges & flyovers, marine & hydro/tunnel works, the company has also been undertaking projects in the area of civil works, roads and pipeline over the years.

Afcons' clientele includes mainly government and public sector companies in addition to a few private companies with projects fairly diversified across the country. The company also operates abroad in countries like Abu Dhabi, Madagascar, Oman, Qatar, Yemen and Mauritius. The company's client profile is reputed and diversified and the company has been working with most of these clients for a reasonably long time and has executed a number of repeat orders for them, reflecting positively on Afcons execution capabilities.

Afcons' order book has more than doubled in the last three years from Rs. 14.81 billion as of 31st March 05 to Rs. 30.73 billion as of 31st May

08. This is on account of both the general buoyancy in the construction industry and the company's growing presence in various segments of the infrastructure sector. Further, the company expects to receive large-size orders in marine and tunneling segment in domestic and overseas markets in near future. Afcons' increasing orderbook coupled with the strong execution capability provides good revenue visibility in short to medium term.

Afcons' Operating Income (OI) witnessed a healthy growth in the last two years, increasing from Rs. 6.61 billion in FY06 to Rs. 17.08 billion in FY08, a CAGR of around 60%. The Operating Profit Margin (OPM) of the company has been in the range of 7.6-8.3% showing a marginal improvement from FY06 to FY08. Afcons' OPM is relatively low as compared to the other major players in the construction industry which is mainly attributed to large contribution of road projects in its turnover in past three years which have relatively lower margin. Afcons plans to focus less on road projects, which should have a beneficial impact in terms of operating margins. The company's increasing focus on overseas projects, economies of scale arising from larger orders and steps taken by the management to improve its cost structure should also have a beneficial impact in terms of margins. The company posted a profit after tax (PAT) of Rs.440.3 million in FY 08 as compared to PAT of Rs.57.3 million in FY 06. The company continues to benefit from the experienced management profile, strong technical capabilities and diversity of operations.

Afcons growth in operations and capital intensive nature of its business have resulted in high fund requirements and high levels of Net Working Capital in last 2-3 years.



However, the company's gearing has improved from 5.30 times as on 31st March 2007 to around 1.0 times as of 31st March 08 supported by the funds infused in the company through issue of fully convertible preference shares coupled with the change in terms of preference capital extended by SPG in FY2008. Afcons' Net Working Capital intensity (NWC/OI) has decreased from 63.58% in FY06 to 40.33% in FY08 on account of decrease in its debtor and inventory. Historically, both debtors and inventory have remained at a higher level on account of significant delays in road projects and large amount of receivables from mostly the Govt. clients. However, with the company taking steps to control the inventory by implementing efficient project tracking system and to reduce debtor level by actively following on recovery from clients and diversifying the client base, ICRA expects the company's working capital intensity to reduce to more comfortable level going forward. Moreover, given the Afcons' execution track record and its large existing order book, ICRA

expects Afcons' margins to improve in the short to medium term which would support internal accruals resulting in moderate external funding requirements going forward.

Company Profile

Afcons Infrastructure Ltd. is a reputed contracting and construction organization of Shapoorji Pallonji Group (SPG), which undertakes civil engineering projects in India and abroad. SPG presently holds a major 98.44% stake in Afcons. The company operates in several segments such as marine works including construction of jetties and dry docks, bridges and flyovers, road construction, hydro & tunneling, pipe laying and general civil engineering works.

Afcons began its operations as a civil construction firm way back in 1959. The Company started with construction of specialized foundation activities, such as pile foundations, diaphragm walls, geotechnical investigations, drilling and grouting and further entered into marine segment in 1963. Afcons started

design & build contracts in marine projects in the year 1965 and till date has executed a number of projects, which include, all type of marine projects, sea water intakes and various other design and build projects. The company was registered in 1976 as Asia Foundations and Constructions Limited (Afcons). Over the years, it also entered into road construction and tunneling segment. Apart from sectoral diversification, the company has increased its presence geographically as well. At present the company is executing projects in various states including Delhi, Karnataka, Tamil Nadu, Jammu & Kashmir, Assam, Maharashtra and Gujarat alongwith overseas projects in Madagasar, Oman, Abu Dhabi, Qatar, Mauritius and Yemen.

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KEY FINANCIALS

	2007-08	2006-07	2005-06
Net Sales	16.90	10.36	6.43
Operating Income	17.08	10.57	6.61
OPBDIT	1.40	0.85	0.51
PAT	0.44	0.14	0.06
Equity Capital	0.71	0.71	0.51
Net Worth	5.16	1.26	0.91
PAT/Operating Income (%)	2.58%	1.38%	0.87%
PBIT/(Total Debt + Net Worth + Deferred Tax Liability) (%)	16.58%	11.65%	11.28%
OPBDIT/Interest & Finance Charges (Times)	1.62	1.59	1.21
Net Cash Accruals/Total Debt (%)	14.00%	5.00%	5.00%
Total Debt/Net Worth (Times)	1.00	5.30	5.16
(Total Debt + Mobilisation Advances)/ Networth (Times)	1.08	6.22	5.47