

Afcons stresses on lucrative EPC business ahead of IPO

Company executives say EPC business saw revenues CAGR of over 16% in past three years

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Shapoorji Pallonji Group company Afcons is making a conservative pitch to prospective investors ahead of its initial public offering (IPO) with emphasis on sticking to its core strength of high-margin engineering, procurement and construction (EPC) projects.

The company's expertise in executing technologically complex construction projects has helped it log a compounded annual growth rate in revenues of over 16% for the past three years while maintaining healthy cashflows, Afcons's top executives said in an interview.

"Afcons is a pure play infrastructure EPC company managed completely professionally. Our profitability ratios are some of the highest. We have been consistently delivering technologically complex, challenging projects on or ahead of schedule," said S. Paramasivan, the company's managing director. "Considering the state where we are in, the growth potential is immense."

"If you see our bidding pattern, technologically complex projects are what we target. And there, the competition is not more than two or three players," said Krishnamurthy Subramanian, the company's executive vice chairman.

Unlike peer Larsen & Toubro, which has diversified into a conglomerate with significant business interests in information technology and renewable energy, among others, Afcons is not looking to diversify beyond the infrastructure EPC business, Paramasivan said.

It will also not experiment with other business models like build-operate-transfer (BOT). However, within EPC,



S. Paramasivan, managing director, Afcons.

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the company is open to diversification into newer segments as needed.

Afcons is conservative when it comes to bidding for projects, he said, focusing on only the technologically com-

plex projects to bid for, Subramanian said. Afcons had an order book of ₹32,556 crore as on 31 December 2023, as per Icr, which has an active credit rating on the company. This is about

infrastructure projects, its large scale of operations, diversified order book across segments, clientele and geographies," analysts at Icr, noted in a report dated 27 March. The rating agency retained an A+ rating with a stable outlook for the company's long-term loans while enhancing the amount.

About 68% of the company's business comes from government contracts, while 22% comes from multilateral contracts and 10% from the private sector. Geographically, about 30% business comes from overseas while the rest domestic.

Afcons will be raising ₹7,000 crore through its planned public offer, of which ₹5,750 crore will be through a secondary sale of shares by promoter Goswami Infratech and the rest through fresh issue of shares.

The IPO will be crucial for the promoter company to manage its high debt load.

In fact, one of the key reasons for the public market debut of Afcons is for the promoters to raise capital.

The ₹1,250 crore of fresh equity capital planned to be raised by the company, meanwhile, will help increase its net worth, thereby increasing the value of bank guarantees it can avail, the two top executives said.

The company needs to furnish such guarantees to win EPC contracts, especially government projects.

Afcons plans to utilize ₹500 crore of the fresh equity capital to settle high-interest debt and ₹350 crore for working capital requirements. About ₹150 crore will be utilized to purchase construction equipment and the rest will go towards general corporate purposes.

The company's net debt stood at ₹2,140 crore as of 31 September 2023, as per its draft red herring prospectus.

CONSERVATIVE APPROACH

AFCONS is not looking to diversify beyond the infrastructure EPC business, says MD

THE firm will also not experiment with other business models like build-operate-transfer

IT expects the infrastructure EPC wing to give ample business avenues going forward

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plex projects where margins are on the higher side and competition low.

The company expects the infrastructure EPC segment to throw up ample business opportunities going forward, even affording it the liberty to choose

2.6 times the company's FY23 revenue of ₹12,637 crore.

"The ratings for Afcons Infrastructure Limited continues to favourably factor in the longstanding track record of its operations in executing complex