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Afcons bets on Middle East to ride construction boom

Shapoorji Pallonji Group firm to increase exposure to the region with Saudi, Dubai partners

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Afcons Infrastructure Ltd, which has so far limited its exposure to the Middle East due to unfavourable contract terms, is looking to increase its business there as the region witnesses a construction boom to diversify from oil money.

The company will work in the region in collaboration with local partners who are familiar with domestic conditions to reduce the execution risk, as per top company executives.

The Shapoorji Pallonji Group company is the most bullish on Saudi Arabia and has set up a 90%-owned subsidiary in the country in July 2023 called Afcons Contracting Co. to handle local projects. The remaining stake in the Saudi subsidiary is owned by a local partner whose name the company has not disclosed. The country is spending hundreds of billions of dollars in constructing new cities in the desert, including its ambitious Neom project.

Similarly, in Dubai, Afcons has partnered with local UAE firm National Marine Dredging Co. (NMDC) and India's ITD Cementation to bid for the city's ambitious $8 billion new sewerage tunnel project. The consortium is one of the approved bidders for the project.

"The Middle East and, especially, Saudi Arabia are markets that you simply cannot ignore given the volume of business. While some challenges remain, we will look at strategic opportunities but with a local partner," said Hitesh Singh, head of corporate strategy at Afcons Infrastructure.

Afcons drastically scaled down its presence in the Middle East over the years and has a low exposure to the region, Singh said. However, in the past 1-1.5 years, the company has been relooking at opportunities in the region, albeit with local partners, he added.

Afcons has identified an opportunity pipeline of ₹3.2 trillion for the next two years with one-third of it coming from overseas, a report noted. AFCONS/LINKEDIN

This comes at a time when larger rival Larsen & Toubro Ltd (L&T) has seen its orderbook swell on the back of a surge in business from the oil-rich region. The Middle East accounted for a third of the ₹2.67 trillion worth of orders booked by L&T in the first nine months of fiscal year 2025 (FY25), close behind the 46% orders booked in India. The region accounts for 35% of the company's ₹5.6 trillion orderbook. In comparison, Afcons booked ₹14,600 crore worth of orders in the first nine months of FY25, taking its orderbook up to ₹38,000 crore. Overseas business comprises only 15% of this orderbook.

Afcons has identified an opportunity pipeline of ₹3.2 trillion for the next two years with one-third of it coming from overseas, analysts at Elara Capital noted in a report dated 4 February.

"We expect inflow momentum to continue with ₹180 billion (₹18,000 crore) each in FY26E and FY27E based on a large order pipeline from the domestic and international geographies," the analysts noted.

They have pencilled in a margin expansion of 40 basis points by FY27 from the 10.3% Ebitda (earnings before interest, tax, depreciation and amortization) margin logged in FY24. This assumes an improvement in order mix, including more international orders, which as per the Afcons management have 200-300 basis points higher margin than domestic orders. One basis point is 0.01%.

Afcons reduced its exposure to the Middle East over the years as the company found the projects in the region to be cash flow negative, Paramasivan Srinivasan, the company's managing director said in an analyst call on 25 November.

This is because there is a 10% cash retention clause in the contract terms. This cash is paid only after all the clearances are obtained, which is a tedious task taking up to 18-24 months, he said.

"Therefore, there is a cash-flow negative all through the project and taking all that, we have taken a call that we will be very selective (in bidding for projects)," he said.

Moreover, dispute resolution mechanism in the region isn't mature, Subramanian Krishnamurthy, executive vice chairman of Afcons, said on the same call. However, the company will now selectively bid for projects in the region, Srinivasan said. "We will look at some select big projects where we will have some local partner who will manage the local environment, and we will do only execution. Those are the kind of approaches we are following," he said.

Shares of Afcons Infrastructure gained 3.51% to close at ₹435.25 on the BSE on Thursday compared to a 0.83% gain in the benchmark Sensex. The stock has lost 11.53% since its listing at ₹492 in November last year.

GULF BECKONS

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