AFCONS INFRASTRUCTURE LIMITED

October 24, 2024

SMC Ranking

★★½☆☆ (2.5/5)

Issue Highlights

Industry	**Construction**
Offer for sale (Shares)	90,280,778
Fresh Issue (Shares)	26,997,840
Net Offer to the Public	**117,278,618**
Issue Size (Rs. Cr.)	5160-5430
Price Band (Rs.)	440-463
Employee Discount	Rs 44 per share
Offer Date	25-Oct-24
Close Date	29-Oct-24
Face Value	10
Lot Size	32 Shares

Issue Composition

	In shares
Total Issue for Sale	117,278,618
QIB	58,639,309
NIB	17,591,793
Retail	41,047,516

Shareholding Pattern (%)

Particulars	Pre-issue	Post -issue
Promoters & promoters group	99.00%	67.18%
QIB	0.00%	15.95%
NIB	1.00%	5.71%
Retail	0.00%	11.16%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

The Company proposes to utilise the Net Proceeds towards funding the following objects

Capital expenditure towards purchase of construction equipment

Funding long term working capital requirements

Prepayment or scheduled repayment of a portion of certain outstanding borrowings and acceptances availed by the Company

General corporate purpose

Book Running Lead Manager

- ICICI Securities Limited
- DAM Capital Advisors Limited
- Jefferies India Private Limited
- Nomura Financial Advisory and Securities (India) Private Limited
- Nuvama Wealth Management Limited
- SBI Capital Markets Limited

Name of the registrar

- Link Intime India Private Limited

About the company

Incorporated in 1959, Afcons Infrastructure Limited is an infrastructure engineering and construction company of the Shapoorji Pallonji group, with a legacy of over six decades. The company has a proven track record of successfully delivering numerous intricate, demanding, and distinctive engineering, procurement, and construction (EPC) projects, both domestically and internationally. As of June 30, 2024, the company is actively engaged in 65 projects across 12 countries, with a total order book value of Rs. 31747 crore. Over time, the company has expanded its global presence, particularly across Asia, Africa, and the Middle East. Afcons Infrastructure has undertaken several complex, challenging, unique, and pioneering infrastructure projects in India and around the world. The company is globally present in Asia, Africa and Middle East.

Strength

Proven Track Record in Delivering Large-Scale, Complex Projects on Time: Afcons Infrastructure Ltd is recognized as a leading infrastructure construction firm specializing in the execution of large and intricate projects both domestically and internationally. The company emphasizes high-value projects and boasts a strong history of effective project management, timely execution, and on-schedule delivery across various sectors and regions. A significant portion of its projects are completed ahead of or on time. Afcons has successfully undertaken numerous challenging and pioneering infrastructure projects, showcasing its exceptional design and engineering capabilities, management expertise, and robust internal systems. The company's skilled workforce, combined with a culture focused on execution, plays a vital role in its achievements. Additionally, its extensive experience in diverse geographies provides a competitive edge in project execution and timely delivery, both in India and abroad.

Diverse Order Book Reflecting Global Client Relationships and Strong Financial Performance: In the infrastructure industry, a robust order book is crucial as it indicates the estimated value of unexecuted contracts and offers insights into future revenue streams (Source: Fitch Report). Over the past three years, Afcons Infrastructure Ltd has diversified its order book, underscoring its commitment to sustainable growth through a wider range of projects. As of June 30, 2024, and 2023, the order book stood at Rs. 31,747.43 crore and Rs. 35,240.21 crore, respectively. By March 31, 2024, 2023, and 2022, it was recorded at Rs. 30,960.99 crore, Rs. 30,405.77 crore, and Rs. 32,804.83 crore, respectively. Since June 30, 2024, the company has secured projects worth Rs. 5,936.74 crore by September 30, 2024. As of September 30, 2024, Afcons was the leading bidder in projects totaling Rs. 10,732.36 crore (Source: Fitch Report). Its order book spans multiple business sectors, with the Urban Infrastructure division representing the largest segment while ensuring overall diversity. This growth trajectory has significantly contributed to its financial success. For the quarters ending June 30, 2024, and 2023, as well as the financial years 2024, 2023, and 2022, revenue from operations was Rs. 3,154.36 crore, Rs. 3,171.41 crore, Rs. 13,267.50 crore, Rs. 12,637.38 crore, and Rs. 11,018.97 crore, respectively. EBITDA figures for the same periods were Rs. 371.69 crore, Rs. 314.06 crore, Rs. 1,583.12 crore, Rs. 1,373.79 crore, and Rs. 106.86 crore, respectively. Among major infrastructure construction companies in India, Afcons Infrastructure Ltd recorded the highest ROCE and EBITDA margins, as well as the second-highest ROE and PAT margins for the financial year 2024. Furthermore, its PAT grew at the fastest pace between the financial years 2022 and 2024 (Source: Fitch Report).

Effective Collaboration and a Strategic Equipment Base Enhancing Execution Capabilities: Afcons Infrastructure Ltd prioritizes collaboration among its internal teams—spanning operations, design, human resources, and construction plant and equipment (CPE)—to strengthen its execution capabilities. The establishment of the Core Methods and Engineering Group (CMEG) promotes innovation and efficient construction methodologies. The company's culture is centered around execution, fostering a commitment to achieving project milestones with accuracy and effectiveness. Its workforce consists of highly skilled professionals whose technical expertise enables them to tackle complex challenges and provide timely solutions. As of June 30, 2024, the company's equipment fleet included 11 marine barges, 153 cranes, 16 tunnel boring machines, 8 large capacity jack-ups, and 21 piling rigs, with additional tunnel boring machines pending delivery. Afcons also operates two dedicated workshops in Delhi and Nagpur for equipment maintenance. Fitch estimates the value of its indigenous strategic equipment base to be approximately US$490 million as of June 30, 2024. Its jack-ups, Mahakaya and Samrat, are among the largest of their kind in India, and its collection of customized tunnel boring machines is one of the most extensive in the industry.

Robust Risk Management, Project Selection, and Dispute Resolution Processes: Afcons Infrastructure Ltd understands the inherent risks in the global infrastructure sector and maintains a systematic risk management framework to identify, measure, and monitor potential operational risks. The company fosters a risk-informed decision-making culture throughout its operations. To support this approach, Afcons has assembled a team of seasoned senior management professionals tasked with analyzing and evaluating all new bids and investments. Their assessments consider various factors, including credit risk, market risk, and operational risk, ensuring that decision-making processes are well-informed. Through its project selection strategy, Afcons aims to maintain a high-quality and diverse order book, prioritizing projects that align with its risk tolerance and strategic goals, thereby facilitating sustainable growth. The company mitigates credit risk by implementing a structured payment collection system, which involves collecting advance payments upon contract execution and utilizing escalation clauses to manage cost overruns. Afcons also has a comprehensive contracts management system in place to effectively handle disputes across different regions. Claims with clients often arise due to various factors such as additional project costs, changes in scope, and timeline extensions. Afcons actively engages in collaborative and constructive discussions to resolve claims, aiming for mutually agreeable outcomes for all parties involved.

Strategy

Selective Pursuit of High-Value, Complex Projects: The company prioritizes large-scale, complex projects that align with its project selection criteria and risk management framework. Afcons Infrastructure Ltd generally avoids projects with numerous competing bids, as such environments often lead to price-based competition. Instead, the company focuses on technically demanding projects in specialized areas, which tend to yield higher profit margins due to reduced competition. Only bidders who meet stringent eligibility criteria can participate in these projects, which often require prior experience in similar undertakings. Afcons Infrastructure Ltd benefits significantly from its extensive experience, having successfully completed 235 Marine and Industrial projects across 15 countries, including 206 in India, along with various technically challenging expressway projects. In the Urban Infrastructure sector, the company has executed high-value initiatives, including over 120 km of elevated and underground metro networks, more than 150 bridges, viaducts, flyovers, and 32 metro stations across nine Indian cities. This substantial experience not only provides a steady stream of opportunities but also enhances revenue stability and visibility. Furthermore, undertaking large, complex projects elevates the company's profile and distinguishes it from other EPC firms.

Maximizing Existing Market Opportunities and Expanding Overseas: Afcons Infrastructure Ltd understands the importance of geographical diversification and seeks to maximize opportunities in existing markets while expanding its presence in international markets. This strategy allows the company to tap into various growth trends in India and developing regions abroad. By targeting growth opportunities, Afcons aims to broaden its revenue base and mitigate risks associated with

market fluctuations and geographic concentration. The company's initial expansion efforts focus on areas where it can deliver high-quality services, such as roads and marine projects, leveraging its robust international experience. Afcons intends to expand its client base in regions like East and West Africa, South Asia, Southeast Asia, Eastern Europe, Eurasia, and Saudi Arabia. Additionally, the company aims to consolidate its market position in new developing markets, ensuring a diversified portfolio that safeguards against risks associated with concentrated operations. These strategic advantages, combined with its expertise in business development and strong relationships, enable Afcons to capitalize on existing markets while continually identifying new opportunities. This commitment to diversification and growth positions the company to navigate changing landscapes effectively, respond to market demands, and achieve sustainable long-term growth, all while benefiting from anticipated macroeconomic growth in India and leveraging its international capabilities.

Emphasis on Cost Management: Cost management is a cornerstone of Afcons Infrastructure Ltd's operational strategy. The company focuses on managing costs through an "asset-right" approach, efficient working capital management, and ensuring accurate project pricing. The "asset-right" approach involves investing in and maintaining a strategic equipment base while leasing non-core equipment from external sources. This strategy helps control costs and keeps capital expenditures in check, allowing for an optimal asset mix throughout the project lifecycle. Afcons continually expands its network of subcontractors, enabling flexible scaling of resources based on project needs and minimizing capital expenditure. The company typically avoids bidding on projects that would necessitate significant capital investment. Furthermore, Afcons aims to extend the lifespan of its equipment through initiatives led by in-house and external experts, allowing for deferral of new equipment purchases and resulting in cost savings. Effective management of the working capital cycle is achieved through timely bill certifications and collections from clients, focusing on projects that promise steady cash flows from periodic payments to maintain positive cash flow throughout the project lifecycle. Additionally, Afcons negotiates escalation clauses in its contracts to transfer cost overruns to clients. The company emphasizes cost containment at the site level, with project progress closely monitored during project reviews, ensuring adherence to overall project budgets.

Optimizing Project Execution and Management: Afcons Infrastructure Ltd has made optimizing project execution and management a priority for delivering complex projects on time and within budget. The company approaches optimization through three key strategies: enhancing project design, value engineering, and incorporating technical innovations. With a small in-house design engineering team trained in both design and construction methods, Afcons ensures that project designs are practical and construction-friendly, minimizing revisions after designs are finalized. Collaborating with a range of external design consultants—spanning from startups to large firms—further enriches its design capabilities. The company invests significant time in understanding client needs and conducting site analyses before developing project designs. To bolster design accuracy and speed up iterations, Afcons employs state-of-the-art design software and actively seeks to enhance the skills of its in-house design team. As part of its digitization strategy, the company has identified areas for automation to streamline processes and improve efficiency. An SAP-based dashboard provides real-time insights for informed decision-making, modernizing its operations and facilitating transparent budgeting. By leveraging technology and optimizing processes, Afcons aims to enhance cost-effectiveness without compromising quality. For instance, the company has implemented a Remote Monitoring System (RMS) utilizing IoT technology for effective fleet management across its business segments, with a dedicated team in Nagpur monitoring equipment 24/7.

Developing a Skilled Workforce and Strengthening the Equipment Base: Afcons Infrastructure Ltd is committed to expanding its talent pool to improve project execution capabilities. As of June 30, 2024, the total number of permanent employees increased to 3,972, up from 4,041 as of March 31, 2024, 3,934 as of March 31, 2023, and 3,740 as of March 31, 2022. The company prioritizes training its employees in the latest construction methods and technologies through various training programs, including civil, mechanical, electrical, electronic, instrumentation, safety, and fabrication training. To cultivate a unique organizational culture, Afcons is actively developing a framework to reinforce its

core values and enhance alignment among employees. This includes clearly defined expectations to foster a cohesive workforce. The company has established a Central Development Council (CDC) comprising top management and senior leaders to oversee development initiatives for employees at all levels, ensuring that employee growth remains a key priority across the organization.

Risk factor

- Failure to qualify for or secure new contracts from project owners could negatively impact the company's business, financial health, operational results, prospects, and cash flow.
- The company's reliance on projects awarded by government or government-owned entities exposes it to various risks.
- As a capital-intensive business, insufficient cash flow or an inability to secure appropriate financing to meet working capital needs and loan repayments could harm its business, financial condition, and operational outcomes.
- The Order Book may not accurately predict future performance, and actual revenues could fall significantly short of the estimates, which could negatively affect its operational results.
- A substantial portion of the Order Book depends on large customers and projects in India. The company's success and profitability are closely tied to its ability to secure contracts from these customers.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Larsen & Toubro	228350.36	13351.83	96.59	35.77	5.50	628.07	2	3455.35	475108.86
Kalpataru Proj.	19972.00	488.00	30.04	40.92	3.89	316.29	2	1229.25	19968.69
K E C Intl.	20182.47	392.03	14.73	63.21	4.99	186.55	2	931.05	24784.55
Dilip Buildcon	12225.28	300.84	11.27	43.46	1.69	289.75	10	489.85	7162.34
Afcons Infrastructure Limited	13629.82	450.36	12.25	37.81	3.45	134.19	10	463.00	17026.18

***Peer companies financials are TTM based**
****Afcons Infrastructure Limited Limited's financials are based on TTM too**

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.463, the stock is priced at pre issue P/E of 35.03x on TTM EPS of Rs.13.22. Post issue, the stock is priced at a P/E of 37.81x on its EPS of Rs. 12.25. Looking at the P/B ratio at Rs.463 pre issue, book value of Rs. 463 of P/Bvx 4.28x. Post issue, book value of Rs.134.19 of P/Bvx 3.45x.

Considering the P/E valuation, on the lower end of the price band of Rs.440, the stock is priced at pre issue P/E of 33.29x on TTM EPS of Rs.13.22. Post issue, the stock is priced at a P/E of 35.93x on its EPS of Rs. 12.25. Looking at the P/B ratio at Rs.440 pre issue, book value of Rs. 108.14 of P/Bvx 4.07x. Post issue, book value of Rs. 134.19 of P/Bvx 3.28x.

Industry Outlook

The global construction industry stood at approximately US$5.7 trillion as of 2023 and is expected to grow to US$7.8 trillion by 2029. Global construction industry growth will largely be driven by expanding construction investment in emerging markets. India is projected to remain the fastest-growing major economy, with real GDP growth rate forecasted at 6.8% for the Financial Year 2026-2027. The Indian construction industry value stood at Rs. 2397800 crore as of the Financial Year 2023 and is projected to be the fastest growing construction market in the world, growing at a CAGR of 9.5% to 10% between the Financial Years 2023 and 2028 to reach a market size of Rs. 3850890 crore by the Financial Year 2028.

Outlook

Afcons, a cornerstone of the Shapoorji Pallonji Group, is a leading global infrastructure, engineering, and construction firm. With a strong presence in Asia, Africa, and the Middle East, the company has successfully completed 79 projects across 17 countries. Renowned for tackling complex and innovative projects, Afcons is well-positioned to capitalize on the growing infrastructure development opportunities driven by government initiatives. As of June 30, 2024, Afcons has a robust order book of Rs 31747 crore, with 65 active projects in 12 countries. The company's diversified portfolio includes international projects contributing to approximately 30% of its revenue. While this diversification is advantageous, Afcons' reliance on government and government-owned entities exposes it to certain risks. Long-term investors seeking exposure to the infrastructure sector may consider investing in Afcons. The company's strong track record, global reach, and strategic positioning in high-growth markets offer potential for long-term value creation.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	25-October-24
BID/ISSUE CLOSES ON	29-October-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	30-October-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	31-October-24
Credit of Equity Shares to Demat Accounts of Allottees	31-October-24
Commencement of trading of the Equity Shares on the Stock Exchanges	04-November-24

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Jun-24 (3 Months)	Period ended 31-Mar-24 (12 Months)	Period ended 31-Mar-23 (12 Months)
Revenue from operations	3154.36	13267.495	12637.382
Total expenditure	2800.887	11902.479	11326.775
Operating Profit	**353.47**	**1365.02**	**1310.61**
OPM%	11.21	10.29	10.37
Other Income	59.11	379.379	206.708
PBDIT	**412.58**	**1744.40**	**1517.32**
Depreciation	130.23	494.534	471.577
PBIT	**282.35**	**1249.86**	**1045.74**
Interest	146.91	577.258	446.663
Profit BeforeTax	**135.44**	**672.60**	**599.08**
Tax	43.857	222.865	188.215
PAT	**91.59**	**449.74**	**410.86**

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Jun-24	As on 31-Mar-24	As on 31-Mar-23
Non-current assets			
Property, plant and equipment	2635.60	2715.14	2448.75
Capital work-in-progress	46.77	43.07	183.60
Right of Use Asset	90.32	67.91	48.72
Goodwill	0.14	0.14	0.14
Intangible assets	0.59	0.60	0.61
Financial Assets			
Investments	0.87	0.78	0.51
Trade receivables	490.50	499.21	651.21
Other financial assets	413.68	417.99	365.92
Contract assets	1267.72	1271.01	1416.50
Non current tax assets (net)	91.48	53.64	28.81
Other non-current assets	198.33	190.87	181.54
Total Non Current Assets	**5235.99**	**5260.35**	**5326.30**
Current assets			
Inventories	1709.22	1626.57	1585.79
Financial Assets			
Trade receivables	3099.61	3120.98	2196.64
Cash and cash equivalents	628.23	413.26	319.32
Bank balances other than (ii) above	268.99	253.00	58.12
Loans	60.55	61.84	53.35
Other financial assets	503.65	501.34	398.31
Contract assets	4541.46	3954.39	3272.51
Other current assets	1136.89	1041.92	1090.92
Total current assets	**11948.58**	**10973.29**	**8974.96**
Total Assets	**17184.58**	**16233.64**	**14301.25**
Non-current liabilities			
Financial liabilities			
Borrowings	663.05	597.69	596.47
Lease Liabilities	53.57	35.15	15.68
Total outstanding dues of micro enterprises and small enterprises	23.18	23.21	51.95
Total outstanding dues of creditors other than micro enterprises and small enterprises	396.00	407.79	420.89
Other financial Liabilities	118.77	126.53	156.88
Contract liabilities	1663.17	1451.29	1524.03
Provisions	11.84	9.32	8.87
Deferred tax liabilities (net)	111.66	103.67	99.29
Total non-current liabilities	**3041.23**	**2754.65**	**2874.06**
Current liabilities			
Financial liabilities			
Borrowings	2702.05	1857.31	966.34
Lease Liabilities	34.68	33.08	33.75
Total outstanding dues of micro enterprises and small enterprises	184.14	198.45	375.93
Total outstanding dues of creditors other than micro enterprises and small enterprises	4096.64	4127.16	3132.57
Other Financial Liabilities	272.85	269.85	362.37
Contract liabilities	2791.11	2998.16	3015.28
Provisions	205.67	227.22	150.01
Current tax liabilities (net)	103.91	83.89	93.56
Other current liabilities	67.48	86.35	120.10
Total current liabilities	**10458.52**	**9881.47**	**8249.92**
Total	**13499.75**	**12636.12**	**11123.97**
Net worth represented by:			
Equity Share Capital	340.74	340.74	71.97
Instruments entirely equity in nature	0.00	0.00	450.00
Other Equity	3342.52	3255.22	2653.75
Non controlling interest	1.56	1.56	1.56
Net Worth	**3684.82**	**3597.52**	**3177.28**

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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