



Company Overview

Afcons Infrastructure Ltd. (AIL) is an infrastructure, engineering and construction company, part of the Shapoorji Pallonji group. It is one of India's largest international infrastructure company with a track record of executing numerous EPC projects in the domestic and international markets. In the last eleven financial years and Q1FY5, the company has completed 79 projects across 17 countries with a historic executed contract value of Rs. 56,305 crores. Currently, the company has 65 active projects across 12 countries with an aggregated order book of Rs. 31,747 crores. The company has a comprehensive global presence, with Asia, Africa, and the Middle East as the key markets. The overseas market contributes 24.4% of the order book, while the domestic market contributes the rest. The company engages across five major business verticals, namely: (i) Marine & Industrial, (ii) Surface Transport, (iii) Urban Infrastructure, (iv) Hydro & Underground and (v) Oil & Gas. Amongst the verticals, urban infra is the largest contributor, followed by hydro & underground, surface transport, marine & industrial and oil & gas. The company's client base consists of three types of entities: (i) Government entity, (ii) Multilateral entity, and (iii) Private entity, with the government being the largest client (69.8%) followed by multilateral (20.1%) and private at 10.1%. As of June 30, 2024, the cost of materials consumed was 25.9% of the total expense. The company has the following types of contracts through which it caters to clients: (i) EPC contracts, (ii) Item rate contracts and (iii) Cost-plus contracts. The revenue contribution of contracts as of June 30, 2024 is: EPC contracts (72.3%), Item rate contracts (27.6%) and Cost-plus contracts (0.1%). A similar pattern is reflected on the order book front, with EPC contracts contributing 59.5% of the book while Interest rate contracts contribute about 40.5%.

Objects of the issue

The company proposes to utilize net proceeds towards funding the following objects:

- ⇒ Capital expenditure towards the purchase of construction equipments;
- ⇒ Funding long-term working capital requirements;
- ⇒ Prepayment or scheduled repayment of a portion of certain outstanding borrowings and acceptances availed by the company; and
- ⇒ General corporate purposes.

Investment Rationale

Reliable execution and diverse capabilities ensure stickiness amongst clientele

The company boasts a healthy track record of timely execution across demographics. A healthy record highlights the company's ability to capitalize on its design, engineering capabilities, management expertise and internal management system. Moreover, the company's ability to efficiently leverage its experience to execute projects across geographies ensures an added advantage in project execution and delivery. In addition, the company executes certain projects through JVs, further improving its competitive position. Collaborating with other companies enables AIL to leverage its expertise, networks, and capabilities. Its diversified offerings further enhance its ability to cater to the varying needs of customers across demographics. The company further benefits from its group's brand image and market presence, supporting its growth. The company also has access to the Group's network, enabling strategic collaboration, business development opportunities and knowledge sharing. Further, the company maintains a strategic equipment base comprising a wide range of heavy machinery and specialized equipment, which, along with its in-house capabilities, has been instrumental in winning several key deals. All the given elements set the company with a solid foundation for future growth.

Strategic operational framework to drive sustainable growth

The company's systematic risk management system helps it identify various operational risks. Its assessment includes a review of credit risk, market risk, and operational risk associated with the project. This evaluation ensures sound decision-making processes. Moreover, through its project

Issue Details

Offer Period	25th Oct, 2024 - 29th Oct, 2024
Price Band	Rs. 440 to Rs. 463
Bid Lot	32
Listing	BSE & NSE
Issue Size (no. of shares in mn)	117.3
Issue Size (Rs. in bn)	54.3
Face Value (Rs.)	10

Issue Structure

QIB	50%
NIB	15%
Retail	35%

BRLM	ICICI Securities Ltd., DAM Capital Advisors Ltd., Jefferies India Pvt. Ltd., Nomura Financial Advisory and securities Pvt. Ltd., Nuvama Wealth Management Ltd., SBI Capital Markets Ltd.
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Registrar	Link Intime India Pvt. Ltd..
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Particulars	Pre Issue %	Post Issue %
Promoter & Promoter Group	99.0%	67.2%
Public	1.0%	32.8%
Total	100.0%	100.0%

(Assuming issue subscribed at higher band)

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Afcons Infrastructure Ltd.

selection process, the company aims to maintain a diverse and high-quality order book, which is in tandem with its aim to maximize its opportunities in the existing market and concurrently expand its footing in new geographies, capitalizing on diverse growth trends in India and overseas. Additionally, its constant focus on procuring and harnessing knowledge from its projects has enabled the company to execute projects efficiently. The company also follows an asset-right model, ensuring efficient working capital management and cost optimization. The prudent efforts taken by the company are underscored by the financial performance it has delivered in the past, with improving margins and steady top-line growth. Overall, these frameworks will likely contribute to steady growth and improved financial performance in the future and have a comprehensive edge over competitors.

Valuation

Afcons Infrastructure Ltd. (AIL) is a global company engaged in infrastructure and EPC business. The company has a significant presence in the Indian and overseas markets. By capitalising on its strength in design, engineering and management and leveraging its robust network and strategic collaboration, the company is set to achieve sustainable growth. Its prudent framework, diverse offerings and asset-right model further position the company to navigate the varying market trends and maintain a competitive edge. On the economic front, India is projected to be the fastest-growing construction market in the world, growing at a CAGR of 9.5% to 10.0% during FY2023-28. The growth in the Indian construction industry will be supported by high levels of urbanization, rising infrastructure investments, surging power demand and robust industrial growth. Owing to the company's strong presence in the market, strong parentage, a wide array of solutions and a higher concentration of government projects, the company is well-positioned to benefit from the economic tailwinds. The company reported strong financial growth between FY22 and FY24, with a CAGR of 9.7% in revenue, 20.8% in EBITDA, and 12.1% in PAT. For FY24, the EBITDA and PAT margins were 10.3% and 3.4%, respectively, while Q1FY25 saw margins of 11.2% and 2.9%, respectively. The company maintained a robust ROE of 12.5% and an ROCE of 13.7% in FY24. **The company is valued at a P/E ratio of 35.1x on the upper price band based on FY24 earnings, which is lower than the average P/E of the industry. Given its strong position in the market, the company is poised to capitalize on emerging market opportunities. Therefore, we recommend a "SUBSCRIBE" rating for the issue from a medium to long-term perspective.**

Key Risks:

- ⇒ If any of the company's projects are terminated prematurely, the company may not receive payment.
- ⇒ Certain corporate records and filings contain factual inaccuracies, and certain historical corporate and secretarial records are not traceable. This uncertainty raises the risk of future regulatory actions or penalties, potentially impacting their financial condition and reputation.
- ⇒ The company requires various statutory and regulatory permits and approvals to operate. Failure to obtain, renew or maintain these permits may lead to operational risks.

Afcons Infrastructure Ltd.

Income Statement (Rs. in millions)

Particulars	FY22	FY23	FY24	Q1FY25
Revenue				
Revenue from operations	1,10,190	1,26,374	1,32,675	31,544
Total revenue	1,10,190	1,26,374	1,32,675	31,544
Expenses				
Cost of Material Consumed	31,763	38,517	40,125	7,985
Cost of construction	49,396	52,007	52,940	13,859
Employee Benefits Expenses	10,850	12,982	13,834	3,448
Other expenses	8,820	9,762	12,126	2,717
Total operating expenses	1,00,829	1,13,268	1,19,025	28,009
EBITDA	9,361	13,106	13,650	3,535
Depreciation & amortization	3,554	4,716	4,945	1,302
EBIT	5,807	8,390	8,705	2,232
Finance costs	4,247	4,467	5,773	1,469
Other Income	2,506	2,067	3,794	591
PBT	4,066	5,991	6,726	1,354
Current Tax	1,246	1,894	2,002	370
Deferred tax	-787	-298	72	66
Tax adjustments of earlier years	31	286	154	2
Total tax	489	1,882	2,229	439
Net Profit	3,576	4,109	4,497	916
Diluted EPS	10.5	12.1	13.2	2.7

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in millions)

Particulars	FY22	FY23	FY24	Q1FY25
Cash Flow from operating activities	6,105	12,155	7,074	-5,022
Cash flow from/(used in) investing activities	-2,506	-8,702	-8,586	-344
Net cash flows (used in) / from financing activities	-5,210	-4,826	2,455	7,500
Net increase/(decrease) in cash and cash equivalents	-1,612	-1,373	944	2,134
Cash and cash equivalents at the beginning of the period	6,125	4,471	3,193	4,133
Cash and cash equivalents at the end of the period	4,471	3,193	4,133	6,282

Source: RHP, BP Equities Research

Afcons Infrastructure Ltd.

Balance Sheet (Rs. in millions)

Particulars	FY22	FY23	FY24	Q1FY25
Assets				
Non-Current Assets				
Property, plant and equipment	22,514	24,487	27,151	26,356
Capital Work-in-Progress	175	1,836	431	468
Right-of-use assets	656	487	679	903
Intangible assets	8	8	7	7
Financial Assets				
(i) Investments	9	5	8	9
(ii) Trade Receivables	6,789	6,512	4,992	4,905
(iii) Other financial assets	3,090	3,659	4,180	4,137
Other non-current assets	17,567	16,268	15,155	15,575
Total Non Current assets	50,807	53,263	52,603	52,360
Current Assets				
Inventories	12,702	15,858	16,266	17,092
Financial Assets				
(i) Trade receivables	23,039	21,966	31,210	30,996
(ii) Cash and cash equivalents	4,471	3,193	4,133	6,282
(iii) Bank balances other than (ii) above	793	581	2,530	2,690
(iv) Loans	551	534	618	605
(v) Other financial assets	924	3,983	5,013	5,036
Other current assets	36,451	43,634	49,963	56,783
Total Current Assets	78,931	89,750	1,09,733	1,19,486
Total Assets	1,29,738	1,43,013	1,62,336	1,71,846
Equity and Liabilities				
Equity Share Capital	720	720	3,407	3,407
Instrument entirely equity In nature	4,500	4,500	0	0
Other Equity	21,901	26,537	32,552	33,425
Equity attributable to shareholders of the company	27,121	31,757	35,960	36,833
Non-controlling interest	-93	16	16	16
Total Equity	27,028	31,773	35,975	36,848
Liabilities				
Non-Current Liabilities				
Financial Liabilities				
(i) Borrowings	4,019	5,965	5,977	6,631
(ii) Lease Liabilities	342	157	352	536
(iii) Trade payables	4,397	4,728	4,310	4,192
(iv) Other financial liabilities	1,881	1,569	1,265	1,188
Other non current liabilities	19,823	16,322	15,643	17,867
Total Non-Current Liabilities	30,462	28,741	27,547	30,412
Current Liabilities				
Financial Liabilities				
Other current liabilities	43,793	48,710	64,859	72,904
Other current liabilities	28,455	33,790	33,956	31,682
Total Current Liabilities	72,247	82,499	98,815	1,04,585
Total Liabilities	1,02,710	1,11,240	1,26,361	1,34,998
Total Equity and Liabilities	1,29,738	1,43,013	1,62,336	1,71,846

Source: RHP, BP Equities Research

Disclaimer Appendix**Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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