IPO Note

October 24, 2024

Afcons Infrastructure Limited

Issue Snapshot:
Issue Open: October 25 – October 29, 2024

Price Band: Rs. 440 – 463 (Discount of Rs 44 per share for all eligible employees)

*Issue Size: Up to Rs 5430 cr (Fresh issue of up to Rs 1250 cr + Offer for sale of Up to Rs 4180 cr including employee reservation of upto Rs 25 cr)

Reservation for:

QIB	upto	50% eq sh
Non-Institutional	atleast	15% eq sh

((including 1/3rd for applications between Rs.2 lakhs to Rs.10 lakhs))

Retail	atleast	35% eq sh

Face Value: Rs 10

Book value: Rs 107.48 (June 30, 2024)

Bid size: - 32 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs.	340.74 cr
*Post issue Equity:	Rs.	367.74 cr

Listing: BSE & NSE

Book Running Lead Managers: 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

Sponsor Bank: Axis Bank Ltd & ICICI Bank Ltd

Registrar to issue: Link Intime India Private Limited

Shareholding Pattern

Shareholding Pattern	**Pre issue %**	**Post issue %**
Promoter and Promoter Group	99.00	67.18
Public & Employees	1.00	32.82
Total	100.0	100.0

*=assuming issue subscribed at higher band
Source for this Note: RHP

Background & Operations:

Afcons Infrastructure Limited (AIL) is the flagship infrastructure, engineering and construction company of the Shapoorji Pallonji group (i.e., the group's leading engineering and construction company), a diversified Indian conglomerate, and has a legacy of over six decades. It has a strong track record of executing numerous complex, challenging and unique engineering, procurement and construction ("EPC") projects both within India and internationally. It is one of India's largest international infrastructure companies, as per the 2023 ENR (Engineering News-Record, US) Top International Contractors rankings, based on International Revenue for the Financial Year 2023. During the period comprising the last eleven financial years and the three-month period ended June 30, 2024, it has successfully completed 79 projects across 17 countries with a total historic executed contract value of Rs.563.05 billion. As of June 30, 2024, it had 65 active projects (i.e., ongoing projects) across 12 countries, aggregating to an order book of Rs.317.47 billion. Among large infrastructure construction companies in India AIL had the highest ROCE and EBITDA margins and the second highest ROE and PAT margins for the Financial Year 2024, and its PAT has grown at the fastest rate between the Financial Years 2022 and 2024.

Over the years, AIL has expanded its presence globally and in particular across Asia, Africa and the Middle East. It has undertaken many complex, challenging, unique and 'first of its kind' infrastructure projects in India and the rest of the world. Its projects cover five major infrastructure business verticals:

Marine and Industrial, covering ports and harbour jetties, dry docks, wet basins, breakwaters, outfall and intake structures, liquefied natural gas tanks and material handling systems.

Surface Transport, covering highways and roads, interchanges, mining related infrastructure and railways.

Urban Infrastructure, covering elevated and underground metro works, bridges, flyovers and elevated corridors.

Hydro and Underground, covering dams and barrages, tunnels (including large road tunnels) and underground works, water and irrigation.

Oil and Gas, covering both offshore and onshore oil and gas projects.

Through AIL's extensive and diversified experience and systematic knowledge management practices, it has developed a project management system that enables efficient planning, monitoring, control and timely delivery of the infrastructure projects that it undertakes. Its continuous pursuit of excellence in knowledge management is reflected in the recognition accorded to it through the MIKE (Most Innovative Knowledge Enterprise) award at Global and India levels. Further, AIL maintains a strategic equipment base comprising a wide range of heavy machinery and specialized equipment. This equipment base, along with the ability to source other high-tech equipment and its in-house capabilities in managing specialized equipment, has been instrumental in winning several complex projects, such as the Atal tunnel, the High Speed Railway Project, the Delhi – Meerut regional rapid transit system, Delhi Metro Phase IV projects, and the second liquid cargo berth at Dahej, Gujarat for Gujarat Chemical Port Limited.

AIL also benefits from the strong parentage of the Shapoorji Pallonji Group. The Shapoorji Pallonji Group has a legacy of over 150 years, and its strong reputation, global presence and extensive industry experience assists it in the growth of its business and operations.

Additionally, AIL gains access to the Shapoorji Pallonji Group's network enabling strategic collaborations, business development opportunities and knowledge sharing. Further, it is strategically guided by its board of directors and the leadership of its management team, comprising five Key Managerial Personnel and 19 Senior Management Personnel. Its key management personnel have 35 years of average experience with an average of 23 years at its organization.

Objects of Issue:

The Offer comprises the Offer for Sale and the Fresh Issue.

The Offer for Sale

The proceeds from the Offer for Sale shall be received by the Selling Shareholder after deducting its proportion of Offer expenses and relevant taxes thereon. The Company will not receive any proceeds from the Offer for Sale.

The Objects of the Fresh Issue

AIL proposes to utilise the Net Proceeds towards funding the following objects:

- Capital expenditure towards 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 AIL
- General corporate purposes.

In addition, AIL expects to receive the benefits of listing its Equity Shares on the Stock Exchanges, including enhancing its visibility and brand image, and creating a public market for its Equity Shares.

Requirement of funds

Particulars	Estimated Amount (Rs in million)
Capital expenditure towards purchase of construction equipment's	800
Funding long term working capital requirements	3,200
Prepayment or scheduled repayment of a portion of certain outstanding borrowings and acceptances availed by AIL	6,000
General corporate purposes	*
Total	*

Competitive Strengths

Strong Track Record of Timely Execution of Large-Scale, Complex and High-Value Projects: AIL is one of the leading infrastructure construction companies involved in the execution of large and complex projects both in India and overseas. It focusses on large, complex, and high-value projects and has a strong track record in efficient project management, execution and on-time delivery of projects across verticals and geographies, with a substantial majority of its projects being executed ahead of or on schedule. It has undertaken many complex, challenging, unique and 'first of its kind' infrastructure projects in India and therest of the world. The Compnay's track record showcases its ability to capitalize on its design and extreme engineering capabilities, management expertise, and robust internal systems. Its skilled workforce, complemented by an execution-driven culture, contributes to its success. Further, its ability to leverage its experience in executing projects in diverse geographies provides it with a significant advantage in project execution and timely delivery in India and overseas.

AIL's ability to achieve successful and timely delivery of projects across different verticals and geographies is a result of several factors. It has implemented an operational excellence model that governs its project management practices. This model ensures standardized processes, efficient resource allocation, and a pursuit of continuous improvement in project design and execution. The Company also maintains a strategic equipment base comprising a wide range of heavy machinery and specialized equipment. This enables it to meet project requirements efficiently and effectively, optimizing resource utilization and improving productivity. By consistently demonstrating its ability to handle large-scale projects and leveraging its project management and execution capabilities, AIL is well-positioned to pursue new opportunities across geographies and maintain its position in the industry.

Diversified Order Book across Geographies, Clients, and Business Verticals, Longstanding Relationships with Clients Globally, and Strong Financial Performance: The order book holds significant importance as it represents the estimated contract value of the unexecuted portion of a company's existing assigned contracts and provides visibility on future revenues. Over the last three years, AIL has expanded and diversified its order book, reflecting its commitment to organic and sustainable growth while pursuing a broader range of projects. As of June 30, 2024 and 2023 its order book amounted to Rs.317,474.27 million and Rs.352,402.15 million, respectively. Additionally, as of September 30, 2024, AIL was an 'L1 bidder' in projects worth Rs.107,323.59 million (Source: Fitch Report). Its order book is diversified across business verticals. Although its Urban Infrastructure business vertical forms the largest part of its order book, it has different components which ensures that its order book continues to remain diversified.

The Company's government contracts are sourced from a wide range of entities across geographies and include a number of state agencies and public sector undertakings. Further, it maintains longstanding relationships with a number of private and government clients globally. This includes Arcelor Mittal, with whom it has an association of over 10 years, ARISE Integrated Industrial Platforms (IIP), which designs, finances, conceives and operates industrial ecosystems across Africa, with whom AIL has an association of over 5 years, and a leading global food and agribusiness company headquartered in Singapore (with operations in Africa), which is a client across various business verticals.

The growth in AIL's order book has also contributed to its strong financial performance. For the three months ended June 30, 2024 and 2023 and the Financial Years 2024, 2023 and 2022, its revenue from operations amounted to Rs.31,543.60 million, Rs.31,714.13 million, Rs.132,674.95 million, Rs.126,373.82 million, and Rs.110,189.66 million, respectively, and its EBITDA amounted to Rs.3,716.93 million, Rs.3,140.55 million, Rs.15,831.24 million, Rs.13,737.89 million, and Rs.10,685.99 million, respectively. Among large infrastructure construction companies in India AIL had the highest ROCE and EBITDA margins, and the second-highest ROE and PAT margins for the Financial Year 2024, and its PAT has grown at the fastest rate between the Financial Years 2022 and 2024.

Collaboration among Internal Teams and with JV counterparties, and a Strategic Equipment Base leading to Strong Execution Capabilities: Collaboration among AIL's internal teams, including those relating to operations, design, human resources, and construction plant and equipment ("CPE"), is instrumental in facilitating strong execution capabilities. Further, to drive innovation and ensure efficient construction methodologies, it has established the Core Methods and Engineering Group ("CMEG"). Led by two senior management executives and comprising other senior-level personnel, the CMEG plays a pivotal role in assisting business units ("BUs") with the planning and development of innovative, construction-friendly, and cost-efficient construction methodologies. This collaboration extends to both ongoing projects and those under bidding. Furthermore, its project planning process involves close coordination between multiple teams, including BUs, CMEG, construction plant and equipment, design and engineering, finance, supply chain management, human resources, and information technology teams. This collaborative approach ensures the development of comprehensive project plans with fixed timelines, dedicated resource allocation, detailed risk assessment, and budgeting.

AIL also own and maintain a large and strategic equipment base comprising a wide range of heavy machinery and specialized equipment. As of June 30, 2024, its equipment base included 11 marine barges, 153 cranes, 16 tunnel boring machines, 8 large capacity jack ups, and 21 piling rigs. Four tunnel boring machines are also pending delivery. It also has two dedicated workshops in Delhi and Nagpur for the maintenance of its equipment base. Its strategic equipment fleet caters to diversified infrastructure segments and business units providing it with a technological edge in executing unique and challenging projects.

Knowledge Management and Innovation Practices: AIL place significant importance on procuring and harnessing knowledge from its prior projects in its ongoing and future projects. It has implemented an operational excellence model, which encompasses the pillars of people, process, technology, and relationships, on all its projects. It has established a dedicated department called the Knowledge Services Group which is responsible for driving knowledge management processes across the organization. The Company follows a "Learn Before", "Learn During" and "Learn After" framework which acts a pivot around which its knowledge processes are embedded into the project lifecycle. This model ensures that AIL constantly strive for improvement and fosters a culture of continuous learning. It has received recognition for its knowledge management practices through the MAKE (Most Admired Knowledge Enterprise) and MIKE (Most Innovative Knowledge Enterprise) awards over the last several years, highlighting its commitment to fostering a culture of innovation and problem-solving. Its commitment to knowledge management and innovation has allowed AIL to execute complex projects.

Experienced Leadership Team with Shapoorji Pallonji Group parentage: AIL is the flagship, infrastructure engineering and construction company of the Shapoorji Pallonji Group (i.e., the group's leading engineering and construction company), one of the leading conglomerates in India operating for over 150 years in the construction industry. It leverages its construction industry expertise and reputation to drive business development. With a long-standing history and strong brand recognition, its clients perceive the group as a symbol of excellence, trustworthiness, and timely project delivery. Further, the Emerging Markets Business Centre, established by the group, covering various clients and multilateral organisations in many countries, has supported AIL by helping it identify bidding opportunities in overseas markets. The Company is led by Mr. Shapoor Pallonji Mistry, its Chairman and Non-Executive Director, and the Chairman of the Shapoorji Pallonji Group, Mr. Subramanian Krishnamurthy, its Executive Vice Chairman, with over 40 years of experience in the construction and engineering sector and Mr. Paramasivan Srinivasan, its Managing Director, with 22 years of experience across functions at AIL Its experienced leadership team is supported by a board of directors who possess extensive knowledge and diverse experience in the industry. Together, they provide invaluable guidance and strategic direction, ensuring its continued growth and success.

Strong Risk Management, Project Selection and Dispute Resolution Processes: AIL recognizes the inherent risks prevalent in the infrastructure sector in India and globally and operate a systematic risk management system that assists in identifying, measuring and monitoring the various risks that may arise in their operations. Furthermore, it has a risk-informed decision-making culture throughout its operations. To facilitate this approach, the Company has established a team of experienced senior management personnel within the Company that is responsible for analysing and evaluating all proposed new bids and investments. Its assessment includes a review of various aspects, including credit risk, market risk, and operational risk associated with such bids or capital expenditures. This evaluation ensures that its decision-making processes are well-informed and consider the potential risks involved. Its risk management processes span the entire project lifecycle. At the pre-tendering stage, the risks that they evaluate include country risk, client risk, project risk and joint venture risk (if any). The teams involved in analyzing these risks include business development executives, the tendering team and the strategy team.

Business Strategy:

Selectively Pursue Large Value and Complex Projects: AIL is focused on pursuing large value and complex projects that fit its project selection process and risk management framework. It typically does not pursue projects in which it anticipates a significant number of competing bids; since bidders tend to compete primarily based on its pricing for such projects. Further, AIL target technically complex projects in specialized areas since these projects offer better profit margins compared to less complex endeavors as there are fewer competitors. Only bidders that match specified eligibility criteria are permitted to bid for such projects. Such eligibility criteria, among other things, require previous experience in executing similar projects. In this regard, AIL significantly benefit from its experience of having executed multiple technically challenging projects across its business verticals. For example, in the Marine and Industrial and Surface Transport business verticals, it benefits from its significant experience of having executed 235 Marine and Industrial projects in 15 countries, including 206 projects in India, and several technically challenging and large value expressway projects. Similarly, in the Urban Infrastructure business vertical, AIL has constructed several high-value projects, over 120 km of elevated and underground metro networks, over 150 bridges, viaducts and flyovers and 32 elevated and underground metro stations, across nine cities in India. Its significant experience provides it with a steady stream of opportunities, leading to greater stability and visibility of revenues. Additionally, large, complex projects provide AIL with publicity and exposure to potential clients, and allow it to distinguish itself from other EPC companies.

Maximizing Opportunities in Existing Markets and Expanding Footprint in Overseas Markets: AIL recognise the significance of geographical diversification in its operations and aims to maximize opportunities in its existing markets and concurrently expand its footprint in overseas markets, capitalizing on diverse growth trends both in India and developing markets abroad. Through this approach, it aims to effectively target growth opportunities, broaden its revenue base, and mitigate risks associated with market conditions and price fluctuations resulting from concentration in a specific geographic region. To manage diversification risks, its initial expansion efforts may focus on areas where AIL can deliver high-quality services, such as roads, marine and water projects, leveraging its strong experience in international markets. It aims to expand its client base in East and West Africa, South Asia and Southeast Asia, Eastern Europe and Eurasia, and Saudi Arabia. Furthermore, AIL seeks to leverage growth prospects and consolidate its market position in new geographies within developing markets. Its commitment to this strategy allows it to effectively navigate changing landscapes, respond to market demands, and maintain sustainable growth over the long term. By capitalizing on the expected macroeconomic growth in India and leveraging international business development capabilities, AIL is well-positioned to embark on a trajectory of success in both established and emerging markets, driving value for its stakeholders.

Focus on Cost Management: Cost management is a fundamental aspect of AIL operational strategy. It aims to manage costs in three ways – following an “asset-right” approach, efficiently managing working capital, and ensuring that projects are priced correctly. Its “asset-right” approach is focused on investing and maintaining a strategic equipment base while leasing noncore equipment from external parties, which has helped it control costs and keep capital expenditure in check. This approach helps AIL maintain an optimal mix of assets through the project lifecycle, allowing it to unlock the full value potential of its assets. As a key component of its asset-right approach, AIL continuously expand its sub-contractor base. By strategically partnering with a diverse and reliable network of sub-contractors, it can flexibly scale its resources based on project demands, ensuring optimal utilization of assets, and minimizing its capital expenditure. The Company aims to strengthen its working capital cycle management through timely bill certifications and collections from clients. Its project selection process focusses on finding and winning projects in which AIL expect to have steady cash flows through periodic payments, which it expects will allow it to stay cash flow positive throughout the project lifecycle.

AIL try to ensure that its pricing for projects is not only competitive but also reflective of the true value it provides. Before AIL bid for a project, its tendering department prepares cost estimates for the entire project, including direct costs (such as costs relating to construction materials, equipment and sub-contracting), indirect costs (such as employees’ salaries) and finance costs (such as insurance and bank guarantee costs). After arriving at the total cost for the project, the entire costing exercise is reviewed by the head of the relevant business vertical, who then discusses and finalizes the final price with Executive Vice Chairman and Managing Director. Through this approach, AIL aims to ensure that its projects are optimally priced and minimize unanticipated cost overruns.

Optimizing Project Execution and Management: Optimizing project execution and management has been instrumental to AIL in delivering complex projects in a timely manner and within budgeted margins. It aims to optimize project execution and management in three ways – optimizing project design, value engineering, and technical innovations. It has a small in-house design engineering team. Its design engineers are trained in both project designs and construction methods, which ensures that project designs are construction friendly. This avoids any back-and forth with the construction team after project designs are finalized. Its in-house design team also works with a network of external design consultants, ranging from start-ups to mid-size consultants, to large design firms. Collaborating with external consultants allows AIL to benefit from its experience and stay abreast of the latest, cost-effective cutting-edge designs. As part of its digitization strategy, AIL has identified areas where automation can replace manual intervention, thereby streamlining processes for enhanced efficiency. It has implemented an SAP-based dashboard which provides real-time insights to management teams for informed decision-making. This not only modernizes its approach but also contributes to a more streamlined and transparent budgeting process. By leveraging technology and optimizing processes, AIL aims to enhance cost-effectiveness while maintaining high-quality standards.

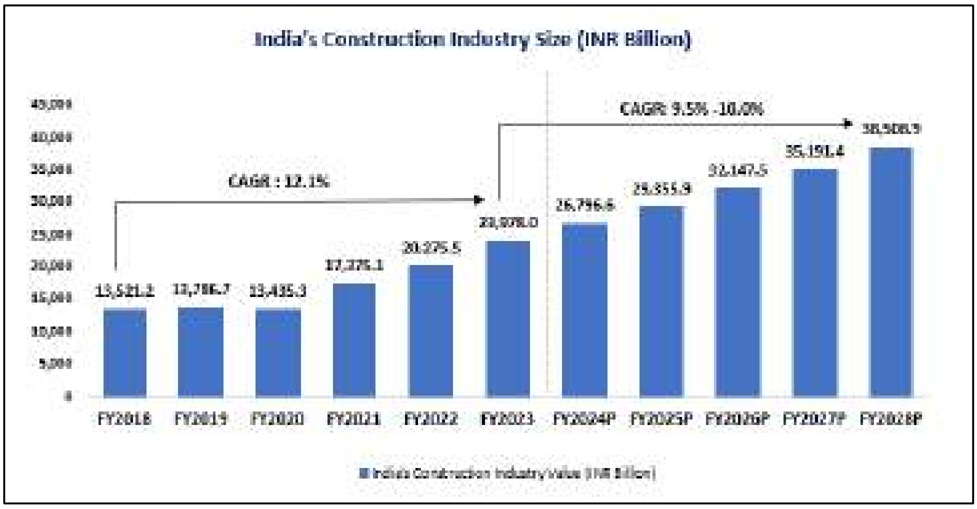
Growing a highly skilled and motivated workforce and strengthening equipment base: AIL aims to steadily grow its talent pool to enhance its project execution capabilities. Its total number of permanent employees increased to 3,972 as of June 30, 2024 from 4,041 as of March 31, 2024, 3,934 as of March 31, 2023 and 3,740 as of March 31, 2022. It is also focussed on ensuring that its employees are trained in the latest construction methods and technologies. It does this by providing a range of training opportunities, such as civil training, mechanical training, electrical, electronic and instrumentation training, safety training, and fabrication programs. Further, executing technologically complex projects exposes AIL to several novel challenges, compelling its employees to devise innovative solutions, which are driven by collaborative efforts between its project-level and head office teams. AIL actively endorse and facilitate these innovations, offering essential support to its teams. Innovations at sites are recognized at its quarterly review meetings and disseminated across organization through its knowledge management processes. The Company aims to build a culture that appreciates technical innovations, which will improve its ability to successfully deliver complex projects in the future. To support the expansion of its operations, AIL place great importance on investing in and owning the latest equipment. By procuring equipment from both domestic and foreign manufacturers, it aims to enhance its capabilities and ensure continuous and timely availability of equipment.

Industry Overview

Indian Construction Infrastructure Industry Overview

Assessment of Overall Construction Industry in India

As per Fitch Solutions, the Indian Construction industry value stood at INR 23,978.0 billion as of FY2023, having grown at a CAGR of 12.1% from INR 13,521.2 billion as of FY2018. Growth in India's construction industry will be supported by high levels of urbanization, an expanding middle class, rising infrastructure investments, surging power demand and strong industrial growth.



The breakdown of different categories forming part of the overall Indian construction industry is given in the table below. As of FY2023, Infrastructure industry forms 37.4% of the total construction industry, residential building industry forms 15.2% of the total construction industry and non-residential building industry forms 47.4% of the total construction industry in India.

Category wise break-up of Indian Construction Industry (FY2018 - FY2023)						
Year	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Infrastructure industry value (INR Billion)	5,041.1	5,749.4	5,778.3	6,880.3	7,830.6	8,973.0
Infrastructure industry value, % of total construction	*37.3%*	*41.7%*	*43.0%*	*39.6%*	*38.6%*	*37.4%*
Residential building industry value (INR Billion)	2,872.5	2,730.6	2,519.8	2,723.4	3,157.8	3,647.7
Residential building industry value, % of total construction	*21.2%*	*19.8%*	*18.8%*	*15.7%*	*15.6%*	*15.2%*
Non-residential building industry value (INR Billion)	5,607.6	5,306.7	5,137.2	7,771.4	9,287.0	11,357.3
Non-residential building industry value, % of total constructio	*41.5%*	*38.5%*	*38.2%*	*44.7%*	*45.8%*	*47.4%*
India's Construction Industry Value (INR Billion)	**13,521.2**	**13,786.7**	**13,435.3**	**17,375.1**	**20,275.5**	**23,978.0**

Source: Reserve Bank of India, Fitch Solutions

FSIAPL forecasts India's construction industry to grow at a CAGR of 9.5%-10.0% from INR 23,978.0 billion in FY2023 to INR 38,508.9 billion in FY2028 driven by stable government support for infrastructure development and expanded private involvement in key sectors and public–private partnerships. Near-term growth will be supported by strong Government push in the form of infrastructure development projects such as National Infrastructure Pipeline, Smart Cities Mission, Gati Shakti, UDAN, Bharatmala Pariyojana, Sagarmala and the Atal Mission for Rejuvenation and Urban Transformation (AMRUT). These government programmes aim to enhance connectivity, upgrade urban infrastructure, develop transportation networks, and foster overall construction sector of India.

Capital Outlay of the Overall Construction Industry in India (FY2023 – FY2025)

The FY2025 budget includes an increase of capital investment with a focus on improving transport and logistics infrastructure that is embedded in a wider push to increase manufacturing capacity, especially across higher valueadd supply chain segments. The government has rightly announced coming out with a market-based financing framework and viability gap funding to spur private sector investment. For the road sector, PM Gram Sadak Yojana 4.0 has been announced that will help in providing all weather connectivity to 25,000 rural habitations. The table below signifies that various ministries have allocated higher budget for capital expenditures in FY2025.

Capital Outlay of Core Infrastructure Ministries in India (INR Billion) – FY2023 to FY2025

	Segments	Name of the Ministry	FY2023A	FY2024RE	FY2025BE	Growth % (FY2025BE v/s FY2024RE)
Infrastructure	Roads	Ministry of Road Transport and Highways	2,059.9	2,645.3	2,722.4	2.9%
	Railways	Ministry of Railways	1,592.6	2,400.0	2,520.0	5.0%
	Urban Infra	Ministry of Housing and Urban Affairs	268.8	265.3	286.3	7.9%
	Ports	Ministry of Ports, Shipping and Waterways	6.8	11.7	10.8	-7.6%
	Power	Ministry of Power	0.2	1.2	10.9	772.9%
	Irrigation	Ministry of Jal Shakti - Department of Water Resources, River Development and Ganga Rejuvenation	1.7	3.2	4.0	23.7%
Industrial	Oil & Gas	Ministry of Petroleum and Natural Gas	0.0	0.4	11.3	NM
	Metals & Minig	Ministry of Mines	0.6	0.8	0.5	-40.5%
Total Capital Outlay of Core Infrastructure Ministries (INR Billion)			**3,930.5**	**5,327.9**	**5,566.1**	**4.5%**

Out of the core 8 infrastructure ministries, the ministries which have been allocated higher share for capital expenditure in FY2025 are Ministry of Jal Shakti - Department of Water Resources, River Development and Ganga Rejuvenation (23.7% higher than FY2024RE), Ministry of Power (772.9% higher than FY2024RE), Ministry of Housing and Urban Affairs (7.9% higher than FY2024RE), Ministry of Railways (5.0% higher than FY2024RE) and Ministry of Road Transport and Highways (2.9% higher than FY2024RE). The table below highlights the historical compounded annual growth (CAGR) and expected CAGR of core infrastructure sectors in India:

Segment	Historical CAGR % (FY2018A-FY2023A)	Expected CAGR % (FY2023A-FY2028P)
National Highway	40 - 45%	5-6%
State Highway	8 - 10%	4-5%
Rural Roads	1-2%	1-2%
Irrigation	-12.5%	4.0%
Railways	29.7%	6.0%
Metals & Minig	-7.3%	4.2%
Urban Infra	11.9%	5.0%
Ports	30.1%	4.5%
Segment	**Historical CAGR % (FY2018A-FY2023A)**	**Expected CAGR % (FY2025BE-FY2028P)**
Oil & Gas	-100.0%	4.0% *

Outlook on the Capital Outlay of Overall Construction Industry in India (FY2023 – FY2028)
India continues to be a relatively attractive destination for investment in infrastructure and its project pipeline has expanded in recent years, which will support the growth forecasts going forward. FSIAPL has projected the capital outlay of core Infra Ministries in the table given below. FSIAPL expects the capital outlay for the road sector to increase at a CAGR of 6%, the railway sector to increase at a CAGR of 6%, Urban Infra to increase at a CAGR of 5% and the ports sector to increase at a CAGR of 4.5% during the period FY2023–FY2028. The irrigation, oil & gas and metals sector would post CAGR of 4–4.2% during the period FY2023–FY2028.

Growth Drivers of overall Construction sector in India
The Indian Construction industry is poised for growth driven by the government's sustained thrust on capital expenditure, sector-specific rebound in private capex and accelerated project execution supported by the likely reduced raw material price volatility. A few factors fostering the growth of Construction Industry in India are as follows:

Increased budgetary allocation for the infrastructure sector: As per the Union Budget of FY2025, the planned capital expenditure for FY2025 stands at INR 11.1 trillion, which is a 11.1% increase from last year. Substantial funding is expected to be earmarked for the road and rail sectors. The Union Budget of FY2025 allocated INR 2.8 trillion to the Ministry of Road Transport and Highways, a 2.8% increase from the previous year. Indian Railways was granted INR 2.6 trillion, following last year's historic allocation of INR 2.4 trillion. These funds are designated for developing three major economic railway corridors and various modernisation projects. Overall, the Government's strong support for the sectors underpins FSIAPL's positive outlook for medium-term transport infrastructure construction growth in India.

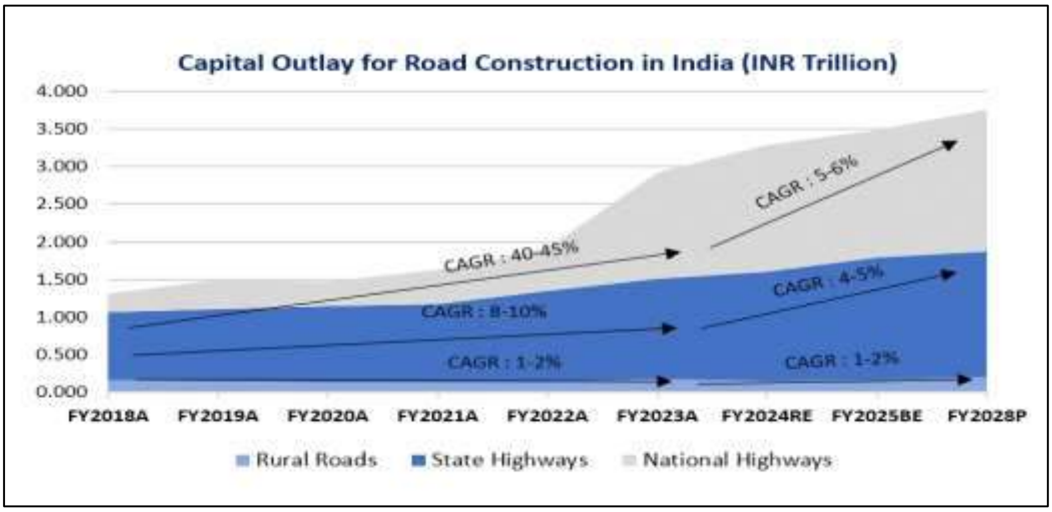
Rising FDI in the Infrastructure sector: India's construction market's strong performance throughout the year was driven by the government's ongoing ambitious infrastructure investment programme and continued strong foreign direct investment (FDI) inflows, particularly in the market's manufacturing sector. In FY2024, FDI in India's construction sector almost doubled from the previous year.

Rapid urbanization has a significant impact on the Construction Industry: According to Census 2011, the decadal growth of urban population was higher than rural population, with 31.2% of the population living in urban areas. There has been an increase in the number of large cities in India. As many as 53 cities in India has a million-plus population as per Ministry of Housing and Urban Affairs. The growth of urbanization in India has had a significant impact on various industries, including the construction industry. As urban populations continue to grow, the demand for new construction projects including housing, commercial buildings, infrastructure, smart cities, etc will increase. Government push in the form of infrastructure development projects such as National Infrastructure Pipeline, Smart Cities Mission, Gati Shakti, UDAN, Bharatmala Pariyojana, Sagarmala and the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) will foster the growth of Construction activity in India.

Reforms Facilitating Private and Foreign Investment: Growth opportunities arising from Indian Government's policy steps in recent years, domestic corporates focusing more on localisation and multinationals looking to reduce risk in global supply chains may attract higher private investment in the medium term. The Indian banking system's improved financial health and confidence in borrowers' credit profiles also positions it well for the higher credit growth needed to realise the corporates' spending plans. Recent reforms of India's FDI regulations are positive for attracting investment and participation in the country's infrastructure sectors, which would be positive for overall growth given India's sizeable infrastructure needs. The cabinet approved revisions to the FDI regulations relaxing restrictions on foreign ownership of airlines, power exchanges and construction and real estate businesses. It was the latest reform to come as part of Make in India initiative, which previously also relaxed restrictions on FDI in the roads and railway sub-sectors. There is significant room for foreign companies to grow their presences in India's infrastructure sector, though FSIAPL acknowledges that FDI regulations are just one component of improving the market's attractiveness. Given India's immense infrastructure deficit, the sector would benefit from capital and technical expertise that foreign investors and partners could bring

Roads and Highways
The pace of National Highway construction in India has increased consistently due to the systematic push through corridor-based National Highway development approach, from about 16.6 km/ day in FY2016 to about 34.0 km/ day in FY2024. FSIAPL expects India's pace of National Highways construction to increase to 35-36 km/ day in FY2025. Road transportation in India has gradually increased over the years with improvement in connectivity between cities, towns, and villages. The total length of all road networks in India increased from 5.47 million kms as of FY2015 to 6.35 million kms as of FY2024. The total length of National Highways increased from 0.10 million kms as of FY2015 to 0.15 million kms as of FY2024.

Capital Outlay for Road Construction in India (the Financial Year 2018 - the Financial Year 2028 (projected))



The capital outlay on National Highway construction in India has increased at a CAGR of 40-45% between FY2018–FY2023. Driven by robust Government funding, the Indian road sector will be a key driver of transport infrastructure development in India over the coming 5 years. FSIAPL expects capital outlay for National Highways to increase at a CAGR of 5-6% between FY2023 and FY2028 led by Expressway execution. Capital outlay of State Highways is expected to increase at a CAGR of 4-5% and capital outlay of Rural Roads is expected to increase at a CAGR of 1–2% between FY2023 and FY2028.

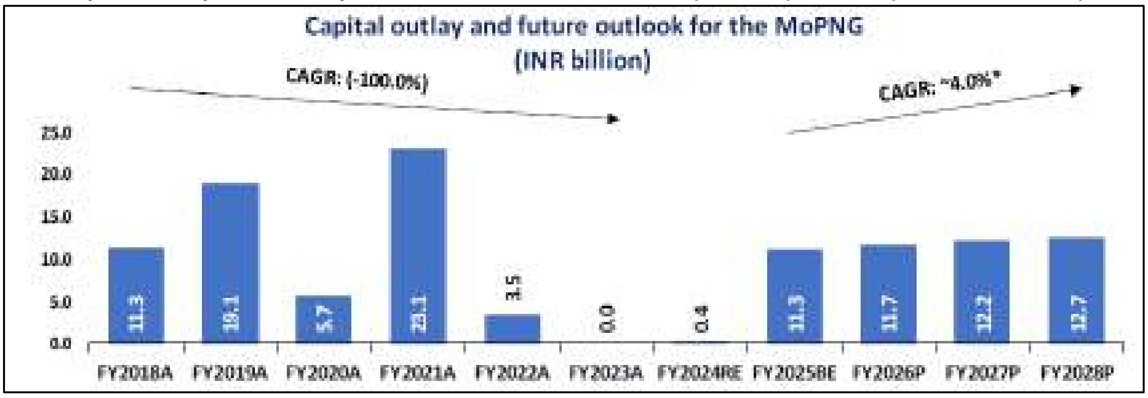
The large pipeline of road projects reflects the government's aim to modernise Indian Highways and upgrade the quality of roads, with government projections pointing to USD 270.0 billion of spending over the next five years as part of the country's National Infrastructure Pipeline. Additionally, MoRTH received a push with the Union Budget raising the allocation for the road sector by 5.4% to around INR 2.7 trillion for FY2025 from INR 2.6 trillion in FY2024. MoRTH has recently also announced plans to construct 74 new tunnels, spanning 273 km, at an estimated cost of INR 1.0 trillion.

Review of Capital Outlay for the Railways Sector

The Union Budget allocated INR 2.52 trillion capital outlay for the Ministry of Railways for FY2025. This allocation is 5.8 times (CAGR of 28.6% from FY2018) the budgetary allocation of INR 0.43 trillion in FY2018. Railways' capital expenditure includes investments for constructing new lines, procuring wagons, doubling of lines, and renewing tracks. The share of capital expenditure in total expenditure of Indian Railways has consistently increased in recent years. The table below highlights that the increase in Capital Expenditure has been funded through budgetary support from the central government and extra budgetary resources. Extra budgetary resources funded more than 50% of capital expenditure between FY2018 and FY2021. Hence, the Union Government has made efforts to increase the budget support from FY2022 onwards.

Oil and Gas Construction Segment Overview

Capital outlay for Ministry of Petroleum and Natural Gas (MoPNG) in India (FY2018 - FY2028)



The capital outlay for the MoPNG has exhibited a fluctuating trend over the past five years. The actual capital expenditure rose from INR 11.3 billion in FY2018 to INR 19.1 billion in FY2019. It further increased to INR 23.1 billion in FY2021, up from INR 5.7 billion in FY2020.

However, the capital outlay then dropped to INR 3.5 billion in FY2022 and reached INR 0.0 in FY2023. According to FSIAPL's analysis, the capital outlay for the MoPNG is projected to grow at an average CAGR of approximately 4.0%, reaching INR 12.7 billion by FY2028.

Review of budgetary allocation for the oil & gas sector

The Union Budget 2024-25 has allocated INR 159.3 billion to the Ministry of Petroleum and Natural Gas for FY2025. This amount represents half (0.5 times) of the budgetary support of INR 291.58 billion that was allocated in FY2018.

Source: Union Budget Documents
Note: BE - Budgeted Estimate, A – Actuals, RE – Revised Estimate

Opportunity for construction activities in Irrigation

In 2023, the National Mission for Clean Ganga completed 38 projects, bringing the total number of completed projects to 270. Additionally, 45 new projects worth INR 54.7 billion were sanctioned, raising the cumulative total to 454 sanctioned projects valued at INR 383.9 billion. In terms of sewerage infrastructure, 21 projects aimed at creating or rehabilitating 938 MLD (Megalitres per Day) of sewage treatment capacity were approved between January and December 2023. During the same period, 10 projects were completed, resulting in the creation or rehabilitation of 821 MLD of sewage treatment capacity. To date, 197 sewerage infrastructure projects have been sanctioned in the Ganga Basin, aimed at creating 6,208 MLD of sewage treatment capacity and laying 5,272 km of sewer network.

The Pradhan Mantri Krishi Sinchayee Yojana – Accelerated Irrigation Benefit Programme (PMKSY-AIBP), including Command Area Development & Water Management (CAD&WM), has been approved for implementation with a budget of INR 239.2 billion (central assistance) for the period FY2021-26. This funding aims to complete 60 ongoing AIBP and 85 ongoing CAD&WM projects, as well as provide financial assistance for new major and medium irrigation projects. Additionally, the funding for National Projects, including the Renuka and Lakhwar Projects, has also been approved. Technology in the irrigation sector has evolved significantly over the past 10 years regarding construction equipment, water transfer techniques and types of irrigation systems. Innovative technology-led irrigation systems such as solar-powered lift micro-irrigation are gaining prominence over conventional flooding methods of irrigation. Greater thrust is also being given to drip and sprinkler irrigation systems, and efficient water-use mechanisms. With all these developments, the sector certainly offers significant opportunities for EPC contractors, and technology and equipment suppliers. According to the Department for Promotion of Industry and Internal Trade under the Ministry of Commerce and Industry, India's public irrigation sector ranks among the largest globally. As of September 4, 2024, the National Infrastructure Pipeline (NIP) has expanded to encompass over 673 projects within the irrigation sector, with a total project value of USD 158.2 billion.

Conclusion

India is projected to remain the fastest-growing major economy, with a real GDP growth rate forecasted at 6.8% for FY2026-27. Global construction industry growth will largely be driven by expanding construction investment in emerging markets, which are expected to achieve an annual average real growth of 3.9% y-o-y between CY2024 and CY2033, contributing to the global construction industry's expansion from USD 5.7 trillion in CY2023 to an anticipated USD 7.8 trillion by CY2029, with India, Indonesia, Vietnam, the Philippines, and Bangladesh among the markets experiencing the highest growth rates in the region over the coming decade. With an average annual growth rate of 4.9% y-o-y from CY2024 to CY2033. Sub-Saharan Africa (SSA) is poised to achieve the fastest construction industry growth globally. This growth is propelled by favourable demographic trends, an expanding middle class, and substantial infrastructure investments in certain markets relative to their construction industry value. As per Fitch Solutions, the Indian Construction industry value stood at INR 23,978.0 billion as of FY2023. It is projected to be the fastest growing construction market in the world growing at a CAGR of 9.5% to 10% between FY2023-FY2028 to reach INR 38,508.9 billion market size by FY2028. The key driver for growth being stable government's support for infrastructure development and expanded private capex in key sectors and publicprivate partnerships.

Key Concerns

- If AIL fails to qualify for, or win new contracts from project owners, its business, financial condition, results of operations, prospects and cash flows could be adversely affected.
- Business significantly depends on projects awarded by government or government-owned customers, which subjects AIL to a variety of risks. Such projects contributed to 69.80% of its Order Book as of June 30, 2024.
- Business is capital intensive. If AIL experience insufficient cash flows or are unable to access suitable financing to meet working capital requirements and loan repayment obligations, its business, financial condition and results of operations could be adversely affected.
- AIL may not be able to collect receivables due from its customers, in a timely manner, or at all, which may adversely affect its business, financial condition, results of operations and cash flows.
- If any of AIL projects are terminated prematurely, it may not receive payments due to it, which could adversely affect the business, financial condition and results of operation.
- The Company is subject to risks arising from interest rate fluctuations, which could reduce the profitability of its projects and adversely affect the business, financial condition and results of operations.
- Insurance coverage may be inadequate, which could have an adverse effect on the financial condition and results of operations.
- There are outstanding legal proceedings involving AIL, Subsidiaries, Promoters and Directors. Any adverse decision in such proceedings may adversely affect the business, financial condition and results of operations.
- Require various statutory and regulatory permits and approvals in the ordinary course of the business, and its failure to obtain, renew or maintain them in a timely manner may adversely affect the operations.
- There have been certain instances of delays in payment of statutory dues by AIL. Any further delays in payment of statutory dues may attract financial penalties and may adversely affect the business, financial condition and results of operations.
- AIL is required to furnish bank guarantees as part of its business. Its inability to arrange for such guarantees or the invocation of such guarantees may adversely affect its cash flows and financial condition. As of June 30, 2024, it had provided bank guarantees (including letters of credit) amounting to Rs.143,712.60 million.
- Some of AIL's contracts are the subject of legal and arbitration proceedings. An adverse outcome from any such legal proceedings could adversely affect the business, financial condition and results of operation.
- International operations and AIL's strategy to further grow these operations expose it to complex management, legal, tax, operational and economic risks, and exchange rate fluctuations, which could adversely affect the business, financial condition and results of operations.
- Actual cost incurred in completing a project may vary substantially from the assumptions underlying its bid. AIL may be unable to recover all or some of the additional expenses incurred, which could adversely affect its financial condition, results of operation and cash flows.
- Projects are exposed to various risks and other uncertainties, and its risk management and project selection framework may be inadequate, which may adversely affect the business, results of operations and financial condition.
- Order Book may not be representative of AIL's future results and its actual income may be significantly less than the estimates reflected in its Order Book, which could adversely affect the results of operations.
- A significant portion of Order Book is attributable to certain large customers and to projects located in India, and AIL's business and profitability is dependent on its ability to win projects from such customers.
- Depend significantly on contract labour and an inability to access contract labour at reasonable costs at its project sites may adversely affect the business.

- Any inability to manage employees, equipment base or inventory could result in shortages or underutilization, which could adversely affect the profitability.

- Customers may face challenges in securing project financing, resulting in delays in execution or cancellation of projects, which may adversely affect the business, financial condition and results of operations.

- Face competition from other infrastructure construction companies when bidding for projects. If AIL is unable to compete for and win projects, its business, prospects and financial condition could be adversely affected.

- Company has entered into joint venture agreements with other parties for execution of projects. Any non-compliance with the terms of these joint venture agreements may result in adverse action against the Jointly Controlled Operation and the Company by the governmental authorities / concessioning authority.

- Inability to meet obligations, including financial and other covenants under debt financing arrangements and any delay in obtaining consents from lenders may limit AIL's ability to pursue its business and could adversely affect the business, financial condition, results of operations and cash flows.

- It cannot be assured that AIL will be able to successfully execute its growth strategies, which could affect the business, prospects, results of operations and financial condition

- For supply of certain construction materials, AIL relies on suppliers. Inadequate or interrupted supply or sub-standard quality of construction materials could adversely affect its reputation, business and results of operations.

- If AIL is unable to manage attrition and attract and retain skilled professionals, it may adversely affect its business prospects, reputation and future financial performance

- The company is subject to anti-bribery, anti-corruption and sanctions laws and regulations. Its business is subject to fluctuations due to seasonal, climatic and other factors.

- AIL relies on third parties, including sub-contractors, to complete certain projects and any failure arising from non-performance, delayed performance or inadequate quality in the performance of work by such third parties, or a failure by third-party subcontractors to comply with applicable laws, to obtain the necessary approvals, or provide services on agreed terms, could adversely affect the business, financial condition, results of operations and cash flows.

- Business development efforts involve considerable time and expense, and AIL's revenues may not justify expenses incurred towards business development efforts.

- Incur significant employee benefits expense. An increase in employee costs, including on account of changes in regulations, may prevent AIL from maintaining its competitive advantage and may reduce its profitability.

- Entered into, and will continue to enter into, related-party transactions, including project execution contracts, borrowings, equipment hire, investments, advances, and property rentals, which may potentially involve conflicts of interest.

- AIL is subject to risks relating to fluctuations in prices of raw materials on overseas projects.

- A part of the Order Book is in early stages of execution and may be subject to delays, cancellations, cost overruns or disputes, which could adversely affect the business, financial condition and results of operations.

Profit & Loss

Particulars (Rs in million)	Q1FY25	FY24	FY23	FY22
Revenue from operations	31543.6	132675.0	126373.8	110189.7
Other Income	591.1	3793.8	2067.1	2505.8
Total Income	**32134.7**	**136468.7**	**128440.9**	**112695.5**
Total Expenditure	**28008.9**	**119024.8**	**113267.8**	**100829.0**
Cost of materials consumed	7984.7	40124.7	38517.1	31763.1
Cost of construction	13858.9	52939.7	52006.5	49396.4
Employee benefits expense	3448.2	13834.2	12982.3	10849.8
Other expenses	2717.1	12126.1	9761.8	8819.7
PBIDT	**4125.8**	**17444.0**	**15173.2**	**11866.5**
Interest	1469.1	5772.6	4466.6	4247.3
PBDT	**2656.7**	**11671.4**	**10706.5**	**7619.2**
Depreciation and amortization	1302.3	4945.3	4715.8	3553.7
PBT	**1354.4**	**6726.0**	**5990.8**	**4065.5**
Tax (incl. DT & FBT)	**438.6**	**2228.7**	**1882.2**	**489.5**
Current tax	370.3	2002.4	1894.3	1245.7
Deferred tax	66.5	72.4	-297.9	-787.2
Tax for earlier years	1.8	153.8	285.8	31.0
PAT	**915.9**	**4497.4**	**4108.6**	**3576.1**
EPS (Rs.)	2.7	13.2	12.1	10.5
Face Value	10	10	10	10
OPM (%)	11.2	10.3	10.4	8.5
PATM (%)	2.9	3.4	3.3	3.2

Balance Sheet

Particulars (Rs in million) As at	Q1FY25	FY24	FY23	FY22
Non-current assets				
Property, plant and equipment	26,356.0	27,151.4	24,487.5	22,513.9
Capital work-in-progress	467.7	430.7	1,836.0	175.3
Right-of-use assets	903.2	679.1	487.2	655.6
Intangible assets	5.9	6.0	6.1	6.6
Goodwill	1.4	1.4	1.4	1.4
Financial assets				
Investments	8.7	7.8	5.1	8.9
Trade receivables	4,905.0	4,992.1	6,512.1	6,788.78
Other financial assets	4,136.84	4,179.91	3,659.2	3,089.6
Contract assets	12,677.2	12,710.1	14,165.0	14,912.9
Non-current tax assets (net)	914.8	536.4	288.1	687.3
Other non-current assets	1,983.3	1,908.7	1,815.4	1,966.4
Total non-current assets	**52,359.9**	**52,603.5**	**53,263.0**	**50,806.7**
Current assets				
Inventories	17,092.2	16,265.7	15,857.9	12,702.4
Financial assets				
Trade receivables	30,996.1	31,209.8	21,966.4	23,038.7
Cash and cash equivalents	6,282.3	4,132.6	3,193.2	4,470.9
Bank balances other than cash and cash equivalents	2,689.9	2,530.0	581.2	793.3
Loans & Advances	605.5	618.4	533.5	550.9
Other financial assets	5,036.5	5,013.4	3,983.1	923.8
Contract assets	45,414.6	39,543.9	32,725.1	24,715.3
Other current assets	11,368.9	10,419.2	10,909.2	11,735.8
Total current assets	**119,485.8**	**109,732.9**	**89,749.6**	**78,931.0**
Total assets	**171,845.8**	**162,336.4**	**143,012.5**	**129,737.7**
EQUITY & LIABILITIES				
Equity				
Equity share capital	3,407.4	3,407.4	719.7	719.7
Instruments entirely equity in nature	0.0	0.0	4,500.0	4,500.0
Other equity	33,425.2	32,552.2	26,537.5	21,901.1
Non-controlling interest	15.6	15.6	15.6	-92.8
Total equity	**36,848.2**	**35,975.2**	**31,772.8**	**27,028.0**

Liabilities				
Non-current Liabilities				
Financial Liabilities				
Borrowings	6,630.5	5,976.9	5,964.7	4,018.9
Lease liabilities	535.7	351.5	156.8	342.0
Trade payables				
Total outstanding due to micro and small enterprises	231.8	232.1	519.5	290.5
Total outstanding due to creditors other than micro and small enterprises	3,960.0	4,077.9	4,208.9	4,106.8
Other financial liabilities	1,187.7	1,265.3	1,568.8	1,880.9
Contract liabilities	16,631.7	14,512.9	15,240.3	17,663.0
Provisions	118.4	93.2	88.7	862.9
Deferred tax liabilities (net)	1,116.6	1,036.7	992.9	1,297.5
Total non-current liabilities	**30,412.3**	**27,546.5**	**28,740.6**	**30,462.4**
Current liabilities				
Financial liabilities				
Borrowings	27,020.5	18,573.1	9,663.4	11,533.1
Lease liabilities	346.8	330.8	337.5	338.4
Trade payables				
Total Outstanding dues of Micro Enterprises and Small Enterprises	1,841.4	1,984.5	3,759.3	3,038.1
total outstanding dues of creditors other than micro enterprises and small enterprises	40,966.4	41,271.6	31,325.7	23,935.1
Other financial liabilities	*2728.46*	*2698.51*	*3623.73*	*4947.82*
Contract liabilities	27,911.1	29,981.6	30,152.8	27,138.4
Provisions	2,056.7	2,272.2	1,500.1	685.4
Other current liabilities	674.8	863.5	1,201.0	477.0
Current tax liabilities (net)	1,039.1	838.9	935.6	153.9
Total current liabilities	**104,585.2**	**98,814.7**	**82,499.2**	**72,247.3**
Total liabilities	**134,997.5**	**126,361.2**	**111,239.7**	**102,709.7**
Total equity and liabilities	**171,845.8**	**162,336.4**	**143,012.5**	**129,737.7**

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