

Recommendation		NEUTRAL		BACKGROUND			
Price Band		Rs 440-463		<p>Afcons Infrastructure Limited, a prominent player in the global construction industry, is widely recognized for its expertise in executing large-scale and complex infrastructure projects. Established in 1959, the company has evolved into a multinational entity under the Shapoorji Pallonji Group, specializing in various sectors such as marine, transportation, urban infrastructure, and oil and gas.</p> <p>Objects and Details of the Issue:</p> <ul style="list-style-type: none"> Total issue of ~Rs. 5,430 Cr (at upper price band) consists of fresh issue worth Rs. 1,250 Cr and offers for sale worth Rs. 4180 Cr. Fresh issue proceeds shall be used towards: (i) Capital expenditure towards purchase of construction equipment's amounting to 80 Cr; (ii) Funding long term working capital requirements amounting to 320 Cr; (iii) To utilize Rs. 600 Cr for the repayment of company borrowings. <p>Investment Rationale:</p> <ul style="list-style-type: none"> Strong Track Record of Timely Execution of Large-Scale, Complex and High-Value Projects Afcons asset Right approach Robust Financial Metrics <p>Valuation and Recommendation:-</p> <p>Afcons Infrastructure Limited, despite its strong capabilities in managing large and complex projects, has exhibited a relatively modest revenue growth rate of 10% CAGR from FY22 to FY24. In contrast, its larger peer, L&T, has achieved significantly faster growth during the same period further Afcons generates higher asset turns than its peers resulting in superior ROCE. Although Afcons has a decent order book to sales ratio of 2.4x, the order book is executable over many years into the future. Afcons is currently offered at a 15% premium over the average price-to-earnings (P/E) ratio of its peers. This premium appears unwarranted given its lower growth trajectory compared to competitors. Therefore we rate the IPO as 'NEUTRAL'.</p>			
Bidding Date		25th Oct - 29th Oct'24					
Book Running Lead Manager		ICICI Securities, DAM Capital, Jefferies India, Nomura Financial, Nuvama Wealth, SBI Capital Markets.					
Registrar		Link Intime India Pvt Ltd					
Sector		Infrastructure EPC					
Minimum Retail Application- Detail At Cut off Price							
Number of Shares		32					
Minimum Application Money		Rs. 14,816					
Discount to retail		0					
Payment Mode		ASBA					
Consolidated Financials (Rs Cr)		FY23	FY24				
Total Income		12,637	13,267				
EBITDA		1,311	1,365				
Adj PAT		411	450				
Valuations (FY23)		Lower Band	Upper Band				
Market Cap (Rs Cr)		16,180	17,026				
Adj EPS		12.2	12.2				
PE		36	38				
EV/ EBITDA		12.77	13.39				
Enterprise Value (Rs Cr)		17,437	18,283				
Post Issue Shareholding Pattern							
Promoters		67.2%					
Public/Other		32.8%					
Offer structure for different categories							
QIB (Including Mutual Fund)		50%					
Non-Institutional		15%					
Retail		35%					
Post Issue Equity (Rs. in cr)		367.7					
Issue Size (Rs in cr)		5427					
Face Value (Rs)		10					
Jehan Bhadha Research Analyst (+91 22 6273 8174) jehankersi.bhadha@nirmalbang.com				Source: RHP, NBRR			

Company Background

Afcons Infrastructure Limited is the flagship engineering and construction entity of the Shapoorji Pallonji Group, a diversified Indian conglomerate with a legacy spanning over six decades. The company has established itself as a leader in executing complex and unique engineering, procurement, and construction (EPC) projects, both domestically and internationally.

Recognized as one of India's largest international infrastructure firms, Afcons was ranked among the top international contractors by Engineering News-Record (ENR) in 2023, based on international revenue. Over the past eleven financial years, up to June 30, 2024, Afcons has successfully completed 79 projects across 17 countries, with a total executed contract value of ₹563.05 billion. As of the same date, the company is managing 65 active projects in 12 countries, amounting to an impressive order book of ₹317.47 billion.

Afcons has significantly expanded its global footprint, particularly in Asia, Africa, and the Middle East. The company excels in various infrastructure domains, including marine and industrial construction, surface transport, urban infrastructure, hydro and underground works, and oil and gas projects.

Major Business Verticals and their share in order book			
Business Vertical	2024	2023	2022
Marine and Industrial	9.86%	9.57%	12.19%
Surface Transport	10.78%	13.11%	12.25%
Urban Infrastructure:			
- Urban Underground and elevated metro	36.90%	25.54%	32.02%
- Urban Elevated corridors and bridges	12.64%	16.29%	21.25%
Hydro and Underground	23.64%	28.10%	19.29%
Oil and Gas	6.18%	7.39%	3.01%

Source: RHP, NBRR

Order Book By Geographies			
Geographies	2024	2023	2022
India	72%	70%	71%
Overseas	28%	30%	29%

Source: RHP, NBRR

Order Book By Clients			
Clients	2024	2023	2022
Government	66%	62%	63%
Multilateral	22%	25%	26%
Private Sector	12%	13%	11%

Source: RHP, NBRR

Order book by type of revenue			
Types of Contracts	2024	2023	2022
EPC Contracts	63.20%	78.57%	73.21%
Item Rate Contracts	36.76%	21.25%	26.65%
Cost Plus Contracts	0.04%	0.18%	0.13%

Source: RHP, NBRR

Investment Rationale

Strong Track Record of Timely Execution of Large-Scale, Complex and High-Value Projects

Afcons Infrastructure Limited has established a strong reputation for its ability to complete projects on time, a critical factor in the highly competitive construction industry. The company's commitment to efficient project management and execution is evident in its track record of delivering complex infrastructure projects ahead of schedule.

Key Achievements

Record Concreting Times-

A notable example of Afcons' efficiency is the completion of the dome roof concreting for Tank 102 at the Chhara LNG project in just seven-and-a-half days, significantly faster than the initially agreed timeline of 15 days. This achievement highlights the company's capability in managing large-scale operations under tight deadlines while ensuring safety and quality standards are met

Timely Delivery Across Projects-

Afcons has consistently demonstrated its ability to adhere to project timelines across various sectors. For instance, during the construction of the Tema-Mpakadan railway line in Ghana, Afcons showcased its capacity to deliver results promptly despite challenges posed by the COVID-19 pandemic, completing the project efficiently and effectively

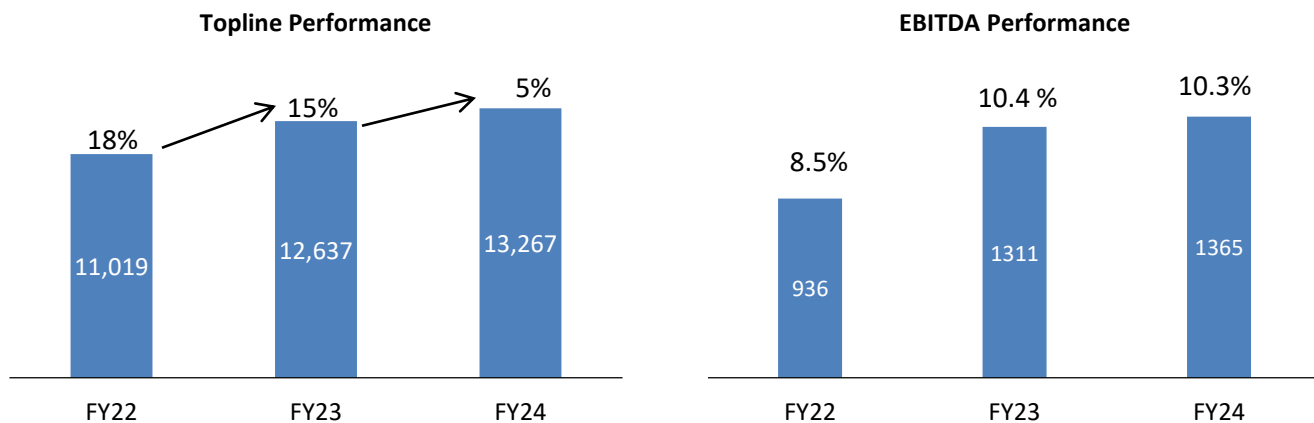
Innovative Solutions-

The company employs innovative engineering solutions and meticulous planning to overcome challenges that could delay project completion. For example, at the Nagpur Metro project, Afcons completed a technically challenging girder erection in just two months instead of the original five-month schedule, showcasing its agility and commitment to meeting deadlines

Illustrative list of projects from the last ten years that were completed earlier than the scheduled project completion dates

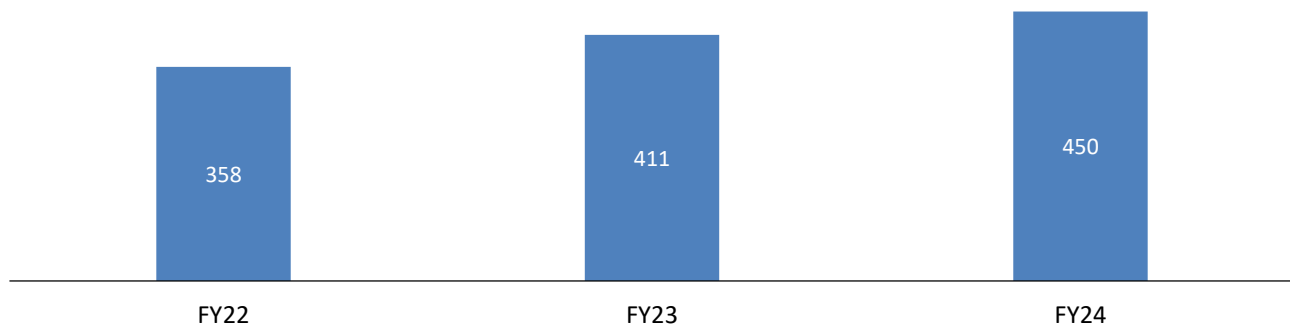
Project	Completed earlier than scheduled (Days)	Bonus earned for early completion (Cr)
Jammu Udhampur Project Highway Project	156	116.0
Nagpur Metro Reach 3	153	5.0
Nagpur Mumbai Samruddhi Expressway – Package	121	99.6
Agra Lucknow Expressway– Package 2	69	54.9
Agra Lucknow Expressway– Package 4	68	57.8
Nagpur Mumbai SamruddhiExpressway – Package	64	53.0
Zambia City Decongestion Project	61	NA

Robust Financial Performance



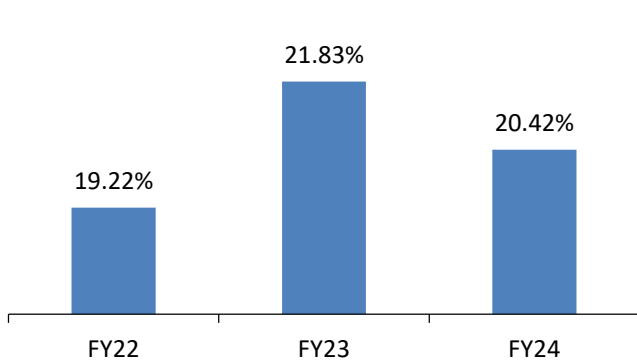
Source: RHP, NBRR

Net Profit Performance

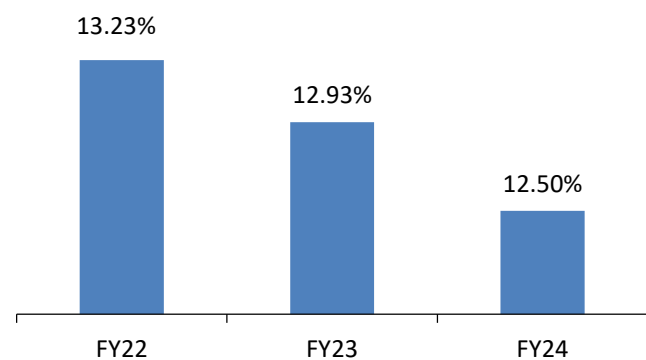


Source: RHP, NBRR

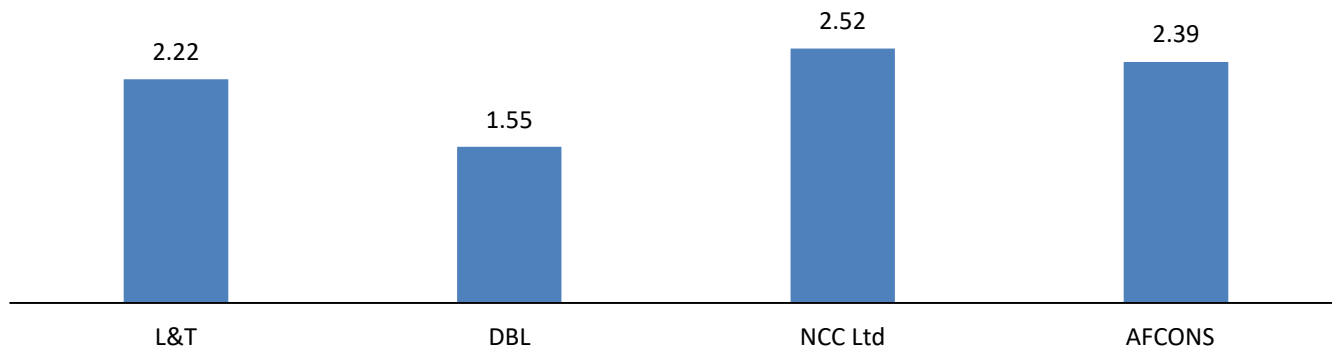
Return on Capital Employed



Return on Equity



Order book to sales peer comparison



Source: RHP, NBRR

Asset Right Approach

The company aims to manage costs through an "asset-right" approach, which it implements using several strategic methods:

The company maintains a strategic equipment base that consists of a diverse range of heavy machinery and specialized equipment. This extensive asset portfolio is crucial for the company's success in executing complex infrastructure projects, both in India and internationally. The ability to source high-tech equipment and manage specialized machinery in-house has significantly contributed to Afcons' competitive edge in the construction industry.

Further, the company strategically partners with a diverse and reliable network of subcontractors, which allows them to scale their resources according to project demands. This collaborative approach ensures optimal asset utilization while minimizing capital expenditures. By effectively managing its equipment and utilizing subcontractors, Afcons can defer the purchase of new machinery. This strategic decision results in significant cost savings, allowing the company to allocate financial resources toward other critical areas such as project development and innovation.

Risks and concerns

Dependence on Government Contracts

A significant portion of Afcons' projects are awarded by government or government-owned entities, which exposes the company to risks associated with changes in government policies, budget allocations, and project approvals. Any slowdown in public sector spending can adversely affect revenue.

Concentration of Clients

Afcons has a substantial portion of its order book tied to a limited number of large customers and projects primarily located in India. This concentration increases vulnerability to fluctuations in demand from these key clients.

Regulatory Compliance

The company is subject to various anti-bribery, anti-corruption, and sanctions laws. Non-compliance with these regulations can result in legal penalties, reputational damage, and financial losses.

Industry Cyclicity

The infrastructure sector is inherently cyclical and sensitive to economic conditions. Economic downturns can lead to reduced project availability and increased competition, impacting revenue generation.

Competition

Afcons operates in a competitive landscape with numerous established players in the infrastructure sector, both domestically and internationally. Maintaining a competitive edge requires continuous innovation and effective cost management.

Valuation and Recommendation

Despite of having superior skills in executing large complex projects, Afcons has underperformed its peers in terms of revenue growth by growing at 10% CAGR over FY22-24. L&T which is many times larger than Afcons has grown much faster. Afcons generates higher asset turns than its peers resulting in superior ROCE. Although Afcons has a decent order book to sales ratio of 2.4x, the order book is executable over many years into the future. Afcons is available at a 15% premium valuation to peer average on P/E basis which we believe is unwarranted given Afcons' lower growth. Therefore we rate the IPO as 'NEUTRAL'.

Listed Peers

FY24 Figures	L & T	DBL	NCC Ltd	Average	Afcons
Revenue	221,113	12,012	20,845	84,657	13,267
CAGR (FY22-24)	18.9%	12.1%	36.8%	22.6%	9.7%
Order book to Sales	2.22	1.55	2.52	2.10	2.39
EBITDA Margin	12.5%	15.7%	9.0%	12.4%	10.3%
Asset Turns (x)	1.1	1.0	2.7	1.6	2.2
Wkg Cap Days	67	66	66	66	30
ROCE (%)	14.8%	13.1%	21.7%	16.5%	20.4%
ROE (%)	18.0%	4.7%	11.2%	11.3%	12.5%
Debt/Equity	1.3	1.7	0.1	1.1	0.7
EV/EBITDA	21.2	7.1	9.8	12.7	13.4
P/E	37.7	35.4	26.0	33.0	37.9

Source: RHP, NBRR

Financials

P&L (Rs. Cr)	FY22	FY23	FY24	Balance Sheet (Rs. Cr)	FY22	FY23	FY24
Net Revenue	11,019	12,637	13,267	Share Capital	72	72	341
<i>% Growth</i>		15%	5%	Other Equity	2,640	3,104	3,255
Purchases of stock in trade	8,116	9,052	9,306	Minority Interest	(9)	2	2
<i>% of Revenues</i>	73.7%	71.6%	70.1%	Networth	2,703	3,177	3,598
Employee Cost	1,085	1,298	1,383	Total Loans	1,623	1,612	2,523
<i>% of Revenues</i>	9.8%	10.3%	10.4%	Other non-curr liab.	2,170	1,789	1,691
Other expenses	882	976	1,213	Trade payable	3,137	3,981	4,757
<i>% of Revenues</i>	8.0%	7.7%	9.1%	Other Current Liab	3,340	3,741	3,665
EBITDA	936	1,311	1,365	Total Equity & Liab.	12,974	14,301	16,234
<i>EBITDA Margin</i>	<i>8.5%</i>	<i>10.4%</i>	<i>10.3%</i>	Property, Plant and Equipment	2,251	2,449	2,715
Depreciation	355	472	495	CWIP	18	184	43
Other Income	251	207	379	Right of use & Intangible Assets	66	49	69
Interest	425	447	577	Non Currrent Financial assets	309	366	418
Share of Profit equity accounter	0	0	0	Other non Curr. assets	1,757	1,627	1,516
PBT	407	599	673	Inventories	1,270	1,586	1,627
Tax	49	188	223	Cash and cash equivalents	447	319	413
<i>Tax rate</i>	<i>12%</i>	<i>31%</i>	<i>33%</i>	Bank balances other than above	79	58	253
Adj. PAT (norm. Tax)	358	411	450	Investments+loans	56	54	63
<i>% Growth</i>		15%	9%	Trade receivables(debtor)	2,983	2,848	3,620
EPS (Post Issue)	9.73	11.17	12.23	Other Current assets	3,737	4,762	5,498
				Total Assets	12,974	14,301	16,234

Ratios & Others	FY22	FY23	FY24	Cash Flow (Rs. Cr)	FY22	FY23	FY24
Debt / Equity	0.6	0.5	0.7	Profit Before Tax	407	599	673
EBITDA Margin (%)	8.5%	10.4%	10.3%	Provisions & Others	40	817	961
PAT Margin (%)	3.2%	3.3%	3.4%	Op. profit before WC	1,105	1,417	1,633
ROE (%)	13.2%	12.9%	12.5%	Change in WC	(378)	(101)	(676)
ROCE (%)	19.2%	21.8%	20.4%	Less: Tax	116	100	250

Turnover Ratios	FY22	FY23	FY24
Debtors Days	99	82	100
Inventory Days	42	46	45
Creditor Days	104	115	131
Asset Turnover (x)	0.8	0.9	0.8

Valuation Ratios	FY22	FY23	FY24
Price/Earnings (x)	47.6	41.4	37.9
EV/EBITDA (x)	19.8	14.1	13.6
EV/Sales (x)	1.7	1.5	1.4
Price/BV (x)	6.3	5.4	4.7

Source: RHP, NBRR

Cash Flow (Rs. Cr)	FY22	FY23	FY24
CF from operations	610	1,215	707
Purchase/Sale of fixed assets	(352)	(910)	(682)
Sale/Purchase of Investments	18	11	(202)
Interest, dividend and other inc	84	29	26
CF from Investing	(251)	(870)	(859)
Repayment towards Lease Liab	(38)	(43)	(41)
Finance cost	(429)	(448)	(575)
(Repayment)/ proc current debt	(29)	9	890
interest & div paid & Proceeds fro	(26)	(1)	(29)
CF from Financing	(521)	(483)	245
Net Change in cash	(162)	(138)	94
Cash & Bank at beginning	608	457	319
Cash & Bank at end	447	319	413

Disclosure:

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