

<b>Retail Research</b>	<b>IPO Note</b>
<b>Sector: Infrastructure EPC</b>	<b>Price Band (Rs): 440 - 463</b>
<b>22<sup>nd</sup> October 2024</b>	

## Afcons Infrastructure Limited

### Company Overview:

**Afcons Infrastructure Ltd.** (AIL) is a flagship infrastructure, engineering and construction company of Shapoorji Pallonji group. The company specialises into execution of challenging, complex and unique Engineering, Procurement and Construction (EPC) projects both in domestic and international markets.

### Key Highlights:

**Successful track record with international presence:** The company, in the last 11 years, has executed 79 projects across 17 countries with a total executed contract value of Rs 56,305 cr. Over the years, it has expanded its presence globally and in particular across Asia, Africa and the Middle East. The areas of operations cover 5 major infrastructure business verticals viz Marine and Industrial, Surface Transport, Urban Infrastructure, Hydro and Underground and Oil and Gas.

AIL is the 10<sup>th</sup> largest international marine and port facilities contractor. It is also 12<sup>th</sup> largest contractor in the bridges segment, 42<sup>nd</sup> largest contractor in the transportation segment and the 18<sup>th</sup> largest contractor in the transmission lines and aqueducts segment globally (based on International Revenue for the Financial Year 2023).

**Strong order book:** The company currently is executing 65 projects across 12 countries with an aggregate order book of Rs 31,747 cr as of Jun'24. The order book to sales ratio stood at 2.52x thus offers decent revenue visibility in near term. Subsequent to Jun'24, the company won new orders worth Rs 5,936.7 cr till Sep'24 and is currently L1 for orders worth Rs 10,732.4 cr. The order book is diversified across vertical and geographies (refer page 289 and 290 of RHP).

**Strategic equipment base leading to strong execution capabilities:** The company maintains strategic equipment base comprising a wide range of heavy machinery and specialized equipment which enables company in timely execution of projects at the same time instrumental in winning several complex projects. As of Jun'24, the equipment base included 11 marine barges, 153 cranes, 16 tunnel boring machines, 8 large capacity jack ups, and 21 piling rigs (refer page 291 of RHP).

**Experienced leadership team with Shapoorji Pallonji group parentage:** Shapoorji Pallonji Group is a leading conglomerate in India operating for over 150 years in the construction industry. With a long-standing history and strong brand recognition, the clients perceive the group as a symbol of excellence, trustworthiness, and timely project delivery. The company leverage its construction industry expertise and reputation to drive business development.

### Valuation:

The company, at lower and upper price band of Rs 440 and Rs 463, is valued at a P/E multiple of 36.1x/37.9x of its FY24 consolidated earnings respectively based on post issue capital. The company has demonstrated healthy financial performance as Revenue/EBITDA/PAT grew at 9.7%/20.8%/12.1% CAGR between FY22-FY24 to Rs 13,267.5 cr/ Rs 1,365.0 cr/ Rs 449.7 cr respectively.

Issue Details	
Date of Opening	25 <sup>th</sup> October 2024
Date of Closing	29 <sup>th</sup> October 2024
Price Band (Rs)	440 - 463
Fresh Issue (Rs cr)	1,250
Offer For Sale (Rs cr)	4,180
Issue Size (Rs cr)	5,430
No. of shares	12,34,09,091 – 11,72,78,618
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	16,242 – 17,026
BRLMs	ICICI Securities, DAM Capital Advisors, Jefferies India Private, Nomura Financial Advisory and Securities, Nuvama Wealth Management, SBI Capital Markets
Registrar	Link Intime India Private Limited
Bid Lot	32 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB shares	15%

Objects of Issue	
Estimated utilization from net proceeds (Rs cr)	
Capital expenditure towards purchase of construction equipments.	80.0
Funding long-term working capital requirements.	320.0
Prepayment or scheduled repayment of a portion of certain outstanding borrowings and acceptances availed by the Company	600.0
General corporate purposes*#	-
Total proceeds from fresh issue	1,250.0

\*To be determined upon finalisation of the Offer Price and updated in the Prospectus prior to filing with the RoC.

# The amount to be utilised for general corporate purposes shall not exceed 25% of the gross proceeds of the Fresh Issue, in accordance with the SEBI ICDR Regulations.

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	33,73,30,037	99.0
Public & Others	34,08,232	1.0
<b>Total</b>	<b>34,07,38,269</b>	<b>100.0</b>

Post Issue @ Lower Price Band		
Promoter & Promoter Group	24,23,30,037	65.6
Public & Others	12,68,17,323	34.4
<b>Total</b>	<b>36,91,47,360</b>	<b>100.0</b>

Post Issue @ Upper Price Band		
Promoter & Promoter Group	24,70,49,259	67.2
Public & Others	12,06,86,850	32.8
<b>Total</b>	<b>36,77,36,109</b>	<b>100.0</b>

Source: RHP, SSL Research

## Key Financials

Particulars	FY22	FY23	FY24	1QFY25
Revenue from operation (Rs cr)	11,019	12,637	13,267	3,154
EBITDA (Rs cr)	936	1,311	1,365	353
PAT (Rs cr)	358	411	450	92
EBITDA Margin (%)	8.5	10.4	10.3	11.2
PAT Margin (%)	3.2	3.3	3.4	2.9
ROE (%)	13.2	14.0	13.3	2.5*
ROCE (%)	19.5	23.2	23.2	4.3*
PE (x)	44.1	38.4	35.1	172.3*

*Note: PE is based on pre-issue at upper band*

*\*Not annualized*

*Source: RHP, SSL Research*

## Risk Factors

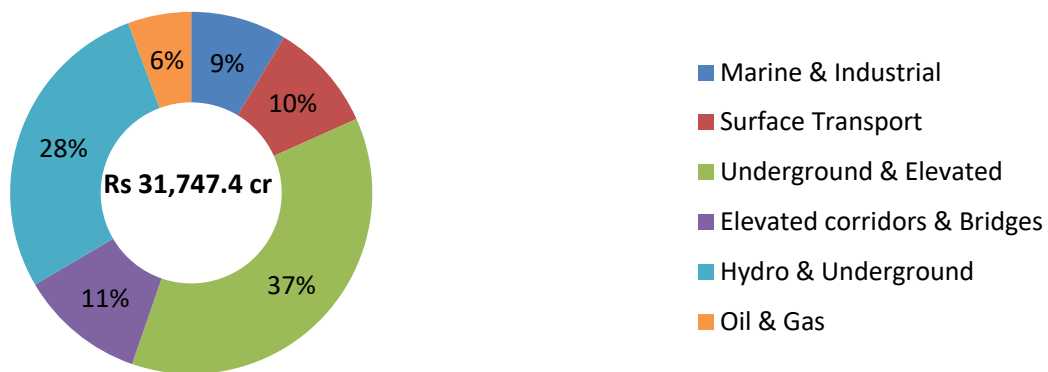
- **Winning new orders/contracts:** If the company fails to qualify for or win new contracts from project owners, the financials and operations of the business will be affected.
- **Project awarded by the government:** The company significantly depends on projects awarded by the government or government-owned customers, which subjects the company to a variety of risks (pre-qualifications, government policies, budgets etc). Government order book stood at 69.8% as of Jun'24.
- **Capital Intensive Business:** Insufficient cash flows or lack of suitable financing to meet the business's capital needs could adversely affect the financial condition and operations.
- **Trade receivables:** As of Jun'24, total trade receivables amounted to Rs 3,974.6 cr (Including interest on arbitration award). The company require significant working capital for business operations and any delays in the collection of receivables or inadequate recovery of claims could adversely affect business, cash flows, financial condition and results of operations.
- **Termination of projects:** If any of the projects are terminated prematurely, the company may not receive payments due, which could adversely affect the business, financial condition and results of operation.
- Shortage of skilled and unskilled manpower could materially affect the execution of projects

## Growth Strategies

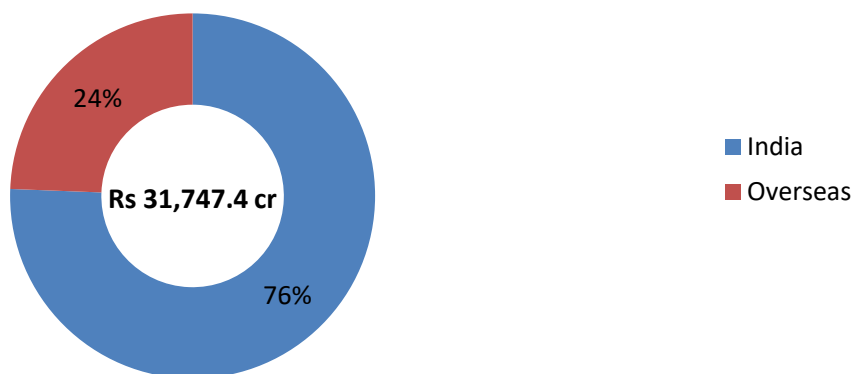
- Selectively pursue large value and complex projects.
- Maximizing opportunities in existing markets and expanding footprint in overseas markets.
- Focus on cost management.
- Optimizing project execution and management.
- Growing a highly skilled and motivated workforce and strengthening equipment base.

# Order Book by Segment, Geography and Client type

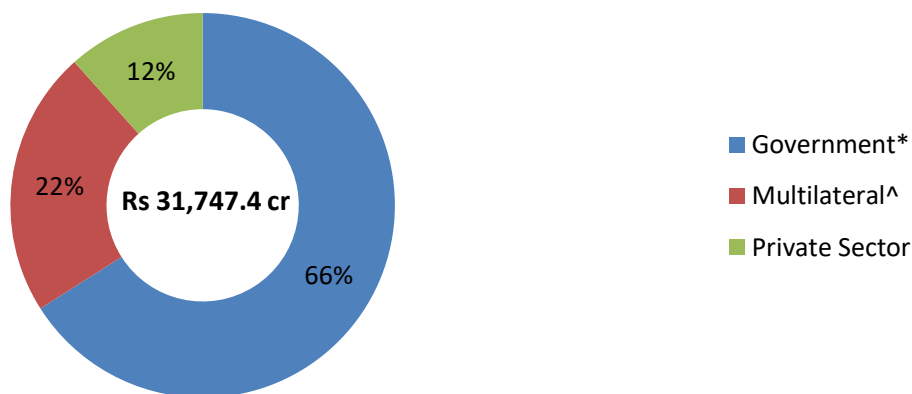
**Order Book by Business Vertical (%)**



**Order Book by Geography (%)**



**Order Book by Client Type (%)**



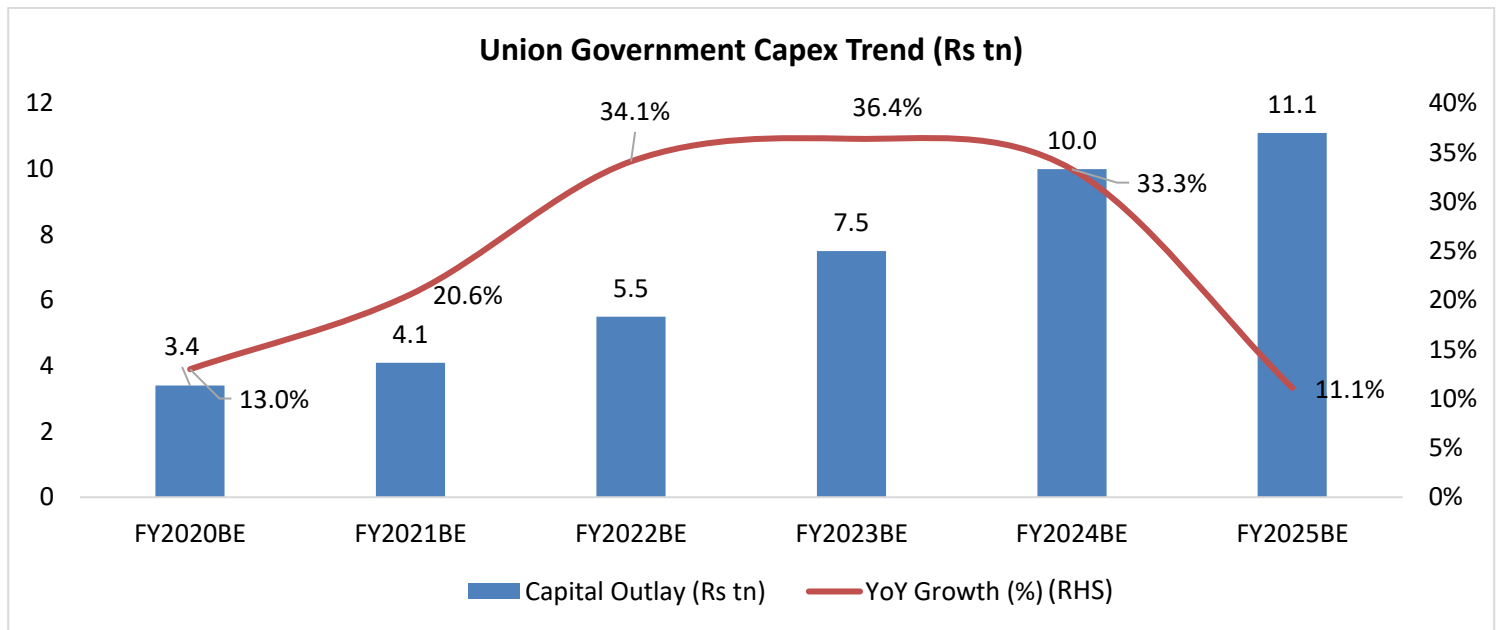
\* Comprises state and central governments, government agencies and government-owned enterprises, both in India and other countries.

^ Projects funded by the Government of India in other countries.

Source: RHP, SSL Research

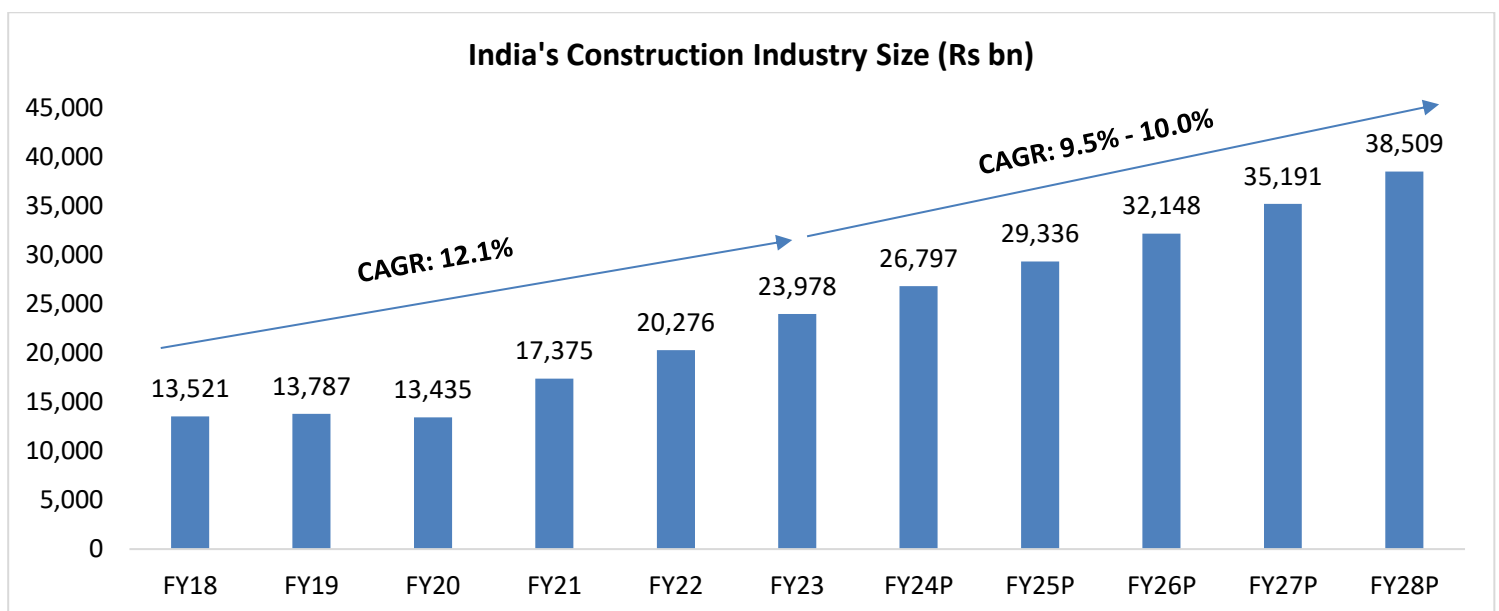
## Industry Overview

**Increase in government expenditure towards infrastructure:** Growth in the upcoming year FY25 will be supported by solid domestic demand and a pickup in capital investment. Compensating for the private sector’s caution in capital expenditure, the government raised capital expenditure substantially. Budgeted capital expenditure rose 3.3 times in the last 5 years, from FY20 to FY25, re-invigorating the capex cycle. The Central Government sharply raised capex in the last three budgets. Capital outlay increased from Rs 3.4 tn in FY20 to Rs 11.1 tn in FY25.



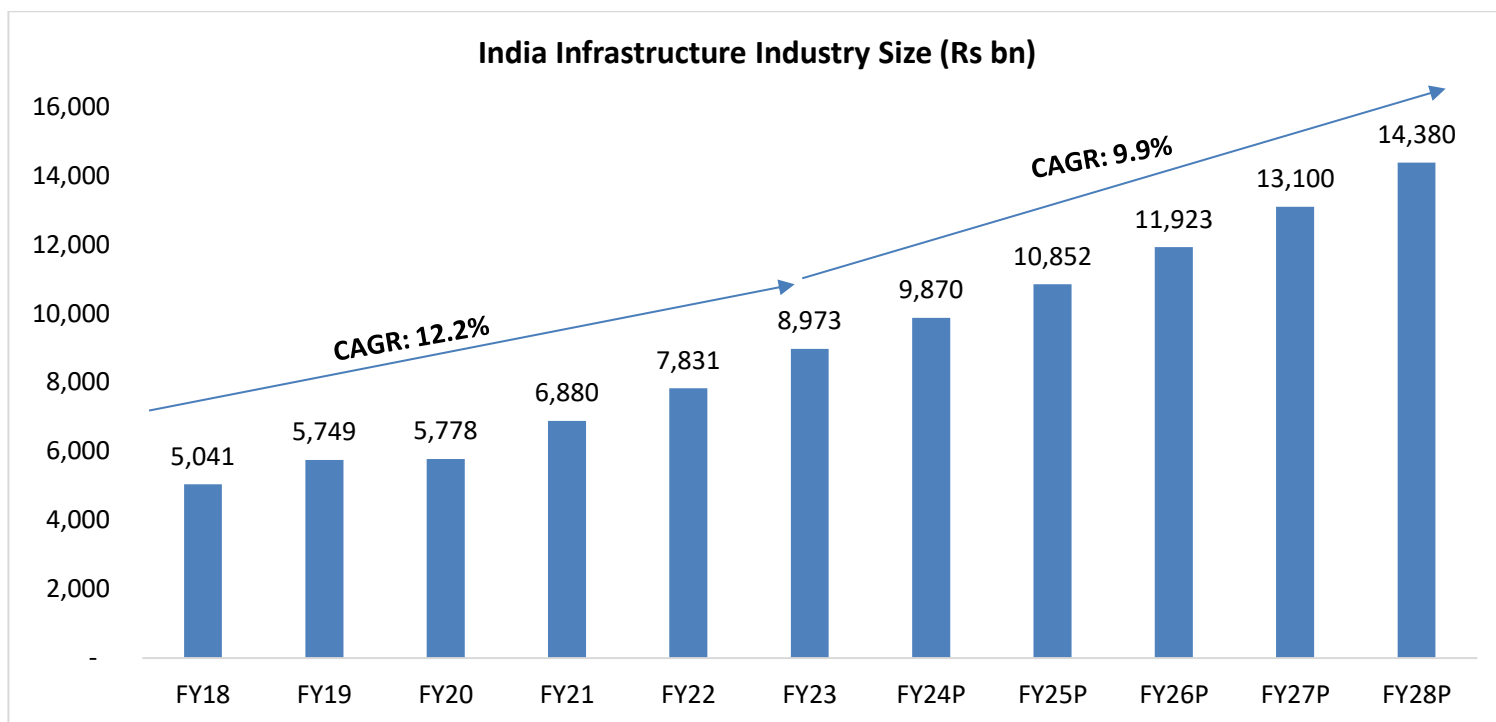
Source: RHP, SSL Research

**India's construction industry is expected to grow at a CAGR of 9.5% - 10.0% between FY23 and FY28:** As per RBI & Fitch Solutions, the Indian Construction industry value stood at Rs 23,978.0 bn as of FY23, having grown at a CAGR of 12.1% from Rs 13,521.2 bn as of FY18. 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.



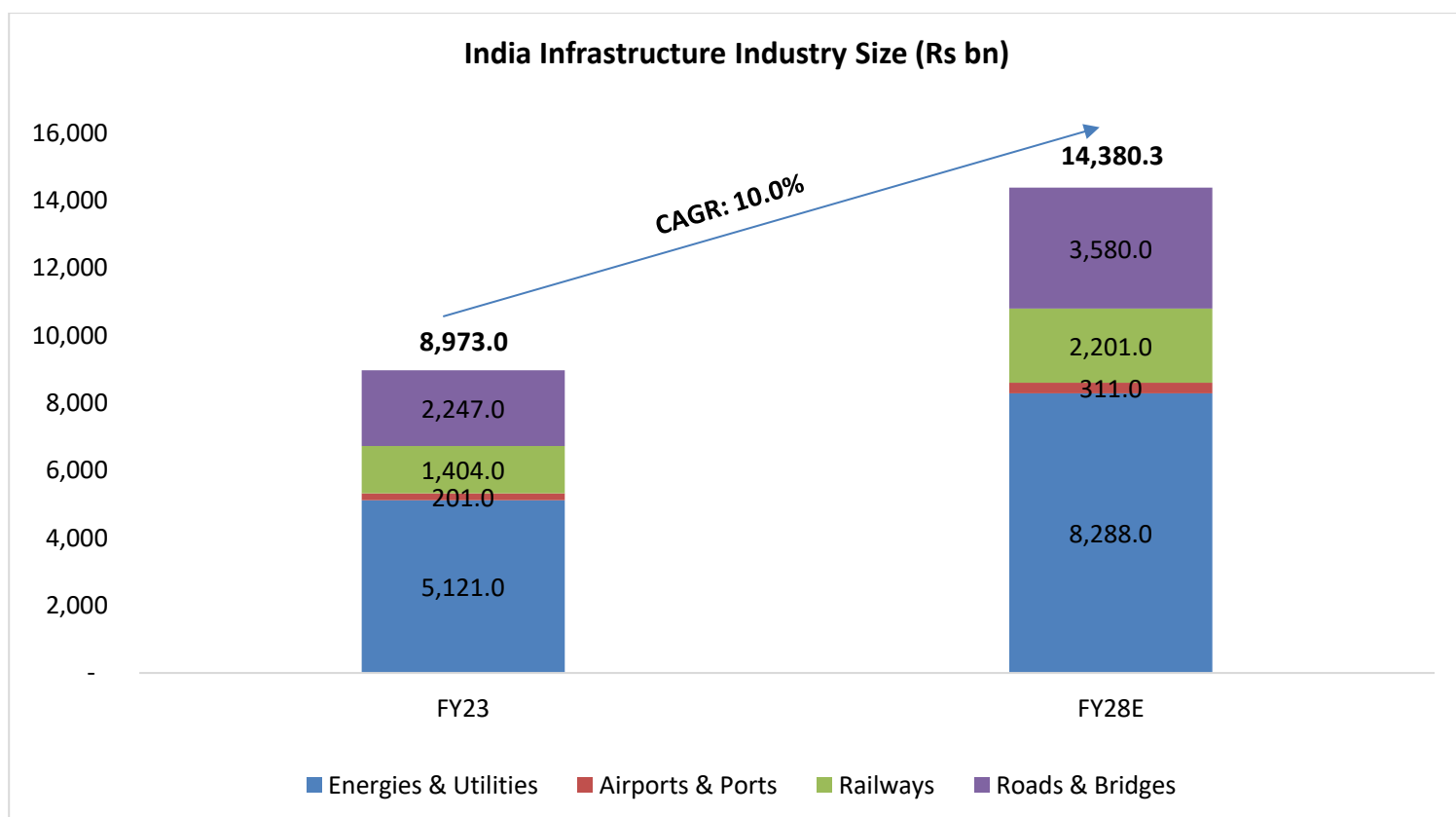
Source: RHP, SSL Research

**India’s Infrastructure Industry to grow at a CAGR of 9.9% from Rs 8,973.0 bn in FY2023 to Rs 14,380.3 bn in FY2028:** The Government of India has been placing strong emphasis on India’s Infrastructure sector as it is crucial to India's overall growth. The Indian Infrastructure Industry has grown at a CAGR of 12.2% from Rs 5,041.1 bn in FY18 to Rs 8,973.0 bn in FY23 and further likely to grow at a CAGR of 9.9% between FY23-FY28 to Rs 14,380.3 bn.



Source: RHP, SSL Research

**Strong infrastructure growth expected across various segments:**



Source: RHP, SSL Research

## Financial Snapshot

INCOME STATEMENT				
(Rs cr)	FY22	FY23	FY24	1QFY25
<b>Revenue from Operations</b>	<b>11,019</b>	<b>12,637</b>	<b>13,267</b>	<b>3,154</b>
<b>YoY growth (%)</b>	-	14.7	5.0	(76.2)
Cost Of Revenues (incl Stock Adj)	8,116	9,052	9,306	2,184
<b>Gross Profit</b>	<b>2,903</b>	<b>3,585</b>	<b>3,961</b>	<b>970</b>
<b>Gross margins (%)</b>	<b>26.3</b>	<b>28.4</b>	<b>29.9</b>	<b>30.8</b>
Employee Cost	1,085	1,298	1,383	345
Other Operating Expenses	882	976	1,213	272
<b>EBITDA</b>	<b>936</b>	<b>1,311</b>	<b>1,365</b>	<b>353</b>
<b>EBITDA margins (%)</b>	<b>8.5</b>	<b>10.4</b>	<b>10.3</b>	<b>11.2</b>
Other Income	251	207	379	59
Net Interest Exp.	425	447	577	147
Depreciation	355	472	495	130
<b>PBT</b>	<b>407</b>	<b>599</b>	<b>673</b>	<b>135</b>
Tax	49	188	223	44
<b>PAT</b>	<b>358</b>	<b>411</b>	<b>450</b>	<b>92</b>
<b>PAT margin (%)</b>	<b>3.2</b>	<b>3.3</b>	<b>3.4</b>	<b>2.9</b>
<b>EPS (Rs)</b>	<b>10.5</b>	<b>12.1</b>	<b>13.2</b>	<b>2.7</b>

BALANCE SHEET				
(Rs cr)	FY22	FY23	FY24	1QFY25
<b>Assets</b>				
Net Block	2,251	2,449	2,715	2,636
Capital WIP	18	184	43	47
Intangible Assets	1	1	1	1
Right of use assets	66	49	68	90
Contract assets	1,491	1,416	1,271	1,268
Trade Receivables	679	651	499	490
Non-current Investments	1	1	1	1
Other Financial Assets	309	366	418	414
Non-current tax assets (net)	69	29	54	91
Other non-current assets	197	182	191	198
<b>Total Non-current assets</b>	<b>5,081</b>	<b>5,326</b>	<b>5,260</b>	<b>5,236</b>
<b>Current Assets</b>				
Inventories	1,270	1,586	1,627	1,709
Trade receivables	2,304	2,197	3,121	3,100
Cash and cash equivalents	447	319	413	628
Bank Balances other than Cash & Cash Eq.	79	58	253	269
Contract Assets	2,472	3,273	3,954	4,541
Short-term loans and advances	55	53	62	61
Other Current Assets	1,174	1,091	1,042	1,137
Other financial assets	92	398	501	504
<b>Total Current Assets</b>	<b>7,893</b>	<b>8,975</b>	<b>10,973</b>	<b>11,949</b>
<b>Current Liabilities &amp; Provisions</b>				
Trade payables	2,697	3,508	4,326	4,281
Other current liabilities	3,306	3,625	3,471	3,270
Short-term provisions	69	150	227	206
<b>Total Current Liabilities</b>	<b>6,071</b>	<b>7,284</b>	<b>8,024</b>	<b>7,756</b>
<b>Net Current Assets</b>	<b>1,822</b>	<b>1,691</b>	<b>2,949</b>	<b>4,192</b>
<b>Total Assets</b>	<b>6,902</b>	<b>7,018</b>	<b>8,209</b>	<b>9,428</b>
<b>Liabilities</b>				
Share Capital	522	522	341	341
Reserves and Surplus	2,190	2,654	3,255	3,343
<b>Total Shareholders' Funds</b>	<b>2,712</b>	<b>3,176</b>	<b>3,596</b>	<b>3,683</b>
Minority Interest	(9)	2	2	2
<b>Total Debt</b>	<b>1,555</b>	<b>1,563</b>	<b>2,455</b>	<b>3,365</b>
Long Term Provisions	86	9	9	12
Lease Liabilities	34	16	35	54
Other Long-Term Liabilities	2,394	2,154	2,009	2,201
Net Deferred Tax Liability	130	99	104	112
<b>Total Liabilities</b>	<b>6,902</b>	<b>7,018</b>	<b>8,209</b>	<b>9,428</b>

Cash Flow (Rs cr)	FY22	FY23	FY24
Cash flow from Operating Activities	610	1,215	707
Cash flow from Investing Activities	(251)	(870)	(859)
Cash flow from Financing Activities	(521)	(483)	246
Free Cash Flow	253	297	(9)

RATIOS			
	FY22	FY23	FY24
<b>Profitability</b>			
Return on Assets (%)	2.8	3.0	2.9
Return on Capital Employed (%)	19.5	23.2	23.2
Return on Equity (%)	13.2	14.0	13.3
<b>Margin Analysis</b>			
Gross Margin (%)	26.3	28.4	29.9
EBITDA Margin (%)	8.5	10.4	10.3
Net Income Margin (%)	3.2	3.3	3.4
<b>Short-Term Liquidity</b>			
Current Ratio (x)	1.1	1.1	1.1
Quick Ratio (x)	0.9	0.9	0.9
Avg. Days Sales Outstanding	76.3	65.0	73.1
Avg. Days Inventory Outstanding	42.1	41.2	44.2
Avg. Days Payables	89.3	89.6	107.8
Fixed asset turnover (x)	4.9	5.2	4.9
Debt-service coverage (x)	0.4	0.5	0.4
<b>Long-Term Solvency</b>			
Total Debt / Equity (x)	0.6	0.5	0.7
Interest Coverage Ratio (x)	2.0	2.3	2.2
<b>Valuation Ratios</b>			
EV/EBITDA (x)	17.9	12.9	12.9
P/E (x)	44.1	38.4	35.1
P/B (x)	5.8	5.0	4.4
EV/Sales (x)	1.5	1.3	1.3

*Valuation ratios are based on pre-issue capital at upper band*

*Source: RHP, SSL Research*

## Peer Comparison – FY24

(Rs cr)	Afcons Infrastructure Ltd.	Larsen & Toubro Ltd.	KEC Int. Ltd.	Kalpataru Project Int. Ltd.	Dilip Buildcon Ltd.
CMP (Rs)	463	3,510	944	1,255	465
Sales	13,267	2,21,113	19,914	19,626	12,012
EBITDA	1,365	29,865	1,353	1,814	1,421
PAT	450	15,547	347	516	201
Mkt Cap.	17,026	4,82,623	25,131	20,385	6,806
Enterprise Value	17,565	5,83,587	28,842	23,361	13,309
EBITDA Margin (%)	10.3	13.5	6.8	9.2	11.8
PAT Margin (%)	3.4	7.0	1.7	2.6	1.7
P/E (x)	37.9	31.0	72.4	39.5	33.9
EV/EBITDA (x)	12.9	19.5	21.3	12.9	9.4
EV/Sales (x)	1.3	2.6	1.4	1.2	1.1
RoE (%)	13.3	14.7	8.8	10.4	1.39
RoCE (%)	23.2	13.4	16.0	16.0	10.5

*The data is based on FY24 financial data.*

*For Afcons Infrastructure Ltd, the P/E, Market cap, EV/Sales and EV/EBITDA (x) are calculated on post-issue equity share capital based on the upper price band.*

*CMP as on 22<sup>nd</sup> October 2024.*

*Source: RHP, SSL Research*



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