March 2025

Initiating Coverage

Afcons Infrastructure

In a League of Its Own





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AFCONS

INITIATING COVERAGE

nuvama institutional equities

KEY DATA

Rating	BUY
Sector relative	Neutral
Price (INR)	421
12 month price target (INR)	535
52 Week High/Low	570/398
Market cap (INR bn/USD bn)	155/1.8
Free float (%)	49.8
Avg. daily value traded (INR mn)	1,103.9

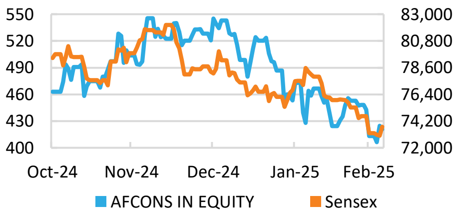
SHAREHOLDING PATTERN

	Dec-24	Sep-24	Jun-24
Promoter	50.2%	NA	NA
FII	18.0%	NA	NA
DII	11.1%	NA	NA
Pledge	21.8%	NA	NA

FINANCIALS (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Revenue	1,32,675	1,30,161	1,56,390	1,80,864
EBITDA	13,650	14,758	17,263	20,146
Adjusted profit	4,498	5,268	6,274	7,869
Diluted EPS (INR)	13.2	14.3	17.1	21.4
EPS growth (%)	(76.9)	8.5	19.1	25.4
RoAE (%)	13.3	11.7	11.0	12.3
P/E (x)	31.9	29.4	24.7	19.7
EV/EBITDA (x)	11.8	11.4	9.8	8.3
Dividend yield (%)	0	0	0	0

PRICE PERFORMANCE



In a league of its own

Afcons Infrastructure (AIL) has forged a legacy of executing large and technically complex infra EPC projects over the past six decades. Operationally, it has built out diversified geographical and segmental exposure. Financially, efficient working capital management has allowed it to fund growth via internal accruals; AIL's revenue/gross block jumped 3.7–3.8x over FY14–24 even as net debt/equity halved.

A sterling EPC player, AIL clocked order book/revenue/PAT CAGR of 16%/18%/29% over FY06–24. Given its book-to-bill of 3.8x (including L1 orders), we reckon EBITDA/PAT shall compound at 17%/22% over FY25–27E. Initiate at 'BUY' with a TP of INR535 (25x Q4FY27E EPS). Risks: capex slowdown, volatility in commodity prices.

An EPC rarity: Combination of growth and stability

In the inherently cyclical infra space, AIL is among the handful of contractors that have been able to deliver steady growth over a long period of time. Its order intake and order book increased at a CAGR of 17–18% each over FY06–9MFY25. Similarly, over FY06–24, the company clocked a revenue CAGR of ~18% and, more importantly, a PAT CAGR of ~29%. The ability to deliver consistent growth while simultaneously reducing its leverage sets AIL apart from its peers in our view.

Diversified business model: Key to growth, dynamic stability control

AIL has optimally diversified its operations by segment and geography. This has allowed it to maximise opportunities, weather periodic slowdowns in capex in a particular segment/geography with aplomb and protect itself from concentration risks. Barring the building construction segment, the company has a presence in virtually every infra segment—not to mention its superior capabilities. AIL also operates overseas—historically making up 25–30% of its business.

Growth edifice: Rests on solid underpinnings

AIL's success story is built on the foundation of many levers: i) expertise in undertaking large value and complex projects—which are challenging, unique and 'first of its kind'; ii) professional management with rich industry experience; iii) lean working capital—among the best in the EPC space; iv) significant investment in building up its equipment base (~INR40bn addition to gross block over FY14–24); v) a focused approach—core EPC contractor, which has stayed away from asset ownership ventures; and vi) last but not least, knowledge management practices.

Let's build a case: Sum-of-parts greater than whole

Robust order intake in FY25 implies AIL's revenue visibility (~3.8x, including L1 orders) is much higher than its average book-to-bill over the past two decades. Its margin trajectory is improving driven by increasing size/complexity of projects. Our investment thesis is reinforced by its efficient working capital cycle, which is keeping leverage in check (net debt/equity at ~0.3x). In short, we argue AIL is set to continue its success story.

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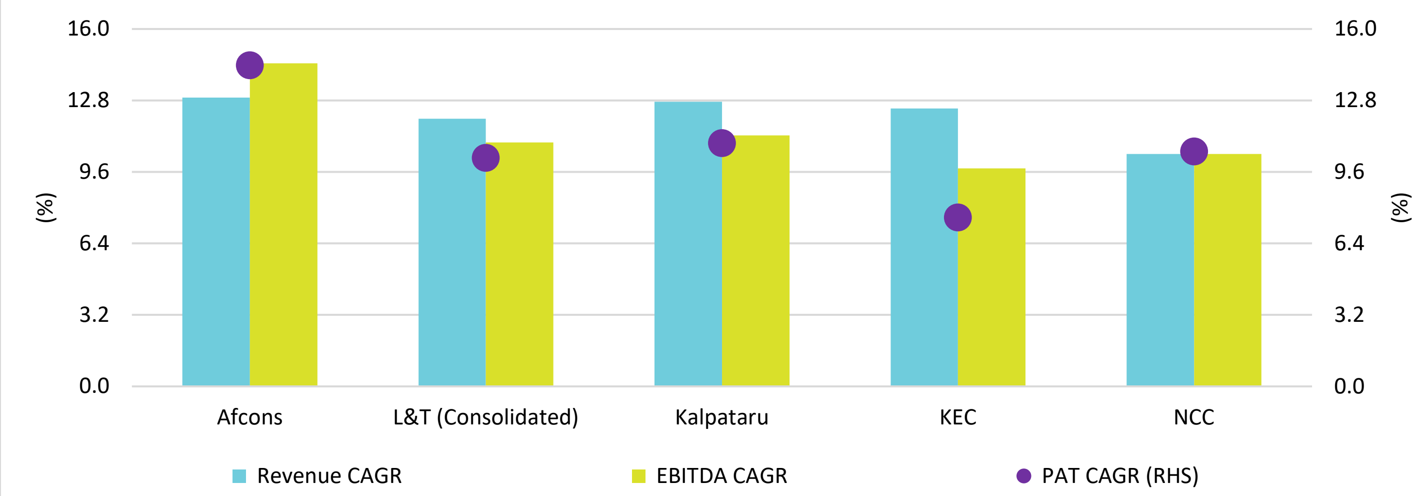
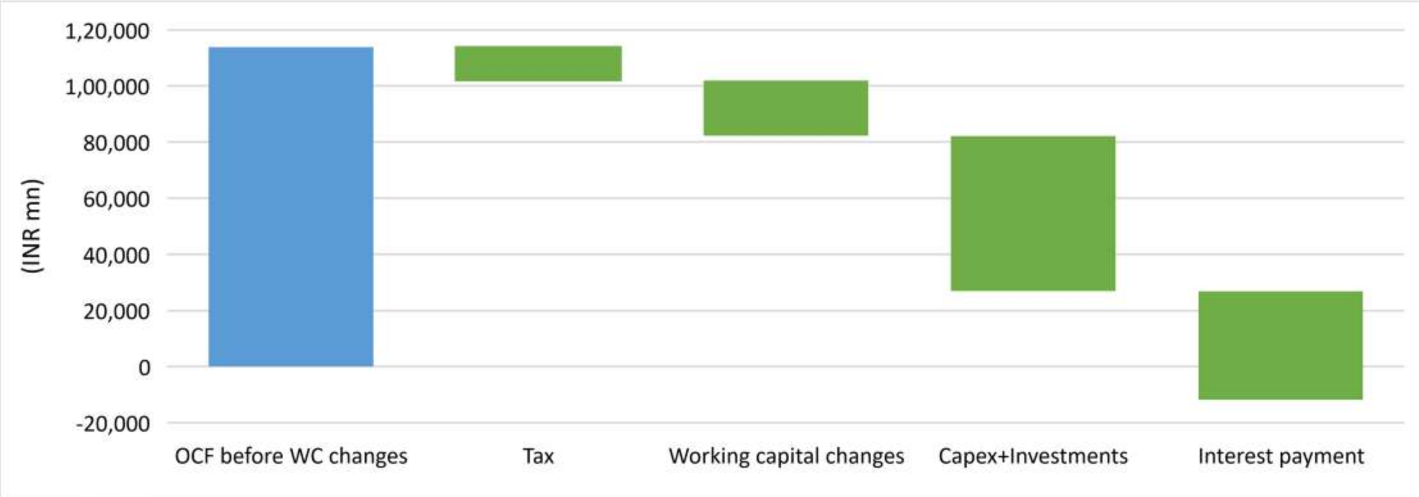
The Story in Charts

Exhibit 1: Solid performance over FY09–24…



Source: Company, Nuvama Research

Exhibit 2: …with ability to meet funding requirement largely through internal accruals (FY02–24)

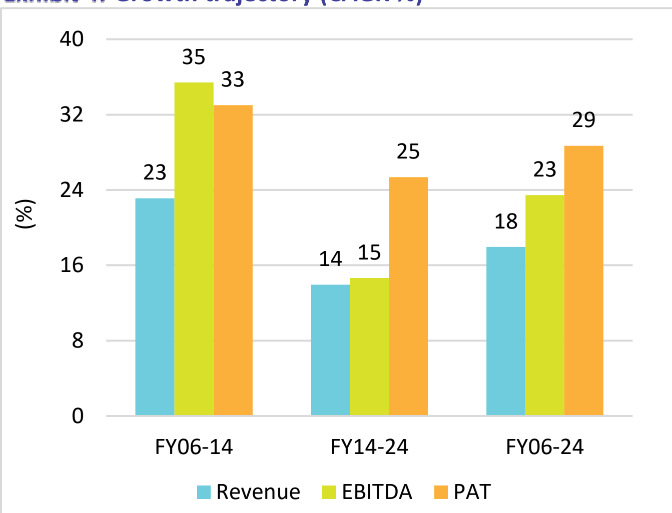


Source: Company, Nuvama Research

Exhibit 3: Order intake/order book CAGR

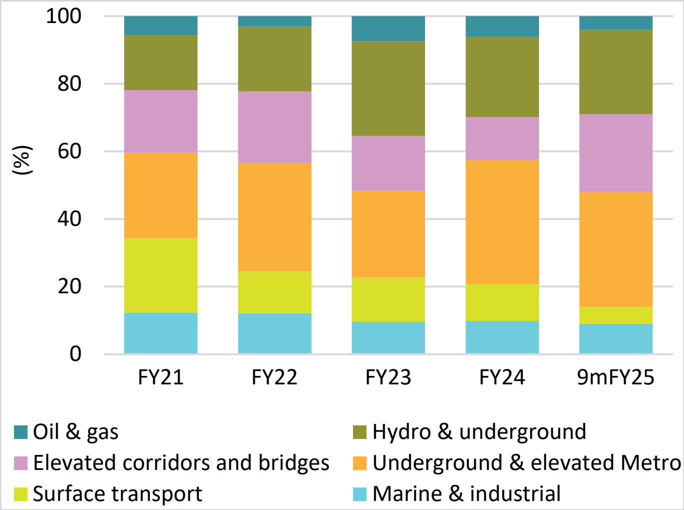
Source: Company, Nuvama Research

Exhibit 4: Growth trajectory (CAGR %)



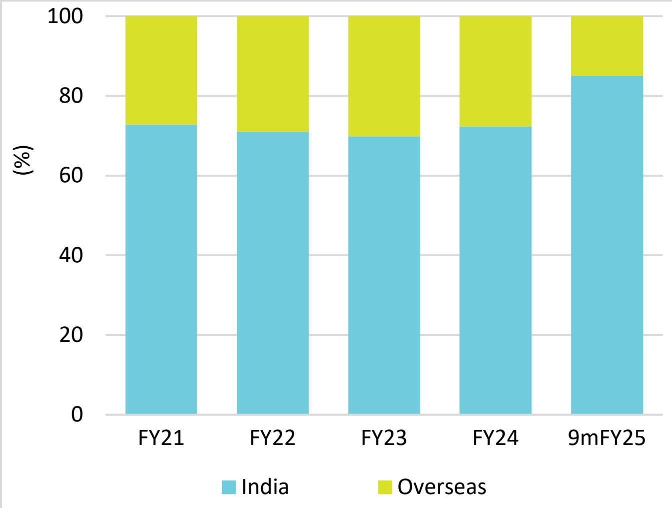
Source: Company, Nuvama Research

Exhibit 5: Order book split by segment



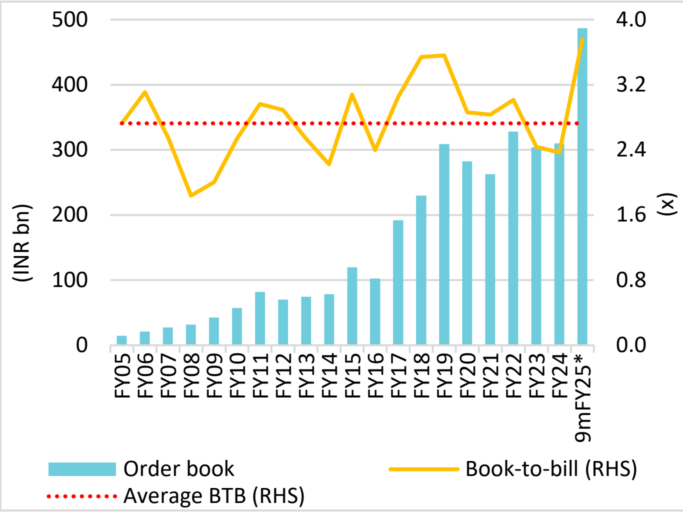
Source: Company, Nuvama Research

Exhibit 6: Order book split by geography



Source: Company, Nuvama Research

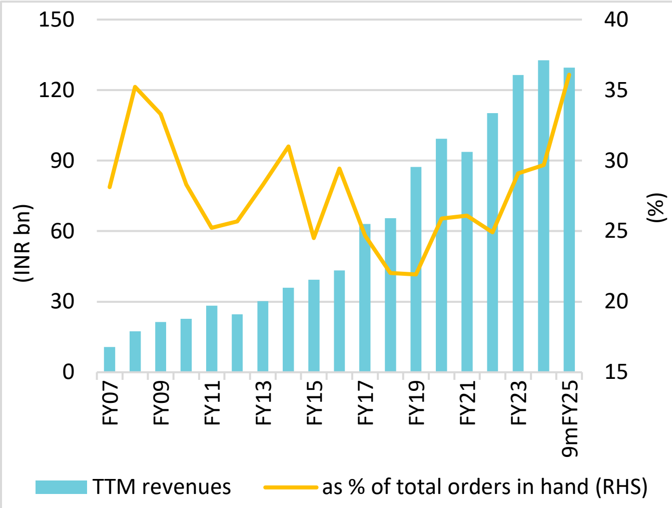
Exhibit 7: Healthy revenue visibility



Source: Company, Nuvama Research

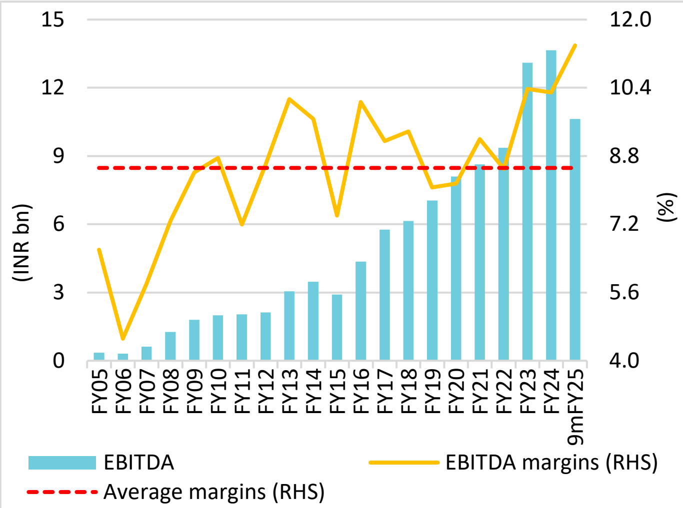
Note: * Includes L1 orders

Exhibit 8: Strong execution capabilities



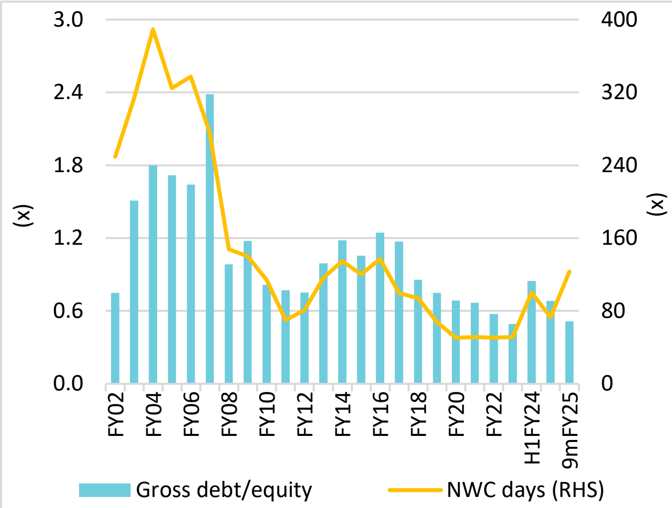
Source: Company, Nuvama Research

Exhibit 9: Improving margin trajectory



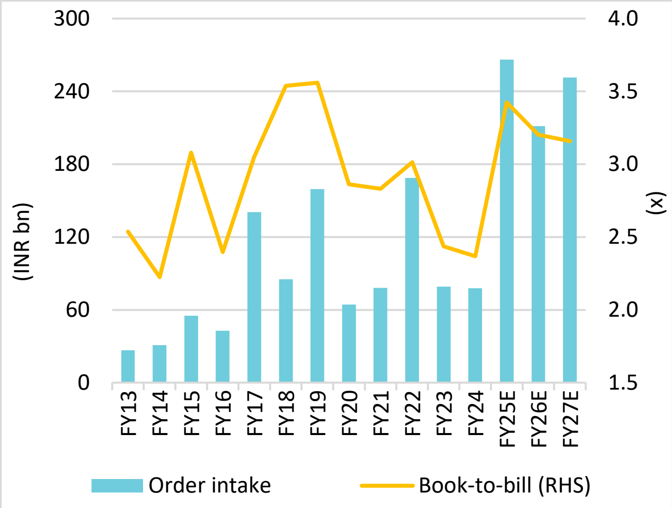
Source: Company, Nuvama Research

Exhibit 10: Healthy leverage and NWC



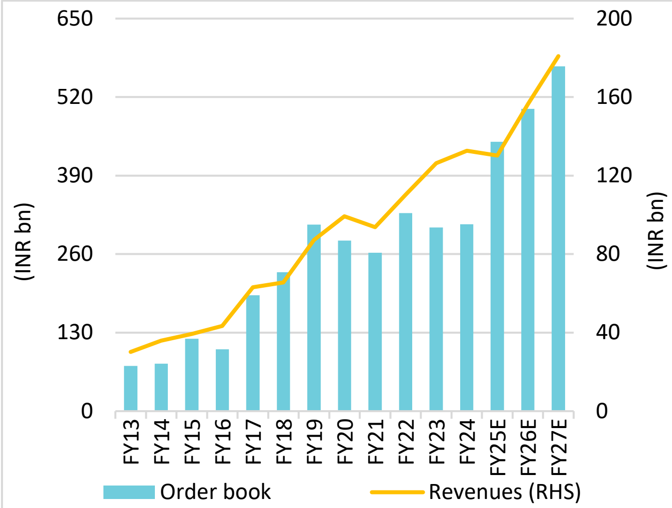
Source: Company, Nuvama Research

Exhibit 11: Revenue visibility stays healthy



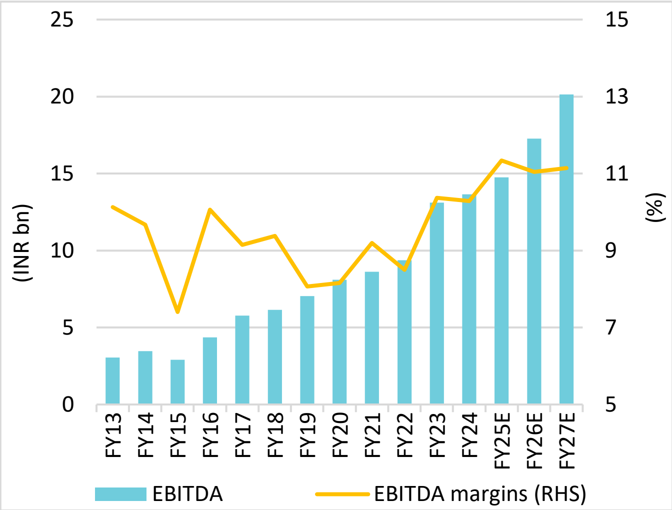
Source: Company, Nuvama Research

Exhibit 12: Revenue to burgeon at 18% CAGR over FY25–27E



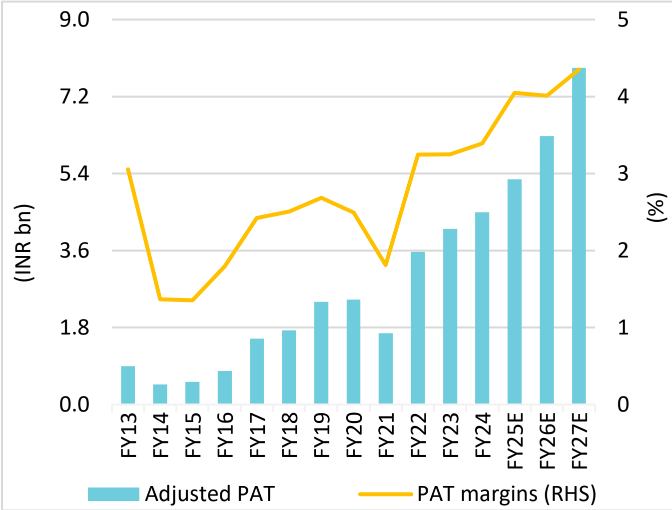
Source: Company, Nuvama Research

Exhibit 13: EBITDA margin to stay healthy



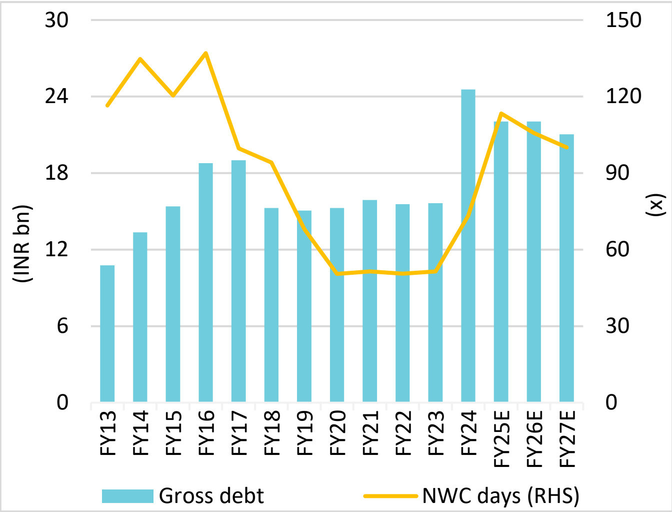
Source: Company, Nuvama Research

Exhibit 14: PAT inching up



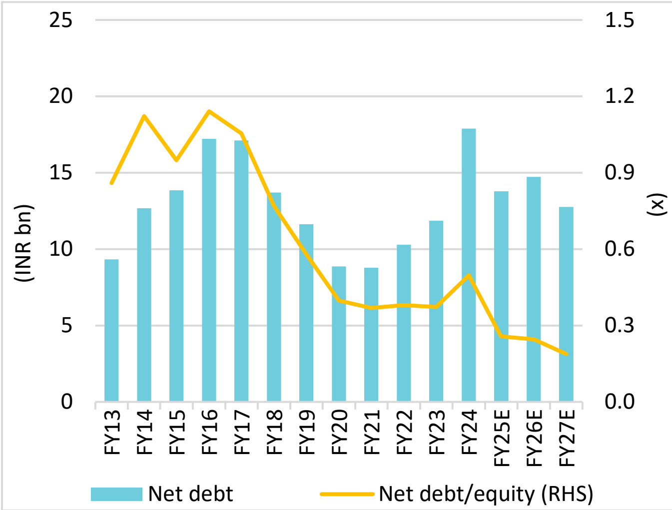
Source: Company, Nuvama Research

Exhibit 15: Working capital to stabilise



Source: Company, Nuvama Research

Exhibit 16: Leverage to stay range-bound



Source: Company, Nuvama Research

Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Total operating income	1,32,675	1,30,161	1,56,390	1,80,864
Gross profit	39,611	41,138	47,394	54,992
Employee costs	13,834	14,223	15,525	17,955
Other expenses	12,126	12,157	14,606	16,892
EBITDA	13,650	14,758	17,263	20,146
Depreciation	4,945	5,017	5,570	6,250
Less: Interest expense	5,773	6,521	7,011	7,413
Add: Other income	3,794	4,327	4,056	4,180
Profit before tax	6,726	7,547	8,739	10,663
Prov for tax	2,229	2,279	2,464	2,794
Less: Other adj	0	0	0	0
Reported profit	4,498	5,268	6,274	7,869
Less: Excp.item (net)	0	0	0	0
Adjusted profit	4,498	5,268	6,274	7,869
Diluted shares o/s	341	368	368	368
Adjusted diluted EPS	13.2	14.3	17.1	21.4
DPS (INR)	0	0	0	0
Tax rate (%)	33.1	30.2	28.2	26.2

Balance Sheet (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Share capital	3,407	3,678	3,678	3,678
Reserves	32,552	50,072	56,346	64,215
Shareholders funds	35,960	53,750	60,024	67,893
Minority interest	16	16	16	16
Borrowings	24,550	22,050	22,050	21,050
Trade payables	47,566	40,243	48,973	56,556
Other liabs & prov	54,245	54,473	64,736	73,499
Total liabilities	1,62,336	1,70,532	1,95,799	2,19,014
Net block	27,832	27,814	30,244	31,994
Intangible assets	6	6	6	6
Capital WIP	431	441	451	461
Total fixed assets	28,269	28,261	30,701	32,461
Non current inv	8	8	8	8
Cash/cash equivalent	6,663	8,259	7,322	8,283
Sundry debtors	36,202	33,511	40,263	45,078
Loans & advances	618	668	718	768
Other assets	90,577	99,826	1,16,786	1,32,416
Total assets	1,62,336	1,70,532	1,95,799	2,19,014

Important Ratios (%)

Year to March	FY24A	FY25E	FY26E	FY27E
Book-to-bill ratio (x)	2.4	3.4	3.2	3.2
Orderbook (INR bn)	309.6	445.8	500.7	571.2
Gross margin (%)	29.9	31.6	30.3	30.4
EBITDA margin (%)	10.3	11.3	11.0	11.1
Net profit margin (%)	3.4	4.0	4.0	4.4
Revenue growth (% YoY)	5.0	(1.9)	20.2	15.6
EBITDA growth (% YoY)	4.2	8.1	17.0	16.7
Adj. profit growth (%)	9.5	17.1	19.1	25.4

Free Cash Flow (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Reported profit	4,498	5,268	6,274	7,869
Add: Depreciation	4,945	5,017	5,570	6,250
Interest (net of tax)	3,860	4,551	5,034	5,471
Others	(4,563)	(4,448)	(4,920)	(5,346)
Less: Changes in WC	8,827	13,805	4,885	4,273
Operating cash flow	(87)	(3,416)	7,073	9,971
Less: Capex	5,944	5,010	8,010	8,010
Free cash flow	(6,031)	(8,426)	(937)	1,961

Assumptions (%)

Year to March	FY24A	FY25E	FY26E	FY27E
GDP (YoY %)	6.5	6.0	6.2	7.0
Repo rate (%)	5.3	6.0	5.0	5.0
USD/INR (average)	75.0	84.0	82.0	81.0
Interest cost (%)	4.4	5.0	4.5	4.1
Employee cost (%)	10.4	10.9	9.9	9.9
Other exp. (%)	9.1	9.3	9.3	9.3
Other inc. (%)	2.9	3.3	2.6	2.3
Dep. (% gr. block)	8.8	8.2	8.0	8.1
Effect. tax rate (%)	33.1	30.2	28.2	26.2

Key Ratios

Year to March	FY24A	FY25E	FY26E	FY27E
RoE (%)	13.3	11.7	11.0	12.3
RoCE (%)	23.2	20.6	19.9	21.1
Inventory days	63	65	57	59
Receivable days	89	98	86	86
Payable days	171	180	149	153
Working cap (% sales)	25.1	37.4	33.7	32.0
Gross debt/equity (x)	0.7	0.4	0.4	0.3
Net debt/equity (x)	0.5	0.3	0.2	0.2
Interest coverage (x)	1.5	1.5	1.7	1.9

Valuation Metrics

Year to March	FY24A	FY25E	FY26E	FY27E
Diluted P/E (x)	31.9	29.4	24.7	19.7
Price/BV (x)	4.0	2.9	2.6	2.3
EV/EBITDA (x)	11.8	11.4	9.8	8.3
Dividend yield (%)	0	0	0	0

Source: Company and Nuvama estimates

Valuation Drivers

Year to March	FY24A	FY25E	FY26E	FY27E
EPS growth (%)	(76.9)	8.5	19.1	25.4
RoE (%)	13.3	11.7	11.0	12.3
EBITDA growth (%)	4.2	8.1	17.0	16.7
Payout ratio (%)	0	0	0	0

Investment Rationale

Experienced infra player with cornucopia of opportunities

- Premier EPC contractor with proven execution excellence
- Diversified presence abates inherent risk of cyclicality in infra segment
- Ability to fund growth largely out of internal accruals, courtesy efficient working capital management
- We reckon AIL shall clock a PAT CAGR of 22% over FY25–27E; despite huge capex needs for a scale-up, net D/E to stay healthy led by strong working capital management

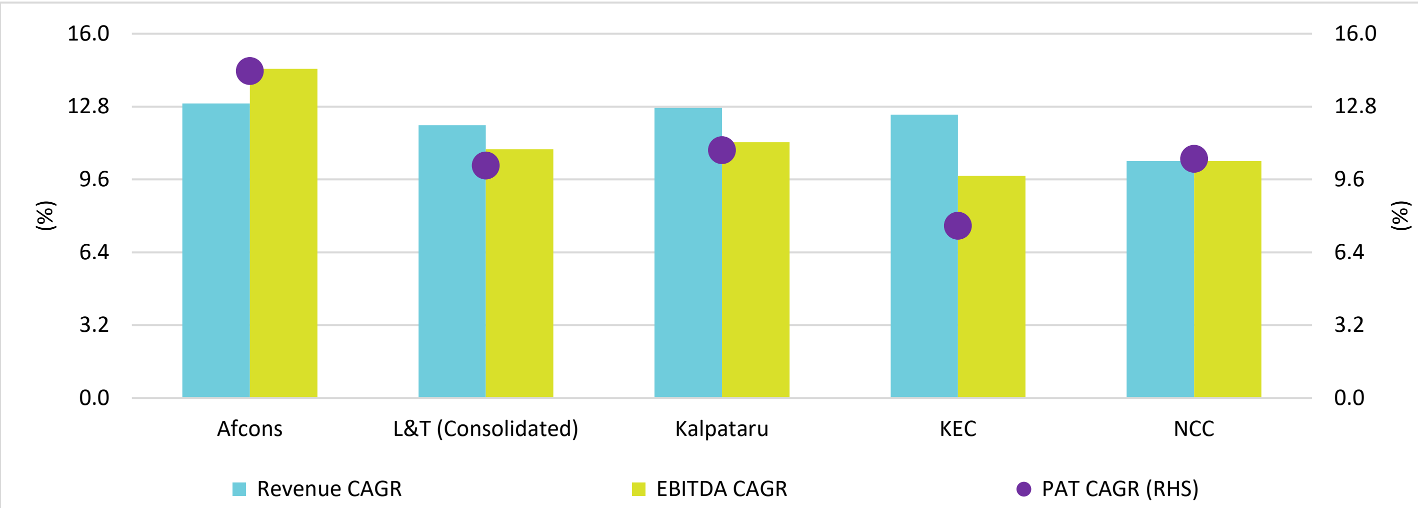
Company background

AIL is the flagship infrastructure EPC company of the Shapoorji Pallonji group. It originally began operations as a civil construction firm in 1959 as a partnership between the Rodio Foundation Engineering Limited, Switzerland and Hazarat & Company, India under the name of 'Rodio Foundation Engineering Ltd and Hazarat & Company'. The Shapoorji group acquired AIL in the year 2000.

Armed with an illustrious legacy of six decades, the company has established a track record of executing numerous complex, challenging and unique infra projects both within India and internationally (across Asia, Africa and the Middle East).

It has delivered a consistent performance over the past decade on various operational parameters. Among listed EPC companies of a certain scale, AIL has the highest revenue, EBITDA and PAT CAGR over FY09–24.

Exhibit 17: AIL a cut-above on various operational parameters (FY09–24)



Source: Company, Nuvama Research

Today, the company boasts an employee strength of ~4,000 and a large and strategic equipment base, including a wide range of heavy and specialised machinery.

Exhibit 18: AIL's sterling journey

Calendar year	Milestone achieved
1959	The partnership firm Rodio Foundation Engineering Limited, Switzerland and Hazarat & Company, India began operations as a civil construction firm
1965	Commenced marine construction operations
1974	Entry in the overseas market by construction of jetty and intake structure for desalination plant at Muscat
1979	Commenced bridge construction operations
1987	Bagged its first project in Africa (Ethiopia)
1988	Entered the road construction segment when large road projects funded by World Bank/ Asian Development Bank were put to tender
1996	Renamed as "Afcons Infrastructure Limited" due to major thrust in infrastructure related work
2000	Shares of the company were acquired by Sterling Investment Corporation Limited, a Shapoorji Pallonji Group company.
2000	Commenced operations in the elevated metro segment project
2005	Commenced operations in the hydro segment
2009	Won first offshore oil & gas business project – ICPR Process Platform
2010	Entered the underground metro tunnelling segment
2016	Entered the turnkey railway segment and irrigation segment
2017	Entered the international water supply segment
2020	Entered the Regional Rapid Rail Transit System (RRTS) segment
2022	Entered the domestic water supply segment
2023	Entered the onshore EPC refinery segment
2024	Won the Jamrani dam project – largest dam project of the company in terms of project value
2024	Got listed on the bourses through an IPO

Source: Company, Nuvama Research

AIL also benefits from the strong parentage of the Shapoorji Pallonji Group. The Shapoorji Pallonji Group (SP group) has a legacy of over 150 years, and its strong reputation, global presence and extensive industry experience assist AIL in the growth of its business and operations. Furthermore, it gains access to the SP Group's network enabling strategic collaborations, business development opportunities and knowledge sharing.

While the company is owned by the SP Group, it boasts of a professional management. Top management of the company – Mr Subramanian Krishnamurthy (Executive Vice Chairman), Mr Paramasivan Srinivasan (Managing Director) and Mr Giridhar Rajagopalan (Deputy Managing Director) are all professionals with four decades of experience. Mr Krishnamurthy and Mr Srinivasan have been associated with the company for more than two decades. Moreover, many members of AIL's leadership team including business unit heads and functional heads have been associated with the organisation for over two decades.

The company maintains a strategic equipment base comprising a wide range of heavy machinery and specialised 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, and has added wings to its growth prospects.

A picture of growth and stability

The infrastructure sector is closely linked to economic growth and thus is inherently cyclical in nature. Furthermore, bulk of the infrastructure spending in India is funded by the government. Priorities of the government with respect to capex in different segments (such as roads, railways and urban infra) change from time-to-time. For example, the road sector—which witnessed strong project award during FY15–22—is now struggling with sluggish awarding (refer *Road awards fall sharply in FY24*).

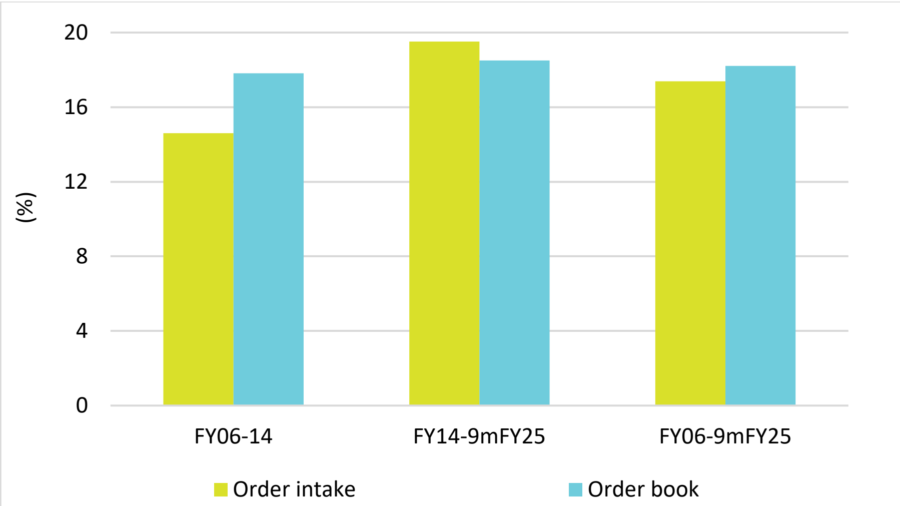
Moreover, state governments also contribute significantly to overall capex in the economy. However, state government capex is more volatile than central government capex as policies followed by different political parties at the state level vary materially from each other. Thus, capex trajectory in a particular state can see significant variations in the event of a change in government post elections. For example, in the past, many infra projects in Andhra Pradesh/Telangana have been cancelled/faced payment delays post change in state government after elections.

To conclude, the operating environment for infra companies in India is a challenging one, especially for EPC contractors. Contracting is a low-margin high-volume business with significant working capital requirements. Any change in project execution cycle or delays in payment can materially erode the profitability/return ratios of EPC companies.

These challenges make it difficult for EPC companies in India to post consistent growth. Many infra contractors in India have done well for a limited period of time aided by supportive government policies; however, a change in government priorities has eventually thrown a spanner in the growth story for these contractors.

Only a handful of EPC contractors in India have managed to achieve a reasonable scale and survived for a long period of time. AIL is among the few that have been able to carve out a successful legacy—all the more special in case of AIL given its long journey of six decades. Despite operating in a tough industry, it has been able to achieve steady growth. Its order intake and order book each grew at a ~17–18% CAGR over FY06–9MFY25.

Exhibit 19: AIL's order intake/order book growth (CAGR) over past two decades

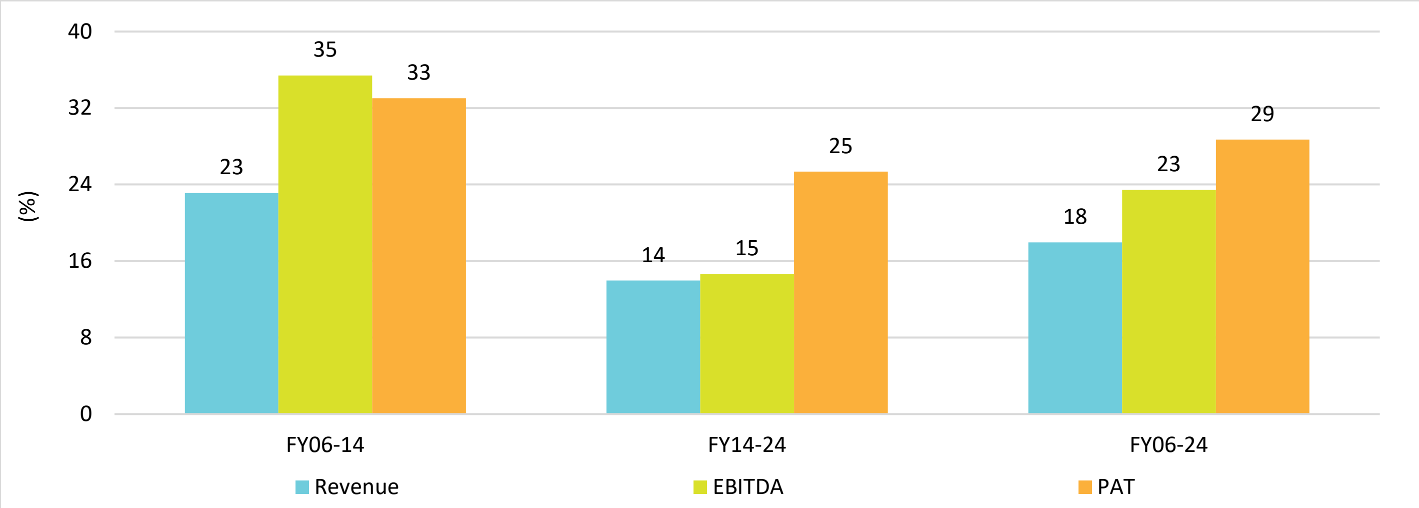


Source: Company, Nuvama Research

Note: 9MFY25 order intake and order book include L1 projects

Aided by steady order book growth, the company has consistently achieved profitable growth. Over FY06–24, the company had achieved a revenue CAGR of ~18% and, more importantly, a PAT CAGR of ~29%.

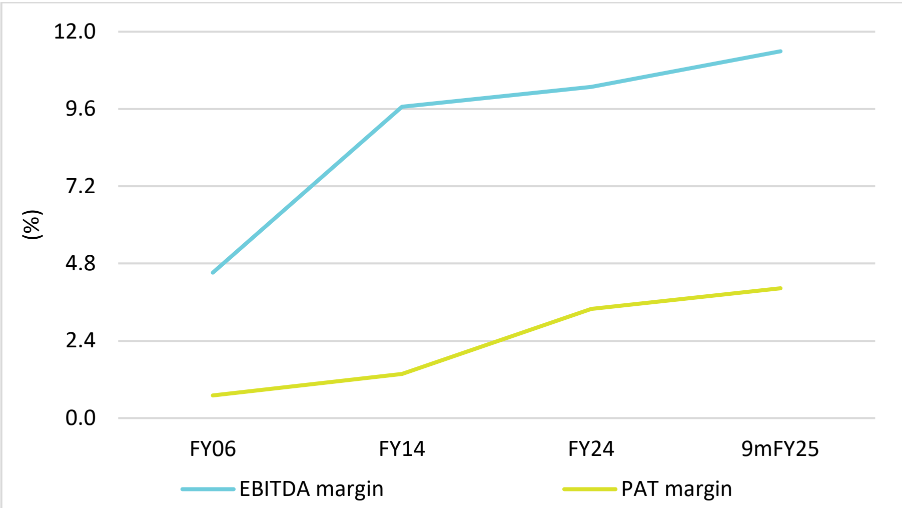
Exhibit 20: Growth trajectory (CAGR %) over various periods



Source: Company, Nuvama Research

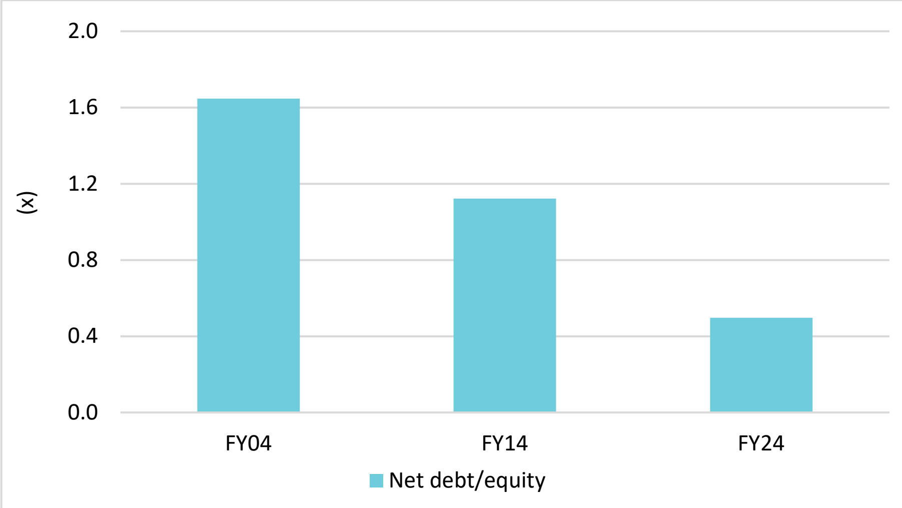
To be able to achieve 29% PAT CAGR over a period of 18 years is hugely impressive in our view. The company has been able to achieve this through: i) improvement in its margin profile; and ii) ability to keep leverage in check.

Exhibit 21: AIL's impressive margin trajectory over past two decades



Source: Company, Nuvama Research

Exhibit 22: Leverage over past two decades



Source: Company, Nuvama Research

The ability to consistently grow its order book, revenue and profits in a difficult industry over a long period of time while simultaneously reducing leverage sets AIL apart from its peers in our view.

Diversification adds wings to growth

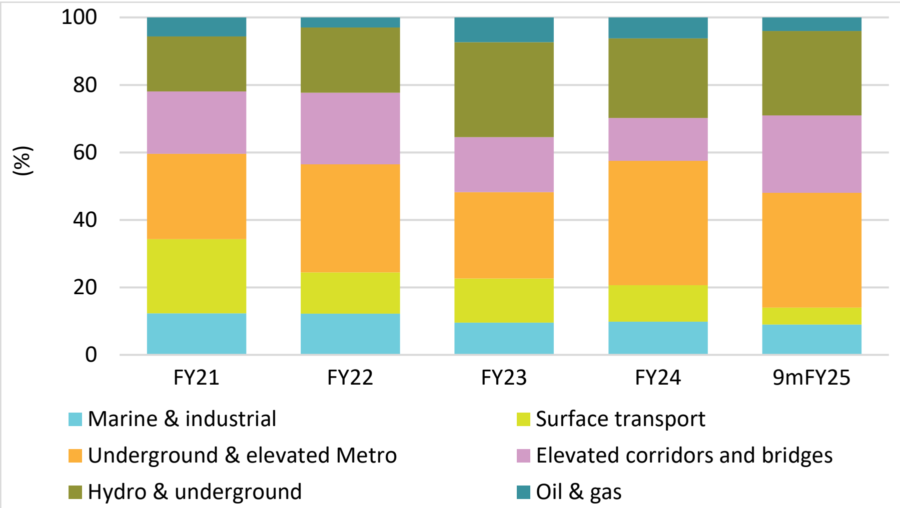
AIL recognised the inherently cyclical nature of the infrastructure sector very early on in its existence and thus worked assiduously towards achieving segmental and geographical diversification in its operations with an aim to maximise opportunities. This has allowed the company to weather the periodic slowdown in capex in a particular segment/geography with aplomb and has also protected it from concentration risks.

Today, the company's 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.

The wide segmental presence has allowed AIL to successfully navigate the pitfalls associated with dependence on any single sector.

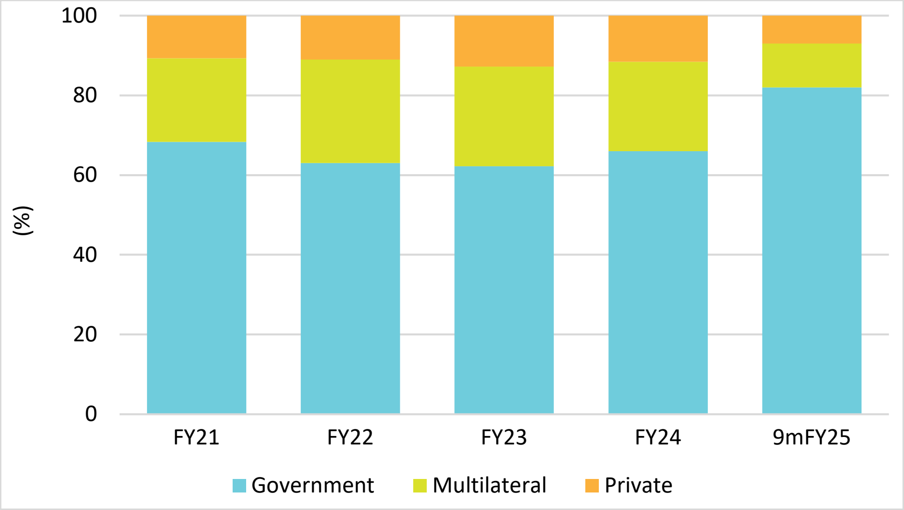
Exhibit 23: Order book split by segment



Source: Company, Nuvama Research

The company has also taken pains to diversify its client base. It works not only for the government (central and state agencies) but also undertakes projects funded by multilateral agencies (the World Bank, JICA, etc) and the private sector. Some of its marquee private sector clients include Reliance Industries (18-plus years of relationship), Arcelor Mittal (10-plus years of relationship) and Olam International.

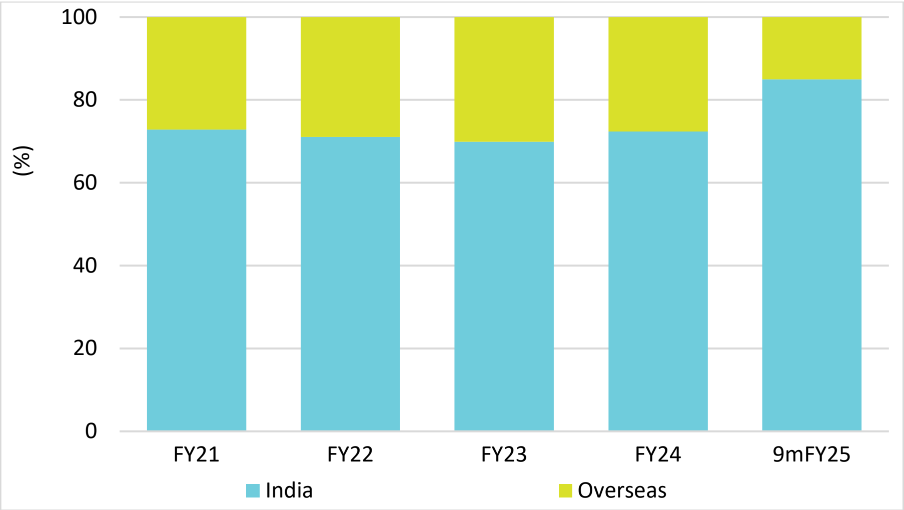
Exhibit 24: Order book split by client



Source: Company, Nuvama Research

Lastly, AIL has strived to deepen its presence in its existing markets and concurrently expand its footprint in overseas markets, capitalising on diverse growth trends both in India and developing markets abroad. It has extensive international operations and has a presence or has delivered projects in 30 countries since its inception. It aims to expand its client base in East and West Africa, South Asia and Southeast Asia, and plans to enter new markets in Eastern Europe, Eurasia, and Saudi Arabia.

Exhibit 25: Order book split by geography



Source: Company, Nuvama Research

We believe the successful diversification across segments, geographies and clients is one of the major reasons driving AIL's success.

In pursuit of excellence

Rather than executing simple EPC projects, AIL specialises in undertaking large value and complex projects, which are challenging, unique and 'first of its kind', both within India and internationally. It typically does not pursue projects in which it anticipates a significant number of competing bids, since bidders tend to compete primarily based on their pricing for such projects. In addition, it targets technically complex projects in specialised areas since these projects offer better profit margins compared with less complex endeavours as there are fewer competitors.

Only bidders that pass muster on specified eligibility criteria are permitted to bid for such projects. Such eligibility criteria, among other things, require track record of executing similar projects. In this regard, AIL significantly benefits from its experience of having executed multiple technically challenging projects.

For example, in the marine and industrial business vertical, it has executed over 235 projects in 15 countries, including 206 in India. AIL has also undertaken several technically challenging and large value expressway projects. Similarly, in the urban infrastructure business vertical, it has constructed several high-value projects, over 120km of elevated and underground metro networks, over 150 bridges, viaducts and flyovers and 32 elevated and underground metro stations, across nine cities in India.

Moreover, large, complex projects provide AIL with publicity and exposure to potential clients and allows it to distinguish itself from other EPC companies.

Throughout its illustrious history, AIL has created new benchmarks for execution excellence. **Some of the marquee projects executed by AIL include:**

- **Chenab Bridge:** The tallest single-arch railway bridge in the world. This is one of the toughest bridge works undertaken in India due to geological and engineering considerations and was the first bridge designed for blast load.
- **Atal Tunnel:** The world's longest highway tunnel located at 3,000 metres above sea level.
- **MG Setu Bridge:** The project involved replacing the existing concrete superstructure with a new steel superstructure, the first time that such work was executed in India.
- **Annaram Barrage:** Part of Kaleshwaram Lift Irrigation Project, the world's largest multi-stage lift irrigation project.
- **Fourth container terminal at the Jawaharlal Nehru Port Trust**, which is India's largest container port.
- **Kolkata Metro:** Design and construction of tunnels below the Hooghly River forming part of the Kolkata Metro, which includes India's first underwater metro tunnel and India's deepest metro station, the Howrah metro station.
- **Male to Thilafushi Link Project, Maldives:** Execution and design of the Greater Male Connectivity link, which valued at INR37.52bn, is the biggest infrastructure project in the Maldives.
- **Ghana Rail Project:** The largest railway project in Ghana, which involves construction of the longest railway bridge in Ghana over Lake Volta.
- **Mumbai–Ahmedabad High Speed Railway (MAHSR-C-2):** Construction of a 21 km long tunnel including India's first undersea rail tunnel (seven km long) for the Mumbai – Ahmedabad high speed rail corridor.

Other standout mentions

- In Ghana, when constructing a bridge across the Volta River, AIL used raker piles, which are installed at an angle, instead of traditional piling which is installed vertically. This was the **first bridge to have raker pile foundations in Africa**.
- In the marine segment, the company has established its reputation and expertise through successful execution of more than 150 structures along the Indian coastline.
- AIL had developed the micro piling technology as early as 1970 and subsequently patented this technology for underpinning works to strengthen existing structures.

In the 2024 Engineering News-Record, US (ENR) Top International Contractors rankings, AIL was the fourteenth largest international marine and port facilities contractor in the world and the only Indian company in the top 20. It was also the twelfth largest contractor in the bridges segment and the only Indian company in the top 25, the forty-fifth largest contractor in the transportation segment and the only Indian company in the top 50, and the twelfth largest contractor in the transmission lines and aqueducts segment, in each case based on international revenue for FY24.

During the FY22–Q1FY25 period, AIL had successfully completed 26 projects in ten countries, aggregating ~INR267bn in terms of contract value; all of these projects were completed on or ahead of schedule.

A major reason behind the company's ability to achieve execution excellence in the importance that it places 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. AIL has established a dedicated department called the 'Knowledge Services Group' which is responsible for driving knowledge management processes across the organization.

AIL 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

It 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 it constantly strives for improvement and fosters a culture of continuous learning.

AIL has received recognition for its knowledge management practices through the Most Admired Knowledge Enterprise (MAKE) and Most Innovative Knowledge Enterprise (MIKE) awards over the last several years, highlighting its commitment to fostering a culture of innovation and problem-solving. It is the only Indian infrastructure company to win the MIKE award seven times in a row. It is also the only infrastructure construction company to have a Chief Knowledge Officer.

Growth underpinned by solid base

As discussed earlier, AIL's segmental and geographical diversification has allowed it to post steady growth over the past two decades. Nevertheless, the fact that the company focuses mainly on large-ticket complex projects means that its order intake is lumpy in nature.

Exhibit 26: Increasing scale marked by lumpy order accretion

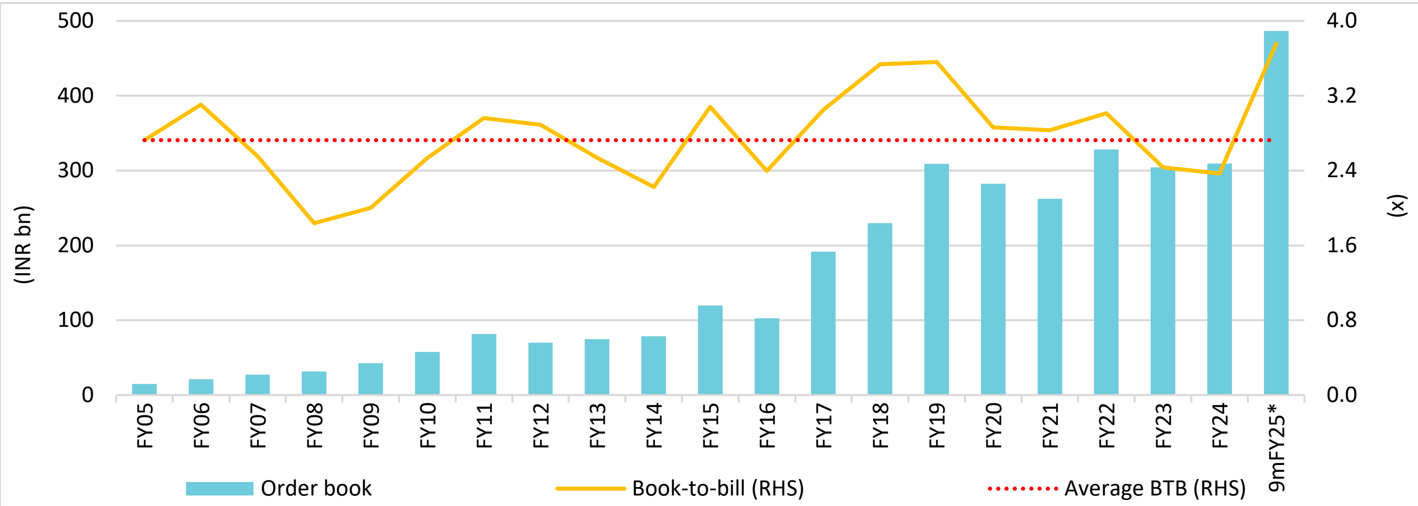
Source: Company, Nuvama Research

Note: YTD FY25 figure includes L1 projects

This is because unlike simple EPC projects, larger projects take longer to get finalised/awarded as these projects require extensive preparatory work from the client on getting requisite statutory approvals as well as achieving financial closure.

The strong order accretion has resulted in consistent growth in the company's order book, especially post-FY16.

Exhibit 27: Order book at a new high, lends revenue visibility

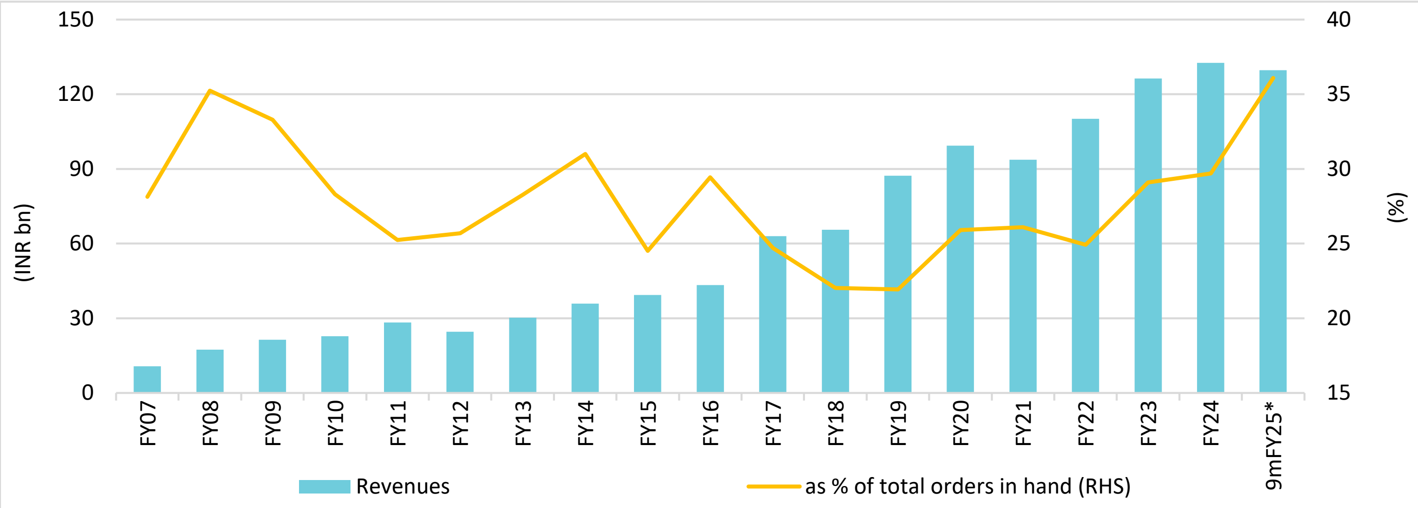


Source: Company, Nuvama Research

*Note: * 9MFY25 figure includes L1 projects also*
Note: Average BTB indicates average book-to-bill over FY05-24 period while 9MFY25 book-to-bill is calculated by using TTM revenues

The robust order intake in the current fiscal has meant that AIL's current revenue visibility is much higher than its average book-to-bill over the past two decades.

Exhibit 28: AIL has demonstrated strong execution capabilities…



Source: Company, Nuvama Research

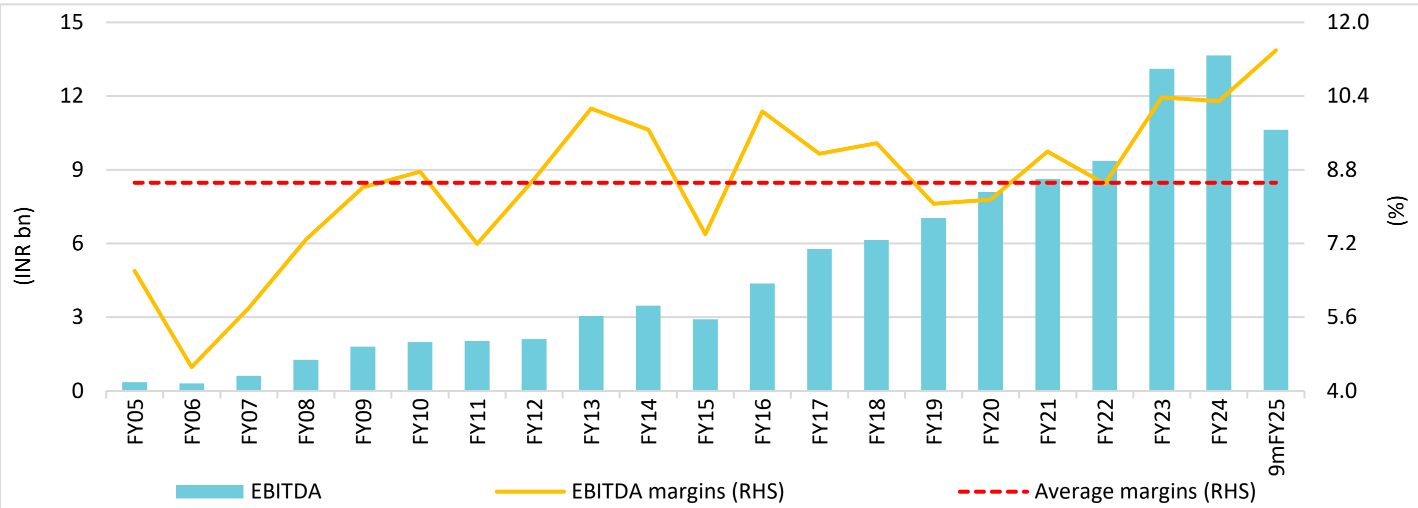
*Note: * 9MFY25 figure includes TTM revenues*
Note: Total orders in hand = Order book at the start of the fiscal + order intake during the fiscal

In line with the long-term order book growth, the company has also delivered 18% revenue CAGR over the FY06–24 period. Unlike the order book, the top-line growth has been fairly steady, which is a testimony to AIL's strong execution skills.

On an average, the company has been able to execute slightly more than a quarter of the total orders in hand every year; in other words, its average execution cycle is less than four years. Considering the long gestation large-sized complex orders that the company undertakes, we believe this is a phenomenal achievement.

The company's margin trajectory has been moving upwards driven by i) an increase in average project size (which leads to economies of scale); ii) the learning curve effect courtesy its robust knowledge management practices; and iii) transition to projects with higher complexity.

Exhibit 29: …along with improving margin trajectory



Source: Company, Nuvama Research

Backed by strong order accretion, robust execution capabilities and an improving margin trajectory, we believe AIL is in a sweet spot as far as delivering sustainable growth is concerned.

Strong cash flows the icing on the cake

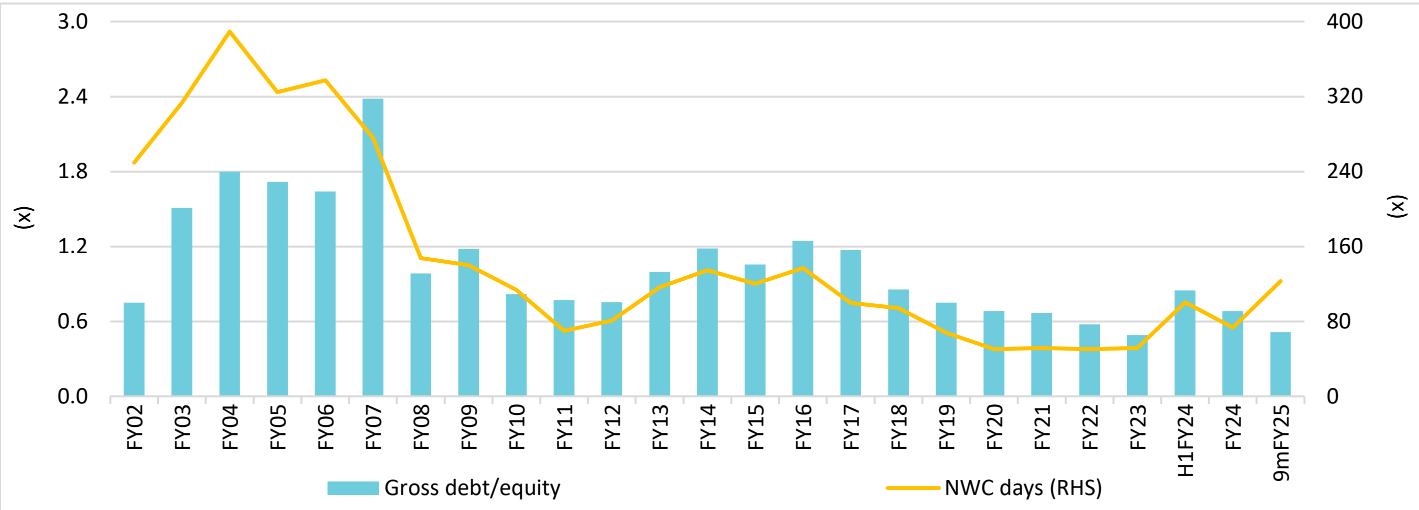
The EPC business is a low-margin high-volume cyclical business. To counter the inherent cyclicality of the business, a company must have sufficient financial strength. Indeed, over a longer period of time, success or failure in the EPC space is determined more by cash flow trajectory than by the ability to win new orders. This is because financial firepower is a prerequisite for not only withstanding the inevitable cyclical slowdown, but also for making the most of an upturn. A contractor's ability to win new orders and execute them within timelines is significantly dependent on its financial resources.

Most Indian EPC companies that have fallen by the wayside have been afflicted by balance sheet/cash flow issues, which have invariably led to order intake/revenue/margin challenges later.

We believe AIL's steady performance on the order intake/revenue/margin front is a direct consequence of its stellar performance on the cash flow/balance sheet front.

- **Efficient working capital management**: Over the past two decades, AIL has paid significant attention towards maintaining a lean working capital. Today, its net working capital cycle is among the best in the EPC space.

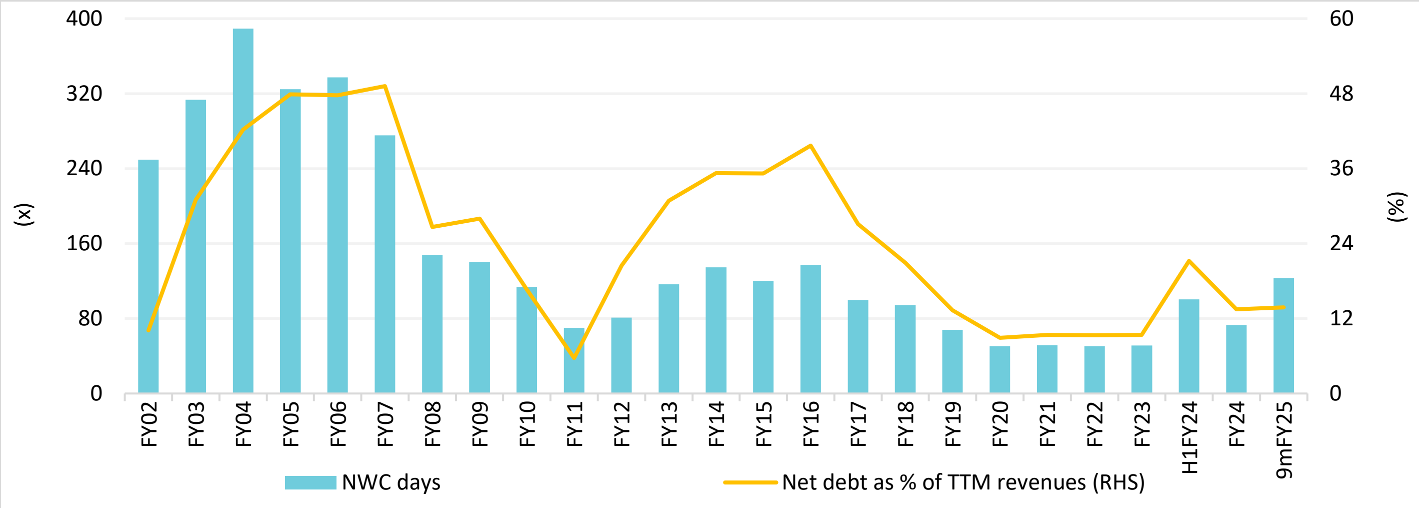
Exhibit 30: AIL's net working capital cycle has declined over the past decade as have leverage levels



Source: Company, Nuvama Research

It is no surprise that the leverage levels of the company (in terms of gross debt/equity) is directly linked to its working capital performance. Over the past decade, the company's net working capital cycle as well as its debt levels have declined.

Exhibit 31: Nimble working capital cycle management has enabled AIL to keep leverage in check

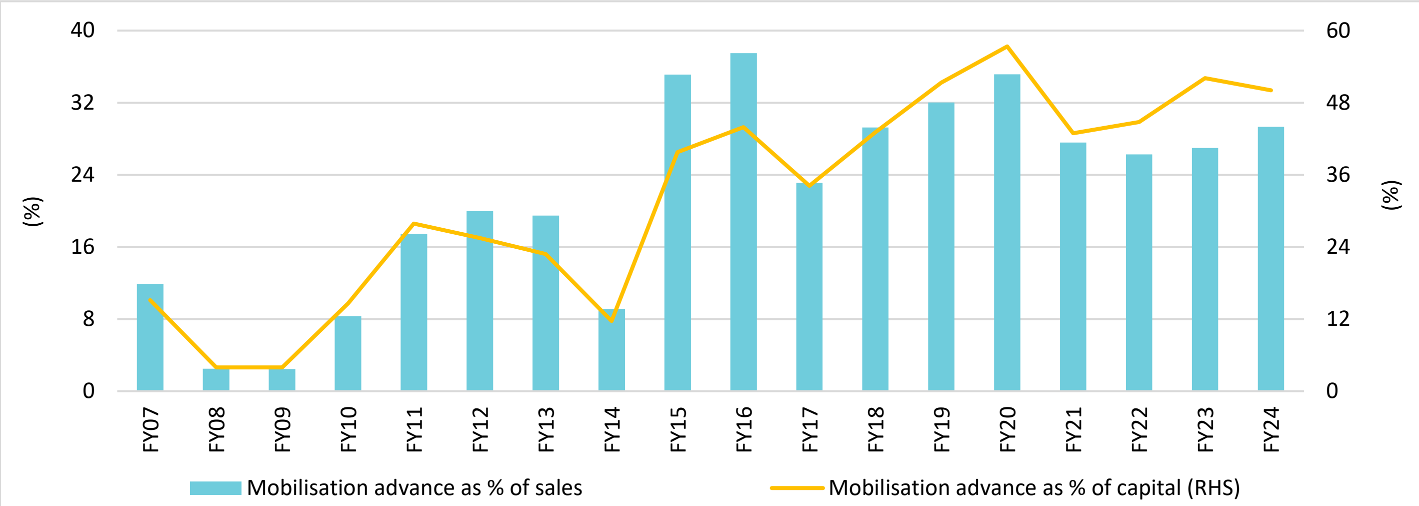


Source: Company, Nuvama Research

AIL used to have relatively higher working capital requirements and consequently debt levels till FY07. Since then, the company has been able to improve its performance on both counts.

- **High mobilisation advances**: A major reason behind the improvement in working capital cycle of the company is the company's ability to fund its operations through mobilisation advances from its clients. On an average, the mobilisation advances have been around 30% of its annual sales over the past decade.

Exhibit 32: Mobilisation advances a significant source of capital for AIL



Source: Company, Nuvama Research

Over the past decade, mobilisation advances have contributed ~46% of AIL's capital employed on an average. This has reduced the company's dependence on external borrowings.

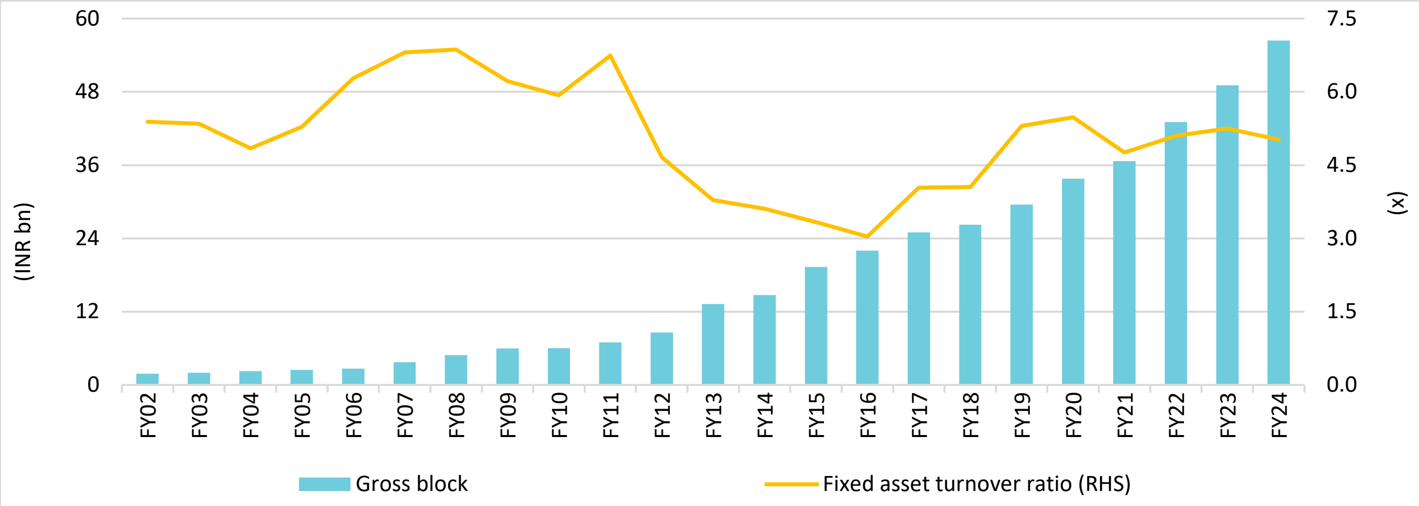
- **Steady fixed asset turnover ratio**: As discussed earlier, AIL is focused towards executing large-scale complex projects. These projects require specialised and cutting-edge machinery/equipment to be completed.

  Furthermore, the company is present across various segments and geographies, which require maintaining a particular level of asset base. As a result, AIL has invested significantly in building up its equipment base.

As of December 31, 2024, its equipment base included 11 marine barges, 153 cranes, 17 tunnel boring machines (additionally three TBMs pending delivery), eight large capacity jack-ups and 21 piling rigs. The total value of the company's indigenous strategic equipment base is around ~INR42.4bn.

Mahakaya and *Samrat,* its jack ups, are among the biggest jack ups of their kind in India, and its inventory of customised tunnel boring machines is one of the largest amongst its peers in India.

Exhibit 33: AIL's fixed asset turnover ratio has stabilised at 4.5–5x



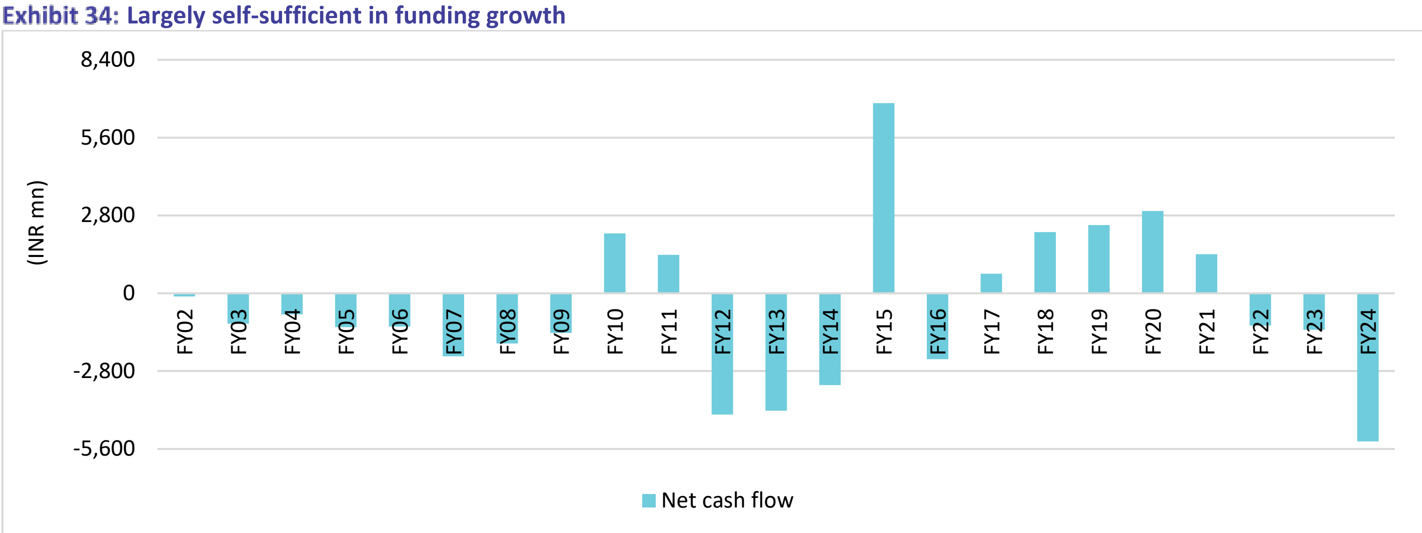
Source: Company, Nuvama Research

The company's FATR had bottomed at ~3x levels around FY16. Since then, the ratio has stabilised around 4.5–5x levels.

- **Robust cash flow**: AIL has been able to fund its growth largely through internal accruals. The company did not need any funding support from promoters during FY08–24.

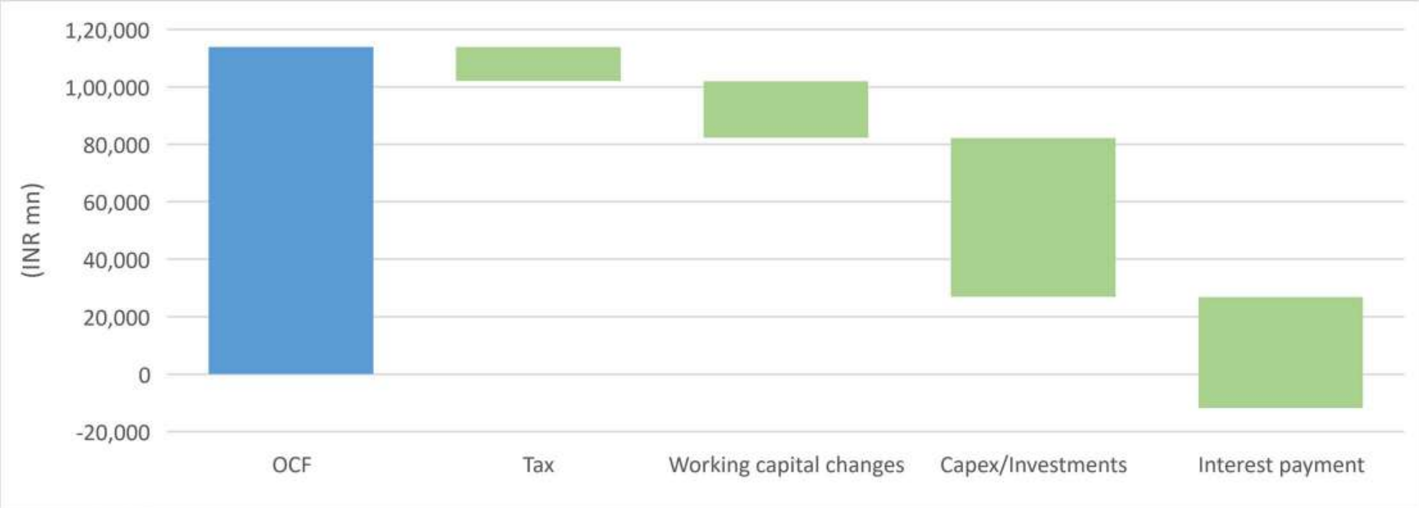
To analyse the company's cash flows in detail, we have compared fund inflows (operating cash flows before working capital changes) against outflows (working capital, capex, investments, interest and tax payments) to arrive at net cash flows.

Exhibit 34: Largely self-sufficient in funding growth



Source: Company, Nuvama Research

Exhibit 35: Funding requirements over FY02–24 met largely through internal accruals

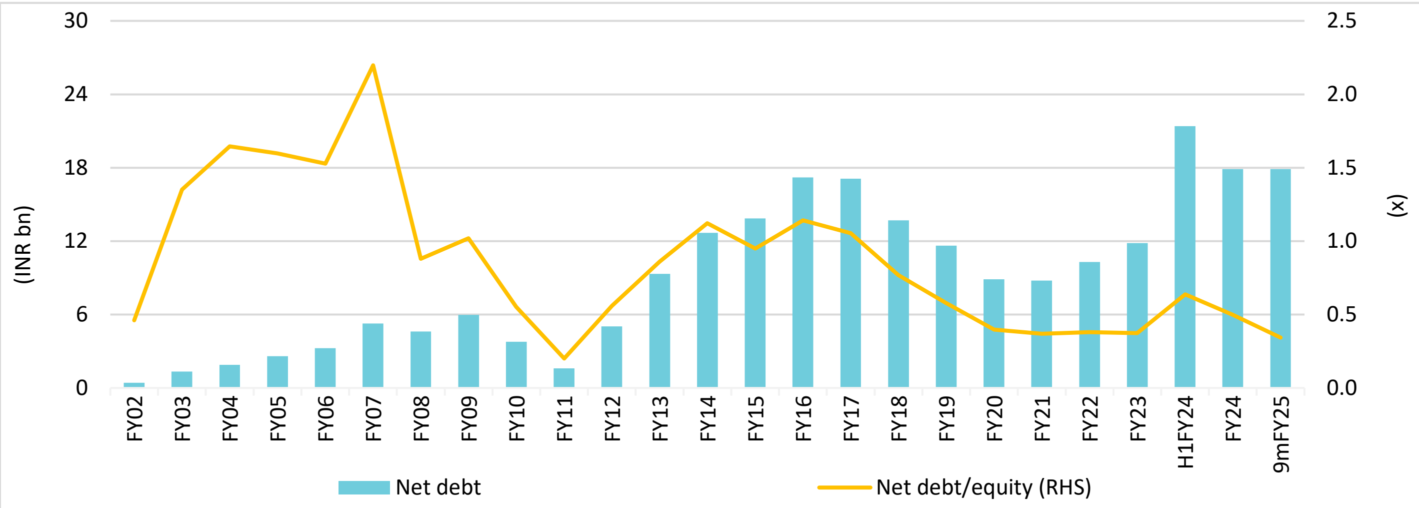


Source: Company, Nuvama Research

Our analysis indicates the company has been able to largely meet its fund requirements from internal accruals; this is the reason that its leverage levels (net debt: equity at 0.5x at end-FY24) was comfortable even before the IPO and despite the stupendous growth over the past two decades.

- **Leverage levels in check**: AIL's leverage levels were quite volatile prior to FY14. Since then, there has been a gradual decline in net debt levels, which has stabilised around the 0.4–0.5x levels.

Exhibit 36: AIL has been able to fund its growth largely out of internal accruals without much dependence on debt



Source: Company, Nuvama Research

Despite being an unlisted company till FY24, AIL was able to keep leverage under control while simultaneously growing its order book/revenue. This is a phenomenal achievement in our view.

Financials and valuation

Steady growth trajectory

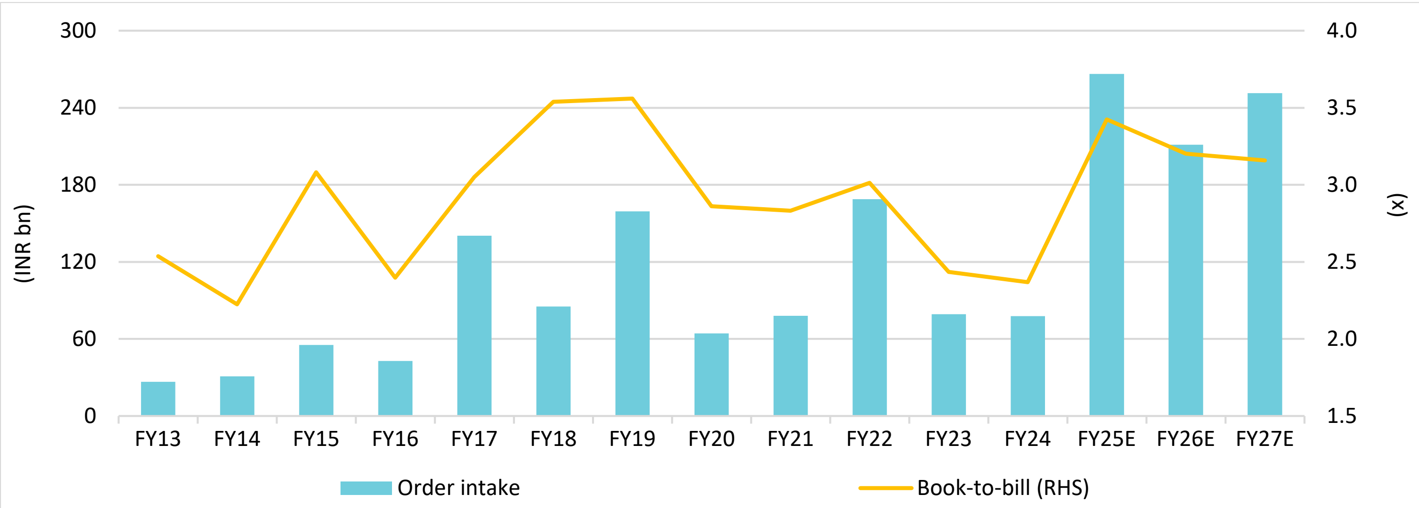
- Robust order accretion, uptick in EBITDA margins to drive EBITDA CAGR of ~17% over FY25–27E
- PAT CAGR of 22% over FY25–27E boosted by financial deleveraging
- Steady working capital cycle implies net debt to equity is likely to stay healthy despite growth capex
- Initiate at 'BUY' with a TP of INR535 (based on 25x Q4FY27E EPS)

AIL's segmental and geographical diversification and the government's focus on complex large-scale infra projects is likely to translate to strong order intake for AIL. We anticipate the company to clock an EBITDA CAGR of ~17% over FY25–27E. Besides, a reduction in leverage post-IPO, we believe the company would clock a PAT CAGR of 22% over FY25–27E.

Revenue to grow steadily

AIL's order intake in FY23/24 was sluggish, implying its revenue visibility was a low 2.4x at the start of FY25; however, robust order accretion in FY25E has boosted its order book, improving revenue visibility.

Exhibit 37: Healthy revenue visibility

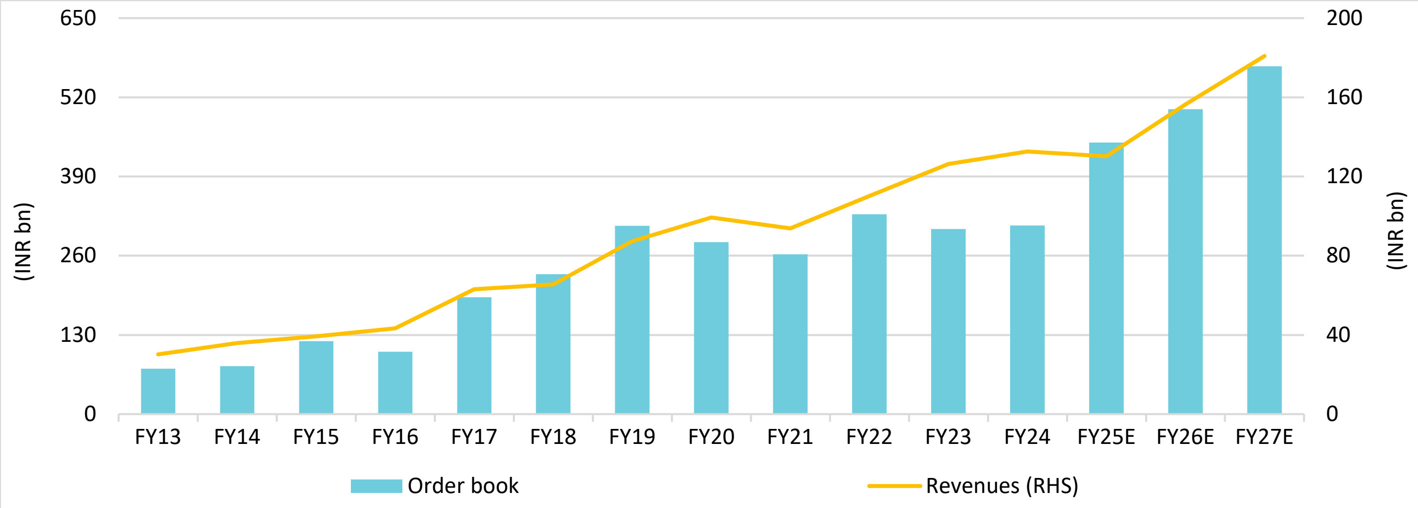


Source: Company, Nuvama Research

We expect AIL's order intake to remain healthy.

We estimate AIL's revenues would expand at a CAGR of ~18% over FY25–27E.

Exhibit 38: Revenue growth to gain traction post-FY25E



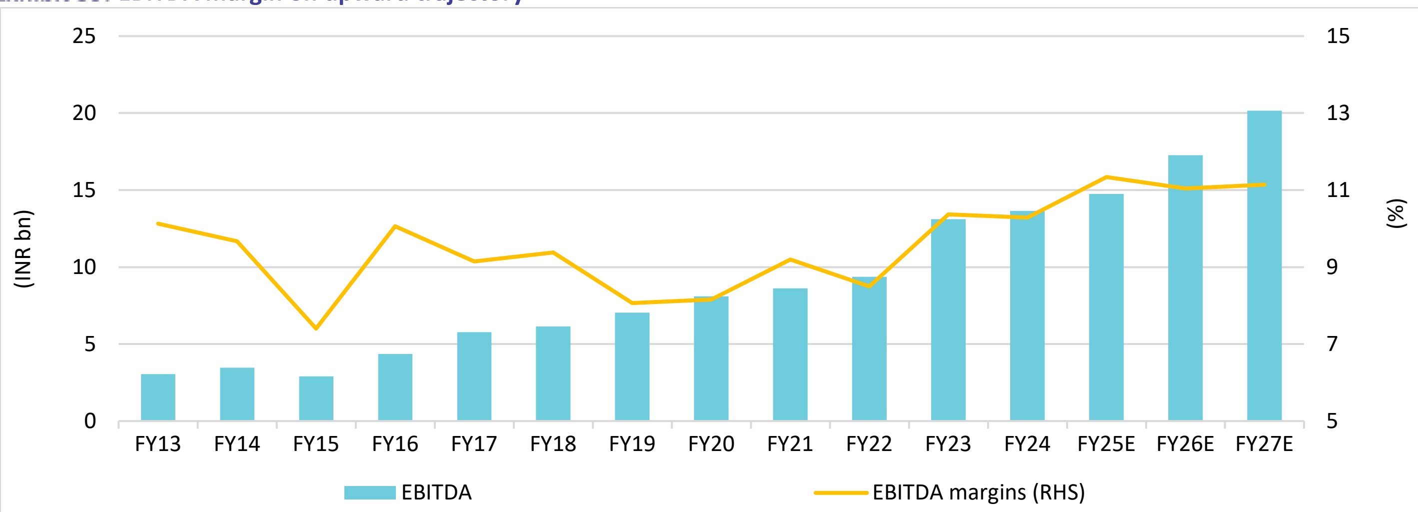
Source: Company, Nuvama Research

However, top line is likely to be largely flat YoY in FY25E due to a relatively small order book at the beginning of the year; it would pick pace FY25E onwards.

EBITDA margin to stay healthy

AIL's EBITDA margin entered the double-digit territory post-FY22. We reckon EBITDA margin shall stay robust, going ahead. This shall be driven by: i) operating leverage; and ii) accretion of new orders with a better margin profile.

Exhibit 39: EBITDA margin on upward trajectory



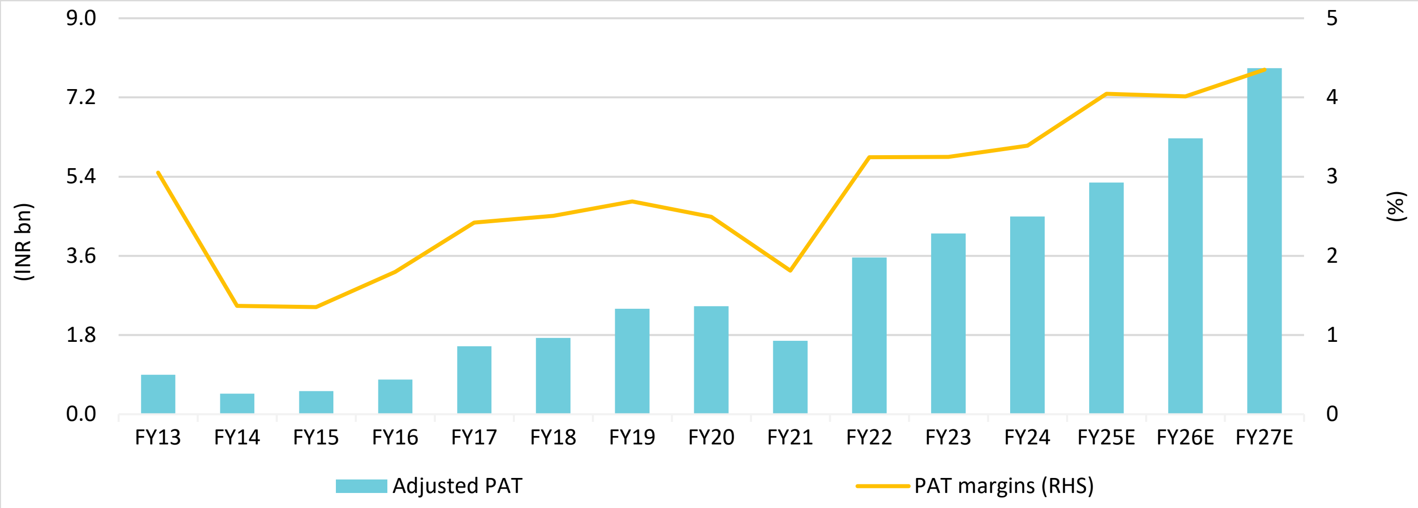
Source: Company, Nuvama Research

We reckon EBITDA margin shall remain in the 10.5–11% range going ahead.

Increasing scale to drive PAT growth

With the company's execution picking up, we anticipate its operating profit to rise, thereby boosting PAT. We reckon EBITDA/PAT shall increase at a CAGR of 17%/22% over FY25–27E. PAT growth shall be stronger aided by deleveraging post-IPO.

Exhibit 40: PAT to inch up

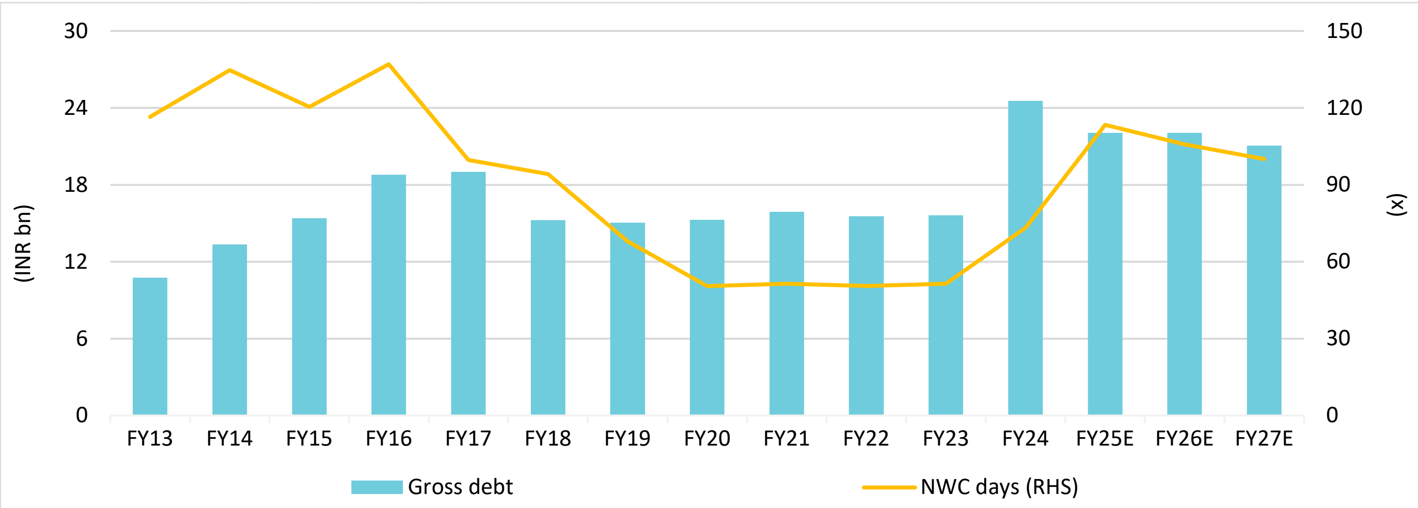


Source: Company, Nuvama Research

Working capital to improve from current levels

We believe AIL's net working capital intensity shall reduce from current levels. This should help in keeping leverage under check.

Exhibit 41: Working capital cycle to improve

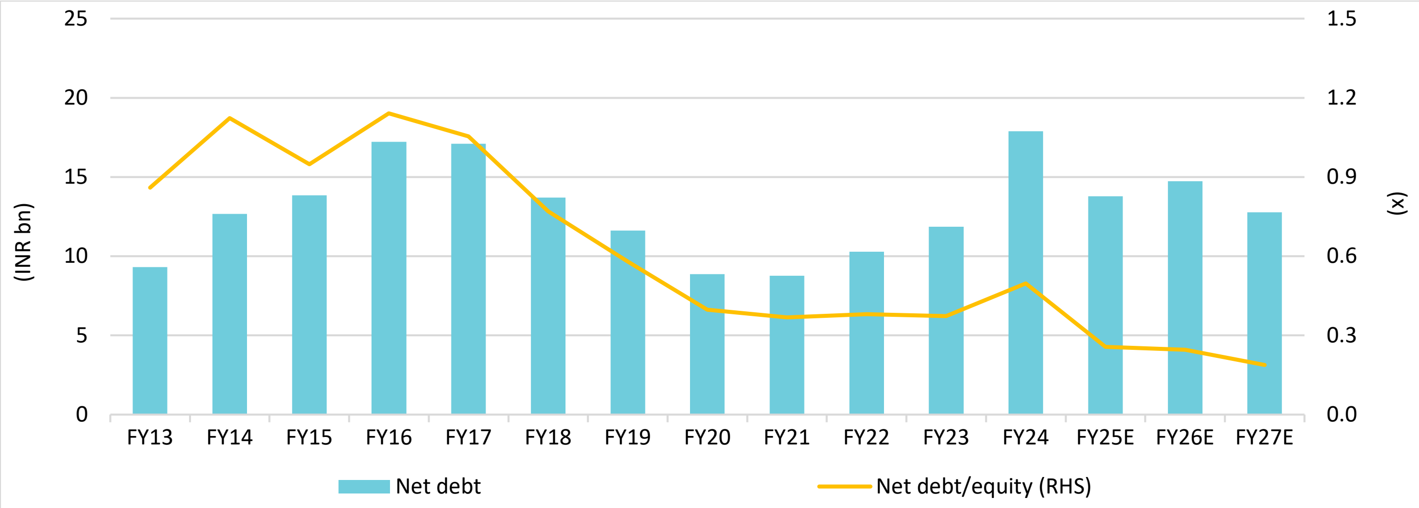


Source: Company, Nuvama Research

Debt to decline gradually

Despite the company undertaking growth capex, its robust cash flow implies that debt is unlikely to increase materially going ahead.

Exhibit 42: Leverage to edge down



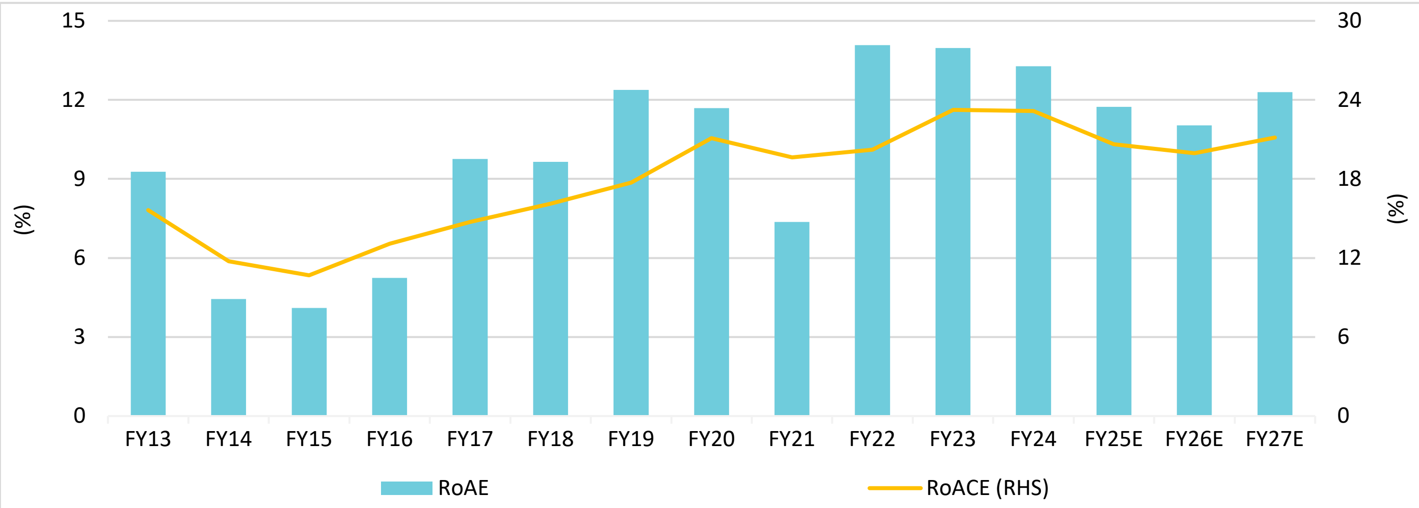
Source: Company, Nuvama Research

We believe AIL's net debt/equity would improve marginally going ahead.

Return ratios to stay healthy

Despite the recent equity dilution, the company's return ratios are quite healthy.

Exhibit 43: Return ratios to remain robust



Source: Company, Nuvama Research

We believe AIL's RoCE shall be around 20–21% going ahead.

Valuation: Operational scale-up to drive growth

We are initiating coverage on AIL with a **'BUY/Sector Neutral'** recommendation/rating with a target price of INR535 (based on 25x Q4FY27E EPS).

Key assumptions

- 18% revenue CAGR and 22% PAT CAGR over FY25–27E; and
- working capital cycle improving from current levels;

We argue a 25x PE is fair for AIL considering its:

- improving revenue visibility aided by strong order intake;
- geographical and segmental diversification, which reduce concentration risk;
- strong execution skills with an improving margin trajectory; and
- robust cash flows allowing for growth to be largely funded via internal accruals.

The abovementioned factors contrast with a few negatives:

- cyclical nature of the infra sector; and
- working capital intensive nature of the EPC business.

AIL's long experience, execution excellence and increasing diversification are likely to enable it to grow sales and profits handsomely. This in turn should drive sizeable shareholder returns going ahead.

Exhibit 44: Valuation comparison — How AIL stacks up against peers

Company Name	Market cap	5-Year PAT CAGR (%)	Diluted P/E (x)		EV/EBITDA (x)		ROCE (%)		Net debt/equity (x)	
	(INR bn)	(FY19-FY24)	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Afcons	154.5	13.4	24.7	19.7	9.8	8.3	19.9	21.1	0.2	0.2
L&T (Consolidated)	4,459.7	10.3	21.1	18.2	17.0	14.4	11.2	12.0	0.7	0.4
Kalpataru	153.7	-0.1	18.3	14.8	5.9	4.4	18.5	20.5	-0.2	-0.4
KEC	191.7	-6.5	18.0	13.8	9.8	7.9	22.2	23.7	0.4	0.3
NCC	117.3	2.0	12.5	10.5	6.2	5.5	19.7	19.9	0.1	0.1

Source: Nuvama Research

Key Risks

- **Concentration risk**: The bulk of AIL's orders currently come from the government sector—both at central and state level. A slowdown in government capex in the future or deterioration of finances of state governments can cast a shadow on the company's growth plans and/or cause working cycle to increase.
- **Raw material volatility**: Some of its overseas projects are fixed-price in nature. Volatility in commodity prices can impact its profitability adversely.
- Certain projects for governments and government-owned enterprises in countries outside India are funded by the Export-Import Bank of India (EXIM Bank). On such projects, if a customer defaults on repayments to EXIM Bank, the latter has the right to stop making payments to AIL. During the three months ended June 30, 2024 and FY24, FY23 and FY22, there were three instances of EXIM Bank halting payments to AIL due to defaults by its customers.

Management Overview

AIL is the flagship infrastructure engineering and construction company of the Shapoorji Pallonji Group, which is one of the leading conglomerates in India with operating history of 150 years in the construction industry. The Shapoorji Pallonji group is a global and diversified organisation delivering end-to-end solutions in six key business segments, including engineering & construction, infrastructure, real estate, water, energy and financial services. Its dedicated workforce of over 37,000 in over 40 countries is focused on sustainable development while developing megastructures and iconic landmarks.

The group is known for building some of Mumbai's landmarks around the Fort area, including the Hong Kong Bank, Grindlays Bank, Standard Chartered Bank and the Reserve Bank of India building, Bombay Stock Exchange building and Taj Intercontinental. The group has built some famous sports stadia such as the Brabourne stadium in Mumbai and the Jawaharlal Nehru stadium in Delhi. Apart from these, it has built several marquee buildings overseas including Qasr Al Alam Palace for the Sultan of Oman in 1975, BAPS Sri Swaminarayan Temple in Abu Dhabi, UAE, Jumeirah Lake Towers in Dubai and Ebene Cyber City in Mauritius. Other notable projects include Bharat Mandapam – International Exhibition-cum-Convention Centre in New Delhi and The Imperial in Mumbai.

Over time, Shapoorji Pallonji has built diverse civil and structural engineering projects such as plants for the auto industry, factories, nuclear research establishments, scientific and research establishments, educational institutions, stadia and auditoria, hotels, hospitals, skyscrapers, housing complexes, townships, water treatment plants, roads, expressways, power plants and even an airport.

The Group—oldest Indian construction company with a legacy of about 160 years—was the first Indian construction company to enter the Middle East and also the first Indian construction company to have earned the ISO 9001 Certification.

Exhibit 45: Board of directors

Name	Position	Remarks
Mr Shapoorji Pallonji Mistry	Non-Executive Director and Chairman	Mr Mistry is a Bachelor of Arts (Business Administration and Economics) from Richmond College, London. He is the non-executive chairman of Shapoorji Pallonji and Company Private Limited since March 21, 2014, and has 37 years of experience in construction, real estate, infrastructure, water, oil & gas and renewable energy sector. Mr Mistry is on the board of directors of companies such as Shapoorji Pallonji and Company Private Limited and Sterling Investment Corporation Private Limited, among others.
Dr Subramanian Krishnamurthy	Executive Vice Chairman (Whole-time Director)	Dr Krishnamurthy is a Bachelor (honours) of Mechanical Engineering from Regional Engineering College, University of Madras, and holds a Postgraduate Diploma in Industrial Engineering from the National Institute for Training in Industrial Engineering (NITIE). He has been honoured with the Degree of Doctor of Letters (D.Litt.) in recognition and appreciation of his contribution to the society in the field of academics, infrastructural development and corporate leadership by the Kalinga Institute of Industrial Technology (KIIT), Bhubaneswar (Odisha) and the Bharat Shiromani Award 2004 by the Shiromani Institute. He has also been awarded the Distinguished Alumnus Award by the National Institute of Technology – Tiruchirappalli for excellence in corporate/industry. Dr Krishnamurthy has over 40 years of experience in the construction & engineering sector. He has been associated with the company since November 15, 2002. Prior to joining AIL, Dr Krishnamurthy worked at Hindustan Construction Company.
Mr Paramasivan Srinivasan	Managing Director	Mr Srinivasan is a Bachelor of Commerce from Faculty of Commerce, Madurai University. He is a fellow member of the Institute of Cost Accountants of India and the Institute of Company Secretaries of India. He is also a Stanford Certified Project Manager. Mr Srinivasan has over 40 years of experience in finance, secretarial and legal departments. He has been associated with the company since June 10, 2002. Prior to joining Afcons, he worked at State Bank of Travancore and Fouress Engineering (India) Limited. He is currently on the board of directors of Afcons Corrosion Protection Private Limited. He was a member of the Banking & Finance Committee of the Bombay Chamber of Commerce and Industry. He is also Co-Chair (Roads & Highways), FICCI Committee on Transport Infrastructure.
Mr Giridhar Rajagopalan	Deputy Managing Director	Mr Rajagopalan is a Bachelor of Engineering from Sardar Patel College of Engineering, University of Bombay. and has over 42 years of experience. He has been associated with AIL since March 6, 2009. Prior to joining Afcons, Mr Rajagopalan was associated with Peninsula Land Limited. He is currently on the board of directors of companies such as the Institute for Lean Construction Excellence and Afcons Corrosion Protection Private Limited
Mr Umesh Narain Khanna	Non-Executive Director	Mr Khanna is a Bachelor of Science from Agra University and a Master of Engineering (Electrical) from the University of Roorkee. He is also an MBA from The University of Hull. Mr Khanna has 42-plus years of experience in launching and expanding businesses & markets, in business policy & planning and in International Marketing and Contracts Management for power and non-power industries. He has been associated with AIL since August 22, 2012. He is Group Head - Coordination at the Shapoorji Pallonji and Company Private Limited. Prior to joining AIL, Mr Khanna was associated with BF-NTPC Energy Systems Limited.
Mr Anurag Kumar Sachan	Independent Director	Mr Sachan is a Bachelor of Engineering (civil) from the Maulana Azad College of Technology, Bhopal and has completed the Indian Railways Higher Administrative Grade Program from Carnegie Mellon University. He is a fellow of the Indian Institution of Technical Arbitrators and a member of the Chartered Institute of Logistics & Transport – India. Mr Sachan has over 37 years of experience in infrastructure, railways and freight. Prior to joining AIL, he was associated with the Dedicated Freight Corridor Corporation of India Limited and Northern Railways.

Source: Company, Nuvama Research

Exhibit 46: Board of directors

Name	Position	Remarks
Mr Sitaram Janardan Kunte	Independent Director	Mr Kunte is a Bachelor of Arts (Honours) from the University of Delhi, a Bachelor of Law from the Lala Lajpatrai Charitable Foundation's College of Law, University of Mumbai, and a Master of Arts from the University of Delhi. He has over 36 years of experience in administration, revenue, health and housing. Prior to joining AIL, Mr Kunte was associated with the Government of Maharashtra.
Mr Atul Sobti	Independent Director	Mr Sobti is a Bachelor of Engineering (Mechanical) from the University of Allahabad, holds a Diploma in Project Management from Punjabi University and a Postgraduate Diploma in International Management from the International Management Institute, India. He has over 43 years of experience in administration, finance and management. Prior to joining AIL, Mr Sobti was associated with Bharat Heavy Electricals Limited and Standing Conference of Public Enterprises.
Mr Cherag Sarosh Balsara	Independent Director	Mr Balsara is a Bachelor of Commerce from the Sydenham College of Commerce and Economics, University of Bombay, and also a Bachelor of Law as well as Master of Law from Government Law College, University of Bombay. He has over 31 years of experience as an advocate on the rolls of the Bar Council of Maharashtra and Goa. Mr Balsara sits on the boards of Sterling and Wilson Renewable Energy Limited and The New Piece Goods Bazar Company Limited.
Ms Rukhshana Jina Mistry	Independent Director	Ms Mistry is a Chartered Accountant. She has been a practising chartered accountancy for over 34 years. She is currently an independent director on the boards of Allied Blenders and Distillers Limited, Sterling and Wilson Renewable Energy Limited, Sterling and Wilson International Solar FZCO, Sterling and Wilson Renewable Energy Nigeria Limited and Sterling and Wilson Solar Solutions INC.

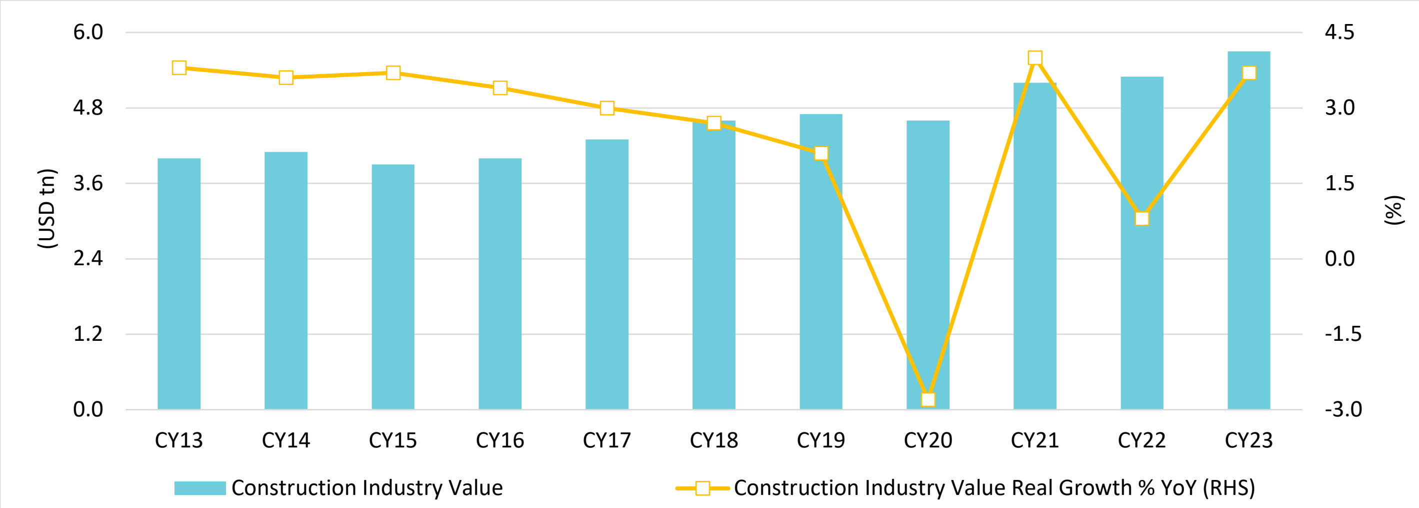
Source: Company, Nuvama Research

Industry Outlook

Global construction market overview

As per Fitch Solutions, the global construction industry value-add—comprising transport, power, water, telecom, oil & gas, mining and construction—stood at USD5.7tn at the end of CY23, up from USD4tn in CY13. The construction data is derived from national accounts from each market's national statistics office (or equivalent) or from international organisations that compile national account data, notably the UN. Specifically, it measures the GVA of the construction industry over the reported 12-month period in nominal values.

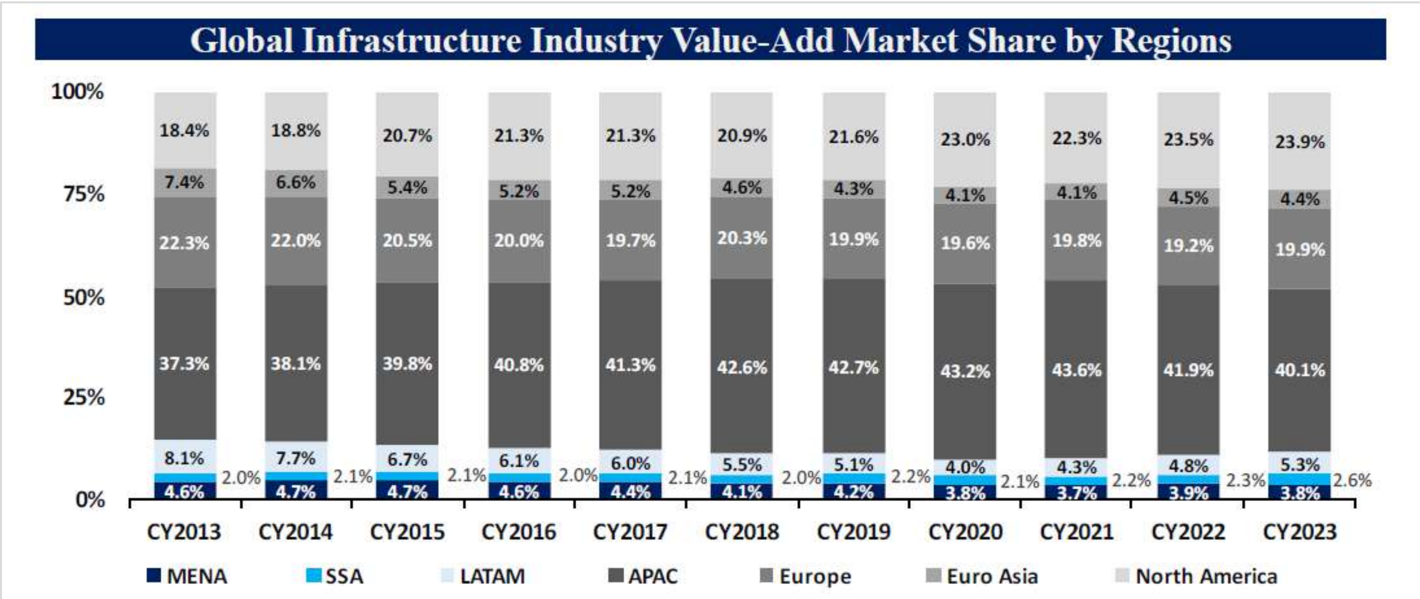
Exhibit 47: Global infrastructure industry value-add and real growth



Source: Fitch Solutions, Nuvama Research

As per Fitch Solutions, the global construction industry expanded at a CAGR of 3.7% from USD4tn in CY13 to USD5.7tn in CY23.

Exhibit 48: Global Infrastructure industry value-add market share by region



Source: Fitch Solutions, Nuvama Research

Over 83.9% of the infrastructure market in CY23 was made up of the APAC region, North America and Western Europe. APAC's share in the overall pie increased from

37.3% in CY13 to 40.1% in CY23. China and the USA dominated the overall infrastructure market and accounted for 42.4% in CY23.

Global construction growth would largely be driven by expanding construction investment in emerging markets (EMs), with EMs construction industry value expected to grow by annual average real growth of 3.9% YoY between CY24 and CY33E.

Accordingly, EMs in the region shall lead regional growth with India, Indonesia, Vietnam, the Philippines, and Bangladesh among markets likely to turn in highest growth over the coming decade. Strong construction growth in EMs shall be driven in large part by those in Asia given the large size of these markets and relatively high growth rates.

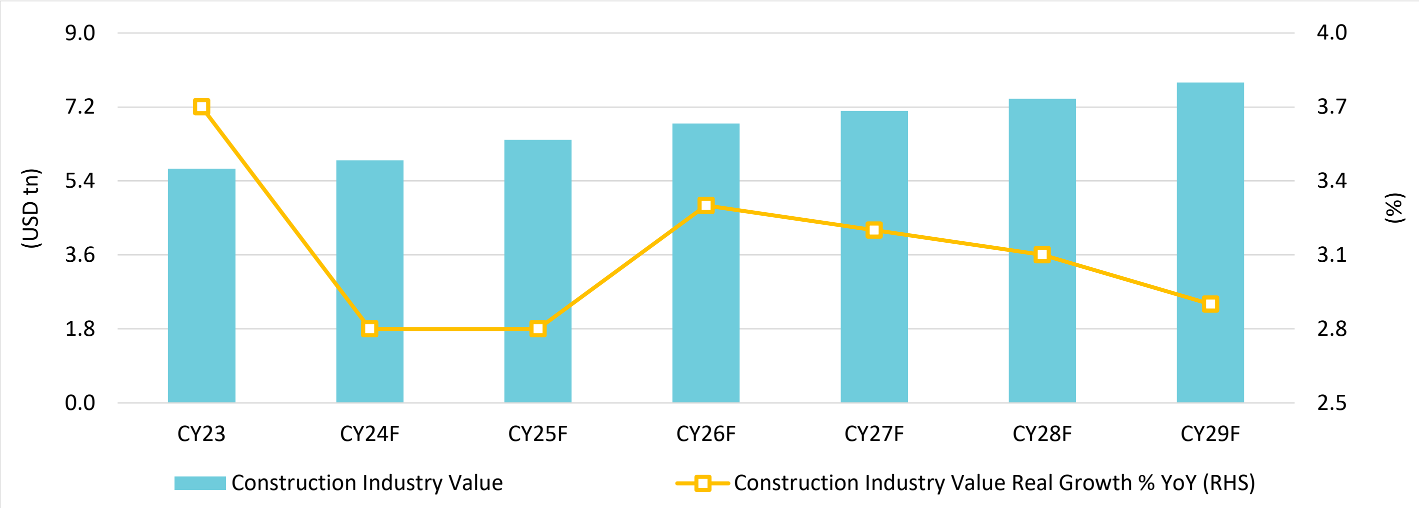
At the regional level, Asia-Pacific is set to drive growth of the global construction industry. This would be the product of both the large size of the region's construction industry, which accounted for 40.0% of the global construction industry in USD terms in 2023, and robust growth of the region's construction industry over coming years. FSIAPL forecasts that Asia's construction industry will grow by 4.5% YoY in CY24 and 4.1% YoY in CY25E, and by an annual average of 3.8% over CY24–33.

In the Asia-Pacific region, several Southeast Asian markets—including the Philippines, Vietnam and Indonesia—are likely to clock robust growth, supporting the industry overall while the expansion of India's construction industry shall also contribute.

While Asia-Pacific will drive global construction growth in part given its large size, Sub-Saharan Africa (SSA) will see the highest growth rate of any region globally, with the SSA construction industry value likely to grow in real terms by 5.6% YoY in CY24 and 4.1% YoY in CY25 and see average annual growth of 4.9% YoY between CY24 and CY33. This will mark a slight moderation in growth for the region vis-à-vis average annual growth of 5.4% YoY between CY13 and CY23 but will put SSA as the strongest growing region globally over the coming decade. FSIAPL anticipates growth would be concentrated in East and West Africa, with markets such as Côte d'Ivoire, Tanzania, and Rwanda set to be global outperformers.

FSIAPL's construction industry growth forecasts for markets globally imply that the value of the global construction industry will grow in real terms by 2.8% YoY in CY24 and 2.8% YoY in CY25. Over the next ten years, FSIAPL projects the global construction industry would expand annually in real terms by 3% YoY on average. This highlights that the global construction industry will expand at a faster pace in the next ten-year period than the annual average of 2.5% growth over the previous ten-year period from CY13 to CY23.

Exhibit 49: Global construction industry value and real growth forecast

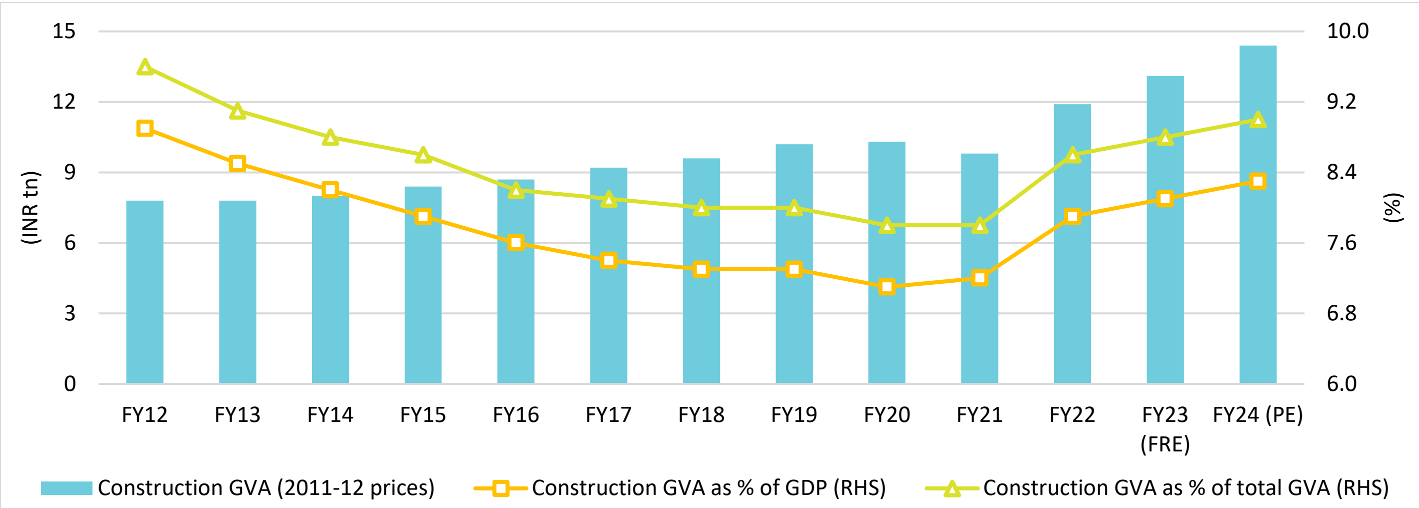


Source: Fitch Solutions, Nuvama Research

Assessment of overall construction industry in India

Gross value added (GVA) in the Indian construction sector increased from INR7.8tn in FY12 to INR14.4tn in FY24. The construction GVA grew 9.9% YoY in FY24 and is expected to grow 9–11% in FY25 owing to the government's emphasis on infrastructure development and a robust order book.

Exhibit 50: Trends in India's construction GVA

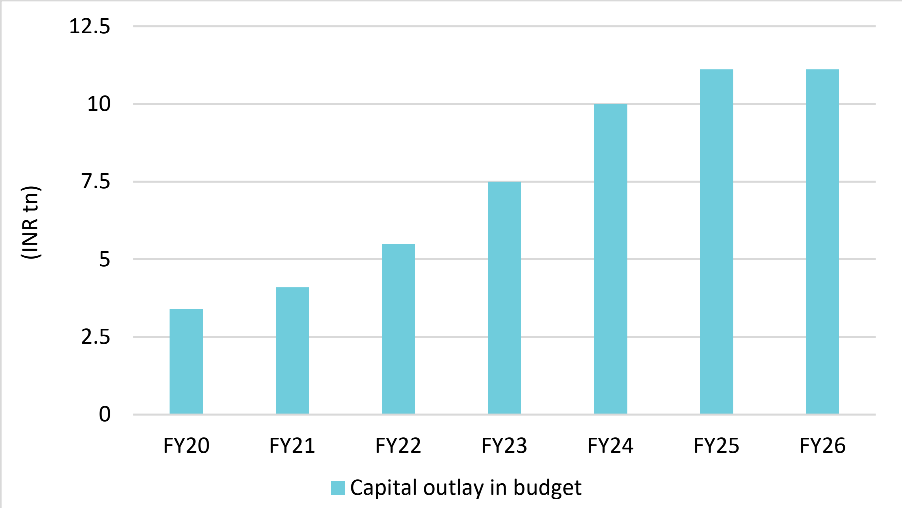


Source: NSO, RBI, Fitch Solutions, Nuvama Research

Note: FRE: First revised estimates; PE = Provisional estimates

Compensating for the private sector's caution in capital expenditure, the central government stepped on the gas on capital expenditure. Budgeted capital expenditure rose 3.3x over the last five years, from FY20 to FY25, reinvigorating the capex cycle. Capital outlay increased from INR3.4tn in FY20 to INR11.1tn in FY26.

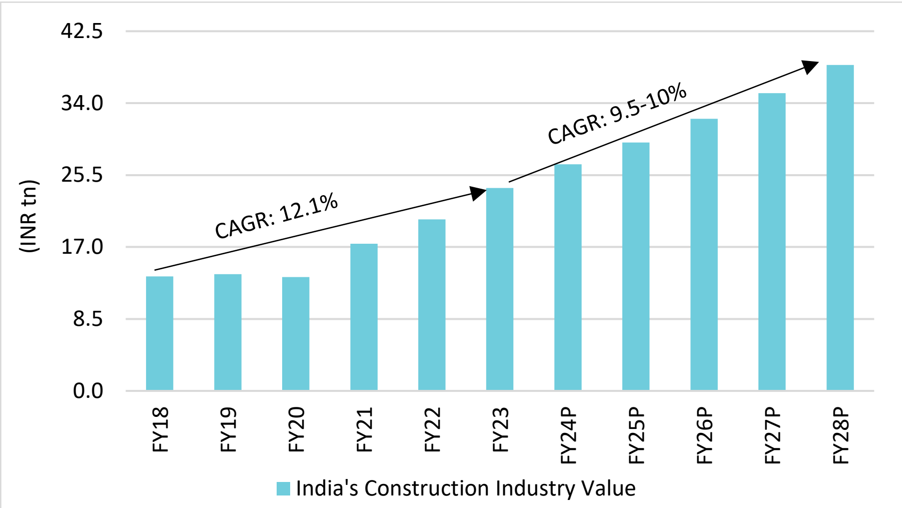
Exhibit 51: Sharp increase in capex in union budget since FY20



Source: Government documents, Nuvama Research

As per Fitch Solutions (FSIAPL), the Indian construction industry's value stood at ~INR240tn in FY23, expanding at a CAGR of 12.1% from ~INR13.5tn in FY18.

Exhibit 52: India's construction industry size



Source: RBI, Fitch Solutions, Nuvama Research

FSIAPL forecasts India's construction industry shall expand at a CAGR of 9.5–10% from ~INR24tn in FY23 to ~INR38.5tn in FY28 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 the National Infrastructure Pipeline, Smart Cities Mission, Gati Shakti, UDAN, 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 the overall construction sector in India.

At end-FY23, the 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.

Exhibit 53: Indian construction industry breakdown by category

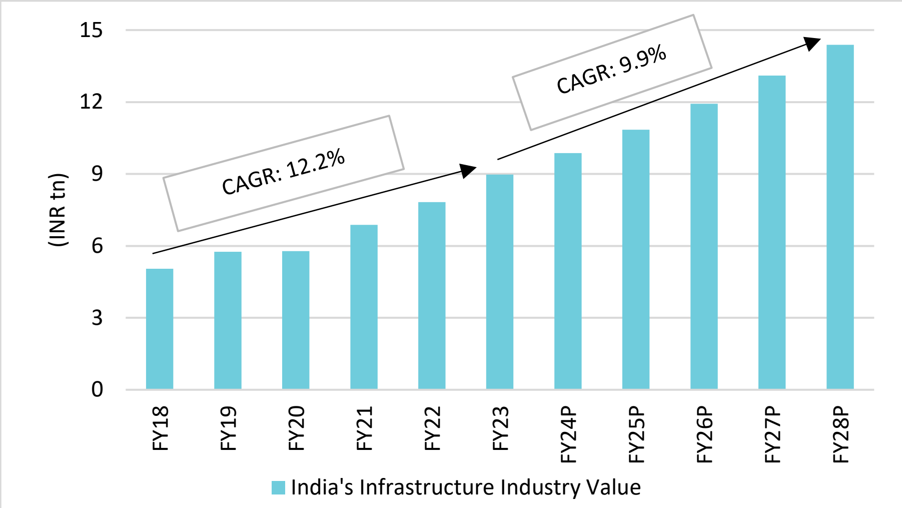
Year	FY18	FY19	FY20	FY21	FY22	FY23
Infrastructure industry value (INR bn)	5,041	5,749	5,778	6,880	7,831	8,973
Infrastructure industry value, % of total construction	37.3%	41.7%	43.0%	39.6%	38.6%	37.4%
Residential building industry value (INR bn)	2,873	2,731	2,520	2,723	3,158	3,648
Residential building industry value, % of total construction	21.2%	19.8%	18.8%	15.7%	15.6%	15.2%
Non-residential building industry value (INR bn)	5,608	5,307	5,137	7,771	9,287	11,357
Non-residential building industry value, % of total construction	41.5%	38.5%	38.2%	44.7%	45.8%	47.4%
India's construction industry value (INR bn)	13,521	13,787	13,435	17,375	20,276	23,978

Source: RBI, Fitch Solutions, Nuvama Research

Assessment of infrastructure construction segment

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 expanded at a CAGR of 12.2% from ~INR5tn in FY18 to ~INR9tn in FY23.

Exhibit 54: India’s infrastructure industry size



Source: RBI, Fitch Solutions, Nuvama Research

Sustained investment in infrastructure will help India gradually bridge its sizeable infrastructure deficit, which ranges from rural road and power access to strained urban transport systems. Ongoing regulatory reforms made as part of the government’s *Make in India* initiative are also opening up the infrastructure sector to greater foreign and private involvement, which shall help unlock greater pools of financing and improve the operational efficiency of the industry. Thus, FSIAPL estimates India’s infrastructure industry to expand at a CAGR of 9.9% from ~INR9tn in FY23 to ~INR14.4tn in FY28E.

Transport infrastructure construction to boost the infra sector

India's transport infrastructure industry was ~INR2.2tn in FY18. It increased at a CAGR of 11.3% from FY18 to ~INR3.8tn in FY23.

Exhibit 55: Transport infra growth in India

	FY18	FY19	FY20	FY21	FY22	FY23	FY18-23 CAGR
Transport Infrastructure Industry Size (INR bn)	2,255	2,612	1,827	2,943	3,355	3,852	11.3%
Roads and bridges Infrastructure Industry Size (INR bn)	1,619	1,362	974	1,710	1,949	2,247	6.8%
Railways Infrastructure Industry Size (INR bn)	578	737	640	1,078	1,231	1,404	19.4%
Airports Infrastructure Industry Size (INR bn)	39	497	163	114	130	150	31.1%
Ports, harbours, waterways Infrastructure Industry Size (INR bn)	20	17	50	41	46	52	20.9%

Source: Industry sources, Fitch Solutions, Nuvama Research

Exhibit 56: Transport infra – industry forecast

Year	FY23	FY24E	FY25E	FY26E	FY27E	FY28E	Expected CAGR (FY23-28)
Transport Infrastructure Industry Size (INR billion)	3,675	4,032	4,423	4,845	5,311	5,812	9.6%
Roads and bridges Infrastructure Industry Size (INR billion)	2,144	2,356	2,587	2,840	3,115	3,415	9.8%
Railways Infrastructure Industry Size (INR billion)	1,340	1,466	1,605	1,754	1,922	2,100	9.4%
Airports Infrastructure Industry Size (INR billion)	143	158	173	190	207	224	9.4%
Ports, harbours, waterways Infrastructure Industry Size (INR billion)	49	53	58	62	67	73	8.2%

Source: Industry sources, Fitch Solutions, Nuvama Research

It is further expected to grow at a CAGR of 9.6% to ~INR6tn in FY28 supported by both public and private investment.

Energy, utilities infrastructure set for robust growth

India's energy and utilities infrastructure industry was ~INR2.8tn in FY18. It expanded at a CAGR of 12.9% in FY18 to ~INR5.1tn in FY23.

Exhibit 57: Energy and Utilities infra growth in India

Year	FY18	FY19	FY20	FY21	FY22	FY23	FY18-23 CAGR
Energy and utilities infrastructure Industry Size (INR bn)	2,786	3,137	3,952	3,938	4,476	5,121	12.9%
Power plants and transmission grids infrastructure Industry Size (INR bn)	2,062	2,259	2,964	3,071	3,581	4,045	14.4%
Oil and Gas pipelines infrastructure Industry Size (INR bn)	167	220	237	158	224	256	8.9%
Water infrastructure Industry Size (INR bn)	557	659	751	709	671	819	8.0%

Source: Industry sources, Fitch Solutions, Nuvama Research

Exhibit 58: Energy and Utilities infra – industry forecast

Year	FY23	FY24F	FY25F	FY26F	FY27F	FY28F	FY23-28 CAGR
Energy and utilities infrastructure Industry Size (INR bn)	5,121	5,643	6,216	6,844	7,533	8,288	10.1%
Power plants and transmission grids infrastructure Industry Size (INR bn)	4,045	4,063	4,662	5,339	6,026	6,631	10.4%
Oil and Gas pipelines infrastructure Industry Size (INR bn)	256	395	373	274	377	414	10.1%
Water infrastructure Industry Size (INR bn)	819	1,185	1,181	1,232	1,130	1,243	8.7%

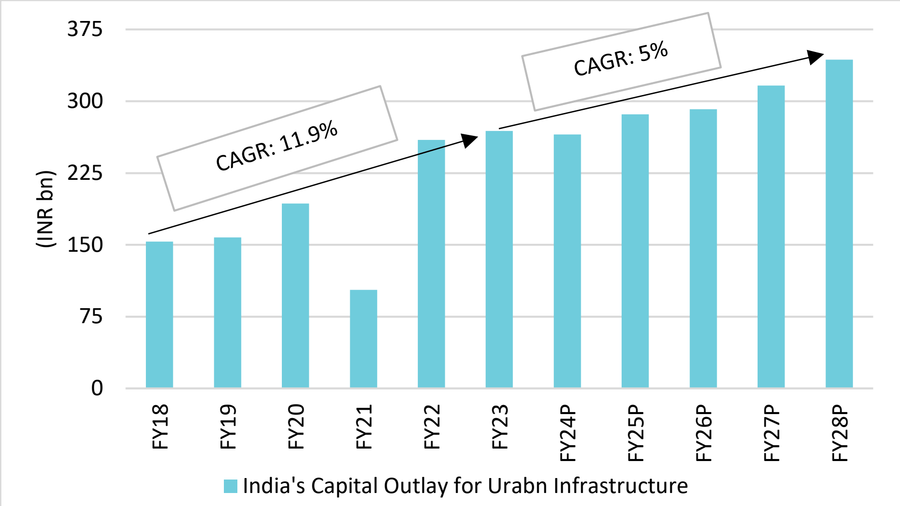
Source: Industry sources, Fitch Solutions, Nuvama Research

FSIAPL forecasts that India's energy and utilities infrastructure sector shall continue to expand at a CAGR of 10.1% over FY2023–28. Growth in India's energy and utilities infrastructure sector shall be driven by substantial investments to upgrade and expand power plants, electricity transmission and distribution networks, and water utilities in order to meet burgeoning demand being spurred by a growing population and increasing urbanisation.

Overview of urban infrastructure

Urban infrastructure consists of metro, smart city, water supply and sanitation (WSS) projects, and others.

Exhibit 59: Capital outlay and future outlook for MoHUA



Source: Government documents, Fitch Solutions, Nuvama Research

The actual capital outlay for the Ministry of Housing and Urban Affairs (MoHUA) has increased at a CAGR of ~11.9% from INR153.5bn in FY18 to ~INR269bn in FY23. As per Fitch Solutions, the capital outlay in the MoHUA is projected to increase at a CAGR of ~5% from FY23 to ~INR343bn in FY28E.

Overview of metro rail segment

Swift urbanisation and growing population densities in Indian cities have presented numerous challenges, such as significant traffic congestion and environmental pollution. However, the metro rail system has emerged as a promising solution for countless urban residents, providing them with a dependable, efficient and environmentally conscious means of travel. Prior to 2014, only five cities in India had a modest 248km of metro rail network with the average rate of metro line construction being just 600 metres per month. In the past decade, 700km of new metro lines have been made operational, increasing the total operational length to 945 km, not to mention expansion of metro services to 21 cities nationwide.

According to the government, India's ranks third globally in terms of the length of its operational metro network (after China and USA), and is on track to become the country with the second-largest metro network in the world.

According to the Union Minister for MoHUA, India has developed four state-of-the-art manufacturing facilities of metro coaches that have produced over 1,000 metro coaches in the last five years, supporting various metro rail systems across the country. With the approval of these new projects, India now has 1000km-plus of metro lines under construction.

In addition to domestic achievements, there is a growing international interest in India's expertise in metro rail systems. The Delhi Metro Rail Corporation (DMRC) is presently developing a metro rail system in Bangladesh and has offered consultancy services in Jakarta. Additionally, countries such as Israel, Saudi Arabia (Riyadh), Kenya and El Salvador have expressed interest in collaborating with the DMRC on their metro development projects.

As per Union Minister for MoHUA, the first Rapid Rail Transit System (RRTS) corridor of 82km between Delhi and Meerut has been sanctioned at a cost of INR302.7bn.

With the addition of an 8km stretch, a total of 42km of the corridor was operational at end-August 2024, connecting nine stations from Sahibabad in Ghaziabad to Meerut South in Meerut, with the 'NaMo Bharat' train running on this network. The entire 82 km long Delhi-Ghaziabad-Meerut RRTS corridor will be operational by June 2025 as per National Capital Region Transport Corporation (NCRTC).

To address the imperative for an extensive metro network across India, the Metro Rail Policy was instituted in 2017, serving as a blueprint for the nationwide expansion and modernisation of metro networks. The emphasis on domestic manufacturing of metro coaches under the "Make in India" initiative has also yielded manifold advantages. Not only has it bolstered the domestic manufacturing sector, but it has also fostered self-reliance and diminished the country's dependence on imports.

Overview of ports sector

Overview of key ongoing and proposed projects

International Container Transhipment Port (ICTP) at Galathea Bay, Andaman & Nicobar Islands: The Ministry of Ports, Shipping and Waterways (MoPSW), as part of the holistic development of the Great Nicobar Island, is working towards the development of a Mega International Container Transhipment Port (ICTP) at Galathea Bay of the Great Nicobar Island of the Andaman & Nicobar Islands in the Bay of Bengal. The proposed facility is expected to cost INR440bn and would be developed in four phases.

Kolkata-based Syama Prasad Mookerjee Port is the nodal agency for the implementation of this project. With a handling capacity of approximately 4mn 20-foot equivalent units (TEUs), Phase I of the Galathea Bay ICTP is expected to be put into service in 2028. This capacity shall be gradually quadrupled to 16mn TEUs.

Phase I of the project is expected to cost about INR180bn and would involve building breakwaters, dredging, reclamation, berths, storage areas, buildings and utilities, as well as purchasing and installing equipment and developing a port colony with the government's support.

The project focuses on three key drivers, which can result in making it a leading container transhipment port, that is:

- strategic location in terms of proximity (40 nautical miles from Malacca Strait) with the international shipping trade route;
- availability of natural water depth of over 20 metres; and
- carrying capacity of transhipment cargo from all ports in the proximity, including Indian ports.

India urgently needs a transshipment hub to prevent revenue loss, improve logistics efficiency, and create an opportunity to become a major hub for container traffic between Asia and Africa, as well as Asia and the US/Europe.

Currently, about 75% of the nation's transhipped cargo is handled at ports outside the country.

The development of the Galathea Bay port project could enable Indian ports to save USD200–220mn annually in trans-shipment cargo. Additionally, several related businesses, such as ship chandlery and supplies, ship repair, crew change facilities, logistics value-added services, warehousing, and bunkering, are planned for this transshipment port.

Vizhinjam International Container Transhipment Terminal, Kerala: The Vizhinjam International Container Transhipment Terminal in Kerala also holds potential to become a big transhipment hub. Adani Ports and Special Economic Zone Limited (APSEZ) is developing the Vizhinjam port as India’s first mega transhipment container terminal.

APSEZ, which is part of the Adani Group, is responsible for the construction, operation and maintenance of the port. Vizhinjam, located about 14km from Kerala's capital city of Trivandrum, has a natural depth of over 18m and is located just ten nautical miles (18km) from the international shipping route from West Asia, Africa and Europe to the Far Eastern regions of the world.

Additionally, the availability of a 20-metre contour within one nautical mile from the coast, minimal littoral drift along the coast, the natural depth that excludes the need for maintenance dredging, potential for better roads and a rail transport link potential make Vizhinjam strategically well-suited for a greenfield project.

Vizhinjam is envisaged to be an all-weather, multipurpose, deepwater, mechanised and greenfield port that seeks to garner a lion's share of the Indian transhipment cargo now being handled by the nearby foreign ports and emerge as the future trans-shipment hub of the country.

Exhibit 60: Other key proposed port projects in India

Project Name	City/ State	Project Category	Project Cost (USD millions)
Vadhavan Port, Palghar, Maharashtra	Maharashtra	New Port	9,134.0
Wadhwan (Vadhvan) Port Project, Maharashtra	Maharashtra	New Port	8,860.0
Mundra Port Capacity Expansion, Gujarat	Gujarat	Port Expansion	5,286.0
Nakkapalli Container Port, Visakhapatnam, Andhra Pradesh	Visakhapatnam, Andhra Pradesh	New Port	4,866.0
Colachel Port Project, Enayam, Tamil Nadu	Enayam, Tamil Nadu	New Port	4,128.0
Tajpur Deep - Sea Port, West Bengal	West Bengal	New Port	3,138.0
Mega Container Transhipment Port - Phase I, Galathea Bay, Great Nicobar Islands, A. & N. Islands	A. & N. Islands	New Port	2,160.0
Krishnapatnam Port Project, Phase III, Andhra Pradesh	Andhra Pradesh	New Port	1,836.0
Colachel Port Project, Phase II, Enayam, Tamil Nadu	Enayam, Tamil Nadu	New Port	1,727.0
Water Transport Corridor Project, Odisha	Odisha	Inland Waterway	1,462.0
Colachel Port Project, Phase III, Enayam, Tamil Nadu	Enayam, Tamil Nadu	New Port	1,416.0
Paradip Outer Harbour Project, Odisha	Paradip, Odisha	New Port	1,226.0
Salaya Port Expansion Project, Gujarat	Gujarat	Port Expansion	997.0
Colachel Port Project, Phase I, Enayam, Tamil Nadu	Enayam, Tamil Nadu	New Port	985.0
Tuticorin Port Outer Harbour Project, Tamil Nadu	Tuticorin, Tamil Nadu	Port Expansion	920.0
Chidambaranar Port (Tuticorin Port) Expansion, Tamil Nadu	Tuticorin, Tamil Nadu	Port Expansion	900.0
Astaranga Port Project, Puri, Odisha	Puri, Odisha	New Port	887.0
Tuticorin Port Outer Harbour Container Terminal Development, Tamil Nadu	Tuticorin, Tamil Nadu	Port Expansion	851.0
Chidambaranar (Tuticorin) Port Redevelopment Project, Tamil Nadu	Tuticorin, Tamil Nadu	Port Expansion	846.0
Jawaharlal Nehru Port - Fifth Container Terminal, Maharashtra	Maharashtra	Port Expansion	823.0
Chennai Port Mega Container Terminal Project, Tamil Nadu	Chennai, Tamil Nadu	Port Expansion	739.0
Dahej Port, Bharuch, Gujarat	Bharuch, Gujarat	New Port	674.0
Belekeri Port Project, Karwa, Karnataka	Karwa, Karnataka	New Port	595.0
Tuticorin Port Outer Harbour Container Terminal Development - Stage II, Tamil Nadu	Tuticorin, Tamil Nadu	Port Expansion	542.0
Nargol Port Project, Gujarat	Nargol, Gujarat	New Port	512.0
Riverine Port, Mahanadi River, Kendrapada, Odisha	Kendrapada, Odisha	New Port	500.0
Keni Port Project, Karnataka	Keni, Karnataka	New Port	494.0
Kulpi Container Port, West Bengal	Kulpi, West Bengal	New Port	427.0
Dahej Port, Phase I, Bharuch, Gujarat	Bharuch, Gujarat	New Port	415.0
Jawaharlal Nehru Port - Liquid Cargo Terminal, Nhava Island, Maharashtra	Maharashtra	Port Expansion	404.0
Honnavar Port Project, Uttara Kannada, Karnataka	Karnataka	New Port	375.0
Haldia Dock II Project, West Bengal	Haldia, West Bengal	Port Expansion	311.0
Tuticorin Port Outer Harbour Container Terminal Development - Stage I, Tamil Nadu	Tuticorin, Tamil Nadu	Port Expansion	309.0
Diamond Harbour Container Terminal Project, Kolkata Port, West Bengal	West Bengal	Port Expansion	281.0
Riverine Port, Phase I, Mahanadi River, Kendrapada, Odisha	Kendrapada, Odisha	New Port	261.0
Dahej Port, Phase II, Bharuch, Gujarat	Bharuch, Gujarat	New Port	259.0
Total Project Cost			**59,546.0**

Source: Industry sources, Fitch Solutions, Nuvama Research

Amrit Kaal Vision 2047

The Amrit Kaal Vision 2047, formulated by the Ministry of Ports, Shipping & Waterways, builds on the Maritime India Vision 2030 and aims to develop world class ports and promote inland water transport, coastal shipping and a sustainable maritime sector—via proposed investments of ~INR80tn.

The exponential growth in the ports industry is illustrated by the capital outlay on ports, lighthouses, shipping, and other transport services. The actual capital outlay for MoPSW has increased at a CAGR of ~30.1% from INR1.8bn in FY18 to INR6.8bn in FY23.

Exhibit 61: Proposed investment outlay for Amrit Kaal Vision 2047 (Maritime)

Particulars	Investment (INR bn)
Enhance tonnage	50,000–55,000
Develop next generation ports	18,000–19,000
Sustainable & Green Maritime Sector	2000
Coastal Shipping & Inland water Transport	700-750
Shipbuilding and ship repair	400-450
Ship recycling	90-100
Improving cruise sector	130-140
Develop maritime clusters	60-70
Investment under the Amrit Kaal Vision by 2047	~75,000-80,000

Source: Government documents, Media reports, Nuvama Research

Under the plan, six port clusters have been identified for transformation into mega ports by 2047. These include two mega Ports with capacity exceeding 500 million tonnes per annum (MTPA):

- Deendayal and Tuna Tekra port cluster
- Jawaharlal Nehru – Vadhavan port cluster

It also includes four mega ports with capacity exceeding 300MTPA:

- Cochin–Vizhinjam port cluster
- Galathea South Bay port
- Chennai–Kamarajar–Cuddalore port cluster
- Paradip and other non-major ports cluster

The Amrit Kaal Vision also focusses on the inland waterways sector with an ambitious plan to invest ~INR350bn by 2047 to establish a robust network. The main aim is to increase the modal share of coastal shipping and inland waterway transport from 109MTPA in 2022 to 500MTPA by 2047.

Hydro-electric power segment

Considering the unique advantages of hydropower (including Pump Storage Projects - PSP) and the increasing need of hydropower for grid stability/balancing, the Government envisages addition of 69 hydro schemes with an aggregate Installed capacity of around 55.65GW (including 31 of Pumped Storage Schemes of 42.92GW).

Exhibit 62: Summary – hydro power projects

(All figures in MW)	Central	State	IPPs	Total
2024-25	800.0	320.0	-	**1,120.0**
2025-26	396.0	1,433.5	390.0	**2,219.5**
2026-27	4,918.0	490.0	-	**5,408.0**
2027-28	1,040.0	48.0	-	**1,088.0**
2028-29	1,022.0	300.0	-	**1,322.0**
2031-32	2,880.0	-	-	**2,880.0**
Total	**11,056.0**	**2,591.5**	**390.0**	**14,037.5**

Source: Industry sources, Fitch Solutions, Nuvama Research

Exhibit 63: Summary – PSP

(All figures in MW)	Central	State	IPPs	Total
2024-25	1,000.0	-	1,200.0	**2,200.0**
2025-26	-	500.0	-	**500.0**
Total	**1,000.0**	**500.0**	**1,200.0**	**2,700.0**

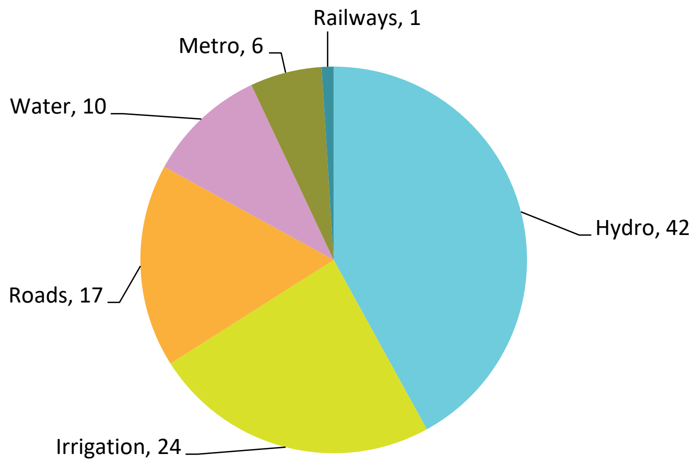
Source: Industry sources, Fitch Solutions, Nuvama Research

Tunnelling projects in Hydropower and Irrigation sector

According to projects tracked by India Infrastructure Research, as of May 2024, India has more than 1,470 completed and operational tunnels spanning 3,400km-plus. Analysis by sector indicates the hydropower sector has the highest share of completed tunnels with 1,100km-plus, followed by metro rail (more than 840km), irrigation (more than 550km), railways (more than 500km), water and sewerage (more than 260km) and roads (more than 120km).

As of May 2024, according to India Infrastructure Research, the tunnelling segment presents a promising pipeline with over 1,140 tunnels covering approximately 1,750 km, including both planned and under-bidding projects. Of these tunnels, 89% are categorized as planned, while the remaining 11% are under bidding. In terms of length, about 10% are under bidding, and 90% are in the planning stage. The sector is estimated to require an investment of about INR3.5tn as per India Infrastructure Research.

Exhibit 64: Upcoming tunnels' mix by sector (based on length)



Source: Government documents, Fitch Solutions, Nuvama Research

According to India Infrastructure Research, an analysis of the distribution of upcoming tunnels across various sectors reveals that the hydropower sector holds the largest share at approximately 42%. This is followed by the irrigation sector at 24%, roads 17%, water and sewerage 10%, metro rail 6%, and railways 1%.

Additional Data

Management

Chairman	Shapoorji Pallonji Mistry
MD & CEO	Paramasivan Srinivasan
CFO	Ramesh Jha
Director	Atul Sobti
Auditor	Deloitte Haskins and Sells LLP

Holdings – Top 10*

	% Holding		% Holding
Gamnat Pte Ltd	4.44	Amansa Holdings	1.54
Nomura MF	2.43	Nomura Ireland	1.38
Synergy Solutio	2.35	Goldman Sachs	1.24
Quant MF	1.79	Timf Holdings	1.03
Volrado Venture	1.64	The Prudential	1.03

**Latest public data*

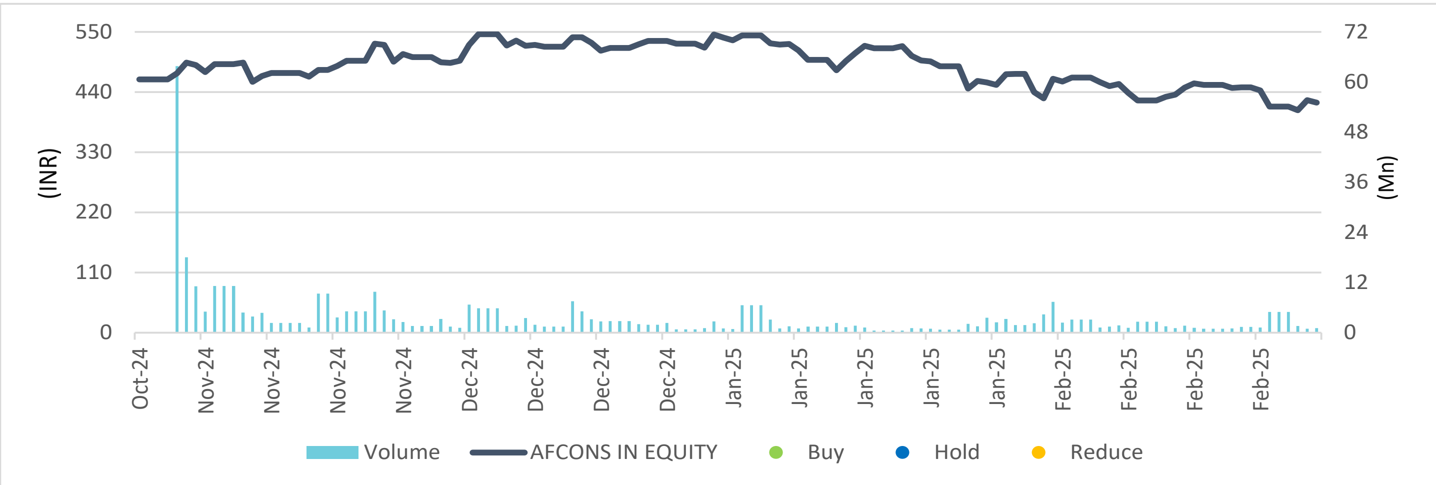
Recent Company Research

Date	Title	Price	Reco

Recent Sector Research

Date	Name of Co./Sector	Title
03-Mar-25	Infrastructure	Road awarding improves YoY; *Sector Update*
14-Feb-25	Titagarh	Battling multiple headwinds; *Result Update*
14-Feb-25	KNR Constructions	Order wins necessary; *Result Update*

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	232
Hold	<15% and >-5%	62
Reduce	<-5%	23

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