

ASHOKA BUILDCON

Steady performance

India Equity Research | Infrastructure - Construction

Ashoka Buildcon's (ABL) Q4FY17 standalone revenue rose 11% YoY aided by execution of EPC projects. Toll revenue grew 3% YoY (adjusted for end of Indore-Edalabad concession) with traffic normalising post demonetisation. Except Bhandara and Durg projects, traffic improved on all the other projects. Healthy order inflow in road and power TD segments boosted order book to ~INR70bn (3.6x TTM EPC revenue). We expect execution to pick up going ahead driven by work on hybrid annuity (HAM) projects gaining traction. Maintain 'BUY' with SOTP-based target price of INR263.

Execution remains healthy

EPC revenue grew 11% YoY with execution gathering pace on the Eastern Peripheral Expressway, JNPT and 2 state annuity projects in Karnataka. EBITDA margin, which declined 200bps YoY due to higher revenue share of EPC projects, is expected to improve once work on captive road projects picks up. Dhankuni-Kharagpur, Jaora-Nayagaon and Belgaum-Dharwad projects saw 5-13% YoY traffic growth; however, traffic was flat YoY in Bhandara and Durg projects. With work on the Kharar-Ludhiana HAM project starting, we believe revenue traction will continue. We expect revenue traction to sustain with work commencing on the Kharar-Ludhiana HAM project.

Strong order book brightens growth prospects

ABL ended FY17 with an order book of INR70bn (3.6x TTM EPC revenue), imparting robust revenue visibility. Management expects competitive intensity to moderate going ahead and is targeting additional order intake of ~INR50bn in FY18 (~INR35-40bn from roads and balance from power T&D). We believe, increasing presence in the power T&D space will ensure healthy order traction for ABL in future as well.

Outlook and valuations: Attractive; maintain 'BUY'

Steady performance on the execution front, low leverage and surging order book render us bullish on ABL. Traffic growth on operational BOT projects and EPC execution trajectory will be key monitorables. Our SOTP-based target price stands at INR263—INR175/share from EPC business (13x FY19E P/E) and balance from BOT projects (DCF valuation). We maintain 'BUY'.

Standalone Financials

(INR mn)

Year to March	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY17	FY18E	FY19E
Revenues	6,100	5,517	10.6	5,240	16.4	20,451	25,766	28,420
EBITDA	636	686	(7.2)	620	2.6	2,597	3,941	4,673
Adj. profit	654	510	28.1	427	53.1	1,842	2,195	3,182
Dil. EPS (INR)	3.5	2.2	57.2	2.3	53.1	9.8	11.7	17.0
Diluted P/E (x)						18.9	15.9	10.9
EV/EBITDA (x)						13.9	10.0	7.8
ROAE (%)						10.3	11.1	14.2

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

MARKET DATA (R: AB DL.BO, B: ASBL IN)

CMP	: INR 186
Target Price	: INR 263
52-week range (INR)	: 232 / 126
Share in issue (mn)	: 187.1
M cap (INR bn/USD mn)	: 35 / 541
Avg. Daily Vol. BSE/NSE ('000)	: 359.8

SHARE HOLDING PATTERN (%)

	Current	Q3FY17	Q2FY17
Promoters *	56.7	56.7	56.7
MF's, FI's & BKs	24.5	24.0	22.7
FII's	7.7	7.7	8.4
Others	11.1	11.6	12.1
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	0.6	(11.3)	(11.8)
3 months	9.6	1.6	(8.0)
12 months	29.6	46.1	16.5

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Other highlights

- ABL expects work on the commercial realty project at Mumbai Airport (MIAL) to commence in Q2FY18. The total project cost is estimated at ~INR9bn, of which equity will be ~INR2.5bn. Equity required to be infused in the 1st year will be ~INR1.2bn, with the balance needed over the next 2 years.
- The company has completed work on Chennai ORR and Mudhol-Nipani projects and is waiting for completion certificate from the government.
- EPC revenues guidance – INR26bn in FY18
- Tax rate in FY18/19 will be 20-25% due to Sec 80(IA) benefits on EPC projects.
- Toll on Sambalpur, Dhankuni and Belgaum projects has been revised upwards by ~3.8% w.e.f. April 1, 2017, while Jaora Nayagaon project has seen 7% toll revision. Management expects ~3.0-3.5% toll revision on the Durg and Bhandara projects w.e.f. July 1, 2017.
- Equity infusion needed in FY18 is INR2.8bn, of which MIAL project will need ~INR1.2bn, the city gas distribution project will require ~INR350mn and road BOT projects will need ~INR1.35bn. Equity required in FY19 and FY20 will be ~INR1.7bn and ~INR200mn, respectively.
- Equity required for the Ranastalam-Anandpuram HAM project will be ~INR1.2bn. Management indicated that ~90% of the land required is in possession.

Table 1: Toll collection performance

	(INR mn)										
Toll projects under operation	Q215	Q315	Q415	Q116	Q216	Q316	Q416	Q117	Q217	Q317#	Q417
Dhankuni-Kharagpur	520	532	570	585	562	597	669	659	651	478	770
Indore-Edalabad	259	258	267	325	300	302	311	351	303	220	164
Ahmednagar-Aurangabad	47	52	50	49	37	68	53	63	74	37	98
Pune-Shirur *	27	-	-	-	-	-	-	-	-	-	-
Wainganga Bridge	57	66	70	69	65	75	80	76	69	54	78
Dewas By Pass **	46	47	46	66	33	-	-	-	-	-	-
Katni Road **	47	43	46	50	44	49	53	55	42	36	51
Jaora-Nayagaon	324	341	354	381	411	440	406	407	425	339	467
Bhandara	120	136	142	142	134	154	162	155	146	111	158
Belgaum-Dharwad	155	162	170	178	167	171	179	188	178	141	192
Durg	152	170	180	179	169	189	197	190	179	138	193
Sambalpur ***	-	84	98	101	97	108	125	117	123	97	141
PNG ****	219	231	240	202	232	246	258	-	-	-	-
Others *****	122	131	141	168	152	161	157	173	155	126	265
Total	2,096	2,252	2,373	2,495	2,403	2,559	2,651	2,433	2,344	1,776	2,576

Source: Company, Edelweiss research

Toll collection was suspended for 23 days due to demonetisation

* Pune – Shirur toll has been suspended since Aug 2014

** For Dewas and Katni project, toll is being collected under High Court order and is not recognised as revenues

*** Sambalpur partial tolling commenced from October 2014 and complete tolling from June 2016

**** Termination of the Concession Agreement with NHAI on PNG project from April 2016

*****Others include Anawali Kasegaon, Kognoli Toll Plaza, Nashirabad & 6 Foot Over Bridges in Mumbai

Financial snapshot

(INR mn)

Year to March	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY17	FY18E	FY19E
Net revenues	6,100	5,517	10.6	5,240	16.4	20,451	25,766	28,420
Direct costs	5,028	4,416	13.9	4,235	18.7	16,378	20,080	21,934
Staff costs	252	204	23.7	244	3.4	901	1,022	1,014
Other expenses	184	212	(13.2)	142	30.0	575	724	799
Total expenditure	5,464	4,831	13.1	4,620	18.3	17,854	21,826	23,747
EBITDA	636	686	(7.2)	620	2.6	2,597	3,941	4,673
Depreciation	147	203	(27.5)	107	37.7	507	569	589
EBIT	489	483	1.3	513	(4.7)	2,089	3,371	4,084
Other income	432	547	(21.0)	115	275.7	719	163	718
Interest	181	296	(38.9)	90	100.7	474	700	909
Add: Prior period items								
Add: Exceptional items		(95)	NA		NA			
Profit before tax	740	639	15.8	538	37.6	2,334	2,835	3,892
Provision for taxes	87	223	(61.2)	111	(22.0)	492	640	710
Reported profit	654	416	57.2	427	53.1	1,842	2,195	3,182
Adjusted profit	654	510	28.1	427	53.1	1,842	2,195	3,182
Equity capital	936	936		936		936	936	936
Diluted shares (mn)	187	187		187		187	187	187
Adjusted Diluted EPS	3.5	2.2	57.2	2.3	53.1	9.8	11.7	17.0
As % of net revenues								
Direct costs	82.4	80.0		80.8		80.1	77.9	77.2
Other expenses	3.0	3.8		2.7		2.8	2.8	2.8
EBITDA	10.4	12.4		11.8		12.7	15.3	16.4
Reported profit	10.7	9.3		8.1		9.0	8.5	11.2
Tax rate	11.7	34.9		20.7		21.1	22.6	18.2

Company Description

Incorporated in 1993, ABL is a major road developer and contractor in India. Starting with its first BOT project in FY97, the company has built a robust portfolio of BOT assets, focused on industrial and mining traffic. In addition to the roads space, the company also undertakes EPC projects in the power T&D space where it is involved in the construction of substations, transformers and distribution transformers.

In 2012, SBI-M invested INR7bn in ACL, a holding company formed by the company for 7 projects (at the time of the investment).

Investment Theme

With 6 projects on NH-6 passing through mineral-rich states, elasticity of traffic growth following economic recovery will be substantial for the company. Commercial vehicles constitute majority traffic on ABL's roads (~80%), placing it in a sweet spot to gain from industrial revival.

Its partnership with SBI-Macquarie and its refinancing abilities have created a strong base for future.

Key Risks

The company's focus on BOT road projects exposes it to risks associated with gaining right-of-way on land stretches, execution risks, 'force majeure' risk, etc.

Toll revenues are subject to traffic risks. Any shortfall in traffic versus expectation may hurt the company's performance going ahead.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.8	5.0	5.2
Repo rate (exit rate)	6.8	6.3	6.3	6.3
USD/INR (Avg)	65.0	67.5	67.0	67.0
Company				
NHAI project award (km)	4,350	6,000	6,500	8,000
Y-o-Y growth (%)	45	38	8	23
EPC revenue growth (%)	3.3	(1.5)	26.6	10.7
Toll/annuity rev grw(%)	17.2	12.2	13.2	14.1
EPC EBITDA Margins (%)	92	34	(19)	3
Dividend per share	85,670	(10,885)	(76,192)	(2,498)
Inc. in invts (INR mn)	-507	-359	0	34
Capex (INR mn)	5,848	1,942	(5,107)	153
Loans & adv (% net rev)	0	1	2	3
Incremental debt	1.5	0.9	0.9	0.9

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Income from operations	28,253	29,794	33,866	36,797
Direct costs	16,922	18,666	21,948	23,572
Employee costs	958	1,180	1,223	1,301
Other Expenses	1,060	1,017	1,126	1,208
Total operating expenses	18,941	20,863	24,297	26,081
EBITDA	9,312	8,930	9,569	10,716
Depreciation	2,688	2,731	3,063	3,274
EBIT	6,624	6,200	6,506	7,443
Add: Other income	783.38	1,218.8	1,543.1	1,567.24
Less: Interest Expense	7,930	7,883	8,411	8,467
Add: Exceptional items	(570)	-	-	-
Profit Before Tax	(1,092)	(464)	(362)	543
Less: Provision for Tax	976	788	801	852
Less: Minority Interest	(1,331)	(1,155)	(501)	(327)
Reported profit	(738)	(97)	(662)	18
Exceptional Items	(570)	-	-	-
Adjusted profit	(168)	(97)	(662)	18
Shares o /s (mn)	187	187	187	187
Adjusted Basic EPS	(0.9)	(0.5)	(3.5)	0.1
Diluted shares o/s (mn)	187	187	187	187
Adjusted Diluted EPS	(0.9)	(0.5)	(3.5)	0.1
Adjusted Cash EPS	13.5	14.1	12.8	17.6
Dividend per share (DPS)	1.3	0.8	0.8	0.8
Dividend Payout Ratio (%)	(37.9)	(181.4)	(26.5)	965.9

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	67.0	70.0	71.7	70.9
Materials costs	59.9	62.7	64.8	64.1
Staff costs	3.4	4.0	3.6	3.5
S G & A expenses	3.8	3.4	3.3	3.3
Depreciation	9.5	9.2	9.0	8.9
Interest Expense	28.1	26.5	24.8	23.0
EBITDA margins	33.0	30.0	28.3	29.1
Adj. profit margins	(5.3)	(4.2)	(3.4)	(0.8)

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	21.8	5.5	13.7	8.7
EBITDA	92.3	(4.1)	7.2	12.0
PBT	NA	NA	NA	NA
Adjusted profit	NA	NA	NA	NA
EPS	NA	NA	NA	NA

Infrastructure - Construction

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	936	936	936	936	
Reserves & Surplus	16,137	15,833	14,996	14,839	
Shareholders' funds	17,072	16,769	15,932	15,775	
Minority Interest	6,046	4,798	4,296	3,969	
Short term borrowings	2,397	885	885	885	
Long term borrowings	42,178	45,632	40,525	40,677	
Total Borrowings	44,574	46,517	41,409	41,562	
Long Term Liabilities	28,075	27,237	31,120	31,120	
Def. Tax Liability (net)	(221)	(202)	(202)	(202)	
Sources of funds	95,546	95,118	92,555	92,224	
Gross Block	4,509	6,172	6,772	7,253	
Net Block	1,756	2,025	6,413	7,211	
Capital work in progress	84,715	81,703	203	203	
Intangible Assets	-	-	71,059	64,489	
Total Fixed Assets	86,471	83,728	77,675	71,903	
Non current investments	1,572	1,471	1,471	1,471	
Cash and Equivalents	2,032	1,024	737	3,070	
Inventories	10,893	12,037	16,090	16,949	
Sundry Debtors	5,287	4,895	6,717	7,434	
Loans & Advances	19	404	605	1,115	
Other Current Assets	4,708	7,542	9,135	10,110	
Current Assets (ex cash)	20,907	24,879	32,546	35,608	
Trade payable	4,586	5,732	8,732	9,664	
Other Current Liab	10,850	10,252	11,142	10,163	
Total Current Liab	15,436	15,984	19,874	19,827	
Net Curr Assets-ex cash	5,472	8,895	12,672	15,781	
Uses of funds	95,546	95,118	92,555	92,224	
BVPS (INR)	91.2	89.6	85.1	84.3	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	(738)	(97)	(662)	18	
Add: Depreciation	2,688	2,731	3,063	3,274	
Interest (Net of Tax)	15,017	21,262	27,032	(4,823)	
Others	(15,867)	(21,437)	(27,208)	4,648	
Less: Changes in WC	50,126	4,261	(105)	3,108	
Operating cash flow	(49,026)	(1,802)	2,331	8	
Less: Capex	85,670	(10,885)	(76,192)	(2,498)	
Free Cash Flow	(134,695)	9,083	78,523	2,507	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		P/B (X)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Ashoka Buildcon	541	NA	NA	8.3	7.2	2.2	2.2
Sadbhav Engineering	839	32.0	31.4	17.1	15.0	3.0	2.7
Median	-	27.9	24.9	13.0	11.3	2.4	2.3
AVERAGE	-	27.9	24.9	13.0	11.3	2.4	2.3

Source: Edelweiss research

Cash flow metrics		FY16	FY17	FY18E	FY19E
Year to March					
Operating cash flow		(49,026)	(1,802)	2,331	8
Investing cash flow		(85,162)	11,244	76,192	2,465
Financing cash flow		5,991	1,942	(5,107)	153
Net cash Flow		(128,198)	11,384	73,416	2,626
Capex		(85,670)	10,885	76,192	2,498
Dividend paid		(280)	(175)	(175)	(175)

Profitability and efficiency ratios

Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	NA	NA	NA	NA
ROACE (%)	11.8	10.9	12.4	14.7
Inventory Days	275	331	334	380
Debtors Days	58	62	63	70
Payable Days	238	266	276	286
Cash Conversion Cycle	94	127	121	164
Current Ratio	1.5	1.6	1.7	2.0
Gross Debt/EBITDA	4.8	5.2	4.3	3.9
Gross Debt/Equity	1.9	2.2	2.0	2.1
Adjusted Debt/Equity	1.9	2.2	2.0	2.1
Net Debt/Equity	1.8	2.1	2.0	1.9
Interest Coverage Ratio	0.8	0.8	0.8	0.9

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	0.2	0.3	0.4	0.4
Fixed Asset Turnover	0.4	15.8	0.9	0.5
Equity Turnover	1.4	1.3	1.6	1.8

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	(0.9)	(0.5)	(3.5)	0.1
Y-o-Y growth (%)	NA	NA	NA	NA
Adjusted Cash EPS (INR)	13.5	14.1	12.8	17.6
Diluted P/E (x)	NA	NA	NA	NA
P/B (x)	2.0	2.1	2.2	2.2
EV / Sales (x)	3.0	2.9	2.4	2.1
EV / EBITDA (x)	9.0	9.5	8.3	7.2
Dividend Yield (%)	0.7	0.4	0.4	0.4

Additional Data

Directors Data

Mr. Ashok M. Katariya	Executive Chairman	Mr. Satish D. Parakh	Managing Director
Mr. Sanjay P. Londhe	Whole Time Director	Mr. Milapraj Bhansali	Whole Time Director
Mr. Michael Pinto	Independent Director	Mr. Sharadchandra Abhyankar	Independent Director
Mr. Albert Tauro	Independent Director	Mr. Gyan Chand Daga	Independent Director
Ms. Sunanda Dandekar	Independent Director		

Auditors - M P Chitale & Co.

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
ICICI Prudential Asset Management	6.94	Morgan Stanley Investment Management	2.76
L&T Investment Management	2.54	Sundaram Asset Management	2.45
Templeton Asset Management	2.41	Reliance Capital Trustee	2.38
Canara Robeco Asset Management	1.97	DSP Blackrock Investment	1.63
Birla Sun Life Asset Management	1.36	ICICI Prudential Life Insurance	1.07

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
28 Mar 2017	Asha Ashok Katariya .	Buy	5407311	192.00
28 Mar 2017	Ashok Motilal Katariya Huf	Buy	3522891	192.00
28 Mar 2017	Snehal Manjeet Khatri .	Buy	3742975	192.00
28 Mar 2017	Satish Dhondulal Parakh Huf	Sell	7187050	192.00
28 Mar 2017	Ashish Ashok Kataria .	Sell	3347866	192.00
28 Mar 2017	Nishant Narendra Shakadwipi .	Buy	1106965	192.00
28 Mar 2017	Ashok Motilal Katariya .	Sell	3522891	192.00
28 Mar 2017	Narendra Ramswrup Shakadwipi .	Sell	1106965	192.00
28 Mar 2017	Aditya Satish Parakh .	Sell	3511060	192.00
28 Mar 2017	Shobha Satish Parakh .	Buy	14777265	192.00
28 Mar 2017	Ashish Ashok Katariya (Huf)	Sell	2963339	192.00
28 Mar 2017	Shweta Keyur Modi .	Buy	3347866	192.00
28 Mar 2017	Astha Ashish Kataria .	Sell	2443972	192.00
28 Mar 2017	Satish Dhondulal Parakh .	Sell	7872130	192.00

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
19 May 2017	Leelabai Kantilal Hiran	Sell	25000.00
03 Apr 2017	ANJALI SANJAY LONDHE	Buy	83800.00
03 Apr 2017	SATISH DHONDULAL PARAKH	Sell	7872130.00
03 Apr 2017	ASTHA ASHISH KATARIA	Sell	2443972.00
03 Apr 2017	ASHOK MOTILAL KATARIYA	Sell	3522891.00

**as per last available data*

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Coverage group(s) of stocks by primary analyst(s): Infrastructure - Construction

Ahluwalia Contracts, Ashoka Buildcon, Hindustan Construction Co., J Kumar Infraprojects, KNR Constructions, NBCC, Nagarjuna Construction Co, PNC Infratech, Sadbhav Engineering, Simplex Infrastructures Ltd, Supreme Infrastructure

Recent Research

Date	Company	Title	Price (INR)	Recos
07-Jun-17	Construction	Mumbai Metro: Opportunities of windfall; <i>Sector Update</i>		
02-Jun-17	Supreme Infra.	Liquidity relief awaited; <i>Result Update</i>	72	Under Review
31-May-17	KNR Construction	Stellar show, yet again; <i>Result Update</i>	201	Buy

Distribution of Ratings / Market Cap

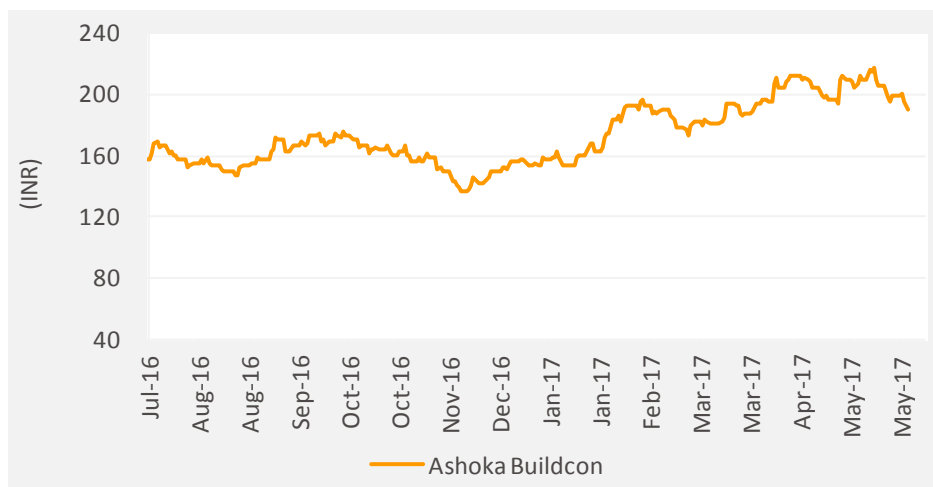
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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