16 June 2020

4QFY20 Results Update | Sector: Infrastructure

Ashoka Buildcon

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	ASBL IN
Equity Shares (m)	281
M.Cap.(INRb)/(USDb)	15.8 / 0.2
52-Week Range (INR)	151 / 37
1, 6, 12 Rel. Per (%)	-9/-21/-45
12M Avg Val (INR M)	58

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	39.4	35.5	44.3
EBITDA	5.9	4.1	5.3
PAT	3.9	2.2	3.0
EBITDA (%)	14.9	11.5	11.9
EPS (INR)	13.8	7.9	10.5
EPS Gr. (%)	20.2	(42.4)	32.4
BV/Sh. (INR)	92.6	99.4	108.7
Ratios			
Net D/E	0.1	0.2	0.2
RoE (%)	16.1	8.3	10.1
RoCE (%)	13.0	7.5	8.8
Payout (%)	8.4	14.7	11.1
Valuations			
P/E (x)	4.1	7.1	5.4
P/BV (x)	0.6	0.6	0.5
EV/EBITDA (x)	3.2	5.2	4.1
Div Yield (%)	1.8	1.8	1.8
FCF Yield (%)	42.2	9.9	10.9

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	54.3	54.3	54.3
DII	31.6	32.8	31.6
FII	5.5	3.7	4.0
Others	8.6	9.2	10.1

FII Includes depository receipts

CMP: INR56 TP: INR98 (+74%) Buy

Balance sheet improvement comes at the right time

Another year of strong performance in EPC business

- Ashoka Buildcon (ASBL) ended FY20 on a high note with adj. PAT growth of 20%, despite the high base of last year. The company continued to surprise on its performance in the EPC business, with past 3-year revenue/adj. PAT/FCF CAGR of 24%/28%/27%. Gross debt declined by INR3.7b during the year as net working capital cycle improved to 20 days from 51 in FY20. Thus, net D/E improved to 0.1x from 0.4x last year.
- Order book (OB; incl. L1) stands at INR90b with OB/Rev ratio improving to 2.4x. While we have factored in the weak execution in 1HFY21 due to the COVID-19 related issues, we expect the company to ramp up execution next year owing to its strong balance sheet position.
- We raise our FY21/FY22E EBITDA estimates by 3%/11% due to strong OB. Standalone EPS estimate revision looks higher at 32%/36% owing to better-than-expected balance sheet improvement. Maintain **Buy** with revised TP of INR98 (prior: INR92) as we factor in lower toll collection in the BOT portfolio.

Operating performance beats estimate

- **4QFY20 earnings up 56%:** Revenue declined 4% YoY to INR12.5b (in-line) and was better than the performance of its peers. EBITDA grew 26% YoY to INR2.3b (50% ahead of our est.); EBITDA margin came in at 18.2% owing to release of contingencies linked to power projects and execution of higher margin projects. Interest expense stood at INR209m (v/s est. INR332m) – a positive surprise. Adj. PAT grew 56% YoY to INR1.6b (104% ahead of est.).
- **FY20 adj. PAT up 20%:** Revenue grew 3% to INR39.4b. EBITDA increased 16% to INR5.9b; EBITDA margin stood at 14.9% (v/s 13.2% in FY19). Interest expense declined to INR855m (v/s INR907m in FY19). Adj. PAT grew 20% YoY to INR3.9b, on top of the strong base in FY19.
- Gross debt stood at INR4b (v/s Dec'19 level of INR5.2b and FY19 level of INR7.2b), led by working capital cycle improvement.

Management commentary highlights

- ASBL is operating at 60% operational efficiency. Labor availability at site is ~55-60% to that of pre-COVID level.
- NHAI-MoRTH is ready with orders of INR700b; the bidding process is expected to open by Aug'20. ASBL has received payments from NHAI in Apr-May'20; however, it is awaiting payment of retention money from NHAI.
- Asset monetization talks were in an advanced stage but delayed due to the COVID led shutdown. With toll collection inching back to pre-COVID levels, talks are expected to resume soon.
- Financial closure of 3 new HAM projects is expected to get completed by Sep'20 and execution should begin in Oct'20.
- 1QFY21 revenues are expected to be 50% lower with the company unable to execute in Apr'20 and major part of May'20. FY21 revenues should also be flat or lower YoY with 1Q-2QFY21 (rainy season) being washouts.

Valuation and view

- We raise our FY21/FY22E EBITDA estimates by 3%/11% owing to strong OB. Maintain **Buy** with a revised TP of INR98 (prior: INR92) as we factor in lower toll collection in the BOT portfolio.

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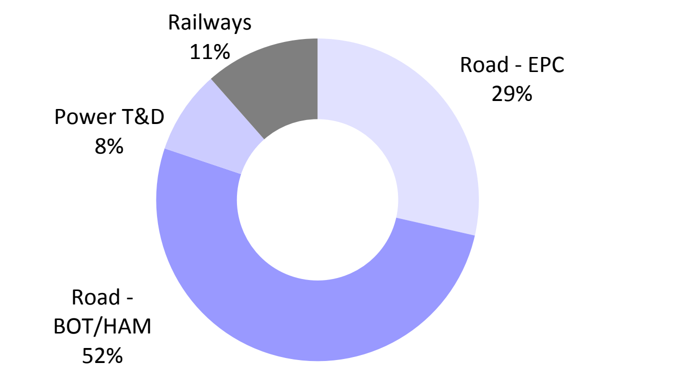
Quarterly Performance (INR M)

Y/E March	FY19				FY20				FY19	FY20	FY20	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Net Sales	**6,725**	**7,644**	**10,651**	**13,074**	**8,768**	**8,223**	**9,836**	**12,548**	**38,094**	**39,374**	**12,758**	**-2**
YoY Change (%)	-4.8	101.9	61.6	86.2	30.4	7.6	-7.7	-4.0	55.7	3.4	-2.4	
EBITDA	**701**	**1,037**	**1,487**	**1,815**	**1,095**	**1,229**	**1,243**	**2,289**	**5,040**	**5,856**	**1,528**	**50**
Margins (%)	10.4	13.6	14.0	13.9	12.5	14.9	12.6	18.2	13.2	14.9	12.0	
Depreciation	136	166	202	260	266	271	283	290	763	1,111	282	
Interest	171	130	239	367	214	231	200	209	907	855	332	
Other Income	366	157	254	380	342	392	369	346	1,157	1,449	163	
Extra-Ord expense	112	0	-398	-73	0	0	0	0	-358	0	0	
PBT	**759**	**899**	**1,301**	**1,568**	**957**	**1,118**	**1,129**	**2,136**	**4,527**	**5,340**	**1,077**	**98**
Tax	232	278	281	516	310	391	274	493	1,307	1,468	271	
Rate (%)	30.6	30.9	21.6	32.9	32.4	35.0	24.2	23.1	28.9	27.5	25.1	
Reported PAT	**639**	**621**	**622**	**980**	**647**	**727**	**855**	**1,642**	**2,862**	**3,871**	**807**	**104**
Adj PAT	**527**	**621**	**1,019**	**1,053**	**647**	**727**	**855**	**1,642**	**3,220**	**3,871**	**807**	**104**
YoY Change (%)	-7.5	124.4	116.8	-0.1	22.8	17.1	-16.1	56.0	35.8	20.2	-23.4	
Margins (%)	7.8	8.1	9.6	8.1	7.4	8.8	8.7	13.1	8.5	9.8	6.3	

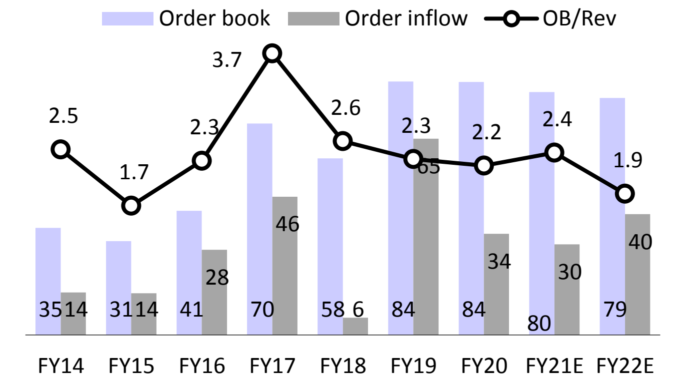
Story in charts

Exhibit 1: FY20 order book break-up (INR84b; OB/Rev: 2.2x)



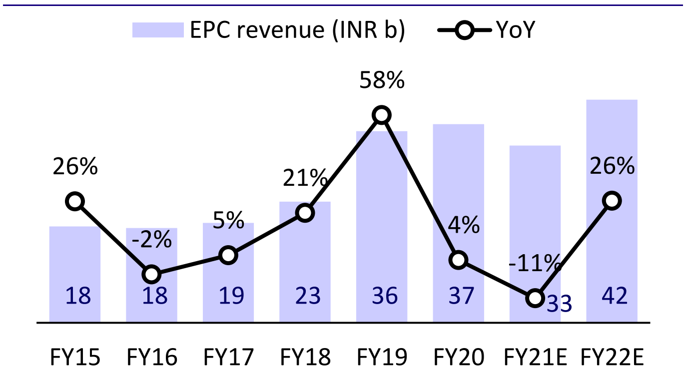
Source: MOFSL, Company

Exhibit 2: Order book and order inflow trend (INR b)



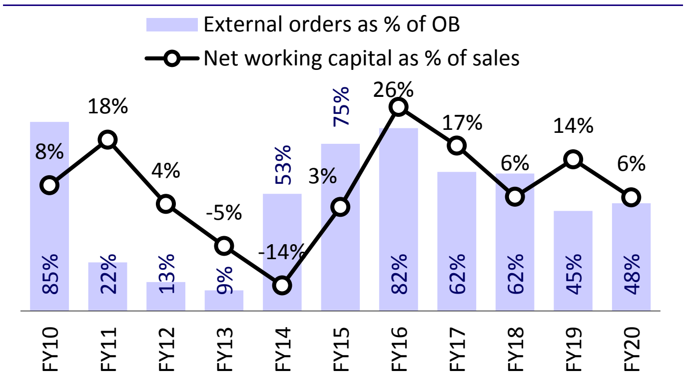
Source: MOFSL, Company

Exhibit 3: EPC revenues estimated at 6% CAGR for FY20-22E



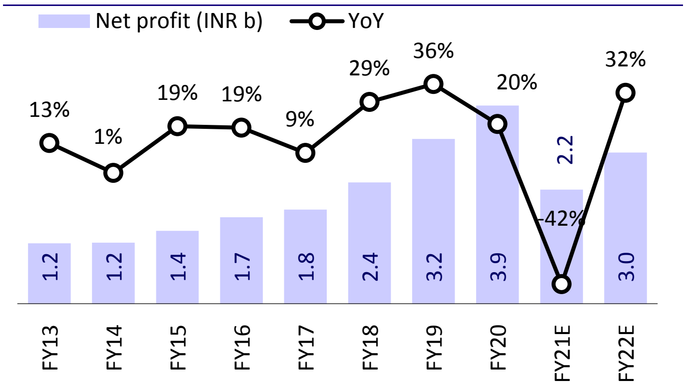
Source: MOFSL, Company

Exhibit 4: Net working capital to remain under control, given decline in proportion of external orders from peak of FY16



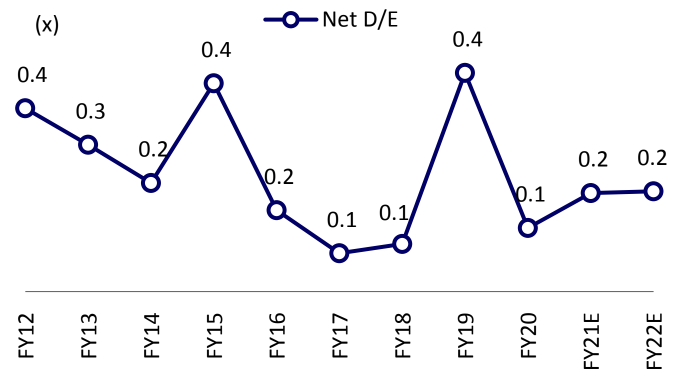
Source: MOFSL, Company

Exhibit 5: Standalone earnings expected to rebound in FY22E



Source: MOFSL, Company

Exhibit 6: Standalone leverage to remain under control



Source: MOFSL, Company

Valuation and view

- **Robust order book provides strong visibility for EPC revenue:** Currently, the order book is strong at INR84b. Including L1 orders, order book stands at INR90b. Book-to-bill ratio stands at 2.4x, indicating strong revenue visibility for more than two years.
- **Strong balance sheet augurs well for the company:** As at FY20, net D/E at standalone level was 0.1x. We believe ASBL is well placed to fund its equity commitment and expect net debt to remain at 0.2x for FY21/FY22E, making it one of the strongest road players in the sector.
- **Favorable valuation:** Adjusted for valuation of the BOT assets, the stock trades at FY21/FY22E P/E of 5x/3.7x (v/s an average of 8x for mid-cap EPC companies). While the pending exit of the Private Equity investor in the asset business is an overhang for the stock, we believe that it provides an attractive entry point.
- **Maintain Buy:** We raise our FY21/FY22E EBITDA estimates by 3%/11% owing to the strong OB. Standalone EPS estimate revision looks higher at 32%/36% owing to better-than-expected balance sheet improvement. Maintain **Buy** with a revised TP of INR98 (prior: INR92) as we factor in lower toll collection in the BOT portfolio.

Financials and valuations

Income Statement						(INR M)
Y/E March	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**
Total Revenues	**20,519**	**24,463**	**38,094**	**39,374**	**35,494**	**44,280**
Change (%)	5.9	19.2	55.7	3.4	-9.9	24.8
EBITDA	**2,597**	**2,934**	**5,040**	**5,856**	**4,087**	**5,291**
Margin (%)	12.7	12.0	13.2	14.9	11.5	11.9
Depreciation	507	532	763	1,111	1,206	1,353
EBIT	**2,089**	**2,402**	**4,277**	**4,745**	**2,881**	**3,938**
Interest	474	485	907	855	788	878
Other income	719	978	1,157	1,449	887	886
Exceptional items	0	0	-358	0	0	0
PBT	**2,334**	**2,894**	**4,169**	**5,340**	**2,980**	**3,946**
Tax	494	524	1,307	1,468	750	993
Rate (%)	21.2	18.1	31.4	27.5	25.2	25.2
Reported PAT	**1,840**	**2,370**	**2,862**	**3,871**	**2,230**	**2,952**
Adjusted PAT	**1,840**	**2,370**	**3,220**	**3,871**	**2,230**	**2,952**
Change (%)	24.1	28.8	35.8	20.2	-42.4	32.4
Margin (%)	9.0	9.7	8.5	9.8	6.3	6.7

Balance Sheet						(INR M)
Y/E March	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**
Share Capital	936	936	1,404	1,404	1,404	1,404
Reserves	17,707	18,327	20,717	24,586	26,489	29,114
Net Worth	**18,642**	**19,263**	**22,120**	**25,989**	**27,892**	**30,518**
Loans	2,005	2,991	9,782	6,070	7,070	7,570
Deferred Tax Liability	-179	-349	-518	-475	-475	-475
Capital Employed	**20,469**	**21,905**	**31,384**	**31,585**	**34,488**	**37,613**
Gross Fixed Assets	3,843	4,861	7,206	8,009	8,509	10,009
Less: Depreciation	2,155	2,687	3,407	4,518	5,725	7,077
Net Fixed Assets	**1,688**	**2,174**	**3,799**	**3,491**	**2,784**	**2,932**
Capital WIP	158	150	55	95	95	95
Investments	13,065	13,182	12,831	14,112	17,545	19,545
Curr. Assets	**19,285**	**23,414**	**35,883**	**34,947**	**33,137**	**38,613**
Inventory	9,306	1,459	1,527	1,534	1,383	1,725
Debtors	5,875	10,117	15,513	14,440	14,586	18,197
Cash & Bank Balance	638	1,235	550	2,911	1,822	1,723
Loans & Advances	1,424	4,035	8,927	8,978	8,960	9,000
Other Assets	2,042	6,568	9,366	7,084	6,386	7,967
Current Liab. & Prov.	**13,728**	**17,015**	**21,183**	**21,060**	**19,073**	**23,571**
Current Liabilities	13,100	16,411	20,484	20,157	18,170	22,668
Provisions	628	604	700	903	903	903
Net Current Assets	**5,557**	**6,399**	**14,699**	**13,887**	**14,064**	**15,042**
Application of Funds	**20,469**	**21,905**	**31,384**	**31,585**	**34,488**	**37,613**

Financials and valuations

Ratios						
Y/E March	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**
Basic (INR)						
Adj EPS	**6.6**	**8.4**	**11.5**	**13.8**	**7.9**	**10.5**
Cash EPS	8.4	10.3	14.2	17.7	12.2	15.3
Book Value	66.4	68.6	78.8	92.6	99.4	108.7
DPS	1.0	1.0	1.0	1.0	1.0	1.0
Payout (incl. Div. Tax.)	17.8	13.8	11.4	8.4	14.7	11.1
Valuation (x)						
P/E	8.6	6.7	4.9	4.1	7.1	5.4
Price/Book Value	0.8	0.8	0.7	0.6	0.6	0.5
EV/EBITDA	6.6	6.0	5.0	3.2	5.2	4.1
Dividend Yield (%)	1.8	1.8	1.8	1.8	1.8	1.8
FCF per share	11.5	12.6	-5.6	23.8	5.6	6.1
Return Ratios (%)						
RoE	10.7	13.0	15.6	16.1	8.3	10.1
RoCE	11.8	12.9	14.8	13.0	7.5	8.8
RoIC	28.3	28.2	25.0	19.6	13.1	16.9
Working Capital Ratios						
Fixed Asset Turnover (x)	5.3	5.0	5.3	4.9	4.2	4.4
Total Asset Turnover (x)	1.0	1.1	1.2	1.2	1.0	1.2
Debtors (Days)	105	151	149	134	150	150
Inventory (Days)	166	22	15	14	14	14
Leverage Ratio						
Current Ratio	1.4	1.4	1.7	1.7	1.7	1.6
Interest Cover Ratio	4.4	4.9	4.7	5.6	3.7	4.5
Net Debt/Equity (x)	0.1	0.1	0.4	0.1	0.2	0.2

Cash Flow Statement						(INR M)
Y/E March	**2017**	**2018**	**2019**	**2020**	**2020E**	**2020E**
PBT before EO Items	2,164	2,894	4,169	5,340	2,980	3,946
Depreciation	507	532	763	1,111	1,206	1,353
Interest & other charges	474	6	92	855	788	878
Direct Taxes Paid	-403	-789	-1,176	-1,512	-750	-993
(Inc)/Dec in WC	1,224	2,415	-4,454	3,174	-1,266	-1,076
Others	-281	-74	682	-1,449	-887	-886
CF from Operations	**3,686**	**4,985**	**75**	**7,518**	**2,071**	**3,222**
(Inc)/Dec in FA	-453	-1,446	-1,639	-843	-500	-1,500
Free Cash Flow	**3,233**	**3,538**	**-1,564**	**6,676**	**1,571**	**1,722**
(Pur)/Sale of Investments	-706	-2,547	-4,050	-1,282	-3,433	-2,000
Others	-297	633	235	1,449	887	886
CF from Investments	**-1,456**	**-3,360**	**-5,455**	**-675**	**-3,045**	**-2,614**
(Inc)/Dec in Debt	-1,268	386	5,660	-3,712	1,000	500
Interest Paid	-423	-389	-778	-855	-788	-878
Dividend Paid	-180	-181	-150	-327	-327	-327
Others	4	-845	-37	411	0	0
CF from Fin. Activity	**-1,866**	**-1,028**	**4,695**	**-4,482**	**-115**	**-705**
Inc/Dec of Cash	**363**	**596**	**-685**	**2,361**	**-1,090**	**-98**
Add: Beginning Balance	274	638	1,234	550	2,911	1,821
Closing Balance	**638**	**1,234**	**550**	**2,911**	**1,821**	**1,723**

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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