India I Equities

Infrastructure

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

17 June 2020

Ashoka Buildcon

Rating: **Buy**
Target Price: ₹127
Share Price: ₹56

Covid disrupts execution, but balance sheet turns better; Buy

Though it missed its full-year guidance on revenues and inflows (systemic issues earlier, Covid in Q4), Ashoka Buildcon more than delivered on cash-flows. A steep reduction in standalone net debt couldn't have come at a better time, and leads us to believe that the existing HAM projects are unlikely to suffer for want of funds. Besides, a lighter balance sheet means it would benefit from any pick-up in awarding. The SBI-Macquarie exit overhang remains, but seems more than priced in. Proven execution capabilities and a well-set balance sheet impel us to retain our Buy rating, with a lowered TP of ₹127 (from ₹169) on pruning the EPC PE multiple from 10x to 8x, and on lowered earnings.

Debt declines. The q/q ~₹3.6bn-lower standalone net debt (at ~₹1.1bn) means net D/E, at ~0.04, is among the best in the space, and could be a catalyst for it to better benefit from any revival. More inspiring was the q/q ~₹0.9bn-lower asset-level gross debt (net debt declines more sharply on client receipts), implying operational assets could effect repayments on their own.

OB, needs more. The ~₹90bn end-Q4 OB (incl. ~₹6bn from the post-Q4 concession signed project) is good to deliver in the immediate future. But some more would be appreciated for better revenue assurance (BtB at ~2.4x). Management targets ~₹50bn-60bn in FY21, incl. ~₹30bn of hybrid annuities.

ACL monetisation delayed. The Covid-induced uncertainty put discussions on hold. With relief measures approved for revenues lost, and traffic back to ~80-85% of pre-covid levels, dialogue would start sooner than later.

Covid impact. The company is operating at a blended efficiency of ~60%, and hopes to return to normal by H1-end. Management sees labour willing to return now, and thus expects flat EPC revenues y/y, on a normal H2 FY21.

Valuation. To better reflect the potential (as accounting losses in the asset-ownership business masks EPC performance), we introduce standalone financials (earlier, consolidated). On our estimates, the stock (excl. investments) is available at a PE of 4x FY22e. **Risk.** Prolonged Covid-19.

Key financials (YE Mar)	FY18	FY19	FY20P	FY21e	FY22e
Sales (₹ m)	24,483	38,206	39,374	35,840	46,465
Net profit (₹ m)	2,370	3,332	3,871	2,757	3,679
EPS (₹)	8.4	11.9	13.8	9.8	13.1
Growth (%)	34.6	40.6	16.2	-28.8	33.5
PE (x)	17.5	10.9	3.0	5.7	4.3
EV / EBITDA (x)	14.3	8.4	2.2	4.5	3.6
PBV (x)	2.2	1.6	0.4	0.5	0.5
RoE (%)	13.0	13.8	16.1	10.1	12.0
RoCE (%)	17.1	22.2	20.9	14.6	17.0
Net debt / equity (x)	0.0	0.3	0.1	0.1	0.2

Source: Company, Anand Rathi Research *P- Provisional*

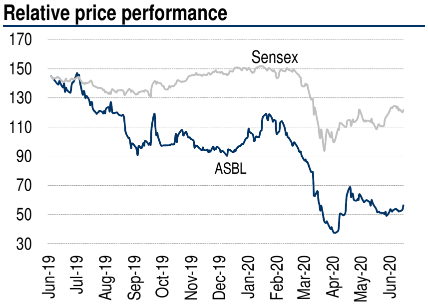
Key data	ASBL IN / ABDL.BO
52-week high / low	`151 / 37
Sensex / Nifty	33605 / 9914
3-m average volume	$0.7m
Market cap	₹15.8bn / $208m
Shares outstanding	281m

Shareholding pattern (%)	Mar-20	Dec-19	Sep-19
Promoters	54.3	54.3	54.3
- of which, Pledged	-	-	-
Free float	45.7	45.7	45.7
- Foreign institutions	5.5	3.7	3.9
- Domestic institutions	31.6	32.8	33.8
- Public	8.6	9.2	8.1

Estimates revision (%) *	FY21e	FY22e
Sales	-23.2	-8.0
EBITDA	-29.8	-11.8
EPS (₹)	-141.7	-48.8

** For consol. financials; reference purpose only*

Relative price performance



Source: Bloomberg

Prem Khurana
Research Analyst

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Quick Glance – Financials and Valuations (standalone)

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
Order backlog	58,488	84,390	83,792	88,889	97,778
Order inflows	12,446	65,286	36,914	39,077	53,333
Net revenues	**24,483**	**38,206**	**39,374**	**35,840**	**46,465**
Growth (%)	*21.6*	*56.1*	*3.1*	*-9.0*	*29.6*
Direct costs	19,544	30,300	29,975	28,201	36,683
SG&A	2,004	2,755	3,543	3,437	3,893
EBITDA	**2,934**	**5,152**	**5,856**	**4,203**	**5,889**
EBITDA margins (%)	*12.0*	*13.5*	*14.9*	*11.7*	*12.7*
Depreciation	532	763	1,111	1,045	1,117
Other income	978	1,157	1,449	1,371	1,177
Interest expenses	485	907	855	822	1,003
PBT	2,894	4,639	5,340	3,706	4,946
Effective tax rate (%)	*18.1*	*28.2*	*27.5*	*25.6*	*25.6*
+ Associates / (Minorities)	-	-	-	-	-
Net income	2,370	2,862	3,871	2,757	3,679
Adjusted income	2,370	3,332	3,871	2,757	3,679
WANS	281	281	281	281	281
FDEPS (₹ / sh)	8.4	11.9	13.8	9.8	13.1

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
Share capital	936	1,404	1,404	1,404	1,404
Net worth	19,263	22,120	25,989	28,746	32,425
Debt	1,599	7,883	4,271	3,801	5,803
Minority interest	-	-	-	-	-
DTL / (Assets)	-349	-518	-475	-475	-475
Capital employed	**20,513**	**29,485**	**29,786**	**32,073**	**37,753**
Net tangible assets	2,012	3,658	3,237	3,266	3,678
Net intangible assets	162	141	253	216	173
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	150	55	95	95	95
Investments (strategic)	13,462	13,641	14,112	14,112	14,112
Investments (financial)	-	-	-	-	-
Current assets (excl. cash)	21,899	34,523	32,036	36,510	45,281
Cash	1,235	550	2,911	539	522
Current liabilities	18,407	23,082	22,858	22,665	26,108
Working capital	3,492	11,440	9,177	13,845	19,173
Capital deployed	**20,513**	**29,485**	**29,786**	**32,073**	**37,753**
Contingent liabilities	21,787	28,137	-	-	-

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
PBT+ Net interest expense	2,402	4,389	4,745	3,157	4,772
+ Non-cash items	532	763	1,111	1,045	1,117
Oper. prof. before WC	2,934	5,152	5,856	4,203	5,889
- Incr. / (decr.) in WC	113	7,948	-2,263	4,668	5,328
Others incl. taxes	592	1,468	1,742	950	1,268
Operating cash-flow	2,229	-4,264	6,378	-1,415	-707
- Capex (tang. + intang.)	1,009	2,293	843	1,036	1,486
Free cash-flow	1,220	-6,558	5,535	-2,451	-2,193
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	359	-	-	-	-
+ Equity raised	-	-0	0	-	-
+ Debt raised	-451	6,115	-3,568	-470	2,001
- Fin investments	397	179	471	-	-
- Net int. expense + Misc.	-584	64	-866	-549	-174
Net cash-flow	596	-685	2,361	-2,372	-17

Source: Company, Anand Rathi Research P- Provisional

Fig 4 – Ratio analysis

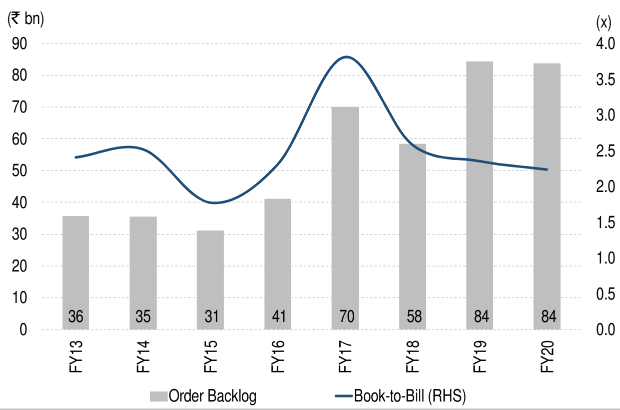
Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
P/E (x)	17.5	10.9	3.0	5.7	4.3
EV / EBITDA (x)	14.3	8.4	2.2	4.5	3.6
EV / Sales (x)	1.7	1.1	0.3	0.5	0.5
P/B (x)	2.2	1.6	0.4	0.5	0.5
RoE (%)	13.0	13.8	16.1	10.1	12.0
RoCE (%)	17.1	22.2	20.9	14.6	17.0
Sales / FA (x)	10.5	9.9	11.0	10.0	11.8
DPS (₹ / sh)	1.1	-	-	-	-
Dividend yield (%)	0.7	-	-	-	-
Dividend payout (%)	15.2	-	-	-	-
Net debt / equity (x)	0.0	0.3	0.1	0.1	0.2
Receivables (days)	151	148	134	152	157
Inventory (days)	22	15	14	15	15
Payables (days)	88	85	71	82	82
CFO : PAT %	94.1	-128.0	164.7	-51.3	-19.2

Source: Company, Anand Rathi Research P- Provisional

Fig 5 – Price performance

Source: Bloomberg

Fig 6 – Yearly OB trend



Source: Company

Result / Concall Highlights

Income statement

- **Covid disrupts execution; pace, otherwise healthy.** Barring the Covid'19-disruption toward the second half of Mar'20, the pace of execution in Q4 was otherwise healthy and amply manifest in the ~28% sequentially higher revenues (~₹12.5bn). Y/y though, revenue from operations was ~4% lower, largely attributable to the Covid-19 hitch. For FY20, revenue from operations was up ~3% y/y, chiefly assisted by the ~7% y/y growth in the first nine months.
  - The pace of execution was healthy because, apart from the Covid-driven disruption, the company had a ~15% y/y lower opening order backlog to work on.
  - On strong execution at its road projects, the segment contributed ~₹9.2bn revenue in Q4 and ~₹29.8bn for FY20. Power T&D, its second-largest segment, contributed ~₹1.4bn during the quarter and ~₹4.8bn in FY20. Of its more recent ventures, the railways execution pace is now picking up; consequently, booking revenue of ~₹0.9bn in Q4 and ~₹2.1bn in FY20.

Fig 7 – Standalone financial highlights

₹ m	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	% Y/Y	% Q/Q	FY19	FY20	% Y/Y
Sales	7,023	6,837	7,644	10,651	13,074	8,768	8,223	9,836	12,548	-4.0	27.6	38,206	39,374	3.1
EBITDA	807	813	1,037	1,487	1,815	1,095	1,229	1,243	2,289	26.2	84.1	5,152	5,856	13.7
EBITDA margins (%)	*11.5*	*11.9*	*13.6*	*14.0*	*13.9*	*12.5*	*14.9*	*12.6*	*18.2*	*437bps*	*560bps*	*13.5*	*14.9*	*139bps*
Interest	113	171	130	239	367	214	231	200	209	-42.9	4.7	907	855	-5.8
Depreciation	144	136	166	202	260	266	271	283	290	11.8	2.4	763	1,111	45.7
Other income	612	366	157	254	380	342	392	369	346	-8.9	-6.3	1,157	1,449	25.3
Exceptional items	-	-	-	398	73	-	-	-	-	-100.0	-	470	-	-100.0
PBT	1,163	871	899	903	1,496	957	1,118	1,129	2,136	42.8	89.1	4,169	5,340	28.1
Tax	109	232	278	281	516	310	391	274	493	-4.4	80.2	1,307	1,468	12.3
PAT	1,054	639	621	622	980	647	727	855	1,642	67.6	92.0	2,862	3,871	35.3
Adj. PAT	1,054	639	621	895	1,028	647	727	855	1,642	59.8	92.0	3,183	3,871	21.6
Adj. EPS (₹)	5.6	2.3	2.2	3.2	3.7	2.3	2.6	3.0	5.9	59.8	92.0	11.3	13.8	21.6

Source: Company

- **Margins aided by contingency reversals.** At ~18.2%, the EBITDA margin (up ~437bps y/y, ~560bps q/q) surprised positively. The expanded margin was largely on account of final cost adjustments for nearly complete / projects completed in Q4 (and consequent reversal of contingencies accounted for in the prior periods) and change in scope (execution of some additional items). For the year, the EBITDA margin was up ~139bps y/y to ~14.9% on account of the strong Q4 margin and favourable project-mixes of earlier quarters.
  - Management pegged the contingency reversals and change in scope to have aided EBITDA by ~₹1bn in Q4, and attributed this largely to the two legacy hybrid annuities (Kharar-Ludhiana - recently attained COD, and Ranastalam-Anandpuram) and some power T&D projects.
  - Adjusting for these reversals, the EBITDA margin was ~10.3%, against the management's guided-to range of ~12-13%. The adjusted FY20 margin was ~12.3%.

- **Strong margins boosted earnings.** Net income was up ~68% y/y to ~₹1.6bn. Growth would have been ~60% were one to adjust Q4 FY19 PAT for the exceptional items; it is still inspiring, though, largely supported by the strong operating profitability. Earnings performance was aided further by lower finance costs (~43% y/y; on account of y/y lower debt) and a lower effective tax rate (~23%, against ~34.5% a year back; on adoption of the newer tax regime). For the year, adjusted PAT was up ~22% y/y. This yet again was because of lower finance costs and the effective tax rate.

Gross toll collection down; up, comparably

- Impacted by the lockdown-induced suspension in toll collections, reported gross toll collections were down ~5% y/y to ~₹2.3bn. Assuming linear average daily collection during the quarter, the adjusted-comparable gross toll collections appear up ~4% y/y.
- Besides the toll suspension in Q4, the continuing weakness in collections at the Jaora-Nayagaon, and sluggish Sambalpur-Baragarh, were critical to the ~5% y/y decline in FY20 gross toll collections (at ~₹9.3bn). Comparable FY20 gross toll collection was largely flat y/y.

Fig 8 – Gross toll collection down ~5% y/y for Q4 FY20; comparably, up ~4%

₹m	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	% Y/Y	% Q/Q	FY19	FY20	% Y/Y
ACL Portfolio														
Belgaum-Dharwad	224	230	218	233	235	237	213	234	226	*-3.6*	*-3.3*	916	910	*-0.7*
Dhankuni-Kharagpur	849	893	888	867	884	905	915	907	879	*-0.6*	*-3.1*	3,531	3,605	*2.1*
Bhandara	174	167	160	168	178	174	168	180	182	*2.6*	*1.6*	674	705	*4.6*
Durg	207	195	193	199	207	198	190	200	201	*-2.9*	*0.5*	794	789	*-0.6*
Jaora-Nayagaon	523	516	516	497	490	460	432	439	424	*-13.5*	*-3.4*	2,020	1,754	*-13.1*
Sambalpur-Baragarh	180	180	173	181	184	171	166	164	173	*-6.0*	*5.2*	718	674	*-6.0*
ABL Portfolio														
Ahmednagar-Aurangabad	69	94	71	78	75	84	97	61	59	*-20.6*	*-3.1*	317	301	*-5.1*
Wainganga Bridge	80	75	71	74	79	77	72	74	75	*-4.4*	*1.9*	298	298	*-0.1*
Katni Bypass	57	58	48	55	54	60	50	54	52	*-3.0*	*-3.7*	215	216	*0.6*
Others	90	123	174	6	5	8	11	64	9	*77.4*	*-85.3*	309	92	*-70.1*
Total	**2,454**	**2,530**	**2,513**	**2,358**	**2,389**	**2,373**	**2,314**	**2,376**	**2,280**	***-4.6***	***-4.0***	**9,790**	**9,343**	***-4.6***
Comparable y/y growth (%)	*10.1*	*10.3*	*10.2*	*2.9*	*0.6*	*-1.4*	*-2.7*	*-1.0*	*3.8*				*-0.3*	

Source: Company

- Dhankuni-Kharagpur remained the single largest contributor for the company, with a ~39% share in Q4 and FY20 gross toll collection.
- Overall, Ashoka Concessions' portfolio, accounting for ~91% of the Q4 gross toll collections, was down ~4% y/y, whereas Ashoka Buildcon's portfolio was down ~8% y/y (in Q4). For FY20, Ashoka Concessions' portfolio contributed ~90% of the gross toll collections and was down ~2% y/y. The collections of Ashoka Buildcon's portfolio were down a steep ~20% y/y in FY20, largely on cessation of the company's short-term tolling contracts.

Order inflows / backlog

- In Q4, on a general slowdown in tendering and the Covid-induced delay of tenders in late-Mar'20, the company secured a lone hybrid annuity order, Tumkur-Shivamogga (Package-III; EPC potential: ~₹6bn) at a ~₹10.3bn bid-project cost.
  - Understandably, the company missed its ~₹30bn-40bn Q4 inflow

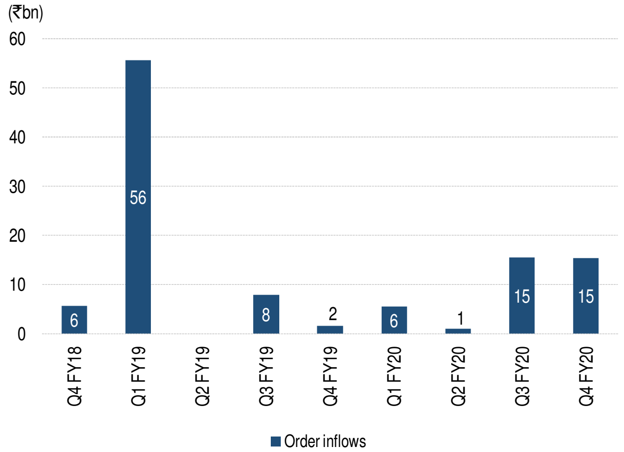
guidance.

- The full-year addition (incl. change in scope of work) works out to ~₹37bn, and was mostly in line with works executed during the year.

■ On inclusion of two older hybrid annuity orders, firmed-up in Q4 (having signed the concession agreement), the order book, net of the quarter's execution, was up ~₹2.9bn sequentially (at end-FY20), to ~₹84bn and provides revenue assurance of ~2.2x FY20 construction revenues.

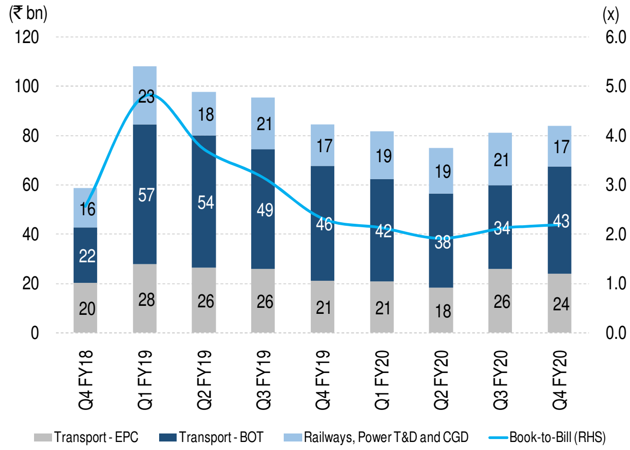
- Incl. the ~₹6bn EPC potential of the Q4 hybrid annuity win and the concession signed in May'20, the total executable order book is even better, at ~₹90bn, providing healthier revenue assurance of ~2.4x FY20 construction revenues.

Fig 9 – FY20 inflows: ~₹37bn; FY21 target: ~₹50bn-60bn



Source: Company Note: Includes change in scope

Fig 10 – End-Q4 OB: ~₹84bn; current OB: ~₹90bn



Source: Company

■ While the executable order backlog is sufficient to drive growth in immediate future, more is needed for sustainable growth. Realising this, management has its eyes set on a healthy bid-pipeline of over ₹100bn across its prime segments of operations.

- **National Highways.** It sees a healthy bid-pipeline of ~₹700bn-720bn from the NHAI (largely, ~90%) and MoRTH across EPC and hybrid annuity modes. A part of these were earlier identified to be bid out by Mar'20 but were postponed owing to Covid-19.

- **State roads.** Having worked on the Bundelkhand Expressway EPC project from UPEIDA (for which payments have not been an issue), management intends to bid for the ~₹300bn Ganga Expressway by the same authority in FY21.

- **Railways.** Management had, pre-Covid'19, identified a healthy, ~₹80bn-100bn, bid-pipeline. While these projects were then in advanced stages of preparation, management now awaits clarity regarding whether in the current circumstances the rail authorities would float these bids.

- **Power T&D.** Management indicated there were currently no material bids available in the power segment that holds interest.

■ It aims to bag orders of ~₹50bn-60bn in FY21, ~₹30bn on the hybrid annuity model, the balance from other segments (incl. road EPC).

Hybrid annuity projects

- Having won another hybrid annuity project in Q4 FY20, the company now has ten hybrid annuity projects. Of these, one has received COD, six are under construction and three await financial closures (incl. the recent Q4 win).
  - With the recent Q4 hybrid annuity win, the company would now execute four contiguous packages (I, II, III and IV) of the Tumkur-Shivamogga stretch under the Bharatmala Scheme. In Q4, it bagged Package-III, and signed the concession agreement in May'20.
  - Of the three newer hybrid annuity projects, two are at fairly advanced stages in terms of right of way, namely, the Kandi-Ramsanpalle project (~93%, at 3H-stage) and the recent Q4 win, Tumkur-Shivamogga Package-III project (~89%, at 3H-stage). The Tumkur-Shivamogga Package-IV has ~64% 3H RoW.
  - Earlier, two projects were slated to achieve financial closure by end-Jun'20, the timeline has now been extended owing to the Covid-induced environment.
  - Also, management said that in the current circumstances, banks are cautious about financing hybrid annuities. Nevertheless, after interacting with its financiers, it expects to attain financial closure for all the three projects by end-Sep'20 and hopefully commence execution from Oct'20.
  - Management said it is not seeing any material changes in the terms and conditions for attaining financial closure, and hopes for a sub-9% interest rate for the three projects being discussed.
- For its first hybrid annuity project, Kharar-Ludhiana, the company secured approval for 31st Mar'20 as its COD (attained for the 93% length available).
  - For the balance stretch (pending EPC works of ~₹2.1bn), execution would be taken up when RoW is available.
  - With the receipt of COD, the project SPV now becomes eligible to receive annuity payments from the NHAI, the first expected six months from COD.
  - Speaking on the next steps, management said that with the COD, the project is now eligible for a ~25bp reduction in interest rate.
  - It is also seeking to re-finance the project, and is looking at interest rates of ~8.5% to 8.75%.

Balance sheet

- Aided by healthy recoveries and limited equity infusion, standalone gross debt was ~₹1.2bn lower q/q, to ~₹4bn. A large part of the reduction was due to repayment of ~₹1.5bn of NCDs, though partly offset by ~₹0.1bn q/q higher equipment loans and ~₹0.2bn rise in working capital debt. Y/y, the reduction was a sharp ~₹3.2bn.
  - End-Q4 standalone gross debt (excluding due to associates) comprised ~₹1.7bn working-capital debt and ~₹2.3bn equipment finance.
  - Adjusting for year-end cash and equivalents of ~₹2.9bn (incl. ~₹0.4bn of FDRs under lien), net debt was ~₹1.1bn and implied net debt-to-equity of only ~0.04x.

- Project-level debt was down ~₹0.9bn q/q to ~₹51.3bn. This is notwithstanding the continuing construction at the hybrid annuity projects, and consequent draw-downs. We believe this would have been made possible by receipt of grants and mobilisation advances from the client.
  - Lower project level gross debt despite continuing construction at hybrid annuities also suggests that the operational BOT-toll/ annuity portfolio (pre-covid) was able to meet portfolio-wide obligations on their own.
  - We expect debt to rise, given that the hybrid annuity projects would require draw-downs. But a part of the needs would be funded through ~₹3.6bn of pending mobilisation receipts.
- Incl. ~₹1.5bn of NCDs availed of by Ashoka Concessions in Q1 FY20, total gross debt for the asset-ownership business was ~₹52.8bn (down ~₹0.9bn q/q).
  - Adjusting for year-end cash and equivalents for the asset ownership business of ~₹4.6bn, net debt was down ~₹2.8bn q/q to ~₹48bn.
  - Of ~₹4.6bn cash and equivalents, ~₹1.5bn held by three SPVs combined (Kharar-Ludhiana, Ranastalam, Belgaum-Khanapur) is monies to be paid to the parent for EPC work executed. Jaora-Naygaon holds excess liquidity of ~₹0.6bn, and a large part of the balance (cash and equivalents) is attributable to the DSRA created for the three Karanataka BOT-toll annuity assets (Saundati, Hungund and Mudhol-Nipani).
- Consolidated gross debt, at ~₹56.8bn, was down ~₹2.1bn q/q, because of the reduction in standalone debt and lower debt for the asset-ownership business.
  - Adjusting for year-end consolidated cash and equivalents of ~₹7.5bn (~₹2.9bn standalone, ~₹4.6bn subsidiaries), consolidated net debt was down a sharp ~₹6.4bn q/q (~₹5.2bn y/y) to ~₹49.2bn.
- Year-end receivables (excl. unbilled revenues of ~₹3.7bn) were ~₹14.4bn, down from~₹15bn on 31st Dec'19. Of this power T&D comprised ~₹6.9bn at the year-end.
  - Power T&D receivables were up ~₹0.9bn from the quarter ago gross figure of ~₹6bn. Subsequent to the quarter, these have declined by ~₹0.7bn. It alluded to slow recoveries, but is not overly concerned.
  - A large part of the balance year-end standalone trade receivables was due from subsidiaries, estimated at ~₹3.6bn.
- At the year-end, the company's balance sheet had mobilisation advances of ~₹3.9bn, unbilled revenues of ~₹3.7bn and retention monies due from clients of ~₹2bn.

Equity infusion

- In Q4, ~₹150m-200m was infused in its hybrid annuities. Consequently, cumulative investments in the under-construction hybrid annuities rose to ~₹5.1bn, against ~₹4.9bn a quarter ago.
- Ahead, it plans to infuse another ~₹4.3bn in the next two years incl. ~₹1.3bn for Tumkur-Shivamogga Package-IV and ~₹0.8bn for Kandi-Ramsanpalle.

- For FY21, it envisages equity infusion needs at ~₹3bn.
- For FY22, the balance ~₹1.3bn would suffice for cumulative equity needs for the earlier nine hybrid annuity projects.
- Some shifting of the equity infusion schedule is not ruled out, depending on the timelines for receipt of appointed dates and pace of execution against the backdrop of Covid-19.
- Equity required for the recently bagged Tumkur-Shivamogga project would be besides the above-mentioned equity infusion.

Other highlights

- **Execution in the Covid-19 context.** With the onset of the covid-induced lockdown in late-Mar'20, the company's operations were impacted. Execution came to a halt across its work sites and toll collection at its BOT-toll projects was suspended. With the gradual easing of the lockdown, management resumed execution (albeit partially) at its work-sites and re-commenced toll collections from 20th Apr'20.
  - As the lockdown conditions were eased in Apr-May'20, project execution initially saw blended efficiency of ~30-35%.
  - Currently, management has ~50-65% of its labour force and is operating at a blended efficiency of ~60% (50-70% range).
  - With labour willing to return, management affirmed transport as a key hurdle. It, however, expects the issue to be resolved over time and gradually build up its labour capacity to ~75% by end-Jul'20.
  - The closure of toll-plazas, meaning suspension of toll collections impacted the company from 25th Mar'20. Toll collection resumed from 20th Apr'20, and traffic-flow is now back to ~80-85% pre-Covid levels. Management expects this to normalise in the coming 3-4 months.
  - It is looking at opting for the various relief measures under the Atma-nirbhar Bharat package, as applicable. For its EPC and hybrid annuity projects, it sees a 3- to 6-month extension in the execution cycle. For its BOT-toll projects, it sees the necessary compensations/extensions as announced and additional measures, etc.
  - Management said it has seen government initiatives to ease pressures on contractor community by timely clearance of dues (received from the NHAI in Apr and May'20).
  - With the constrained pace of execution in Q1, and Q2 to be monsoon-impacted, management expects a material recovery in execution only in H2 FY21.
- **SBI-Macquarie exit/asset monetisation.** Pre-Covid, monetisation efforts were going good, per management, with due diligence already underway. The lockdown due to the pandemic and consequent impact on traffic and toll collections have now kept that on hold.
  - With traffic now normalising and already back to ~80-85% of pre-Covid levels, management expects to recommence the efforts, sooner than later.
  - Management indicated that cost-compensation would be made for the Covid'19-impacted period and the immediate period thereafter (till collections average ~90%). It, thus, sees no impact from the

lockdown period, but does not rule out some change (though small) in the deal value. This is largely on account of the altered outlook regarding economic growth, and consequent movement of traffic.

  - For its hybrid annuity portfolio, management sees the current widened spread between the bank rate and the MCLR as temporary, and expects it to correct sooner than later. On valuation, it highlights that value determination would depend upon the bank and interest rates at the time of the COD.

- **Fund and non-fund limits; ample headroom.** The company has fund-based working-capital limits of ~₹3.5bn, ~₹0.4bn utilised. On the non-fund-based side, it has limits of ~₹35.5bn, utilised in the regular course of business. Its non-fund-based limits have been ~60% utilised.

- **SPVs avail of moratorium, additional CC limits for standalone.** With the standalone entity comfortably placed, management decided against availing of the moratorium. The moratorium has been availed of by the project SPVs, but only for repayment obligation, not for interest payments. Though the standalone entity did not avail of the moratorium, it has already applied for 10% additional working capital limits (cash credit) under the Covid-loan scheme.

  - With surplus cash generation at Ashoka Concession, and cash surplus at certain assets, management is fairly confident of the asset ownership business managing cash-flows on its own and, thus, does not see any need for stop-gap funding from the parent.

Guidance

- On the constrained project execution, the yet-normalising supply-chain and continuing labour issues, management foresees revenue and profitability to be impacted in Q1 FY21. Q2 too is likely to be muted because of the monsoon, thus, impacting revenues in H1 FY21.

  - Given that a material recovery is expected only in H2 FY21, management guided to flat revenue growth in FY21.

  - Roads would continue to be in focus and hold potential for a further scale-up considering the three yet-not-financially closed hybrid annuity projects are expected to be appointed by Oct'20.

  - Management also seeks to make headway in its power T&D projects and to completely execute its Bihar projects (of ~₹2bn) by end-FY21, and ~80-85% of the pending Uttar Pradesh order backlog (~₹1bn pending at end-FY20).

  - Its CGD segment did revenue of ~₹80m in FY20 and looks to scale to ~₹500m in FY21 (with a 20% EBITDA margin).

- Management slightly raised its FY21 margin guidance to ~12-13%, from 11-12.5% earlier. The FY21 margin could be pressured by Covid'19-induced issues. However, management estimates this impact not to exceed ~50bps.

- The ~₹0.8bn FY20 capex is ahead of its earlier guided to ~₹0.5bn. For FY21, it looks to incur ~₹0.5bn capex.

- It envisages closing FY21 with ~₹60bn (consolidated) gross debt (and ~₹5bn standalone), against the end-FY20 figures of ~₹56.8bn and ~₹4bn.

Earnings revision and Valuation

To better reflect the EPC vertical, the company's mainstay, we move to standalone financial statements, against our earlier practice of providing consolidated financials. The shift to standalone financials takes into account the fact that accounting losses in the asset-ownership business (owing to its typical long-gestation nature) masks the performance of the EPC vertical. The newly introduced standalone financials, though, take into account any equity infusion or stop-gap funding that the standalone entity would need to take care of.

We introduce FY21e and FY22e standalone financials: revenues respectively of ~₹36bn and ~₹46bn. Net income during FY21 is estimated at ~₹2.8bn, and ~₹3.7bn in FY22. Our consolidated estimates give us a loss of ~₹0.8bn in FY21 and a profit of ~₹1.2bn in FY22 Mindful of the altered risk profile (owing to Covid-19), we lower the PE valuation multiple for the EPC business to 8x, from 10x earlier.

On our new estimates, the sum-of-parts-based target price of ₹127 a share (from ₹169 earlier) has been derived using an 8x PE multiple for FY22e construction earnings (₹80 a share; adjusted for interest income from Ashoka Concessions), the discounted-cash-flow-driven/investment valuation for the road-asset portfolio (₹46; after a 20% holdco discount) and CGD on an investment basis (₹1; a 20% holdco discount assigned).

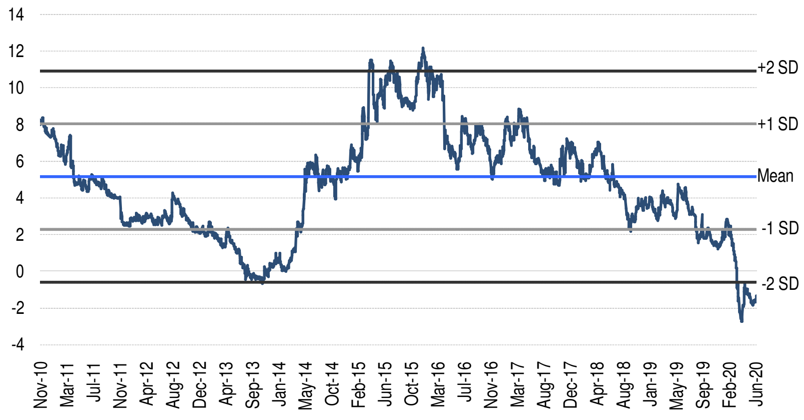
Fig 11 – Consolidated estimates revision; for reference purpose only

(₹ m)	Old Estimates		Revised Estimates		Change (%)	
	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Revenue	58,136	63,091	44,676	58,037	*-23.2*	*-8.0*
EBITDA	15,927	17,316	11,188	15,271	*-29.8*	*-11.8*
EPS (₹)	6.5	8.0	-2.7	4.1	*-141.7*	*-48.8*

Source: Anand Rathi Research Note: Revised for Covid-impact; loss of man-days and toll suspension

At the ruling price, (excl. investments) the stock trades at PERs of 5x FY21e and 4x FY22e standalone earnings (adjusted for interest income from subsidiaries). On an EV/EBITDA basis, the stock (excl. investments) quotes at 2.9x FY21e and 2.4x FY22e standalone EBITDA.

Fig 12 – EV / EBITDA band



Source: Bloomberg, Anand Rathi Research

Risk

- Any prolonged impact of Covid-19.

Quick Glance – Financials and Valuations (consolidated)

Fig 13 – Income statement (₹ m)

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
Order backlog	58,488	84,390	83,792	88,889	97,778
Orders	12,446	65,286	36,914	39,077	53,333
Net revenues	**36,030**	**49,301**	**50,705**	**44,676**	**58,037**
Growth (%)	*20.9*	*36.8*	*2.8*	*-11.9*	*29.9*
Direct costs	22,276	31,916	30,204	30,651	39,080
SG&A	2,359	3,443	4,749	2,837	3,685
EBITDA	**11,395**	**13,943**	**15,752**	**11,188**	**15,271**
EBITDA margins (%)	*31.6*	*28.3*	*31.1*	*25.0*	*26.3*
Depreciation	2,914	2,582	2,998	2,624	3,471
Other income	516	771	817	819	650
Interest expenses	9,938	10,213	10,426	9,424	9,599
PBT	-942	1,918	3,146	-42	2,850
Effective tax rate (%)	-88.9	89.1	52.7	-2,885.6	57.9
+ Associates / (Minorities)	667	58	166	486	-47
Net income	-1,111	-335	1,653	-757	1,152
Adjusted income	-1,111	267	1,653	-757	1,152
WANS	281	281	281	281	281
FDEPS (₹ / sh)	-4.0	1.0	5.9	-2.7	4.1

Fig 14 – Balance sheet (₹ m)

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
Share capital	936	1,404	1,404	1,404	1,404
Net worth	3,160	2,869	4,143	3,386	4,539
Debt	53,233	62,732	63,288	74,668	83,431
Minority interest	937	1,189	1,280	1,027	1,319
DTL / (Assets)	-394	-555	-828	-828	-828
Capital employed	**56,935**	**66,236**	**67,882**	**78,253**	**88,460**
Net tangible assets	2,393	4,162	4,047	3,848	3,972
Net intangible assets	76,355	74,576	72,787	72,358	71,125
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	464	581	865	865	865
Investments (strategic)	1,964	1,670	1,788	2,021	2,266
Investments (financial)	508	1,165	700	-	-
Current assets (excl. cash)	30,886	45,956	47,781	61,368	76,968
Cash	2,532	2,342	7,544	3,185	2,359
Current liabilities	58,167	64,217	67,629	65,392	69,095
Working capital	-27,281	-18,261	-19,848	-4,025	7,873
Capital deployed	**56,935**	**66,236**	**67,882**	**78,253**	**88,460**
Contingent liabilities	17,097	24,702	-	-	-

Fig 15 – Cash-flow statement (₹ m)

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
PBT+ Net interest expense	8,481	11,360	12,754	8,564	11,800
+ Non-cash items	2,914	2,582	2,998	2,624	3,471
Oper. prof. before WC	11,395	13,943	15,752	11,188	15,271
- Incr. / (decr.) in WC	588	9,020	-1,587	15,823	11,898
Others incl. taxes	904	1,870	1,932	1,202	1,650
Operating cash-flow	9,903	3,053	15,407	-5,837	1,723
- Capex (tang. + intang.)	1,599	2,689	1,378	1,996	2,362
Free cash-flow	8,303	364	14,029	-7,833	-640
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	359	-	-	-	-
+ Equity raised	-	-0	0	-0	-
+ Debt raised	3,159	9,338	283	11,380	8,763
- Fin investments	608	364	-347	-467	245
- Net int. expense + Misc.	8,985	9,528	9,458	8,372	8,705
Net cash-flow	1,510	-190	5,201	-4,359	-826

Source: Company, Anand Rathi Research *P- Provisional*

Fig 16 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
P/E (x)	-	135.7	7.0	-	13.7
EV / EBITDA (x)	8.0	6.8	4.2	7.8	6.3
EV / Sales (x)	2.5	1.9	1.3	2.0	1.7
P/B (x)	13.1	12.6	2.8	4.7	3.5
RoE (%)	-28.3	8.8	47.2	-20.1	29.1
RoCE (%)	16.0	19.7	20.2	12.8	14.9
Sales / FA (x)	0.5	0.6	0.7	0.6	0.8
DPS (₹ / sh)	1.1	-	-	-	-
Dividend yield (%)	0.7	-	-	-	-
Dividend payout (%)	-32.3	-	-	-	-
Net debt / equity (x)	12.3	14.6	10.2	16.2	13.8
Receivables (days)	70	78	65	91	93
Inventory (days)	42	32	31	35	30
Payables (days)	66	76	59	63	62
CFO : PAT %	-	1,144.6	932.0	-	149.5

Source: Company, Anand Rathi Research *P- Provisional*

Appendix

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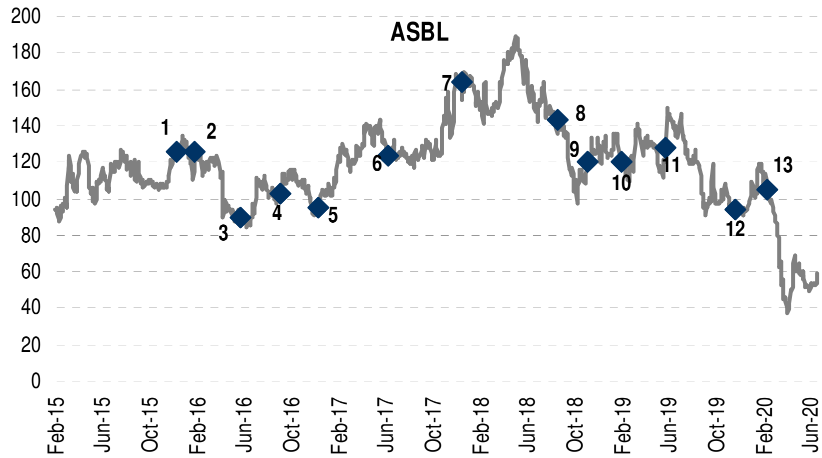

	Date	Rating	TP (₹)	Share Price (₹)
1	07-Dec-15	Buy	228	189
2	25-Jan-16	Buy	229	193
3	23-May-16	Buy	227	136
4	30-Aug-16	Buy	219	156
5	05-Dec-16	Buy	208	144
6	08-Jun-17	Buy	237	186
7	11-Dec-17	Buy	287	242
8	18-Aug-18	Buy	199	143
9	05-Nov-18	Buy	194	121
10	31-Jan-19	Buy	188	120
11	25-May-19	Buy	180	128
12	18-Nov-19	Buy	185	94
13	11-Feb-19	Buy	169	105

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