16 November 2020

Ashoka Buildcon

Healthy execution, need orders; retaining a Buy

Rating: **Buy**
Target Price: Rs127
Share Price: Rs69

Notwithstanding the early-rains and continuing Covid'19-impact, Ashoka's Q2 revenue marks its return to growth, and suggests of even better times ahead. With execution efficiencies returning to normal, inflows are the other key deliverable and management expects to make more progress in H2 on this front. A well-set balance sheet and some progress on the SBI-Macquarie exit are good auguries. Its proven execution capabilities and a well-set balance sheet impel us to retain our Buy rating, with a TP of Rs127.

OB needs more, diversification looked at. While the ~Rs93bn end-Q2 OB is good to deliver in the immediate future, more orders are needed to bolster revenue assurance (BtB at ~2.6x). To this extent, management targets ~Rs40bn inflows in H2, and looks at opportunities in new segments like government buildings and water supply, besides road (EPC and hybrid annuities) and rail.

Net debt rises. The rising scale of operations, outlays on capex and equity infusion in hybrid annuities led to net debt rising ~Rs0.6bn q/q to ~Rs1.2bn. Consolidated net debt, too, was up (~Rs0.9bn to ~Rs51.6bn), largely led by a rise in the standalone net debt, and net drawdowns in the project SPVs. Management talked of ~Rs2.5bn higher standalone gross debt from current levels of ~Rs2.2bn by the year-end, and ~Rs3.5bn of drawdown in SPVs.

Updates on ACL monetisation. Having re-commenced efforts in May'20, due diligence is underway by 3-4 prospective buyers. Management expects to make some progress on signing a binding offer, by end-Dec'20. While the deal began as a means to provide an exit to SBI-Macquarie, it could see Ashoka monetising its stake as well (basis the interests evinced by the buyers).

Valuation. Adjusting for the continuing better-than-expected EBITDA margin, and higher than expected other income, our FY21e earnings are raised ~23%. FY22e revision of ~13% is mostly on raised other income estimates. On our estimates, the stock (excl. investments) is available at a core PE of 4.4x FY22e. **Risk.** Any significant delay in order additions.

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (Rsm)	24,483	38,206	39,374	35,840	46,465
Net profit (Rsm)	2,370	3,332	3,871	3,629	4,174
EPS (Rs)	8.4	11.9	13.8	12.9	14.9
Growth (%)	34.6	40.6	16.2	-6.3	15.0
PE (x)	17.5	10.9	3.0	5.3	4.6
EV / EBITDA (x)	14.3	8.4	2.2	4.7	4.0
PBV (x)	2.2	1.6	0.4	0.7	0.6
RoE (%)	13.0	13.8	16.1	13.1	13.2
RoCE (%)	17.1	22.2	20.9	18.1	18.3
Net debt / equity (x)	0.0	0.3	0.1	0.1	0.1

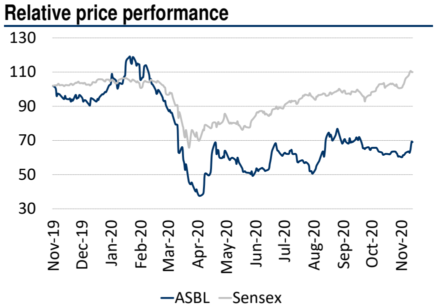
Source: Company, Anand Rathi Research

Key data	ASBL IN / ABDL.BO
52-week high / low	Rs122 / 37
Sensex / Nifty	43443 / 12720
3-m average volume	$1.6m
Market cap	Rs19.4bn / $260m
Shares outstanding	281m

Shareholding pattern (%)	Sep-20	Jun-20	Mar-20
Promoters	54.5	54.5	54.3
- of which, Pledged	-	-	-
Free float	45.5	45.5	45.7
- Foreign institutions	3.2	3.7	5.5
- Domestic institutions	27.4	29.6	31.6
- Public	15.0	12.2	8.6

Estimates revision (%)	FY21e	FY22e
Sales	-	-
EBITDA	8.8	-0.0
EPS (Rs)	22.5	13.4

Relative price performance



Source: Bloomberg

Prem Khurana
Research Analyst

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Quick Glance – Financials and Valuations (standalone)

Fig 1 –Income statement (Rs m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Order backlog	58,488	84,390	83,792	88,979	97,877
Order inflows	12,446	65,286	36,914	39,770	53,388
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	27,712	36,687
SG&A	2,004	2,755	3,543	3,438	3,891
EBITDA	**2,934**	**5,152**	**5,856**	**4,689**	**5,887**
EBITDA margins (%)	*12.0*	*13.5*	*14.9*	*13.1*	*12.7*
Depreciation	532	763	1,111	906	1,055
Other income	978	1,157	1,449	1,885	1,762
Interest expenses	485	907	855	830	1,018
PBT	2,894	4,639	5,340	4,838	5,576
Effective tax rate (%)	*18.1*	28.2	*27.5*	*25.0*	*25.2*
+ Associates / (Minorities)	-	-	-	-	-
Net income	2,370	2,862	3,871	3,629	4,174
Adjusted income	2,370	3,332	3,871	3,629	4,174
WANS	281	281	281	281	281
FDEPS (Rs / sh)	8.4	11.9	13.8	12.9	14.9

Fig 2 –Balance sheet (Rs m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	936	1,404	1,404	1,404	1,404
Net worth	19,263	22,120	25,989	29,619	33,792
Debt	1,599	7,883	4,335	3,783	5,824
Minority interest	-	-	-	-	-
DTL / (Assets)	-349	-518	-475	-529	-529
Capital employed	**20,513**	**29,485**	**29,849**	**32,873**	**39,087**
Net tangible assets	2,012	3,658	3,237	3,340	3,740
Net intangible assets	162	141	253	245	240
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	150	55	95	95	95
Investments (strategic)	13,462	13,641	14,112	14,258	14,258
Investments (financial)	-	-	-	-	-
Current assets (excl. cash)	21,899	34,523	32,035	36,480	45,198
Cash	1,235	550	2,911	1,078	1,671
Current liabilities	18,407	23,082	22,795	22,622	26,115
Working capital	3,492	11,440	9,240	13,857	19,083
Capital deployed	**20,513**	**29,485**	**29,849**	**32,873**	**39,087**
Contingent liabilities	21,787	7,533	7,785	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT+ Net interest expense	2,402	4,389	4,745	3,783	4,832
+ Non-cash items	532	763	1,111	906	1,055
Oper. prof. before WC	2,934	5,152	5,856	4,689	5,887
- Incr. / (decr.) in WC	113	7,948	-2,200	4,617	5,225
Others incl. taxes	592	1,468	1,742	1,209	1,403
Operating cash-flow	2,229	-4,264	6,315	-1,137	-741
- Capex (tang. + intang.)	1,009	2,293	843	1,000	1,450
Free cash-flow	1,220	-6,558	5,472	-2,137	-2,191
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	359	-	-	-	-
+ Equity raised	-	-0	-	-	-
+ Debt raised	-451	6,115	-3,505	-605	2,040
- Fin investments	397	179	471	146	-
- Net int. expense + Misc.	-584	64	-866	-1,055	-745
Net cash-flow	596	-685	2,361	-1,833	593

Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

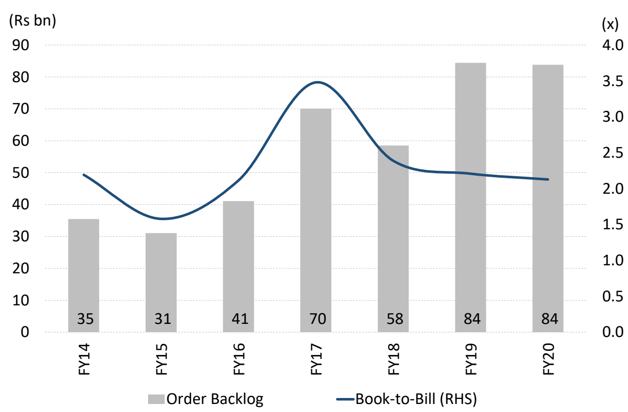
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	17.5	10.9	3.0	5.3	4.6
EV / EBITDA (x)	14.3	8.4	2.2	4.7	4.0
EV / Sales (x)	1.7	1.1	0.3	0.6	0.5
P/B (x)	2.2	1.6	0.4	0.7	0.6
RoE (%)	13.0	13.8	16.1	13.1	13.2
RoCE (%)	17.1	22.2	20.9	18.1	18.3
Sales / FA (x)	10.5	9.9	11.0	9.7	11.4
DPS (Rs / sh)	1.1	-	-	-	-
Dividend yield (%)	0.7	-	-	-	-
Dividend payout (%)	15.2	-	-	-	-
Net debt / equity (x)	0.0	0.3	0.1	0.1	0.1
Receivables (days)	151	148	134	152	157
Inventory (days)	22	15	14	15	15
Payables (days)	88	85	71	83	82
CFO :PAT%	94.1	-128.0	163.1	-31.3	-17.8

Source: Company, Anand Rathi Research

Fig 5 – Price performance

Source: Bloomberg

Fig 6 –Yearly OB trend



Source: Company

Result / Concall Highlights

Income statement

- **Covid-impact gradually fading.** Q2 revenue from operations, up ~7% y/y, ~53% q/q, to ~Rs8.8bn are strong indicators of returning execution efficiencies (q/q and y/y), notwithstanding the monsoon impact and the only gradually subsiding Covid-19 issues. With the retreating monsoon and as execution commences on some recently bagged orders, H2 is well placed to outstrip H1 especially considering its execution efficiency (read as workmen availability) is already at pre-Covid-19 levels.

Fig 7 – Standalone financial highlights

Rs m	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	% Y/Y	% Q/Q
Sales	6,837	7,644	10,651	13,074	8,768	8,223	9,836	12,548	5,724	8,775	*6.7*	*53.3*
EBITDA	813	1,037	1,487	1,815	1,095	1,229	1,243	2,289	819	1,309	*6.6*	*60.0*
EBITDA margin (%)	*11.9*	*13.6*	*14.0*	*13.9*	*12.5*	*14.9*	*12.6*	*18.2*	*14.3*	*14.9*	*-2bps*	*62bps*
Interest	171	130	239	367	214	231	200	209	166	197	*-14.9*	*18.6*
Depreciation	136	166	202	260	266	271	283	290	223	218	*-19.8*	*-2.3*
Other income	366	157	254	380	342	392	369	346	483	498	*27.2*	*3.2*
Exceptional item	-	-	398	73	-	-	-	-	-	-	-	-
PBT	871	899	903	1,496	957	1,118	1,129	2,136	913	1,393	*24.6*	*52.6*
Tax	232	278	281	516	310	391	274	493	222	346	*-11.5*	*55.7*
PAT	639	621	622	980	647	727	855	1,642	691	1,047	*44.0*	*51.6*
Adj. PAT	639	621	895	1,028	647	727	855	1,642	691	1,047	*44.0*	*51.6*
Adj. EPS	2.3	2.2	3.2	3.7	2.3	2.6	3.0	5.9	2.5	3.7	*44.0*	*51.6*

Source: Company

- **Margins continue to positively surprise.** At ~14.9%, the y/y flat EBITDA margin (though q/q up ~62bps) exceeded the company's secular margin guidance of ~12-13% for the sixth time in the past eight quarters. Management attributed the positive surprise largely to final cost adjustments for completed projects (Kharar-Ludhiana and Anandapuram-Ranastalam) and consequent reversals of contingencies provided for in prior years. Ahead, management guides to largely track the guided-to-range.

- **Earnings growth outstrips revenue and operating profitability growth.** The ~7% y/y higher operating profitability and ~20% y/y lower depreciation (on contained capex) and ~15% y/y lower finance costs (largely due to lower debt) enabled the company to ~44% y/y higher earnings. A lower effective tax rate (~25%, against ~35% a year ago) also played a key role in boosting Q2 FY21 earnings.

Gross toll collection: comparable collections up ~1% y/y

- On the gradual easing of the lockdown restrictions (thus, allowing movement of goods and people), the company saw traffic improve at its projects from the lows of Q1. Consequently, reported gross toll collections rose from the ~Rs1.3bn in Q1, to ~Rs2.2bn (though y/y down ~3%).
  - Adjusted for the cessation of the concession agreement for the Ahmednagar BOT-toll project, comparable gross toll collections were up ~1% y/y.

- Growth is also partly attributable to the toll-fee hikes effected in Apr'20 and Sep'20, ranging 1.7%-3.7% across its ACL portfolio (except Jaora-Nayagaon, where the toll-fee hike was ~7%, effective 1st Apr'20).

Fig 8 – Gross toll collection down ~3% y/y in Q2, comparable up, ~1% y/y

Rs m	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	% Y/Y	% Q/Q
ACL Portfolio												
Belgaum-Dharwad	230	218	233	235	237	213	234	226	118	201	-5.3	71.1
Dhankuni-Kharagpur	893	888	867	884	905	915	907	879	536	933	2.0	74.0
Bhandara	167	160	168	178	174	168	180	182	117	179	6.4	52.7
Durg	195	193	199	207	198	190	200	201	131	197	3.5	50.8
Jaora-Nayagaon	516	516	497	490	460	432	439	424	225	424	-1.9	88.4
Sambalpur-Baragarh	180	173	181	184	171	166	164	173	107	170	2.5	58.4
ABL Portfolio												
Ahmednagar - Aurangabad	94	71	78	75	84	97	61	59	-	-	-100.0	-
Wainganga Bridge	75	71	74	79	77	72	74	75	49	79	9.3	62.4
Katni Bypass	58	48	55	54	60	50	54	52	47	53	6.0	13.3
Others	123	174	6	5	8	11	64	9	4	6	-40.6	43.2
Total	**2,530**	**2,513**	**2,358**	**2,389**	**2,373**	**2,314**	**2,376**	**2,280**	**1,334**	**2,243**	**-3.1**	**68.1**
Comparable y/y growth (%)	*10.3*	*10.2*	*2.9*	*0.6*	*-1.4*	*-2.7*	*-1.0*	*-4.2*	*-41.7*	*1.4*		

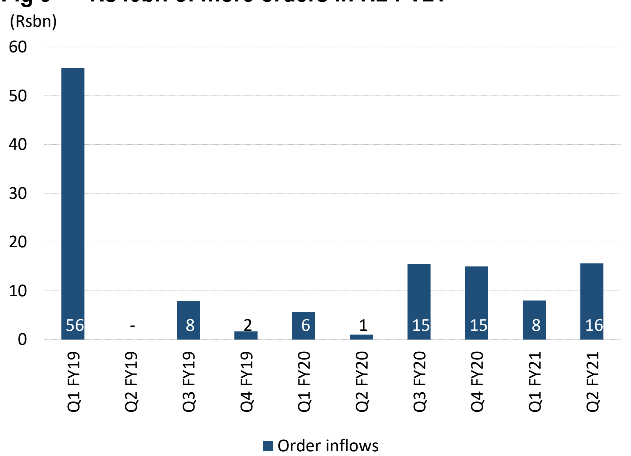
Source: Company

- Overall, Ashoka Concessions' portfolio (accounting for ~94% of its Q2 gross toll collections) was up ~1% y/y, whereas Ashoka Buildcon's portfolio was down ~40% y/y (led by cessation of the Ahmednagar BOT-toll project).
- Traffic is seen to have improved further post-Q2, with the company indicating ~5-6% growth in Oct'20 and for the trend to have continued in Nov'20 (till now).

Order inflows / backlog

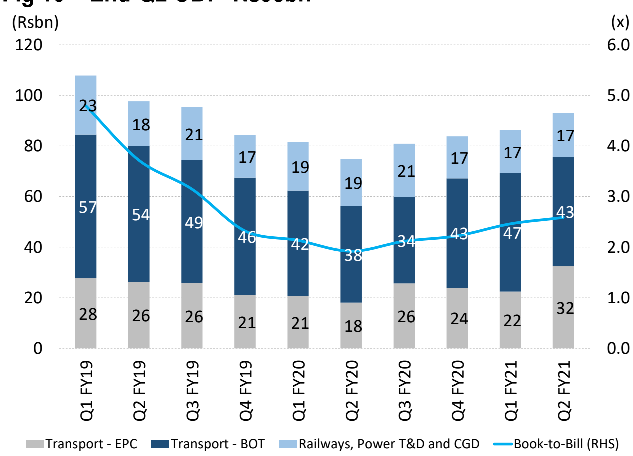
- While off to a slow start (only ~Rs0.9bn inflows in Q1), the order addition momentum picked up pace in Q2. The company was awarded two road-EPC packages in Q2 by the NHAI, a cumulative EPC opportunity of ~Rs13.9bn. Besides, it received three Power T&D orders, (cumulatively ~Rs2.5bn), in Bihar and Uttar Pradesh. Ytd order additions (incl. change in scope of works and L1 orders firmed up) amounted to ~Rs24bn.

Fig 9 – ~Rs40bn of more orders in H2 FY21



Source: Company *Note: Includes change in scope*

Fig 10 – End-Q2 OB: ~Rs93bn



Source: Company

- With Q2 additions exceeding works executed, the OB rose ~Rs6.8bn sequentially to close Q2 with revenue potential of ~Rs93bn. The OB provides revenue assurance of ~2.6x, based on TTM construction revenues
  - Of its end-Q2 OB, the road segment orders of ~Rs27bn yet await appointed dates / LOAs. Thus, the OB effectively under execution is currently estimated at ~Rs66bn
- Most state as well as the central government are looking to infrastructure development as a means to revive economic growth in the Covid-struck milieu. This has led to the sector seeing healthy ordering in H1. With the ordering momentum likely to continue, if not improve, the company hopes for sturdy order additions in H2 and targets ~Rs40bn across segments (mostly EPC opportunities with potential to add up to a couple of hybrid annuities).
  - **Roads.** While management did not quantify a bid pipeline from the NHAI, MoRTH and NHIDCL, it spoke of the ~Rs350bn-360bn Ganga Expressway (from the UPEIDA) and said that land acquisition was in advanced stages. It also highlighted seven opportunities in Tamil Nadu of ~Rs25bn.
  - **Railways.** The company sees healthy bid-opportunities in this segment, especially from RVNL and IRCON. Not quantifying the bids placed, it awaits results for three bids already placed.
  - **Power T&D.** The power T&D bid pipeline is not encouraging and very slow. This outlook remains, despite the company recently bagging three contracts in Uttar Pradesh and Bihar, of ~Rs2.5bn.
  - **Buildings.** The company plans to commence bidding from Q3 for government building projects, marking its entry into a new segment. For this, it has already set up a vertical within the company. On pre-qualifications, it intends to bid in a JV structure and envisages being qualified for projects of up to ~Rs15bn.
  - **Water.** Besides buildings, management is also vying for opportunities in water; though the efforts thus far have yet to bear fruits. It qualifies for some projects on its own and relies on the JV structure for others and is looking at opportunities of ~Rs5bn-10bn.

Hybrid annuity projects

- Of its ten hybrid annuity projects, COD has been received for two, five are under construction, one was recently appointed (post-Q2) and two await financial closures.

  Status on projects awaiting financial closure:
  - **Right of Way.** RoW available for Tumkur-Shivamogga Package-III is pegged at ~92%, (3H-stage); for Package-IV, ~55%.
  - **Financial closure.** It expects to attain financial closures for the two Tumkur-Shivamogga Packages (III and IV), by end-Dec'20. Per discussion, project-financing is available at an interest rate of ~9%.
  - **Appointed date.** With advanced RoW available for Tumkur-Shivamogga Package-III, management intends to commence execution, post-financial closure (expecting no delays in receiving an appointed date). On the Tumkur-Shivamogga Package-IV, the

company looks at a Feb'21 appointed date, citing inadequate RoW.

- Having received 31st Mar'20 as the COD for its first hybrid annuity project (Kharar-Ludhiana), it received its first annuity payment (of ~Rs658m) in Sep'20.
  - During Q2, it received 24th Sep'20 as the COD for its second hybrid annuity project (Anandapuram-Ranastalam) and expects to receive annuity payments from Mar'21. The PCOD is for ~45.5km length, of the total ~47km.
  - On refinancing these projects, management said Kharar-Ludhiana has already been refinanced (at ~8.15%) and, given the recent COD for the second hybrid annuity project, the refinancing process is ongoing (with existing lenders).
  - Management, however, sees potential to refinance both these projects in the range of ~7.5-8%, which could help lower the negative carry between interest received (currently @ ~7.25%) on annuity payments by the authority and interest paid on debt-drawn.
  - PCODs for another five projects were earlier expected in FY22, starting Sep'21.

Balance sheet

- With operations gaining further momentum, evident from the q/q rise in the scale of operations, coupled with outlays toward capex and equity infusion (for the hybrid annuity assets and the CGD business), the end-Sep'20 net debt rose ~Rs0.6bn q/q to ~Rs1.2bn. The rise comes despite the end-Sep'20 gross debt declining ~Rs0.1bn q/q, implying the company utilised available cash to meet these obligations.
  - The end-Q2 standalone gross debt (of ~Rs2.2bn) comprised ~Rs0.3bn working-capital debt (up ~Rs0.06bn q/q) and ~Rs1.9bn equipment finance (down ~Rs0.2bn q/q).
  - The quarter-end net debt implies a low gearing of only ~0.04x, up from ~0.02x a quarter ago.
- Gross debt for the asset-ownership business was ~Rs54.2bn (up ~Rs0.8bn q/q). This includes ~Rs52.7bn of project-SPV-level debt and ~Rs1.5bn of NCDs availed of by the standalone Ashoka Concessions.
  - Sequentially higher project-SPV-level gross debt of ~Rs0.8bn suggests of drawdowns to fund construction at the hybrid annuity projects.
  - SPV-level cash and equivalents were up ~Rs0.5bn q/q,implying cash generated by the SPVs were not utilised in full.
- Consolidated gross debt, at ~Rs56.4bn, was up ~Rs0.6bn q/q, pushed up by higher asset ownership debt but partly offset by lower standalone debt.
  - Adjusting for end-Q2 consolidated cash and equivalents of ~Rs4.8bn (~Rs1bn standalone, ~Rs3.8bn subsidiaries), consolidated net debt was up ~Rs0.9bn q/q to ~Rs51.6bn.
- While NHAI payments have been prompt and railway receivables have been steady, management alluded to the fact that power T&D receivables (especially in Bihar and Jharkhand) are, indeed, slow. On

payments by other road authorities, incl. state authorities like UPEIDA, payments were said to have been prompt.

  - On the Bihar power T&D receivables, it said that, while running project bills were being cleared; delays have been seen in final bill settlements and release of retention monies.
  - Overall, management expects the Central government to lend assistance to state governments to address delays in payments.

- Management highlights that Sep'20-end gross trade receivables were at ~Rs14.7bn, but adjusted for the mobilisation advances, the net exposure was ~Rs10.8bn.
  - Of the net receivables, roads comprised ~Rs4.8bn, power T&D ~Rs4.6bn, Railways ~Rs0.5bn and the balance (of ~Rs0.9bn) miscellaneous.
  - Of the power T&D receivables, ~Rs1bn-1.3bn are sticky receivables, from Jharkhand and Bihar, and have been overdue for over a year. Efforts are underway to realise these.
- The company has non-fund based facilities of ~Rs40bn, of which ~70-75% is utilised currently. Fund-based facilities are pegged at ~Rs3.5bn, and are wholly outstanding (pending any utilisation).

Equity infusion

- In H1 FY21, it cumulatively infused ~Rs860m as equity (Q2: ~Rs300m) in its hybrid annuity projects and the CGD business. Of this, ~Rs146m is estimated to have been infused in the CGD business and the balance (of ~Rs714m) towards hybrid annuities.
- The vesting schedule for the balance equity infusion needs of ~Rs3.7bn is:
  - For the balance of FY21, management envisages equity infusion needs at ~Rs2.1bn.
  - For FY22, the investments needs were pegged at ~Rs1.6bn for the earlier nine hybrid annuity projects.
  - Equity required for the recently bagged Tumkur-Shivamogga project would be besides the above-mentioned equity infusion.

Other highlights

- **Outlook on labour, execution.** Having largely dealt with the pandemic-triggered disruptions, management indicated that labour availabilityhas now touched pre-Covid levels. Execution efficiencies too have picked up to pre-Covid levels.
  - No material discrepancy has been noticed on labour productivity, owing to adherence to Covid-19 execution guidelines.
- **SBI-Macquarie exit/asset monetisation.** Monetisation efforts commenced in Sep'19 and saw good traction but were derailed by the Covid-led disruptions. Efforts recommenced in May'20. Ashoka Concessions has received non-binding offers from three to four potential investors, and due-diligence is currently underway.
  - It now hopes to receive some binding offers by end-Dec'20, then proceed to documentation and deal closure.
  - On assets being considered for monetisation, management said, prospective buyers are looking to take over all of the BOT-toll

assets and completed hybrid annuities. It said the cumulative equity value of assets put on block was ~Rs27bn.

  - While the deal started off as a means to provide an exit to SBI-Macquarie, interest evinced by prospective buyers indicates buying the projects in their entirety. This could mean Ashoka too could make an exit, but the final decision would be taken closer to the event and would take into account the offer made.
  - On monetising prospects for hybrid annuities completed in future, management highlights that it could look at structuring the deal to integrate a mechanism which could help ease the monetisation process.

- **Revised hybrid annuity MCA.** The revised model concession agreement would govern the newer hybrid annuities that would be offered. On its applicability to the older hybrid annuities already awarded, management said, it has represented to the authorities, through an industry body (the NHBF) to accommodate certain changes in the older/awarded hybrid annuity model concession agreements. While the outcome is uncertain, efforts are underway.
- **The CGD business.** Of its three prospects, operations in the Ratnagiri and Latur and Osmanabad districts are already operational. It expects to commence operations at its Karnataka districts by end-Dec'20. The three licenses, together, were estimated to entail a capex of ~Rs8bn, to be spent over a period of time.
  - Ashoka Buildcon and its 49% partner in the venture together have earmarked an investment for any opportunities in the segment. Of the total, the cumulative investments were pegged at ~Rs1.3bn (incl. ~Rs146m invested during Q2).

Guidance

- With execution efficiencies having already reached pre-Covid levels at most of its sites and as execution commences at some of the recently bagged orders, management expects execution to gain further momentum in H2 and outstrip H1.
  - Consequently, it guides to flattish y/y revenues in FY21 (against the earlier revenue guidance of flattish to ~10% y/y growth).
  - The guidance implies ~11% y/y revenue growth in H2.
  - For FY22, considering the blended execution timeline of its OB, management aims at ~15-20% revenue growth. Contingent on order additions in FY21, there is potential to this guidance.
- Management largely retained its FY21 margin guidance at ~12-13%, from 12.5-13% earlier.
- During H1, it incurred ~Rs150m capex (Q2: ~Rs120m).For the rest of FY21, it expects another ~Rs0.25bn-0.3bn.
- It envisages closing FY21 with gross debt ~Rs2.5bn higher than at present (pegging this increase to working capital needs) at the standalone entity, and drawing down ~Rs3.5bn at its under-execution hybrid annuity assets.

Earnings revision and Valuation

Ashoka Buildcon yet again delivered EBITDA margins that were significantly ahead of expectations. We have revised estimates to account for this as well, as higher than expected other income and lower depreciation. Consequently, our FY21e earnings are ~23%, and ~13% for FY22e.

Though FY22e earnings are raised, but since the revision is almost entirely on account of raised interest income from the related parties, the same are adjusted while deriving the target price. The sum-of-parts target price, consequently, is unchanged at Rs127 a share. The TP has been derived using 8x FY22e construction earnings (Rs79 a share, adjusted for interest income from Ashoka Concessions), the discounted-cash-flow-driven/investment valuation for the road-asset portfolio (Rs46, after a 20% holdco discount) and CGD on an investment basis (Rs2, a 20% holdco discount assigned).

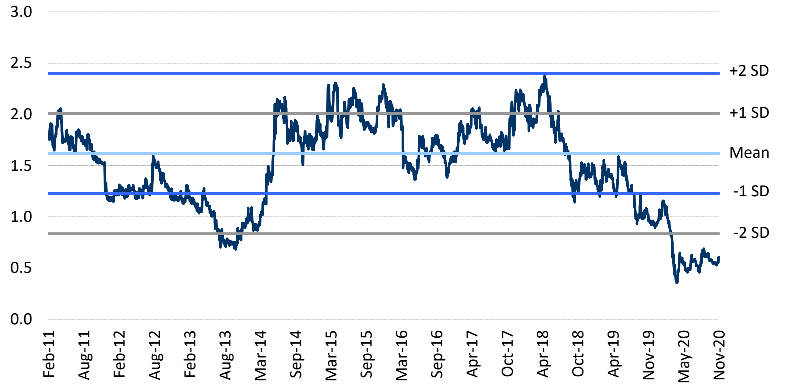
Fig 11 –Change in estimates

(Rs m)	Old Estimates		Revised Estimates		Change (%)	
	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Revenue	35,840	46,465	35,840	46,465	-	-
EBITDA	4,311	5,889	4,689	5,887	8.8	-0.0
EPS (Rs)	10.6	13.1	10.6	13.1	22.5	13.4

Source: Anand Rathi Research

At the ruling price, (excl. investments) the stock trades at PERs of 4.9x FY21e and 4.4x FY22e standalone earnings (adjusted for interest income from subsidiaries). On an EV/EBITDA basis, the stock (excl. investments) quotes at 3.1x FY21e and 2.7x FY22e standalone EBITDA. On a PBV basis, the stock quotes at 0.7x FY21e and 0.6x FY22e, against the target implied exit of 1.1x FY22e.

Fig 12 – PBV band



Source: Bloomberg, Anand Rathi Research

Risk

- Any lack of inflows.
- Any prolonged impact of Covid-19.
- Any significant cash flow mismatch in the BOT-toll vertical.

Appendix

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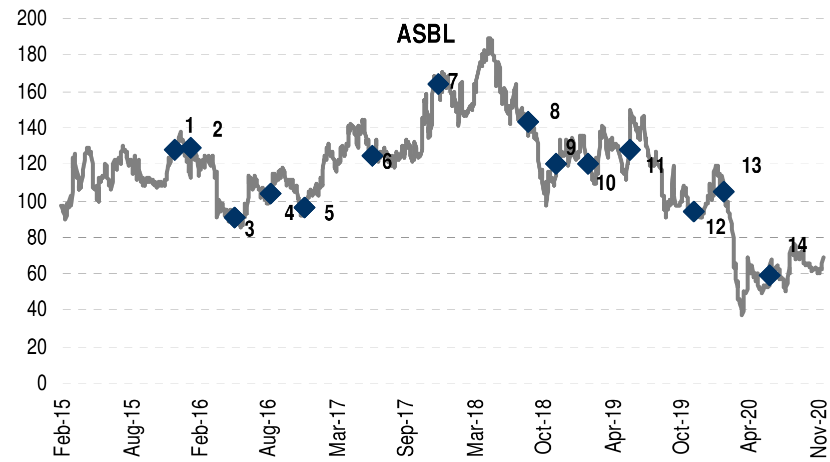
Rating and Target Price History (as of 16 November 2020)



	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
14	17-Jun-19	Buy	127	56

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Ratings Guide (12 months)

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