

Robust performance; monetisation awaited...

Ashoka Buildcon (ABL) witnessed a strong sequential recovery and delivered a better-than-expected set of numbers on the revenue and profitability front. Standalone revenue was up 6.7% YoY to ₹ 877 crore as labour availability and execution have returned to pre-Covid levels. Reported EBITDA margin was flattish YoY to 14.9%, also aided by release of contingencies due to project completion. RPAT grew 44% YoY to ₹ 104.7 crore on account of higher other income, lower tax and interest coupled with higher reported EBITDA.

Order book at ₹ 9,300 crore as of Q2FY21

ABL's order book (OB) was at ₹ 9,300 crore (OB-to-bill ratio of 2.5x TTM revenues) spread across roads - HAM (₹ 4,323.3 crore), roads - EPC (₹ 3,246.8 crore), power T&D (₹ 905.2 crore), railways (₹ 781.2 crore) and CGD (₹ 43.5 crore) segments. In Q2FY21, the company secured two EPC projects (land availability:90%+) in Bihar having aggregate value of ₹ 1,390 crore. With improved traction in awarding of roads, railways, water and buildings projects, the management has guided for incremental order inflows of ~₹ 6,000 crore in the rest of FY21E. We bake in order inflow of ₹ 7000 crore each in FY21, FY22. On the execution front, the management expects significant pick-up with desired level of labour availability and improvement in executable order book. Overall, we conservatively build in construction revenue growth at 4.7% CAGR to ₹ 4,316 crore in FY20-22E, with expectation of 5% revenue decline in FY21. Furthermore, operating margin is likely to remain in its normalised range of 12-13%.

Equity infusion, asset monetisation update

ABL has infused ~₹ 580-590 crore up to Q2FY21 in the HAM project (including equity infusion of ₹ 86 crore during H1FY21). It is further expected to infuse ₹ 210 crore in H2FY21, ~₹ 160 crore in FY22E based on current order book position. In addition, ABL expects to have clarity on SBI-Macquarie deal by December 2020- end (three to four potential investors are keen; due-diligence are in-process; expects binding offer by December 2020-end). We continue to believe there could be a downward revision in valuations and/or prolonged delay in deal fructification, thereby allowing SBI-Macquarie exit overhang to persist.

Valuation & Outlook

We are impressed by ABL's continued improvement in leverage at standalone levels and execution recovery. However, the SBI-Macquarie stake exit stays the key overhang on the company. We believe asset monetisation will be key for rerating of EPC business multiples. We conservatively build in construction revenue growth at 4.7% CAGR to ₹ 4,316 crore in FY20-22E. We maintain **HOLD** rating on the stock with an SoTP-based target price of ₹ 75.

Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21E	FY22E	CAGR FY20-22E
Net Sales	3601.0	4930.1	5070.5	4730.3	5521.6	4.4%
EBITDA	1139.5	1394.3	1575.2	1402.3	1557.2	-0.6%
EBITDA Margin (%)	31.6	28.3	31.1	29.6	28.2	
PAT	-118.7	26.7	165.3	81.7	209.6	12.6%
EPS (₹)	-6.3	-1.8	8.8	4.4	11.2	
P/E (x)	-10.9	-58.1	11.8	23.8	9.3	
EV/EBITDA (x)	5.8	5.3	4.4	5.2	4.6	
RoNW (%)	-37.6	-11.7	40.0	16.5	29.7	
RoCE (%)	11.5	13.9	15.1	13.0	14.0	

Source: Company, ICICI Direct Research



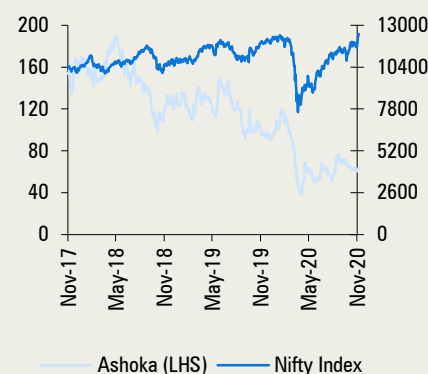
Particulars

Particular	Amount (₹ crore)
Market Capitalization	1,942.6
Total Debt	5,580.7
Cash	505.9
EV	7,017.4
52 week H/L (₹)	151 / 37
Equity capital	140.4
Face value	₹ 5

Key Highlights

- Order book at ₹ 9,300 crore as of Q2FY21, implying order book-to-bill ratio of 2.5x TTM revenues
- ABL expects at least flattish EPC revenues in FY21, banking on strong second half
- Maintain HOLD recommendation with SoTP-based target price of ₹ 75/share

Price Chart



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Exhibit 1: Variance Analysis

Particulars	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Income from Operations	877.5	674.0	822.3	6.7	572.4	53.3	Better than expected execution
Other Income	49.8	42.0	39.2	27.2	48.3	3.2	
Operating Expenses	633.6	525.7	626.2	1.2	434.4	45.9	
Employee Expenses	43.5	33.7	43.5	-0.1	40.8	6.7	
Other expenditure	69.4	30.3	29.7	133.6	15.4	350.5	
EBITDA	130.9	84.3	122.9	6.6	81.9	60.0	
EBITDA Margin(%)	14.9	12.5	14.9	-2 bps	14.3	62 bps	Margins beat on account of release of contingencies on project completion
Depreciation	21.8	28.0	27.2	-19.8	22.3	-2.3	
Interest	19.7	20.0	23.1	-14.9	16.6	18.6	
PBT	139.3	78.3	111.8	24.6	91.3	52.6	
Taxes	34.6	20.0	39.1	-11.5	23.2	49.0	
PAT	104.7	58.3	72.7	44.1	68.1	53.8	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY19	FY20	FY21E			FY22E			Comments
			Old	New	% Change	Old	New	% Change	
Revenue	4,930.1	5,070.5	4,709.7	4,730.3	0.4	5,532.1	5,521.6	-0.2	Realign FY21 estimates post H1
EBITDA	1,394.3	1,575.2	1,396.2	1,402.3	0.4	1,595.8	1,557.2	-2.4	
EBITDA Margin (%)	28.3	31.1	29.6	29.6	00 bps	28.8	28.2	-64 bps	
PAT	-33.5	165.3	-86.5	81.7	NA	118.2	209.6	77.3	
Diluted EPS (₹)	-1.8	5.9	-3.1	2.9	NA	4.2	7.5	77.3	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

EPC	FY16	FY17	FY18	FY19	FY20	Current FY21E	Current FY22E	Earlier FY21E	Earlier FY22E	Comments
Order Inflow	2,822	3,926	4,358	6,300	3,922	6,000	6,000	4,000	4,000	
Order Backlog	4,111	7,005	5,849	8,394	8,379	11,234	12,917	9,434	9,186	

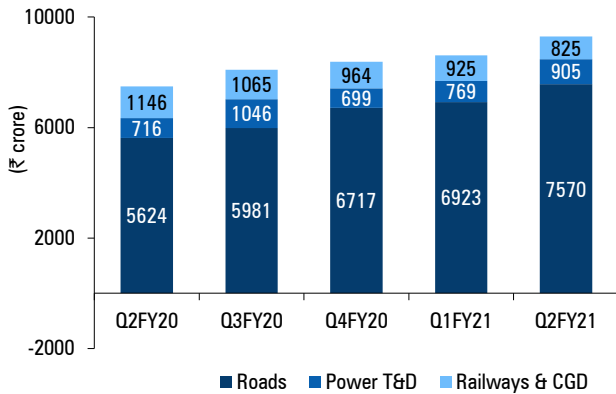
Source: Company, ICICI Direct Research

Conference call highlights

- Order book:** At the end of September 2020, ABL's OB was at ₹ 9,300 crore. Roads – HAM contributed 46.5% to total OB followed by roads – EPC (35%), power T&D (9.7%), railways (8.4%) and CGD (0.5%) segments. In Q2FY21, the company secured projects worth ₹ 1,300 crore and has guided for ~ ₹ 6,000 crore of order inflows in H2FY21 mainly from EPC segment of roads, railways, water and building divisions (~₹ 4,000 crore) and HAM-road (~₹ 2,000 crore) projects
- Management guidance:** H1FY21 was largely marred by disruptions caused by Covid-19 pandemic and heavy monsoons. However, execution has now picked up with desired level of labour availability and smoothening of raw material supply chain. The management expects execution in H2FY21 to be better than H1. Also, operating margin is likely to remain in its normalised range of 12-13%
- Appointed dates in HAM, EPC projects:** ABL has received AD for Kandi Ramsanpalle project (BPC: ₹ 1,000 crore) on October 5, 2020. Additionally, the financial closure for Tumkur-Shivamogga Package (TSP) -III and IV are in final stages of sanctions. With ~92%, ~55% land availability status, the management expects AD in TSP-III, TSP-IV in December 2020 and February 2021, respectively. In the recently won two EPC projects in Bihar, 90%+ lands are available for execution and ADs are expected by December 2020
- Equity commitment:** ABL infused ₹ 86 crore in H1FY21 towards HAM and CGD projects. It is further expected to infuse ₹ 210 crore in H2FY21, ~₹ 160 crore in FY22E based on current order book position
- Toll collection:** Gross consolidated toll collection during Q2FY21 on ACL's BOT project has improved 1% YoY (to ₹ 210 crore). Traffic during the period was down ~3-4%, with increase largely led by toll hike. However, the management has indicated towards improved traffic growth of 5-6% YoY in October 2020
- Debt update:** ABL's consolidated debt was at ₹ 5,643.3 crore as of September 30, 2020. Of this, ₹ 224 crore is standalone debt (₹ 191 crore - equipment loan, and ₹ 33 crore - WC loan), ₹ 5,269.4 crore is project debt and ₹ 150 crore is NCD loan
- Delays in payments:** As per the management, the payments from NHAI and state governments such as Uttar Pradesh for road projects are prompt and in accelerating mode. Railway bodies are also paying on time. However, the company is facing disbursement issues in power projects mainly from Jharkhand and Bihar government (~₹ 125 crore are stuck). Out of its debtors (net of advances) of ₹ 1,078 crore, power contributes ₹ 459 crore, roads ₹ 476 crore and railways: ₹ 50 crore and rest are from other divisions
- Capex:** The company has incurred capex of ₹ 12 crore in Q2FY21 and has guided for ₹ 30 crore during H2FY21
- Asset monetisation:** The process on exit of SBI-Macquarie deal was started in September 2019. However, it got interrupted due to Covid-19 pandemic. Currently, three to four potential investors are keen and due diligence is in-process. The management expects a binding offer by December 2020-end. Book value estimated is ₹ 2,700 crore (including completed BOT and HAM projects)

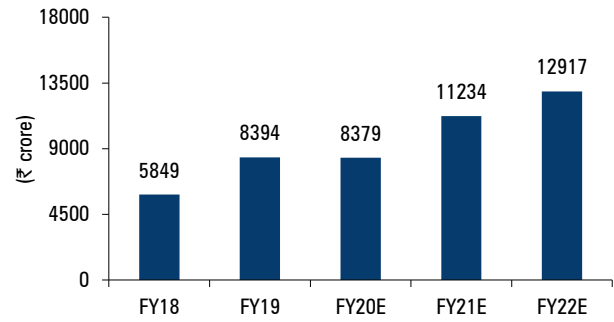
Company Analysis

Exhibit 4: Quarterly order book trend



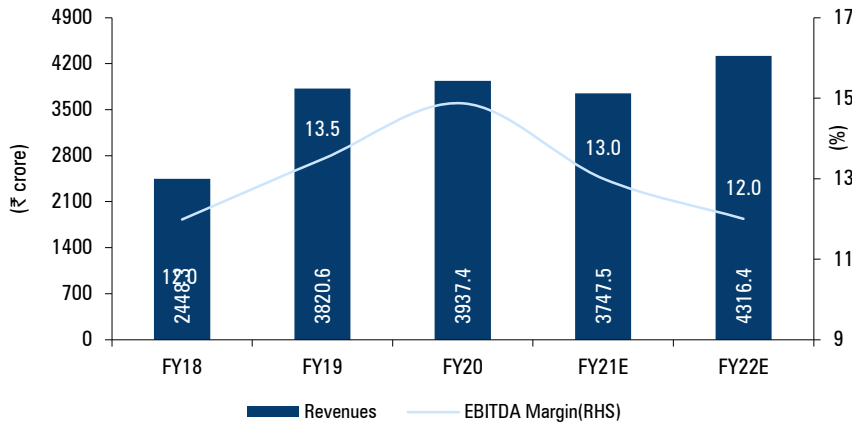
Source: Company, ICICI Direct Research

Exhibit 5: Annual order book trend



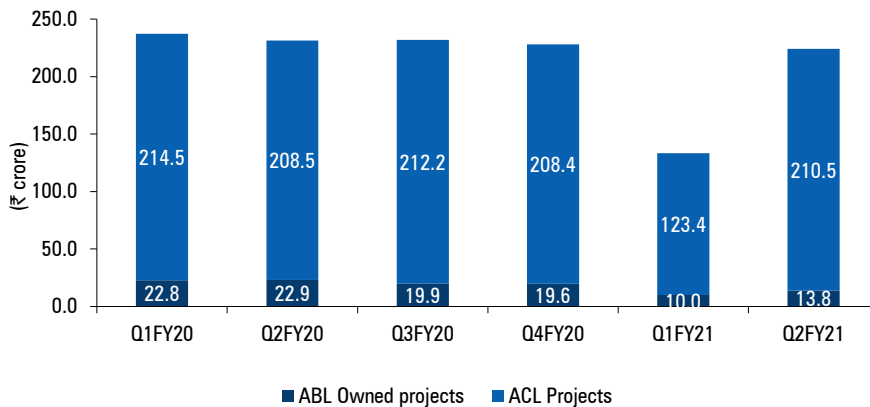
Source: Company, ICICI Direct Research

Exhibit 6: Annual EPC revenue and EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 7: Gross toll collection trend



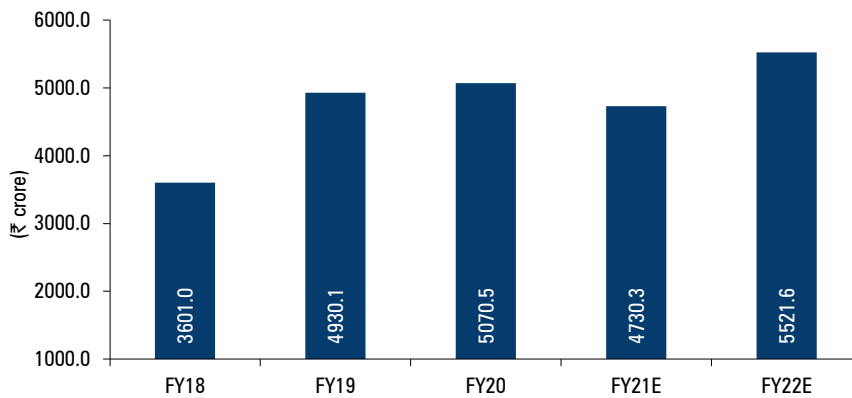
Source: Company, ICICI Direct Research

Exhibit 8: Quarterly gross toll collection trend

(₹ crore)	Q2FY21	Q1FY21	Q4FY20	Q3FY20	Q2FY20	YoY (%)	QoQ (%)
ABL Owned Projects							
Ahmednagar - Aurangabad	-	-	5.9	6.1	9.7		
Wainganga Bridge	7.9	4.9	7.5	7.4	7.2	9.3%	62.4%
Katni Bypass	5.3	4.7	5.2	5.4	5.0	6.0%	13.3%
Others#	0.6	0.4	0.9	1.0	1.1	-40.6%	43.2%
Sub-total	13.8	10.0	19.6	19.9	22.9	-39.8%	38.6%
Sub-total (like-to-like basis)	13.2	9.5	12.7	12.8	12.2	7.9%	38.4%
ACL Projects							
Belgaum Dharwad	20.1	11.8	22.6	23.4	21.3	-5.3%	71.1%
Dhankuni – Kharagpur	93.3	53.6	87.9	90.6	91.5	2.0%	74.0%
Bhandara	17.9	11.7	18.2	18.0	16.8	6.4%	52.7%
Durg	19.7	13.1	20.1	20.0	19.0	3.5%	50.8%
Jaora – Nayagaon	42.4	22.5	42.4	43.9	43.2	-1.9%	88.4%
Pimpalgaon – Nashik – Gonde							
Sambalpur	17.0	10.7	17.3	16.4	16.6	2.5%	58.4%
Sub-total	210.5	123.4	208.4	212.2	208.5	1.0%	70.5%
Sub-total (like-to-like basis)	210.5	123.4	208.4	212.2	208.5	1.0%	70.5%
Grand Total	224.3	133.4	228.0	232.1	231.4	-3.1%	68.1%
(Grand total) like-to-like basis	223.7	133.0	221.2	225.0	220.7	1.4%	68.2%

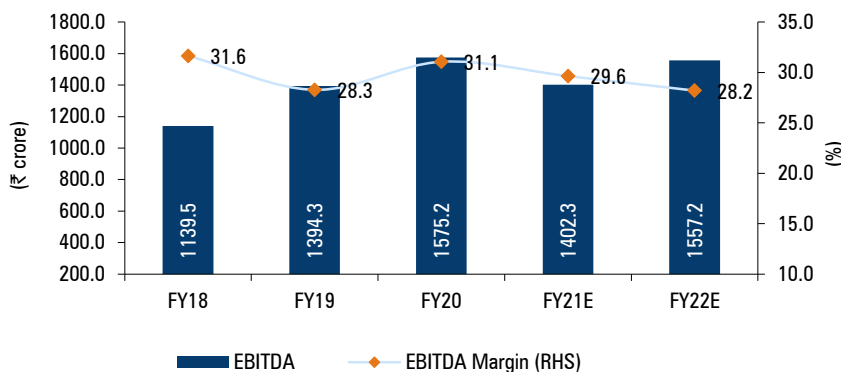
Source: ICICI Direct Research, Company

Exhibit 9: Consolidated revenue trend



Source: Company, ICICI Direct Research

Exhibit 10: Consolidated EBITDA margin trend



Source: Company, ICICI Direct Research

Valuation & Outlook

We are impressed by ABL's continued improvement in leverage at standalone levels and execution recovery. However, the SBI-Macquarie stake exit remains the key overhang on the company. We believe asset monetisation will be key for rerating of EPC business multiples. We conservatively build in construction revenue growth at 4.7% CAGR to ₹ 4,316 crore in FY20-22E. We maintain **HOLD** rating on the stock with an SoTP-based target price of ₹ 75.

Exhibit 11: ABL valuation

Project Name	Stake (%)	Length (km)	TPC (₹ crore)	Debt (₹ crore)	Equity (₹ crore)	Eq share (₹ crore)	CoE(%)	ABL Equity Value (₹ cr)	Value/share (₹)
Ashoka Buildcon Limited (ABL) - BOT									
Katni Bypass	99.9	17.6	70.9	53.5	17.4	17.4	14.0	62.0	2.2
Nashirabad ROB	100.0	4.0	14.7	13.3	1.5	1.5	14.0	4.0	0.1
Dhule Bypass	99.9	6.0	5.8	5.2	0.6	0.6	14.0	8.4	0.3
Dewas Bypass	100.0	20.0	61.3	36.0	25.3	25.3	14.0	64.2	2.3
Indore Edalabad	99.7	203.0	165	101.5	63.5	63.3	14.0	450.2	16.0
Wainganga Bridge	50.0	13.0	40.9	35.0	5.9	3.0	14.0	91.7	3.3
FOB Eastern Expressway	100.0	NA	3.7	1.8	2.0	2.0	14.0	0.7	0.0
KSHIP	51.0	110.0	471.0	287.0	47.0	24.0	14.0	58.1	2.1
Total (ABL)-BOT (A)		373.6	833.3	533.2	163.1	136.9		739.3	26.3
EPC (B)	100.0			3.5x FY22E EV/EBITDA				1812.9	64.6
ACL stake valuation (C)	61.0					50% Holding company Discount		231.1	8.2
Less Standalone debt (D) - FY22								650.0	23.2
Total SoTP Valuation (A+B+C-D)								2133.3	76.0
Rounded off Target Price									75.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY19	FY20	FY21E	FY22E
Net Sales	4930.1	5070.5	4730.3	5521.6
Other income	77.1	81.7	105.6	105.6
Total Revenue	5007.2	5152.2	4835.9	5627.2
Raw Material Expense	155.9	181.6	191.7	311.0
Operating Expenditure	1683.3	1861.1	1775.0	2065.4
Cost of materials sold	1508.3	1159.4	1081.6	1262.5
Employee benefit expenses	188.4	293.3	279.7	325.5
Total Operating Expenditure	3535.8	3495.3	3328.0	3964.4
EBITDA	1394.3	1575.2	1402.3	1557.2
Interest	1021.3	1042.6	934.7	948.1
Depreciation	258.2	299.8	328.3	419.8
Other income	77.1	81.7	105.6	105.6
PBT	131.7	314.6	244.9	294.9
Taxes	170.9	165.9	184.3	120.4
PAT before MI	-39.2	148.7	60.6	174.5
Minority Interest	-6.8	-5.0	0.0	0.0
Share of Profit from Associates	-1.0	11.7	21.1	35.0
PAT	-33.5	165.3	81.7	209.6

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(₹ Crore)	FY19	FY20	FY21E	FY22E
Profit after Tax	(33.5)	165.3	81.7	209.6
Depreciation	258.2	299.8	328.3	419.8
Interest	1,021.3	1,042.6	934.7	948.1
Others	(154.2)	(163.5)	(211.2)	(211.3)
Cash Flow before wc changes	1,339.9	1,591.8	1,423.4	1,592.2
Changes in WC	(1,402.0)	(109.7)	(443.6)	(273.7)
Taxes Paid	(170.9)	(166.6)	(184.3)	(120.4)
Net CF from operating activities	(233.0)	1,315.5	795.5	1,198.1
(Purchase)/Sale of Fixed Assets	(268.9)	(143.9)	(59.9)	(126.6)
Change in Others - Premium Paya	66.7	49.7	(325.0)	(231.5)
Net CF from Investing activities	(95.7)	(24.3)	(279.4)	(252.5)
Increase/Decrease in NW	4.4	(38.5)	-	-
Increase/Decrease in Debt	802.3	80.4	229.6	(331.6)
Interest Paid	(1,021.3)	(1,042.6)	(934.7)	(948.1)
Change in Minority Interest	25.3	9.0	106.8	158.2
Net CF from Financing activities	(189.3)	(991.7)	(598.4)	(1,121.5)
Net Cash flow	(518.1)	299.6	(82.2)	(175.9)
Opening Cash	253.2	234.2	754.4	672.2
Closing Cash/ Cash Equivalent	234.2	754.4	672.2	496.3

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet				
	₹ crore			
(₹ Crore)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	140.4	140.4	140.4	140.4
Reserve and Surplus	146.5	273.3	355.0	564.6
Total Shareholders funds	286.9	413.7	495.4	704.9
Minority Interest	119.0	128.0	234.8	393.0
Total Debt	5,735.8	5,816.2	6,045.8	5,714.1
Deferred Tax Liability	0.7	-	-	-
Other- NHAI Premium Payable	2,558.3	2,608.0	2,283.0	2,051.4
Total Liabilities	9,195	10,182	10,498	10,591
Assets				
Gross Block	9,621.0	9,569.2	9,375.4	9,405.3
Less Acc. Dep	1,731.0	1,793.1	1,867.7	2,190.8
Net Block	7,890.0	7,776.0	7,507.7	7,214.5
Capital WIP	41.9	-	-	-
Total Fixed Assets	7,931.9	7,776.0	7,507.7	7,214.5
Investments	283.5	185.8	185.8	185.8
Inventory	426.5	434.8	409.2	477.6
Sundry Debtors	1,316.4	1,083.0	1,182.6	1,380.4
Loans & Advances	244.8	257.5	1,229.9	1,435.6
Cash & Bank Balances	234.2	754.4	672.2	496.3
Other Current Assets	212.2	413.3	203.6	237.7
Total Current Assets	2,434.1	2,942.9	3,697.4	4,027.6
Other Current Liabilities	3,398.7	3,460.3	3,261.0	3,806.5
Provisions	835.3	888.2	888.2	888.2
Net Current Assets	(1,800.0)	(1,405.6)	(451.8)	(667.1)
Total Assets	9,195	10,182	10,498	10,591

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	FY19	FY20	FY21E	FY22E
Per Share Data (₹)				
EPS - Diluted	(1.8)	8.8	4.4	11.2
Cash EPS	8.0	16.6	14.6	22.4
Book Value	15.3	22.1	26.5	37.7
Operating Ratios (%)				
EBITDA / Net Sales	28.3	31.1	29.6	28.2
PAT / Net Sales	0.5	3.3	1.7	3.8
Inventory Days	31.6	31.3	31.6	31.6
Debtor Days	97.5	78.0	91.3	91.3
Return Ratios (%)				
RoNW	(11.7)	40.0	16.5	29.7
RoCE	13.9	15.1	13.0	14.0
RoIC	14.2	16.3	13.4	14.5
Valuation Ratios (x)				
EV / EBITDA	5.3	4.4	5.2	4.6
P/E (Diluted)	NA	NA	NA	6.2
EV / Net Sales	1.5	1.4	1.5	1.3
Market Cap / Sales	0.4	0.4	0.4	0.4
Price to Book Value (Diluted)	4.5	3.1	2.6	1.8
Solvency Ratios (x)				
Net Debt / Equity	18.8	12.2	10.8	7.4
Debt / EBITDA	4.1	3.7	4.3	3.7
Current Ratio	1.0	0.9	1.2	1.2
Quick Ratio	0.8	0.7	1.0	1.0

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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