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Ashoka Buildcon Limited

Muted Q3, outlook stays positive

Infrastructure	Sharekhan code: ASHOKA	Result Update

Stock Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 104**	
Price Target: **Rs. 125**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

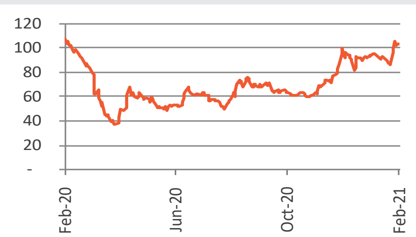
Company details

Market cap:	Rs. 2,929 cr
52-week high/low:	Rs. 116/37
NSE volume: (No of shares)	6.6 lakh
BSE code:	533271
NSE code:	ASHOKA
Free float: (No of shares)	12.8 cr

Shareholding (%)

Promoters	54.5
FII	3.2
DII	27.6
Others	14.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.2	64.1	66.2	-4.0
Relative to Sensex	4.0	43.5	31.7	-29.3

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on Ashoka Buildcon Limited (Ashoka) with a revised price target of Rs. 125, considering a healthy order backlog, comfortable liquidity and improving industry outlook.
- Q3FY2021 standalone revenues were lower than estimated, led by delayed receipt of appointed dates for few projects while OPM too lagged expectations.
- Expect execution to improve from Q4FY2021. Management retained FY2021 standalone revenue guidance and raised it for FY2022. OPM guidance lowered.
- Asset monetisation is in final stages and is likely to be completed by Q4 and receive the funds by Q2FY2022. Aid in de-leveraging and freeing up equity capital.

Ashoka Buildcon Limited's(Ashoka's)Q3FY21 standalone revenue and net profit marginally lagged estimates while OPM was much lower than expectation. Consolidated revenues were marginally up 2% y-o-y at Rs. 1305.5 crore while standalone revenues remained almost flat y-o-y at Rs. 981 crore. EPC revenues were muted on account of a delay in receiving appointed dates for three road projects. However, toll revenues rose by 12.6% y-o-y (up 16.1% q-o-q) to Rs. 260 crore. The EPC OPM at 10.8% (lower 188 bps y-o-y, lower 416 bps q-o-q) disappointed on account of a poor revenue mix and nil profit contribution from a couple of projects, which did not reach the threshold limit for profit recognition. Consolidated OPM stood at 31.9% (up 234 bps y-o-y, -108 bps q-o-q) leading to 10% y-o-y rise in consolidated profit to Rs. 416 crore. Further, higher other income, lower depreciation, a fall in interest expensesand a lower effective tax rate led to a steep rise in consolidated net profit by 2.7x y-o-y to Rs. 88 crore. Standalone net profit, however, remained flat y-o-y at Rs. 86 crore. The management retained FY2021 revenue guidance (to be same as last year) as the work on two Bihar projects is expected to start during Q4FY2021. The company has raised EPC revenue guidance for FY2022 from 15-20% y-o-y growth to 20-25%. However, the management's guidance on OPM disappointed which is now pegged at 11-11.5% versus 12-13% earlier. The company remains optimistic on order intake with Rs. 2,000-3,000 crore of order inflows targeted for the remainder of FY2021 and Rs. 5000-6000 crore in FY2022. Its current order book at Rs. 9152 crore, 2.5x TTM standalone revenues provides healthy revenue visibility. Ashoka has received binding offers for asset monetization and expects to complete documentation work by March 2021 and receipt of funds in Q2FY2022. We believe the company's new project wins and a stake sale in ACL portfolio are keenly awaited events. We have revised our earnings estimates upwards for FY2021E-FY2022E factoring strong improvement in toll revenues. We retain Buy on the stock with a revised price target of Rs. 125 owing to the company's healthy order backlog, comfortable liquidity position and improving industry outlook.

Key positives

- Strong rise in toll revenues both y-o-y and q-o-q.
- FY2021 revenue guidance maintained while upped for FY2022.
- Funds from divestment expected in Q2FY2022.

Key negatives

- EPC margins below estimate with guidance going ahead trimmed down.
- Delay in receipt of appointed dates for few projects leads to lower than expected EPC revenues.

Our Call

Valuation –Retain Buy with a revised price target of Rs. 125: Ashoka's EPC execution underperformed on account of a delay in getting appointed dates for few projects. However, for one it has received appointed date and construction has started, while the rest two are expected to get during Q4FY2021 which should aid in healthy EPC execution for Q4FY2021 and FY2022. Its order backlog remained healthy at 2.5x with healthy order intake outlook going ahead. We expect EPC revenues to improve during FY2022. The company is also in the final stages of asset monetisation which would help it de-leverage and free up equity capital. We have raised our earnings estimates for FY2021E-FY2022E factoring strong improvement in toll revenues. We retain Buy on the stock with a revised price target of Rs. 125 owing to the company's healthy order backlog, comfortable liquidity position and improving industry outlook.

Key Risks

Delay in execution ofhybrid annuity projects and sustained lull in project tendering can lead to net earnings downgrade.

Valuation (Consolidated) Rs cr

Particulars	FY20	FY21E	FY22E	FY23E
Revenue	5,070.5	4,951.5	5,884.8	6,426.8
OPM (%)	31.1	30.7	29.4	28.6
Adjusted PAT	165.3	254.8	264.1	351.9
% YoY growth	-	54.2	3.6	33.2
Adjusted EPS (Rs.)	5.9	9.1	9.4	12.5
P/E (x)	17.7	11.5	11.1	8.3
P/B (x)	7.1	4.7	3.5	2.6
EV/EBITDA (x)	5.0	3.8	2.6	1.8
RoNW (%)	47.2	49.3	36.3	35.7
RoCE (%)	22.0	22.6	26.3	27.5

Source: Company; Sharekhan estimates

Standalone execution and OPM disappoint

Consolidated revenues were marginally up 2% y-o-y at Rs. 1305.5 crore while standalone revenues remained almost flat y-o-y at Rs. 981 crore. EPC revenues were muted on account of a delay in receiving appointed dates for three road projects. However, toll revenues rose by 12.6% y-o-y (up 16.1% q-o-q) to Rs. 260 crore. The EPC OPM at 10.8% (lower 188 bps y-o-y, lower 416 bps q-o-q) disappointed on account of a poor revenue mix and nil profit contribution from a couple of projects, which did not reach the threshold limit for profit recognition. Consolidated OPM stood at 31.9% (up 234 bps y-o-y, -108 bps q-o-q) leading to 10% y-o-y rise in consolidated profit to Rs. 416 crore. Further, higher other income, lower depreciation, a fall in interest expenses and a lower effective tax rate led to a steep rise in consolidated net profit by 2.7x y-o-y to Rs. 88 crore. Standalone net profit, however, remained flat y-o-y at Rs. 86 crore.

Revenue guidance healthy while OPM expected to be lower

The management retained FY2021 revenue guidance (to be same as last year) as the work on two Bihar projects is expected to start during Q4FY2021. The company has raised EPC revenue guidance for FY2022 from 15-20% y-o-y growth to 20-25%. However, the management's guidance on OPM disappointed which is now pegged at 11-11.5% versus 12-13% earlier. The company remains optimistic on order intake with Rs. 2,000-3,000 crore of order inflows targeted for the remainder of FY2021 and Rs. 5000-6000 crore in FY2022. Its current order book at Rs. 9152 crore, 2.5x TTM standalone revenues provides healthy revenue visibility. Ashoka has also received binding offers for asset monetization and expects to complete documentation work by March 2021 and receipt of funds in Q2FY2022. We believe the company's new project wins and a stake sale in ACL portfolio are keenly awaited events.

Key Conference call takeaways

- **Guidance:** The management retained FY2021 EPC revenue guidance to be same as last year and increased revenue guidance for FY2022 to be 20-25% y-o-y growth (earlier 15-20% y-o-y growth). However, it lowered margin guidance to 11-11.5% for EPC division going ahead from 12-13% earlier.
- **Asset divestment:** The company has received binding offers from potential investors and is currently evaluating the same. It expects to complete documentation by March 2021 and expects to receive the proceeds from the same in Q2FY2022.
- **Order inflow guidance:** The company expects to bag Rs. 2,000-3,000 crore of ordersfor balance FY2021 in roads and rail verticals. The target for order inflow for FY2022 stands at Rs. 5,000-6,000 crore.
- **Equity requirement:** It would require Rs. 164 crore equity for its HAM projects in FY2021 and Rs. 150 crore in FY2022. The company infused Rs. 10 crore in Q3 and Rs. 32 crore post Q3 till date.
- **Order book:** The company received Rs. 503 crore of solar PV EPC order in Q3 in Rajasthan. The project will have 10-11% margins. The current order book of the company stands at Rs. 9,152 crore (Roads – Rs. 6912 crore having 76% share out of which HAM comprises Rs. 3923 crore and EPC Rs. 2,988 crore, power T&D – Rs. 1,466 crore with 16% share;Rail – Rs. 692 crore with 8% share and CGD – Rs. 82 crore).
- **Toll revenues:** Toll revenues stood at Rs. 260 crore (up 15% q-o-q, up 12% y-o-y).
- **Debt:** Consolidated debt stood at Rs. 5976 crore and standalone debt at Rs. 350 crore.
- **Loss funding:** The company would require Rs. 35-40 crore loss funding in FY2022 for Sambalpur project. It would incur Rs. 45-50 crore in major maintenance work in couple of projects in FY2022.
- **Revenue mix:** Q3FY2021 revenue comprised road – Rs. 715 crore, power T&D – Rs. 127 crore, Rail – Rs. 89 crore, CGD – Rs. 12 crore. Q3FY2020 revenues comprised road – Rs. 742 crore, power T&D – Rs. 120 crore, Rail – Rs. 74 crore, CGD – Rs. 4 crore.
- **Equity invested:** The company has invested Rs. 700 crore equity in HAM projects and Rs. 150 crore in ABL portfolio. It has invested Rs. 1,800 crore equity in completed projects. Overall, it has invested Rs. 2700 crore equity in all projects.

- **Land status:** Tumkur-Shivmoga 3 has 80% plus land availability. It is in fag end of achieving financial closure. It expects to receive FC and appointed date this month. Tumkur-Shivmoga 4 has land acquisition challenges. It has 60% land availability. The ToT project has lots of challenges for land. The company would wait for two quarters for land availability. If land is not available, it may go for descoping the project by about Rs. 150-200 crore.
- **Trade receivable:** The trade receivable stood at Rs. 1,247 crore including retention money of Rs. 188 crore. The receivables comprise of Rs. 796 crore in roads, Rs. 486 crore in power, Rs. 43 crore in Rail and balance others. The company received Rs. 135-140 crore during January-February 2021 from Uttar Pradesh. It expects to receive substantial amount from Bihar by February 2021. Creditors stood at Rs. 781 crore, unbilled revenue Rs. 88 crore and mobilisation advance Rs. 291 crore.
- **CGD:** The gross investment in CGD is Rs. 130 crore. CGD revenue for FY2021 and FY2022 is estimated to be Rs. 26 crore and Rs. 90 crore respectively. It expects Rs. 350 crore plus revenue by FY2024-FY2025. The total capex in CGD over 3-4 years is Rs. 800 crore comprising a debt of Rs. 550 crore.
- **Fund limits:** Its non-fund based limit is Rs. 3,800 crore out of which it has utilised 55-60%.
- **Claims:** The company has claims worth Rs. 1,500 crore under arbitration, majorly in the EPC space.

Results (Consolidated) Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Net sales	**1305.5**	**1280.4**	**2.0%**	**1189.3**	**9.8%**
Other income	25.6	22.9	11.8%	28.7	-10.7%
Total income	1331.1	1303.3	2.1%	1218.0	9.3%
Total expenses	889.2	902.0	-1.4%	797.2	11.5%
Operating profit	**416.3**	**378.3**	**10.0%**	**392.1**	**6.2%**
Depreciation	77.1	81.7	-5.7%	69.6	10.8%
Interest	239.8	252.7	-5.1%	243.1	-1.3%
Exceptional items	0.0	0.0		0.0	
Profit Before Tax	**125.0**	**66.8**	**87.1%**	**108.2**	**15.5%**
Taxes	41.5	45.1	-8.0%	44.2	-6.3%
PAT before MI/JV	83.5	21.8	283.8%	63.9	30.7%
Minority Interest/JV Inc	-4.9	-10.6	-	-9.3	-
Reported PAT	88.4	32.4	172.9%	73.3	20.7%
Adjusted PAT	**88.4**	**32.4**	**172.9%**	**73.3**	**20.7%**
No. of equity shares	28.1	28.1	0.0%	28.1	0.0%
EPS (Rs.)	3.2	1.2	172.9%	2.6	20.7%
OPM(%)	31.9%	29.5%	234 bps	33.0%	-108 bps
NPM(%)	6.8%	2.5%	424 bps	6.2%	62 bps
Tax rate (%)	33.2%	67.4%	-	40.9%	-

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Roads to remain one of key focus areas in government's infrastructure spending

The government's infrastructure investment is pegged at Rs. 111 lakh crore over FY2020-FY2025. The road sector is expected to witness Rs. 20 lakh crore investments during the same period. Hugh investments along with favourable government policies is expected to provide strong growth opportunities for industry players. The road sector is recovering with near pre-COVID level manpower strength and availability of materials post easing of restrictions after the COVID-19 led lockdown in the country. The industry is expected to see strong order inflows and an improvement in execution run-rate from Q3FY2021 onwards. Working capital issues of the companies have been handled by proactive payments from the NHAI.

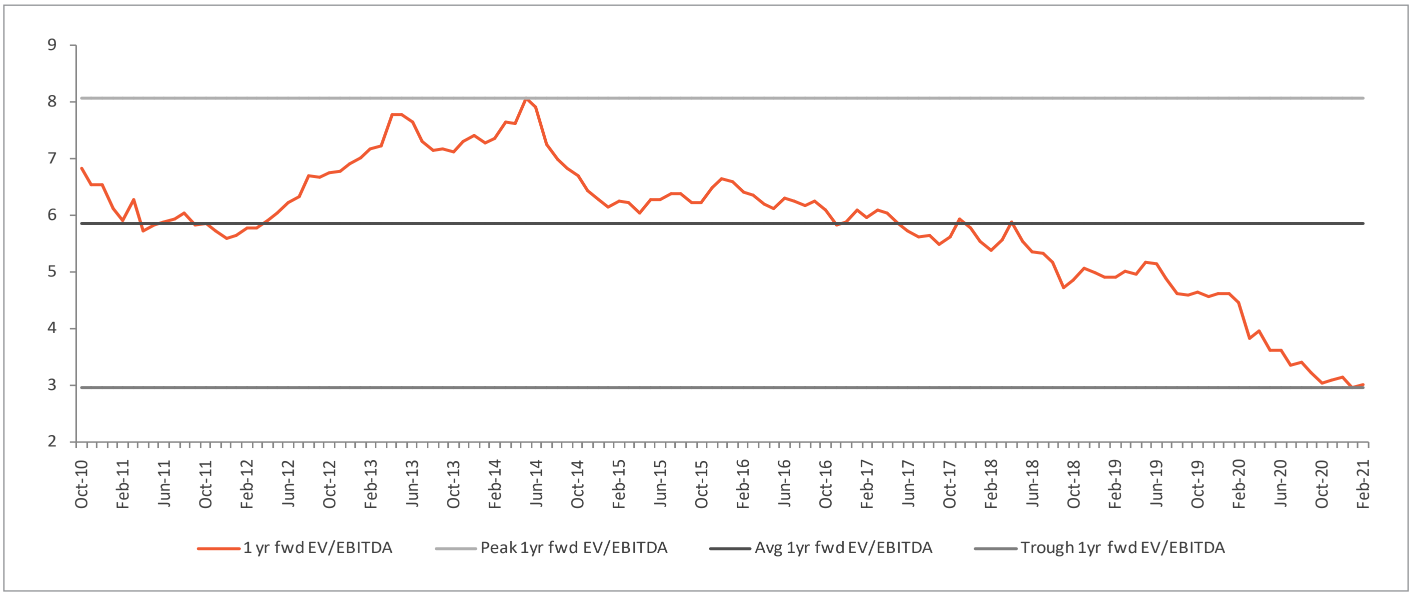
■ Company outlook - FY2021 guidance maintained along with strong FY2022 growth expectation

The management retained FY2021 revenue guidance (to be same as last year) as the work on two Bihar projects is expected to start during Q4FY2021. However, it has upped EPC revenue guidance for FY2022 from 15-20% y-o-y to 20-25%. However, the management's guidance on OPM disappointed which is now pegged at 11-11.5% versus 12-13% earlier. The company remains optimistic on order intake with Rs. 2000-3000 crore order inflow target for balance FY2021 and Rs. 5,000-6,000 crore in FY2022. Its current order book at Rs. 9,152 crore, 2.5x TTM standalone revenues provides healthy revenue visibility.

■ Valuation - Retain Buy with a revised price target of Rs. 125

Ashoka's EPC execution underperformed on account of a delay in getting appointed dates for few projects. However, for one it has received appointed date and construction has started, while the rest two are expected to get during Q4FY2021 which should aid in healthy EPC execution for Q4FY2021 and FY2022. Its order backlog remained healthy at 2.5x with healthy order intake outlook going ahead. We expect EPC revenues to improve during FY2022. The company is also in the final stages of asset monetisation which would help it de-leverage and free up equity capital. We have raised our earnings estimates for FY2021E-FY2022E factoring strong improvement in toll revenues. We retain Buy on the stock with a revised price target of Rs. 125 owing to the company's healthy order backlog, comfortable liquidity position and improving industry outlook.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer valuation

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
PNC Infratech*	15.9	13.2	8.6	7.3	2.1	1.8	14.0	14.8
Ashoka Buildcon	11.1	8.3	2.6	1.8	3.5	2.6	36.3	35.7
KNR Constructions*	12.4	10.8	5.0	4.5	1.5	1.3	12.7	12.9

*Source: Sharekhan Research, *Standalone financials*

About company

Ashoka is a leading EPC company with over four decades of experience. Apart from road EPC, the other business verticals include roads BOT (Annuity/hybrid annuity), power distribution and city gas distribution. The company has constructed 10,000+ lane kms and has its presence in 18 states. The company has 23 operational plus under-construction BOT projects. The company employs over 4,000 employees and has an equipment bank of 2,500 numbers.

Investment theme

We believe massive infrastructure investment particularly in roads and railways provide opportunity for strong order inflows for Ashoka, considering its presence in both road, railways and power segments. Ashoka provides a unique opportunity to play on the road construction sector (both as a developer and EPC player). Further, with its strong order book position and asset monetization on the anvil, the company is expected to report strong net earnings growth along with improvement in balance sheet.

Key Risks

- Delay in execution ofhybrid annuity projects can negatively affect financials and valuation multiple of the company.
- Weak economic environment leading to lower traffic growth and lower project awards.
- Inability to monetise assets.

Additional Data

Key management personnel

Mr. Ashok Katariya	Chairman
Mr. Satish Parakh	Managing Director
Mr. Sanjay Londhe	CEO (Projects)
Mr. Ashish Katariya	MD of ACL
Mr. Paresh Mehta	Chief Financial Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	PARAKH SHOBHA	13.55
2	Katariya Ashok M	10.61
3	KATARIYA ASHISH ASHOK	9.32
4	HDFC Asset Management Co Ltd	9.24
5	Reliance Capital Trustee Co Ltd	7.63
6	KATARIYA ASHA ASHOK	7.11
7	Parakh Satish D	4.02
8	KATARIYA ASTHA ASHISH	3.99
9	ICICI Prudential Asset Management Co	3.58
10	L&T Mutual Fund Tustee Ltd/India	3.03

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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