Ashoka Buildcon Limited

Healthy Q4, Eyes on asset monetisation

Infrastructure	Sharekhan code: ASHOKA	Result 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. 98**	
Price Target: **Rs. 125**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 2,738 cr
52-week high/low:	Rs. 119/50
NSE volume: (No of shares)	18.6 lakh
BSE code:	533271
NSE code:	ASHOKA
Free float: (No of shares)	12.8 cr

Shareholding (%)

Promoters	54.5
FII	4.0
DII	27.4
Others	14.1

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	7.1	-4.5	3.6	46.3
Relative to Sensex	3.3	-9.6	-9.6	-2.2

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on Ashoka Buildcon Limited (Ashoka) with an unchanged price target of Rs. 125, considering a healthy order backlog, comfortable liquidity and an improving industry outlook.
- Q4FY2021 standalone revenues remained broadly in-line while OPM came in much better than estimate leading to beat on standalone net profit.
- Management retained FY2022 standalone revenue guidance and raised OPM. Expect to receive another Rs. 4000-5000 crore order inflows in FY2022 with expected pick up in tendering from Q2FY2022.
- Asset monetisation to happen asset by asset versus earlier portfolio sale. Expect most of the ACL assets to be sold by Q3FY2022 with receipt of funds in FY2022.

Ashoka Buildcon Limited (Ashoka) reported revenues that were broadly in-line with standalone revenues for Q4FY21 while OPM came in much better than estimates leading to a strong beat at standalone net profit level. Consolidated revenues were up 9.6% y-o-y at Rs. 1735.6 crore led by standalone revenues growth of 10.5% y-o-y at Rs. 1387 crore. However, toll revenues rose by 18% y-o-y (up 0.7% q-o-q) to Rs. 262 crore. The EPC OPM at 14.5% (lower 374 bps y-o-y, higher 375 bps q-o-q) surprised positively which was aided by the reversal of COVID led provisions, reversals of ECL provisions related to power receivables and higher PIM receipt than budgeted. Consolidated OPM stood at 27.7% (lower 226 bps y-o-y, lower 424 bps q-o-q) leading to 1.3% y-o-y rise in consolidated operating profit to Rs. 480 crore. Further, higher other income and lower interest was partially offset by higher depreciation and a higher effective tax rate leading to 5.9% y-o-y growth in consolidated net profit to Rs. 142.5 crore. Standalone net profit, however, declined by 9.2% y-o-y at Rs. 149.2 crore on account of lower OPM y-o-y and higher effective tax rate. The company retained its EPC revenue growth guidance for FY2022 at 20-25% y-o-y while raised OPM guidance at 12-12.5% from earlier 11-11.5%. On the order inflow front, the company had bagged Rs. 1949 crore orders in Q1FY2022 and expects to win another Rs. 4000-5000 crore orders in the balance FY2022 out of which roads is expected to comprise 60-70% while balance from other segments. Its current order book at Rs. 10,116 crore, 2.7x TTM standalone revenues provides healthy revenue visibility assuming its two HAM projects achieve financial closure and receives appointed dates before Q2FY2022 end. On asset monetization front, the company now guides for asset by asset sale versus earlier expectation of portfolio sale. It expects most of the assets in ACL portfolio to monetize by Q2FY2022 and Q3FY2022 and is hopeful of receiving funds during FY2022. The road construction and award activities are expected to gather pace over the next two quarters with NHAI targeting to award Rs. 2.25 lakh crore projects in FY2022 and road ministry aiming for Rs. 15 lakh crore project construction over the next two years. We believe the company's new project wins and monetization of assets in ACL portfolio are keenly awaited events. We have fine-tuned our earnings estimates for FY2022E-FY2023E. We retain Buy on the stock with an unchanged price target of Rs. 125 owing to the company's healthy order backlog, comfortable liquidity position and improving industry outlook.

Key positives

- Strong beat on standalone OPM and net profitability.
- FY2022 revenue guidance maintained while OPM upped.
- Order inflow guidance remains strong

Key negatives

- Delay in asset monetization with expectations revised from asset to asset sale versus portfolio sale.
- Delay in receipt of appointed dates for a couple of HAM projects.

Our Call

Valuation –Retain Buy with an unchanged price target of Rs. 125: Ashoka's EPC execution has shown an improvement while it has maintained its FY2022 guidance along with upward revision in OPM guidance. Strong project awards expected from NHAI and road ministry during FY2022 should further improve its healthy order backlog. However, a delay in asset monetization and guidance of asset-by-asset sale versus portfolio exit was a disappointment. However, most ACL's assets are expected to be monetized by Q3FY2022 which should lighten its consolidated balance sheet and remove a key hangover on the stock. We have fine-tuned our earnings estimates for FY2022E-FY2023E. We retain Buy on the stock with an unchanged 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, sustained lull in project tendering and delay in asset monetisation can lead to a net earnings downgrade.

Valuation (Consolidated) Rs cr

Particulars	FY20	FY21	FY22E	FY23E
Revenue	5,070.5	4,991.7	5,828.8	6,372.6
OPM (%)	31.1	30.8	29.4	28.7
Adjusted PAT	165.3	276.2	243.8	336.7
% YoY growth	-	67.1	(11.7)	38.1
Adjusted EPS (Rs.)	5.9	9.8	8.7	12.0
P/E (x)	16.6	9.9	11.2	8.1
P/B (x)	6.6	4.4	3.4	2.5
EV/EBITDA (x)	4.8	5.3	3.2	1.8
RoNW (%)	47.2	53.4	34.0	35.2
RoCE (%)	22.0	21.0	23.1	26.9

Source: Company; Sharekhan estimates

EPC execution in-line while OPM surprise positively

Ashoka Buildcon Limited (Ashoka) reported revenues broadly in-line with standalone revenues for Q4FY21 while OPM came in much better than estimates leading to strong beat at standalone net profit level. Consolidated revenues were up 9.6% y-o-y at Rs. 1735.6 crore led by standalone revenues growth of 10.5% y-o-y at Rs. 1387 crore. However, toll revenues rose by 18% y-o-y (up 0.7% q-o-q) to Rs. 262 crore. The EPC OPM at 14.5% (lower 374 bps y-o-y, higher 375 bps q-o-q) surprised positively which was aided by the reversal of COVID led provisions, reversals of ECL provisions related to power receivables and higher PIM receipt than budgeted. Consolidated OPM stood at 27.7% (lower 226 bps y-o-y, lower 424 bps q-o-q) leading to 1.3% y-o-y rise in consolidated operating profit to Rs. 480 crore. Further, higher other income and lower interest was partially offset by higher depreciation and a higher effective tax rate leading to 5.9% y-o-y growth in consolidated net profit to Rs. 142.5 crore. Standalone net profit, however, declined by 9.2% y-o-y at Rs. 149.2 crore on account of lower OPM y-o-y and higher effective tax rate.

Revenue guidance retained while OPM upped

The company has retained its EPC revenue guidance for FY2022 at 20-25% while raised OPM guidance at 12-12.5% from earlier 11-11.5%. On the order inflow front, the company had bagged Rs. 1949 crore orders in Q1FY2022 and expects to win another Rs. 4000-5000 crore orders in the balance FY2022 out of which roads is expected to comprise 60-70% while balance from other segments. Its current order book at Rs. 10,116 crore, 2.7x TTM standalone revenues provides healthy revenue visibility assuming its two HAM projects achieve financial closure and receives appointed dates before Q2FY2022 end. On the asset monetization front, the company now guides for asset by asset sale versus earlier expectation of portfolio sale. It expects most of the assets in ACL portfolio to monetize by Q2FY2022 and Q3FY2022 and is hopeful of receiving funds during FY2022. The road construction and award activities are expected to gather pace over the next two quarters with NHAI targeting to award Rs. 2.25 lakh crore projects in FY2022 and road ministry aiming for Rs. 15 lakh crore project construction over next two years.

Key Conference call takeaways

- **Industry update:** The road construction achieved 36.4km per day in FY2021 and is targeted to rise 40km/day in FY2022. The road ministry targets road construction worth Rs. 15 lakh crore over next two years. NHAI plans to award Rs. 2.25 lakh crore projects in FY2022.
- **Impact of covid on toll collections:** The second wave of COVID had a negative impact on toll collections during April-May 2021. The toll collections are expected to recover gradually with the easing of state restrictions. The toll collections are expected to rise by double digits y-o-y in FY2022 due to low base.
- **Labour efficiency:** The company's labour efficiency dropped by 30% in April-May 2021 due to covid. The labour efficiency has reached 90-95% as of now.
- **Guidance:** The company expects to achieve 20-25% construction revenue growth for FY2022 factoring two HAM projects to achieve Financial closure in one to one and half months time. The company guides for lower construction OPM of 12-12.5% in FY2022 versus 14.5% in Q4FY2021 which was aided by projects coming to end, reversal of covid provisions, reversal of ECL provisions due to the receipt of power receivables.
- **Order inflow guidance:** The company has bagged almost Rs. 2000 crore order inflows in Q1FY2022 and expects to bag another Rs. 4000-5000 crore order inflows in balance FY2022 out of which 60-70% would comprises roads and balance 30-40% comes from other segments. The company expects NHAI to announce Rs. 70,000 crore projects during Q2 and Q3FY2022.
- **Asset monetisation:** The due diligence process for asset monetisation is currently going on. The company expects asset by asset monetisation versus earlier expectation of sale of portfolio of assets. It expects most of the assets in ACL portfolio to be monetised by Q2 and Q3FY2022 and hopes to receive funds during FY2022. In ACL portfolio, the total equity invested is Rs. 3100 crore out of which Macquarie has invested Rs. 800 crore and ABL Rs. 2300 crore (including support loan funding and CCDs).
- **Impact of commodity rise:** The company expects a certain impact of commodity rise in existing projects but it would not be significant.
- **Competitive intensity:** In EPC, projects below Rs. 800 crore has lot of competition while larger projects have 10-12 bidders. In HAM, there are 10-12 bidder for small projects and 6-8 for larger ones.

- **Equity requirement:** The equity requirement for FY2022 is Rs. 176 crore and for FY2023 is Rs. 141 crore.
- **CGD business update:** The company has achieved financial closure of its CGD business with debt tie up of Rs. 543 crore (at 8.75% interest rate). Out of Rs. 291 crore equity requirement, Rs. 130 crore equity has already been infused while the balance will be infused after one and half to two years.
- **Capex:** The company has incurred Rs. 27.6 crore capex in FY2021 and will spend Rs. 50-60 crore in FY2022.
- **Payment cycle:** Apart from U.P. and Jharkhand, where there are teething issues, it has been receiving payments on time from other states. NHAI has been paying on time.
- **Sambalpur project funding:** The support funding for Sambalpur project will continue at Rs. 35 crore per annum.
- **Non-fund limit:** Out of Rs. 3000 crore non-fund based limit, it has utilised 60%.
- **NTPC solar project:** The company has received five months extension due to covid for the project which was expected to start from January 2021. The project is to be executed in 24 months time. It has yet not bought solar modules due to increased costs and expects it to soften. The project is a fixed price contract.

Results (Consolidated) Rs cr

Particulars	Q4FY2021	Q4FY2020	y-o-y%	Q3FY2021	q-o-q%
Net sales	**1735.6**	**1584.2**	**9.6%**	**1305.5**	**32.9%**
Other income	44.7	24.9	79.3%	25.6	74.2%
Total income	1780.2	1609.1	10.6%	1331.1	33.7%
Total expenses	1255.7	1110.4	13.1%	889.2	41.2%
Operating profit	**479.9**	**473.8**	**1.3%**	**416.3**	**15.3%**
Depreciation	77.5	63.7	21.7%	77.1	0.6%
Interest	247.4	256.6	-3.6%	239.8	3.2%
Exceptional items	0.0	0.0		0.0	
Profit Before Tax	**199.6**	**178.4**	**11.9%**	**125.0**	**59.7%**
Taxes	50.0	33.2	50.8%	41.5	20.5%
PAT before MI/JV	**149.6**	**145.2**	**3.0%**	**83.5**	**79.1%**
Minority Interest/JV Inc	7.2	10.7	-32.9%	-4.9	-246.2%
Reported PAT	142.5	134.6	5.9%	88.4	61.1%
Adjusted PAT	**142.5**	**134.6**	**5.9%**	**88.4**	**61.1%**
No. of equity shares	28.1	28.1	0.0%	28.1	0.0%
EPS (Rs.)	5.1	4.8	5.9%	3.2	61.1%
OPM(%)	27.7%	29.9%	-226 bps	31.9%	-424 bps
NPM(%)	8.2%	8.5%	-29 bps	6.8%	143 bps
Tax rate (%)	25.0%	18.6%	646 bps	33.2%	-813 bps

Source: Company Data, 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 construction and award activities are expected to gather pace over the next two quarters with NHAI targeting to award Rs. 2.25 lakh crore projects in FY2022 and road ministry aiming for Rs. 15 lakh crore project construction over next two years.

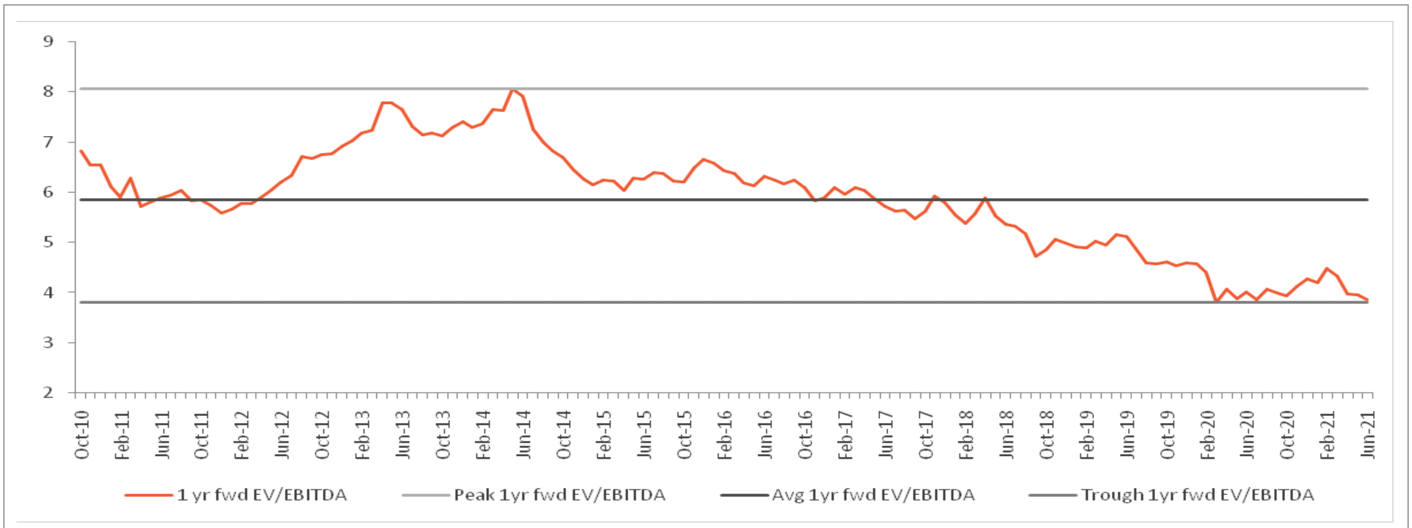
■ Company outlook - FY2022 revenue guidance maintained; Expect healthy order inflows in FY2022

The company retained its EPC revenue guidance for FY2022 at 20-25% while raised OPM guidance at 12-12.5% from earlier 11-11.5%. On the order inflow front, the company had bagged Rs. 1949 crore orders in Q1FY2022 and expects to win another Rs. 4000-5000 crore orders in the balance FY2022 out of which roads is expected to comprise 60-70% while balance from other segments. Its current order book at Rs. 10,116 crore, 2.7x TTM standalone revenues provides healthy revenue visibility assuming its two HAM projects achieve financial closure and receives appointed dates before Q2FY2022 end. On the asset monetization front, it expects most of the assets in ACL portfolio to monetize by Q2FY2022 and Q3FY2022 and is hopeful of receiving funds during FY2022. We believe the company's new project wins and monetization of assets in ACL portfolio are keenly awaited events.

■ Valuation - Retain Buy with an unchanged price target of Rs. 125

Ashoka's EPC execution has shown improvement while it has maintained its FY2022 guidance along with revision in OPM guidance. Strong project awards expected from NHAI and road ministry during FY2022 should further improve its healthy order backlog. However, delay in asset monetization and guidance of asset by asset sale versus portfolio exit was a disappointment. However, most ACL's assets are expected to be monetized by Q3FY2022 which should lighten its consolidated balance sheet and remove a key hangover on the stock. We have fine-tuned our earnings estimates for FY2022E-FY2023E. We retain Buy on the stock with an unchanged 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: Company; Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
PNC Infratech*	14.9	12.3	8.0	6.8	1.9	1.7	14.0	14.8
Ashoka Buildcon	11.2	8.1	3.2	1.8	3.4	2.5	34.0	35.2
KNR Constructions*	19.8	16.1	10.7	8.9	2.8	2.4	15.7	16.5

*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 of hybrid 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 Trustee 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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