Ashoka Buildcon (ASHBUI)

CMP: ₹ 105 | Target: ₹ 110 (5%) | Target Period: 12 months | HOLD

February 8, 2021

Weak execution; muted order inflows

Ashoka Buildcon (ABL) reported a weaker-than-expected performance during Q3FY21 wherein standalone revenue were flattish YoY at ₹ 981 crore largely impacted by delays in appointed dates (AD) in certain HAM, EPC projects. Also, its operating margin declined 188 bps YoY to 10.8%, owing to a muted topline performance, unfavourable change in project mix and deferral of profitability recognition in some projects. At the PAT level, weak operating show translated into muted bottomline at ₹ 85.7 crore, flat YoY).

Order book at ₹ 9,152 crore as of Q3FY21

ABL's order book (OB) at the end of Q3FY21 was at ₹ 9,152 crore (OB-to-bill ratio of 2.5x TTM revenues) spread across roads - HAM (₹ 3,923 crore), roads - EPC (₹ 2,988 crore), power T&D and others (₹ 1,466 crore), railways (₹ 692 crore), and CGD (₹ 83 crore) segments. During Q3FY21, the company has secured projects from a) NTPC Renewable Energy worth ₹ 503 crore for EPC package of 150 MW solar PV project in Rajasthan and b) smaller contracts in power segment worth ~₹ 300 crore in Uttar Pradesh and Bihar. Going forward, the management has guided for order inflow of ₹ 2,000-2,500 crore in the rest of FY21, with higher competitive intensity in roads and highways segment. On the execution front, the management expects a pick-up with desired level of labour availability and improvement in executable order book with expected AD in certain projects soon. Post a 2% YoY decline in EPC revenues, we bake in ~15% CAGR in EPC revenues in FY21-23E to ₹ 5099.2 crore. Furthermore, operating margin is likely to be lower at 11.5%, as the management has tempered its guidance to 11-11.5% vs. 12-13%, guidance given earlier.

Equity infusion, asset monetisation update

ABL has infused ~₹ 600 crore up to Q3FY21 in the HAM project. It is further expected to infuse ₹ 164 crore in Q4FY21, ~₹ 160 crore in FY22E based on current order book position. In addition, ABL expects closure of SBI-Macquarie deal by March 2021 and receipts of fund by September 2021 (has received binding offer by potential investors; currently under evaluation stage. We will monitor the fructification and valuation thereof, for the deal, which will be the key for leverage ahead.

Valuation & Outlook

Key factors such as a) ABL's weaker-than expected performance in Q3FY21, b) muted order inflows, c) moderated operating margin and d) persistent delay in SBI-Macquarie stake sell remain a cause of concern for us. We believe asset monetisation will be key for rerating of EPC business multiples. We conservatively bake in construction revenue growth at 9% CAGR in FY20-23E (~15% in FY21-23E) to ₹ 5,099 crore and moderation in EBITDA margins as guided. We maintain **HOLD** rating on the stock with an SoTP-based target price of ₹ 110/share (vs. ₹ 95/share earlier).

Ashoka Buildcon Ltd.

Particulars

Particular	Amount (₹ crore)
Market Capitalization	2,940.6
Total Debt	5,580.7
Cash	505.9
EV	8,015.4
52 week H/L (₹)	151 / 37
Equity capital	140.4
Face value	₹ 5

Key Highlights

- Order book is at ₹ 9,152 crore as of Q3FY21, implying order book-to-bill ratio of 2.5x TTM revenues
- Maintain HOLD rating with SoTP-based target price of ₹ 110/share

Key risks to our call

- Faster than expected order inflows/execution
- Delay in asset monetisation

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

₹ crore	FY19	FY20	FY21E	FY22E	FY23E	CAGR FY20-23E
Net Sales	4930.1	5070.5	4842.6	5645.8	6434.7	8.3%
EBITDA	1394.3	1575.2	1405.3	1549.9	1656.9	1.7%
EBITDA Margin (%)	28.3	31.1	29.0	27.5	25.8	
PAT	26.7	165.3	151.9	262.9	287.6	20.3%
EPS (₹)	-1.8	8.8	8.1	14.0	15.4	
P/E (x)	-87.9	17.8	19.4	11.2	10.2	
EV/EBITDA (x)	6.0	5.1	5.9	5.2	4.7	
RoNW (%)	-11.7	40.0	26.9	31.7	25.8	
RoCE (%)	13.9	15.1	13.4	14.5	15.3	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

Particulars	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Income from Operations	980.7	1,062.4	983.6	-0.3	877.5	11.8	Revenues were impacted by delays in appointed dates (AD) in certain HAM/EPC projects
Other Income	47.3	40.0	36.9	28.0	49.8	-5.2	
Operating Expenses	806.9	822.3	773.4	4.3	633.6	27.3	
Employee Expenses	43.7	42.5	52.9	-17.4	43.5	0.5	
Other expenditure	24.6	63.7	32.9	-25.2	69.4	-64.6	
EBITDA	105.5	133.9	124.3	-15.1	130.9	-19.4	
EBITDA Margin(%)	10.8	12.6	12.6	-188 bps	14.9	-416 bps	Margins lower due to muted topline performance, unfavourable change in project mix and deferral of profitability recognition in some projects
Depreciation	21.6	24.0	28.4	-23.9	21.8	-0.9	
Interest	18.3	22.0	20.0	-8.3	19.7	-6.8	
PBT	112.9	127.9	112.9	0.0	139.3	-19.0	
Taxes	27.2	32.2	27.4	-0.5	34.6	-21.4	
PAT	85.6	95.6	85.5	0.1	104.7	-18.2	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20	FY21E	FY22E			FY23E			Comments
(₹ Crore)			Old	New	% Change	Old	New	% Change	
Revenue	5,070.5	4,842.6	5,521.6	5,645.8	2.2	6,392.7	6,434.7	0.7	Realign estimates post M9FY21
EBITDA	1,575.2	1,405.3	1,557.2	1,549.9	-0.5	1,677.4	1,656.9	-1.2	
EBITDA Margin (%)	31.1	29.0	29.0	27.5	-157 bps	27.5	25.8	-170 bps	
PAT	165.3	151.9	209.6	262.9	25.4	245.8	287.6	17.0	
Diluted EPS (₹)	5.9	5.4	7.5	9.4	25.4	8.8	10.2	17.0	Realign tax rates and depreciation

Source: Company, ICICI Direct Research

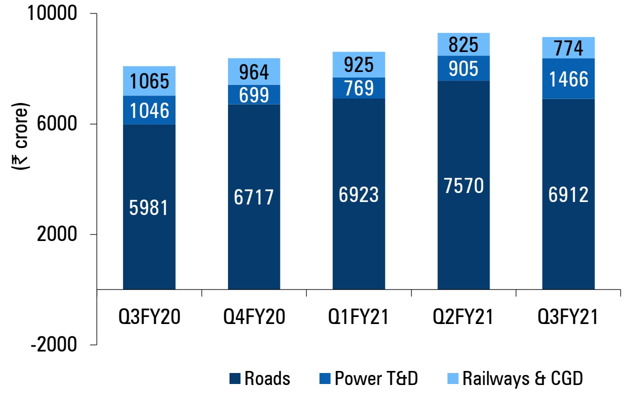
Conference call highlights

- **Industry update:** The roads and highways sector has been the government's focus area, which can be seen via robust awarding and construction activities and higher budgetary allocations. Roads construction by MoRTH during April 15, 2020-January 2021 improved to 8,169 km despite disruptions caused by Covid-19 pandemic. Additionally, awarding by NHAI remains elevated and has increased their tendering target to 5,200 km for FY21 (from earlier target of 4,500 km)
- **Order book:** ABL's OB was at ₹ 9,152 crore. Roads – HAM contributed 42.9% to total OB followed by roads – EPC (32.7%), power T&D and others (16%), railways (7.6%) and CGD (0.9%) segments. Despite robust awarding by various authorities in roads, infra and power sector, order inflows for the company during Q3FY21 have remained benign and secured a) project worth ₹ 503 crore from NTPC Renewable Energy for EPC package of 150 MW Solar PV project in Rajasthan and b) smaller contracts in power segment worth ~₹ 300 crore in Uttar Pradesh and Bihar. Going forward, the management has guided for order inflows of ₹ 2,000 - 2,500 crore, ₹ 5,000-6,000 crore in the rest of FY21, FY22E, respectively. The company's focus remains on roads (HAM and EPC) and power sector. However, it is also targeting orders from the other infrastructure verticals such as building and solar for order inflows in the near future
- **Management guidance, AD in HAM, EPC:** Execution for ABL has stayed weak in 9MFY21 largely marred by disruptions due to Covid-19 pandemic, heavy monsoons, delays in ADs for certain projects. However, the management expects execution to pick up, going forward, with a) availability of desired level of labour availability, smoothening of raw material supply chain on project sites and b) incremental revenue from i) receipt of AD in Kandi Ramsanpalle project (BPC: ₹ 1,000 crore) and ii) expected AD in Tumkur-Shivamogga Package - III and two EPC projects in Bihar during Q4FY21. The management expects flat, 20-25% YoY topline growth during FY21E, FY22E, respectively. However, operating margin is likely to moderate to 11-11.5% with expected change in project mix
- **Equity commitment:** Based on current order book position, ABL is likely to infuse ₹ 164 crore in Q4FY21, ~₹ 160 crore in FY22E mainly towards equity requirement of HAM projects
- **CGD Business:** ABL has invested ₹ 130 crore (including JV's share) in CGD business till now and expects significant capex to be done in the next two to three years. Total investment in the projects is likely to be ₹ 808 crore (funding: ₹ 550 crore by debt; rest by equity). With significant capex, the management expects revenue from the business to reach ₹ 90 crore, ₹ 350 crore in FY22E, FY25E, respectively, from expected ~₹ 26 crore topline during FY21
- **Toll collection:** Gradual expansion in economic activity has translated into healthy improvement in toll collections across ABL's BOT projects. Gross consolidated toll collection during Q3FY21 has improved 12.4% YoY (to ₹ 260 crore). Additionally, the management expects further improvement with continued traffic growth witnessed across its major toll assets

- **Debt update:** ABL's consolidated debt increased from ₹ 5,643.3 crore as of September 30, 2020 to ₹ 5,975.7 crore as of December 31, 2020. Of this, ₹ 349.6 crore is standalone debt (₹ 173 crore - equipment loan, and ₹ 177 crore - WC loan), ₹ 5,476.1 crore is project debt and ₹ 150 crore is NCD loan. The management expects debt to remain elevated in the near term with higher working capital requirements
- **Capex:** The company has incurred minimal capex of ₹ 15 crore in 9MFY21. However, capex is likely to return to its normalised level of ₹ 80-85 crore during FY22E
- **Asset monetisation:** The process on exit of SBI-Macquarie deal was started in September 2019. However, it got interrupted due to Covid-19 pandemic. Additionally, the company is looking to monetise its BOT/HAM completed and under-completed projects. Currently, few potential investors are keen and substantial due diligence are completed. The company has also received binding offers from potential investors and are currently at evaluation stage. The management expects closure of the deal by FY21-end and receipt of funds by September 2021. Book value estimated is ₹ 2,700 crore (including completed BOT and HAM projects)

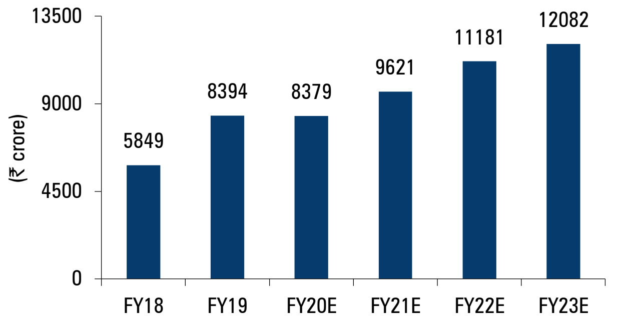
Company Analysis

Exhibit 3: Quarterly order book trend



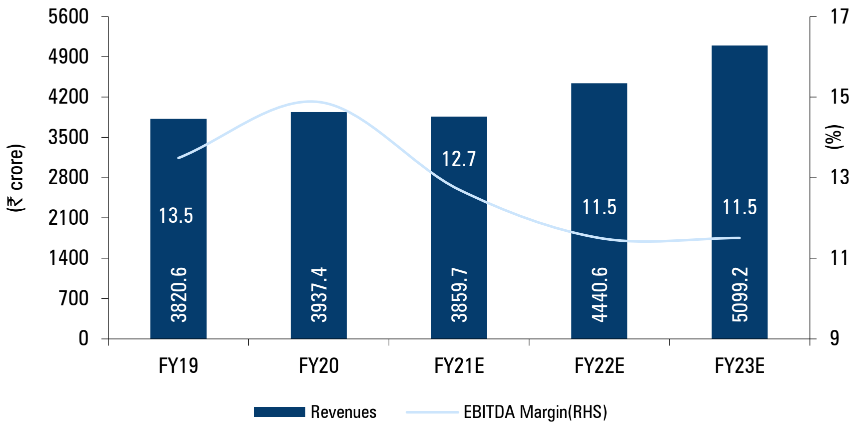
Source: Company, ICICI Direct Research

Exhibit 4: Annual order book trend



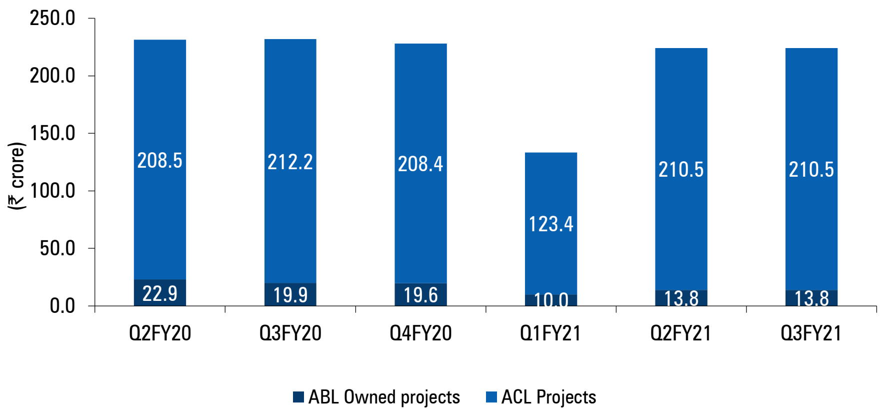
Source: Company, ICICI Direct Research

Exhibit 5: Annual EPC revenue and EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 6: Gross toll collection trend



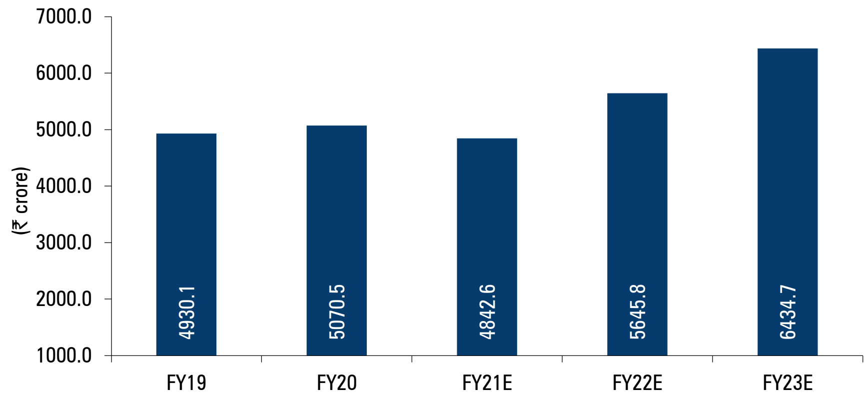
Source: Company, ICICI Direct Research

Exhibit 7: Quarterly gross toll collection trend

(₹ crore)	Q3FY21	Q2FY21	Q1FY21	Q4FY20	Q3FY20	YoY (%)	QoQ (%)
ABL Owned Projects							
Ahmednagar - Aurangabad	-	-	-	5.9	6.1		
Wainganga Bridge	9.3	7.9	4.9	7.5	7.4	25.6%	17.2%
Katni Bypass	6.1	5.3	4.7	5.2	5.4	12.9%	15.9%
Others#	0.9	0.6	0.4	0.9	1.0	-8.2%	41.3%
Sub-total	**16.3**	**13.8**	**10.0**	**19.6**	**19.9**	-18.1%	17.8%
Sub-total (like-to-like basis)	**15.4**	**13.2**	**9.5**	**12.7**	**12.8**	20.2%	16.7%
ACL Projects							
Belgaum Dharwad	27.7	20.1	11.8	22.6	23.4	18.4%	37.7%
Dhankuni – Kharagpur	107.0	93.3	53.6	87.9	90.6	18.1%	14.7%
Bhandara	21.4	17.9	11.7	18.2	18.0	19.1%	19.5%
Durg	23.7	19.7	13.1	20.1	20.0	18.5%	20.2%
Jaora – Nayagaon	44.9	42.4	22.5	42.4	43.9	2.3%	5.8%
Pimpalgaon – Nashik – Gonde				-	-		
Sambalpur	19.1	17.0	10.7	17.3	16.4	16.6%	12.6%
Sub-total	**243.8**	**210.5**	**123.4**	**208.4**	**212.2**	14.9%	15.8%
Sub-total (like-to-like basis)	243.8	210.5	123.4	208.4	212.2	14.9%	15.8%
Grand Total	**260.1**	**224.3**	**133.4**	**228.0**	**232.1**	12.1%	16.0%
(Grand total) like-to-like basis	259.2	223.7	133.0	221.2	225.0	15.2%	15.9%

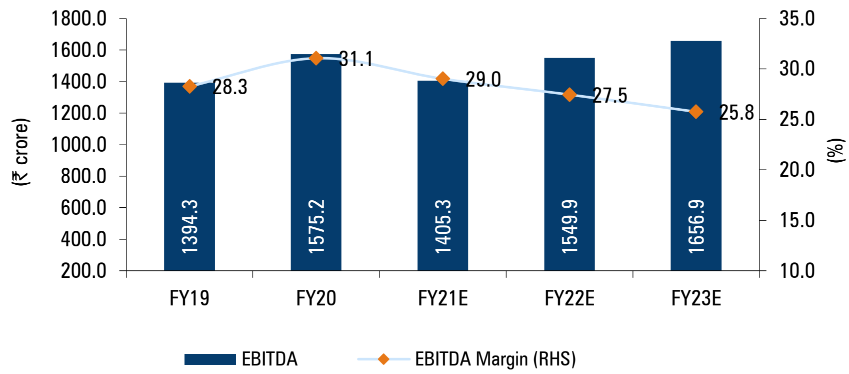
Source: ICICI Direct Research, Company

Exhibit 8: Consolidated revenue trend



Source: Company, ICICI Direct Research

Exhibit 9: Consolidated EBITDA margin trend



Source: Company, ICICI Direct Research

Valuation & Outlook

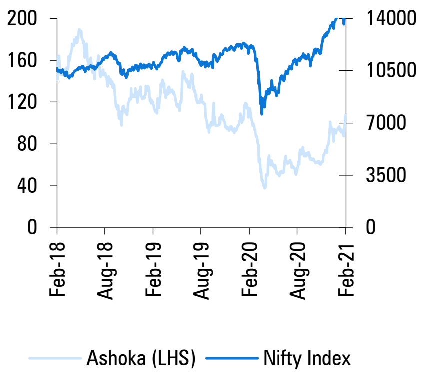
Key factors such a) ABL's weaker-than expected performance during Q3FY21, b) muted order inflows, c) moderated operating margin and d) persistent delay in SBI-Macquarie stake sale remain cause of concern for us. We believe asset monetisation will be key for rerating of EPC business multiples. We conservatively bake in construction revenue growth at 49% CAGR over FY20-23 (~15% over FY21-23E) to ₹ 5,099 crore and moderation in EBITDA margins as guided. We maintain **HOLD** rating on the stock with an SoTP-based target price of ₹ 110/share (vs. ₹ 95/share earlier).

Exhibit 10: 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**			**5x FY23E EV/EBITDA**				**2902.7**	**103.4**
ACL stake valuation (C)	**61.0**					**50% Holding company Discount**		**231.1**	**8.2**
Less Standalone debt (D) - FY23								**700.0**	**24.9**
Total SoTP Valuation (A+B+C-D)								**3173.2**	**113.0**
Rounded off Target Price									**110.0**

Source: Company, ICICI Direct Research

Exhibit 11: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement ₹ crore

(₹ Crore)	FY20	FY21E	FY22E	FY23E
Net Sales	**5070.5**	**4842.6**	**5645.8**	**6434.7**
Other income	81.7	98.3	98.4	96.8
Total Revenue	5152.2	4940.9	5744.2	6531.5
Raw Material Expense	181.6	230.7	364.4	531.3
Operating Expenditure	1861.1	1813.5	2108.3	2397.3
Cost of materials sold	1159.4	1107.3	1290.9	1471.3
Employee benefit expenses	293.3	285.8	332.3	377.8
Total Operating Expenditure	3495.3	3437.3	4095.9	4777.7
EBITDA	**1575.2**	**1405.3**	**1549.9**	**1656.9**
Interest	1042.6	929.2	936.1	937.6
Depreciation	299.8	277.1	357.2	427.3
Other income	81.7	98.3	98.4	96.8
PBT	314.6	297.4	355.0	388.9
Taxes	165.9	166.6	127.1	142.1
PAT before MI	148.7	130.8	227.9	246.8
Minority Interest	-5.0	0.0	0.0	0.0
Share of Profit from Associates	11.7	21.1	35.0	40.8
PAT	**165.3**	**151.9**	**262.9**	**287.6**
Adjusted EPS (Diluted)	5.9	5.4	9.4	10.2

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement ₹ crore

(₹ Crore)	FY20	FY21E	FY22E	FY23E
Profit after Tax	165.3	151.9	262.9	287.6
Depreciation	299.8	277.1	357.2	427.3
Interest	1,042.6	929.2	936.1	937.6
Others	(163.5)	(196.7)	(196.8)	(193.7)
Cash Flow before wc changes	1,591.8	1,426.4	1,584.9	1,697.8
Changes in WC	(109.7)	(521.6)	(275.8)	(315.7)
Taxes Paid	(166.6)	(166.6)	(127.1)	(142.1)
Net CF from operating activities	**1,315.5**	**738.3**	**1,182.0**	**1,240.0**
(Purchase)/Sale of Fixed Assets	(143.9)	(8.7)	(64.0)	(105.1)
Change in Others - Premium Paya	49.7	(325.0)	(231.5)	(183.3)
Net CF from Investing activities	**(24.3)**	**(235.4)**	**(197.1)**	**(191.5)**
Increase/Decrease in NW	(38.5)	-	-	-
Increase/Decrease in Debt	80.4	229.6	(431.6)	(543.6)
Interest Paid	(1,042.6)	(929.2)	(936.1)	(937.6)
Change in Minority Interest	9.0	106.8	158.2	214.9
Net CF from Financing activities	**(991.7)**	**(592.9)**	**(1,209.5)**	**(1,266.3)**
Net Cash flow	299.6	(90.0)	(224.6)	(217.8)
Opening Cash	234.2	754.4	664.4	439.8
Closing Cash/ Cash Equivalent	**754.4**	**664.4**	**439.8**	**221.9**

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet ₹ crore

(₹ Crore)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	140.4	140.4	140.4	140.4
Reserve and Surplus	273.3	425.2	688.1	975.8
Total Shareholders funds	413.7	565.6	828.5	1,116.1
Minority Interest	128.0	234.8	393.0	607.9
Total Debt	5,816.2	6,045.8	5,614.1	5,070.5
Deferred Tax Liability	-	-	-	-
Other- NHAI Premium Payable	2,608.0	2,283.0	2,051.4	1,868.2
Total Liabilities	**10,182**	**10,498**	**10,661**	**10,419**
Assets				
Gross Block	9,569.2	9,375.4	9,405.3	9,349.6
Less Acc. Dep	1,793.1	1,867.7	2,190.8	2,457.4
Net Block	7,776.0	7,507.7	7,214.5	6,892.3
Capital WIP	-	-	-	-
Total Fixed Assets	7,776.0	7,507.7	7,214.5	6,892.3
Investments	185.8	185.8	185.8	185.8
Inventory	434.8	418.9	488.4	556.6
Sundry Debtors	1,083.0	1,210.6	1,411.4	1,608.7
Loans & Advances	257.5	1,259.1	1,467.9	1,673.0
Cash & Bank Balances	754.4	664.4	439.8	221.9
Other Current Assets	413.3	208.4	243.0	277.0
Total Current Assets	2,942.9	3,761.4	4,050.5	4,337.2
Other Current Liabilities	3,460.3	3,338.4	3,892.1	4,435.9
Provisions	888.2	888.2	888.2	888.2
Net Current Assets	(1,405.6)	(465.2)	(729.8)	(986.9)
Total Assets	**10,182**	**10,498**	**10,661**	**10,419**

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios

	FY20	FY21E	FY22E	FY23E
Per Share Data (₹)				
EPS	5.9	5.4	9.4	10.2
Cash EPS	16.6	15.3	22.1	25.5
Book Value	22.1	30.2	44.3	59.6
Operating Ratios (%)				
EBITDA / Net Sales	31.1	29.0	27.5	25.8
PAT / Net Sales	3.3	3.1	4.7	4.5
Inventory Days	31.3	31.6	31.6	31.6
Debtor Days	78.0	91.3	91.3	91.3
Return Ratios (%)				
RoNW	40.0	26.9	31.7	25.8
RoCE	15.1	13.4	14.5	15.3
RoIC	16.3	14.0	15.1	16.0
Valuation Ratios (x)				
EV / EBITDA	5.1	5.9	5.2	4.7
P/E (Diluted)	NA	NA	7.5	6.8
EV / Net Sales	1.6	1.7	1.4	1.2
Market Cap / Sales	0.6	0.6	0.5	0.5
Price to Book Value (Diluted)	4.7	3.5	2.4	1.8
Solvency Ratios (x)				
Net Debt / Equity	12.2	9.5	6.2	4.3
Debt / EBITDA	3.7	4.3	3.6	3.1
Current Ratio	0.9	1.2	1.2	1.2
Quick Ratio	**0.7**	**1.0**	**1.0**	**1.0**

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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