ANANDRATHI

India I Equities

Infrastructure

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

19 February 2022

Ashoka Buildcon

Strong additions, monetisation progressing; retaining a Buy

Rating: Buy
Target Price: Rs.159
Share Price: Rs.97

The proposed deal to monetise five of its operational BOT-toll assets from its Macquarie-SBI portfolio, and the consequent exit of the partner, we believe, would not only assuage exit concerns but also free management bandwidth for better-focused core operations. Given this, the recent well-diversified single-year-best additions is an augury, and a well-set balance sheet sets the stage for an inspiring performance ahead. Any success with monetisation efforts for other assets would further bolster the balance sheet strength and growth outlook. On the bright prospects, we retain our Buy rating with (on earnings revision) a higher TP of Rs159.

Monetisation efforts to continue. Ashoka Buildcon recently entered into an agreement with Kohlberg Kravis Roberts & Co. L.P. to monetise five of its BOT-toll assets for ~Rs13.37bn (subject to final adjustments), and expects closure by Sep'22. The Macquarie-SBI settlement proceeds (Rs12bn) mean Ashoka would obtain access to ~Rs1.37bn (vs. ~Rs13bn exposure). Monetisation efforts are underway for the Jaora-Nayagaon BOT-toll and Chennai ORR BOT-annuity; some development is targeted by end-Q4 FY22. Hybrid annuity monetisation is on the anvil, and an outright transaction or InvIT are feasible options.

Strong ytd additions, ample assurance. Year-to-date additions have been a strong ~Rs86bn; hence, the OB is a sturdy ~Rs145bn (incl. ~Rs22bn post-Q3 orders), and imply ample, ~3.3x, revenue assurance. Efforts are underway to add Rs10bn-15bn more in Q4; healthy prospects lead to this appearing possible.

Standalone leverage up, not overly concerned. The ~Rs1.6bn q/q higher net debt (~Rs5.1bn) was largely attributed to a timing mismatch, and management identifies payment cycles mostly near normal (barring some delay in Jharkhand).

Valuation. On stronger-than-expected orders added and pace of execution, we raise our FY22e-FY24e revenue. However, with the recent SPAs for the asset monetisation, and on the consequent impairment of exposure, other income now no more includes interest income from subsidiaries. Consequently, our FY22e earnings are ~10% down, FY23 ~20% and FY24 ~18%. On our revised estimates, the stock (excl. investments) is available at 4.3x FY24e core construction EPS. **Risk.** Slower-than-expected execution.

Key financials (YE Mar)	FY20	FY21	FY22e	FY23e	FY24e
Sales (Rs m)	39,374	38,175	44,990	52,450	61,457
Net profit (Rs m)	3,871	4,081	3,771	3,748	4,384
EPS (Rs)	13.8	14.5	13.4	13.4	15.6
Growth (%)	16.2	5.4	-7.6	-0.6	17.0
P/E (x)	3.0	7.0	7.2	7.3	6.2
EV / EBITDA (x)	2.2	6.1	6.1	4.9	4.3
P/BV (x)	0.4	1.0	1.0	0.9	0.8
RoE (%)	16.1	14.6	-14.0	13.4	13.7
RoCE (%)	20.9	19.6	18.6	18.7	19.0
Net debt / equity (x)	0.1	0.1	0.2	0.1	0.1

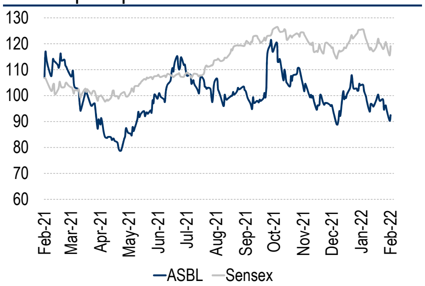
Source: Company, Anand Rathi Research

Key data	ASBL IN / ABDL.BO
52-week high / low	Rs.125 / 78
Sensex / Nifty	57833 / 17276
3-m average volume	$2.3m
Market cap	Rs.27bn / $364.9m
Shares outstanding	281m

Shareholding pattern (%)	Dec-21	Sep-21	Jun-21
Promoters 54.	5	54.5	54.5
- of which, Pledged	-	-	-
Free float	45.5	45.5	45.5
- Foreign institutions	2.4	2.8	3.5
- Domestic institutions	21.9	23.0	24.3
- Public	21.3	19.7	17.7

Estimates revision (%)	FY22e	FY23e	FY24e
Sales 0.	6	3.7	9.4
EBITDA -1.5		2.6	6.6
EPS (Rs)	-9.7	-20.0	-17.6

Relative price performance



Source: Bloomberg

Prem Khurana
Research Analyst

Meet Parikh
Research Associate

Quick Glance – Financials and Valuations (standalone)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
Order backlog	83,792	81,670	146,233	161,360	179,165
Order inflows	36,914	34,907	107,604	65,553	77,156
Net revenues	39,374	38,175	44,990	52,450	61,457
Growth (%)	*3.1*	*-3.0*	*17.9*	*16.6*	*17.2*
Direct costs	29,975 29,	791 36,	125	42,335	49,764
SG&A	3,543 3,	189 3,	713	3,925	4,508
EBITDA	5,856	5,195	5,152	6,191	7,185
EBITDA margins (%)	*14.9*	*13.6*	*11.5*	*11.8*	*11.7*
Depreciation	1,111 872	702		856	956
Other income	1,449 1,	921 1,	529	650	689
Interest expenses	855	772	888	976	1,060
PBT	5,340 5,	472 5,	090	5,009	5,858
Effective tax rates (%)	*27.5*	*25.4*	*25.9*	*25.2*	*25.2*
+ Associates / (Minorities)	-	-	-	-	-
Net income	3,871	4,081	-3,925	3,748	4,384
Adjusted income	3,871	4,081	3,771	3,748	4,384
WANS	281 281	281		281	281
FDEPS (Rs / sh)	13.8	14.5	13.4	13.4	15.6

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
Share capital	1,404	1,404	1,404	1,404	1,404
Net worth	25,989	30,067	26,142	29,890	34,274
Debt	4,335	4,396	4,690	4,466	5,147
Minority interest	-	-	-	-	-
DTL / (Assets)	-475	-515	-515	-515	-515
Capital employed	29,849	33,949	30,317	33,842	38,906
Net tangible assets	3,237	2,682	2,682	2,682	2,682
Net intangible assets	253	172	171	170	169
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	95	17	17	17	17
Investments (strategic)	14,112	14,585	14,585	14,585	14,585
Investments (financial)	-	-	-	-	-
Current assets (excl. cash)	32,035	35,537	36,863	43,752	50,185
Cash 2,	911	1,364	595	1,345	1,839
Current liabilities	22,795	20,408	24,596	28,709	30,571
Working capital	9,240	15,129	12,268	15,043	19,614
Capital deployed	29,849	33,949	30,317	33,842	38,906
Contingent liabilities	7,785	7,593	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
PBT+ Net interest expense	4,745	4,323	4,450	5,334	6,229
+ Non-cash items	1,111	872	702	856	956
Oper. prof. before WC	5,856	5,195	5,152	6,191	7,185
- Incr. / (decr.) in WC	-2,200	5,889	-2,861	2,776	4,571
Others incl. taxes	1,742	1,233	1,320	1,261	1,474
Operating cash-flow	6,315	-1,927	6,693	2,154	1,139
- Capex (tang.+ intang.)	843	158	700	856	955
Free cash-flow	5,472	-2,084	5,993	1,299	184
Acquisitions	- -		- -		-
- Div. (incl. buyback & taxes)	-	-	-	-	-
+ Equity raised	-	-	-	-	-
+ Debt raised	-3,505	22	294	-224	680
- Fin investments	471	473	-	-	-
- Net int. expense + Misc.	-866	-988	7,056	325	371
Net cash-flow	2,361	-1,547	-769	750	493

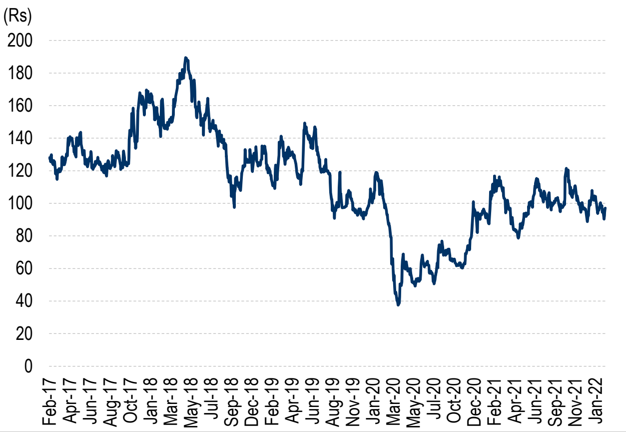
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
P/E (x)	3.0	7.0	7.2	7.3	6.2
EV / EBITDA (x)	2.2	6.1	6.1	4.9	4.3
EV / Sales (x)	0.3	0.8	0.7	0.6	0.5
P/B (x)	0.4	1.0	1.0	0.9	0.8
RoE (%)	16.1	14.6	-14.0	13.4	13.7
RoCE (%)	20.9	19.6	18.6	18.7	19.0
Sales / FA (x)	11.0	13.3	15.7	18.3	21.4
DPS (Rs / sh)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Dividend payout (%)	-	-	-	-	-
Net debt / equity (x)	0.1	0.1	0.2	0.1	0.1
Receivables (days)	134	136	139	139	139
Inventory (days)	14	16	15	15	15
Payables (days)	71	76	85	80	80
CFO : PAT %	163.1	-47.2	177.5	57.5	26.0

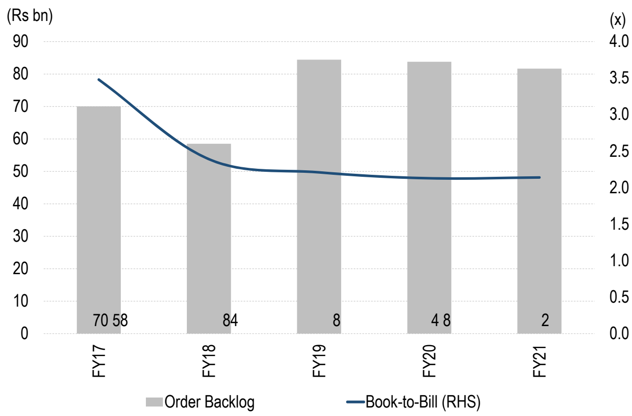
Source: Company, Anand Rathi Research

Fig 5 – Price performance



Source: Bloomberg

Fig 6 – Yearly OB trend



Source: Company

Result / Concall Highlights

Income statement

- **Q3 revenue from operations.** The comforting pace of execution at existing orders and the gradually stabilising operations at the recent added orders meant Ashoka' Q3 revenue from operations was up ~13% y/y to ~Rs11bn. Sequentially, the growth, on a monsoon-impacted base, was even better, at ~20%.
    - With most of its end-Q3 order backlog already moving, and as it expects some of the Jan'22 orders to start contributing in Q4, management largely retained its FY22 revenue growth guidance, at 15-20% (against 20% earlier). The growth guidance implies Q4 revenue of Rs13.6bn-15.5bn.
    - Roads with ~26% y/y higher revenues (~Rs9bn; ~81% share) held the key to Q3 revenues. Sequentially, the segment growth was even more inspiring at ~28%.
    - Railways, the second largest contributor, saw revenue decline ~21% y/y, ~51% q/q, to ~Rs0.7bn. The segment's share consequently dropped to ~6%.

Fig 7 – Standalone financial highlights

(Rs m)	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	% Y/Y	% Q/Q
Sales	5,724	8,775	9,807	13,870	10,114	9,171	11,037	*12.5*	*20.3*
EBITDA	819	1,309	1,055	2,012	1,199	1,055	1,207	*14.4*	*14.4*
EBITDA margins (%)	*14.3*	*14.9*	*10.8*	*14.5*	*11.9*	*11.5*	*10.9*	*18bps*	*-57bps*
Interest	166	197	183	225	164	210	249	*35.8*	*18.9*
Depreciation 223		218	216	216	161	166	167	*-22.6*	*0.7*
Other income	483	498	473	466	472	590	291	*-38.5*	*-50.8*
Exceptional Gain /(Loss)	-	-	-	-	-	-	-7,696	-	-
PBT	913	1,393	1,129	2,037	1,347	1,271	-6,614	*-686.1*	*-620.5*
Tax	222	346	272	546	334	315	321	*18.0*	*2.1*
PAT	691	1,047	856	1,492	1,013	956	-6,936	*-909.9*	*-825.5*
Adj. PAT	691	1,047	856	1,492	1,013	956	760	*-11.2*	*-20.4*
Adj. EPS	2.5	3.7	3.1	5.3	3.6	3.4	2.7	*-11.2*	*-20.4*

Source: Company

- **Input price pressures trim margins.** With some of its recently added orders that better reflect current input prices yet to contribute notably, the ~10.9% EBITDA margin slightly lagged the guided-to range of 11-12%.
    - The y/y ~18bps expanded Q3 margin was more due to operating leverage. Sequentially, the EBIDA margin compressed ~57bps, largely led by the ~189bp lower gross margin.
    - With its recently added orders bid for in an inflationary context, management expects these to better reflect current input prices and, consequently, looks at the EBITDA margin returning to 11-12%.
- **Proposed asset sale impacts earnings performance.** An exceptional ~Rs7.7bn loss on foreseeable under-recoveries (exposure impaired to an extent unlikely to be recovered) from the share-purchase agreements entered into with KKR to monetise five of its operational BOT-toll assets resulted in Ashoka recording a ~Rs6.9bn net loss. Adjusting for this, Q3 standalone PAT is estimated at ~Rs760m. Even the adjusted

PAT is not comparable y/y or q/q as the earlier quarters include interest income on loans extended to the BOT assets (now impaired).

- Other income was ~39% lower y/y, ~51% q/q, to ~Rs291m on account of impairment of loans extended to the BOT Holdco.

BOT-toll operations: Comparable average daily collection, ~Rs28m

- Q3 gross toll collection of ~Rs2.6bn was down ~1% y/y, but q/q ~6% better. The sequential improvement appears to be a function of seasonality (Q2 monsoon-impacted; fewer rainy days in Q3), whereas the y/y decline is attributed to the protracted monsoon (more pronounced y/y).
    - We estimate the gross average daily collection for the comparable set of projects at ~Rs28m, against ~Rs28.2m for the year-ago quarter and ~Rs26.4m the prior quarter.
    - Belgaum-Dharwad, like last quarter, registered the strongest y/y and q/q growth, whereas Jaora-Nayagaon was one of the weakest performers.

Fig 8 – Gross toll collection down ~1% y/y in Q3; comparable average daily collection mirrors the gross collections

(Rs m)	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	% Y/Y	% Q/Q
ACL portfolio									
Belgaum-Dharwad 118		201	277	293	190	251	298	7.7	19.0
Dhankuni-Kharagpur 536		933	1,070	1,043	849	971	1,043	-2.5	7.5
Bhandara 117		179	214	217	168	201	209	-2.2	4.0
Durg 131		197	237	243	193	230	239	0.8	3.9
Jaora-Nayagaon 225		424	449	455	368	452	437	-2.6	-3.3
Sambalpur-Baragarh 107		170	191	205	174	179	195	1.7	8.8
ABL portfolio									
Wainganga Bridge	49	79	93	96	75	90	90	-3.5	-
Katni Bypass	47	53	61	60	57	58	63	2.8	8.6
Others 4		6	9	8	6	3	-	-	-
Total	1,334	2,243	2,601	2,620	2,079	2,433	2,574	**-1.0**	**5.8**
Comparable y/y growth (%)	*-26.3*	*1.4*	*15.2*	*18.1*	*55.9*	*8.7*	*-0.9*	-	-

Source: Company, Anand Rathi Research

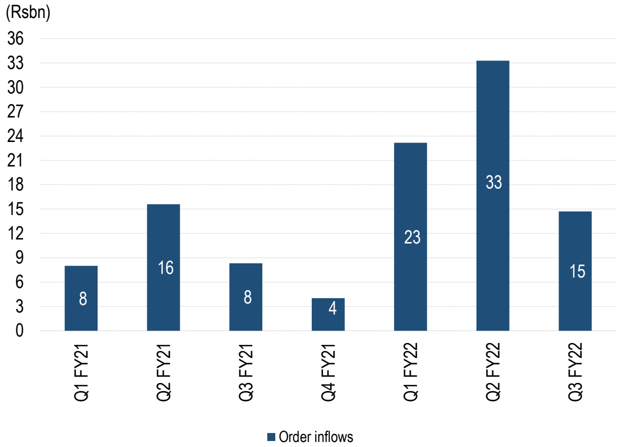
- Ashoka Concessions' portfolio overall (~94% of its Q3 FY22 gross toll collection) was down ~1% y/y, but q/q up ~6%; whereas Ashoka Buildcon's portfolio was down ~6% y/y, and up ~2% q/q.
- Management had earlier guided to annual support of ~Rs0.4bn-0.5bn (to take care of ballooning repayments or major maintenance obligations), but the support is unlikely now.

Order inflows / backlog

- Though the quarterly additions softened from Q1 and Q2 levels, the Q3 gross orders added, led by three orders, were still a healthy ~Rs10.9bn. With this, 9M additions were a strong ~Rs64bn.
    - Incl. post-Q3 orders added or L1s of ~Rs22.2bn, the year-to-date new orders of ~Rs86bn are already ahead of its previous single-year best in FY19.

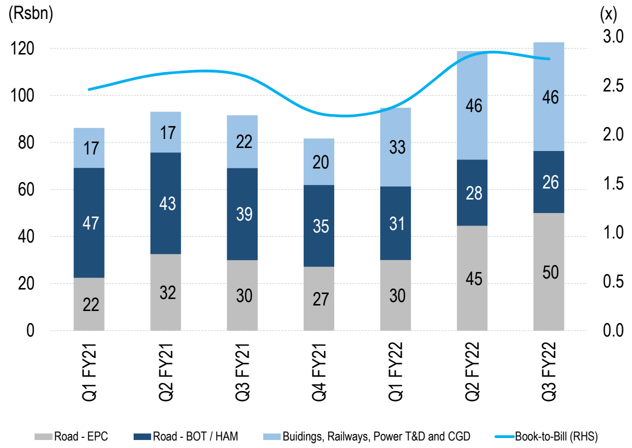
- Healthy Q3 additions and the change in scope meant the end-Q3 OB of ~Rs122.5bn was ~Rs3.7bn higher q/q. This implies ~2.8x revenue assurance on the basis of TTM revenues.
  - Incl. the post-Q3 orders, the OB rises to ~Rs144.7bn, and the revenue assurance turns even sturdier, to ~3.3x TTM revenues.
  - However, the entire OB is still not moving at its full potential. The company has yet to receive appointed dates for some of the recently added projects; management expects some to be appointed in Q4.
  - The major ones awaiting commencement of work are: a ~Rs10bn social housing project in the Maldives (financing being tied up), the Tumkur-Shivamogga hybrid annuity, the ~Rs13.8bn Panagarh-Palsit road EPC, the ~Rs6.5bn Banur-Kharar road EPC, the ~Rs6.9bn MOPA airport road and the ~Rs2.6bn Navi Mumbai International airport.
- Management remains sanguine of the growth opportunities, buoyed by the government thrust on boosting overall capex in general and specifically in the highways sector. Also, it views the recent budget announcement, the Gati Shakti Plan (as an effort to streamline project implementation) and the targeted 25,000km expansion of national highways to keep the opportunity landscape blooming.
  - Banking on this and the anticipated year-end surge in awarding, management seeks to add ~Rs10bn-15bn more during Q4.
  - It has already bid for road projects of ~Rs90bn (bids yet to be opened). Management does not rule out some of this spilling over to FY23.
  - For FY23, it seeks to add ~Rs100bn-120bn. Management looks at roads, its mainstay, to comprise ~70-80% of the targeted additions.
  - It is open to looking at sub-contracted works in roads provided the opportunity on offer meets its return/margin requirement. Consequently, it views the recently announced Ganga Expressway, too, as a potential opportunity.
  - Buoyed by its recent success (a large order) in the Maldives, it seeks to add more internationally, but in a measured manner as it does not intend to compromise on profitability just to add orders. It spoke of a ~Rs5bn order in Bangladesh as an appealing prospect.

Fig 9 – FYTD additions strong, Rs10bn-15bn more targeted



Source: Company Note: Includes change in scope

Fig 10 – End-Q3 OB: ~Rs122bn; incl. post-Q3: ~Rs145bn



Source: Company Note: Quarter-end figures

- Management re-iterated that the dilution of the bid pre-qualification norms have led to keener competition, especially in road projects (both EPC and hybrid annuities).
  - Nevertheless, the company is confident of bagging orders at its envisaged margin thresholds, and EPC opportunities are still its key focus.

Hybrid annuity projects

- Of its ten hybrid annuity projects, PCOD has been received for three, six have already been appointed (and are being constructed); the tenth awaits an appointed date.
  - Its Khairatunda Barwa Adda hybrid annuity project in Jharkhand attained 9th Oct'21 as PCOD. With this, three of its projects have now turned operational.
  - With the recent appointment of package-IV, Tumkur-Shivamogga-III is the only project (of its hybrid annuity portfolio) awaiting an appointed date. Management had earlier said with ~80% RoW in place and financial closure documents already submitted, the appointed date is expected soon.

Balance sheet

- Ashoka's Q3 FY22 standalone net debt rose ~Rs1.6bn q/q to ~Rs5.1bn. This was largely on account of a timing mismatch in receipt of payments, and management expects the usual payments cycle to return in Q4.
  - Q3 standalone gross debt (~Rs6.5bn, up ~Rs2.7bn q/q) comprised ~Rs5.1bn working-capital loans (up ~Rs2.9bn q/q) and ~Rs1.4bn equipment finance (down ~Rs0.2bn q/q).
- Third-party gross debt for the asset-ownership business was ~Rs61.7bn (up ~Rs0.9bn q/q).
  - Sequentially, higher third-party gross debt was mostly on account of ~Rs1.2bn of fresh drawdowns by the hybrid annuity SPVs (Q3-end debt at ~Rs22.3bn). This would have been partly offset by some repayments for the operational BOT-toll/annuity assets.
  - The asset ownership debt comprises ~Rs31.7bn of SPV level debt for the five BOT-toll assets recently agreed to be monetised to KKR. With monetisation likely by Sep'22, management looks at this to be de-linked.
  - SPV-level cash and equivalents were down ~Rs0.9bn q/q to ~Rs4.8bn.
- Consolidated gross debt of ~Rs68.2bn was up ~Rs3.6bn q/q. Adjusting for end-Q3 consolidated cash and equivalents of ~Rs6.2bn, consolidated net debt was up ~Rs3.3bn q/q to ~Rs62bn.
- Overall trade receivables (incl. retentions) appear largely flat at ~Rs10.9bn. This would include retention monies of ~Rs2.1bn (down from ~Rs3.4bn at end-Q2). Separately, end-Q3 unbilled revenues were pegged at ~Rs10.1bn, up from ~Rs7.8bn a quarter back. Inventories were pegged at ~Rs1.7bn, against ~Rs1.3bn at end-Q2.
  - Higher unbilled revenues could be attributed to works carried out but bills yet to be raised.

- On the liabilities side, mobilisation advances were pegged at ~Rs3.6bn and trade payables were ~Rs7.3bn.
- With the recent greater exposure to the newer segments, management expects the working capital cycle to rise by ~Rs1bn-1.2bn, and sees this as manageable.
- Utilisation of nonfund-based facilities was pegged at ~Rs26bn (of the total ~Rs36bn). Management has received sanctions from its consortium lenders to enhance the limit by a further ~Rs7bn-8bn. Fund-based facilities utilised were pegged at ~Rs6.5bn, but include funds received over and above the normal approved limit of ~Rs3.5bn. The additional limits have been availed of at an attractive ~4.25%.

Equity infusion

- During the quarter, the SPVs for hybrid annuity projects saw equity infusion (excl. PIM) of ~Rs0.13bn (incl. PIM, ~Rs0.18bn). With this infusion, cumulative investments in hybrid annuity assets (excl. PIM) are estimated at ~Rs6.7bn (from the envisaged ~Rs9.5bn). Incl. the PIM portion, the total investment is ~Rs9.6bn (of the envisaged ~Rs13.4bn).
- The vesting schedule for the balance equity (excl. PIM) is:
    - Management envisages equity infusion needed in Q4 FY22 at ~Rs1.45bn. However, it does not rule out a part of this spilling into FY23.
    - For FY23, investment needs were pegged at ~Rs1.39bn.
    - The balance, we believe, would be infused in FY24.

SBI-Macquarie, exit

- **Event.** Ashoka Concessions, BOT holdco, has entered into a deal with an affiliate of funds, vehicles and entities managed and/or advised by Kohlberg Kravis Roberts & Co. L.P. to monetise five of its BOT-toll assets for ~Rs13.37bn (subject to adjustment for movement in cash and debt). Management expects to consummate the deal by Sep'22.
- **Deal closure by Sep'22.** With the share subscription and share-purchase agreements signed, the next step is requisite approvals from relevant stakeholders. These primarily include NOCs from lenders and the NHAI. Management seeks to satisfy all the conditions precedent by Sep'22, and consummate the transaction.
- **De-linking of SPV level debt.** The five SPVs forming part of the KKR transaction had a combined third-party debt of ~Rs31.7bn on 31st Dec'21. On consummation of the transaction, this debt would be de-linked; consequently, the leverage ratio for the consolidated entity would look better.
- **Lower other income for standalone entity.** With the monetisation of assets and consequent impairment or recovery of interest-bearing loans & advances at the standalone level, interest income on these loans would cease. Management expects interest income from the Chennai ORR Ring Road (Rs0.25bn-0.3bn annually) to continue till the SPV is monetised.
    - Interest income from subsidiaries/JVs in FY21 contributed ~Rs1.2bn to the FY21standalone other income of ~Rs1.9bn.

- **Claims, to accrue to Ashoka.** The deal assets have claims filed with the authorities. Management highlights that any claims receivable from the authorities would accrue to Ashoka when realised. It was non-committal on timelines regarding the outcome of these claim proceedings. Though it highlighted that its portfolio would have Rs16bn-17bn of claims, it said that the figure is constantly changing and, thus, refrained from providing any clear figure.
- **Potential re-rating trigger.** Though the deal consideration is ~0.6x the total exposure, benefits outweigh the valuation discount. The market-perceived risk of the debt-funded buy-out of the partner's share in the BOT Holdco, if monetisation efforts fail to fructify, has long been a drag on valuations. The deal, we believe, would help do away with this. Besides, the monetisation would ensure that EPC internal accruals are no more used to support cash-drag SPVs. A sharper-focused EPC (the deal consummation making available bandwidth earlier occupied with monetisation efforts) would augur well. Hence, we see potential for a better valuation multiple for the core EPC operations.

Other highlights

- **Monetisation efforts to continue.** Discussions are already at advanced stages for the Jaora-Nayagaon BOT-toll and Chennai ORR BOT-annuity. Management expects to sign share-purchase agreements by end-FY22.
  - Total equity (incl. sub-debt) invested (incl. the partner's share) in these two projects was pegged at ~Rs7.2bn; ~Rs2.9bn for Jaoara-Nayagaon and ~Rs4.3bn for Chennai ORR (incl. sub-debt of ~Rs2.4bn). Third-party debt for the two entities is ~Rs10.4bn (Jaora-Nayagaon ~Rs1.9bn, Chennai, the rest).
  - Ashoka holds an approx. 75% stake in Jaora-Nayagaon, the balance is held by Macquarie-SBI. The Chennai ORR is owned equally by Ashoka and GVR.
- **Hybrid annuity, monetisation.** Management also said that hybrid annuity monetisation is on the anvil. Three of the portfolio of ten hybrid annuity assets are already operational, and management expects three more to come into operation sooner than later. To monetise the hybrid annuity assets, management, besides outright transactions with prospective suitors, is also open to looking at the InvIT route. In due course, it will take a call on the mode and manner.
- **Solar power order.** Management reiterated that, with the sharp surge in module prices, the overall sector has suffered. It said discussions are underway with NTPC to find solutions to the situation or seek an extension. Currently, there is no clause in the contract to provide for any relaxation. Management said it has not placed purchase orders for modules as yet, but the other works are being carried out. Ashoka's NTPC project in Rajasthan entailed ~Rs5bn revenue potential.
- **MCGM sewage treatment project.** This is a ~Rs10.5bn JV project with Gondwana Engineers (ASBL's share: ~Rs6.07bn). For this, its maiden order in this segment, the JV partner was roped in for qualification purposes, and to set the stage for it to look for more opportunities (based on experience with this order). The partner has more than three decades of experience in this space.

- **CGD projects.** The company currently has three operational GAs. The JV platform for the CGD projects with Morgan Stanley by Dec'21 has cumulative equity investments of ~Rs1.4bn.

Guidance

- With the original guidance of Rs70bn-80bn already attained, management now looks at Rs95bn-100bn in FY22 (Rs10bn-15bn in Q4). For FY23, additions are targeted at Rs100bn-120bn. The envisaged year-end surge in awarding, management believes, would help it attain the Q4 targeted orders. The healthy prospect pipeline keeps management sanguine of the period beyond Q4.
  - It has already bid for road projects of ~Rs90bn; the outcomes are awaited. Management does not rule out these spilling into FY23.
  - Roads remain its mainstay and, thus, its share is targeted at 70-80% in new orders
- Management largely retained its FY22 revenue growth guidance of 15-20%. On the continuing healthy pace of execution at the effectively under-execution OB, and on appointed dates for some of the recently added orders, management sees the guidance as attainable.
  - Citing its healthy OB and prospect pipeline, management sees ~25% growth in FY23 and FY24 as possible.
- Due to the unprecedented surge in prices of key input prices, the FY22 EBITDA margin is targeted at 11-12%.
- 9M capex was pegged at ~Rs0.5bn-0.6bn, and Q4 is unlikely to see any meaningful expenditure. FY23 capex was guided to at Rs0.8bn-1bn.

Earnings revision and Valuation

On stronger-than-expected order additions fytd and swifter-than-anticipated pace of execution, we raise our FY22e revenue ~1%, FY23 ~4% and FY24 ~9%. The EBITDA margins, however, we prune to account for higher costs, and to reflect the recent strong order additions in non-road segments.

Notwithstanding higher revenues, our FY22e earnings are down ~10%, FY23 ~20% and FY24 ~18%. The lower earnings are largely a function of the recent SPAs with KKR to monetize five of its BOT-toll assets below book value, and the consequent impairment of its exposure to these assets. Such exposure included interest bearing loans extended to the asset ownership business. With the interest-bearing loan exposure impaired, other income for the standalone entity would exclude interest income from subsidiaries.

Though our earnings estimates (incl. interest income from subsidiaries/JVs) are lower, core-construction earnings (adj. for interest income from subsidiaries/JVs) are higher on account of our raised revenue estimates.

Our sum-of-parts TP, thus, works out to Rs159 a share. The TP has been derived using a PE multiple for FY24e core-construction earnings (Rs100 a share, adjusted for interest income from Chennai BOT-annuity JV), the discounted-cash-flow-driven/investment valuation for the road-asset portfolio (Rs57 after a 20% holdco discount) and CGD on an investment basis (Rs2, a 20% holdco discount assigned).

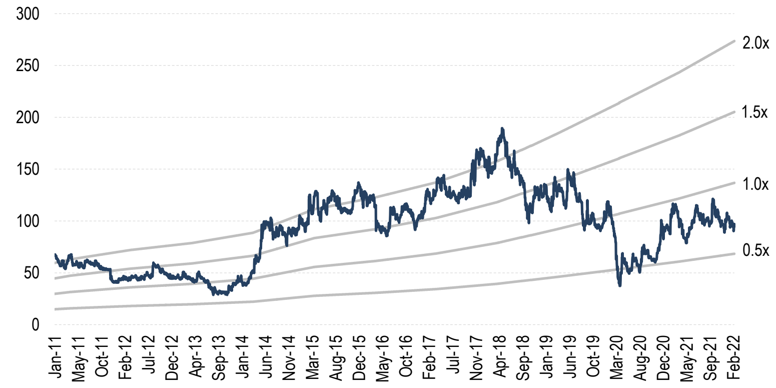
Fig 11 – Estimates revision

(Rs m)	Old			Revised			Change (%)		
	FY22e	FY23e	FY24e	FY22e	FY23e	FY24e	FY22e	FY23e	FY24e
Revenue 44,	729	50,594	56,190	44,990	52,450	61,457	0.6	3.7	9.4
EBITDA 5,	231	6,035	6,740	5,152	6,191	7,185	-1.5	2.6	6.6
EPS (Rs)	14.9	16.7	19.0	13.4	13.4	15.6 -9.7		-20.0	-17.6

Source: Anand Rathi Research

At the ruling price, (excl. investments) the stock trades at PERs of 6.4x FY22e, 5x FY23e and 4.3x FY24e core-construction earnings (adjusted for interest income from the JV entity). On a P/BV basis, it quotes at 1x FY22e, 0.9x FY23e and 0.8x FY24e, against the TP-implied exit of 1.3x FY24e.

Fig 12 – PBV band



Source: Bloomberg, Anand Rathi Research

Risk

- Any slower-than-expected pace of execution.

Appendix

Analyst Certification

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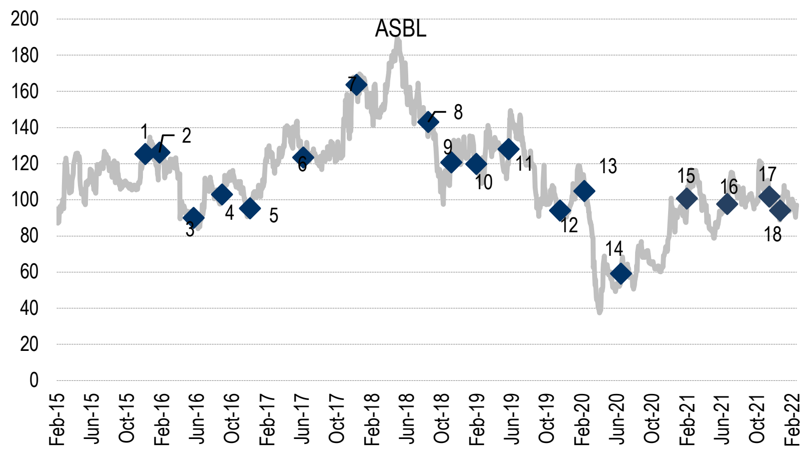

	Date	Rating	TP (Rs)	Share Price (Rs)
3	23-May-16	Buy	227	136
4	30-Aug-16	Buy	219	156
5	5-Dec-16	Buy	208	144
6	8-Jun-17	Buy	237	186
7	11-Dec-17	Buy	287	242
8	18-Aug-18	Buy	199	143
9	5-Nov-18	Buy	194	121
10	31-Jan-19	Buy	188	120
11	25-May-19	Buy	180	128
12	18-Nov-19	Buy	185	94
13	11-Feb-20	Buy	169	105
14	17-Jun-20	Buy	127	56
15	8-Feb-21	Buy	147	105
16	24-Jun-21	Buy	145	102
17	23-Nov-21	Buy	147	99
18	28-Dec-21	Buy	153	102

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ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.
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