

Muted performance...

About the stock: Ashoka Buildcon (ABL) is primarily engaged in the construction of roads and bridges having an integrated portfolio of EPC, BOT and HAM projects. Besides roads construction, ABL also has established presence across varied infra verticals such as power transmission, railways, city gas distribution.

- Diversified order book, decent execution capabilities, expected pick-up in execution and focus on debt reduction and working capital are expected to outline ABL's performance over the next few years

Q3FY22 Results: ABL posted a weak set of numbers during Q3FY22.

- Standalone revenue improved 12.5% YoY (to ₹ 1,103.7 crore) aided by decent pick-up in execution. On QoQ basis, the topline improved 20.3%
- EBITDA margin was muted at 10.9% (up 18 bps YoY). Consequently, EBITDA grew 14.4% on a YoY basis to ₹ 120.7 crore
- ABL reported loss of ₹ 693.6 crore during Q3FY22. However, adjusted for exceptional loss of ₹ 769.6 crore towards impairment of its investments in Ashoka Concessions), PAT declined 11.2% YoY to ₹ 76 crore

What should investors do? ABL's share price de-grew 29% over the past five years (from ~₹ 127 in February 2017 to ~₹ 90 in February 2022).

- We maintain our HOLD rating. While the company has indicated that it would focus on EPC/HAM, recent bid (unsuccessful) for Ganga expressway BOT implies that it is still bent towards asset heavy segment

Target Price and Valuation: We value ABL at ₹ 100/share.

Key triggers for future price performance:

- Incremental inflows key to ensure growth; 16% EPC revenue CAGR likely over FY21-24E with margins at 11.3%
- Improvement in traffic with pick-up in economic activities to bring stability in its BOT portfolios

Alternate Stock Idea: Besides ABL, we like HG Infra Engineering in the EPC space.

- Strong execution and healthy order book
- BUY with a target price of ₹ 885/share



| Particulars | |
|-----------------------|------------------|
| Particular | Amount (₹ crore) |
| Market Capitalization | 2,534.9 |
| Total Debt | 439.6 |
| Cash | 136.4 |
| EV | 2,838.2 |
| 52 week H/L (₹) | 125 / 78 |
| Equity capital | 140.4 |
| Face value | ₹ 5 |

| Shareholding pattern | | | | |
|----------------------|--------|--------|--------|--------|
| | Mar-21 | Jun-21 | Sep-21 | Dec-21 |
| Promoters | 52.2 | 52.2 | 52.3 | 52.3 |
| DII | 28.2 | 31.5 | 29.8 | 31.3 |
| FII | 2.0 | 1.8 | 2.7 | 3.6 |
| Other | 17.7 | 14.5 | 15.3 | 13.0 |



Key Risks

Key Risk: (i) Faster-than-expected execution; (ii) Delay in asset monetisation

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| Key Financial Summary (Standalone) | | | | | | | |
|------------------------------------|--------|--------|---------------------|--------|--------|--------|----------------------|
| ₹ crore | FY20 | FY21 | 5 yr CAGR (FY16-21) | FY22E | FY23E | FY24E | 3 yr CAGR (FY21-24E) |
| Net Sales | 3937.4 | 3817.5 | 14.5% | 4496.3 | 5138.1 | 5973.9 | 16.1% |
| EBITDA | 585.6 | 519.5 | 16.0% | 507.5 | 579.3 | 673.3 | 9.0% |
| EBITDA Margin (%) | 14.9 | 13.6 | | 11.3 | 11.3 | 11.3 | |
| PAT | 387.1 | 408.1 | 24.2% | -368.1 | 390.3 | 454.6 | 3.7% |
| EPS (₹) | 13.8 | 14.5 | | -13.1 | 13.9 | 16.2 | |
| P/E (x) | 6.5 | 6.2 | | -6.9 | 6.5 | 5.6 | |
| EV/EBITDA (x) | 4.6 | 5.5 | | 5.8 | 5.1 | 4.3 | |
| RoNW (%) | 14.9 | 13.6 | | -13.9 | 12.9 | 13.0 | |
| RoCE (%) | 20.8 | 18.4 | | 18.8 | 16.6 | 17.3 | |

Source: Company, ICICI Direct Research

Key business highlight and outlook

Order book healthy; revenue guidance lowered

ABL's order book (OB) at the end of Q3FY22 was at ₹ 12,252 crore spread across roads - HAM (₹ 2,638 crore), roads - EPC (₹ 4,995 crore), power T&D and others (₹ 1,902 crore), buildings-EPC (₹ 1,905 crore), railways (₹ 729 crore), and CGD (₹ 82 crore) segments. Also, this OB excludes projects worth ₹ 2,218 crore received post December 2021. The order book as on date, thus, was at ₹ 14,470 crore, 3.3x book to TTM bill. Going forward, the management has guided for order inflows of ~₹ 1,500, 10,000+ crore in the rest of FY22, FY23, respectively (secured ₹ 8,526 crore at YTD FY22 level) with ~75-80% order inflows likely from roads segments. **On the execution front, ABL is targeting ~15-20% (vs. 20-25% guidance earlier), ~25-30% revenue growth on standalone basis in FY22, FY23E, respectively, with receipt of appointed dates in most of its pending HAM/EPC projects. Furthermore, operating margin guidance was at 11-12%. We bake ~11.3% margins with primary risk being rising input costs and elevated level of competitions in roads and railways segment.**

HAM equity infusion, asset monetisation update

Out of the total equity requirement of ₹ 1,337 crore, ABL has infused ₹ 960 crore (including Price Index Multiple) till December 31, 2021 in the HAM projects. It is further expected to infuse ₹ 145 crore during rest of FY22E (already invested ₹ 55 crore in Q4FY22) and ₹ 139 crore in FY23, based on current order book position. ABL has completed an asset sale of Ashoka Concessions of five SPVs by entering into share purchase agreement with Galaxy Investments II (KKR owned entity) for aggregate consideration of ₹ 1,337 crore. Sale of equity expected to be completed by September 30, 2022 subject to receipt of necessary approvals from concerned lenders and NHAI. The proceeds of the sale of ACL assets is likely to facilitate the payment of ₹ 1,200 crore to SBI Macquarie, in-turn, aid investors to exit the company fully. Further, the consolidated debt is likely to reduce by ₹ 3,166 crore. **Asset sale of five SPVs (of Ashoka Concessions) for aggregate consideration of ₹ 1,337 crore and proceed from asset sale towards SBI Macquarie exit augur well for the company. Monetisation of pending assets will be the key for leverage ahead.**

Key conference call takeaways

- **Industry Outlook and ordering pipeline:** The authority's target to build national highways to the tune of ~25,000 km in FY23 is likely to boost the overall project awarding. Currently, ABL has submitted bids for roads projects totalling ~₹ 9,000 crore. Additionally, the strong order pipeline remains strong in roads, power and railways segment, which is likely to aid order inflows
- **Monetisation plan of remaining Assets:** ABL is in advanced stage of discussion for sale of equity for Jaora-Nayagaon (equity: ₹ 287 crore; debt: ₹ 187 crore) and Chennai ORR road projects (equity: ₹ 189 crore; sub-debt: ₹ 240 crore; ₹ 850 crore) and expects deal to conclude by FY22-end. Also, the company is evaluating exit options like Infra INVIT or Sale to Investors for its HAM projects
- **Debt:** ABL's consolidated debt has increased from ₹ 6,465.5 crore (as of Q2FY22-end) to ₹ 6,822.1 crore (as of Q3FY22-end). **Of this, ₹ 648.8 crore is standalone debt (₹ 139.6 crore - equipment loan, ₹ 509.2 crore - WC loan), ₹ 250 crore is NCDs, and ₹ 5,923.3 crore is project debt.** Out of these, Project debt of five BOTs asset amounting to ₹ 3,165.9 crore likely to get reduced with sale of assets. Cash and cash balance at the end of Q3FY22 was at ₹ 618.4 crore
- **Capex:** The company has guided for ~₹ 50 crore, ₹ 80-100 crore of capex during FY22, FY23 respectively.
- **Impact of solar module price rise:** ABL is currently in discussions with its clients, NTPC and MNRE, with respect to the increase in module prices for solar projects. As of now, there is no such clause under the contracts for escalations. Additionally, the company has neither placed any purchase order nor commenced work on the project site
- **Receipt of Appointed date:** ABL has received receipt of AD for Tumkur-Shivamogga -IV HAM project (OB value: ₹ 877 crore) in October 2021 with its 80%+ land availability. Additionally, the management expects receipt of AD for

Panagarh-Palsit EPC project (OB value: ₹ 1,376.7 crore) and Mopa Airport, Goa (OB value: ₹ 686.8 crore) during Q4FY22

- **Revenue contribution:** During Q3FY22, revenue from roads segment was at ₹ 898 crore, followed by Railways (₹ 70 crore), power (₹ 49 crore), CGD (₹ 37 crore) and others (₹ 49 crore) verticals
- **Subcontracting jobs:** ABL is likely to participate in subcontracting jobs on Ganga Expressway projects recently won by IRB and Adani (total opportunity size: ~₹ 20,000 crore)

We highlight asset sale of Ashoka Concessions of five SPVs to KKR owned entity will ensure payment of SBI-Macquarie liability at ₹ 1200 crore without any liquidity strain. Nonetheless, the execution remains relatively weaker than peer. While the company has indicated that it would focus on EPC/HAM, recent unsuccessful bid for Ganga expressway BOT implies that it is still bent towards asset heavy segment **We maintain HOLD rating on the stock with an SoTP-based target price of ₹ 100/share (vs. ₹ 115 earlier), as we lower the target EV/EBITDA multiple for standalone to 4x from 5x earlier.**

Exhibit 1: Variance Analysis

| Particulars | Q3FY22 | Q3FY22E | Q3FY21 | YoY (%) | Q2FY22 | QoQ (%) | Comments |
|------------------------|---------|---------|--------|---------|--------|---------|--|
| Income from Operations | 1,103.7 | 1,098.4 | 980.7 | 12.5 | 917.1 | 20.3 | Pick-up in execution led to topline growth |
| Other Income | 29.1 | 40.0 | 47.3 | -38.5 | 59.0 | -50.8 | |
| Operating Expenses | 920.7 | 900.0 | 806.9 | 14.1 | 747.7 | 23.1 | |
| Employee Expenses | 46.1 | 50.0 | 43.7 | 5.6 | 48.7 | -5.3 | |
| Other expenditure | 16.1 | 22.0 | 24.6 | -34.4 | 15.2 | 6.4 | |
| EBITDA | 120.7 | 126.4 | 105.5 | 14.4 | 105.5 | 14.4 | Margin impacted due to rise in commodity prices |
| EBITDA Margin(%) | 10.9 | 11.5 | 10.8 | 18 bps | 11.5 | -57 bps | |
| Depreciation | 16.7 | 18.0 | 21.6 | -22.6 | 16.6 | 0.7 | |
| Interest | 24.9 | 22.0 | 18.3 | 35.8 | 21.0 | 18.9 | |
| PBT | -661.4 | 126.4 | 112.9 | -686.1 | 127.1 | -620.5 | |
| Taxes | 32.1 | 31.8 | 27.2 | 18.0 | 31.5 | 2.1 | |
| PAT | -693.6 | 94.6 | 85.6 | -909.9 | 95.6 | -825.5 | Adjusted for exceptional loss of ₹ 769.6 crore towards impairment of its investments in Ashoka Concessions Ltd), PAT declined 11.2% YoY to ₹ 76 crore. |

Source: Company, ICICI Direct Research

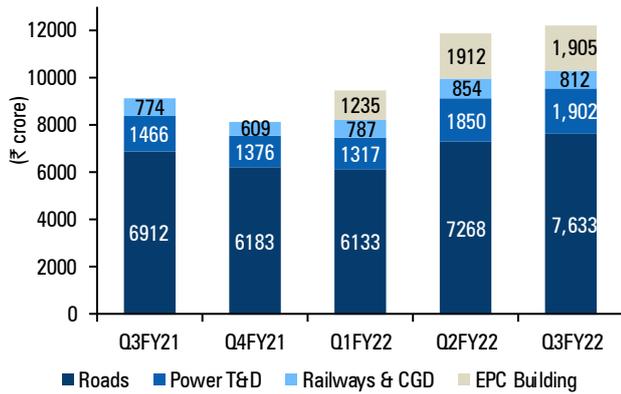
Exhibit 2: Change in estimates

| Particulars (₹ Crore) | FY21 | | FY22E | | FY23E | | FY24E | | Comments |
|--------------------------|---------|---------|---------|----------|---------|----------|---------|---------|-------------------|
| | Old | New | Old | % Change | New | % Change | New | | |
| Revenue | 3,817.5 | 4,486.2 | 4,496.3 | 0.2 | 4,933.8 | 5,138.1 | 4.1 | 5,973.9 | Realign estimates |
| EBITDA | 519.5 | 527.1 | 507.5 | -3.7 | 579.7 | 579.3 | -0.1 | 673.3 | |
| EBITDA Margin (%) | 13.6 | 11.8 | 11.3 | -46 bps | 11.8 | 11.3 | -48 bps | 11.3 | |
| Adj PAT | 408.1 | 384.7 | 401.5 | 4.4 | 434.3 | 390.3 | -10.1 | 454.6 | |
| Adj EPS (₹) | 14.5 | 13.7 | 14.3 | 4.4 | 15.5 | 13.9 | -10.1 | 16.2 | |

Source: Company, ICICI Direct Research

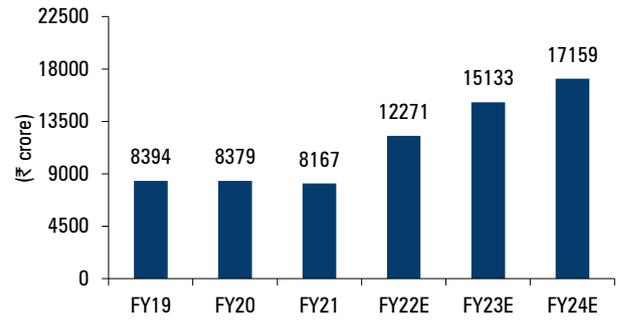
Company Analysis

Exhibit 3: Quarterly order book trend



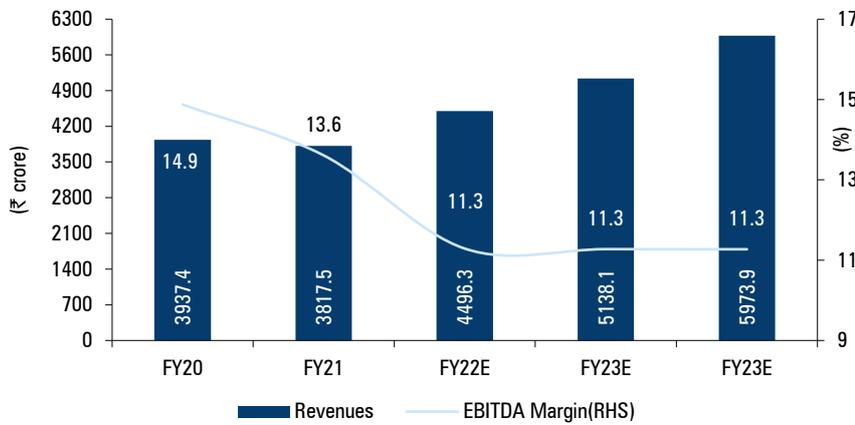
Source: Company, ICICI Direct Research

Exhibit 4: Annual order book trend



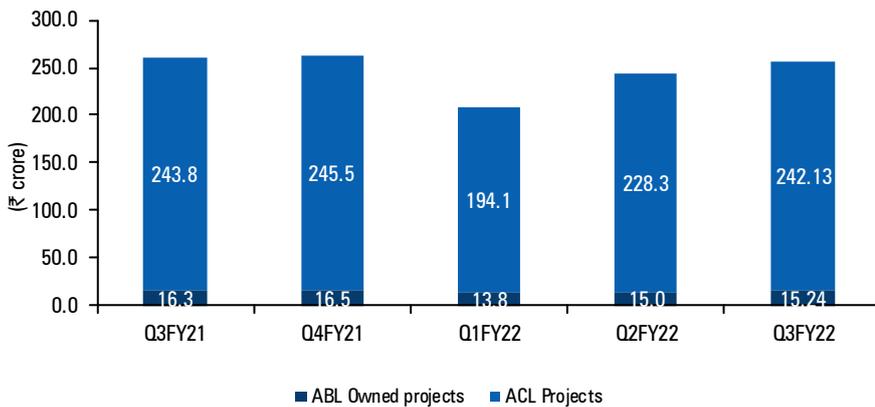
Source: Company, ICICI Direct Research

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

Valuation & Outlook

We highlight asset sale of Ashoka Concessions of five SPVs to KKR owned entity will ensure payment of SBI-Macquarie liability at ₹ 1200 crore without any liquidity strain. Nonetheless, the execution remains relatively weaker than peer. While the company has indicated that it would focus on EPC/HAM, recent unsuccessful bid for Ganga expressway BOT implies that it is still bent towards asset heavy segment We maintain HOLD rating on the stock with an SoTP-based target price of ₹ 100/share (vs. ₹ 115 earlier), as we lower the target EV/EBITDA multiple for standalone to 4x from 5x earlier.

| Exhibit 7: ABL valuation | | | |
|--------------------------------------|-----------------|----------------|-------------------------------|
| | Value (₹ crore) | Per Share (₹) | Comment |
| EPC Business (A) | 2317 | 83 | 4x FY23E EV/EBITDA |
| BOT Investments (excl. sold project) | 318 | 11 | 0.6x P/BV |
| HAM Projects Investment (E) | 670 | 24 | At 1x investments (excl. PIM) |
| Total Equity Investment (F=B+E) | 988 | 35 | |
| Less: Standalone Debt | 448 | 16 | |
| SoTP Value (A+F-G) | 2857 | 102 | |
| Rounded-off target price | | 100 | |

Source: Company, ICICI Direct Research

Financial summary (Standalone)

| Exhibit 8: Profit and loss statement | | | | |
|--------------------------------------|---------------|---------------|---------------|---------------|
| | ₹ crore | | | |
| (₹ Crore) | FY21 | FY22E | FY23E | FY24E |
| Net Sales | 3817.5 | 4496.3 | 5138.1 | 5973.9 |
| Cost of Material consumed | 1248.7 | 1425.3 | 1685.3 | 1971.4 |
| Construction expenses | 1730.3 | 2293.1 | 2569.1 | 2986.9 |
| Other Expenses | 150.5 | 85.0 | 96.9 | 109.8 |
| Employee Costs | 168.5 | 185.3 | 207.6 | 232.5 |
| Total Operating Expenditure | 3298.0 | 3988.8 | 4558.8 | 5300.6 |
| EBITDA | 519.5 | 507.5 | 579.3 | 673.3 |
| Interest & finance charges | 77.2 | 85.0 | 90.0 | 90.0 |
| Depreciation | 87.2 | 66.0 | 72.6 | 79.9 |
| Other income | 192.1 | 165.0 | 110.0 | 110.0 |
| PBT | 547.2 | -248.1 | 526.7 | 613.4 |
| Taxes | 139.1 | 120.0 | 136.4 | 158.9 |
| PAT | 408.1 | -368.1 | 390.3 | 454.6 |

Source: Company, ICICI Direct Research

| Exhibit 9: Cash flow statement | | | | |
|---|----------------|----------------|----------------|----------------|
| | ₹ crore | | | |
| (₹ Crore) | FY21 | FY22E | FY23E | FY24E |
| Profit after Tax | 408.1 | (368.1) | 390.3 | 454.6 |
| Depreciation | 87.2 | 66.0 | 72.6 | 79.9 |
| Interest | 77.2 | 85.0 | 90.0 | 90.0 |
| Others | - | - | - | - |
| Cash Flow before wc changes | 519.5 | (262.1) | 579.3 | 673.3 |
| Changes in WC | (588.9) | (251.1) | (283.4) | (249.5) |
| Taxes Paid | (143.1) | (120.0) | (136.4) | (158.9) |
| Net CF from operating activities | (212.4) | (633.1) | 159.5 | 264.9 |
| (Purchase)/Sale of Fixed Assets | (15.8) | (100.0) | (100.0) | (100.0) |
| Addition/Sale of Investment | (47.3) | 569.6 | (141.0) | (120.0) |
| Net CF from Investing activities | 129.1 | 634.6 | (131.0) | (110.0) |
| Increase/Decrease in NW | (0.3) | - | - | - |
| Increase/Decrease in Debt | 6.2 | 200.0 | 100.0 | (100.0) |
| Interest Paid | (77.2) | (85.0) | (90.0) | (90.0) |
| Net CF from Financing activities | (71.3) | 115.0 | 10.0 | (190.0) |
| Net Cash flow | (154.7) | 116.5 | 38.5 | (35.1) |
| Opening Cash | 291.1 | 136.4 | 252.9 | 291.4 |
| Closing Cash/ Cash Equivalent | 136.4 | 252.9 | 291.4 | 256.3 |

Source: Company, ICICI Direct Research

| Exhibit 10: Balance sheet | | | | |
|---------------------------|--------------|--------------|--------------|--------------|
| | ₹ crore | | | |
| (₹ Crore) | FY21 | FY22E | FY23E | FY24E |
| Liabilities | | | | |
| Equity Capital | 140.4 | 140.4 | 140.4 | 140.4 |
| Reserve and Surplus | 2,866.4 | 2,498.3 | 2,888.6 | 3,343.1 |
| Total Shareholders funds | 3,006.7 | 2,638.7 | 3,028.9 | 3,483.5 |
| Total Debt | 439.6 | 639.6 | 739.6 | 639.6 |
| Deferred Tax Liability | (51.5) | (51.5) | (51.5) | (51.5) |
| Total Liabilities | 3,395 | 3,227 | 3,717 | 4,072 |
| Assets | | | | |
| Gross Block | 661.1 | 761.1 | 861.1 | 961.1 |
| Less Acc. Dep | 382.8 | 448.8 | 521.4 | 601.2 |
| Net Block | 278.3 | 312.3 | 339.7 | 359.9 |
| Capital WIP | 1.7 | 1.7 | 1.7 | 1.7 |
| Right of Use | 7.1 | 7.1 | 7.1 | 7.1 |
| Total Fixed Assets | 287.1 | 321.1 | 348.5 | 368.7 |
| Investments | 1,458.5 | 888.9 | 1,029.9 | 1,149.9 |
| Inventory | 171.7 | 202.2 | 231.1 | 268.7 |
| Sundry Debtors | 1,420.0 | 1,672.5 | 1,911.3 | 2,222.2 |
| Loans & Advances | 1,150.1 | 1,270.1 | 1,400.1 | 1,530.1 |
| Cash & Bank Balances | 136.4 | 252.9 | 291.4 | 256.3 |
| Other Current Assets | 811.8 | 985.5 | 1,126.2 | 1,309.3 |
| Total Current Assets | 3,690.1 | 4,383.3 | 4,960.1 | 5,586.7 |
| Other Current Liabilities | 1,953.3 | 2,278.9 | 2,533.9 | 2,946.0 |
| Provisions | 87.5 | 87.5 | 87.5 | 87.5 |
| Net Current Assets | 1,649.3 | 2,016.8 | 2,338.7 | 2,553.1 |
| Total Assets | 3,395 | 3,227 | 3,717 | 4,072 |

Source: Company, ICICI Direct Research

| Exhibit 11: Key ratios | | | | |
|-------------------------------|------------|------------|------------|------------|
| | FY21 | FY22E | FY23E | FY24E |
| Per Share Data (₹) | | | | |
| EPS | 14.5 | (13.1) | 13.9 | 16.2 |
| Cash EPS | 17.6 | (10.8) | 16.5 | 19.0 |
| Book Value | 107.1 | 94.0 | 107.9 | 124.1 |
| Operating Ratios (%) | | | | |
| EBITDA / Net Sales | 13.6 | 11.3 | 11.3 | 11.3 |
| PAT / Net Sales | 10.7 | 8.9 | 7.6 | 7.6 |
| Inventory Days | 16.4 | 16.4 | 16.4 | 16.4 |
| Debtor Days | 135.8 | 135.8 | 135.8 | 135.8 |
| Return Ratios (%) | | | | |
| RoNW | 13.6 | (13.9) | 12.9 | 13.0 |
| RoCE | 18.4 | 18.8 | 16.6 | 17.3 |
| RoIC | 13.3 | 14.9 | 14.8 | 15.6 |
| Valuation Ratios (x) | | | | |
| EV / EBITDA | 5.5 | 5.8 | 5.1 | 4.3 |
| P/E (Diluted) | 6.2 | (6.9) | 6.5 | 5.6 |
| EV / Net Sales | 0.7 | 0.6 | 0.6 | 0.5 |
| Market Cap / Sales | 0.7 | 0.6 | 0.5 | 0.4 |
| Price to Book Value (Diluted) | 0.8 | 1.0 | 0.8 | 0.7 |
| Solvency Ratios (x) | | | | |
| Net Debt / Equity | 0.1 | 0.1 | 0.1 | 0.1 |
| Debt / EBITDA | 0.8 | 1.3 | 1.3 | 1.0 |
| Current Ratio | 1.7 | 1.7 | 1.8 | 1.8 |
| Quick Ratio | 1.7 | 1.7 | 1.7 | 1.7 |

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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