

CMP: ₹ 76

Target: ₹ 80 (5%)

Target Period: 12 months

HOLD

August 12, 2022

Subdued margin performance continues...

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 an 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

Q1FY23 Results: ABL reported a mixed operational performance during Q1FY23.

- Standalone revenue improved 46.2% YoY to ₹ 1,479 crore aided by decent order book position, pick-up in execution and receipt of appointed date in most of its older projects
- EBITDA margin moderated to 9.8% (down 208 bps YoY) impacted by change in project mix and rise in commodity prices. Effectively, operating profit at ₹ 144.6 crore, was up 20.6% YoY
- PAT growth was modest at 3% YoY (to ₹ 104.3 crore) impacted by lower other income and higher finance cost

What should investors do? ABL's share price de-grew 40% over the past five years (from ~₹ 127 in August 2017 to ~₹ 76 in August 2022).

- We maintain our HOLD rating on the stock as a) lowering of revenue guidance, b) moderation in margins and c) bagging projects at lower margin at multiple geographies/sectors would remain key overhang, going forward

Target Price and Valuation: We value ABL at ₹ 80/share.

Key triggers for future price performance:

- Incremental inflows key to ensure growth; 14.8% revenue CAGR on standalone level likely over FY22-24E with margins at ~10%
- Planned monetisation of HAM/annuity assets

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 ₹ 765/share



Particulars

Particular	Amount (₹ crore)
Market Capitalization	2,143.3
Total Debt	559.3
Cash	144.0
EV	2,558.6
52 week H/L (₹)	125 / 69
Equity capital	140.4
Face value	₹ 5

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	54.5	54.5	54.5	54.5
DII	23.0	21.8	21.5	19.8
FII	2.8	2.5	2.1	2.4
Other	19.7	21.2	21.9	23.3

Price Chart



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	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	2 yr CAGR (FY22-24E)
Net Sales	3937.4	3817.5	4591.5	17.9%	5409.4	6053.2	14.8%
EBITDA	585.6	519.5	502.5	15.7%	541.0	603.5	9.6%
EBITDA Margin (%)	14.9	13.6	10.9		10.0	10.0	
PAT	387.1	408.1	-308.6	NA	379.9	413.6	NA
EPS (₹)	13.8	14.5	-11.0		13.5	14.7	
P/E (x)	5.5	5.3	NA		5.6	5.2	
EV/EBITDA (x)	3.9	4.7	5.1		5.3	4.7	
RoNW (%)	14.9	13.6	NA		12.3	11.8	
RoCE (%)	20.8	18.4	19.7		15.6	15.4	

Source: Company, ICICI Direct Research

Key business highlight and outlook

Order book healthy; guidance lowered for topline/margin

ABL's order book (OB) at the end of Q1FY23 was at ₹ 14,779.9 crore spread across roads - HAM (₹ 3,062.5 crore), roads - EPC (₹ 5,866.5 crore), Power T&D and others (₹ 2,355.5 crore), buildings-EPC (₹ 2,302 crore), railways (₹ 1,142.5 crore), and CGD (₹ 50.9 crore) segments. Also, this OB excludes projects worth ₹ 575.2 crore received post June 2022. The order book as on date, thus, is at ₹ 15,355 crore, 3x book to TTM bill. Going forward, the management has guided for order inflows of ₹ 10,000+ crore during FY23, respectively (secured ₹ 8,714 crore during FY22) with ~75-80% order inflows likely from roads segments. **On the execution front, ABL has lowered its revenue growth target (for FY23 standalone business) to 15-20% (from 20-25% earlier) on YoY basis. Furthermore, the company expects moderation in operating margin to 9-10% (vs. guidance of 11-12% earlier) mainly due to rise in input cost, change in project mix, and bagging of projects at lower margin to enter newer geographies/sectors. We bake ~10% operating margin for FY23, FY24.**

Equity infusion, asset monetisation update

Out of the total equity requirement of ₹ 1,337 crore, ABL has infused ₹ 1,107 crore (including Price Index Multiple) till June 30, 2022 in the 11 HAM projects and expects balance amount to infuse over next two years. Asset sale of five SPVs (of Ashoka Concessions Ltd) for aggregate consideration of ₹ 1,337 crore, and proceed of asset sale towards SBI Macquarie exit augurs well for the company. Monetisation of pending assets will be the **key for leverage ahead.**

Key conference call takeaways

- **Revenue contribution:** During Q1FY23, revenue from roads segment was at ₹ 1,050 crore, followed by railways (₹ 153 crore), power (₹ 160 crore), CGD (₹ 13 crore) and others (~₹ 50 crore) verticals. For a like-to-like comparison, revenue from roads segment was at ₹ 830 crore during Q1FY22, followed by railways (₹ 99 crore), power (₹ 41 crore), CGD (₹ 6 crore) and others (~₹ 25 crore) verticals. Further, the company expects execution in the buildings sector to pick up from Q3FY23 onwards. Also, ABL expects roads - HAM projects to contribute ~₹ 2,000 crore to overall topline during FY23
- **Margin:** The volatility in commodity prices and change in project mix has impacted the overall margin performance during Q1FY23. Generally, ABL draws 13% margin in HAM projects, and 10-11% in EPC jobs. Also, the company has bagged some projects at lower margin to enter newer geographies/sectors. With these, the company expects moderation in operating margin to ~ 9-10%. Also, as per the management, 80% of contracts have price escalation clause while balance 20% are fixed price contracts (mainly international projects)
- **Order book position:** Executable order book position is currently at ~₹ 13,500-14,000 crore and expects balance ~₹ 2000 crore worth of projects to come under execution by FY23-end
- **Update on ACL Projects:** ABL has completed an asset sale of Ashoka Concessions Ltd of five SPVs by entering into share purchase agreement (SPA) with Galaxy Investments II (KKR owned entity) for aggregate consideration of ₹ 1,337 crore. Currently, the company has received approvals from three lenders and some-requisite permissions from NHAI and is in the process of getting pending approvals. 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 are 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 ₹ 3,014.2 crore
- **Monetisation of assets:** ABL has executed SPA with National Investment and Infrastructure Fund Ltd (NIIF) for sale of 100% equity of Chennai ORR project for aggregate financial consideration of ₹ 686 crore. Out of the total amount, the company is expected to receive ₹ 450 crore (loan repayment: ₹ 250 crore, equity stake-50%: ₹ 200 crore). The transaction is likely to get concluded by September 30, 2022. Additionally, the company is in advanced stage of discussion for sale of equity (72% stake) for Jaora-Nayagaon and expects deal to conclude soon. Also,

the company is evaluating exit options like Infra InVIT or Sale to Investors for its HAM projects. The proceed from sale of assets is likely to be used for working capital, debt reduction, and dividend distribution purpose

- **Debt:** ABL's consolidated debt has increased from ₹ 6,699.8 crore (as of FY22-end) to ₹ 7,127.2 crore (as of FY22-end) **Of this, ₹ 862 crore is standalone debt (₹ 187.6 crore - equipment loan, ₹ 674.4 crore - WC loan), ₹ 250 crore is NCDs, and ₹ 6,015.2 crore is project debt.** Out of these, project debt of five BOT assets amounting to ₹ 3,014.2 crore likely to get reduced with sale of assets. Cash & cash balance at the end of Q1FY23 was at ₹ 829 crore. The management has indicated towards delays in collection mainly in roads projects, which has resulted in increase in debt level. However, some dues have been collected post Q1FY23 which has now normalised borrowings, to some extent. Going forward, the management expects standalone debt to stabilise at ~₹ 600 crore by Q2FY23-end. Consolidated debt is likely to remain at an elevated level of ₹ 7,000+ crore (without considering proceed from asset sale) mainly required to fund its HAM projects
- **Impact of solar module price rise:** ABL was in discussions with its clients, NTPC and MNRE, with respect to the increase in module prices for solar projects. Currently, the company is going ahead with the project for EPC work and supply of modules are now stands at the client's scope
- **Capex:** ABL has incurred capex of ~₹ 50 crore during Q1FY23 and is expected to incur ₹ 125-150 crore of overall capex during FY23

We highlight asset sale of Ashoka Concessions of five SPVs to KKR owned entity will ensure payment of SBI-Macquarie liability at ₹ 1,200 crore without any liquidity strain. However, a) lowering of revenue guidance, b) moderation in margins and c) bagging of projects at lower margin at multiple geographies/sectors to remain key overhang going forward. We maintain HOLD rating on the stock with an SoTP-based target price of ₹ 80/share (maintain modest EV/EBITDA target multiple for standalone at 3x).

Exhibit 1: Variance Analysis

Particulars	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Income from Operations	1,479.0	1,188.0	1,011.4	46.2	1,559.2	-5.1	Pick-up in execution led to topline growth
Other Income	31.2	25.0	47.2	-33.9	63.5	-50.9	
Operating Expenses	1,262.0	990.0	828.3	52.4	1,304.4	-3.2	
Employee Expenses	42.6	45.0	42.3	0.7	43.9	-3.1	
Other expenditure	29.9	24.0	20.8	43.2	54.6	-45.3	
EBITDA	144.6	129.0	119.9	20.6	156.3	-7.5	Margin impacted due to rise in commodity prices and project mix
EBITDA Margin(%)	9.8	10.9	11.9	-208 bps	10.0	-25 bps	
Depreciation	16.8	20.0	16.1	4.6	20.4	-17.6	
Interest	19.8	24.0	16.4	20.7	23.4	-15.5	
PBT	139.3	110.0	134.7	3.4	176.1	-20.9	
Taxes	34.9	28.0	33.4	4.7	-11.9	-393.4	
PAT	104.3	82.0	101.3	3.0	188.0	-44.5	

Source: Company, ICICI Direct Research

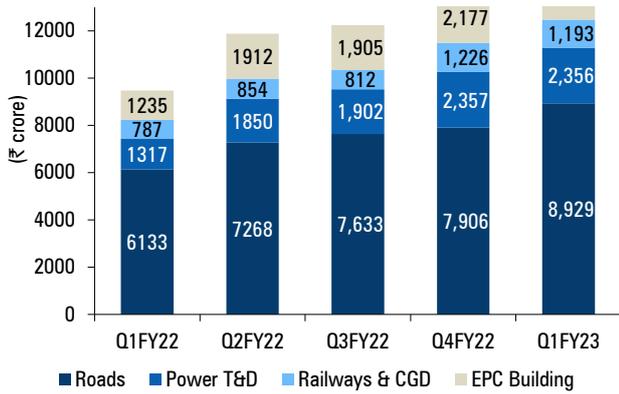
Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	5,409.4	5,409.4	0.0	6,053.2	6,053.2	0.0	Realign estimates
EBITDA	584.3	541.0	-7.4	633.8	603.5	-4.8	
EBITDA Margin (%)	10.8	10.0	-80 bps	10.5	10.0	-50 bps	
Adj PAT	391.0	379.9	-2.8	425.7	413.6	-2.8	
Adj EPS (₹)	13.9	13.5	-2.8	15.2	14.7	-2.8	

Source: Company, ICICI Direct Research

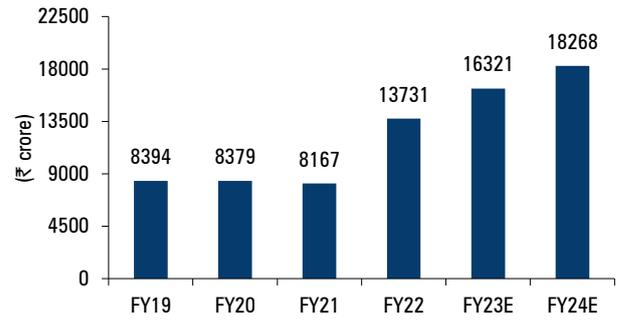
Company Analysis

Exhibit 3: Quarterly order book trend



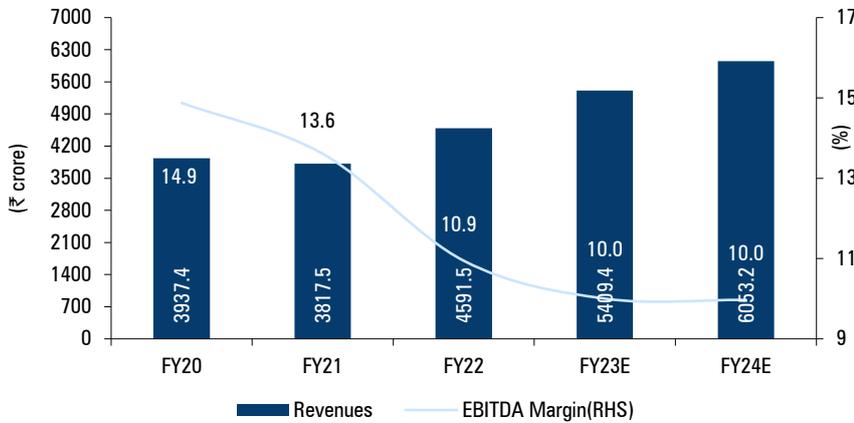
Source: Company, ICICI Direct Research

Exhibit 4: Annual order book trend



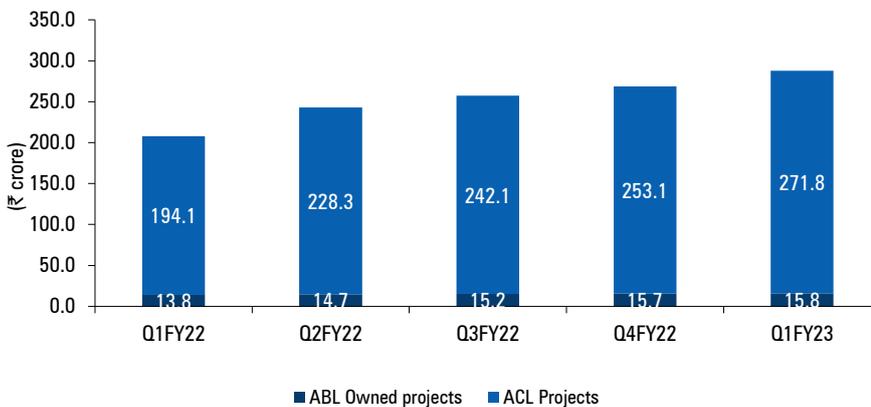
Source: Company, ICICI Direct Research

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

Exhibit 7: Quarterly gross toll collection trend

(₹ crore)	Q1 FY23	Q4 FY22	Q3 FY22	Q2 FY22	Q1FY22	YoY (%)	QoQ (%)
ABL Owned Projects							
Wainganga Bridge	9.6	9.4	9.0	9.0	7.5	27.6%	1.9%
Katni Bypass	6.1	6.2	6.3	5.8	5.7	7.5%	-1.6%
Others#	-	-	-	-	0.6		
Sub-total	15.8	15.7	15.2	14.7	13.8	14.2%	0.5%
ACL Projects							
Belgaum Dharwad	33.9	30.5	29.8	25.1	19.0	79.0%	11.3%
Dhankuni – Kharagpur	117.4	107.3	104.3	97.1	84.9	38.3%	9.4%
Bhandara	22.3	22.3	20.9	20.1	16.8	32.5%	-0.1%
Durg	25.2	25.5	23.9	23.0	19.3	30.9%	-1.3%
Jaora – Nayagaon	49.1	46.7	43.7	45.2	36.8	33.2%	5.0%
Sambalpur	24.0	20.8	19.5	17.9	17.4	38.1%	15.2%
Sub-total	271.8	253.1	242.1	228.3	194.1	40.1%	7.4%
Grand Total	287.6	268.8	257.4	243.1	207.9	38.3%	7.0%

Source: ICICI Direct Research, Company; # Pandarpur Bypass

Valuation & Outlook

We highlight asset sale of Ashoka Concessions of 5 SPVs to KKR owned entity will ensure payment of SBI-Macquarie liability at ₹ 1,200 crore without any liquidity strain. However, a) lowering of revenue guidance, b) moderation in margins and c) bagging of projects at lower margin at multiple geographies/sectors to remain key overhang going forward. We maintain HOLD rating on the stock with an SoTP-based target price of ₹ 80/share (maintain EV/EBITDA multiple for standalone to 3x).

Exhibit 8: ABL valuation

	Value (₹ crore)	Per Share (₹)	Comment
EPC Business (A)	1811	64	3x FY24E EV/EBITDA
BOT Investments (excl. sold project)	318	11	0.6x P/BV
HAM Projects Investment (E)	814	29	At 1x investments (excl. PIM)
Total Equity Investment (F=B+E)	1132	40	
Less: Standalone Debt	680	24	
SoTP Value (A+F-G)	2262	81	
Rounded-off target price		80	

Source: Company, ICICI Direct Research

Financial summary (Standalone)

Exhibit 9: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Net Sales	3817.5	4591.5	5409.4	6053.2
Cost of Material consumed	1248.7	1431.5	1774.3	1997.6
Construction expenses	1730.3	2369.7	2769.6	3087.1
Other Expenses	150.5	106.7	121.6	137.8
Employee Costs	168.5	181.1	202.8	227.2
Total Operating Expenditure	3298.0	4089.0	4868.4	5449.7
EBITDA	519.5	502.5	541.0	603.5
Interest & finance charges	77.2	85.6	80.0	90.0
Depreciation	87.2	69.7	73.2	80.5
Other income	192.1	198.8	120.0	120.0
PBT	547.2	-223.6	507.8	553.0
Taxes	139.1	85.1	128.0	139.4
PAT	408.1	-308.6	379.9	413.6

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	408.1	(308.6)	379.9	413.6
Depreciation	87.2	69.7	73.2	80.5
Interest	77.2	85.6	80.0	90.0
Others	-	-	-	-
Cash Flow before wc changes	519.5	(267.1)	541.0	603.5
Changes in WC	(588.9)	219.2	(370.4)	(246.9)
Taxes Paid	(143.1)	(91.8)	(128.0)	(139.4)
Net CF from operating activities	(212.4)	(139.8)	42.7	217.3
(Purchase)/Sale of Fixed Assets	(15.8)	(55.9)	(150.0)	(100.0)
Addition/Sale of Investment	(47.3)	(30.3)	(255.0)	(90.0)
Net CF from Investing activities	129.1	112.7	(285.0)	(70.0)
Increase/Decrease in NW	(0.3)	0.6	-	-
Increase/Decrease in Debt	6.2	119.7	200.0	(30.0)
Interest Paid	(77.2)	(85.6)	(80.0)	(90.0)
Net CF from Financing activities	(71.3)	34.7	120.0	(120.0)
Net Cash flow	(154.7)	7.6	(122.3)	27.3
Opening Cash	291.1	136.4	144.0	21.7
Closing Cash/ Cash Equivalent	136.4	144.0	21.7	49.0

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	140.4	140.4	140.4	140.4
Reserve and Surplus	2,866.4	2,558.4	2,938.2	3,351.9
Total Shareholders funds	3,006.7	2,698.7	3,078.6	3,492.2
Total Debt	439.6	559.3	759.3	729.3
Deferred Tax Liability	(51.5)	(58.2)	(58.2)	(58.2)
Total Liabilities	3,395	3,200	3,780	4,163
Assets				
Gross Block	661.1	714.6	864.6	964.6
Less Acc. Dep	382.8	452.5	525.7	606.2
Net Block	278.3	262.2	339.0	358.5
Capital WIP	1.7	1.7	1.7	1.7
Right of Use	7.1	9.4	9.4	9.4
Total Fixed Assets	287.1	273.3	350.1	369.6
Investments	1,458.5	1,488.7	1,743.7	1,833.7
Inventory	171.7	187.7	221.1	247.5
Sundry Debtors	1,420.0	1,112.9	1,407.9	1,575.5
Loans & Advances	1,150.1	778.0	928.0	1,078.0
Cash & Bank Balances	136.4	144.0	21.7	49.0
Other Current Assets	811.8	1,323.2	1,556.1	1,741.3
Total Current Assets	3,690.1	3,545.8	4,134.9	4,691.2
Other Current Liabilities	1,953.3	2,030.2	2,371.3	2,653.5
Provisions	87.5	77.8	77.8	77.8
Net Current Assets	1,649.3	1,437.7	1,685.8	1,959.9
Total Assets	3,395	3,200	3,780	4,163

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	FY21	FY22	FY23E	FY24E
Per Share Data (₹)				
EPS	14.5	(11.0)	13.5	14.7
Cash EPS	17.6	(8.5)	16.1	17.6
Book Value	107.1	96.1	109.7	124.4
Operating Ratios (%)				
EBITDA / Net Sales	13.6	10.9	10.0	10.0
PAT / Net Sales	10.7	10.0	7.0	6.8
Inventory Days	16.4	14.9	14.9	14.9
Debtor Days	135.8	88.5	95.0	95.0
Return Ratios (%)				
RoNW	13.6	(11.4)	12.3	11.8
RoCE	18.4	19.7	15.6	15.4
RoC	13.3	14.2	12.5	12.7
Valuation Ratios (x)				
EV / EBITDA	4.7	5.1	5.3	4.7
P/E (Diluted)	5.3	(6.9)	5.6	5.2
EV / Net Sales	0.6	0.6	0.5	0.5
Market Cap / Sales	0.6	0.5	0.4	0.4
Price to Book Value (Diluted)	0.7	0.8	0.7	0.6
Solvency Ratios (x)				
Net Debt / Equity	0.1	0.2	0.2	0.2
Debt / EBITDA	0.8	1.1	1.4	1.2
Current Ratio	1.7	1.6	1.7	1.7
Quick Ratio	1.7	1.5	1.6	1.6

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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