Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Ashoka Buildcon Ltd

Mixed Q1; Asset divestment keenly awaited

Infrastructure	Sharekhan code: ASHOKA
Reco/View: **Buy** ↔	CMP: **Rs. 76** / Price Target: **Rs. 100** ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

Company details

Market cap:	Rs. 2,138 cr
52-week high/low:	Rs. 125 / 69
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	2.4
DII	19.8
Others	23.3

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	0.5	6.1	-15.7	-24.3
Relative to Sensex	-9.6	-6.0	-20.9	-32.5

Sharekhan Research, Bloomberg

Summary

- We retain Buy on Ashoka Buildcon Limited (Ashoka) with a revised PT of Rs. 100. The EPC business is significantly undervalued even after adjusting for HAM equity investments at 0.5x its P/B and realty assets at 1x its P/B.
- Q1FY2023 standalone execution beat estimates while OPM disappointed due to higher share of low margin EPC revenues. Order inflows remained strong during FY2023 till date; Current, OB stands at 3x its TTM standalone revenue.
- Management targets over Rs. 6,000 crore to Rs. 8,000 crore order inflow for the balance FY2023. It lowered standalone revenue growth to 15-20%, and OPM to 9-10% for FY2023.
- The SBI Macquarie exit along with completion of divestment in BOT assets in H2FY2023 would lead to over 40% reduction in consolidated debt.

Ashoka Buildcon Limited (Ashoka) reported better than estimated standalone revenue (up 46.2% y-o-y to Rs. 1,479 crore) while disappointed on OPM (down 208bps y-o-y at 9.8% affected by higher revenue share from low margin EPC projects). Further, lower other income (down 34% y-o-y) led by muted standalone net profit growth of 3% y-o-y at Rs. 104 crores. Consolidated revenue increased by 46.4% y-o-y to Rs. 1,879 crore (toll revenue up 38% y-o-y to Rs. 287 crore). Consolidated OPM stood at 25.8% (lower 516 bps y-o-y), while net profit increased 68% y-o-y to Rs. 135 crores (aided by lower tax). The company had a strong order inflow of over Rs. 2,700 crore during FY2023 till date with the current order book (OB) at Rs. 15,355 crores (3x its TTM standalone revenue). The management expects another Rs. 6000-8000 crore order inflows for the balance fiscal although it lowered its standalone revenue growth guidance to 15-20% y-o-y (earlier 20-25%) and OPM to 9-10% (earlier 11-12% led by higher costs and new projects bagged at lower margins). Its five projects sale deal with Galaxy Investments and Chennai ORR project stake sale are likely to conclude by September 2022.

Key positives

- Consolidated performance remained healthy, led by strong EPC execution, stable OPM, and lower tax.
- Order inflow for FY2023 till date remained strong at Rs. 2,700 crores, leading to a current order backlog of Rs. 15,355 crores, 3x its TTM standalone revenue.

Key negatives

- Standalone OPM at 9.8% came in lower than our estimate, affected by higher contribution from lower margin EPC projects vis-à-vis HAM projects.
- Standalone net debt increased by Rs. 376 crore q-o-q to Rs. 862 crore led by delays in collections.

Management Commentary

- The five BOT asset sale transaction is expected to complete by September 2022. It had invested Rs. 2200 crore as equity and debt support while it would receive Rs. 1337 crore. The proceeds would be used to provide an exit to SBI-Macquarie in ACL. The tax benefit of capital loss in the transaction would accrue to ACL.
- In Chennai ORR project, ABL would receive Rs. 450 crores (Rs. 250 crore repayment of loan, Rs. 200 crore for 50% stake). The project has around Rs. 650 crore debt, Rs. 189 crore equity, and Rs. 250 crore funding support given by ABL.
- It is still in discussion to sell the Jaora Nayagaon project and expects to close the deal within a week or two.

Revision in estimates – We have fine-tuned our earnings estimates for FY2023/FY2024.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 100: Ashoka has picked up its EPC execution although its operating margins are expected to remain muted owing to increased costs and accretion of new projects at lower margins to penetrate new business verticals. The company continues to maintain a strong order book position which along with healthy order intake expected would continue to provide healthy revenue visibility. It would also be de-leveraging its consolidated balance sheet significantly with completion of asset sale deals in H2FY2023. At the CMP, EPC business is valued at just little over 2x its P/E on FY2024E earnings, even after valuing its HAM project investments at 0.5x its P/B and realty assets at P/B (current market value is 2x). We expect the company to be re-rated as it completes the SBI-Macquarie exit and couple of other asset deals in FY2023. Hence, we retain Buy on the stock with a revised price target (PT) of Rs. 100.

Key Risks

Delay in execution, sustained lull in project tendering, and delay in asset monetisation can lead to net earnings downgrade.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	4,991.7	5,945.8	7,053.9	8,206.5
OPM (%)	30.8	29.2	27.0	25.5
Adjusted PAT	276.2	452.6	501.3	588.9
% YoY growth	*67.1*	*63.8*	*10.8*	*17.5*
Adjusted EPS (Rs.)	9.8	16.1	17.9	21.0
P/E (x)	7.8	4.8	4.3	3.7
P/B (x)	3.5	1.6	1.2	0.9
EV/EBITDA (x)	4.8	2.9	2.7	2.5
RoNW (%)	53.4	45.3	31.2	28.0
RoCE (%)	21.0	26.4	28.0	25.9

Source: Company; Sharekhan estimates

Healthy consolidated performance; Standalone OPM lagged

Ashoka Buildcon Limited (ABL) reported 46.4% y-o-y growth in consolidated revenue to Rs. 1879 crore. The standalone net revenue grew by 46.2% y-o-y at Rs. 1479 crore which was 22% higher than our estimate. The toll revenues were up 38.3% y-o-y at Rs. 288 crores. The consolidated OPM contracted by 516 bps y-o-y (-147bps q-o-q) to 25.8% leading to 22% y-o-y growth in consolidated operating profit at Rs. 484 crores. The standalone OPM contracted by 208bps y-o-y (-25bps q-o-q) to 9.8% which was lower than our estimate of 11.5%. The standalone operating profit rose by 20.6% y-o-y to Rs. 145 crore. Strong revenue growth along with a lower effective tax rate (31.1% vs 37.3% in Q1FY2022) led to 68% y-o-y growth in consolidated net profit at Rs. 135 crores. Lower standalone OPM y-o-y along with lower other income (down 34% y-o-y) led to standalone net profit growth of just 3% y-o-y at Rs. 104 crores (which was 11% lower than our estimate).

Key Conference Call Takeaways

- **Guidance:** The company expects to bag another Rs. 6000 crores to Rs. 10,000 crore orders during the balance fiscal year. It lowered its standalone revenue growth guidance to 15-20% y-o-y as against earlier guidance of 20-25% y-o-y growth for FY2023. It also lowered its standalone OPM guidance to 9-10% for FY2023 versus earlier guidance of 11-12%. The lower OPM guidance is on account of an increase in costs and some projects taken at lower margins to enter new business verticals.
- **Sale agreement for five assets:** it had entered into an agreement with Galaxy Investments (KKR affiliated entity) for the sale of 5 operational BOT assets for Rs. 1337 crores. The company had invested Rs. 2200 crore as equity and debt support. The transaction is expected to complete by September 2022. The proceeds would be used to provide an exit to SBI-Macquarie in ACL. The tax benefit of capital loss in the transaction would accrue to ACL.
- **Chennai ORR sale:** It executed SPA with National Investment and Infrastructure Fund (NIIF) for 100% stake sale in the Chennai ORR project for Rs. 686 crore. ABL would receive Rs. 450 crores (Rs. 250 crore repayment of the loan, Rs. 200 crore for 50% stake). Chennai ORR project has around Rs. 650 crore debt, Rs. 189 crore equity and Rs. 250 crore funding support given by ABL.
- **Jaora Nayagaon project sale:** It is still in discussion to sell Jaora Nayagaon project and expects to close the deal within a week or two. The project has Rs. 287 crore equity and Rs. 165 crore term loan.
- **Equity requirement for HAM projects:** Out of Rs. 1354 crore equity requirement, it has invested Rs. 1107 crore as on June 2022. The balance of Rs. 247 crore equity would be invested as follows Rs. 163 crore in FY2023 and Rs. 84 crores in FY2024.
- **Order book:** The order book as on Q1FY2023 end was Rs. 14,780 crores while current order book is Rs. 15,355 crores giving healthy revenue visibility going ahead.
- **Debt:** The consolidated debt stood at Rs. 7127 crore comprising project debt of Rs. 6015 crore (of which project debt of 5 BOTs is Rs. 3014 crore), NCD at ACL level Rs. 250 crore and standalone debt of Rs. 862 crore. The standalone debt increased from Rs. 486 crore in Q4FY2022 to Rs. 862 crore on account of delay in collections which generally happens during H1 of fiscal year. It received Rs. 100 crore during early July 2022. The standalone working capital debt stood at Rs. 674 crores which is expected to decrease to Rs. 400-450 crore by the Q2FY2023 end.
- **International orders:** The company is focusing on African regions. It has an independent vertical for overseas projects which are funded by World Bank. International orders are fixed price contracts with better margins and the company benefits from dollar appreciation.
- **Capex:** It incurred Rs. 15 crores capex during Q1FY2023 and expects to incur Rs. 120-150 crore in FY2023.
- **Balance sheet items:** The debtors stand at Rs. 1000 crore as against advances of Rs. 442 crores, payables at Rs. 847 crores, Unbilled revenues (work-in-progress) at Rs. 1200 crore, Inventory Rs. 120 crores and retention money at Rs. 183 crores.

Results (Consolidated) Rs cr

Particulars	Q1FY2023	Q1FY2022	Y-o-Y %	Q4FY2022	Q-o-Q %
Net Revenue	**1878.6**	**1283.2**	**46.4%**	**1957.3**	**-4.0%**
Other income	37.4	27.0	38.4%	99.7	-62.5%
Total income	**1915.9**	**1310.1**	**46.2%**	**2057.0**	**-6.9%**
Total expenses	1394.6	886.3	57.3%	1424.4	-2.1%
Operating profit	**484.0**	**396.8**	**22.0%**	**532.9**	**-9.2%**
Depreciation	84.1	63.0	33.5%	117.1	-28.2%
Interest	250.0	240.2	4.1%	259.3	-3.6%
Exceptional items	0.0	0.0		0.0	
Profit Before Tax	**187.3**	**120.7**	**55.2%**	**256.2**	**-26.9%**
Taxes	58.3	45.0	29.5%	35.3	65.1%
PAT before MI/JV	**129.0**	**75.7**	**70.4%**	**220.9**	**-41.6%**
Minority Interest/JV Inc.	-5.6	-4.5	23.2%	-5.0	10.6%
Reported PAT	134.6	80.2	67.7%	225.9	-40.4%
Adjusted PAT	**134.6**	**80.2**	**67.7%**	**225.9**	**-40.4%**
No. of equity shares	28.1	28.1	0.0%	28.1	0.0%
EPS (Rs.)	4.8	2.9	67.7%	8.0	-40.4%
			bps		**bps**
OPM (%)	25.8%	30.9%	-516	27.2%	-147
NPM (%)	7.2%	6.3%	91	11.5%	-438
Tax rate (%)	31.1%	37.3%	-616	13.8%	1735

Source: Company; Sharekhan Research

Outlook and Valuation

■ **Sector View – Roads to remain one of the key focus areas in the 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. Huge investments along with favorable government policies are expected to provide strong growth opportunities for industry players. 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.

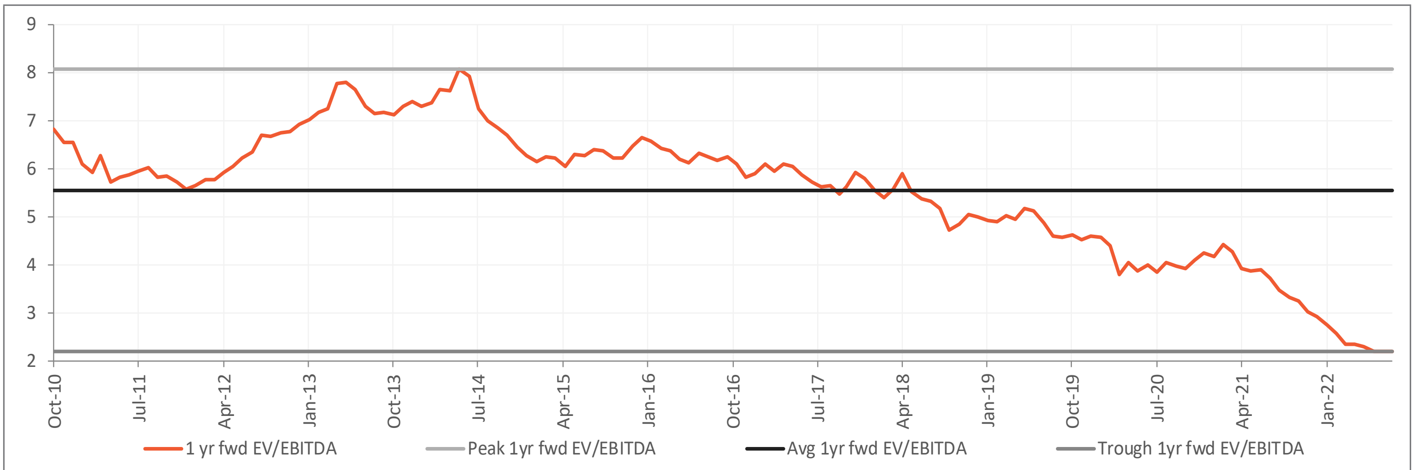
■ **Company outlook – Strong revenue growth and order inflow outlook**

The company has received over Rs. 2,700 crore in order inflows from April 1, 2022, till date. Current Order book at Rs. 15,355 crore, provide healthy revenue visibility going ahead. The company expects to bag another Rs. 6000 crores to Rs. 8,000 crore order inflows for balance fiscal year. It expects standalone revenue to grow by 15-20% y-o-y for FY2023 while OPM are expected to be in the range of 9-10%. The company expects to complete the transaction of the five-asset deal with Galaxy Investments by September 2022. The company would also complete a stake sale in Chennai ORR project by September 2022 and is in discussions for exit in Jaora Nayagaon project. Consolidated debt is expected to reduce significantly post completion of the five-asset sale deal, which includes increased debt for HAM projects.

■ **Valuation – Retain Buy with a revised PT of Rs. 100**

Ashoka has picked up its EPC execution although its operating margins are expected to remain muted owing to increased costs and accretion of new projects at lower margins to penetrate new business verticals. The company continues to maintain a strong order book position which along with healthy order intake expected would continue to provide healthy revenue visibility. It would also be de-leveraging its consolidated balance sheet significantly with the completion of asset sale deals in H2FY2023. At the CMP, EPC business is valued at just a little over 2x its P/E on FY2024E earnings, even after valuing its HAM project investments at 0.5x its P/B and realty assets at P/B (current market value is 2x). We expect the company to be re-rated as it completes the SBI-Macquarie exit and a couple of other asset deals in FY2023. Hence, we retain Buy on the stock with a revised price target (PT) of Rs. 100.

One-year forward P/E (x) band



Source: Company, Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
PNC Infratech*	12.3	11.2	6.9	6.3	1.7	1.5	14.9	14.2
Ashoka Buildcon	4.3	3.7	2.7	2.5	1.2	0.9	31.2	28.0
KNR Constructions*	18.4	16.6	10.3	9.4	2.8	2.4	16.7	15.8

Source: Sharekhan Research

About company

Ashoka is a leading EPC company with over four decades of experience. Apart from road EPC, other business verticals include roads BOT (annuity/hybrid annuity), power distribution, and city gas distribution. The company has constructed 10,000+ lane kms and is present 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, provides an opportunity for strong order inflow for Ashoka, considering its presence in both road, railways, and power segments. Ashoka provides a unique opportunity to play in 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 an improved balance sheet.

Key Risks

- Delay in execution of hybrid annuity projects can negatively affect the financials and valuation multiple of the company.
- Weak economic environment leading to lower traffic growth and lower project awards.
- Inability to monetize 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 Website

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 Tustee 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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