

Ashoka Buildcon

 Estimate change 

TP change

 Rating change 
CMP: INR76
TP: INR110 (+45%)
Buy

Execution picks up

Robust order book to drive performance

- Revenue grew 41% YoY, but fell 5% to ~INR14.8b in 1QFY23, 23% above our estimate. The revenue break up from Roads/Power/Railways stood at INR11b/INR1.6b/INR1.5b in 1QFY23.
- EBITDA margin fell 530bp YoY and 20bp QoQ to 9.8% in 1QFY23 (est. 10.5%). EBITDA/PAT fell 9%/25% YoY to INR1.5b/INR1b (est. INR1.3b/INR0.9b).
- Order book post the recent project wins stood ~INR148b, with an OB/revenue ratio of ~3x, which provides comfort on revenue growth. The order book was dominated by the Roads and Railways segment (~85% share).
- While execution is expected to remain robust, margin is likely to be in the 9-10% range in FY23, as certain projects are fixed price contracts and won't benefit from an input cost decline. The company is also looking to sell some of its HAM assets through outright sale or an InVIT.
- A robust order book, a healthy bid pipeline, and focus on the Balance Sheet augur well for ASBL. We cut our FY23/FY24 EPS estimate marginally to factor in a lower than earlier expected EBITDA margin. We retain our **Buy** rating with a revised SoTP-based TP of INR110, implying a 45% upside.

Robust order pipeline in the Road segment

- ASBL has seen decent order flows in 1QFY23 and the bid pipeline remains robust. The management is targeting INR60-80b in orders in 9MFY23, which will majorly be from the Roads segment.
- The company will also bid for Power EPC and Railway projects. However, it is looking to avoid fixed price contracts.

Highlights from the management commentary

- The management expects a revenue growth of 15-20% in FY23, based on the current order book under execution.
- While input costs are falling, the margin benefits will not be very significant. ASBL is executing some fixed price contracts and also some low margin projects. The management is targeting a margin of 9-10% in FY23.
- Total equity required for the ongoing projects is INR10.6b, of which INR8.1b has already been invested till date.
- The asset sale transaction in ACL of five SPVs with Galaxy Investments is expected to be completed by Sep'22. ASBL has received an approval from some lenders and expects approvals from other lenders in the near term. Discussions are at advanced stages with potential investors for sale of the Jaora Nayagaon Toll Road Company Pvt.

Valuation and view

- ASBL delivered a decent execution and is focusing on improving its Balance Sheet. The company is looking to accelerate the sale of other assets, which includes the Jaora Nayagaon Toll Road Company Pvt., to free up capital.
- While a robust order book and improvement in the Balance Sheet bode well for ASBL, margin is expected to be lower than that expected earlier. We lower our SoTP-based TP of INR110 and **retain our Buy rating**.



Bloomberg	ASBL IN
Equity Shares (m)	281
M.Cap.(INRb)/(USDb)	21.4 / 0.3
52-Week Range (INR)	125 / 69
1, 6, 12 Rel. Per (%)	-9/-21/-31
12M Avg Val (INR M)	144

Financials & Valuations (INR b)

Y/E Mar	2022	2023E	2024E
Sales	45.9	53.3	60.5
EBITDA	5.0	5.2	6.2
PAT	4.6	3.9	4.3
EBITDA (%)	10.9	9.8	10.2
EPS (INR)	16.4	13.9	15.3
EPS Gr. (%)	12.8	(15.5)	10.1
BV/Sh. (INR)	96.1	108.6	122.4

Ratios

Net D/E	0.2	0.1	0.1
RoE (%)	16.2	13.6	13.2
RoCE (%)	25.5	13.5	13.3
Payout (%)	0.0	10.0	10.0

Valuations

P/E (x)	4.6	5.5	5.0
P/BV (x)	0.8	0.7	0.6
EV/EBITDA (x)	5.1	4.9	3.8
Div Yield (%)	-	1.8	2.0
FCF Yield (%)	4.7	9.6	13.7

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	54.5	54.5	54.5
DII	19.8	21.5	24.3
FII	2.4	2.1	3.5
Others	23.3	21.9	17.7

FII Includes depository receipts

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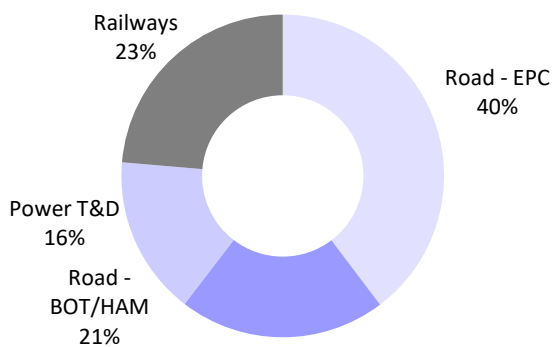
Quarterly Performance-Standalone

(INR m)

Y/E March	FY22				FY23				FY22	FY23E	FY23 1QE	Var (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net Sales	10,114	9,171	11,037	15,592	14,790	11,200	13,000	14,287	45,915	53,278	12,000	23
YoY Change (%)	76.7	4.5	12.5	12.4	46.2	22.1	17.8	-8.4	20.3	16.0	14.3	
EBITDA	1,199	1,055	1,207	1,563	1,446	1,092	1,268	1,416	5,025	5,221	1,260	15
Margin (%)	11.9	11.5	10.9	10.0	9.8	9.8	9.8	9.9	10.9	9.8	10.5	
Depreciation	161	166	167	204	168	197	197	198	697	760	185	
Interest	164	210	249	234	198	240	250	274	856	962	220	
Other Income	472	590	291	635	312	450	450	493	1,988	1,705	400	
PBT before EO	1,347	1,271	1,082	1,761	1,393	1,105	1,271	1,436	5,461	5,204	1,255	
Extra-Ord expense	0	0	-7,696	0	0	0	0	0	-7,696	0	0	
PBT	1,347	1,271	-6,614	1,761	1,393	1,105	1,271	1,436	-2,235	5,204	1,255	
Tax	334	315	321	-119	350	278	320	363	851	1,310	316	
Reported PAT	1,014	956	-6,935	1,880	1,043	827	951	1,074	-3,086	3,895	939	
Adj PAT	1,014	956	761	1,880	1,043	827	951	1,074	4,610	3,895	939	11
YoY Change (%)	46.8	-8.7	-11.2	26.0	2.9	-13.5	25.0	-42.9	12.8	-15.5	-32.9	
Margin (%)	10.0	10.4	6.9	12.1	7.1	7.4	7.3	7.5	10.0	7.3	7.8	

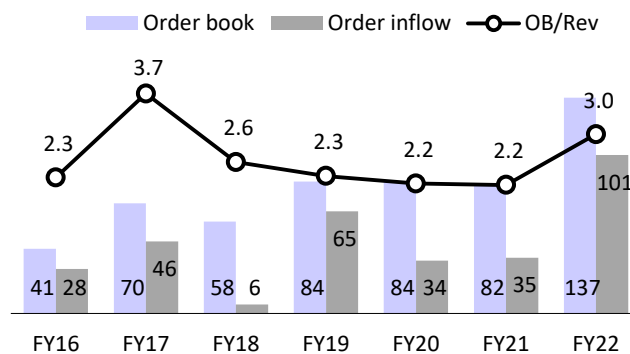
Story in charts

Exhibit 1: Order book break (1QFY23: INR148b; OB-to-revenue ratio at 2.9x)



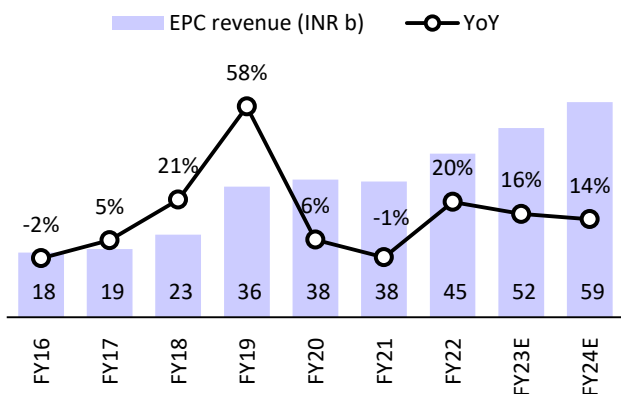
Source: MOFSL, Company

Exhibit 2: Order book and order inflow trends (INR b)



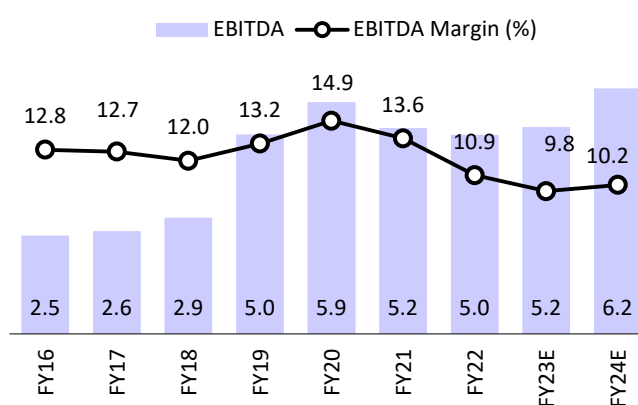
Source: MOFSL, Company

Exhibit 3: Expect ~15% CAGR in EPC revenue over FY22-24

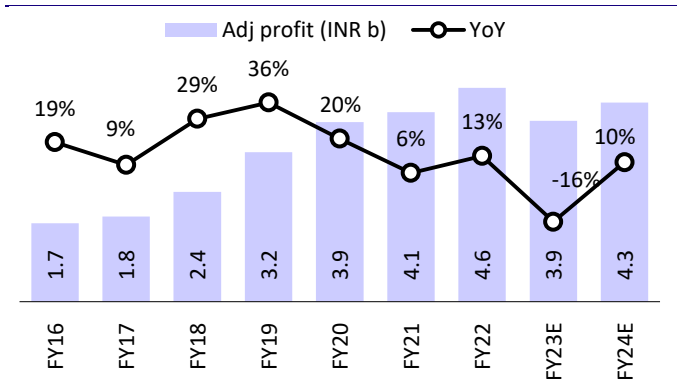


Source: MOFSL, Company

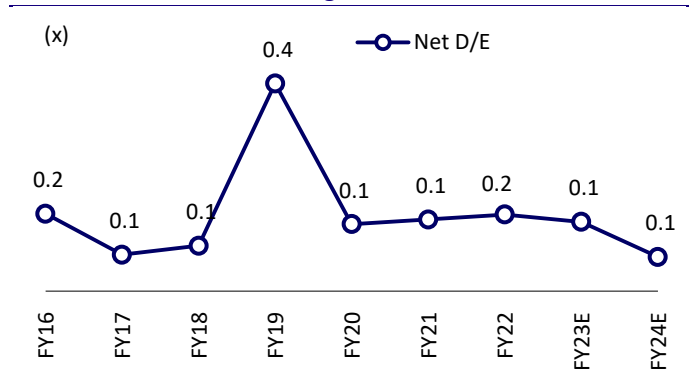
Exhibit 4: EBITDA and EBITDA margin trends



Source: MOFSL, Company

Exhibit 5: Expect standalone earnings CAGR to be muted FY22–24

Source: MOFSL, Company

Exhibit 6: Standalone leverage to remain in check

Source: MOFSL, Company

Highlights from the management commentary

Business update

- Revenue break up for 1QFY23: Roads/power/railway contributed INR11b/INR1.6b/INR1.5b, respectively.
- Gross toll collection for 1QFY23 stood at INR2.9b (+38% YoY).
- Working Capital was temporarily higher due to higher receivables. This is more seasonal impact and would normalize from 2Q onwards.
- While the input costs are coming down, the margin benefits would not be very significant. The Company is executing some fixed price contracts and also some low margin projects. ASBL is targeting margins of 9-10% in FY23.
- The Company has been diversifying into different geographies outside India and also into new segments. It would continue to bid for such projects going forward after appropriate due diligence.

Asset sale

- Asset sale transaction in ACL of 5 SPV with galaxy investments is expected to complete by Sep'22. ASBL has received approval from some lenders and expects approvals from other lenders in near term. The deal transfer would be for the entire share capital of 5 projects for a consideration of INR13.4b. Total proceeds would be facilitated to exit SBI Macquarie (INR12b).
- ASBL executed a share purchase agreement for the sale of 100% equity of Chennai ORR project to National Investment and infrastructure fund (NIIF) for a consideration of INR6.9b. Out of the INR6.9b, INR4.8b would be received by ASBL for the equity investment and loans provided.
- Discussions are in advanced stages with potential investors for sale of Jaora-Nayagaon BOT.

Order book

- During FY23 ASBL has received a) Letter of Award (LoA) from the Government of the co-operative Republic of Guyana of \$106m in June-22 b) Letter of Intent for a project for Department of IT & Communication, Govt. of Rajasthan of INR6.0b in August-22 and c) LoA from East Central Railways of Rs. 2.1b in August-22
- Out of the total order book currently, majority of the orders would be under execution from 3Q onwards and there would be hardly any slow moving orders.

- The Company is targeting order inflows of INR60-80b during remaining part of FY23.
- While Company would focus on Road sector it would also bid for power EPC projects. However it would look to avoid fixed price contracts.

Capex and Equity requirement

- Company incurred capex of INR150m in 1Q and expects to incur capex of INR1.2-1.5b during FY23. Not much capex is expected in FY24.
- Total equity required for the ongoing projects is INR10.6b, out of which INR8.1b has already been invested till date.

Balance Sheet

- As on June'22, Debtors was at INR11.8b (incl. retention), unbilled revenue at INR12.0b, and trade payables at INR8.5b.
- Surplus cash after providing an exit to Macquarie might be utilized towards providing dividend or a share Buyback.

Guidance

- Revenue growth of 15-20% is expected in FY23. Margins would be at 9-10% in FY23. EBITDA margins of 9-10% expected in FY23.
- Capex is expected to be INR1.2-1.5b in FY23 (1QFY23:INR150m)

Valuation and view

With an order book of INR148b, we expect ASBL to clock 15% revenue growth over FY22-24E, with EBITDA margin in the 9-10% range. We retain our BUY rating with a revised TP of INR110 based on SoTP valuation.

Exhibit 7: SoTP Target Price stands at INR110/share

Particulars	INR m	Per share (INR)
Valuation		
March'24E Core Construction business – P/E basis	18,312	65
BOT Portfolio valuation – NPV basis	13,206	45
Total	31,519	110

Source: MOFSL, Company

Financials and valuations

Income Statement						(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Revenue	38,094	39,374	38,175	45,915	53,278	60,488
Change (%)	55.7	3.4	-3.0	20.3	16.0	13.5
EBITDA	5,040	5,856	5,195	5,025	5,221	6,197
Margin (%)	13.2	14.9	13.6	10.9	9.8	10.2
Depreciation	763	1,111	872	697	760	850
EBIT	4,277	4,745	4,323	4,328	4,461	5,347
Interest	907	855	772	856	962	827
Other income	1,157	1,449	1,921	1,988	1,705	1,210
Exceptional items	-358	0	0	-7,696	0	0
PBT	4,169	5,340	5,472	-2,235	5,204	5,730
Tax	1,307	1,468	1,387	851	1,310	1,442
Rate (%)	31.4	27.5	25.3	-38.1	25.2	25.2
Reported PAT	2,862	3,871	4,086	-3,086	3,895	4,288
Adjusted PAT	3,220	3,871	4,086	4,610	3,895	4,288
Change (%)	35.8	20.2	5.5	12.8	-15.5	10.1
Margin (%)	8.5	9.8	10.7	10.0	7.3	7.1

Balance Sheet						(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E
Share Capital	1,404	1,404	1,404	1,404	1,404	1,404
Reserves	20,717	24,586	28,664	25,584	29,089	32,948
Net Worth	22,120	25,989	30,067	26,987	30,492	34,351
Loans	9,782	6,409	5,694	5,593	5,093	4,093
Deferred Tax Liability	-518	-475	-515	-582	-582	-582
Capital Employed	31,384	31,923	35,247	31,998	35,003	37,862
Gross Fixed Assets	7,206	8,009	8,244	8,876	10,126	11,126
Less: Depreciation	3,407	4,518	5,390	6,087	6,847	7,697
Net Fixed Assets	3,799	3,491	2,854	2,789	3,279	3,428
Capital WIP	55	95	17	17	17	17
Investments	12,831	13,224	14,585	10,628	13,128	14,128
Curr. Assets	35,883	35,835	36,901	39,644	42,915	47,812
Inventory	1,527	1,534	1,717	1,877	2,178	2,473
Debtors	15,513	14,440	14,200	11,129	15,326	17,401
Cash and Bank Balance	550	2,911	1,364	1,440	853	1,733
Loans and Advances	8,927	9,866	11,501	7,780	7,042	6,319
Other Assets	9,366	7,084	8,118	17,418	17,516	19,886
Current Liab. and Prov.	21,183	20,721	19,110	21,080	24,336	27,524
Current Liabilities	20,484	19,818	18,235	20,302	23,558	26,746
Provisions	700	903	875	778	778	778
Net Current Assets	14,699	15,114	17,791	18,564	18,579	20,288
Application of Funds	31,384	31,923	35,247	31,998	35,003	37,862

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)						
Adj. EPS	11.5	13.8	14.6	16.4	13.9	15.3
Cash EPS	14.2	17.7	17.7	18.9	16.6	18.3
Book Value	78.8	92.6	107.1	96.1	108.6	122.4
DPS	1.0	0.0	1.5	0.0	1.4	1.5
Payout (incl. Div. Tax.)	11.4	0.0	10.0	0.0	10.0	10.0
Valuation (x)						
P/E	9.0	6.6	5.5	4.6	5.5	5.0
Price/Book Value	1.1	1.0	0.8	0.8	0.7	0.6
EV/EBITDA	7.9	6.1	4.2	5.1	4.9	3.8
Dividend Yield (%)	1.3	1.3	0.0	0.0	1.8	2.0
FCF per share	12.6	-5.6	24.3	3.6	7.3	10.4
Return Ratios (%)						
RoE	15.6	16.1	14.6	16.2	13.6	13.2
RoCE	13.8	14.0	13.7	25.5	13.5	13.3
RoIC	23.2	20.5	18.5	30.5	16.3	18.6
Working Capital Ratios						
Fixed Asset Turnover (x)	5.3	4.9	4.6	5.2	5.3	5.4
Total Asset Turnover (x)	1.2	1.2	1.1	1.4	1.5	1.6
Inventory (Days)	15	14	16	15	15	15
Debtors (Days)	149	134	136	88	105	105
Leverage Ratio						
Current Ratio	1.7	1.7	1.9	1.9	1.8	1.7
Interest Coverage Ratio	4.7	5.6	5.6	5.1	4.6	6.5
Net Debt/Equity (x)	0.4	0.1	0.1	0.2	0.1	0.1

Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E
PBT before EO Items	4,169	5,340	5,472	-2,236	5,204	5,730
Depreciation	763	1,111	872	697	760	850
Interest and other charges	92	-437	-556	-206	962	827
Direct Taxes Paid	-1,176	-1,414	-1,227	-1,515	-1,310	-1,442
(Inc.)/Dec. in WC	-4,454	2,069	-3,869	-2,337	-603	-829
Others	682	743	618	7,208	-1,705	-1,210
CF from Operations	75	7,413	1,310	1,611	3,309	3,926
(Inc.)/Dec. in FA	-1,639	-579	-186	-609	-1,250	-1,000
Free Cash Flow	-1,564	6,833	1,125	1,002	2,059	2,926
(Pur.)/Sale of Investments	-4,050	-435	-2,141	-1,440	-2,500	-1,000
Others	235	438	205	259	1,705	1,210
CF from Investments	-5,455	-576	-2,122	-1,789	-2,045	-790
(Inc.)/Dec. in Debt	5,660	-3,612	83	1,108	-500	-1,000
Interest Paid	-778	-750	-761	-805	-962	-827
Dividend Paid	-150	0	0	0	-389	-429
Others	-37	-114	-58	-48	0	0
CF from Fin. Activity	4,695	-4,475	-736	255	-1,851	-2,256
Inc./Dec. in Cash	-685	2,361	-1,547	76	-587	880
Add: Beginning Balance	1,234	550	2,911	1,364	1,440	852
Closing Balance	550	2,911	1,364	1,440	852	1,733

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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