

Ashoka Buildcon

BUY

Margin impacted by slow execution

Summary

Ashoka Buildcon (ASBL) Q2FY22 (standalone) revenue and EBITDA came lower than our and consensus estimate. This is led by delay in execution due to heavy monsoon. At EBITDA level, result is lower than our and consensus estimate by 15%. ASBL has revenue guidance at 20% YoY increase for FY22E and margins at ~12-12.5%. H1FY22 Order book at Rs120bn (equals 3x TTM Revenue) with Roads & Railway at 68%. YTDFY22 total order inflow was strong at Rs33.5bn. We have introduced FY24E and roll forward TP at Rs135 (exhibit 8). Maintain BUY. ASBL has renegotiated the terms of shareholders agreement regarding the Investors exit options from the proceeds of the sale of ACL assets. The commitment has been revised to Rs11bn from Rs15.3bn, this is positive for ASBL.

Key Highlights and Investment Rationale

- Q2FY22 Snapshot:** ASBL reported Q2FY22 revenue at Rs9bn, +5% YoY / -9% QoQ. Lower revenue growth was led by delayed start in the projects due to heavy monsoon. EBITDA stood at Rs1bn (-19% YoY / -12% QoQ) with EBITDA margin of 11.5%. PAT at Rs0.9bn (-9% YoY / -6% QoQ). EBITDA margin was lower YoY and QoQ and ASBL has guided for EBITDA margin of ~12-12.5% for FY22E. On execution front, company expects the momentum to pick-up in H2FY22.
- Order inflow remains strong:** H1FY22 Order book at Rs120bn (equals 3x TTM Revenue) with Roads at 61%, power T&D 16%, EPC building at 16% and Railway at 7%. During the quarter company has received orders worth Rs18.7bn. YTDFY22 total order inflow stood at Rs33.5bn.
- Stock catalyst:** Catalyst for stock performance is conclusion of ACL asset sale, execution momentum and orders win. ACL stake sale is key event to watch and will remove overhang on stock performance and provide CF for future growth to ASBL. Stock at 5x FY24E EPS is trading at -1 STD of its historical average (exhibit 8).

TP	Rs135		
CMP	Rs103		
Potential upside / downside	+31%		
Previous Rating	BUY		

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	15.8	18.8	21.4
Consensus	14.4	16.4	17.8
% difference	9.4	14.7	20.2

Shareholding Pattern (%)

Promoters	54.5
FII	2.8
DII	23.0
Public	19.7

Price Performance (%)

	-1m	-3m	-12m
Absolute	(72.6)	(66.5)	(37.2)
Rel to Sensex	(71.7)	(76.0)	(76.3)

Key Stock Data

Bloomberg / Reuters	ASBL IN / ABDL.BO
Sector	Construction
Shares o/s (mn)	281
Market cap. (Rs mn)	28,999
Market cap. (US\$ mn)	387
3-m daily avg Trd value (Rs mn)	23.7
52-week high / low	Rs125 / 70
Sensex / Nifty	60,719 / 18,110

Relative to Sensex (%)



Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	39,374	38,175	45,810	53,598	61,638
EBITDA	5,856	5,195	5,497	6,432	7,397
EBITDA (%)	14.9	13.6	12.0	12.0	12.0
Adj. PAT	3,871	4,081	4,448	5,273	5,994
EPS (Rs)	13.8	14.5	15.8	18.8	21.4
EPS Growth (%)	35.3	5.4	9.0	18.6	13.7
PE (x)	7.5	7.2	6.6	5.5	4.9
Dividend Yield (%)	-	-	-	-	-
EV/EBITDA (x)	5.1	6.0	5.1	3.9	2.9
RoE (%)	16.1	14.6	13.8	14.2	14.0
RoCE (%)	14.5	12.6	11.8	12.8	13.5

Source: IDBI Capital Research;

Conference call takeaways

- On execution front, ASBL faced a delayed for most of its projects led by heavy monsoon. Going forward, company expects the execution to pick in H2FY22. And for HAM projects, execution across all HAM projects is progressing well except for Tumkur-Shivamogga –IV.
- In Q2FY22 BOT toll collection stood at Rs2.4bn vs Rs2.2bn YoY / Rs2.1bn QoQ.
- H1FY22 Order book stood at Rs120bn (equals 3x TTM Revenue) with Roads & Railway at 68%. And YTD FY22 total order inflow stood at Rs33.5bn. Company has received an order for Solar Park project from Rewa Ultra Mega Solar Limited, Madhya Pradesh worth Rs1.9bn.
- During the quarter ASBL has received orders worth Rs18.7bn including the order from Adani Road transport ltd in West Bengal on EPC basis. Company also received an order from National Highway and Infrastructure Development Corp Ltd in Assam on EPC basis.
- On HAM projects front, ASBL mentioned that its Khairatunda-Barwa Adda project achieved PCOD on 9 Oct-21. With this company has achieved COD of 3 HAM projects and expects to achieve another 3 in near future.
- On Equity investment front, total equity requirement for 10 HAM projects stood at Rs14.5bn. Out of this, company has already invested Rs9.4bn as on Sept-21. Going forward, Incremental equity for FY22/FY23 stood at Rs1.6bn/Rs1.4bn. Total equity requirement for CGD business stood at Rs2bn. Out of this, company has already invested Rs0.7bn and the requirement of another Rs1.3bn is expected in FY23.
- On consolidated basis, Total Debt stood at Rs65bn comprising Standalone debt/ Project debt/ NCDs at Rs3.8bn/ Rs58bn/ Rs2.5bn.
- On guidance front, ASBL expects revenue to increase by 20% (vs earlier guidance of 25%) for FY22E. And margins to remain the same at ~12-12.5%.
- On SBI Macquarie deal front, ASBL was able to renegotiate the terms of shareholders agreement regarding the Investors exit options from the proceeds of the sale of ACL assets. The commitment has been revised to Rs11bn from Rs15.3bn.
- On BOT assets and process front, ASBL entered into a SPV with HC1 (Highway Concessions One Private Ltd) for purchase of 49% stake in AHDL (Ashoka Highway Durg Ltd) along with zero interest Shareholders Loan at Rs0.5mn. Post completion, company along with its subsidiary (ACL) would hold 100% stake in AHDL.

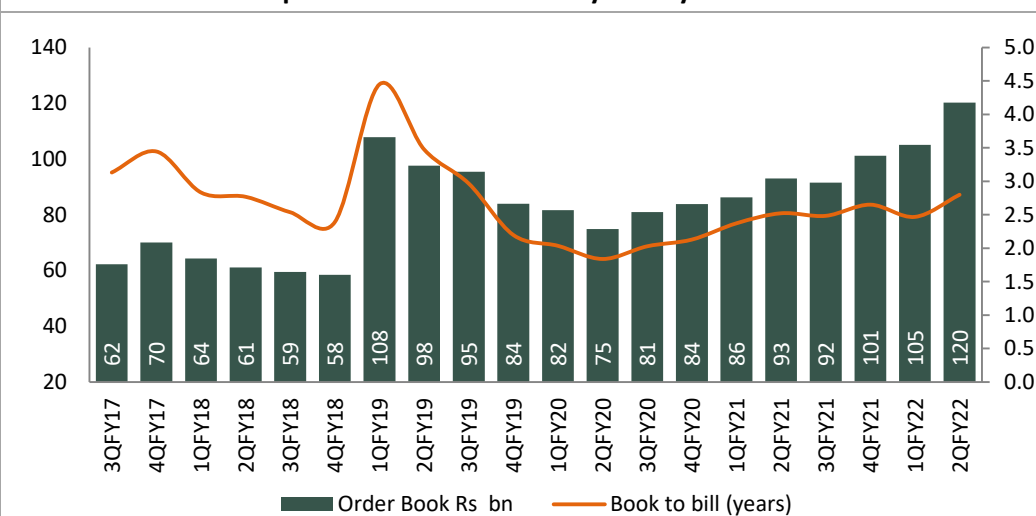
Exhibit 1: Financial snapshot: Quarterly

(Rs mn)

Particulars	Q2FY22	Q2FY21	YoY Chg (%)	Q1FY22	QoQ Chg (%)
Net Sales	9,171	8,775	5	10,114	-9
EBIDTA	1,055	1,309	-19	1,199	-12
<i>EBITDA margin (%)</i>	<i>11.5</i>	<i>14.9</i>		<i>11.9</i>	
Other income	590	498	18	472	25
PBIDT	1,646	1,808	-9	1,671	-2
Depreciation	166	218	-24	161	3
Interest	210	197	6	164	28
Pre-tax profit	1,271	1,393	-9	1,347	-6
Tax (current+deferred)	315	346	-9	334	-6
Profit after tax	956	1,047	-9	1,013	-6
Adj. EPS (Rs.)	3.40	3.73	-9	3.61	-6

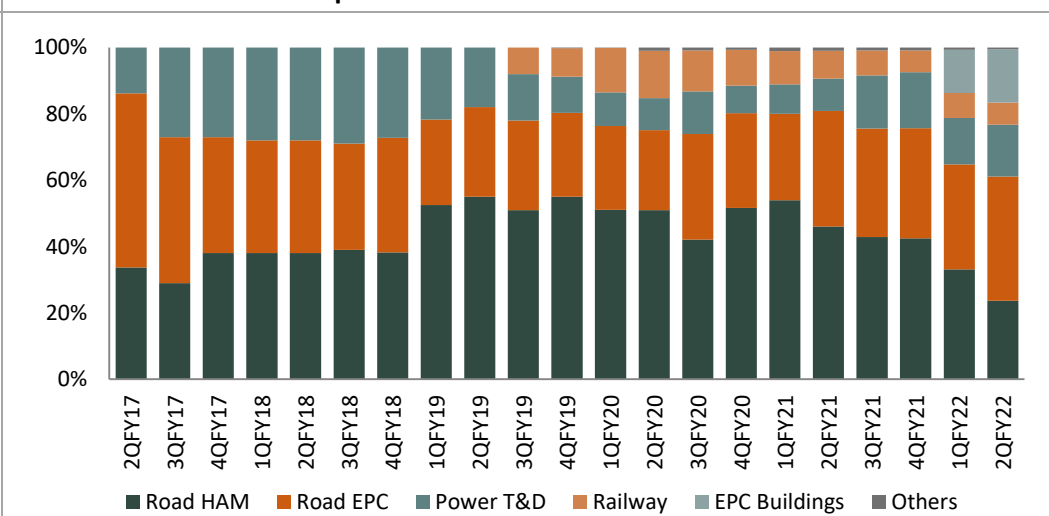
Source: Company; IDBI Capital Research

Exhibit 2: Order-book provides revenue visibility of ~3 years



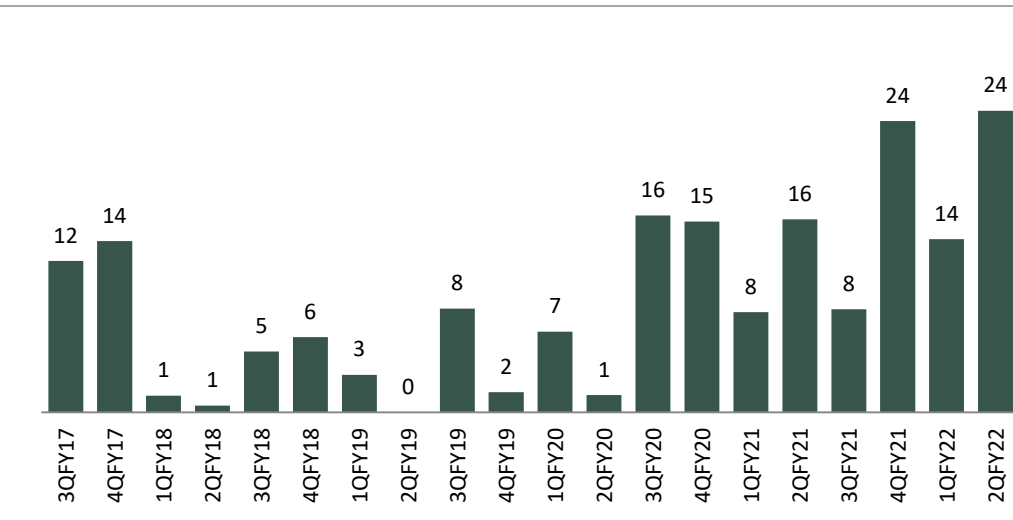
Source: Company

Exhibit 3: Order book composition : Road sector at 61%



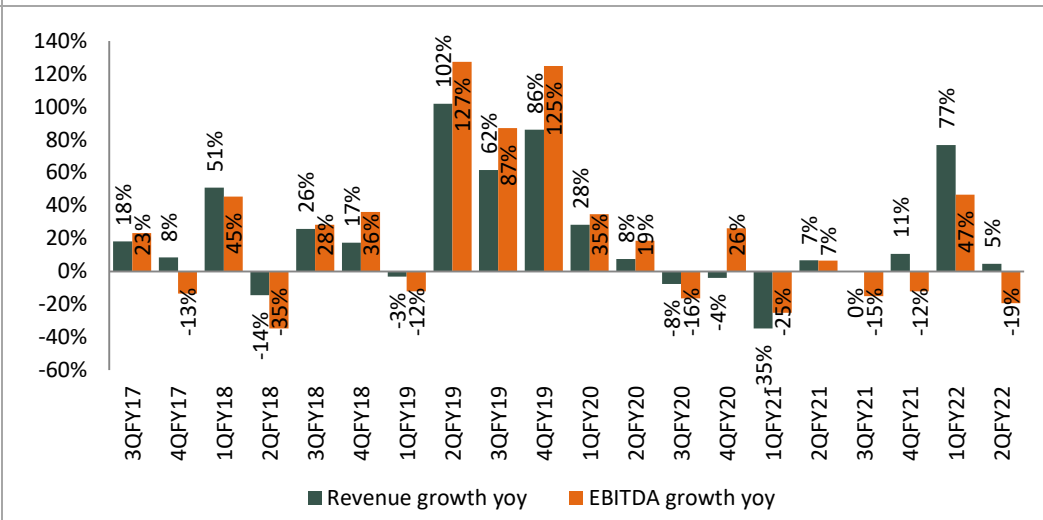
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Exhibit 4: Order inflow trajectory: Consistently winning, Rs24bn inflow in Q2FY22



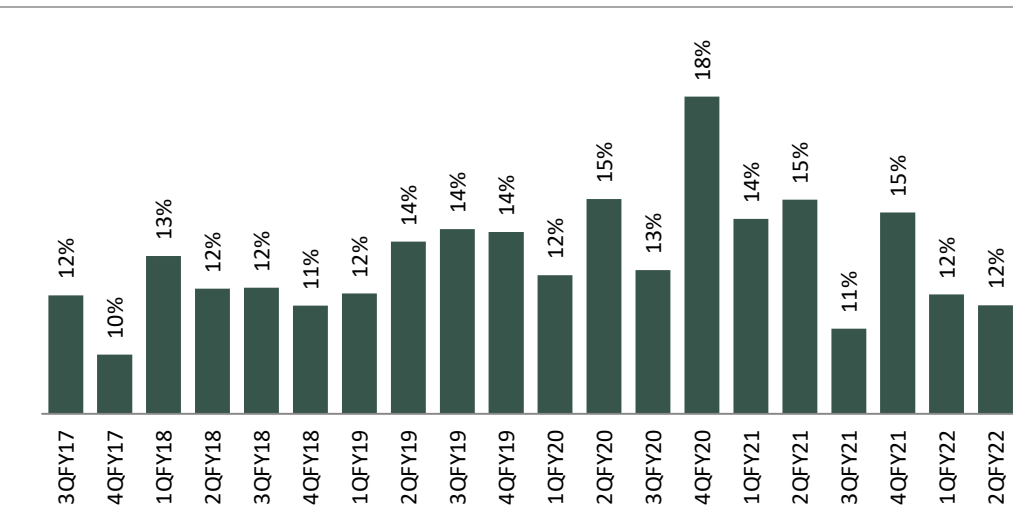
Source : Company

Exhibit 5: Execution over the years, lumpy in nature



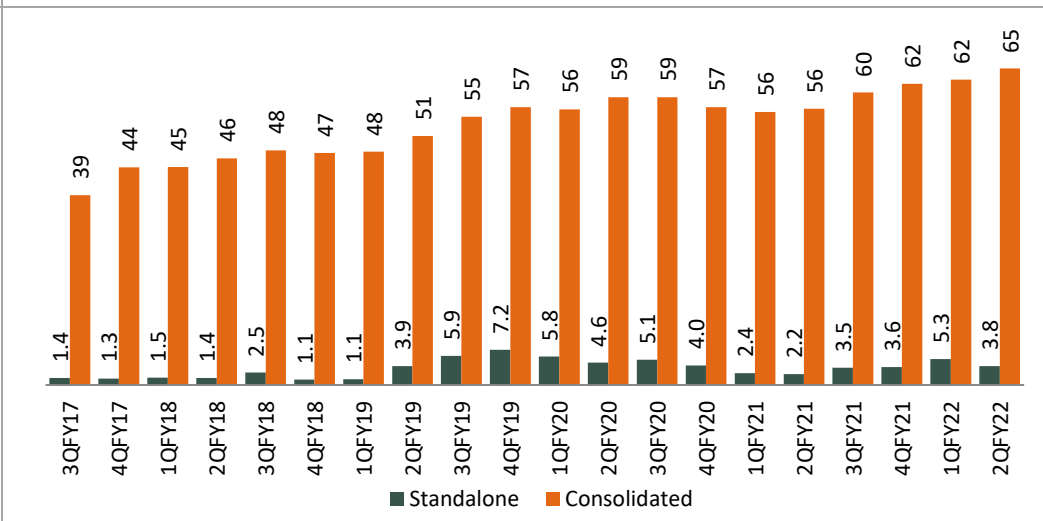
Source : Company

Exhibit 6: EBITDA margin lower (%)



Source : Company

Exhibit 7: Debt in the books (Rs bn)



Source : Company

Exhibit 8: SOTP-based valuation methodology

Particulars	
FY24E PAT (Rs m)	5,994
Multiple (x)	4.5
Equity value (Rs m)	26,971
No. of shares (m)	281
Equity value (Rs/sh)	96
Investments in Subs FY21	52
Less Debt (Rs/sh) FY21	13
Target price (Rs)	135

Source: IDBI Capital Research

Exhibit 9: PER Valuation band

Source: Bloomberg

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: Dec.	FY21	FY22E	FY23E	FY24E
Net sales	38,175	45,810	53,598	61,638
<i>Growth (%)</i>	<i>(3.0)</i>	<i>20.0</i>	<i>17.0</i>	<i>15.0</i>
Operating expenses	(32,980)	(40,313)	(47,166)	(54,241)
EBITDA	5,195	5,497	6,432	7,397
<i>Growth (%)</i>	<i>-11.3</i>	<i>5.8</i>	<i>17.0</i>	<i>15.0</i>
Depreciation	(872)	(951)	(1,054)	(1,136)
EBIT	4,323	4,546	5,378	6,261
Interest paid	(772)	(356)	(116)	(70)
Other income	1,921	1,774	1,809	1,846
Pre-tax profit	5,472	5,964	7,071	8,036
Tax	(1,391)	(1,516)	(1,797)	(2,043)
<i>Effective tax rate (%)</i>	<i>25.4</i>	<i>25.4</i>	<i>25.4</i>	<i>25.4</i>
Net profit	4,081	4,448	5,273	5,994
Exceptional items	-	-	-	-
Adjusted net profit	4,081	4,448	5,273	5,994
<i>Growth (%)</i>	<i>5.4</i>	<i>9.0</i>	<i>18.6</i>	<i>13.7</i>
<i>Shares o/s (mn nos)</i>	<i>281</i>	<i>281</i>	<i>281</i>	<i>281</i>

Cash Flow Statement

(Rs mn)

Year-end: Dec.	FY21	FY22E	FY23E	FY24E
Pre-tax profit	5,472	5,964	7,071	8,036
Depreciation	872	951	1,054	1,136
Tax paid	(1,227)	(1,516)	(1,797)	(2,043)
Chg in working capital	(3,251)	885	(457)	(437)
Other operating activities	(556)	(202)	116	70
Cash flow from operations (a)	1,310	6,081	5,987	6,762
Capital expenditure	(186)	(1,153)	(750)	(750)
Chg in investments	(2,852)	(2,000)	(2,000)	(2,000)
Other investing activities	973	559	-	-
Cash flow from investing (b)	(2,064)	(2,594)	(2,750)	(2,750)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	22	(367)	(2,500)	(200)
Dividend (incl. tax)	-	-	-	-
Chg in minorities	-	-	-	-
Other financing activities	(758)	(356)	(116)	(70)
Cash flow from financing (c)	(736)	(723)	(2,616)	(270)
Net chg in cash (a+b+c)	(1,490)	2,765	621	3,742

Balance Sheet

(Rs mn)

Year-end: Dec.	FY21	FY22E	FY23E	FY24E
Net fixed assets	2,871	3,073	2,769	2,383
Investments	25,779	27,779	29,779	31,779
Other non-curr assets	1,369	1,369	1,369	1,369
Current assets	24,852	30,015	33,969	41,134
Inventories	1,717	2,209	2,584	2,972
Sundry Debtors	14,200	16,107	19,065	22,100
Cash and Bank	1,040	3,804	4,425	8,167
Marketable Securities	324	324	324	324
Loans and advances	572	572	572	572
Total assets	54,872	62,236	67,886	76,665
Shareholders' funds	30,067	34,515	39,789	45,782
Share capital	1,404	1,404	1,404	1,404
Reserves & surplus	28,664	33,112	38,385	44,379
Total Debt	3,551	3,184	684	484
Secured loans	1,091	1,724	224	224
Unsecured loans	2,460	1,460	460	260
Other liabilities	2,983	2,983	2,983	2,983
Curr Liab & prov	18,270	21,554	24,430	27,416
Current liabilities	14,932	18,120	20,878	23,725
Provisions	3,338	3,433	3,552	3,691
Total liabilities	24,804	27,721	28,097	30,883
Total equity & liabilities	54,872	62,236	67,886	76,665
Book Value (Rs)	107	123	142	163

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: Dec.	FY21	FY22E	FY23E	FY24E
Adj EPS (Rs)	14.5	15.8	18.8	21.4
Adj EPS growth (%)	5.4	9.0	18.6	13.7
EBITDA margin (%)	13.6	12.0	12.0	12.0
Pre-tax margin (%)	14.3	13.0	13.2	13.0
ROE (%)	14.6	13.8	14.2	14.0
ROCE (%)	12.6	11.8	12.8	13.5
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.7	0.8	0.8	0.9
Leverage factor (x)	1.9	1.8	1.8	1.7
Net margin (%)	10.7	9.7	9.8	9.7
Net Debt/Equity (x)	0.1	(0.0)	(0.1)	(0.2)
Working Capital & Liquidity ratio				
Inventory days	16	18	18	18
Receivable days	136	128	130	131
Payable days	76	80	80	80

Valuation

Year-end: Dec.	FY21	FY22E	FY23E	FY24E
PER (x)	7.2	6.6	5.5	4.9
Price / Book value (x)	1.0	0.8	0.7	0.6
PCE (x)	5.9	5.4	4.6	4.1
EV / Net sales (x)	0.8	0.6	0.5	0.3
EV / EBITDA (x)	6.0	5.1	3.9	2.9
Dividend Yield (%)	0.0	0.0	0.0	0.0



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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