

# Ashoka Buildcon

BSE SENSEX

36,842

S&amp;P CNX

11,143

**CMP: INR111**
**TP: INR160(+45%)**
**Buy**


Ashoka Buildcon Ltd.

## Stock Info

Bloomberg	ASBL IN
Equity Shares (m)	281
M.Cap.(INRb)/(USDb)	31 / 0.4
52-Week Range (INR)	197 / 108
1, 6, 12 Rel. Per (%)	-18/-43/-29
12M Avg Val (INR M)	81
Free float (%)	45.9

## Financials Snapshot (INR b)

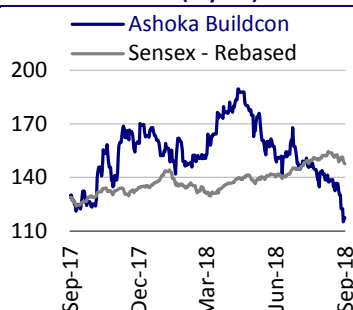
Y/E Mar	2018	2019E	2020E
Net Sales	36.0	42.7	55.7
EBITDA	11.4	12.0	14.0
PAT	-1.2	0.2	0.7
EPS (INR)	-4.2	0.8	2.6
Gr. (%)	NM	NM	231.2
BV/Sh (INR)	11.3	12.0	14.7
RoE (%)	NM	6.8	19.6
RoCE (%)	13.9	13.9	15.1
P/E (x)	NM	208.3	62.9
P/BV (x)	14.7	13.7	11.2

## Shareholding pattern (%)

As On	Jun-18	Mar-18	Jun-17
Promoter	54.1	54.0	56.6
DII	30.4	31.0	24.5
FII	4.8	4.9	7.8
Others	10.7	10.2	11.1

FII Includes depository receipts

## Stock Performance (1-year)



## Satisfactory progress on HAM projects

### EPC business to register 36% CAGR over FY18-20E

**EPC business on track to deliver 30% growth for FY19:** Ashoka Buildcon's engineering procurement construction (EPC) execution has seen a muted start in FY19 (revenue decline of 3% YoY in 1QFY19), given the early onset of monsoons and lower availability of projects for execution. Ashoka Buildcon (ABL); however, is maintaining its 30% revenue growth target for FY19, given the progress it has witnessed on the new Hybrid Annuity Mode (HAM) projects (EPC order book of INR42b) on the financial closure front, and on momentum pick-up in the existing EPC order book. EPC execution is expected to pick up momentum from 2HFY19 as the recently won HAM projects should receive an appointed date by end-1HFY19, and heavy monsoon in 2QFY19 has restricted execution of the existing order book.

### ABL on track to achieve timely financial closure for all the recently won HAM

**projects:** Of the recently won five HAM projects, ABL has achieved financial closure for three projects. For the fourth project, it expects to receive financial closure by end-2QFY19, and for the fifth project in Gujarat (Ankleshwar to Manubar section) financial closure is expected by October 2018. For the three HAM projects, ABL has been able to tie up the debt at 9.5% cost of borrowing. Financial closure has been supported by private banks (Axis, ICICI, HDFC Bank and Aditya Birla Capital) where the lending norms are water-tight with covenants like: a) disbursement post 80% land availability, b) 30% upfront equity commitment of the total equity infusion to be done, and c) disbursement to begin post 8-10 months of appointed date.

**Focus now shifts to availability of land for execution to start:** With financial closure for most of the projects in place, focus now shifts to Land availability in these projects which will ensure timely completion of projects. Currently for majority of the HAM projects physical land availability stands at 60-65%, which Ashoka believes to reach to 80% on the appointed date.

**Ratnagiri city gas distribution project to be commissioned in 2HFY19:** Ratnagiri city gas distribution (CGD) project is expected to start contributing to revenue from 2HFY19 onwards, as few clearances are still pending from the authority, which is expected by end-2QFY19. Till date, ABL has invested INR400m in the project and incrementally expects to invest INR1.3-1.5b over the next five years. Once fully commissioned, ABL expects revenue contribution of INR1.5b every year from this project.

Also, ABL has bagged two more projects in the recently concluded CGD auction (Latur and Chitradurga Davangere project). ABL expects to start work on both the projects over the next six months with a total capex of INR3.5b over the next eight years, which it plans to fund through internal accruals.

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**Toll revenue has witnessed an improvement with under recovery reducing in key projects:**

Ashoka Concessions Ltd's (ACL) key projects have shown a strong revenue growth in FY18. Key projects like Dhankuni Kharagpur (+16% YoY growth), Belgaum Dharwad (+18%), Sambalpur Baragarh (+24%), and Jaora Nayagaon (+16) have started to witness a pick-up in traffic, led by improvement in mining activity and overall conducive economic activity. Sambalpur project under recovery now stands at 15-17% as against 20-25% earlier. The project has seen a pick-up in traffic growth due to good mining activity and is expected to remain strong, going forward.

**Cash flow generation sufficient to meet capex requirement for all upcoming new HAM and CGD projects:**

ABL generates operating cash flow of INR4.5b annually at the standalone level, which should help the company meet its upcoming capex requirement for the HAM and CGD projects. Total equity requirement for HAM projects stand at INR4.7b, of which 30% (INR1.4b) is expected to be incurred in FY19 and balance 70% (INR3.3b) over FY20-21. Incrementally for the CGD business, ABL has a total capex requirement of INR4.9b, expected to be incurred over the next eight years (annual capex of INR700m). Operating cash flow is sufficient to take care of both the above capex requirement without resorting to equity dilution.

**Order book provides healthy revenue visibility:** ABL has a robust EPC order book of INR108b providing revenue visibility of 4.2x its FY18 revenue. Of this, road portfolio is worth INR85b and the balance (INR22b) is from the power transmission and distribution (T&D) business. Order inflow for FY19 is expected at INR111b supported by incrementally new orders in the road sector worth INR50b and another INR15b from the railway segment. Islampur order of INR2.7b—a slow moving project has now started to regain traction. All balance orders are progressing well as per schedule. Currently, road sector forms 79% (BOT forms 53% and EPC 26%) of the order backlog and the balance (21%) is from power T&D. Management intends to keep order book bifurcation at 80:20 for roads and power T&D, respectively.

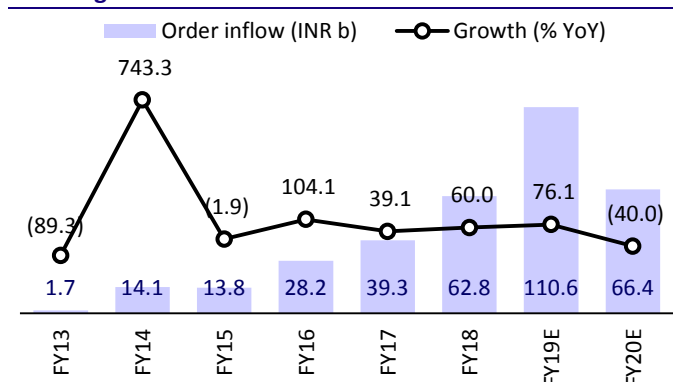
**Valuation and view**

We have valued ABL's EPC business on a P/E basis, assigning 10x P/E multiple on FY20E basis, given a) a strong and diversified order book of INR108b, providing 4.2x its FY18 revenue visibility, b) healthy balance sheet with standalone net debt: equity ratio of 0.1x:1, providing enough room to provide equity support if required to bid for the BoT projects, c) self-sufficient BoT portfolio of ACL, limiting capital infusion requirement, and d) robust EPC revenue CAGR of 36% over FY18-20E; earnings CAGR of 16%, given a higher tax rate (33% v/s 18% in FY18). We value the company on an SOTP basis, with a target price of INR160.

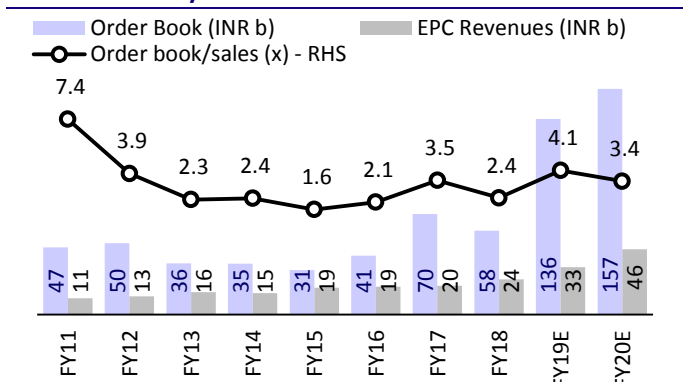
**Exhibit 1: Valuation**

INR m				@ 61% Per Share Value	
BOT Projects	DCF			10,906	39
EPC	P/E	3,190	10	31,898	112
Land	1x Book Value			2,782	10
<b>Total</b>				<b>45,586</b>	<b>160</b>

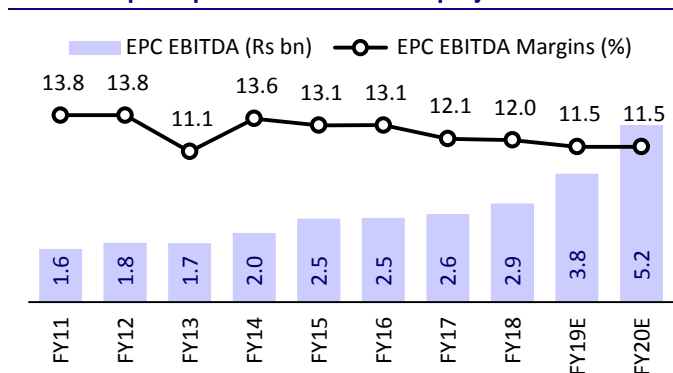
Source: Company, MOSL

**Exhibit 2: Order inflow to be healthy given pick up in ordering from NHAI**

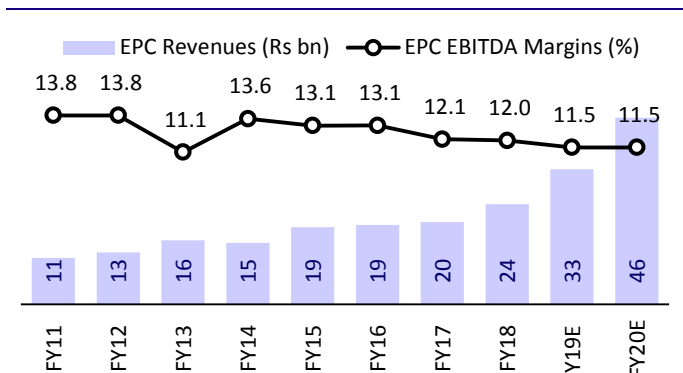
Source: MOSL, Company

**Exhibit 3: Order backlog provides strong medium term revenue visibility**

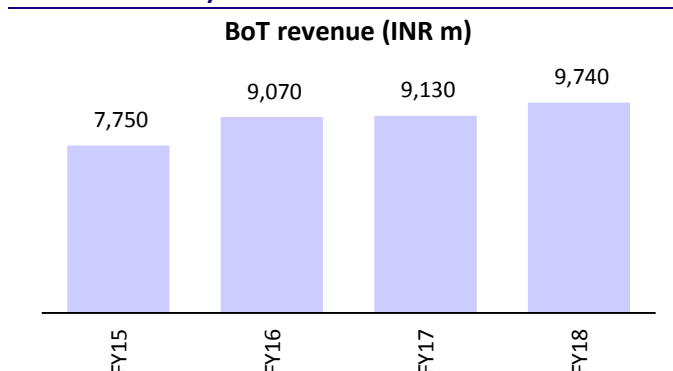
Source: MOSL, Company

**Exhibit 4: Operating margins to remain stable given execution pick up from in-house HAM projects**

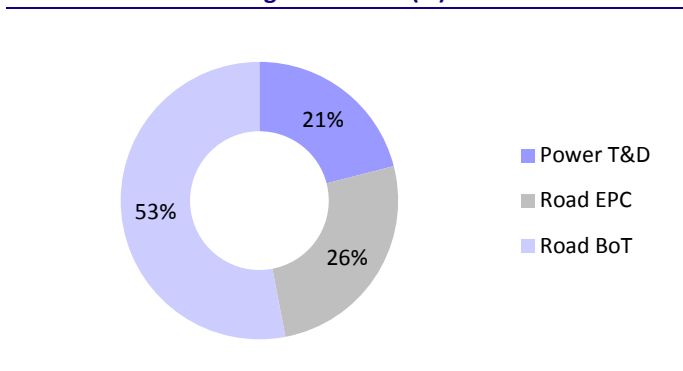
Source: MOSL, Company

**Exhibit 5: Revenue to register robust 36% CAGR over FY18-20E**

Source: MOSL, Company

**Exhibit 6: BoT projects have show healthy revenue growth over the last few years**

Source: MOSL, Company

**Exhibit 7: Order backlog bifurcation (%)**

Source: MOSL, Company

**Exhibit 8: Details of the recently won HAM projects**

Project Name	State	CA Date	Financial closure status
Mallasandra Karadi Road	Karnataka	20th April 2018	INR2.8b debt tied up
Karadi Banwara Road	Karnataka	20th April 2018	INR3.9b debt tied up
Belgaum Khanapur Road	Karnataka	20th April 2018	INR3b debt tied up
Khairtunda Barwa adda Road	Jharkhand	28th April 2018	INR2.7 debt tied up. Documentation in process
Ankleshwar Manubar Expressway	Gujarat	11th May 2018	FC in process

## Financials and valuations

### Consolidated - Income Statement

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Total income from Operations</b>	<b>23,197</b>	<b>28,253</b>	<b>29,728</b>	<b>36,010</b>	<b>42,734</b>	<b>55,653</b>
Change (%)	29.2	21.8	5.2	21.1	18.7	30.2
Raw Materials	16,712	16,922	18,178	22,245	28,184	38,932
Employees Cost	754	958	1,182	1,411	1,552	1,707
Other Expenses	1,001	1,060	863	959	978	1,018
<b>Total Expenditure</b>	<b>18,467</b>	<b>18,941</b>	<b>20,223</b>	<b>24,615</b>	<b>30,715</b>	<b>41,656</b>
% of Sales	79.6	67.0	68.0	68.4	71.9	74.8
<b>EBITDA</b>	<b>4,730</b>	<b>9,312</b>	<b>9,506</b>	<b>11,395</b>	<b>12,019</b>	<b>13,997</b>
Margin (%)	20.4	33.0	32.0	31.6	28.1	25.2
Depreciation	1,517	2,688	2,640	2,914	3,206	3,665
<b>EBIT</b>	<b>3,213</b>	<b>6,624</b>	<b>6,866</b>	<b>8,481</b>	<b>8,813</b>	<b>10,332</b>
Int. and Finance Charges	2,721	7,930	9,078	9,938	7,423	7,560
Other Income	290	783	815	516	567	573
<b>PBT bef. EO Exp.</b>	<b>782</b>	<b>-522</b>	<b>-1,397</b>	<b>-942</b>	<b>1,958</b>	<b>3,345</b>
EO Items	0	-570	0	0	0	0
<b>PBT after EO Exp.</b>	<b>782</b>	<b>-1,092</b>	<b>-1,397</b>	<b>-942</b>	<b>1,958</b>	<b>3,345</b>
Total Tax	796	976	698	837	985	1,692
Tax Rate (%)	101.7	-89.4	-50.0	-88.9	50.3	50.6
Minority Interest	-828	-1,331	151	592	-750	-916
<b>Reported PAT</b>	<b>815</b>	<b>-738</b>	<b>-2,247</b>	<b>-1,187</b>	<b>222</b>	<b>737</b>
<b>Adjusted PAT</b>	<b>815</b>	<b>-168</b>	<b>-2,247</b>	<b>-1,187</b>	<b>222</b>	<b>737</b>
Change (%)	-28.0	-120.6	1,239.3	-47.2	-118.7	231.2
Margin (%)	3.5	-0.6	-7.6	-3.3	0.5	1.3

### Consolidated - Balance Sheet

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	1,190	1,404	1,404	1,404	1,404	1,404
Eq. Share Warrants & App. Money	0	0	0	0	0	0
Total Reserves	12,379	5,647	3,291	1,756	1,978	2,715
<b>Net Worth</b>	<b>13,569</b>	<b>7,050</b>	<b>4,695</b>	<b>3,159</b>	<b>3,382</b>	<b>4,118</b>
Minority Interest	5,047	1,474	1,169	937	705	456
Total Loans	38,726	44,236	46,370	49,335	52,335	55,335
Deferred Tax Liabilities	-99	-255	-327	-394	-394	-394
<b>Capital Employed</b>	<b>57,244</b>	<b>52,506</b>	<b>51,907</b>	<b>53,037</b>	<b>56,028</b>	<b>59,516</b>
Gross Block	132,023	90,473	91,820	93,418	97,770	102,935
Less: Accum. Deprn.	6,311	8,652	11,292	14,206	17,558	21,223
<b>Net Fixed Assets</b>	<b>125,712</b>	<b>81,822</b>	<b>80,528</b>	<b>79,212</b>	<b>80,212</b>	<b>81,712</b>
Capital WIP	1,505	0	0	0	0	0
<b>Total Investments</b>	<b>2,345</b>	<b>2,276</b>	<b>1,863</b>	<b>2,472</b>	<b>2,472</b>	<b>2,472</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>16,947</b>	<b>21,925</b>	<b>25,322</b>	<b>33,418</b>	<b>41,171</b>	<b>49,506</b>
Inventory	7,286	2,994	3,595	4,194	4,854	6,065
Account Receivables	3,644	5,161	4,910	8,155	8,629	10,782
Cash and Bank Balance	410	1,709	1,023	2,532	9,063	13,765
Loans and Advances	5,607	12,061	15,795	18,537	18,624	18,893
<b>Curr. Liability &amp; Prov.</b>	<b>89,265</b>	<b>53,517</b>	<b>55,806</b>	<b>62,064</b>	<b>67,825</b>	<b>74,173</b>
Account Payables	6,332	5,400	5,744	6,493	7,119	8,895
Other Current Liabilities	80,956	45,261	47,295	52,593	57,677	62,199
Provisions	1,978	2,856	2,767	2,979	3,029	3,079
<b>Net Current Assets</b>	<b>-72,319</b>	<b>-31,592</b>	<b>-30,484</b>	<b>-28,646</b>	<b>-26,655</b>	<b>-24,668</b>
<b>Appl. of Funds</b>	<b>57,244</b>	<b>52,506</b>	<b>51,907</b>	<b>53,037</b>	<b>56,029</b>	<b>59,516</b>

## Financials and valuations

### Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Basic (INR)</b>						
<b>EPS</b>	<b>2.9</b>	<b>-0.6</b>	<b>-8.0</b>	<b>-4.2</b>	<b>0.8</b>	<b>2.6</b>
Cash EPS	8.3	9.0	1.4	6.2	12.2	15.7
BV/Share	48.3	25.1	16.7	11.3	12.0	14.7
DPS	1.0	1.2	1.3	1.3	1.3	1.3
Payout (%)	40.3	-51.9	-19.5	-36.9	196.9	59.4
<b>Valuation (x)</b>						
P/E	37.9	-184.1	-13.7	-26.0	138.8	41.9
Cash P/E	13.2	12.3	78.5	17.9	9.0	7.0
P/BV	2.3	4.4	6.6	9.8	9.1	7.5
EV/Sales	3.0	2.6	2.6	2.2	1.7	1.3
EV/EBITDA	14.6	7.9	8.0	6.8	6.2	5.2
Dividend Yield (%)	0.9	1.1	1.2	1.2	1.2	1.2
FCF per share	-17.7	11.5	19.5	32.1	38.7	33.1
<b>Return Ratios (%)</b>						
RoE	6.2	-1.6	-38.3	-30.2	6.8	19.6
RoCE	5.8	11.4	12.0	13.9	13.9	15.1
RoIC	27.4	10.4	11.3	14.0	15.2	18.8
<b>Working Capital Ratios</b>						
Fixed Asset Turnover (x)	0.2	0.3	0.3	0.4	0.4	0.5
Asset Turnover (x)	0.4	0.5	0.6	0.7	0.8	0.9
Inventory (Days)	115	39	44	43	41	40
Debtor (Days)	57	67	60	83	74	71
Creditor (Days)	100	70	71	66	61	58
<b>Leverage Ratio (x)</b>						
Current Ratio	0.2	0.4	0.5	0.5	0.6	0.7
Interest Cover Ratio	1.2	0.8	0.8	0.9	1.2	1.4
Net Debt/Equity	2.7	5.7	9.3	14.0	12.1	9.5

### Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E
OP/(Loss) before Tax	782	-1,092	-1,397	-942	2,215	3,811
Depreciation	1,517	2,491	2,640	2,914	3,206	3,665
Interest & Finance Charges	2,721	7,930	9,078	9,938	7,423	7,560
Direct Taxes Paid	-874	-976	-698	-837	-985	-1,692
(Inc)/Dec in WC	-1,317	-1,882	-1,718	4,120	2,055	-1,632
<b>CF from Operations</b>	<b>2,829</b>	<b>6,471</b>	<b>7,904</b>	<b>15,194</b>	<b>13,914</b>	<b>11,711</b>
Others	1,069	-783	-966	76	-48	94
<b>CF from Operating incl EO</b>	<b>3,898</b>	<b>5,687</b>	<b>6,938</b>	<b>15,270</b>	<b>13,866</b>	<b>11,805</b>
(Inc)/Dec in FA	-8,872	-2,463	-1,469	-6,257	-3,000	-2,500
<b>Free Cash Flow</b>	<b>-4,973</b>	<b>3,224</b>	<b>5,469</b>	<b>9,013</b>	<b>10,866</b>	<b>9,305</b>
(Pur)/Sale of Investments	231	857	1,228	-93	567	573
Others	514	20	0	0	0	0
<b>CF from Investments</b>	<b>-8,127</b>	<b>-1,586</b>	<b>-241</b>	<b>-6,350</b>	<b>-2,433</b>	<b>-1,927</b>
Issue of Shares	-106	0	0	0	0	0
Inc/(Dec) in Debt	6,811	5,510	2,133	2,966	2,958	2,822
Interest Paid	-2,721	-7,930	-9,078	-9,938	-7,423	-7,560
Dividend Paid	-290	-383	-438	-438	-438	-438
Others	0	0	0	0	0	0
CF from Fin. Activity	3,694	-2,803	-7,383	-7,410	-4,903	-5,176
<b>Inc/Dec of Cash</b>	<b>-535</b>	<b>1,299</b>	<b>-686</b>	<b>1,510</b>	<b>6,530</b>	<b>4,702</b>
Opening Balance	945	410	1,709	1,023	2,533	9,063
<b>Closing Balance</b>	<b>410</b>	<b>1,709</b>	<b>1,023</b>	<b>2,533</b>	<b>9,063</b>	<b>13,765</b>

NOTES

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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