

ASHOKA BUILDCON

In a sweet spot

India Equity Research | Infrastructure - Construction

We recently interacted with Ashoka Buildcon's (ABL) management to gain insights into the company's future plans. Management is targeting order intake of ~INR50-60bn in FY19 and has guided for 40% top line growth each in FY19 and FY20, backed by a robust order book of ~INR119bn (>5x FY18 EPC revenues). It stated that ABL is in advanced stage of tying up funds for five HAM projects and expects to achieve financial closure (FC) for them over the next quarter. In our view, a lean balance sheet (debt:equity at 0.1x) will enable ABL to benefit from likely moderation in competition for HAM projects. Likely pick up in execution and robust traffic growth reinforce our bullish stance on ABL. Maintain 'BUY' with SOTP-based target price of INR328.

Robust balance sheet boosts prospects amidst cloudy HAM outlook

While a few road developers are facing difficulties in achieving FC for HAM projects, ABL has no such issues due to its strong balance sheet; it expects to achieve FC for four HAM projects by September 2018 and one project in October 2018. Management expects future competition for HAM projects to be lower (conversely, higher for EPC projects) and thus intends to have a higher hurdle rate while bidding for HAM projects in the future. It maintained 40% EPC revenue growth guidance for FY19 and FY20 each along with stable EBITDA margin of ~12% (despite rising commodity prices).

Buoyant order intake outlook

In the current fiscal, management expects bulk of the NHAI award activity to be over by CY18 end. With HAM project awards likely to decline YoY in the current fiscal, we believe NHAI may face issues in achieving its award target in FY19 (targeting 8,000km versus 7,400km in FY18). Management has maintained its order intake guidance of INR50-60bn in FY19. While it is targeting an equal split of the order intake between road HAM and EPC projects, it believes that anticipated higher competition for EPC orders may result in 70:30 ratio in favour of HAM projects.

Outlook and valuations: Attractive; maintain 'BUY'

High traffic spurt and strong growth outlook render ABL an attractive play. Our SOTP-based target price for the stock is INR328—INR203/share from EPC business (16x FY20E P/E) and balance from BOT projects (DCF valuation). We maintain 'BUY'.

Financials (Standalone)

Year to March	FY17	FY18	FY19E	FY20E
Revenue (INR mn)	20,133	24,483	30,763	39,319
EBITDA (INR mn)	2,427	2,934	3,660	4,660
Adjusted profit (INR mn)	1,761	2,370	2,225	2,410
Adjusted diluted EPS (INR)	9.4	12.7	11.9	12.9
P/E (x)	25.6	19.0	20.3	18.7
EV/ EBITDA (x)	19.1	15.4	13.0	10.5
ROAE (%)	10.3	13.0	10.9	10.6

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EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

MARKET DATA (R: AB DL.BC, B: AS BL IN)

CMP	: INR 241
Target Price	: INR 328
52-week range (INR)	: 295 / 172
Share in issue (mn)	: 187.1
M cap (INR bn/USD mn)	: 45 / 655
Avg. Daily Vol. BSE/NSE ('000)	: 357.4

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	54.0	54.8	56.6
MF's, FI's & BKs	30.8	29.9	26.7
FII's	4.9	5.8	5.9
Others	10.3	9.5	10.8
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(1.7)	(10.4)	(8.7)
3 months	(1.3)	6.6	7.8
12 months	8.6	25.9	17.4

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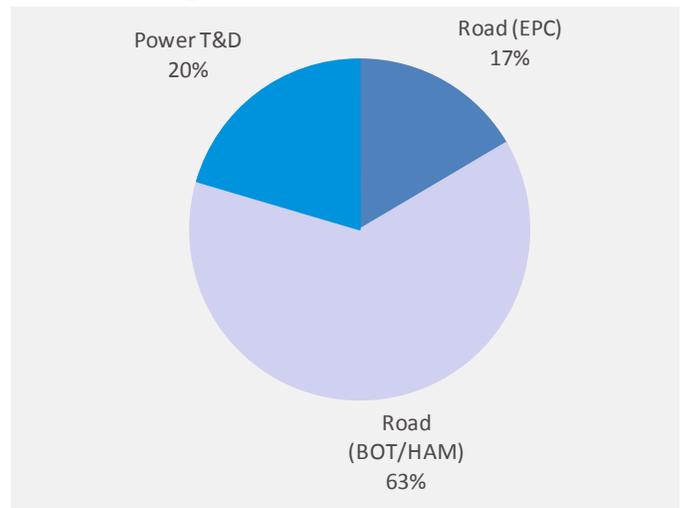
Other key highlights

- **Road project award:** Management anticipates the industry to shift to EPC projects in FY19. With central elections around the corner, bulk of the award activity is likely to be over by CY18 end.
- **Order intake:** Apart from road projects, ABL is also targeting railway electrification projects for its power T&D division.
- Order book as at Q4FY18 was ~INR58.5bn; including orders won in Q1FY19 so far, order book stands at ~INR119bn (book-to-bill at ~5x).

Chart 1: Robust revenue visibility



Chart 2: Road segment dominates order book*



Source: Company, Edelweiss research

Note: * including projects won in April 2018

- **Tax rate:** Management has guided for 22-24% tax rate in FY19.
- **BOT operations:** ABL posted strong traffic growth on its BOT projects in FY18, particularly on Dhankuni-Kharagpur, Jaora-Nayagaon, Sambalpur and Belgaum-Dharwad projects (clocked 8-20% YoY traffic surge in FY18). Management expects YoY growth of ~7-8% in traffic and ~11-12% in toll collection in FY19.
- **Funding situation:** ABL needs to infuse ~INR6.5bn equity in various assets and intends to undertake ~INR2.5bn capex in its EPC arm over the next three years. Against this, it expects the EPC division to generate cash flow of ~INR8.5-9.0bn, while the BOT division is estimated to generate ~INR2.0-2.5bn surplus funds over the next three years. Consequently, the company's cash flow situation is healthy and it does not anticipate any major build up in debt going ahead. It can also potentially raise funds through asset churning, in case of any need.
- **SBI-Macquarie exit:** Management expects SBI-Macquarie to exit its investment in Ashoka Concessions (ACL) over the next year. While there are a number of options for giving the exit, transfer of assets seems to be the most likely one at this juncture.

Company Description

Incorporated in 1993, ABL is a major road developer and contractor in India. Starting with its first BOT project in FY97, the company has built a robust portfolio of BOT assets, focused on industrial and mining traffic. In addition to the roads space, the company also undertakes EPC projects in the power T&D space where it is involved in the construction of substations, transformers and distribution transformers.

In 2012, SBI-M invested INR7bn in ACL, a holding company formed by the company for 7 projects (at the time of the investment).

Investment Theme

With 6 projects on NH-6 passing through mineral-rich states, elasticity of traffic growth following economic recovery will be substantial for the company. Commercial vehicles constitute majority traffic on ABL's roads (~80%), placing it in a sweet spot to gain from industrial revival.

Its partnership with SBI-Macquarie and its refinancing abilities have created a strong base for future.

Key Risks

The company's focus on BOT road projects exposes it to risks associated with gaining right-of-way on land stretches, execution risks, 'force majeure' risk, etc.

Toll revenues are subject to traffic risks. Any shortfall in traffic versus expectation may hurt the company's performance going ahead.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	7.1	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.3	6.5
USD/INR (Avg)	67.1	64.5	68.0	69.0
Company				
NHAI project award (km)	4,312	7,397	8,000	8,500
Y-o-Y growth (%)	(2)	72	8	6
EPC revenue growth (%)	(6.5)	23.3	27.9	29.3
Toll/annuity rev grw(%)	2.3	11.0	3.2	12.3
EPC EBITDA Margins (%)	12.2	8.7	10.3	11.1
Dividend per share	1.6	1.6	1.6	1.6
Inc. in invts (INR mn)	765	117	3,000	2,000
Capex (INR mn)	799	1,009	1,100	1,100
Loans & adv (% net rev)	7.1	16.5	16.4	16.0
Incremental debt	(2,333)	(754)	2,110	1,450

Income statement

Year to March	FY17	FY18	FY19E	FY20E
(INR mn)				
Income from operations	20,133	24,483	30,763	39,319
Direct costs	16,061	19,544	24,584	31,440
Employee costs	901	1,067	1,340	1,713
Other Expenses	745	938	1,178	1,506
Total operating expenses	17,707	21,548	27,102	34,659
EBITDA	2,427	2,934	3,660	4,660
Depreciation	507	532	650	776
EBIT	1,919	2,402	3,010	3,884
Less: Interest Expense	474	485	566	673
Add: Other income	719	978	428	421
Profit Before Tax	2,164	2,894	2,873	3,632
Less: Provision for Tax	403	524	648	1,222
Reported Profit	1,761	2,370	2,225	2,410
Adjusted Profit	1,761	2,370	2,225	2,410
Shares o/s (mn)	187	187	187	187
Adjusted Basic EPS	9.4	12.7	11.9	12.9
Diluted shares o/s (mn)	187	187	187	187
Adjusted Diluted EPS	9.4	12.7	11.9	12.9
Adjusted Cash EPS	14.2	17.6	17.7	19.4
Dividend per share (DPS)	1.6	1.6	1.6	1.6
Dividend Payout Ratio(%)	20.5	15.2	16.2	15.0

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Operating expenses	87.9	88.0	88.1	88.1
Depreciation	2.5	2.2	2.1	2.0
EBITDA margins	12.1	12.0	11.9	11.9
Adjusted Profit margins	8.7	9.7	7.2	6.1

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	3.6	21.6	25.7	27.8
EBITDA	(2.1)	20.9	24.8	27.3
Adjusted Profit	15.9	34.6	(6.1)	8.3
EPS	15.9	34.6	(6.1)	8.3

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	936	936	936	936	
Reserves & Surplus	16,292	18,327	20,552	22,962	
Shareholders' funds	17,228	19,263	21,488	23,898	
Long term borrowings	1,123	1,214	2,324	2,024	
Short term borrowings	882	37	1,037	2,787	
Total Borrowings	2,005	1,251	3,361	4,811	
Def. Tax Liability (net)	(304)	(349)	(349)	(349)	
Sources of funds	18,928	20,164	24,499	28,359	
Gross Block	3,843	4,861	5,961	7,061	
Net Block	1,688	2,174	2,624	2,947	
Capital work in progress	158	150	150	150	
Total Fixed Assets	1,847	2,324	2,773	3,097	
Non current investments	13,065	13,182	16,182	18,182	
Cash and Equivalents	638	1,235	940	1,167	
Inventories	866	1,459	1,866	2,412	
Sundry Debtors	5,875	10,117	11,918	14,384	
Loans & Advances	1,424	4,035	5,043	6,304	
Other Current Assets	10,482	6,568	8,398	10,859	
Current Assets (ex cash)	19,285	23,413	28,164	35,127	
Trade payable	12,808	16,424	20,290	25,716	
Other Current Liab	2,460	2,331	2,331	2,331	
Total Current Liab	15,268	18,754	22,621	28,046	
Net Curr Assets-ex cash	4,017	4,659	5,544	7,080	
Uses of funds	18,928	20,164	24,499	28,359	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	1,761	2,370	2,225	2,410	
Add: Depreciation	507	532	650	776	
Interest (Net of Tax)	386	397	438	446	
Others	(607)	(804)	(799)	(807)	
Less: Changes in WC	(3,595)	45	1,180	1,309	
Operating cash flow	5,642	2,451	1,335	1,517	
Less: Capex	799	1,009	1,100	1,100	
Free Cash Flow	4,843	1,441	235	417	

Cash flow metrics					
Year to March	FY17	FY18	FY19E	FY20E	
Operating cash flow	5,642	2,451	1,335	1,517	
Financing cash flow	(2,333)	(754)	2,110	1,450	
Investing cash flow	1,564	1,127	4,100	3,100	
Net cash Flow	4,873	2,824	7,545	6,067	
Capex	(799)	(1,009)	(1,100)	(1,100)	
Dividend paid	(150)	(361)	(361)	(361)	

Profitability and efficiency ratios					
Year to March	FY17	FY18	FY19E	FY20E	
ROACE (%)	13.0	17.0	15.2	16.1	
ROAE (%)	10.3	13.0	10.9	10.6	
Inventory Days	191	30	36	36	
Debtors Days	106	119	131	122	
Payable Days	233	273	273	267	
Cash Conversion Cycle	64	(124)	(106)	(109)	
Current Ratio	1.3	1.2	1.2	1.3	
Gross Debt/EBITDA	0.8	0.4	0.9	1.0	
Gross Debt/Equity	0.1	0.1	0.2	0.2	
Adjusted Debt/Equity	0.1	0.1	0.2	0.2	
Net Debt/Equity	0.1	-	0.1	0.2	

Operating ratios					
Year to March	FY17	FY18	FY19E	FY20E	
Total Asset Turnover	1.0	1.3	1.4	1.5	
Fixed Asset Turnover	8.5	8.8	8.8	9.6	
Equity Turnover	1.2	1.3	1.5	1.7	

Valuation parameters					
Year to March	FY17	FY18	FY19E	FY20E	
Adj. Diluted EPS (INR)	9.4	12.7	11.9	12.9	
Y-o-Y growth (%)	15.9	34.6	(6.1)	8.3	
Adjusted Cash EPS (INR)	14.2	17.6	17.7	19.4	
Diluted P/E (x)	25.6	19.0	20.3	18.7	
EV / Sales (x)	1.8	1.4	1.1	0.8	
EV / EBITDA (x)	19.1	15.4	13.0	10.5	
Dividend Yield (%)	0.7	0.7	0.7	0.7	

Peer comparison valuation

Name	Market cap (USD mn)	EV / EBITDA (X)		EV / Sales (X)		P/B (X)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Ashoka Buildcon	655	13.0	10.5	1.1	0.8	2.1	1.9
KNR Constructions	470	9.9	7.9	1.7	1.4	2.4	2.1
PNC Infratech	582	11.2	11.8	1.3	1.0	2.0	1.9
Sadbhav Engineering	740	12.8	10.8	0.7	0.6	2.4	2.1
Median	-	12.0	10.7	1.2	0.9	2.3	2.0
AVERAGE	-	11.7	10.3	1.2	1.0	2.2	2.0

Source: Edelweiss research

Additional Data

Directors Data

Mr. Ashok M. Katariya	Executive Chairman	Mr. Satish D. Parakh	Managing Director
Mr. Sanjay P. Londhe	Whole Time Director	Mr. Milapraj Bhansali	Whole Time Director
Mr. Michael Pinto	Independent Director	Mr. Sharadchandra Abhyankar	Independent Director
Mr. Albert Tauro	Independent Director	Mr. Gyan Chand Daga	Independent Director
Ms. Sunanda Dandekar	Independent Director		

Auditors - M P Chitale & Co.

**as per latest annual report*

Holding – Top 10

	Perc. Holding		Perc. Holding
HDFC AMC	5.61	Reliance Capital	5.55
L&T Mutual Fund	4.92	ICICI Prudential AMC	3.86
Sundaram Asset Management	2.70	Franklin Templeton India	2.63
Canara Robeco AMC	2.01	Aditya Birla AMC	1.32
India Midcap (Mauritius)	1.18	DSP Blackrock AMC	0.94

**as per latest available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
13 Nov 2017	Snehal Manjeet Khatri	Sell	2442740	213.35
31 Aug 2017	Hdfc Mutual Fund Hdfc Prudence Fund	Buy	1100000	188.00
31 Aug 2017	Tiger Management Corporation A/C Tiger	Sell	1333000	188.00
30 Aug 2017	Tiger Mgt Corp	Sell	1332727	188.00
30 Aug 2017	HDFC Mutual Fund - HDFC Growth Fund	Buy	1332000	188.00
30 Aug 2017	HDFC Mutual Fund HDFC Prudence Fund	Buy	1100000	188.00
30 Aug 2017	Tiger Management Corporation A/C Tiger	Sell	1333000	188.00

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
17 May 2018	Ashok Motilal Katariya	Buy	63058.00
14 May 2018	Ashok Motilal Katariya	Buy	71504.00
10 May 2018	Ashok Motilal Katariya	Buy	21677.00
04 May 2018	Shweta Keyur Modi	Sell	23419.00
02 Apr 2018	Shweta Keyur Modi	Sell	1499751.00

**as per last available data*

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Coverage group(s) of stocks by primary analyst(s): Infrastructure - Construction

Ahluwalia Contracts, Ashoka Buildcon, Capaci'te Infraprojects Limited, Hindustan Construction Co., J Kumar Infraprojects, KNR Constructions, NBCC, Nagarjuna Construction Co, PNC Infratech, Sadbhav Engineering, Simplex Infrastructures Ltd, Supreme Infrastructure

Recent Research

Date	Company	Title	Price (INR)	Recos
28-Jun-18	Capaci'te Infraprojects	Quality available at attractive valuations; <i>Company Update</i>	263	Buy
18-Jun-18	NBCC	Real estate monetisation key determinant; <i>Visit Note</i>	86	Hold
31-May-18	KNR Constructions	Revenue visibility improves; <i>Result Update</i>	293	Buy

Distribution of Ratings / Market Cap

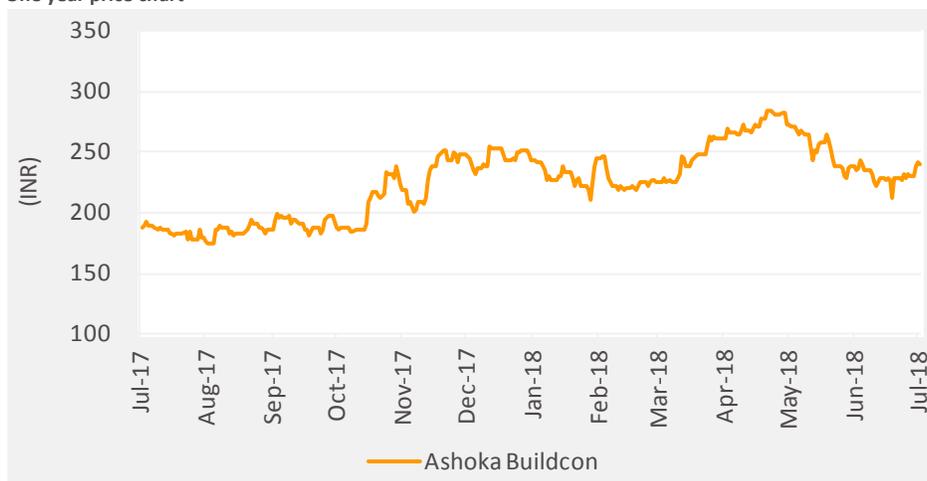
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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