

## Dropping coverage...

**About the stock:** Ashoka Buildcon (ABL) is primarily engaged in the construction of roads and bridges having an integrated portfolio of EPC, BOT and HAM projects. Besides roads construction, ABL also has an established presence across varied infra verticals such as power transmission, railways, city gas distribution.

**Q2FY23 Results:** ABL reported a weak operational performance during Q2FY23.

- Standalone revenue improved 46.2% YoY to ₹ 1,479 crore aided by decent order book position, pick-up in execution and receipt of appointed date in most of its older projects
- EBITDA margin moderated to 9.8% (down 208 bps YoY) impacted by change in project mix and rise in commodity prices. Effectively, operating profit at ₹ 144.6 crore, was up 20.6% YoY
- PAT growth was modest at 3% YoY (to ₹ 104.3 crore) impacted by lower other income and higher finance cost

**What should investors do?** ABL's share price de-grew 48% over the past five years (from ~₹ 140 in November 2017 to ~₹ 73 in November 2022).

- We believe moderation in margins and bagging projects at lower margin at multiple geographies/sectors would remain key overhang, going forward
- We drop our coverage on the stock and advise investor to switch to PSP Projects, which has had a relatively consistent track record in cash flow generation, margins and return ratio

### Key triggers for future price performance:

- Stability in margins and execution consistency
- Planned monetisation of HAM/Annuity assets

**Alternate Stock Idea:** Besides ABL, we like PSP Projects in the EPC space.

- Strong execution and healthy balance sheet
- BUY with a target price of ₹ 720/share



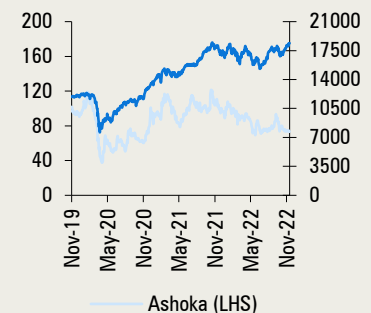
### Particulars

Particular	Amount (₹ crore)
Market Capitalization	2,045.1
Total Debt FY22	559.3
Cash FY22	144.0
EV	2,460.4
52 week H/L (₹)	109 / 69
Equity capital	140.4
Face value	₹ 5

### Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	54.5	54.5	54.5	54.5
DII	21.8	21.5	19.8	19.1
FII	2.5	2.1	2.4	1.9
Other	21.2	21.9	23.3	24.5

### Price Chart



### Key Risks

**Key Risk:** (i) Weakness in margins  
(ii) Delay in asset monetisation

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### Key Financial Summary (Standalone)

₹ crore	FY20	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	2 yr CAGR (FY22-24E)
Net Sales	3937.4	3817.5	4591.5	17.9%	5409.4	6053.2	14.8%
EBITDA	585.6	519.5	502.5	15.7%	486.9	573.2	6.8%
EBITDA Margin (%)	14.9	13.6	10.9		9.0	9.5	
PAT	387.1	408.1	-308.6	NA	339.4	391.0	NA
EPS (₹)	13.8	14.5	-11.0		12.1	13.9	
P/E (x)	5.3	5.0	NA		6.0	5.2	
EV/EBITDA (x)	3.7	4.5	4.9		5.8	4.9	
RoNW (%)	14.9	13.6	NA		11.2	11.4	
RoCE (%)	20.8	18.4	19.7		13.9	14.6	

Source: Company, ICICI Direct Research

## Key business highlight and outlook

### Order book healthy; margins to remain at lower levels

ABL's order book (OB) at the end of Q2FY23 was at ₹ 14,901 crore spread across roads - HAM (₹ 2,689.2 crore), roads - EPC (₹ 5,573.2 crore), buildings-EPC (₹ 2,866.7 crore), power T&D and others (₹ 2,233.1 crore), railways (₹ 1,497.5 crore), and CGD (₹ 41.2 crore) segments. The current order book translates to 2.7x TTM revenues. Going forward, the management has guided for order inflows of ~₹ 5,000 crore during remaining FY23 with ~75-80% order inflows likely from roads segments. **On the execution front, ABL has increased its revenue growth target (for FY23 standalone business) to 25-30% (from 15-20% earlier) on a YoY basis. Furthermore, the company expects margins to remain at a moderated level with some improvement in FY24 (to 9-10%; vs. its normalised margin of 11-13%) mainly due to rise in input cost, change in project mix, execution of lower margin projects (bagged at lower margins to enter newer geographies/sectors).**

### Equity infusion and asset monetisation update

Out of the total equity requirement of ₹ 1,096 crore, ABL has infused ₹ 848 crore (including price index multiple) till September 30, 2022 in the 11 HAM projects and expects balance amount to infuse over next two to three years. Asset sale of five SPVs (of Ashoka Concessions) for aggregate consideration of ₹ 1,337 crore and proceed of asset sale towards SBI Macquarie exit augurs well for the company. **Monetisation of pending assets will be the key for leverage ahead.**

### Key conference call takeaways

- Revenue contribution:** During Q2FY23, revenue from the roads segment was at ₹ 820 crore, followed by Railways (₹ 184 crore), power (₹ 140 crore), and others (~₹ 80 crore) verticals. For like-to-like comparison, revenue from roads segment was at ₹ 665 crore in Q2FY22, followed by railways (₹ 142 crore), power (₹ 52 crore) and others (~₹ 30 crore) verticals. Further, ABL expects execution in the buildings sector to pick up from Q4FY23 onwards
- Margin:** The volatility in commodity prices, change in project mix, execution of lower margin projects, and non-consideration of interest income from already sold SPVs (to Cube Highways) has impacted the overall margin performance during Q2FY23. Currently, margins in the roads, power, railways projects is at 8-9% (considering prices at current level) whereas margin in international business is higher at 12-13% but is likely to come under execution in FY24. Also, the company has bagged some projects at lower margin to enter newer geographies/sectors. With these, the company expects moderation in operating margin to ~ 9%
- Order book position:** Executable order book position is currently at ~₹ 12,000-12,500 crore with balance ~₹ 2,000 crore worth of projects expected to be executed by FY23 end
- Bidding pipeline:** ABL has a targeted bid pipeline of ~₹ 55,000 crore. Additionally, the company has bid for ~₹ 10,000 crore of projects (wherein bids are yet to be opened). With these, the company is targeting inflows of ~₹ 5,000 crore during remaining FY23. The margin would be in the range of 9-11%
- Update on ACL Projects:** ABL has completed an asset sale of Ashoka Concessions of five SPVs by entering into a share purchase agreement (SPA) with Galaxy Investments II (KKR owned entity) for aggregate consideration of ₹ 1,337 crore. Currently, the company has received approvals from a few lenders and some-requisite permissions from NHAI. It is in the process of getting pending approvals. Further, the company has received extension of time period from investors for fulfilment of certain conditions. Sale of equity expected to be completed over next month or two subject to receiving necessary approvals from concerned lenders and NHAI. The proceeds of the sale of ACL assets is likely to facilitate the payment of ₹ 1,200 crore to SBI Macquarie, in-turn, aiding investors to exit the company fully. Further, the consolidated debt is likely to reduce by ₹ 2,930.1 crore

- **Monetisation of assets:** ABL has executed an SPA with National Investment and Infrastructure Fund (NIIF) for sale of 100% equity of Chennai ORR project for aggregate financial consideration of ₹ 686 crore. Out of the total amount, the company is expected to receive ₹ 450 crore (loan repayment: ₹ 250 crore, equity stake-50%: ₹ 200 crore). The transaction is likely to be concluded in the next two to three months. Additionally, the company is in advanced stage of discussion for sale of equity (74% stake) for Jaora-Nayagaon and expects the deal to conclude by FY23-end. For balance HAM projects, the company has initiated talks with potential investors and expects discussion to fructify going ahead. Overall, the proceed from sale of assets are likely to be used for working capital, debt reduction and dividend distribution purpose
- **Equity requirement:** ABL has infused ₹ 32 crore towards equity for under-construction HAM projects during Q2FY23 whereas the company is likely to infuse ₹ 156 crore, ₹ 84 crore, ₹ 30 crore during remaining FY23, FY24 and FY25, respectively
- **Financial closure:** ABL has achieved financial closure for a HAM project during October 2022 viz. "six lane access controlled greenfield highway Baswantpur to Singnodi Section of NH 150 C (Package 4)". The bid project cost of the project is at ₹ 1,079 crore. The company is expecting appointed date soon

**Debt:** ABL's consolidated debt has declined marginally from ₹ 7,127.2 crore (as of Q1FY23-end) to ₹ 7,079.7 crore (as of Q2FY23-end). **Of this, ₹ 869 crore is standalone debt (₹ 167.1 crore - equipment loan, ₹ 701.9 crore - WC loan), ₹ 250 crore is NCDs, and ₹ 5,960.7 crore is project debt.** Out of these, project debt of five BOT assets amounting to ₹ 2,930.1 crore likely to get reduced with sale of assets. Cash and cash balance at the end of Q2FY23 was at ₹ 734.9 crore. The management has indicated towards delays in collection mainly in roads projects, which has resulted into increase in standalone debt level. Going forward, the management expects standalone debt to stabilise at ~₹ 800 crore by FY23-end. Consolidated debt is likely to remain at an elevated level of ₹ 7,000+ crore (without considering proceed from asset sale) mainly required to fund its HAM projects

- **Impact of solar module price rise:** ABL was in discussions with its clients, NTPC and MNRE, with respect to the increase in module prices for solar projects. Currently, the company is going ahead with the project for EPC work and supply of modules is now in the client's scope
- **Capex:** ABL has incurred a capex of ~₹ 75 crore during H1FY23 and is expected to incur ~₹ 100 crore of overall capex during FY23

Exhibit 1: Variance Analysis

Particulars	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Income from Operations	1,280.3	1,183.2	917.1	39.6	1,479.0	-13.4	Pick-up in execution led to topline growth
Other Income	29.7	32.1	59.0	-49.7	31.2	-4.9	
Operating Expenses	1,091.1	999.8	747.7	45.9	1,262.0	-13.5	
Employee Expenses	51.2	41.4	48.7	5.2	42.6	20.3	
Other expenditure	25.9	23.7	15.2	71.1	29.9	-13.2	
EBITDA	111.9	118.3	105.5	6.1	144.6	-22.6	Margin impacted due to rise in commodity prices and project mix
EBITDA Margin(%)	8.7	10.0	11.5	-276 bps	9.8	-103 bps	
Depreciation	18.2	17.6	16.6	10.1	16.8	8.6	
Interest	36.1	20.3	21.0	72.0	19.8	82.5	
PBT	87.3	112.5	127.1	-31.3	139.3	-37.3	
Taxes	21.9	28.3	31.5	-30.5	34.9	-37.4	
PAT	65.5	84.1	95.6	-31.5	104.3	-37.3	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

Particulars	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	5,409.4	5,409.4	0.0	6,053.2	6,053.2	0.0	Realign estimates
EBITDA	541.0	486.9	-10.0	603.5	573.2	-5.0	
EBITDA Margin (%)	10.0	9.0	-100 bps	10.0	9.5	-50 bps	
Adj PAT	379.9	339.4	-10.7	413.6	391.0	-5.5	
Adj EPS (₹)	13.5	12.1	-10.6	14.7	13.9	-5.5	

Source: Company, ICICI Direct Research

## Financial summary (Standalone)

Exhibit 3: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
<b>Net Sales</b>	<b>3817.5</b>	<b>4591.5</b>	<b>5409.4</b>	<b>6053.2</b>
Cost of Material consumed	1248.7	1431.5	1828.4	2015.7
Construction expenses	1730.3	2369.7	2769.6	3099.2
Other Expenses	150.5	106.7	121.6	137.8
Employee Costs	168.5	181.1	202.8	227.2
Total Operating Expenditure	3298.0	4089.0	4922.5	5480.0
<b>EBITDA</b>	<b>519.5</b>	<b>502.5</b>	<b>486.9</b>	<b>573.2</b>
Interest & finance charges	77.2	85.6	80.0	90.0
Depreciation	87.2	69.7	73.2	80.5
Other income	192.1	198.8	120.0	120.0
PBT	547.2	-223.6	453.7	522.7
Taxes	139.1	85.1	114.3	131.7
<b>PAT</b>	<b>408.1</b>	<b>-308.6</b>	<b>339.4</b>	<b>391.0</b>

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	408.1	(308.6)	339.4	391.0
Depreciation	87.2	69.7	73.2	80.5
Interest	77.2	85.6	80.0	90.0
Others	-	-	-	-
Cash Flow before wc changes	519.5	(267.1)	486.9	573.2
Changes in WC	(588.9)	219.2	(370.4)	(246.9)
Taxes Paid	(143.1)	(91.8)	(114.3)	(131.7)
<b>Net CF from operating activities</b>	<b>(212.4)</b>	<b>(139.8)</b>	<b>2.2</b>	<b>194.6</b>
(Purchase)/Sale of Fixed Assets	(15.8)	(55.9)	(150.0)	(100.0)
Addition/Sale of Investment	(47.3)	(30.3)	(255.0)	(90.0)
<b>Net CF from Investing activities</b>	<b>129.1</b>	<b>112.7</b>	<b>(285.0)</b>	<b>(70.0)</b>
Increase/Decrease in NW	(0.3)	0.6	-	-
Increase/Decrease in Debt	6.2	119.7	300.0	(30.0)
Interest Paid	(77.2)	(85.6)	(80.0)	(90.0)
<b>Net CF from Financing activities</b>	<b>(71.3)</b>	<b>34.7</b>	<b>220.0</b>	<b>(120.0)</b>
Net Cash flow	(154.7)	7.6	(62.8)	4.6
Opening Cash	291.1	136.4	144.0	81.2
<b>Closing Cash/ Cash Equivalent</b>	<b>136.4</b>	<b>144.0</b>	<b>81.2</b>	<b>85.9</b>

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	140.4	140.4	140.4	140.4
Reserve and Surplus	2,866.4	2,558.4	2,897.7	3,288.8
Total Shareholders funds	3,006.7	2,698.7	3,038.1	3,429.1
Total Debt	439.6	559.3	859.3	829.3
Deferred Tax Liability	(51.5)	(58.2)	(58.2)	(58.2)
<b>Total Liabilities</b>	<b>3,395</b>	<b>3,200</b>	<b>3,839</b>	<b>4,200</b>
<b>Assets</b>				
Gross Block	661.1	714.6	864.6	964.6
Less Acc. Dep	382.8	452.5	525.7	606.2
Net Block	278.3	262.2	339.0	358.5
Capital WIP	1.7	1.7	1.7	1.7
Right of Use	7.1	9.4	9.4	9.4
Total Fixed Assets	287.1	273.3	350.1	369.6
Investments	1,458.5	1,488.7	1,743.7	1,833.7
Inventory	171.7	187.7	221.1	247.5
Sundry Debtors	1,420.0	1,112.9	1,407.9	1,575.5
Loans & Advances	1,150.1	778.0	928.0	1,078.0
Cash & Bank Balances	136.4	144.0	81.2	85.9
Other Current Assets	811.8	1,323.2	1,556.1	1,741.3
Total Current Assets	3,690.1	3,545.8	4,194.4	4,728.1
Other Current Liabilities	1,953.3	2,030.2	2,371.3	2,653.5
Provisions	87.5	77.8	77.8	77.8
Net Current Assets	1,649.3	1,437.7	1,745.3	1,996.8
<b>Total Assets</b>	<b>3,395</b>	<b>3,200</b>	<b>3,839</b>	<b>4,200</b>

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
	FY21	FY22	FY23E	FY24E
<b>Per Share Data (₹)</b>				
EPS	14.5	(11.0)	12.1	13.9
Cash EPS	17.6	(8.5)	14.7	16.8
Book Value	107.1	96.1	108.2	122.2
<b>Operating Ratios (%)</b>				
EBITDA / Net Sales	13.6	10.9	9.0	9.5
PAT / Net Sales	10.7	10.0	6.3	6.5
Inventory Days	16.4	14.9	14.9	14.9
Debtor Days	135.8	88.5	95.0	95.0
<b>Return Ratios (%)</b>				
RoNW	13.6	(11.4)	11.2	11.4
RoCE	18.4	19.7	13.9	14.6
RoIC	13.3	14.2	11.0	12.0
<b>Valuation Ratios (x)</b>				
EV / EBITDA	4.5	4.9	5.8	4.9
P/E (Diluted)	5.0	(6.6)	6.0	5.2
EV / Net Sales	0.6	0.5	0.5	0.5
Market Cap / Sales	0.5	0.4	0.4	0.3
Price to Book Value (Diluted)	0.7	0.8	0.7	0.6
<b>Solvency Ratios (x)</b>				
Net Debt / Equity	0.1	0.2	0.3	0.2
Debt / EBITDA	0.8	1.1	1.8	1.4
Current Ratio	1.7	1.6	1.7	1.7
<b>Quick Ratio</b>	<b>1.7</b>	<b>1.5</b>	<b>1.6</b>	<b>1.6</b>

Source: Company, ICICI Direct Research

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