

Subdued performance continues...

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.

- Diversified order book, decent execution capabilities, expected pick-up in execution and focus on debt reduction and working capital are expected to outline ABL's performance over the next few years

Q4FY22 Results: ABL posted a weak set of numbers during Q4FY22.

- Standalone revenue during Q4FY22 improved 12.4% YoY to ₹ 1,559.2 crore aided by comfortable order book position and decent pick-up in execution. On a QoQ basis, the topline improved 41.3%
- EBITDA margin declined to 10%, down 448 bps YoY, largely impacted by rise in input costs. Consequently, EBITDA declined 22.3% YoY to ₹ 156.3 crore
- Weak operating performance coupled with higher interest cost has translated into 13.6% YoY decline in PBT (to ₹ 176.1 crore). At net level, PAT improved 26% YoY to ₹ 188 crore aided by reversal of tax during Q4FY22.

What should investors do? ABL's share price de-grew 43% over the past five years (from ~₹ 127 in June 2017 to ~₹ 71 in May 2022).

- We maintain our **HOLD** rating on the stock

Target Price and Valuation: We value ABL at ₹ 80/share.

Key triggers for future price performance:

- Incremental inflows key to ensure growth; 15% EPC revenue CAGR likely over FY22-24E with margins at 10.5-10.8%
- Improvement in traffic with pick-up in economic activities to bring stability in its BOT portfolios.

Alternate Stock Idea: Besides ABL, we like HG Infra Engineering in the EPC space.

- Strong execution and healthy order book
- BUY with a target price of ₹ 735/share



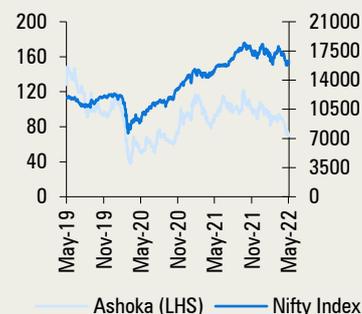
Particulars

Particular	Amount (₹ crore)
Market Capitalization	1,995.9
Total Debt	559.3
Cash	144.0
EV	2,411.3
52 week H/L (₹)	125 / 69
Equity capital	140.4
Face value	₹ 5

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	54.5	54.5	54.5	54.5
DII	24.3	23.0	21.8	21.5
FII	3.5	2.8	2.5	2.1
Other	17.7	19.7	21.2	21.9

Price Chart



Key Risks

Key Risk: (i) Faster-than-expected execution; (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 (FY21-24E)
Net Sales	3937.4	3817.5	4591.5	17.9%	5409.4	6053.2	15%
EBITDA	585.6	519.5	502.5	15.7%	584.3	633.8	12%
EBITDA Margin (%)	14.9	13.6	10.9		10.8	10.5	
PAT	387.1	408.1	-308.6	NA	391.0	425.7	NA
EPS (₹)	13.8	14.5	-11.0		13.9	15.2	
P/E (x)	5.2	4.9	NA		5.1	4.7	
EV/EBITDA (x)	3.7	4.4	4.8		4.5	4.2	
RoNW (%)	14.9	13.6	NA		12.7	12.1	
RoCE (%)	20.8	18.4	19.7		16.8	16.2	

Source: Company, ICICI Direct Research

Key business highlight and outlook

Order book strong; revenue guidance healthy

ABL's order book (OB) at the end of FY22 was at ₹ 13,731 crore spread across roads - HAM (₹ 2,454 crore), roads - EPC (₹ 5,452 crore), power T&D and others (₹ 2,357 crore), buildings-EPC (₹ 2,177 crore), railways (₹ 1,226 crore) and CGD (₹ 65 crore) segments. Also, this OB excludes projects worth ₹ 902 crore received post March 2022. The order book as on date, thus, is at ₹ 14,633 crore, 3.2x book to TTM bill. Going forward, the management has guided for order inflows of ₹ 10,000+ crore during FY23, respectively (secured ₹ 8,714 crore during FY22; ₹ 1,079 crore at YTD FY23) with ~75-80% order inflows likely from roads segments. **On the execution front, ABL is targeting ~20-25% YoY revenue growth on standalone basis during FY23E with receipt of Appointed Dates in most of its pending HAM/EPC projects. Furthermore, operating margin guidance is at 11-12% with softening of input prices such as steel and cement lately. We bake ~10.5-10.8% margins with primary risk being rising input costs and elevated level of competitions in roads and railways segment.**

Equity infusion, asset monetisation update

Out of the total equity requirement of ₹ 1,080 crore, ABL has infused ₹ 739 crore (including price index multiple) till March 31, 2022 in the 11 HAM projects. It is further expected to infuse ₹ 255 crore during FY23 and ₹ 90 crore in FY24, based on current order book position. **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

- **Industry outlook and ordering pipeline:** MoRTH's target to build national highways to the tune of ~18,000 km in FY23 is likely to boost the overall project awarding. As of now, the company has bid for ₹ 3,000 crore worth of projects in the targeted sectors. However, the order pipeline remains healthy in roads, power, railways and metro segments, which is likely to aid overall order inflows
- **Revenue contribution:** During Q4FY22, revenue from roads segment was at ₹ 1,100 crore, followed by railways (₹ 136 crore), power (₹ 267 crore), CGD and others (~₹ 56 crore) verticals. Additionally, roads sector contributed ₹ 3,501 crore to FY22 revenues, followed by railways (₹ 448 crore), power (₹ 410 crore), CGD and others (~₹ 130 crore) segments
- **Margin:** The volatility in commodity prices has impacted the overall margin performance during Q4FY22. However, the management has guided for 11-12% margin, going forward, as merely ~10% of overall order book position forms fixed price contracts. Also, softening of commodity prices lately is likely to aid company's margin performance
- **Update on Key HAM projects:** a) Tumkur - Shivamoga I (OB value: ₹ 199.2 crore): applied for PCoD; b) Tumkur - Shivamoga II (OB value: ₹ 290.9 crore): PCoD expected by early-Q2FY23; c) Tumkur - Shivamoga III and IV (OB value: ₹ 1,369.8 crore): under construction and PCoD expected during FY24 and d) Kandi Ramsanpalle (OB value: ₹ 202.9 crore): under advanced stage of construction; likely to get completed by Q2FY23
- **Update on ACL Projects:** ABL has completed an asset sale of Ashoka Concessions Ltd of five SPVs by entering into 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 three lenders and some-requisite permissions from NHAI and is in the process of getting pending approvals. Sale of equity expected to be completed by September 30, 2022 subject to receipt of 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, aid investors to exit the company fully. Further, the consolidated debt is likely to reduce by ₹ 3,090 crore

- **Monetisation of assets:** ABL has executed SPA with National Investment and Infrastructure Fund Ltd (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 get concluded during H1 FY23. Additionally, the company is in advanced stage of discussion for sale of equity for Jaora-Nayagaon and expects deal to conclude soon. Also, the company is evaluating exit options like Infra INVIT or Sale to Investors for its HAM projects. The proceed from sale of assets is likely to be used for working capital, debt reduction, and dividend distribution purpose.
- **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 are now at the client's scope
- **Debt:** ABL's consolidated debt has declined from ₹ 6,822.1 crore (as of Q3FY22-end) to ₹ 6,699.8 crore (as of FY22-end). **Of this, ₹ 486.2 crore is standalone debt (₹ 200.9 crore - equipment loan, ₹ 285.2 crore - WC loan), ₹ 250 crore is NCDs, and ₹ 5,963.7 crore is project debt.** Out of these, project debt of five BOT assets amounting to ₹ 3,089.9 crore likely to get reduced with sale of assets. Cash and cash balance at the end of FY22 was at ₹ 729.5 crore. **Going forward, the management expects the consolidated debt to remain at an elevated level of ₹ 7,000+ crore (without considering proceed from asset sale) mainly required to fund its HAM projects**
- **Capex:** ABL has incurred capex of ~₹ 90 crore during FY22 and expected to incur ₹ 125-150 crore of capex during FY23.

We highlight asset sale of Ashoka Concessions of five SPVs to KKR owned entity will ensure payment of SBI-Macquarie liability at ₹ 1200 crore without any liquidity strain. Nonetheless, the execution remains relatively weaker than peer and there is a risk of input prices impacting margins. We maintain HOLD rating on the stock with an SoTP-based target price of ₹ 80/share (vs. ₹ 100 earlier), as we lower the target EV/EBITDA multiple for standalone to ~3x from 4x before.

Exhibit 1: Variance Analysis

Particulars	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Income from Operations	1,559.2	1,464.0	1,387.0	12.4	1,103.7	41.3	Pick-up in execution led to topline growth
Other Income	63.5	29.7	46.6	36.2	29.1	118.4	
Operating Expenses	1,304.4	1,221.6	1,104.2	18.1	920.7	41.7	
Employee Expenses	43.9	48.2	40.5	8.5	46.1	-4.8	
Other expenditure	54.6	32.9	41.1	32.9	16.1	238.5	
EBITDA	156.3	161.4	201.2	-22.3	120.7	29.5	Margin impacted due to rise in commodity prices
EBITDA Margin(%)	10.0	11.0	14.5	-448 bps	10.9	-91 bps	
Depreciation	20.4	16.7	21.6	-5.5	16.7	22.1	
Interest	23.4	22.8	22.5	3.7	24.9	-6.2	
PBT	176.1	151.6	203.7	-13.6	-661.4	-126.6	
Taxes	-11.9	23.0	54.6	-121.8	32.1	-137.1	
PAT	188.0	128.6	149.2	26.0	-693.6	-127.1	

Source: Company, ICICI Direct Research

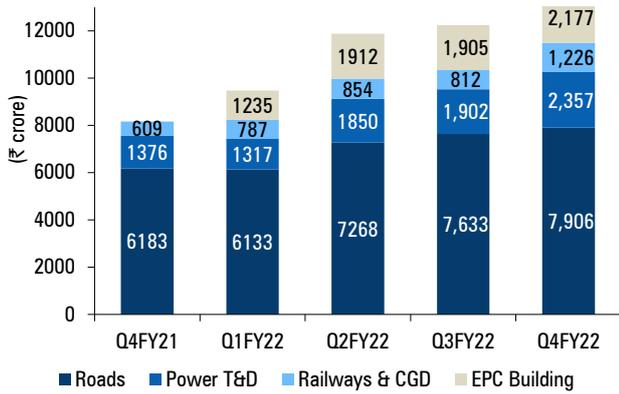
Exhibit 2: Change in estimates

(₹ Crore)	FY22	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change		
Revenue	4,591.5	5,138.1	5,409.4	5.3	5,973.9	6,053.2	1.3	Realign estimates post Q4
EBITDA	502.5	579.3	584.3	0.9	673.3	633.8	-5.9	
EBITDA Margin (%)	10.9	11.3	10.8	▼47 bps	11.3	10.5	▼80 bps	
Adj PAT	461.0	390.3	391.0	0.2	454.6	425.7	-6.4	
Adj EPS (₹)	16.4	13.9	13.9	0.2	16.2	15.2	-6.4	

Source: Company, ICICI Direct Research

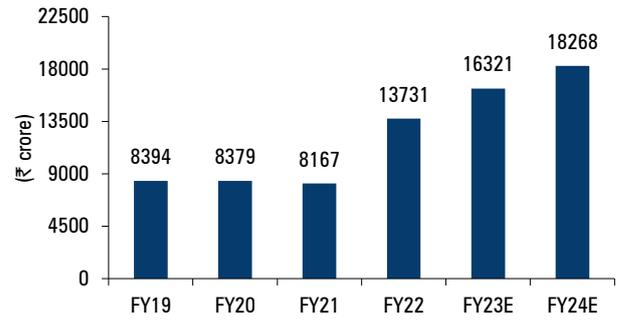
Company Analysis

Exhibit 3: Quarterly order book trend



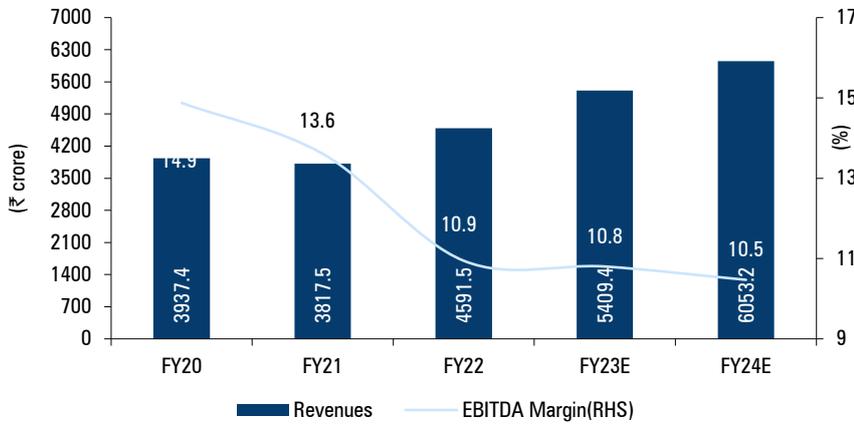
Source: Company, ICICI Direct Research

Exhibit 4: Annual order book trend



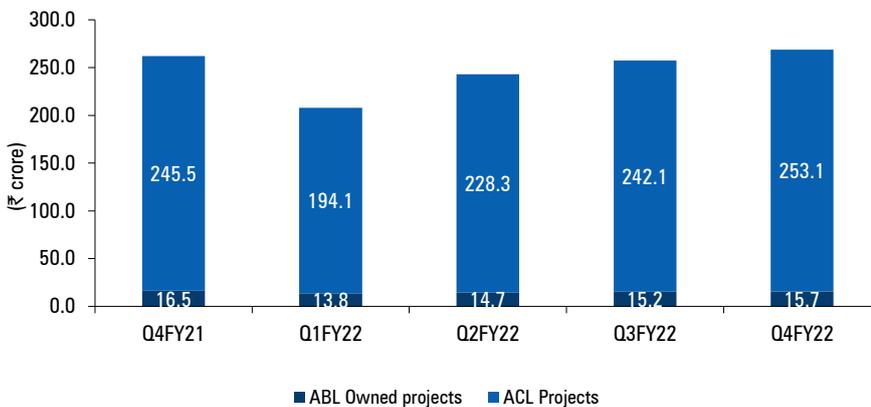
Source: Company, ICICI Direct Research

Exhibit 5: Annual EPC revenue and EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 6: Gross toll collection trend



Source: Company, ICICI Direct Research

Exhibit 7: Quarterly gross toll collection trend

(₹ crore)	Q4 FY22	Q3 FY22	Q2 FY22	Q1FY22	Q4FY21	YoY (%)	QoQ (%)
ABL Owned Projects							
Wainganga Bridge	9.4	9.0	9.0	7.5	9.6	-2.0%	5.5%
Katni Bypass	6.2	6.3	5.8	5.7	6.0	4.0%	-1.0%
Others#	-	-	-	0.6	0.8		
Sub-total	15.7	15.2	14.7	13.8	16.5	-4.7%	2.8%
ACL Projects							
Belgaum Dharwad	30.5	29.8	25.1	19.0	29.3	4.0%	2.1%
Dhankuni – Kharagpur	107.3	104.3	97.1	84.9	104.3	2.9%	2.9%
Bhandara	22.3	20.9	20.1	16.8	21.7	2.6%	6.5%
Durg	25.5	23.9	23.0	19.3	24.3	5.2%	7.0%
Jaora – Nayagaon	46.7	43.7	45.2	36.8	45.5	2.7%	6.9%
Sambalpur	20.8	19.5	17.9	17.4	20.5	1.6%	6.9%
Sub-total	253.1	242.1	228.3	194.1	245.5	3.1%	4.5%
Grand Total	268.8	257.4	243.1	207.9	262.0	2.6%	4.4%

Source: ICICI Direct Research, Company; # Pandarpur Bypass

Valuation & Outlook

We highlight asset sale of Ashoka Concessions of five SPVs to KKR owned entity will ensure payment of SBI-Macquarie liability at ₹ 1200 crore without any liquidity strain. Nonetheless, the execution remains relatively weaker than peer there is a risk of input prices impacting margins. We maintain HOLD rating on the stock with an SoTP-based target price of ₹ 80/share (vs. ₹ 100 earlier), as we lower the target EV/EBITDA multiple for standalone to 3x from 4x earlier.

Exhibit 8: ABL valuation

	Value (₹ crore)	Per Share (₹)	Comment
EPC Business (A)	1901	68	3x FY24E EV/EBITDA
BOT Investments (excl. sold project)	318	11	0.6x P/BV
HAM Projects Investment (E)	739	26	At 1x investments (excl. PIM)
Total Equity Investment (F=B+E)	1057	38	
Less: Standalone Debt	640	23	
SoTP Value (A+F-G)	2318	83	
Rounded-off target price		80	

Source: Company, ICICI Direct Research

Financial summary (Standalone)

Exhibit 9: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Net Sales	3817.5	4591.5	5409.4	6053.2
Cost of Material consumed	1248.7	1431.5	1774.3	1997.6
Construction expenses	1730.3	2369.7	2726.4	3056.9
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	4825.1	5419.4
EBITDA	519.5	502.5	584.3	633.8
Interest & finance charges	77.2	85.6	90.0	95.0
Depreciation	87.2	69.7	76.7	84.3
Other income	192.1	198.8	110.0	120.0
PBT	547.2	-223.6	527.6	574.4
Taxes	139.1	85.1	136.7	148.8
PAT	408.1	-308.6	391.0	425.7

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	408.1	(308.6)	391.0	425.7
Depreciation	87.2	69.7	76.7	84.3
Interest	77.2	85.6	90.0	95.0
Others	-	-	-	-
Cash Flow before wc changes	519.5	(267.1)	584.3	633.8
Changes in WC	(588.9)	219.2	(276.3)	(301.0)
Taxes Paid	(143.1)	(91.8)	(136.7)	(148.8)
Net CF from operating activities	(212.4)	(139.8)	171.4	184.0
(Purchase)/Sale of Fixed Assets	(15.8)	(55.9)	(150.0)	(130.0)
Addition/Sale of Investment	(47.3)	(30.3)	(255.0)	(90.0)
Net CF from Investing activities	129.1	112.7	(295.0)	(100.0)
Increase/Decrease in NW	(0.3)	0.6	-	-
Increase/Decrease in Debt	6.2	119.7	80.0	30.0
Interest Paid	(77.2)	(85.6)	(90.0)	(95.0)
Net CF from Financing activities	(71.3)	34.7	(10.0)	(65.0)
Net Cash flow	(154.7)	7.6	(133.6)	19.0
Opening Cash	291.1	136.4	144.0	10.4
Closing Cash/ Cash Equivalent	136.4	144.0	10.4	29.4

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(₹ Crore)	FY21	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	140.4	140.4	140.4	140.4
Reserve and Surplus	2,866.4	2,498.3	2,888.6	3,343.1
Total Shareholders funds	3,006.7	2,638.7	3,028.9	3,483.5
Total Debt	439.6	639.6	739.6	639.6
Deferred Tax Liability	(51.5)	(51.5)	(51.5)	(51.5)
Total Liabilities	3,395	3,227	3,717	4,072
Assets				
Gross Block	661.1	761.1	861.1	961.1
Less Acc. Dep	382.8	448.8	521.4	601.2
Net Block	278.3	312.3	339.7	359.9
Capital WIP	1.7	1.7	1.7	1.7
Right of Use	7.1	7.1	7.1	7.1
Total Fixed Assets	287.1	321.1	348.5	368.7
Investments	1,458.5	888.9	1,029.9	1,149.9
Inventory	171.7	202.2	231.1	268.7
Sundry Debtors	1,420.0	1,672.5	1,911.3	2,222.2
Loans & Advances	1,150.1	1,270.1	1,400.1	1,530.1
Cash & Bank Balances	136.4	252.9	291.4	256.3
Other Current Assets	811.8	985.5	1,126.2	1,309.3
Total Current Assets	3,690.1	4,383.3	4,960.1	5,586.7
Other Current Liabilities	1,953.3	2,278.9	2,533.9	2,946.0
Provisions	87.5	87.5	87.5	87.5
Net Current Assets	1,649.3	2,016.8	2,338.7	2,553.1
Total Assets	3,395	3,227	3,717	4,072

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	FY21	FY22E	FY23E	FY24E
Per Share Data (₹)				
EPS	14.5	(13.1)	13.9	16.2
Cash EPS	17.6	(10.8)	16.5	19.0
Book Value	107.1	94.0	107.9	124.1
Operating Ratios (%)				
EBITDA / Net Sales	13.6	11.3	11.3	11.3
PAT / Net Sales	10.7	8.9	7.6	7.6
Inventory Days	16.4	16.4	16.4	16.4
Debtor Days	135.8	135.8	135.8	135.8
Return Ratios (%)				
RoNW	13.6	(13.9)	12.9	13.0
RoCE	18.4	18.8	16.6	17.3
RoIC	13.3	14.9	14.8	15.6
Valuation Ratios (x)				
EV / EBITDA	5.5	5.8	5.1	4.3
P/E (Diluted)	6.2	(6.9)	6.5	5.6
EV / Net Sales	0.7	0.6	0.6	0.5
Market Cap / Sales	0.7	0.6	0.5	0.4
Price to Book Value (Diluted)	0.8	1.0	0.8	0.7
Solvency Ratios (x)				
Net Debt / Equity	0.1	0.1	0.1	0.1
Debt / EBITDA	0.8	1.3	1.3	1.0
Current Ratio	1.7	1.7	1.8	1.8
Quick Ratio	1.7	1.7	1.7	1.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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