

Ashoka Buildcon Ltd

26 May, 2023

Reuters: ABDL.NS; Bloomberg: ASBL:IN

Revenue expansion offset by rising operating expenses

In 4QFY23, Ashoka Buildcon Ltd (ASBL) reported revenue growth of 28% YoY compared to our estimate of 30% growth. Enhanced performance in the Roads segment and HAM initiatives contributed to this expansion. EBITDA margin came in at 7.3% vs our estimate of 11.1% due to increased competition in project tendering, and higher raw material costs (up 27% QoQ) and construction costs (up 35% QoQ). The management has projected 25-30% revenue growth and 9-10% EBIT margin for FY24. We believe that the execution of low-margin initiatives as directed by the management will result in lower return ratios if there is no significant reduction in construction costs. The SPA between Ashoka Concessions Limited (ACL) and KKR has been terminated as both parties have mutually decided not to pursue the earlier transaction for the sale of 5 BOT projects valued at Rs13.37bn. The company expects an order book of Rs100bn in FY24. The management is optimistic that the successful conclusion of the SPA with the National Investment and Infrastructure Fund Ltd (NIIF) for 1 BOT project will substantially reduce the company's exposure to the asset business. In addition, the company expects the successful conclusion of the Chennai ORR contract worth Rs6.86bn, the Jaora-Nayagaon Road Project (Rs6.91bn) and the Mahanagar Gas (MGL) deal for CGD business to generate Rs8bn in cashflow by FY24-end. We exercise caution with respect to the company's growth prospects while maintaining our BUY rating with a reduced target price (TP) of Rs92. Key risks include over-commitment to capital-intensive projects, delay in the asset monetization process, aggressive tendering for road projects amid increased competition and commodity price inflation.

4QFY23 performance: ASBL reported robust revenue of Rs20.4bn, up 28.1% YoY against our expectation of Rs15.6bn and consensus estimate of Rs13.5bn. Strong revenue beat was overshadowed by higher-than-expected operating expenses as raw materials and construction expenses increased by 51% YoY and 30% YoY, respectively. As a result, EBITDA came in at Rs1.5bn, 13.4% below our expectation and 8.5% below consensus expectation. EBITDA margin came in at 7.3%, down 468bps YoY. Reported PAT came in at Rs4.3bn, which was inflated mainly due to one-off reversal of impairment on its investment in ACL and obligation towards investors in ACL. The adjustment was made for the assets classified as held for sale, which were part of the SPA signed with KKR; the SPA now stands terminated. The reversal amount was also adjusted for the increase in valuation of ACL, mainly driven by increased cash flow in its HAM projects consequent to the increase in interest receivable on annuity payments. Adjusted PAT at Rs856mn was down 54.5% YoY and 36.4% below our expectation.

Strong orderbook: The total OB as on 31st March, 2023 stood at Rs158bn, which included Rs80.4bn road projects. Of the total road projects, HAM and EPC road projects accounted for Rs17.2bn and Rs63.1bn, respectively. Power T&D/Railways/EPC Building orders stood at Rs39.6bn/Rs15.4bn/Rs22.2bn. Based on the current OB, the management has guided for a topline growth of 20-25% and 8.7-9% EBITDA margin in FY24. The book-to-bill ratio stood at 2.8x based on TTM revenue.

Other operational parameters: Total equity requirement is Rs10.9bn; Already invested amount is Rs9.2bn; Equity requirements: FY24 - Rs1.1bn and FY25 - Rs560mn.- Full-year capex target for FY24 is Rs800-900mn. The company spent a total capex of ~Rs800mn in FY23.

BUY

Sector: Construction

CMP: Rs77

Target Price: Rs92

Upside: 20%

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Key Data

Current Shares O/S (mn)	280.7
Mkt Cap (Rsbn/US\$mn)	21.6/261.2
52 Wk. H / L (Rs)	96/69
Daily Vol. (3M NSE Avg.)	1,094,019

Price Performance (%)

	1 M	6 M	1 Yr.
Ashoka Buildcon	(9.3)	3.6	11.2
Nifty Index	2.8	(1.0)	13.3

Source: Bloomberg

Y/E March (Rs mn)	4QFY22	3QFY23	4QFY23	YoY (%)	QoQ (%)
Net Sales	15,947	15,591	20,435	28.1	31.1
Operating Expenses	14,029	14,425	18,934	35.0	31.3
EBITDA	1,918	1,166	1,501	(21.8)	28.7
EBITDA Margin (%)	12.0%	7.5%	7.3%	(468)bps	(13)bps
Other Income	280	309	244	(13.0)	(21.2)
Interest Costs	234	387	465	98.7	20.0
Depreciation	204	199	193	(5.1)	(2.6)
PBT	1,761	889	1,087	(38.3)	22.2
Tax	(119)	222	230	(293.5)	3.9
Adjusted PAT	1,880	667	856	(54.5)	28.3
Exceptional Items	-	-	3,492	-	-
Reported PAT	1,880	667	4,348	131.3	551.6
NPM (%)	11.8%	4.3%	4.2%	(760)bps	(9)bps
EPS (Rs.)	6.7	2.4	3.0	(54.5)	28.3

Source: Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

Exhibit 1: Detailed financials (Standalone)

Y/E March (Rs mn)	4QFY22	3QFY23	4QFY23	YoY (%)	QoQ (%)	Estimates	Variance (%)	FY22	FY23	YoY (%)
Net Sales	15,947	15,591	20,435	28.1	31.1	15,676	30.4	46,270	63,619	37.5
Expenditure										
Cost of Materials consumed	4,984	5,945	7,535	51.2	26.7	-	-	14,315	24,261	69.5
Construction expense	8,060	7,729	10,507	30.4	35.9	-	-	23,697	30,987	30.8
Employee Cost	439	507	470	6.9	(7.3)	-	-	1,811	1,915	5.7
Other expense	546	244	423	(22.6)	73.0	-	-	1,067	1,225	14.8
Total Operating Expenses	14,029	14,425	18,934	35.0	31.3	-	-	40,890	58,387	42.8
EBITDA	1,918	1,166	1,501	(21.8)	28.7	1,734	(13.4)	5,380	5,232	(2.7)
EBITDA Margin (%)	12.0%	7.5%	7.3%	(468)bps	(13)bps	11.1%	(372)bps	11.6%	8.2%	(340)bps
Other Income	280	309	244	(13.0)	(21.2)	-	-	1,633	1,161	(28.9)
Interest Costs	234	387	465	98.7	20.0	-	-	856	1,410	64.6
Depreciation	204	199	193	(5.1)	(2.6)	-	-	697	742	6.5
PBT	1,761	889	1,087	(38.3)	22.2	-	-	5,460	4,241	(22.3)
Tax	-119	222	230	(293.5)	3.9	-	-	851	1,020	19.9
Exceptional Items	-	-	3,492	-	-	-	-	-7,696	3,492	NA
Reported PAT	1,880	667	4,348	131.3	551.6	1,346	223.0	-3,086	6,713	(317.5)
Adjusted PAT	1,880	667	856	(54.5)	28.3			4,610	3,221	(30.1)
NPM (%)	11.8%	4.3%	4.2%	(760)bps	(9)bps	8.6%	1269bps	10.0%	5.1%	(490)bps
EPS (Rs.)	6.7	2.4	3.0	(54.5)	28.3	4.8	(36.4)	16.4	11.5	(30.1)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Financial Summary (Standalone)

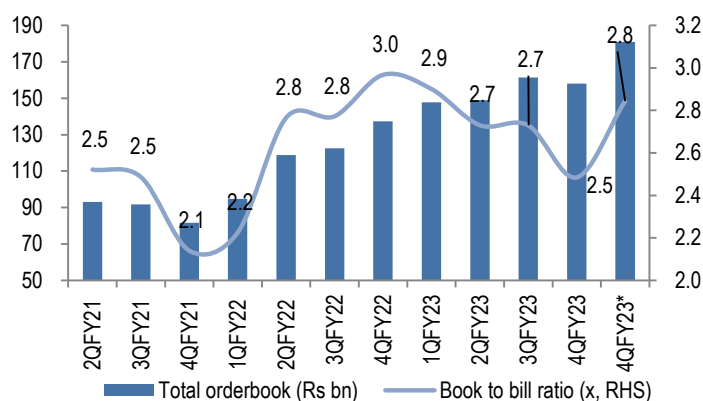
Y/E March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	38,175	45,915	63,619	75,070	83,328
EBITDA	5,195	5,025	5,232	6,810	8,064
EBITDA Margin (%)	13.6	10.9	8.2	9.1	9.7
Adj. PAT	4,081	4,610	3,221	5,058	6,145
EPS (Rs)	14.5	16.4	11.5	18.0	21.9
EPS Growth (%)	5.4	12.9	(30.1)	57.0	21.5
PE(x)	5.3	4.7	6.7	4.3	3.5
EV/EBITDA (x)	4.2	4.4	3.8	2.8	2.3
RoE (%)	14.6	16.2	10.6	14.0	14.7
RoCE (%)	12.9	14.3	10.6	12.5	13.3

Source: Company, Nirmal Bang Institutional Equities Research

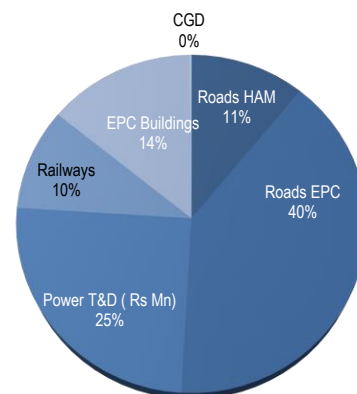
Exhibit 3: Change in estimates

	FY24E			FY25E		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	68,941	75,070	8.9	77,214	83,328	7.9
EBITDA	6,205	6,810	9.7	7,721	8,064	4.4
PAT	4,281	5,058	18.2	5,418	6,145	13.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Book-to-bill ratio


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Sectoral break-up of orderbook


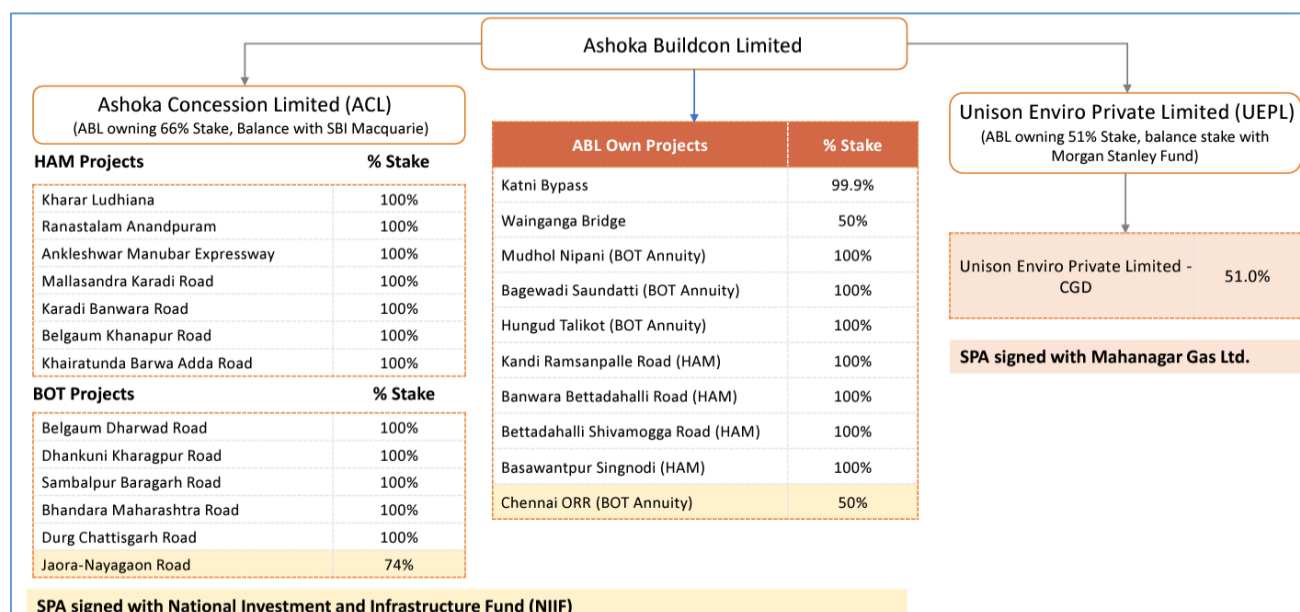
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: HAM Project Portfolio – Status

Projects (As on 31 st March 2023)	% Stake (ACL/ABL)	Status	TPC Est.	Grant Est.	Estimated Equity	PIM Contribution Est.	Estimated Debt	Grant Received	Equity Invested	PIM Received	Total Debt Drawn	Annuity Received
Kharar-Ludhiana	100%	COD	1,450	640	160	50	600	602	157	69	568	352
Ranastalam-Anandpuram	100%	COD(P)	1,040	475	110	40	415	469	105	53	391	239
Vadodara Kim	100%	COD(P)	1,483	675	150	58	600	675	151	54	568	140
Khairatunda-Barwa Adda	100%	COD	712	344	71	26	270	374	72	41	254	75
Belgaum-Khanapur	100%	COD(P)	746	343	77	31	295	270	59	28	176	55
Tumkur-Shivamogga –II	100%	UC	1,006	487	97	37	385	431	92	27	292	0
Tumkur-Shivamogga –I	100%	COD(P)	741	367	71	28	275	342	67	35	239	20
Kandi-Ramsanpalle	100%	COD(P)	725	400	69	21	235	423	60	39	177	0
Tumkur-Shivamogga –IV	100%	UC	1,127	553	88	56	430	168	52	21	0	0
Tumkur-Shivamogga –III	100%	UC	755	414	60	31	250	306	60	33	120	0
Basawantpur Singnodi	100%	UC	1,082	509	144	39	390	161	46	31	56	0
TOTAL			10,867	5,207	1,097	417	4,145	4,221	921	432	2,841	881

COD – Commercial Operational Date
COD (P) - Commercial Operational Date(Provisional)
UC - Under Construction

Source: Company, Nirmal Bang Institutional Equities Research, Note: *As on 31stMar23, in Rs crs

Exhibit 7: ABL business structure


Source: Company

ASBL 4QFY23 concall highlights

- The termination of SPA between ACL and KKR for the sale of BOT projects worth Rs13.37bn was mainly due to lack of completion in specified period post COD of a particular project (Dhankuni Kharagpur Road- which faced land acquisition issues as well). The company tried to get relaxation for the same from the NHAI but failed to get approval. The management during the call highlighted that it is determined to sell the assets and is in the process of scouting investors for the same.
- The held for sale assets in the deal generated revenue of Rs9.1bn in FY23 (up 23% YoY).
- For FY24, the company has guided for a revenue growth of 20-25% and EBITDA margin of 8.7-9%. The company is in the midst of executing low-margin projects, which would be completed by 3QFY24. Hence, the margins would be lower in FY24. However, it expects to achieve EBITDA margin of 10-11% in FY25.
- FY24 orderbook guidance: Roads - Rs60-80bn; Power - Rs30-40bn and Others - Rs30bn.
- Toll revenue growth for FY23 was 22% and toll rate hike was 10%.
- With respect to monetization, the company expects to complete the Chennai ORR deal worth Rs6.86bn by September 2023 and the Jaora-Nayagaon Road Project (Rs6.91bn) by December 2023. SPA signed with MGL for the CGD business and is expected to be completed by Oct-Nov 2023. By the end of FY24, the company expects cash flow of Rs8bn from these deals.
- The Baraiyerhat-Heanko-Ramgarh Road, Bangladesh project is funded by EXIM and all the approvals are in place.

Exhibit 8: Valuation summary

Particulars	Rs mn
FY25E PAT	6,145
Multiple	4
Equity value	21,509
No. of shares	281
Equity value per share (Rs)	77
Value of asset business	16
Target price (Rs)	92
CMP (Rs)	77
Upside/ (Downside)	20%

Source: Company, Nirmal Bang Institutional Equities Research

Financial statement

Exhibit 9: Income statement

Y/E March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net sales	38,175	45,915	63,619	75,070	83,328
growth (%)	(3.0)	20.3	38.6	18.0	11.0
Operating expenses	32,980	40,890	58,387	68,261	75,264
EBITDA	5,195	5,025	5,232	6,810	8,064
growth (%)	(11.3)	(3.3)	4.1	30.1	18.4
Depreciation	872	697	742	670	737
EBIT	4,323	4,328	4,490	6,139	7,327
Interest paid	772	856	1,410	987	789
Other income	1,921	1,988	1,161	1,683	1,767
Pre-tax profit	5,472	5,460	4,241	6,836	8,304
Tax	1,391	851	1,020	1,777	2,159
Effective tax rate (%)	25.4	15.6	24.1	26.0	26.0
Exceptional items	-	7,696	(3,492)	-	-
Net profit	4,081	(3,086)	6,713	5,058	6,145
Adjusted net profit	4,081	4,610	3,221	5,058	6,145
growth (%)	5.4	12.9	(30.1)	57.0	21.5
Adjusted EPS	14.5	16.4	11.5	18.0	21.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Balance Sheet

Y/E March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity Capital	1,404	1,404	1,404	1,404	1,404
Reserves and Surplus	28,664	25,584	32,296	37,355	43,500
Networth	30,067	26,987	33,700	38,758	44,904
Total Debt	4,387	5,593	6,811	4,828	4,478
Deferred tax liability	-	-	-	-	-
Other noncurrent liabilities	3,470	4,028	4,084	4,146	4,213
Trade Payables	7,021	8,080	10,204	11,595	12,372
Other Current Liabilities	7,617	8,148	8,619	9,479	10,100
Total Current Liabilities	17,090	17,052	19,619	21,907	23,340
Total liabilities	55,014	53,661	64,214	69,638	76,934
NB	2,854	2,789	2,639	2,679	2,792
CWIP	17	17	285	190	100
Investment	14,585	10,628	13,537	15,337	17,137
Other non-current assets	789	941	1,129	1,355	1,626
Inventories	1,717	1,877	2,984	3,553	3,712
Sundry Debtors	14,200	11,129	10,094	11,312	12,328
Cash and Bank	1,040	1,052	2,417	3,562	3,918
Other current assets	-	4,259	4,685	5,154	5,669
Total Current Assets	24,994	38,313	45,573	48,974	54,121
Total Assets	55,014	53,661	64,214	69,638	76,935

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Cash flow statement

YE March, Rs mn	FY21	FY22	FY23	FY24E	FY25E
EBIT	6,244	(1,380)	9,143	7,822	9,094
Add: Depreciation & Impairment	872	697	742	670	737
Cash flow from operations b4 WC	5,839	(2,293)	8,235	8,493	9,831
Net change in Working capital	(2,895)	(12,722)	(3,273)	93	(3,289)
Tax paid	(1,391)	(851)	(1,020)	(1,777)	(2,159)
Net cash from operations	1,554	(15,865)	3,942	6,808	4,382
Capital expenditure	(158)	(632)	(861)	(615)	(760)
Investments	(3,650)	14,762	(2,928)	(1,821)	(1,822)
Net cash from investing	(2,281)	15,589	(2,327)	(2,661)	(2,853)
Issue of shares	-	-	-	-	-
Increase in debt	53	1,206	1,218	(1,984)	(350)
Dividends paid incl. tax	-	-	-	-	-
Net cash from financing	(763)	288	(250)	(3,002)	(1,173)
Net Cash	(1,489)	12	1,365	1,145	357
Opening Cash	2,529	1,040	1,052	2,417	3,562
Closing Cash	1,040	1,052	2,417	3,562	3,918

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Key ratios

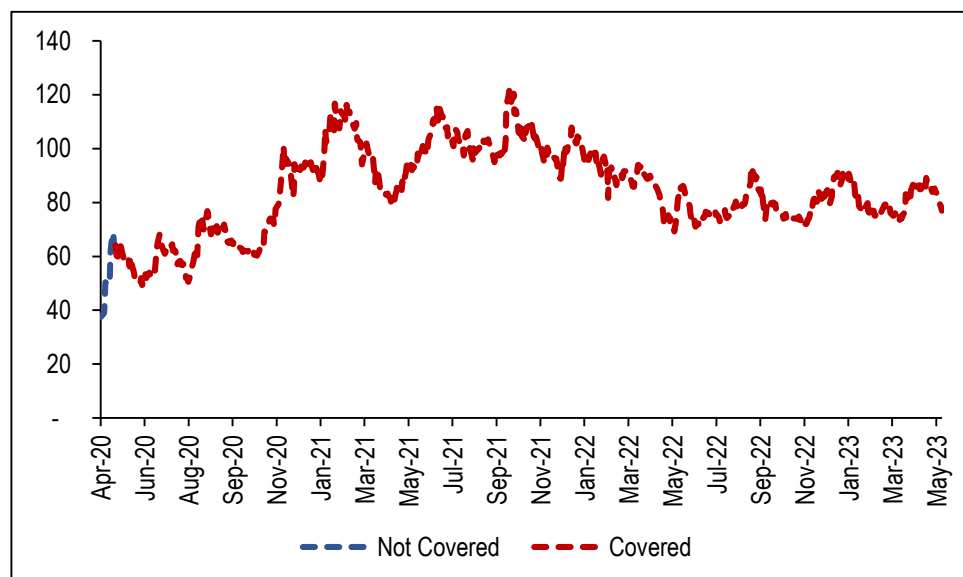
YE March	FY21	FY22	FY23	FY24E	FY25E
Adj EPS (Rs)	14.5	16.4	11.5	18.0	21.9
Adj EPS growth (%)	5.4	12.9	-30.1	57.0	21.5
EBITDA margin (%)	13.6	10.9	8.2	9.1	9.7
Pre-tax margin (%)	14.3	11.9	6.7	9.1	10.0
ROE (%)	14.6	16.2	10.6	14.0	14.7
ROCE (%)	12.9	14.3	10.6	12.5	13.3
Turnover & Leverage ratios					
Asset turnover (x)	0.7	0.8	1.1	1.1	1.1
Leverage factor (x)	1.8	2.0	1.9	1.8	1.7
Net margin (%)	10.7	-6.7	10.6	6.7	7.4
Net Debt/Equity (x)	0.1	0.2	0.1	0.0	0.0
Working Capital Ratio					
Inventory days	16	15	17	17	16
Receivable days	136	88	58	55	54
Payable days	78	72	64	62	60
Valuation (x)					
PER (x)	5.3	4.7	6.7	4.3	3.5
Price/Book value (x)	0.7	0.8	0.6	0.6	0.5
PCE (x)	4.4	-9.0	2.9	3.8	3.1
EV/Net sales (x)	0.6	0.5	0.3	0.3	0.2
EV/EBITDA (x)	4.2	4.4	3.8	2.9	2.5

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
23 April 2020	BUY	64	87
27 May 2020	BUY	51	87
17 June 2020	BUY	56	87
13 August 2020	BUY	61	87
24 September 2020	BUY	66	99
6 October 2020	BUY	66	99
13 November 2020	BUY	61	87
6 January 2021	BUY	93	112
8 February 2021	ACCUMULATE	104	109
22 June 2021	ACCUMULATE	98	109
12 August 2021	BUY	102	152
16 November 2021	BUY	104	167
28 December 2022	BUY	102	167
15 February 2022	BUY	90	167
27 May 2022	BUY	72	160
12 August 2022	BUY	76	160
19 September 2022	BUY	85	154
15 November 2022	BUY	73	154
13 March 2023	BUY	80	128
22 March 2023	BUY	75	128
26 May 2023	BUY	77	92

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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