16 August 2019

Ashoka Buildcon

Rating: **Buy**
Target Price: ₹180
Share Price: ₹120

FY20 growth guidance in sight, retaining a Buy

Ashoka made a heartening to start to the year with Q1 revenue growth in line with the FY20 guided-to range and margins at the upper end of the guided-to range. More heartening was the q/q fall in standalone debt and restrained growth in SPV-level debt. All combined suggest healthy operations, with the stage set for an inspiring FY20. Though growth in EPC revenues was handsome, the BOT-toll segment continues to be a victim of constrained economic activity, and of a project-specific issue. Besides, additional orders are required at the earliest to keep growth beyond FY20. We are sanguine and, on the sturdy balance sheet and benign valuations, retain our Buy rating.

Guidance in sight. The Q1 ~28% y/y revenue growth, and with three of its hybrid annuities seemingly set to be appointed in the year, FY20 growth guidance of ~25-30% seems in sight. With a ~12.5% margin in Q1, the guidance of ~11-12.5%, too, seems attainable. Margins would benefit from the greater share of higher-margin hybrid annuity projects.

Needs orders for growth beyond FY20. Incl. the ~₹9bn L1, the ~₹90bn OB (~2.4x BtB) seems good to deliver in FY20, but growth beyond would require more at the earliest. We are optimistic owing to recent diversification into railways, and on expecting the NHAI awarding to get going by Q3.

Debt down. A ~₹1.4bn q/q lower standalone gross debt more than sufficed to cover the net incremental draw-downs by project SPVs; consequently, consolidated gross debt was down ~₹0.5bn q/q. Recoveries and lower WC needs are the reasons for the q/q lower standalone gross debt.

Comparable gross toll collection down ~2% y/y. Besides the general slowdown, relaxed overloading norms and project-specific issues for Jaora-Nayagaon are to be blamed for the underwhelming performance.

Valuation. At the ruling price, (excl. investments) the stock trades at PER of 10x FY20e and 9x FY21e, against the sum-of-parts-based-TP implied exit multiple of 14x FY21. **Risk.** Slow pace of project execution.

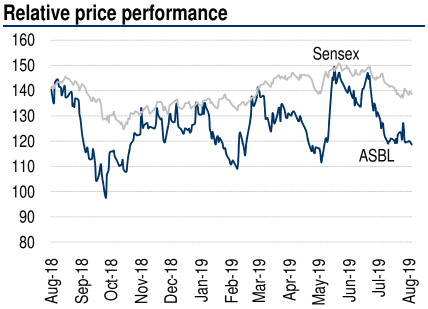
Key financials (YE Mar)	FY17	FY18	FY19P	FY20e	FY21e
Sales (₹ m)	29,797	36,030	49,301	56,564	62,353
Net profit (₹ m)	-2,052	-1,111	267	866	1,756
EPS (₹)	-7.3	-4.0	1.0	3.1	6.3
Growth (%)	-	-	-	224.8	102.7
PE (x)	-	-	135.7	38.9	19.2
EV / EBITDA (x)	8.7	7.9	6.7	6.9	7.4
PBV (x)	7.7	13.1	12.6	10.5	7.6
RoE (%)	-17.6	-28.3	8.8	28.6	46.1
RoCE (%)	9.4	10.8	13.6	12.1	10.7
Net debt / equity (x)	7.9	11.7	14.1	17.3	15.4

Source: Company, Anand Rathi Research P = Provisional

Key data	ASBL IN / ABDL.BO
52-week high / low	₹155 / 93
Sensex / Nifty	37350 / 11048
3-m average volume	$0.7m
Market cap	₹33.7bn / $472m
Shares outstanding	281m

Shareholding pattern (%)	Jun-19	Mar-19	Dec-18
Promoters	54.3	54.3	54.3
- of which, Pledged	-	-	-
Free float	45.7	45.7	45.7
- Foreign institutions	4.3	4.0	4.3
- Domestic institutions	32.7	33.3	33.1
- Public	8.8	8.5	8.4

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations (consolidated)

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY17	FY18	FY19P	FY20e	FY21e
Order backlog	70,048	58,488	84,390	92,258	1,04,742
Orders	48,092	12,446	65,286	50,000	60,000
Net revenues	**29,797**	**36,030**	**49,301**	**56,564**	**62,353**
Growth (%)	*5.3*	*20.9*	*36.8*	*14.7*	*10.2*
Direct costs	18,260	22,276	31,934	37,261	42,213
SG&A	2,031	2,359	3,424	3,705	3,959
EBITDA	**9,506**	**11,395**	**13,943**	**15,598**	**16,180**
EBITDA margins (%)	*31.9*	*31.6*	*28.3*	*27.6*	*25.9*
Depreciation	2,640	2,914	2,582	3,475	3,832
Other income	815	516	771	325	298
Interest expenses	9,078	9,938	10,213	10,569	9,593
PBT	-1,397	-942	1,918	1,880	3,053
Effective tax rate (%)	*-50.0*	*-88.9*	*89.1*	*83.0*	*58.4*
+ Associates / (Minorities)	44	667	58	546	484
Net income	-2,052	-1,111	-335	866	1,756
Adjusted income	-2,052	-1,111	267	866	1,756
WANS	281	281	281	281	281
FDEPS (₹ / sh)	-7.3	-4.0	1.0	3.1	6.3

Source: Company, Anand Rathi Research P = Provisional

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY17	FY18	FY19P	FY20e	FY21e
Share capital	936	936	1,404	1,404	1,404
Net worth	4,695	3,160	2,869	3,197	4,414
Debt	47,544	51,015	60,681	77,707	89,062
Minority interest	1,169	937	1,189	1,125	1,163
DTL / (Assets)	-327	-394	-555	-555	-555
Capital employed	**53,080**	**54,718**	**64,185**	**81,474**	**94,084**
Net tangible assets	1,863	2,393	4,162	4,672	4,897
Net intangible assets	78,299	76,355	74,576	72,899	70,647
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	366	464	581	263	263
Investments (strategic)	1,462	1,964	1,670	2,151	2,673
Investments (financial)	402	508	1,165	-	-
Current assets (excl. cash)	24,300	30,886	45,956	68,801	86,026
Cash	1,023	2,532	2,342	3,146	3,125
Current liabilities	54,632	60,385	66,267	70,458	73,548
Working capital	-30,333	-29,498	-20,311	-1,658	12,478
Capital deployed	**53,080**	**54,718**	**64,185**	**81,474**	**94,084**
Contingent liabilities	11,252	17,055	-	-	-

Source: Company, Anand Rathi Research P = Provisional

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY17	FY18	FY19P	FY20e	FY21e
PBT+ Net interest expense	6,866	8,481	11,360	12,123	12,348
+ Non-cash items	2,640	2,914	2,582	3,475	3,832
Oper. prof. before WC	9,506	11,395	13,943	15,598	16,180
- Incr. / (decr.) in WC	287	834	9,187	18,654	14,136
Others incl. taxes	744	904	1,870	1,560	1,782
Operating cash-flow	8,474	9,657	2,886	-4,616	263
- Capex (tang. + intang.)	1,345	1,599	2,689	1,990	1,805
Free cash-flow	7,129	8,057	197	-6,606	-1,542
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	359	359	539	539	539
+ Equity raised	-	-	-	-	-
+ Debt raised	554	3,405	9,505	17,026	11,355
- Fin investments	-413	608	364	-684	522
- Net int. expense + Misc.	8,422	8,985	8,989	9,762	8,773
Net cash-flow	-686	1,510	-190	804	-21

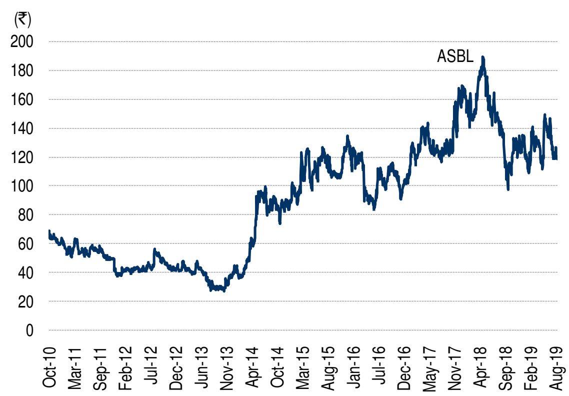
Source: Company, Anand Rathi Research P = Provisional

Fig 4 – Ratio analysis

Year-end: Mar	FY17	FY18	FY19P	FY20e	FY21e
P/E (x)	-	-	135.7	38.9	19.2
EV / EBITDA (x)	8.7	7.9	6.7	6.9	7.4
EV / Sales (x)	2.8	2.5	1.9	1.9	1.9
P/B (x)	7.7	13.1	12.6	10.5	7.6
RoE (%)	-17.6	-28.3	8.8	28.6	46.1
RoCE (%)	9.4	10.8	13.6	12.1	10.7
Sales / FA (x)	0.4	0.5	0.6	0.7	0.8
DPS (₹ / sh)	1.1	1.1	1.6	1.6	1.6
Dividend yield (%)	0.8	0.7	1.2	1.3	1.3
Dividend payout (%)	-	-	202.1	62.2	30.7
Net debt / equity (x)	7.9	11.7	14.1	17.3	15.4
Receivables (days)	44	70	78	77	78
Inventory (days)	44	42	32	33	34
Payables (days)	70	66	76	76	78
CFO : PAT %	-412.9	-869.0	1,082.0	-532.8	15.0

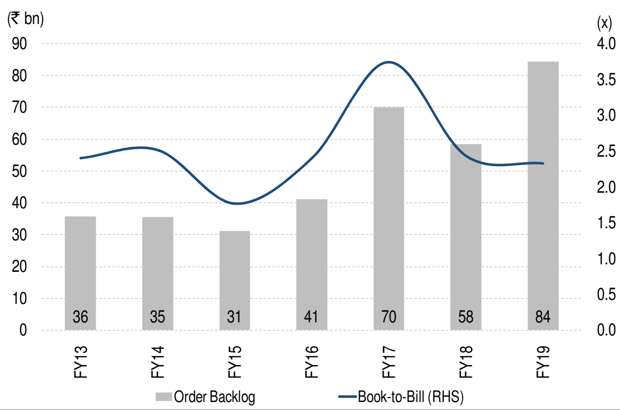
Source: Company, Anand Rathi Research P = Provisional

Fig 5 – Price performance



Source: Bloomberg

Fig 6 – Yearly OB trend



Source: Company

Result / Concall Highlights

Income statement

- **Roads drive revenue growth, hybrids drive margins.** The healthy pace of execution at its appointed order-backlog helped to Ashoka delivering 28% y/y revenue growth, in line with its ~25-30% guidance. With hybrid annuities comprising a significant portion of the revenues recognised, the margin was at the upper end of its 11-12.5% guidance.
    - Of Q1 EPC revenues, roads brought ~₹6.84bn, the power T&D and railways delivered ~₹1.47bn. The balance revenue came from the sale of goods and the BOT toll.
    - We estimate hybrid annuities to have made up almost 50% of the quarter's revenue and, consequently, the key reason for the y/y better margins. This is besides the operating leverage at play, owing to strong revenue growth.

Fig 7 – Financial highlights – standalone

(₹ m)	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	% y/y	% q/q
Sales	7,083	3,787	6,589	7,023	6,837	7,644	10,651	13,074	8,768	28.2	-32.9
EBITDA	925	456	746	807	813	1,037	1,487	1,815	1,095	34.7	-39.7
EBITDA margin (%)	13.1	12.0	11.3	11.5	11.9	13.6	14.0	13.9	12.5	60bps	-140bps
Interest	129	116	128	113	171	130	239	367	214	24.7	-41.7
Depreciation	113	130	144	144	136	166	202	260	266	96.0	2.5
Other income	92	108	166	612	366	157	254	380	342	-6.4	-9.9
Exceptional items	-	-	-	-	-	-	398	73	-	-	-
PBT	774	318	639	1,163	871	899	903	1,496	957	9.8	-36.0
Tax	205	41	170	109	232	278	281	516	310	33.6	-39.8
PAT	569	277	470	1,054	639	621	622	980	647	1.2	-34.0
Adj. PAT	569	277	470	1,054	639	621	895	1,028	647	1.2	-37.1
Adj. EPS	3.0	1.5	2.5	5.6	2.3	2.2	3.2	3.7	2.3	1.2	-37.1

Source: Company

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    - Given the constantly improving contributions from the hybrid annuity projects and as three more hybrid annuities have yet to be appointed, the ramp-up in execution seems set to sustain.
- **Earnings growth restrained.** Notwithstanding strong revenue growth and even stronger operating profit growth, higher depreciation (having shored-up its equipment bank in FY19) and lower other income resulted in a mere ~1% y/y decline in adjusted earnings to ~₹0.6bn. Besides, the normalising tax rate (up ~578bps y/y, to ~32.4%) had a role to play in the restrained earnings growth.

Toll collection down on reported basis as well as comparably

- Q1 gross toll collections were ~₹2.4bn, down ~6% y/y, largely due to short-term toll collection ceasing. Even adjusted for the ceased tolling contract, comparable gross toll collections were down ~2% y/y.
- With Ashoka Concesions' portfolio accounting for ~90% of the total collections, toll-fee growth for seven ACL assets determine the portfolio growth. The ACL portfolio declined ~2% y/y whereas comparable toll collection for the ABL portfolio was down ~3% y/y.
    - Jaora-Nayagaon was the key let-down, with a ~11% y/y dip in collection. Besides the general slowdown and relaxed overloading norms, management identifies under-construction activity at a feeder stretch as the cause for traffic declining. It expects

construction completion by Sep'19, then normalising gradually.

- Management had earlier said there was a ~3.7% tariff hike for the NHAI projects eligible for a hike in Apr'19, and a ~7% hike at the Jaora-Nayagaon project.

Fig 8 – Gross toll collection – Down on reported basis as well as comparably

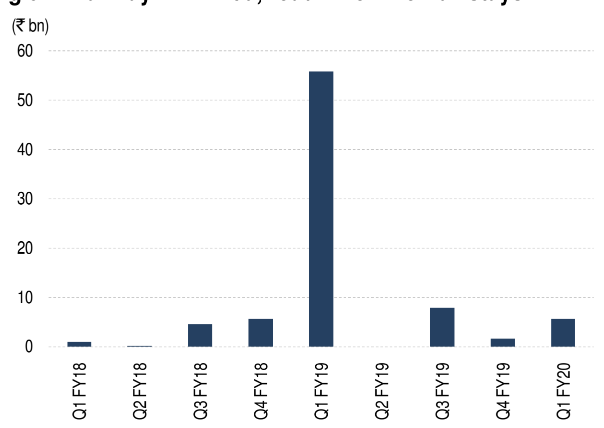
(₹ m)	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	% y/y	% q/q
ACL Portfolio											
Belgaum-Dharwad	214	208	231	224	230	218	233	235	237	3.0	0.9
Dhankuni-Kharagpur	786	757	783	849	893	888	867	884	905	1.3	2.3
Bhandara	156	150	168	174	167	160	168	178	174	4.3	-2.0
Durg	190	185	202	207	195	193	199	207	198	1.6	-4.1
Jaora-Nayagaon	474	503	530	523	516	516	497	490	460	-11.0	-6.1
Sambalpur-Baragarh	145	141	166	180	180	173	181	184	171	-4.6	-6.8
ABL Portfolio											
Ahmednagar - Aurangabad	64	64	81	69	94	71	78	75	84	-10.8	12.1
Wainganga Bridge	75	71	77	80	75	71	74	79	77	2.4	-2.8
Katni Bypass	55	44	53	57	58	48	55	54	60	3.1	11.3
Others	220	245	244	90	123	174	6	5	8	-93.5	50.9
Total	**2,381**	**2,367**	**2,534**	**2,454**	**2,530**	**2,513**	**2,358**	**2,389**	**2,373**	**-6.2**	**-0.7**
Comparable y/y growth (%)	*13.3*	*13.4*	*18.9*	*10.1*	*11.4*	*10.2*	*2.7*	*0.8*	*-1.7*		

Source: Company

Order backlog – No new inflows, only one L1 firmed up

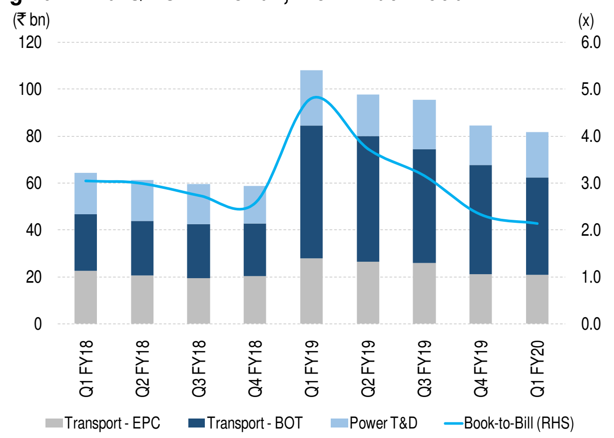
- No orders were bagged in the quarter. However, of the two L1 orders at end-Q4 FY19, one was firmed up during the quarter.
  - Q4-end L1 status in an EPC project of ~₹4.4bn in Punjab from the Rail Vikas Nigam was changed to firm; consequently, taking the railways segment OB up.
  - The L1 status in a hybrid annuity project (Tumkur-Shivamogga Package-IV), having a bid project cost of ~₹13.8bn (EPC value: ~₹8.7bn), stays.
- Including the railways order firmed-up during the quarter but adjusted for the revenues recognised, the end-Q1 order backlog was ~₹82bn, down ~₹2.7bn q/q, as inflows lagged revenue booked. Including EPC value for Tumkur-Shivamoga - IV, the OB improves to ~₹90bn.

Fig 9 – Railway L1 firmed, road L1 of ~₹8.7bn stays



Source: Company

Fig 10 – End-Q1 OB: ~₹82bn, incl. L1 at ~₹90bn



Source: Company

- Based on TTM EPC revenues, the OB implies a BtB of ~2.1x excl. L1, and ~2.4x including L1. Though the OB seems good to deliver revenue growth guidance for the year, growth beyond would need to secure orders at the earliest.
- Management said it is open to orders in either formats in the roads segment (hybrid annuity or EPC), but its interest in BOT-toll would account for the changes being effected in the model to mitigate traffic-risks. It said it considers all projects equally, and the margins/returns profile as the prime factor in bidding.
- It also said it would participate in EPC projects from states as well as the NHAI, but would opt for hybrid annuities only from the NHAI.
- On inflows, though it talked of securing orders of ~₹40bn-60bn, it acknowledges that the quantum could vary depending on the bidding. It believes the recent muted awarding was largely the result of the NHAI's insistence on ensuring more than 80% land in place before the projects are awarded.
- On the roads side, management has already shortlisted projects of ~₹500bn; a mix of ~₹350bn from the Central agencies and ~₹150bn of state opportunities.
- It aims at inflows in power T&D and railways but did not quantify.
- It had earlier guided to obtaining orders of ~₹60bn-70bn in FY20 across all segments. Of planned inflows, it was targeting ~₹40bn in roads, ~₹15-20bn in railways and ~₹10bn in power T&D.

Guidance

- With a strong start to the year, management retained its ~25-30% revenue growth guidance for FY20.
  - Of FY20 revenues, it had earlier expected to book ~₹35bn-40bn in roads and ~₹13bn-15bn in other segments (power and rail). Thus, it now sees ₹50bn+ revenues as possible.
  - Given that the company has yet to receive appointed dates for three of its financially-closed hybrid annuities, and keeping in mind its execution capabilities, such growth seems attainable.
- The company guides to FY20 EPC EBITDA margin of ~11-12.5%; at ~12.5%, the Q1 margin was at the upper-end of the guidance.
- The company expects the tax rate to normalize ahead, citing limited orders with 80-IA tax benefits. It had spoken of a ~30-35% tax rate for FY20 and ahead.
- It lowered its capex guidance from the earlier spelt out ~₹1.5bn, to ~₹0.8bn. A large portion of the capex would be for the roads segment.
- The higher scale of operations has led to debt rising from the lows of the recent past. Management said standalone debt would be ~₹5bn-6bn at end-FY20. This is lower than the earlier guided-to range of ~₹7bn-8bn.

Hybrid annuity projects

- The recently secured Tumkur-Shivamogga Package-IV awaits the concession agreement. Management said that the concession signing has been delayed as the NHAI is now trying to sign concessions only after 80% land is in place. This is to avoid/minimise any future litigations.

- Of the eight hybrid annuity projects, execution is going smoothly on two old projects. Of the second batch of five projects, financial closure has been attained, but appointed dates are in place for only three. The two Tumkur-Shivamogga packages (I and II) have been awaiting appointed dates. The recently secured eighth project, Tumkur-Shivamogga Package-IV awaits concession signing.
- **Land status for yet-to be-appointed projects.** Management said
  - **Tumkur-Shivamogga-I and -II.** For Package-I, 3H has been completed for 60% length, against ~51% at the end of the previous quarter. For Package-II, 37% 3H as of the previous quarter seems to have moved closer to 60% now. Management expects the requisite 80% RoW to be in place in another 60 days, paving the way to seek appointed dates.
  - **Tumkur-Shivamogga-IV.** There is hardly any change in 3H status, at 35-40%. Management expects another 90-100 days for 80% land to be in place.

Fig 11 – Hybrid annuity – Two await appointed dates; one, concession signing

₹ bn	State	CA date #	Bid Project Cost	FC sanctioned Cost /TPC	Debt Tied-up	Total Equity
Mallasandra-Karadi Road	Karnataka	Apr-18	9.2	7.4	2.8	1.0
Karadi-Banwara Road	Karnataka	Apr-18	12.2	10.1	3.9	1.3
Belgaum-Khanapur Road*	Karnataka	Apr-18	8.6	7.5	3.0	1.1
Khairatunda-Barwa*	Jharkhand	May-18	8.6	7.1	2.7	1.0
Ankleshwar-Manubar Expressway*	Gujarat	May-18	16.9	14.8	6.0	2.1
Bettadahalli-Shivamogga Road	Karnataka	Yet awaited	13.8	11.1		1.1
Finances sanctioned			**69.2**	**58.0**	**18.3**	**7.6**
Less: Additional grant						1.8
Net equity requirement						**4.8**

*Source: Company, Anand Rathi Research # CA: Concession agreement * Appointed*

Balance sheet

- With recovery of receivables early in the quarter (~₹3bn, highlighted by management at the Q4 FY19 post-results concall), standalone gross debt was down ~₹1.4bn q/q to ~₹5.8bn. Besides recoveries, the sequential decline in construction (due to seasonality) resulted in lower working capital needs and, hence, lower debt.
  - The sequential decline is almost entirely due to lower working capital debt (down ~₹1.3bn, to ~₹1.9bn) whereas equipment loans were down only ~₹75m.
- The project-SPV level debt was up ~₹0.9bn q/q to ~₹50.5bn, owing to draw-downs for the under-construction hybrid annuity projects. We expect this to rise further, given the under-construction hybrid annuity projects and the fact that projects yet to be taken for development would require draw-downs.
- As the reduction in the standalone gross debt was more than the rise in project-SPV level debt, consolidated gross debt was down ~₹0.5bn q/q, to ~₹56.3bn.
- Year-end standalone debt is targeted at ~₹5bn-6bn. Management sees its internal accruals and pending mobilisation advances from hybrid annuity projects to suffice to cover working capital, capex and equity requirements.

Equity infusion

- During the quarter, the company infused ~₹350m equity in hybrid annuities, and ~₹150m to fund the CGD portfolio. This takes the total equity infused between hybrid annuities and the CGD to ~₹5.7bn.
- Management said it has cumulatively infused ~₹4.5bn as equity in its hybrid annuity portfolio. Ahead, it plans to infuse ~₹4.2bn in the next 2–2.5 years.
  - **FY20 –** It expects to infuse ~₹2.5bn in hybrid annuities, comprising ~₹0.2bn for the old projects, ~₹1.8bn for the five projects secured in FY18 and ~₹0.45bn for Tumkur-Shivamogga Package - IV.
  - **FY21/22 –** A large part of the balance equity of ~₹1.7bn is due to be infused in FY21. Equity infusion for the five is estimated at ~₹0.85bn for FY21. For Tumkur-Shivamogga–IV, pending equity of ~₹0.84bn would be infused in FY21 and FY22.
- For CGD, Ashoka would need to infuse ~₹0.5bn in the next two years, with an equal amount infused by the partner.
- Management said it plans to infuse the equity from internal accruals to a great extent but could also look at other means.

Other highlights

- **SBI-Macquarie exit / Asset monetisation.** With original timelines set to end this Aug'19, monetisation efforts have been gathering steam. SBI-Macquarie has already appointed a banker, and management expects to have something more to share by Mar'20.
  - SBI-Macquarie liability (on account of committed returns until Aug'19) of another ~₹0.4bn during the quarter. Consequently, the liability in the books of ACL is now ~₹16.3bn.
  - Enterprise value for the entire portfolio, comprising seven assets, was identified at ~₹74bn, comprising ~₹26bn equity (incl. sub-debt) and debt of ~₹48bn.
- **Finances difficult to come by; support still available for the well-placed.** Management alludes to the fact that the current liquidity situation and the NBFC crisis have made project finances hard to come by for most, but quality players are still able to access support.
- **Fund and non-fund limits; ample headroom.** Of the total fund-based working-capital limits of ~₹5bn, the limits utilised are ~₹1.3bn. On the non fund-based side, of the total limit of ~₹50bn, ~₹15bn headroom is still available.

Earnings revision and Valuation

Our sum-of-parts-based target price of ₹180 is derived using a 14x PE multiple for FY21e construction earnings (₹125 a share), a discounted-cash-flow-driven valuation for the road-asset portfolio (₹53) and book value for investments in the CGD.

At the ruling price, (excl. investments) the stock trades at PERs of 4.8x FY20e and 4.3x FY21e Construction EPS.

Fig 12 – EV / EBITDA band

Source: Bloomberg, Anand Rathi Research

Risks

- Any slower-than-anticipated pace in project execution.
- Lower-than-anticipated toll-fee growth.

Appendix

Analyst Certification

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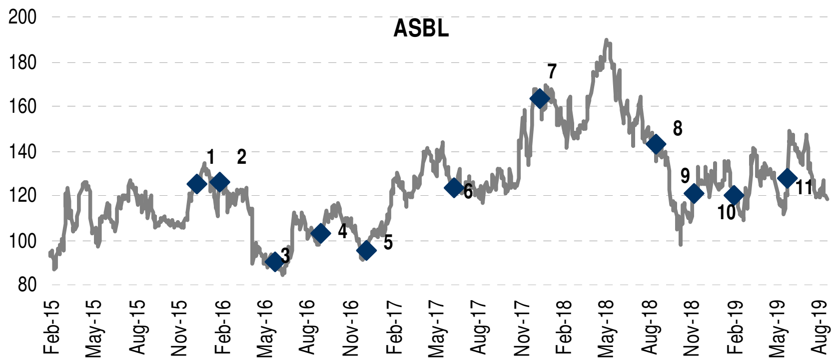
Rating and Target Price History (as of 16 August 2019)



	Date	Rating	TP (₹)	Share Price (₹)
1	07-Dec-15	Buy	228	189
2	25-Jan-16	Buy	229	193
3	23-May-16	Buy	227	136
4	30-Aug-16	Buy	219	156
5	05-Dec-16	Buy	208	144
6	08-Jun-17	Buy	237	186
7	11-Dec-17	Buy	287	242
8	18-Aug-18	Buy	199	143
9	05-Nov-18	Buy	194	121
10	31-Jan-19	Buy	188	120
11	25-May-19	Buy	180	128

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Ratings Guide (12 months)	Buy	Hold	Sell
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