



IDEA2ACT: Ashoka Buildcon

Reco Price	12-months Target Price
BUY @ ₹ 96-101	₹116

Ashoka Buildcon (ABL) is one of the largest highway developers in the country with interests in EPC works (roads and power distribution), BOT road projects, and the manufacture of ready-mix concrete. The company has over 39 years of experience in the EPC segment and, to date, has executed 60 road & bridge and 57 building construction-contracts. ABL owns and operates 9 BOT road projects. Of these, 3 are held by the company and six are held by Ashoka Concessions, wherein ABL holds 61% stake.

Investment Rationale

Large diversified order book lends growth visibility: With an order book (OB) of Rs105bn (including order-wins in July), book-to-bill for the EPC business stands at 2.5x. This provides healthy growth visibility for FY22-23, with Rs68bn worth of the order book under execution; execution for the balance OB would commence in 2H. Combined with further OI target of Rs40bn from highways, railways and the new focus segment of buildings, we see strong support for 16% revenue Cagr over FY21-23, with ~12% margins.

Well-managed BS should endure: The end-1QFY21 standalone net debt stood at Rs5.2bn – higher vs FY21, due to Rs1.5bn of loan extended to ACL for refinancing an NCD; this was paid back in Jul-21. While a few T&D projects entail slow payments, overall WC is well under control. We expect healthy operational cash from EPC to suffice for the balance Rs3.25bn equity commitment in existing HAM projects, Rs400m annual support for Sambalpur BOT and further HAM wins.

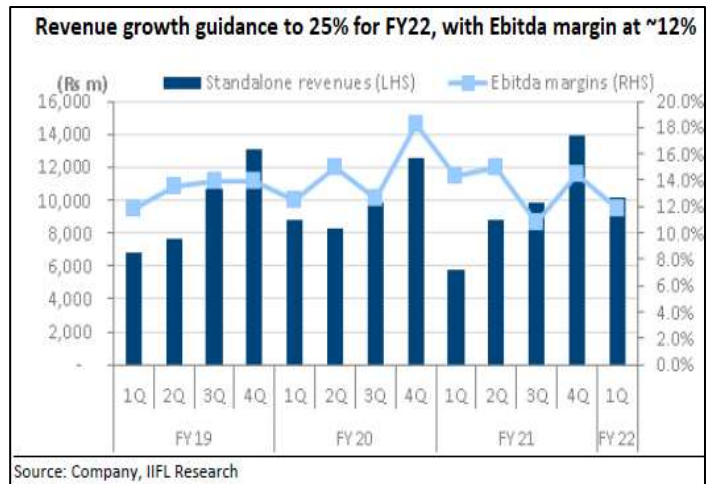
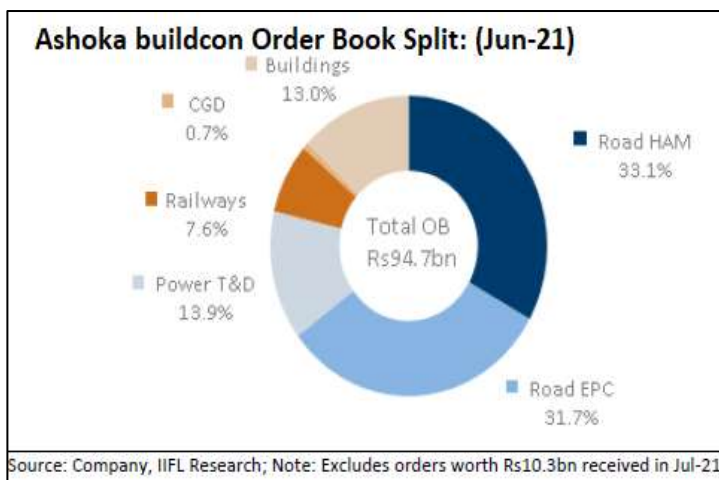
Much-awaited monetisation of asset portfolio, the key trigger: Management continues to engage with investors for sale of the asset portfolio, including six operational BOT/annuity projects and ten HAM projects, with the expectation of announcing the transaction in 2021. Valuation will also be keenly watched vs total exposure (ABL and SBI-Macquarie in ACL) at ~Rs30bn, including Rs2bn interest accrued on the loan from ABL. ABL's liability to SBI Macquarie for its 39% stake is capped at Rs15.25bn.

Debt under control – Cash-flow to fund the equity commitments: ASBL's standalone debt at Rs5.26bn increased QoQ by Rs1.64bn, largely due to the company extending support to ACL towards repayment of NCD worth Rs1.5bn. Subsequently in July, the Rs1.5bn was repaid to ASBL by ACL,



post raising fresh ND worth Rs2.5bn. Consolidated gross debt saw some increase, to Rs62.4bn (Rs61.6bn at end-FY21). As per management, equity requirements for its existing HAM portfolio stand at Rs3.25bn over FY22-23ii of which Rs1.84bn would be invested in FY22 and Rs1.41bn in FY23. Additionally, the Sambalpur project would require funding of Rs400m per annum. We expect these to be largely funded via internal cash generation, given the healthy order book and improving execution.

Execution on track, with stable margins: As per management, execution is progressing at 100% efficiency currently, as Covid19-related restrictions have been eased. The company is targeting over 25% YoY revenue growth for FY22. Overall execution is likely to improve in coming quarters, as Tumkur Shivamogga packages III & IV along with the Maldives project commence execution. Following the strong margin performance in FY21 due to reversal of contingency provisions, Ebitda



margins are expected to remain stable at 12.5-13% in FY22, as per management.

Outlook and valuation

With healthy execution over the past few quarters and a large Rs105bn OB (2.5x book-to-bill; ~65% under execution), ASBL should deliver 16% revenue Cagr over FY21-23, with stable margins of ~12%. The healthy balance sheet, along with ND/E of 0.1x for the SA business and strong operating cash-flows, should take care of the Rs3.25bn equity commitments and the Rs400mpa support for the Sambalpur project. Announcement of a sale transaction for the ACL asset portfolio is the key trigger, along with valuations. Total investment in the ACL portfolio by ABL and SBI Macquarie stands at Rs30bn. We retain our estimates and a Buy Rating for a target price of ₹ 16.

Technically, the stock has given a reversal as it has given a breakout from a bullish flag pattern. With a Bullish MACD crossover and RSI Crossing above 50 from below, we expect Ashoka to reach our target price of ₹ 16.



**Previous Recommendations:**

Date	Stock Name	Reco Price	Target Price	P & L %	Status
26-May-20	Emami Limited	205	241	18%	Target Achieved
2-Jul-20	ITC	201	235	17%	Target Achieved (₹225 + Dividend ₹10.15 exdate 6th Jul 2020)
2-Jul-20	NHPC	19.5	24	23%	Target Achieved
15-Jul-20	HCL Tech	610	695	14%	Target Achieved
30-Jul-20	INDIGO	920	1074	17%	Target Achieved
11-Aug-20	JB Chemicals & Pharmaceuticals	750	867	16%	Target Achieved
13-Aug-20	UPL	480	555	16%	Target Achieved
18-Aug-20	Crompton Consumer	256	299	17%	Target Achieved
28-Aug-20	Sudarshan Chemical	474	557	18%	Target Achieved
14-Sep-20	Apollo Tyres	114.5	138	21%	Target Achieved
1-Oct-20	Manappuram Finance Ltd	155.5	186	20%	Target Achieved
15-Oct-20	Cyient Ltd	370	440	19%	Target Achieved
28-Oct-20	Amara Raja Batteries	770	898	17%	Target Achieved
2-Nov-20	SIS (I) Ltd	363	423	17%	Target Achieved
3-Dec-20	Bharat Electronics	112	139	24%	Target Achieved
16-Dec-20	RBL Bank	233	273	17%	Target Achieved
6-Jan-21	Alembic Pharmaceuticals	1075	1252	-15%	Call closed on 28 th July 2021
15-Jan-21	Hindustan Petroleum Corporation Ltd	229	274	20%	Target Achieved
5-Feb-21	State Bank of India	351.5	429	22%	Target Achieved
1-Mar-21	Cummins India	772	914	18%	Target Achieved
10-Mar-21	HCL Tech	962	1140	19%	Target Achieved
10-Mar-21	Eicher Motors	2635	2940	12%	Target Achieved
7-Apr-21	Cyient Ltd	669	789	18%	Target Achieved
3-May-21	Persistent Systems Ltd	1990	2400	21%	Target Achieved
4-May-21	SBI Life Insurance Company Ltd	945	1144	21%	Target Achieved
17-May-21	HG Infra	325	394	21%	Target Achieved
2-June-21	Gujarat Gas Limited	532	674	27%	Target Achieved
22-Jun-21	Jindal Stainless (Hisar) Ltd	184	228	24%	Target Achieved
6-Jul-21	Tata Motors Limited	341	410	-1%	Active call
26-Jul-21	Gujarat State Petronet Ltd	331	394	-5%	Active call
6-Sep-21	Jindal Steel and Power Ltd	388.5	447	5%	Active call

Disclaimer:

Recommendation Parameters for Fundamental/Technical Reports:

- Buy – Absolute return of over +10%
- Accumulate – Absolute return between 0% to +10%
- Reduce – Absolute return between 0% to -10%
- Sell – Absolute return below -10%

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