

Ashoka Buildcon (ASBL IN)

Results along expected lines; orderbook strong

INDIA | INFRASTRUCTURE | Quarterly Update

9 November 2015

Top takeaways from Q2FY16

- Topline was driven by exceptional income from sale of land (of Rs 509mn), which also had an impact of Rs 443/343mn on EBITDA/PAT in 2Q.
- Adjusted topline was primarily driven by capitalisation of the Dhankuni-Kharagpur project and 32% yoy growth in adjusted EPC topline.
- Adjusted EPC EBITDA margins, at 15.6%, were boosted by lower commodity prices.
- Toll collections grew 19% yoy boosted by capitalisation of the Dhankuni-Kharagpur project. Adjusting for this, like-for-like toll collection growth was 12% yoy.
- All projects showed 4-6% traffic growth, leading to 8-12% growth in toll collections.
- Toll collection at the Ahmednagar-Aurangabad and Dewas projects was impacted due to partial stoppage of toll collection.
- Jarora-Nayagaon reported the second consecutive quarter of strong growth (27% in Q2 and 21% in Q1) on shifting of traffic from a parallel road.
- EPC order book at Rs 44.4bn – 2.3x book-to-sales improved significantly from 1QFY16.
- The company accrued orders of Rs 22bn in Q1, and is L1 in orders of Rs 5.7bn (including its first overseas order from Maldives).
- Consolidated debt stands at Rs 38bn with Rs 2.4bn at the standalone level.

Conference call takeaways

- The management alluded to a healthy order pipeline from NHAI, MORTH, and various state governments – confident of winning Rs 15-20bn of incremental orders in 2HFY16.
- It expects an EPC topline of Rs 20-21bn in FY16 and strong growth of 20-25% in next two years based on the strong orderbook.
- EPC margins have benefitted from lower commodity prices in the last two quarters; it expects them to stabilise in the usual range of 13-14% over the next two years.
- Toll collections should improve at its Sambalpur project by 15-20% on complete CoD and mining activity picking up in the region.

Outlook and valuation

The company has a fundamentally superior profile and strong execution track record in the roads segment. Its recent QIP (Rs 5bn) places it in a highly comfortable situation in terms of funding the new projects that it expects to win. With its recent order wins, the concerns on inferior orderbook have also been adequately addressed.

We have cut our FY16/17 EPS estimates by 0%/7% primarily to incorporate real-estate sale, lower EPC revenues, and partial stoppage of toll collection on two projects. Our price target of Rs 204 (earlier Rs 210) offers 24% upside from current levels. We maintain BUY.

BUY (Maintain)

CMP RS 165

TARGET RS 204 (+24%)

COMPANY DATA

O/S SHARES (MN) :	93
MARKET CAP (RSBN) :	15
MARKET CAP (USDBN) :	0.2
52 - WK HI/LO (RS) :	245 / 100
LIQUIDITY 3M (USDMN) :	0.5
PAR VALUE (RS) :	10

SHARE HOLDING PATTERN, %

	Jun 15	Mar 15	Dec 14
PROMOTERS :	57.2	67.5	67.5
FII / NRI :	10.6	5.8	3.9
FI / MF :	18.4	11.8	12.4
NON PRO :	6.2	6.9	6.6
PUBLIC & OTHERS :	7.7	8.4	9.8

KEY FINANCIALS

Rs mn	FY15	FY16E	FY17E
Net Sales	23,197	27,842	34,685
EBIDTA	5,110	8,368	11,270
Net Profit	815	1,187	1,693
EPS, Rs	5.1	6.3	9.0
PER, x	32.1	26.0	18.2
EV/EBIDTA, x	12.6	8.2	6.1
ROE, %	6.0	6.0	8.0
Debt/Equity (x)	2.9	2.1	2.0

CHANGE IN ESTIMATES

Rs mn	Revised Est.		% Revision	
	FY16E	FY17E	FY16E	FY17E
Revenue	27,842	34,685	-5%	-6%
EBITDA	8,368	11,270	0%	-2%
Core PAT	1,193	1,699	0%	-7%
EPS (Rs)	6.4	9.1	0%	-7%

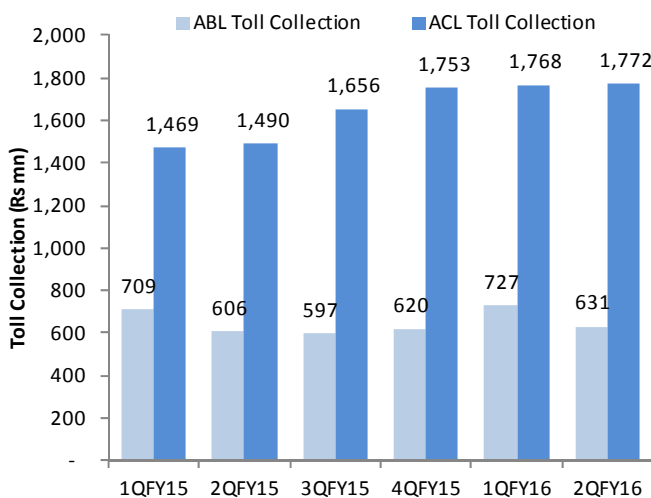
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(Rs mn)	Q2FY16 (Adjusted)	Q2FY15	yoy growth %	Q1FY16	qoq growth %	vs. expect. %	Comments
Revenue	5,997	4,301	39%	6,299	-5%	14%	Driven by capitalization of Dhankuni project
EBITDA	1,627	935	74%	1,836	-11%	-7%	Lower than estimates due to lower EPC revenues
EBITDA Margins	27.1%	21.7%		29.1%			
PAT	48	58	-17%	124	-61%	-69%	
EPS	0.3	0.4	-30%	0.7	-61%	-69%	
EPC Segment							
Revenue	4,497	3,400	32%	4,674	-4%		Driven by pick up in execution at Sambalpur project
EBITDA	702	436	61%	764	-8%		
EBITDA Margins	16%	13%		16%			Margins higher due to lower commodity prices
BOT Segment							
Revenue	1,622	970	67%	1,720	-6%		Driven by capitalization of Dhankuni project
EBITDA	1,042	555	88%	1,163	-10%		
EBITDA Margins	64%	57%		68%			

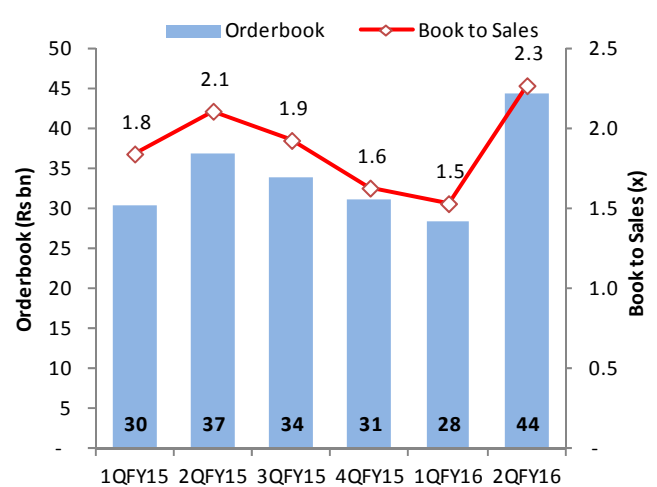
Quarterly performance

Particulars (Rs mn)	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	2QFY16 Adj
Net Sales/Income from operations	4,301.4	4,550.5	8,016.0	6,298.7	6,506.0	5,997.0
YoY growth (%)	44.1	8.9	31.9	0.2	51.3	39.4
QoQ growth (%)	-31.6	5.8	76.2	-21.4	3.3	-7.8
Total Income	4,313.9	4,555.8	8,030.3	6,302.3	6,511.8	6,002.8
Expenditure	44.3	8.9	32.0	0.1	51.0	31.8
Construction Expense	3,029.9	3,192.5	5,879.2	4,126.3	4,062.5	3,996.5
% of sales	70.2	70.1	73.2	65.5	62.4	66.6
Employee Expense	206.8	187.5	203.8	211.0	231.5	231.5
% of sales	4.8	4.1	2.5	3.3	3.6	3.9
Other Expenditure	142.1	122.1	234.1	129.2	147.4	147.4
% of sales	3.3	2.7	2.9	2.0	2.3	2.5
Total expenditure	3,378.8	3,502.1	6,317.1	4,466.4	4,441.4	4,375.4
% of sales	78.3	76.9	78.7	70.9	68.2	72.9
YoY growth (%)	52.6	8.3	31.5	-8.7	31.5	29.5
EBITDA	935.1	1,053.8	1,713.2	1,835.8	2,070.4	1,627.4
YoY growth (%)	20.5	10.9	34.1	30.4	121.4	74.0
QoQ growth (%)	-33.6	12.7	62.6	7.2	12.8	-21.4
EBITDA Margin (%)	21.7%	23.1%	21.3%	29.1%	31.8%	27.1%
Other income	55.7	33.6	70.7	91.4	116.4	116.4
Interest	(516.1)	(794.6)	(943.9)	(1,141.4)	(1,106.5)	(1,106.5)
Depreciation	(368.7)	(376.3)	(355.6)	(574.6)	(607.4)	(607.4)
Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0
PBT	106.0	(83.5)	484.4	211.3	472.8	29.8
Tax	145.2	139.5	270.6	252.7	289.8	199.8
Tax rate	137%	(167%)	56%	120%	61%	670%
PAT	(39.2)	(223.0)	213.8	(41.5)	183.0	(170.0)
Share of Profit from Associates	(81.9)	(68.4)	(59.5)	(81.5)	(51.6)	(51.6)
Minority Interest	(179.2)	(304.2)	(223.6)	(246.8)	(269.9)	(269.9)
Net Profit	58.1	12.8	377.9	123.8	401.3	48.3
YoY growth (%)	-70.8	-96.2	178.6	-66.2	590.5	-16.9
QoQ growth (%)	-84.1	-78.0	2850.9	-67.2	224.1	-88.0
EPS	0.37	0.08	2.38	0.66	2.14	0.26

Source: Company, PhillipCapital India Research

Toll collections have been steady


Source: Company, PhillipCapital India Research

Orderbook visibility has improved in the last quarter


Segmental break-up

	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16*
Revenue break-up (Rs mn)					
EPC segment	3,399.9	3,558.0	6,839.0	4,674.0	4,497.0
BOT segment	969.7	1,032.0	1,262.0	1,720.0	1,622.0
EBITDA break-up (Rs mn)					
EPC segment	435.6	512.0	1,049.0	764.0	702.0
BOT segment	555.2	575.0	735.0	1,163.0	1,042.0
EBITDA Margins (%)					
EPC segment	12.8%	14.4%	15.3%	16.3%	15.6%
BOT segment	57.3%	55.7%	58.2%	67.6%	64.2%

*EPC revenue and EBITDA adjusted for land sale

Quarterly Toll Collection

Particulars (Rs mn)	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16
ABL Projects					
Indore Edalabad Road	259	258	267	325	300
Wainganga Bridge	57	66	70	69	65
Pune-Shirur Road	27	-	-	-	-
Dewas Bypass	46	47	46	66	33
Katni Bypass	47	43	46	50	44
Ahmednagar Aurangabad Road	47	52	50	49	37
Others	122	131	141	168	152
ABL Toll Collection	606	597	620	727	631
ACL Projects					
Belgaum Dharwad	155	162	170	178	167
Dhankuni Kharagpur	520	532	570	585	562
Bhandara	120	136	142	142	134
Durg bypass	152	170	180	179	169
Jarora Nayagaon	324	341	354	381	411
Pimpalgaon Nasik Gonde	219	231	240	202	232
Sambalpur baragarh	-	84	98	101	97
ACL Toll Collection	1,490	1,656	1,753	1,768	1,772
Total Growth	15%	24%	27%	20%	19%
Total Like-for-like growth	15%	18%	20%	13%	12%

SoTP Valuation

	Project Equity		Ashoka Equity		Per Share (Rs)
	Value (Rs mn)	Stake (%)	Value (Rs mn)		
ABL BOT Projects					3x FCFE of 18 BOT Projects
Cumulative OCF for 3 years	5,448		5,448		29.1
KSHIP	496	50	248		1.3
Value to Ashoka Buildcon	5,945		5,697		30.4
EPC Division					7x FY16 EV/EBITDA
EPC division	3,413	7.0	23,891		127.7
Net cash at parent level	1,708		1,708		9.1
Value to Ashoka Buildcon	25,599		25,599		136.8
ACL BOT Projects					NPV @ 13% CoE
Bhandara	1,453	51	741		4.0
Jarora Nayagaon	7,961	57	4,530		24.2
Belgaum Dharwad	1,813	100	1,813		9.7
Pimpalgaon Nasik Gonde	(5,494)	26	(1,428)		(7.6)
Durg bypass	2,143	51	1,093		5.8
Sambalpur Baragarh	3,508	100	3,508		18.7
Dhankuni Kharagpur	1,771	100	1,771		9.5
Chennai ORR	1,996	50	998		5.3
Total	15,150		13,025		69.6
Holding company discount		20%	10,420		55.7
Value to Ashoka Buildcon		66.0%	6,877		36.7
Total value of Ashoka Buildcon			38,172		204.0

Source: Company, PhillipCapital India Research

We value ABL's BOT portfolio at 3x FY15 FCFE, with only 3 years of average useful life remaining for the projects, and expected increase in FCFE assumed to be equivalent to the discount rate

We value the EPC division at 7x FY17E EV/EBITDA – premium to our valuation for IRB (6x)

We have also factored-in the increase of 19.2% stake in Jarora project

We provide a 20% holding company discount to the valuation of ACL

Financials

Income Statement

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Net sales	17,949	23,197	27,842	34,685
Growth, %	-3	29	20	25
Total income	17,949	23,197	27,842	34,685
Raw material expenses	0	0	0	0
Employee expenses	-583	-754	-903	-1,126
Other Operating expenses	-13,421	-17,333	-18,572	-22,290
EBITDA (Core)	3,945	5,110	8,368	11,270
Growth, %	6.1	29.5	63.8	34.7
Margin, %	22.0	22.0	30.1	32.5
Depreciation	-1,389	-1,517	-2,487	-3,501
EBIT	2,556	3,593	5,880	7,769
Growth, %	6.7	40.5	63.7	32.1
Margin, %	14.2	15.5	21.1	22.4
Interest paid	-1,335	-2,721	-4,451	-5,590
Pre-tax profit	1,237	782	1,484	2,275
Tax provided	-688	-796	-1,382	-1,394
Profit after tax	549	-13	102	881
Others (Minorities, Associates)	425	828	1,085	812
Net Profit	975	815	1,187	1,693
Growth, %	13.9	(24.9)	45.6	42.7
Unadj. shares (m)	159	159	187	187
Wtd avg shares (m)	159	159	187	187

Balance Sheet

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Cash & bank	945	410	3,108	4,045
Debtors	1,305	3,644	2,670	3,326
Inventory	6,272	7,286	8,772	10,928
Loans & advances	3,087	4,594	4,958	6,177
Other current assets	835	1,013	1,013	1,013
Total current assets	12,444	16,946	20,521	25,489
Investments	2,847	2,345	2,345	2,345
Gross fixed assets	46,718	132,023	132,323	132,623
Less: Depreciation	-6,467	-6,311	-8,798	-12,299
Add: Capital WIP	79,621	1,505	7,510	10,585
Net fixed assets	119,871	127,218	131,035	130,909
Total assets	135,183	146,608	154,001	158,843
Current liabilities	85,983	89,255	88,783	90,227
Total current liabilities	85,983	89,255	88,783	90,227
Non-current liabilities	32,075	38,737	40,545	42,382
Total liabilities	118,058	127,992	129,329	132,609
Paid-up capital	790	793	935	935
Reserves & surplus	11,690	12,776	18,689	20,251
Shareholders' equity	17,125	18,616	24,672	26,234
Total equity & liabilities	135,183	146,608	154,001	158,843

Cash Flow

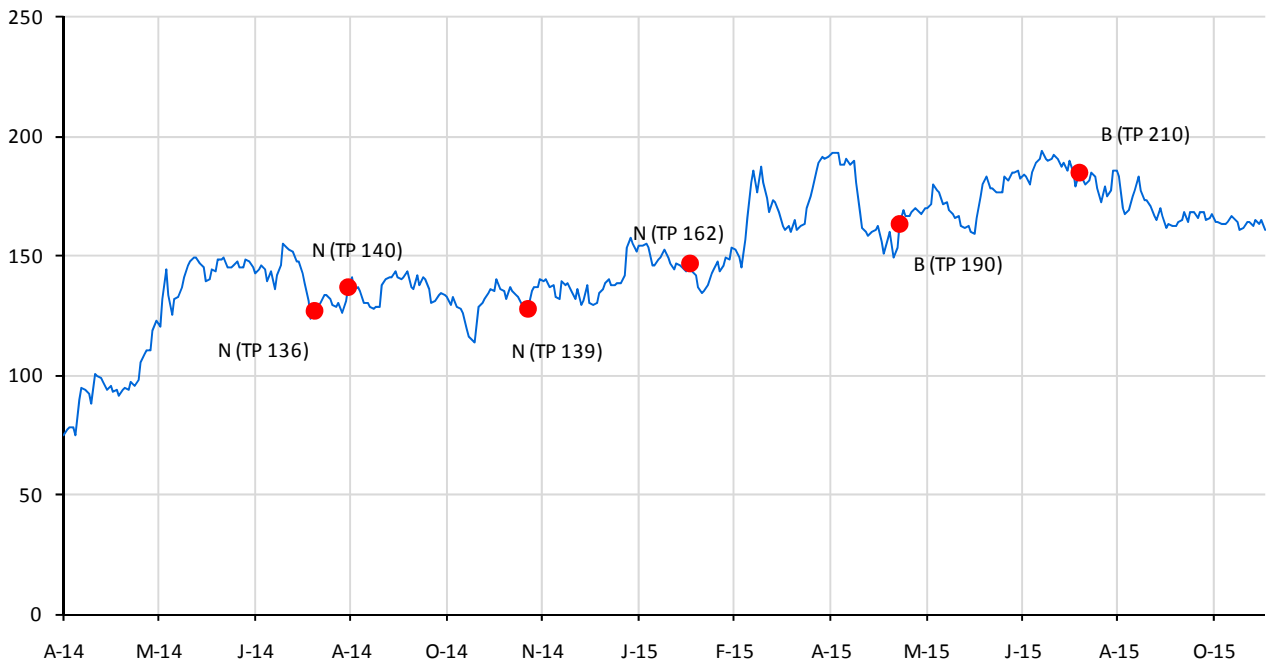
Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Pre-tax profit	1,237	782	1,484	2,275
Depreciation	1,389	1,517	2,487	3,501
Chg in working capital	-2,135	-1,766	-1,348	-2,587
Total tax paid	-702	-874	-1,382	-1,394
Cash flow from operating activities	-210	-341	1,241	1,794
Capital expenditure	-8,491	-8,864	-6,305	-3,375
Chg in investments	-23	502	0	0
Cash flow from investing activities	-8,514	-8,362	-6,305	-3,375
Free cash flow	-8,724	-8,703	-5,064	-1,581
Equity raised/(repaid)	164	385	5,000	0
Debt raised/(repaid)	7,391	6,662	1,808	1,837
Other financing activities	-450	0	0	0
Cash flow from financing activities	9,151	8,167	7,762	2,518
Net chg in cash	428	-536	2,698	937

Valuation Ratios

	FY14	FY15	FY16e	FY17e
Per Share data				
EPS (INR)	6.8	5.1	6.3	9.0
Growth, %	(62.2)	(24.9)	23.5	42.7
Book NAV/share (INR)	78.6	85.5	104.9	113.2
FDEPS (INR)	6.8	5.1	6.3	9.0
CEPS (INR)	16.6	14.7	19.6	27.8
CFPS (INR)	(2.4)	(1.6)	6.3	9.1
Return ratios				
Return on assets (%)	1.1	1.2	2.0	2.8
Return on equity (%)	8.7	6.0	6.0	8.0
Return on capital employed (%)	3.2	3.2	4.8	6.6
Turnover ratios				
Asset turnover (x)	0.4	0.5	0.5	0.6
Sales/Total assets (x)	0.1	0.2	0.2	0.2
Sales/Net FA (x)	0.2	0.2	0.2	0.3
Working capital days	-	-	-	-
Liquidity ratios				
Current ratio (x)	0.1	0.2	0.2	0.3
Quick ratio (x)	0.1	0.1	0.1	0.2
Interest cover (x)	1.9	1.3	1.3	1.4
Total debt/Equity (x)	2.6	2.9	2.1	2.0
Net debt/Equity (x)	2.5	2.8	1.9	1.8
Valuation				
PER (x)	24.1	32.1	26.0	18.2
Price/Book (x)	2.1	1.9	1.6	1.5
EV/Net sales (x)	3.2	2.8	2.5	2.0
EV/EBITDA (x)	14.5	12.6	8.2	6.1
EV/EBIT (x)	22.4	18.0	11.6	8.9

Source: Company, PhillipCapital India Research Estimates

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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