

ASHOKA BUILDCON

BUY

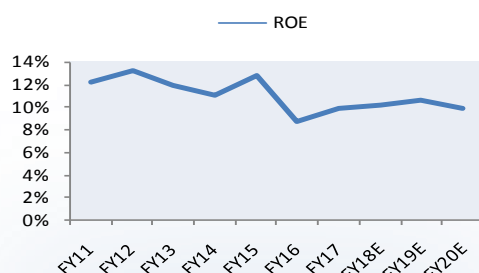
01-Feb-18

INDUSTRY - Cons. & Eng.
Bloomberg - ASBL IN
BSE Code - 533271
NSE Code - ASHOKA
NIFTY - 11027

Company Data

CMP	228
Target Price	296
Previous Target Price	-
Upside	30%
52wk Range H/L	268/171
Mkt Capital (Rs Cr)	4,272
Av. Volume ('000)	224

Improving RoE

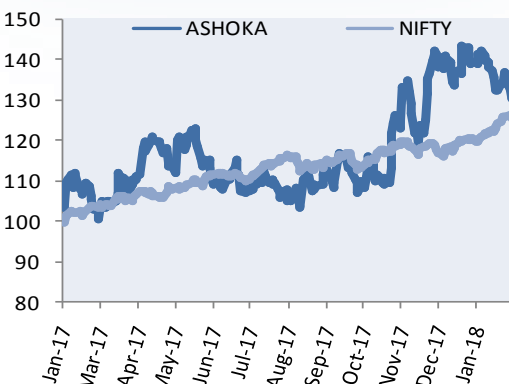


Shareholding patterns %

	3QFY18	2QFY18	1QFY18
Promoters	54.8	56.6	56.4
FII	5.8	5.9	7.8
DII	29.9	26.7	24.5
Others	9.0	11.0	11.0
Total	100	100	100

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	(6.8)	8.1	30.4
Rel.to Nifty	(11.6)	1.4	2.2



Key Highlights of the Report:

- ✓ Standalone Sales have up by 25.7% YoY to Rs.659 Cr backed by the strong execution of road EPC projects. Adjusted gross toll collection during the quarter was up 18% YoY to Rs.253 Cr compared to Rs.215 Cr (Qdii)
- ✓ Participated in Rs.16000 Cr worth of new projects and expect to win Rs.4000-5000 Cr of new projects in next 4-5 months. Initially competitive intensity was high but currently it has come down and now management witnessing more rational Bidding.
- ✓ Estimate EPC revenue and Toll collection growth of 18% and 7.8% CAGR respectively over FY17-20.
- ✓ We initiate our coverage with BUY rating and value stock at Rs.296 based on the SoTP method. EPC business at Rs.198 (15x FY20 EPS) and BOT business at Rs.98 (10x FY20 EV/EBITDA)

Financials/Valu	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	1,943	2,052	2,476	2,959	3,386
EBITDA	248	260	317	370	423
EBIT	181	209	269	322	375
PAT	148	184	208	241	247
EPS (Rs)	8	10	11	13	13
EPS growth (%)	-12%	24%	13%	16%	2%
ROE	9%	10%	10%	11%	10%
ROCE	9%	10%	12%	13%	14%
BV per share	91	100	110	121	133
P/B (X)	1.9	1.6	2.1	1.9	1.7
P/E (x)	22	16	21	18	17

Recent Development:- Current Bid Pipeliene

- ✓ During the first 9 months ASHOKA has bided for 1000 Km projects but unfortunately ended with NIL order inflow due to higher competitive intensity. But now competitive intensity has come down and management witness more rational bidding.
- ✓ Currently participated into Rs.16000 Cr worth of new projects and expect to win Rs.4000-5000 Cr of new projects.
- ✓ ASHOKA had submitted couple of bid worth of Rs.1500 Cr and is yet to open.
- ✓ Company is qualified for the Lucknow Balia and Nagpur Express projects and will bid for the projects. Total of 10 packages to be bid out.
- ✓ During the quarter ASHOKA has received incremental order of Rs.325 Cr from existing orders for increase in scope of work from various SPVs and Rs.125 Cr receipts of EPC contract from SPV of city gas distribution (CGD) projects. Work on CGD project expected to start from March and major revenue will come in from next year.

SANDIP JABUANI
sandip.jabuani@narnolia.com

Quarterly Performance

Financials	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales	524	610	723	379	659	26%	74%	1,943	2,052	6%
Other Income	12	43	9	11	17	44%	54%	98	72	-27%
COGS	423	503	578	286	532	26%	86%	1,564	1,645	5%
Employee Expenses	24	25	27	25	27	12%	10%	73	90	23%
Other Expenses	14	18	21	17	20	43%	19%	59	57	-3%
Total Expenditure	462	546	625	328	579	25%	77%	1,696	1,792	6%
EBITDA	62	64	98	51	80	28%	57%	248	260	5%
EBITDA M (%)	12%	10%	13%	13%	12%			13%	13%	
Depreciation	11	15	11	13	14	35%	11%	67	51	-24%
EBIT	51	49	86	38	65	27%	73%	181	209	16%
Intreset	9	18	13	12	13	42%	11%	67	47	-29%
Exceptional Item	-	-	-	-	-			-	-	
PBT	54	74	82	37	69	28%	87%	212	233	10%
Tax	11	8	21	4	17	53%	311%	64	49	-23%
PAT	43	66	62	33	52	22%	59%	148	184	24%
PAT %	8%	11%	9%	9%	8%			8%	9%	

Strong Revenue growth backed by robust execution

- ✓ ASHOKA has reported strong numbers during the quarters. Sales have up by 25.7% YoY to Rs.659 Cr backed by the strong execution of road EPC projects.
- ✓ Adjusted gross toll collection during the quarter was up 18% YoY to Rs.253 Cr compared to Rs.215 Cr (adj).
- ✓ Pickup in economic activities post GST, Increased mining activity on key projects Sambhalpur and Belgaum, shift in trade from Kolkata port to Haldia port (port traffic using Dhankuni to Karagpur road) led to toll collection growth.
- ✓ EBITDA has improved by 30 bps to Rs.80 Cr on account of healthy revenue. PAT margin was down by 20 bps due to higher tax rate. However PAT has grow by 21.8% to Rs.52 Cr compared to Rs.43
- ✓ Long time stalled projects Jharkhand Chaas and Islampur Bypass have started moving up. 90% of land is available at Jharkhand Chaas and we expect steady execution from next quarter.
- ✓ ASHOKA has witnessed on an average 15% traffic growth across the major toll projects. Traffic growth on Belgaum, Dhankuni, Bhandara, Durg, Jaora – Nayagaon and Sambalpur is 19%, 19%, 10%, 6%, 10% and 25% respectively.

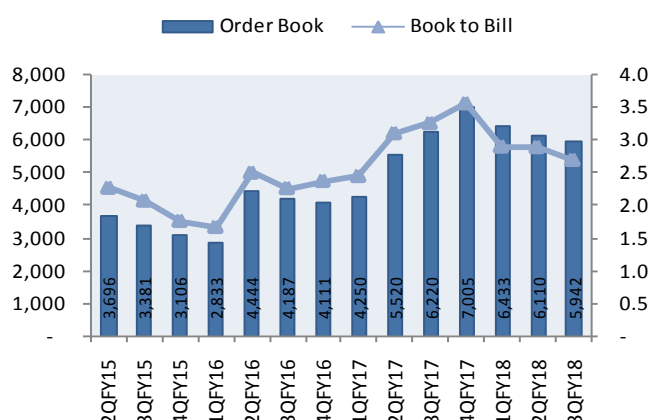
Gross Toll Collection	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YoY %	QoQ %
Belgaum - Dharwad	18	19	18	14	19	21	21	23	63%	11%
Dhankuni Karagpur	67	66	65	48	77	79	76	78	64%	3%
Bhandara Project	16	16	15	11	16	16	15	17	51%	12%
Durg Project	20	19	18	14	19	19	19	20	46%	9%
Jaora – Nayagaon	41	41	43	34	47	47	50	53	56%	5%
Sambalpur	12	12	12	10	14	15	14	17	72%	17%
Ahmednagar -	5	5	7	4	10	6	6	8	118%	25%
Wainganga Bridge	8	8	7	5	8	8	7	8	43%	10%
Others	16	17	16	13	27	22	24	24	93%	0%
Total	265	242	234	178	258	238	237	253	43%	7%

Order Book	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YOY %	QoQ %
Roads										
BOT	733	632	1,860	1,779	2,629	2,419	2,336	2,306	30%	-1%
EPC	2,558	2,927	2,909	2,760	2,485	2,232	2,046	1,921	-30%	-6%
Total Road	3,291	3,559	4,769	4,540	5,114	4,651	4,381	4,227	-7%	-4%
Power T&D	820	691	751	1,681	1,891	1,782	1,729	1,716	2%	-1%
Total	4,111	4,250	5,520	6,220	7,005	6,433	6,110	5,942	-4%	-3%

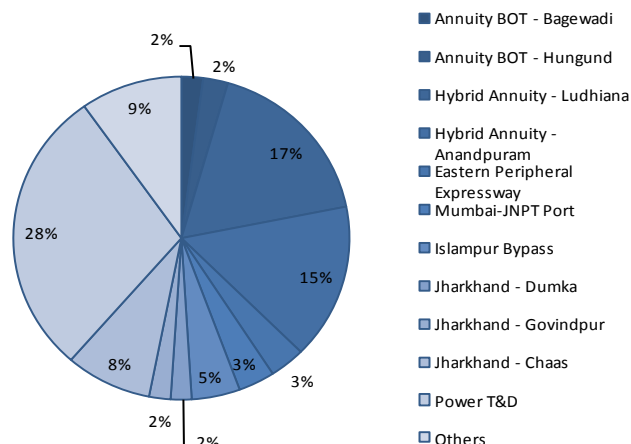
Strong Order book despite NIL order Intake

- ✓ Order inflow for the first 9 months was NIL due to higher competitive intensity in bidding. However ASHOKA has participated in Rs.16000 Cr worth of orders and expect to win Rs.4000-5000 Cr of new orders.
- ✓ Current order stand at Rs.5942 Cr, 2.7x of TTM revenue gives us confidence of healthy revenue visibility for the next two years.
- ✓ Long time stalled projects Jharkhand Chaas and Islampur Bypass have started moving up. Now, 90% of land is available for construction at Jharkhand Chaas and NHAI has decided to take up Islampur projects despite the agitation.

Order Book and Book to Bill trend



Order Book Break Up (Q3FY18)



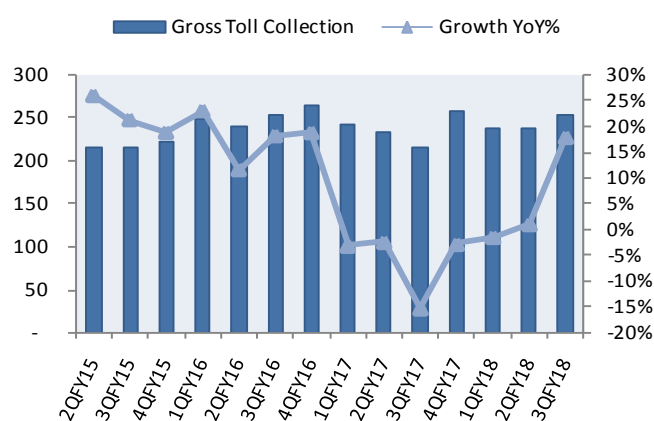
Concall Highlights:

- ✓ ASHOKA has participated in Rs.16000 Cr worth of projects and expect to win Rs.4000-5000 Cr
- ✓ Initially competitive intensity was high but currently it has come down.
- ✓ Pickup in economic activity post GST, increased mining activity on Sambhalpur , Belgum project and higher port traffic one key project led the toll collection and it will likely to continue for the next quarter.
- ✓ 90% land is available for Jharkhand Chaas project and project is moving up.
- ✓ NHAI will not terminate Islampur Bypass project despite the agitation. Company will claim losses due to time overrun as arbitration claim.
- ✓ Rs.120 Cr of equity requirement for FY19.
- ✓ Payment of Rs.230 Cr suppose to received in December but delayed and which received in Jan2018
- ✓ Tax rate will be 22-24% in FY19 and increased in FY20 as revenue from 80IA will be reduce.
- ✓ Maintain EBITDA M at 12.5-13% going ahead.
- ✓ Ashoka is qualified for Lucknow-Balia and Nagpur Express way and will bid for the projects.
- ✓ Company is in discussion with strategy partner for bid ToT.

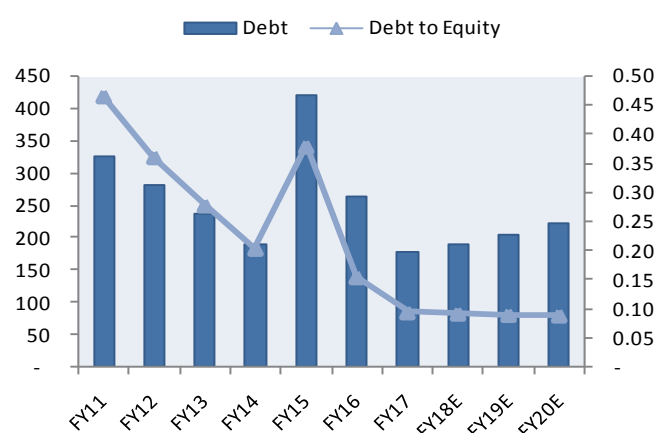
Investment Rationale:

- ✓ **Strong Order Book couple with robust Order pipeline:-** During the first 9 months ASHOKA has bid for 1000 Km projects but unfortunately ended with NIL order inflow due to higher competitive intensity. But now competitive intensity has come down and management witness more rational bidding. However, current order book stands at 2.7x of TTM revenue which provides strong revenue visibility for next two years. Additionally, couple stalled projects (Jharkhand Chaas and Islampur Bypass) have started moving up. 90% land is available for Jarkhand Chaas and we expect steady execution from next quarter. Currently ASHOKA has participated in Rs.16000 Cr worth of new projects and expect to win Rs.4000-5000 Cr of new projects in next 4-5 months. Under Bharatmala projects 30000 km of road projects will bid out in next 4 years. We believe that the ASHOKA is in sweet spot to tap the raising opportunity in road sector.
- ✓ **Toll collection growth momentum to continue:-** Pickup in economic activity post GST, increased mining activity on key large projects Sambhalpur and Belgaum and shift in port activity from Kolkata port to Haldia port (port traffic using Dhankuni Karagpur road)led to strong toll growth of 18% YoY (Adjusted) across the projects. We believe that the traffic growth in next quarter will continue to remain strong based on the lower base effect and increased economic activity. ASHOKA has received completion certificate for the entire work of Mudhol Nipani road project during the quarter and entitle to receive the annuity payment and management is expect to receive annuity payment before march. This will further improve toll/annuity revenue going ahead. We estimate that the toll collection will grow by 7% CAGR (not factored annuity payment) over FY17-20.
- ✓ **Healthy Balance Sheet with low Debt to Equity Ratio:-** Debt to equity ratio on standalone book is stand at 0.08x and self sufficient BOT projects provide enough headroom for the future growth. Working capital loan has shot up to Rs.173 Cr from Rs.69 Cr compared to last quarter due to delay in receipt of payment. Though the payment of Rs. 230 Cr has received in January 2018 and working capital loan is under control. We expect that the working capital loan will remain at this level. We believe that the steady toll collection growth, healthy cash generation from EPC business and strategic partnership will take-care equity requirement for upcoming HAM projects. We continue to estimate debt to equity position below 1:1.

Pick up in Economic activity post GST and project related benefit support healthy toll collection



Will Maintain Strong Balance Sheet Position



View and Valuation:-

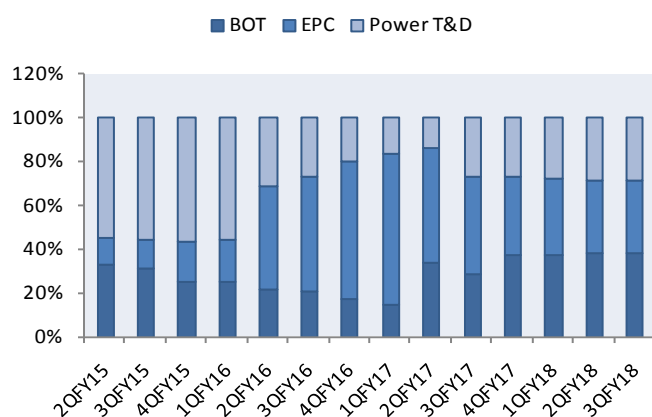
ASHOKA has posted strong set of numbers during the quarters backed by robust execution of road projects, recovery in economic activities post GST and some projects specific benefits. We continue to expect strong execution of road projects and toll collection, estimate EPC revenue and toll collection growth of 18% and 7.8% CAGR respectively over FY17-20.

During the first 9 months ASHOKA does not report any order inflow but company had participated into Rs.16000 Cr worth of new bids and expect to win Rs.4000-5000 Cr of orders in next 4-5 months. However, current order book stands at 2.7x of TTM revenue which provides strong revenue visibility for next two years. Additionally, couple stalled projects (Jharkhand Chaas and Islampur Bypass) have started moving up. 90% land is available for Jarkhand Chaas and we expect steady execution from next quarter. Pickup in economic activity post GST, increased mining activity at key projects Sambhalpur and Belgaum, shift in trade from Kolkata port to Haldia port (port traffic using Dhankuni to Karagpur road) will be key trigger for growth in toll collection.

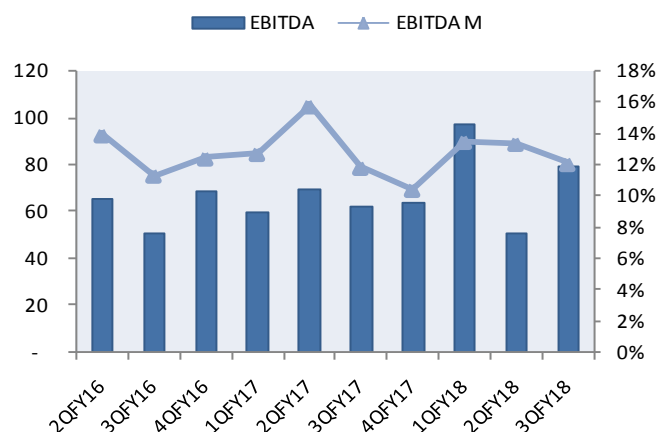
Short term borrowing has shot up to Rs.173 Cr compared to Rs.69 Cr due to delay in receivables. Payment of Rs.230 Cr should have been received in December but it come in January. As of now working capital loan is under control and we expect it will remain at this level going ahead. Well funded road assets and strong balance sheet position provides healthy growth opportunities going ahead.

ASHOKA Buildcon is in sweet spot to capitalize raising opportunities in road sector. Considering the healthy order book, strong balance sheet position and growing toll collection **we are bullish on the stock and initiate our coverage with "BUY" rating. We value stock on SoTP method and arrived at target price of Rs. 296. EPC business at Rs.198 (15x FY20 EPS of Rs.13.3) and BOT projects at Rs.98 per share (10x FY20 EV/EBITDA)**

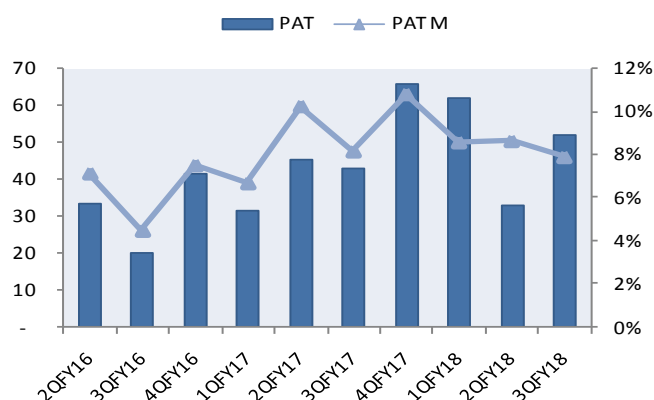
Segment wise Order Book (%)



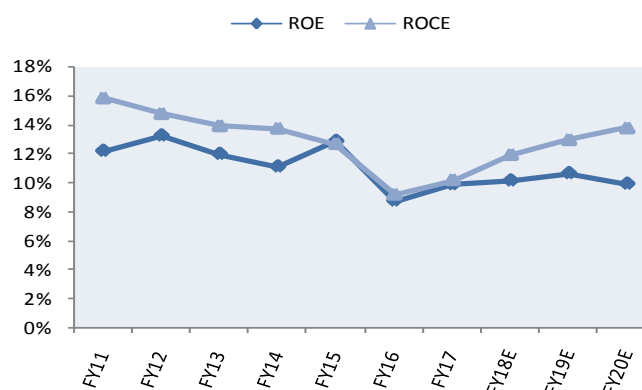
EBITDA M continue to be in range of 12-13%



PAT and PAT M Trend



Return Ratio to Improve



Financials Snap Shot

Income Statement				
	Rs in Crores			
Y/E March	FY17	FY18E	FY19E	FY20E
Revenue from Operation	2,052	2,476	2,959	3,386
Change (%)	6%	21%	20%	14%
EBITDA	260	317	370	423
Change (%)	5%	22%	17%	14%
Margin (%)	13%	13%	13%	13%
Dep & Amortization	51	48	48	48
EBIT	209	269	322	375
Interest & other finance cost	47	49	52	54
Other Income	72	47	47	53
EBT	233	267	317	374
Exceptional Item	-	-	-	-
Tax	49	59	76	127
Minority Int & P/L share of Ass.	-	-	-	-
Reported PAT	183	208	241	247
Adjusted PAT	183	208	241	247
Change (%)	23%	13%	16%	2%
Margin(%)	9%	8%	8%	7%

Key Ratios				
Y/E March	FY17	FY18E	FY19E	FY20E
ROE	10%	10%	11%	10%
ROCE	10%	12%	13%	14%
Asset Turnover	0.6	0.6	0.7	0.7
Debtor Days	105	105	100	100
Inventory Days	166	155	155	150
Payable Days	94	94	94	90
Interest Coverage	4.40	5.44	6.23	6.92
P/E	16	21	18	17
Price / Book Value	1.6	2.1	1.9	1.7
EV/EBITDA	12	14	12	10
FCF per Share	20	9	6	8
Dividend Yield	0.5%	0.4%	0.5%	0.5%

Balance Sheet				
	Rs in Crores			
Y/E March	FY17	FY18E	FY19E	FY20E
Share Capital	94	94	94	94
Reserves	1,771	1,958	2,176	2,399
Networth	1,864	2,052	2,269	2,492
Debt	177	190	205	223
Other Non Current Liab	202	202	202	202
Total Capital Employed	2,041	2,242	2,475	2,715
Net Fixed Assets (incl CWIP)	185	186	188	191
Non Current Investments	1,306	1,437	1,546	1,630
Other Non Current Assets	351	352	354	357
Non Current Assets	1,657	1,790	1,901	1,987
Inventory	931	1,051	1,257	1,391
Debtors	588	709	811	928
Cash & Bank	64	85	82	143
Other Current Assets	198	208	246	247
Current Assets	1,780	2,053	2,395	2,709
Creditors	528	637	761	835
Provisions	44	62	74	84
Other Current Liabilities	355	433	518	592
Curr Liabilities	1,195	1,399	1,620	1,779
Net Current Assets	586	654	776	929
Total Assets	3,438	3,842	4,296	4,696

Cash Flow Statement				
	Rs in Crores			
Y/E March	FY17	FY18E	FY19E	FY20E
PBT	233	267	317	374
(inc)/Dec in Working Capital	212	(47)	(125)	(93)
Non Cash Op Exp	51	48	48	48
Interest Paid (+)	47	-	-	-
Tax Paid	72	59	76	127
others	(16)	-	-	-
CF from Op. Activities	455	209	164	202
(inc)/Dec in FA & CWIP	(84)	(50)	(50)	(50)
Free Cashflow	371	159	114	152
(Pur)/Sale of Investment	132	131	109	84
others	57	-	-	-
CF from Inv. Activities	(158)	(181)	(159)	(134)
inc/(dec) in NW	-	-	-	-
inc/(dec) in Debt	292	13	15	18
Interest Paid	42	-	-	-
Dividend Paid (inc tax)	15	20	24	24
others	-	-	-	-
CF from Fin. Activities	(184)	(7)	(8)	(7)
Inc(Dec) in Cash	112	21	(3)	61
Add: Opening Balance	(172)	64	85	82
Closing Balance	(59)	85	82	143



Narnolia Securities Ltd

201 | 2nd Floor | Marble Arch Building | 236B-AJC Bose
Road | Kolkata-700 020 , Ph : 033-40501500

email: narnolia@narnolia.com,

website : www.narnolia.com

Risk Disclosure & Disclaimer: This report/message is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Narnolia Securities Ltd. (Hereinafter referred as NSL) is not soliciting any action based upon it. This report/message is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form. The report/message is based upon publicly available information, findings of our research wing "East wind" & information that we consider reliable, but we do not represent that it is accurate or complete and we do not provide any express or implied warranty of any kind, and also these are subject to change without notice. The recipients of this report should rely on their own investigations, should use their own judgment for taking any investment decisions keeping in mind that past performance is not necessarily a guide to future performance & that the value of any investment or income are subject to market and other risks. Further it will be safe to assume that NSL and /or its Group or associate Companies, their Directors, affiliates and/or employees may have interests/ positions, financial or otherwise, individually or otherwise in the recommended/mentioned securities/mutual funds/ model funds and other investment products which may be added or disposed including & other mentioned in this report/message.