

Reduction in assured IRR to SBI-M lowers burden

Event

Ashoka Buildcon (ABL) has signed a revised agreement with SBI-Macquarie (SBI-M) in respect of SBI-M's Rs8bn investment in ACL. The revised agreement caps the assured valuation at ~Rs12bn (till Dec-21) from Rs15.3bn earlier, thereby lowering the burden for ABL by Rs3.3bn (10% of market cap) – positive for ABL. Maintain BUY.

- SBI-M invested Rs8bn in ACL over Jan-13 to Dec-15 with a guaranteed IRR of 12% till June-19 post which there has been no IRR accretion. This implied an obligation to return a minimum of Rs15.3bn in valuation to SBI-M upon sale of the underlying assets or through transfer/swap of shareholding in the underlying assets so that SBI-M ultimately gets at least its minimum valuation.
- ABL has now renegotiated this return obligation to a cap of Rs12bn till Dec-21. Beyond Dec-21, there will be further interest on Rs12bn as mutually decided, subject to the interest being paid out of ACL's asset sale proceeds. The implied XIRR for SBI-M is 5.1% assuming full payout on 31st Dec-21.
- It has been once again emphasized that the consideration (including interest) as agreed is subject to the receipt of proceeds from ACL's asset sale process or restructuring of the investments by swapping into identified assets/SPV of ACL. In case of no deal situation, the original rights of SBI-M will be reinstated.

Asset returns weaker than envisaged; renegotiation lowers burden on ABL - positive

ACL's asset portfolio has not generated adequate returns and the guaranteed IRR obligation to SBI-M further diminishes ABL's value of investments. This has also been a key overhang on the stock. Now, at the margin, the burden on ABL has been lowered by Rs3.3bn, which is a positive. More so, the indicated timeframe of the new arrangement till Dec-21 implies greater certainty of tangible progress in asset sale process. SBI-M's willingness to negotiate a lower return could be driven by a practical consideration to ensure a deal is consummated and that it can finally exit this investment. Also, the IRR accretion for SBI-M has stopped with effect from June-19 and delaying its exit is unlikely to enhance the value of investment. GMR Infra had similarly renegotiated its committed IRRs to its private equity investors in the Energy and Airports vertical.

We have an equity value of Rs20.5bn for ACL (net of NCD of Rs2.5bn in ACL holding company; does not include valuation of Rs3.3bn for 36.3% stake in Jaora Nayagaon directly held by ABL and also does not include 26% stake in the asset directly held by SBI-M). The total equity and loans (including accrued interest) invested in ACL is ~Rs31bn and we expect there could be a significant write-off of this investment based on the assets included in the sale process and the actual valuation of the transaction. However, valuations are attractive at 10x FY23E EPC earnings (prior to interest income) without any adjustment for value of investments in BOT assets. With valuations of peer sets moving up to 14-18x on EPC basis, the stock has room to rerate. Maintain BUY.

Financial and valuation summary

YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenues	38,206	39,374	38,175	44,318	51,772
EBITDA	5,152	5,856	5,195	5,309	6,215
EBITDA margin (%)	13.5	14.9	13.6	12.0	12.0
Adj. Net profit	3,332	3,871	4,081	4,260	4,785
Adj. EPS (Rs)	11.9	13.8	14.5	15.2	17.0
EPS growth (%)	40.6	16.2	5.4	4.4	12.3
PE (x)	11.5	8.5	8.0	7.7	6.9
EV/EBITDA (x)	1.5	0.7	0.9	1.0	0.6
PBV (x)	1.5	1.3	1.1	1.0	0.9
RoE (%)	16.1	16.1	14.6	13.3	13.2
RoCE (%)	12.4	12.7	12.9	12.0	12.2

Source: Company, Centrum Broking

Event Update

India I Infrastructure

17 October, 2021

BUY

Price: Rs117

Target Price: Rs200

Forecast return: 72%

Institutional Research

Market Data

Bloomberg:	ASBL IN
52 week H/L:	125/60
Market cap:	Rs32.8bn
Shares Outstanding:	280.7mn
Free float:	45.5%
Avg. daily vol. 3mth:	2,372,382

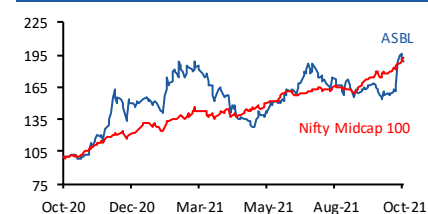
Source: Bloomberg

Changes in the report

Rating:	BUY; Unchanged
Target price:	Rs200; +23%
EPS:	FY22E: Rs15.2; Unchanged FY23E: Rs17; Unchanged

Source: Centrum Broking

ASBL relative to Nifty Midcap 100



Source: Bloomberg

Shareholding pattern

	Jun-21	Mar-21	Dec-20	Sep-20
Promoter	54.5	54.5	54.5	54.5
FII	3.5	4.0	3.2	3.2
DII	24.3	27.4	27.6	27.4
Public/other	17.7	14.2	14.6	15.0

Source: BSE



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Infrastructure

Thesis Snapshot

Estimate revision

(Rs mn)	FY22E New	FY22E Old	% chg	FY23E New	FY23E Old	% chg
Revenue	44,318	44,318	-	51,772	51,772	-
EBITDA	5,309	5,309	-	6,215	6,215	-
EBITDA margin (%)	12.0	12.0	-	12.0	12.0	-
Adj. PAT	4,260	4,260	-	4,785	4,785	-
Diluted EPS (Rs)	15.2	15.2	-	17.0	17.0	-

Source: Centrum Broking

ASBL versus NIFTY Midcap 100

	1m	6m	1 year
ASBL IN	15.9	28.2	88.3
NSE Midcap 100	7.7	38.1	95.8

Source: Bloomberg, NSE

Key assumptions

Rs mn	FY20	FY21	FY22E	FY23E
Order inflows	25,809	24,910	55,000	60,000
EBITDA Margins	14.9%	13.6%	12.0%	12.0%
Capex	993	278	500	850
NWC days (ex-cash and L&A to subs)	9	21	25	25

Source: Centrum Broking

Valuations

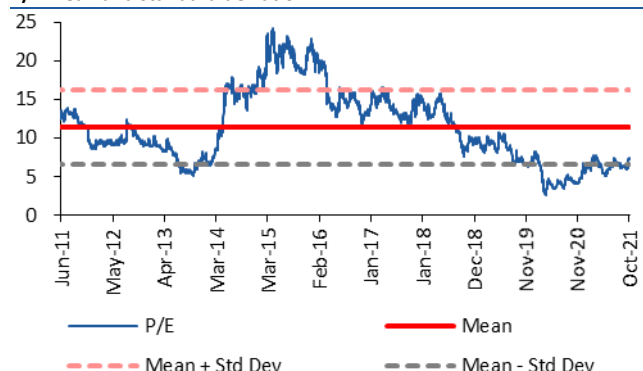
We value the EPC business at Rs152/share based on 13x FY23E core (without other income) earnings of Rs11.7/share. We value BOT and HAM assets at Rs48/share. Our SOTP-based PT for ABL is Rs200, revised from Rs163 earlier. We revise our target multiple for ABL to 13x from 11x earlier on greater clarity on conclusion of its long pending asset sale transaction, which has also been a key overhang. Our target valuation still remains confined by need for clarity on future capital allocation decisions (foray into CGD is a dampener).

Valuations	Rs/share
EPC business: 13x FY23 Core PAT*	152
Value of BOT and HAM assets	48
Target Price	200

*: [Core PAT = (PBT-Other income) x (1-tax rate)]

In Rs	FY20	FY21	FY22E	FY23E
Adjusted EPS	13.8	14.5	15.2	17.0
Core EPS (ex-other income)	10.4	9.5	10.0	11.7
Core P/E (x)	10.5	7.9	11.6	10.0

P/E mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap (Rs mn)	EPS CAGR (FY21-23E) (%)	P/E (x)			P/B (x)			EV/EBITDA (x)			RoE (%)	Adj P/E (x)^
			FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY23E
Ashoka Buildcon	32,929	8.3	7.9*	11.6*	10.0*	0.7	1.0	0.9	4.6	6.9	5.7	14.6	5.9*
GR Infraprojects	1,93,296	16.8	NA	25.6	18.1	NA	4.4	3.6	NA	15.1	11.6	24.3	16.1
KNR Constructions	85,931	31.1	25.1	29.0	18.2	2.1	4.0	3.3	6.4	14.5	10.7	15.7	15.9
PNC Infratech	96,844	24.2	11.9	20.5	17.4	1.5	2.9	2.5	5.9	11.9	10.1	13.3	14.8
HG Infra	45,773	23.9	6.5	15.6	14.1	1.3	3.5	2.8	3.4	9.0	8.0	22.8	12.8

Source: Company, Centrum Broking; ^: PE adjusted for value of assets; *: Core P/E

Exhibit 1: Investments in ACL and Chennai ORR

(A) Loans (Rs mn)	Mar-21
Ashoka Concessions (ACL)	9,127
Loan to Durg (ACL)	139
Loan to Bhandara (ACL)	416
Loans to Kandi Ramsanpalle (ACL)	344
Sub-total	10,025
(B) Equity investment in ACL	138
(C) CCDs to ACL	8,781
Investments by ABL in ACL (A+B+C)	18,945
Investments by ABL in Chennai ORR	2,217
Accrued interest (approximate)	1,839
Total Investments by ABL in ACL + Chennai ORR	23,000
Investment by SBI-Macquarie in ACL	8,000
Grand Total	31,000

Source: Company, Centrum Broking

Exhibit 2: SOTP based price target of Rs200

In Rs mn	Basis of valuation	Base value	Multiple	Equity value	ABL's value	Rs/share
Construction	PEx FY23E core PAT*	3,289	13.0	42,623	42,623	152
ACL assets	NPV + P/B			23,027		
Less: NCD in ACL				2,500		
Net value of ACL				20,527		
Less: Guaranteed return to SBI-M				12,000		
Residual value for ABL				8,527	8,527	30
ABL assets	NPV				5,119	18
Total					56,269	200

Source: Company, Centrum Broking; *: [Core PAT = (PBT-Other income) x (1-tax rate)]

Exhibit 3: Value of ACL assets

Rs mn	Equity value	ACL's stake	ACL value
NH - 6 - Durg	1,490	100%	1,490
NH - 6 - Bhandara	798	100%	798
Jaora - Nayagaon	9,215	37.7%	3,474
Sambalpur Baragarh	1,471	100%	1,471
Chennai ORR	5,383	50%	2,692
Dhankuni Kharagpur	5,499	100%	5,499
Belgaum Dharwad	743	100%	743
10 HAM assets	6,860	100%	6,860
Total			23,027

Source: Company, Centrum Broking

Exhibit 4: Value of ABL assets

Rs mn	Equity value	ACL's stake	ACL value
Jaora - Nayagaon (through ABL)	9,215	36.3%	3,342
Mudhol Nipani	685	100%	685
Katni bypass	281	100%	281
Bagewadi Saundatti	439	100%	439
Hungud Talikot	372	100%	372
Total			5,119

Source: Company, Centrum Broking

P&L					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenues	38,206	39,374	38,175	44,318	51,772
Operating Expense	30,300	29,975	29,791	35,567	41,766
Employee cost	1,490	1,820	1,685	1,849	2,038
Others	1,265	1,723	1,505	1,593	1,753
EBITDA	5,152	5,856	5,195	5,309	6,215
Depreciation & Amortisation	763	1,111	872	769	928
EBIT	4,389	4,745	4,323	4,540	5,287
Interest expenses	907	855	772	771	888
Other income	1,157	1,449	1,921	1,924	1,995
PBT	4,639	5,340	5,472	5,693	6,394
Taxes	1,307	1,468	1,391	1,433	1,609
Effective tax rate (%)	28.2	27.5	25.4	25.2	25.2
PAT	3,332	3,871	4,081	4,260	4,785
Minority/Associates	0	0	0	0	0
Recurring PAT	3,332	3,871	4,081	4,260	4,785
Extraordinary items	(470)	0	0	0	0
Reported PAT	2,862	3,871	4,081	4,260	4,785
Ratios					
YE Mar	FY19A	FY20A	FY21A	FY22E	FY23E
Growth (%)					
Revenue	56.1	3.1	(3.0)	16.1	16.8
EBITDA	75.6	13.7	(11.3)	2.2	17.1
Adj. EPS	40.6	16.2	5.4	4.4	12.3
Margins (%)					
Gross	20.7	23.9	22.0	19.7	19.3
EBITDA	13.5	14.9	13.6	12.0	12.0
EBIT	11.5	12.1	11.3	10.2	10.2
Adjusted PAT	8.7	9.8	10.7	9.6	9.2
Returns (%)					
ROE	16.1	16.1	14.6	13.3	13.2
ROCE	12.4	12.7	12.9	12.0	12.2
ROIC	17.7	17.3	16.5	14.0	13.9
Turnover (days)					
Gross block turnover ratio (x)	5.4	5.2	5.7	6.1	6.4
Debtors	122	139	137	127	127
Inventory	18	19	20	19	20
Creditors	170	165	141	123	119
Net working capital	133	132	178	195	190
Solvency (x)					
Net debt-equity	0.3	0.1	0.1	0.1	0.1
Interest coverage ratio	5.7	6.9	6.7	6.9	7.0
Net debt/EBITDA	1.4	0.2	0.6	0.7	0.4
Per share (Rs)					
Adjusted EPS	11.9	13.8	14.5	15.2	17.0
BVPS	78.8	92.6	107.1	121.3	137.3
CEPS	14.6	17.7	17.6	17.9	20.4
DPS	0.0	0.0	0.0	1.0	1.0
Dividend payout (%)	0.0	0.0	0.0	6.6	5.9
Valuation (x)					
P/E	11.5	8.5	8.0	7.7	6.9
P/BV	1.5	1.3	1.1	1.0	0.9
EV/EBITDA	9.0	5.5	4.6	6.9	5.7
Dividend yield (%)	0.0	0.0	0.0	1.0	1.0

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Equity share capital	1,404	1,404	1,404	1,404	1,404
Reserves & surplus	20,717	24,586	28,664	32,643	37,147
Shareholders fund	22,120	25,989	30,067	34,047	38,551
Minority Interest	0	0	0	0	0
Total debt	7,883	4,335	4,418	5,168	3,868
Non Current Liabilities	1,899	2,074	2,074	2,074	2,074
Def tax liab. (net)	-518	-475	-515	-515	-515
Total liabilities	31,385	31,923	36,044	40,773	43,977
Gross block	7,079	7,596	7,952	8,452	9,302
Less: acc. Depreciation	-3,280	-4,105	-5,098	-5,867	-6,794
Net block	3,799	3,491	2,854	2,585	2,508
Capital WIP	55	95	17	17	17
Net fixed assets	3,854	3,586	2,871	2,603	2,525
Non Current Assets	0	0	0	0	0
Investments	13,640	14,112	14,585	14,585	14,585
Inventories	1,527	1,534	1,717	2,064	2,411
Sundry debtors	15,513	14,440	14,200	16,634	19,149
Cash & Cash Equivalents	550	2,911	1,364	1,586	1,194
Loans & advances	14,563	13,232	16,356	19,680	22,152
Other current assets	2,920	2,830	3,263	4,695	6,300
Trade payables	15,516	11,591	10,867	12,606	14,638
Other current liab.	4,967	8,228	6,570	7,649	8,936
Provisions	700	903	875	818	764
Net current assets	13,889	14,225	18,588	23,586	26,868
Total assets	31,385	31,923	36,044	40,773	43,977

Cashflow					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Profit Before Tax	4,169	5,340	5,472	5,693	6,394
Depreciation & Amortisation	763	1,111	872	769	928
Net Interest	907	855	772	771	888
Net Change – WC	(2,941)	2,654	(2,510)	(2,226)	(1,916)
Direct taxes	(1,307)	(1,468)	(1,391)	(1,433)	(1,609)
Net cash from operations	1,749	8,666	3,215	3,574	4,684
Capital expenditure	(2,146)	(557)	(278)	(500)	(850)
Acquisitions, net	-	-	-	-	-
Investments	(5,529)	(1,101)	(3,872)	(2,550)	(1,757)
Others	1,117	(173)	-	-	-
Net cash from investing	(6,558)	(1,831)	(4,151)	(3,050)	(2,607)
FCF	(4,809)	6,835	(935)	524	2,077
Issue of share capital	-	-	-	-	-
Increase/(decrease) in debt	6,284	(3,549)	83	750	(1,300)
Dividend paid	-	-	-	(281)	(281)
Interest paid	(907)	(855)	(772)	(771)	(888)
Others	-	-	-	-	-
Net cash from financing	5,377	(4,403)	(689)	(302)	(2,469)
Net change in Cash	568	2,432	(1,624)	222	(392)

Source: Company, Centrum Broking

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Source: Bloomberg

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