ANANDRATHI

India I Equities

Infrastructure

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

27 May 2022

Ashoka Buildcon

Going good, Inflation, key monitorable; retaining a Buy

Rating: **Buy**
Target Price: Rs.152
Share Price: Rs.71

Its FY22 revenue hitting a new high showcases Ashoka's good execution abilities, and that this is key to its core strategy. Thus, it is poised to benefit from the recent significant orders added and the resultant life-high OB. The balance sheet, the next key requisite for any better scale of operations, is also in good form, and appears set to turn even better with the recent proposed arrangements (two distinct transactions) to monetise five BOT-toll assets and a BOT-annuity. As capital churn is a priority, more monetisations are sought. We maintain our Buy rating based on the strong assurance, a well-set balance sheet and strategic asset monetisations.

More monetisations. The Q3 FY22 agreement for the five BOT-toll assets has followed a share-purchase agreement for the Chennai BOT-annuity. Entailing an envisaged ~Rs6.9bn (Ashoka' share: ~Rs4.5bn), management looks to close the transaction with the NIIF by end-Q1 or early Q2. The Jaora-Naygaon BOT-toll, too, is on the block, and the company seeks to monetise hybrid annuities as well. The surplus from asset sales is likely to be first used for business needs; any balance could be considered for special dividend/buy-back.

Strong additions, ample assurance. With a raft of orders in Q4 FY22, full-year additions were its single-year best, and the momentum persists with two additions in FY23. With these, the current OB of ~Rs146bn is at a life high, and imply a healthy assurance of ~3.2x FY22 revenue. The intent to add more stays; consequently, additions are targeted at ~Rs100bn in FY23.

Net debt trimmed. Q4 cash PAT of ~Rs2bn, and ~Rs2bn q/q lower gross unbilled revenues helped prune standalone net debt ~Rs1.9bn q/q to ~Rs3.2bn (on 31st Mar'22). The balance appears to have been used to meet equity infusion needs, capex required and working capital needs for a sequentially higher scale.

Valuation. We have reviewed our estimates for prevailing inflationary pressures, more equity infusion needed (on a new hybrid annuity addition) and the raised capex guidance. Consequently, our FY23e earnings are down ~12%, and ~8% for FY24. Our revenue estimate are largely retained. On our revised estimates, the stock (excl. investments) is available at 3.3x FY24e core construction EPS. **Risk.** Slower-than-expected execution.

Key financials (YE Mar)	FY20	FY21	FY22P	FY23e	FY24e
Sales (Rs m)	39,374	38,175	45,915	52,530	61,689
Adj. Net Income (Rs m)	3,871	4,081	4,610	3,317	4,017
EPS (Rs)	13.8	14.5	16.4	11.8	14.3
Growth (%)	16.2	5.4	12.9	-28.0	21.1
P/E (x)	3.0	7.0	5.2	6.0	5.0
EV / EBITDA (x)	2.2	6.1	5.6	4.2	3.5
P/BV (x)	0.4	1.0	0.9	0.7	0.6
RoE (%)	16.1	14.6	-10.8	11.6	12.4
RoCE (%)	20.9	19.6	19.2	16.0	17.2
Net debt / equity (x)	0.1	0.1	0.2	0.1	0.1

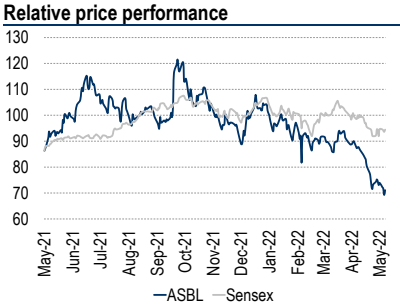
Source: Company, Anand Rathi Research *P: Provisional*

Key data	ASBL IN / ABDL.BO
52-week high / low	Rs125 / 69
Sensex / Nifty	54253 / 16170
3-m average volume	$0.9m
Market cap	Rs20bn / $257m
Shares outstanding	281m

Shareholding pattern (%)	Mar-22	Dec-21	Sep-21
Promoters	54.5	54.5	54.5
- of which, Pledged	-	-	-
Free float	45.5	45.5	45.5
- Foreign institutions	2.1	2.4	2.8
- Domestic institutions	21.5	21.9	23.0
- Public	21.9	21.3	19.7

Estimates revision (%)	FY23e	FY24e
Sales	0.2	0.4
EBITDA	-6.4	-3.8
EPS (Rs)	-11.5	-8.4

Relative price performance



Source: Bloomberg

Prem Khurana
Research Analyst

Meet Parikh
Research Associate

Quick Glance – Financials and Valuations (standalone)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22P	FY23e	FY24e
Order backlog	83,792	81,670	1,37,309	1,52,460	1,70,335
Order inflows	36,914	34,907	99,606	65,656	77,457
Net revenues	**39,374**	**38,175**	**45,915**	**52,530**	**61,689**
Growth (%)	3.1	-3.0	20.3	14.4	17.4
Direct costs	29,975	29,791	38,011	42,854	50,760
SG&A	3,543	3,189	2,878	3,880	4,017
EBITDA	**5,856**	**5,195**	**5,025**	**5,795**	**6,912**
EBITDA margins (%)	14.9	13.6	10.9	11.0	11.2
Depreciation	1,111	872	697	806	924
Other income	1,449	1,921	1,988	442	487
Interest expenses	855	772	856	998	1,107
PBT	5,340	5,472	5,460	4,433	5,368
Effective tax rates (%)	27.5	25.4	15.6	25.2	25.2
+ Associates / (Minorities)	-	-	-	-	-
Net income	3,871	4,081	-3,086	3,317	4,017
Adjusted income	3,871	4,081	4,610	3,317	4,017
WANS	281	281	281	281	281
FDEPS (Rs / sh)	13.8	14.5	16.4	11.8	14.3

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY20	FY21	FY22P	FY23e	FY24e
Share capital	1,404	1,404	1,404	1,404	1,404
Net worth	25,989	30,067	26,987	30,304	34,321
Debt	4,335	4,396	5,593	5,982	6,011
Minority interest	-	-	-	-	-
DTL / (Assets)	-475	-515	-582	-582	-582
Capital employed	**29,849**	**33,949**	**31,998**	**35,704**	**39,749**
Net tangible assets	3,237	2,682	2,622	3,065	3,249
Net intangible assets	253	172	167	166	166
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	95	17	17	17	17
Investments (strategic)	14,112	14,585	10,628	10,628	10,628
Investments (financial)	-	-	-	-	-
Current assets (excl. cash)	32,035	35,537	38,204	45,867	53,481
Cash	2,911	1,364	1,440	1,546	1,601
Current liabilities	22,795	20,408	21,081	25,585	29,393
Working capital	9,240	15,129	17,123	20,282	24,088
Capital deployed	**29,849**	**33,949**	**31,998**	**35,704**	**39,749**
Contingent liabilities	7,785	7,593	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22P	FY23e	FY24e
PBT+ Net interest expense	4,745	4,323	4,328	4,989	5,988
+ Non-cash items	1,111	872	697	806	924
Oper. prof. before WC	5,856	5,195	5,025	5,795	6,912
- Incr. / (decr.) in WC	-2,200	5,889	1,995	3,158	3,806
Others incl. taxes	1,742	1,233	851	1,116	1,351
Operating cash-flow	6,315	-1,927	2,180	1,521	1,755
- Capex (tang.+ intang.)	843	158	632	1,249	1,108
Free cash-flow	5,472	-2,084	1,548	273	647
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	-	-	-	-	-
+ Equity raised	-	-	-	-	-
+ Debt raised	-3,505	22	1,129	389	29
- Fin investments	471	473	-3,957	-	-
- Net int. expense + Misc.	-866	-988	6,558	556	620
Net cash-flow	2,361	-1,547	76	105	55

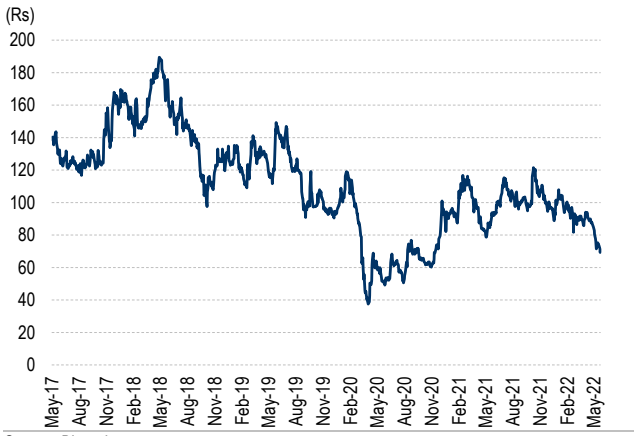
Source: Company, Anand Rathi Research P: Provisional

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22P	FY23e	FY24e
P/E (x)	3.0	7.0	5.2	6.0	5.0
EV / EBITDA (x)	2.2	6.1	5.6	4.2	3.5
EV / Sales (x)	0.3	0.8	0.6	0.5	0.4
P/B (x)	0.4	1.0	0.9	0.7	0.6
RoE (%)	16.1	14.6	-10.8	11.6	12.4
RoCE (%)	20.9	19.6	19.2	16.0	17.2
Sales / FA (x)	11.0	13.3	16.4	16.2	18.0
DPS (Rs / sh)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Dividend payout (%)	-	-	-	-	-
Net debt / equity (x)	0.1	0.1	0.2	0.1	0.1
Receivables (days)	134	136	88	100	107
Inventory (days)	14	16	15	15	15
Payables (days)	71	76	73	75	75
CFO : PAT %	163.1	-47.2	47.3	45.9	43.7

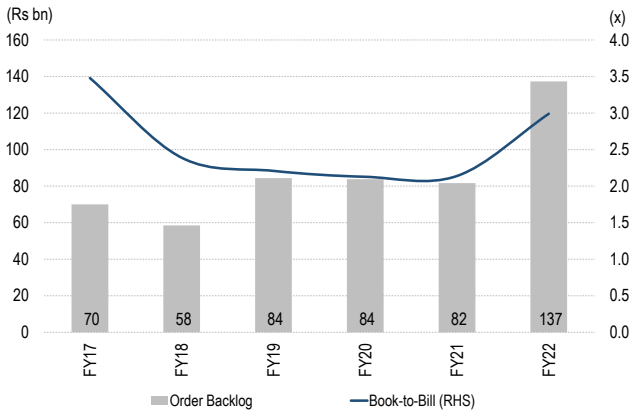
Source: Company, Anand Rathi Research P: Provisional

Fig 5 – Price performance



Source: Bloomberg

Fig 6 – Yearly OB trend



Source: Company

Result / Concall Highlights

Income statement

- **Q4 revenue from operations.** The comforting pace of execution at existing orders and the gradually stabilising operations at the recently added orders mean Ashoka' Q4 revenue from operations was up ~12% y/y to ~Rs15.6bn. Sequentially, the ~41% strong growth appears to be on a combination of seasonality (Q4 generally is strong, a push from authorities to exhaust allocated budgets) and the commencement of revenue recognition at some of the recently added orders.
  - The Q4 FY22 revenue from operations met management's upper-end of the guided-to ~Rs13.6bn-15.5bn.
  - With most of its earlier order backlog moving, and some of the recently added orders likely to start contributing in the course of the year, management expects 20-25% higher revenue in FY23. The FY23 targeted strong additions, too, would have some role to play.
  - Power T&D revenue (share at ~17%) rose ~266% y/y, ~445% q/q, and emerged as one of the key contributors to the Q4 growth figures. But roads, with ~71% share, was still dominant, and up ~7% y/y, ~22% q/q.

Fig 7 – Standalone financial highlights

(Rs m)	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	% Y/Y	% Q/Q
Sales	5,724	8,775	9,807	13,870	10,114	9,171	11,037	15,592	*12.4*	*41.3*
EBITDA	819	1,309	1,055	2,012	1,199	1,055	1,207	1,563	*-22.3*	*29.5*
EBITDA margins (%)	14.3	14.9	10.8	14.5	11.9	11.5	10.9	10.0	*-448bps*	*-91bps*
Interest	166	197	183	225	164	210	249	234	*3.7*	*-6.2*
Depreciation	223	218	216	216	161	166	167	204	*-5.5*	*22.1*
Other income	483	498	473	466	472	590	291	635	*36.2*	*118.4*
Exceptional Item	-	-	-	-	-	-	-7,696	-	-	-
PBT	913	1,393	1,129	2,037	1,347	1,271	-6,614	1,761	*-13.6*	*-126.6*
Tax	222	346	272	546	334	315	321	-119	*-121.8*	*-137.1*
PAT	691	1,047	856	1,492	1,013	956	-6,936	1,880	*26.0*	*-127.1*
Adj. PAT	691	1,047	856	1,492	1,013	956	760	1,880	*26.0*	*147.2*
Adj. EPS	2.5	3.7	3.1	5.3	3.6	3.4	2.7	6.7	*26.0*	*147.2*

Source: Company

- **Input price pressures trim margins.** With operations still stabilising at the recently added orders that better reflect current input prices, and earlier orders still dominating the revenue composition, the EBITDA margin compressed to its 20-quarter low of ~10% (from ~14.5% in the quarter a year ago, and ~10.9% the quarter prior). The presence of fixed-price contracts in the order backlog (share pegged at ~10%), too, suppressed the margin.
  - The y/y performance is not truly comparable. The corresponding quarter last year included final cost adjustments for near-complete projects/projects completed in Q4 FY21 (and consequent reversal of contingencies accounted for in prior periods), ECL write-backs in power T&D and reversed Covid-19 provisions of earlier quarters
  - Sequentially, the margin compression is more on account of higher other operating expenses than gross margin compression (only a ~23bp impact). Management attributed part of this to a gradual

return to pre-Covid level spending (Covid-led cost cuts receding) and high CSR spends during the quarter. We believe a part of the higher other operating expenses are attributable to trade receivables written off and payables written back.

- With its recently added orders bid for in an inflationary context, management expects these to better reflect current input prices and, consequently, looks at the EBITDA margin returning to 11-12%. The recent respite in key commodities and government measures (petrol duty cut and duties imposed on steel exports) would help.

- **Net margin at ~12%.** The compressed EBITDA margin notwithstanding, the earnings performance was healthy, supported by higher revenue, more other income and contained finance costs. The net tax reversal, too, helped augment earnings. All the above helped Q4 FY22 net income clock ~Rs1.9bn, a ~26% improvement y/y, and ~147% higher than the Q3 FY22 adj. PAT.
  - The Q3 FY22 reported PAT was impacted by an exceptional loss of ~Rs7.7bn on foreseeable under-recoveries (exposure impaired to an extent, unlikely to be recovered) from the share-purchase agreements entered into with KKR to monetise five of its operational BOT-toll assets.
  - Q4 FY22 other income was high as it included some write-backs, and some miscellaneous income (incl. insurance receipts).
  - Q4 FY22 had a net tax reversal as finance cost recoverable (accrued in the earlier period) from Ashoka Concessions was written off, pursuant to the agreement to monetise five BOT-toll assets. It was claimed as allowable expenses in the income-tax calculation.

BOT-toll operations: Comparable average daily collection, ~Rs30m

- Q4 gross toll collection of ~Rs2.7bn was up ~3% y/y, ~4% q/q. The sequential improvement is mostly a function of more PCUs catered to, whereas the y/y performance appears largely to have been driven by a tariff hike effected over the course of FY22.
  - We estimate the gross average daily collection for the comparable set of projects at ~Rs29.9m, against ~Rs29m for the year-ago quarter and ~Rs28m the prior quarter.

Fig 8 – Gross toll collection up ~3% y/y in Q4; comparable average daily collection mostly mirrored the gross collections

(Rs m)	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	% Y/Y	% Q/Q
ACL portfolio										
Belgaum-Dharwad	118	201	277	293	190	251	298	305	4.0	2.1
Dhankuni-Kharagpur	536	933	1,070	1,043	849	971	1,043	1,073	2.9	2.9
Bhandara	117	179	214	217	168	201	209	223	2.6	6.5
Durg	131	197	237	243	193	230	239	255	5.2	7.0
Jaora-Nayagaon	225	424	449	455	368	452	437	467	2.7	6.9
Sambalpur-Baragarh	107	170	191	205	174	179	195	208	1.6	6.9
ABL portfolio										
Wainganga Bridge	49	79	93	96	75	90	90	94	-2.0	5.5
Katni Bypass	47	53	61	60	57	58	63	62	4.0	-1.0
Others	4	6	9	8	6	3	-	-	-	-
Total	**1,334**	**2,243**	**2,601**	**2,620**	**2,079**	**2,433**	**2,574**	**2,688**	**2.6**	**4.4**
Comparable y/y growth (%)	-26.3	1.4	15.2	18.1	55.9	8.7	-0.7	2.9		

Source: Company, Anand Rathi Research

- The Durg project registered the strongest y/y and q/q growths, and Jaora-Nayagaon returned to the growth path after a weak Q3.

- Ashoka Concessions' overall portfolio (~94% of its Q4 FY22 gross toll collection) was up ~3% y/y, ~5% q/q, whereas Ashoka Buildcon's portfolio was down ~5% y/y, but q/q up ~3%.

Order inflows / backlog

- Cumulative additions of ~Rs64bn during 9M FY22 have been followed by fresh orders of an estimated ~Rs25bn (EPC potential, net of GST). Consequently, the FY22 additions, at ~Rs89bn, have been the strongest in any single year. The momentum appears to have continued through May'22, with two more orders of ~Rs9bn EPC value.

- The sturdy Q4 additions and change-in-scope mean the end-FY22 OB was ~Rs14.8bn higher q/q, and scaled a new year-end/quarter-end high of ~Rs137.3bn. This implies ~3x revenue assurance on FY22 revenues.

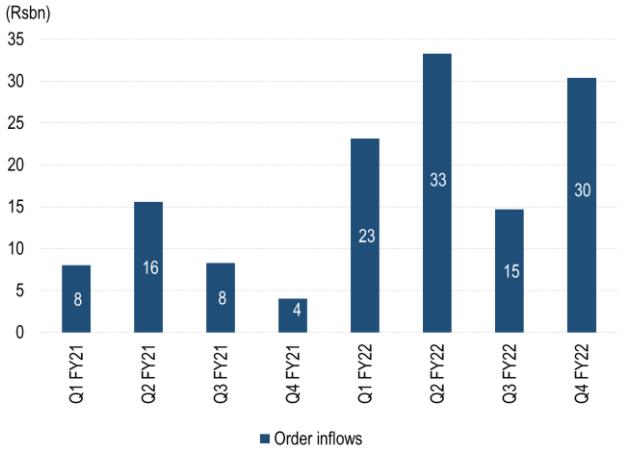
  - Incl. the post-Q4 orders, the OB rises further to ~Rs146.3bn, and the assurance turns even sturdier, to ~3.2x TTM revenues.

  - However, some of the projects have yet to start moving. The major ones awaiting commencement of work are: a ~Rs10bn social-housing project in the Maldives (financing being tied up; likely to start by Q1/Q2), a 600-bed hospital project of ~Rs6bn in Maharashtra (Q1/Q2 commencement targeted), and the MCGM sewage treatment plant in Maharashtra, of ~Rs10.5bn (Ashoka's share: ~Rs6.1bn, likely to start by Q3/Q4).

- Management is sanguine of the growth opportunities, buoyed by the government thrust on boosting overall capex in general and specifically in the highways sector. It banks on the government's stated intent to award 18,000km during FY23 (the NHAI and other Central agencies together) to keep the road-opportunity landscape healthy. It sees ample opportunities in railways, metro-rail and power T&D (on rising allocations).

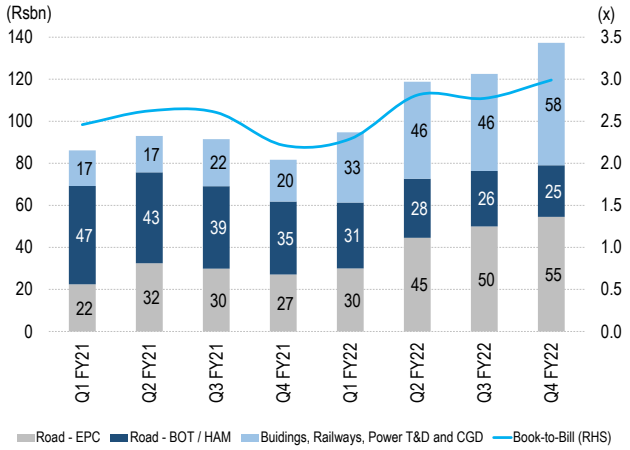
  - Banking on this, and the already-bid-for projects of ~Rs30bn (including railways, metro-rail and NHAI orders; outcome awaited), management looks to add orders of ~Rs100bn in FY23.

Fig 9 – Single year best awards, FY23 targeted at ~Rs100bn



Source: Company *Note: Includes change in scope*

Fig 10 – End-Q4 OB: ~Rs137bn; incl. post-Q4: ~Rs146bn



Source: Company *Note: Quarter/year-end figures*

- Roads remain its mainstay, and railways come as its second-most preferred area. Power T&D and buildings rank third and fourth in order of preference. However, the additions would not necessarily track this, and would have to take into account the way in which opportunities unfold.
- The company continues to cite keen competition, and does not see it subsiding anytime soon. Nevertheless, it sees enough potential for sane bidders to get their due share. It cites its success with ~Rs50bn road orders in FY22 (despite intense competition) as a testament to this.

Hybrid annuity projects

- With the recently added hybrid annuity (Baswantpur-Singondi), its portfolio count has risen to eleven. Of these, COD/PCOD have been received for five, the other five are already being constructed and the recently added Baswantpur-Singondi hybrid annuity project has recently received an LOA.
  - Its Vadodara-KIM hybrid-annuity project attained 31st Mar'22 effective PCOD. Management said PCOD for the Tumkur-Shivamogga Package-I has already been recommended, and PCOD for Package–II is expected by end-Q1/early Q2. The Kandi-Ramsanpalle is at advanced stages of completion, and thus, PCOD is expected by Q2 FY23.
  - With execution of Tumkur-Shivamogga packages III and IV having begun recently, management hopes to receive the PCOD in FY24.

Balance sheet

- Helped by Q4 cash PAT and lower unbilled revenues, Ashoka's end-Q4 FY22 standalone third-party net debt declined ~Rs1.9bn q/q to ~Rs3.2bn. With this, the higher net debt in Q3, of ~Rs1.6bn, is more than counter-balanced, and this is all the more appealing as it comes against the backdrop of strong sequential growth and continuing equity infusion in hybrid annuities.
  - Q4 standalone third-party gross debt (~Rs4.9bn, down ~Rs1.6bn q/q) comprised ~Rs2.8bn working-capital loans (down ~Rs2.2bn q/q) and ~Rs2bn equipment finance (up ~Rs0.6bn q/q).
- Third-party gross debt for the asset-ownership business was ~Rs62.1bn (up ~Rs0.4bn q/q).
  - Sequentially, higher asset-ownership debt was mostly on account of ~Rs1.5bn of fresh drawdowns by the hybrid annuity SPVs (end-Q4 debt of ~Rs23.8bn). This would have been partly offset by some repayments by the operational BOT-toll/annuity assets.
  - The asset-ownership debt comprises ~Rs30.9bn of SPV level debt (down from ~Rs31.7bn at end-Q3) for the five BOT-toll assets recently agreed to be monetised to KKR. With monetisation likely by Sep'22, management looks at this to be de-linked.
  - SPV-level cash and equivalents were up ~Rs0.9bn q/q to ~Rs5.7bn. This, we believe, is largely on account of cash from grants released by the NHAI/project finances drawn from the lenders and yet to be utilised.
- Consolidated gross debt of ~Rs67bn was down ~Rs1.2bn q/q. Adjusting for end-Q4 consolidated cash and equivalents of ~Rs7.3bn,

consolidated net debt was down ~Rs2.3bn q/q to ~Rs59.7bn. The ~Rs1.9bn q/q lower standalone net debt was the key contributor to this consolidated net debt reduction.

- With more drawdowns by the SPVs to fund the projects, management expects consolidated gross debt to rise to ~Rs70bn by end-FY23. This rise is net of fresh drawdowns, partly balanced by repayments by the operational assets.
- The closure of the asset-sale transaction for the five BOT-toll assets (with KKR), as and when consummated, would lead to de-linking of related debt of ~Rs30bn, and gross debt could dip to ~Rs40bn.

- Overall trade receivables (incl. retentions) rose ~Rs0.2bn q/q to ~Rs11.1bn. But the rise is not overly discomfiting as it appears to be largely on account the q/q greater scale of operations. In fact, the debtor days seem to have been compressed as the rise in trade receivables appears to significantly lag revenue growth (of ~41% q/q).
  - Trade receivables include retention monies of ~Rs2.3bn, up from ~Rs2.1bn at end-Q3.
- Separately, end-Q4 gross unbilled revenues were pegged at ~Rs8.1bn, down ~Rs2bn q/q. This appears to hold the key to q/q lower standalone net debt. On the greater scale, inventories rose ~Rs0.2bn q/q to ~Rs1.9bn.
- On the liabilities side, mobilisation advances were ~Rs6.1bn and trade payables were ~Rs8.1bn.

Equity infusion

- During the quarter, the SPVs for hybrid annuity projects had ~Rs0.7bn equity infused. With this, cumulative investments in hybrid annuity assets (excl. PIM) are estimated at ~Rs7.4bn (from the envisaged ~Rs10.8bn). Incl. the PIM portion, the total investment is ~Rs10.3bn (of the envisaged ~Rs15bn).
- Management envisages equity infusion needs (excl. PIM) for FY23 at ~Rs2.55bn, and the balance infusion of ~Rs0.9bn is envisaged for FY24.

Chennai-ORR, monetisation

- **Event.** On 27th Apr'22, the company entered into a share-purchase agreement with The National Investment & Infrastructure Fund (NIIF) to sell 100% equity of the Chennai ORR BOT-annuity project for ~Rs6.9bn.
- **Timeline.** The deal is subject to Ashoka Buildcon acquiring GVR Infra Projects' 50% stake in the SPV. After this, the company will seek approvals from the lenders and the government of Tamil Nadu for the project. Management hopes for these approvals and intends to consummate the transaction by end-H1 FY23.
- **Investment in the asset.** Total equity (incl. sub-debt) invested in the asset was pegged at ~Rs4.3bn (incl. sub-debt of ~Rs2.5bn).
- **Utilisation of the proceeds.** The total proceeds are likely to be adjusted for ~Rs0.3bn of current liabilities. Of the balance ~Rs6.5bn, ~Rs2bn would be utilised to acquire a 50% stake from the partner, and Ashoka would be entitled to a net ~Rs4.5bn. Management looks to use

a part of this to meet business needs; any surplus could be considered for a special dividend/buy-back (to be decided at a later date).

SBI-Macquarie exit, NOC from some lenders in place

- **Event.** Ashoka Concessions, the BOT holdco, has entered into a deal with an affiliate of funds, vehicles and entities managed and/or advised by Kohlberg Kravis Roberts & Co. L.P. to monetise five of its BOT-toll assets for ~Rs13.37bn (subject to adjustment for movement in cash and debt). Management expects to consummate the deal by Sep'22.
- **Deal closure by Sep'22.** With the share subscription and share-purchase agreements signed, the next step is requisite approvals from stakeholders. These primarily include NOCs from lenders and the NHAI. The NOCs are already in place from some of the lenders, and the NHAI requisites too have been moving. Management seeks to satisfy all the conditions precedent by Sep'22, and consummate the transaction. However, it does not rule out consummation slipping by a month or two.
- **De-linking of SPV level debt.** The five SPVs forming part of the KKR transaction had a combined third-party debt of ~Rs30.9bn on 31st Mar'22 (down from ~Rs31.7bn on 31st Dec'21). On consummation of the transaction, this debt would be de-linked; consequently, the leverage ratio for the consolidated entity would look better.
- **Lower other income for standalone entity.** With the agreement for monetisation already signed, interest-bearing loans & advances at the standalone level have already been impaired. Consequently, interest income on these loans has ceased.
- **Claims, to accrue to Ashoka.** The deal assets have claims filed with the Authorities. Management had earlier highlighted that any claims receivable from the Authorities would accrue to Ashoka when realised. It was non-committal on timelines regarding the outcome of these claim proceedings. Though it had highlighted that its portfolio would have Rs16bn-17bn of claims, it had said that the figure is constantly changing and, thus, had refrained from providing any definitive figure.
- **Potential re-rating trigger.** Though the deal consideration is ~0.6x the total exposure, the benefits outweigh the valuation discount. The market-perceived risk of the debt-funded buy-out of the partner's share in the BOT Holdco, if monetisation efforts fail to fructify, has long been a drag on valuations. The deal, we believe, would help do away with this. Besides, the monetisation would ensure that EPC internal accruals are no more used to support cash-drag SPVs. A sharper-focused EPC (the deal consummation making available bandwidth earlier occupied with monetisation efforts) would augur well. Hence, we see potential for a better valuation multiple for the core EPC operations.

Other highlights

- **Monetisation efforts to continue.** With arrangements already in place for the five BOT-toll assets from the Macquarie-SBI portfolio and the Chennai ORR BOT-annuity, efforts are now underway to close the transaction for Jaora-Naygaon at the earliest.
  - Total equity invested (incl. the partner's share) in the Jaora-Nayagaon project is pegged at ~Rs2.9bn, and the SPV third-party debt for the project is ~Rs1.7bn.

- Ashoka holds a ~74% stake in Jaora-Nayagaon; the balance is held by Macquarie-SBI.
- Management is already in talks, and hopes to complete the transaction in the next couple of months.

- **Hybrid annuity, monetisation.** Management said that hybrid annuity monetisation is also on the anvil. With five hybrid annuity assets from the portfolio of eleven already operational, and three more likely to attain PCOD shortly, the portfolio would be of a size suitable for monetisation. Consequently, management is discussing with potential investors the monetisation of the assets, though nothing constructive has currently emerged. Previously, the company had said that, apart from outright transactions with prospective suitors, it was also open to looking at the InvIT route.
- **Solar power order.** The company was in discussion with the NTPC to find a solution to the sharp surge in module prices (in fact, the entire industry is suffering) as there is no clause in the contracts to offer any relaxation. Currently, the company is continuing executing works other than modules. On 31st Mar'22, the project had balance EPC potential of ~Rs5.5bn.

Guidance

- Hoping to carry forward the momentum from strong order additions in FY22, the company now looks to add ~Rs100bn in FY23 (firmed up from the earlier guidance of Rs95bn-100bn). Management expects the healthy prospects pipeline from the road sector (~18,000km of road projects are expected to be floated in FY23), metro-rail, railway, power T&D, EPC buildings to help achieve the targeted inflow.
  - It has already bid for projects of ~Rs30bn, largely metro-rail and railway projects. Outcomes are awaited.
- On the continuing healthy pace of execution at the effectively under-execution OB, anticipating appointed dates for some of the recently added orders and healthy order additions targeted for FY23, management sees potential to deliver 20-25% higher revenues in FY23.
- Due to the unprecedented surge in prices of key input prices, management expects some pressure on FY23 margins. However, it expects them to soon return to normal, as new projects (better reflecting inflationary pressures) contribute. It also hopes that the recent moderation in key inputs and government efforts to ease pressures would help. Consequently, it guided to an 11-12% EBITDA margin in FY23.
  - ~10% of the OB has a fixed-price contract; the rest have a price-escalation clause.
- The company guided to ~Rs1.2bn-1.25bn capex in FY23, on account of higher machinery needs for new projects.

Earnings revision and Valuation

Our revenue estimates are largely unchanged, barring slight shifts owing to FY22 actuals. We have nevertheless reviewed our estimates to account of inflationary pressures, more equity infusion needed (on the recent hybrid annuity added) and the raised capex guidance.

On the pruned margin, our FY23e EBITDA is down ~6%, and ~4% for FY24. This, with raised capex and equity infusion needs (and, consequently, higher depreciation and lower other income on the pruned cash balance) lead to ~12% lower FY23e earnings (than earlier envisaged), and ~8% for FY24.

Our sum-of-parts TP, thus, works out to Rs152 a share, derived using a PE multiple for FY24e core-construction earnings (Rs91 a share, adjusted for interest income from the Chennai BOT-annuity JV), a discounted-cash-flow-driven/investment valuation for the road-asset portfolio (Rs59 after a 20% holdco discount) and CGD on an investment basis (Rs2, a 20% holdco discount assigned).

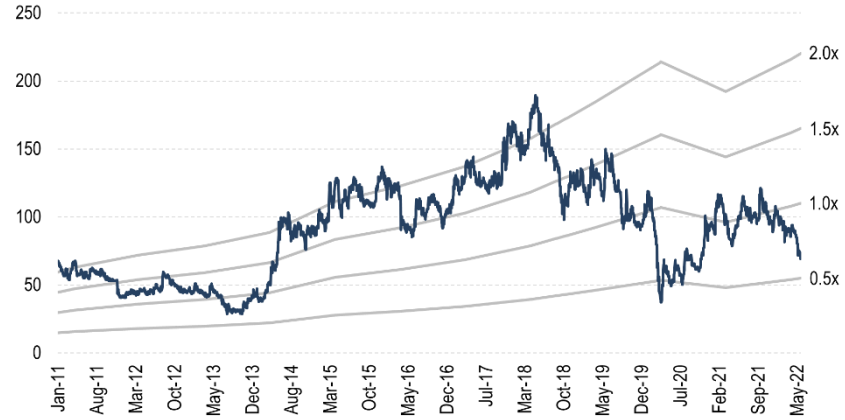
Fig 11 – Estimates revision

(Rs m)	Old		Revised		% change	
	FY23e	FY24e	FY23e	FY24e	FY23	FY24
Revenue	52,450	61,457	52,530	61,689	*0.2*	*0.4*
EBITDA	6,191	7,185	5,795	6,912	*-6.4*	*-3.8*
EPS (Rs)	13.4	15.6	11.8	14.3	*-11.5*	*-8.4*

Source: Anand Rathi Research

At the ruling price, (excl. investments) the stock trades at PERs of 4x FY23e and 3.3x FY24e core-construction earnings (adjusted for interest income from the JV entity). On a P/BV basis, it quotes at 0.7x FY23e and 0.6x FY24e, against the TP-implied exit of 1.2x FY24e.

Fig 12 – PBV band



Source: Bloomberg, Anand Rathi Research

Risk

- Any slower-than-expected pace of execution.

Appendix

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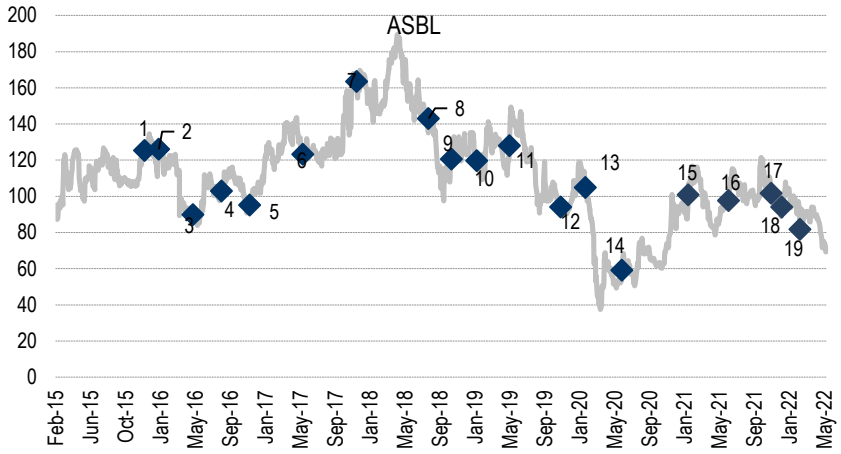
Rating and Target Price History (as of 26 May 2022)



	Date	Rating	TP (Rs)	Share Price (Rs)
4	30-Aug-16	Buy	219	156
5	5-Dec-16	Buy	208	144
6	8-Jun-17	Buy	237	186
7	11-Dec-17	Buy	287	242
8	18-Aug-18	Buy	199	143
9	5-Nov-18	Buy	194	121
10	31-Jan-19	Buy	188	120
11	25-May-19	Buy	180	128
12	18-Nov-19	Buy	185	94
13	11-Feb-20	Buy	169	105
14	17-Jun-20	Buy	127	56
15	8-Feb-21	Buy	147	105
16	24-Jun-21	Buy	145	102
17	23-Nov-21	Buy	147	99
18	28-Dec-21	Buy	153	102
19	19-Feb-22	Buy	159	97

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