

04 November 2024

India | Equity Research | Company Update

## Ashoka Buildcon

Construction

### Lighter shoulders, hitting stride

Ashoka has entered into an agreement to sell its BOT asset to India Highway Concession Trust – sponsored by CDPQ, a Canadian pension fund. Ashoka shall receive INR 25bn as the deal's proceeds. A major (sizeable) chunk of the proceeds would be earmarked for Macquarie exit – a fund invested in 2012. Delay in asset sale and providing an exit addresses a major concern on the stock. As a result, we upgrade the stock to **BUY** with a target price of INR 311/share. Also, order inflow (OI) in H1FY25, at INR 69bn, has been healthy, resulting in an order book (OB) of INR 190bn. We value the stock on an SoTP-basis at INR 311/share – EPC business is valued at 12x FY26E EPS and assets at INR 46bn – HAM assets at INR 26bn, BOT assets are at transaction value, adjusting for Ashoka's obligation to Macquarie.

### Deal at higher valuation than expectations

The company has been looking to sell the asset and provide an exit to Macquarie for the last few years. Earlier, it had an agreement to sell the asset at INR 17bn, which fell through due to delay in approvals. Now, it has agreed for a sale at a higher valuation of INR 25bn.

### Macquarie exit shall remove overhang

Ashoka has simultaneously entered into an agreement to buy SBI Macquarie investment in Ashoka Concession (BOT subsidiary) at INR 15bn and also acquire Macquarie's stake in a separate toll road at INR 1.5bn. As a result, potential net inflow to the company shall be INR 8bn. The surplus would be utilised to reduce its working capital debt.

### Healthy OB; margins to improve

OB has improved to INR 190bn (vs. INR 130bn FY24) at end-Sep'24 (our estimate based on order announcement). Also, we expect EBITDA margins to improve and rebound to >10% in FY26E (we are baking in 9.5% margin).

### Upgrade to BUY

We are upgrading Ashoka to **BUY** on the premise of the deal being finalised; consequently, enabling Macquarie's exit and removing an overhang on the stock. Also, the stake sale has been worked out at a higher value than earlier anticipated. Alongside, we also raise our TP to INR 311, based on SoTP method of valuation

### Financial Summary

Y/E Mar-31 (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	63,723	77,267	86,493	90,104
EBITDA	5,337	6,325	7,842	8,552
EBITDA Margin (%)	8.4	8.2	9.1	9.5
Net Profit	4,094	3,546	4,303	4,749
EPS (INR)	14.6	12.6	15.3	16.9
EPS % Chg YoY	(30.1)	1.0	32.3	10.4
P/E (x)	20.9	20.7	15.6	14.2
EV/EBITDA (x)	11.6	9.8	7.5	6.6
RoCE (%)	11.2	10.4	10.9	11.1
RoE (%)	13.5	9.9	10.8	10.9

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#### Market Data

Market Cap (INR)	67bn
Market Cap (USD)	800mn
Bloomberg Code	ASBL IN
Reuters Code	ABDL.BO
52-week Range (INR)	285 /127
Free Float (%)	46.0
ADTV-3M (mn) (USD)	6.7

Price Performance (%)	3m	6m	12m
Absolute	(6.2)	37.1	84.4
Relative to Sensex	(3.3)	30.5	60.1

ESG Score	2022	2023	Change
ESG score	NA	67.6	NA
Environment	NA	53.7	NA
Social	NA	68.2	NA
Governance	NA	76.5	NA

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

#### Previous Reports

19-08-2024: [Q1FY25 results review](#)

04-06-2024: [Q4FY24 results review](#)

## Asset sale to CDPQ

The company has entered into an SPA with Indian Highways concession trust (CDPQ) for sale of entire share capital for estimated aggregate value of INR 25.3 bn. The expected date for sale of assets is before Mar'25. Below are the asset details.

### Exhibit 1: Details of assets sold to Indian Highway concession trust (CDPQ)

Name	Type	Revenues (INR mn)	EBITDA (INR mn)	Concession Period	Start Date	End date	Debt (INR mn)	Tariff escalation
Belgaum Dharwad	BOT	1,378	1,075	30	Jun-10	May-41	3,780	WPI
Dhankuni Kharagpur	BOT	5,154	4,381	25	Jun-11	Mar-37	10,120	3% + 40%* WPI
Sambalpur Baragarh	BOT	1,179	872	30	Jun-10	Nov-41	6,910	WPI
Bhandara Maharashtra	BOT	1,153	980	20	Sep-07	Mar-28	960	WPI
Durg Chattisgarh	BOT	1,344	1,142	20	Jan-08	Mar-29	1,260	WPI
<b>Total</b>		<b>10,208</b>	<b>8,451</b>				<b>23,030</b>	

Source: I-Sec research, Company data

## Exit to SBI Macquaire

Ashok Concession limited (ACL) a subsidiary of ABSL held 66% of stake for the assets in the below table with the balance with SBI Macquaire. The company is to acquire 100% of the stake giving an exit to Macquaire at INR 15.2bn.

Viva Highways Limited, a subsidiary of the company, will acquire a 26% stake from SBI Macquaire in its affiliate, Jaora Nayagaon Toll Road Company Private Limited, for INR 1.5 bn. The indicative time for completion of acquisition is Jun'25.

### Exhibit 2: Acquisition of 100% of below assets giving exit to Macquaire

Project	Length	Revenue type	TPC	Grant	Debt	Equity	CoD
Jaora – Nayagaon	80	Toll	8,350	-	5,845	2,505	May-10
Kharar Ludhiana	76	HAM	14,500	6,400	6,100	1,500	May-20
Ranastalam - Anandpuram (Pkg II)	47	HAM	11,871	4,748	4,150	1,250	Jun-21
Vadodara-Kim Expressway -Pkg IV	13	HAM	16,870	6,748	7,592	2,531	Apr-24
Khairatunda to Barwa Adda	40	HAM	8,601	3,440	3,870	1,290	Apr-22
Belgaum-Khanapur	30	HAM	8,562	3,425	3,853	1,284	Oct-21
Tumkur-Shivamogga (Karadi to Banawara) - III	57	HAM	12,252	4,901	5,514	1,838	Sep-23
Tumkur-Shivamogga-Package IV	56	HAM	13,820	5,528	6,219	2,073	Oct-23

Source: I-Sec research, Company data

## Outlook and Valuation

India witnessed a sharp dip in road bidding in FY24. While the delay was attributable to Cabinet approval for the increased capital cost of its flagship programme, *Bharatmala Pariyojana* and applicability of model code of conduct beginning Mar'24 due to it being an election year in India. The pipeline for road construction remains robust at > INR 1.5trn. We note, 25% of the roads under *Bharatmala Pariyojana* are yet to be awarded (~INR 3trn). The pipeline primarily consists of BOT and HAM assets, which bode well for listed companies with stronger balance sheets. The delay has impacted OI for EPC companies – those mainly dependent on the road sector. We expect an uptick in bidding in H2FY25E.

Ashoka has created a strong brand over the years with stable revenue growth of 15% CAGR over FY19–24 to INR 77bn.

Amidst a year of subdued road bidding, Ashoka's OB stands at INR 190bn, as on Q1FY25 result date (2.4x TTM revenue). With a strong bid pipeline of INR 2.5trn in FY25, it expects total OI of INR 100–120bn, revenue growth of 15% and EBITDA margin of 9.5%, in FY25.

We are upgrading the stock to **BUY** on finalisation of deal and consequently, an exit to Macquarie, removing an overhang on the stock. Also, the stake sell is being done at a higher value than earlier expectations. Upgrade to **BUY** with a revised **TP of INR 311**.

### Exhibit 3: SoTP-based valuation

	Basis of valuation	PAT/Equity value (INR mn)	Multiple (x)	Valuation (INR mn)	INR / Share
EPC	PE x FY26E	3,887	12	46,650	166
HAM	1.4 x FY26E equity invested	17,432	1.5	26,148	93
BOT	1.7 x FY26E equity invested	17,755	1.7	30,183	108
Obligation to PE				(15,600)	(56)
<b>Total</b>				<b>87,381</b>	<b>311</b>

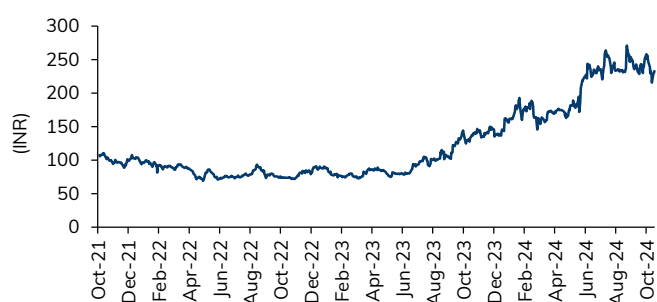
Source: I-Sec research

### Exhibit 4: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	54.5	54.5	54.5
Institutional investors	24.8	26.0	25.7
MFs and others	17.6	18.1	17.4
FIs/Banks	0.0	0.0	0.0
Insurance	0.0	0.1	0.3
FIIIs	7.2	7.8	8.0
Others	20.7	19.5	19.8

Source: Bloomberg

### Exhibit 5: Price chart



Source: Bloomberg

## Financial Summary

### Exhibit 6: Profit & Loss

(INR mn, year ending Mar-31)

	FY23A	FY24A	FY25E	FY26E
<b>Net Sales</b>	<b>63,723</b>	<b>77,267</b>	<b>86,493</b>	<b>90,104</b>
Operating Expenses	1,866	2,016	2,177	2,351
<b>EBITDA</b>	<b>5,337</b>	<b>6,325</b>	<b>7,842</b>	<b>8,552</b>
EBITDA Margin (%)	8.4	8.2	9.1	9.5
Depreciation & Amortization	742	1,046	1,013	1,078
EBIT	4,594	5,279	6,829	7,474
Interest expenditure	(1,410)	(2,281)	(2,193)	(2,239)
Other Non-operating Income	1,057	1,149	1,149	1,149
<b>Recurring PBT</b>	<b>4,241</b>	<b>4,146</b>	<b>5,784</b>	<b>6,383</b>
<b>Profit / (Loss) from Associates</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Less: Taxes	1,020	894	1,481	1,634
PAT	3,221	3,253	4,303	4,749
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	3,492	1,173	-	-
<b>Net Income (Reported)</b>	<b>6,713</b>	<b>4,426</b>	<b>4,303</b>	<b>4,749</b>
<b>Net Income (Adjusted)</b>	<b>4,094</b>	<b>3,546</b>	<b>4,303</b>	<b>4,749</b>

Source Company data, I-Sec research

### Exhibit 7: Balance sheet

(INR mn, year ending Mar-31)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	52,901	66,779	75,000	78,821
of which cash & cash eqv.	1,865	5,106	8,198	10,804
Total Current Liabilities & Provisions	25,961	32,994	37,153	38,120
<b>Net Current Assets</b>	<b>26,940</b>	<b>33,784</b>	<b>37,847</b>	<b>40,701</b>
Investments	13,728	14,799	14,799	14,799
Net Fixed Assets	2,772	3,206	3,455	4,383
ROU Assets	-	-	-	-
Capital Work-in-Progress	285	22	150	150
Total Intangible Assets	-	-	-	-
Other assets	1,632	1,642	-	-
Deferred Tax Assets	-	-	-	-
<b>Total Assets</b>	<b>45,356</b>	<b>53,454</b>	<b>56,251</b>	<b>60,033</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>10,385</b>	<b>14,427</b>	<b>14,427</b>	<b>14,427</b>
<b>Deferred Tax Liability</b>	<b>(683)</b>	<b>(891)</b>	<b>(891)</b>	<b>(891)</b>
provisions	1,418	1,201	1,075	896
other Liabilities	539	592	-	-
Equity Share Capital	1,404	1,404	1,404	1,404
Reserves & Surplus	32,294	36,721	40,237	44,197
<b>Total Net Worth</b>	<b>33,697</b>	<b>38,125</b>	<b>41,640</b>	<b>45,601</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>45,356</b>	<b>53,454</b>	<b>56,251</b>	<b>60,033</b>

Source Company data, I-Sec research

### Exhibit 8: Cashflow statement

(INR mn, year ending Mar-31)

	FY23A	FY24A	FY25E	FY26E
<b>Operating Cashflow</b>	<b>(3,243)</b>	<b>479</b>	<b>4,220</b>	<b>5,400</b>
Working Capital Changes	(7,207)	(3,820)	(1,097)	(426)
Capital Commitments	(1,087)	(1,218)	(1,390)	(2,006)
<b>Free Cashflow</b>	<b>(2,156)</b>	<b>1,697</b>	<b>5,610</b>	<b>7,406</b>
<b>Other investing cashflow</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Cashflow from Investing Activities	(1,087)	(1,218)	(1,390)	(2,006)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	4,792	4,042	-	-
Dividend paid	(788)	(788)	(788)	(788)
Others	752	726	1,050	0
Cash flow from Financing Activities	4,755	3,980	262	(788)
<b>Chg. in Cash &amp; Bank balance</b>	<b>425</b>	<b>3,241</b>	<b>3,091</b>	<b>2,607</b>
Closing cash & balance	1,865	5,106	8,198	10,804

Source Company data, I-Sec research

### Exhibit 9: Key ratios

(Year ending Mar-31)

	FY23A	FY24A	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	11.5	11.6	15.3	16.9
Adjusted EPS (Diluted)	14.6	12.6	15.3	16.9
Cash EPS	17.2	16.4	18.9	20.8
Dividend per share (DPS)	(2.4)	(2.4)	(2.4)	(2.4)
Book Value per share (BV)	120.0	135.8	148.3	162.4
Dividend Payout (%)	(20.9)	(20.7)	(15.7)	(14.2)
<b>Growth (%)</b>				
Net Sales	38.8	21.3	11.9	4.2
EBITDA	6.2	18.5	24.0	9.0
EPS (INR)	(30.1)	1.0	32.3	10.4
<b>Valuation Ratios (x)</b>				
P/E	20.9	20.7	15.6	14.2
P/CEPS	13.9	14.6	12.7	11.5
P/BV	2.0	1.8	1.6	1.5
EV / EBITDA	11.6	9.8	7.5	6.6
P / Sales	1.1	0.9	0.8	0.7
Dividend Yield (%)	(1.0)	(1.0)	(1.0)	(1.0)
<b>Operating Ratios</b>				
Gross Profit Margins (%)	11.3	10.8	11.6	12.1
EBITDA Margins (%)	8.4	8.2	9.1	9.5
Effective Tax Rate (%)	24.1	21.6	25.6	25.6
Net Profit Margins (%)	5.1	4.2	5.0	5.3
NWC / Total Assets (%)	13.5	14.0	14.1	-
Net Debt / Equity (x)	(0.2)	(0.1)	(0.2)	(0.2)
Net Debt / EBITDA (x)	(1.0)	(0.9)	(1.1)	(1.3)
<b>Profitability Ratios</b>				
RoCE (%)	11.2	10.4	10.9	11.1
RoE (%)	13.5	9.9	10.8	10.9
RoC (%)	11.2	10.4	10.9	11.1
Fixed Asset Turnover (x)	23.6	25.9	26.0	23.0
Inventory Turnover Days	20	22	22	21
Receivables Days	83	74	76	73
Payables Days	77	70	68	64

Source Company data, I-Sec research

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