

Event Update
Sector: Infrastructure
BSE Sensex: 16,483

ASHOKA BUILDCON

Maintain BUY
CMP Rs197
TP Rs321

Ashoka Buildcon Ltd (ABL) share price has witnessed a sharp downfall in last two trading sessions; the price has corrected 24% from a high of Rs245 to Rs186 and finally closed at Rs197. The fall aggravated post the formal announcement on BSE at 1.44pm today about their latest road project win Cuttack-Angul worth Rs11.2bn (NHAI cost) spanning 112km section on NH42. This project details were already known as on 22nd Nov 2011 and initial review suggests that the bid seems fair and not aggressive. We believe this selling opportunity provides a good entry price for the stock and we maintain our positive stance with a BUY rating and a target price of Rs321.

Not an aggressive bid...

ABL was termed L1 for the Cuttack-Angul section NH42, Phase IV of 112km as on 22nd Nov (please find our Quick Bite report dated 23rd Nov alongside). ABL has quoted a premium of Rs610.9mn, which is only ~Rs100mn higher than L2 and L3 at Rs512.1mn NCC and Rs510.3mn L&T (refer exhibit 1). The L2 and L3 quote being from two significant strong and experienced players in the road segment provides more weightage to our thesis.

Initial assessment for Cuttack-Angul is strong...

The Cuttack-Angul section is believed to be a strong connecting line between the industrial and coal rich section in the central Odisha belt to the important southern city of Cuttack, which then extends to the most important port of Odisha i.e. Paradip port. As Cuttack-Angul section is near to Mahanadi Coalfield, it houses many industrial plants like JSPL has 3mt steel plant, Bhushan steel has 1.9mt steel plant and 410MW captive power plant, Nav Bharat Ventures has 0.2mt ferro alloy plant (refer exhibit 2). To the north of Angul we have NH6, which is the Kolkata-Mumbai highway, thus based on the initial round of enquiry the project does not seem a bad fit to ABL's portfolio. ABL has an existing project to the north of Angul, which is Sambalpur-Baragarh four laning project of 88km with TPC of Rs10bn, which may provide some mobilisation and logistical benefit.

VALUATIONS AND RECOMMENDATION

Post this stock price correction, ABL valuation has reduced to below 1x book value to 0.9x FY12E. The market cap has reduced to Rs10.4bn and EV stands at Rs20.7bn, available at P/E of 8x and 4.3x EV/EBITDA, which we believe is attractive. Equity invested till date by ABL is ~Rs5bn, which would increase to Rs7bn & Rs10bn by FY12E and FY13E. We value the company on a SOTP basis at Rs321 per share, we value BOT (DCF) at equity multiple of 1.6x times and 1.1x times on FY12E and FY13E i.e. Rs10.5bn. Over FY11-13E, we expect revenue for standalone business to clock 26.5% CAGR and PAT to increase at 11% CAGR. We value this business at 8x FY13E adjusted earnings of Rs15.3 (EPC). Our target price is Rs321 with a BUY rating.

KEY FINANCIALS (CONSOLIDATED)

(Rs mn)

	FY09	FY10	FY11	FY12E	FY13E
Net Sales	5,184	7,956	13,020	16,835	21,900
YoY Gr.(%)	60.6	53.5	63.7	29.3	30.1
EBITDA	1,640	2,143	2,522	3,629	4,785
EBITDA Marg.(%)	31.6	26.9	19.4	21.6	21.8
Adjusted Net Profit	348	804	1,008	976	1,341
YoY Gr.(%)	3.7	130.9	25.5	(3.2)	37.5

KEY RATIOS

Dil. EPS (Rs)	7.6	17.6	19.2	18.5	25.5
ROCE (%)	12.1	12.5	17.2	11.0	9.4
RoE (%)	11.1	20.6	31.2	10.5	12.8
PER (x)	25.9	11.2	10.3	10.6	7.7
EV/Net sales (x)	4.0	2.6	1.6	1.2	0.9
EV/EBDITA (x)	12.7	9.7	8.2	5.7	4.3

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STOCK DATA

Market cap	Rs10.4bn
Book Value per share (FY 12)	Rs196.3
Shares O/S (F.V. Rs10)	53mn
Free Float	26.7%
Avg Trade Value (6 months)	Rs1.2mn
52 week High/Low	312/186
Bloomberg Code	ASBLIN
Reuters Code	ADBL.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	(17.9)	(28.9)	(32.8)
Relative	(6.9)	(1.2)	(17.0)

RELATIVE PERFORMANCE

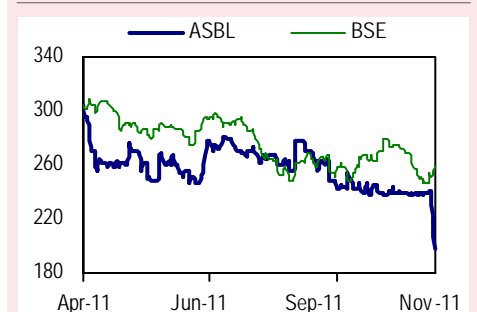
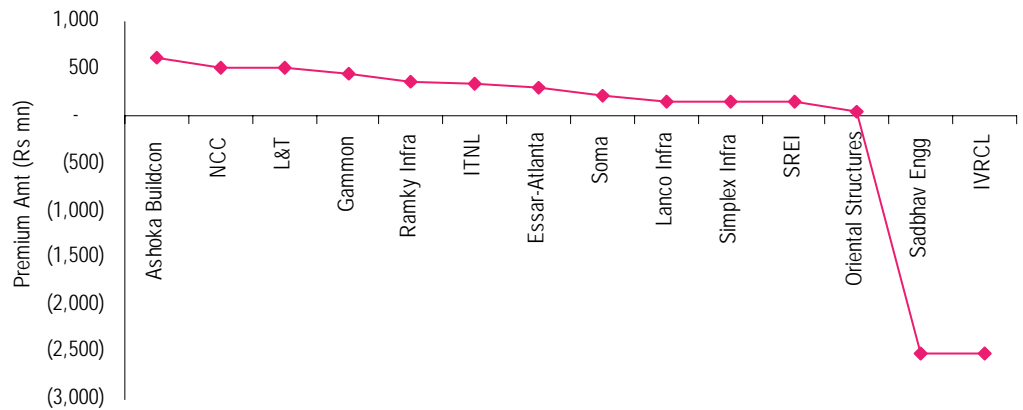


Exhibit 1 - Bidding of Cuttak - Angul

Except for two bidders requesting grants, other bids seem to be rationale with very less difference between them...



Source: PINC Research

Don't believe that selling is due to the latest Cuttack - Angul project win

The announcement on BSE and the stock price fall aggravated simultaneously indicating negative perception (yesterday too the stock was down by ~10%). However, we refrain to believe that the project seems unviable and detrimental to ABL's financials and hence a reason for the fall in stock price.

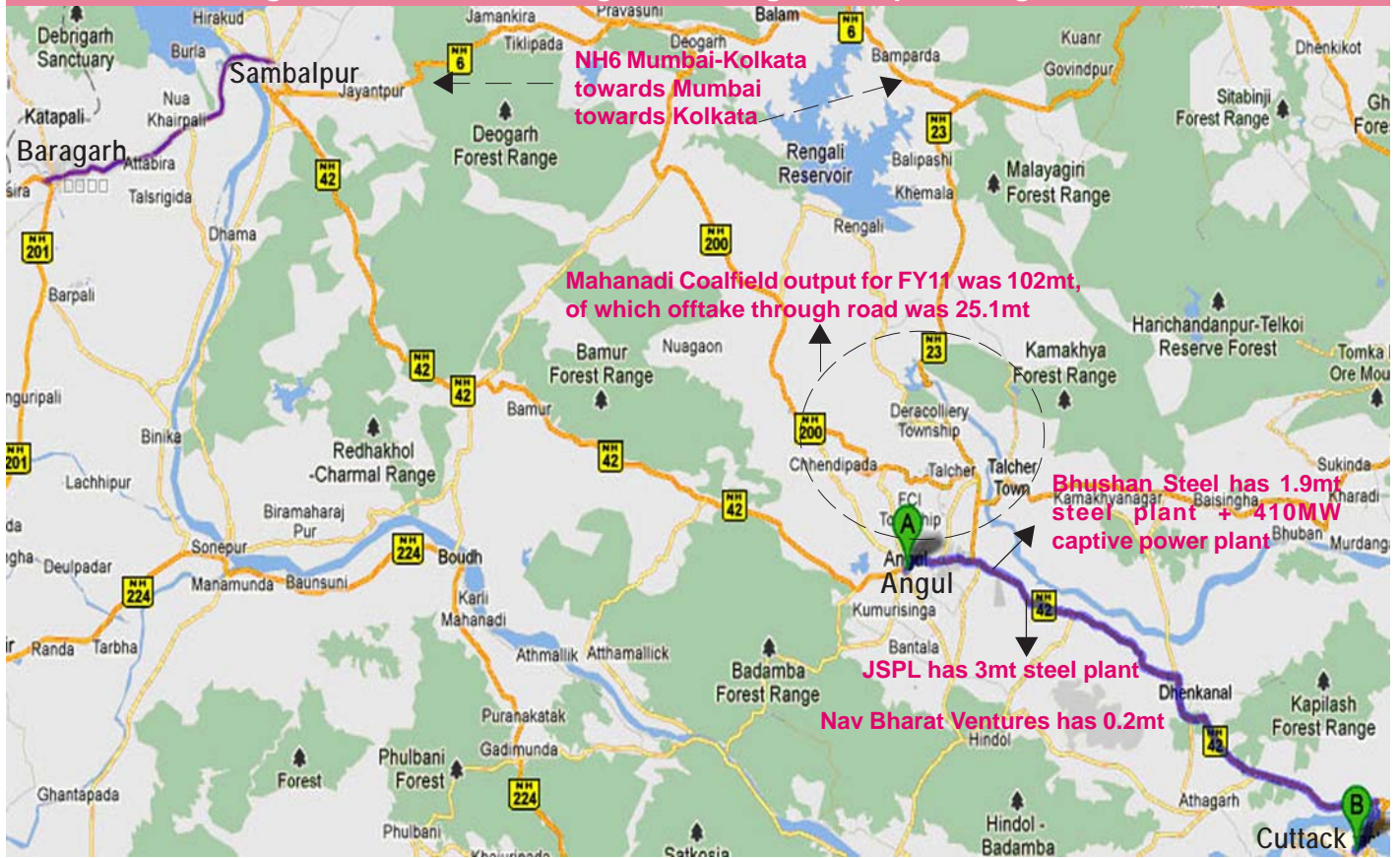
Liquidity issue leading to price volatility

The total equity base of ABL is 52.6mn shares, the daily trading average is 8,100share (yearly average) and 4,100shares (half yearly) which is very illiquid for a company with an average market cap of Rs14bn for the year. Whereas we have seen total volume of 100,000 shares in the last two trading days, thus leading to drastic price volatility.

Fund raising requirement...a risk

As per our estimate ABL would require about Rs8.4bn over FY12E-14E (Cuttack - Angul not included), as far as FY12E is concerned the requirement is about Rs2bn which can be easily met through internal accrual and debt as standalone D/E is very comfortable at 0.5x. Hence, we believe ABL has ample time to fund its future equity requirement for FY13E-FY14E, which the management is scouting through a PE deal. The ABL is likely to float a separate holding company of 7-8 large BOT assets and off take stake to PE players. But in the intermediate time till a deal is finalised, risk of dilution could be the highest risk to ABL's valuations.

Exhibit 2: New Angul-Cuttack stretch along the existing Sambalpur-Baragarh stretch

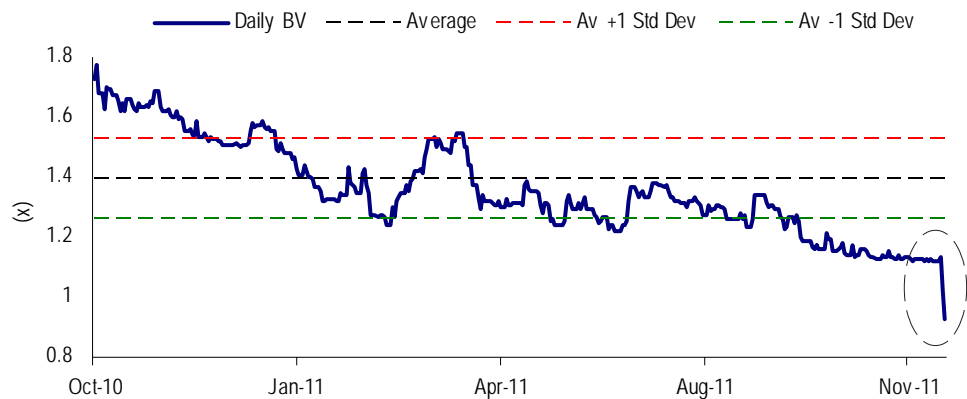


Source: Company, PINC Research

VALUATIONS AND RECOMMENDATION

Post this stock price correction, ABL valuation has reduced to below 1x book value to 0.9x FY12E. The market cap has reduced to Rs10.4bn and EV stands at Rs20.7bn, available at P/E of 8x and 4.3x EV/EBITDA, which we believe is attractive. Equity invested till date by ABL is ~Rs5bn, which would increase to Rs7bn & Rs10bn by FY12E and FY13E. We value the company on a SOTP basis at Rs321 per share, we value BOT (DCF) at equity multiple of 1.6x times and 1.1x times on FY12E and FY13E i.e. Rs10.5bn. Over FY11-13E, we expect revenue for standalone business to clock 26.5% CAGR and PAT to increase at 11% CAGR. We value this business at 8x FY13E adjusted earnings of Rs15.3 (EPC). Our target price is Rs321 with a BUY rating.

Exhibit 3 - PB below 1x



Source: PINC Research

SOTP Valuation			
Particulars	Stake	Adj NAV	Per share
BOT Projects operational (SPV's)			
Indore - Edalabad	87%	1,762	33.5
Pune - Shirur	100%	103	2.0
Dewas Bypass	100%	410	7.8
Katni Bypass	100%	557	10.6
FOBs - Eastern Exp Hway	100%	97	1.8
Dhule Bypass	100%	53	1.0
Durg - Chhattisgarh	51%	1,510	28.7
Chhattisgarh - Bhandara	51%	200	3.8
BOT Projects operational (Standalone)			
Anagar - Karmala	100%	383	7.3
TOLL ANG (Anagar - Aurangabad)	100%	418	7.9
Nasirabad ROB	100%	405	7.7
Sherinallah Bridge	100%	175	3.3
Waiganga river Bridge	50%	233	4.4
BOT Projects under construction			
Sambalpur-Baragarh	100%	1,222	23.2
Belgaum Dharwad	100%	282	5.4
Jaora - Nayegaon 4-Laning	37%	2,104	40.0
Pimpalgaon-Nasik	26%	522	9.9
Total BOT Value		10,436	198
	PAT FY13E	P/E (x)	
EPC Business	806	8	6,444
Total Value			16,881
CMP			197
Appreciation			63%

Source: PINC Research, Company

Consolidated Financials

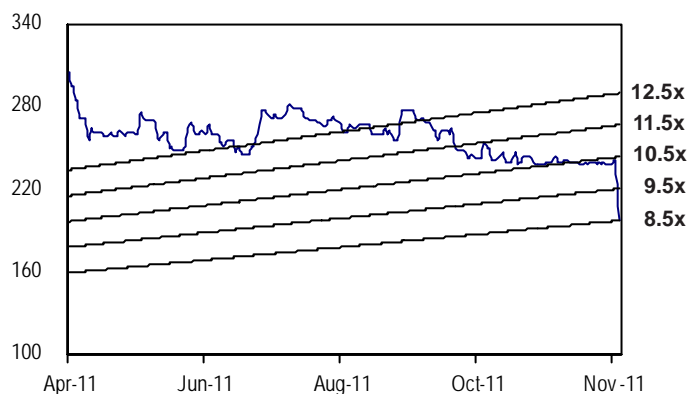
Income Statement	FY09	FY10	FY11	FY12E	FY13E
Net sales	5,184	7,956	13,020	16,835	21,900
Growth (%)	60.6	53.5	63.7	29.3	30.1
Operating profit	1,640	2,143	2,522	3,629	4,785
Operating income	150	186	339	300	300
EBITDA	1,790	2,329	2,861	3,929	5,085
Growth (%)	27.1	30.1	22.8	37.3	29.4
Depreciation	645	661	690	1,150	1,290
EBIT	1,145	1,668	2,171	2,779	3,795
Interest paid	646	490	715	1,256	1,716
PBT (before E/o items)	499	1,177	1,456	1,522	2,078
Tax provision	116	319	424	426	582
E/o Income / (loss)	-	-	-	-	-
Net profit	348	804	2,080	976	1,341
Adjusted net profit	348	804	1,008	976	1,341
Growth (%)	4	131	25	(3)	37
Basic EPS (Rs)	7.6	17.6	19.2	18.5	25.5
Diluted EPS (Rs)	7.6	17.6	19.2	18.5	25.5
Diluted EPS Growth (%)	3.7	130.9	8.9	(3.2)	37.5

Cash Flow Statement	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	499	1,177	2,528	1,522	2,078
Depreciation	645	661	691	1,150	1,290
Inc. from invt & int (profit)	-	-	-	(300)	(300)
Interest paid	646	490	715	1,256	1,716
Taxes	(111)	(307)	(438)	(444)	(604)
(Inc)/Dec in working capital	368	(379)	(2,012)	(103)	(1,430)
Other operating activities	94	2	2	25	(114)
Cash from operations	2,092	1,553	1,340	3,227	2,791
Net capital expenditure	(3,664)	(4,777)	(4,880)	(6,911)	(6,963)
Net Investments	(194)	(576)	93	(750)	(750)
Interest & dividend recd	41	466	283	300	300
Cash from inv. activities	(3,818)	(4,887)	(4,436)	(7,361)	(7,413)
Equity raised/(repaid)	-	-	2,125	-	-
Debt raised/(repaid)	2,105	3,995	1,501	6,000	6,000
Dividend (incl. tax)	-	-	-	-	-
Other financing activities	(682)	(507)	(715)	(1,256)	(1,716)
Cash from financing activ	1,423	3,488	2,852	4,744	4,284
Inc/(Dec.) in cash	(302)	154	(243)	609	(338)

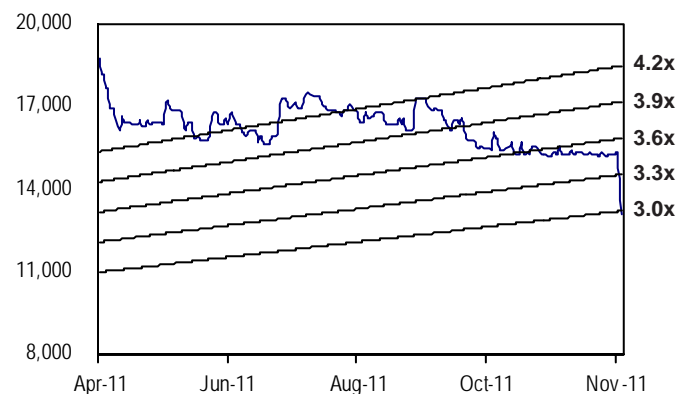
Balance Sheet	FY09	FY10	FY11	FY12E	FY13E
Equity capital	457	457	526	526	526
Reserves & surplus	2,836	4,042	8,302	9,278	10,616
Shareholders' funds	3,423	4,623	8,930	9,906	11,244
Minorities Interest	287	813	1,112	1,232	1,387
Total Debt	7,226	11,221	12,830	18,830	24,830
Capital Employed	10,936	16,657	22,873	29,969	37,462
Fixed assets	8,636	12,750	16,937	22,697	28,369
Cash & Cash Eq.	692	845	602	1,212	874
Net Current Assets	1,408	2,451	4,448	5,161	6,253
Investments	911	1,487	1,503	2,145	2,895
Net Deferred Tax Assets	(18)	(30)	(16)	(34)	(56)
Total assets	10,936	16,657	22,873	29,969	37,462

Key Ratios	FY09	FY10	FY11	FY12E	FY13E
OPM margin (%)	31.6	26.9	19.4	21.6	21.8
Net margin (%)	6.7	10.1	7.7	5.8	6.1
Dividend yield (%)	-	-	-	-	-
Net debt/Equity (x)	1.9	2.2	1.4	1.8	2.1
Net Working Capital (days)	50	74	108	86	90
ROCE (%)	12.1	12.5	17.2	11.0	9.4
RoE (%)	11.1	20.6	31.2	10.5	12.8
EV/Net sales (x)	4.0	2.6	1.6	1.2	0.9
EV/EBITDA (x)	12.7	9.7	8.2	5.7	4.3
PER (x)	25.9	11.2	10.3	10.6	7.7
PCE (x)	9.1	6.2	6.1	4.9	3.9
Price/Book (x)	2.4	1.8	1.1	1.0	0.9

1 year forward rolling P/E Band



1 year forward rolling EV/EBITDA Band



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Rating Objective		
Rating	Large Caps	Mid Caps
	M.Cap > USD1bn	M.Cap <= USD1bn
Return %		
BUY	More than 15	More than 20
Accumulate	5 to 15	10 to 20
Reduce	(-)5 to +5	0 to 10
Sell	Below (-)5	Less than 0

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