ISO 9001 : 2008 Certified

shah investor's home ltd®

SERVICES THAT SECURE SMILES

Ashoka Buildcon Ltd.

10th May 2012

CMP Rs.196 | **Recommendation: BUY** | **Target Price Rs.286**

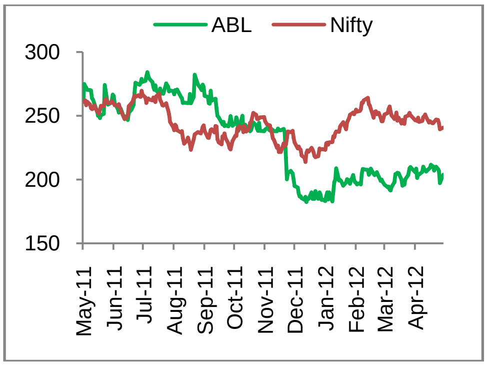
Sector: Construction & Realty

Key Data	
Market Capital (Rs. cr)	1,033
Market Capital (US$ mn)	192
O/S Shares, cr	5.3
Free Float Factor	0.3
Face Value, Rs.	10
2 wk Avg Vol, NSE+BSE	2K
52 wk High	290
52 wk Low	176
Rs/US$	53.82
Bloomberg	ASBL IN
Reuters	ABDL.BO
NSE	ASHOKA
BSE	533271

Shareholding Pattern %	Q4 FY12	Q4 FY11
Promoters	67.27	73.25
DII	17.84	17.19
FII	0.01	2.37
Public	14.88	7.19

Institutional Holding, %

Institution	Q4 FY12	Q4 FY11
IDFC Pvt. Equity Fund II	13.56	13.56
ICICI Pru. Life Insu. Co Ltd	4.24	3.50
Qvt Mauritius West Fund	0.00	1.09



Siddharth Rajpurohit (Analyst)
siddharth.rajpurohit@sihl.in

Sanket Bhelose (Associate)
sanket.bhelose@sihl.in

Ameya Hardas (Research Head)
ameya.hardas@sihl.in

Robust order book and sustained toll revenue, builds the road to prosperity

Initiating Coverage

On time execution, backed by vast experience and skilled manpower

Ashoka Buildcon Ltd. (ABL) started its operations in 1976 under the leadership of Mr. Ashok Katariya (B.E) as an E&C contractor for residential, commercial, industrial and institutional buildings. After acquiring significant experience and developed skills in EPC, the company in 1997 started its BOT journey. Backed by its vast experience and E&P skills the company has executed all of its projects on time or prior to the scheduled completion dates. There have been no instances where the performance guarantees of ABL have been invoked by any of its clients.

Integrated business player

ABL is an integrated BOT player with in-house EPC division. This integrated business model ensures the timely completion of projects and also reduces its reliance on subcontractors and controls cost. Developers that do not have an integrated business model are generally unable to control cost. An integrated model also allows the developer to scoop the entire margin in the value chain from EPC margin to developer as well as operating and maintenance margins.

In-house traffic estimation and RMC & bitumen facility, a key strength

All BOT projects have a long concession period (ranging from 10 to 30 year), where the growth in toll tariff is been decided in the concession agreement the key risk to the assumed IRR is the estimation of traffic growth. ABL has strong in-house expertise in analyzing vehicle traffic. The company also owns and operates 15 RMC facilities and also has bitumen enhancing facility, which leads to on time availability of raw materials, further assisting the company in cost control and capturing the margin in the value chain followed by timely completion of construction.

Robust growth in average ticket size of BOT projects

The company has bid and was awarded its first project (Dhule bypass) worth Rs.5.8 cr in 1997 and since has traveled a long way with strong execution track record. With increased net worth the company has successfully won projects worth higher value. The average ticket size of the company (adjusted to project stake) has gone up significantly (Exhibit 2) with a CAGR of 74% over 2006-2011.

Strong order book, a visibility of stable cash flow

ABL's order book at the end of FY12E stands at Rs.4,903 cr. The order book of the company is distributed into two broad segments power T&D and road projects, where road project consists of a larger share (close to 85% to 90%). The current order book which is close to 3.9x the FY12E EPC revenue gives a good visibility for future cash flows of the company in the EPC business. The stable flow of funds from the EPC business will also help the company to meet its equity obligation for its newly acquired projects.

Valuation

We value the various BOT projects on discounted free cash flow to equity analysis (*Exhibit 25, example of Bhandara project NPV calculation*) with an IRR assumption of 14% (risk free rate of 8.6%, Beta 0.9 and market premium of 6%) for operational projects and 15.2% (risk free rate of 8.6%, Beta 1.1 and market premium of 6%) for under construction projects. We arrive at a fair value of Rs.233 per share for the BOT division. Further we value the EPC business on EV/EBITDA multiple and arrive at fair value of Rs.149.8 per share at 6x FY12E EBITDA of Rs.131 cr. Post deduction of the net debt at standalone level of Rs.96.5 per share we arrive at fair value of Rs.286 per share for ABL.

We recommend BUY for Ashoka Buildcon at CMP with an upside potential of 46% and an investment horizon of 12 months.

Contents

Investment Rationale

On time execution, backed by vast experience and skilled manpower

ABL started its operations in 1976 under the leadership of Mr. Ashok Katariya (B.E) as an E&C contractor for residential, commercial, industrial and institutional buildings. After acquiring significant experience and developed skills in EPC, the company focused its attention to bidding for contracts for toll roads and toll bridges on a BOT basis. ABL won its first BOT project, the Dhule bypass in Maharashtra, in fiscal 1997 and completed the construction of the road in the same fiscal year. Since then company has bid and bagged various BOT projects (Exhibit 1). Backed by its vast experience and E&P skills the company has executed all of its projects on time or prior to the scheduled completion dates. There have been no instances where the performance guarantees of ABL have been invoked by any of its clients. Furthermore, by completion of projects before time ABL also has an advantage to commence its toll collection beforehand.

Exhibit 1: BOT Journey for ABL

1997	• Dhule Bypass
1998	• Nashirabad Railway over bridge • Wainganaga Bridge
1999	• Ahmednagar-Karmala • Sheri Nallah Bridge
2001	• Indore-Edalabad • Dewas Bypass
2002	• Anawali-Kasegaon • Katni Bypass
2003	• Pune-Shirur
2005	• Akola Bypass
2006	• Ahmednagar-Aurangabad
2007	• Jaora-Nayagaon • Bhandara
2008	• Durg
2009	• Pimpalgaon-Nasik-Gonde
2010	• Belgaum-Dharwad • Sambalpur-Baragarh
2011	• Dhankuni-Kharagpur • Cuttack-Angul

Source: Company, Shah Investor's Research

Integrated business player

ABL is an integrated BOT player with in-house EPC division. This integrated business model ensures the timely completion of projects (*90 mt long bridge on the Mahad-Pandharpur state highway in 38 days compared with the scheduled construction time of 12 months. Construction of a 100-metre long bridge called the Pargaon Bridge, completed in 65 days having scheduled construction time of 18 months.)* and also reduces its reliance on subcontractors and controls cost. Historically the road construction industry has suffered with cost overruns due to significant breach of project completion dates which has a severe impact on the project IRR. Developers that do not have an integrated business model are generally unable to control cost. An integrated model also allows the developer to scoop the entire margin in the value chain from EPC margin to developer as well as operating and maintenance margins.

In-house traffic estimation and RMC & bitumen facility, a key strength

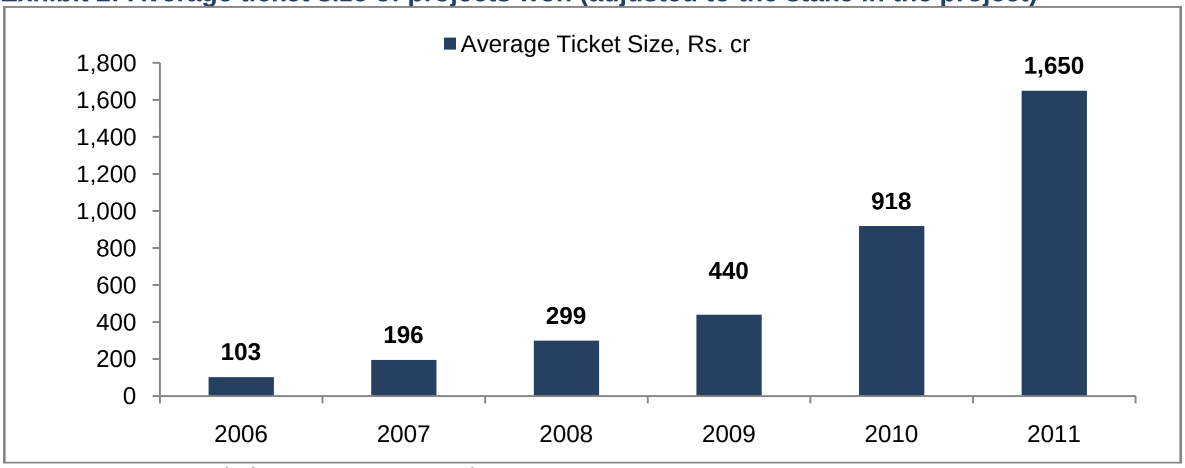
All BOT projects have a long concession period (ranging from 10 to 30 year), where the growth in toll tariff is been decided in the concession agreement the key risk to the assumed IRR is the estimation of traffic growth. ABL has strong in-house expertise in analyzing vehicle traffic from origin to destination, which includes analyzing data from competing roads, industry surveys and upcoming projects in the proposed road project. The company also owns and operates 15 RMC facilities and also bitumen enhancing capabilities, which lead to on time availability of raw materials, further assisting the company in cost control and capturing the margin in the value chain followed by timely completion of construction.

Robust growth in average ticket size of BOT projects

The company has bid and was awarded its first project (Dhule bypass) worth Rs.5.8 cr in 1997 and since has traveled a long way with strong execution track record. With increased net worth the company has successfully won projects worth higher value. The average ticket size of the company (adjusted to project stake) has gone up significantly (Exhibit 2) with a CAGR of 74% over 2006-2011. The company in 2011 has bid and won its highest value project, Dhankuni-Kharagpur project with estimated cost of Rs.2,200 cr. With capabilities to execute higher project size ABL has transformed it from a state level player to a national level BOT company.

Significant growth in (CAGR of 74% over 2006-2011) average ticket size of projects awarded.

Exhibit 2: Average ticket size of projects won (adjusted to the stake in the project)



Source: Company, Shah Investor's Research

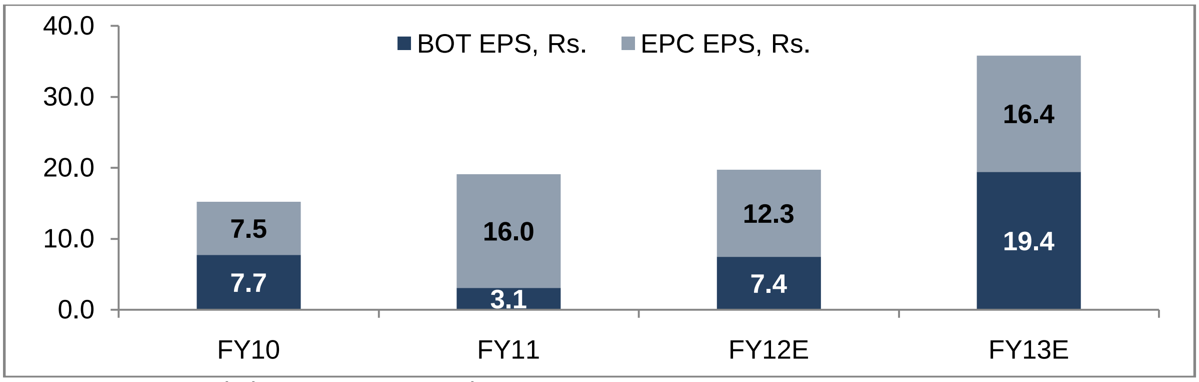
Sustained financial performance

With the acquisition of Dhankuni-Kharagpur (project cost Rs.2,200 cr), Sambalpur-Baragarh (project cost Rs.1,143 cr) and Cuttack-Angul (project cost Rs.1,100 cr) BOT projects the company has build a strong order book. With current order book at 3.9x the FY12E EPC revenue of the company the business for ABL EPC division remains secure for over the next 3 years. Furthermore with 72% projects (13 of total 18 projects) operational the company is well poised to grow with a sustained operating cash flow. We expect the company to post an EPC business EPS CAGR of 30% over FY10-13E and BOT business EPS CAGR of 36% over FY10-13E.

For the five under construction project the company has cleared the major hurdle of land acquisition for all the five projects and the financial closure for the newly acquired Cuttack-Angul project is pending. That is also expected sometime soon. This further gives the visibility of toll revenue in the BOT division as all these projects are with more than 20 years of concession period.

The company is well poised to post BOT EPS CAGR of 36% and EPC business CAGR of 30% over FY10-FY12E

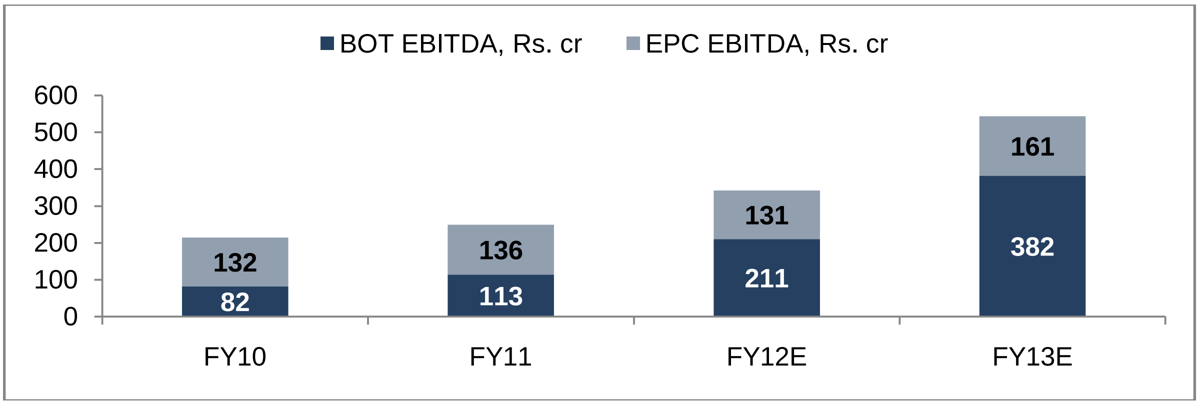
Exhibit 3: BOT & EPC division EPS trend



Source: Company, Shah Investor's Research

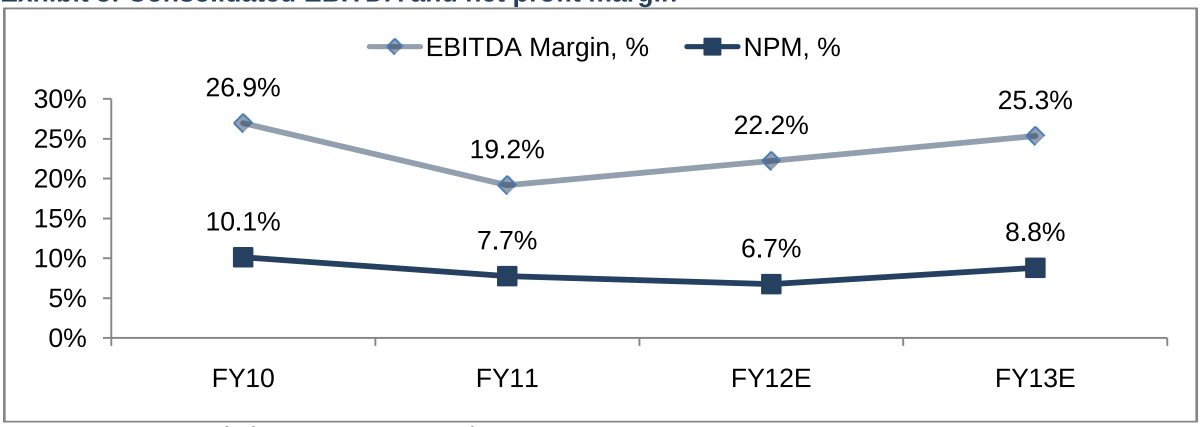
With 72% operational projects and the Dhankuni project to start contribution from FY13E, expect robust EBITDA growth in BOT division.

Exhibit 4: BOT & EPC division EBITDA trend



Source: Company, Shah Investor's Research

Exhibit 5: Consolidated EBITDA and net profit margin



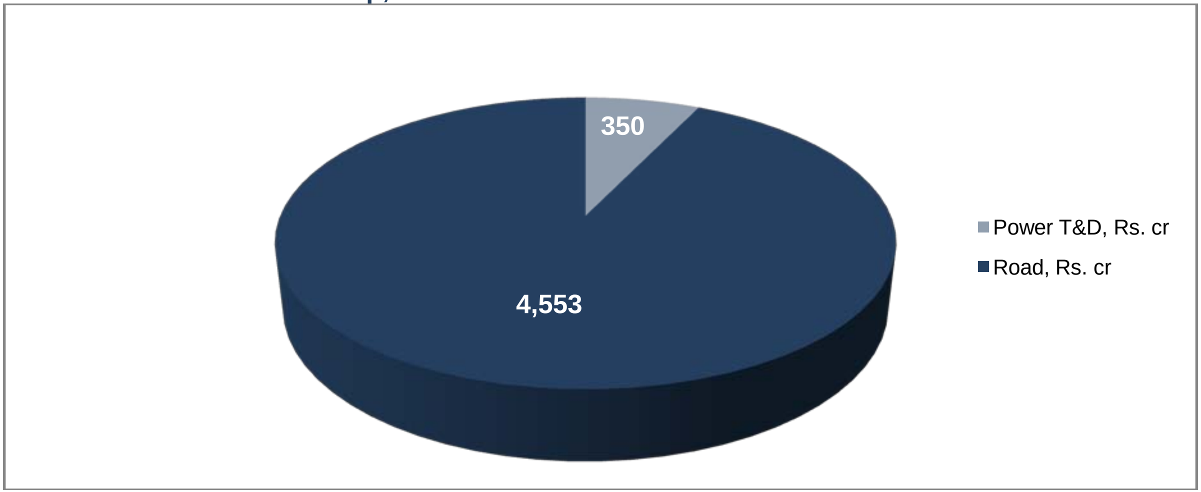
Source: Company, Shah Investor's Research

Strong order book, a visibility of stable cash flow

ABL's order book at the end of FY12E stands at Rs.4,903 cr. The order book of the company is distributed into two broad segments power T&D and road projects, where road project consists of a larger share (close to 85% to 90%). The robust growth of order book in FY11 was backed by strong order inflow in road segment where the company was awarded 3 large NHAI projects. The current order book which is close to 3.9x the FY12E EPC revenue gives a good visibility for future cash flows of the company in the EPC business. The stable flow of funds from the EPC business will also help the company to meet its equity obligation for its newly acquired projects.

The company generally has larger share close to 85% to 90% of order book of EPC contracts for road projects.

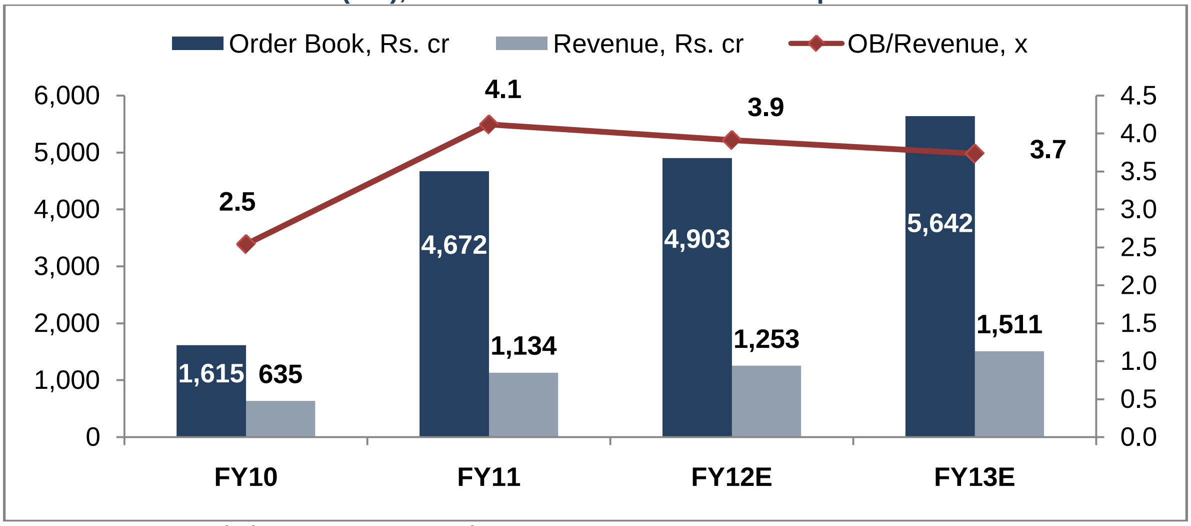
Exhibit 6: Order book breakup, Rs. cr



Source: Company, Shah Investor's Research

The current order book which is close to 3.9x the FY12E revenue gives a good visibility for future cash flows of the company in the EPC business.

Exhibit 7: EPC Order book (OB), Revenue and OB/Revenue multiple trend



Source: Company, Shah Investor's Research

Peer Comparison

Exhibit 8: Peer comparison ***(Based on FY12 Financials)***

Co. Name	CMP, Rs.	Mcap, Rs. cr	P/B, x	PE, x	EV/EBITDA, x	D/E, x	RoE, %	RoCE, %	**Order book, Rs. cr	Order Book/ Sales, x
*Ashoka Buildcon	196	1,033	1.0	9.9	8.2	1.8	^10.5%	8.0%	5,150	3.3
IL&FS Transport	174	3,371	1.2	6.8	7.6	2.9	18.0%	12.9%	8,900	1.6
IRB Infrastruc	122	4,043	1.4	8.2	5.9	2.0	17.4%	12.4%	9,635	3.1
#IVRCL Ltd.	56	1,507	0.6	29.8	7.6	1.6	1.9%	7.7%	22,000	3.2

Source: Company, Shah Investor's Research
** Based on FY12 estimated financials*
*** Order book as of Q3 FY12.*
 # Based on FY11 financials.
^ Ex Rs.220 crs securities premium from the IPO proceeds the Shareholder's Equity stands at Rs.774 crores (Rs.994 cr.-220 cr.) and thus adjusted RoE of the company for FY12E comes to around at 13.4%

Minutes from our management call

- Order book in the EPC business by the end of FY12 is expected to be close to Rs.4,900 cr to Rs, 5,000 cr and every year expects to add orders worth Rs.1,500 cr to Rs.2,000 cr.
- Current order book will secure the revenue over the next three years for the EPC division.
- Management will focus to maintain Power T&D orders at 15% of the total order book size.
- ABL has formed a SPV of eight projects and is in talks with various investors for dilution of the stake to meet the equity obligations in the under construction projects.
- The management plans to raise close to Rs.700 cr by the dilution of the stake in the SPV.
- The financial closure for the newly acquired Cuttack-Angul project is pending and is expected to close soon.
- Most of the projects of the company lie along NH6 and expects strong growth in traffic by the freight movement from the mineral rich Orissa, Chhattisgarh to the industrial rich states of Gujarat and Maharashtra.
- Bitumen and Cement consist of close to 15% to 20% of the project cost and the company has tied up sourcing contracts with various refineries and cement manufacturers.

.

Valuation

Ashoka Buildcon with 35 years of rich experience in EPC business has a strong track record of in-time execution of all projects. With 72% of the BOT projects operational and robust order book of 3.9x the FY12E revenue for the EPC division the company is well poised to post strong and sustained cash flows ahead. Furthermore, with in-house traffic estimation team as well as RMC & bitumen facility the company can garner higher margins.

We value the various BOT projects on discounted free cash flow to equity analysis (*Exhibit 25, example of Bhandara project NPV calculation*) with an IRR assumption of 14% (risk free rate of 8.6%, Beta 0.9 and market premium of 6%) for operational projects and 15.2% (risk free rate of 8.6%, Beta 1.1 and market premium of 6%) for under construction projects. We arrive at a fair value of Rs.233 per share for the BOT division. Further we value the EPC business on EV/EBITDA multiple and arrive at fair value of Rs.149.8 per share at 6x FY12E EBITDA of Rs.131 cr. Post deduction of the net debt at standalone level of Rs.96.5 per share we arrive at fair value of Rs.286 per share for ABL.

We recommend BUY for Ashoka Buildcon at CMP with an upside potential of 46% and an investment horizon of 12 months.

Exhibit 9: SOTP valuation

Project	Status	Project Cost, Rs. cr	Project NPV, Rs. cr	ABL Stake	Per Share Value, Rs.
Bhandara	Operational	535	77	51%	7.4*
Pune-Shirur	Operational	161	49	100%	9.4
Ahmednagar-Aurangabad	Operational	103	21	100%	4.1
Ahmednagar-Karmala	Operational	50	55	100%	10.5
Wainganga	Operational	41	40	50%	3.8
Dhule Bypass	Operational	6	7	100%	1.3
Nashirabad	Operational	15	12	100%	2.2
Sheri Nallah Bridge	Operational	14	9	100%	1.8
Indore-Edalabad	Operational	165	170	100%	32.2
Dewas Bypass	Operational	61	21	100%	4.0
Katni Bypass	Operational	71	64	100%	12.2
Durg	Operational	587	266	51%	25.8
Jaora-Nayagaon	Operational	835	453	23%	19.7
Belgaum-Dharwad	Under Construction	694	126	100%	23.9
Pimpalgaon-Nasik-Gonde	Under Construction	1,691	279	26%	13.8
Sambalpur-Baragarh	Under Construction	1,142	33	100%	6.2
Dhankuni-Kharagpur	Under Construction	2,200	304	100%	57.8
Cuttack-Angul	Under Construction	1,100	-16	100%	-3.1
NPV of BOT Projects					**233.0**
EPC (Parent)	**EV/EBITDA, 6x**	**FY12E EBITDA**	**790**	**100%**	**149.8**
Less: Net Debt at Standalone level			**508**		**96.5**
Fair Value					**286**

Source: Company, Shah Investor's Research
** Exhibit 25: Bhandara project NPV calculation*

Key Concerns

Equity infusion required for under construction projects

Of the total 18 BOT projects that the company own 5 projects are under construction projects for which the company has 25% equity obligation. The company has completed the financial closure for all the projects except Cuttack-Angul which is recently acquired and the financial closure for it is expected soon. The company over FY12E-FY14E have a total equity obligation of Rs.1,147 cr. Of this the company is expected to generate Rs.356 cr in the EPC business and Rs.372 cr from BOT division and has a cash balance of Rs.71 cr as of FY11 end. The balance fund required stands at Rs.348 cr. The company has formed a SPV (Exhibit 11) of eight projects in which it intends to dilute stake and plans to raise close to USD 100 to 150 million (Rs.500 cr to Rs.750 cr). However, be believe in the current economic scenario it may be tough for the company to garner the required valuation. Hence we believe the balance funding may be either by raising debt or leveraging of the debt free operational projects.

Exhibit 10: Equity infusion required and source of fund

Particulars, Rs. cr	FY12E	FY13E	FY14E	Total
Equity required for:				
Belgaum Dharwad	70	70	17	157
Pimpalgaon-Nasik-Gonde	53	13	0	66
Sambalpur-Baragarh	46	137	137	320
Dhankuni-Kharagpur	0	220	220	440
Cuttack-Angul	0	55	110	165
Total	**168**	**495**	**484**	**1,147**
Source of fund:				
Cash Flow from EPC	89	120	148	356
Cash Flow from BOT	80	197	95	372
Cash Balance FY11				71
Balance to be funded from parent (Dilution of stake in SPV / Raise Debt)				**348**

Source: Company, Shah Investor's Research

Exhibit 11: SPV for stake dilution

Sr. No	Projects	Status
1	Bhandara	Operational
2	Durg	Operational
3	Jaora-Nayagaon	Operational
4	Belgaum Dharwad	Under Construction
5	Sambalpur-Baragarh	Under Construction
6	Dhankuni-Kharagpur	Under Construction
7	Pimpalgaon-Nasik-Gonde	Under Construction
8	Cuttack-Angul	Under Construction

Source: Company, Shah Investor's Research

Financial closure for Cuttack-Angul project pending

The company in the month of November 2011 won the Cuttack-Angul project with a total project cost estimated at Rs.1,100 cr. The company is currently in talks with various banks for the financial closure which is expected sometime soon.

Agitation by owners of land

In BOT projects the acquisition of land is done by NHAI and the projects are been awarded for bidding after NHAI completes acquisition of 85% of the total land required. However, there may be agitation by the land owners which may hinder the timely completion of projects and may lead to loss of toll revenue.

Industry

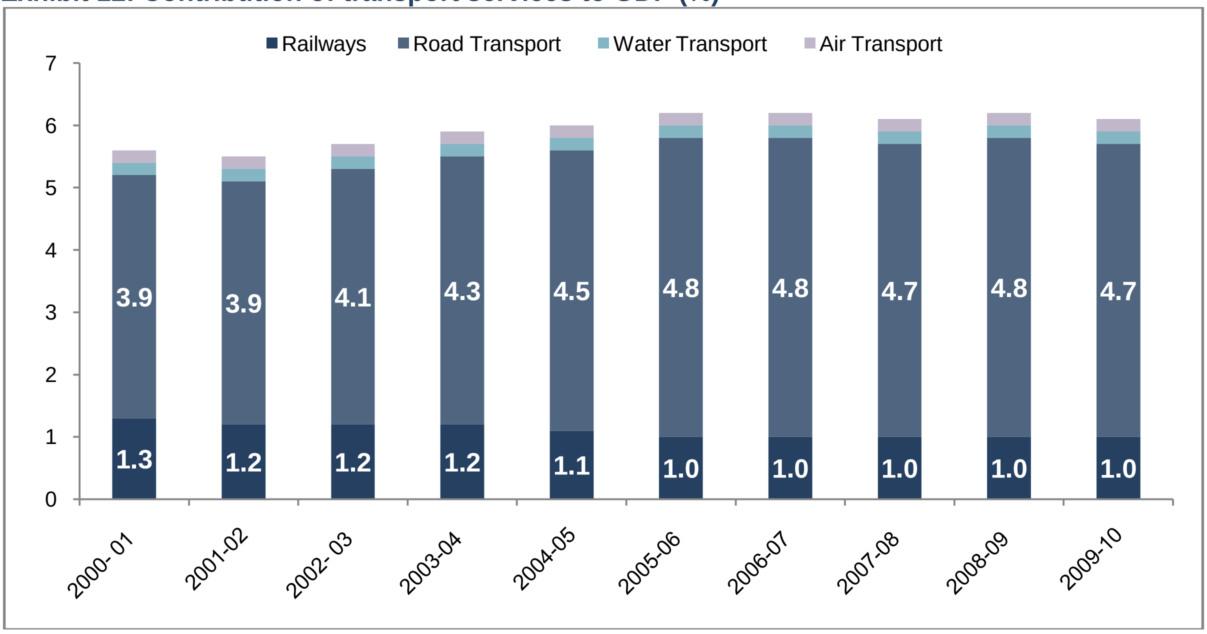
Demand for roads is outstripping the Supply

The Indian road network consisting of national highways, state highways, major district roads, urban and rural roads and is the 2nd largest in the world with a cumulative stretch of more than 42.4 lakh km (second only to US 65.45 lakh Km and ahead of China 38.6 lakh Km, *Source: World Bank*). Indian national highways / expressways which comprise about 2% of the total road length in India carry about 40% of the total road traffic. The road network carries more than 70% of the country's freight. Indian railways are unable to match with the growth in freight in India. Total road network carries 85-90% of its passenger traffic but it is not growing quite as fast, road traffic as a whole is growing at 7-10% per year. Such rapid traffic growth has far outstripped the capacity increase of the main road network, resulting in about 25-30% of national and state highways being heavily congested. Passenger traffic with truck speeds hovering about 25-40 km/h. It is estimated that the average daily distance covered by a truck in India is about 300 km, far less than the world average of 600-700 km. this under-utilization of the freight traffic potential on the Indian roads is partly due to poor roads and unsafe conditions. It will become difficult to sustain the present rate of economic growth unless immediate action is taken to provide a good quality road network throughout the country. There is an urgent need to construct more roads, increase the carrying capacity of the existing road network, and improve the quality of the riding surface.

Stagnation in rail freight

Indian Railways which has the world's 4th largest network (after US, Russia & China) is currently facing various growth constrains largely due to political issues. The tariff rates for the passenger segment have been hiked for the first time in the decade which was also very miniscule. The freight rates are currently subsidizing the passenger rates; however there is an immediate need for reformatory measures for the ailing Indian rail. Over the last decade where the contribution of road transport to GDP has gone up from 3.9% to 4.7% the contribution from railways have gone down to just 1% from 1.3% (Exhibit 12). Countries such as US and China where the extensively build rail network have a significant higher share in the total freight over roads, India is other way round, despite the fact that a large part of India's freight traffic comprises bulk material and moves over long distances that can be more economically served by rail network. This stagnation prevailing in the Indian Railways has lead to growth in the capacity utilization of road networks.

Exhibit 12: Contribution of transport services to GDP (%)



Source: Ministry of Statistics & Programme Implementation, Shah Investor's Research

World Bank study on Indian road construction industry, 2008

World Banks has identified various determinants and has done analysis on 5 key determinants ((a) industry competency, (b) inputs–materials, equipment, (c) workforce, (d) infrastructure and (e) government role) in its comprehensive study on the road construction Industry in India, 2008. Each of the determinants was then subdivided into four to eight factors. Three ratings were used for assessing the performance of each factor - *unsatisfactory* (need to immediately improve), *tolerable* (need to monitor and find ways to improve) and *satisfactory* (which can be maintained).

Exhibit 13: Analysis of the determinants

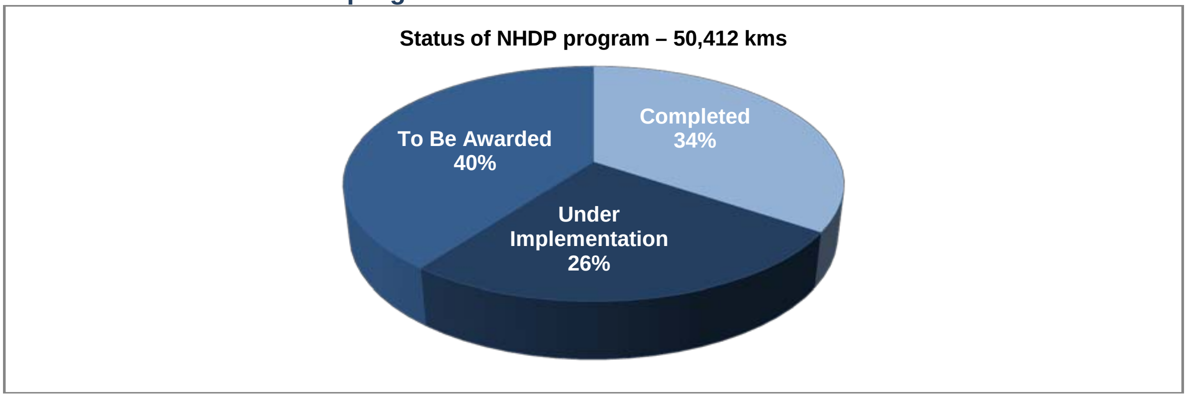
Determinants	Factors	Performance
Industry Competency	Demand–Supply & capacities	Unsatisfactory
	Finance cost and availability	Tolerable
	Industry structure and barriers to entry	Tolerable
	Profitability	Unsatisfactory
	Quality and delivery systems	Tolerable
Inputs - material, Equipments	Availability	Tolerable
	Cost and price trends	Tolerable
	Import procedures	Tolerable
	Quality	Satisfactory
	Taxes and duties	Tolerable
Workforce	Availability of staff	Unsatisfactory
	Education and skill levels	Unsatisfactory
	Cost of manpower	Satisfactory
	Productivity	Tolerable
	Labor regulations	Tolerable
	Condition of unorganized workers	Tolerable
Infrastructure	Transportation cost & time	Satisfactory
	Power costs and availability	Satisfactory
	Water costs and availability	Tolerable
	Communication facilities	Satisfactory
Government role	Sector policy	Satisfactory
	Institutional structure	Tolerable
	Regulation	Unsatisfactory
	Dispute resolution	Unsatisfactory
	Operational issues	Unsatisfactory
	Incentives and subsidies	Unsatisfactory
	Law and order	Tolerable
	Foreign investment related restrictions	Tolerable

Source: World Bank, Shah Investor's Research

Road sector; opportunities in great quantity

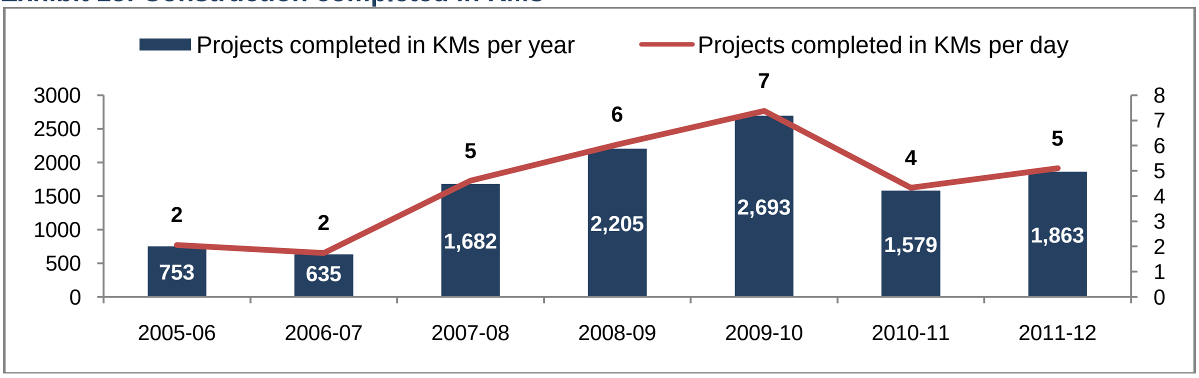
Out of the 50,412 km of the planned National Highway under the National Highways Development Project (NHDP), the NHAI is yet left with around 20,065 km that has to be awarded. There are like about 40% of bidding in pipeline to ensure adequate scope & substantial opportunity for all players. Ministry has set a target of covering a length of 8,800 km under NHDP in FY2012-13 as against 7,300 km planned for FY2011-12. To further enhance the growth in projects outlay the ministry has enhanced the budgeted outlay by 14% to Rs.25,360 cr in FY12-13 budget. In the union budget the ministry has given full exemption from import duty on specified equipment imported for road construction by contractors of Ministry of Road Transport and Highways. There are plans to build 18,637 km of expressways by 2022 in three phases and around 1,000 km of expressway is expected to be completed over the next five years under its flagship road building programme NHDP, entailing an investment of Rs.16,680 cr. The Road ministry has planned to build close to 20km of road per day but is only so far able to complete 5.1km/day, however it is up from 4.3km/day YoY. NHAI has scheduled bidding for tenders worth Rs.9,840 cr in next two months (Exhibit 17).

Exhibit 14: Status of NHAP program



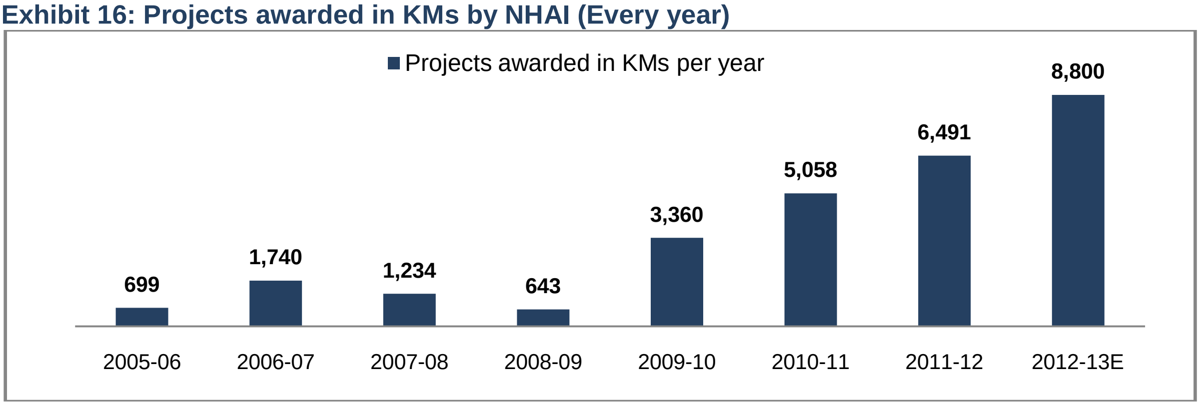
Source: NHAI, Shah Investor's Research

Exhibit 15: Construction completed in KMs



Source: NHAI, Shah Investor's Research

Exhibit 16: Projects awarded in KMs by NHAI (Every year)



Source: Industry, Shah Investor's Research

Upcoming tenders

Exhibit 17: NHAI schedule for BOT projects next two months

Date	Projects	States	KM's	Indicative Project Cost (In Rs. cr)
9-May-12	Walayar – Vadakkancherry section of NH-47	Kerala	54	682
9-May-12	Udhampur to Ramban Section of NH-1A	Jammu & Kashmir	43	Not Yet Decide
10-May-12	Walajahpet to Poonamallee	Tamil Nadu	93	Not Yet Decide
11-May-12	Rajasthan Border-Salasar section of NH-65	Rajasthan	154	530
15-May-12	Chandikhole-Paradeep Section of NH-5A	Orissa	77	Not Yet Decide
23-May-12	Rohtak Hisar Section	Haryana	99	1,028
24-May-12	Solan Shimla Section of NH-22	Himachal Pradesh	51	1,786
25-May-12	State of Karnataka under NHDP-Phase-IV	Karnataka	80	721
31-May-12	Vijayawada - Gundugolanu	Andhra Pradesh	104	1,684
1-Jun-12	Hubli-Hospet section of NH 63	Karnataka	143	1,333
5-Jun-12	Solapur - Maharashtra/karanatka border section of NH-9	Maharashtra	100	Not Yet Decide
5-Jun-12	Amravati- Jalgaon section of NH-6	Maharashtra	275	Not Yet Decide
6-Jun-12	Karnataka/Kerala Border – Kannur Section of NH – 17	Karnataka	127	1,157
7-Jun-12	Birmitrapur to Barkote Section	Orissa	126	778
20-Jun-12	Mulbagal-AP/KNT Border section of NH-4	Karnataka	22	141
		Total	1,547	9,840

Source: NHAI, Shah Investor's Research

New amendment on amortization, positive for the sector

Road developers under BOT projects were required to amortize the value of the project over 15 years. So, at the end of this period, the value of the project in the books was treated as zero, hence banks were unable to finance the project beyond 15 years. So for projects where the concession period is more than 15 years the developer uses to refinance the debt post 15 years with a higher interest rate. In a notification issued on 17th April 2012, the ministry of corporate affairs said the amortization amount or the rate should be such as that the cost of the toll road is amortized over the entire concession period, which could be up to 30 years. With the government amending the rules, highway developers taking up projects under the public-private partnership route can now get loans for the entire contract period of 20-30 years.

Company profile

Ashoka Buildcon Ltd was incorporated in 1976 as a pure EPC company, by Mr. Ashok Katariya (B.E). The company was engaged in the engineering and construction of residential, commercial, industrial and institutional buildings. The company has its head office at Nasik and earlier use to execute projects in Maharashtra and Madhya Pradesh. After acquiring rich experience in EPC business the company moved up the value chain and stared to bid for BOT road projects in 1997 and started its BOT journey with its first project Dhule Bypass awarded in 1997. Since then the company have won various BOT projects and has transformed from a state level player to a national player. The company currently owns 18 BOT project (Exhibit 18) of which 13 projects are operational and 5 projects are under construction project. ABL has recently acquired 50% equity shares of Viva Infrastructure Private Limited ("VIPL") at par value. The Company now holds 99% of the paid-up share capital of VIPL.

Key management personnel

Mr. Ashok Katariya

Aged 62 years, is the Executive Chairman of the Company. He is a gold medallist in Bachelor of Engineering (B.E.) from COEP, Pune University, India. Ashok M. Katariya has previously worked with the Public Health Department in Maharashtra and Prabhakar Takle & Co. In 1975, he started the working as a contractor to the PWD, Maharashtra. Subsequently, he ventured into civil construction and infrastructure development. He is an active participant in the Institute of Engineers, Indian Concrete Institute, Indian Institute of Bridge Engineers, Builders Association of India and Construction Federation of India. He has received the "Udyog Ratna" award from Indian Economic Council and Life Time Achievement award from the Association of Consulting Civil Engineers.

Mr. Satish Parakh

Aged 53 years, is the Managing Director of the Company. He holds a B.E. degree in civil engineering. Satish D. Parakh has been with the Ashoka Group since 1982 and has executed various industrial/residential and BOT projects. He has previously worked with Shapoorji Pallonji & Company and M/s Kanitkar-Kulkarni. He is a Member of Maharashtra Economic Development Council. He was also the chairman of the Institute of Engineers, Nashik in 2007.

Mr. Paresh Mehta

Aged 48, Is the Chief Financial Officer of the company. He holds a C.A. degree and heads the finance, banking, taxation and accounting department of the company. He is been working with the company last 10 years and has close to 20 years of industry experience.

Exhibit 18: BOT projects on the company

Sr. No	Project	Status	Average toll collection per day, FY13E, Rs. cr	ABL Stake	ABL share of Toll Collection per day	Project Cost, Rs. cr	Concession period, yr	End of concession period	Location	Lane / Lane km	Client
1	Bhandara	Operational	0.13	51%	0.07	535	20	Mar-28	Maharashtra	4/377	NHAI
2	Pune-Shirur	Operational	0.06	100%	0.06	161	12	Oct-15	Maharashtra	4/216	PWD
3	Ahmednagar-Aurangabad	Operational	0.05	100%	0.05	103	11	Sep-16	Maharashtra	4/168	PWD
4	Ahmednagar-Karmala	Operational	0.08	100%	0.08	50	17	Nov-15	Maharashtra	2/160	PWD
5	Wainganga	Operational	0.06	50%	0.03	41	19	Feb-18	Maharashtra	2/26	MORT&H
6	Dhule Bypass	Operational	0.01	100%	0.01	6	12	Mar-15	Maharashtra	2/12	PWD
7	Nashirabad	Operational	0.02	100%	0.02	15	11	Mar-15	Maharashtra	2/ 8	MORT&H
8	Sheri Nallah Bridge	Operational	0.01	100%	0.01	14	16	Jun-15	Maharashtra	2/7	PWD
9	Indore-Edalabad	Operational	0.19	100%	0.19	165	15	Apr-17	Madhya Pradesh	2/406	MPRDC
10	Dewas Bypass	Operational	0.07	100%	0.07	61	11	Aug-15	Madhya Pradesh	2/40	PWD
11	Katni Bypass	Operational	0.05	100%	0.05	71	12	Sep-18	Madhya Pradesh	2/35	PWD
12	Durg	Operational	0.19	51%	0.10	587	20	Mar-28	Chhattisgarh	4/368	NHAI
13	Jaora-Nayagaon	Operational	0.25	23%	0.06	835	25	Feb-33	Madhya Pradesh	4/340	MPRDC
14	Belgaum-Dharwad	Under Const.	0.17	100%	0.17	694	30	May-41	Karnataka	6/454	NHAI
15	Pimpalgaon-Nasik-Gonde	Under Const.	0.56	26%	0.15	1,691	20	Jan-29	Maharashtra	6/452	NHAI
16	Sambalpur-Baragarh	Under Const.	0.00	100%	0.00	1,142	30	Dec-40	Orissa	4/408	NHAI
17	Dhankuni-Kharagpur	Under Const.	0.70	100%	0.70	2,200	25	Apr-37	West Bengal	6/840	NHAI
18	Cuttack-Angul	Under Const.	0.00	100%	0.00	1,100	23	Sep-35	Orissa	4/488	NHAI

Source: Company, Shah Investor's Research
NHAI: National Highway Authority of India
PWD : Public Works Department
MORT&H: Ministry of Road Transport & Highways
MPRDC: Madhya Pradesh Road Development Corporation

Financials

Exhibit 19: Consolidated income statement (Quarterly)

Particulars, Rs. cr	Q4 FY12E	Q4 FY11	YoY	Q3 FY12	QoQ
Net Revenue	512.7	603.2	-15.0%	352.9	45.3%
Total Expenditure	398.0	528.1	-24.6%	283.8	40.2%
EBITDA	114.7	75.1	52.8%	69.2	65.9%
EBITDA Margin	22.4%	12.5%	-	19.6%	-
Depreciation	34.8	9.9	253.1%	29.0	20.0%
EBIT	79.9	65.3	22.5%	40.1	99.1%
EBIT Margin	15.6%	10.8%	-	11.4%	-
Other Income	9.0	10.8	-16.4%	13.8	-34.6%
Interest	37.6	24.4	54.3%	27.3	37.7%
Exceptional Items	0.0	107.2	-	0.0	-
PBT	51.4	158.9	-67.7%	26.6	92.8%
Tax	25.0	14.8	68.9%	11.3	121.9%
PAT	26.4	144.1	-81.7%	15.4	71.6%
Minority Interest	8.8	1.4	-	4.1	-
Consolidated Net Profit	35.2	145.4	-75.8%	19.5	80.2%
NPM	6.9%	24.1%	-	5.5%	-
EPS, Rs.	6.68	27.62	-75.8%	3.71	80.2%

Source: Company, Shah Investor's Research

Exhibit 20: Consolidated income statement (Annual)

Particulars, Rs. cr	FY10	FY11	FY12E	FY13E
Net Revenue	796	1,302	1,541	2,145
Total Expenditure	581	1,052	1,199	1,602
EBITDA	214	250	342	543
Depreciation	66	69	119	209
EBIT	148	181	223	334
Other Income	19	34	32	45
Interest	49	69	113*	125
Exceptional Items	0	107	0	0
PBT	118	253	143	254
Tax	32	42	55	73
PAT	86	210	88	181
Minority Interest	-6	-2	16	8
Consolidated Net Profit	80	208	104	189
EPS, Rs.	15.3	39.5	19.7	35.8

Source: Company, Shah Investor's Research

** The company in 2010 and 2011 acquired projects worth of Rs.4,046 cr which has lead to the significant jump in interest cost and also the gross debt in FY12E*

Exhibit 21: Consolidated balance sheet statement

Particular, Rs. cr	FY10	FY11	FY12E	FY13E
SOURCES OF FUNDS:				
Share Capital	58	63	60	60
Share Warrants & Outstanding	0	0	0	0
Total Reserves	404	830	934	1,122
Shareholder's Funds	462	893	994	1,182
Minority Interest	81	111	111	111
Secured Loans	968	1,087	1,522	2,982
Unsecured Loans	154	196	269	526
Total Debts	1,122	1,283	1,790	3,508
Total Liabilities	**1,666**	**2,287**	**2,895**	**4,802**
APPLICATION OF FUNDS :				
Net Block	1,275	1,694	2,231	3,916
Investments	149	139	192	205
Net Current Assets	245	456	474	682
Deferred Tax Assets / Liabilities	-3	-2	-2	-2
Total Assets	**1,666**	**2,287**	**2,895**	**4,802**

Source: Company, Shah Investor's Research

Exhibit 22: Consolidated cash flow statement

Particulars, Rs. cr	FY10	FY11	FY12E	FY13E
Net Income +Depreciation	146.5	277.0	222.7	397.6
Non-Cash Adjustments	(0.9)	-	-	-
Change in Working Capital	(37.9)	(201.0)	(63.7)	(178.0)
Cash Flow from Operation	107.7	76.0	159.1	219.6
Capital Expenditure	477.7	488.0	656.0	1,894.4
Change in Investment (Dec)/Inc	11.0	(44.5)	52.8	13.2
Other Items	-	2.3	-	-
Cash Flow used in Investing	488.7	445.8	708.7	1,907.6
Issue of Equity	-	212.5	(2.8)	-
Issue/(Repay Debt)	399.0	150.1	507.0	1,717.9
Dividend Paid	-	-	-	-
Other Financing Cash Flows	(1.6)	(6.2)	-	-
Cash Flow from Financing	397.4	356.4	504.2	1,717.9
Net Cash	16.4	(13.5)	(45.4)	30.0

Source: Company, Shah Investor's Research

Exhibit 23: DuPont analysis

Particulars	FY10	FY11	FY12E	FY13E
Profit Margin	10.1%	16.0%	6.7%	8.8%
Asset Turnover, x	0.6	0.8	0.7	0.5
Equity Multiplier, x	2.8	1.9	2.2	3.3
ROE	17.4%	23.3%	10.5%	16.0%

Source: Company, Shah Investor's Research

Exhibit 24: Ratio analysis

Particulars	FY10	FY11	FY12E	FY13E
EPS, Rs.	15.3	39.5	19.7	35.8
DPS, Rs.	0	0	0	0
BV, Rs.	87.8	169.6	188.8	224.6
RoCE	9.3%	8.3%	8.0%	7.1%
RoE	17.4%	23.3%	10.5%	16.0%
D/E, x	2.4	1.4	1.8	3.0
P/E, x	12.9	5.0	9.9	5.5
P/B, x	2.2	1.2	1.0	0.9
EV/EBITDA, x	9.7	9.2	8.1	8.3
MCap/Revenue, x	1.3	0.8	0.7	0.5
Net Profit Margin	10.1%	16.0%	6.7%	8.8%
EBITDA Margin	26.9%	19.2%	22.2%	25.3%
Interest Coverage Ration, x	3.0	2.6	2.0	2.7
Revenue Growth	53.5%	63.7%	18.3%	39.2%
EBITDA Growth	92.2%	16.5%	37.0%	58.9%
EPS Growth	130.8%	158.8%	-50.1%	81.5%
Debtor Days	84	80	80	78
Inventory Days	90	68	65	66

Source: Company, Shah Investor's Research

Annexure

Exhibit 25: Bhandara project NPV at equity IRR of 14% (This is an example of our SOTP calculation methodology)

Particulars, Rs. cr	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Toll Revenue Per Day	0.13	0.15	0.17	0.19	0.21	0.23	0.25	0.28	0.30	0.33	0.36	0.38	0.41	0.44	0.47	0.50
No. of days operational	365	365	365	365	365	365	365	365	365	365	365	365	365	365	365	365
Toll Revenue	48.2	54.0	60.5	67.8	75.9	83.5	91.8	101.0	111.1	122.2	130.8	140.0	149.8	160.2	171.5	183.5
YoY Revenue growth	12.0%	12.0%	12.0%	12.0%	12.0%	10.0%	10.0%	10.0%	10.0%	10.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
EBITDA margin	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%
EBITDA	41.0	45.9	51.4	57.6	64.5	71.0	78.1	85.9	94.5	103.9	111.2	119.0	127.3	136.2	145.7	155.9
YoY EBITDA growth	16.1%	12.0%	12.0%	12.0%	12.0%	10.0%	10.0%	10.0%	10.0%	10.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Depreciation	28.9	28.9	28.9	28.9	28.9	28.9	28.9	28.9	28.9	28.9	28.9	28.9	28.9	28.9	28.9	28.9
EBIT	12.1	17.0	22.5	28.7	35.6	42.1	49.1	57.0	65.5	75.0	82.3	90.0	98.4	107.3	116.8	127.0
YoY EBIT growth	-1.9%	40.7%	32.4%	27.4%	24.1%	18.1%	16.9%	15.9%	15.1%	14.4%	9.7%	9.5%	9.2%	9.1%	8.9%	8.7%
Interest exp	28.5	36.7	35.7	33.9	37.2	33.8	29.3	25.9	17.8	14.4	11.0	7.6	4.2	1.5	1.5	1.5
PBT	-16.5	-19.7	-13.2	-5.2	-1.6	8.3	19.8	31.0	47.8	60.6	71.3	82.4	94.1	105.8	115.3	125.5
Tax	0.0	0.0	0.0	0.0	0.0	0.0	6.5	10.2	15.8	20.0	23.5	27.2	31.1	34.9	38.1	41.4
PAT	**-16.5**	**-19.7**	**-13.2**	**-5.2**	**-1.6**	**8.3**	**13.3**	**20.8**	**32.0**	**40.6**	**47.7**	**55.2**	**63.1**	**70.9**	**77.3**	**84.1**
YoY PAT growth	-	-	-	-	-	-	60.7%	56.4%	53.9%	26.9%	17.6%	15.7%	14.2%	12.4%	9.0%	8.8%
EBIT	12.1	17.0	22.5	28.7	35.6	42.1	49.1	57.0	65.5	75.0	82.3	90.0	98.4	107.3	116.8	127.0
Post Tax EBIT	8.1	11.4	15.1	19.2	23.9	28.2	32.9	38.2	43.9	50.2	55.1	60.3	65.9	71.9	78.3	85.1
Depreciation	28.9	28.9	28.9	28.9	28.9	28.9	28.9	28.9	28.9	28.9	28.9	28.9	28.9	28.9	28.9	28.9
Capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in WC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCFF	**37.0**	**40.3**	**44.0**	**48.1**	**52.8**	**57.1**	**61.8**	**67.1**	**72.8**	**79.2**	**84.0**	**89.2**	**94.8**	**100.8**	**107.2**	**114.0**
Post tax Interest	19.1	24.6	23.9	22.7	24.9	22.6	19.6	17.4	11.9	9.6	7.4	5.1	2.8	1.0	1.0	1.0
New Debt-Repayment	-30.8	-30.8	-30.8	-30.8	-30.8	-30.8	-30.8	-30.8	-30.8	-30.8	-30.8	-30.8	-25.1	0.0	0.0	0.0
FCFE	**-12.9**	**-15.0**	**-10.7**	**-5.4**	**-2.9**	**3.7**	**11.4**	**18.9**	**30.1**	**38.7**	**45.9**	**53.4**	**66.9**	**99.8**	**106.2**	**113.0**
Period	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
PV	-11.3	-11.6	-7.2	-3.2	-1.5	1.7	4.6	6.6	9.3	10.4	10.9	11.1	12.2	15.9	14.9	13.9
NPV of Project, Rs. cr	**76.6**															
ABL Stake	**51%**															
ABL Share, Rs. cr	**39.1**															
Per Share Value, Rs.	**7.42**															

Source: Company, Shah Investor's Research

ISO 9001 : 2008 Certified

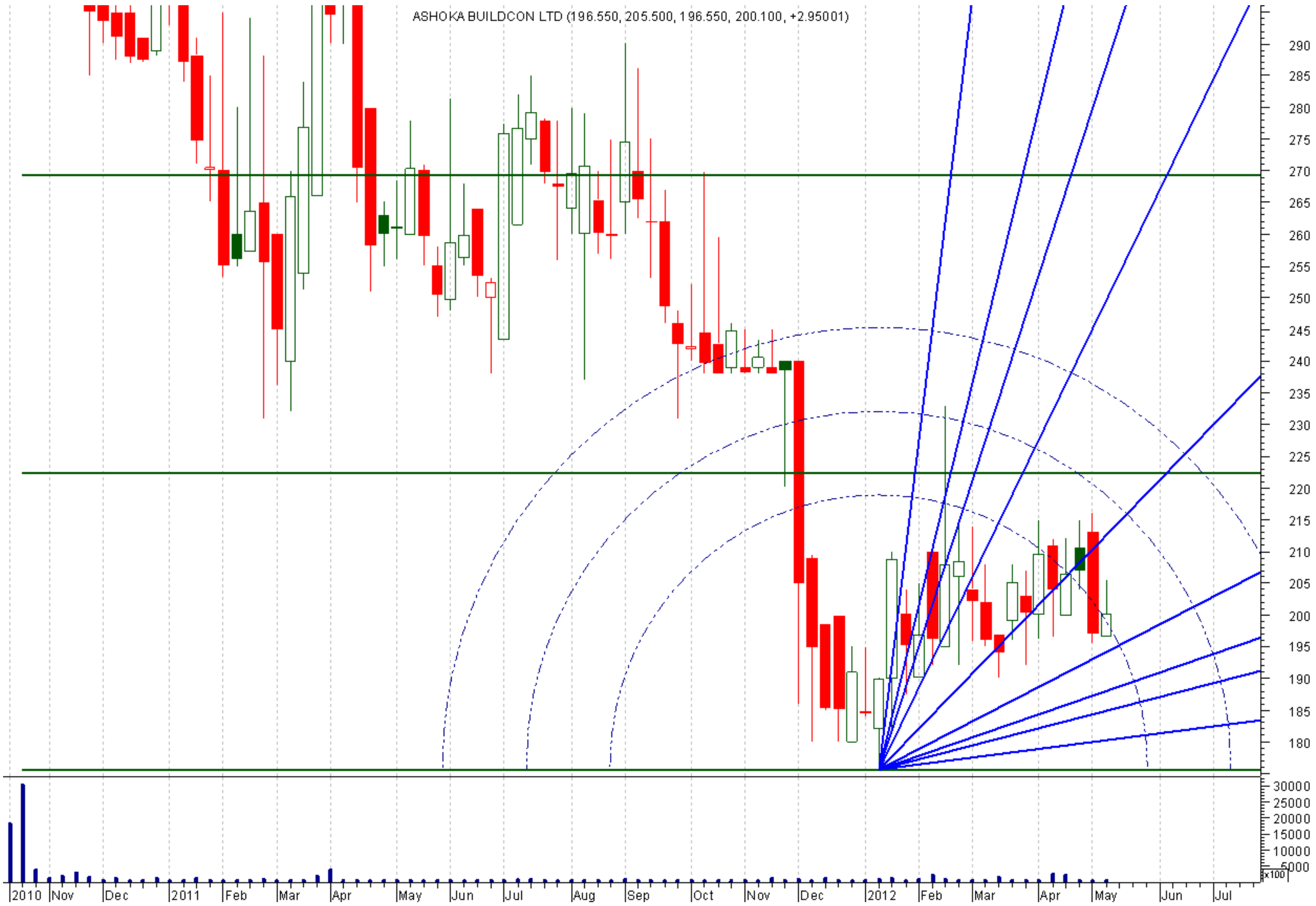
shah investor's home ltd®

SERVICES THAT SECURE SMILES

Ashoka Buildcon Ltd.

10th May 2012

Technical Corner



Ashoka has been trading well above the 3 x 1 i.e. 18.75 degrees Gann angle, taking support of 2 x 1 angle i.e. 26.25 degree on weekly chart indicating a positive bias in the stock however the swiftness in the price movement will emerge once the stock starts trading above the 1 x 1 i.e. 45 degree angle. Despite of the fact that Ashoka has recorded a very low trading volume history we are of the view that until the 3 x 1 i.e. 18.75 degrees Gann angle is not breached the stock will trade on the upside taking first support at 2 x 1 i.e. 26.25 degrees & second support at 3 x 1 i.e. 18.75 degrees angle. Investor can **BUY** Ashoka at CMP keeping a strict stop loss of 180 for target of 235 & 270.

Contact Details

105/B, 1st Floor, Sahayog Tower,
Above Central Bank of India,
SV Road, Kandivali (W)
Mumbai 400 067
www.sihl.in

Contact: research@sihl.in, +91-2801 6715/16
You can also access our reports on Bloomberg (ERH SIH<GO>)