

Ashoka Buildcon

(i)

TOLLING HARD



Ashoka Buildcon

27 June 2013

Reuters: ABDL.BO; Bloomberg: ASBL IN

Tolling Hard

We have assigned a Buy rating with a target price of Rs264 to Ashoka Buildcon (ABL), a premier toll road operator having BOT (Build, Operate, Transfer) road asset portfolio comprising 16 projects worth Rs83bn. We like the integrated business model of ABL which captures the entire value chain and provides strong project execution capability and full control over the costs and timeline. We believe the stock provides a good investment opportunity considering the following: 1) Robust growth likely in BOT toll revenue with a CAGR of 47% over FY13-FY15E, 2) Scalability factor in the business model post investment by a private equity firm (SBI-Macquarie), 3) Potential growth in the EPC (Engineering, Procurement and Construction) segment, and 4) Attractive valuation.

Coveted BOT asset portfolio: ABL is one of the premier toll road developers in India and the largest BOT player on NH6 with a portfolio comprising 16 road projects (12 operational and 4 under implementation) spread across six states with ~4,300 of lane km. Currently, ABL does not recognise toll collection for projects where the construction work is incomplete. Therefore, the reported toll collection revenue remains subdued. Most of the large projects are likely to be completed by 1HFY15E, thereby providing a toll revenue CAGR of 47% YoY over FY13-FY15E.

PE funding provides scalability: Private equity fund (SBI-Macquarie) made a commitment to invest Rs7.0bn in ABL's 100% arm Ashoka Concessions (ACL) at a premium to book value (~1.2x-1.3x of equity commitment) where stake dilution in ACL would be ~34%-39%, but investment would be 45% of equity requirement. This deal secures equity funding for projects under development at a premium valuation. SBI-Macquarie also made a commitment to make a further investment of Rs6.5bn for new projects, thereby enabling ACL to bid and execute incremental projects worth Rs55bn-Rs63bn.

EPC order book at Rs33bn: ABL's EPC order book stands at Rs33bn, (~2x FY13 construction revenue), of which Rs22bn of projects are likely to be executed over the next 18 months. This would keep the near-term revenue visibility intact. However, the current order book shows poor revenue visibility from a long-term perspective, but based on pre-qualification for projects worth Rs230bn and the focus on third-party EPC projects we are confident that ABL would be in a position to secure major orders in FY14 and improve revenue visibility.

Assign Buy rating to the stock with a SOTP-based target price of Rs264: We have valued BOT projects of ABL via FCFE methodology and its EPC business at a P/E ratio of 5x FY15E earnings, assigning a Buy rating to its stock with a target price of Rs264. Our target price of Rs264 comprises Rs171 (65% of SOTP valuation) for BOT assets and Rs93 (35% of SOTP valuation) for the EPC business. **New project wins, timely execution of ongoing projects and lower dilution in ACL's stake would be additional catalysts for the stock.**

Y/E March (Rsmn)	FY11	FY12	FY13	FY14E	FY15E
Net sales	13,031	15,000	18,527	21,132	24,751
YoY (%)	63.8	15.1	23.5	14.1	17.1
EBITDA	2,533	3,250	3,719	4,659	6,368
EBITDA margin (%)	19.4	21.7	20.1	22.0	25.7
Net profit	1,008	1,248	999	1,113	1,177
EPS (Rs)	42.5	23.7	19.0	21.1	22.4
PER (x)	11.3	8.1	9.6	8.6	8.1
P/BV (x)	1.3	1.0	0.9	0.9	0.8
RoCE (%)	8.0	8.1	6.2	5.4	6.7
RoE (%)	11.3	12.1	9.5	9.9	9.8

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Infrastructure

CMP: Rs182

Target Price: Rs264

Upside: 45%

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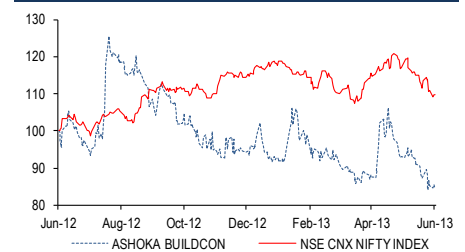
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Key Data

Current Shares O/S (mn)	52.7
Mkt Cap (Rsbn/US\$m)	9.8/161.5
52 Wk H / L (Rs)	283/174
Daily Vol. (3M NSE Avg.)	6,050

Share holding (%)	2QFY13	3QFY13	4QFY13
Promoter	67.3	67.3	67.3
FII	0.03	0.04	0.04
DII	18.3	18.3	17.8
Corporate	6.5	6.5	6.8
General Public	7.8	7.9	8.1

One Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
Ashoka Buildcon	(7.5)	(9.0)	(13.4)
Nifty Index	(6.6)	(5.4)	9.1

Source: Bloomberg

Assign Buy rating to the stock with a target price of Rs264

We have assigned a Buy rating to ABL with a target price of Rs264 based on SOTP valuation. We have valued the stock using the FCFE methodology for BOT projects and relative valuation (P/E ratio) for EPC business. BOT projects have a definite concession period and a long-term predictable cash flow with a definite capex and debt repayment structure, which is appropriately captured in the FCFE model used for valuing the road assets. EPC business is primarily driven by in-house projects and is valued at 5x FY15E earnings. Accordingly, we have arrived at a target price of Rs264, comprising Rs171 (65% of SOTP valuation) for BOT assets and Rs93 (35% of SOTP valuation) for the EPC business.

Exhibit 1: SOTP valuation

Segment-wise	Method of valuation	Rs/share
ABL projects-9 projects	FCFE	54
ACL projects- 7 projects	FCFE	117
EPC business	P/E ratio (FY15E, 5x)	93
Total	-	264

Source: Company, Nirmal Bang Institutional Equities Research

BOT assets valued at Rs171/share (65% of SOTP valuation)

ABL's BOT asset portfolio comprised nine road projects (company owned) and seven projects owned by ACL (12 operational and 4 under implementation). Based on our assumption of 4%-8% traffic growth, toll rate hike of 4%-8% and discounting rate of ~13%-15%, we have valued the BOT asset portfolio at Rs171/share (65% of SOTP valuation) and believe the BOT assets trade at a significant discount, which are likely to be re-rated on the back of increase in cash flow from these assets after the completion of the projects by 1HFY15.

Exhibit 2: ABL-owned project portfolio

Project name	State	Stake	Discounting rate	Equity value (Rsmn)	Rs/share
Nagar-Aurangabad road project	Maharashtra	100%	13%	132	3
Sherinallah bridge	Maharashtra	100%	13%	63	1
Indore-Edlabad road project	Madhya Pradesh	100%	13%	1,351	26
Pune-Shirur road project	Maharashtra	100%	13%	379	7
Katni bypass road project	Madhya Pradesh	100%	13%	219	4
Dewas bypass road project	Madhya Pradesh	100%	13%	103	2
JAIPL-Wainganga	Maharashtra	50%	13%	307	6
Nashirabad railway over bridge	Maharashtra	100%	13%	221	4
Dhule bypass road project	Maharashtra	100%	13%	71	1
Total				2,845	54

Source: Company, Nirmal Bang Institutional Equities Research

ABL's stake in ACL estimated at 61% stake (at Rs117/share)

ACL has seven large projects which are jointly owned by SBI-Macquarie and ABL. SBI-Macquarie's equity stake will be in the range of 34%-39% in ACL, depending on the performance of Sambalpur-Bargarh road project in FY15E. However, we have estimated ABL's stake in ACL at 61% and SBI-Macquarie's stake at 39%. Based on this we have arrived at a valuation of Rs117/share. **Our BOT asset valuation may increase by Rs9/share if the Sambalpur-Bargarh project's performance is in line with expectations in FY15E, which will lower the dilution to 34% in ACL from our estimate of 39%.**

Exhibit 3: Project-wise valuation of ACL portfolio

Project name	State	Stake	Road	Equity value (Rsmn)	Equity IRR	Rs/share
Belgaum-Dharwad road	Karnataka	100%	NH-4	1,951	19%	37
Sambalpur-Baragarh road	Orissa	100%	NH-6	871	17%	17
Dhankuni Kharagpur road	West Bengal	100%	NH-6	5,214	21%	99
Durg-Chhattisgarh road	Chhattisgarh	51%	NH-6	615	23%	12
Bhandara road	Maharashtra	51%	NH-6	241	14%	5
Jaora-Nayagaon road	Madhya Pradesh	23%	SH-31	347	15%	7
Pimpalgaon-Nasik-Gonde Road	Maharashtra	26%	NH-3	841	22%	16
Total						191
@ABL's stake in ACL				66%	-	126
@ABL's stake in ACL				61%	-	117

Source: Company, Nirmal Bang Institutional Equities Research

EPC business valued at 5x based on P/E ratio

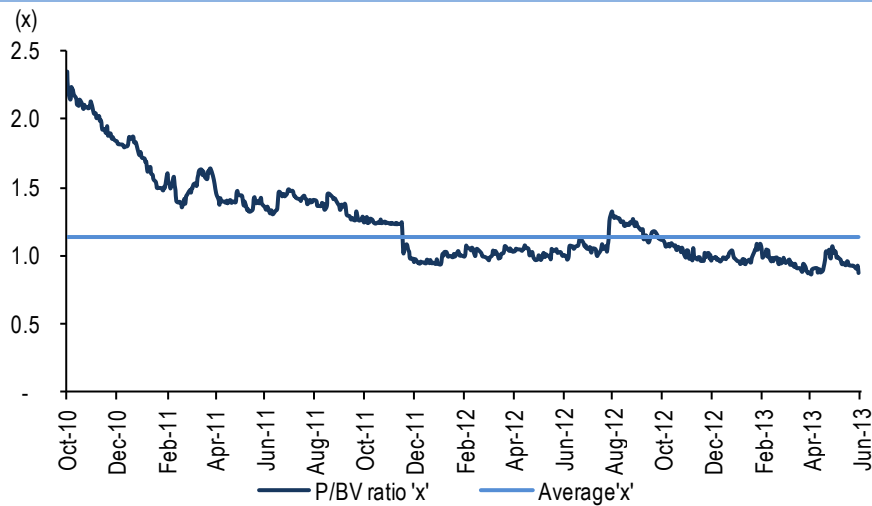
ABL's EPC business derives revenue from in-house projects and enjoys a stable margin of 12%-13.5%. For most pure EPC players, a road project is a low-margin business where they typically have an 8%-10% EBITDA margin. However, **ABL registers 12%-13.5% margin led by its integrated business model which captures traffic study, designing, raw material supply, its own equipment fleet and minimal sub-contracting. We have valued the EPC business of the company at a P/E multiple of 5x FY15E earnings (lower end of the 10-year historical range for EPC players).**

Exhibit 4: P/E trend



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 5: P/BV trend



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Investment Arguments

Coveted BOT asset portfolio- blend of stable cash-flow and growth

ABL is one of the premier toll road developers in India with a portfolio comprising 16 road projects (12 operational and 4 under implementation) spread across six states with 4,300 of lane km. From its portfolio of 16 road projects, 9 road projects are owned by ABL which has a debt of Rs1.1bn with toll collection at ~Rs2.0bn in FY13, providing stable free cash flow. The remaining seven projects are large ones (three operational and four under execution) which are jointly owned by ABL with SBI-Macquarie and are in various stages of completion. **After the completion of all projects - likely by the end of 1HFY15 - the toll revenue is expected to show a CAGR of 47% over FY13-FY15E, which will provide the growth momentum in operating profit.**

Exhibit 6: Project portfolio

ABL projects	Ownership (%)	State	Client	Lane km	Signing date	Concession period (Years)
Indore Edlabad road project	100%	Madhya Pradesh	MPRDC	406.6	Sep-2001	15.0
Dewas bypass road project	100%	Madhya Pradesh	PWD	39.6	Aug-2001	10.8
Katni bypass road project	100%	Madhya Pradesh	PWD	35.2	Aug-2002	12.0
Nagar-Aurangabad road project	100%	Maharashtra	PWD	168.0	Dec-2006	10.8
JA IPL-Wainganga	50%	Maharashtra	MORT&H	26.0	Nov-1998	18.8
Sherinallah bridge	100%	Maharashtra	PWD	7.0	Mar-1999	16.3
Pune Shirur road project	100%	Maharashtra	PWD	216.0	May-2003	12.2
Nashirabad railway over bridge	100%	Maharashtra	MORT&H	8.0	Nov-1998	10.9
Dhule bypass road project	100%	Maharashtra	PWD	11.8	Aug-1997	8.8
ACL projects						
Belgaum-Dharwad road	100%	Karnataka	NHAI	454	Jun-2010	30.0
Sambalpur-Baragarh road	100%	Orissa	NHAI	407	Jun-2010	30.0
Dhankuni -Kharagpur road	100%	West Bengal	NHAI	840	Jun-2011	25.0
Durg-Chhattisgarh road	51%	Chhattisgarh	NHAI	368.2	Jan-2008	20.0
Bhandara road	51%	Maharashtra	NHAI	376.8	Sep-2007	20.0
Jaora-Nayagaon road	23%	Madhya Pradesh	MPRDC	340.0	Aug-2007	25.0
Pimpalgaon-Nashik-Gonde road	26%	Maharashtra	NHAI	451.8	Jul-2009	20.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: BOT asset portfolio

ABL projects (Rsmn)	Project costs	O/S debt (As of 31 March 2013)	Toll collection (Rsmn/day)	Residual tenure (yrs)	Grant / revenue share
Indore-Edlabad road project	1,650	450	1.9	4.1	Rs45mn
Dewas bypass road project	610	200	0.6	2.4	-
Katni bypass road project	710	-	0.5	1.5	-
Nagar-Aurangabad road project	1,030	270	0.4	3.4	-
JA IPL-Wainganga	410	260	0.6	4.9	-
Sherinallah bridge	140	-	0.1	2.2	-
Pune -Shirur road project	1,610	-	0.6	2.5	-
Nashirabad railway over bridge	150	-	0.1	7.0	-
Dhule bypass road project	60	-	0.1	2.0	-
ACL projects (Rsmn)					
Belgaum-Dharwad road	6,940	3,545	1.6	28.0	@(Rs 310mn) increase of 5%/year
Sambalpur-Baragarh road	11,420	3,700	2.4	30.0	@(Rs 13.3mn) increase of 5%/year
Dhankuni Kharagpur road	22,000	5,353	5.9	23.8	@(Rs 1260mn) increase of 5%/year
Durg-Chhattisgarh road	5,870	3,993	1.6	15.3	(Rs 10mn)
Bhandara road	5,350	3,474	1.3	14.9	Rs 100mn
Jaora-Nayagaon road	8,350	5,409	3.0	19.9	@(Rs153mn) increase of 5%/year
Pimpalgaon-Nashik-Gonde road	16,910	11,702	1.1	19.5	@6.19% of revenue with 5% increment/year

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: BOT toll revenue trend

Projects (Rsmn)	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
Belgaum-Dharwad road	544	608	680	761	852	953	1,067	1,195
Sambalpur-Baragarh road	-	-	869	1,045	1,152	1,270	1,400	1,543
Dhankuni -Kharagpur road	1,590	2,284	2,590	2,883	3,209	3,571	3,975	4,424
Durg-Chattisgarh road	589	668	758	852	957	1,075	1,208	1,357
Bhandara road	512	589	678	765	863	975	1,100	1,242
Jaora-Nayagaon road	1,095	1,242	1,408	1,582	1,777	1,997	2,244	2,521
Pimpalgaon-Nashik-Gonde road	321	2,194	2,465	2,717	2,996	3,303	3,642	4,015
Nagar-Aurangabad road project	164	207	217	112	701	-	-	-
Sherinallah bridge	45	52	15	-	-	-	-	-
Indore Edlabad road project	711	806	914	1,037	1,176	-	-	-
Pune Shirur road project	222	279	165	-	-	-	-	-
Katni bypass road project	190	112	-	-	-	-	-	-
Dewas bypass road project	193	240	252	103	-	-	-	-
JA IPL-Wainganga	227	257	292	331	376	388	-	-
Nashirabad railway over bridge	58	61	64	67	70	74	77	81
Dhule bypass road project	45	47	49	-	-	-	-	-
Gross toll collection	6,460	9,598	11,367	12,254	14,129	13,606	14,713	16,379
% YoY	102	49	18	8	15	(4)	8	11
Net toll revenue	2,911	3,423	6,198	7,955	9,355	8,306	8,828	9,843
Toll revenue/day	8.0	9.4	17.0	21.8	25.6	22.8	24.2	27.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: BOT toll revenue trend

Projects (Rsmn)	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
Belgaum-Dharwad road	340	393	454	523	601	689	789	902
Sambalpur-Baragarh road	-	-	657	802	885	976	1,076	1,186
Dhankuni Kharagpur road	225	848	861	1,048	1,260	1,501	1,773	2,082
Durg-Chattisgarh road	378	312	444	473	547	631	800	918
Bhandara road	419	429	500	570	703	800	909	1,033
Jaora-Nayagaon road	384	483	598	58	858	1,019	1,202	1,405
Pimpalgaon-Nashik-Gonde Road	259	1,920	2,140	2,337	2,552	1,977	3,053	3,333
Nagar-Aurangabad road project	143	184	193	55	701	-	-	-
Sherinallah bridge	37	43	5	(2)	-	-	-	-
Indore Edlabad road project	504	592	693	807	937	-	-	-
Pune Shirur road project	170	220	99	(44)	-	-	-	-
Katni bypass road project	179	106	-	-	-	-	-	-
Dewas bypass road project	177	219	230	94	-	-	-	-
JA IPL-Wainganga	217	181	280	319	362	382	-	-
Nashirabad railway over bridge	50	53	55	58	60	63	66	69
Dhule bypass road project	43	45	48	-	-	-	-	-
Gross EBITDA	3,526	6,028	7,257	7,096	9,466	8,037	9,669	10,926
EBITDA margin (%)	55	63	64	58	67	59	66	67
Adj. EBITDA	2,318	2,482	4,089	4,702	6,056	5,041	5,413	6,189
Adj. EBITDA margin (%)	80	72	66	59	65	61	61	63

Source: Company, Nirmal Bang Institutional Equities Research

Profile of major projects

Belgaum-Dharwad project (70% complete)

ABL secured the Belgaum-Dharwad project in Karnataka on BOT basis in June 2010 for a concession period of 30 years. The project involves six-laning of NH-4 (from 433km to 515km) at a cost of Rs6.94bn (excluding the premium). The project, which is funded through equity of Rs1.74bn and debt of Rs4.8bn, has a concession period of 30 years including a construction period of 30 months.

Exhibit 10: Belgaum-Dharwad project details

	(Rsmn)		(%)
Project cost	6,940	CoE	14.0
Debt	4,790	Interest rate (fixed)	12.6
Equity	1,746	Equity IRR	19.0
Concession period	30	Traffic growth	6.0
Equity value	1,951	Toll rate hike	6.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Belgaum-Dharwad project financials

(Rsmn)	FY13	FY14E	FY15E	FY16E	FY17E	FY18E
Toll revenue	544	608	680	761	852	953
EBITDA	340	393	454	523	601	689
PAT	9	(89)	(740)	(736)	(743)	(668)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Belgaum-Dharwad road project map



Source: Google maps

Sambalpur-Bargarah project – tolling likely to begin in FY15

ABL secured the project in June 2010 on BOT basis for a concession period of 30 years including the construction period. The project involves four-laning of NH-6 between Sambalpur to Bargarah (both in Orissa) at a cost of Rs11.4bn. The road is a major link to Chhattisgarh, reducing the time and cost of travel, with heavy traffic on this stretch. The project is ~50% complete and toll collection is expected to start from 2QFY15.

Exhibit 13: Sambalpur-Bargarah project details

	(Rsmn)		(%)
Project cost	11,422	CoE	14.0
Debt	8,100	Interest rate (fixed)	12.7
Equity	3,322	Equity IRR	16.5
Concession period	28	Traffic growth	5.0
Equity value	1,602	Toll rate hike	5.0

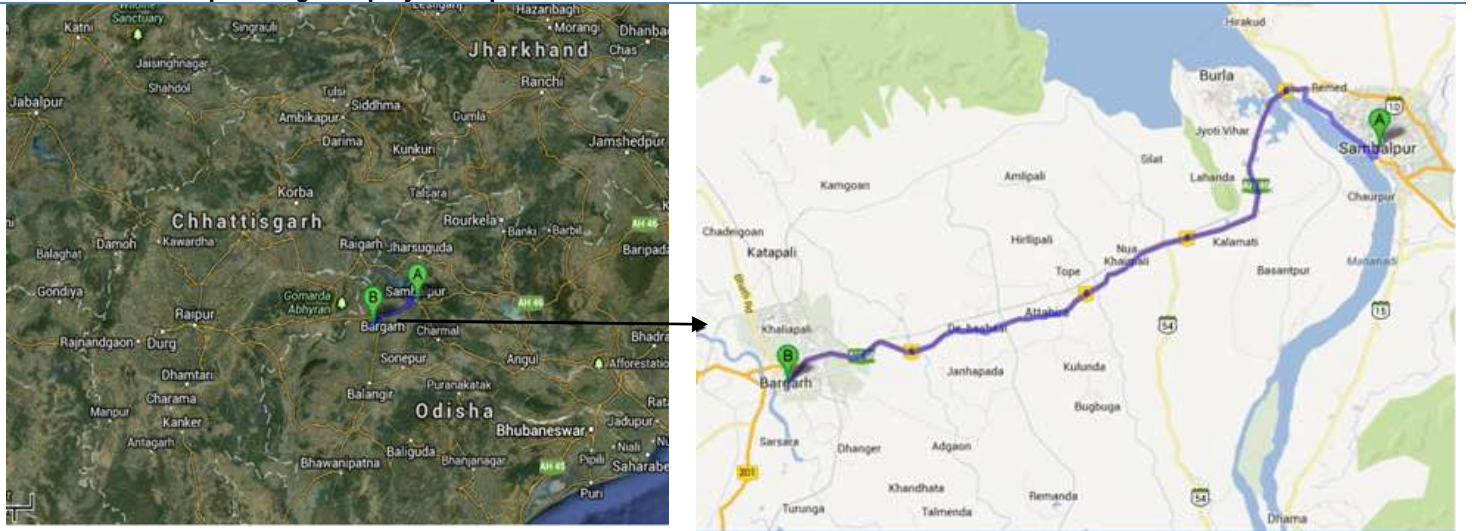
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Sambalpur-Bargarah project financials

(Rsmn)	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
Toll revenue	869	1,045	1,152	1,270	1,400	1,543
EBITDA	657	802	885	976	1,076	1,186
PAT	(340)	(213)	(142)	(62)	20	106

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Sambalpur-Bargarah project map

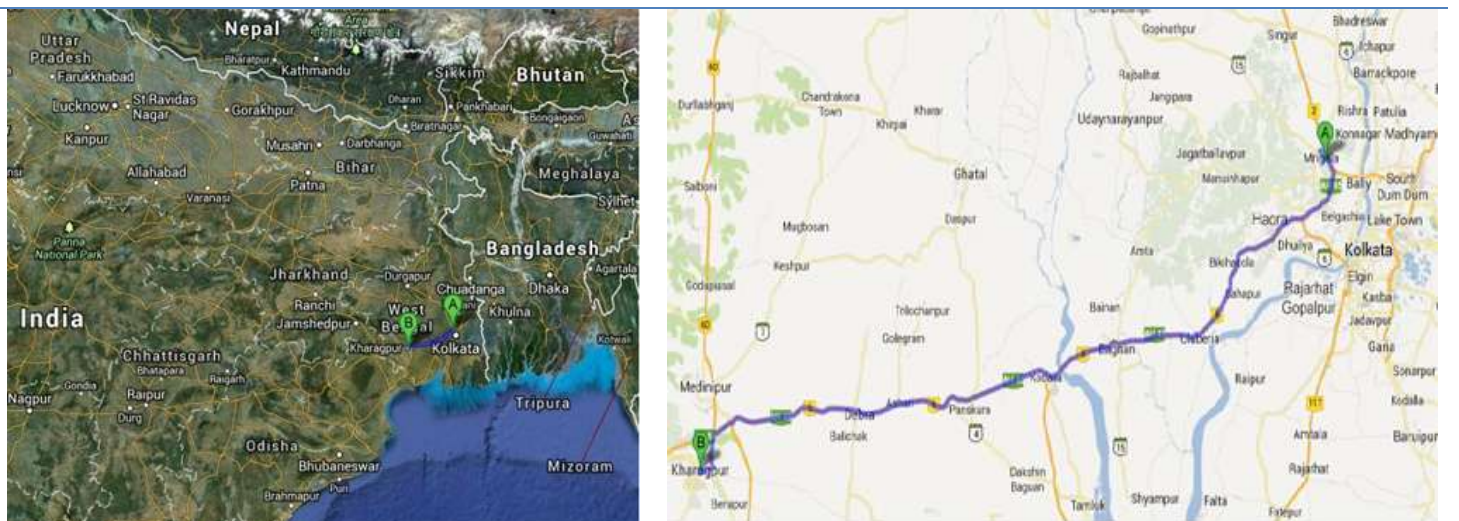


Source: Google maps

Dhankuni-Kharagpur project completion is ahead of schedule

ABL secured this project in June 2011 for six-laning the Dhankuni- Kharagpur section of NH-6 from (17.6km to 129km) in West Bengal to be executed as a BOT project. The project involves completion of the 'incomplete bridge, constructing a new bridge on the other side of the existing bridge, and widening the existing 112km stretch of highway between Dhankuni and Kharagpur. The total project cost of Rs22bn is funded by equity and internal accruals of Rs4.6bn and debt of Rs17.4bn. The project, which started tolling operations from 1 April 2012, with toll collection at Rs5.9mn/day, has a concession period of 30 years including the construction period of 30 months. The company is way ahead of schedule in completing this project, which will provide additional toll revenue of Rs0.8bn over the concession period.

Exhibit 16: Dhankuni-Kharagpur project map



Source: Google maps

Exhibit 17: Dhankuni-Kharagpur project details

	(Rsmn)		(%)
Project cost	22,082	CoE	14.0
Debt	17,460	Interest rate (fixed)	12.0
Equity	4,622	Equity IRR	20.5
Concession period (years)	25	Traffic growth	7.0
Equity value	5,214	Toll rate hike	6.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Dhankuni-Kharagpur project financials

(Rsmn)	FY13	FY14E	FY15E	FY16E	FY17E	FY18E
Toll revenue	1,590	2,284	2,590	2,883	3,209	3,571
EBITDA	225	848	861	1,048	1,260	1,501
PAT	147	429	(959)	(1,321)	(1,138)	(928)

Source: Company, Nirmal Bang Institutional Equities Research

Durg-Chhattisgarh project

ABL secured the project in January 2008 for construction of a 368km (four-lane) road from the end of Durg bypass to the Maharashtra border in Chhattisgarh along the NH-6 at a cost of Rs6.3bn. The project, which is funded by equity of Rs2.3bn and debt of Rs4.0bn, has a concession period of 20 years including the construction period of 30 months.

Exhibit 19: Durg-Chhattisgarh project details

	(Rsmn)		(%)
Project cost	6,334	CoE	14.0
Debt	4,067	Interest rate (fixed)	12.6
Equity	2,268	Equity IRR	22.9
Concession period	20	Traffic growth	6.0
Equity value	1,205	Toll rate hike	7.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: Durg-Chhattisgarh project financials

(Rsmn)	FY13	FY14E	FY15E	FY16E	FY17E	FY18E
Toll revenue	589	668	758	852	957	1,075
EBITDA	378	312	444	473	547	631
PAT	(283)	(353)	(217)	(202)	(135)	(38)

Source: Company, Nirmal Bang Institutional Equities Research

Bhandara project

ABL secured the project in September 2008 for construction of a 377km (four-lane) road from the Chhattisgarh/Maharashtra border to the Wainganga bridge section (405km to 485km) of NH6 at a cost of Rs5.35bn. The project, which is funded by equity of Rs1.6bn and debt of Rs3.5bn, has a concession period of 20 years including the construction period of 30 months.

Exhibit 21: Bhandara project details

	(Rsmn)		(%)
Project cost	5,350	CoE	14.0
Debt	3,545	Interest rate (fixed)	13.0
Equity	1,576	Equity IRR	13.6
Concession period	20	Traffic growth	7.0
Equity value	472	Toll rate hike	7.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 22: Bhandara project financials

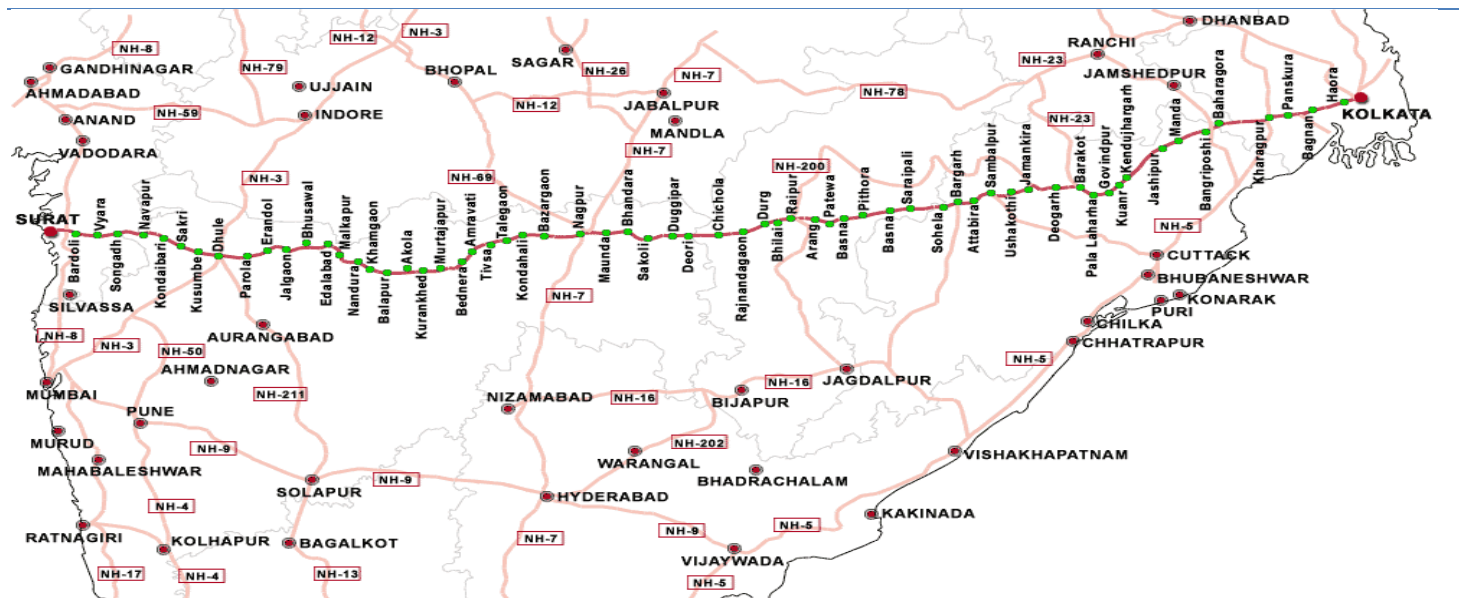
(Rsmn)	FY13	FY14E	FY15E	FY16E	FY17E	FY18E
Toll revenue	512	589	678	765	863	975
EBITDA	419	429	500	570	703	800
PAT	(144)	(134)	(65)	8	125	218

Source: Company, Nirmal Bang Institutional Equities Research

Largest BOT player on potentially high growth corridor

ABL is the largest BOT player on NH-6 with nine projects, 1,739 lane km and a market share of 24%. NH-6 connects the western state of Gujarat to the eastern state of West Bengal and passes through six states. The company’s project portfolio is present in four states out of the six states. NH-6 passes through the industrial belt comprising mining companies, power plants, steel plants, and cement companies and also connects two major metro cities. This offers immense potential for high growth traffic for a longer duration and ABL would be a major beneficiary, being the largest player on this stretch. Also, this would further provide an edge by way of traffic accuracy for future project bidding on this stretch.

Exhibit 23: Market leader on NH-6



Source: Mapsofindia.com, Nirmal Bang Institutional Equities Research

Exhibit 24: NH-6 profile

Particulars		States	Exposure to NH-6(km)
Length	1,949km	Gujarat	177
West end	Hajira (Gujarat)	Maharashtra	813
East end	Kolkata (West Bengal)	Chhatisgarh	314
Primary destinations	Surat-Dhule-Amravati-Nagpur-Durg	Odisha	412
	Raipur-Sambalpur-Baharagora-Kolkata	Jharkhand	22
		West Bengal	161

Source: NHAI, Nirmal Bang Institutional Equities Research

Exhibit 25: Major road projects on NH-6

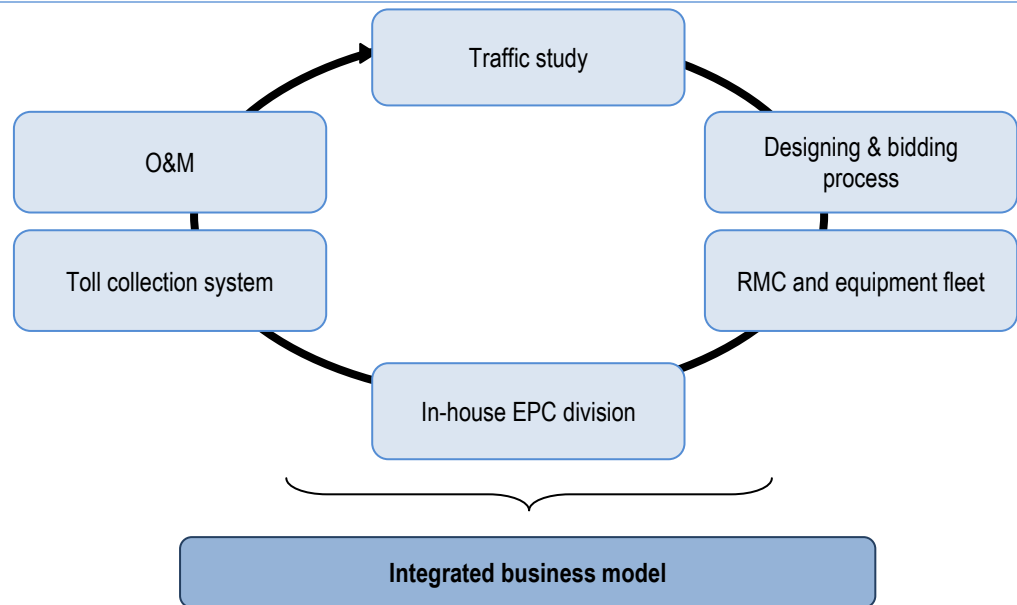
Particulars	States	Project cost (Rsmn)	Toll revision
Sambalpur-Baragarh road	Orissa	11,420	3%+40% of WPI
Dhankuni Kharagpur road	West Bengal	22,000	3%+40% of WPI
Durg-Chhattisgarh road	Chhattisgarh	5,870	WPI
Bhandara road	Maharashtra	5,350	WPI
JAIPL-Wainganga	Maharashtra	410	WPI

Source: Nirmal Bang Institutional Equities Research

Integrated business model provides full control over projects

ABL undertakes all activities related to BOT projects like bidding, traffic study, construction, operation and maintenance (O&M), supply of raw materials and in-house toll collection, which improves the profitability as well as provides full control over the cost, timeline and quality of the projects. We believe this is one of the key differentiators for the company compared to peers, providing a competitive edge while bidding for projects. The company has an in-house research team which provides accuracy while bidding for projects, a construction division which undertakes construction of road projects and O&M activity, including toll collection, pertaining to BOT projects. This not only captures the entire value chain in-house, but also reduces the company's dependence on third-party contractors/sub-contractors. Further, it also enables a better control over the costs, timeline and quality of the projects.

Exhibit 26: Integrated business model



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 27: Key business strengths

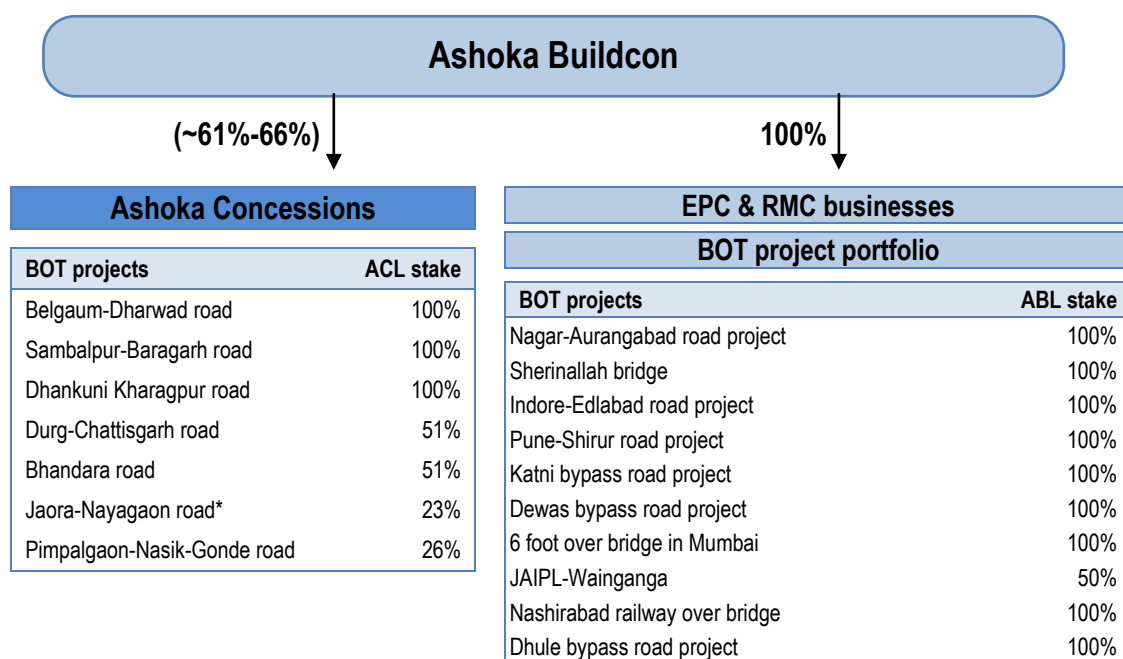
Traffic database	ABL has developed a traffic database of over 15 years and has a dedicated team which helps it in evaluating the projects better while bidding for them.
In-house EPC	ABL has its own equipment fleet worth Rs2.4bn, a design team and total 2,600 employees. It also has 15 RMC facilities which helps in reducing the company's dependence on third-party contractors/sub-contractors and enables a better control over the costs, timeline and quality of the projects.
Strong project execution	ABL has displayed strong project execution skills - helping it to complete most of the projects on time or ahead of schedule - thereby increasing the toll collection period.
Well funded	The company is well funded for meeting its current equity requirements and has secured funding for future projects.
Mature BOT portfolio	ABL has a portfolio comprising nine mature projects which are operational and mostly debt-free. This provides stable cash flow for future growth.

Source: Company, Nirmal Bang Institutional Equities Research

Funding tied up for future growth

Two private equity funds managed jointly by SBI and Macquarie Bank of Australia (SBI-Macquarie) have committed to invest Rs7.0bn (with a provision of additional investment of Rs1bn based on performance of Sambalpur-Bargarh road project) in ACL. ACL was formed by transferring seven projects from ABL in which three are operational and four are under implementation. SBI-Macquarie will have an equity stake of 34%-39% in ACL, depending on the performance of the Sambalpur-Bargarh road project. Till date, the company has received Rs3.8bn and expects the remaining amount to be paid within one year. This deal has secured equity funding for the projects under development of ACL at premium valuation.

Exhibit 28: Corporate structure post deal with PE funds



Source: Company, Nirmal Bang Institutional Equities Research

*ACL has an option to increase the stake to 37%

SBI-Macquarie stake in ACL at a premium

SBI-Macquarie will have an equity stake of 34%-39% in ACL, depending on performance of the Sambalpur-Bargarh road project, in FY15. ABL's equity commitment for the seven projects stands at ~Rs15.3bn, and SBI-Macquarie has paid Rs7bn for its 34%-39% stake. This translates into valuation at a P/BV of 1.2x-1.3x. We believe the transaction is favourable towards the company considering the premium valuation as well as the full EPC work with the parent company.

Exhibit 29: ACL's stake sale at premium

ACL projects (Rsmn)	Project cost	Debt (%)	Equity (%)	Equity commitment
Belgaum-Dharwad road	6,940	69	31	2,150
Sambalpur-Baragarh road	11,420	71	29	3,320
Dhankuni Kharagpur road	22,000	73	27	6,000
Durg road	5,870	69	31	920
Bhandara road	5,350	66	34	931
Jaora-Nayagaon road	8,350	65	35	660
Pmpalgaon-Nasik-Gonde	16,910	71	29	1,277
Total	76,840	-	-	15,258
ACL's investment	-	-	-	7,000
@34% stake	-	-	-	1.3
@39% stake	-	-	-	1.2

Source: Company, Nirmal Bang Institutional Equities Research

SBI-Macquarie funding provides scalability factor to the company's business

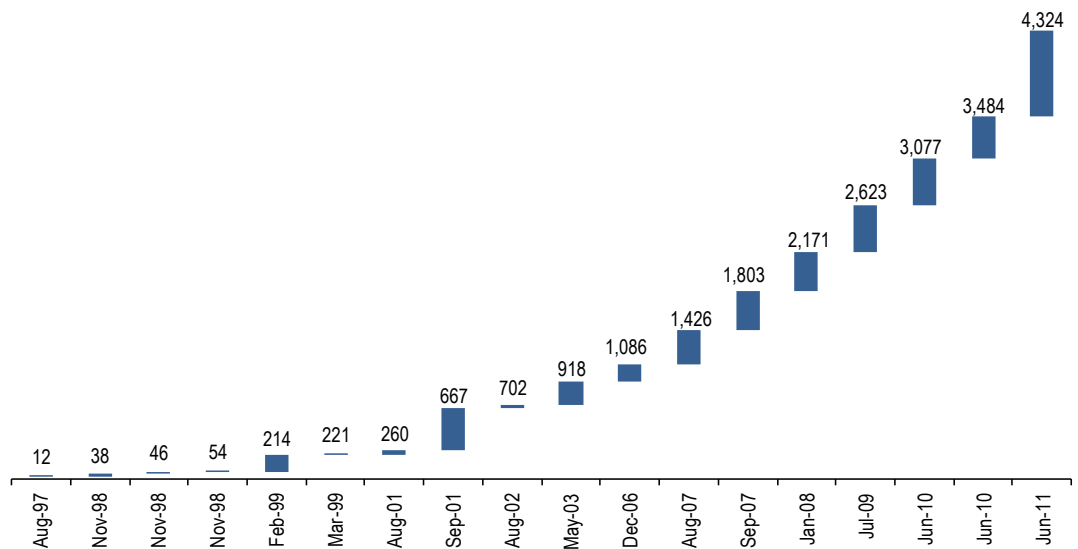
Apart from investing Rs7bn in ACL, SBI-Macquarie has committed an additional investment of Rs6.5bn for new projects, thereby providing scalability to the project portfolio as well as robust growth in the EPC order book. Considering a similar investment by ABL, we expect ACL to garner an incremental Rs55bn-Rs63bn of projects, which constitutes ~75% of its existing asset portfolio. As per the deal structure, ACL will now be the exclusive bidder for BOT road projects and ABL will be exclusive EPC and O&M contractor for all ACL projects. ACL can also utilise the joint venture partner's expertise for technical qualification of National Highways Authority of India (NHAI) to increase the ticket size of projects.

Exhibit 30: Scalability factor

Opportunity to bid	Rsmn	Rsmn
SBI-Macquarie's stake in ACL	34%	39%
Investment commitment by SBI-Macquarie	6,500	6,500
ABL's equity commitment	12,618	10,167
Total equity	19,118	16,667
Debt @D/E ratio of 70:30	44,608	38,889
Opportunity to bid for projects worth	63,725	55,556

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 31: Rising scale of operations (lane km)

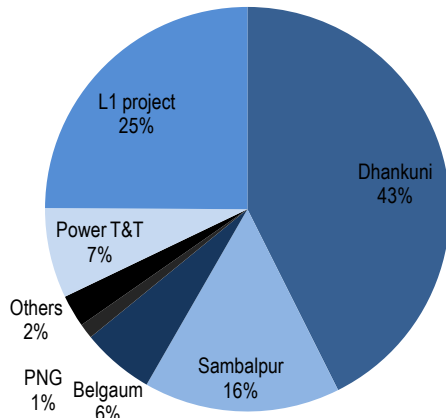


Source: Company, Nirmal Bang Institutional Equities Research

EPC order book position at Rs33bn

ABL has order book position at Rs33bn, excluding the Cuttack-Angul project worth Rs10bn but including L1 projects worth Rs8.5bn. The company secured the Cuttack-Angul project in FY12, but the construction work did not start because of lack of clearances. Hence, the company sent a termination notice to the NHAI for the said project and we have excluded that project from its order book. This has aggravated the concern over growth in construction revenue in the near future. However, the company is the lowest bidder (L1) in two projects, which will add Rs8.5bn to its order book. The L1 projects include Chennai outer ring road project worth Rs5.3bn and Karnataka state highway project worth Rs3.2bn. Although the current order book shows poor revenue visibility, based on pre-qualification for projects worth Rs230bn and the focus towards third-party projects, we are confident that the company would secure major orders in FY14.

Exhibit 32: Project-wise order book



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 33: Order execution estimates

Amount (Rsmn)	FY14E	FY15E
Dhankuni	7,997	6,543
Sambalpur	3,484	1,876
Belgaum	1,980	-
PNG	410	-
Others	220	660
Power T&T	1,722	738
L1 project	1,000	4,750
New projects	-	3,000
EPC	16,813	17,567

Source: Bloomberg, Nirmal Bang Institutional Equities Research

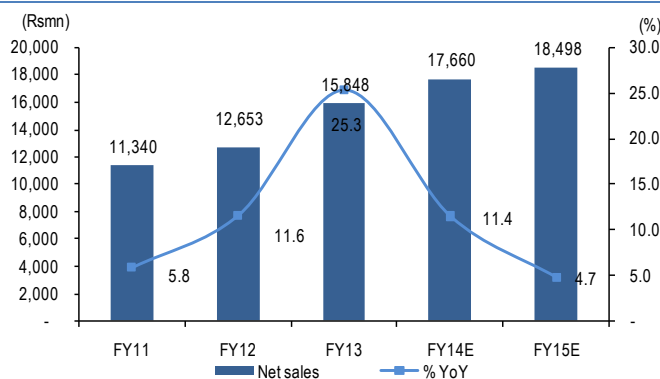
Focus on third-party EPC orders to boost order book

ABL is a well established player in construction of road projects with experience in timely execution of ~5000 lane km of projects, which includes own as well as third-party projects. The company is now focusing on increasing the EPC division's revenue from third parties, which will provide growth to EPC revenue in the absence of securing major BOT projects.

EPC revenue to post moderate growth over FY13-FY15E

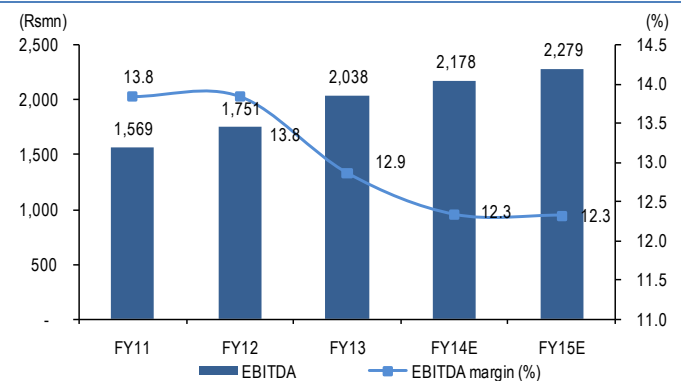
Due to exclusion of major project from ABL's order book, we expect the company's EPC business to post a moderate growth (CAGR of 6%) over FY13-FY15E. Out of the order book position of Rs33bn, ~Rs22bn of projects are expected to be executed over a period of 18 months, which is likely to keep revenue visibility high in FY14. For FY15E, we expect ~Rs8bn of revenue from L1 projects and likely new projects secured in FY14.

Exhibit 34: EPC+RMC- net sales trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 35: EPC+RMC- EBITDA trend



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Poor performance in 4QFY13 because of adjustments

- Net sales rose 39% to Rs6.5bn, primarily driven by robust growth in EPC revenue. Construction revenue increased 43% to Rs5.8bn led by faster execution of ongoing projects like Dhankuni-Kharagpur, Sambalpur-Baragarh and Belgaum-Dharwad. BOT segment revenue rose 14% to Rs695mn.
- EBITDA margin declined by 320bps to 16.6% primarily because of higher contribution from the EPC segment to total sales, which has a lower margin. EBITDA of the EPC segment increased 35% to Rs755mn.
- The company booked a loss of Rs157mn due to cancellation of toll collection at Nagar-Karmala project (Maharashtra) after receiving a notice from the public works department or PWD (as per the PWD, the lending interest rate has been changed by the Reserve Bank of India and consequently, based on the new lending rate, the concession period is over) and paid Rs38mn as prior-period tax pending an appeal. Depreciation inched higher by Rs143mn due to change in the accounting policy for the BOT segment. Consequently, reported PAT declined 86.4% to Rs63mn.

Exhibit 36: Quarterly performance

Y/E March (Rsmn)	4QFY12	3QFY13	4QFY13	YoY (%)	QoQ(%)
Net sales	4,673	4,291	6,492	38.9	51.3
Total expenditure	3,744	3,493	5,417	44.7	55.1
EBITDA	929	798	1,075	15.6	34.7
EBITDA margin (%)	19.9	18.6	16.6	-	-
Interest costs	9	274	470	5,051.5	71.7
PBDT	920	524	605	(34.3)	15.4
Depreciation	391	339	330	(15.6)	(2.7)
Other income	35	49	58	63.4	16.5
PBT	564	234	332	(41.1)	41.9
Tax	152	163	270	77.2	66.0
PAT(before minority interest)	412	72	63	(84.8)	(12.6)
PAT(after minority interest)	467	126	220	(52.8)	74.3
PAT (after MI & E.O item)	467	126	63	(86.4)	(49.9)

Source: Company, Nirmal Bang Institutional Equities Research

Financial performance

Revenue expected to post a CAGR of 16% over FY13-FY15E

We expect ABL's net revenue to post a CAGR of 16% over FY13-FY15E, primarily driven by a sharp jump in BOT toll revenue and moderate growth in EPC revenue. Currently, the company is not recognising toll collection at projects where the construction work is incomplete. Hence, the reported toll collection revenue is subdued. Most of the large projects are likely to be completed by 1QFY15, providing growth at a CAGR of 47% in toll revenue to Rs6.1bn over FY13-FY15E. The company's order book stands at Rs33bn, of which Rs22bn of projects are in an active phase and are expected to be completed by 1HFY15, which has improved revenue visibility in the near term and is likely to post a CAGR of 6% over FY13-FY15E.

Exhibit 37: Revenue trend segment-wise

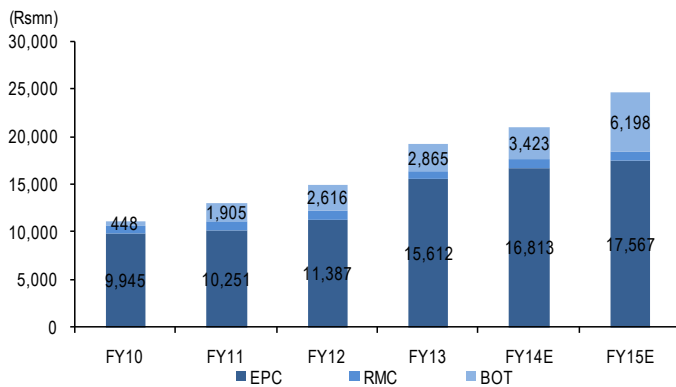
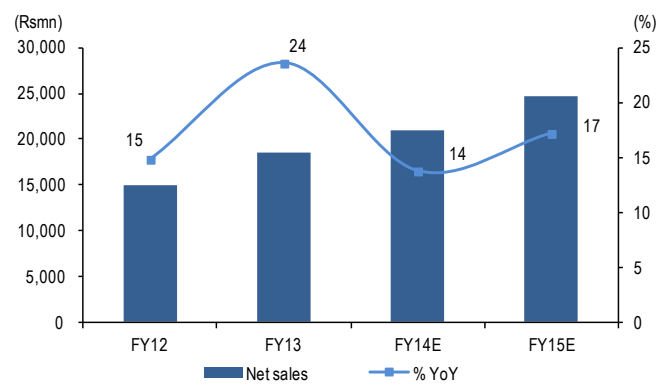


Exhibit 38: Revenue growth trend



Source: Company, Nirmal Bang Institutional Equities Research

Source: Bloomberg, Nirmal Bang Institutional Equities Research

EBITDA margin likely to expand

With robust growth and rising contribution of toll revenue in overall revenue, we expect EBITDA to post a CAGR of 31% at Rs6.4bn over FY13-FY15E and EBITDA margin to expand by 560bps at 25.7% in FY15E from 20.1% in FY13. Toll revenue EBITDA, which constituted ~50% of total EBITDA in FY13, is expected to increase to 64% led by the rise in contribution of toll revenue to total net revenue.

Exhibit 39: Consolidated EBITDA margin trend

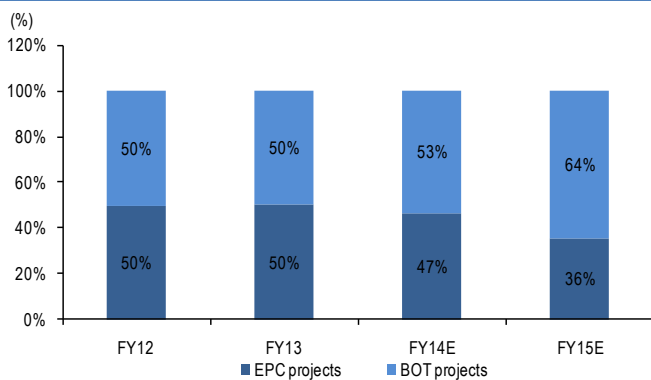
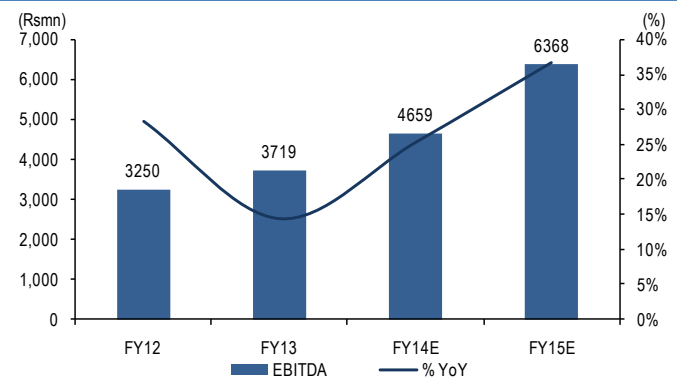


Exhibit 40: EBITDA and EBITDA growth



Source: Company, Nirmal Bang Institutional Equities Research

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Flat growth in net profit likely because of higher depreciation and interest costs

Four large BOT projects would be operational over FY14E-FY15E, which would increase depreciation and interest costs. Subsequently, net profit growth is likely to be subdued and show a CAGR of 9% over FY13-FY15E. Moderate growth in profits, but a significant jump in debt post commissioning of BOT assets, would keep the return ratios subdued. We expect the RoE to improve by only 30bps at 9.8% and RoCE to rise by 50bps at 6.7% in FY15E over FY13.

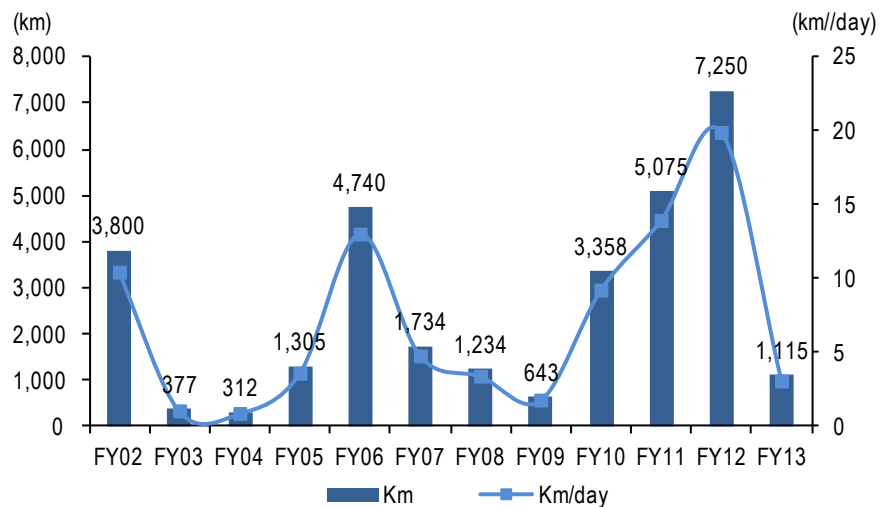
Annexure:

Exhibit 41: Peer group comparison

Particulars	IRB Infrastructure Developers	ABL
No. of projects	18	16
Project portfolio (Rsbn)	100	83
Lane km	7479	4300
Business model	Integrated	Integrated
Major presence	GQ (Golden Quadrilateral) with a market share of 11%	NH-6 with a market share of 24%
Toll collection/day (Rsmn)	28	8
Order book (Rsbn)	84	33
EPC margin (%)	26.7	12.5
Net debt (as on 31 March 2013-Rsbn)	73	23
Net worth (Rsbn)	33	11
PER (FY15E-x)	6.1	8.1
PBV (FY15E-x)	0.9	0.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 42: Slowdown in awarding projects by NHAI impacting order inflow



Source: NHAI, Nirmal Bang Institutional Equities Research

Financials

Exhibit 43: Income statement

Y/E March (Rsmn)	FY11	FY12	FY13	FY14E	FY15E
Net sales	13,031	15,000	18,527	21,132	24,751
% growth	63.8	15.1	23.5	14.1	17.1
Cost of raw materials consumed	613	684	530	570	638
Operating expenses	9,285	10,324	13,294	14,802	16,556
Employee benefit expenses	333	431	502	547	596
Administrative & general expenses	267	310	482	554	593
Total cost	10,497	11,750	14,808	16,473	18,383
EBITDA	2,533	3,250	3,719	4,659	6,368
EBITDA margin (%)	19.4	21.7	20.1	22.0	25.7
Depreciation	690	850	1,324	1,607	1,876
EBIT	1,843	2,401	2,395	3,052	4,492
Interest costs	716	1,144	1,395	1,694	3,174
Other income	329	354	294	323	356
Profit before tax	1,456	1,610	1,294	1,681	1,674
Tax	(424)	451	685	841	699
Net profit	1,032	1,159	609	840	976
Minority interest	24	(89)	(389)	(273)	(202)
Net profit after minority interest (MI)	1,008	1,248	999	1,113	1,177
Exceptional item	(1,072)	-	157	-	-
Net profit after MI & E.O item	2,080	1,248	842	1,113	1,177

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 45: Balance sheet

Y/E March (Rsmn)	FY11	FY12	FY13	FY14E	FY15E
Equity	628	552	527	527	527
Reserves	8,302	9,789	9,981	10,696	11,548
Net worth	8,930	10,341	10,507	11,223	12,074
Minority interest	1,112	630	2,787	3,060	3,262
Long-term loans	10,276	14,572	21,735	35,254	40,242
Short-term loans	1,920	1,694	1,734	2,584	4,333
Total loans	12,196	16,266	23,469	37,839	44,575
Deferred tax liability (net)	16	10	(7)	(7)	(7)
Total liabilities	22,254	27,248	36,756	52,114	59,904
Gross block	19,871	45,870	116,130	119,705	137,835
Depreciation	3,683	4,503	5,275	6,882	8,758
Net block	16,188	41,368	110,855	112,823	129,077
Capital work-in-progress	58	1,670	245	9,500	1,500
Long-term investments	1,395	2,052	2,824	2,824	2,824
Inventories	2,413	2,770	5,399	5,790	6,781
Debtors	2,077	1,467	862	1,158	1,356
Cash	711	500	517	766	181
Other current assets	834	1,287	785	903	1,039
Loans & advances	2,897	2,624	2,893	3,241	3,629
Total current assets	8,932	8,648	10,457	11,857	12,987
Creditors	4,110	26,094	86,254	83,585	85,020
Other current liabilities	209	397	1,370	1,303	1,462
Total current liabilities	4,319	26,491	87,624	84,888	86,482
Net current assets	4,614	(17,842)	(77,167)	(73,031)	(73,495)
Total assets	22,254	27,248	36,756	52,114	59,904

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 44: Cash flow

Y/E March (Rsmn)	FY11	FY12	FY13	FY14E	FY15E
EBIT	1,843	2,401	2,395	3,052	4,492
Inc./(dec) in working capital	(2,012)	21,595	61,230	(3,888)	(120)
Cash flow from operations	(169)	23,995	63,625	(835)	4,372
Other income	1,284	244	365	323	356
Depreciation	691	850	1,324	1,607	1,876
Interest paid (-)	(716)	(1,144)	(1,395)	(1,694)	(3,174)
Tax paid (-)	(465)	(370)	(316)	(841)	(699)
Dividends paid (-)	-	-	(250)	(124)	(124)
Net cash from operations	625	23,575	63,355	(1,565)	2,607
Capital expenditure (-)	(4,880)	(27,632)	(69,694)	(12,830)	(10,130)
Net cash after capex	(4,255)	(4,057)	(6,340)	(14,395)	(7,523)
Inc./(dec.) in long-term borrowing	1,124	4,464	7,427	13,519	4,988
Inc./(dec.) in short-term borrowing	376	(225)	39	850	1,749
Inc./(dec.) in investments	728	(349)	(1,046)	273	202
Inc./(dec.) in preference capital	(58)	(45)	1	-	-
Equity issue/(buyback)	2,125	2	(64)	-	-
Cash from financial activities	4,296	3,847	6,357	14,642	6,939
Change in cash	40	(211)	18	247	(584)
Opening cash	671	711	500	517	766
Closing cash	711	500	517	766	181

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 46: Key ratios

Y/E March	FY11	FY12	FY13	FY14E	FY15E
Rs/share					
EPS (x)	16.0	22.6	19.0	21.1	22.4
Dividend(x)	-	-	4.0	2.0	2.0
Book value (x)	142.1	187.3	199.6	213.2	229.3
Cash EPS (x)	27.0	38.0	44.1	51.7	58.0
Valuations					
PE ratio (x)	11.3	8.1	9.6	8.6	8.1
Price /CEPS (x)	6.7	4.8	4.1	3.5	3.1
Price / BV (x)	1.3	1.0	0.9	0.9	0.8
EV /sales (x)	1.7	1.6	1.6	2.1	2.1
EV /EBITDA (x)	8.5	7.3	8.0	9.4	8.0
Margins (%)					
EBITDA margin	19.4	21.7	20.1	22.0	25.7
EBIT margin	14.1	16.0	12.9	14.4	18.1
PBT margin	11.2	10.7	7.0	8.0	6.8
Net margin	7.7	8.3	5.4	5.3	4.8
Returns (%)					
RoCE	8.0	8.1	6.2	5.4	6.7
RoNW	11.3	12.1	9.5	9.9	9.8
Gearing ratio					
Total debt/equity (x)	1.4	1.6	2.2	3.4	3.7
Net debt/equity (x)	1.1	1.3	1.9	3.1	3.4

Source: Company, Nirmal Bang Institutional Equities Research

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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