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India | Equity Research | Q2FY25 results review

## Ashoka Buildcon

Construction

### CDPQ deal remains the highlight for Q2FY25; FY26 outlook remains strong

Ashoka Buildcon's Q2FY25 earnings saw YoY decline in growth. However, the outlook remains strong for FY26, with earnings likely to see 15-20% growth led by strong bidding pipeline which is expected to boost the company's executable orderbook. The highlight of Q2 remained the agreement Ashoka entered into to sell its BOT asset to India Highway Concession Trust – sponsored by CDPQ, a Canadian pension fund. Ashoka shall receive INR 25bn as the deal's proceeds. A major (sizeable) chunk of the proceeds would be earmarked for Macquarie exit – a fund invested in 2012, removing the long overhang. Delay in asset sale and providing an exit have addressed major concerns on the stock. Maintain **BUY**; value the stock on SoTP basis at **INR 311**.

### Muted H1FY25

Ashoka's revenue was up 7% to INR 33bn in H1FY25 on the back of growth in Q1FY25. Q2FY25 revenue has seen a decline of 9% on the back of lower executable orderbook. Orderbook stood at INR 113bn with bill-to-book ratio of 1.4, lowest in a long time. However, the company is L1 and has LoAs worth INR 46bn which would take its OB to INR 159bn. EBITDA margin grew 1900bps QoQ to 8.4%, resulting in EBITDA of INR 1.1bn. Margin is likely to increase ~100bps in H2FY25E. APAT came in at INR 362mn, down 49% YoY.

### Highlight of the quarter – The CDPQ deal

The company entered into an agreement to sell its BOT asset to India Highway Concession Trust – sponsored by CDPQ, a Canadian pension fund. Ashoka shall receive INR 25bn as the deal's proceeds. A major (sizeable) chunk of the proceeds would be earmarked for Macquarie exit – a fund invested in 2012. Delay in asset sale and providing an exit, addresses major concerns on the stock.

### Order pipeline strong for remainder of FY25

The order pipeline for the year is expected to be strong at INR 1 – 1.2trn, with 52-55% of EPC projects. The company expects the orderbook to increase by 10-15% incrementally from current level in near term.

### Maintain BUY

We maintain our **BUY** rating on the stock with a target price of INR 311

### Financial Summary

Y/E Mar-31 (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	63,723	77,267	81,130	90,817
EBITDA	5,337	6,325	7,155	8,792
EBITDA Margin (%)	8.4	8.2	8.8	9.7
Net Profit	4,094	3,546	4,303	5,332
EPS (INR)	14.6	12.6	15.3	19.0
EPS % Chg YoY	(30.1)	1.0	32.3	23.9
P/E (x)	20.3	20.1	15.2	12.3
EV/EBITDA (x)	11.3	9.5	8.1	6.1
RoCE (%)	11.2	10.4	10.9	12.0
RoE (%)	13.5	9.9	10.8	12.1

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### Market Data

Market Cap (INR)	65bn
Market Cap (USD)	776mn
Bloomberg Code	ASBL IN
Reuters Code	ABDL.BO
52-week Range (INR)	285 /131
Free Float (%)	46.0
ADTV-3M (mn) (USD)	6.6

Price Performance (%)	3m	6m	12m
Absolute	(0.4)	40.6	66.9
Relative to Sensex	1.2	33.8	47.3

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

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

Source: SES ESG, I-sec research

### Previous Reports

04-11-2024: [Company Update](#)

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

## Outlook and valuation

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

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

Amidst a year of subdued road bidding, Ashoka's OB stands at INR 165 bn (including L1 and LOAs), as on Q2FY25 result date (1.6x TTM revenue). With a strong bid pipeline of INR 2.5trn in FY25, it expects OI of INR 100–120bn, revenue growth of 15% and EBITDA margin of 9.5%, in FY26.

We are maintaining the stock to **BUY** on finalisation of deal and consequently, an exit to Macquarie, removing an overhang on the stock. Also, the stake sale is being done at a higher value than expected earlier. Maintain to **BUY** with a TP of INR 311

### Exhibit 1: SoTP-based valuation

	Basis of valuation	PAT/Equity value	Multiple	Valuation	Per share
EPC	PEx FY26E	3,888	12	46,651	166
HAM	1.5x FY26E equity invested	17,432	1.5	26,148	93
BOT		17,755	1.7	30,183	108
Obligation to PE				(15,600)	(56)
<b>Total</b>				<b>87,382</b>	<b>311</b>
Shares outstanding					281

Source: I-Sec research

## Key Concall highlights

- As of 30 Sep'24, the orderbook stood at INR 111bn.
- Additional Letters of Award (LOAs) post-Sep'24 amount to INR 43bn.
- Road (EPC and HAM) segment forms a significant part of the orderbook with 54% contribution to OB. Power transmission & distribution represents 35% of the orderbook.
- CoD has been received for its HAM projects in Telangana.
- Recent LOAs have been obtained from various authorities like MMRDA, CIDCO, MSRDC, and BMC.
- Land monetisation by Viva Highways Limited amounted to INR 4.5bn.
- Stake in five BOT subsidiaries has been sold to Indian Highways Concessions Trust.
- Acquisition of 34% of ACL from Macquarie SBI Infrastructure Investments & Pte. Limited and SBI Macquarie Infrastructure Trust for INR 15.26 bn crores. The 26% stake in Jaora Nayagaon Toll Road Company is under acquisition.

### Future outlook

- Management predicts flattish revenue for FY25, aiming for 10-15% growth in FY26 with new orders and project execution.
- An improvement in EBITDA margin by 0.5% is expected in coming quarters, with double-digit margins anticipated in Q1 or Q2 of FY26.
- Focus is on maintaining sustainable EPC business across highways, railways, power transmission & distribution and buildings.
- Debt levels have notably heightened, majorly due to increased working capital needs for power projects, raising questions about the pace of debt reduction. Consolidated debt is expected to significantly reduce by Mar'25, potentially by INR 30 – 50bn.

### Other highlights

- Management highlighted longer-than-expected working capital cycle for power projects is impacting debt levels, expecting a reduction in working capital debt by INR 3-4bn upon project completion.
- The land sale by VHL has boosted consolidated revenue, contributing to higher growth figures.
- Increased debt primarily stems from working capital requirements, expected to reduce as project progress and monetisation plans come to fruition.
- The existing orderbook is likely to be executed in coming 2-3 quarters, with fresh orders projected to drive revenue growth in FY26.

Exhibit 2: Shareholding pattern

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

Source: Bloomberg

Exhibit 3: Price chart



Source: Bloomberg

## Financial Summary

### Exhibit 4: Profit & Loss

(INR mn, year ending Mar-31)

	FY23A	FY24A	FY25E	FY26E
<b>Net Sales</b>	<b>63,723</b>	<b>77,267</b>	<b>81,130</b>	<b>90,817</b>
Operating Expenses	1,866	2,016	2,177	2,351
<b>EBITDA</b>	<b>5,337</b>	<b>6,325</b>	<b>7,155</b>	<b>8,792</b>
EBITDA Margin (%)	8.4	8.2	8.8	9.7
Depreciation & Amortization	742	1,046	913	1,078
EBIT	4,594	5,279	6,242	7,714
Interest expenditure	(1,410)	(2,281)	(2,156)	(2,244)
Other Non-operating Income	1,057	1,149	1,697	1,697
<b>Recurring PBT</b>	<b>4,241</b>	<b>4,146</b>	<b>5,783</b>	<b>7,167</b>
<b>Profit / (Loss) from Associates</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Less: Taxes	1,020	894	1,480	1,835
PAT	3,221	3,253	4,303	5,332
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	3,492	1,173	-	-
<b>Net Income (Reported)</b>	<b>6,713</b>	<b>4,426</b>	<b>4,303</b>	<b>5,332</b>
<b>Net Income (Adjusted)</b>	<b>4,094</b>	<b>3,546</b>	<b>4,303</b>	<b>5,332</b>

Source Company data, I-Sec research

### Exhibit 5: Balance sheet

(INR mn, year ending Mar-31)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	52,901	66,779	72,759	79,583
of which cash & cash eqv.	1,865	5,106	7,315	11,385
Total Current Liabilities & Provisions	25,961	32,994	35,080	38,392
<b>Net Current Assets</b>	<b>26,940</b>	<b>33,784</b>	<b>37,679</b>	<b>41,190</b>
Investments	13,728	14,799	14,799	14,799
Net Fixed Assets	2,772	3,206	3,555	4,483
ROU Assets	-	-	-	-
Capital Work-in-Progress	285	22	150	150
Total Intangible Assets	-	-	-	-
Other assets	1,632	1,642	-	-
Deferred Tax Assets	-	-	-	-
<b>Total Assets</b>	<b>45,356</b>	<b>53,454</b>	<b>56,184</b>	<b>60,622</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>10,385</b>	<b>14,427</b>	<b>14,427</b>	<b>14,427</b>
<b>Deferred Tax Liability</b>	<b>(683)</b>	<b>(891)</b>	<b>(891)</b>	<b>(891)</b>
provisions	1,418	1,201	1,009	903
other Liabilities	539	592	-	-
Equity Share Capital	1,404	1,404	1,404	1,404
Reserves & Surplus	32,294	36,721	40,236	44,780
<b>Total Net Worth</b>	<b>33,697</b>	<b>38,125</b>	<b>41,639</b>	<b>46,183</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>45,356</b>	<b>53,454</b>	<b>56,184</b>	<b>60,622</b>

Source Company data, I-Sec research

### Exhibit 6: Cashflow statement

(INR mn, year ending Mar-31)

	FY23A	FY24A	FY25E	FY26E
<b>Operating Cashflow</b>	<b>(3,243)</b>	<b>479</b>	<b>3,337</b>	<b>6,864</b>
Working Capital Changes	(7,207)	(3,820)	(1,878)	454
Capital Commitments	(1,087)	(1,218)	(1,390)	(2,006)
<b>Free Cashflow</b>	<b>(2,156)</b>	<b>1,697</b>	<b>4,727</b>	<b>8,870</b>
<b>Other investing cashflow</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Cashflow from Investing Activities	(1,087)	(1,218)	(1,390)	(2,006)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	4,792	4,042	-	-
Dividend paid	(788)	(788)	(788)	(788)
Others	752	726	1,050	0
Cash flow from Financing Activities	4,755	3,980	262	(788)
<b>Chg. in Cash &amp; Bank balance</b>	<b>425</b>	<b>3,241</b>	<b>2,209</b>	<b>4,070</b>
Closing cash & balance	1,865	5,106	7,315	11,385

Source Company data, I-Sec research

### Exhibit 7: Key ratios

(Year ending Mar-31)

	FY23A	FY24A	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	11.5	11.6	15.3	19.0
Adjusted EPS (Diluted)	14.6	12.6	15.3	19.0
Cash EPS	17.2	16.4	18.6	22.8
Dividend per share (DPS)	(2.4)	(2.4)	(2.4)	(2.4)
Book Value per share (BV)	120.0	135.8	148.3	164.5
Dividend Payout (%)	(20.9)	(20.7)	(15.7)	(12.6)
<b>Growth (%)</b>				
Net Sales	38.8	21.3	5.0	11.9
EBITDA	6.2	18.5	13.1	22.9
EPS (INR)	(30.1)	1.0	32.3	23.9
<b>Valuation Ratios (x)</b>				
P/E	20.3	20.1	15.2	12.3
P/CEPS	13.5	14.3	12.6	10.2
P/BV	1.9	1.7	1.6	1.4
EV / EBITDA	11.3	9.5	8.1	6.1
P / Sales	1.0	0.8	0.8	0.7
Dividend Yield (%)	(1.0)	(1.0)	(1.0)	(1.0)
<b>Operating Ratios</b>				
Gross Profit Margins (%)	11.3	10.8	11.5	12.3
EBITDA Margins (%)	8.4	8.2	8.8	9.7
Effective Tax Rate (%)	24.1	21.6	25.6	25.6
Net Profit Margins (%)	5.1	4.2	5.3	5.9
NWC / Total Assets (%)	13.5	14.0	14.1	-
Net Debt / Equity (x)	(0.2)	(0.1)	(0.2)	(0.3)
Net Debt / EBITDA (x)	(1.0)	(0.9)	(1.1)	(1.3)
<b>Profitability Ratios</b>				
RoCE (%)	11.2	10.4	10.9	12.0
RoE (%)	13.5	9.9	10.8	12.1
RoC (%)	11.2	10.4	10.9	12.0
Fixed Asset Turnover (x)	23.6	25.9	24.0	22.6
Inventory Turnover Days	20	22	21	22
Receivables Days	83	74	74	76
Payables Days	77	70	66	66

Source Company data, I-Sec research

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