ASHOKA BUILDCON

At the crossroads

Ashoka Buildcon (ABL), traditionally a state player, has transformed into a national player by winning four NHAI projects totaling to a TPC of ~₹5,156cr. However, this transition has come at a cost, as it entails premium commitments to NHAI (~₹220cr per year, albeit covered by toll collections during the construction period) and huge equity contributions from ABL's side, which we believe would stretch its leverage (consolidated net D/E is expected to rise from 1.4x in FY2011 to 3.0x by FY2013E). We have valued ABL on an SOTP basis – by assigning 5.0x EV/EBITDA to its standalone business (₹104/share) and valued its BOT projects on NPV basis (₹141/share). **We initiate coverage with a Buy rating on the stock and a SOTP target price of ₹245/share and key catalyst being raising equity from capital markets.**

Integrated business model: ABL boasts of an integrated business model in place with strong in-house execution capabilities, which helps it to have control over time and cost – the two key essentials of road development business. In the past, many industry players have witnessed severe strain on the financials and profitability of their projects because of their inability to control these important factors. Even in current times, there are developers who do not have an integrated business model and are dependent on contractors for construction activities, making them vulnerable. Hence, we believe players (read ABL) having an integrated business model are better placed.

Road sector; opportunities galore: NHAI has set itself an aggressive target of awarding ~9,371km of road projects in FY2012 against ~5,000km in FY2011. NHAI has done a commendable job by handing out ~4,000km so far in FY2012. Going ahead, NHAI, state and rural projects are expected to garner investments of ₹6.1trillion over FY2012-16E, which augurs well for road developers.

Prefer IRB over ABL in the Road BOT space: We initiate coverage on ABL with a Buy rating and a SOTP target price of ₹245. Our analysis indicates that ABL would need to infuse equity up to ~₹990cr (FY2012-14E) in various SPVs; this would be substantially funded by the PE route, as per management. However, we have not factored the same in our estimates, given the gloomy market conditions; instead, we have penciled in the increase in debt levels. In recent times, markets have been harsh on companies with loose financial discipline and, hence, we are conservative in assigning trading multiples to ABL. Therefore, we prefer IRB over ABL, considering ABL's comparatively smaller size, dependency on capital markets for equity and projects at nascent stage.

Key financials (Consolidated)

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Net Sales (incl op. income)	**796**	**1,302**	**1,627**	**1,831**
% chg	53.5	63.7	25.0	12.5
Adj. Net Profit	**80.4**	**100.8**	**110.7**	**130.2**
% chg	130.8	25.5	9.8	17.6
FDEPS (₹)	**15.3**	**19.2**	**21.0**	**24.7**
EBITDA Margin (%)	26.9	19.4	21.7	23.1
P/E (x)	12.4	9.9	9.0	7.6
RoAE (%)	21.2	14.9	11.7	12.2
RoACE (%)	10.7	9.3	8.5	7.5
P/BV (x)	2.2	1.1	1.0	0.9
EV/Sales (x)	2.6	1.7	1.9	2.4
EV/EBITDA (x)	9.5	8.8	8.8	10.3

Source: Company, Angel Research

BUY

CMP	₹189
Target Price	₹245
Investment Period	12 Months

Stock Info	
Sector	Infrastructure
Market Cap (₹ cr)	994
Beta	0.4
52 Week High / Low	312/180
Avg. Daily Volume	2,134
Face Value (₹)	10
BSE Sensex	15,476
Nifty	4,652
Reuters Code	ABDL.BO
Bloomberg Code	ASBL@IN

Shareholding Pattern (%)	
Promoters	73.2
MF / Banks / Indian FIs	23.7
FII / NRIs / OCBs	1.6
Indian Public / Others	1.5

Abs. (%)	3m	1yr	3yr
Sensex	(8.5)	(22.0)	55.3
ABL	(28.1)	(34.4)	#

Note: # listed in Oct 2010

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Investment arguments

Integrated business model

We believe the BOT business has three most important aspects, namely: 1) Project planning; 2) C&EPC activities; and 3) Post construction activities (O&M).

ABL's long stint in the road BOT business has helped it to gain rich experience – strengthening its ability to accurately plan for BOT projects.

1) **Project planning (PP):** Given the back-ended nature of cash flows from BOT assets, reliable assessment of future traffic growth, cost estimates etc become pertinent. Over the course of more than 15 years in toll-based BOT projects, ABL has developed an in-house traffic study team, which has the dual responsibility of conducting pre-bidding traffic surveys and monitoring toll collections. This process has helped ABL's team in gaining experience – by comparing the actual performance with the forecasted traffic numbers. Therefore, we believe this experience strengthens its ability to plan accurately for future BOT projects.

ABL has its own construction equipment and in-house RMC and bitumen division.

2) **C&EPC activities:** The company's EPC division, with its experienced team of engineers and skilled workmen and its fleet of construction equipment, constructs and maintains the projects – leading to control over time and cost. ABL's in-house RMC and bitumen division manufactures and supplies concrete and bitumen – leading to better operating margins.

ABL utilizes its own toll collection audit system to minimize the chance of cash pilferages and the in-house construction team ensures smooth O&M throughout the life of the project.

3) **Post construction activities:** Once the projects are operational, the main source of revenue, toll collection, is received in cash. There are numerous surveys and papers on this subject, indicating cash pilferage of ~10% in toll collections. To seal this loophole, ABL utilizes its own toll collection audit system, which includes cameras installed at toll booths and own proprietary software. The system enables to monitor toll collection on a real-time basis. Also, having an in-house construction team ensures smooth operations and maintenance (O&M) throughout the project's life.

Exhibit 1: ABL and IRB – Both have an integrated business model covering major pivotal points of road projects

Life cycle of a road project ⇒	PP	LoA	FC	Designing	Construction	Operation
Revenue stream for ABL	Y	n.a.	N	Y	Y	Y
Revenue stream for IRB	Y	n.a.	N	Y	Y	Y
Revenue stream for ITNL	Y	n.a.	Y	Y	N	Y
Revenue stream for other operators	N	n.a.	N	N	Y	Y

Source: Company, Angel Research

ABL's integrated structure allows to capture the entire value in the BOT development business, including EPC margins, developer returns and operation and maintenance margins.

This integrated business model ensures the timely completion of projects, reduces its reliance on subcontractors and controls costs. In the past, many industry players have witnessed severe strain on the financials and profitability of their projects because of their inability to control these important factors. Even in current times, there are developers who do not have an integrated business model and are dependent on contractors for construction activities, thus making them vulnerable.

Completed Projects	Date of completion	
	Scheduled	Actual
Dewas Bypass	Jul-04	May-04
Wainganga Bridge	May-01	Mar-01
Nashirabad RoB	Nov-00	Jul-00
Sheri Nallah Bridge	Mar-01	Nov-00
Anawali–Kasegaon	Jul-04	Mar-04

ABL has been able to timely execute its projects, owing to its integrated business model (as depicted in the table). Further, it results in extended period of toll collection, which in turn helps in increasing overall revenue. It also allows capturing the entire value in the BOT development business, including EPC margins, developer returns and operation and maintenance margins. Hence, we believe players such as ABL, having an integrated business model, are better placed in current competitive times.

Road sector – Opportunities galore

NHAI is yet to award 21,117km of the planned 49,254km NH, ~7,000km of which is likely to be awarded in FY2012 itself.

The road segment continues to offer plenty of opportunities for road concentrated players such as ABL. Of the 49,254km (refer exhibit below) of the planned NH under the National Highways Development Project (NHDP), the NHAI is still left with ~21,117km (refer exhibit below) that has to be awarded. NHAI has set itself an aggressive target of awarding ~9,371km (originally 7,300km + 2,071km added after the PM's intervention) of road projects in FY2012 against ~5,000km awarded in FY2011. NHAI has done a commendable job by handing out ~4,000km so far in the current fiscal and is looking on track to achieve over ~7,000km of project awarding in FY2012. Going ahead, even state highways provide significant opportunities to players. Also, on the anvil, there are plans to build 18,367km of expressways by 2022 in three phases. Around 1,000km of expressway is expected to be completed over the next five years, representing an opportunity of ~₹203bn (average capex per km is ~₹20cr). The government has also identified nine mega projects with length ranging from 390km to 700km. Over the next five years, an investment of ~₹423bn is expected to flow into mega projects. In all, these initiatives would provide immense opportunity (₹6.1trillion over FY2012-16E) to companies in road infrastructure development, such as IRB, ITNL and ABL who have a proven track record and the ability to manage large projects.

Apart from NH, state highways, expressways and mega projects provide a number of opportunities to companies in road infrastructure development.

Exhibit 2: Huge opportunities from NHAI

	Total (km)	4/6 Laned (km)	Under implementation (km)	Contracts (No)	Balance for award (km)
GQ	5,846	5,829	17	8	-
NS and EW corridors	7,142	5,831	891	80	420
Port connectivity	380	330	50	4	-
Other NHs	1,390	945	425	6	20
SARDP-NE	388	-	112	2	276
NHDP phase					
III	12,109	2,617	6,112	82	3,380
IV	14,799	-	1,744	11	13,055
V	6,500	655	2,538	20	3,307
VII	700	-	41	2	659
Total	**49,254**	**16,207**	**11,930**	**215**	**21,117**

Source: NHAI, Angel Research, Note: As on 30th Sept. 2011

Steps such as annual qualification of players and e-tendering of projects along with plans to implement e-tolling bring forth increased transparency and enhance participation in the sector.

Positive developments at NHAI's end...

NHAI has taken several steps (plans to enact more) to enhance transparency in the working style of the agency. It has introduced annual pre-qualification for bidders, as against the earlier each-project basis, which we believe is not only logical and economical but would also lead to shortening of the time cycle (by 2-3 months) in awarding projects. Further, it has initiated e-tendering of projects and intends to implement e-toll collection going ahead. We believe these changes are taking the sector forward in the right direction and would lead to greater transparency and cost savings.

...but intense competition plays the spoil sport for contractors

During the last few quarters, players in the road segment are witnessing enhanced competition due to scarcity of order inflow across sectors (except road), as evident from the huge difference in the bidding amount of players and the all-time high participation of players (refer Exhibit 3).

Exhibit 3: Aggressive bidding was witnessed during the last few months

Project	Length (Km)	TPC (₹ cr)	Winner	Premium/(Grant) L1 (₹ cr)	L2 (₹ cr)	Diff (%)	No of pre-qualified bidders
A'bad Vadodara	102.0	2,125	IRB	310.0	191.7	61.7	22
Beawer Pali Pindwara	244.0	2,388	L&T	251.0	225.0	11.6	19
Krishangarh A'bad	556.0	5,387	GMR	636.0	516.0	23.3	11
Kota Jhalawar	88.0	530	Keti Const.	3.5	3.4	3.2	41
Barwa Adda Panagarh	123.0	1,665	DSC	106.0	67.9	56.1	20

Source: NHAI, Angel Research

We believe competition in the road segment is here to stay; but considering the tough liquidity environment, better financial discipline on the bidding front from players is also expected.

...however some rationality is finally coming to fore

However, recent bid results throw a mixed picture (refer exhibit below), as few bids witnessed sensible bidding. As shown in the table below, the difference between L1 and L2 has narrowed down significantly in some cases. We believe this moderation is due to the tight liquidity situation and projects facing difficulty in achieving financial closure, as banks are getting skeptical in lending to aggressively won projects. However, NHAI is emerging as the winner in this highly competitive environment, with bidders offering a premium much higher than NHAI's expectations. We believe competition is here to stay, considering the general slowdown in the economy and lack of opportunities in other segments. However, considering the tough liquidity environment, better financial discipline on the bidding front from players is also expected.

Exhibit 4: Bidding trend in recently awarded road projects

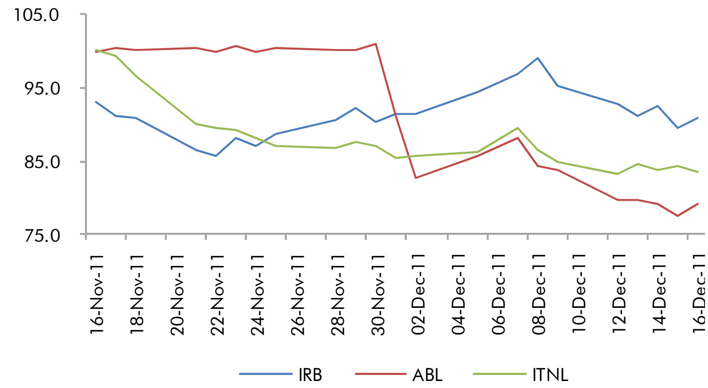
Project	Length (Km)	TPC (₹ cr)	Winner	Premium/(Grant) L1 (₹ cr)	L2 (₹ cr)	Diff. (%)	No of pre-qualified bidders
Raipur Bilaspur	126.0	1,220	IVRCL	45.5	43.0	5.7	33
Mah/KNT-Sangareddy	145.0	1,273	L&T	80.0	75.1	6.6	37
Agra Etawah	125.0	1,207	Ramky	128.1	121.9	5.1	33
Bakhtiyarpur Khagaria	113.0	1,635	Essar/KNR	(537.0)	(568.0)	5.5	27
Cuttack Angul	112.0	1,124	Ashoka	61.1	51.2	19.3	27
Hospet Chitradurga	120.0	1,045	Ramky	63.0	45.0	40.0	37
Etawah Chakeri	160.0	1,573	Oriental	91.9	68.1	34.9	35
Rampur Kathgodam	93.0	790	Era	34.0	5.4	529.6	24

Source: NHAI, Angel Research

Prefer IRB over ABL in the road BOT space

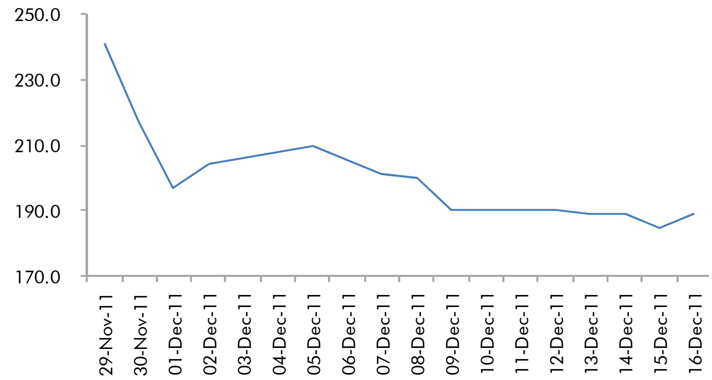
We initiate coverage on ABL with a Buy rating and a SOTP target price of ₹245: The stock has recently corrected by ~20%; and on a YTD basis, the correction has been ~38%. The decline in the stock price can mainly be attributed to 1) the general weakness in stock markets; 2) negatives surrounding the infrastructure sector; and 3) ABL's deterioration in leverage position and expectations of the trend to continue (with the recent Cuttack Angul project win).

Exhibit 5: Share price movement over the last one month – Indicates IRB's outperformance



Source: Company, Angel Research

Exhibit 6: Decline in ABL's share price post winning the ₹1,124cr Cuttack Angul project (₹)



Source: Company, Angel Research

Our analysis indicates that ABL is in need of ~₹990cr of equity during FY12012-14E, which would increase its dependence on capital markets.

ABL, traditionally a state player, has transformed into a national player by winning four NHAI projects totaling to a TPC of ~₹5,156cr. However, this transition has come at a cost, as it entails premium commitments to NHAI (~₹220cr per year, albeit covered by toll collections during the construction period) and huge equity contributions from ABL's side. We have analyzed the equity requirement for ABL over FY2012-14E on the basis of its current portfolio. Our analysis indicates that ABL is in need of ~₹990cr of equity during the same period (as shown in the table below), which would increase its dependence on capital markets for the same.

In recent times, markets have been harsh on companies with loose financial discipline and we, therefore, remain conservative in assigning higher trading multiples to ABL until the time its funding is tied up.

Management has guided that the PE route would substantially fund the equity requirement. However, we have not factored the same in our estimates, given the gloomy market conditions; instead, we have penciled in the increase in debt levels.

Equity requirement of ~₹9.9bn – we expect balance sheet to stretch

As far as funding of equity is concerned, ABL has three sources: 1) internal accruals, 2) dilution of stake at the SPV level and 3) debt raising at Parent level/refinancing of existing operational projects.

Internal accruals: Internal sources include cash flow from the C&EPC segment and toll collection. We believe ABL's C&EPC segment would be able to generate cash flow of ~₹209cr over FY2012-14E and the BOT segment would be able to garner ~₹400cr over the same period.

Dilution of stake at the SPV level: As per management, ABL is looking to dilute stake at the SPV level to raise funds worth ₹700cr-750cr. However, given the current gloomy market conditions, we believe that PE money would be hard to come by and, hence, we are reluctant to factor in the same. Also, the recently won projects are won with high premium commitments towards NHAI; this makes things tougher by raising a question mark over the profitability of these projects.

Debt raising at Parent level/refinancing of existing operational projects: We are factoring in the increase of debt at the parent level to fulfill its ~50% of investment commitments (as shown in the table below); and, thereby, we see further deterioration in its balance sheet – consolidated net D/E is expected to rise from 1.4x in FY2011 to 3.0x by FY2013E. ABL also has an option to refinance operational BOT projects to meet this shortfall. This route will give cheaper access to funds owing to stability in cash flows. In the past as well, ABL has employed this alternative of re-leveraging to arrange for its funding requirement.

Exhibit 7: Equity requirement and funding over FY2012-14E

ABL		IRB	
Projects	**₹ cr**	**Projects**	**₹ cr**
Pimpalgaon-Nashik-Gonde	44	Pathankot-Amritsar	391
Belgaum –Dharwad	215	Jaipur-Deoli	499
Sambalpur-Baragarh	299	Talegaon Amravati	194
Dhankuni	293	Tumkur-Chitradurga	311
Cuttack Angul	140	Ahmedabad-Vadodara	753
Total	**990**		**2,148**
Funding	**₹ cr**	**Funding**	**₹ cr**
C&EPC cash flows (FY2012E-14E)	209	C&EPC cash flows (FY2012E-14E)	812
BOT cash flows (FY2012E-14E)	400	BOT cash flows (FY2012E-14E)	500
Funding from Parent/refinancing of operational projects	445	Funding from Parent/refinancing of operational projects	250
Cash balance (FY2011 Consol.)	60	Cash balance (FY2011 Consol.)	1,200
Total	**1,114**	**Total**	**2,762**

Source: Company, Angel Research, Note: ITNL has an equity requirement of only ~₹150cr for its projects (current portfolio)

Peer comparison on various parameters

Despite being a small player, we believe ABL has done a commendable job of ramping up its portfolio (bagged four NHAI projects), which has resulted in good revenue visibility. However, this would lead to increased leverage for the company, as explained before.

Therefore, we prefer market leaders like IRB (CMP: ₹148, TP: ₹182) over ABL, considering ABL's comparatively smaller size, dependency on capital markets for equity and major projects at nascent stage (given that average weighted age of its portfolio is comparatively lower).

ABL, traditionally a state player, has transformed into a national player by winning four NHAI projects totaling to a TPC of ~₹5,156cr.

Average weighted age of portfolio (years) indicates ABL's portfolio is at a nascent stage in comparison to IRB.

We expect deterioration in ABL's balance sheet – consolidated net D/E is expected to rise from 1.4x in FY2011 to 3.0x by FY2013E.

Exhibit 8: Comparison of ABL with IRB and ITNL

	ABL	ITNL	IRB
Project comparison			
No. of projects	18	22	17
Project Type	Toll	Toll + Annuity	Toll
Projects in more developed states	no	yes	yes
Foreign presence	no	yes	no
More diversified Portfolio (project type)	no	yes	no
Total lane km (stake adjusted)	3,709	7,026	6,579
Lane km under operation (stake adjusted)	1,204	2,979	3,270
Lane km under development (stake adjusted)	2,505	4,047	3,309
TPC (stake adjusted) (₹ cr)	6,016	15,048	16,966
Equity Commitment (₹ cr) For current portfolio	1,288	150	2,815
Order book	5,150	8,900	9,635
OB/Sales (x) (FY2011 EPC rev.)	5.0	5.2	5.8
Revenue collection/day (₹ cr) 2QFY2012	1.0	1.8	3.2
Average Weighted Age of Portfolio (years)	2.4	2.8	3.3
Financial comparison			
Net debt/Equity (FY2013E) (x)	3.0	3.2	2.0
PE (FY2013E)	7.6	6.4	11.4
P/BV (FY2013E)	0.9	1.0	1.6
EV/EBITDA (x) (FY2013E)	10.3	8.3	7.4

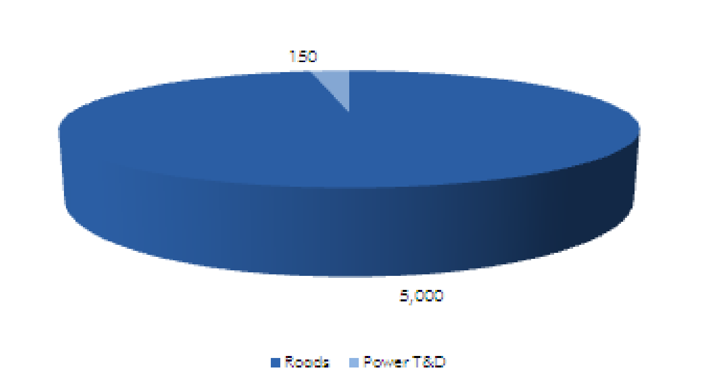
Source: Company, Angel Research Note: Average Weighted Age of Portfolio (years) = Age of project x Weights, Weights= TPC of SPV/ TPC of All SPVs

Order book position

ABL has an order book of ~₹5,150cr (5.0x FY2011 EPC revenue), which provides good revenue visibility.

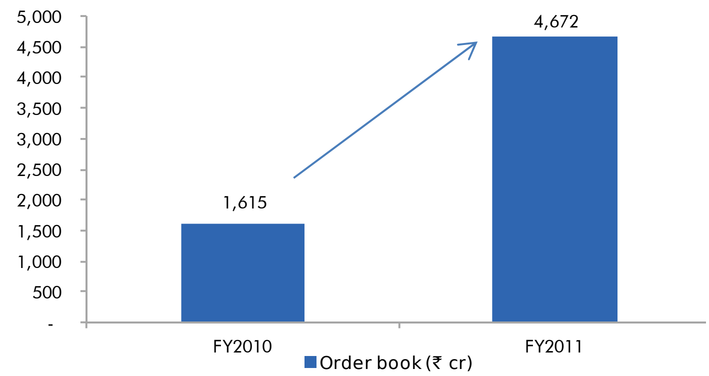
ABL has an order book of ~₹5,150cr, including the recently won Cuttack Angul project (5.0x FY2011 EPC revenue), which provides good revenue visibility. The road segment constitutes a major share of the order book (97.1%), while the T&D segment contributes the rest. The stunning yoy growth of 189.3% in the company's order book in FY2011 came on the back of three project wins from NHAI.

Exhibit 9: Current OB break-up (₹ cr)



Source: Company, Angel Research

Exhibit 10: Growth in OB due to recent project wins

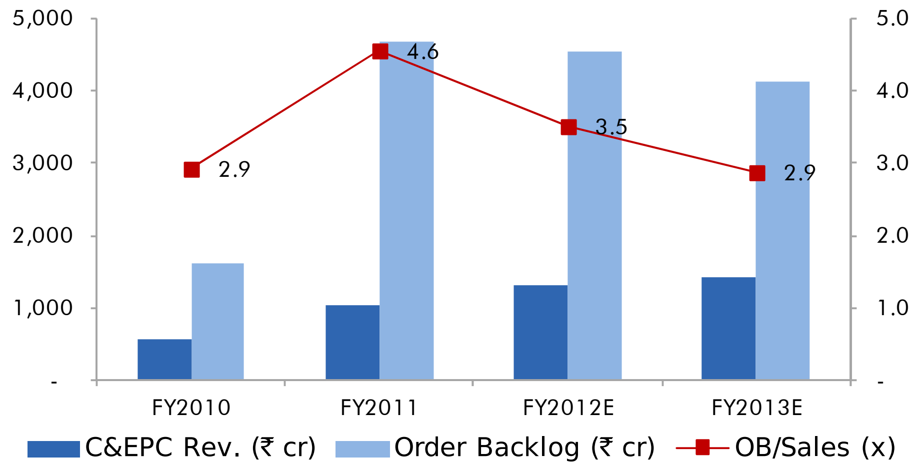


Source: Company, Angel Research

For FY2012 and FY2013, we are factoring an order inflow of ₹1,120cr (recently won Cuttack Angul project) and ₹1,000cr, respectively.

Going ahead, we believe ABL will be more conservative while bidding, owing to: 1) strong order book in hand (₹5,150cr 5.0x FY2011 C&EPC revenue) and 2) focus on arranging the equity required for the current portfolio. We have factored in no further order inflow for the remaining part of FY2012 and subdued order inflow for FY2013, which would be mainly aided by the T&D segment. Therefore, for FY2012 and FY2013, we are factoring an order inflow of ₹1,120cr (recently won Cuttack Angul project) and ₹1,000cr, respectively.

Exhibit 11: OB/Sales expected to drop due to pick-up in execution and subdued order inflow



Source: Company, Angel Research

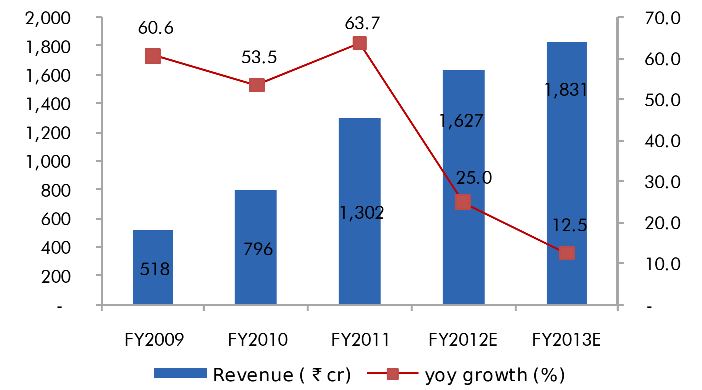
Financials – Consolidated performance

Top-line growth will be driven by under construction captive BOT projects

We expect ABL to post a CAGR of 18.6% during FY2011-13 on the top-line front on the back of strong C&EPC order book (~₹5,150cr, 5.0x FY2011 C&EPC revenue) and addition in toll income owing to commissioning of projects.

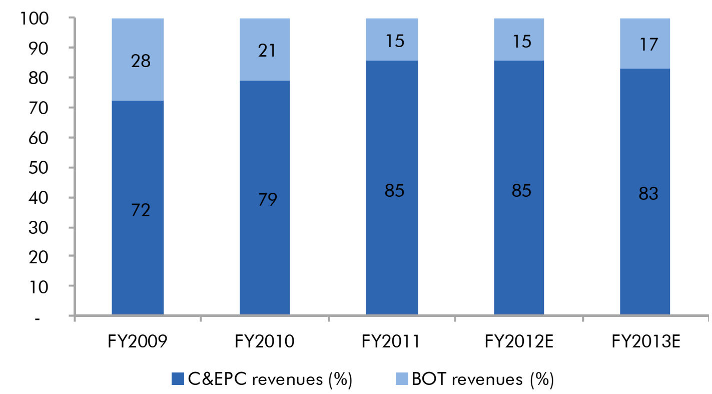
C&EPC revenue is expected to grow yoy by 26.6% and 10.5% to ₹1,298cr and ₹1,434cr in FY2012 and FY2013, respectively. ABL has seven projects under the construction/development phase, which will drive its EPC revenue going ahead. On the toll collection front, ABL is expected to post yoy growth of 25.3% and 28.3% for FY2012 and FY2013, respectively. Toll revenue will increase on the back of completion of Jaora-Nayagaon, Pimpalgaon-Nashik-Gonde and Durg projects. It should be noted that ABL has a different accounting policy for toll collection of projects under construction i.e., toll collections during the construction period net of O&M expenses would be credited to capital WIP – unlike IRB and ITNL. Consequently, we have incorporated the same while estimating toll revenue.

Exhibit 12: Consolidated revenue to grow at an 18.6% CAGR of over FY11-13E



Source: Company, Angel Research

Exhibit 13: C&EPC segment will continue to dominate the overall scheme of things



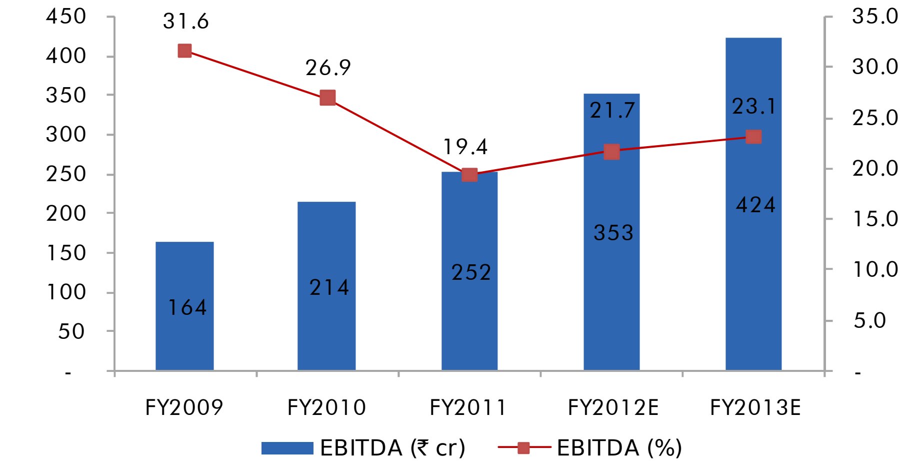
Source: Company, Angel Research

Blended EBITDAM to marginally improve due to change in revenue mix

For FY2011, ABL's blended EBITDAM stood at 19.4%, owing to toll disruption in toll collections for two projects (Pune Shirur and Nagar Karmala) and major O&M work done by the company for few projects. Going ahead, we expect ABL to post blended EBITDAM of 21.7% and 23.1% for FY2012 and FY2013, respectively, as we are factoring normalized C&EPC margin at 12.5% and BOT margin at 85.0% for both FY2012 and FY2013. Marginal improvement in FY2013 would come from higher contribution from the high-margin BOT segment.

	FY2012E	FY2013E
EBITDA (₹ cr)	**352.7**	**423.6**
C&EPC EBITDA	162.6	179.0
BOT EBITDA	190.1	244.6
EBITDAM (%)	**21.7**	**23.1**
C&EPC EBITDA	12.5	12.5
BOT EBITDA	85.0	85.0

Exhibit 14: EBITDAM set to improve in FY2013 on the back of increased toll revenue contribution

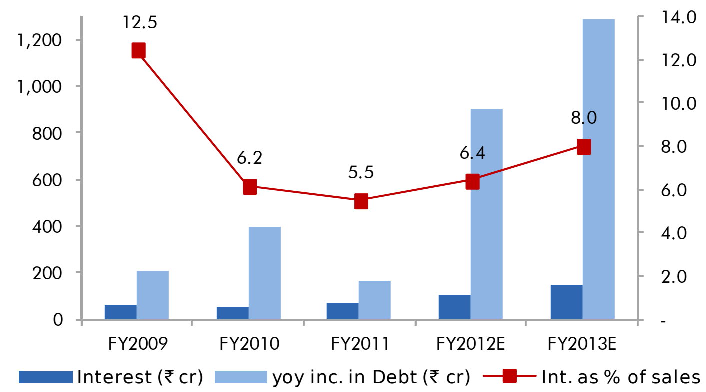


Source: Company, Angel Research

Earnings growth to be under check due to rising interest cost

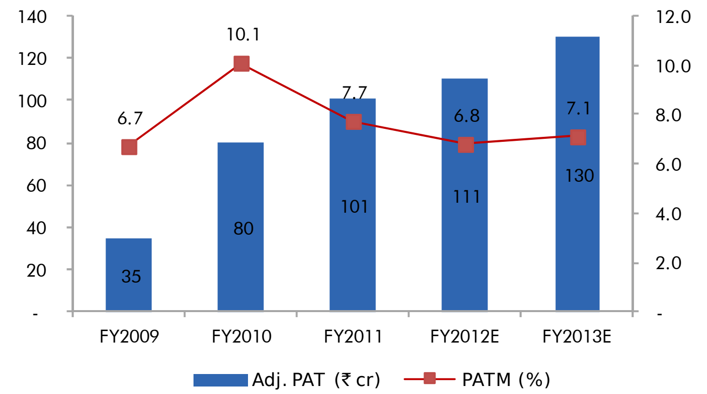
ABL is expected to register a subdued CAGR of 13.6% on the earnings front for FY2011-13, primarily on the back of higher interest cost in spite of growth in revenue and improvement in EBITDA margin. For FY2012 and FY2013, we are factoring interest cost of ₹103.8cr and ₹143.9cr, respectively. We expect ABL's debt to bloat to ₹3,468cr in FY2013E from ₹1,283cr in FY2011 (owing to debt draw down for under construction projects).

Exhibit 15: Debt level to increase substantially over FY2011-13E



Source: Company, Angel Research

Exhibit 16: Earnings to be driven by growth in revenue and better EBITDAM



Source: Company, Angel Research

Outlook

History has showed that a world-class road network is a basic requirement for any economy hopeful to maintain high economic growth rates. However, India's road network is barely adequate to maintain its current growth trajectory – indicating an urgent attention towards the same and putting it on the priority list. Positively, the political will to acknowledge and address these issues in now visible.

Records till date are mixed for road development in India – with PMGSY doing reasonably well and NHDP lagging behind on meeting its targets. However, matters have improved gradually with positive developments happening (as mentioned earlier) and with experience gained on both sides – government agencies and private sector. Some issues have been addressed on the ground and at the policy level. But still the sector faces quite a lot of issues – for e.g., land acquisition, environment clearance and dispute on certain aspects on the Model Concession Agreement. Having said that, the pace of awarding has definitely picked up considerably as compared to the past, though lower than targets. Therefore, there are ample of opportunities for the private sector, especially for road-focused players like IRB, ABL and ITNL.

However, we believe ABL is little differently placed than its peers on account of its leverage position. In recent times, ABL has won large orders, which has resulted in huge premium commitments to NHAI (~₹220cr) and equity contributions from ABL's side, which we believe would further stretch its leverage (net D/E is expected to rise from 1.4x in FY2011 to 3.0x by FY2013E). Also, the current cash flow generation from BOT projects and the EPC segment would not fully suffice the equity requirements for under development projects. Hence, we believe the only two options for ABL would be to raise equity, which seems extremely tough in current times, or raise debt for equity funding of its subsidiaries, which we have factored in after considering ~50% of requirement been met from internal accruals/refinancing of operational projects. We believe tying up of funds is the biggest catalyst markets would watch out for in case of ABL and any delay in that would negatively impact its stock performance on the bourses.

Valuation

We have valued ABL on a SOTP basis – by assigning 5.0x EV/EBITDA to its standalone business (₹104/share) (lower multiple as compared to IRB/ITNL given the scale of operation) and valued its BOT projects on NPV basis (₹141/share) (it should be noted we have been conservative than management on revenues estimates (toll receipts) for under construction projects keeping an eye on revenue yield given the current competitive environment) – to arrive at a target price of ₹245, which implies an upside of 29.4% from current levels. **We initiate coverage on the stock with a Buy rating and key catalyst being raising equity from capital markets.**

Exhibit 17: SOTP valuation break-up

Business Segment	Methodology	₹ cr	ABL's stake (%)	ABL's share	₹/share	% to Target Price
Indore -Edalabad	NPV	242.7	87.0	211.2	40.1	16.4
Ahmednagar-Aurangabad	NPV	51.2	100.0	51.2	9.7	4.0
Wainganga Bridge	NPV	62.5	50.0	31.2	5.9	2.4
Dewas Bypass	NPV	28.5	100.0	28.5	5.4	2.2
Katni Bypass	NPV	28.0	99.9	28.0	5.3	2.2
Pune–Shirur	NPV	60.7	100.0	60.7	11.5	4.7
Nagar -Karmala	NPV	62.9	100.0	62.9	11.9	4.9
Bhandara	NPV	150.9	51.0	76.9	14.6	6.0
Jaora–Nayagaon	NPV	335.0	14.5	48.6	9.2	3.8
Durg	NPV	110.9	51.0	56.5	10.7	4.4
Pimpalgaon-Nashik-Gonde	NPV	68.2	26.0	17.7	3.4	1.4
Belgaum –Dharwad	NPV	(47.4)	100.0	(47.4)	(9.0)	(3.7)
Sambalpur-Baragarh	NPV	57.0	100.0	57.0	10.8	4.4
Dhankuni–Kharagpur	NPV	4.9	100.0	4.9	0.9	0.4
Cuttack Angul	P/BV	20.0	100.0	20.0	3.8	1.6
Others	NPV	33.8	100.0	33.8	6.4	2.6
EPC (Parent)	5.0x EV/EBITDA			952.8	181.0	74.0
Net debt at standalone level				(406.9)	(77.3)	(31.6)
Total				**1,287.7**	**244.6**	**100.0**

*Source: Company, Angel Research, Note: Discount rate 14% and 16% for operational and under construction projects, respectively, *Others include Nashirabad ROB, Sherinallah bridge and FOBs; We have valued Cuttack Angul project on P/BV basis due to pending detail*

Exhibit 18: ABL – BOT projects details/assumptions

Project	Client	Lane Kms	ABL's Stake	TPC SPV (₹ cr)	Equity (₹ cr)	Debt (₹ cr)	Grant/(Prem.) (₹ cr)	Con. sign	Int. Rate	Toll Inc	Traffic Inc
Operational Projects			(%)						(%)	(%)	(%)
Indore -Edalabad	MPRDC	407	87	165.0	64.7	55.6	45.0	22-Sep-01	11.9	7.0	5.0
Ahmednagar-Aurangabad	PWD	168	100	103.0	36.0	67.0	-	18-Dec-06	10.0	15.0*	5.0
Wainganga Bridge	MORTH	26	50	41.0	14.5	26.5	-	16-Nov-98	9.5	6.0	5.0
Dewas Bypass	PWD	40	100	61.0	25.0	36.0	-	31-Aug-01	13.8	25.0*	5.0
Katni Bypass	PWD	35	100	71.0	28.0	43.0	-	19-Aug-02	14.0	5.0	5.0
Pune–Shirur	PWD	216	100	161.0	55.0	106.0	-	7-May-03	11.0	18.0*	5.0
Nagar -Karmala	PWD	160	100	50.0	31.5	18.5	-	19-Feb-99	11.3	18.0*	5.0
Bhandara	NHAI	377	51	535.0	150.0	375.0	10.0	18-Sep-07	11.0	6.0	5.0
Dhule Bypass	PWD	12	100	6.0	0.6	5.4	-	28-Aug-97	No debt	-	5.0
Nashirabad	MORTH	8	100	15.0	14.5	0.5	-	16-Nov-98	No debt	21.0#	5.0
Sherinala	PWD	7	100	14.0	7.0	7.1	-	23-Mar-99	No debt	16.0	5.0
Anawali Kasegaon	PWD	22	5	7.4	3.3	4.1	-	1-Mar-04	No debt	n.a.	5.0
Under cons./develop.											
Jaora–Nayagaon	MPRDC	340	15	835	273.0	562.0	(15.3)^	20-Aug-07	11.0	5.0	5.0
Durg	NHAI	368	51	587	201.0	386.0	(1.0)	23-Jan-08	13.3	5.0	5.0
PNG	NHAI	452	26	1,691	339.0	1,352.0	6.2%@	8-Jul-09	10.3	5.0	5.0
Belgaum –Dharwad	NHAI	454	100	694	215.0	479.0	(31.0)^	29-Jun-10	12.3	5.0	5.0
Sambalpur-Baragarh	NHAI	408	100	1,142	332.0	810.0	(1.3)^	29-Jun-10	11.8	5.0	5.0
Dhankuni–Kharagpur	NHAI	840	100	2,200	450.0	1,750.0	(126.1)^	21-Jun-11	11.0	5.0	5.0
Total		**3,611**		**8,378**	**2,240**	**6,084**					

Source: Company, Angel Research, Note: Every three years, # Every five years, ^ 5% increment per annum, @ 6.19% of revenue payable as premium and increment of 1% per annum*

Concerns

Interest rate risks

ABL's business model is vulnerable to interest rate fluctuations, and any hike in interest rates could increase its interest costs.

The inherent nature of the BOT project requires high leverage. Going by the thumb rule, most road BOT projects have a debt-equity blend of 70:30. In recent times, ABL has won large orders, which is expected to result in stretch in its leverage position (net D/E is expected to rise from 1.4x in FY2011 to 3.0x by FY2013E). Hence, the company's business model is vulnerable to interest rate fluctuations, and any hike in interest rates could increase its interest costs. However, we believe that interest rates are at peak and don't expect any further increase from here on.

Traffic growth risks

The thumb rule for traffic growth is a factor of 0.8-0.9x of real GDP growth. Therefore, we have conservatively factored in 5% traffic growth in ABL's BOT projects.

Revenue from BOT toll-based projects is directly affected by traffic growth. Companies bid for projects assuming long-term traffic growth patterns, which may be higher/aggressive than actual growth. This aberration in traffic growth estimates could result in lower returns for companies. Moreover, any economic slowdown or competing road development could impact our estimates. The thumb rule for traffic growth is a factor of 0.8-0.9x of real GDP growth. Therefore, we have conservatively factored in 5% traffic growth in ABL's BOT projects.

Commodity risks

If the movement in the prices of commodities (bitumen, steel and cement) is higher than the estimates, it would have a negative impact on the EBITDAM.

Prices of commodities like cement, steel and bitumen play an important role in shaping EBITDAM. We have factored in flat EBITDAM for ABL for the C&EPC and BOT segment owing to inclusion of escalation clause while estimating costs and due to the integrated business model of ABL. However, if the movement in prices of these commodities is higher than the estimates, it would have a negative impact on the company's EBITDAM.

Company background

ABL's business is organized into four divisions: 1) BOT division, 2) Engineering, procurement and construction (EPC) division, 3) RMC and bitumen division and 4) Toll collection contract division.

ABL is an integrated road player involved in building and operating roads and bridges in India on a BOT basis. The company's head office is in Nashik, Maharashtra, and its operations currently reach across the states of Maharashtra, Madhya Pradesh, Chhattisgarh and Rajasthan. In addition to BOT projects, the company engineers and designs; procures raw material and equipment; and constructs roads, bridges, distribution transformers, electricity substations, commercial buildings, industrial buildings and institutional buildings along with providing maintenance services. ABL is also involved in the manufacturing and selling of ready-mix concrete (RMC) and bitumen and collecting tolls on roads and bridges owned by it and constructed by third parties.

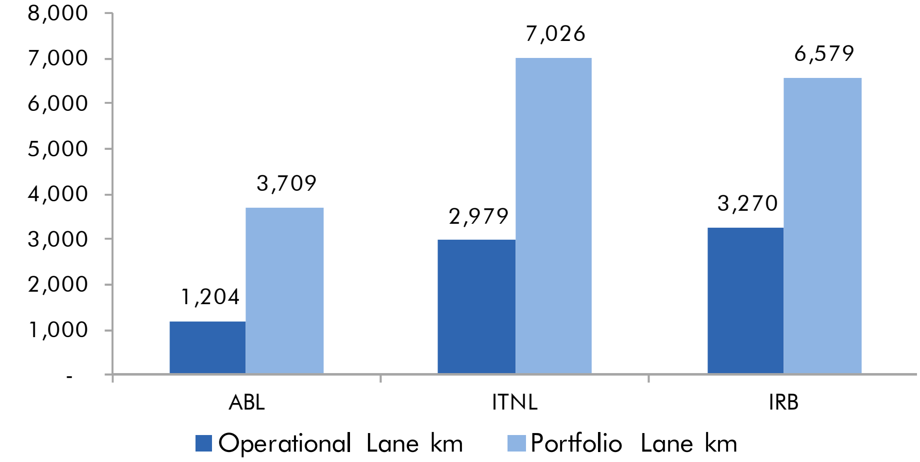
Prior to 1997, ABL was engaged solely in the engineering and construction of residential, commercial, industrial and institutional buildings. In 1997, after acquiring EPC skills, ABL turned its attention towards bidding for contracts for roads and bridges on a BOT basis. The company was awarded its first BOT project, the Dhule bypass in Maharashtra, in 1997 and it completed the construction of the road in the same year. In 2000, ABL began manufacturing RMC solely for use by its EPC division, while in 2002 the company began to manufacture RMC to sell to third parties. In 2005, ABL began processing bitumen to a higher grade at its Pune facility for use in road projects. Having developed systems and procedures for collecting tolls on its BOT projects, including developing its own proprietary computerized toll revenue auditing system, ABL bided for and was awarded the first contract to collect tolls on a road owned and constructed by a third party. In FY2009, the company began undertaking EPC work in the power sector and was awarded a contract by Maharashtra State Electricity Distribution Company Limited for the construction and commissioning of sub-transmission lines, distribution lines, power transformers and new sub-stations. In September 2008, ABL entered into agreements for constructing and developing two shopping malls on a BOT basis.

Seasoned player in the road BOT segment

ABL has a rich experience of 15 years in the road segment with 59 road and bridge projects under its name.

Rich experience: ABL has a rich experience of 15 years in the road segment with 59 road and bridge projects under its name. ABL was an early mover in the BOT project sector, as it bagged its first BOT project, the Dhule bypass (TPC - ₹5.8cr) in Maharashtra, in 1997 and completed the construction in the same fiscal year. In terms of lane km, ABL has executed 3,095 lane km (1,155 lane km – third party and 1,941 lane km – captive), making it one of the most seasoned players in the road segment.

Exhibit 19: Portfolio across road focused players



Source: Company, Angel Research, Note: Adjusted for stake

We believe ABL's enviable reputation in the road segment will augur well for the company to further develop its BOT portfolio and to win EPC contracts for road and bridge construction projects.

Changeover from a state to a national level player: ABL primarily started as a state level construction player and slowly moved to become a national player (recently bagged four big NH projects worth ₹5,150cr). ABL's early-mover status and continued presence in the road BOT sector provides it with a platform to further develop a BOT portfolio and to win EPC contracts for road and bridge construction projects. Further, the company has worked with well-established players such as L&T, IDFC and SREI Infrastructure Finance, which can lead to future opportunities for ABL in the form of EPC contract for road projects from these players.

Exhibit 20: Project capitalization (₹ cr)

	Oper.	% to Total	Under Develop	% to Total	Total
ABL	917	15.2	5,099	84.8	6,016
IRB	3,339	19.7	13,627	80.3	16,966
ITNL	3,563	23.7	11,485	76.3	15,048

Source: Company, Angel Research, Note: Adjusted for stake

NH-6 ABL's forte: ABL has been concentrating on NH-6 as far as road BOT projects are concerned, which is evident from the fact that it is the largest BOT player on NH-6 with ~1,745 lane km of projects and 57% PPP market share on the same. The company has won BOT projects on NH-6 and is present in four out of six states linked to NH-6. We believe ABL's experience and dominance on this stretch equips it with credible traffic data, which aides while bidding for new projects. Further, it makes it easier to mobilise resources from one project to the other, thus leading to cost savings.

Under construction BOT projects – Update

Exhibit 21: ABL's under construction projects

	ABL's stake (%)	TPC (₹ cr)	EPC (₹ cr)	Toll Revenue* (₹ cr)	Revenue yield# (%)	Status	Toll collection expected to start
Jaora–Nayagaon	15	835	460	84.3	10.1	99% completed	4QFY12
Durg	51	587	539	58.0	9.9	99% completed	4QFY12
Pimpalgaon-Nashik-Gonde	26	1,691	650	171.0	10.1	47% completed	Jul-12
Belgaum –Dharwad	100	694	630	64.2	9.3	16% completed	Already operational
Sambalpur-Baragarh	100	1,142	1,008	96.0	8.4	10% completed	Jul-13
Dhankuni–Kharagpur	100	2,200	2,016	217.2	9.9	FC expected in 4QFY12	4QFY12
Cuttack Angul	100	1,120	1,000	n.a	n.a	CA yet to be signed	n.a.
Total		8,269	6,303				

*Source: Company, Angel Research, Note: *Toll revenues are for first full year of operation, # Revenue yield=Toll Revenue/TPC*

Profit and Loss (Consolidated)

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Net sales	**323**	**518**	**796**	**1,302**	**1,627**	**1,831**
% growth	(19.9)	60.6	53.5	63.7	25.0	12.5
Other operating income	-	-	-	-	-	-
Total operating income	**323**	**518**	**796**	**1,302**	**1,627**	**1,831**
% chg	(19.9)	60.6	53.5	63.7	25.0	12.5
Total expenditure	**199**	**354**	**581**	**1,050**	**1,274**	**1,407**
Construction/Contract expenses	120	265	484	928	1,128	1,242
Cost of material sold	52.5	58.2	58.5	61.3	71.3	80.2
Administrative and other exp.	14.2	15.6	17.8	26.8	33.5	37.7
Personnel	12.9	15.9	21.3	33.3	41.6	46.8
Other	-	-	-	-	-	-
EBITDA	**123.3**	**164.0**	**214.3**	**252.2**	**352.9**	**423.7**
% chg	16.9	33.0	30.6	17.7	39.9	20.1
(% of Net sales)	38.2	31.6	26.9	19.4	21.7	23.1
Depreciation & amortization	53.2	64.5	66.1	69.0	115.1	121.6
EBIT	**70.1**	**99.5**	**148.1**	**183.2**	**237.8**	**302.1**
% chg	26.4	41.9	48.8	23.7	29.8	27.0
(% of Net Sales)	21.7	19.2	18.6	14.1	14.6	16.5
Interest & other charges	47.4	64.6	49.0	71.5	103.8	143.9
Other income	17.6	15.0	18.6	33.9	23.7	27.3
Share in profit of associates	-	-	-	-	-	-
Recurring PBT	**40.3**	**49.9**	**117.7**	**145.6**	**157.7**	**185.4**
% chg	53.9	23.8	135.9	23.7	8.3	17.6
Extraordinary expense/(inc.)	-	-	-	(89.2)	-	-
PBT (reported)	**40.3**	**49.9**	**117.7**	**234.8**	**157.7**	**185.4**
Tax	3.8	11.6	31.9	24.5	45.7	53.8
(% of PBT)	9.4	23.3	27.1	10.4	29.0	29.0
PAT (reported)	**36.5**	**38.3**	**85.9**	**210.3**	**112.0**	**131.7**
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	3.4	3.5	5.5	2.4	1.3	1.5
Prior period items	-	-	-	-	-	-
PAT after MI (reported)	**33.1**	**34.8**	**80.4**	**208.0**	**110.7**	**130.2**
Adj. PAT	**33.1**	**34.8**	**80.4**	**100.8**	**110.7**	**130.2**
% chg	36.5	5.2	130.8	25.5	9.8	17.6
(% of Net Sales)	10.3	6.7	10.1	7.7	6.8	7.1
Basic EPS (₹)	**7.4**	**7.6**	**17.6**	**19.2**	**21.0**	**24.7**
Fully diluted EPS (₹)	**6.3**	**6.6**	**15.3**	**19.2**	**21.0**	**24.7**
% chg	36.5	5.2	130.8	25.5	9.8	17.6

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
SOURCES OF FUNDS						
Equity Share Capital	46	46	46	53	53	53
Preference Capital	13	13	12	10	10	10
Reserves& Surplus	253	289	404	830	941	1,071
Shareholder's Funds	**311**	**347**	**462**	**893**	**1,003**	**1,134**
Total Loans	512	723	1,122	1,283	2,181	3,468
Deferred Tax Liability	1	2	3	2	2	2
Minority Interest	16	24	81	111	111	111
Total Liabilities	**841**	**1,095**	**1,669**	**2,289**	**3,297**	**4,714**
APPLICATION OF FUNDS						
Gross Block	623	749	791	1,389	1,809	2,249
Less: Acc. Depreciation	191	259	330	368	483	605
Net Block	**432**	**491**	**461**	**1,020**	**1,326**	**1,644**
Capital Work-in-Progress	129	373	814	673	1,149	2,047
Goodwill	-	-	-	-	-	-
Investments	**72**	**91**	**149**	**139**	**160**	**168**
Balance of unutilised monies	-	-	-	11	-	-
Current Assets	**291**	**306**	**685**	**815**	**1,172**	**1,485**
Inventories	91	67	196	241	362	489
Sundry Debtors	33	35	182	285	392	486
Cash	99	69	85	60	75	87
Loans & Advances	67	135	222	229	343	424
Other	-	-	-	-	-	-
Current liabilities	**83**	**165**	**440**	**371**	**509**	**631**
Net Current Assets	**208**	**141**	**245**	**445**	**663**	**855**
Misc. Exp. not written off	-	-	-	-	-	-
Total Assets	**841**	**1,095**	**1,669**	**2,289**	**3,297**	**4,714**

Cash Flow (Consolidated)

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Profit before tax	40	50	118	235	156	184
Depreciation	53	64	66	69	115	122
Change in Working Capital	37	(49)	38	224	192	180
Less: Other income	5	4	5	34	24	27
Direct taxes paid	6	11	31	24	46	54
Cash Flow from Operations	**46**	**148**	**111**	**21**	**10**	**44**
(Inc.)/ Dec. in Fixed Assets	(152)	(367)	(478)	(457)	(896)	(1,339)
(Inc.)/ Dec. in Investments	(5)	(19)	(58)	9	(20.9)	(8)
Other income	5	4	47	34	24	27
Cash Flow from Investing	**(153)**	**(382)**	**(489)**	**(414)**	**(893)**	**(1,319)**
Issue of Equity	(8)	-	-	220	-	-
Inc./(Dec.) in loans	75	211	399	161	898	1,287
Dividend Paid (Incl. Tax)	-	-	-	-	-	-
Others	1	(7)	(6)	(13)	-	-
Cash Flow from Financing	**67**	**203**	**393**	**368**	**898**	**1,287**
Inc./(Dec.) in Cash	(40)	(30)	15	(24)	15	12
Opening Cash balances	**139**	**99**	**69**	**85**	**60**	**75**
Closing Cash balances	**99**	**69**	**85**	**60**	**75**	**87**

Key Ratios

Y/E March	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Valuation Ratio (x)						
P/E (on FDEPS)	30.1	28.6	12.4	9.9	9.0	7.6
P/CEPS	11.5	10.0	6.8	5.9	4.4	4.0
P/BV	3.2	2.9	2.2	1.1	1.0	0.9
EV/Sales	4.4	3.2	2.6	1.7	1.9	2.4
EV/EBITDA	11.4	10.0	9.5	8.8	8.8	10.3
EV / Total Assets	1.7	1.5	1.2	1.0	0.9	0.9
Per Share Data (₹)						
EPS (Basic)	7.4	7.6	17.6	19.2	21.0	24.7
EPS (fully diluted)	6.3	6.6	15.3	19.2	21.0	24.7
Cash EPS	16.4	18.9	27.8	32.3	42.9	47.8
DPS	-	-	-	-	-	-
Book Value	59.1	66.0	87.8	169.7	190.6	215.4
DuPont Analysis						
EBIT margin	21.7	19.2	18.6	14.1	14.6	16.5
Tax retention ratio	0.9	0.8	0.7	0.9	0.7	0.7
Asset turnover (x)	0.5	0.6	0.6	0.7	0.6	0.5
ROIC (Post-tax)	9.5	8.6	8.3	8.6	6.2	5.5
Cost of Debt (Post Tax)	9.0	8.0	3.9	5.3	4.3	3.6
Leverage (x)	1.2	1.6	2.1	1.7	1.8	2.6
Operating ROE	10.0	9.6	17.5	14.1	9.6	10.2
Returns (%)						
ROACE (Pre-tax)	8.9	10.3	10.7	9.3	8.5	7.5
Angel ROIC (Pre-tax)	10.4	11.3	11.3	9.6	8.7	7.7
ROAE	11.1	11.6	21.2	14.9	11.7	12.2
Turnover ratios (x)						
Asset Turnover (Gross Block)	0.6	0.8	1.0	1.2	1.0	0.9
Inventory / Sales (days)	84	55	60	61	68	85
Receivables (days)	32	24	50	66	76	88
Payables (days)	134	128	190	141	126	148
Work. cap. cycle (ex-cash) (days)	100	63	53	76	109	135
Solvency ratios (x)						
Net debt to equity	1.3	1.9	2.2	1.4	2.1	3.0
Net debt to EBITDA	3.3	4.0	4.8	4.8	6.0	8.0
Interest Coverage	1.5	1.5	3.0	2.6	2.3	2.1

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DISCLAIMER

Disclosure of Interest Statement	ABL
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Returns):	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to 15%)	Sell (< -15%)	

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