

27th September 2010

Ashoka Buildcon Limited

Recommendation: Subscribe



Issue Summary		
Price Band (Rs)	297	324
Bid Lot	21 shares	
Face Value	Rs.10	
Opens on	24 th Sep'10	
Closes on	28 th Sep'10	
Total no of shares to be raised	75.75 lacs	69.44 lacs

Pre-issue share capital	Rs. 58.13 cr	
Post-issue share capital	Rs65.70 cr	Rs65.07 cr
Issue Size	Rs 225 cr	
Post Issue Market Cap	1951.2 cr	2108.2 cr
P/E on FY10	22.50	24.54

Net Issue	No. of Shares	%
QIB's	41.66 lacs	60%
Non Institutional	20.83 lacs	30%
Retail	n.a	n.a
Employees	n.a	n.a
Total	69.44 lacs*	100 %

n.a : not available

* considering higher price band

Company & Business Profile

Incorporated in 1993, Ashoka Buildcon Limited is a Nashik, Maharashtra-based construction company involved in the business of building and operating roads and bridges in India. Promoters of the company are Askok M Katariya, Satish D Parakh, Ashish A Katariya and Aditya S Parakh. Ashoka Buildcon is the operator of the highest number of toll-based BOT (build, operate and transfer) projects in India.

The company is also involved in engineering, designing and maintenance of roads, bridges, electricity substations, commercial buildings and industrial buildings for third parties. Other businesses of the company include manufacture and selling of ready-mix concrete and bitumen and collecting of tolls on roads and bridges owned and constructed by third parties. The business is organized into four divisions, namely the BOT division, the engineering, procurement and construction (EPC) division, the RMC and bitumen division and the toll collection contract division.

The company was first awarded a BOT project in 1997 - the Dhule bypass in Maharashtra. The company currently operates or has an interest in 21 BOT road projects totaling approximately 2,523 km of lanes in Maharashtra, Madhya Pradesh and Chhattisgarh. Six BOT projects are under execution.

Objects of the Issue

Particulars	Amount proposed (Rs in cr)
Investment in capital equipment	25
To meet working capital requirements	45
Prepayment/ repayment of project loans	55
Funding certain Subsidiaries for prepayment/ repayment of loans	60
General corporate purposes	n.a

n.a : not available

Investment Positives:

- **Well-established player in toll-based BOT projects:** Ashoka was an early mover in India in the BOT project sector. It has awarded by first BOT project, the Dhule bypass in Maharashtra, in fiscal 1997 and completed the construction of the road in the same fiscal year. It believe it operate one of the highest number of toll-based BOT projects in India.

Book Running Lead Managers:

- ENAM, IDFC Capital & Motilal Oswal

- **Integrated business model, including in house traffic study expertise:** Ashoka is able to undertake all activities related to a BOT road project in-house - from tendering for the project through to the collection of tolls. This helps to ensure the timely completion of projects, and decreases its costs.
- **Long standing history of timely execution of projects:** Most of the projects have been executed on time or prior to the scheduled completion date. They constructed a 90-metre long bridge on the Mahad-Pandharpur state highway in 38 days compared with the scheduled 12 construction time of 12 months. The construction of a 100-metre long bridge called the Pargaon Bridge, a BOT project, was completed in 65 days compared with the scheduled construction time of 18 months. Both of these construction feats are recorded in *Limca Book of Records*.
- **Healthy Order Book position indicator of potential future:** As at May 31, 2010, the Company's Order Book totaled Rs. 1615.36 cr, Rs. 1408.92 cr of which related to work for third parties and associated companies. In our industry, the Order Book for third parties and associated companies is considered an indicator of potential future performance since it represents a significant portion of potential EPC (Engineering, procurement & construction) revenue stream.
- **Experienced management and a well-trained employee base:** Ashoka has a well-trained employee base, which enables us to construct various kinds of projects with different technical requirements. As at March 31, 2010, we employed 2,412 full-time employees, including 1,153 technical staff.
- **Focus on executing larger projects in the Indian road infrastructure sector:** Ashoka believe that it will be increasingly characterized by larger projects. As a result, we intend to bid on larger BOT projects. The primary benefit of this strategy is that larger projects typically generate higher profit margins than smaller projects.

Concerns

- **Increase in various costs during project construction:** Due to long-period between the submission of tender and completing the a project the actual cost in executing a fixed-price contract or in constructing a project the subject of a BOT agreement may vary substantially from the assumptions underlying our bid. I.e, increases in the cost of construction materials, fuel, labour or other inputs; It may be unable to recover all or some of the additional expenses, which may have a material adverse effect on our results of operations and financial condition.

- **Cost effective of construction by the timely supply of raw materials:** The timely and cost effective construction of the projects is dependent on the adequate and timely supply of key raw materials such as steel, aggregate, bitumen and concrete. If it is unable to procure the requisite quantities of construction materials, their business, results of operations and financial condition may be adversely affected.

P/E is calculated based on post issue EPS. The latter depends on the number of shares which will be issued, which we estimate will be between 75.73 and 69.44lacs shares

Profit & Loss Account***(Rs. in crs)**

Particulars	FY 2008	FY 2009	FY 2010
Turnover:			
*Construction Revenue	137.69	293.05	552.67
*Sales	67.78	80.85	77.55
*Toll Income-BOT	117.29	144.45	165.33
Total Turnover	322.76	518.36	795.57
Other Income	17.56	14.99	18.63
Total Income	340.33	533.36	814.2
Total Expenditure	300.00	483.44	696.47
EBITDA	36.51	38.30	85.88
Depreciation	10.26	11.93	15.18
Interest	47.40	64.60	49.00
Profit Before Tax	40.31	49.91	117.73
Provision for Tax	3.79	11.61	31.85
Profit after Tax	36.51	38.3	85.88
PATM (%)	10.72	7.18	10.30
EPS (Pre Issue)	7.29	7.49	17.34
EPS (Post Issue)	5.60	5.88	13.20

*Consolidated

Peer Group Comparison**

Name of Company	CMP 24 /09/10	EPS	P/E Ratio	RONW (%)	NAV
Ashoka Buildcon - Consol	324.00*	17.34	24.54	17.38	101.18
IRB Infra	280.45	1.30	215.73	3.49	41.24
IL&FS Trans.Networks Ltd	330.60	3.79	87.23	27.21	81.11
Gammon Infra	24.40	0.21	116.19	2.18	7.38
Gayatri Projects Limited	399.15	49.56	8.05	19.79	250.31
Madhucon Projects Ltd	149.60	5.85	25.57	8.22	78.37

*Considering higher price band, CMP As on 24th Sept.2010

**Source- RHP for Ashoka Buildcon Ltd & Capitalline for remaining companies.

Valuation

At upper price band of Rs 324, the stock is valued at a PE of 24.54 times on FY10 EPS of Rs 13.2. Taking into consideration the healthy order book, its well establishment in toll-based BOT projects, integrated business model, long standing history of timely execution of projects, experienced management and a well-trained employees; the Co holds promising future. We recommend to Subscribe.

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