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Mumbai

CRISIL Research assigns IPO grade 4/5 to the IPO of Ashoka Buildcon Ltd.

CRISIL has assigned a CRISIL IPO Grade "4/5" (pronounced "four on five") to the proposed initial public offer (IPO) of Ashoka Buildcon Ltd (Ashoka). This grade indicates that the fundamentals of the IPO are above average relative to the other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy/sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The grading reflects the company's dominant position in the build-operate-transfer (BOT) road space and its established track record, with most of its projects having witnessed timely completion. The grading has also taken into consideration the strong management background with domain expertise, robust industry prospects due to significant investment expected in roads and power transmission and distribution (T&D) segments, proven execution capabilities in the engineering procurement construction (EPC) segment, integrated business model and adequate corporate governance practices. The grading also reflects the company's strong order book of Rs 17,850 Mn as well as healthy revenue growth potential from the BOT segment.

The grading takes into account the fact that Ashoka's BOT (toll) projects are restricted to Maharashtra and Madhya Pradesh. Moreover, despite having the early mover advantage, company has only few large projects in its portfolio.

About the company and the issue

Ashoka Buildcon Private Ltd was incorporated as a private limited company on May 13, 1993. It was converted into a public limited company on April 22, 2002, and was renamed Ashoka Buildcon Ltd (Ashoka). Ashoka is in the business of undertaking EPC contracts in roads, bridges, commercial buildings, industrial buildings and power T&D contracts. Apart from building roads and bridges, it also operates them on a BOT basis. Promoters, Mr. Ashok Katariya and Mr. Satish Parakh, and their groups, currently own 84.4 per cent of Ashoka.

Ashoka has 16 operational road projects (1,088 lane km), four projects under construction (1,423 lane km) and third-party orders worth Rs 12,673 Mn. The company has recently ventured into EPC – power T&D contracts, where it has outstanding orders of Rs 9,682 Mn from Maharashtra State Electricity Distribution Company.

Ashoka's board comprises eight directors, four of whom are independent directors and one is nominee director. The board is chaired by its promoter and executive director, Mr. Ashok Katariya, who has more than 33 years of experience. The managing director, Mr. Satish Parakh has over 28 years of experience in the construction industry. Other board members include nominee director of Infrastructure Development Finance Company (IDFC) Private Equity (PE). The key management team has an average work experience of more than 20 years and has been with the company for more than 10 years on an average.

Ashoka is planning to raise Rs 2,250 Mn from the IPO. Of this, Rs 700 Mn would be utilised for purchasing capital equipments and for working capital requirements and Rs 1,150 Mn would be used to prepay the loans of the company and its subsidiaries. The balance would be utilised for general corporate uses.

Ashoka registered top line and net profit CAGR of 39.4 per cent and 35.0 per cent respectively from 2004-05 to 2008-09. In 2008-09, the company reported net profit of Rs 312 Mn on a turnover of Rs 5,205 Mn,

translating into a net margin of 6.0 per cent. It posted an EPS of Rs 5.3 during the same period, while its book value per share stood at Rs 59.1. Ashoka's return on capital employed (ROCE) and return on equity (ROE) for the year stood at 11.7 per cent and 9.5 per cent, respectively.

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