

Ashoka Buildcon Limited

CRISIL IPO Grade 4/5 (Above average)

August 9, 2010

Grading summary

CRISIL Equities has assigned a CRISIL IPO grade of '4/5' (pronounced "four on five") to the proposed 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 offer price for the issue may be higher or lower than the level justified by its fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, its future market price or suitability for a particular investor. To arrive at the overall grade, amongst various other parameters, CRISIL has considered the company's business prospects, its financial performance, management capabilities and corporate governance practices.

The IPO grade assigned to Ashoka reflects the company's dominant position in the build-operate-transfer (BOT) road space and its established track record - most of its projects have been completed on time. The grading is supported by the strong management background with domain expertise, proven execution capabilities in the engineering procurement construction (EPC) segment and Ashoka's integrated business model. The grading factors in robust industry prospects driven by significant investments expected in the road (Rs 6,372 bn) and power transmission and distribution (Rs 3,442 bn) segments over the next five years. The grading has also taken into account the company's strong order book of Rs 16.2 bn and healthy revenue growth potential from the BOT segment. In addition, the company recently won two BOT road projects worth Rs 16.4 bn from the National Highways Authority of India (NHAI).

However, Ashoka's BOT (toll) projects are largely restricted to Maharashtra, Chhattisgarh and Madhya Pradesh. Despite having the early-mover advantage, the company has very few large projects in its portfolio. The grading also takes into account intense competition in a highly fragmented road development market, which leads to aggressive bidding and potentially low returns.

Ashoka registered top line and net profit CAGR of 42.4% and 60.7%, respectively, from FY05 to FY10. The EPC segment contributed 69.5%, followed by BOT (toll) and RMC segments with 20.8% and 9.8%, respectively, in FY10. EBITDA margin declined 390 bps y-o-y to 28% in FY10 mainly due to higher contribution from the EPC segment. Ashoka reported net profit of Rs 859 mn on a turnover of Rs 7,975 mn, translating into a net margin of 10.8%. It posted an EPS of Rs 17.6 during the same period, while its book value per share was Rs 98.5. Ashoka's return on capital employed (RoCE) and return on equity (RoE) for the year were 10.9% and 21.3%, respectively.

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About the company

Ashoka Buildcon Private Ltd was incorporated as a private limited company on 13 May 1993. It was converted into a public limited company on April 22, 2002 and was renamed Ashoka Buildcon Limited (Ashoka). Ashoka is in the business of undertaking EPC contracts in roads, bridges, commercial and industrial buildings, and power transmission and distribution (T&D) projects. Apart from building roads and bridges, it also operates them on a BOT basis in India. It is one of the first players to enter the BOT domain in India.

Issue details

Shares offered to public	Not available at the time of grading
As per cent of post issue equity	Not available at the time of grading
Object of the issue	<ul style="list-style-type: none"> • Investment in capital equipments – Rs 250 mn • Working capital requirements – Rs 450 mn • Prepayment / repayment of project loans – Rs 1,150 mn • General corporate purposes – not mentioned
Amount proposed to be raised	Rs 2,250 mn
Price band	Not available at the time of grading
Lead managers	Enam Securities Private Limited, IDFC Capital Limited, Motilal Oswal Investment Advisors Private Limited

Detailed Grading Rationale

A. Business Prospects

- *Strong industry prospects in road segment*

With the government's continued focus on road development, CRISIL Research estimates potential investment in the road sector to amount to Rs 6,372 bn over the next five years (2010-11 to 2014-15). While the National Highway Development Project (NHDP) attracts most of the limelight, many states have been gradually drawing up the roadmap for public private partnership (PPP) projects. CRISIL Research expects investment of Rs 1,940 bn in state roads over the next five years.

- *Established track record and known to complete most of its BOT (toll) road projects on time*

Ashoka was one of the foremost players to move into the BOT (toll) road space, bagging its first project in 1997. Ever since, it has completed 20 road projects and 17 of them are currently operational. Most of the company's project executions have been on time or even before time. Early completion of a project is beneficial to the company as it offers extended period of toll collection, thereby increasing the overall revenue from the project.

- *Proven execution capabilities in the EPC domain*

The company's core strength lies in the efficient execution of EPC projects. Most of the company's projects have been executed on time or prior to the scheduled completion date. So far, there have been no instances of performance guarantees being invoked by clients. If the company completes the construction of a road or a bridge before the stipulated time, it stands to earn a bonus for early completion as per the EPC contract. Ashoka finds a mention in the Limca Books of Records for speedy completion of a 90-meter long bridge on the Mahad-Pandharpur Highway, which was completed in 38 days (as against the scheduled time of 12 months), while the 100-meter long Paragaon Bridge was completed in 65 days (against construction time of 18 months).

- *Integrated business model with in-house traffic study expertise*

Ashoka has strong in-house expertise to carry out toll projections through origin-destination analysis, forecasts vis-à-vis competing roads, and surveys of industries and upcoming projects in the proposed road project. The company undertakes the entire construction work on almost all of its BOT projects. It also manufactures RMC and bitumen to monitor the quality of the raw material used.

BOT (toll) projects under operation

Project name	Lane kilometers	Company's beneficial interest	Project cost (Rs mn)	Granted by	Concession period
Indore - Edalabad Road project	407	86.74%	1652.88	MPRDC	November 2002 - April 2017
Pune - Shirur Road project	216	100.00%	1610.05	PWD, Maharashtra (World Bank Division)	July 2005 - October 2015
Ahmednagar - Aurangabad Road project	168	100.00%	1026.64	PWD, Maharashtra (World Bank Division)	May 2008 - September 2016
Katni Bypass	35	99.89%	708.58	PWD, Madhya Pradesh	February 2008 - September 2018
Dewas Bypass	40	100.00%	613.22	PWD, Madhya Pradesh	May 2004 - August 2015
Ahmednagar - Karmala Road project	160	100.00%	503.51	PWD, Maharashtra (World Bank Division)	August 1999 - November 2015
Wainganga Bridge	26	50.00%	408.69	Ministry of Road Transport and Highways, New Delhi	March 2001 - February 2018
Nashirabad railway over-bridge	8	100.00%	146.97	Ministry of Road Transport and Highways, New Delhi	July 2000 - November 2010
Sheri Nallah bridge	7	100.00%	142.22	PWD, Maharashtra	October 2000 - June 2015
Dhule bypass	12	99.99%	58.17	PWD, Maharashtra	March 1998 - January 2011
Foot-over-bridge in Mumbai (Godrej)	N.A.	99.99%	6.61	PWD, Maharashtra	April 2002 - August 2016
Foot-over-bridge in Mumbai (Priyadarshini)	N.A.	99.99%	7.18	PWD, Maharashtra	January 2003 - August 2012
Foot-over-bridge in Mumbai (Pravin Hotel)	N.A.	99.99%	7.57	PWD, Maharashtra	May 2003 - August 2017
Foot-over-bridge in Mumbai (Tagore Nagar)	N.A.	99.99%	6.6	PWD, Maharashtra	July 2003 - August 2018
Foot-over-bridge in Mumbai (Louis Wadi)	N.A.	99.99%	4.25	PWD, Maharashtra	February 2003 - August 2013
Foot-over-bridge in Mumbai (Mental Hospital)	N.A.	99.99%	4.79	PWD, Maharashtra	July 2002 - August 2013
Anawali-Kasegaon Road	22	5.00%	73.53	PWD, Maharashtra	March 2007 - May 2017

Source: DRHP

Upcoming BOT projects

Project name	Lane kilometers	Company's beneficial interest	Project cost (Rs mn)	Granted by	Concession period
NH-6 Bhandara Road	320	51.00%	5,350	NHAI	September 2010 - March 2028
NH-6 Durg Bypass	332	51.00%	5,870	NHAI	January 2011 - March 2028
Jaora - Nayagaon Road	319	14.47%	8,180	MPRDC	February 2011 - February 2033
NH-3 Pimpalgaon-Nashik-Gonde Road	452	26.00%	14,070	NHAI	July 2012 - July 2032
NH-4 Belgaum-Dharwad Road	454	98.67%	6,300	NHAI	Yet to achieve financial closure
NH-4 Sambalpur-Baragarh Road	408	98.67%	10,080	NHAI	Yet to achieve financial closure

Source: DRHP

Order book as on May 31, 2010

Project details	Contract price (Rs mn)	Outstanding order book (Rs mn)
In-house road projects		
NH-6 Bhandara Road	5,400.0	208.4
NH-6 Durg Bypass	5,390.0	1,716.5
Work for Pune-Shirur and Indore-Edalabad road	164.8	139.5
Third party road projects		
NH3 Pimpangaon-Nashik-Gonde	5,853.3	5,562.2
Jaora - Nayagaon Road	4,557.0	317.9
BRTS in Bhopal City	1,319.7	1,181.7
MMRDA BKC Concrete Road	152.8	3.7
BRTS in Surat City	867.0	867.0
Integrated road for Shirdi town	93.9	93.9
Maintenance road from Phalodi to Pachpadra	84.5	60.5
EPC power		
Aurangabad MSEDCL project - T8	2,679.1	810.8
Jalna MSEDCL project - T36	2,763.5	1,979.0
Karjat MSEDCL project - T52	1,315.1	807.5
Dondaicha MSEDCL project - T54	1,034.9	816.7
Dharangaon MSEDCL project - T59	1,229.5	830.0
Shahada MSEDCL project - T65	1,166.3	758.5
Total	34,071.5	16,153.7

Source: DRHP

- *Foray into EPC – power T&D segment*

In FY09, the company forayed into the EPC - power business and bagged contracts from Maharashtra State Electricity Distribution Company Ltd (MAHADISCOM). The scope of the work includes construction and commission of sub-transmission lines, distribution lines, power transformers and new substations. As of May 2010, it had an outstanding order book of Rs 6,002 mn related to power EPC contracts. CRISIL Research expects capacity additions in the power sector to be around 82 GW over the next five years. In light of the increasing focus on T&D and to reduce losses by approximately 25%, we expect investment in T&D to increase significantly from the current ratio of around 63% of investments in generation to 70% by 2014-15. Investment in T&D is expected to grow at a CAGR of 16% totaling Rs 3,442 bn over the next five years, spurring large opportunities in the T&D space over the next few years.

- *Geographical presence largely restricted to Maharashtra and Madhya Pradesh in BOT (toll) projects*

Ashoka's BOT (toll) projects have largely been limited to Maharashtra and Madhya Pradesh. Out of the 17 operational BOT projects, 14 are in Maharashtra. In terms of value, Maharashtra constitutes around 57% and Madhya Pradesh 43% of the operational BOT projects. Although Ashoka is well placed in understanding the traffic patterns and competitive environment of both the regions, any slowdown in the awarding of road and power T&D projects in these states might have an adverse impact. In addition, despite being one of the first players to enter the BOT place, the company has been late in bagging NHAI projects.

B. Financial Performance

Ashoka had revenues of Rs 7,975 mn in FY10, registering a five-year CAGR of 42.4% in FY10. The EPC segment contributed 69.5%, while BOT and RMC segments contributed 20.8% and 9.8%, respectively, to the top line in FY10.

The company had an operating margin of 33% in FY09, 785 bps below FY08 margins, as the company received bonus payments for early completion of two projects. Operating margins declined to 28% in FY10 mainly due to higher contribution from the EPC segment. However, net margin improved to 10.8% in FY10 from 6.7% in FY09 due to lower interest expenses.

The company had an EPS of Rs 8.4 in FY09 and Rs 18.8 in FY10. RoE increased significantly from 11.4% in FY09 to 21.3% in FY10. The gearing ratio was 2.1 times and 2.5 times in FY09 and FY10, respectively.

Financial performance snapshot*

		FY06 Actual	FY07 Actual	FY08 Actual	FY09 Actual	FY10 Actual
Total income	Rs mn	1,800	4,048	3,248	5,205	7,975
EBITDA	Rs mn	472	1,092	1,325	1,715	2,233
Operating margins	Per cent	26.2	27.0	40.8	33.0	28.0
Net profits	Rs mn	32	245	368	347	859
Net margins	Per cent	1.8	6.1	11.3	6.7	10.8
ROCE	Per cent	6.5	10.4	9.4	10.5	10.9
RONW	Per cent	2.2	11.4	12.4	11.4	21.3
Basic EPS	Rs	5.6	5.2	8.1	8.4	18.8
Diluted EPS	Rs	5.8	5.4	8.1	7.6	18.8
No. of equity shares	Mn	5.6	45.7	45.7	45.7	45.7
Net worth	Rs mn	1,360	2,832	3,145	3,580	4,499
Book value (FV Rs 10)	Rs	242	62	69	78	98
Gearing	Times	1.9	1.6	1.7	2.1	2.5
Current ratio	Times	4.5	4.6	3.9	2.0	1.7

* Note: Numbers have been re-classified as per CRISIL standards

Source: DRHP

C. Management Capabilities and Corporate Governance

Ashoka's promoters, Mr Ashok Katariya and Mr Satish Parakh, have been involved in the construction industry for a fairly long time. Mr Katariya has significant ground-level experience and has worked as a contractor to the PWD of Maharashtra. In the past, the company has executed most of its projects on time or ahead of schedule.

Ashoka has a strong and experienced second line in place. Majority of them have been associated with the company for over a decade and have detailed domain experience in the industry. Other functional heads have good domain expertise and are well aware of the business opportunities, their strengths and weaknesses. We feel that the second line of management is capable and has been given adequate autonomy to take independent decisions.

Ashoka has well-experienced independent directors on its board for the past two-three years. They have a fair understanding of the sections of the overall business of the company. The board includes people like Mr Michael Pinto, who has over 30 years of experience; he was CEO of Maharashtra Industrial Development Corporation, managing director of Maharashtra State Road Development Corporation, chairman of Maharashtra State Electricity Board and Jawaharlal Nehru Port Trust.

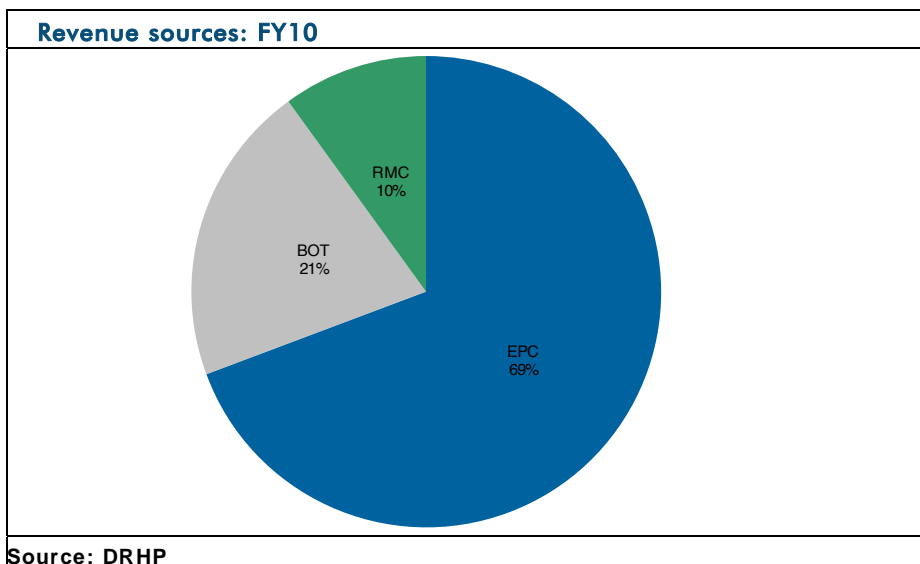
Since the induction of Infrastructure Development Finance Company (IDFC) in 2006, Ashoka's board processes and systems have evolved significantly and the company has been executing strong board practices over the past two years. The company has 37 group companies, 21 of which are engaged in similar business activities. Although there are no non-compete agreements in place, the company has not faced any actual conflicts to date.

Annexure I Business Profile

Ashoka undertakes EPC contracts in roads, bridges and commercial building projects. Apart from building roads and bridges, it also operates them on a BOT basis. It recently ventured into the EPC domain for power T&D contracts where it bagged orders from MAHADISCOM.

Company promoters, Mr Ashok Katariya and Mr Satish Parakh, and their groups currently own 84.4% of Ashoka's shares. This number will reduce after the IPO.

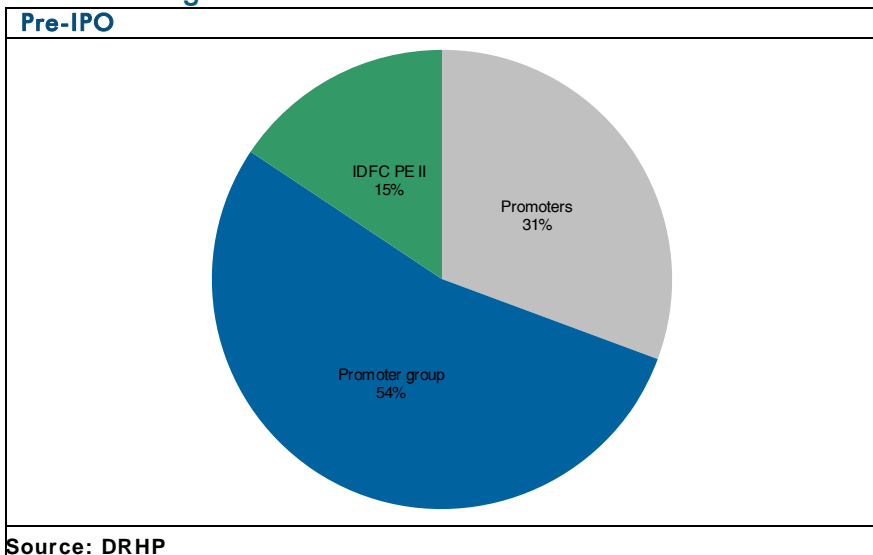
There are 17 operational road projects (1,100 lane kilometers), six road projects under construction (2,400 lane kilometers) and third party outstanding order book of Rs 14,089 mn, which includes power T&D orders of Rs 6,002 mn. Recently, it won two projects worth Rs 16,380 mn from NHAI.



Management and Board Profile

Mr Ashok Katariya is the founder member and Executive Chairman of the company. He has worked as a contractor to the PWD, Maharashtra and has a work experience of more than 34 years. Mr Satish Parakh, Managing Director, has over 29 years of experience in the construction industry. Other board members include Mr Sunil Raison – over 26 years of experience in the civil engineering sector; and Mr Shyam Sunder – a nominee director at IDFC Private Equity (PE) with over 12 years of experience. The key management team has an average work experience of more than 20 years and has been with the company for over a decade on an average. The board comprises eight directors, four of whom are independent, and one nominee director. Most of the independent directors have been on the board for the past two-three years. Since the induction of IDFC PE in 2006, the company has been following strong board practices.

Shareholding Pattern



Annexure II: Profile of the Directors

Name of Directors	Designation	Age	Qualification	Experience (years)	Previous Employment	Directorships / partnership in other entities
Mr Ashok M. Katariya	Executive Chairman	60	B.E. from COEP, Pune University	34+	Worked as a contractor to the PWD, Maharashtra	Directorship in 28 group companies
Mr Satish D. Parakh	Managing Director	50	B.E. (Civil)	29+	Worked with Shapoorji Pallonji and M/s Kanitkar-Kulkarni. Member of Maharashtra Economic Development Council	Hotel Evening Inn Private Ltd and 29 group companies
Mr Sunil B. Rasoni	Whole Time Director	48	Diploma in Civil Engineering	25+	NA	Directorship in two group companies
Mr Shyam Sunder S. G.	Nominee Director	35	B.E. (Mechanical) and a post graduate diploma degree from IIM (Kolkata)	12+	Worked with ICICI as an investment banker and with the infrastructure group. Joined IDFC Private Equity in its formative days	Goodearth Maritime Limited, Krishna Godavari Gas Network Limited, Maharashtra Natural Gas Limited, SE Forge Limited, Seaways Shipping Limited, Vishaka Shipbuilding Private Limited
Mr Michael Pinto	Independent Director	65	Masters in Public Administration	NA	CEO of MIDC, MD of MSRDC, Chairman of Handicrafts and Handlooms Export Corporation of India, Chairman of MSEB, Chairman of JNPT, Minister, Economics Embassy of India	Gateway Distriparks (Kerala) Private Ltd, Gateway Distriparks Limited, Healthcare Global Limited, IL&FS Limited, Raffles Port Works Private Limited, SCI Forbes Limited, Tolani Shipping Company Limited
Mr Milap R. Bhansali	Independent Director	57	Chartered Accountant	32	Managing chemicals and engineering industries	Akruti City Bus Terminal (Mehsana and Vadodara) Ltd, Batuni technologies Private Ltd, Gujarat Akruti - TCG Biotech Ltd, MRB Credit & Leasing Ltd, Multicity Bus Terminal (Surat) Ltd and Multicity Bus Terminal (Surat-Adajan) Ltd
Mr Anant D. Narain	Independent Director	69	B.E.	40+	Director General (Road Development) and Additional Secretary, Ministry of Surface Transport	Intercontinental Consultants and Technocrats Private Limited
Mr Sharad D. Abhyankar	Independent Director	43	BA (Economics and Commerce) and Master of Laws from Mumbai University	NA	He is a registered patent and trade marks attorney	Associated VAT Recovery Consultant Pvt Ltd, Optimum Business Solutions Ltd, S&A Internet Services Pvt Ltd, Shree Dhootpapeshwar Limited, The Global Institute for Financial and Educational Services India Pvt Ltd, VATit Consultant Pvt Ltd, Visen Industries Ltd

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