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## CRISIL Equities assigns IPO grade 4/5 to Ashoka Buildcon Limited

CRISIL Equities has assigned a CRISIL IPO grade of "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 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 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.

The grading is constrained by the fact that Ashoka's BOT (toll) projects are largely restricted to Maharashtra 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.

### 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 projects. It also operates roads and bridges on a BOT basis. Promoters, Mr Ashok Katariya and Mr Satish Parakh, and their groups currently own 84.4% of Ashoka.

Ashoka has 17 operational road projects (1,100 lane km), six projects under construction (2,400 lane km) and third-party orders worth Rs 14.1 bn. The company has recently ventured into EPC - power T&D contracts, where it has outstanding orders of Rs 6.0 bn from Maharashtra State Electricity Distribution Company.

Ashoka's board comprises eight directors, four of whom are independent directors and one is a nominee director. The board is chaired by its promoter and executive director Mr Ashok Katariya, who has more than 34 years of experience. The managing director, Mr Satish Parakh, has over 29 years of experience in the construction industry. The nominee director of Infrastructure Development Finance Company Private Equity is also in Ashoka's board. 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.

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

Ashoka registered top line and net profit five-year CAGR of 42.4% and 60.7%, respectively, in FY10. In FY10, the company 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 18.8 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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Media Contacts	Analytical Contacts
<b>Mitu Samar</b> <b>Head, Market Development &amp; Communications</b> <b>CRISIL Limited</b> Tel: +91-22- 3342 1838 Mobile: +91- 98200 61934 Fax: +91-22- 3342 3001 E-mail: <a href="mailto:msamar@crisil.com">msamar@crisil.com</a>  <b>Tanuja Abhinandan</b> <b>Market Development &amp; Communications</b> <b>CRISIL Limited</b> Phone: +91-22- 3342 1818 Mobile: +91- 98192 48980 Fax: +91-22- 3342 3001 E-mail: <a href="mailto:tabhinandan@crisil.com">tabhinandan@crisil.com</a>	<b>Tarun Bhatia</b> <b>Director, Capital Markets</b> <b>CRISIL Research</b> Tel: +91-22- 3342 3226 E-mail: <a href="mailto:tbatia@crisil.com">tbatia@crisil.com</a>  <b>Chetan Majithia</b> <b>Head, Equities</b> <b>CRISIL Research</b> Tel: +91-22- 3342 4148 E-mail: <a href="mailto:chetanmajithia@crisil.com">chetanmajithia@crisil.com</a>

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