

Buy

Ashok Leyland

Industry: Auto and Auto Components



Results broadly in line with expectations, CV cycle to remain strong

Margins miss a bit on higher input costs

Ashok Leyland (ALL) reported 25.8% yoy and 21.7% qoq growth in the topline. Volume growth was at 27% yoy and the realizations were down by about 1%. The company increased its market share by 1.5% yoy close to 35% in the Trucks segment and upto 42% in Buses segment. Margins came in at 10.6%, 20 bps higher qoq, and 50 bps higher yoy slightly lower than our expectations as input costs firmed up heavily. RM prices as a % of sales were up to 72.7% as metal prices like steel and aluminum climbed up the spiral. Employee costs as a % of sales went down at 6.8%, while other expenses dipped to 9.9% despite discounting moving up. Below the operating level, other income was lower both yoy and qoq, while depreciation expenses remained flat both qoq and yoy. Due to reduction in tax sops in Pantnagar, the tax rate came in at 29.7% qoq. Net profits however surged by 41.2% yoy as topline and operating profits moved up strongly. Resignation of the company's MD and CEO Mr Vinod Dasari may act as an overhang on the stock.

With axle norms uncertainty behind us, CV cycle to move up on infra development in the country

Ashok Leyland (ALL)'s volumes grew by 27% yoy on macro-economic development catching speed. Despite the base getting higher, the CV industry portrayed buoyancy. Additionally, strict anti-loading laws implemented in UP and Rajasthan continued to higher demand for trucks in these two states. In some of the northern states like UP and NCR region road building activity has picked up pace, due to which MHCV demand is increasing. There has been a pick up in the mining activities too in the country which is driving tipper demand. The management mentioned that the axle norms uncertainty is behind the industry and absorbed well, which had minimal impact on demand. In October, the industry has witnessed a bit slowdown on high base wherein ALL's inventory levels have gone slightly up to 7,700 vehicles or 16 to 18 weeks due to Diwali and lack of drivers. However this is expected to be temporary and pick up in November second half. Going forward, new launches in the higher tonnage segment and higher tipper demand may help volumes to recover along with GOI's planned initiatives regarding various infrastructure projects and construction activities (40-45% of truck demand in Q1 came from construction segment). Impact of pre-buying also will be felt in the later part of FY20E which would keep the volume growth buoyant. Possible implementation of scrappage policy in CY 20 may lead to a solid surge in demand. On the LCV side of the business, the new launch of Dost+ along the existing LCVs Boss, Captain and Guru and Captain Bus are elevating the LCV business. Management plans to launch a whole range of LCVs between 2-7.5T post BSVI sets in. We maintain our volume guidance from at 15%/12% for FY19E/20E respectively.

Non-domestic MHCV business to flourish as well

On the exports front the company targets to increase its contribution from current 10% to 15% in the next 3-5 years by anchoring strongly in Africa, CIS countries, Middle East and Latam and entering new markets like Far East. Through further expansion of network the Aftermarket revenues (20% market share, which the company expects to take upto 50% in a year or two) are also targeted well by the company now. In the defense business, the company has become the second largest private supplier of vehicles and has started supplying to the exports markets also. We expect major traction from these businesses to aid growth.

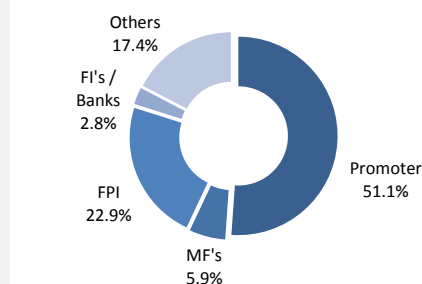
Stock Data

| | |
|--------------------------|-------------------|
| Current Market Price (₹) | 107 |
| 12M Price Target (₹) | 142 |
| Potential upside (%) | 32 |
| BSE / NSE Symbol | 500477 / ASHOKLEY |
| Reuters / Bloomberg | ASOK.BO / AL.IN |
| FV (₹) | 1 |
| Market Cap Full (₹ bn) | 317 |
| 52-Week Range (₹) | 103 / 168 |

What's Changed

| | |
|-----------------------|-------------------|
| 12 M Price Target (₹) | From 142 to 142 |
| FY2019E EPS (₹) | From 6.49 to 6.49 |
| FY2020E EPS (₹) | From 8.33 to 8.33 |

Shareholding Pattern



| YE Mar | FY17 | FY18 | FY19E | FY20E |
|----------------|--------|--------|--------|--------|
| Revenues(₹ bn) | 200.19 | 262.48 | 323.13 | 388.06 |
| EBITDA (%) | 11.0% | 10.4% | 10.1% | 10.5% |
| PAT (%) | 6.1% | 6.0% | 5.7% | 6.1% |
| Adj EPS (₹) | 4.75 | 5.53 | 6.49 | 8.33 |
| EPS growth (%) | 12.7% | 16.5% | 17.3% | 28.3% |
| P/E (x) | 23.2 | 19.9 | 16.9 | 13.2 |
| P/B (x) | 5.1 | 4.4 | 3.8 | 3.3 |
| EV/EBITDA (x) | 14.4 | 11.3 | 9.2 | 7.1 |
| ROCE (%) | 22.1% | 26.2% | 29.7% | 33.8% |
| ROE (%) | 20.0% | 21.8% | 22.6% | 24.7% |

Relative Price Performance



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LKP Research

Margins got impacted by RM prices and discounting, better product mix to improve the margins hereon

Despite strong competition, ALL has been increasing prices along with increasing the market share, despite discounting moving up. Escalating RM costs are being negated by taking equal amount of price hikes every quarter (2% hike taken in November is the most recent one), thus somewhat negating impact of input cost pressures. Higher volumes going forward albeit on higher base may lead to better product mix (demand shift towards >37T trucks, tippers and MAVs). High margin vehicle demand from defense and exports sectors may further bolster margins. Reduction in capex guidance in Q1 may negate the reducing positives from the PN plant. Reduction in debt may add to this and augur well at the bottomline.

Financial Highlights

| (₹) mn | Q2 FY19 | Q1 FY19 | % qoq | Q2 FY18 | % yoy |
|-------------------|---------|---------|--------|---------|--------|
| Total income | 76,080 | 62,501 | 21.7% | 60,469 | 25.8% |
| Raw Material Cost | 55,287 | 43,512 | 27.1% | 43,074 | 28.4% |
| Staff Cost | 4,930 | 4,930 | 0.0% | 4,825 | 2.2% |
| Other Expenses | 7,558 | 7,584 | -0.3% | 6,452 | 17.1% |
| Total Expenses | 68,019 | 56,026 | 21.4% | 54,351 | 25.1% |
| EBITDA | 8,061 | 6,475 | 24.5% | 6,118 | 31.8% |
| EBITDA margin (%) | 10.6% | 10.4% | 20 bps | 10.1% | 50 bps |
| Other Income | 281 | 500 | -43.8% | 556 | -49.5% |
| Depreciation | 1,402 | 1,430 | -2.0% | 1,411 | -0.7% |
| Interest | 174 | 116 | 49.9% | 410 | -57.7% |
| PBT | 6,766 | 5,429 | 24.6% | 4,853 | 39.4% |
| Total tax | 2,010 | 1,519 | N/A | 1,484 | N/A |
| Adjusted PAT | 4,756 | 3,910 | 21.6% | 3,369 | 41.2% |
| Exceptional items | 159 | 209 | N/A | (26) | NA |
| Reported PAT | 4,597 | 3,701 | 24.2% | 3,342 | 37.5% |

Outlook and valuation

Volume growth remained intact in Q2, which was a bit subdued in October on high base and a slight temporary slowdown in the industry. Ban on overloading in the country's two big states of UP and Rajasthan, mining activity gathering momentum and defense order from government and new launches will keep driving MHCV growth. Construction activities are now the major contributors to the growth in the industry. In occurrence of implementation of cash for clunkers scheme (scrapage policy), the MHCV business may get even higher benefit. LCV business has been a star performer for ALL. The company with its strong product portfolio targets to capture bigger pie of the high demand market through Dost, Guru, Boss, Captain etc models. On the margin front, better product mix in the form of higher tonnage vehicles, price hikes and operating leverage may reduce the impact of higher input costs. At the bottomline, reducing benefits from the PN plant may get offset by lower capex and debt. Considering these positives, we remain positive on the stock. With a cautious stand on volume growth with respect to higher base in H2 last year we remain positive on the stock with maintained estimates target of ₹ 142.

| Per unit parameters | Q2 FY19 | Q1 FY19 | Q4 FY18 | Q3 FY18 | Q2 FY18 | Q1 FY18 | Q4 FY17 | Q3 FY17 |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Avg Price Realisation (net) | 14,68,410 | 14,91,177 | 15,07,094 | 15,29,416 | 14,79,398 | 14,94,175 | 13,98,569 | 13,20,243 |
| Material cost / unit (₹) | 10,67,096 | 10,38,121 | 10,83,361 | 10,92,653 | 10,53,819 | 10,37,455 | 10,06,013 | 9,54,373 |
| Staff cost / unit (₹) | 99,855 | 1,17,619 | 78,154 | 1,05,743 | 1,18,046 | 1,54,302 | 87,031 | 1,10,117 |
| Other Expn / unit (₹) | 1,45,876 | 1,80,951 | 1,68,161 | 1,61,646 | 1,57,856 | 1,94,482 | 1,51,271 | 1,46,583 |
| Total Expn / unit (₹) | 13,12,827 | 13,36,692 | 13,29,676 | 13,60,042 | 13,29,721 | 13,86,239 | 12,44,315 | 12,11,073 |
| EBITDA per unit | 1,55,583 | 1,54,485 | 1,77,417 | 1,69,374 | 1,49,677 | 1,07,937 | 1,54,254 | 1,38,330 |
| PAT per unit | 91,803 | 93,287 | 1,13,625 | 96,577 | 82,419 | 44,616 | 1,32,179 | 75,999 |

Financials
Income statement

| YE Mar (₹ mn) | FY 17 | FY 18 | FY 19E | FY 20E |
|-----------------------|-----------------|-----------------|-----------------|-----------------|
| Total Revenues | 2,00,186 | 2,62,479 | 3,23,133 | 3,88,057 |
| Raw Material Cost | 1,39,572 | 1,86,212 | 2,30,071 | 2,75,520 |
| Employee Cost | 15,309 | 18,119 | 23,266 | 29,880 |
| Other Exp | 23,279 | 30,757 | 37,160 | 41,910 |
| EBITDA | 22,025 | 27,391 | 32,636 | 40,746 |
| EBITDA Margin (%) | 11.0% | 10.4% | 10.1% | 10.5% |
| Other income | 1363 | 1898 | 1775 | 1650 |
| Depreciation | 5,179 | 5,546 | 5,734 | 6,061 |
| Interest | 1554 | 1312 | 1108 | 950 |
| PBT | 16,655 | 22,430 | 27,570 | 35,385 |
| PBT Margin(%) | 8.3% | 8.5% | 8.5% | 9.1% |
| Tax | 3,137 | 6,681 | 9,098 | 11,677 |
| Adj PAT | 13,518 | 15,749 | 18,472 | 23,708 |
| Adj PAT Margins (%) | 6.8% | 6.0% | 5.7% | 6.1% |
| Exceptional items | -1,287 | -121.1 | 0.0 | 0.0 |
| PAT | 12,231 | 15,628 | 18,472 | 23,708 |
| PAT Margin (%) | 6.1% | 6.0% | 5.7% | 6.1% |

Key Ratios

| YE Mar | FY 17 | FY 18 | FY 19E | FY 20E |
|---------------------------------|-------|-------|--------|--------|
| Per Share Data (₹) | | | | |
| Adj. EPS | 4.75 | 5.53 | 6.49 | 8.33 |
| CEPS | 6.6 | 7.5 | 8.5 | 10.5 |
| BVPS | 21.5 | 25.2 | 28.7 | 33.7 |
| DPS | 1.7 | 2.2 | 2.6 | 3.3 |
| Growth Ratios (%) | | | | |
| Total revenues | 5.7% | 31.1% | 23.1% | 20.1% |
| EBITDA | -2.3% | 24.4% | 19.2% | 24.8% |
| PAT | 12.7% | 16.5% | 17.3% | 28.3% |
| EPS Growth | 12.7% | 16.5% | 17.3% | 28.3% |
| Valuation Ratios (x) | | | | |
| PE | 23.2 | 19.9 | 16.9 | 13.2 |
| P/CEPS | 16.7 | 14.7 | 12.9 | 10.5 |
| P/BV | 5.1 | 4.4 | 3.8 | 3.3 |
| EV/Sales | 1.6 | 1.2 | 0.9 | 0.7 |
| EV/EBITDA | 14.4 | 11.3 | 9.2 | 7.1 |
| Operating Ratios (Days) | | | | |
| Inventory days | 48.0 | 23.8 | 34.0 | 40.0 |
| Receivable Days | 19.4 | 13.6 | 16.0 | 18.0 |
| Payables day | 56.8 | 64.8 | 68.0 | 70.0 |
| Profitability Ratios (%) | | | | |
| ROCE | 22.1% | 26.2% | 29.7% | 33.8% |
| ROE | 20.0% | 21.8% | 22.6% | 24.7% |
| Dividend payout | 40.0% | 40.0% | 40.0% | 40.0% |
| Dividend yield | 1.6% | 2.0% | 2.4% | 3.0% |

Source: Company, LKP Research

Balance sheet

| YE Mar (₹ mn) | FY 17 | FY 18 | FY 19E | FY 20E |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
| EQUITY AND LIABILITIES | | | | |
| Shareholder's funds | | | | |
| Share capital | 7,536 | 7,536 | 7,536 | 7,536 |
| Reserves and surplus | 50,879 | 60,256 | 71,339 | 85,564 |
| Total networth | 61,261 | 71,648 | 81,802 | 96,027 |
| Non current liabilities | | | | |
| LT borrowings and provisions | 12,788 | 6,707 | 4,907 | 2,607 |
| Deferred tax liabilities | 1269 | 2984 | 2984 | 2984 |
| Current liabilities | | | | |
| Short term borrowings | 1986 | 1000 | 1100 | 1600 |
| Current liabilities and provisions | 36,352 | 52,748 | 66,162 | 80,184 |
| Other current liabilities | 25,876 | 28,721 | 38,068 | 48,906 |
| Total equity and liabilities | 1,40,397 | 1,65,859 | 1,95,888 | 2,33,173 |
| ASSETS | | | | |
| Net block | 46,562 | 46,876 | 48,142 | 49,081 |
| Capital work in progress | 1,576 | 2,129 | 3,129 | 4,129 |
| Intangible assets | 3,630 | 4,748 | 6,248 | 6,748 |
| Non current investments | | | | |
| Long term loans and advances | 1,362 | 244 | 244 | 244 |
| Long term investments | 26,266 | 33,164 | 39,664 | 46,564 |
| Total non current assets | 79,395 | 87,161 | 97,427 | 1,06,765 |
| Current assets | | | | |
| Inventories | 26,310 | 17,099 | 21,431 | 30,194 |
| Trade receivables | 10,643 | 9,805 | 14,165 | 19,137 |
| Cash and cash bank | 9,119 | 10,044 | 16,180 | 23,914 |
| Short term loans and advances | 214 | 241 | 177 | 100 |
| Other current assets | 5,940 | 10,957 | 12,957 | 17,011 |
| Total current assets | 60,998 | 78,697 | 98,461 | 1,26,407 |
| Total Assets | 1,40,397 | 1,65,859 | 1,95,888 | 2,33,173 |

Cash Flow

| YE Mar (₹ mn) | FY 17 | FY 18 | FY 19E | FY 20E |
|--------------------------------------------|----------------|----------------|----------------|----------------|
| PBT | 12,231 | 15,626 | 18,472 | 23,708 |
| Depreciation | 5,179 | 5,546 | 5,734 | 6,061 |
| Interest | 1,554 | 1,312 | 1,108 | 950 |
| Chng in working capital | -2,328 | -333 | 21,433 | 14,233 |
| Tax paid | -3,476 | -4,149 | -9,098 | -11,677 |
| Other operating activities | 8,389 | 36,181 | -2,412 | 3,892 |
| Cash flow from operations (a) | 21,549 | 54,183 | 35,236 | 37,167 |
| Capital expenditure | -3,783 | -5,372 | -8,000 | -8,000 |
| Chng in investments | -10,959 | -7,457 | -6,000 | -5,500 |
| Other investing activities | -27 | -20,492 | -4,500 | -3,000 |
| Cash flow from investing (b) | -14,769 | -33,321 | -18,500 | -16,500 |
| Inc/dec in borrowings | -7,726 | -11,536 | -2,000 | -2,500 |
| Dividend paid (incl. tax) | -3,254 | -5,495 | -7,389 | -9,483 |
| Other financing activities | -2,737 | -2,582 | -1,108 | -950 |
| Cash flow from financing (c) | -13,717 | -19,613 | -10,496 | -12,933 |
| Net chng in cash (a+b+c) | -6,936 | 1,249 | 6,240 | 7,734 |
| Closing cash & cash equivalents | 8,691 | 9,940 | 16,180 | 23,914 |

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