

Buy

## Ashok Leyland

Industry: Auto and Auto Components



## FY 20 drivers in place, uncertainty looms over FY 21

## In-line quarter

Ashok Leyland (ALL) reported 0.8% yoy and 40% qoq growth in the topline. Volume dip was at 1% yoy while growing at 32% qoq. The realizations were up by about 2.2% yoy and 6% qoq. The company's market share rose by 180 bps to 36.9% by the end of the quarter and this year. Margins came in at 11.1%, 70 bps down yoy and 80 bps up qoq as RM costs were up, high margin defense business narrowed, exports were weak and discounting went up. However, they were broadly in line with market expectations. Below the operating profits level, other income dropped, while depreciation moved up by 9% yoy and 14.1% qoq. On account of lower other income and lower tax rate, net profits adjusted for an exceptional item came in at ₹6.53 bn, which was up by 71%qoq and down by 2.2% yoy.

## FY 20E drivers remain strong, concerns over FY 21E exist

Ashok Leyland (AL)'s volumes de-grew by 1% yoy on 1). High base 2). NBFC crisis & 3). Axle load norms. In near term these factors may continue to impact demand, mainly till the end of Q1 FY20. There has been no slowdown in freight rates growth, while BS VI norms implementation would trigger demand from Q2 FY20 onwards according to management. Post FY 20, management expects demand for trucks to be muted, but at the same time, if scrappage policy gets implemented as per expectations, then a multi-year CV demand will be triggered. Even a robust economic outlook shall lead to a strong CV growth particularly on the tipper and the haulage side of the business on strong infrastructure development. With elections behind us, there may be some renewed pickup in demand with the stable government's reforms and emphasis on rail and infra development, however it will be limited. We expect MHCV volumes to grow at 14%/1% in FY20E/21E respectively.

## LCV business to offset the worries in MHCVs, exports expected to pick up in FY 20

AL merged their LCV business in Q3 (9% of topline, even higher than buses business at 7%) which benefited the company's margins and promises to add more going forward. AL has about 40-45% exposure to the LCV industry, out of which the ICV business has increased its market share from 10% to 22% in last 10 years. The company has a successful product Dost and its variants giving a tough time to its competitors. AL also has Guru, Mitra and Partner models in LCV business which are quite successful. AL now plans to plug loopholes by launching a 3.5-6T LCV Phoenix. LCV merger has led to higher tax benefits in the quarter (18.8% tax rate in Q4) and is expected to add operating synergies and provide cost benefits to the company. On the exports demand over Q4FY19 was impacted by weakness in the Middle East, Sri Lankan and African markets. The company expects exports to grow ~15% in FY20E led by launch of new products in LCV/ICV segments, recovery expected in African markets and entry in to new markets like Russia and expansion in ASEAN region. At a capex of ₹ 35cr, management plans to double their LCV capacity from current 75K p.a. in a year's time.

## Margins may benefit from lower RM costs, but higher discounting may restrict growth

On the back of higher steel prices and discounting and lower defense and exports revenues, EBITDA margins went down by 70bps yoy to 11.1%. Going forward, with easing of input costs, stringent cost cutting initiatives, Modular program, product mix in favor of tippers, haulage & MHCV and LCV merger and price hikes trend in every quarter, we do not see margins falling to single digit. However discounting which has been rampant in the industry (₹4.2-4.4 L v/s ₹4-4.2 L in Q3 FY19), will be alone able to more than offset these margin growth drivers. Hence, we see slight stifling of margins hereon at 10.3%/10% in FY20E/21E.

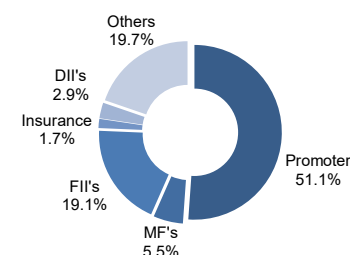
## Stock Data

Current Market Price (₹)	91
12M Price Target (₹)	104
Potential upside (%)	14
BSE / NSE Symbol	500477 / ASHOKLEY
Reuters / Bloomberg	ASOK.BO / AL.IN
FV (₹)	1
Market Cap Full (₹ bn)	26,772
52-Week Range (₹)	152 / 77.50

## What's Changed

12 M Price Target (₹)	From 109 to 104
FY2020E EPS (₹)	From 7.92 to 7.33
FY2021E EPS (₹)	From 8.97 to 7.44

## Shareholding Pattern



YE Mar	FY 18	FY 19	FY 20E	FY 21E
Revenues	262	291	353	378
EBITDA (%)	10.4%	10.8%	10.3%	10.0%
PAT (%)	6.0%	6.8%	5.9%	5.6%
Adj EPS (Rs)	5.53	7.17	7.33	7.44
EPS growth (%)	16.5%	29.6%	2.2%	1.6%
P/E (x)	16.6	12.8	12.6	12.4
P/B(x)	3.6	3.1	2.4	2.4
EV/EBITDA (x)	9.4	8.0	6.8	6.7
ROCE (%)	25.6%	26.7%	24.6%	25.2%
ROE (%)	21.6%	23.8%	19.4%	19.7%
Dividend yield (%)	1.2%	1.6%	1.7%	1.7%

## Relative Price Performance



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## Financial Highlights

(₹) mn	Q4 FY19	Q3 FY19	% qoq	Q4 FY18	% yoy
Total income	88,459	63,252	39.9%	87,725	0.8%
Raw Material Cost	64,292	44,357	44.9%	63,060	2.0%
Staff Cost	5,735	5,001	14.7%	4,549	26.1%
Other Expenses	8,578	7,398	15.9%	9,788	-12.4%
Total Expenses	78,605	56,756	38.5%	77,398	1.6%
EBITDA	9,854	6,496	51.7%	10,327	-4.6%
EBITDA margin (%)	11.1%	10.3%	80 bps	11.8%	(70 bps)
Other Income	91	208	-56.3%	577	-84.3%
Depreciation	1,598	1,402	14.0%	1,464	9.1%
Interest	166	192	-13.4%	201	-17.4%
PBT	8,181	4,906	66.8%	9,239	-11.5%
Total tax	1,535	1,027	N/A	2,626	N/A
Adjusted PAT	6,647	3,879	71.4%	6,614	0.5%
Exceptional items	(117)	(70)	N/A	62	NA
Reported PAT	6,529	3,809	71.4%	6,676	-2.2%

## Outlook and valuation

The current pain in the market is expected to continue till Q1 FY20E. However, from Q2 onwards, for the next three quarters, we may see buoyancy coming back in the form of BS VI pre-buying. Post which flattish to negative growth is expected in FY 21 provided scrappage policy does not get implemented by April 20. In the event of its happening, we may see a strong upliftment in replacement demand. On the margin front, softening on price hikes, LCV merger, Modular program, cost cutting initiatives, price hikes etc will drive margins, however, increasingly strong discounting may steal the steam. Reduction in inventories and limited capex growth (₹ 10-15 bn in FY 20 v/s 9.5 bn in FY 19) will lead to maintenance of near 20-25% return ratios. With strong prospects for LCV business and increased focus from management, we still remain sanguine on the stock. We maintain BUY rating with a reduced target of ₹ 104 on uncertain volume outlook.

Per unit parameters (₹)	Q4 FY19	Q3 FY19	Q2 FY19	Q1 FY19	Q4 FY18	Q3 FY18	Q2 FY18	Q1 FY18
Avg Price Realisation / unit	15,40,566	14,48,982	14,68,410	14,91,177	15,07,094	15,29,416	14,79,398	14,94,175
Material cost / unit	11,19,685	10,16,132	10,67,096	10,38,121	10,83,361	10,92,653	10,53,819	10,37,455
Staff cost / unit	99,875	1,14,556	99,855	1,17,619	78,154	1,05,743	1,18,046	1,54,302
Other Expn / unit	1,49,390	1,69,477	1,42,792	1,80,951	1,68,161	1,61,646	1,57,856	1,94,482
Total Expn / unit	13,68,950	13,00,165	13,09,743	13,36,692	13,29,676	13,60,042	13,29,721	13,86,239
EBITDA / unit	1,71,616	1,48,817	1,58,667	1,54,485	1,77,417	1,69,374	1,49,677	1,07,937
PAT / unit	1,15,752	88,853	94,887	93,287	1,13,625	96,577	82,419	44,616

**Financials**
**Income statement**

YE Mar (₹ mn)	FY 18	FY 19	FY 20E	FY 21E
<b>Total Revenues</b>	<b>2,62,479</b>	<b>2,90,549</b>	<b>3,53,352</b>	<b>3,78,002</b>
Raw Material Cost	1,86,212	2,06,796	2,49,113	2,65,735
Employee Cost	18,119	20,988	26,501	29,106
Other Exp	30,757	31,409	41,342	45,360
<b>EBITDA</b>	<b>27,391</b>	<b>31,357</b>	<b>36,395</b>	<b>37,800</b>
EBITDA Margin(%)	10.4%	10.8%	10.3%	10.0%
Other income	1898	1100	1000	900
Depreciation	5,546	6,210	7,318	8,110
Interest	1312	704	700	750
<b>PBT</b>	<b>22,430</b>	<b>25,543</b>	<b>29,377</b>	<b>29,840</b>
PBT Margin(%)	8.5%	8.8%	8.3%	7.9%
Tax	6,681	5,136	8,519	8,654
<b>Adj PAT</b>	<b>15,749</b>	<b>20,407</b>	<b>20,858</b>	<b>21,187</b>
Adj PAT Margins (%)	6.0%	7.0%	5.9%	5.6%
Exceptional items	-121.1	-574.9	0.0	1.0
<b>PAT</b>	<b>15,628</b>	<b>19,832</b>	<b>20,858</b>	<b>21,186</b>
PAT Margin (%)	6.0%	6.8%	5.9%	5.6%

**Key Ratios**

YE Mar	FY 18	FY 19	FY 20E	FY 21E
<b>Per Share Data (₹)</b>				
Adj. EPS	5.53	7.17	7.33	7.44
CEPS	7.5	9.4	9.9	10.3
BVPS	25.5	29.3	37.8	37.8
DPS	1.1	1.5	1.5	1.6
<b>Growth Ratios (%)</b>				
Total revenues	31.1%	10.7%	21.6%	7.0%
EBITDA	24.4%	14.5%	16.1%	3.9%
PAT	16.5%	29.6%	2.2%	1.6%
EPS Growth	16.5%	29.6%	2.2%	1.6%
<b>Valuation Ratios (x)</b>				
PE	16.6	12.8	12.6	12.4
P/CEPS	12.3	9.8	9.3	8.9
P/BV	3.6	3.1	2.4	2.4
EV/Sales	1.0	0.9	0.7	0.7
EV/EBITDA	9.4	8.0	6.8	6.7
<b>Operating Ratios (Days)</b>				
Inventory days	24.5	33.7	40.0	36.0
Receivable Days	13.1	31.5	25.0	23.0
Payables day	67.8	62.9	56.0	57.0
<b>Profitability Ratios (%)</b>				
ROCE	25.6%	26.7%	24.6%	25.2%
ROE	21.6%	23.8%	19.4%	19.7%
Dividend payout	20.8%	21.0%	21.0%	21.0%
Dividend yield	1.2%	1.6%	1.7%	1.7%

Source: Company, LKP Research

**Balance sheet**

YE Mar (₹ mn)	FY 18	FY 19	FY 20E	FY 21E
<b>EQUITY AND LIABILITIES</b>				
<b>Shareholder's funds</b>				
Share capital	7,536	7,536	7,536	7,536
Reserves and surplus	64,892	80,560	97,037	97,037
<b>Total network</b>	<b>72,455</b>	<b>83,324</b>	<b>1,07,509</b>	<b>1,07,509</b>
<b>Non current liabilities</b>				
Long term borrowings and provisions	7,676	5,480	5,180	4,880
Deferred tax liabilities	2986	2497.3	2497.3	2497.3
<b>Current liabilities</b>				
Short term borrowings	1000	1000	1000	1000
Current liabilities and provisions	56,844	58,088	62,041	66,658
Other current liabilities	30,351	28,802	28,802	28,802
<b>Total equity and liabilities</b>	<b>1,73,363</b>	<b>1,82,244</b>	<b>2,10,081</b>	<b>2,14,399</b>
<b>ASSETS</b>				
Net block	48,114	48,059	58,348	59,238
Capital work in progress	2,343	2,746	5,746	6,746
Intangible assets	9,248	11,915	11,915	11,915
<b>Non current investments</b>				
Long term loans and advances	262	414	414	414
Long term investments	32,764	37,245	42,745	48,245
Total non current assets	92,731	1,00,379	1,19,168	1,26,558
<b>Current assets</b>				
Inventories	17,583	26,846	27,300	26,209
Trade receivables	9,447	25,055	24,202	23,819
Cash and cash bank	10,422	13,736	18,012	12,857
Short term loans and advances	241	225	100	100
Other current assets	11,389	16,001	21,298	24,855
Total current assets	80,633	81,863	90,912	87,841
<b>Total Assets</b>	<b>1,73,364</b>	<b>1,82,242</b>	<b>2,10,081</b>	<b>2,14,399</b>

**Cash Flow**

YE Mar (₹ mn)	FY 18	FY 19	FY 20E	FY 21E
PBT	15,626	19,832	20,858	21,186
Depreciation	5,546	6,210	7,318	8,110
Interest	1,312	704	700	750
Chng in working capital	-333	21,433	-25,160	4,477
Tax paid	-4,149	-5,136	-8,519	-8,654
Other operating cash flows	36,181	-48,896	38,829	-13,849
<b>Cash flow from operations (a)</b>	<b>54,183</b>	<b>-5,853</b>	<b>34,025</b>	<b>12,020</b>
Capital expenditure	-5,372	-10,403	-18,000	-10,000
Chng in investments	-7,457	-1,850	-5,500	-5,500
Other investing activities	-20,492	28,913	-869	3,824
<b>Cash flow from investing (b)</b>	<b>-33,321</b>	<b>16,660</b>	<b>-24,369</b>	<b>-11,676</b>
Inc/dec in borrowings	-11,536	-2,142	-300	-300
Dividend paid (incl. tax)	-5,495	-4,165	-4,380	-4,449
Other financing activities	-2,582	-704	-700	-750
<b>Cash flow from financing (c)</b>	<b>-19,613</b>	<b>-7,010</b>	<b>-5,380</b>	<b>-5,499</b>
<b>Net chng in cash (a+b+c)</b>	<b>1,249</b>	<b>3,796</b>	<b>4,276</b>	<b>-5,155</b>
<b>Closing cash &amp; cash equivalents</b>	<b>9,940</b>	<b>13,736</b>	<b>18,012</b>	<b>12,857</b>

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