



COMPANY UPDATE

# ASHOK LEYLAND

On course

India Equity Research | Automobiles



We recently attended Ashok Leyland's (AL) global conference, which reinforced our positive stance on the company as: (1) management guided for growth in FY19/20 & expects the shift towards higher tonnage vehicles to sustain; (2) focused strategy on exports/spare parts yielding results—up >30% in FY18; (3) product launches across categories. We were impressed by the company's effort to create a new 41T (lift-axle) category via intelligent engineering of existing 37T (lift-axle) offering; and (4) management envisages strong profitability in the LCV business. We believe, given the decisive shift in the industry's product mix and AL, margin can surprise on the upside once the heightened competitive intensity and commodity cost headwinds subside. Maintain 'BUY'.

## Key takeaways:

- **Market share:** Management reiterated focus on profitable market share and key performance matrix of market share, margin and working capital. In FY18, while AL's overall market share was flattish at ~32.2%, it has gained across regions. However, much stronger demand in non-South market flattened overall market share. AL's market share in non-South regions is in the 25-30% range.
- **Demand outlook & new launches:** Infrastructure, GST-led hub-and-spoke model, driver shortages, among others, continue to spearhead demand. AL has lined up a series of new/variant launches to capitalise on the anticipated demand uptick.
- **Long-term vision:** Management reiterated its long-term vision of 50% revenue from non-cyclical business and one-third volumes from exports. It is making dedicated efforts to achieve the same. For instance, in exports, AL has identified five markets to focus on and in spares, the focus is on enhancing wallet share.

## Outlook and valuations: Well placed; maintain 'BUY'

We maintain that our robust demand outlook will be driven by ban on overloading, replacement demand, GST and driver shortage; our recent channel checks in South India ([refer report: Road trip to South India: Replacement demand drives M&HCVs](#)) validate our thesis. We maintain 'BUY/SO' with SOTP-based TP of INR175 (11x FY20E EV/EBITDA and INR8 for finance business). At CMP, the stock trades at 18.5x FY20E PER.

## Financials

(INR mn)

Year to March	FY17	FY18E	FY19E	FY20E
Revenues	200,187	251,534	307,289	348,350
Rev. growth (%)	5.7	25.6	22.2	13.4
Adjusted Profit	15,740	14,607	18,896	23,582
Basic shares outstanding (mn)	2,846	2,846	2,846	2,846
Adjusted diluted EPS (INR)	4.3	5.1	6.6	8.3
EPS Growth (%)	213.9	19.4	29.4	24.8
EV/EBITDA (x)	0.2	(0.4)	(0.8)	(1.2)
ROAE (%)	21.2	22.3	25.3	27.2

## EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	High
Sector Relative to Market	Underweight

## MARKET DATA (R: ASOK.BO, B: AL IN)

CMP	: INR 151
Target Price	: INR 175
52-week range (INR)	: 153 / 81
Share in issue (mn)	: 2,930.8
M cap (INR bn/USD mn)	: 443 / 6,735
Avg. Daily Vol.BSE/NSE('000)	: 13,694.2

## SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	51.3	51.3	51.3
MF's, FI's & BK's	11.5	11.5	10.5
FII's	22.6	22.6	23.4
Others	14.6	14.6	14.8
* Promoters pledged shares (% of share in issue)			17.8

## PRICE PERFORMANCE (%)

	Stock	Nifty	EW Auto Index
1 month	3.7	4.7	5.7
3 months	24.8	(3.0)	(2.4)
12 months	85.9	16.1	16.2

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### New launches

- In the M&HCV space, AL has lined up a series of new products—3718 Tipper, Guru, Boss 12T, 4932 – 49T truck, 4123 – 41T lift axle and school buses.
- In LCV, management indicated that it is looking to enter most of the white spaces, except for small commercial vehicles as it will not meet their internal RoCE target. Currently, it has a 2.5t Dost; recently it introduced a 2.75T Dost variant. It is looking to introduce CNG versions and left-hand drive options (for exports). AL is also eyeing the 3.5T pick segment.

### Capex

- No major green field expansion plan, except for bus body building capex.
- Key capex will be on development of electric vehicles, BSVI emission norms and modular platform.

### GST

- GST is enabling a shift in demand towards higher tonnage vehicles, apart from ban on overloading.
- However, management does not agree with the argument that GST has led to 35% improvement in efficiency of truck operators. According to management, GST-led improvement in efficiency is ~6-8%.

## Company Description

Ashok Leyland (AL) is the second largest commercial vehicle manufacturer in India. The Hinduja Group holds 51% stake in the company through the holding company, Hinduja Automotive (UK). The company has 6 manufacturing plants across 5 locations in India — Ennore (Tamil Nadu), Hosur (Tamil Nadu), Alwar (Rajasthan), Bhandara (Maharashtra) and Pantnagar (Uttaranchal). It focuses on the M&HCV segment with significant presence in bus segment.

## Investment Theme

AL is a pure play on the M&HCV segment. The company has been a key beneficiary of sharp recovery in higher tonnage segment/South region and has commendably improved balance sheet (better FCF/ lower debt). We expect market share gains to sustain led by expanding product portfolio in small and intermediate ICV segment and expansion of dealership network across non-South regions. Sharpening focus on high margin-businesses like spares, defence and exports is a potent margin trigger. Additionally, sharp recovery in demand over FY16-19E versus our 9% estimate will aid further margins.

## Key Risks

Success of new technology: AL has adopted the EGR technology to comply with BSIV norms. While globally EGR is being used for vehicles up to 180HP (and beyond that SCR), AL has decided to use the technology for its entire range (up to > 400HP trucks). Given that the technology is one of its kinds, it is a double edge sword for AL. If successful, it will enable the company to gain significant market share or else, there will be sharp pressure on cash flows and profitability.

Exports/Defence: We believe success in these areas will be critical for sustained valuation re-rating of the stock. While we are not factoring in a sharp increase in either of them, development on these fronts will be keenly tracked by markets



## Financial Statements

### Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
<b>Macro</b>				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.8	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	65.0	66.0
<b>Sector</b>				
Aluminium prices (USD/t)	1,600	1,675	1,759	1,847
<b>Company</b>				
MHCV - domestic vol (% YoY)	3.5	14.7	19.8	12.4
Avg realisation (INR)	1,379,972	1,440,065	1,506,172	1,521,494
Avg realisation (% YoY)	2.3	4.4	4.6	1.0
Capex (INR mn)	3,783	5,000	5,000	5,000
Net borrowings (INR mn)	(2,701)	-	-	-
RM cost/vehicle	962,132	1,020,976	1,073,739	1,084,775
Employee cost/vehicle	105,534	106,795	107,448	105,322
Average salary	1,285,852	1,491,588	1,685,494	1,854,044
Promotion cost (% revenue)	3.0	2.9	2.7	2.6
EBITDA/vehicle	151,833	148,941	160,129	170,475
Cash conversion cycle	(47)	(42)	(43)	(44)
Avg. Interest rate (%)	7.2	6.0	5.0	4.5
Depreciation rate (%)	8.8	8.8	9.1	9.1
Dividend payout (%)	33.9	43.7	43.7	43.7
Debtor days	19	13	13	13
Inventory days	53	56	56	58
Payable days	119	111	112	115
Tax rate (%)	8.0	31.0	32.0	32.0

### Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Diluted shares o/s (mn)	2,846	2,846	2,846	2,846
Profit Before Tax	13,301	21,170	27,788	34,680
Less: Provision for Tax	1,070	6,563	8,892	11,098
Reported Profit	12,231	14,607	18,896	23,582
Dividend per share (DPS)	1.6	1.9	2.4	3.0
Dividend Payout Ratio(%)	33.9	43.7	43.7	43.7
Income from operations	200,187	251,534	307,289	348,350
Materials costs	139,573	178,333	219,064	248,362
Manufacturing expenses	2,922	3,478	4,010	4,615
Employee costs	15,309	18,654	21,922	24,114
Total SG&A expenses	20,358	25,055	29,625	32,229
Total operating expenses	178,161	225,519	274,620	309,319
EBITDA	22,026	26,015	32,669	39,031
Depreciation	5,179	5,595	6,241	6,696
EBIT	16,847	20,420	26,429	32,335
Add: Other income	1,516.67	1,764.23	2,160.29	3,038.59
Less: Interest Expense	1,554	1,015	801	693
Add: Exceptional items	(3,508)	-	-	-
Exceptional Items	(3,508)	-	-	-
Adjusted Profit	15,740	14,607	18,896	23,582
Shares o /s (mn)	2,846	2,846	2,846	2,846
Adjusted Basic EPS	5.5	5.1	6.6	8.3
Adjusted Diluted EPS	4.3	5.1	6.6	8.3
Adjusted Cash EPS	6.1	7.1	8.8	10.6

### Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Operating expenses	89.0	89.7	89.4	88.8
Materials costs	69.7	70.9	71.3	71.3
Staff costs	7.6	7.4	7.1	6.9
S G & A expenses	10.2	10.0	9.6	9.3
Depreciation	2.6	2.2	2.0	1.9
Interest Expense	0.8	0.4	0.3	0.2
EBITDA margins	11.0	10.3	10.6	11.2
Net Profit margins	7.9	5.8	6.1	6.8

### Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	5.7	25.6	22.2	13.4
EBITDA	(2.3)	18.1	25.6	19.5
PBT	60.9	59.2	31.3	24.8
EPS	213.9	19.4	29.4	24.8
Adjusted Profit	213.9	19.4	29.4	24.8

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	2,846	2,846	2,846	2,846	
Reserves & Surplus	58,417	66,642	77,283	90,564	
Shareholders' funds	61,262	69,488	80,129	93,409	
Total Borrowings	21,449	21,449	21,449	21,449	
Cash and Equivalents	17,458	32,431	48,363	67,418	
Def. Tax Liability (net)	1,268	1,268	1,268	1,268	
<b>Sources of funds</b>	<b>83,979</b>	<b>92,205</b>	<b>102,846</b>	<b>116,126</b>	
Gross Block	58,579	63,579	68,579	73,579	
Net Block	49,708	49,113	47,872	46,177	
Total Fixed Assets	51,767	51,172	49,931	48,235	
Non current investments	20,017	22,017	24,017	24,017	
Sundry Debtors	8,599	9,870	12,068	13,682	
Loans & Advances	35	44	54	61	
Other Current Assets	15,109	15,109	15,109	15,109	
Current Assets (ex cash)	48,754	55,730	64,777	71,419	
Trade payable	47,846	60,551	73,734	83,051	
Other Current Liab	6,169	8,594	10,508	11,913	
Total Current Liab	54,016	69,145	84,242	94,964	
Net Curr Assets-ex cash	(5,262)	(13,415)	(19,465)	(23,545)	
<b>Uses of funds</b>	<b>83,979</b>	<b>92,205</b>	<b>102,846</b>	<b>116,126</b>	
Capital work in progress	2,059	2,059	2,059	2,059	
Short term borrowings	17,261	17,261	17,261	17,261	
Long term borrowings	4,188	4,188	4,188	4,188	
Inventories	25,011	30,707	37,545	42,566	
BVPS (INR)	21.5	24.4	28.2	32.8	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	12,231	14,607	18,896	23,582	
Add: Depreciation	5,179	5,595	6,241	6,696	
Less: Changes in WC	4,101	8,152	6,050	4,080	
Operating cash flow	21,548	27,605	29,827	32,013	
Less: Capex	3,783	5,000	5,000	5,000	
<b>Free Cash Flow</b>	<b>17,765</b>	<b>22,605</b>	<b>24,827</b>	<b>27,013</b>	
Interest (Net of Tax)	1,429	700	544	472	
Others	6,810	14,855	10,197	5,343	

#### Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		P/B (X)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Ashok Leyland	6,735	22.8	18.2	12.3	9.8	5.4	4.6
Mahindra & Mahindra Ltd	15,161	19.5	17.4	11.6	10.0	2.8	2.4
Maruti Suzuki India Ltd	41,703	26.8	22.4	15.7	12.9	5.6	4.8
Tata Motors Ltd	16,156	8.3	6.9	3.5	2.9	1.5	1.2
Median	-	21.2	17.8	12.0	9.9	4.1	3.5
AVERAGE	-	19.4	16.2	10.8	8.9	3.8	3.3

Source: Edelweiss research

Cash flow metrics		FY17	FY18	FY19E	FY20E
Year to March					
Operating cash flow		21,548	27,605	29,827	32,013
Investing cash flow		(14,768)	(26,736)	(18,340)	(18,961)
Financing cash flow		(13,719)	(7,396)	(9,056)	(10,996)
Net cash Flow		(6,939)	(6,527)	2,432	2,055
Capex		(3,783)	(5,000)	(5,000)	(5,000)
Dividend paid		5,343	6,381	8,255	10,302

#### Profitability and efficiency ratios

Year to March	FY17	FY18	FY19E	FY20E
ROAE (%)	21.2	22.3	25.3	27.2
ROACE (%)	22.8	25.6	29.7	32.7
Debtors Days	19	13	13	13
Payable Days	119	111	112	115
Cash Conversion Cycle	(47)	(42)	(43)	(44)
Current Ratio	1.2	1.3	1.3	1.5
Gross Debt/EBITDA	1.0	0.8	0.7	0.5
Gross Debt/Equity	0.4	0.3	0.3	0.2
Adjusted Debt/Equity	0.4	0.3	0.3	0.2
Net Debt/Equity	0.1	(0.2)	(0.3)	(0.5)
Interest Coverage Ratio	10.8	20.1	33.0	46.6

#### Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	2.4	2.9	3.2	3.2
Fixed Asset Turnover	4.1	5.1	6.3	7.4
Equity Turnover	3.5	3.8	4.1	4.0

#### Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	4.3	5.1	6.6	8.3
Y-o-Y growth (%)	213.9	19.4	29.4	24.8
Adjusted Cash EPS (INR)	6.1	7.1	8.8	10.6
EV / Sales (x)	2.0	1.6	1.2	1.0
EV / EBITDA (x)	0.2	(0.4)	(0.8)	(1.2)



## Additional Data

### Directors Data

Dheeraj G. Hinduja	Non Executive Chairman	R. Seshasayee	Non Executive Vice Chairman
Vinod K Dasari	Managing Director	Anuj Kathuria	Executive Director
Anup Bhat	Executive Director	B. Venkat Subramaniam	Executive Director
C. G. Belsare	Executive Director	Gopal Mahadevan	Chief Financial officer
N V Balachandar	Executive Director	Nitin Seth	Executive Director

Auditors - Deloitte Haskins & Sells

*\*as per last annual report*

### Holding – Top10

	Perc. Holding		Perc. Holding
Hinduja automotive l	34.78	Jpmorgan chase & co	5.11
Amas bank switzerlan	4.94	Life insurance corp	3.59
Norges bank	2.39	Government pension f	2.39
Morgan stanley	1.96	Blackrock	1.55
Gic private limited	1.38	Vanguard group	1.38

*\*in last one year*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
18 Apr 2018	Vinod K. Dasari	Sell	3727000.00
16 Feb 2018	R Sivanesan	Sell	30000.00
10 Jan 2018	Vinod K Dasari	Sell	569175.00

*\*in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Amara Raja Batteries	BUY	None	None	Ashok Leyland	BUY	SO	H
Bajaj Auto	HOLD	SU	L	Ceat Ltd	BUY	SO	L
Eicher Motors	BUY	SO	M	Exide Industries	BUY	None	None
Hero MotoCorp	HOLD	SU	H	Mahindra & Mahindra Ltd	BUY	SO	M
Maruti Suzuki India Ltd	BUY	SO	H	Minda Corporation	BUY	SO	M
Motherson Sumi Systems	BUY	SO	H	Suprajit Engineering	BUY	SO	H
Tata Motors Ltd	HOLD	SP	H				

**ABSOLUTE RATING**

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

**RELATIVE RETURNS RATING**

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

**RELATIVE RISK RATING**

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

**SECTOR RATING**

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



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## Coverage group(s) of stocks by primary analyst(s): Automobiles

Ashok Leyland, Amara Raja Batteries, Bajaj Auto, Ceat Ltd, Eicher Motors, Exide Industries, Hero MotoCorp, Minda Corporation, Mahindra & Mahindra Ltd, Maruti Suzuki India Ltd, Motherson Sumi Systems, Suprajit Engineering, Tata Motors Ltd

### Recent Research

Date	Company	Title	Price (INR)	Recos
09-Apr-18	<b>Automobiles</b>	Road trip to South India: Replacement demand drives M&HCVs; <i>EdelPulse</i>		
02-Apr-18	<b>Motherson Sumi Systems</b>	Reydel buy: Good fit; attractive price; <i>Event Update</i>	323	Buy
15-Mar-18	<b>Mahindra &amp; Mahindra</b>	Utility Vehicles: FY19 a turning point?; <i>Company Update</i>	728	Buy

### Distribution of Ratings / Market Cap

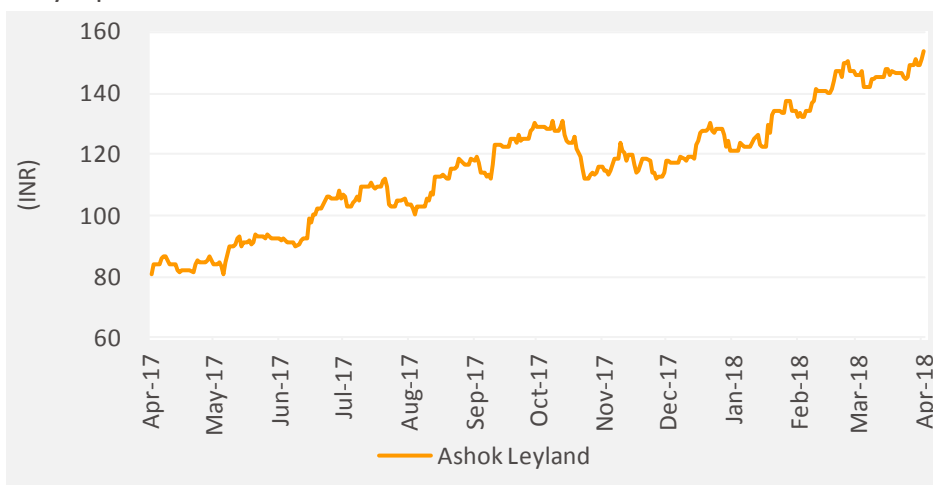
#### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

One year price chart





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