

July 18, 2018

Q1FY19 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	BUY		BUY	
Target Price	146		169	
Sales (Rs. m)	3,03,559	3,49,894	3,13,874	3,65,188
% Chng.			(3.3)	(4.2)
EBITDA (Rs. m)	30,942	36,639	35,760	42,715
% Chng.			7.4	8.9
EPS (Rs.)	6.1	7.3	7.4	8.9
% Chng.			(17.6)	(18.5)

Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. bn)	200	262	304	350
EBITDA (Rs. bn)	22	27	31	37
Margin (%)	11.0	10.4	10.2	10.5
PAT (Rs. bn)	12	16	18	21
EPS (Rs.)	4.3	5.3	6.1	7.3
Gr. (%)	213.9	24.2	13.9	19.8
DPS (Rs.)	1.6	2.4	1.9	2.2
Yield (%)	1.4	2.1	1.8	2.0
RoE (%)	21.2	23.5	23.1	23.8
RoCE (%)	9.6	13.7	13.4	14.2
EV/Sales (x)	1.6	1.1	1.0	0.8
EV/EBITDA (x)	14.4	10.7	9.7	7.7
PE (x)	25.7	20.7	18.2	15.2
P/BV (x)	5.1	4.5	3.9	3.4

Key Data

ASOK.BO | AL IN

52-W High / Low	Rs.168 / Rs.99
Sensex / Nifty	36,373 / 10,980
Market Cap	Rs.324bn / \$ 4,729m
Shares Outstanding	2,935m
3M Avg. Daily Value	Rs.5019.42m

Shareholding Pattern (%)

Promoter's	51.35
Foreign	23.26
Domestic Institution	11.07
Public & Others	14.32
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(20.4)	(8.6)	4.8
Relative	(22.2)	(11.4)	(8.6)

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Regulatory overhang!!

Ashok Leyland (AL) reported a strong ~47% YoY growth in revenues (lower ~29% QoQ) to Rs62.5bn (PLe: Rs62.9bn) on the back of a robust 47.8% YoY growth in volumes, albeit on a low BS IV related pre-buy impacted base of last year. Q1FY19 operating performance however, marginally missed estimates with EBITDA margin at 10.4%, up 320bps YoY (on a low base) but lower 140bps QoQ and below PLe of 10.6%, owing to a realisation dip of 70bps YoY as well as QoQ. Despite the significant commodity cost rise, gross margins dipped just 50bps YoY (up 230bps QoQ) on the back of price hike taken by the company and favourable mix. EBITDA surged 111% YoY to Rs6.5bn while adjusted net profit for the company was up 210% YoY at Rs3.9bn (PLe: Rs3.8bn).

- Management's view on Axle norm changes:** The management is awaiting clarity on whether the norms are prospective or retrospective. Irrespective of the same, volume based segment such as oil tankers, car carriers, etc. which form 50-60% of overall volumes will not be affected by these norm changes. Further, the company said that it will take 6-8 weeks to be able to adhere to the new axle norms in terms of changes in the product (particularly tyres, chassis, steering, drive-train). The management expects demand to remain soft over the next 1-2 months on account of all the axle norm related uncertainty. Given the high level of overloading prevalent in the country currently, the management expects that if the new norms are followed strictly, it should lead to a demand boost for the higher tonnage segments. However, overloading over and above the new norms can adversely impact demand as well as tonnage mix.
- Focus on profitability; Market share loss:** AL has lost ~450bps market share over Q1FY19 with its current market share at 28.8%. The company has said that it has been focusing on maintaining its profitability and will continue to refrain from selling any vehicle below the variable cost. AL is the only company to have taken a price hike Apr'18 in order to pass on the increase in raw material costs (steel up ~24% YoY). The management has, however, said that in case of any further market share loss, it will reconsider its stance on the profitability-market share trade off. The company expects its market share to increase over the coming 8-9 months.
- Valuation & view:** While the overall demand drivers for the CV sector like increased government focus on infrastructure spend, pre-buying ahead of BS VI implementation and scrappage policy expected to come in FY21 continue to remain, the recent regulation on increased axle load capacity and the lack of clarity on the same posts a downside risk to our call. However, if these norms are only applicable to new vehicles and strict regulations on overloading are in place after the new norms come in, these regulations would give a further boost to demand going forward. To factor in the near term uncertainty in demand, we reduce our volume estimates for FY19/20E by 2/3% respectively, resulting in an EBITDA margin decline of ~120bps each for FY19/20E. We maintain BUY with revised target price of Rs146 (earlier Rs169), at 12x Mar'20E EV/EBITDA.

- AL reported a strong 46.8% YoY revenue growth (although down 29% QoQ) to Rs62.5bn (PLe: Rs62.9bn). While volumes were up a strong 47.8% YoY (on low base) over Q1FY19, realisations dipped 0.7% YoY as well as QoQ.
- Operationally, the performance was broadly on expected lines with EBITDA margin higher 320bps YoY (lower 140bps QoQ) to 10.4% (PLe: 10.6%). This was on account of staff costs as a % of sales being lower 200bps YoY and other expenses as a % of sales declining 170bps YoY. Gross margins however, dipped 50bps YoY but was up 230bps QoQ.
- EBITDA growth for the quarter was robust at 111% YoY (on low base) to Rs6.5bn. EBITDA per vehicle was higher 43% YoY (lower ~13% QoQ). Gross profit per vehicle declined 2.4% YoY (up 7.3% QoQ) in Q1FY19.
- With lower finance cost and higher non-operating income, net adjusted profit for the company stood at Rs3.9bn, up 210% YoY (PLe: Rs3.8bn).

Conference call highlights

- The management expects the industry to grow at 8-10% over the current year.
- AL had taken a price increase in April'18 to pass on the increase in raw material cost. The company expects steel prices to somewhat come off in H2FY19.
- The company has lost ~450bps market share over Q1FY19 (currently at 28.8%) on account of its focus on profitability. The management however expects AL to gain market share over the coming months.
- Over Q1FY19, domestic trucks formed ~62% and buses formed 8-9% of overall revenues. Exports (up 24% YoY), LCVs (up 30% YoY) and defence contributed ~9%, 16% and 3-4% of revenues respectively, while the rest was accounted for by Aftermarket (up 28% YoY).
- LCV business of the company has become PAT positive and operating margins for the segment are now almost at par with the M&HCV margins.
- As for the changes in axle norms, the management is awaiting clarity on whether the norms are prospective or retrospective. Irrespective of the same, volume based segment such as tippers, oil tankers, car carriers, etc. which form 50-60% of overall volumes will not be affected by these norm changes. Further, the company said that it will take 4-8 weeks to be able to adhere to the new axle norms in terms of changes in the product (particularly tyres, chassis, steering, drive-train).
- The management expects demand to remain soft over the next 1-2 months on account of all the axle norm related uncertainty.
- The management expects huge pre-buy before BS VI implementation given the increase in price. The company will shift to SCR technology for its BS VI compliant vehicles and will source the same through its various tie-ups.
- Scrappage policy expected to come in by Apr'20 will be a major growth driver for the CV industry post the BS VI pre-buy. AL expects 200-300K vehicles to come under the same given strong incentive offered by the government.
- The company has planned a capex of ~Rs10bn for FY19E, to be spend over LCVs, EVs, modular vehicle programme, debottlenecking of capacities and other maintenance.

Exhibit 1: Q1FY19 Result Overview (Rs m)

Y/e March	Q1FY19	Q1FY18	YoY gr. (%)	Q4FY18	FY19E	FY18	YoY gr. (%)
Net Revenues	62,501	42,579	46.8	87,725	3,03,559	2,61,904	15.9
Raw Materials	43,511	29,415	47.9	63,061	2,19,798	1,86,433	17.9
<i>% of Net Sales</i>	<i>69.6</i>	<i>69.1</i>		<i>71.9</i>	<i>72.4</i>	<i>71.2</i>	
Personnel	4,930	4,217	16.9	4,549	19,731	18,600	6.1
<i>% of Net Sales</i>	<i>7.9</i>	<i>9.9</i>		<i>5.2</i>	<i>6.5</i>	<i>7.1</i>	
Manufacturing & Other Exp	7,584	5,885	28.9	9,788	33,088	29,481	12.2
<i>% of Net Sales</i>	<i>12.1</i>	<i>13.8</i>		<i>11.2</i>	<i>10.9</i>	<i>11.3</i>	
Total Expenditure	56,026	39,518	41.8	77,398	2,72,617	2,34,514	16.2
EBITDA	6,475	3,061	111.6	10,327	30,942	27,390	13.0
<i>EBITDA Margin (%)</i>	<i>10.4</i>	<i>7.2</i>		<i>11.8</i>	<i>10.2</i>	<i>10.5</i>	
Depreciation	1,430	1,321	8.3	1,463	6,763	5,546	21.9
EBIT	5,045	1,739	190.0	8,864	24,179	21,844	10.7
Interest Expenses	116	366	(68.4)	201	763	1,312	(41.9)
Non-operating income	500	384	30.1	577	2,012	1,898	6.0
Extraordinary Expenses	209	152	37.3	-	-	181	NA
PBT	5,220	1,605		9,299	25,428	22,307	14.0
Tax-Total	1,519	492	208.4	2,626	7,628	6,681	14.2
<i>Tax Rate (%) - Total</i>	<i>29.1</i>	<i>30.7</i>	<i>(5.2)</i>	<i>28.2</i>	<i>30.0</i>	<i>30.0</i>	<i>0.2</i>
Reported PAT	3,701	1,112	232.7	6,674	17,800	15,626	13.9
Adj. PAT	3,889	1,250	211.3	6,621	17,800	15,735	13.1

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	Q1FY19	Q1FY18	YoY gr. (%)	Q4FY18	FY19E	FY18	YoY gr. (%)
Sales Volume (nos)	42,127	28,494	47.8	58,735	1,97,645	1,74,841	13.0
Net Realisation/Vehicle	14,83,639	14,94,300	(0.7)	14,93,571	15,35,880	14,97,955	2.5
Material cost / vehicle	10,32,863	10,32,335	0.1	10,73,645	11,12,085	10,66,301	4.3
Gross Profit / vehicle	4,50,776	4,61,965	(2.4)	4,19,926	4,23,794	4,31,654	(1.8)
Employee cost /vehicle	1,17,025	1,48,012	(20.9)	77,453	99,832	1,06,382	(6.2)
Other expenses / vehicle	1,80,038	2,06,536	(12.8)	1,66,653	1,67,411	1,68,617	(0.7)
EBITDA/vehicle	1,53,713	1,07,417	43.1	1,75,821	1,56,551	1,56,656	(0.1)
Net Profit/vehicle	92,326	43,853	110.5	1,12,722	90,059	89,999	0.1

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Net Revenues	2,00,187	2,62,479	3,03,559	3,49,894
YoY gr. (%)	5.7	31.1	15.7	15.3
Cost of Goods Sold	1,39,573	1,86,213	2,19,798	2,51,674
Gross Profit	60,614	76,266	83,761	98,221
Margin (%)	30.3	29.1	27.6	28.1
Employee Cost	15,309	18,119	19,731	22,743
Other Expenses	23,279	30,757	33,088	38,838
EBITDA	22,025	27,390	30,942	36,639
YoY gr. (%)	(2.3)	24.4	13.0	18.4
Margin (%)	11.0	10.4	10.2	10.5
Depreciation and Amortization	5,179	5,546	6,763	7,413
EBIT	13,338	21,718	24,179	29,226
Margin (%)	6.7	8.3	8.0	8.4
Net Interest	1,554	1,312	763	902
Other Income	1,363	1,898	2,012	2,130
Profit Before Tax	13,301	22,307	25,428	30,454
Margin (%)	6.6	8.5	8.4	8.7
Total Tax	1,070	6,681	7,628	9,136
Effective tax rate (%)	8.0	30.0	30.0	30.0
Profit after tax	12,231	15,626	17,800	21,318
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	12,231	15,626	17,800	21,318
YoY gr. (%)	213.9	27.8	13.9	19.8
Margin (%)	6.1	6.0	5.9	6.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	12,231	15,626	17,800	21,318
YoY gr. (%)	213.9	27.8	13.9	19.8
Margin (%)	6.1	6.0	5.9	6.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,231	15,626	17,800	21,318
Equity Shares O/s (m)	2,846	2,927	2,927	2,927
EPS (Rs)	4.3	5.3	6.1	7.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Non-Current Assets				
Gross Block	58,579	63,121	72,133	76,133
Tangibles	54,011	58,160	65,289	69,289
Intangibles	4,568	4,961	6,844	6,844
Acc: Dep / Amortization	8,871	13,378	20,141	27,554
Tangibles	7,450	11,283	18,046	25,459
Intangibles	1,421	2,095	2,095	2,095
Net fixed assets	49,708	49,742	51,992	48,579
Tangibles	46,561	46,876	47,243	43,830
Intangibles	3,147	2,866	4,749	4,749
Capital Work In Progress	2,059	4,012	-	-
Goodwill	-	-	-	-
Non-Current Investments	21,838	28,054	30,054	32,054
Net Deferred tax assets	(1,269)	(2,984)	(2,984)	(2,984)
Other Non-Current Assets	5,793	5,354	5,854	6,354
Current Assets				
Investments	8,772	30,552	27,552	27,552
Inventories	26,310	17,099	43,316	49,013
Trade receivables	10,646	9,805	10,625	12,253
Cash & Bank Balance	9,120	10,044	5,459	26,524
Other Current Assets	2,817	7,182	8,182	9,182
Total Assets	1,46,541	1,70,135	1,91,370	2,19,948
Equity				
Equity Share Capital	2,846	2,927	2,927	2,927
Other Equity	58,415	68,721	79,670	93,281
Total Network	61,261	71,648	82,597	96,208
Non-Current Liabilities				
Long Term borrowings	11,463	4,157	4,157	4,157
Provisions	1,326	2,550	2,550	2,550
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	9,985	5,866	6,866	8,866
Trade payables	31,170	46,586	50,672	58,439
Other current liabilities	23,061	30,017	35,217	40,417
Total Equity & Liabilities	1,46,541	1,70,135	1,91,370	2,19,948

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	16,655	22,429	25,428	30,454
Add. Depreciation	5,179	5,546	6,763	7,413
Add. Interest	1,554	1,312	763	902
Less Financial Other Income	1,363	1,898	2,012	2,130
Add. Other	(3,956)	1,474	(1,159)	(1,304)
Op. profit before WC changes	19,432	30,761	31,795	37,465
Net Changes-WC	2,795	31,473	(19,297)	4,041
Direct tax	(3,092)	(4,966)	(7,628)	(9,136)
Net cash from Op. activities	19,135	57,268	4,869	32,371
Capital expenditures	(8,267)	(7,534)	(5,000)	(4,000)
Interest / Dividend Income	-	-	-	-
Others	(8,984)	(29,238)	1,000	(2,000)
Net Cash from Invst. activities	(17,251)	(36,772)	(4,000)	(6,000)
Issue of share cap. / premium	-	81	-	-
Debt changes	(2,701)	(11,425)	1,000	2,000
Dividend paid	(4,440)	(6,915)	(5,692)	(6,403)
Interest paid	(1,554)	(1,312)	(763)	(902)
Others	-	-	-	-
Net cash from Fin. activities	(8,695)	(19,572)	(5,455)	(5,305)
Net change in cash	(6,812)	924	(4,586)	21,066
Free Cash Flow	10,867	49,734	(131)	28,371

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY17	FY18	FY19E	FY20E
Per Share(Rs)				
EPS	4.3	5.3	6.1	7.3
CEPS	6.1	7.2	8.4	9.8
BVPS	21.5	24.5	28.2	32.9
FCF	3.8	17.0	0.0	9.7
DPS	2	2	2	2
Return Ratio(%)				
RoCE	9.6	13.7	13.4	14.2
ROIC	10.1	12.9	11.5	13.5
RoE	21.2	23.5	23.1	23.8
Balance Sheet				
Net Debt : Equity (x)	0.1	(0.4)	(0.3)	(0.4)
Net Working Capital (Days)	11	(27)	4	3
Valuation(x)				
PER	25.7	20.7	18.2	15.2
P/B	5.1	4.5	3.9	3.4
P/CEPS	5.2	6.2	7.2	8.4
EV/EBITDA	14.4	10.7	9.7	7.7
EV/Sales	1.6	1.1	1.0	0.8
Dividend Yield (%)	1.4	2.1	1.8	2.0

Source: Company Data, PL Research

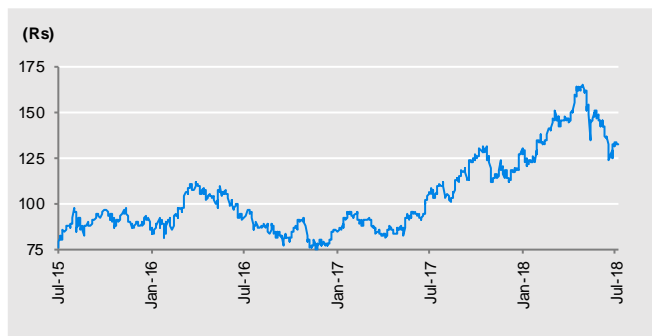
Quarterly Financials (Rs m)

Y/e Mar	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Net Revenue	60,469	71,132	87,725	62,501
YoY gr. (%)	30.8	57.5	32.6	46.8
Raw Material Expenses	43,139	50,818	63,061	43,511
Gross Profit	17,330	20,314	24,664	18,990
Margin (%)	28.7	28.6	28.1	30.4
EBITDA	6,118	7,884	10,327	6,475
YoY gr. (%)	99.9	28.9	31.0	(37.3)
Margin (%)	10.1	11.1	11.8	10.4
Depreciation / Depletion	1,411	1,350	1,463	1,430
EBIT	4,707	6,534	8,864	5,045
Margin (%)	7.8	9.2	10.1	8.1
Net Interest	410	335	201	116
Other Income	557	380	577	500
Profit before Tax	4,853	6,578	9,240	5,429
Margin (%)	8.0	9.2	10.5	8.7
Total Tax	1,484	2,079	2,626	1,519
Effective tax rate (%)	30.6	31.6	28.4	28.0
Profit after Tax	3,369	4,499	6,615	3,910
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,343	4,497	6,674	3,701
YoY gr. (%)	16.1	99.5	39.3	232.7
Margin (%)	5.5	6.3	7.6	5.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,343	4,497	6,674	3,701
YoY gr. (%)	16.1	99.5	39.3	232.7
Margin (%)	5.5	6.3	7.6	5.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,343	4,497	6,674	3,701
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	24-Jul-17	Accumulate	118	104
2	09-Oct-17	Accumulate	118	125
3	09-Nov-17	Accumulate	125	115
4	10-Jan-18	Accumulate	125	131
5	05-Feb-18	Accumulate	143	122
6	13-Apr-18	Accumulate	143	149
7	22-May-18	Accumulate	169	141
8	11-Jun-18	Accumulate	169	141
9	10-Jul-18	BUY	169	130

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	169	130
2	Atul Auto	Accumulate	397	394
3	Bajaj Auto	Reduce	2709	2862
4	Bharat Forge	Accumulate	760	620
5	CEAT	Accumulate	1451	1258
6	Eicher Motors	Accumulate	33516	28079
7	Exide Industries	Accumulate	281	262
8	Hero Motocorp	Accumulate	3980	3448
9	Mahindra & Mahindra	BUY	1041	894
10	Maruti Suzuki	BUY	10706	8975
11	Motherson Sumi Systems	Accumulate	373	293
12	Ramkrishna Forgings	BUY	648	638
13	Tata Motors	BUY	378	269
14	TVS Motors	Accumulate	678	561
15	Wabco India	Accumulate	8086	6930

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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