

Steady performance, recovery awaited

Ashok Leyland (AL)'s revenue and operating performance were in line with our estimates in 4QFY19. We believe M&HCV truck growth will trend down in 1QFY20, due to impact of relaxation in axle load norm, liquidity constraint, a high base, and high fuel prices. However, the growth momentum will continue to be strong for the medium-to-long term, driven by 1) pick-up in infrastructure, construction, e-commerce, and mining activities; 2) pre-purchases for BS-VI in 2Q/3QFY20; and 3) introduction of scrappage policy in FY21. We recommend Accumulate, with TP ₹ 109(16xFY21E EPS).

The revenue was ₹ 88.45bn (+1% YoY) in 4QFY19, due to a 1.3% growth in volume (59.52k units), offset by a muted net ASP. The EBITDA margins contracted 170bps YoY to 11.1 as it was affected by commodity inflation, a weaker product mix, and a negative operating leverage. The blended discounts remained high at ₹ 425,000-440,000/unit (over 12-15% of the vehicle price). The company has gained a market share of 180bps YoY to 36.9% in M&HCV segment in FY19. The management expects the domestic M&HCV industry to grow 10-12% for FY20. It also expects AL's exports to grow 15% in FY20, due to new products and a better penetration in the overseas market. The defense revenue declined substantially to ₹1.5bn in FY19, from ₹4.8bn in FY18, and the management expects an improvement in order execution in FY20.

Economic recovery to support volume

The M&HCV market is highly cyclical, but on an average grows 1.5x GDP growth. Despite several headwinds (an increase in rated axle load and a significant rise in diesel cost), we expect demand recovery soon, as liquidity normalizes and economic activities pick up. AL's management is also focusing aggressively on the LCV segment and will launch multiple new vehicles / variants over FY20-21. The company is looking to launch a mid-segment product (3-5-ton segment), which will provide new domestic and export opportunities.

Q4FY19 Result (₹ Mn)

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Revenue	88,459	87,801	0.7	63,252	39.9
Total Expense	78,605	76,545	2.7	56,756	38.5
EBITDA	9,854	11,256	(12.5)	6,496	51.7
Depreciation	1,598	1,574	1.5	1,607	(0.6)
EBIT	8,257	9,682	(14.7)	4,890	68.9
Other Income	91	662	(86.3)	208	(56.3)
Interest	166	244	(31.9)	192	(13.4)
EBT	8,065	10,057	(14.7)	4,836	66.8
Tax	1,535	2,625	(41.5)	1,027	49.4
RPAT	6,530	7,431	(12.1)	3,809	71.4
APAT	6,647	7,475	(11.1)	3,879	71.4
			(bps)		(bps)
Gross Margin (%)	27.3	28.8	(152)	29.9	(255)
EBITDA Margin (%)	11.1	12.8	(168)	10.3	87
NPM (%)	7.4	8.5	(108)	6.0	136
Tax Rate (%)	19.0	26.1	(707)	21.2	(221)
EBIT Margin (%)	9.3	11.0	(169)	7.7	160

CMP	₹ 94
Target / Upside	₹ 109 / 16%
BSE Sensex	39,439
NSE Nifty	11,844

Script Details

Equity / FV	₹ 2,936mn / ₹ 1
Market Cap	₹ 275bn
	US\$ 4bn
52-week High/Low	₹ 98/₹ 81
Avg. Volume (no)	2,29,63,700
NSE Symbol	ASHOKLEY
Bloomberg Code	AL IN

Shareholding Pattern Mar'19(%)

Promoters	51.1
MF/Banks/FIs	10.0
FII	20.9
Public / Others	18.0

Valuation (x)

	FY19A	FY20E	FY21E
P/E	13.5	13.9	13.8
EV/EBITDA	8.4	8.1	7.7
ROE (%)	25.6	22.6	20.7
RoACE (%)	24.3	21.4	19.5

Estimates (₹ mn)

	FY19A	FY20E	FY21E
Revenue	2,90,550	3,24,443	3,43,775
EBITDA	31,357	34,357	35,974
PAT	19,832	19,710	19,863
EPS (₹)	7.0	6.7	6.8

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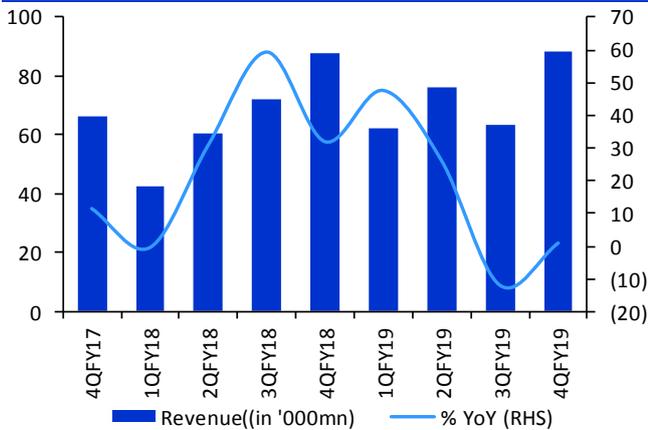
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Key Con-call key takeaways

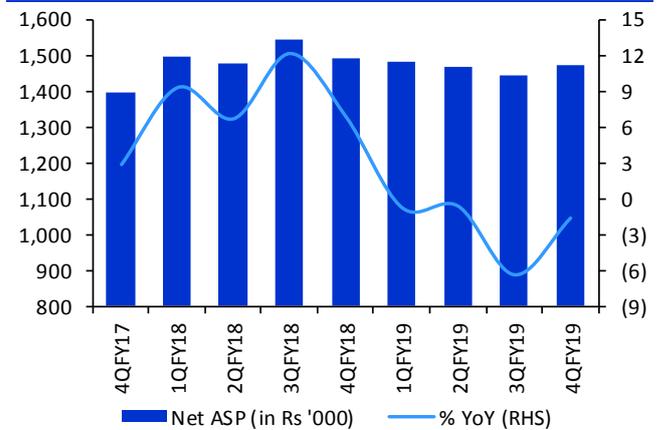
- The management is optimistic about CV growth in FY20, and guided a 10-12% industry volume growth led by pre-buying for BSVI in Q2 and Q3FY20, and the economic recovery. In the ICV division (9-16 tonnes), the company forecasts a growth of 15% in FY20.
- The tippers division is continuously showing strength, and accounted for 20% of the total volume in FY19.
- Export remains weak (volume fell 24% YoY) in FY19, especially lower offtake in the Middle East, Bangladesh, and Sri Lanka. However, the management expects strong recovery in FY20 (to grow 15%), led by strengthening its dealer network and introducing a new range of products, together with left-hand driven vehicles across segments. Recently, the company also entered the Russian market.
- The defense revenue plunged to ₹ 1.5bn, from ₹ 4.8bn in FY18, and the management expects improvement in FY20, led by execution of multiple orders out of the 31 contracts awarded previously.
- The dealer inventory was 20 days (+/-4 days).
- The EBITDA margin contracted by 70bps YoY, due to higher discounts, adverse mix, and commodity inflation. The blended discounts remain high at ₹ 425,000-440,000/unit (12-15% of vehicle prices).
- The capex will increase from ₹9.5bn in FY19 to ₹15bn in FY20 and ₹10-12bn in FY21, attributable to the Project Phoenix related to the new LCV range in the 3.5 – 5T segment, modular platform, BS-VI implementation, and electric vehicles.
- The total M&HCV production capacity was 180k units, but can be scaled up easily. The management does not see capacity constraint for FY20.
- The tax rate was lower in FY19, due to benefits from merger with LCV subsidiaries, which is expected to normalize in FY20.
- The working capital increased significantly in FY19, due to increase in inventory and debtor days. The net cash has reduced from ₹30.6bn in FY18 to ₹7.15bn in FY19, led by higher capex and working capital.
- In FY18, the company had higher cash on the balance sheet due to customer advances from dealers. However, advances in FY19 were lower, so receivables rose.

Exhibit 1: Revenue grew on high base



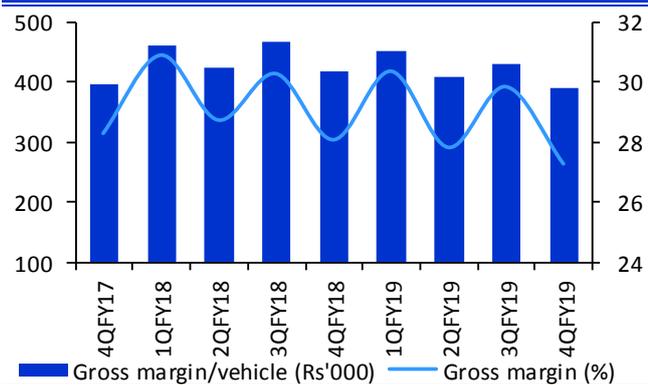
Source: DART, Company

Exhibit 2: Net ASP impacted on weaker mix



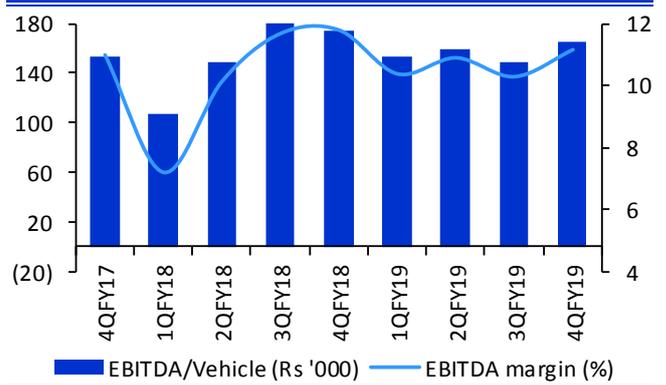
Source: DART, Company

Exhibit 3: Gross Margin under pressure



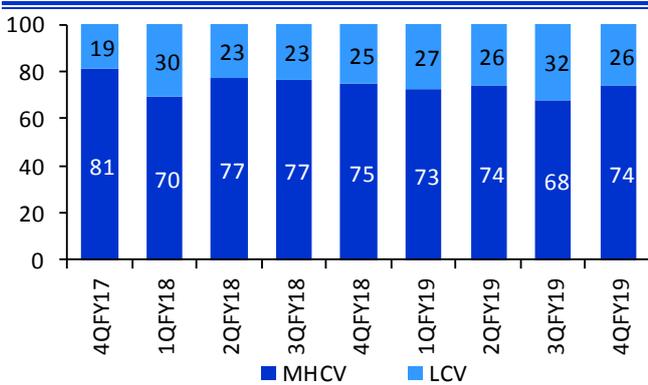
Source: DART, Company

Exhibit 4: Uptick in EBITDA margin QoQ



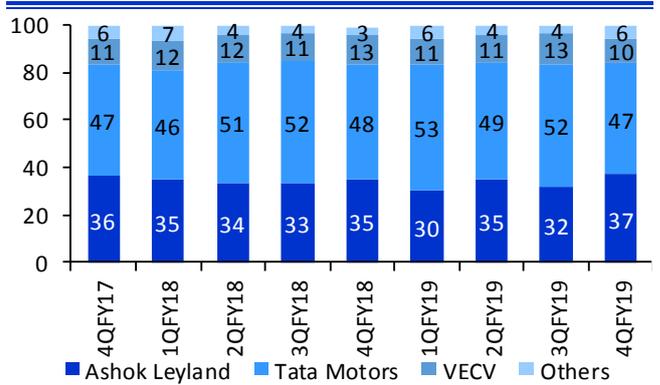
Source: DART, Company

Exhibit 5: MHCV LCV Mix (%)

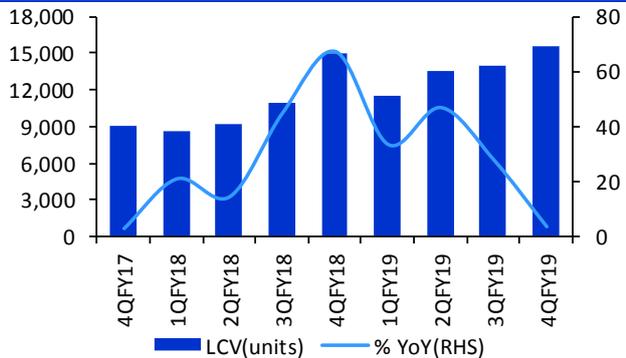


Source: DART, Company

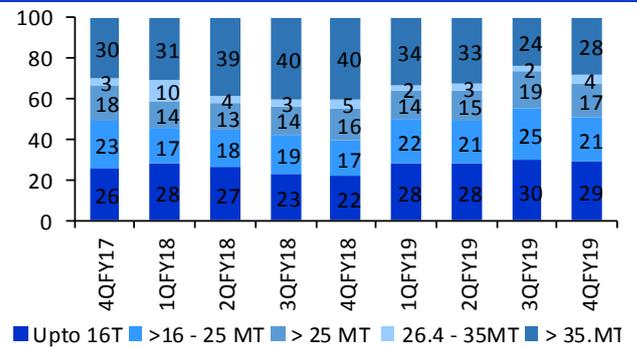
Exhibit 6: AL's Market Share Trend In M/HCV



Source: DART, Company

Exhibit 7: LCV segment


Source: DART, Company

Exhibit 8: Tonnage mix remains unfavorable


Source: DART, Company

Exhibit 9: Key assumption sheet

(in units)	FY16	FY17	FY18	FY19	FY20E	FY21E
Domestic MHCV	98,814	1,02,313	1,16,534	1,31,936	1,45,946	1,43,111
% YoY	48.7	3.5	13.9	13.2	10.6	(1.9)
LCV	30,695	31,770	42,078	53,129	61,098	65,986
% YoY	12.7	3.5	32.4	26.3	15	8
Domestic volumes	1,29,509	1,34,083	1,58,612	1,85,065	2,07,044	2,09,098
% YoY	38.2	3.5	18.3	16.7	11.9	1
Exports	10,948	10,979	16,239	12,301	14,146	15,561
% YoY	(2.4)	0.3	47.9	(24.3)	15	10
Total sales	1,40,457	1,45,062	1,74,851	1,97,366	2,21,190	2,24,658
% YoY	33.9	3.3	20.5	12.9	12.1	1.6
Net realisation (₹)	13,48,263	13,88,381	15,01,159	14,72,136	14,66,807	15,30,211

Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Revenue	2,62,479	2,90,550	3,24,443	3,43,775
Total Expense	2,35,089	2,59,192	2,90,086	3,07,800
COGS	1,86,213	2,06,796	2,33,436	2,46,164
Employees Cost	18,119	20,988	22,729	25,002
Other expenses	30,757	31,409	33,921	36,635
EBIDTA	27,390	31,357	34,357	35,974
Depreciation	5,546	6,210	7,095	8,172
EBIT	21,844	25,147	27,263	27,802
Interest	1,312	704	293	300
Other Income	1,898	1,099	1,187	1,282
Exc. / E.O. items	(122)	(575)	0	2
EBT	22,307	24,968	28,157	28,787
Tax	6,681	5,136	8,447	8,923
RPAT	15,626	19,832	19,710	19,863
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	15,748	20,407	19,710	19,861

Balance Sheet

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Sources of Funds				
Equity Capital	2,927	2,936	2,936	2,936
Minority Interest	0	0	0	0
Reserves & Surplus	68,721	80,389	88,102	98,040
Net Worth	71,648	83,324	91,037	1,00,976
Total Debt	10,038	3,330	3,958	3,460
Net Deferred Tax Liability	2,984	2,497	3,060	3,924
Total Capital Employed	84,670	89,152	98,056	1,08,360

Applications of Funds

Net Block	49,742	56,145	70,627	77,374
CWIP	2,129	6,576	2,919	3,367
Investments	27,475	35,903	35,903	35,903
Current Assets, Loans & Advances	86,399	83,620	70,724	77,676
Inventories	17,099	26,847	24,889	26,372
Receivables	9,937	25,057	21,333	22,604
Cash and Bank Balances	40,595	13,736	1,791	1,198
Loans and Advances	18,768	17,980	22,711	27,502
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	81,075	93,093	82,117	85,960
Payables	46,586	66,063	54,362	57,326
Other Current Liabilities	34,489	27,029	27,756	28,634
Net Current Assets	5,324	(9,473)	(11,393)	(8,284)
Total Assets	84,670	89,152	98,056	1,08,360

E – Estimates

Important Ratios

Particulars	FY18A	FY19A	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	29.1	28.8	28.1	28.4
EBIDTA Margin	10.4	10.8	10.6	10.5
EBIT Margin	8.3	8.7	8.4	8.1
Tax rate	30.0	20.6	30.0	31.0
Net Profit Margin	6.0	6.8	6.1	5.8
(B) As Percentage of Net Sales (%)				
COGS	70.9	71.2	71.9	71.6
Employee	6.9	7.2	7.0	7.3
Other	11.7	10.8	10.5	10.7
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.0	0.0	0.0
Interest Coverage	16.6	35.7	93.2	92.7
Inventory days	24	34	28	28
Debtors days	14	31	24	24
Average Cost of Debt	8.2	10.5	8.0	8.1
Payable days	65	83	61	61
Working Capital days	7	(12)	(13)	(9)
FA T/O	5.3	5.2	4.6	4.4
(D) Measures of Investment				
AEPS (₹)	5.4	7.0	6.7	6.8
CEPS (₹)	7.3	9.1	9.2	9.6
DPS (₹)	2.4	3.1	2.8	2.9
Dividend Payout (%)	45.2	44.5	42.0	43.0
BVPS (₹)	24.5	28.5	31.1	34.5
RoANW (%)	23.5	25.6	22.6	20.7
RoACE (%)	20.2	24.3	21.4	19.5
RoAIC (%)	39.5	42.1	31.8	27.3
(E) Valuation Ratios				
CMP (₹)	94	94	94	94
P/E	17.4	13.5	13.9	13.8
Mcap (₹ Mn)	2,74,562	2,74,562	2,74,562	2,74,562
MCap/ Sales	1.0	0.9	0.8	0.8
EV	2,44,005	2,64,156	2,76,729	2,76,824
EV/Sales	0.9	0.9	0.9	0.8
EV/EBITDA	8.9	8.4	8.1	7.7
P/BV	3.8	3.3	3.0	2.7
Dividend Yield (%)	2.6	3.3	3.0	3.1
(F) Growth Rate (%)				
Revenue	30.3	10.7	11.7	6.0
EBITDA	24.4	14.5	9.6	4.7
EBIT	29.7	15.1	8.4	2.0
PBT	67.7	11.9	12.8	2.2
APAT	1.0	29.6	(3.4)	0.8
EPS	1.0	29.6	(3.4)	0.8
Cash Flow				
(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	49,874	9,869	17,075	24,634
CFI	(13,449)	(25,975)	(21,184)	(14,227)
CFF	(18,200)	(13,079)	(9,284)	(10,723)
FCFF	43,740	(7,191)	(4,501)	9,715
Opening Cash	17,891	40,595	13,736	1,791
Closing Cash	40,595	13,736	1,791	1,198

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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