

# Ashok Leyland

Refer to important disclosures at the end of this report

## Q4 results weak but beat estimates; recovery likely from Q4FY21

CMP: Rs 52  
as of (June 26, 2020)

TP: Rs 74 (▼)  
12 months

Rating: BUY (■)

Upside: 42.6 %



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- Q4FY20 results were weak due to lower volumes, but came in above estimates. Revenue fell by 57% yoy to Rs38.4bn, above estimates of Rs33.7bn, owing to higher-than-expected realizations and spare part revenues. EBITDA margin contracted 640bps to 4.8% (est. 4.5%).
- Led by the lockdown and expectation of a gradual pickup in demand, we cut FY21E volume by 25%, but broadly retain FY22 volume forecast. We expect recovery from Q4FY21E onwards led by the low base, replacement demand and gradual improvement in economic activity.
- AL is likely to gain share in domestic MHCVs from 32% in FY20 to 33% in FY22E, led by new products based on the modular platform. Similarly, market share will increase from 9% in FY20 to 15% in FY22E, led by new product Phoenix LCV in 2.5-4.9T segments.
- We expect 14%/32% CAGRs for revenue/EBITDA over FY20-22E. We retain Buy, with a TP of Rs74 (Rs76 earlier) based on 10x EV/EBITDA on FY22 estimates, and Hinduja Leyland Finance investment value at Rs9/share. In sector EAP, we have OW stance on the company.

**Expect weak volumes to persist in the near term; pick-up by end FY21:** The domestic MHCV industry has been in a downturn since Nov'18, and FY20 has been the worst year in the past 20 years. We expect a revival by FY21 end, led by a low base, replacement demand and gradual pick-up in economic activity. In last three up-cycles, the average period of positive growth has been 4 years, and minimum growth from trough to peak is 90%. AL is likely to gain share from 32% in FY20 to 33% in FY22E, led by new products, strong exposure to above the 25T segment and continuing focus on network expansion.

**Modularization to provide more product options to customers:** The company has embarked on a modular platform strategy, which will allow reduction from 12,000 parts to 8,000. This should result in economies of scale, better production planning, improved supply-chain management, etc., leading to cost reduction. In addition, modularization would allow to provide more vehicle options in 18.5T-55T range to customers in both domestic and export markets to meet specific application needs and reduce the cost of ownership.

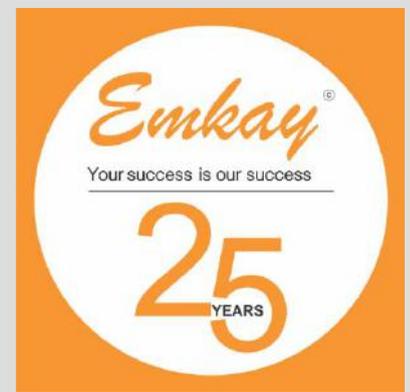
**Retain Buy:** Our EBITDA estimate for FY21 has been reduced by 34% to Rs7.6bn, led by lower volume and margin assumptions, but FY22E EBITDA remains broadly unchanged at Rs20.5bn. We are introducing FY23E EBITDA at Rs27.8bn, factoring in revenue growth of 23%. The stock trades at 8x EV/EBITDA and 2.1x P/B vs. historical average of 12x EV/EBITDA and 2.6x P/B. Retain Buy with TP of Rs74 (Rs76 earlier) based on 10x EV/EBITDA on FY22E, and Hinduja Leyland Finance investment value at Rs9/share. In sector EAP, we have OW stance. Key downside risks are the sustenance of weak macro environment, low incentives in scrappage policy, slow execution of infrastructure projects, high competitive intensity and adverse commodity prices.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Automobiles & Auto Ancillaries \(page 9\)](#)

### Financial Snapshot (Standalone)

| (Rs mn)           | FY19    | FY20    | FY21E   | FY22E   | FY23E   |
|-------------------|---------|---------|---------|---------|---------|
| Revenue           | 290,550 | 174,675 | 139,311 | 227,055 | 278,643 |
| EBITDA            | 31,357  | 11,737  | 7,607   | 20,549  | 27,767  |
| EBITDA Margin (%) | 10.8    | 6.7     | 5.5     | 9.1     | 10.0    |
| APAT              | 20,263  | 3,726   | 84      | 10,062  | 15,785  |
| EPS (Rs)          | 6.9     | 1.3     | 0.0     | 3.4     | 5.4     |
| EPS (% chg)       | 15.7    | (81.6)  | (97.7)  | NM      | 56.9    |
| ROE (%)           | 26.0    | 4.8     | 0.1     | 13.4    | 19.2    |
| P/E (x)           | 7.5     | 41.0    | NM      | 15.2    | 9.7     |
| EV/EBITDA (x)     | 4.6     | 14.7    | 22.0    | 7.7     | 5.3     |
| P/BV (x)          | 1.8     | 2.1     | 2.1     | 2.0     | 1.8     |

Source: Company, Emkay Research



### Change in Estimates

|                         |              |
|-------------------------|--------------|
| EPS Chg FY21E/FY22E (%) | (97.3)/(0.5) |
| Target Price change (%) | (2.3)        |
| Target Period (Months)  | 12           |
| Previous Reco           | BUY          |

### Emkay vs Consensus

|                         | EPS Estimates |       |
|-------------------------|---------------|-------|
|                         | FY21E         | FY22E |
| Emkay                   | -             | 3.4   |
| Consensus               | 1.3           | 3.4   |
| Mean Consensus TP (12M) | Rs 58         |       |

### Stock Details

|                              |            |
|------------------------------|------------|
| Bloomberg Code               | AL IN      |
| Face Value (Rs)              | 1          |
| Shares outstanding (mn)      | 2,936      |
| 52 Week H/L                  | 91 / 34    |
| M Cap (Rs bn/USD bn)         | 153 / 2.02 |
| Daily Avg Volume (nos.)      | 46,957,630 |
| Daily Avg Turnover (US\$ mn) | 29.2       |

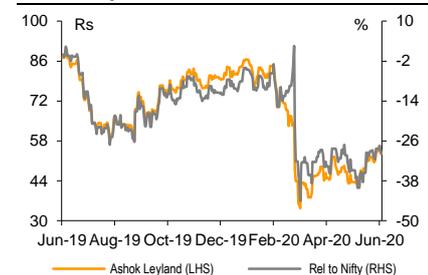
### Shareholding Pattern Mar '20

|                   |       |
|-------------------|-------|
| Promoters         | 51.1% |
| FII               | 16.8% |
| DII               | 14.9% |
| Public and Others | 17.2% |

### Price Performance

| (%)           | 1M | 3M | 6M   | 12M  |
|---------------|----|----|------|------|
| Absolute      | 20 | 21 | (34) | (39) |
| Rel. to Nifty | 4  | 1  | (23) | (31) |

### Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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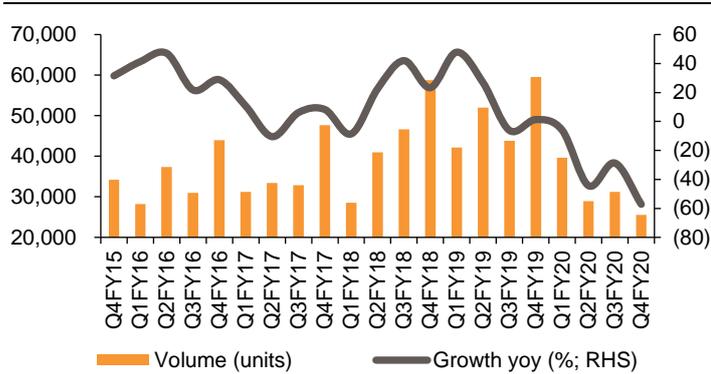
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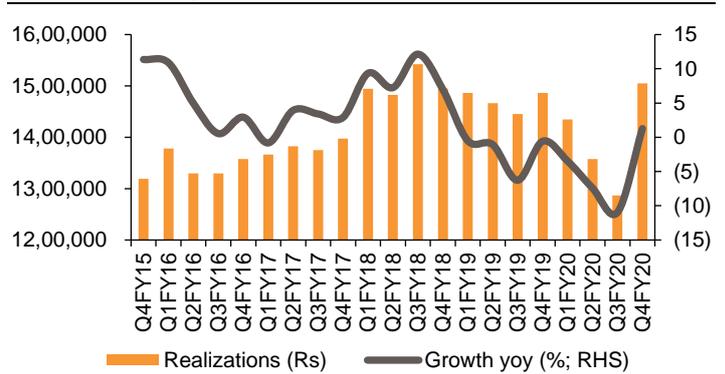
# Story in Charts

**Exhibit 1: Volume declined 57% yoy to 25,504 units**



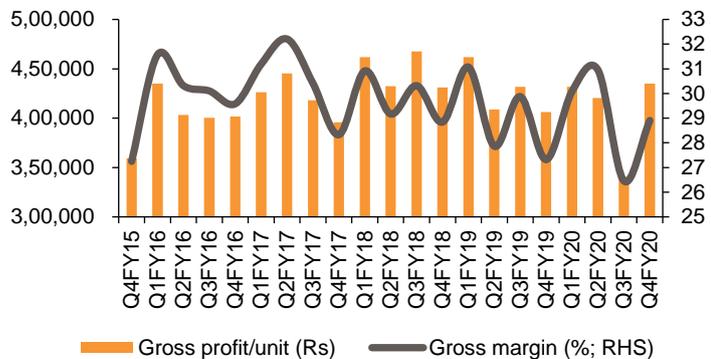
Source: Company, SIAM, Emkay Research

**Exhibit 2: Revenue/unit above estimates due to better than expected realizations and spares revenues**



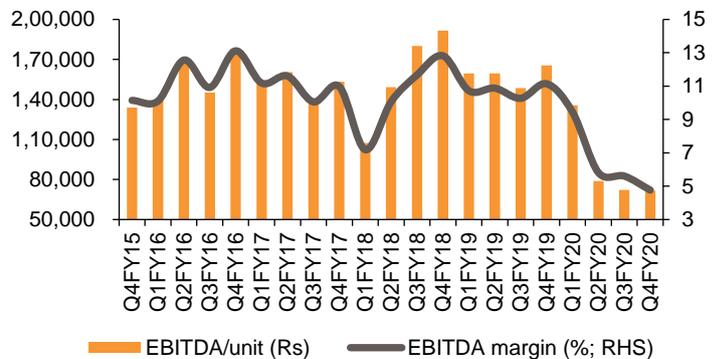
Source: Company, Emkay Research

**Exhibit 3: Gross margin expanded 160bps yoy to 28.9% due to lower input cost and discounts**



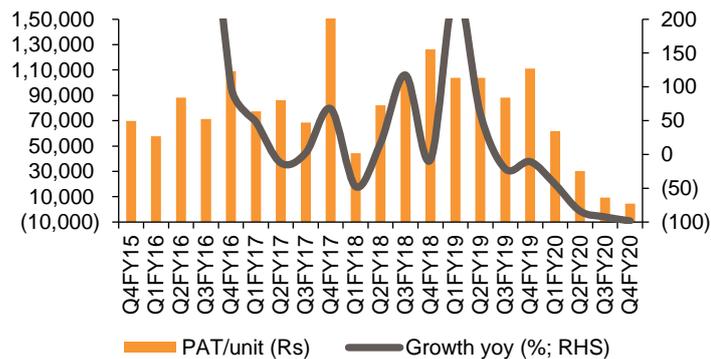
Source: Company, Emkay Research

**Exhibit 4: EBITDA margin declined 640bps to 4.8% on account of lower scale**



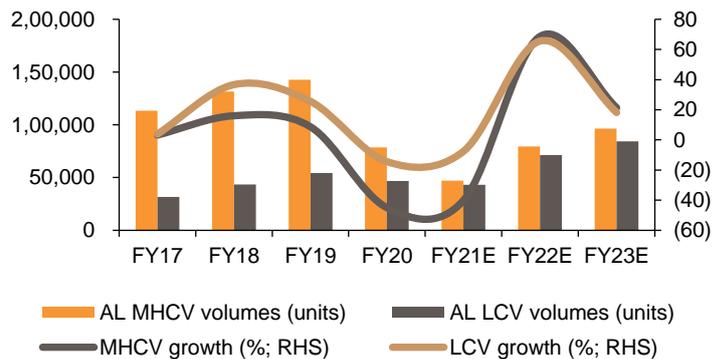
Source: Company, Emkay Research

**Exhibit 5: PAT/unit declined yoy due to a contraction in operating margin and higher depreciation cost**



Source: Company, Emkay Research

**Exhibit 6: Expect MHCV volumes to improve gradually from Q4FY21 onwards**



Source: Company, Emkay Research

## Earnings Call Highlights

- Q4FY20 gross margin improved due to lower commodity prices, better realizations and higher discounts from suppliers.
- Net debt stood at Rs20bn as of Mar'20 and Rs39bn as of May20. The increase in net debt was due to payments to Creditors.
- Inter-corporate deposits of Rs5bn has been provided to group companies to support them with liquidity and for earning better yields. Yields are 3-4% higher than the bank rate. Management expects no further increase in ICDs going ahead. Since ICDs are to group companies, repayment should not be an issue.
- Impairment of investments was mainly toward Optare. This entity's operations were impacted due to Brexit and Covid-19 issues. It has won electric bus orders from Dubai and New Zealand and management has deployed top people from Ashok Leyland to help in achieving breakeven.
- Management expects demand recovery to be driven by the tipper segment (led by infra activities), I&LCV segment (led by E-commerce) and pent-up demand.
- New LCV Phoenix platform to be launched in the next three months.
- Cost savings in FY20 stood at Rs5.4bn due to reduction in Inventory, control of overhead cost and VRS. Current cash burn is in tune of Rs1.5-1.7bn per month. Cost savings expected to continue in FY21 as well.
- Capex stood at 12.27bn in FY20. Going ahead, capex should significantly fall, and would be mainly towards maintenance activities.

### Exhibit 7: Volume assumptions

|                       | FY17           | FY18           | FY19           | FY20           | FY21E          | FY22E          | FY23E          |
|-----------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Volume (units)</b> |                |                |                |                |                |                |                |
| Domestic MHCVs        | 102,313        | 116,534        | 131,936        | 71,408         | 42,775         | 73,588         | 89,367         |
| YoY %                 | 3.5            | 13.9           | 13.2           | (45.9)         | (40.1)         | 72.0           | 21.4           |
| Domestic LCVs         | 30,951         | 42,078         | 53,129         | 44,912         | 41,734         | 69,696         | 82,347         |
| YoY %                 | 8.6            | 36.0           | 26.3           | (15.5)         | (7.1)          | 67.0           | 18.2           |
| Exports (MHCV + LCV)  | 11,802         | 16,239         | 12,301         | 8,920          | 5,707          | 7,537          | 9,014          |
| YoY %                 | (9.5)          | 37.6           | (24.3)         | (27.5)         | (36.0)         | 32.1           | 19.6           |
| <b>Total Volume</b>   | <b>145,066</b> | <b>174,851</b> | <b>197,366</b> | <b>125,240</b> | <b>90,216</b>  | <b>150,821</b> | <b>180,728</b> |
| YoY %                 | 3.4            | 20.5           | 12.9           | (36.5)         | (28.0)         | 67.2           | 19.8           |
| Realization (Rs/unit) | 1,388,343      | 1,507,363      | 1,472,136      | 1,394,720      | 1,544,198      | 1,505,455      | 1,541,779      |
| YoY %                 | 3.0            | 8.6            | (2.3)          | (5.3)          | 10.7           | (2.5)          | 2.4            |
| <b>Revenue (Rsmn)</b> | <b>201,401</b> | <b>263,564</b> | <b>290,550</b> | <b>174,675</b> | <b>139,311</b> | <b>227,055</b> | <b>278,643</b> |
| YoY %                 | 6.4            | 30.9           | 10.2           | (39.9)         | (20.2)         | 63.0           | 22.7           |

Source: Company, Emkay Research

### Exhibit 8: Actual vs. Estimates (Q4FY20)

| (Rs mn)             | Actual | Estimates |           | % Variation |           | Comment  |
|---------------------|--------|-----------|-----------|-------------|-----------|--|
|                     |        | Emkay     | Consensus | Emkay       | Consensus |  |
| Total Revenue       | 38,385 | 33,747    | 34,850    | 13.7        | 10.1      | Above estimates due to higher-than-expected realizations and spare part revenues |
| EBITDA              | 1,830  | 1,519     | 1,189     | 20.5        | 53.8      |  |
| EBITDA Margin (%)   | 4.8    | 4.5       | 3.4       | 27 bps      | 135 bps   | Slightly above estimates due to higher-than-expected revenues                    |
| Adjusted net profit | 114    | (120)     | (450)     |             |           | Above estimates due to higher operating profit and tax credits                   |

Source: Bloomberg, Company, Emkay Research

**Exhibit 9: Quarterly financial summary**

| Rs mn                            | Q4FY19        | Q1FY20        | Q2FY20        | Q3FY20        | Q4FY20        | YoY (%)        | QoQ (%)        | FY20           | FY19           | YoY (%)       |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|---------------|
| <b>Revenue</b>                   | <b>88,459</b> | <b>56,839</b> | <b>39,295</b> | <b>40,157</b> | <b>38,385</b> | <b>(56.6)</b>  | <b>(4.4)</b>   | <b>174,675</b> | <b>290,550</b> | <b>(39.9)</b> |
| <b>Expenditure</b>               | <b>78,605</b> | <b>51,469</b> | <b>37,009</b> | <b>37,905</b> | <b>36,555</b> | <b>(53.5)</b>  | <b>(3.6)</b>   | <b>162,938</b> | <b>259,192</b> | <b>(37.1)</b> |
| as % of sales                    | 88.9          | 90.6          | 94.2          | 94.4          | 95.2          |                |                | 93.3           | 89.2           |               |
| Consumption of RM                | 64,292        | 39,737        | 27,133        | 29,532        | 27,290        | (57.6)         | (7.6)          | 123,692        | 206,796        | (40.2)        |
| as % of sales                    | 72.7          | 69.9          | 69.0          | 73.5          | 71.1          |                |                | 70.8           | 71.2           |               |
| Employee Cost                    | 5,735         | 5,004         | 4,321         | 2,728         | 4,097         | (28.6)         | 50.2           | 16,151         | 20,988         | (23.0)        |
| as % of sales                    | 6.5           | 8.8           | 11.0          | 6.8           | 10.7          |                |                | 9.2            | 7.2            |               |
| Other expenditure                | 8,578         | 6,728         | 5,555         | 5,645         | 5,168         | (39.7)         | (8.4)          | 23,096         | 31,409         | (26.5)        |
| as % of sales                    | 9.7           | 11.8          | 14.1          | 14.1          | 13.5          |                |                | 13.2           | 10.8           |               |
| <b>EBITDA</b>                    | <b>9,854</b>  | <b>5,370</b>  | <b>2,286</b>  | <b>2,252</b>  | <b>1,830</b>  | <b>(81.4)</b>  | <b>(18.7)</b>  | <b>11,737</b>  | <b>31,357</b>  | <b>(62.6)</b> |
| Depreciation                     | 1,598         | 1,646         | 1,600         | 1,575         | 1,877         | 17.5           | 19.2           | 6,698          | 6,210          | 7.9           |
| <b>EBIT</b>                      | <b>8,257</b>  | <b>3,723</b>  | <b>685</b>    | <b>677</b>    | <b>(47)</b>   | <b>(100.6)</b> | <b>(107.0)</b> | <b>5,039</b>   | <b>25,147</b>  | <b>(80.0)</b> |
| Other Income                     | 91            | 211           | 455           | 223           | 344           | 279.3          | 54.2           | 1,233          | 1,099          | 12.2          |
| Interest                         | 166           | 126           | 301           | 337           | 331           | 98.9           | (1.7)          | 1,095          | 704            | 55.5          |
| <b>PBT</b>                       | <b>8,181</b>  | <b>3,809</b>  | <b>839</b>    | <b>563</b>    | <b>(34)</b>   | <b>(100.4)</b> | <b>(106.0)</b> | <b>5,177</b>   | <b>25,543</b>  | <b>(79.7)</b> |
| Total Tax                        | 1,564         | 1,366         | (36)          | 270           | (148)         | (109.5)        | (154.8)        | 1,452          | 5,280          | (72.5)        |
| <b>Adjusted PAT</b>              | <b>6,617</b>  | <b>2,443</b>  | <b>875</b>    | <b>294</b>    | <b>114</b>    | <b>(98.3)</b>  | <b>(61.2)</b>  | <b>3,726</b>   | <b>20,263</b>  | <b>(81.6)</b> |
| Extra ordinary items Loss/(Gain) | (88)          | (141)         | (486)         | (16)          | (687)         |                |                | (1,330)        | (431)          | 208.5         |
| <b>Reported PAT</b>              | <b>6,530</b>  | <b>2,302</b>  | <b>389</b>    | <b>278</b>    | <b>(573)</b>  | <b>(108.8)</b> | <b>(306.6)</b> | <b>2,395</b>   | <b>19,832</b>  | <b>(87.9)</b> |
| <b>Adjusted EPS</b>              | <b>2.25</b>   | <b>0.83</b>   | <b>0.30</b>   | <b>0.10</b>   | <b>0.04</b>   | <b>(98.3)</b>  | <b>(61.2)</b>  | <b>1.27</b>    | <b>6.90</b>    | <b>(81.6)</b> |

| <b>Margins (%)</b> |      |      |       |      |       | <b>(bps)</b> | <b>(bps)</b> |      |      |       | <b>(bps)</b> |
|--------------------|------|------|-------|------|-------|--------------|--------------|------|------|-------|--------------|
| EBIDTA             | 11.1 | 9.4  | 5.8   | 5.6  | 4.8   | (637)        | (84)         | 6.7  | 10.8 | (407) |              |
| EBIT               | 9.3  | 6.6  | 1.7   | 1.7  | (0.1) | (946)        | (181)        | 2.9  | 8.7  | (577) |              |
| EBT                | 9.2  | 6.7  | 2.1   | 1.4  | (0.1) | (934)        | (149)        | 3.0  | 8.8  | (583) |              |
| PAT                | 7.5  | 4.3  | 2.2   | 0.7  | 0.3   | (718)        | (43)         | 2.1  | 7.0  | (484) |              |
| Effective Tax rate | 19.1 | 35.9 | (4.2) | 47.9 | 438.6 | 41,946       | 39,072       | 28.0 | 20.7 | 737   |              |

Source: Company, Emkay Research

**Exhibit 10: Changes in estimates**

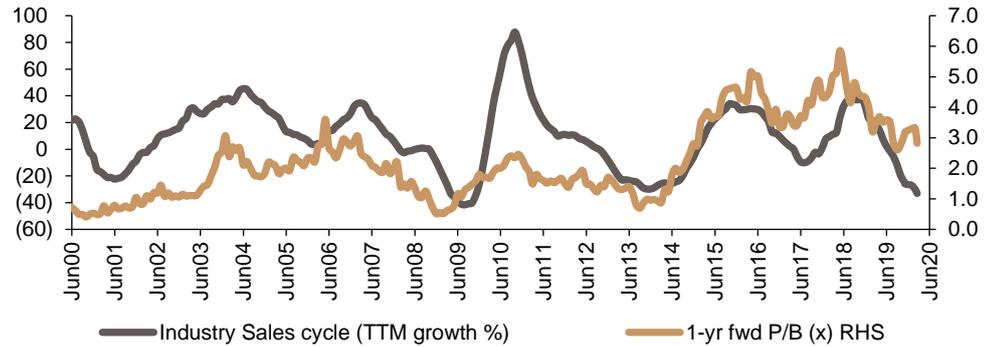
| Rs mn    | FY21E   |         |           |           | FY22E   |         |          |          | FY23E       |          |
|----------|---------|---------|-----------|-----------|---------|---------|----------|----------|-------------|----------|
|          | Earlier | Revised | % Change  | % YoY     | Earlier | Revised | % Change | % YoY    | Introducing | % Change |
| Volume   | 121,144 | 90,216  | (25.5)    | (28.0)    | 148,352 | 150,821 | 1.7      | 67.2     | 180,728     | 19.8     |
| Revenue  | 176,453 | 139,311 | (21.0)    | (20.2)    | 224,323 | 227,055 | 1.2      | 63.0     | 278,643     | 22.7     |
| EBITDA   | 11,591  | 7,607   | (34.4)    | (35.2)    | 20,391  | 20,549  | 0.8      | 170.1    | 27,767      | 35.1     |
| EBITDA % | 6.6     | 5.5     | (111) bps | (126) bps | 9.1     | 9.1     | (4) bps  | 359 bps  | 10.0        | 91 bps   |
| Adj PAT  | 3,139   | 84      | (97.3)    | (97.7)    | 10,111  | 10,062  | (0.5)    | 11,896.2 | 15,785      | 56.9     |
| EPS      | 1.1     | 0.0     | (97.3)    | (97.7)    | 3.4     | 3.4     | (0.5)    | 11,896.2 | 5.4         | 56.9     |

Source: Company, Emkay Research

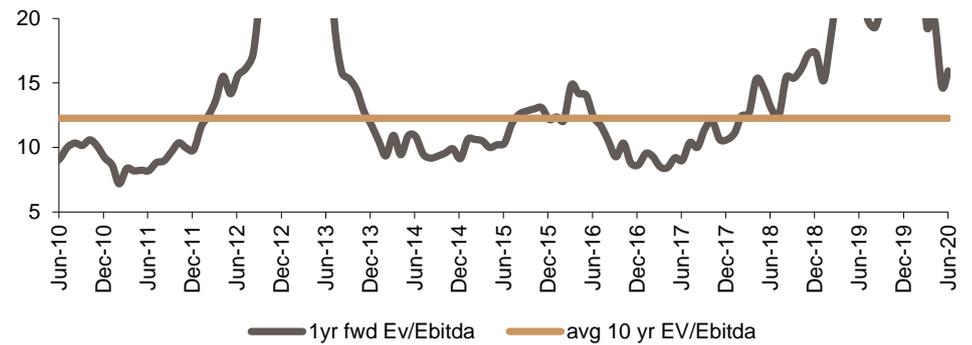
**Exhibit 11: SOTP valuation**

| (Rs mn)                              | Basis of Valuation | Equity value | Holding company discount | FY22E     |
|--------------------------------------|--------------------|--------------|--------------------------|-----------|
| Standalone                           | 10x EV/EBITDA      | 191,254      |                          | 191,254   |
| Hinduja Leyland Finance              | 2x P/B FY19        | 38,056       | 30%                      | 26,639    |
| Total equity value                   |                    |              |                          | 217,894   |
| <b>Total equity value/share (Rs)</b> |                    |              |                          | <b>74</b> |

Source: Company, Emkay Research

**Exhibit 12: One-year forward P/B**

Source: Company, Emkay Research

**Exhibit 13: One-year forward EV/EBITDA**

Source: Company, Emkay Research

**Exhibit 14: Peer comparison**

| Companies            | CMP (Rs)  | Target (Rs) | Mcap (Rs.bn) | Reco       | EPS (Rs)   |            | PE (x)    |             | ROE (%)    |             | ROCE (%)   |             |
|----------------------|-----------|-------------|--------------|------------|------------|------------|-----------|-------------|------------|-------------|------------|-------------|
|                      |           |             |              |            | FY21E      | FY22E      | FY21E     | FY22E       | FY21E      | FY22E       | FY21E      | FY22E       |
| <b>Ashok Leyland</b> | <b>52</b> | <b>74</b>   | <b>153</b>   | <b>Buy</b> | <b>0.0</b> | <b>3.4</b> | <b>NM</b> | <b>15.2</b> | <b>0.1</b> | <b>13.4</b> | <b>1.7</b> | <b>14.1</b> |
| Atul Auto            | 173       | 250         | 4            | Buy        | 17.7       | 25.0       | 9.8       | 6.9         | 12.4       | 15.6        | 16.7       | 20.9        |
| Bajaj Auto           | 2,860     | 2,629       | 828          | Hold       | 129.5      | 184.8      | 22.1      | 15.5        | 18.1       | 23.8        | 23.3       | 30.6        |
| Eicher Motors        | 18,500    | 19,954      | 505          | Buy        | 520.4      | 995.9      | 35.6      | 18.6        | 13.5       | 22.5        | 18.5       | 28.0        |
| Escorts Ltd          | 1,019     | 1,103       | 125          | Buy        | 48.7       | 69.8       | 20.9      | 14.6        | 11.7       | 13.4        | 15.4       | 17.7        |
| Hero Motocorp        | 2,545     | 2,530       | 508          | Hold       | 112.4      | 171.4      | 22.6      | 14.9        | 15.7       | 22.7        | 19.7       | 29.2        |
| Mahindra & Mahindra  | 500       | 572         | 622          | Buy        | 23.7       | 37.7       | 21.1      | 13.3        | 7.9        | 11.7        | 9.7        | 14.3        |
| Maruti Suzuki India  | 5,745     | 6,173       | 1735         | Buy        | 128.5      | 268.4      | 44.7      | 21.4        | 7.8        | 15.4        | 10.2       | 19.9        |
| Tata Motors          | 102       | 92          | 336          | Hold       | -28.1      | 13.6       | -3.6      | 7.5         | -18.3      | 9.1         | -1.9       | 8.4         |
| TVS Motor            | 382       | 296         | 181          | Sell       | 5.7        | 13.8       | 67.2      | 27.7        | 7.3        | 16.4        | 8.1        | 16.8        |
| Amara Raja Batteries | 649       | 732         | 111          | Buy        | 33.6       | 48.8       | 19.3      | 13.3        | 15.0       | 19.4        | 19.5       | 25.3        |
| Apollo Tyres         | 111       | 95          | 64           | Hold       | 4.0        | 10.6       | 27.9      | 10.5        | 2.4        | 6.0         | 3.6        | 6.3         |
| Exide Industries     | 149       | 198         | 127          | Buy        | 8.6        | 11.3       | 17.3      | 13.1        | 11.2       | 13.6        | 14.7       | 17.8        |
| Motherson Sumi       | 96        | 115         | 303          | Buy        | 2.7        | 5.8        | 35.9      | 16.7        | 7.5        | 15.2        | 5.6        | 15.2        |
| Bharat Forge         | 353       | 348         | 164          | Buy        | 11.0       | 17.2       | 32.2      | 20.5        | 8.5        | 12.4        | 8.6        | 12.1        |

Source: Company, Emkay Research

**Key Financials (Standalone)****Income Statement**

| Y/E Mar (Rs mn)                  | FY19           | FY20           | FY21E          | FY22E          | FY23E          |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Revenue</b>                   | <b>290,550</b> | <b>174,675</b> | <b>139,311</b> | <b>227,055</b> | <b>278,643</b> |
| <b>Expenditure</b>               | <b>259,192</b> | <b>162,938</b> | <b>131,704</b> | <b>206,506</b> | <b>250,876</b> |
| <b>EBITDA</b>                    | <b>31,357</b>  | <b>11,737</b>  | <b>7,607</b>   | <b>20,549</b>  | <b>27,767</b>  |
| Depreciation                     | 6,210          | 6,698          | 7,187          | 7,572          | 7,957          |
| <b>EBIT</b>                      | <b>25,147</b>  | <b>5,039</b>   | <b>420</b>     | <b>12,977</b>  | <b>19,811</b>  |
| Other Income                     | 1,099          | 1,233          | 1,328          | 1,698          | 2,378          |
| Interest expenses                | 704            | 1,095          | 1,638          | 1,437          | 1,420          |
| <b>PBT</b>                       | <b>25,543</b>  | <b>5,177</b>   | <b>110</b>     | <b>13,239</b>  | <b>20,769</b>  |
| Tax                              | 5,280          | 1,452          | 26             | 3,177          | 4,985          |
| Extraordinary Items              | (431)          | (1,330)        | 0              | 0              | 0              |
| Minority Int./Income from Assoc. | 0              | 0              | 0              | 0              | 0              |
| <b>Reported Net Income</b>       | <b>19,832</b>  | <b>2,395</b>   | <b>84</b>      | <b>10,062</b>  | <b>15,785</b>  |
| <b>Adjusted PAT</b>              | <b>20,263</b>  | <b>3,726</b>   | <b>84</b>      | <b>10,062</b>  | <b>15,785</b>  |

**Balance Sheet**

| Y/E Mar (Rs mn)                            | FY19          | FY20           | FY21E          | FY22E          | FY23E          |
|--|---------------|----------------|----------------|----------------|----------------|
| Equity share capital                       | 2,936         | 2,936          | 2,936          | 2,936          | 2,936          |
| Reserves & surplus                         | 80,389        | 69,704         | 69,788         | 74,998         | 83,171         |
| <b>Net worth</b>                           | <b>83,324</b> | <b>72,640</b>  | <b>72,724</b>  | <b>77,933</b>  | <b>86,106</b>  |
| <b>Minority Interest</b>                   | <b>0</b>      | <b>0</b>       | <b>0</b>       | <b>0</b>       | <b>0</b>       |
| <b>Loan Funds</b>                          | <b>6,324</b>  | <b>33,504</b>  | <b>26,077</b>  | <b>26,162</b>  | <b>25,471</b>  |
| Net deferred tax liability                 | 2,497         | 2,648          | 2,648          | 2,595          | 2,512          |
| <b>Total Liabilities</b>                   | <b>92,145</b> | <b>108,792</b> | <b>101,448</b> | <b>106,690</b> | <b>114,089</b> |
| <b>Net block</b>                           | <b>56,145</b> | <b>63,971</b>  | <b>65,587</b>  | <b>63,015</b>  | <b>60,059</b>  |
| <b>Investment</b>                          | <b>26,365</b> | <b>27,196</b>  | <b>27,196</b>  | <b>37,196</b>  | <b>49,196</b>  |
| <b>Current Assets</b>                      | <b>93,158</b> | <b>66,787</b>  | <b>52,447</b>  | <b>79,184</b>  | <b>94,544</b>  |
| Cash & bank balance                        | 13,736        | 13,225         | 11,841         | 13,002         | 13,326         |
| Other Current Assets                       | 17,566        | 18,403         | 14,677         | 23,922         | 29,357         |
| <b>Current liabilities &amp; Provision</b> | <b>90,099</b> | <b>55,104</b>  | <b>45,921</b>  | <b>74,844</b>  | <b>91,849</b>  |
| <b>Net current assets</b>                  | <b>3,059</b>  | <b>11,684</b>  | <b>6,526</b>   | <b>4,340</b>   | <b>2,695</b>   |
| Misc. exp                                  | 0             | 0              | 0              | 0              | 0              |
| <b>Total Assets</b>                        | <b>92,145</b> | <b>108,792</b> | <b>101,448</b> | <b>106,690</b> | <b>114,089</b> |

**Cash Flow**

| Y/E Mar (Rs mn)                       | FY19            | FY20            | FY21E           | FY22E           | FY23E           |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>PBT (Ex-Other income) (NI+Dep)</b> | <b>23,869</b>   | <b>3,944</b>    | <b>(1,218)</b>  | <b>11,541</b>   | <b>18,391</b>   |
| Other Non-Cash items                  | 0               | 0               | 0               | 0               | 0               |
| Chg in working cap                    | (29,638)        | (6,516)         | 5,405           | (752)           | (494)           |
| <b>Operating Cashflow</b>             | <b>(4,723)</b>  | <b>8,177</b>    | <b>13,124</b>   | <b>15,814</b>   | <b>21,908</b>   |
| Capital expenditure                   | (7,315)         | (13,889)        | (5,000)         | (5,000)         | (5,000)         |
| <b>Free Cash Flow</b>                 | <b>(12,038)</b> | <b>(5,712)</b>  | <b>8,124</b>    | <b>10,814</b>   | <b>16,908</b>   |
| Investments                           | 30,028          | (831)           | 0               | (10,000)        | (12,000)        |
| Other Investing Cash Flow             | 401             | (7,054)         | 0               | 0               | 0               |
| <b>Investing Cashflow</b>             | <b>24,214</b>   | <b>(20,541)</b> | <b>(3,672)</b>  | <b>(13,302)</b> | <b>(14,622)</b> |
| Equity Capital Raised                 | 86              | 0               | 0               | 0               | 0               |
| Loans Taken / (Repaid)                | (6,621)         | 27,181          | (7,428)         | 85              | (691)           |
| Dividend paid (incl tax)              | (8,598)         | (1,769)         | 0               | (4,852)         | (7,612)         |
| Other Financing Cash Flow             | (16)            | (12,464)        | (1,769)         | 4,852           | 2,760           |
| <b>Financing Cashflow</b>             | <b>(16,177)</b> | <b>11,853</b>   | <b>(10,836)</b> | <b>(1,351)</b>  | <b>(6,963)</b>  |
| <b>Net chg in cash</b>                | <b>3,314</b>    | <b>(511)</b>    | <b>(1,384)</b>  | <b>1,161</b>    | <b>324</b>      |
| Opening cash position                 | 10,422          | 13,736          | 13,225          | 11,841          | 13,002          |
| <b>Closing cash position</b>          | <b>13,736</b>   | <b>13,225</b>   | <b>11,841</b>   | <b>13,002</b>   | <b>13,326</b>   |

Source: Company, Emkay Research

**Key Ratios**

| <b>Profitability (%)</b> | <b>FY19</b> | <b>FY20</b> | <b>FY21E</b> | <b>FY22E</b> | <b>FY23E</b> |
|--------------------------|-------------|-------------|--------------|--------------|--------------|
| EBITDA Margin            | 10.8        | 6.7         | 5.5          | 9.1          | 10.0         |
| EBIT Margin              | 8.7         | 2.9         | 0.3          | 5.7          | 7.1          |
| Effective Tax Rate       | 20.7        | 28.0        | 24.0         | 24.0         | 24.0         |
| Net Margin               | 7.0         | 2.1         | 0.1          | 4.4          | 5.7          |
| ROCE                     | 29.2        | 6.2         | 1.7          | 14.1         | 20.1         |
| ROE                      | 26.0        | 4.8         | 0.1          | 13.4         | 19.2         |
| RoIC                     | 80.5        | 9.3         | 0.7          | 22.6         | 38.2         |

| <b>Per Share Data (Rs)</b> | <b>FY19</b> | <b>FY20</b> | <b>FY21E</b> | <b>FY22E</b> | <b>FY23E</b> |
|----------------------------|-------------|-------------|--------------|--------------|--------------|
| EPS                        | 6.9         | 1.3         | 0.0          | 3.4          | 5.4          |
| CEPS                       | 9.0         | 3.6         | 2.5          | 6.0          | 8.1          |
| BVPS                       | 28.4        | 24.7        | 24.8         | 26.5         | 29.3         |
| DPS                        | 3.1         | 0.5         | 0.0          | 1.4          | 2.2          |

| <b>Valuations (x)</b> | <b>FY19</b> | <b>FY20</b> | <b>FY21E</b> | <b>FY22E</b> | <b>FY23E</b> |
|-----------------------|-------------|-------------|--------------|--------------|--------------|
| PER                   | 7.5         | 41.0        | NM           | 15.2         | 9.7          |
| P/CEPS                | 5.8         | 14.7        | 21.0         | 8.7          | 6.4          |
| P/BV                  | 1.8         | 2.1         | 2.1          | 2.0          | 1.8          |
| EV / Sales            | 0.5         | 1.0         | 1.2          | 0.7          | 0.5          |
| EV / EBITDA           | 4.6         | 14.7        | 22.0         | 7.7          | 5.3          |
| Dividend Yield (%)    | 6.0         | 1.0         | 0.0          | 2.6          | 4.1          |

| <b>Gearing Ratio (x)</b> | <b>FY19</b> | <b>FY20</b> | <b>FY21E</b> | <b>FY22E</b> | <b>FY23E</b> |
|--------------------------|-------------|-------------|--------------|--------------|--------------|
| Net Debt/ Equity         | (0.1)       | 0.3         | 0.2          | 0.1          | (0.1)        |
| Net Debt/EBIDTA          | (0.2)       | 1.7         | 1.9          | 0.3          | (0.2)        |
| Working Cap Cycle (days) | (13.4)      | (3.2)       | (13.9)       | (13.9)       | (13.9)       |

| <b>Growth (%)</b> | <b>FY19</b> | <b>FY20</b> | <b>FY21E</b> | <b>FY22E</b> | <b>FY23E</b> |
|-------------------|-------------|-------------|--------------|--------------|--------------|
| Revenue           | 10.2        | (39.9)      | (20.2)       | 63.0         | 22.7         |
| EBITDA            | 5.8         | (62.6)      | (35.2)       | 170.1        | 35.1         |
| EBIT              | 6.3         | (80.0)      | (91.7)       | NM           | 52.7         |
| PAT               | 15.5        | (87.9)      | (96.5)       | NM           | 56.9         |

| <b>Quarterly (Rs mn)</b> | <b>Q4FY19</b> | <b>Q1FY20</b> | <b>Q2FY20</b> | <b>Q3FY20</b> | <b>Q4FY20</b> |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue                  | 88,459        | 56,839        | 39,295        | 40,157        | 38,385        |
| EBITDA                   | 9,854         | 5,370         | 2,286         | 2,252         | 1,830         |
| <b>EBITDA Margin (%)</b> | <b>11.1</b>   | <b>9.4</b>    | <b>5.8</b>    | <b>5.6</b>    | <b>4.8</b>    |
| PAT                      | 6,617         | 2,443         | 875           | 294           | 114           |
| <b>EPS (Rs)</b>          | <b>2.3</b>    | <b>0.8</b>    | <b>0.3</b>    | <b>0.1</b>    | <b>0.0</b>    |

Source: Company, Emkay Research

| <b>Shareholding Pattern (%)</b> | <b>Mar-19</b> | <b>Jun-19</b> | <b>Sep-19</b> | <b>Dec-19</b> | <b>Mar-20</b> |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Promoters                       | 51.1          | 51.1          | 51.1          | 51.1          | 51.1          |
| FII                             | 19.1          | 18.8          | 17.1          | 19.2          | 16.8          |
| DII                             | 10.0          | 10.9          | 13.0          | 12.3          | 14.9          |
| Public and Others               | 19.8          | 19.2          | 18.9          | 17.3          | 17.2          |

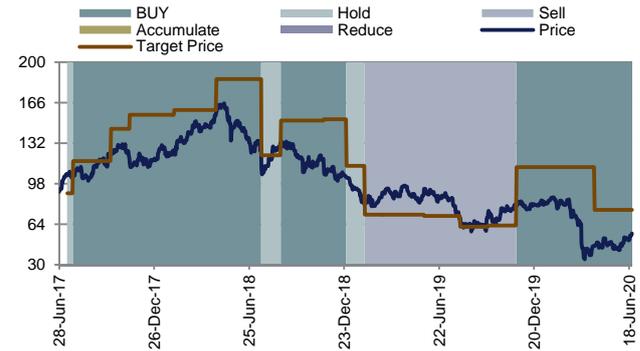
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

| Date      | Closing Price | TP  | Period (months) | Rating | Analyst          |
|-----------|---------------|-----|-----------------|--------|------------------|
| 4-May-20  | 49            | 76  | 12m             | Buy    | Raghunandhan NL  |
| 13-Apr-20 | 46            | 76  | 12m             | Buy    | Raghunandhan NL  |
| 27-Feb-20 | 76            | 112 | 12m             | Buy    | Raghunandhan NL  |
| 17-Feb-20 | 82            | 112 | 12m             | Buy    | Raghunandhan NL  |
| 30-Jan-20 | 83            | 112 | 12m             | Buy    | Raghunandhan NL  |
| 27-Dec-19 | 80            | 112 | 12m             | Buy    | Raghunandhan NL  |
| 18-Dec-19 | 80            | 112 | 12m             | Buy    | Raghunandhan NL  |
| 27-Nov-19 | 82            | 112 | 12m             | Buy    | Raghunandhan NL  |
| 16-Nov-19 | 80            | 112 | 12m             | Buy    | Raghunandhan NL  |
| 1-Nov-19  | 76            | 63  | 12m             | Sell   | Raghunandhan NL  |
| 30-Oct-19 | 78            | 63  | 12m             | Sell   | Raghunandhan NL  |
| 1-Oct-19  | 66            | 63  | 12m             | Sell   | Raghunandhan NL  |
| 26-Sep-19 | 74            | 63  | 12m             | Sell   | Raghunandhan NL  |
| 23-Sep-19 | 75            | 63  | 12m             | Sell   | Raghunandhan NL  |
| 3-Sep-19  | 65            | 62  | 12m             | Sell   | Raghunandhan NL  |
| 28-Aug-19 | 67            | 62  | 12m             | Sell   | Raghunandhan NL  |
| 1-Aug-19  | 69            | 62  | 12m             | Sell   | Raghunandhan NL  |
| 11-Jul-19 | 85            | 71  | 12m             | Sell   | Raghunandhan NL  |
| 1-Jul-19  | 87            | 71  | 12m             | Sell   | Raghunandhan NL  |
| 27-Jun-19 | 88            | 71  | 12m             | Sell   | Raghunandhan NL  |
| 14-Jun-19 | 88            | 71  | 12m             | Sell   | Raghunandhan NL  |
| 3-Jun-19  | 92            | 71  | 12m             | Sell   | Raghunandhan NL  |
| 29-May-19 | 90            | 71  | 12m             | Sell   | Raghunandhan NL  |
| 24-May-19 | 94            | 71  | 12m             | Sell   | Raghunandhan NL  |
| 2-May-19  | 90            | 72  | 12m             | Sell   | Raghunandhan NL  |
| 28-Mar-19 | 89            | 72  | 12m             | Sell   | Raghunandhan NL  |
| 18-Mar-19 | 92            | 72  | 12m             | Sell   | Raghunandhan NL  |
| 15-Feb-19 | 80            | 72  | 12m             | Sell   | Raghunandhan NL  |
| 4-Feb-19  | 82            | 72  | 12m             | Sell   | Raghunandhan NL  |
| 31-Jan-19 | 81            | 72  | 12m             | Sell   | Raghunandhan NL  |
| 27-Dec-18 | 103           | 113 | 12m             | Hold   | Raghunandhan NL  |
| 14-Nov-18 | 107           | 152 | 12m             | Buy    | Raghunandhan NL  |
| 24-Aug-18 | 129           | 151 | 12m             | Buy    | Raghunandhan NL  |
| 18-Jul-18 | 111           | 122 | 12m             | Hold   | Raghunandhan NL  |
| 6-Jul-18  | 132           | 186 | 12m             | Buy    | Raghunandhan NL  |
| 22-May-18 | 141           | 186 | 12m             | Buy    | Raghunandhan NL  |
| 23-Apr-18 | 159           | 186 | 12m             | Buy    | Raghunandhan NL  |
| 2-Feb-18  | 122           | 160 | 12m             | Buy    | Raghunandhan NL  |
| 9-Nov-17  | 115           | 156 | 12m             | Buy    | Raghunandhan NL  |
| 4-Oct-17  | 123           | 144 | 12m             | Buy    | Raghunandhan NL  |
| 4-Aug-17  | 109           | 117 | 12m             | Buy    | Raghunandhan NL  |
| 24-Jul-17 | 104           | 117 | 12m             | Buy    | Raghunandhan NL  |
| 13-Jul-17 | 106           | 90  | 12m             | Hold   | Bibhishan Jagtap |

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – Automobiles & Auto Ancillaries



### Analyst: Raghunandhan NI

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#### Sector

Automobiles and Ancillaries

#### Analyst bio

Raghu holds an MBA and comes with total 11 years of research experience. His team currently covers 14 stocks in the Indian Automobiles and Ancillaries space.

### EAP sector portfolio

| Company Name                       | BSE200 Weight | EAP Weight  | OW/UW (%) | OW/UW (bps) | EAP Weight (Normalised) |
|------------------------------------|---------------|-------------|-----------|-------------|-------------------------|
| <b>Auto &amp; Auto Ancillaries</b> | <b>5.25</b>   | <b>5.25</b> | <b>0%</b> | <b>0</b>    | <b>100.00</b>           |
| Amara Raja Batteries               | 0.09          | 0.09        | 0%        | 0           | 1.79                    |
| Apollo Tyres                       | 0.07          | 0.00        | -100%     | -7          | 0.00                    |
| Ashok Leyland                      | 0.14          | 0.27        | 99%       | 14          | 5.23                    |
| Atul Auto                          | 0.00          | 0.11        | NA        | 11          | 2.10                    |
| Bajaj Auto                         | 0.66          | 0.35        | -48%      | -31         | 6.59                    |
| Bharat Forge                       | 0.16          | 0.28        | 76%       | 12          | 5.40                    |
| Eicher Motors                      | 0.45          | 0.57        | 27%       | 12          | 10.88                   |
| Escorts                            | 0.00          | 0.13        | NA        | 13          | 2.42                    |
| Exide Industries                   | 0.12          | 0.12        | 0%        | 0           | 2.35                    |
| Hero Motocorp                      | 0.60          | 0.31        | -47%      | -28         | 5.99                    |
| Mahindra & Mahindra                | 0.87          | 0.87        | 0%        | 0           | 16.51                   |
| Maruti Suzuki India                | 1.37          | 1.48        | 8%        | 11          | 28.21                   |
| Motherson Sumi                     | 0.21          | 0.21        | 0%        | 0           | 3.92                    |
| Tata Motors                        | 0.33          | 0.33        | -1%       | 0           | 6.33                    |
| Tata Motors DVR                    | 0.04          | 0.04        | 0%        | 0           | 0.73                    |
| TVS Motor                          | 0.14          | 0.08        | -40%      | -5          | 1.58                    |
| <b>Cash</b>                        | <b>0.00</b>   | <b>0.00</b> | <b>NA</b> | <b>0</b>    | <b>0.00</b>             |

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

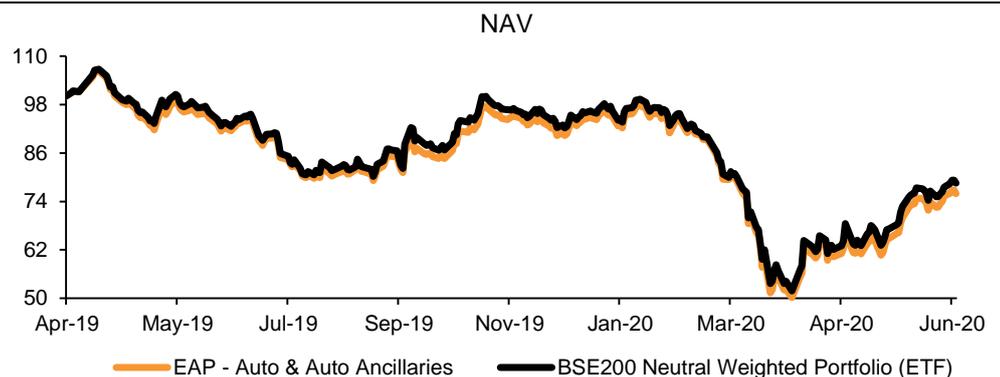
### Sector portfolio NAV

|   | Base     |           |           |           |           | Latest    |
|---|----------|-----------|-----------|-----------|-----------|-----------|
|   | 1-Apr-19 | 24-Sep-19 | 27-Dec-19 | 26-Mar-20 | 27-May-20 | 25-Jun-20 |
| EAP - Auto & Auto Ancillaries           | 100.0    | 89.3      | 95.2      | 56.1      | 66.3      | 75.9      |
| BSE200 Neutral Weighted Portfolio (ETF) | 100.0    | 92.1      | 96.8      | 58.3      | 68.8      | 78.6      |

\*Performance measurement base date 1<sup>st</sup> April 2019

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

## Emkay Rating Distribution

| Ratings | Expected Return within the next 12-18 months. |
|---------|---|
| BUY     | Over 15%                                      |
| HOLD    | Between -5% to 15%                            |
| SELL    | Below -5%                                     |

Completed Date: 27 Jun 2020 02:22:28 (SGT)

Dissemination Date: 27 Jun 2020 02:23:28 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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