

Ashok Leyland Ltd.

A quarter to forget; LCV range to outperform industry growth

Ashok Leyland's (AL) 1QFY21 results were the reflection of the toll on the economy due to pandemic, however, we believe things have bottomed out in the industry with almost every macro indicator flashing signs of improvement. LCVs are already seeing a healthy recovery. Ashok Leyland's much awaited upcoming LCV range can support the company to outperform the industry growth and will further de-risk its portfolio. On the margin front, the company has adopted constructive cost reduction strategies, which is helping in lowering the breakeven levels further and will show superior margins during the recovery period. We believe the current phase is only a pause and one quarter is nothing but a 'dot' in the history of long-term growth. However, in the recent past, the stock has run-up & we believe most of the near term positivities are priced in the stock and hence, it is trading at a fair value. We recommend 'Hold' with a target price of Rs 63 per share (9.0x FY22e EBITDA + Rs 14 per share value in Hinduja Leyland Finance).

Visible signs of recovery

- ✓ We believe the industry has already hit the bottom and here on we can only see recovery as few of the macro parameters and past months sales numbers are flashing positive indications.
- ✓ LCVs are already witnessing healthy recovery with a positive review for the month of August. However, the speed of recovery depends upon the economic activities.
- ✓ Ashok Leyland's much awaited LCV codenamed 'Phoenix' is going to launch in the next two months and believe it would support AL to outperform the industry growth.
- ✓ The Phoenix launch could be a game changer for the company as seen in the past with the DOST model launch. We have built-in QoQ improvement in volumes from Q2FY21 onwards.

Margins will be superior compared to past cycles

- ✓ Ashok Leyland adopted a disruptive cost reduction program, looking at each & every line item, working on digital/automation technologies to reduce the breakeven levels.
- ✓ We believe during the recovery period; Ashok Leyland would be able to clock better margins than observed in the previous upcycles.
- ✓ During downcycle, generally observed that the margin contracts by about 400bps. While during the peak cycle stage, the company posts EBITDA Margin at double digit level.
- ✓ We believe the company would possibly post a margin of 5.5% in FY21e and has reached the lowest level at the bottom of the cycle. From here on, the recovery period will help them to attain good level of margins. Expect Margin to improve by 300bps YoY to 8.5% in FY22e.

Other key highlights

- ✓ 1) Hinduja Leyland Finance (HLF) is seeing a good traction in collections with a sound liquidity level. 2) AL will invest Rs 1.5-1.7bn in FY21e in other subsidiaries. 2) Major capex in BS6 and Modular platform investments are over. Hence, expect to incur Rs 5-6bn new capex in FY21e.

Fairly valued

- ✓ The stock's recent run-up has priced in most of the near term positivities and believe it is trading at its fair value. We have assigned 9.0x FY22e EBITDA + Rs 14 per share value in the HLF (1.5x FY22e BV) to arrive at a target price of Rs 63 per share.

Y/E Mar (Rs mn)	Q1 FY21	Q1 FY20	YoY (%)	Q4 FY20	QoQ (%)	Q1 FY21e	Var. (%)
Volumes (No)	3,814	39,608	(90.4)	25,490	(85.0)	3,814	-
Realisation (Rs)	17,06,529	14,35,028	18.9	15,05,869	13.3	16,45,870	3.7
Total Income	6,509	56,839	(88.5)	38,385	(83.0)	6,277	3.7
Op. cost	9,841	51,469	(80.9)	36,555	(73.1)	-	-
EBITDA	(3,332)	5,370	NA	1,830	NA	-3,405	NA
EBITDA margin (%)	(51.2)	9.4	(6,065) bps	4.8	(5,597) bps	(54.2)	304 bps
Other income	256	211	21.5	344	(25.6)	308	(16.9)
PBT	(5,481)	3,809	NA	(34)	NA	(5,247)	NA
Taxes paid	(1,610)	1,305	NA	(148)	NA	-	-
Effective tax rate (%)	29.4	34.3	(490) bps	438.6	(40,920) bps	-	-
Reported PAT	(3,888)	2,302	NA	-573	NA	-5,247	-
PAT margin (%)	(59.7)	4.1	(6,379) bps	(1.5)	(5,824) bps	(83.6)	2,385 bps

Source: Company, EISEC Research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY18	2,63,564	30.9	29,635	11.2	17,430	10.7	5.9	26.1	22.0	19.1	10.0
FY19	2,90,550	10.2	31,357	10.8	20,381	16.9	6.8	26.2	23.9	17.5	10.7
FY20	1,74,675	-39.9	11,737	6.7	3,954	-80.6	0.8	5.1	4.3	94.9	20.3
FY21e	1,33,152	-23.8	7,355	5.5	389	NA	0.1	0.5	1.3	NA	25.4
FY22e	1,90,660	43.2	16,183	8.5	6,758	NA	2.3	9.0	7.2	26.5	11.1

Source: Company, EISEC Research Estimates



East India Securities Ltd
Excellent | Investment | Solutions

Rating: **Hold** Upside: **3.8%**
Current Price: **61** Target Price: **63**

| Earlier recommendation

Previous Rating: Accumulate
Previous Target Price: 63

| Market data

Bloomberg:	AL IN
52-week H/L (Rs):	88/34
Mcap (Rs bn/USD bn):	179/2.4
Shares outstanding (mn):	2,936
Free float:	49.0%
Daily vol. (3M Avg):	45mn
Face Value (Rs):	1
Group:	Nifty 50
Source: Bloomberg, EISEC Research	

| Shareholding pattern (%)

	Jun-20	Mar-20	Dec-19	Sep-19
Promoter	51.5%	51.5%	51.1%	51.1%
FIIIs	15.6%	16.9%	19.2%	17.1%
DIIIs	14.0%	15.1%	12.4%	13.0%
Public/others	18.8%	16.5%	17.3%	18.9%

Source: BSE

| Price performance (%)*

	1M	3M	12M	36M
Nifty 50	6.4	28.1	3.4	15.4
AL	6.2	10.7	-12.4	-47.4

*as on 13th Aug 2020; Source: AceEquity, EISEC Research

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Q1FY21 Analysts Call Highlights

Quick overview – Q1FY21

- ✓ The results reflect toll on the economy hit by pandemic! Revenues were better than estimates, due to higher than expected increase in the realisation (+18.9% YoY to Rs 17.06L per unit).
- ✓ The realisation increase was on account of BS6 related price hike, lower discounts in the market and higher contribution of Non-vehicle portfolio like Spares, Defence, etc.
- ✓ Gross and EBITDA Margin came in better as there was a special focus on cost reduction & operational efficiencies.
- ✓ PBT was little lower than our est. due to slightly lower other income than est. and higher interest costs (+512% YoY) during the quarter.
- ✓ Tax credit saved the bottom line from falling further. Overall, the results were better than our estimates.

Demand outlook

- ✓ Q1FY21 was a one-off quarter, total volumes for the industry was insignificant, however, **things are going to look up from here on. LCVs have been recovering much faster** and the reviews for the month of August was good.
- ✓ As gradually mobility and industries open up, the demand for MHCVs will also improve. The pent-up demand will slowly come up. **The management expects demand to be much better in the 2nd half.**
- ✓ Ashok Leyland is **going to launch is much awaited LCV platform, codenamed 'Phoenix'** in about two months' time. The launch was delayed due to Covid. This will further expand its LCV portfolio, which has been seeing a faster demand recovery than MHCVs.
- ✓ **Investments in new products to continue** along with expanding its reach in domestic as well as International markets. The company is also focused on increasing its other businesses like spare parts, defence, etc.
- ✓ **The bus segment is badly impacted** as people avoid travelling in public transportation. Hence, the Government has not yet begun giving tenders for the buses. The management is in talks with the Government on this and expect orders to come in Q3/Q4.
- ✓ **Overall, the industry is at the bottom and this has been the lowest bottom seen in the last multi-years. Things will improve on a QoQ basis, but will have to wait and watch how slow or fast recovery happens from here on.**

Margin outlook

- ✓ Ashok Leyland is looking at each and every cost line items to reduce the expenses wherever possible. Automation/Digital is other areas of importance. **Once the recovery happens, the margins will be much better as compared to previous years.**
- ✓ Gross margins were much better during the quarter due to higher income from other high margin businesses like spares, etc. AL might see some pressure on margin in Q2FY21, however as demand increases, the margins will too improve.
- ✓ **On an average, the price increase in LCVs and MHCVs is in the range of 15-20%.**

Investments

- ✓ Hinduja Leyland Finance has been seeing a good traction in collections. The company is very sound with good liquidity available. For growth purpose,

HLF is looking at various other options. In case it doesn't get then AL might have to invest about Rs 2-3bn in FY21e.

- ✓ Ashok Leyland will invest Rs 1.5-1.7bn in FY21e in other subsidiaries.

Other highlights

- ✓ Ashok Leyland managed to ramp-up the production levels much quicker. At present due to low demand, the plants are running at 30-35% capacity utilisation. All plants are running and uncertainties about supply chain is fading away.
- ✓ The company is generating monthly revenues of about Rs 1bn from spare parts business.
- ✓ **Net debt** as of 30th June stands at Rs 4.2bn vs Rs 4.0bn in March 2020. The debt level increased to improve liquidity and payments to vendors. The management expects the debt level to come down by the end of the year.
- ✓ Major **capex** in BS6 and Modular platform investments are over. Expect to incur Rs 5-6bn in FY21e in new product development, maintenance capex, automation and other areas of expansion.

Quarterly financials, operating metrics and key performance indicators

Fig 1: Quarterly Financials

Y/E March (Rs mn)	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
Net Sales	76,211	63,252	88,459	56,839	39,295	40,157	38,385	6,509
Raw Materials	54,976	44,357	64,292	39,737	27,133	29,532	27,290	4,175
Employee Costs	5,251	5,001	5,735	5,004	4,321	2,728	4,097	3,542
Other Expenditure	7,693	7,408	8,578	6,728	5,555	5,645	5,168	2,125
EBITDA	8,290	6,487	9,854	5,370	2,286	2,252	1,830	-3,332
Depreciation	1,481	1,607	1,598	1,646	1,600	1,575	1,877	1,637
Interest	204	192	166	126	301	337	331	768
Other Income	276	208	91	211	455	223	344	256
Exceptional Items	-193	-61	-117	-201	-648	-22	-687	-17
PBT	6,881	4,897	8,182	3,809	839	563	-34	-5,481
Tax	1,431	1,027	1,535	1,305	-198	264	-148	-1,610
Tax rate (%)	21.4%	21.2%	19.0%	36.2%	-103.4%	48.8%	20.5%	29.3%
Reported PAT	5,258	3,808	6,530	2,302	389	278	-573	-3,888
YoY Growth (%)								
Revenue	25.4	(12.0)	0.7	(9.2)	(48.4)	(36.5)	(56.6)	(88.5)
EBITDA	35.5	(22.7)	(12.5)	(19.6)	(72.4)	(65.3)	(81.4)	(162.1)
PAT	(98.4)	(99.2)	(99.1)	(99.5)	(99.9)	(99.9)	(100.1)	(101.7)
QoQ Growth (%)								
Revenue	21.7	(17.0)	39.9	(35.7)	(30.9)	2.2	(4.4)	(83.0)
EBITDA	24.1	(21.8)	51.9	(45.5)	(57.4)	(1.5)	(18.7)	(282.1)
Adj. PAT	(98.8)	(99.3)	(98.3)	(99.6)	(99.8)	(99.3)	(102.1)	(93.2)
Margin (%)								
EBITDA	10.9	10.3	11.1	9.4	5.8	5.6	4.8	(51.2)
PAT	6.9	6.0	7.4	4.1	1.0	0.7	(1.5)	(59.7)

Source: Company, EISEC Research

Fig 2: Key Assumptions

Operating Details	FY17	FY18	FY19	FY20	FY21e	FY22e
MHCV - Domestic	1,02,313	1,16,534	1,31,936	71,408	39,334	54,262
MHCV - Exports	10,979	14,898	10,922	7,186	5,559	6,414
Total MHCV	1,13,292	1,31,432	1,42,858	78,594	44,893	60,676
YoY Growth (%)	3.2%	16.0%	8.7%	-45.0%	-42.9%	35.2%
LCV - Domestic	30,951	42,078	53,129	44,912	37,333	51,786
LCV - Exports	823	1,341	1,379	1,734	1,440	1,865
Total LCV	31,774	43,419	54,508	46,646	38,772	53,651
YoY Growth (%)	3.8%	36.6%	25.5%	-14.4%	-16.9%	38.4%
Total volumes (No)	1,45,066	1,74,851	1,97,366	1,25,240	83,665	1,14,327
YoY Growth (%)	3.4%	20.5%	12.9%	-36.5%	-33.2%	36.6%
Revenue from sale of products	2,13,201	2,62,516	2,81,727	1,68,045	1,29,100	1,85,233
YoY Growth (%)	6.6%	23.1%	7.3%	-40.4%	-23.2%	43.5%
Core Realisation (Rs)	14,69,681	15,01,367	14,27,433	13,41,787	15,43,055	16,20,208
YoY Growth (%)	3.2%	2.2%	-4.9%	-6.0%	15.0%	5.0%

Source: Company, EISEC Research Estimates

Financial Statements

Income Statement

YE March (Rs mn)	FY18	FY19	FY20	FY21e	FY22e
Revenues	2,63,564	2,90,550	1,74,675	1,33,152	1,90,660
% Growth	30.9	10.2	(39.9)	(23.8)	43.2
Raw Materials	1,84,311	2,06,796	1,23,692	92,956	1,33,104
% of sales	69.9	71.2	70.8	69.8	69.8
Personnel	18,378	20,988	16,151	15,828	17,119
% of sales	7.0	7.2	9.2	11.9	9.0
Manufacturing & Other Expenses	31,240	31,409	23,096	17,012	24,253
% of sales	11.9	10.8	13.2	12.8	12.7
EBITDA	29,635	31,357	11,737	7,355	16,183
EBITDA Margin (%)	11.2	10.8	6.7	5.5	8.5
Depreciation & Amortization	5,985	6,210	6,698	6,921	7,357
EBIT	23,650	25,147	5,039	434	8,826
Finance cost	1,473	704	1,095	985	837
PBT From Operations	22,178	24,443	3,944	(551)	7,988
Other Income	1,966	1,099	1,233	940	1,042
Exceptional income/(expense)	-285	-575	-1,558	0	0
PBT	23,858	24,968	3,619	389	9,030
Tax-Total	6,681	5,136	1,224	0	2,273
Tax Rate (%)	28.0	20.6	33.8	0.0	25.2
Reported PAT	17,177	19,832	2,395	389	6,758
PAT Margin	6.5	6.8	1.4	0.3	3.5

Source: Company, EISEC Research Estimates

Key Ratios

YE March	FY18	FY19	FY20	FY21e	FY22e
Growth Ratios (%)					
Net Sales	30.9	10.2	(39.9)	(23.8)	43.2
EBITDA	34.6	5.8	(62.6)	(37.3)	120.0
Adjusted Net Profit	10.7	16.9	(80.6)	(90.2)	1,635.9
Margin Ratio (%)					
EBITDA Margin	11.2	10.8	6.7	5.5	8.5
EBIT Margin	9.0	8.7	2.9	0.3	4.6
PBT margins	9.1	8.6	2.1	0.3	4.7
PAT Margin	6.5	6.8	1.4	0.3	3.5
Return Ratios					
ROE	26.1	26.2	5.1	0.5	9.0
ROCE	22.0	23.9	4.3	1.3	7.2
ROIC	32.1	34.6	4.2	0.5	8.1
Turnover Ratios (days)					
Gross Block Turnover (x)	4.1	4.0	2.1	1.4	1.8
Inventory	35	47	37	35	35
Debtors	13	31	25	22	22
Creditors	97	89	77	80	80
Cash Conversion Cycle	(49)	(10)	(16)	(23)	(23)
Solvency ratio (x)					
Debt-equity	0.2	0.1	0.5	0.4	0.3
Net Debt-Equity	(0.5)	(0.1)	0.1	0.1	0.0
Gross Debt/EBITDA	0.4	0.2	2.8	4.0	1.6
Current ratio	1.0	1.0	1.1	1.1	1.1
Interest coverage ratio	16.1	35.7	4.6	0.4	10.5
Dividend					
DPS (Rs.)	1.9	2.9	0.5	-	0.7
Dividend Yield (%)	3.1	4.8	0.8	-	1.1
Dividend Payout (%)	32.0	43.3	61.0	-	30.0
Per share (Rs.)					
Basic EPS (reported)	5.9	6.8	0.8	0.1	2.3
CEPS	7.9	8.9	3.1	2.5	4.8
BV	25	28	25	25	26
Valuation					
P/E	19	17	95	460	26
P/BV	2.5	2.1	2.5	2.5	2.3
EV/EBITDA	10.0	10.7	20.3	25.4	11.1
EV/Sales	1.1	1.2	1.4	1.4	0.9

Source: Company, EISEC Research Estimates

Balance Sheet

YE March (Rs mn)	FY18	FY19	FY20	FY21e	FY22e
Sources of funds					
Capital	2,927	2,936	2,936	2,936	2,936
Reserves & Surplus	69,528	80,389	69,704	70,094	74,824
Shareholders' Funds	72,455	83,324	72,640	73,029	77,759
Total Loan Funds	12,263	6,324	32,814	29,532	25,102
Deferred tax liabilities	2,986	2,497	2,648	0	4,918
Other non-current liabilities	4,602	5,549	5,080	4,932	4,301
Total Liabilities	92,306	97,694	1,13,182	1,07,493	1,12,081
Application of funds					
Gross Block	69,296	75,936	92,134	1,01,501	1,10,869
Accumulated Dep.	13,817	19,791	28,163	35,084	42,441
Net Block	55,480	56,145	63,971	66,417	68,428
Capital WIP	4,226	6,576	5,941	4,794	4,326
Net Assets	59,706	62,721	69,913	71,211	72,753
Investments	24,515	26,365	27,196	20,731	20,731
Other non current assets	8,508	11,294	12,552	10,893	13,471
Inventories	17,583	26,847	12,380	8,914	12,763
Sundry Debtors	9,448	25,055	11,798	8,026	11,492
Cash & Bank Balances	45,877	18,387	22,256	22,130	25,067
Loans and Advances	241	225	230	144	317
Other current Assets	7,486	11,350	7,570	5,791	8,255
Total Current Assets	80,635	81,863	54,235	45,004	57,895
Sundry Creditors	48,879	50,189	26,239	20,374	29,174
Other Current Liabilities	24,094	26,333	18,227	16,448	18,858
Provisions	8,085	8,028	6,249	3,524	4,738
Total Current Liabilities	81,058	84,550	50,714	40,346	52,769
Net Current Assets	(423)	(2,687)	3,521	4,659	5,125
Total Assets	92,306	97,694	1,13,182	1,07,493	1,12,081

Source: Company, EISEC Research Estimates

Cash Flow

YE March (Rs mn)	FY18	FY19	FY20	FY21e	FY22e
Operating profit before WC changes	31,013	31,618	12,108	7,527	16,429
Net chg in working capital	29,689	(30,538)	(1,756)	(528)	816
Income tax paid (net)	(4,268)	(5,603)	(941)	(0)	(2,273)
Cash flow from operating activities (a)	56,434	(3,624)	9,411	6,998	14,972
Capital expenditure	(5,344)	(7,315)	(12,923)	(8,162)	(8,803)
Free Cash Flow	51,089	(10,938)	(3,512)	(1,163)	6,169
Cash flow from investing activities (b)	(34,292)	23,115	(21,775)	(960)	(8,052)
Cash flow from financing activities (c)	(20,909)	(16,162)	11,490	(4,033)	(6,971)
Net chg in cash (a+b+c)	1,232	3,330	(874)	2,006	(51)

Source: Company, EISEC Research Estimates

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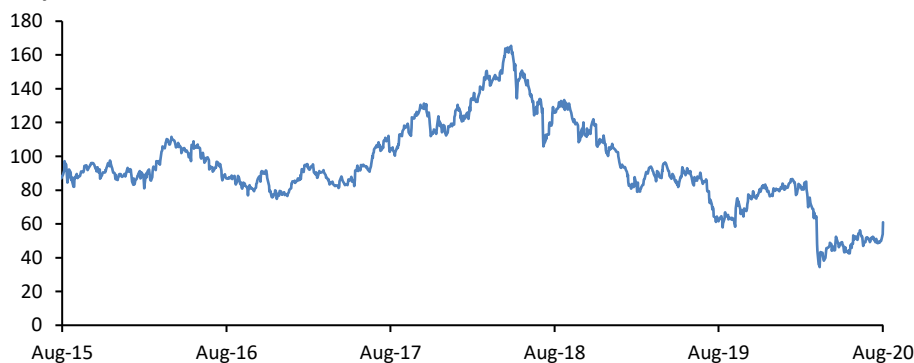
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Ashok Leyland Ltd.



Source: ACEEquity, EISEC Research

Analyst holding in stock: **NO**

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