

Ashok Leyland Limited



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“Near term weakness; long term outlook intact”

CMP INR 61	Target INR 72	Potential Upside 18%	Market Cap (INR Mn) 158371	Recommendation BUY	Sector Automobile
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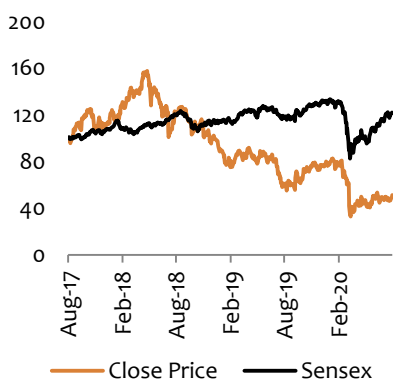
Key Highlights

- Ashok Leyland (AL) Q1FY21 revenue down by 88.5% YoY and (-83% QoQ) to INR 650.9 Cr compare to our estimates of INR 592.30 Cr.
- M&HCV total volumes were down by 96% YoY to 1021 units, while total volumes of LCV segment declined of 78% to 2793 units.
- Total Volumes (M&HCV and LCV) were down by 90% to 3814 units.
- The company reported absolute EBITDA loss of INR 333.20 Cr in Q1FY21 compare to EBITDA of 537 Cr in corresponding quarter last year. Decline in EBITDA was on account of higher fixed cost due to lockdown and lower operating leverage.
- For Q1FY21, AL reported Net loss of INR 389 Cr as compare to net profit of 230.20 Cr in corresponding quarter last year. Decline in profitability was due to poor operating performance and sharp decline in overall revenue.
- EPS for the quarter stood at INR (1.32) as against INR 0.78 in Q1FY20.

MARKET DATA

Shares Outs (Mn)	2935
Equity Cap (INR Mn)	2935.53
Mkt Cap (INR Mn)	158371
52 Wk H/L (INR)	87/33
Volume Avg (3m K)	44851
Face Value (INR)	1
Bloomberg Code	AL IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	34842.10
NIFTY	10288.90

SHARE HOLDING PATTERN (%)

Particulars	20-Jun	20-Mar	19-Dec
Promoters	51.12	51.12	51.12
FIIIs	15.51	16.8	19.24
DIIIs	13.9	14.86	12.3
Non- institutions	19.48	17.23	17.34
Total	100	100	100

Key Financials

Particulars (INR Cr)	FY19	FY20	FY21E	FY22E
Net Sales	29055	17467	14529	23828
EBITDA	3135.02	1173.65	879	2450
APAT	1982.88	236.88	60	1322
EPS	6.77	0.81	0.20	4.51
EBITDA margin %	10.79	6.72	6.05%	10.28%
Net Profit Margin %	6.82%	1.36%	0.41%	5.55%

Source: Company, KRChoksey Research

Expect the recovery in the overall business to happen by Q4FY21

Ashok Leyland reported Q1FY21 standalone EBITDA loss of INR 333.20 Cr compare to EBITDA of INR 537 Cr in Q1FY20 and EBITDA margin came in at negative 51.2% compare to positive EBITDA margin of 9.4% in corresponding quarter last year. Decline in EBITDA was account of higher fixed cost due lockdown and lower operating leverage. Gross profit margin came in at 36%, business mix during the quarter was more towards the non-commercial vehicle. Revenue for Q1FY21 revenue declined by 88.5% YoY and (83% QoQ) to INR 650.9 Cr led by I) COVID-19 related lockdown II) 96% YoY decline in total M&HCV volumes to 1021 units III) 78% decline in LCV volumes to 2793 units IV) and decline in exports. AL reported Net loss of INR 389 Cr compare to profit of INR 230.20 Cr in Q1FY20. Management stated that Phoenix platform will be launched in next in 60-90 days; this will further strengthen its position in LCV segment and also enhances the product offering. We expect operational performance to improve on back of cost control measures, better product mix and operating leverage benefit.

AL launched its modular platform AVTR

During the quarter company launched its modular platform AVTR, range of modular vehicles in the Heavy commercial vehicle segment as also differentiated intermediate commercial vehicle range of vehicle. This is complete BSVI “Mid-Nox” technology of the AL which provides superior “Fluid Efficiency”. This platform gives flexibility to choose vehicles as per the requirements. This platform will improve operating efficiency, supply chain, reduces the complexity in manufacturing, better inventory management, increases product offerings and drives higher realizations. Company have rolled out over 2000 of these vehicles till date this year and 10000 BSVI vehicles including LCV.

16%

Revenue CAGR between FY 20
and FY 22E

10.28%

EBITDA Margin
FY22E

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Concall Highlights:

1) Total industry volumes were insignificant during the quarter, there was 94% decline TIV 2) Ashok Leyland Q1FY21 revenue down by 88.5% YoY and (-83% QoQ) to INR 650.9 Cr and EBITDA loss of INR 333.2 Cr. 3) Company introduced modular vehicles platform AVTR 4) Company will be launching its Phoenix in next 60-90 days, this is very differentiated product. 5) Working on every cost line, cost item and saved approx INR 550 Cr in last year. Going forward focus is on operational efficiency, productivity and how to optimize the digital platform. 6) Platform AVTR improves the supply chain and reduces the complexity in manufacturing which drives the better inventory requirement and increases offering. 7) Export was challenging during the quarter as market are yet to open up, with complete range of products company is ready address the demand in international market. 8) LCV demand is picking up 9) Net debt currently stood at approx 4247 Cr, increase in debt is on account of payment to vendors and other suppliers. 10) Ramp up is happening on MoM bases and expect suppliers end to be the same and some of the supply chain constraints and uncertainty is getting normalized 11) All plants are working with ensuring social distancing norms 12) During the quarter revenue mix was more towards non cv. 12) Maximum traction is happening in ICV, tippers 13) Major capex is almost over, expect 550-600 Cr of capex for FY21.

Valuations & Outlook

We believe, AL is well placed to capitalize on the demand with its business strategy. Currently AL is focused on I) increasing business share in domestic market and continues investment, getting complete eco system together in place II) Phoenix platform will be launched in next in 60-90 days; this will further strengthen its position in LCV segment and also enhances the product offering III) Focus on export business which is currently at lower base IV) Improving operating efficiency and cost control measures V) and growing in all other business (non cv). During the quarter company introduced its innovative technology in industry which is unique Modular business platform “AVTR”, we expect better product mix for AL going forward. We expect improvement in EBITDA margin and Return ratios on back of better operating leverage, operational efficiency and better product mix. Given the current scenarios, we have revised our estimates and target price accordingly. Since our last recommendation (Buy at a target price of INR 63) on 26th June, 2020, the share of Ashok Leyland advanced ~17%. We have valued the company at a P/E multiple of 16x on FY22 EPS of INR 4.51 to arrive at a target price of 72 resulting into a upside 18% from CMP of INR 61. We maintain an “BUY” rating on the stock.

Quarterly performance

Y/E Mar (INR Cr)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Income from operations	645.2	5611.8	-88.5%	3814.2	-83.1%
Other operating income	5.7	72.1	-92.1%	24.3	-76.7%
Total revenue	650.9	5683.9	-88.5%	3838.5	-83.0%
Cost of material consumed	325.0	4496.3	-92.8%	1955.3	-83.4%
Purchase of stock in trade	74.4	191.2	-61.1%	200.3	-62.8%
(Inc.) / Dec in Stocks	18.0	-713.8	-102.5%	573.4	-96.9%
Employee cost	354.2	500.4	-29.2%	409.7	-13.6%
Other Expenses	212.5	672.8	-68.4%	516.8	-58.9%
Total Operating expenditure	984.1	5146.9	-80.9%	3655.5	-73.1%
EBITDA	-333.2	537	-162.1%	183.0	-282.1%
Depreciation	163.7	164.6	-0.6%	187.7	-12.8%
Operating profit	-496.9	372.3	-233.5%	-4.7	10450.1%
Other income	25.6	21.1	21.6%	34.4	-25.6%
EBIT	-471.3	393.4	-219.8%	29.7	-1685.2%
Interest	76.8	12.6	512.3%	33.1	132.1%
Exceptional items	1.67	20.1	-91.7%	68.73	-102.4%
EBT	-549.8	360	-252.4%	-72.1	662.6%
Tax	-161.0	1,30	-223.4%	-14.8	989.4%
Net income	-388.8	230.2	-268.9%	-57.3	578.3%

Source: Company, KRChoksey Research

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Income Statement

Particulars (INR Cr)	FY19	FY20	FY21E	FY22E
Total Revenue	29055	17467	14529	23828
Total Operating Expenditure	25920	16294	13650	21379
EBIDTA	29055	17467	879	2450
Less: Depreciation & Amortization	621	670	696	748
EBIT	2514	504	183	1702
Interest Paid	70	109	207	178
Other Income	110	123	103	193
Profit Before tax	2554	518	80	1716
Tax	513	122	20	395
Adj. Net Profit	1983	237	60	1322

Source: Company, KRChoksey Research

Balance Sheet

Particulars (INR Cr)	FY19	FY20	FY21E	FY22E
Equity & Liabilities				
Equity Capital	294	294	294	294
Reserves & Surplus	8039	6970	6883	8190
Equity	8332	7264	7177	8483
Total Loans	398	3092	3442	3242
Capital Employed	9534	11101	11364	12470
Assets				
Net Block	4805	5036	4941	4793
Capital WIP	275	421	421	421
Investments	2637	2720	2615	2621
Current Assets				
Inventories	2684	1238	1816	3404
Sundry Debtors	2506	1179	855	1589
Cash and Bank Balance	1373	1322	1317	1500
Total Current Assets	8185	5423	4714	7684
Current Liabilities & Provisions				
Sundry Creditors	5018	2624	2318	3412
Provisions	803	625	291	477
Total Current Liabilities & Provisions	6228	3249	2609	3889
Capital Applied	9534	11101	11364	12470

Source: Company, KRChoksey Research

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Cashflow Statement

Particulars (INR Cr)	FY19	FY20	FY21E	FY22E
Net Cash Generated From Operations	-362	942	537	1182
Net Cash Flow from/(used in) Investing Activities	2311	-2177	-496	-606
Net Cash Flow from Financing Activities	-1616	1149	-30	-393
Net Inc./Dec in cash equivalents	333	-87	38	183
Closing Balance Cash and Cash Equivalents	1365	1279	1317	1500

Source: Company, KRChoksey Research

Ratio Analysis

Particulars (INR Cr)	FY19	FY20	FY21E	FY22E
EBIDTA Margin	10.79%	6.72%	6.05%	10.28%
PAT Margin	6.82%	1.36%	0.41%	5.55%
ROCE%	20.80%	2.13%	0.53%	10.60%
ROE%	25.46%	3.04%	0.83%	16.88%
EPS	6.77	0.81	0.20	4.51

Source: Company, KRChoksey Research

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Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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