

Ashok Leyland Ltd.

Sensex: 38528

CMP: INR 69

Target Price: INR 87



Automobile

Ashok Leyland (AL) Standalone revenue declined 89% YoY at INR 6.5 bn. Realizations improved ~19% YoY at INR 1.7 mn led by higher spare sales. Volume declined ~90% YoY/ 85% QoQ to 3.8k units. Share of MHCV sales declined to 27% (v/s 67.5% in Q1FY20). Better gross margins at 35.9% (+580 bps YoY) were offset by higher other cost at INR 2.1 bn resulting in higher EBITDA loss at INR 3.3 bn (INR +5.4 bn in Q1FY20). Adjusted loss for the quarter came higher at INR 3.9 bn (+INR 2.4 bn in Q1FY20) led by higher interest cost at INR 768 mn.

The domestic MHCV industry has been in a downturn since Nov'18, and FY20 has been the worst year in the past 20 years. M&HCV sub-segment, in particular, continued to remain subdued during last couple of months. With manufacturing and economic activity still muted in the 'unlock' phase, freight movement remains well below previous levels (fleet utilisation at ~50-55%) thereby impacting truck demand. Closure of schools and offices along with concerns around public transport are weighing on bus demand. We expect a revival by FY21 end, led by a low base, replacement demand and gradual pickup in economic activity.

Highlights

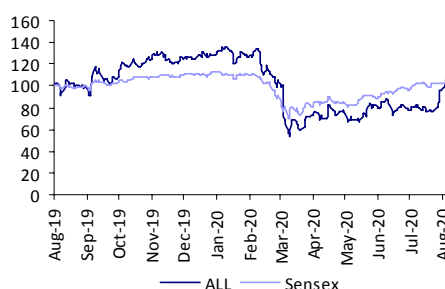
- Capacity utilization stood at 30-35% in recent months.
- Gross margins were positively impacted in Q1FY21 by higher share of spares revenues. Parts business revenues have been around the ~INR 1-1.1 bn mark in the past two to three months.
- Net debt as of June 2020 was at INR 42.5 bn.
- Modular programme AVTR is garnering positive response from customers, fleet owners and drivers particularly with regards to fuel efficiency. AL has manufactured 2,000 units till date.
- AVTR reduces inventory, parts, production complexities and SKUs while offering much greater configuration choices to customers. It would also aid in improving share of full body vehicles from present levels. The company expects enhanced operational efficiencies from AVTR to bolster profitability even more once volumes come back meaningfully.
- LCV demand is picking up, with production levels ramping up quicker compared to M&HCV segment. AL is witnessing most traction in ICV and tippers. Rebound in infra activity would hold key to upturn in truck demand. At the industry level, truck fleet utilisation is at ~50-55%
- New LCV Phoenix platform to be launched in the next three months.
- FY21E capex guidance was at ~INR 5-6 bn.

Valuation & Outlook

While the near-term demand outlook to remain uncertain, we believe these challenges are priced in. For FY22, with improved economic activities and a low base, we expect EBITDA CAGR of 33.6% and margins expanding by ~238 bps to 9.1%. AL is likely to gain share in domestic MHCVs from 32% in FY20 to 33-34% in FY22E, led by new products based on the modular platform. Similarly, market share is expected to increase from 9% in FY20 to 14-15% in FY22E, led by new product Phoenix LCV in 2.5-4.9T segments. 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. Over the long term, AL's focus on expanding and creating new profit/revenue pools is likely to de-risk the business, with the share of domestic trucks in revenue likely to shrink. Considering bottoming out in the domestic M&HCV sales volume, we value ASHLEY's standalone business at 11x FY22 EV/EBITDA and assign INR 6/sh for HLFL stake and recommend BUY on the stock with a target of INR 87.

Shareholding (%)	Jun-20
Promoters	51.1
FII's	15.64
DII's	14.01
Others	19.25

Relative Price Performance



Key Data	
BSE Code	500477
NSE Symbol	ASHOKLEY
Bloomberg Code	AL IN
Reuters Code	ASOK.BO
Shares Outstanding (mn)	2935
Face Value	1
Mcap (INR bn)	198
52 Week H/L	87.5/33.7
2W Avg. Vol, BSE	35089000
Beta	1.2

(INR mn)	FY19	FY20	FY21E	FY22E
Net Sales	290550	174675	133495	229991
Growth (%)	10.24%	-39.88%	-23.58%	72.28%
EBIDTAM (%)	10.64%	6.72%	3.42%	9.10%
Adj. PAT	19832	2395	-4721	6289
Growth (%)	15.45%	-87.92%	-297.10%	-233.21%
Adj. EPS (INR)	6.77	0.82	-1.61	2.15
P/E (x)	13.47	82.86	-42.04	31.56
EV/EBIDTA	8.07	14.47	33.76	9.81
EV/Sales	0.90	1.07	1.48	0.95
RoACE (%)	14.7%	3.7%	-1.9%	9.4%
RoAE (%)	25.46	3.07	-6.62	8.76

Quarterly Financials (Standalone)

INR Mn	1Q FY21	1Q FY20	4Q FY20	% Chg YoY	% Chg QoQ
Net Sales	6,509	56,839	38,385	-88.5	-83.0
Total Expenditure	9,841	51,469	36,555	-80.9	-73.1
RM Cost	4,175	39,737	27,290	-89.5	-84.7
Operating Expenses	2,125	6,728	5,168	-68.4	-58.9
Employee Cost	3,542	5,004	4,097	-29.2	-13.6
PBIDT (Excl OI)	-3,332	5,370	1,830	-162.1	-282.1
Other Income	256	211	344	21.6	-25.6
Operating Profit	-3,076	5,580	2,174	-155.1	-241.5
Interest	768	126	331	512.3	132.1
Exceptional Items	-17	-201	-687		
PBDT	-3,861	5,254	1,156	-173.5	-434.1
Depreciation	1,637	1,646	1,877	-0.6	-12.8
PBT	-5,498	3,607	-721	-252.4	662.6
Tax	-1,610	1,305	-148	-223.4	989.3
Profit After Tax	-3,888	2,302	-573	-268.9	578.3
Equity Capital	2,936	2,936	2,936		
Face Value (In Rs)	1.0	1.0	1.0		
Adj Calculated EPS (Unit.Curr.)	-1.3	0.8	-0.2		
% of Sales	1Q FY21	1Q FY20	4Q FY20	bps	bps
RM Cost	64.1	69.9	71.1	-577.4	-695.8
Employee Expenses	54.4	8.8	10.7	4,561.4	4,374.4
Other Expenses	32.6	11.8	13.5	2,080.7	1,917.9
EBITDAM Excl OI (%)	(51.2)	9.4	4.8	-6,064.6	-5,596.5
PATM (%)	-59.7	4.1	-1.5	-6,378.6	-5,824.2

Financials (Standalone)

Income Statement

Y/E (INR mn)	FY19	FY20	FY21E	FY22E
Net Sales	290550	174675	133495	229991
% Growth	10.2%	-39.9%	-23.6%	72.3%
RM Cost	209294	123692	96642	164292
% Growth	12.2%	-40.9%	-21.9%	70.0%
Employee Expenses	20988	16151	14536	16716
% Growth	14.2%	-23.0%	-10.0%	15.0%
Oth Expense	29346	23096	17748	28049
Total Op Exp	259627	162938	128926	209057
EBIDTA (excl OI)	30923	11737	4569	20934
% Growth	4.3%	-62.0%	-61.1%	358.2%
EBITDA Margin %	10.6%	6.7%	3.4%	9.1%
Dep./Amortization	6210	6698	8626	8850
Other Income	1508	1234	1295	1360
EBIT	26220	6272	-2762	13444
EBIT Margin %	9.02%	3.59%	-2.07%	5.85%
Interest Expense	704	1095	2437	2472
Exceptional Items	-549	-1558	-1636	-1718
EBT	24968	3619	-6836	9254
Tax Expenses	5136	1224	-2119	2869
PAT	19832	2395	-4717	6385
% Growth	15.5%	-87.9%	-296.9%	-235.4%
APAT Margin %	6.8%	1.4%	-3.5%	2.8%

Key Ratios

Y/E	FY19	FY20	FY21E	FY22E
Per Share Data (INR)				
Reported EPS	6.8	0.8	(1.6)	2.2
Adj. EPS	6.8	0.8	(1.6)	2.2
CEPS	8.9	3.1	1.3	5.2
DPS	3.1	0.4	-	1.0
BVPS	28.4	24.8	23.2	24.4
Return Ratios (%)				
RoACE	14.7%	3.7%	-1.8%	7.9%
RoANW	25.5%	3.1%	-6.7%	9.2%
RoIC	11.9%	2.9%	-0.4%	6.2%
Liquidity Ratios				
Net Debt/Equity	(0.1)	0.0	0.2	(0.1)
Interest Coverage Ratio	37.3	5.7	(1.1)	5.4
Current Ratio	0.9	0.7	0.7	0.9
Quick Ratio	0.4	0.4	0.3	0.5
Efficiency Ratios				
Asset Turnover Ratio	1.63	1.02	0.87	1.35
Inventory Days	37.7	27.7	42.4	45.1
Debtor Days	31.5	24.7	38.5	38.5
Creditor Days	70.6	89.5	97.5	103.6
Valuation Ratios				
P/E (x)	13.5	84.4	(42.9)	31.7
P/BV (x)	3.2	2.8	3.0	2.8
P/CEPS (x)	10.3	22.2	51.7	13.3
Dividend Yield (%)	3.4%	0.5%	0.0%	1.4%
EV/Net Sales (x)	0.9	1.1	1.5	0.9
EV/EBIDTA (x)	8.1	14.8	34.4	9.5

Balance Sheet

Y/E (INR mn)	FY19	FY20	FY21E	FY22E
Share Capital (Incl Warrants)	3007	2936	2936	2936
Reserves and Surplus	80318	69704	64988	68447
Total Networth	83324	72640	67923	71383
Long Term Debt	2984	12742	12742	12742
Short Term Debt	1000	796	686	1183
Total Debt	3984	13539	13429	13925
Net Deferred Tax Liability	2497	2648	2701	2755
Other Liabilities	5549	3228	2220	2784
Sources of Funds	95354	92055	86273	90846
Net Block	56145	69767	66141	62291
CWIP	2746	4210	4605	4802
Investments	26365	22672	22672	22672
Current Assets	81863	51593	43890	93125
Current Liabilities	86890	69193	59643	102755
Net Current Assets	-5026	-17600	-15753	-9631
Other Assets	15124	13006	8608	10711
Application of Funds	95354	92055	86273	90846

Cash Flow

Y/E	FY19	FY20	FY21E	FY22E
PBT	24,968	3,619	(6,836)	9,254
Add: Depreciation	6,210	6,698	8,626	8,850
Add: Interest paid	704	1,095	2,437	2,472
Change in Working Capital	1,780	11,859	(11,987)	14,193
Less: Taxes	(5,136)	(1,224)	2,119	(2,869)
Cash Flow from operations (a)	28,526	22,047	(5,640)	31,900
Change in Fixed Assets	(6,876)	(7,288)	(5,000)	(5,000)
Change in CWIP	(403)	(1,463)	(395)	(198)
Change in Investments	(1,850)	3,693	-	-
Others	(4,531)	1,719	4,447	(2,054)
Cash Flow from Investing (b)	(13,660)	(3,340)	(948)	(7,251)
Change in Equity	(608)	(71)	-	-
Debt Raised/(Repaid)	(2,142)	9,758	-	-
Dividend paid	(9,087)	(1,098)	-	(2,926)
Interest paid	(704)	(1,095)	(2,437)	(2,472)
Others	458	(2,170)	(955)	618
Cash Flow from Financing (c)	(12,083)	5,325	(3,392)	(4,780)
Net Change in Cash (a+b+c)	2,784	24,033	(9,980)	19,869
Opening Cash	10,422	13,736	13,225	3,196
Closing Cash	13,736	13,225	3,196	23,014

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