

CV cycle- Poised for a strong recovery

- AL reported weak numbers in Q2, impacted by the slowdown in the MHCV market and adverse product mix. EBITDA stood at Rs 804mn (-65% YoY) with contracted margin at 2.8% (-298bps YoY), led by negative operating leverage. However, the longer term outlook looks attractive with improving outlook for infrastructure, ecommerce and mining and traction in the hub-and-spoke model. Management expect CV numbers to see growth in 2HFY21.
- CV numbers are showing sequential improvement led by strong traction from the ICV (7.5-16 tonnes), Tractor haulage and Tipper segment. M&HCV volumes are also showing initial sign of recovery. Any recovery in the MHCV sales or reduction in debt remains key to stock performance in the near term.
- AL appears to be well placed to benefit from the imminent CV upcycle with adequate spare capacity, strong distribution network and recently beefed up product portfolio. It is also likely to benefit from its higher share in the >16T segment, as usually the mix shifts upward during up-cycles. However, rising diesel prices, lower fleet utilization (~60%) and weak financial condition of fleet operators continue to impact their buying appetite in the near term.
- The company has renewed its focus on LCV segment with a new model, 'Bada Dost' (GVW 3T/3.5T) in Sep-20, which will help to gain market share.
- The industry has already witnessed a sharp fall in the last two years and we anticipate a sharp recovery in FY22. We revise our FY22/23E earnings up by 1/32%. We expect margins to trend upwards with better volumes for high tonnage vehicle and model 8/9.8% EBITDA margins for FY22/23E. We value the stock at 20x FY23E earnings and recommend Accumulate rating with TP of Rs 98.

Prospects to improve with recovery in economy

The M&HCV market is highly cyclical, which grows at an average of 1.5x GDP growth. We believe that as the economy grows and fleet utilization catches up, by 4QFY21, freight rates will rise sharply, thus driving the next upcycle. (Contd.)

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	28,366	39,295	(27.8)	6,509	335.8
Total Expense	27,562	37,009	(25.5)	9,841	180.1
EBITDA	804	2,286	(64.8)	(3,332)	(124.1)
Depreciation	1,712	1,600	6.9	1,637	4.6
EBIT	(907)	685	(232.4)	(4,969)	(81.7)
Other Income	219	455	(51.9)	256	(14.6)
Interest	872	301	189.6	768	13.5
EBT	(1,578)	191	(925.7)	NA	(71.3)
Tax	(111)	(198)	(43.7)	NA	(93.1)
RPAT	(1,467)	389	(477.3)	NA	(62.3)
APAT	(1,450)	1,037	(239.8)	NA	(62.6)
			(bps)		(bps)
Gross Margin (%)	28.8	31.0	(217)	35.9	(708)
EBITDA Margin (%)	2.8	5.8	(298)	(51.2)	5403
NPM (%)	(5.2)	1.0	(616)	(59.7)	5456
Tax Rate (%)	7.1	(103.4)	11045	29.3	(2223)
EBIT Margin (%)	(3.2)	1.7	(494)	(76.3)	7315

CMP	Rs 85
Target / Upside	Rs 98 / 16%
NIFTY	12,264

Scrip Details

Equity / FV	Rs 2,936mn / Rs 1		
Market Cap	Rs 249bn		
	USD 3bn		
52-week High/Low	Rs 88/ 34		
Avg. Volume (no)	5,28,44,600		
Bloom Code	AL IN		
Price Performance	1M	3M	12M
Absolute (%)	12	70	11
Rel to NIFTY (%)	9	60	7

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	51.1	51.1	51.1
MF/Banks/FIs	15.7	14.8	18.0
FIs	17.5	16.3	15.2
Public / Others	15.7	17.8	15.7

Valuation (x)

	FY21E	FY22E	FY23E
P/E	(70.9)	50.4	17.3
EV/EBITDA	59.7	18.4	10.1
ROE (%)	(5.0)	7.0	19.2
RoACE (%)	(0.2)	6.8	14.9

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	1,29,946	1,92,714	2,77,281
EBITDA	4,624	15,143	27,224
PAT	(3,511)	4,937	14,377
EPS (Rs.)	(1.2)	1.7	4.9

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We believe AL should gain market share with recovery in demand, as its portfolio is skewed towards higher-tonnage vehicles, where the recovery is sharper during up-cycles.

Renewed focus on LCV segment

The company has renewed its focus on this segment and launched its new platform, 'Phoenix', with a new model, 'Bada Dost' (GVW 3T/3.5T) in Sep-20. It plans to launch another 7-8 models on this platform. We expect AL to gain share in LCVs with 'Bada Dost' on the platform. Hence, we raise our LCV volume estimates for AL to 59k/75k units in FY22/23E.

Exhibit 1: Actual vs DART Estimates

(Rs mn)	Actual	DART Est	Var (%)	Comments
Revenue	28,366	29,166	(3)	
EBITDA	804	1,606	(50)	Higher RM and operating costs
EBITDA Margin (%)	2.84	5.51	(267)	
PAT	(1,450)	(325)	346	lower other income and higher interest cost

Source: DART, Company

Exhibit 2: Change in Estimates

Particulars (Rs mn)	FY22E			FY23E		
	New	Previous	% Cng	New	Previous	% Cng
Net sales	1,92,714	1,64,006	17.5	2,77,281	2,27,198	22.0
EBITDA	15,143	14,334	5.6	27,224	22,102	23.2
EBITDA margin(%)	7.9	8.7	(88)bps	9.8	9.7	9bps
APAT	4,937	4,907	0.6	14,377	10,860	32.4
EPS	1.7	1.7	0.6	4.9	3.7	32.4

Source: DART, Company

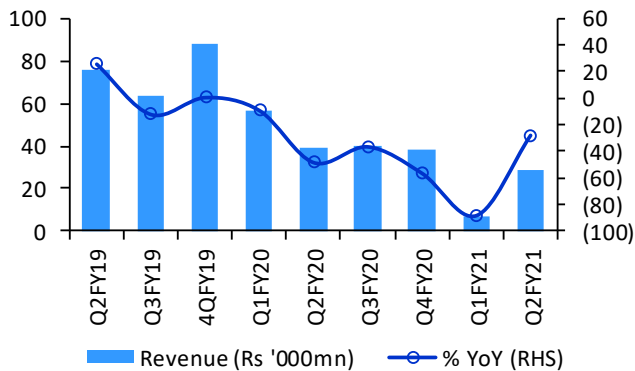
Exhibit 3: Key Assumption table

(in units)	FY19	FY20	FY21E	FY22E	FY23E
Domestic M&HCV	1,31,936	71,407	41,088	64,543	93,130
% YoY	13.2	(45.9)	(42.5)	57.1	44.3
LCV	53,129	44,912	42,666	59,733	74,666
% YoY	26.3	(15.5)	(5.0)	40.0	25.0
Domestic volumes	1,85,065	1,16,319	83,754	1,24,276	1,67,796
% YoY	16.7	(37.1)	(28.0)	48.4	35.0
Exports	12,301	8,920	4,460	6,021	8,128
% YoY	(24.3)	(27.5)	(50.0)	35.0	35.0
Total sales	1,97,366	1,25,239	88,214	1,30,297	1,75,925
% YoY	12.9	(36.5)	(29.6)	47.7	35.0

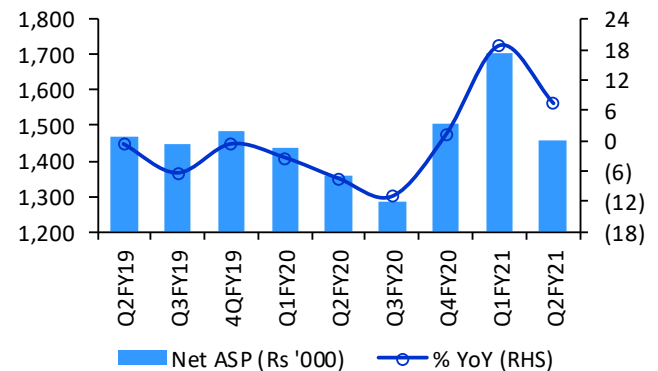
Source: DART, Company

Key Conference Call highlights

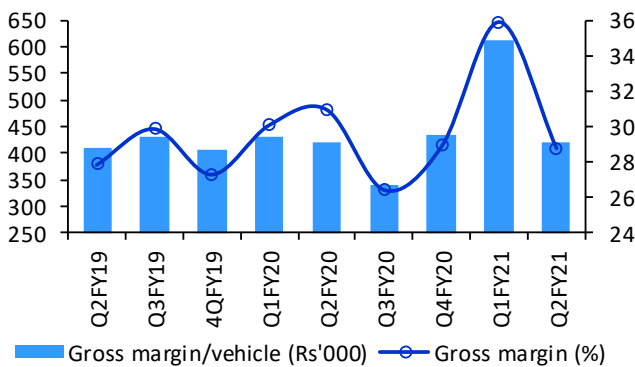
- MHCV industry recorded sales of 24,552 vehicles in Q2FY21 (vs -50% YoY of 48,018 units for Q2FY20). There is a gradual but steady recovery in CV industry with LCV and aftermarket sales back to pre-Covid levels.
- The Bada Dost on AVTR platform have received an encouraging response. Q3 and Q4 expected to be growth quarters with pick up in enquiries and demand from large fleet operators. Going forward, tonnage growth is likely to be better than volume growth. Demand for fully built vehicles likely to go up in bus and cargo segments.
- Recovery witnessed in exports markets with reopening of the economies. Company is working on building product capabilities (LHD/RHD products) with focus on Bangladesh and Sri Lanka. Company is working towards adding distributorships in Middle East and African Markets.
- Financiers/NBFCs are gaining confidence in the CV sector with lending coming back with reopening of the economy.
- Fleet utilization is improving sequentially. M&HCV segment has seen traction for ICV vehicles and Tippers.
- Operating Working Capital reduced by Rs 5bn sequentially in Q2FY21 with cash at Rs 12bn. Working capital is at optimal level with inventory at comfortable level with receivables likely to increase with improvement in Bus and SCV segment demand.
- Company has taken further price increases across segment in October due to increase in RM prices.
- Capex for FY21 to be Rs 7.5bn. AL has incurred capex of Rs 2.70bn in H1FY21 towards the modular platform, Bada Dost and the EV program.
- AL is looking to further invest in Optare and HLFL if required.
- Net debt on books is Rs 30.76bn as on Q2FY21 end (vs Rs 42.84bn as on Q1FY21 end) with gearing of 0.45. With DE reduced to 0.5 (vs 0.6 at Q1FY21 end).
- Total ICDs now stand reduced to Rs 3bn from Rs 4bn in Q1FY21.
- For ICVs, AL's market share is ~22% and is expected to improve further with new roll outs. ICV revenue accounts for 27% of total sales.
- Busses demand expected to recover sharply with reopening of schools and corporate transport resumption.
- HLFL's revenues improved on YoY basis in H1FY21 at Rs 14.69bn and PAT at Rs 1.45bn. Net moratorium stands at 35% (vs 40% in August'20); with better borrowing costs with good liquidity position and adequate lines of credit. Company has made provision further Rs 500mn over and above Rs 700mn in March'20. NPAs stand at 2.3% of the AUM with 45% lending towards MHCV.
- Revenue mix for Q2FY21: 20% from LCVs, 27% from ICVs, 14% from Spares and 5% from Engines.

Exhibit 4: Revenue under stress


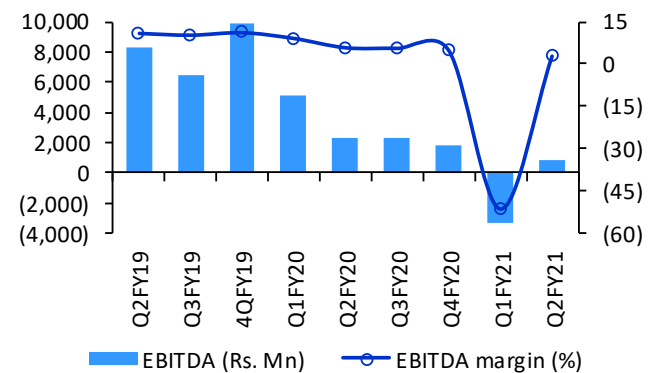
Source: DART, Company

Exhibit 5: Net ASP improved 7% YoY


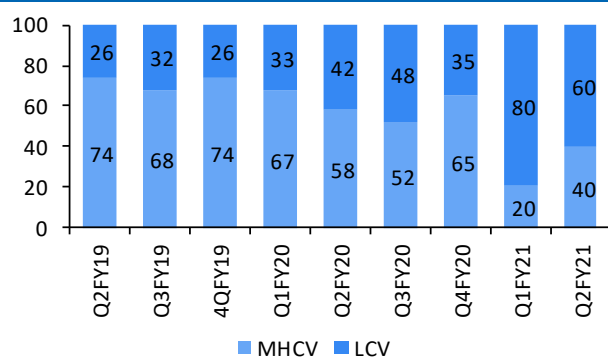
Source: DART, Company

Exhibit 6: Gross Margin contracted 116bps YoY


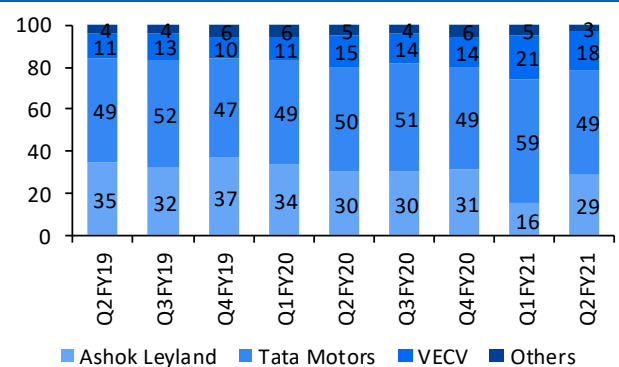
Source: DART, Company

Exhibit 7: EBITDA Margin contracted 298bps YoY


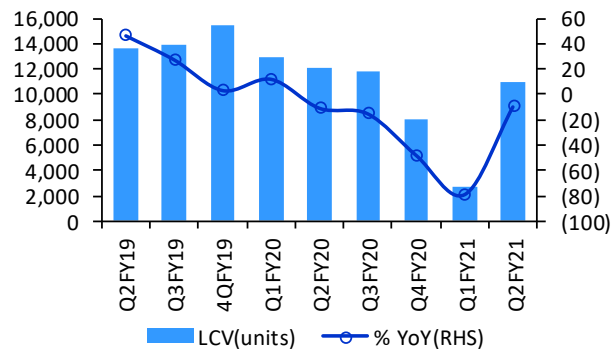
Source: DART, Company

Exhibit 8: M&HCV LCV Mix (%)


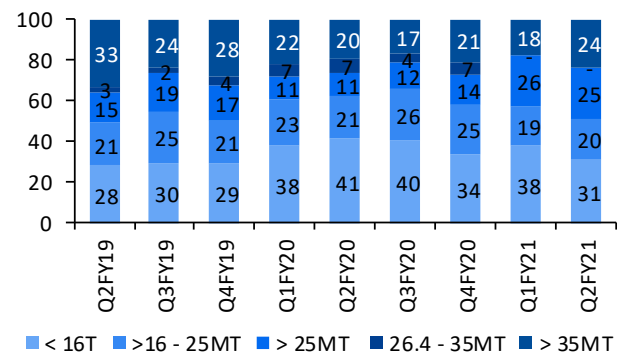
Source: DART, Company

Exhibit 9: AL's regaining share in M&HCV segment


Source: DART, Company

Exhibit 10: Recovery in LCV volume growth


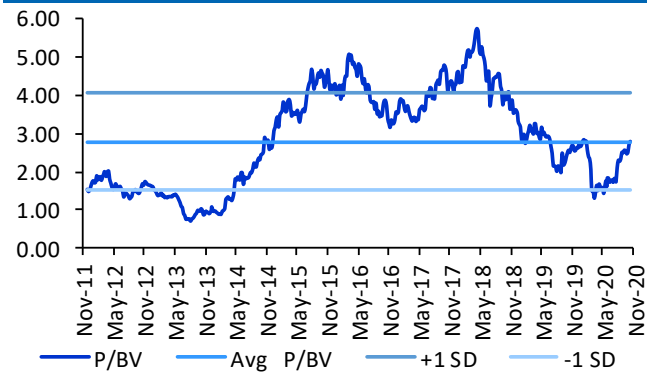
Source: DART, Company

Exhibit 11: Tonnage mix (%)


Source: DART, Company

Exhibit 12: EV/Sales


Source: DART, Company

Exhibit 13: P/BV trend


Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	1,74,675	1,29,946	1,92,714	2,77,281
Total Expense	1,62,938	1,25,322	1,77,570	2,50,057
COGS	1,23,692	93,142	1,37,247	1,97,822
Employees Cost	16,151	14,859	16,939	20,665
Other expenses	23,096	17,322	23,385	31,569
EBIDTA	11,737	4,624	15,143	27,224
Depreciation	6,698	7,052	7,118	7,339
EBIT	5,039	(2,428)	8,025	19,885
Interest	1,095	3,271	2,488	2,432
Other Income	1,233	987	1,046	1,098
Exc. / E.O. items	(1,558)	0	0	0
EBT	3,618	(4,713)	6,582	18,551
Tax	1,224	(1,202)	1,646	4,174
RPAT	2,394	(3,511)	4,937	14,377
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	3,953	(3,511)	4,937	14,377

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	2,936	2,936	2,936	2,936
Minority Interest	0	0	0	0
Reserves & Surplus	69,704	66,193	68,606	75,465
Net Worth	72,640	69,129	71,542	78,401
Total Debt	31,147	36,347	35,547	34,747
Net Deferred Tax Liability	2,648	2,648	2,648	2,648
Total Capital Employed	1,06,436	1,08,124	1,09,737	1,15,796

Applications of Funds

Net Block	63,536	66,426	67,357	68,308
CWIP	5,941	3,049	3,291	3,539
Investments	31,695	31,695	31,695	31,695
Current Assets, Loans & Advances	62,723	54,710	62,896	80,674
Inventories	12,380	10,681	17,951	25,829
Receivables	11,798	10,681	16,367	24,310
Cash and Bank Balances	13,225	9,029	5,257	8,216
Loans and Advances	25,320	24,320	23,320	22,320
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	57,460	47,756	55,501	68,420
Payables	26,239	19,649	26,321	37,938
Other Current Liabilities	31,221	28,107	29,180	30,482
<i>sub total</i>				
Net Current Assets	5,263	6,954	7,394	12,254
Total Assets	1,06,436	1,08,124	1,09,737	1,15,796

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	29.2	28.3	28.8	28.7
EBIDTA Margin	6.7	3.6	7.9	9.8
EBIT Margin	2.9	(1.9)	4.2	7.2
Tax rate	33.8	25.5	25.0	22.5
Net Profit Margin	1.4	(2.7)	2.6	5.2
(B) As Percentage of Net Sales (%)				
COGS	70.8	71.7	71.2	71.3
Employee	9.2	11.4	8.8	7.5
Other	13.2	13.3	12.1	11.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.4	0.5	0.5	0.4
Interest Coverage	4.6	(0.7)	3.2	8.2
Inventory days	26	30	34	34
Debtors days	25	30	31	32
Average Cost of Debt	5.8	9.7	6.9	6.9
Payable days	55	55	50	50
Working Capital days	11	20	14	16
FA T/O	2.7	2.0	2.9	4.1
(D) Measures of Investment				
AEPS (Rs)	1.4	(1.2)	1.7	4.9
CEPS (Rs)	3.6	1.2	4.1	7.4
DPS (Rs)	0.5	0.0	0.7	2.2
Dividend Payout (%)	37.0	0.0	44.0	45.0
BVPS (Rs)	24.8	23.6	24.4	26.8
RoANW (%)	3.1	(5.0)	7.0	19.2
RoACE (%)	5.1	(0.2)	6.8	14.9
RoAIC (%)	5.9	(2.5)	7.9	18.8
(E) Valuation Ratios				
CMP (Rs)	85	85	85	85
P/E	62.9	(70.9)	50.4	17.3
Mcap (Rs Mn)	2,48,804	2,48,804	2,48,804	2,48,804
MCap/ Sales	1.4	1.9	1.3	0.9
EV	2,66,726	2,76,122	2,79,094	2,75,335
EV/Sales	1.5	2.1	1.4	1.0
EV/EBITDA	22.7	59.7	18.4	10.1
P/BV	3.4	3.6	3.5	3.2
Dividend Yield (%)	0.6	0.0	0.9	2.6
(F) Growth Rate (%)				
Revenue	(39.9)	(25.6)	48.3	43.9
EBITDA	(62.6)	(60.6)	227.5	79.8
EBIT	(80.0)	(148.2)	NA	147.8
PBT	(85.5)	(230.2)	NA	181.8
APAT	(80.6)	(188.8)	NA	191.2
EPS	(80.6)	(188.8)	NA	191.2

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	8,991	929	10,335	22,253
CFI	(35,698)	(7,049)	(8,291)	(8,539)
CFF	24,351	1,929	(5,812)	(10,750)
FCFF	(10,637)	(6,121)	2,044	13,713
Opening Cash	13,736	13,225	9,029	5,257
Closing Cash	13,225	9,029	5,257	8,216

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

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

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-19	Accumulate	84	79
Feb-20	Accumulate	90	82
Mar-20	Buy	65	44
Mar-20	Buy	65	42
Apr-20	Buy	56	44
Jun-20	Accumulate	58	52
Aug-20	Accumulate	67	60

*Price as on recommendation date

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