

November 9, 2020

Q2FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	100		95	
Sales (Rs. m)	1,93,745	2,18,951	2,01,409	2,26,611
% Chng.	(3.8)	(3.4)		
EBITDA (Rs. m)	18,623	22,192	18,975	21,135
% Chng.	(1.9)	5.0		
EPS (Rs.)	3.2	3.7	3.4	3.5
% Chng.	(7.6)	4.7		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	175	144	194	219
EBITDA (Rs. bn)	12	6	19	22
Margin (%)	6.7	3.8	9.6	10.1
PAT (Rs. bn)	3	(2)	9	11
EPS (Rs.)	1.2	(0.7)	3.2	3.7
Gr. (%)	(83.1)	(157.1)	(578.1)	16.4
DPS (Rs.)	0.5	0.6	0.7	0.8
Yield (%)	0.6	0.7	0.8	0.9
RoE (%)	4.4	(2.8)	13.0	13.6
RoCE (%)	2.9	(0.6)	7.2	7.5
EV/Sales (x)	1.5	2.0	1.4	1.2
EV/EBITDA (x)	22.6	50.8	14.8	12.3
PE (x)	72.1	(126.3)	26.4	22.7
P/BV (x)	3.4	3.6	3.3	2.9

Key Data

ASOK.BO | AL IN

52-W High / Low	Rs.88 / Rs.34
Sensex / Nifty	42,597 / 12,461
Market Cap	Rs.247bn / \$ 3,332m
Shares Outstanding	2,936m
3M Avg. Daily Value	Rs.7675.12m

Shareholding Pattern (%)

Promoter's	51.54
Foreign	14.60
Domestic Institution	17.56
Public & Others	16.31
Promoter Pledge (Rs bn)	13.77

Stock Performance (%)

	1M	6M	12M
Absolute	10.9	78.9	9.9
Relative	5.5	32.9	4.1

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Growth driver shaping up

Quick Pointers:

- M&HCV outlook improving with increased demand from tippers and ICVs segment. LCVs recovery at ~95% YoY while bus segment to be weak.
- Improved utilization to drive replacement/ fleet addition decisions.

AL's 2QFY21 results were operationally better as EBITDA beat at Rs804mn (PLe of Rs99mn) led by higher gross margins at 28.8% (PLe 27%). With increased inquiries from large fleet operators and financing situation improving, M&HCV segment to see gradual volume recovery from 3Q/4Q. Going in FY22 with improved economic activity and a low base, we expect M&HCV volume to see healthy recovery. The management envisages continuing cost savings in FY21 (v/s Rs5.5bn in FY20). This should partially offset negative operating leverage. We cut/upgrade FY22/23 EPS by 7.6%/4.7% respectively to factor in mix impact (higher LCVs), higher interest cost and RM inflation. We maintain BUY with price target of Rs100 (v/s Rs95 at FY23 12x EV/EBITDA and Rs16 to NBFC, unchanged). Current valuations at 14.8x/12.3x FY22/23 EV/EBITDA reflect early recovery cycle and do not fully capture AL's de-risking strategy of reducing M&HCV dependence.

- Q2FY21 Revenues came in line at Rs28.4bn, declined 27.8% YoY** led by 33% YoY decline in volumes and ~7% YoY growth in realizations at Rs1.46mn (in line). Share of MHCVC sales declined to 40.8% (v/s 58.1% in Q2FY20).
- Better gross margins drive margin beat at 2.8% (-300bp YoY, PLe 0.3%):** Gross margins came higher at 28.8% (-220bp YoY, PLe 27%). This coupled with lower employee cost at Rs3.7bn (PLe Rs3.9bn) resulted in higher EBITDA at Rs804mn (-65% YoY, PLe Rs99mn). Adj. Loss came higher at Rs1.45bn (+Rs0.55bn in Q2FY20, PLe Rs1.33bn) led by higher interest cost at Rs872mn (PLe Rs700mn) and lower tax credit at Rs111mn (PLe Rs657mn).
- Key con-call takeaways: (1) Outlook:** Believe strong demand recovery in H2FY21 led by i) traction in tippers/LCVs ii) improving finance support and iii) expected economic recovery. **LCVs recovery at ~95% of YoY level. (2) Exports-** Bangladesh market has started seeing recovery and believe SL to recover soon. Focus on making forays in Africa and ME. **(3) Market share in ICV increased to ~22%** (v/s 10%, 5 years ago). Received positive feedback for new product launches both in LCV and MHCVC. **(4)** Will keep discounts lower as focus is on improving realizations. **Have taken price hike in Oct'20** against additional exhaust system for BS6 and increased RM prices. **(5) Capex guidance of ~Rs7.5bn for FY21** out of which ~Rs2.9bn spent in 1HFY22. **(6)** Low system inventory for M&HCV at 1,853 units (v/s 1,354 units in 1Q). **(7) Leyland Finance-** Moratorium reduced to ~30% (v/s ~40% in Q1; ~75% in April'20). Collection is improving led by diversification (MHCVC at 40-45% of AUM; rest for 2W, 3W, property, etc.) and lower NPAs (currently at 2.3%).

Exhibit 1: Q2FY21 Result Overview (Rs m)

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Net Revenues	28,366	39,295	(27.8)	6,509	34,875	96,134	(63.7)
Raw Materials	20,201	27,133	(25.5)	4,175	24,375	66,869	(63.5)
<i>% of Net Sales</i>	<i>71.2</i>	<i>69.0</i>		<i>64.1</i>	<i>69.9</i>	<i>69.6</i>	
Personnel	3,736	4,321	(13.5)	3,542	7,278	9,326	(22.0)
<i>% of Net Sales</i>	<i>13.2</i>	<i>11.0</i>		<i>54.4</i>	<i>20.9</i>	<i>9.7</i>	
Manufacturing & Other Exp	3,625	5,555	(34.7)	2,125	5,749	12,283	(53.2)
<i>% of Net Sales</i>	<i>12.8</i>	<i>14.1</i>		<i>32.6</i>	<i>16.5</i>	<i>12.8</i>	
Total Expenditure	27,562	37,009	(25.5)	9,841	37,403	88,478	(57.7)
EBITDA	804	2,286	(64.8)	-3,332	-2,528	7,656	(133.0)
<i>EBITDA Margin (%)</i>	<i>2.8</i>	<i>5.8</i>		<i>-51.2</i>	<i>-7.2</i>	<i>8.0</i>	
Depreciation	1,712	1,600	6.9	1,637	3,348	3,247	3.1
EBIT	-907	685	(232.4)	-4,969	-5,876	4,409	(233.3)
Interest Expenses	872	301	189.6	768	1,641	427	284.5
Non-operating income	219	455	(51.9)	256	475	666	(28.7)
Extraordinary Expenses	17	648		17	34	849	
PBT	-1,578	191		-5,498	-7,076	3,799	(286.3)
Tax-Total	-111	-198	(43.7)	-1,610	-1,721	1,108	(255.4)
<i>Tax Rate (%) - Total</i>	<i>7.1</i>	<i>-103.4</i>	<i>(106.8)</i>	<i>29.3</i>	<i>24.3</i>	<i>29.2</i>	<i>(16.6)</i>
Reported PAT	-1,467	389	(477.3)	-3,888	-5,355	2,692	(298.9)
Adj. PAT	-1,451	555	(361.2)	-3,876	-5,327	2,987	(278.4)

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Sales Volume (nos)	19,444	28,936	(32.8)	3,814	23,258	68,544	(66.1)
Net Realisation/Vehicle	14,58,846	13,57,997	7.4	17,06,529	14,99,463	14,02,509	6.9
Material cost / vehicle	10,38,912	9,37,690	10.8	10,94,520	10,48,031	9,75,563	7.4
Gross Profit / vehicle	4,19,934	4,20,307	(0.1)	6,12,008	4,51,432	4,26,946	5.7
Employee cost /vehicle	1,92,152	1,49,336	28.7	9,28,658	3,12,929	1,36,051	130.0
Other expenses / vehicle	1,86,417	1,91,975	(2.9)	5,57,079	2,47,201	1,79,199	37.9
EBITDA/vehicle	41,365	78,995	(47.6)	-8,73,728	-1,08,698	1,11,696	(197.3)
Net Profit/vehicle	-74,619	19,193	(488.8)	-10,16,280	-2,29,039	43,572	(625.7)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	1,74,675	1,43,898	1,93,745	2,18,951
YoY gr. (%)	(39.9)	(17.6)	34.6	13.0
Cost of Goods Sold	1,23,692	1,02,634	1,35,131	1,52,454
Gross Profit	50,983	41,263	58,613	66,497
Margin (%)	29.2	28.7	30.3	30.4
Employee Cost	16,151	15,989	16,309	18,625
Other Expenses	23,096	19,749	23,682	25,680
EBITDA	11,737	5,525	18,623	22,192
YoY gr. (%)	(62.6)	(52.9)	237.1	19.2
Margin (%)	6.7	3.8	9.6	10.1
Depreciation and Amortization	6,698	6,499	7,033	8,748
EBIT	5,039	(974)	11,590	13,444
Margin (%)	2.9	(0.7)	6.0	6.1
Net Interest	1,095	3,053	1,407	1,361
Other Income	1,234	1,420	1,960	2,050
Profit Before Tax	3,619	(2,607)	12,143	14,133
Margin (%)	2.1	(1.8)	6.3	6.5
Total Tax	1,224	(652)	2,793	3,251
Effective tax rate (%)	33.8	25.0	23.0	23.0
Profit after tax	2,395	(1,956)	9,350	10,883
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,426	(1,956)	9,350	10,883
YoY gr. (%)	(83.1)	(157.1)	(578.1)	16.4
Margin (%)	2.0	(1.4)	4.8	5.0
Extra Ord. Income / (Exp)	(1,031)	-	-	-
Reported PAT	2,395	(1,956)	9,350	10,883
YoY gr. (%)	(87.9)	(181.6)	(578.1)	16.4
Margin (%)	1.4	(1.4)	4.8	5.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,395	(1,956)	9,350	10,883
Equity Shares O/s (m)	2,936	2,936	2,936	2,936
EPS (Rs)	1.2	(0.7)	3.2	3.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	96,199	1,06,890	1,12,890	1,20,390
Tangibles	96,199	1,06,890	1,12,890	1,20,390
Intangibles	-	-	-	-
Acc: Dep / Amortization	28,163	34,662	41,695	50,443
Tangibles	28,163	34,662	41,695	50,443
Intangibles	-	-	-	-
Net fixed assets	68,036	72,228	71,195	69,947
Tangibles	68,036	72,228	71,195	69,947
Intangibles	-	-	-	-
Capital Work In Progress	5,941	1,250	1,250	1,250
Goodwill	-	-	-	-
Non-Current Investments	27,196	28,196	29,696	31,196
Net Deferred tax assets	(2,648)	(2,518)	(3,125)	(3,832)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	12,380	11,433	15,924	19,496
Trade receivables	11,798	11,827	16,455	20,096
Cash & Bank Balance	13,225	3,201	4,684	4,892
Other Current Assets	24,766	23,654	31,848	37,192
Total Assets	1,63,896	1,52,184	1,71,585	1,84,668
Equity				
Equity Share Capital	2,936	2,936	2,936	2,936
Other Equity	69,704	65,718	72,739	80,943
Total Network	72,640	68,654	75,674	83,878
Non-Current Liabilities				
Long Term borrowings	13,814	16,814	15,314	13,764
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	17,110	20,110	18,110	16,110
Trade payables	26,368	21,683	29,194	32,993
Other current liabilities	31,316	22,406	30,167	34,092
Total Equity & Liabilities	1,63,896	1,52,184	1,71,585	1,84,668

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	5,039	(974)	11,590	13,444
Add. Depreciation	6,698	6,499	7,033	8,748
Add. Interest	766	1,420	1,960	2,050
Less Financial Other Income	1,234	1,420	1,960	2,050
Add. Other	(395)	-	-	-
Op. profit before WC changes	12,108	6,945	20,583	24,242
Net Changes-WC	(1,756)	(11,406)	(2,177)	(4,901)
Direct tax	(941)	521	(2,186)	(2,544)
Net cash from Op. activities	9,411	(3,940)	16,220	16,797
Capital expenditures	(12,923)	(6,000)	(6,000)	(7,500)
Interest / Dividend Income	-	-	-	-
Others	(8,852)	(1,000)	(1,500)	(1,500)
Net Cash from Invt. activities	(21,775)	(7,000)	(7,500)	(9,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	25,655	6,000	(3,500)	(3,550)
Dividend paid	(12,702)	(2,031)	(2,329)	(2,679)
Interest paid	(1,463)	(3,053)	(1,407)	(1,361)
Others	-	-	-	-
Net cash from Fin. activities	11,490	916	(7,236)	(7,590)
Net change in cash	(874)	(10,024)	1,484	207
Free Cash Flow	(3,512)	(9,940)	10,220	9,297

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	40,157	38,385	6,509	28,366
YoY gr. (%)	(36.5)	(56.6)	(88.5)	(27.8)
Raw Material Expenses	29,532	27,290	4,175	20,201
Gross Profit	10,624	11,095	2,334	8,165
Margin (%)	26.5	28.9	35.9	28.8
EBITDA	2,252	1,830	(3,332)	804
YoY gr. (%)	(65.3)	(81.4)	(162.1)	(64.8)
Margin (%)	5.6	4.8	(51.2)	2.8
Depreciation / Depletion	1,575	1,877	1,637	1,712
EBIT	677	(47)	(4,969)	(907)
Margin (%)	1.7	(0.1)	(76.3)	(3.2)
Net Interest	337	331	768	872
Other Income	223	344	256	219
Profit before Tax	542	(721)	(5,498)	(1,578)
Margin (%)	1.3	(1.9)	(84.5)	(5.6)
Total Tax	264	(148)	(1,610)	(111)
Effective tax rate (%)	48.8	20.5	29.3	7.1
Profit after Tax	278	(573)	(3,888)	(1,467)
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	373	(27)	(3,876)	(1,451)
YoY gr. (%)	(90.3)	(100.4)	(259.4)	(361.2)
Margin (%)	0.9	(0.1)	(59.6)	(5.1)
Extra Ord. Income / (Exp)	(14)	(546)	(12)	(16)
Reported PAT	278	(573)	(3,888)	(1,467)
YoY gr. (%)	(92.7)	(108.8)	(268.8)	(477.3)
Margin (%)	0.7	(1.5)	(59.7)	(5.2)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	278	(573)	(3,888)	(1,467)
Avg. Shares O/s (m)	2,936	2,936	2,936	2,936
EPS (Rs)	0.1	-	(1.3)	(0.5)

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	1.2	(0.7)	3.2	3.7
CEPS	3.4	1.5	5.6	6.7
BVPS	24.7	23.4	25.8	28.6
FCF	(1.2)	(3.4)	3.5	3.2
DPS	0.5	0.6	0.7	0.8
Return Ratio(%)				
RoCE	2.9	(0.6)	7.2	7.5
ROIC	2.1	(0.5)	5.7	6.0
RoE	4.4	(2.8)	13.0	13.6
Balance Sheet				
Net Debt : Equity (x)	0.2	0.5	0.4	0.3
Net Working Capital (Days)	(5)	4	6	11
Valuation(x)				
PER	72.1	(126.3)	26.4	22.7
P/B	3.4	3.6	3.3	2.9
P/CEPS	24.4	54.4	15.1	12.6
EV/EBITDA	22.6	50.8	14.8	12.3
EV/Sales	1.5	2.0	1.4	1.2
Dividend Yield (%)	0.6	0.7	0.8	0.9

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
MHCV volumes (units)	78,607	52,650	69,967	75,602
LCV incl. Dost volumes (units)	46,646	45,094	60,998	70,318
Realisation ex. Dost (Rs/unit)	16,10,808	16,94,431	18,20,473	19,24,828

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	9-Oct-20	BUY	95	76
2	13-Aug-20	BUY	76	61
3	11-Jul-20	Accumulate	59	51
4	27-Jun-20	Accumulate	59	52
5	9-Apr-20	Accumulate	59	46
6	17-Feb-20	Hold	80	82
7	3-Jan-20	Hold	80	84
8	11-Nov-19	Hold	76	79

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	95	76
2	Bajaj Auto	Hold	3,108	3,006
3	Bharat Forge	Hold	446	466
4	CEAT	Accumulate	1,223	1,148
5	Eicher Motors	Accumulate	2,291	2,218
6	Exide Industries	BUY	191	164
7	Hero Motocorp	Accumulate	3,282	2,894
8	Mahindra & Mahindra	BUY	703	633
9	Maruti Suzuki	BUY	7,642	7,118
10	Motherson Sumi Systems	BUY	139	121
11	Tata Motors	Hold	146	136
12	TVS Motors	Sell	386	422

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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