

**Stellar set of Result;
Well positioned to benefit from recovery in CV cycle**

CMP: INR 123

Rating: Accumulate

Target Price: INR 144

Stock Info

BSE	500477
NSE	ASHOKLEY
Bloomberg	AL IN
Reuters	ASOK.BO
Sector	Auto-LCVS & HCVS
Face Value (INR)	1
Equity Capital (INR mn)	2,936
Mkt Cap (INR Mn)	3,622,41
52w H/L (INR)	139 / 34
Avg Yearly Vol (in 000')	34,613

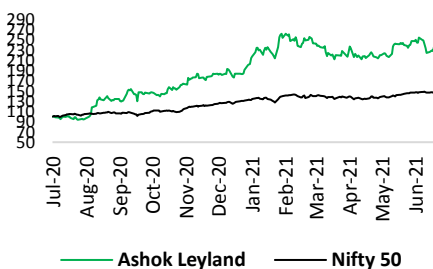
Shareholding Pattern %

(As on March, 2021)

Promoters	45.36
Public & Others	54.64

Stock Performance (%)	3m	6m	12m
Ashok leyland	12.3	29.5	130.8
Nifty	10.7	15.3	54.1

Ashok Leyland Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

- Ashok Leyland (AL) has reported a stellar set of numbers on all front in Q4FY21.
- Standalone revenue stood at INR 69,720 Mn, above our estimates of INR 53,226 Mn registering +82.8% YoY/45.6% QoQ.
- EBITDA stood at INR 5,342 Mn, above our estimate of INR 3,136 Mn, Registering +192%YoY/+~111%QoQ.
- On the margins front, EBITDA margin was up by 286bps YoY/236bps QoQ to 7.6%, against our estimates 22bps YoY 6%.
- Standalone adjusted PAT saw an increase of 1686%YoY/665.1% QoQ to INR 2,038 Mn vs below our estimate of INR 127 Mn. Total Volume was up by 17.9%YoY/89.5% QoQ to 11,69,664 units. The total MHCV industry volume had gone up by 66%.
- During Q4 FY'21, year on year MHCV truck volumes for AL have grown at 111% which is better than the rate of growth of the industry. AL's MHCV truck market share for Q4 FY'21 has therefore improved to 28.9% vis-a-vis 27.6% in Q4 FY'20.
- This performance was backed by the successful AVTR range - India's first modular truck platform which was launched in June '20. The AVTR platform gives customers a choice to customize their truck as per their unique requirements. The platform has been delivering best-in-class total cost of ownership across segments which has been widely appreciated by customers.
- The company also announced INR 0.6 dividend per share.

Outlook and valuation

At CMP of INR 123, Ashok Leyland Ltd is trading at a PE of 32.3x to its FY23 EPS of INR 3.8. We have seen a recovery in Q4 FY2021 and the overall performance has been better. However, with the sudden onset of the 2nd wave, the challenges for the industry continue. But this time the company is better prepared this time.

Tangible pick-up in infra, construction, and mining space along with continued resilience in the e-commerce industry has turned the demand outlook positive for trucks and LCVs, respectively, but buses remain an area of concern given the limited operations of schools, offices, and travel activities. Going forward, the company sees good opportunities to grow the exports, defence, power solutions, LCV, and parts business along with the core MHCV business. Emerging businesses such as electric vehicles (EVs) and customer solutions (CSB) are expected to assist in complementing the core business.

We Value Ashok Leyland at PE multiple of 36x for parent auto maker for FY23E EPS of INR 3.8 and with the 7% stake in Hinduja Leyland Finance contributing INR 7 per share intrinsic value, **We assign an Accumulate rating and value it with SOTP valuation for a target price of INR 144.**

Quarterly result summary

Quarterly Results

Standalone (INRm)	Q4FY21	Q3FY21	Q4FY20	YoY%	QoQ%
Net Sales	69,720	47,898	38,142	82.8%	45.6%
Other operating income	285	237	243	17.1%	20.1%
Income from operation	70,005	48,135	38,385	82.4%	45.4%
Cost of material consumed	52,735	35,981	19,553	169.7%	46.6%
Purchases of stock-in-trade	2,576	2,147	2,003	28.6%	20.0%
Changes in inventories	(1,477)	(2,304)	5,734	-125.8%	-35.9%
Raw Material	53,834	35,824	27,290	97.3%	50.3%
Staff Cost	4,016	4,545	4,097	-2.0%	-11.6%
Other expenditure	6,813	5,228	5,168	31.8%	30.3%
Total Expenditure	64,663	45,597	36,555	76.9%	41.8%
EBITDA	5,342	2,538	1,830	192.0%	110.5%
Depreciation	2,185	1,944	1,877	16.4%	12.4%
EBIT	3,157	594	(47)	-	431.9%
Interest	771	656	331	132.8%	17.4%
Other Income	380	341	344	52.5%	11.4%
PBT	2,766	278	(34)	-	-
Current Tax	-	0	(445)	-	-
Deferred tax	728	11	297	145.3%	6339.8%
Tax	728	11	(148)	-592.4%	6283.3%
Adjusted PAT	2,038	266	114	1686.3%	665.1%
Extraordinary	374	(460)	(687)	-154.3%	-181.1%
Reported PAT	2,412	(194)	(573)	-520.7%	-1343.8%
EPS	0.8	0.1	(2)		

Margins	Q4FY21	Q3FY21	Q4FY20	YoY%	QoQ%
Gross margins	23.1%	25.6%	28.9%	-581Bps	-248Bps
EBITDA	7.6%	5.3%	4.8%	286Bps	236Bps
Adjusted PAT	3%	1%	0.3%	261Bps	236Bps

Source: Arian Research, Company Filings

Q4FY21 earnings conference call highlights

- The industry has again received a setback due to lockdown in Apr/May21 and initiatives are expected to be taken by government indicating investment led growth in truck industry.
- Q4 performance posted a good recovery. Our market shares have been growing steadily quarter on quarter in MHCV and in LCV, volumes have really picked up. All other businesses including Aftermarket and Power Solutions have done exceptionally well. The focus on cost and productivity continues.
- The management indicated that FY22E is set to be a year of gradual recovery for the industry, with sequential improvement expected throughout the year. Industry revival would be linked to economic growth, evolution of the pandemic, the government's continued infra push and sustained e-commerce led strength in last mile connectivity. Over the longer term, social distancing norms post Covid could be a growth driver for the bus category due to possible seating capacity restrictions.
- ALL appointed 6-7 large distributors in Africa and the Middle East regions in FY21 for its network expansion. Exports performance in coming months would be guided by opening up of global markets.
- The company's MHCV share improved to 28.9% in 4QFY21 from 26.7% in 4QFY20.
- The new business, EV and customer solution (CSB) will assist in complementing the core business.
- RM prices are at all time high and are expected to be at similar levels for few months and some softening expected in 2QFY22.
- The focus on digital will help leverage the benefits of efficiency and cost. Customer requirement will be at the core of all the digital initiatives.
- FY22E capex spends pegged at ~INR 7500Mn. Some of the outflow could be towards debottlenecking LCV capacity.

P&L (INR mn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	2,90,550	1,74,675	1,53,015	2,02,787	2,61,449
YoY (%)	9.1	(39.9)	(12.4)	32.5	28.9
Raw material cost	2,06,796	1,23,692	1,14,033	1,51,076	1,93,473
Employee Cost	20,988	16,151	15,839	16,314	17,130
Admin Expenses	31,409	23,096	17,791	22,712	26,145
Total expenses	2,59,192	1,62,938	1,47,663	1,90,102	2,36,747
EBIDTA	31,357	11,737	5,351	12,684	24,702
(%)	10.8%	6.7%	3.5%	6.3%	9.4%
Depreciation	6,210	6,698	7,477	7,714	8,621
EBIT	25,147	5,039	-2,126	4,971	16,081
Interest	704	1,095	3,068	2,591	2,216
Other income	1,099	1,233	1,195	1,410	1,086
PBT	25,543	5,177	-3,999	3,790	14,951
Exchange gain / (loss) on swap contracts	26	0.1	0	0	0
(-) Tax	5,182	1,224	-982	931	3,678
Tax/ PBT	20.3	23.6	24.6	24.6	24.6
PAT	20,387	3,954	-3,016	2,859	11,273
YoY (%)	16.7	(80.6)	(176.3)	(194.8)	294.3
PAT(%)	7.0%	2.3%	-2.0%	1.4%	4.3%
Extraordinary	-556	-1558	121	0	0
Reported Profit	19,832	2,395	-3,137	2,859	11,273

B/Sheet (INR mn)	FY19	FY20	FY21	FY22E	FY23E
Equity capital	2,936	2,936	2,936	2,936	2,936
Reserves	80,389	69,704	66,837	68,317	74,154
Net worth	83,324	72,640	69,772	71,252	77,089
Total Loans	3,984	31,053	37,463	38,745	39,002
Deferred Tax	2,497	2,648	1,708	1,708	1,708
Total Liabilities	89,806	1,06,341	1,08,943	1,11,705	1,17,799
Gross block	73,316	86,221	92,721	1,00,121	1,07,621
Less: Acc. Dep	17,171	18,185	22,217	29,930	38,552
Net block	56,145	68,036	70,504	70,190	69,069
Work in progress	6,576	5,941	3,719	3,719	3,719
Investments	35,903	33,413	34,180	37,180	40,180
Inventories	26,847	12,380	21,423	19,868	25,443
Debtors	25,057	11,889	28,163	13,890	17,907
Cash	13,736	13,225	8,230	10,701	17,772
Loans and advances	17,980	19,097	18,281	12,549	16,180
Current assets	83,620	56,591	76,096	57,008	77,302
Current liabilities	81,914	53,633	60,632	49,046	63,002
Provisions	10,524	4,007	14,924	7,345	9,470
Net current assets	-8,819	-1,049	540	616	4,831
Total Assets	89,806	1,06,341	1,08,943	1,11,705	1,17,799

Source: Arianth Research, Company Filings

Cash Flow	FY19	FY20	FY21	FY22E	FY23E
Net profit	19,832	2,395	-3,137	2,798	11,210
Depreciation	6,210	6,485	7,286	7,794	8,704
Deferred tax	1,354	507	-983	0	0
Change in W/C	-29,074	-8,281	-6,585	2,397	2,858
Operating cash flow	-1,678	1,107	-3,419	12,989	22,772
Capex	-11,278	-11,833	-5,810	-7,522	-7,500
Investments	28,005	-3,274	-2,446	-2,879	-3,001
Investing cash flow	16,727	-15,107	-8,256	-10,401	-10,501
FCF	-12,956	-10,727	-9,228	5,467	15,272
Dividend	-8,598	-1,444	2,269	-1,349	-5,406
Equity	-364	-11,636	-2,000	0	0
Debt	-2,142	27,069	6,410	1,282	256
Financing cash flow	-11,104	13,989	6,679	-67	-5,149
Net change in cash	3,945	-12	-4,995	2,521	7,122
Opening cash	9,292	13,236	13,225	8,229	10,750
Closing cash	13,236	13,225	8,229	10,750	17,872

Key Ratios	FY19	FY20	FY21	FY22E	FY23E
EPS	6.8	0.8	(1.1)	1.0	3.8
Book value	28	25	24	24	26
P/E (x)	18.3	151.2	-	129.4	32.3
EV/EBDITA (x)	10.1	29.5	66.8	27.8	13.9
P/B (x)	4.3	5.0	5.2	5.1	4.7
EV/Sales	1.1	2.0	2.3	1.7	1.3
ROCE	24%	4%	0%	5%	12%
ROE	25%	3%	-4%	4%	15%
Dividend Yield	2.0%	0.3%	0.5%	0.3%	1.2%
Gross asset turn	3.4	1.8	1.4	1.8	2.3
Days outstanding					
Inventory	47	47	48	48	48
Debtors	22	22	25	25	25
Creditors	87	78	65	65	65

Source: Arian Research, Company Filings

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880