

25 June 2021

## Ashok Leyland

*Price increases key; continue to expect volume recovery; maintaining a Buy*

**We continue to expect strong replacement demand to come in high-tonnage and multi-axle vehicles, which will drive growth; and subsequent capital formation will further fuel growth beyond FY22. We believe that the company needs to take 10-12% price increase to cover the cost and expect the company to achieve the same. We maintain a Buy at a higher target price of Rs153 (29x FY23e).**

**Continue to expect replacement demand in H2 FY22.** Ashok Leyland's Q4 FY21 operating margin was primarily driven by higher volumes (y/y, M&H CVs 110%, LCVs 99%, exports 40%). The gross margin, however, contracted 248bps sequentially due to higher raw-material costs. The rise in cost has led to weaker product mix within the truck segment, in our view. We believe that the company has to take 10-12% price increase which we expect in the following quarters (2% price increase in April) with expected recovery in MHCV demand. For FY23, we expect cyclical demand momentum with the expected rise in capital formation in the country.

**Margin expansion for the next two years.** We believe that, given the strong revival in economic activity and degree of operating leverage playing out with a richer segment mix (M&H CVs), we expect margins to expand to 10.5% in FY22 and 11% in FY23.

**Q4 FY21 conference-call takeaways.** 1) HLFL: 11.6% RoE, gross NPAs 4%; net NPAs 2%, collection efficiency ~90% in Apr'21. 2) Expanding Defence portfolio: adding armoured range of Defence and bulletproof vehicles. 3) Export strategy: added 6-7 large distributors in Africa and the Middle East. 4) Semi-conductor shortages in the short to medium term.

**Valuation.** We expect a 38% CAGR in revenue over FY21-23, leading to an EPS of Rs4.9. We maintain a Buy rating, with a higher target price of Rs153 (29x FY23e), including Rs11 a share for HLFL. **Risks:** Less-than-expected volume growth in FY22.

Key financials (YE Mar)	FY19	FY20	FY21	FY22e	FY23e
Sales (Rs m)	290,550	174,675	153,015	228,749	290,283
Net profit (Rs m)	20,407	3,954	-3,016	9,085	14,259
EPS (Rs)	6.8	0.8	-1.1	3.1	4.9
P/E (x)	13.3	144.9	-110.6	38.2	24.3
EV / EBITDA (x)	8.1	31.0	70.1	14.8	10.9
P/BV (x)	3.2	4.8	5.0	4.6	3.9
RoE (%)	25.6	3.1	-4.4	12.5	17.5
RoCE (%)	24.0	4.2	-0.7	10.0	13.2
Dividend yield (%)	2.5	3.7	0.5	0.4	0.6
Net debt / equity (x)	-0.1	0.2	0.4	0.1	0.0

Source: Company, Anand Rathi Research

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Rating: Buy

Target Price: Rs.153

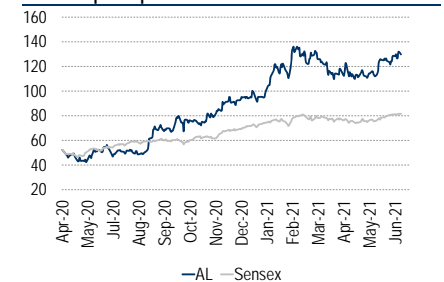
Share Price: Rs.124

Key data	AL IN / ASOK.BO
52-week high / low	Rs.139 / 47
Sensex / Nifty	52929 / 15860
3-m average volume	\$33.9m
Market cap	Rs.362bn / \$4882.2m
Shares outstanding	2936m

Shareholding pattern (%)	Mar'21	Dec'20	Sep'20
Promoters	51.5	51.5	51.5
- of which, Pledged	9.1	5.6	5.6
Free float	48.46	48.46	48.46
- Foreign institutions	18.1	16.3	14.6
- Domestic institutions	16.7	17.7	17.6
- Public	13.7	14.4	16.2

Estimates revision (%)	FY22e	FY23e
Sales	3.9	1.4
EBITDA	3.9	1.4
EPS	4.1	3.4

### Relative price performance



Source: Bloomberg

Vijay Sarthy TS  
Research Analyst

Akshay Karwa  
Research Associate

## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (Rs m)**

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Volumes	197,077	124,060	100,494	144,456	176,264
Net revenues	290,550	174,675	153,015	228,749	290,283
<i>Growth (%)</i>	<i>10.7</i>	<i>-39.9</i>	<i>-12.4</i>	<i>49.5</i>	<i>26.9</i>
Operating expenses	259,192	162,938	147,663	204,731	258,352
<b>EBITDA</b>	<b>31,357</b>	<b>11,737</b>	<b>5,351</b>	<b>24,019</b>	<b>31,931</b>
<i>EBITDA margins (%)</i>	<i>10.8</i>	<i>6.7</i>	<i>3.5</i>	<i>10.5</i>	<i>11.0</i>
- Depreciation	6,210	6,698	7,477	8,265	8,930
Other income	1,099	1,233	1,195	1,540	2,450
Interest expenses	704	1,095	3,068	3,566	3,906
Extraordinary items	-575	-1,558	-121	-	-
PBT	24,968	3,619	-4,119	13,727	21,546
<i>Effective tax rate (%)</i>	<i>21</i>	<i>34</i>	<i>24</i>	<i>34</i>	<i>34</i>
+ Associates / (Minorities)					
Net income	19,832	2,395	-3,137	9,085	14,259
Adjusted income	20,407	3,954	-3,016	9,085	14,259
WANS	2,936	2,936	2,936	2,936	2,936
FDEPS (Rs / sh)	6.8	0.8	-1.1	3.1	4.9

**Fig 3 – Cash-flow statement (Rs m)**

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
PBT	24,968	3,619	-4,119	13,727	21,546
+ Non-cash items	6,210	6,698	7,477	8,265	8,930
Oper. prof. before WC	31,178	10,317	3,358	21,992	30,476
- Incr. / (decr.) in WC	23,130	5,579	3,965	-20,059	2,254
Others incl. taxes	5,136	1,224	-982	4,643	7,287
Operating cash-flow	2,912	3,514	375	37,409	20,935
- Capex (tang. + intang.)	15,176	17,954	7,722	10,000	7,000
Free cash-flow	-12,264	-14,440	-7,347	27,409	13,935
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	8,598	12,702	1,761	1,308	2,053
+ Equity raised	-	-	-	-	-
+ Debt raised	-6,040	26,665	6,514	4,500	3,000
- Fin investments	-31,661	831	3,491	27,000	18,000
- Misc. (CFI + CFF)	1,067	-797	-1,090	2,030	0
Net cash-flow	3,692	-511	-4,995	1,571	-3,118

Source: Company, Anand Rathi Research

**Fig 5 – Price movement**


Source: Bloomberg

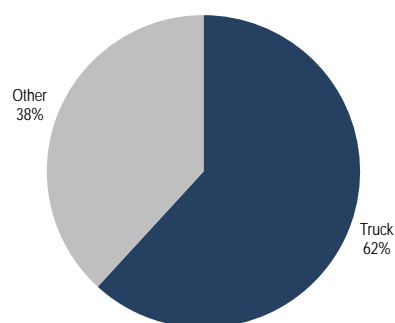
**Fig 2 – Balance sheet (Rs m)**

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Share capital	2,936	2,936	2,936	2,936	2,936
Net worth	83,324	72,640	69,772	75,518	87,724
Debt	3,983	30,648	37,163	41,663	44,663
Minority interest	-	-	-	-	-
DTL / (Assets)	1,474	2,648	1,708	1,708	1,708
<b>Capital employed</b>	<b>88,782</b>	<b>105,936</b>	<b>108,642</b>	<b>118,889</b>	<b>134,095</b>
Net tangible assets	48,060	54,431	55,992	58,015	56,085
Net intangible assets	8,085	13,605	14,512	14,512	14,512
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	6,576	5,941	3,719	3,431	3,431
Investments (strategic)	26,365	27,196	30,687	35,687	40,687
Investments (financial)	-	-	-	22,000	35,000
Current assets (ex cash)	78,398	49,498	71,360	51,301	53,554
Cash	13,736	13,225	8,230	9,800	6,682
Current liabilities	92,438	57,960	75,857	75,857	75,857
Working capital	-14,041	-8,462	-4,497	-24,556	-22,302
<b>Capital deployed</b>	<b>88,782</b>	<b>105,936</b>	<b>108,642</b>	<b>118,889</b>	<b>134,095</b>

**Fig 4 – Ratio analysis**

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
P/E (x)	13.3	144.9	-110.6	38.2	24.3
EV / EBITDA (x)	8.1	31.0	70.1	14.8	10.9
EV / Sales (x)	0.9	2.1	2.5	1.6	1.2
P/B (x)	3.2	4.8	5.0	4.6	3.9
RoE (%)	25.6	3.1	-4.4	12.5	17.5
RoCE (%) - after tax	24.0	4.2	-0.7	10.0	13.2
RoIC (%) - after tax	27.7	4.9	-0.7	10.8	14.1
DPS (Rs / sh)	2.9	4.3	0.6	0.4	0.7
Dividend yield (%)	2.5	3.7	0.5	0.4	0.6
Dividend payout (%) - incl. DDT	43.4	530.3	-56.1	14.4	14.4
Net debt / equity (x)	-0.1	0.2	0.4	0.1	0.0
Receivables (days)	31	25	67	30	20
Inventory (days)	47	37	69	32	32
Payables (days)	89	77	165	90	77
CFO : PAT %	14.3	88.9	-12.4	411.8	146.8

Source: Company, Anand Rathi Research

**Fig 6 – Revenue break-up (Q4 FY21)**


Source: Company

## Result highlights

Fig 7 – Quarterly performance

(Rs m)	Q4 FY19	Q1 FY20	Q2 FY20	Q3FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21
<b>VOLUMES</b>									
Volumes	58,943	39,608	28,938	31,200	25,504	3,777	19,366	33,291	44,060
Y/Y (%)	0.36	-5.98	-44.31	-28.71	-56.73	-90.46	-33.08	6.70	72.76
Q/Q (%)	34.69	-32.80	-26.94	7.82	-18.26	-85.19	412.73	71.90	32.35
Average realization	1,500,760	1,435,028	1,357,903	1,287,067	1,505,042	1,723,246	1,464,722	1,445,889	1,588,854
Y/Y (%)	0.48	-3.28	-7.42	-10.95	0.29	20.08	7.87	12.34	5.57
Q/Q (%)	3.83	-4.38	-5.37	-5.22	16.94	14.50	-15.00	-1.29	9.89
Net sales	88,459	56,839	39,295	40,157	38,385	6,509	28,366	48,135	70,005
Y/Y (%)	0.8	(9.1)	(48.4)	(36.5)	(56.6)	(88.5)	(27.8)	19.9	82.4
Q/Q (%)	39.9	(35.7)	(30.9)	2.2	(4.4)	(83.0)	335.8	69.7	45.4
<b>EXPENDITURE</b>									
(Incr.)/decr. in stock-in-trade	10,793	(7,138)	3,663	9,656	5,734	180	(1,022)	(2,304)	(1,477)
Materials	53,500	46,875	23,470	19,876	21,556	3,994	21,223	38,128	55,311
% of sales	72.7	69.9	69.0	73.5	71.1	64.1	71.2	74.4	76.9
Gross profit	24,167	17,102	12,162	10,624	11,095	2,334	8,165	12,311	16,171
Gross profit margin (%)	27.3	30.1	31.0	26.5	28.9	35.9	28.8	25.6	23.1
Y/Y (%)	2.0	(8.7)	(50.6)	(33.4)	(57.6)	(89.5)	(25.5)	21.3	97.3
Q/Q (%)	44.9	(38.2)	(31.7)	8.8	(7.6)	(84.7)	383.9	77.3	50.3
Staff cost	5,735	5,004	4,321	2,728	4,097	3,542	3,736	4,545	4,016
% of sales	6.48	8.80	11.00	6.79	10.67	54.42	13.17	9.44	5.74
Y/Y (%)	26.1	1.5	(17.7)	(45.4)	(28.6)	(29.2)	(13.5)	66.6	(2.0)
Q/Q (%)	14.7	(12.7)	(13.7)	(36.9)	50.2	(13.6)	5.5	21.6	(11.6)
Other expenditure	8,578	6,728	5,555	5,645	5,168	2,125	3,625	5,228	6,813
% of sales	9.7	11.8	14.1	14.1	13.5	32.6	12.8	10.9	9.7
Y/Y (%)	(12.4)	(11.3)	(27.8)	(23.7)	(39.7)	(68.4)	(34.7)	(7.4)	31.8
Q/Q (%)	15.9	(21.6)	(17.4)	1.6	(8.4)	(58.9)	70.6	44.2	30.3
<b>Expenses capitalised</b>									
Total expenses	78,605	51,469	37,009	37,905	36,555	9,841	27,562	45,597	64,663
<b>EBITDA</b>									
EBITDA	9,854	5,370	2,286	2,252	1,830	(3,332)	804	2,538	5,342
Y/Y (%)	(4.6)	(17.1)	(72.4)	(65.3)	(81.4)	(162.1)	(64.8)	12.7	192.0
Q/Q (%)	51.7	(45.5)	(57.4)	(1.5)	(18.7)	(282.1)	(124.1)	215.5	110.5
<b>OPM (%)</b>	<b>11.1</b>	<b>9.4</b>	<b>5.8</b>	<b>5.6</b>	<b>4.8</b>	<b>(51.2)</b>	<b>2.8</b>	<b>5.3</b>	<b>7.6</b>
Other income	91	211	455	223	344	256	219	341	380
Interest	166	126	301	337	331	768	872	656	771
Depreciation	1,598	1,646	1,600	1,575	1,877	1,637	1,712	1,944	2,185
EBIT	8,257	3,723	685	677	(47)	(4,969)	(907)	594	3,157
Exceptional items	(117)	(201)	(648)	(22)	(687)	(17)	(17)	(460)	374
Profit before tax	8,064	3,607	191	542	(721)	(5,498)	(1,578)	(182)	3,139
Provision for taxation	1,535	1,305	(198)	264	(148)	(1,610)	(111)	11	728
Tax rate (%)	19.0	36.2	(103.4)	48.8	20.5	29.3	7.1	(6.2)	23.2
Profit after tax	6,530	2,302	389	278	(573)	(3,888)	(1,467)	(194)	2,412
<b>PAT</b>									
PAT	6,530	2,302	389	278	(573)	(3,888)	(1,467)	(194)	2,412
Y/Y (%)	(2.2)	(37.8)	(92.6)	(92.7)	(108.8)	(268.9)	(477.3)	(169.8)	(520.7)
Q/Q (%)	71.5	(64.7)	(83.1)	(28.6)	(306.6)	578.3	(62.3)	(86.8)	(1344.4)
PAT margins %	7.4	4.1	1.0	0.7	(1.5)	(59.7)	(5.2)		3.4
<b>Adj PAT</b>									
Adj PAT	6,647	2,503	1,037	299	114	(3,871)	(1,450)	267	2,038
Y/Y (%)	(0.4)	(34.9)	(81.0)	(92.3)	(98.3)	(254.6)	(239.8)	(10.9)	1686.3
Q/Q (%)	71.4	(62.3)	(58.6)	(71.1)	(61.9)	(3492.9)	(62.6)	(118.4)	664.8
No. of shares	2927	2927	2935	2935	2936	2936	2935	2935	2935
Basic EPS (Rs)	2.23	0.79	0.13	0.09	(0.20)	(1.32)	(0.50)	(0.07)	0.82

Source: Company

## Valuation

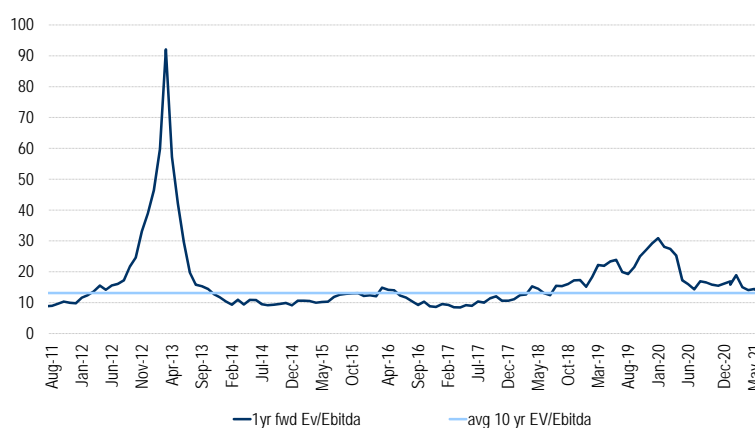
We expect a 38% CAGR in revenue over FY21-23, leading to an EPS of Rs4.9. We maintain a Buy rating, with a higher target price of Rs153 (29x FY23e), including Rs11 a share for HLLFL.

**Fig 8 – Change in estimates**

(Rs m)	Old estimates		Revised Estimates		Change (%)	
	FY22	FY23	FY22	FY23	FY22	FY23
Revenue	220,122	286,159	228,749	290,283	3.9	1.4
EBITDA	23,113	31,478	24,019	31,931	3.9	1.4
Adj. PAT	8,731	13,791	9,085	14,259	4.1	3.4
EPS (Rs)	2.97	4.70	3.09	4.86	4.1	3.4

Source: Anand Rathi Research

**Fig 9 – One-year forward EV / EBITDA**



Source: Bloomberg

### Risk

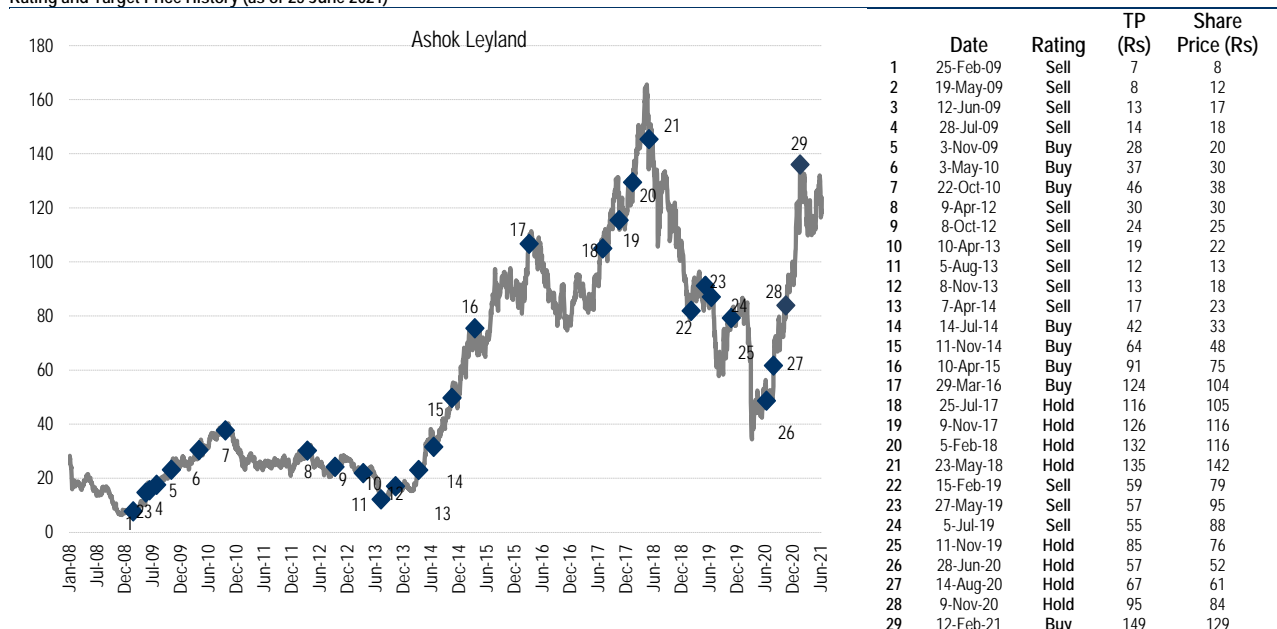
- Less-than-expected volume growth in FY22.

## Appendix

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ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.  
Tel No: +91 22 6281 7000 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.