

Retail Equity Research
Ashok Leyland Ltd
Automobile-Commercial

Buy

12 Months Investment Period Rating as per Mid Cap

CMP Rs. 124 TARGET Rs. 145 RETURN 17% ↑
(Closing: 29-06-2021)

BSE CODE : 500477 NSE CODE: ASHOKLEY
BLOOMBERG CODE: AL IN SENSEX : 52,550

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Long term growth visibility intact

Ashok Leyland (AL) is the second-largest Commercial Vehicle (CV) manufacturer in India. It has a strong presence in the truck segment with a market share of 29% as of FY21.

- Q4FY21 revenue grew by 45%QoQ due to recovery in the volume by 32%. This was largely attributed to the pick in the construction activities & E-Commerce business (LCV segment).
- Despite steep increase in RM price, on a sequential basis margin expanded by 230bps, on the back of revenue enhancement and operational efficiency.
- We expect the economic activities to recover gradually at current level and expect meaningful pick up by H2FY22, due to seasonally strong quarters and opening up of restrictions.
- We believe AL is likely to gain market share owing to new trucks in the modular platform & through LCV brand Bada Dost.
- Positively, AL is carrying robust capex plan in Electric vehicle under the UK Subsidiary 'Switch' and to use India as an export hub.
- Considering the positive announcement by the company and Govt.'s intent to kick start the Infra development, we expect the valuation to continue at current level, and reiterate our buy rating.

Volume to pick up gradually..

Q4FY21 revenue grew by 45%QoQ due to recovery in the volume by 32%. This was largely attributed to the pick in the construction activities & E-Commerce business (LCV segment). The growth in the Heavy vehicle segment was 58%QoQ and LCV segment came lower at 6%QoQ. Despite steep increase in RM price, on a sequential basis margin expanded by 230bps, on the back of revenue enhancement and operational efficiency. We expect the volume to pick gradually and revive strongly by H2FY22, owing to strong economic activity. During Q4, AL's market share in the truck segment came at 30% from 28.3% sequentially. The Bus segment to recover in the near term owing to opening up the restriction. Announcing in the budget for procuring 20000 buses will augur well for the CV Industry. AL inventory at plants level as on 31st March 2021 is 3400 units and network inventory is adequate to channelize sales at retail level. We believe the discounts will be down owing to demand pick & inventory correction.

Medium to long term triggers to remain

We expect the Govt.'s reform action to support growth in the medium to long term. In addition the company strategic initiative to consolidated all the electric mobility under the UK subsidiary 'Switch' (earlier 'Optare') will augur well for the company. On a medium term the entire electric vehicle business will move to switch, which will also develop EV specific platforms in buses and electric light commercial vehicles. AL's already supplied E-buses to cities like Ahamedabad and Patna will move to Switch. We believe the domestic truck segment revival is largely depend upon the scrappage policy and faster execution of the infra projects. However, the near term headwinds due to higher steel price and non availability of semi conductors to put pressure on margin for an extended time.

Strong support from LCV business.

The company has been successful in gaining market share with products like Dost and its variants like Bada Dost, Avatar and Partner models giving a tough time to its competitors. In addition, the company's has embarked a modular platform strategy to reduce the parts per vehicle. This could result in better economies of scale, production planning and improved supply chain management to reduce cost of the vehicle.

Valuations

We believe that the short term headwinds has been factored in the stock price and not expecting any meaningful decline as the volume numbers are currently at its low, and recover gradually with the opening up of restriction. We value AL at 12x EV/EBITDA on FY23E & reiterate our buy rating with a target of Rs145.

Company Data

Market Cap (cr)	Rs.36,621
Enterprise Value (cr)	Rs.38,754
Outstanding Shares (cr)	294
Free Float	48.9%
Dividend Yield	0.0%
52 week high	Rs.139
52 week low	Rs.47
6m average volume (cr)	4.38
Beta	1.5
Face value	1

Shareholding (%)	Q2FY21	Q3FY21	Q4FY21
Promoters	51.5	51.5	51.5
FII's	14.6	16.3	18.1
MFs/Insti	17.6	17.6	16.7
Public	16.3	14.5	13.7
Total	100.0	100.0	100.0

Price Performance *	3 month	6month	1 Year
Absolute Return	8.2%	33.6%	128.0%
Absolute Sensex	8.0%	16.2%	51.8%
Relative Return	0.2%	17.4%	76.2%

*over or under performance to benchmark index



Standalone(cr)	FY21A	FY22E	FY23E
Sales	15,301	21,086	31,218
Growth (%)	-12.4	37.8	48.1
EBITDA	535	1,553	3,215
EBITDA Margin(%)	3.5	7.4	10.3
PAT Adj.	-376	326	1,652
Growth (%)	-195.6	-186.7	406.0
Adj.EPS	-1.3	1.1	5.6
Growth (%)	-195.9	-186.7	406.0
P/E	-97.2	112.1	22.1
P/B	7.1	10.1	7.4
EV/EBITDA	72.4	24.8	12.0
ROE (%)	-8.2	9.8	52.9
D/E	0.2	0.2	0.2

Quarterly Financials (Standalone)

Profit & Loss

Rs cr)	Q4FY21	Q4FY20	YoY Growth %	Q3FY20	YoY Growth %
Sales	7,000	3,838	82.4	4,814	45.4
EBITDA	534	183	192.0	254	110.5
EBITDA margins	7.6	4.8	286	5.3	236
Depreciation	218	188	16.4	194	12.4
EBIT	316	-5	-	59	431.9
Interest	77.1	33.1	132.8	65.6	17.4
Other Income	38	34	10.2	34.1	11.4
Exceptional Items	37	-69	0	-46	0
PBT	314	-72	-	-18.2	-
Tax	73	-15	-	-18.2	-
Share of profit from Associate	0	0	0	0	0
Minority Interest	0	0	0	0	0
Reported PAT	241	-57	-	-19.4	-
Adjustments	-37	69	0	46	0
Adj PAT	204	11	1,686.3	26.7	664.8
No. of Shares	293.6	293.6	0	293.6	0
EPS (Rs)	0.70	0.0	1,686.3	0.1	664.8

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	21,587	27,041	21,086	31,218	-2.3	15.4
EBITDA	1,900	2,569	1,553	3,215	-18.2	25.2
Margins (%)	8.8	9.5	7.4	10.3	-140bps	80bps
Adj. PAT	765	1297	326	1,652	-57.3	27.4
EPS	2.6	4.4	1.1	5.6	-57.1	28.3

Standalone Financials

PROFIT & LOSS

Y.E March (RsCr)	FY19A	FY20A	FY21A	FY22E	FY23E
Sales	29,055	17,467	15,301	21,086	31,218
% change	10.2	-39.9	-12.4	37.8	48.1
EBITDA	3,136	1,174	535	1,553	3,215
% change	5.8	-62.6	-54.4	190.3	107.0
Depreciation	622	671	822	937	901
EBIT	2513	502	-287	617	2315
Interest	70	109	307	334	283
Other Income	110	123	120	169	250
PBT	2,443	393	-594	282	2,032
% change	4.6	-85.6	-235.0	-192.6	406.0
Tax	514	122	-98	124	630
Tax Rate (%)	20.6%	34.0%	20.2%	27.6%	27.6%
Reported PAT	1,982	238	-388	326	1,652
Adj.	57	156	12	0	0
Adj. PAT	2,039	394	-376	326	1,652
% change	16.8	-80.7	-195.6	-186.7	406.0
No. of shares (cr)	294	294	293	293	293
Adj EPS (Rs)	6.9	1.3	-1.3	1.1	5.6
% change	16.5	-80.7	-195.9	-186.7	406.0
DPS (Rs)	3.1	3.1	3.1	4.1	4.1

BALANCE SHEET

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	1622	1472	535	725	761
Accounts Receivable	2506	1180	2816	3177	2566
Inventories	2685	1238	2142	2424	2161
Other Cur. Assets	2191	1503	1290	1733	2566
Investments	3206	3791	4270	4839	5576
Gross Fixed Assets	7147	8349	10028	10498	11258
Net Fixed Assets	4830	5443	5599	5306	5310
CWIP	275	594	372	472	572
Intangible Assets	807	724	1424	1252	1106
Def. Tax (Net)	-250	-265	-171	-169	-160
Other Assets	0	0	0	0	0
Total Assets	17,871	15,681	18,279	19,759	20,459
Current Liabilities	3173	1926	1766	2406	3265
Provisions	1053	806	655	924	1368
Debt Funds	398	3065	3716	3716	3716
Other Liabilities	5019	2624	5165	6610	5558
Equity Capital	294	294	294	294	294
Reserves & Surplus	7935	6968	6684	5808	6259
Shareholder's Fund	8229	7261	6977	6102	6552
Total Liabilities	17,871	15,681	18,279	19,759	20,459
BVPS	48	40	28	22	25

CASH FLOW

Y.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Net inc. + Depn.	3118	1032	336	1388	3182
Non-cash adj.	-49	15	-94	-2	-9
Changes in W.C	-3159	-931	-201	1001	-146
C.F. Operation	-604	-6	139	2262	2397
Capital exp.	-752	-1521	-1456	-570	-860
Change in inv.	3158	-83	-375	-300	-300
Other invest.CF	0	0	0	0	0
C.F - Investment	2407	-1604	-1831	-870	-1160
Issue of equity	8	0	0	0	0
Issue/repay debt	-214	2666	651	0	0
Dividends paid	-902	-1205	-1202	-1202	-1202
Other finance.CF	0	0	0	0	0
C.F - Finance	-1213	1461	756	-1202	-1202
Chg. in cash	590	-149	-937	190	36
Closing cash	1622	1472	535	725	761

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab & Return					
EBITDA margin (%)	10.8	6.7	3.5	7.4	10.3
EBIT margin (%)	8.7	2.9	-1.9	2.9	7.4
Net profit mgn.(%)	7.0	2.3	-2.5	1.5	5.3
ROE (%)	34.9	6.7	-8.2	9.8	52.9
ROCE (%)	11.7	2.7	-0.3	2.9	8.1
W.C & Liquidity					
Receivables (days)	21.7	38.5	47.7	51.9	33.6
Inventory (days)	39.2	57.9	54.1	51.8	37.1
Payables (days)	56.5	75.2	59.1	47.3	45.9
Current ratio (x)	2.3	2.4	3.3	2.9	2.1
Quick ratio (x)	1.3	1.4	1.9	1.6	1.0
Turnover & Leverage					
Gross asset T.O (x)	4.7	2.5	1.9	2.4	3.3
Total asset T.O (x)	1.7	1.0	0.9	1.1	1.6
Int. covge. ratio (x)	35.7	4.6	-0.9	1.8	8.2
Adj. debt/equity (x)	0.0	0.2	0.2	0.2	0.2
Valuation					
EV/Sales (x)	1.2	2.1	2.5	1.8	1.2
EV/EBITDA (x)	11.0	31.7	72.4	24.8	12.0
P/E (x)	18.0	93.2	-97.2	112.1	22.1
P/BV (x)	3.0	3.6	7.1	10.1	7.4

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
26 th July 2017	Buy	116
13 th November 2017	Buy	123
14 th February 2018	Buy	147
22 nd May 2018	Buy	155
19 th June 2018	Buy	125
20 th November 2018	Buy	125
21 st February 2019	Buy	90
28 May 2019	Buy	112
03 August 2019	Hold	69
02 January 2020	Accumulate	90
19 March 2020	Accumulate	72
10 July 2020	Buy	59
10 November 2020	Accumulate	95
23 February 2021	Buy	138
29 June 2021	Buy	145

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated : The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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