

Retail Equity Research (South India Focus)

Ashok Leyland Ltd

Automobile-Commercial

BSE CODE : 500477

NSE CODE: ASHOKLEY

BLOOMBERG CODE: AL:IN

SENSEX : 56,747

Buy

12Months Investment Period

Rating as per Mid Cap

CMP Rs.119 TARGET Rs.137 RETURN 15% ↑

(Closing: 06-12-2021)

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.

- Q2FY22 revenue grew by 51% QoQ due to pick up in the M&HCV demand and strong growth registering in the LCV segment.
- We expect the margin to improve going forward owing to reduction in the commodity cost and better cost management.
- We believe the economic activities to recover gradually at current level and expect meaningful pick up in H2FY22 due to seasonality, improvement in core economic indicators and easing restrictions.
- We believe AL is likely to gain market share owing to new models in ICV (Intermediate CV) & CNG trucks and LCV brand Bada Dost.
- Positively, AL is carrying robust capex plan in Electric vehicle under the UK Subsidiary 'Switch' and to use India as 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..

Q2FY22 revenue grew by 51% QoQ (Not comparable) due production lockdown with regard to Pandemic. We expect the demand to improve going forward owing to pick up in the construction activity, improvement in retail sales and strong E-commerce activity. Respite in the steel price at current level and better cost management and price hike taken will expand with margin. During Q2, AL's market share in the truck segment came at 22% from 27% sequentially due to reduction in discounting. For the Quarter, the Heavy truck segment grew by 53% QoQ in volume and LCV segment doubled in volume. The Bus segment to recover in the near term owing to easing restriction. The average Bus volume in the industry came to 1/4 from an annual production of 40000. AL is really poised to gain market share in this segment with its new models in Avatar (ICV, Modular platform) and CNG models launching in Q4.

Medium to long term triggers to remain

We expect the Govt. 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. ALs already supplied E-buses to cities like Ahmedabad 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 respite in steel price and reduction in the covid cases has brought positive sentiments in the industry.

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. AL has increased its market share to 23.8% in the LCV segment. The growth trend in the LCV segment to continue as the Industry opportunity of LCV is 5 times higher than the HCV. Company is poised to expand its market in North, North east and the SAARC region.

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 gradually recovering owing to improvement in core economic indicators. We value AL at 15x EV/EBITDA on FY23E and reiterate our buy rating with a target of Rs.137.

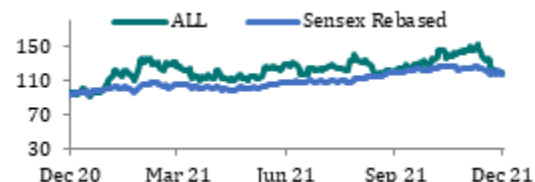
Company Data

Market Cap (cr)	Rs.33,866
Enterprise Value (cr)	Rs.37,047
Outstanding Shares (cr)	294
Free Float	48.9%
Dividend Yield	0.4%
52 week high	Rs.153
52 week low	Rs.87
6m average volume (cr)	2.0
Beta	1.4
Face value	1

Shareholding (%)	Q4FY21	Q1FY22	Q2FY22
Promoters	51.5	51.5	51.5
FII's	18.1	17.0	16.3
MFs/Insti	16.7	18.2	19.5
Public	13.7	13.3	13.6
Total	100.0	100.0	100.0
Promoters Pledge %	17.6	14.4	18.4

Price Performance	3 month	6month	1 Year
Absolute Return	-1.1%	-5.8%	25.8%
Absolute Sensex	-2.6%	9.3%	25.9%
Relative Return	1.5%	-15.1%	-0.1%

over or under performance to benchmark index



Standalone(cr)	FY21A	FY22E	FY23E
Sales	15,301	20,349	30,952
Growth (%)	-12.4	33.0	52.1
EBITDA	535	875	2878
EBITDA Margin(%)	3.5	4.3	9.3
PAT Adj.	-376	-286	1301
Growth (%)	-	-	-
Adj.EPS	-1.3	-1.0	4.4
Growth (%)	-	-	-
P/E	-	-	26.8
P/B	6.7	15.4	12.2
EV/EBITDA	69.2	44.0	12.8
ROE (%)	-8.2	-9.5	55.8
D/E	0.2	0.3	0.2

 Saji John
 Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

Rs cr)	Q2FY22	Q2FY21	YoY Growth %	Q1FY22	QoQ Growth %
Sales	4,458	2,837	57.2	2,951	51.1
EBITDA	135	80	67.5	-140	-196.1
EBITDA margins	3.0	2.8	+20bps	-4.7	-
Depreciation	184	171	7.7	183	0.4
EBIT	-50	-91	-45.4	-324	-84.7
Interest	87.1	87.2	-0.2	70.7	23.1
Other Income	21	22	-4.3	13.4	56.2
Exceptional Items	0	-2	0	-2	0
PBT	-116	-158	-26.8	-382.6	-69.8
Tax	-32	-11	191.9	-382.6	-91.5
Share of profit from Associate	0	0	0	0	0
Minority Interest	0	0	0	0	0
Reported PAT	-83	-147	-43.4	-282.3	-70.6
Adjustments	0	2	0	2	0
Adj PAT	-83	-145	-42.6	-280.6	-70.3
No. of Shares	293.6	293.6	0	293.6	0
EPS (Rs)	-0.28	-0.5	-42.6	-1.0	-70.3

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	20,212	29,796	20,349	30,952	0.7	3.9
EBITDA	1088	2682	875	2878	-19.6	7.3
Margins (%)	5.4	9	4.3	9.3	-110bps	+30bps
Adj. PAT	-16	1257	-237	1361	-	8.3
EPS	-0.1	4.3	-0.8	4.7	-	8.1

Standalone Financials

PROFIT & LOSS

Y.E March (RsCr)	FY19A	FY20A	FY21A	FY22E	FY23E
Sales	29,055	17,467	15,301	20,349	30,952
% change	10.2	-39.9	-12.4	33.0	52.1
EBITDA	3136	1174	535	875	2878
% change	5.8	-62.6	-54.4	63.5	229.0
Depreciation	622	671	822	919	950
EBIT	2513	502	-287	-44	1928
Interest	70	109	307	387	397
Other Income	110	123	120	102	217
PBT	2443	393	-594	-431	1532
% change	4.6	-85.6	-	-	-
Tax	514	122	-98	-43	448
Tax Rate (%)	20.6%	34.0%	20.2%	13.0%	25.6%
Reported PAT	1982	238	-388	-286	1301
Adj.	57	156	12	0	0
Adj. PAT	2039	394	-376	-286	1301
% change	16.8	-80.7	-	-	-
No. of shares (cr)	294	294	293	293	293
Adj EPS (Rs)	6.9	1.3	-1.3	-1.0	4.4
% change	16.5	-80.7	-	-	-
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	349	1321
Accounts Receivable	2506	1180	2816	1673	2544
Inventories	2685	1238	2142	2096	2152
Other Cur. Assets	2191	1503	1290	1561	2120
Investments	3206	3791	4270	4710	4991
Gross Fixed Assets	7147	8349	10,028	10,498	11,258
Net Fixed Assets	4830	5443	5599	5324	5307
CWIP	275	594	372	472	572
Intangible Assets	807	724	1424	1252	1078
Def. Tax (Net)	-250	-265	-171	-46	-39
Other Assets	0	0	0	0	0
Total Assets	17,871	15,681	18,279	17,390	20,046
Current Liabilities	3173	1926	1766	2387	3251
Provisions	1053	806	655	725	1357
Debt Funds	398	3065	3716	5016	4316
Other Liabilities	5019	2624	5165	3773	5533
Equity Capital	294	294	294	294	294
Reserves & Surplus	7935	6968	6684	5196	5295
Shareholder's Fund	8229	7261	6977	5489	5588
Total Liabilities	17,871	15,681	18,279	17,390	20,046
BVPS	48	40	28	17	18

CASH FLOW

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	3118	1032	336	590	2699
Non-cash adj.	-49	15	-94	-125	-7
Changes in W.C	-3159	-931	-201	279	1190
C.F. Operation	-604	-6	139	786	3434
Capital exp.	-752	-1521	-1456	-570	-860
Change in inv.	3158	-83	-375	-500	300
Other invest.CF	0	0	0	0	0
C.F - Investment	2407	-1604	-1831	-1070	-560
Issue of equity	8	0	0	0	0
Issue/repay debt	-214	2666	651	1300	-700
Dividends paid	-902	-1205	-1202	-1202	-1202
Other finance.CF	0	0	0	0	0
C.F - Finance	-1213	1461	756	98	-1902
Chg. in cash	590	-149	-937	-186	972
Closing cash	1622	1472	535	349	1321

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY23E
Profitab & Return					
EBITDA margin (%)	10.8	6.7	3.5	4.3	9.3
EBIT margin (%)	8.7	2.9	-1.9	-0.2	6.2
Net profit mgn.(%)	7.0	2.3	-2.5	-1.4	4.2
ROE (%)	34.9	6.7	-8.2	-9.5	55.8
ROCE (%)	11.7	2.7	-0.3	0.5	7.3
W.C & Liquidity					
Receivables (days)	21.7	38.5	47.7	40.3	24.9
Inventory (days)	39.2	57.9	54.1	50.5	34.5
Payables (days)	56.5	75.2	59.1	49.5	45.9
Current ratio (x)	2.3	2.4	3.3	2.2	2.1
Quick ratio (x)	1.3	1.4	1.9	0.8	1.2
Turnover & Leverage					
Gross asset T.O (x)	4.7	2.5	1.9	2.3	3.3
Total asset T.O (x)	1.7	1.0	0.9	1.1	1.7
Int. covge. ratio (x)	35.7	4.6	-0.9	-0.1	4.9
Adj. debt/equity (x)	0.0	0.2	0.2	0.3	0.2
Valuation					
EV/Sales (x)	1.1	2.0	2.4	1.9	1.2
EV/EBITDA (x)	10.4	30.2	69.2	44.0	12.8
P/E (x)	17.1	88.7	-	-	26.8
P/BV (x)	2.9	3.4	6.7	15.4	12.2

Recommendation summary (Last 3 Years)



Dates	Rating	Target
20 November 2018	Buy	125
21 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
27 September 2021	Buy	147
07 December 2021	Buy	137

Source: Bloomberg, Geojit Research.

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.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being up-graded to BUY or downgraded to a HOLD, REDUCE or SELL.

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

General Disclosures and Disclaimers

CERTIFICATION

I, Saji John, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit Financial Services Limited (hereinafter Geojit), a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. Geojit is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Geojit will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION

The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE

Geojit and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER

We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by Geojit without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report. The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

JURISDICTION

The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES:

Geojit's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), Geojit affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership:

Geojit confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership of 1% or more in relation in the subject company (ies) covered herein.

Further, the Analyst confirms that:

he, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

he, his associates and his relatives have no actual/beneficial ownership of 1% or more in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, Geojit or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company. (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by Geojit regarding the compensation paid to its Research Analyst:

Geojit hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that the I Saji John Research Analyst(s) of Geojit have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither Geojit/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange board of India.

Geojit Financial Services Ltd. Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226

