



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗
+ Positive = Neutral - Negative			

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

ESG Disclosure Score

NEW

ESG RISK RATING

Updated Nov 08, 2021

37.97

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

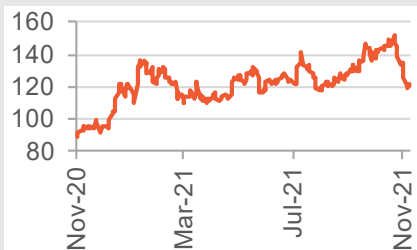
Company details

Market cap:	Rs. 34,933 cr
52-week high/low:	Rs. 153 / 87
NSE volume: (No of shares)	182 lakh
BSE code:	500477
NSE code:	ASHOKLEY
Free float: (No of shares)	143.49 cr

Shareholding (%)

Promoters	51.1
FII	16.2
DII	19.5
Others	13.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-16.3	-1.6	-4.5	34.8
Relative to Sensex	-12.2	-1.8	-17.4	3.1

Sharekhan Research, Bloomberg

Ashok Leyland Ltd

ALL set to grow

Automobiles

Sharekhan code: ASHOKLEY

Reco/View: Buy



CMP: Rs. 119

Price Target: Rs. 180



Upgrade



Maintain



Downgrade

Summary

- We retain our Buy rating on Ashok Leyland Limited (ALL) with an unchanged PT of Rs. 180, owing to the expected growth recovery in the CV industry post normalisation of economic activities.
- ALL to benefit from its aggressive strategy to increasing market share through increased penetration across all regions and new product launches.
- We expect ALL's profitability to improve significantly, with its EBITDA posting a 166% CAGR for FY2021-FY2023E, aided by robust 39.7% revenue CAGR and sharp margin expansion.
- The stock is trading below its average historical multiples at P/E of 15.9x and EV/EBITDA of 8.9x its FY2023E estimates.

We maintain our positive view on Ashok Leyland Limited (ALL) and expect it to be a strong beneficiary of recovery in commercial vehicle (CV) sales in domestic markets, led by improving macro environment, higher infrastructure spending, and replacement demand. Management is positive for CV growth going forward, as India's gross domestic product (GDP) is expected to grow by 9.5% in FY2022. The company expects good opportunities to continue to grow exports, defence, power solutions, light commercial vehicles (LCV), and parts business even as it expands the reach and products of the core medium and heavy commercial vehicle (MHCV) business. The increase in economic activities related to infrastructure, mining, and e-commerce would fuel demand for LCVs and M&HCVs. ALL is well placed in the industry to benefit from the expected upcycle in the CV industry, aided by its focus on increasing market share through increased penetration across all regions and new product launches. We expect ALL's profitability to improve significantly, with its EBITDA growing at a 166% CAGR for FY2021-FY2023E. Moreover, the company's earnings are expected to turnaround in FY2022E with net profit of Rs. 890 crore as against net loss of Rs. 301.6 crore in FY2021. Thus, we remain positive on ALL's growth prospects and retain Buy on the stock with a revised price target (PT) of Rs. 180.

- Direct beneficiary of increasing economic activities:** We expect ALL to be a direct beneficiary of recovery in CV sales in domestic markets, led by improving macro environment, higher infrastructure spending, and replacement demand. We expect the domestic CV industry to post a 22% CAGR from FY2022E-FY2025E, where we expect ALL to improve its market share to ~20% from current 16%, led by new product launches in LCV and M&HCVs and increasing the distribution network in North and East regions.
- Margins to improve significantly:** The company's EBITDA margin is expected to improve significantly from 3.5% in FY2021 to 12.7% in FY2023E, leading to a robust 166% CAGR in EBITDA during FY2021-FY2023E. EBITDA margin is expected to improve because of operating leverage benefits, cost reduction, and stability in commodity prices going forward.
- Focus on greener technology and EV portfolio:** ALL continues to focus on greener technology with renewed focus on EV products. The company holds 92% stake in its EV subsidiary, Switch Mobility Limited. The EV subsidiary is looking out for partners and strategic investors, which will put growth on faster track. The company is transferring its eMaaS (E-Mobility as a Service) business to Ohm Global Mobility on slump sale basis for Rs. 65 crore. ALL's promoters are expected to eventually transfer Ohm to ALL's overseas EV subsidiary. The company will provide details once it gets regulatory approvals.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 180: We expect ALL to benefit from faster recovery in CV volumes and improvement in EBITDA margins, led by operating leverage benefits. ALL is well placed in the industry to benefit from increased economic activities related to infrastructure, mining, and e-commerce, aided by its focus on increasing market share through increased penetration across all regions and new product launches. The company's profitability is expected to improve significantly in the medium term, with its EBITDA expected to post a 166% CAGR over FY2021-FY2023E. Investments by investors and strategic partners in its EV subsidiary can lead to value unlocking and re-rating of the stock. The stock has corrected by ~18% in the past one week and provides higher margin of safety to investors. The stock is trading below its average historical multiple at P/E of 15.9x and EV/EBITDA of 8.9x its FY2023E estimates. We reiterate our Buy rating on the stock with an unchanged PT of Rs. 180.

Key Risks

Prolonged COVID-19 pandemic can disrupt economic sentiments and affect prospects of the CV industry's recovery. Pricing pressures to defend domestic market share would affect margins. Moreover, if commodity prices continue to rise going forward, it can affect the company's profitability.

Valuation (Standalone)

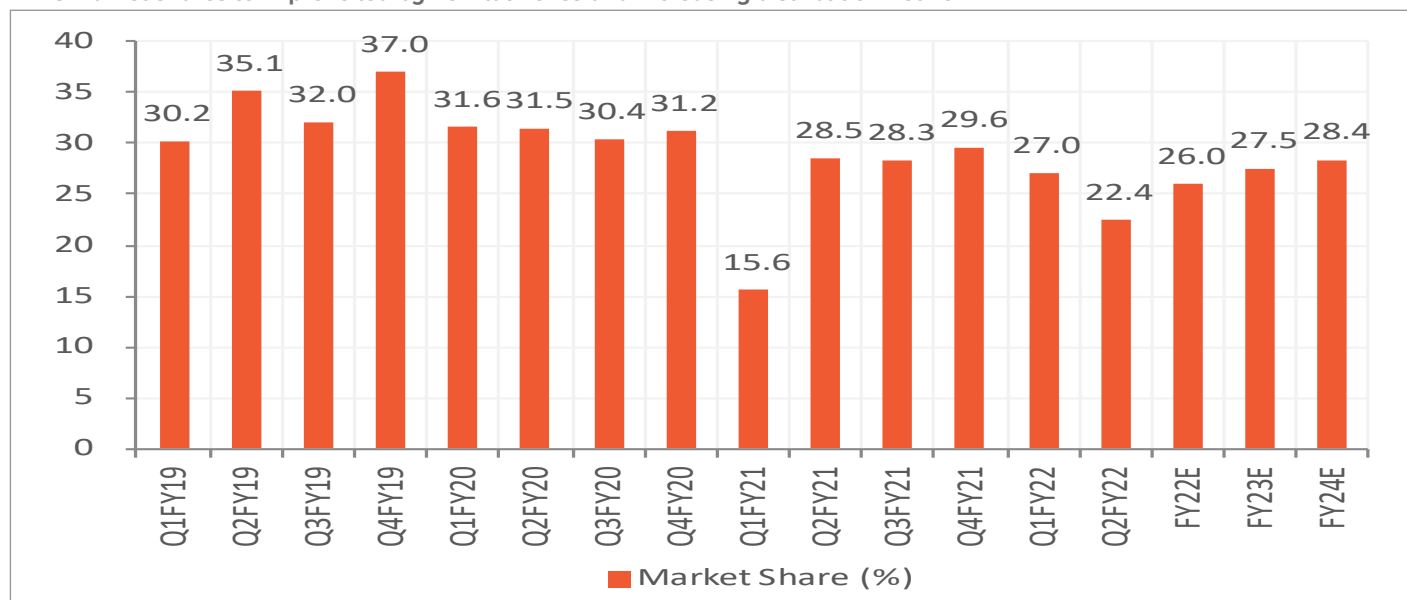
Particulars	FY21	FY22E	FY23E	Rs cr
Revenues	15,301	22,799	29,867	34,347
Growth (%)	(12.4)	49.0	31.0	15.0
EBITDA	535	2,082	3,789	4,449
OPM (%)	3.5	9.1	12.7	13.0
Net Profit	(302)	890	2,198	3,315
Growth (%)	NA	NA	147.0	50.8
EPS	(1.0)	3.0	7.5	11.3
P/E	NA	NA	15.9	10.5
P/BV	5.1	4.7	3.9	3.1
EV/EBITDA	67.7	17.1	8.9	7.1
ROE (%)	-	12.1	24.8	29.0
ROCE (%)	-	10.7	21.5	26.5

Source: Company; Sharekhan estimates

Direct beneficiary of increasing economic activities: We expect ALL to be a direct beneficiary of recovery in CV sales in domestic markets, led by improving macro environment, higher infrastructure spending, and replacement demand. We expect the domestic CV industry to post a 22% CAGR from FY2022E-FY2025E, where we expect ALL to improve its market share to ~20% from current 16%, led by new product launches in LCV and M&HCVs and increasing distribution network in North and East regions. The company witnessed faster growth in higher tonnage trucks, led by increased construction and mining activities.

Strong position in M&HCVs; Focusing to improve non-cyclical truck business: ALL is the second largest MHCV manufacturer with 32% market share. In MHCV buses, ALL is the market leader commanding market share of 45%, while its market share stands at 29% in MHCV trucks. ALL is focusing on reducing its dependence on the cyclical truck business, which constitutes about 65% of revenue currently. ALL is improving its LCV business and is targeting market share gains with the launch of new products. The company has also identified CV exports and defence as key focus areas. ALL is planning to increase its distribution network in Africa and other Southeast Asian countries to boost exports. With the 'Atmanirbhar Bharat' push in the defence sector, the government is targeting increased sourcing from domestic private players, which would benefit players such as ALL.

ALL's market shares to improve led by new launches and increasing distribution network



Source: Company Data; Sharekhan Research

Focus on digitisation and new launches: ALL's focus on digitisation remains key focus for driving demand for the CV business. The company's focus on its digital marketplace platform has helped it to tap market shares from unorganised aftersales and services markets. The digital platforms help in monitoring fleet utilisation and productivity and alarm customers of any critical issues in the fleet. The company's new launches such as Dost, Bada Dost, and ATVR have received positive feedback from customers. The company plans to grow its businesses from new launches. The phoenix platform, on which Dost and Bada Dost were launched, is expected to receive more launches over the next few years. CNG models are expected to be launched in Q4FY2022.

Focus on greener technology and EV portfolio: ALL continues to focus on greener technology with renewed focus on EV products. The company holds 92% stake in its EV subsidiary, Switch Mobility Limited. The EV subsidiary is looking out for partners and strategic investors, which will put growth on a faster track. The company is transferring its eMaaS (E-Mobility as a Service) business to Ohm Global Mobility, a promoter entity, on slump sale basis for Rs. 65 crore. ALL's promoters are expected to eventually transfer Ohm to ALL's overseas EV subsidiary. The company will provide details once it gets regulatory approvals. However, the stake owned by the promoter and Ashok Leyland is not yet disclosed.

Export strategy: ALL remains focused on exports, which currently contribute 8-10% in terms of volumes. The company's key focus markets are Africa and MENA regions. The company has on boarded around 6-7 dealers, which have previous experience in the automobile business and are local. In terms of organisation structure, all markets have separate CEO and manager for focussed approach. The strategy would be to create market and brand recall in cities for its LCV products and increase penetration; then the company would subsequently launch ICVs and M&HCVs. ALL is planning to increase its distribution network in Africa and other Southeast Asian countries to boost exports. With the 'Atmanirbhar Bharat' push in the defence sector, the government is targeting increased sourcing from domestic private players, which would benefit players such as ALL. In exports, the company is improving base in Africa and Middle East, while strengthening its position in SAARC countries.

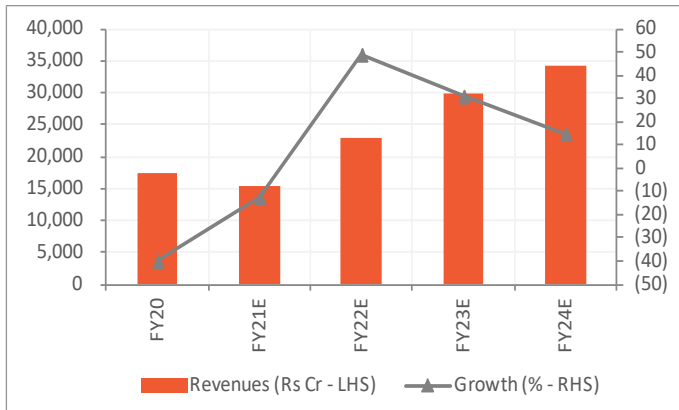
Investments and subsidiaries: ALL continued to invest in its subsidiaries SWITCH and Hinduja Finance Limited. The company sees SWITCH as a global arm for Ashok Leyland in the electrified vehicle space, having a huge interest in Indian markets. The Hinduja Finance company is performing well with collection efficiency more than 90%. The company expects to invest around Rs. 100 crore-150 crore in subsidiaries in FY2022. The company will infuse further investments, depending upon business demand and requirement.

Management outlook: Management is positive for growth in the medium term, as India's GDP is expected to grow by 9.5% in FY2022. The company sees good opportunities to continue to grow exports, defence, power solutions, LCV, and parts business even as it expands the reach and products of the core MHCV business. The increase in economic activities related to infrastructure, mining, and e-commerce would fuel demand for LCVs and M&HCVs. Management expects demand for passenger segments to improve after the opening of schools, offices, and normalcy of other activities. The vaccination drive would further help in advancing demand for passenger vehicles. Moreover, the normalisation of hygiene and social distancing would lead to less passenger in buses, which would add to bus demand in the medium term. Management continues to focus on greener technology with renewed focus on EV products. The company plans to launch CNG models in Q4FY2022. The company is also focusing on increasing dealership in North, Northeast, and East regions in the country. In exports, the company is improving base in Africa and Middle East, while strengthening its position in SAARC countries.

Positive outlook going forward: The company expects industry demand to improve as the economy opens up and business activities gain momentum. ALL expects the CV industry to report growth over the next few quarters. The company is witnessing divergent trends for various segments in the CV industry. Tippers, multi-axle vehicles, and light and intermediate commercial vehicles are performing better, while the bus segment is yet to pick up. To ensure social distancing (people are avoiding public transport) and with schools not yet reopening, the bus segment's demand is lagging. ALL is expected to benefit from new launches in intermediate commercial vehicles (ICV). Bada Dost in LCV has been well received by the market. We expect Bada Dost to contribute to ALL's strong growth in FY2022E and FY2023E.

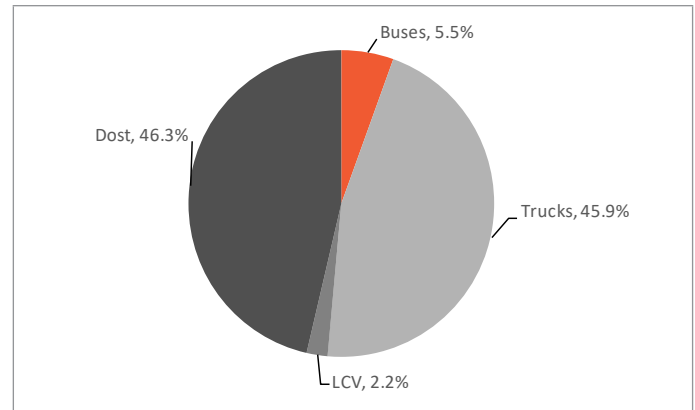
Financials in charts

Revenue and Growth Trend



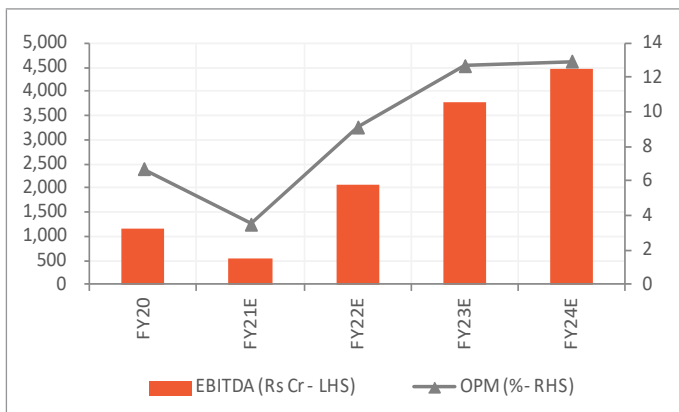
Source: Company, Sharekhan Research

Volume Mix (%)



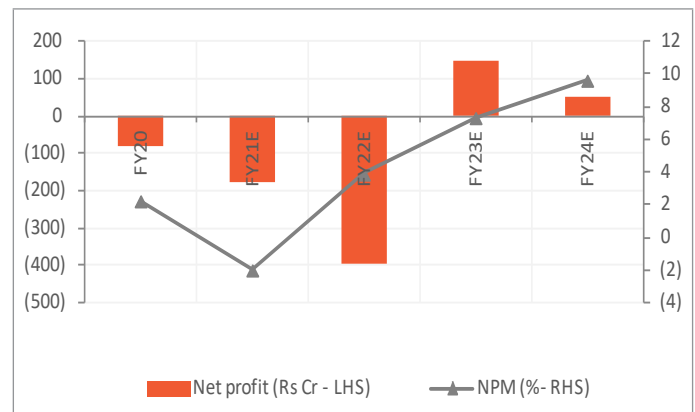
Source: Company, Sharekhan Research

EBITDA and OPM Trend



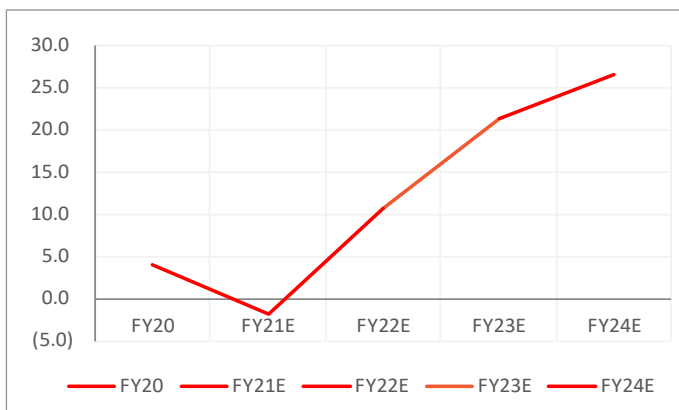
Source: Company, Sharekhan Research

Net Profit and NPM Trend



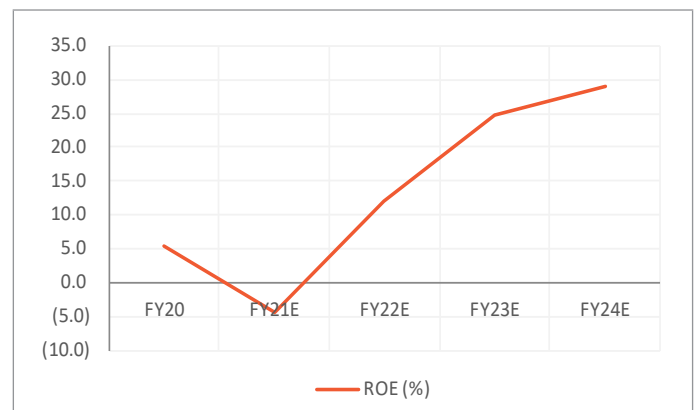
Source: Company, Sharekhan Research

RoCE Trend



Source: Company, Sharekhan Research

RoE Trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector outlook – Expect recovery in CV sales in FY2022 as the economy normalises

We see strong underlying demand for CVs domestically. We expect the strongest recovery in the CV segment in FY2022 and FY2023, driven by improved economic activities, low interest rate regime, and better financing availability. We expect strong improvement in M&HCV sales to continue, driven by rise in e-commerce, agriculture, infrastructure, and mining activities post normalisation of COVID.

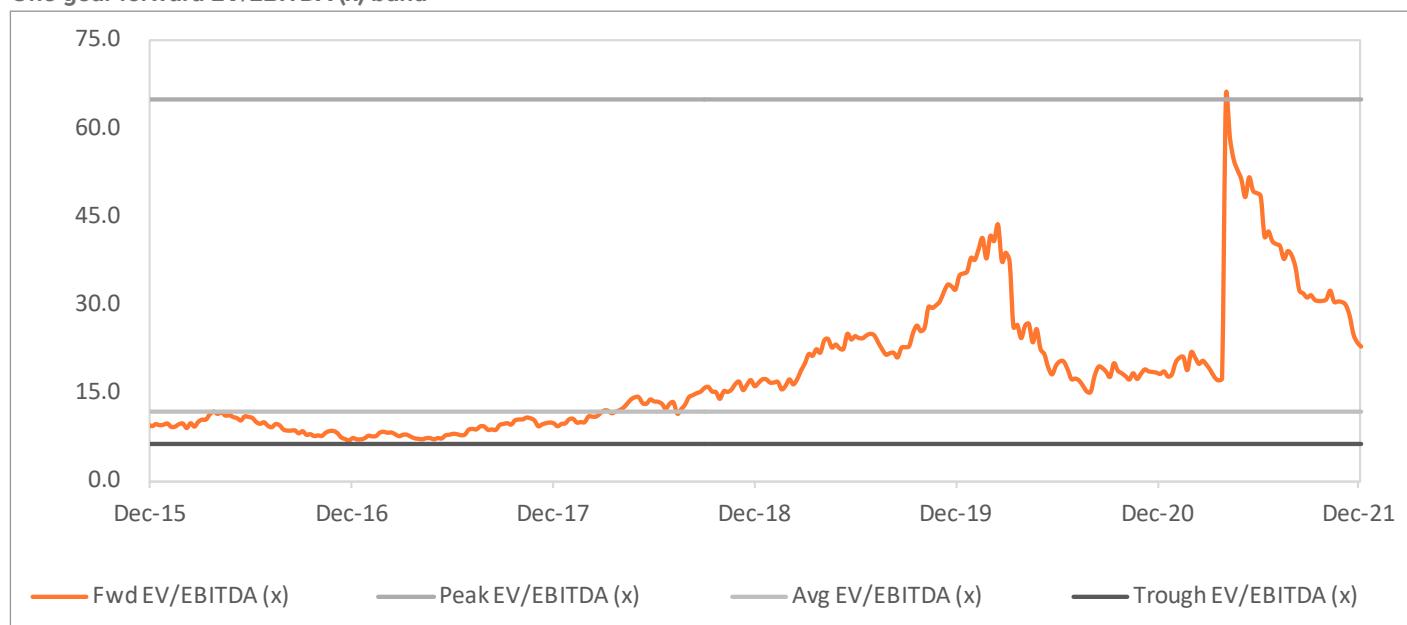
■ Company outlook – Growth strategies in place to drive growth in the medium term

ALL is likely to be the key beneficiary from the expected recovery in the domestic CV industry, as the lockdowns are lifted in the country and economy normalises. There has been a continuous uptick in economic activities after the government announced unlock measures. There has been substantial improvement in infrastructure, road construction, and mining activities. ALL will benefit from replacement demand, which is likely to arise due to lower ownership costs for BS-VI vehicles as compared to BS-IV vehicles. Demand for passenger segments is set to improve after the opening of schools and offices and normalcy of other activities. The vaccination drive would further help in advancing demand for passenger vehicles. Moreover, the normal of hygiene and social distancing would lead to less passengers in a bus, which would add to bus demand in the long term. The company is well placed to benefit from growth in exports, defence, power solutions, LCV, and parts business even as it expands the reach and products of the core MHCV business.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 180

We expect ALL to benefit from faster recovery in CV volumes and improvement in EBITDA margins, led by operating leverage benefits. ALL is well placed in the industry to benefit from increased economic activities related to infrastructure, mining, and e-commerce, aided by its focus on increasing market share through increased penetration across all regions and new product launches. The company's profitability is expected to improve significantly in the medium term, with its EBITDA is expected to post a 166% CAGR over FY2021-FY2023E. Investments by investors and strategic partners in its EV subsidiary can lead to value unlocking and re-rating of the stock. The stock has corrected by ~18% in the past one week and provides higher margin of safety to investors. The stock is trading below its average historical multiple at P/E of 15.9x and EV/EBITDA of 8.9x its FY2023E estimates. We reiterate our Buy rating on the stock with an unchanged PT of Rs. 180.

One-year forward EV/EBITDA (x) band



Source: Company Data; Sharekhan Research

Peer Comparison

Particulars	CMP (Rs / Share)	P/E (x)			EV/EBITDA (x)			RoCE (%)		
		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Ashok Leyland	119	-	39.2	15.9	67.7	17.1	8.9	-	10.7	21.5
Tata Motors	467	-	26.8	16.2	7.6	5.8	5.0	4.7	6.6	8.5
Mahindra & Mahindra	821	24.9	19.3	16.3	13.8	10.8	9.0	13.8	15.7	16.9

Source: Company Data; Sharekhan Research

About company

ALL is the flagship company of Hinduja Group and is the second-largest domestic manufacturer of MHCVs. ALL derives 70% of its volumes from the MHCV segment, while LCVs form the balance 30%. ALL is the market leader for MHCV buses with a market share of 41%, while it is the second-largest player in MHCV trucks, having a market share of 33%. Domestic revenue contributes 87% to the revenue, while exports contribute the balance 13%.

Investment theme

We believe the CV industry is poised for an upturn in the market due to faster-than-expected recovery in economic activities. There has been a continuous uptick in economic activities after the government announced unlock measures. ALL is the second-largest MHCV manufacturer with a 32% market share. In MHCV buses, ALL is the market leader commanding market share of 45%, while its market share stands at 29% in MHCV trucks. ALL is focusing on reducing its dependence on the cyclical truck business, which constitutes about 65% of revenue currently. ALL is improving its LCV business and is targeting market share gains with the launch of new products. We are positive on ALL due to faster-than-expected recovery in economic activities, especially in infrastructure development, road construction, and mining, which would likely spur demand for new trucks. Demand for CVs is expected to arise from replacement as well as new demand. Moreover, ALL is focusing on enhancing CV exports (by introducing new products and network expansion) and increasing revenue from replacement (driven by increased digitisation and network enhancement) and defence segment (through the government's Atmanirbhar Bharat push). The government is finalising a scrappage scheme for the automotive sector. An incentive-based scrappage scheme (providing incentives on new truck purchase in lieu of scrapping old trucks) would significantly boost demand and would be positive for the company. Hence, we retain our Buy rating on the stock.

Key Risks

- ♦ Prolonged COVID-19 pandemic can disrupt economic sentiments and affect prospects of the CV industry's recovery.
- ♦ Pricing pressures to defend domestic market share would affect margins. Moreover, any increase in commodity prices going forward can affect the company's profitability.

Additional Data

Key management personnel

Mr Dhiraj Hinduja	Chairman
Vipin Sondhi	Managing Director and Chief Executive Officer
Gopal Mahadevan	Director and Chief Financial Officer
K M Balaji	Vice President – Corporate Finance

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Hinduja Automotive Ltd	34.7
2	Citibank NA	11.2
3	Hinduja Bank Switzerland	4.9
4	Mirae Asset Fund	2.5
5	Nippon Life India Trustee Ltd	2.3
6	Schroder International Selection Fund	1.8
7	Platinum International Fund	1.6
8	Matthews Pacific Tiger Fund	1.5
9	Life Insurance Corp of India	1.4
10	HDFC Life Insurance	1.0

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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