

May 20, 2022

RESULT REPORT Q4 FY22 | Sector: Automobile

Ashok Leyland

Confluence of demand recovery and peak RM

Valuation and View

Ashok Leyland (AL) reported strong results led by ~8% QoQ growth in realisations at Rs1.79b (est at Rs1.65b). This was driven by higher MHCV volume mix at ~66% (v/s ~57% in 3QFY22) and price hikes (~2-3% in 4Q). This coupled with op leverage and significant cost control led EBITDA margins ~11 quarters high at 8.9% (+480bp QoQ, est at 6.2%). Going forward, with i) strong volume recovery in MHCVs (~31% CAGR over FY22-24), ii) visible recovery in bus segment (AL being the market leader), iii) improving product mix (growth in defense, exports and LCVs) should help AL's profitability in the near to med term. This will be further aided by increased price retention (net pricing less of discounts) given positive fleet sentiments.

We are building in volume CAGR of ~26% over FY22-24 with likely margins expansion to 10.1% by FY24 (v/s 4.6% in FY22 but ~80bp lower than FY19 peak). We believe AL's de-risking strategy to help as it reduces domestic MHCV exposure by adding new revenue pools such as LCVs (12-13%), exports (9-10% of sales) and spares (8-9% of sales). We believe, sustenance of MHCV market share gains in 4Q (>30%) is likely led by new launched and network expansion. We upgrade FY23/24 EPS by ~7%/6% to factor in for better ASPs and cost sustainability. We re-iterate BUY with TP of Rs163 (v/s Rs154 earlier, unchanged at ~13x of FY24 EV/EBITDA) and ~Rs13 for NBFC. AL continues to be one of our top picks among OEMs.

Result Highlights – Healthy beat led by ASPs and op leverage

- Revenue grew ~25% YoY/58% QoQ at Rs87.4b (est at Rs80.5b, cons at Rs79.2b) led by ~11% YoY/43% QoQ growth in volumes while ASP grew ~13% YoY/10.5% QoQ at Rs1.79m (est at Rs1.65m).
- Gross margins contracted ~30bp QoQ at 21.8% (-30bp QoQ, in-line). However, employee cost of Rs4.4b (v/s est of Rs4.7b) and other exp of Rs6.9b (v/s est at Rs7.9b) were lower led by cost control initiatives. This led EBITDA growth of 45% YoY/247% QoQ at Rs7.76b (est at Rs4.95b, cons at Rs5.56b).
- Consequently, margins expanded 120bp YoY/480bp QoQ at 8.9% (est at 6.2%, cons at 7%).
- Exceptional gains of Rs4.7b is attributable largely towards- i) impairment reversal of Rs5.4b of equity in subsidies and ii) loss of fair value of investment at Rs1.1b.
- Led by better op performance coupled with lower tax at Rs9.7% (est at 24.2%) Adj. PAT beat came in at Rs4.76b (v/s Rs2.1b in 4QFY21/ loss of Rs32m QoQ in 3QFY22, est at Rs1.97b, cons at Rs2.5b).

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	87,443	80,503	79,182	8.6	10.4	EBITDA margins came ~11 quarters high at 8.9% (+480bp QoQ)
EBITDA	7,760	4,952	5,565	56.7	39.5	
EBITDA margins %	8.9	6.2	7.0	270bp	180bp	
Adjusted PAT	4,769	1,938	2,528	146.0	88.6	

Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 130
Target Price	: Rs 163
Potential Return	: +25%

Stock data (as on May 20, 2022)

Nifty	16,266
52 Week h/l (Rs)	154/ 93
Market cap (Rs/USD mn)	382,646 / 4,934
Outstanding Shares (mn)	2,936
6m Avg t/o (Rs mn):	1,806
Div yield (%):	0.8
Bloomberg code:	AL IN
NSE code:	ASHOKLEY

Stock performance



	1M	3M	1Y
Absolute return	2.0%	3.0%	4.1%

Shareholding pattern (As of Mar'22 end)

Promoter	51.5%
FII+DII	35.4%
Others	13.0%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	163	154


Δ in earnings estimates

	FY23e	FY24e
EPS (New)	4.0	6.9
EPS (Old)	3.7	6.5
% change	7.0	6.1

Financial Summary

Y/E Mar (Rs b)	2022	2023E	2024E
Sales	216.9	303.2	352.9
EBITDA	9.9	24.6	35.6
Adj. PAT	0.2	11.6	20.4
EPS (INR)	0.1	4.0	6.9
EPS Gr. (%)	NA	NA	75.0
BV/Sh. (INR)	25.0	27.7	33.1
RoE (%)	0.2	15.0	22.8
RoCE (%)	3.0	12.1	18.1
Payout (%)	NA	31.5	22.5
P/E (x)	NA	32.3	18.5
P/BV (x)	5.1	4.6	3.9
EV/EBITDA (x)	40.3	16.2	11.0
EV/Sales (x)	0.8	1.0	1.2

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Exhibit 2: Quarterly snapshot

Y/e Mar (Rs mn)	Q4FY22	Q4FY21	YoY chg	Q3FY22	FY22	FY21	YoY chg
Net Revenues	87,443	70,005	24.9	55,352	216,883	153,015	41.7
Raw Materials	68,422	53,834	27.1	43,131	167,611	114,033	47.0
% of Net Sales	78.2%	76.9%		77.9%	77.3%	74.5%	
Personnel	4,376	4,016	9.0	4,324	16,946	15,839	7.0
% of Net Sales	5.0%	5.7%		7.8%	7.8%	10.4%	
Manufacturing & Other Exp	6,885	6,813	1.1	5,658	22,381	17,791	25.8
% of Net Sales	7.9%	9.7%		10.2%	10.3%	11.6%	
Total Expenditure	79,683	64,663	23.2	53,113	206,938	147,663	40.1
EBITDA	7,760	5,342	45.3	2,239	9,945	5,351	85.8
EBITDA Margin (%)	8.9%	7.6%		4.0%	4.6%	3.5%	
Depreciation	1,954	2,185	(10.6)	1,897	7,528	7,477	0.7
EBIT	5,807	3,157	83.9	342	2,418	(2,126)	NA
Interest Expenses	765	771	(0.8)	668	3,011	3,068	(1.9)
Non-operating income	242	380	(36.3)	176	761	1,195	(36.3)
Extraordinary Expenses	(4,703)	(374)		(420)	(5,109)	120	
PBT	9,987	3,139		271	5,276	(4,119)	NA
Tax-Total	973	728	33.7	213	(142)	(982)	NA
Tax Rate (%) - Total	9.7%	23.2%		78.7%	(2.7%)	23.8%	NA
Reported PAT	9,014	2,412	273.7	58	5,419	(3,137)	NA
Adj. PAT	4,769	2,125	124.5	(32)	0.2	(2,907)	NA
PAT Margin	5.5	3.0		(0.1)	0.0	(0.0)	
Key Operating Metrics							
Sales Volume (nos)	48,719	44,061	10.6	34,077	128,326	100,715	27.4
Net Realisation/Vehicle	1,794,842	1,588,818	13.0	1,624,310	1,690,093	1,519,282	11.2
Material cost / vehicle	1,404,415	1,221,804	14.9	1,265,695	1,306,132	1,132,236	15.4
Gross Profit / vehicle	390,427	367,014	6.4	358,614	383,961	387,047	(0.8)
Employee cost /vehicle	89,817	91,146	(1.5)	126,892	132,054	157,265	(16.0)
Other expenses / vehicle	141,321	154,636	(8.6)	166,021	174,407	176,648	(1.3)
EBITDA/vehicle	159,289	121,232	31.4	65,701	77,499	53,134	45.9
Net Profit/vehicle	97,892	48,224	103.0	(933)	8,535	(28,866)	NA

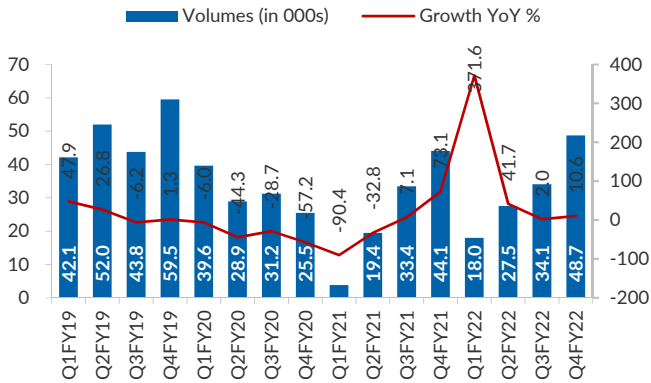
Source- Company, Yes Sec

KEY CON-CALL HIGHLIGHTS

- **MHCVs- Healthy demand outlook; ICRA's projection of 15-20% YoY growth in FY23**
 - Fleet age all time high at 9.9 years indicating healthy replacement demand likely. Increasing fleet utilisation is helping overall cash flows for transporters.
 - Underlying demand drivers are intact led by high infra push, ambitious road construction target, etc.
 - In exports division, ME, Africa will see healthy growth, Bangladesh is doing good while SL is weak.
- **Strong recovery in bus segment likely led by opening up of institutions and offices.**
 - Bus segment TIVs were down to 10-11k (v/s ~44k pre-COVID). Being a market leader, this shall help AL going forward.
 - In e-bus segment, will not participate in price war as focus will be on bids having positive profitability margins.
- **Market share gains likely led by new launches**
 - Market share in 4QFY22 at 30.6% (v/s 28.9% in 4QFY21 and 25.3% in 3QFY22). Market share in April'22 at ~30% (v/s ~29% in April'21).
 - Believe market share gains to continue led by new model launches and recovery in bus segments. Have planned 4 new model launches in CNG and 1 in tipper segment. ICV industry mix is ~1.3rd of the industry now wherein CNG mix is ~35%.
- **Don't see any backpressure on inventory as it can be ramped up if needed.**
 - Chip shortage is the only uncertainty which should ease down going fwd.
- Discounts are at slightly elevated level. **Retention of price increase in AL has been very good. If price hike is of 2% then AL is able to retain 1.7%.**
- **Have taken price hike of 2-2.5% in April** (4th price hike in 6 months) while this is not enough to cover RM situation going forward. However, if steel price remains stable then it can result in expansion in contribution margins.
 - Taking price hikes regularly along with focus on cost control will help margins expand to double digit going forward.
- **Capex guidance of Rs5-6b in FY23 (v/s ~4b in FY22).** Focusing on expanding LCV portfolio which might require additional investments. AL would be ready to invest further in Switch if required.
- **Financing scenario-**
 - Most of the NBFCs have disposed off the repossessed vehicles to right size the Balance Sheet. The level of repossession has come down v/s COVID times.
 - Deals are happening more for large fleet operators as FTBs are more prone to defaulting. Believe consolidation to happen in fleet business which shall benefit AL.
- **Domestic after-market sales grew +14% YoY in 4QFY22 and +31% in FY22.**
- **Albonair-** Already provided ~50% impairment in the balance sheet. Believe investment in Albonair has already paid off quite a bit. Currently, BS6 exhaust system is using dozer which has been designed by them.

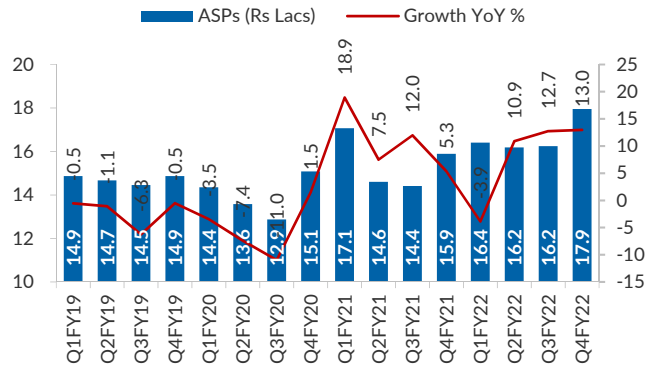
CHARTS

Exhibit 1: 4QFY22 volumes at 12 quarters high



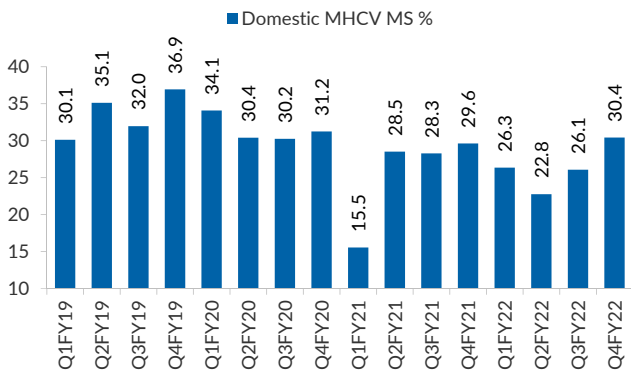
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Exhibit 2: 4QFY22 ASPs record high at Rs17.94L



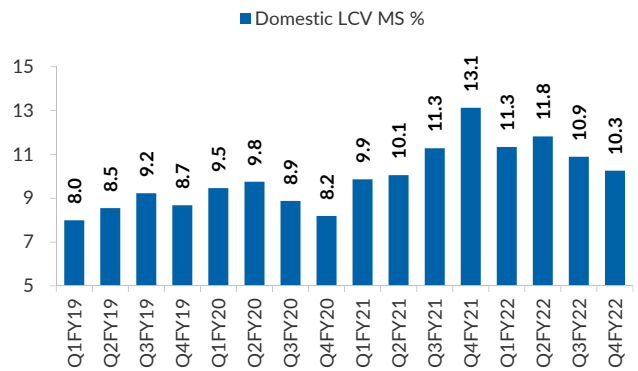
Source: Company, YES Sec

Exhibit 3: Domestic MHCV exit MS in April'22 at ~30%



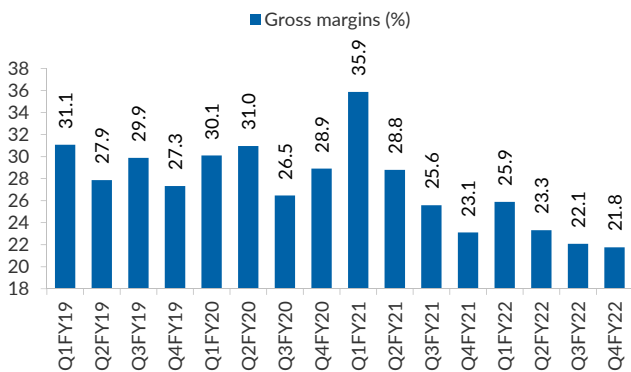
Source: SIAM, YES Sec

Exhibit 4: Hopeful of MS gain in LCV led by new launch



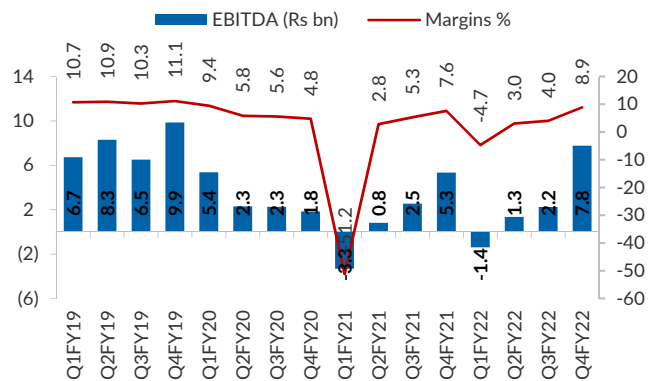
Source: SIAM, YES Sec

Exhibit 5: RM inflation led 30bp QoQ contraction in GM



Source: Company, YES Sec

Exhibit 6: Healthy margins expansion led by cost control



Source: Company, YES Sec

FINANCIALS

Exhibit 7: Balance Sheet

Y/E March (Rs mn)	2020	2021	2022	2023E	2024E
Sources of Funds					
Share Capital	2,936	2,936	2,936	2,936	2,936
Reserves	69,704	66,837	70,434	78,397	94,168
Net Worth	72,640	69,772	73,369	81,333	97,104
Loans	31,053	37,588	35,539	31,989	28,989
Deferred Tax Liability	2,648	1,708	1,444	2,199	3,521
Capital Employed	106,341	109,068	110,351	115,520	129,614
Application of Funds					
Gross Fixed Assets	96,199	105,576	108,609	117,301	129,301
Less: Depreciation	28,163	35,072	42,600	50,507	58,768
Net Fixed Assets	68,036	70,504	66,009	66,795	70,534
Capital WIP	5,941	3,719	1,943	1,250	1,250
Investments	27,196	30,687	48,196	48,721	54,276
Curr.Assets, L & Adv.	62,723	79,590	87,190	132,345	159,031
Inventory	12,380	21,423	20,752	33,227	38,671
Sundry Debtors	11,889	28,163	31,110	49,841	58,007
Cash & Bank Balances	13,225	8,230	10,470	7,742	14,014
Loans & Advances	25,229	21,774	24,858	41,534	48,339
Current Liab. & Prov.	57,555	75,431	92,986	133,591	155,477
Sundry Creditors	30,373	51,647	68,752	96,115	111,862
Other Liabilities	19,127	17,239	17,530	24,506	28,521
Provisions	8,055	6,545	6,705	12,970	15,094
Application of Funds	106,341	109,068	110,351	115,520	129,614

Source: Company, YES Sec

Exhibit 8: Income statement

Y/E March (Rs mn)	2020	2021	2022	2023E	2024E
Net Sales	174,675	153,015	216,883	303,201	352,874
Change (%)	(39.9)	(12.4)	41.7	39.8	16.4
EBITDA	11,737	5,351	9,945	24,638	35,574
Change (%)	(62.6)	(54.4)	85.8	147.7	44.4
EBITDA Margins (%)	6.7	3.5	4.6	8.1	10.1
Depreciation	6,698	7,477	7,528	7,907	8,261
EBIT	5,039	(2,126)	2,418	16,732	27,313
Interest & Fin. Charges	1,095	3,068	3,011	2,701	2,439
Other Income	1,233	1,195	761	1,077	1,565
Non-recurring Expense / (Inc)	1,558	121	(5,108)	-	-
PBT	3,619	(4,119)	5,276	15,108	26,439
Tax	1,224	(982)	(142)	3,475	6,081
Effective Rate (%)	33.8	23.8	(2.7)	23.0	23.0
Rep. PAT	2,395	(3,137)	5,418	11,633	20,358
Adjusted PAT	3,426	(3,045)	172	11,633	20,358
Change (%)	(83.1)	(188.9)	(105.7)	6,650.7	75.0

Source: Company, YES Sec

Exhibit 9: Cash Flow Statement

Y/E March (Rs mn)	2020	2021	2022	2023E	2024E
OP/(Loss) before Tax	2,395	(3,137)	5,418	16,732	27,313
Int/Div Received	(766)	(946)	(221)	1,077	1,565
Depreciation	6,698	7,477	7,528	7,907	8,261
Direct Taxes Paid	(941)	779	714	(2,719)	(4,759)
(Inc)/Dec in Work Cap.	(1,756)	(6,058)	15,696	(7,279)	1,472
Other Items	3,949	2,165	(2,666)	-	-
CF from Oper. Activity	9,579	280	26,469	15,718	33,853
Extra-ordinary Items	(168)	(69)	-	-	-
CF after EO Items	9,411	211	26,469	15,718	33,853
(Inc)/Dec in FA+CWIP	(12,923)	(6,166)	(3,933)	(8,000)	(12,000)
Free Cash Flow	(3,512)	(5,954)	22,536	7,718	21,853
CF from Inv. Activity	(21,775)	(9,752)	(14,589)	(8,525)	(17,555)
Inc/(Dec) in Debt	25,655	4,780	(2,721)	(3,550)	(3,000)
Interest Rec./ (Paid)	(1,463)	(2,720)	(2,755)	(2,701)	(2,439)
Dividends Paid	(12,702)	-	(1,761)	(3,669)	(4,587)
CF from Fin. Activity	11,490	2,060	(7,238)	(9,920)	(10,026)
Inc/(Dec) in Cash	(874)	(7,481)	4,643	(2,728)	6,272

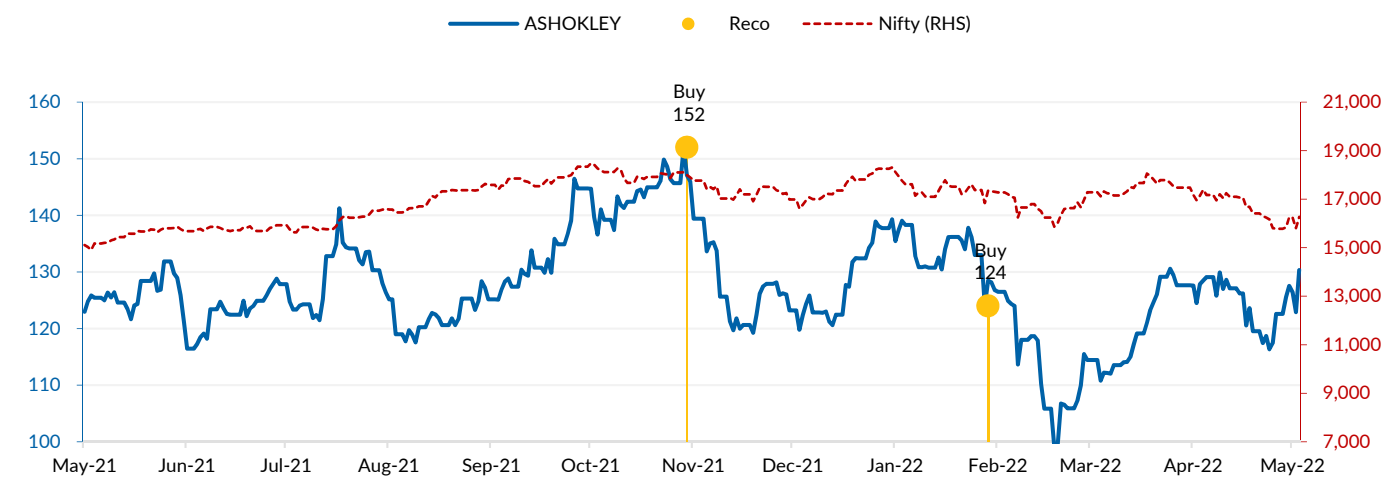
Source- Company, Yes Sec

Exhibit 10: Growth and Ratio matrix

Y/E March	2020	2021	2022	2023E	2024E
Basic (INR)					
EPS	1.2	(1.0)	0.1	4.0	6.9
EPS Fully Diluted	1.2	(1.0)	0.1	4.0	6.9
EPS Growth (%)	(83.1)	(188.9)	(105.7)	6,650.7	75.0
Cash EPS	3.4	1.5	2.6	6.7	9.7
Book Value per Share	24.7	23.8	25.0	27.7	33.1
DPS	0.5	0.6	1.0	1.3	1.6
Payout (Excl. Div. Tax) %	42.8	(57.8)	1,703.5	31.5	22.5
Valuation (x)					
P/E	109.7	(123.4)	2,180.5	32.3	18.5
Cash P/E	37.1	84.8	48.8	19.2	13.1
EV/EBITDA	33.5	75.7	40.3	16.2	11.0
EV/Sales	2.3	2.6	1.8	1.3	1.1
Price to Book Value	5.2	5.4	5.1	4.6	3.9
Dividend Yield (%)	0.4	0.5	0.8	1.0	1.2
Profitability Ratios (%)					
ROE	4.4	(4.3)	0.2	15.0	22.8
RoCE	4.2	(0.7)	3.0	12.1	18.1
RoC	6.5	(2.6)	4.3	24.0	35.7
Turnover Ratios					
Debtors (Days)	24.8	67.2	52.4	60.0	60.0
Inventory (Days)	25.9	51.1	34.9	40.0	40.0
Creditors (Days)	63.5	123.2	115.7	115.7	115.7
Working Capital (Days)	(12.8)	(4.9)	(28.4)	(15.7)	(15.7)
Fixed-Asset Turnover (x)	2.6	2.2	3.3	4.5	5.0
Leverage Ratio					
Net Debt/Equity (x)	0.2	0.4	0.5	0.4	0.3

Source- Company, Yes Sec

Recommendation Tracker



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