

Ashok Leyland Ltd.

Sensex: 50890

CMP: INR 123

Target Price: INR 120



Automobile

Ashok Leyland (AL) Standalone revenue increased 19.9% YoY at INR 48.1 bn. Realizations improved ~12% YoY and was flat QoQ. Volume increased ~7% YoY/ 72% QoQ to 3.8k units. Despite favourable mix of 50% share of MHCV, EBITDA margin came in at 5.3%. EBITDAM was impacted due to impact of higher raw material cost. EBITDA for the quarter stood at INR 2.5 bn, AL had a onetime exception loss of INR 460mn due to VRS. Adjusting for that, PAT for the quarter stood at INR 267 mn (-11%YoY), due to higher depreciation. Net debt for the company reduced from INR30.8bn in 2QFY21 to INR 28.8bn in 3QFY21.

Other highlights

- In 3QFY21, M&HCV trucks industry volume grew by ~16% YoY. For AL, M&HCV trucks grew at twice the industry growth rate, leading to market share gains in 3QFY21. Within M&HCVs, segments like ICV witnessed good growth with the rise in infra spends. Union Budget's thrust on investment in public infrastructure augurs well for the CV industry.
- Going forward, with the higher spending on mining and infra and broad-based economic recovery, demand for Tipppers, Multi-axles vehicles and Tractor-trailers is set to rise. Green shoots are already visible and the management expects pick-up in replacement demand going forward. Vehicle scrapping policy is a favourable announcement but further details are still awaited. Industry is seeking an incentive based scrappage policy.
- LCV business is doing very well and demand is driven largely by e-commerce, Agri and Swach Bharat segments. Recent launch of 'Bada Dost' has been very well received. With the launch of Bada Dost, AL's addressable market went up from 18.3% to 20.3% and while the industry volume in the addressable market grew by 17%, volume growth for AL's LCV segment stood at over 30%, leading to market share gains.
- AL took a price hike of ~2% in Oct'20 and took further price hike of ~1.5% in 4QFY21 to partially pass on RM inflation. 'Project Reset' focuses on enhancing profitability by focusing on optimizing material cost, manufacturing & other overheads, value and volume enhancement, cash and capex management. The management expects the benefits of this program to be clearly visible in the coming quarters as the volume picks up. AL achieved cost saving of ~Rs5.4bn in FY20 on efficient cost management across all the functions.

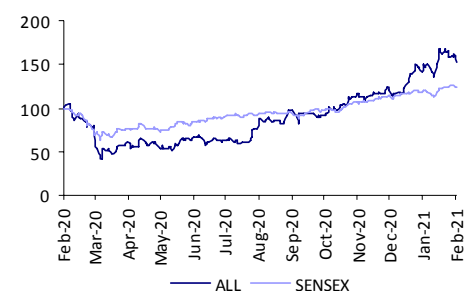
- Capex incurred in 9MFY21 stood at Rs4.5bn towards modular platform, Phoenix variants and EVs. Capex for FY21 is expected at ~Rs7.5bn. Investment in 9MFY21 stood at Rs2.6bn, of which Rs0.9bn was for capital infusion in HLFL and Rs1.5bn was invested in Switch (Optare) during the quarter. Going forward, there will be some investment in HLFL (mainly growth capital) and Switch.
- AL generated Rs1.6 bn operating cash flow in 3QFY21, driven by reduction in working capital (WC) and consequently its net debt at the end of 3QFY21 stood at ~Rs28.8bn. Its D/E stood at 0.43x. AL raised debt in 1QFY21 to manage the WC requirements and expects debt to fall significantly by the end of FY21.
- Export volume grew by ~26% YoY in 3QFY21 on the back of new product launches and opening up of overseas economies. AL has redrawn its exports strategy and has a much larger product portfolio to offer to its customers globally. AL is focusing on enhancing its product capabilities and strengthening its dealerships in the Middle-east, Africa and SAARC regions and is looking to enter South East Asian markets.

Valuation & Outlook

While the near-term demand outlook to remain positive, we believe these positives are priced in. For FY22, with improved economic activities and a low base, we expect Revenue/EBITDA CAGR of 19%/29.9% from FY20 to FY22E and margins expanding by ~129 bps to 8%. AL is likely to gain share in domestic MHCVs from 32% in FY20 to 33-34% in FY22E, led by new products based on the modular platform. Similarly, market share is expected to increase from 9% in FY20 to 14-15% in FY22E, led by new product Phoenix LCV in 2.5-4.9T segments. Considering bottoming out in the domestic M&HCV sales volume, we value ASHLEY's standalone business at 15x FY22 EV/EBITDA and assign INR 8/sh for HLFL stake and recommend HOLD on the stock with a target of INR 120.

Shareholding (%)	Dec-20
Promoters	51.54
FII's	16.3
DII's	17.64
Others	14.52

Relative Price Performance



Key Data	
BSE Code	500477
NSE Symbol	ASHOKLEY
Bloomberg Code	AL IN
Reuters Code	ASOK.BO
Shares Outstanding (mn)	2935
Face Value	1
Mcap (INR bn)	362
52 Week H/L	138.9/33.7
2W Avg. Vol, BSE+NSE	44330000
Beta	1.29

(INR mn)	FY19	FY20	FY21E	FY22E
Net Sales	290550	174675	143422	247441
Growth (%)	10.24%	-39.88%	-17.89%	72.53%
EBIDTAM (%)	10.64%	6.72%	0.56%	8.01%
Adj. PAT	19832	2395	-6531	6429
Growth (%)	15.45%	-87.92%	-372.65%	-198.44%
Adj. EPS (INR)	6.77	0.82	-2.23	2.19
P/E (x)	13.47	84.45	-55.21	56.09
EV/EBIDTA	8.07	14.77	171.69	17.51
EV/Sales	0.90	1.10	2.51	1.50
RoACE (%)	14.7%	3.7%	-4.2%	7.1%
RoAE (%)	25.46	3.07	-9.41	9.47



Quarterly performance

INR mn	3Q FY21	3Q FY20	2Q FY21	% Chg YoY	% Chg QoQ	9M FY21	9M FY20	% Chg YoY
Net Sales	48,135	40,157	28,366	19.9	69.7	83,010	136,290	-39.1
Total Expenditure	45,597	37,905	27,562	20.3	65.4	83,000	126,383	-34.3
RM Cost	35,824	29,532	20,201	21.3	77.3	60,199	96,402	-37.6
Operating Expenses	5,228	5,645	3,625	-7.4	44.2	10,978	17,928	-38.8
Employee Cost	4,545	2,728	3,736	66.6	21.6	11,823	12,053	-1.9
PBIDT (Excl OI)	2,538	2,252	804	12.7	215.5	10	9,907	-99.9
Other Income	341	223	219	52.5	55.7	816	889	-8.3
Operating Profit	2,878	2,475	1,023	16.3	181.4	825	10,796	-92.4
Interest	656	337	872	94.9	-24.8	2,297	764	200.9
Exceptional Items	460	22	17			(494)	(871)	
PBDT	1,762	2,116	134	-16.8	1,218.7	-1,966	9,162	-121.5
Depreciation	1,944	1,575	1,712	23.5	13.6	5,293	4,821	9.8
PBT	-183	542	-1,578	-133.7	-88.4	(7,258)	4,340	-267.2
Tax	11	264	-111	-95.7	-110.2	(1,710)	1,372	-224.7
Profit After Tax	-194	278	-1,467	-169.8	-86.8	(5,548)	2,968	-286.9
Equity Capital	2,936	2,936	2,936			2,936	2,936	
Face Value (In Rs)	1.0	1.0	1.0			1.0	1.0	
Adj Calculated EPS (Unit.Curr.)	-0.1	0.1	-0.5			-1.9	1.0	
% of Sales	3Q FY21	3Q FY20	2Q FY21	bps	bps	9M FY21	9M FY20	bps
RM Cost	74.4	73.5	71.2	88.1	320.9	72.5	70.7	178.8
Employee Expenses	9.4	6.8	13.2	264.9	-373.0	14.2	8.8	539.9
Other Expenses	10.9	14.1	12.8	-319.5	-191.7	13.2	13.2	7.0
EBITDAM Excl OI (%)	5.3	5.6	2.8	-33.4	243.7	0.0	7.3	-725.7
PATM (%)	-0.4	0.7	-5.2	-109.4	476.8	-6.7	2.2	-886.2



Financials

Income Statement

Y/E (INR mn)	FY19	FY20	FY21E	FY22E
Net Sales	290550	174675	143422	247441
% Growth	10.2%	-39.9%	-17.9%	72.5%
RM Cost	209294	123692	103644	176195
% Growth	12.2%	-40.9%	-16.2%	70.0%
Employee Expenses	20988	16151	16474	18945
% Growth	14.2%	-23.0%	2.0%	15.0%
Oth Expense	29346	23096	22502	32491
Total Op Exp	259627	162938	142620	227631
EBIDTA (excl OI)	30923	11737	802	19811
% Growth	4.3%	-62.0%	-93.2%	2370.0%
EBITDA Margin %	10.6%	6.7%	0.6%	8.0%
Dep./Amortization	6210	6698	8626	8850
Other Income	1508	1234	1295	1360
EBIT	26220	6272	-6529	12320
EBIT Margin %	9.02%	3.59%	-4.55%	4.98%
Interest Expense	704	1095	2442	2485
Exceptional Items	-549	-1558	-494	-519
EBT	24968	3619	-9465	9317
Tax Expenses	5136	1224	-2934	2888
PAT	19832	2395	-6531	6429
% Growth	15.5%	-87.9%	-372.7%	-198.4%
APAT Margin %	6.8%	1.4%	-4.6%	2.6%

Key Ratios

Y/E	FY19	FY20	FY21E	FY22E
Per Share Data (INR)				
Reported EPS	6.8	0.8	(2.2)	2.2
Adj. EPS	6.8	0.8	(2.2)	2.2
CEPS	8.9	3.1	0.7	5.2
DPS	3.1	0.4	-	1.0
BVPS	28.4	24.8	22.6	23.7
Return Ratios (%)				
RoACE	14.7%	3.7%	-4.2%	7.1%
RoANW	25.5%	3.1%	-9.4%	9.5%
RoIC	11.9%	2.9%	-2.3%	5.4%
Liquidity Ratios				
Net Debt/Equity	(0.1)	0.0	0.2	(0.1)
Interest Coverage Ratio	37.3	5.7	(2.7)	5.0
Current Ratio	0.9	0.7	0.7	0.9
Quick Ratio	0.4	0.4	0.3	0.4
Efficiency Ratios				
Asset Turnover Ratio	1.63	1.02	0.93	1.42
Inventory Days	37.7	27.7	41.2	44.6
Debtor Days	31.5	24.7	38.5	38.5
Creditor Days	70.6	89.5	94.7	102.4
Valuation Ratios				
P/E (x)	13.5	84.4	(55.2)	56.1
P/BV (x)	3.2	2.8	5.5	5.2
P/CEPS (x)	10.3	22.2	172.1	23.6
Dividend Yield (%)	3.4%	0.5%	0.0%	0.8%
EV/Net Sales (x)	0.9	1.1	2.5	1.5
EV/EBIDTA (x)	8.1	14.8	171.7	17.5

Balance Sheet

Y/E (INR mn)	FY19	FY20	FY21E	FY22E
Share Capital (Incl Warrants)	3007	2936	2936	2936
Reserves and Surplus	80318	69704	63174	66657
Total Networth	83324	72640	66109	69592
Long Term Debt	2984	12742	12742	12742
Short Term Debt	1000	796	737	1272
Total Debt	3984	13539	13480	14015
Net Deferred Tax Liability	2497	2648	2701	2755
Other Liabilities	5549	3228	2275	2880
Sources of Funds	95354	92055	84565	89242
Net Block	56145	69767	66141	62291
CWIP	2746	4210	4605	4802
Investments	26365	22672	22672	22672
Current Assets	81863	51593	46413	98958
Current Liabilities	86890	69193	64078	110552
Net Current Assets	-5026	-17600	-17665	-11594
Other Assets	15124	13006	8812	11070
Application of Funds	95354	92055	84565	89242

Cash Flow

Y/E	FY19	FY20	FY21E	FY22E
PBT	24,968	3,619	(9,465)	9,317
Add: Depreciation	6,210	6,698	8,626	8,850
Add: Interest paid	704	1,095	2,442	2,485
Change in Working Capital	1,780	11,859	(10,526)	15,300
Less: Taxes	(5,136)	(1,224)	2,934	(2,888)
Cash Flow from operations (a)	28,526	22,047	(5,989)	33,063
Change in Fixed Assets	(6,876)	(7,288)	(5,000)	(5,000)
Change in CWIP	(403)	(1,463)	(395)	(198)
Change in Investments	(1,850)	3,693	-	-
Others	(4,531)	1,719	4,243	(2,208)
Cash Flow from Investing (b)	(13,660)	(3,340)	(1,152)	(7,406)
Change in Equity	(608)	(71)	-	-
Debt Raised/(Repaid)	(2,142)	9,758	-	-
Dividend paid	(9,087)	(1,098)	-	(2,946)
Interest paid	(704)	(1,095)	(2,442)	(2,485)
Others	458	(2,170)	(900)	659
Cash Flow from Financing (c)	(12,083)	5,325	(3,342)	(4,771)
Net Change in Cash (a+b+c)	2,784	24,033	(10,483)	20,886
Opening Cash	10,422	13,736	13,225	2,692
Closing Cash	13,736	13,225	2,692	23,528



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SPA Securities Ltd: Mittal Court, A-Wing, 10th Floor, Nariman Point, Mumbai - 400 021, Tel. No. : +91-022-4289 5600, Fax: +91 (22) 2657 3708/9

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