

29 March 2018

Initiating Coverage (BUY)

# ASHOK LEYLAND LTD

CMP

INR 144

Target Price

INR 171

### Stock Details

Industry	Commercial Vehicles
Bloomberg Code	AL:IN
BSE Code	500477
Face Value (Rs.)	1.00
Market Cap. (Rs. mn)	421,209.7
52wk. Low/High (Adjusted) (Rs.)	81.00/151.55

### Shareholding Pattern Dec '17

Promoter (%)	51.27
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	48.73
No. of Share Outstanding (mn)	2927.10

### Valuation Summary

	FY 16A	FY 17A	FY 18P	FY 19P
P/E (x)*	29.35	26.12	24.00	24.00
EV/EBITDA (x)	12.09	14.61	14.74	14.25
P/BV (x)	6.29	6.03	5.61	5.08

\*TTM for Current Year

 Based on Market Price as on 1<sup>st</sup> Apr is taken for Each FY

### Key Financial

Rs. Mn	FY 16A	FY 17A	FY 18P	FY 19P
Net Sales	206,587	240,683	269,565	318,087
EBITDA	30,843	34,246	39,205	43,104
Net Profit	10,707	16,329	19,429	20,905
EPS (Rs.)*	03.8	05.5	06.6	07.1

\*Un adjusted

### Key Ratios

	FY 16A	FY 17A	FY 18P	FY 19P
EBITDA Margin (%)	14.8	14.2	14.4	13.4
EBIT Margin (%)	12.3	11.8	12.8	12.0
Net Pro. Margin (%)	5.1	6.7	7.2	6.5
Debt/Equity (x)	1.52	1.28	1.07	0.90
RoNW (%)	22.5	27.3	25.4	23.0
RoCE (%)	8.4	10.9	11.4	11.2

### One Year Price / Volume

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We recommend 'BUY' on ASHOK LEYLAND LTD for a target of INR 171 - valuing the company at P/E 24x of FY19E Earning.

### INVESTMENT RATIONALE:

- Focus on profitability & emerging technology commendable.
- De-risking in cyclical business to yield positive outcome.
- Return ratio improvement reflects overall improvement in financials.
- Heightened competitive pressures kept discounts at elevated level.
- Commercial vehicle industry structurally well positioned for growth.
- Overloading ban on trucks drove volume growth for higher tonnage vehicles in recent months.
- Expect strong pre-purchases because of migration to BS-VI emission norms.
- Recent government directives to give a leg-up to volume growth.
- ALL has recouped well from previous year' systemic shocks.
- Improvement in macros remains a structural growth driver for CV industry over FY19/FY20.
- Earnings expected to post double-digit growth.

### VALUATIONS AND VIEW:

Ashok Leyland is the 2nd largest manufacturer of commercial vehicles in India, the 4th largest manufacturer of buses in the world and the 12th largest manufacturer of trucks globally. It offers power solutions for electric power generation, agricultural harvester combines, earth moving and construction equipment and marine and other non-automotive applications. We value the business at 24x FY19E EPS and recommend a BUY rating on the stock with a target price of INR 171 per share.

## RISK & CONCERNS:

- **Commodity price risk and hedging activities:** The Company being a sizable user of commodities, exposes it to the price risk on account of procurement of commodities. The Company uses foreign currency forward contracts to hedge its risks associated with foreign currency fluctuations relating to firm commitments and highly probable forecast transactions.
- **Market risk:** Market risk is the risk that changes in market prices, liquidity and other factors that could have an adverse effect on realizable fair values or future cash flows to the Company.
- **Foreign currency risk:** The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates as future specific market changes cannot be normally predicted with reasonable accuracy.

## COMPANY BACKGROUND:

Ashok Leyland Ltd (ASL) is a holding company. The company is engaged in commercial vehicles and related components. Through its subsidiaries, it is engaged in manufacturing and trading in Medium and Heavy Commercial Vehicle (MHCV), Light Commercial Vehicles (LCV), Passenger Vehicles (PV), automotive aggregates, vehicle financing and engineering design services. It offers a range of 18 to 80 seater buses under categories such as city application and electric buses. It offers a range of trucks, which includes long haul trucks, mining and construction trucks, and distribution trucks. It designs, develops and manufactures defence vehicles for armed forces. It offers Light Vehicles, which include DOST, PARTNER, STILE and MiTR. It offers power solutions for electric power generation, agricultural harvester combines, earth moving and construction equipment and marine and other non-automotive applications. It has operations in India, Sri Lanka, Bangladesh, Mauritius, the Middle East and Africa.

Ashok Leyland is the 2nd largest manufacturer of commercial vehicles in India, the 4th largest manufacturer of buses in the world and the 12th largest manufacturer of trucks globally. With a turnover in excess of US \$ 3.3 billion (2016-17) and a footprint that extends across 50 countries, it is one of the most fully-integrated manufacturing companies this side of the globe. Over 70 million passengers use their buses to get to their destinations every day while over 700,000 trucks keep the wheels of economies moving. With the largest fleet of logistics vehicles deployed in the Indian Army and significant partnerships with armed forces across the globe, it help keep borders secure. Headquartered in Chennai, India, its manufacturing footprint spreads across the globe with 9 plants; including one each at Great Britain and Ras Al Khaimah (UAE). Its Joint Venture partners include John Deere (USA) for Construction Equipment, Continental AG (Germany) for Automotive Infotronics and the Alteams Group for the manufacture of high-pressure die-casting extruded aluminum components for the automotive and telecommunications sectors.

## INDUSTRY OVERVIEW:

The Indian commercial vehicle (CV) industry registered volume growth of 4.5 percent in the financial year 2017 over the previous year. CV Industry growth was driven by favorable economic condition and positive business sentiments. The Industry registered double-digit growth in FY 2016. We expect that commercial vehicle to grow by 5 -6% in FY 18 due to normal Monsoon and GST bill. The sales growth should be visible after July 2017 after implementation of GST. It could reduce vehicle price by 3 to 4 percent. Sale of commercial vehicles (CV) in India is expected to grow at a CAGR of 15% over the next five years — from 0.8 million in 2011-12 to 1.6 million units by 2016–17.

## PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Tata Motors	327	11.7	1,04,047.79	-	1,214.6	233.27	74,156.1	15.99	1.60
SML ISUZU	166	20.3	1,099.5	1.05	(9.8)	(429.73)	221.5	(2.27)	5.24
Escorts	818	34.4	9,802.2	0.19	92.0	285.61	1,205.0	12.17	4.41
BEML Ltd	1,044	33.7	4,317.2	0.78	16.7	(23.23)	731.5	1.67	2.03
VST Till. Tract.	2,514	22.9	2,193.1	0.59	31.4	148.06	165.7	16.83	3.87
Guj Apollo Inds	203	9.3	241.3	1.42	NaN	NaN	NaN	NaN	0.52
<b>Ashok Leyland</b>	<b>143.9</b>	<b>24.0</b>	<b>42,121.0</b>	<b>1.05</b>	<b>449.7</b>	<b>178.08</b>	<b>7,113.2</b>	<b>57.50</b>	<b>6.03</b>

\*TTM

## FINANCIAL OVERVIEW

Q4 FY17 Performance Highlight							
(in Million)	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	YoY (%)	QoQ (%)
Revenue	47,235.86	70,572.21	45,143.87	60,468.92	71,131.62	50.59%	17.63%
Other Income	235.2	403.57	384.09	556.6	379.66		
Total Income	47,471.06	70,975.78	45,527.96	61,025.52	71,511.28	50.64%	17.18%
Expenditure	-43,330.14	-66,975.96	-42,601.87	-54,787.63	-63,584.54		
As a % of Sales	91.73%	94.90%	94.37%	90.60%	89.39%		
Interest	-311.29	-422.99	-366.31	-410.24	-335.26	7.70%	-18.28%
PBDT	3829.63	3999.82	2926.08	6237.9	7926.73		
As a % of Sales	8.11%	5.67%	6.48%	10.32%	11.14%		
Depreciation	-1192.79	-1394.76	-1321.32	-1411.35	-1350.37		
PBT	2636.84	2605.06	1604.76	4826.55	6576.36	149.40%	36.25%
As a % of Sales	5.58%	3.69%	3.55%	7.98%	9.25%		
Tax	-778.05	2156.61	-492.41	-1483.95	-2079.27	167.24%	40.12%
Net Profit	1858.79	4761.67	1112.35	3342.6	4497.1	141.94%	34.54%
As a % of Sales	3.94%	6.75%	2.46%	5.53%	6.32%		
Equity	2845.88	2845.88	2926.54	2926.54	2927.11	2.85%	0.02%
EPS (Rs)	0.65	1.63	0.38	1.14	1.54	136.92%	35.09%
CEPS (Rs)	1.07	2.16	0.83	1.62	2		
OPM %	8.77	5.67	6.48	10.32	11.14		
NPM %	3.94	6.75	2.46	5.53	6.32		

### Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
<b>Net Sales</b>	114,867	153,409	206,587	240,683	269,565	318,087	365,800
Other Operating Income	924	1,888	1,519	1,307	2,133	2,540	2,590
<b>Expenditure</b>	110,647	138,238	177,263	207,744	232,493	277,523	319,069
<b>EBITDA</b>	5,145	17,060	30,843	34,246	39,205	43,104	49,321
Depreciation	5,300	5,799	5,244	5,728	4,524	4,526	4,528
<b>EBIT</b>	(155)	11,261	25,599	28,518	34,681	38,578	44,792
Interest Expenses	8,055	8,723	9,679	10,488	12,206	14,150	16,404
<b>PBT</b>	(8,210)	2,538	15,921	18,030	22,475	24,428	28,389
Tax	(685)	1,724	5,277	1,961	3,046	3,522	4,489
Other Income	-	-	-	-	-	-	-
Extraordinary Items	5,208	(2,953)	344	302	-	-	-
<b>Net Income Before Adjustment</b>	(2,317)	(2,140)	10,988	16,371	19,429	20,905	23,900
Minority Int./Income from Assoc.	(676)	(3,479)	281	42	-	-	-
<b>Adjusted PAT</b>	(1,641)	1,339	10,707	16,329	19,429	20,905	23,900

### Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Equity share capita	2,661	2,846	2,846	2,846	2,846	2,846	2,846
Reserves & surplus	37,232	42,267	47,076	66,973	80,216	95,843	113,707
Share Warrants	-	-	-	-	-	-	-
<b>Net worth</b>	39,892	45,113	49,922	69,819	83,062	98,688	116,553
Minority Interest	6,521	2,631	3,010	-	1,972	1,433	1,343
<b>Loan Funds</b>	54,912	62,194	75,971	89,251	89,253	89,251	89,249
Net deferred tax liability	4,114	5,103	5,356	1,269	1,269	1,269	1,269
Other Long-term Liabilities	96	82	468	459	514	607	698
Long-term Provisions	1,267	1,395	2,478	1,892	2,119	2,500	2,875
<b>Total Liabilities</b>	106,803	116,520	137,205	162,692	178,189	193,750	211,989
<b>Net block</b>	78,692	67,452	65,330	68,350	62,713	57,716	52,710
<b>Investment, Loan &amp; Adv.</b>	33,472	52,117	72,645	86,702	95,177	108,510	126,867
<b>Total Current Assets</b>	63,179	75,677	91,657	109,226	88,066	107,224	124,783
<b>Current Liabilities &amp; Provisions</b>	68,540	78,727	92,427	101,588	67,767	79,702	92,373
<b>Net Current Assets</b>	(5,361)	(3,050)	(771)	7,638	20,298	27,522	32,411
<b>Total Assets</b>	106,803	116,520	137,205	162,692	178,189	193,750	211,989

### Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 17A	FY 18E	FY 19P	FY 20P
<b>Operating Cash Flow</b>	2,701	(15,403)	27,575	34,025
<b>Cash Flow from Investments</b>	(16,949)	(11,249)	(13,758)	(18,775)
<b>Cash Flow from Financing</b>	7,377	(5,867)	(14,541)	(17,226)
<b>Net Changes in Cash</b>	(6,870)	(32,520)	(724)	(1,976)
Opening Cash	16,812	10,131	(22,388)	(23,112)
<b>Closing Cash Balance</b>	9,941	(22,388)	(23,112)	(25,088)

## Research Analyst Details

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