

Ashok Leyland

Performance Highlights

Quarterly highlights (Standalone)

Y/E March (₹ cr)	1QFY18	1QFY17	% chg (yoy)	4QFY17	% chg (qoq)
Net Sales	4,238	4,259	(0.5)	6,618	(36.0)
EBITDA	306	482	(36.5)	730	(38.2)
EBITDA margin (%)	7	11	-410 bps	11	-381 bps
Adj. PAT	111	291	(61.7)	476	(76.6)

Source: Company, Angel Research

Results below estimates: ALL reported 0.5% decline in the top line to ₹4,238cr while 62% yoy decline in the adj. PAT to ₹111cr. Though sales beat the cons. estimates, bottom line missed the estimates by 27% due to the higher RM costs and overheads. This was a one-off quarter due to GST and BSIV led disruption. The results are not comparable due to merger of foundry business with itself.

Realizations increase due to price hike: While the sales were weak during the quarter (volumes declined by 8.6% yoy), per unit realization was higher by 8.8% yoy as company has taken the price hike due to the transition to the BSIV fuel norms. The MHCV volumes during the quarter were down by 17% while LCV volumes were up 21% yoy.

Margins decline due to higher RM costs: Owing to the 10% growth in the RM costs/unit, gross margins declined by 80bps. EBITDA declined by 36.5% yoy to ₹306cr, while margins declined sharply to 7.2% vs. 11.3% in 1QFY17 and 11.0% in 4QFY17. Company reported PAT at ₹126cr, adjusted for exceptional items (impairment of loss in a subsidiary and exchange loss), PAT is at ₹111cr. The result clearly shows that slower sales growth and higher input /operating prices have impacted the numbers in the quarter.

Positive guidance by management: The management has guided of strong demand in the remainder of the year owing to the new technology iEGR. It also expects to launch new LCV every quarter. Company took 7-10% hike in April-17 owing to the BSIV transition and has taken another hike in 1QFY18 to offset higher input prices. Company has indicated of ₹500cr capex in FY18.

Valuation and outlook: We expect company to report CAGR of 11%/17% in the volumes/revenue over next two years. **We maintain our Buy on the stock with a price target of ₹124 - 20x of FY2019E EPS ₹6.2 (10.8x FY2019E EV/EBITDA multiple).**

Key financials (Standalone)

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E
Net Sales	18,937	20,019	23,339	27,240
% chg	39.6	5.7	16.6	16.7
Adjusted net profit	1,200	1,559	1,360	1,819
% chg	16.4	213.9	11.2	33.7
EBITDA (%)	11.9	11.0	10.1	10.8
EPS (₹)	1.4	4.3	4.6	6.2
P/E (x)	76.6	24.4	22.6	16.9
P/BV (x)	5.7	5.0	4.5	4.0
RoE (%)	7.2	20.0	20.0	23.6
RoCE (%)	22.6	20.4	21.6	26.9
EV/Sales (x)	1.6	1.5	1.3	1.1
EV/EBITDA (x)	13.1	13.2	12.5	9.8

Source: Company, Angel Research; Note: CMP as of July 25, 2017

BUY

CMP	₹105
Target Price	₹124

Investment Period	12 Months
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Stock Info

Sector	Automobile
Market Cap (₹ cr)	30,699
Net Debt (₹ cr)	1,233
Beta	1.4
52 Week High / Low	109/74
Avg. Daily Volume	1,403,777
Face Value (₹)	1.0
BSE Sensex	32,228
Nifty	9,965
Reuters Code	ASOK.BO
Bloomberg Code	AL@IN

Shareholding Pattern (%)

Promoters	51.3
MF / Banks / Indian FIs	9.4
FII / NRIs / OCBs	22.2
Indian Public / Others	17.1

Abs. (%)	3m	1yr	3yr
Sensex	7.7	14.8	27.4
Ashok Leyland	18.1	8.2	173.1

3 year price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly financial performance (Standalone)

Y/E March (₹ cr)	1QFY18	1QFY17	% chg (yoy)	4QFY17	% chg (qoq)
Net Sales	4,238	4,259	(0.5)	6,618	(36.0)
Consumption of RM	2,942	2,925	0.6	4,760	(38.2)
(% of sales)	69.4	68.7	(0.8)	71.9	
Staff costs	438	358	22.2	412	6.3
(% of sales)	10.3	8.4		6.2	
Purchase of traded goods	552	494	11.7	716	(22.9)
(% of sales)	13.0	11.6		10.8	
Total Expenditure	3,932	3,777	4.1	5,888	(33.2)
Operating Profit	306	482	(37)	730	(58.1)
OPM (%)	7.2	11.3		11.0	
Interest	37	34	8.3	42	(13.4)
Depreciation	132	121	9.2	139	(5.3)
Other income	38	39	(0.3)	40	(4.8)
PBT (excl. Extr. Items)	176	366		588	
Extr. income/expense	0	0		0	
PBT (incl. Extr. Items)	176	366	(52.0)	588	(70.1)
(% of sales)	4.1	8.6		8.9	
Provision for taxation	49	125		(216)	
(% of PBT)	28	34		(37)	
Reported PAT	126	241	(47.5)	804	(84.3)
Adj PAT	111	291	(61.7)	476	(76.6)
Adj. PATM	2.6	6.8		7.2	
Equity capital (cr)	285	285		285	
Adjusted EPS (₹)	0.4	1.0		1.7	

Source: Company, Angel Research

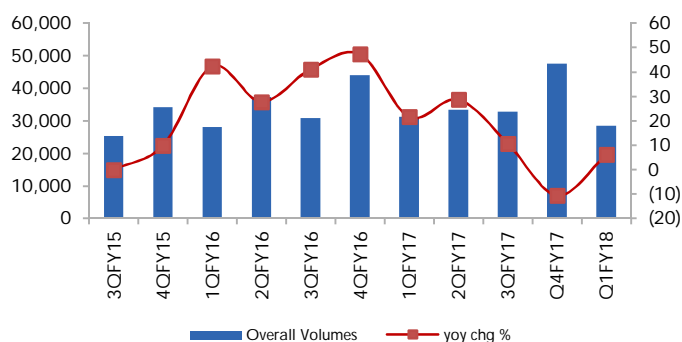
Exhibit 2: Quarterly volume performance

(units)	1QFY18	1QFY17	% chg (yoy)	4QFY17	% chg (qoq)
MH&CV	19,877	24,027	(17.3)	38,643	(48.6)
LCV	8,618	7,138	20.7	8,978	(4.0)
Total volume (ex. Dost)	28,495	31,165	(8.6)	47,621	(40.2)

Source: Company, Angel Research

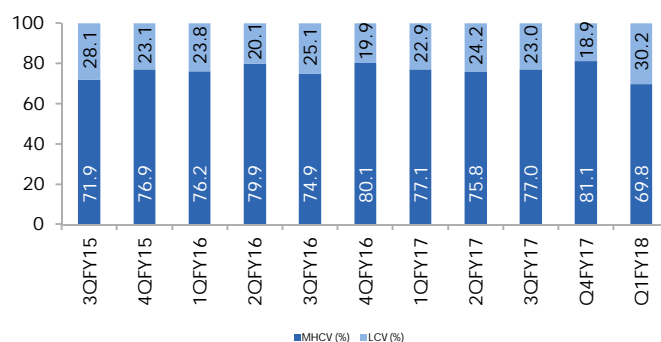
- ALLs MHCV volumes declined by 17% yoy during the quarter due to the BSIV transition.
- Realization/vehicle increased by 10% yoy to ₹14.87 lakh, as company increased prices on the back of roll out of BSIV vehicles.
- RM cost per vehicle increased by 10% yoy to ₹10.32lakh. This was due to increase in the raw material costs.
- Market share expansion continued on the back of higher proportion of the fast growing heavy trucks and geographical expansion. ALL's market share improved to 34.7% in 1QFY18.

Exhibit 3: Volume decline due to BSIV transition...



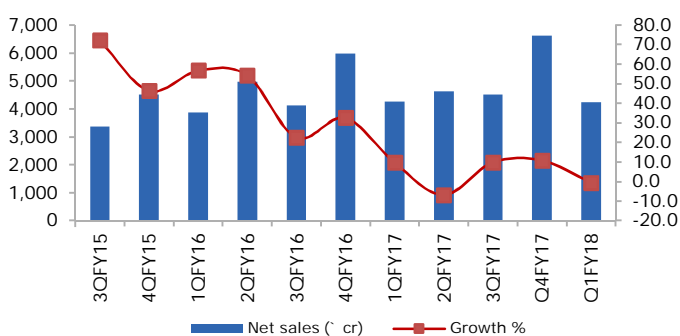
Source: Company, Angel Research

Exhibit 4: ...led to decline in MHCV share in volume mix



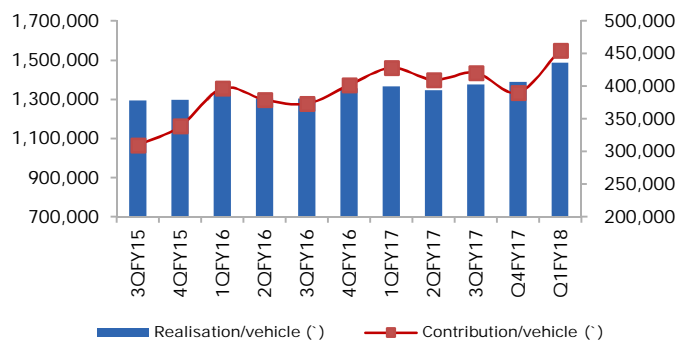
Source: Company, Angel Research

Exhibit 5: Net sales declines 0.5% yoy



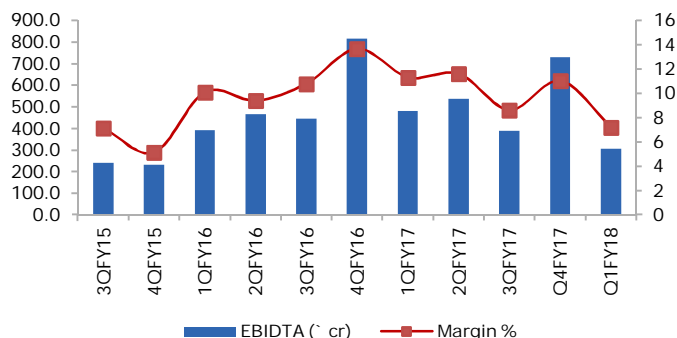
Source: SIAM, Angel Research

Exhibit 6: Realisation & contribution trend

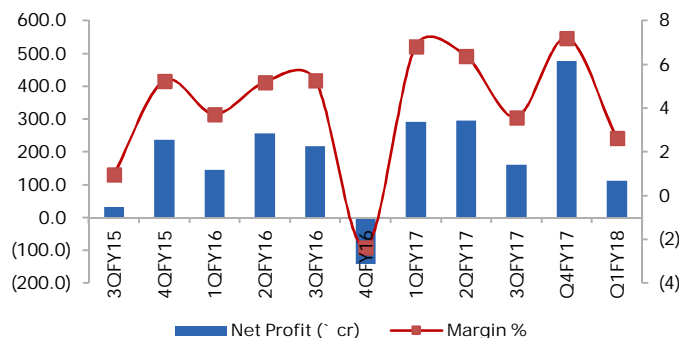


Source: SIAM, Angel Research

- Company has indicated improving exports and more focus on LCV business by launch of new product every quarter.
- Aftermarket revenue during the quarter grew 34% yoy.

Exhibit 7: Sharp decline in margin due to higher costs


Source: Company, Angel Research

Exhibit 8: Bottom-line takes severe beating


Source: Company, Angel Research

Conference call – Key highlights

- Company expects ~10% domestic M&HCV volume growth on the back of higher GDP growth and higher infra spending in FY18E. It also expects higher growth in LCV business.
- It has indicated that vehicles with iEGR engines have seen positive response. The iEGR enabled vehicles are better and ~20K-30K cheaper than SCR engine enabled vehicles.
- While company took multiple price hikes in this calendar year, ALL has indicated that it may take further price hikes to offset increase in the input prices. It is taking another 1% hike from August-17.
- FY17E Capex unchanged at ₹ 500cr
- Company's market share increased to 34.7% in 1QFY18.
- Due to higher RM prices, company reported decline in the operating margins.

Investment arguments

Volumes recovery in FY18E: While ALL reported weak set of numbers in 1QFY18, the first two months of the quarter cumulatively saw 19.4% yoy decline in the volumes due to the BSIV transition. In the June-17, company saw 11% growth in the revenues. ALL further expects the higher volume growth in the remainder of the year. It also expects to launch new LCV every quarter in FY18E which will also help in higher sales. ALL has a market share of 34.7% in the 1QFY18 and expects to do well going ahead with its new technology iEGR.

Pure CV play: ALL is a pure CV play and is expected to benefit from government's push to improve infrastructure. The MHCV segment, accounts for 3/4th of ALLs total volumes and has grown at a 3 year CAGR of 11% by FY16. We expect the momentum to continue, in FY18E and FY19E as economic outlook improves.

Return ratio to improve: ALL has taken 4% price hike in January, 7-10% hike in April-17 (owing to the BSIV transition) and has taken another hike in 1QFY18 to offset higher input prices. We expect ALL's margins to remain at the current levels for new two years (>10%). This level of margins is significantly higher than the margins seen during FY12-FY15 when automobile industry was going through a period of slower growth. Owing to this, company is expected to see improvement in RoE profile. We expect ALL's average RoE to remain at ~21.8% over next two years indicating strong improvement in return ratios.

Outlook and valuation

We expect company to report CAGR of 11%/17% in the volumes/revenue over next two years. **We maintain our Buy on the stock with a price target of ₹124 - 20x of FY2019E EPS ₹6.2 (10.8x FY2019E EV/EBITDA multiple).**

Exhibit 9: Key assumptions

(units)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
MH&CV	60,342	77,660	109,762	113,295	118,890	133,162
LCV	28,995	27,242	30,695	31,770	38,428	46,119
Total volume (units)	89,337	104,902	140,457	145,065	157,318	179,281
% yoy chg	(22.1)	17.4	33.9	3.3	8.4	14.0

Source: Company, Angel Research

Company background

Ashok Leyland Ltd (ALL) is the country's second largest CV manufacturer. The company has a strong presence in the MHCV segment, with a domestic market share of ~35% as of 1QFY2018. ALL enjoys a dominant position in southern India, and has been focusing on expanding its presence in northern and western India by increasing its touch points in the region. The company intends to increase its market share in trucks by launching new products under Guru and Partner range. It also has increased focus on exports and LCV business.

Profit and loss statement (Standalone)

Y/E March (₹ cr)	FY2016	FY2017	2018E	2019E
Total operating income	18,937	20,019	23,339	27,240
% chg	39.6	5.7	16.6	16.7
Total Expenditure	16,683	17,816	20,972	24,287
Cost of Materials	13,195	13,957	16,530	19,602
Personnel	1,385	1,531	1,789	1,689
Others Expenses	2,103	2,328	2,653	2,996
EBITDA	2,255	2,203	2,367	2,953
% chg	119.6	(2.3)	7.5	24.8
(% of Net Sales)	11.9	11.0	10.1	10.8
Depreciation & Amortisation	488	518	519	515
EBIT	1,767	1,685	1,848	2,437
% chg	189.5	(4.6)	9.7	31.9
(% of Net Sales)	9.3	8.4	7.9	8.9
Interest & other Charges	248	155	135	106
Other Income	118	136	201	232
(% of PBT)	7.2	8.2	10.5	9.0
Share in profit of Ass.	-	-	-	-
Recurring PBT	1,637	1,666	1,914	2,563
% chg	379.6	1.8	14.9	33.9
Prior Period & Extra. Exp.	810	335	-	-
PBT (reported)	827	1,330	1,914	2,563
Tax	437	107	553	743
(% of PBT)	52.9	8.0	28.9	29.0
PAT (reported)	390	1,223	1,360	1,819
Add: Share of earnings of ass.	-	-	-	-
Less: Minority interest (MI)	-	-	-	-
PAT after MI (reported)	390	1,223	1,360	1,819
ADJ. PAT	1,200	1,559	1,360	1,819
% chg	16.4	213.9	11.2	33.7
(% of Net Sales)	6.3	7.8	5.8	6.7
Basic EPS (₹)	1.4	4.3	4.6	6.2
Fully Diluted EPS (₹)	1.4	4.3	4.6	6.2
% chg	16.4	213.9	11.2	33.7

Balance sheet statement (Standalone)

Y/E March (₹ cr)	FY2016	FY2017	2018E	2019E
SOURCES OF FUNDS				
Equity Share Capital	285	285	293	293
Reserves & Surplus	5,123	5,842	6,522	7,431
Shareholders Funds	5,407	6,126	6,814	7,724
Minority Interest				
Total Loans	2,415	2,145	1,745	1,345
Other liabilities	326	219	163	191
Deferred Tax Liability	753	741	741	741
Total Liabilities	8,901	9,231	9,464	10,001
APPLICATION OF FUNDS				
Gross Block	5,279	5,858	6,441	7,122
Less: Acc. Depreciation	487	887	1,402	1,972
Net Block	4,792	4,971	5,039	5,150
Capital Work-in-Progress	76	206	40	40
Investments	1,980	2,879	2,100	2,200
Current Assets	5,925	5,744	7,214	8,460
Inventories	1,625	2,501	2,686	3,134
Sundry Debtors	1,251	860	1,599	1,866
Cash	1,593	912	736	899
Loans & Advances	712	709	910	1,062
Other Assets	745	762	1,284	1,498
Current liabilities	4,296	5,183	5,543	6,464
Net Current Assets	1,629	561	1,671	1,996
Deferred Tax Asset	424	614	614	614
Mis. Exp. not written off	-	-	-	-
Total Assets	8,901	9,231	9,464	10,001

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY2016	FY2017	2018E	2019E
Profit before tax	390	1,223	1,914	2,563
Depreciation	488	518	515	570
Change in Working Capital	(179)	190	(763)	52
Interest / Dividend (Net)	203	88	135	106
Direct taxes paid	(441)	(348)	(553)	(743)
Others	1,223	484	-	-
Cash Flow from Operations	1,683	2,155	1,248	2,548
(Inc.)/ Dec. in Fixed Assets	(170)	(378)	(418)	(681)
(Inc.)/ Dec. in Investments	534	(1,099)	257	(315)
Cash Flow from Investing	364	(1,477)	(161)	(996)
Issue of Equity	-	-	-	-
Inc./(Dec.) in loans	(783)	(870)	(448)	(373)
Dividend Paid (Incl. Tax)	(154)	(325)	(680)	(910)
Interest / Dividend (Net)	(268)	(164)	(135)	(106)
Cash Flow from Financing	(1,205)	(1,359)	(1,263)	(1,389)
Inc./(Dec.) in Cash	842	(681)	(176)	164
Opening Cash balances	751	1,593	912	736
Closing Cash balances	1,593	912	736	899

Key ratios

Y/E March	FY2016	FY2017	2018E	2019E
Valuation Ratio (x)				
P/E (on FDEPS)	76.6	24.4	22.6	16.9
P/CEPS	34.0	17.1	16.3	13.1
P/BV	5.7	5.0	4.5	4.0
Dividend yield (%)	0.9	1.5	2.2	3.0
EV/Sales	1.6	1.5	1.3	1.1
EV/EBITDA	13.1	13.2	12.5	9.8
EV / Total Assets	2.2	2.0	2.0	1.8
Per Share Data (₹)				
EPS (Basic)	1.4	4.3	4.6	6.2
EPS (fully diluted)	1.4	4.3	4.6	6.2
Cash EPS	3.1	6.1	6.4	8.0
DPS	1.0	1.6	2.3	3.1
Book Value	18.5	20.9	23.3	26.4
Returns (%)				
ROCE	22.6	20.4	21.6	26.9
Angel ROIC (Pre-tax)	41.6	37.6	32.3	40.8
ROE	7.2	20.0	20.0	23.6
Turnover ratios (x)				
Asset Turnover (Gross Block)	3.6	3.4	3.6	3.8
Inventory / Sales (days)	31	46	42	42
Receivables (days)	24	16	25	25
Payables (days)	50	56	50	50
WC cycle (ex-cash) (days)	6	5	17	17

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Disclosure of Interest Statement	Ashok Leyland
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
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