

Ashok Leyland

Performance Highlights

Quarterly highlights (Standalone)

Y/E March (₹ cr)	3QFY17	3QFY16	% chg (yoy)	2QFY17	% chg (qoq)
Net Sales	4,431	4,114	7.7	4,622	(4.1)
EBITDA	454	444	2.3	536	0.0
EBITDA margin (%)	10	11	(55 bps)	12	(136 bps)
Adj. PAT	250	217	14.8	294	196.0

Source: Company, Angel Research

Overall good results during tough times: Ashok Leyland reported 7.7% growth in top line and 14.8% growth in the bottom line. Net realization grew by 1.3% yoy to ₹13.20 lakh per vehicle. Operating profit grew by 2.2% to ₹454cr in Q3FY17; EBITDA margins declined by 55bps yoy to 10.25% vs. 10.80% in Q3FY16. The decline in EBITDA margins was due to higher discounts and increase in raw material prices. Reported PAT declined by 13% yoy to ₹185.9cr due to loss of ₹67.3cr on swap contracts. Adjusted PAT grew by 14.8% yoy to 249.6cr. The company during the quarter saw 6% yoy growth in its total volumes to 32,838. This came despite industry witnessed negative impact of demonetisation. The MHCV volumes grew by 9% while LCV volumes declined by 2%.

Outlook and valuation While demonetisation has negatively impacted the automobile industry, we are expecting faster recovery in the volumes with improving liquidity. The quantum of recovery cannot be assessed at this time. We forecast ALL's volume growth of 8% and 9% in FY18E and FY19E. Company has taken a 4% price hike in January hence we believe that margins are likely to see minor expansion going ahead. We forecast average 21% ROE for FY18E and FY19E showing significant improvement from its ROE profile in FY16. The improving consumer sentiment and government's initiative to boost the infrastructure would play out positively for Ashok Leyland. Overall we expect 10% and 13% CAGR in revenue and net profit over next two years. **We value the stock at 19x of FY2019E EPS ₹5.8 and maintain buy rating with price target of ₹111.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2015	FY2016	2017E	2018E	2019E
Net Sales	13,562	18,822	20,021	21,915	24,076
% chg	36.4	38.8	6.4	9.5	9.9
Adjusted net profit	234	1,111	1,294	1,514	1,655
% chg	-	375.1	16.4	17.0	9.3
EBITDA (%)	7.7	11.6	11.6	11.9	11.6
EPS (₹)	1.2	2.5	4.5	5.3	5.8
P/E (x)	79.0	36.6	20.4	17.5	16.0
P/BV (x)	5.2	4.8	4.2	3.8	3.4
RoE (%)	6.5	13.1	20.6	21.5	21.0
RoCE (%)	7.2	21.1	20.2	21.2	21.7
EV/Sales (x)	1.9	1.4	1.3	1.1	1.0
EV/EBITDA (x)	25.7	11.8	11.1	9.6	8.7

Source: Company, Angel Research; Note: CMP as of February 10, 2017

BUY

CMP	₹93
Target Price	₹111

Investment Period	12 Months
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Stock Info

Sector	Automobile
Market Cap (₹ cr)	26,452
Net Debt (₹ cr)	(1,211)
Beta	1.2
52 Week High / Low	113/74
Avg. Daily Volume	1,330,069
Face Value (₹)	1.0
BSE Sensex	28,334
Nifty	8,794
Reuters Code	ASOK.BO
Bloomberg Code	AL@IN

Shareholding Pattern (%)

Promoters	50.4
MF / Banks / Indian Fls	8.9
FII / NRIs / OCBs	28.7
Indian Public / Others	12.0

Abs. (%)	3m	1yr	3yr
Sensex	5.6	23.4	39.1
Ashok Leyland	9.0	17.4	506.7

3 year price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly financial performance (Standalone)

Y/E March (₹ cr)	3QFY17	3QFY16	% chg (yoy)	2QFY17	% chg (qoq)	9MFY17	9MFY17	% chg (yoy)
Net Sales	4,431	4,114	7.7	4,622	(4.1)	13,312	12,964	2.7
Consumption of RM	3,134	2,875	9.0	3,134	0.0	9,198	8,994	2.3
(% of sales)	70.7	69.9		67.8		69.1	69.4	
Staff costs	362	347	4.1	369	(2.1)	1,089	1,053	3.5
(% of sales)	8.2	8.4		8.0		8.2	8.1	
Purchase of traded goods	481	447	7.8	583	(17.4)	1,558	1,614	(3.4)
(% of sales)	10.9	10.9		12.6		11.7	12.4	
Total Expenditure	3,977	3,670	8.4	4,086	(2.7)	11,845	11,660	1.6
Operating Profit	454	444	2.3	536	(15.3)	1,467	1,304	12.5
OPM (%)	10.3	10.8		11.6		11.0	10.1	
Interest	31	60	(48.4)	34	(8.2)	99	193	(48.9)
Depreciation	119	119	(0.1)	126	(5.4)	366	356	2.8
Other income	(40)	28	(243.1)	38	(205.3)	92	73	25.3
PBT (excl. Extr. Items)	264	293		415		1,094	827	
Extr. income/expense	0	0		0		0	0	
PBT (incl. Extr. Items)	264	293	(9.9)	415	(36.4)	1,094	827	32.2
(% of sales)	6.0	7.1		9.0		8.2	6.4	
Provision for taxation	78	79		120		323	297	
(% of PBT)	29.5	27.0		29.0		29.5	35.9	
Reported PAT	186	214	(13.0)	294	(36.9)	771	530	45.4
Adj PAT	250	217	14.8	294		835	619	
Adj. PATM	5.6	5.3		6.4		6.3	4.8	
Equity capital (cr)	285	285		285		285	285	
Adjusted EPS (₹)	0.9	0.8		1.0		2.9	2.2	

Source: Company, Angel Research

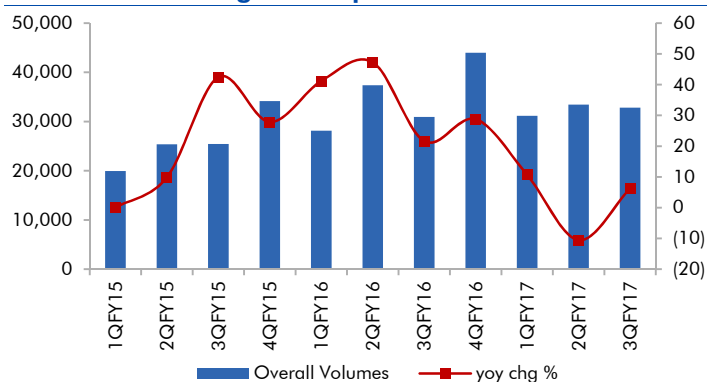
Exhibit 2: Quarterly volume performance

(units)	3QFY17	3QFY16	% chg (yoy)	2QFY17	% chg (qoq)	9MFY17	9MFY17	% chg (yoy)
MHCV passenger	25,284	23,176	9.1	25,341	(0.2)	74,652	74,513	0.2
MHCV goods	7,554	7,752	(2.6)	8,100	(6.7)	22,792	21,950	3.8
Total volume (ex. Dost)	32,838	30,928	6.2	33,441	(1.8)	97,444	96,463	1.0

Source: Company, Angel Research

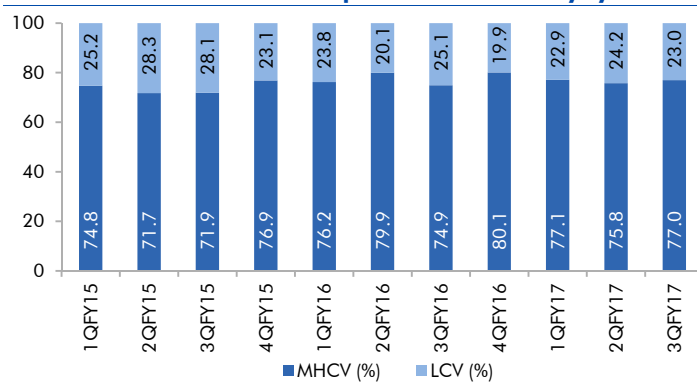
- ALLs MHCV volumes grew by 9% yoy during the quarter showing demonetisation has not led to a negative impact on its MHCV business. The industry, during this period grew by 3%.
- Realization/vehicle declined by 1.3% yoy to ₹13.20 lakh, as company increased discounts from ₹2.5 lakh per vehicle to ~₹3.3 lakh per vehicle.
- RM cost per vehicle increased by 2.6% yoy to ₹ 9.54 lakh. This was due to increase in the raw material costs.
- ALL has continued to increase its market share on the back of higher proportion of the fast growing heavy trucks and geographical expansion. ALL's market share improved from 30.1% in Q3FY16 to 33.7% in Q3FY17.

Exhibit 3: Volume grew despite demonetisation



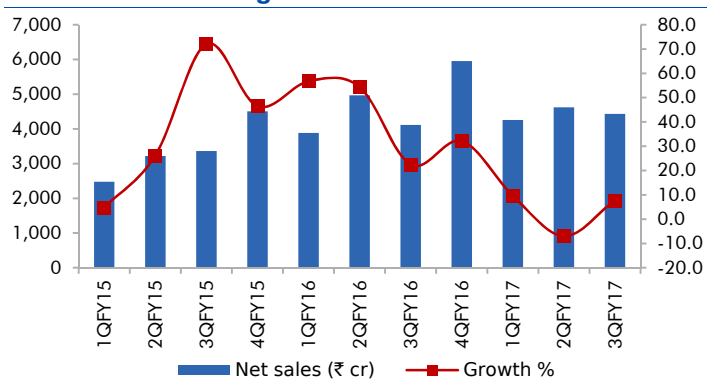
Source: Company, Angel Research

Exhibit 4: MHCVs share in product mix rises yoy



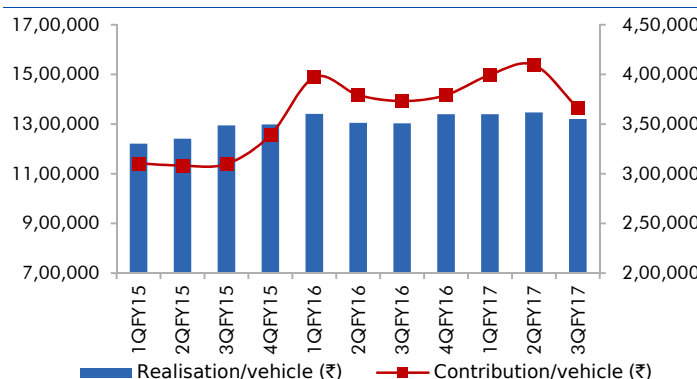
Source: Company, Angel Research

Exhibit 5: Net sales growth at 7.7%



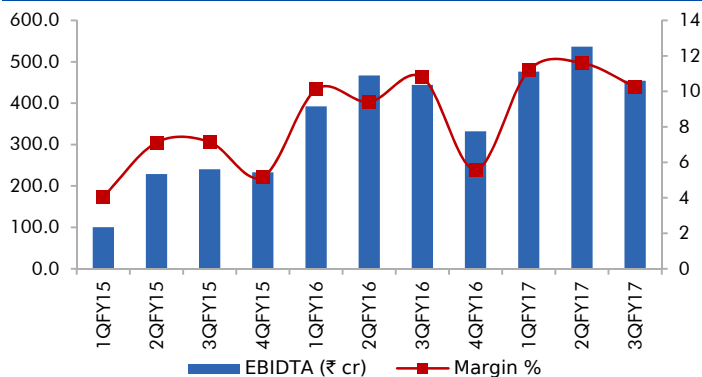
Source: SIAM, Angel Research

Exhibit 6: Realisation & contribution trend

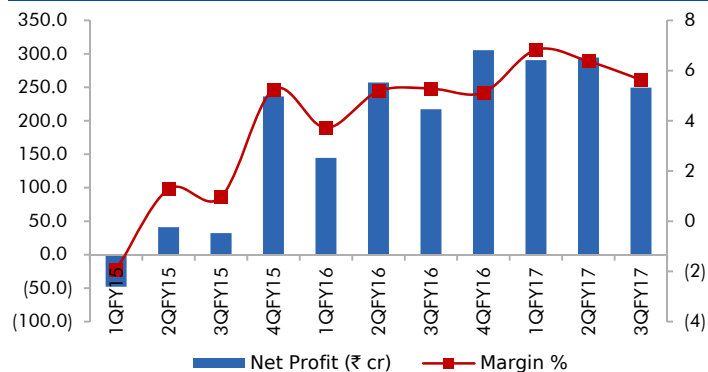


Source: SIAM, Angel Research

- Company has indicated of greater focus on exports, LCV and aftermarket business going ahead.

Exhibit 7: EBITDA margin declines due to higher costs


Source: Company, Angel Research

Exhibit 8: Bottom-line continues to improve yoy


Source: Company, Angel Research

Conference call – Key highlights

- Company reported 9% yoy growth in its MH&CV (bus + truck) volumes whereas LCV volumes saw 2.5% yoy decline
- During the quarter, exports revenue was at ₹388cr and company expects export revenue contribution to be ~25% of sales in next 4-5 years.
- FY17E Capex at ₹500cr
- Company's market share increased from 30.1% in Q3FY16 to 33.7% in Q3FY17
- During the quarter company reported higher discounts of ~ ₹3.30 lakh.
- Due to higher RM prices, company reported decline in the operating margins.
- While in Q3, company was not able to pass on the prices, it has increased prices by ~4% in January.
- Company has indicated of higher LCV sales going ahead and expects to increase its aftermarket share from 10% to 15%.

Investment arguments

Volumes recovery in FY18E: ALL continues to report a good set of volumes. The Implementation of BSIV standards is also expected to be positive for the stock and company expects pre-buying in next few months. This implies that the volumes are expected to recover faster, shrugging off the demonetisation impact. We remain positive on its volume growth. Company has also indicated to increase its LCV market share to ~30% with new product launches in coming years.

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 and we expect further price hikes as company anticipates volume growth on the back of

implementation of new emission standards. We expect ALL's margins to remain at the current levels for new two years (11.6%). 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 ~21.2% over next two years indicating strong improvement in return ratios.

Outlook and valuation

While demonetisation has negatively impacted the automobile industry, we are expecting faster recovery in the volumes with improving liquidity. The quantum of recovery cannot be assessed at this time. We forecast ALL's volume growth of 8% and 9% in FY18E and FY19E. Company has taken a 4% price hike in January hence we believe that margins are likely to see minor expansion going ahead. We forecast average 21% ROE for FY18E and FY19E showing significant improvement from its ROE profile in FY16. The improving consumer sentiment and government's initiative to boost the infrastructure would play out positively for Ashok Leyland. Overall we expect 10% and 13% CAGR in revenue and net profit over next two years. **We value the stock at 19x of FY2019E EPS ₹5.8 and maintain buy rating with PT of ₹111 (11x FY2019E EV/EBITDA multiple).**

Exhibit 9: Key assumptions

(units)	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
MH&CV	79,694	60,342	77,660	109,762	112,674	122,821
LCV	34,917	28,995	27,242	30,695	31,980	33,904
Total volume (units)	114,611	89,337	104,902	140,457	144,654	156,725
% yoy chg	12.4	(22.1)	17.4	33.9	3.0	8.3

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 ~34% as of Q3FY2017. 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.

Profit and loss statement (Standalone)

Y/E March (₹ cr)	FY2015	FY2016	2017E	2018E	2019E
Total operating income	13,562	18,822	20,021	21,915	24,076
% chg	36.4	38.8	6.4	9.5	9.9
Total Expenditure	12,536	16,656	17,748	19,352	21,333
Cost of Materials	9,965	13,262	13,692	14,977	16,528
Personnel	1,184	1,399	1,626	1,759	1,933
Others Expenses	1,386	1,995	2,430	2,615	2,872
EBITDA	1,027	2,166	2,273	2,564	2,743
% chg	778.3	111.0	4.9	12.8	7.0
(% of Net Sales)	7.7	11.6	11.6	11.9	11.6
Depreciation & Amortisation	416	444	459	486	486
EBIT	610	1,722	1,814	2,078	2,257
% chg	(334.6)	182.2	5.3	14.5	8.6
(% of Net Sales)	4.6	9.3	9.3	9.7	9.6
Interest & other Charges	394	274	133	134	134
Other Income	124	110	159	219	241
(% of PBT)	36.5	7.0	8.6	10.1	10.2
Share in profit of Ass.	-	-	-	-	-
Recurring PBT	341	1,559	1,840	2,163	2,364
% chg	(157.2)	356.7	18.1	17.5	9.3
Prior Period & Extra. Exp.	(101)	389	-	-	-
PBT (reported)	442	1,169	1,840	2,163	2,364
Tax	107	447	547	649	709
(% of PBT)	24.3	38.3	29.7	30.0	30.0
PAT (reported)	335	722	1,294	1,514	1,655
Add: Share of earnings of ass.	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-
PAT after MI (reported)	335	722	1,294	1,514	1,655
ADJ. PAT	234	1,111	1,294	1,514	1,655
% chg	(149.1)	375.1	16.4	17.0	9.3
(% of Net Sales)	1.7	5.9	6.5	6.9	6.9
Basic EPS (₹)	1.2	2.5	4.5	5.3	5.8
Fully Diluted EPS (₹)	1.2	2.5	4.5	5.3	5.8
% chg	-	375.1	16.4	17.0	9.3

Balance sheet statement (Standalone)

Y/E March (₹ cr)	FY2014	FY2015	FY2016	2017E	2018E	2019E
SOURCES OF FUNDS						
Equity share capital	266	285	285	285	285	285
Reserves & surplus	4,182	4,834	5,230	6,006	6,763	7,590
Shareholders' Funds	4,448	5,119	5,514	6,290	7,048	7,875
Total loans						
Deferred tax liability	4,690	3,350	2,659	2,709	2,759	2,509
Other long term liabilities	70	99	142	137	151	165
Long term provisions	624	611	589	589	589	589
Total Liabilities	9,833	9,178	8,903	9,725	10,546	11,138
APPLICATION OF FUNDS						
Gross block	8,672	8,555	8,747	9,178	9,716	10,306
Less: Acc. depreciation	3,012	3,300	3,693	4,152	4,638	5,153
Net Block	5,660	5,256	5,054	5,026	5,078	5,153
Capital work-in-progress	182	120	76	60	40	40
Goodwill	2,790	2,649	1,918	2,000	2,100	2,200
Investments	4,177	5,287	6,338	7,242	8,408	9,314
Long term loans and adv.	1,189	1,399	1,731	2,147	2,478	2,716
Other noncurrent assets	1,299	1,243	1,251	1,342	1,475	1,617
Current assets	12	751	1,568	1,911	2,431	2,762
Cash	643	892	741	764	840	921
Loans & advances	1,035	1,002	1,048	1,078	1,184	1,298
Other	3,193	4,234	4,535	4,656	5,133	5,622
Current liabilities	984	1,053	1,803	2,586	3,274	3,692
Net current assets	217	101	53	53	53	53
Misc. exp. not written off	-	-	-	-	-	-
Total Assets	9,833	9,178	8,903	9,725	10,546	11,138

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY2015	FY2016	2017E	2018E	2019E
Profit before tax	442	1,169	1,840	2,163	2,364
Depreciation	416	444	459	486	515
Change in Working Capital	705	(128)	(410)	(62)	28
Interest / Dividend (Net)	367	229	133	134	134
Direct taxes paid	(50)	(441)	(547)	(649)	(709)
Others	(104)	402	-	-	-
Cash Flow from Operations	1,777	1,676	1,475	2,072	2,332
(Inc.)/ Dec. in Fixed Assets	(211)	(147)	(415)	(518)	(590)
(Inc.)/ Dec. in Investments	314	537	(112)	(207)	(214)
Cash Flow from Investing	103	390	(527)	(725)	(804)
Issue of Equity	667	-	-	-	-
Inc./(Dec.) in loans	(1,401)	(799)	46	64	(236)
Dividend Paid (Incl. Tax)	-	(154)	(518)	(757)	(827)
Interest / Dividend (Net)	(406)	(296)	(133)	(134)	(134)
Cash Flow from Financing	(1,140)	(1,249)	(605)	(828)	(1,197)
Inc./(Dec.) in Cash	740	817	343	520	331
Opening Cash balances	12	751	1,568	1,911	2,431
Closing Cash balances	751	1,568	1,911	2,431	2,762

Key ratios

Y/E March	FY2014	FY2015	FY2016	2017E	2018E	2019E
Valuation Ratio (x)						
P/E (on FDEPS)	841.7	79.0	36.6	20.4	17.5	16.0
P/CEPS	60.9	35.2	22.7	15.1	13.2	12.4
P/BV	5.9	5.2	4.8	4.2	3.8	3.4
Dividend yield (%)	-	206.6	97.8	51.1	34.9	32.0
EV/Sales	2.9	1.9	1.4	1.3	1.1	1.0
EV/EBITDA	242.5	25.7	11.8	11.1	9.6	8.7
EV / Total Assets	2.2	2.0	1.9	1.8	1.6	1.4
Per Share Data (₹)						
EPS (Basic)	0.1	1.2	2.5	4.5	5.3	5.8
EPS (fully diluted)	0.1	1.2	2.5	4.5	5.3	5.8
Cash EPS	1.5	2.6	4.1	6.2	7.0	7.5
DPS	0.0	0.5	1.0	1.8	2.7	2.9
Book Value	15.6	18.0	19.4	22.1	24.8	27.7
Returns (%)						
ROCE	(2.8)	7.2	21.1	20.2	21.2	21.7
Angel ROIC (Pre-tax)	(4.1)	12.0	36.7	35.7	39.4	41.6
ROE	0.7	6.5	13.1	20.6	21.5	21.0
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.1	1.6	2.2	2.2	2.3	2.3
Inventory / Sales (days)	45	38	34	40	42	42
Receivables (days)	49	34	25	25	25	25
Payables (days)	89	78	51	50	50	50
WC cycle (ex-cash) (days)	5	(6)	8	15	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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