

Ashok Leyland Ltd.

Performance Update

(₹ cr)	3QFY19	3QFY18	% yoy	2QFY19	% qoq
Revenue	6,325	7,191	(12.0)	7,621	(17.0)
EBITDA	643	569	13.0	810	(20.6)
OPM (%)	10.2	7.9	225bp	10.6	(47bp)
Reported PAT	381	485	(21.5)	528	(27.8)

Source: Company, Angel Research

For 3QFY2019, Ashok Leyland Ltd (ALL) posted results, which disappointed on both top-line as well as bottom-line fronts. Revenue de-grew by 12% yoy to ₹6,325cr. However, operating margin improved by 225bps. On the bottom-line front, ALL reported PAT de-growth of 21.5% yoy to ₹381cr on the back of lower sales.

Subdued top-line performance: The company's top-line grew by 12% yoy to ₹6,325cr mainly due to 6.1% volume decline and 6.3% decline in average realizations. Despite the strong pick-up in construction, infra-spending and mining activities in the country, management expects MHCV volumes to remain subdued in the next 2-3 quarters. Going forward, FY2020 is expected to be a growth year due to pre-buying before BSVI implementation in India.

PAT declined despite operating margin improvement: On the operating front, the company's margins rose by 225bps yoy to 10.2% due lower other expenses (down 397bp yoy). However, PAT de-grew ~22% yoy to ₹381cr on the back of lower sales.

Outlook and Valuation: We expect Ashok Leyland to register net profit (reported) CAGR of ~10% to ~₹1,884cr over FY2018-20E mainly due to improvement in pre-buying sales (owing to introduction of BSVI norms in FY2020) and replacement demand (implementation of vehicle scrappage policy). **Thus, we recommend BUY on the stock with Target Price of ₹122.**

Key Financials

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
Net sales	20,019	26,248	28,293	31,122
% chg	5.7	31.1	7.8	10.0
Adj. Net profit	1,491	1,571	1,808	1,884
% chg	92.7	5.4	15.0	4.2
EBITDA margin (%)	8.4	9.4	10.1	10.0
EPS (₹)	5.1	5.4	6.2	6.4
P/E (x)	15.5	14.7	12.8	12.3
P/BV (x)	3.8	3.2	2.8	2.3
RoE (%)	24.3	22.0	21.5	19.1
RoCE (%)	14.0	23.5	24.5	23.0
EV/Sales (x)	1.1	0.7	0.7	0.6
EV/EBITDA (x)	12.8	7.0	6.5	5.7

Source: Company, Angel Research

BUY

CMP	₹79
Target Price	₹122
Investment Period	12 months

Stock Info	
Sector	Automobile
Market Cap (₹ cr)	31,219
Net Debt (₹ cr)	3,739
Beta	1.1
52 Week High / Low	168/78
Avg. Daily Volume	18,63,726
Face Value (₹)	5
BSE Sensex	35,498
Nifty	10,641
Reuters Code	ASOK.BO
Bloomberg Code	AL.IN

Shareholding Pattern (%)	
Promoters	51.1
MF / Banks / Indian	9.1
FII / NRIs / OCBs	23.7
Indian Public/Others	16.1

Abs.(%)	3m	1yr	3yr
Sensex	1.6	4.4	52.0
ALL	(24.7)	(41.7)	(10.6)

Historical share price chart



Source: Company, Angel Research

Amarjeet S Maurya

022-40003600 Ext: 6831

amarjeet.maurya@angelbroking.com

Exhibit 1: 3QFY2019 Performance

Y/E March (₹ cr)	3QFY19	3QFY18	% yoy	2QFY19	% qoq	9MFY19	9MFY18	% chg
Net Sales	6,325	7,191	(12.0)	7,621	(17.0)	20,209	17,576	15.0
Consumption of RM	4436	5,011	(11.5)	5498	(19.3)	14,250	12,183	17.0
(% of Sales)	70.1	69.7		72.1		70.5	69.3	
Staff Costs	500	477	4.9	525	(4.8)	1525.3	1379.0	10.6
(% of Sales)	7.9	6.6		6.9		7.5	7.8	
Other Expenses	747	1,135	(34.2)	789	(5.3)	2,331	2,460	(5.2)
(% of Sales)	11.8	15.8		10.3		11.5	14.0	
Total Expenditure	5,683	6,622	(14.2)	6,811	(16.6)	18,107	16,022	13.0
Operating Profit	643	569	13.0	810	(20.6)	2,102	1,554	35.2
OPM	10.2	7.9		10.6		10.4	8.8	
Interest	19	37	(47.9)	20	(6.1)	54	123	(56.2)
Depreciation	161	146	10.1	148	8.5	461.3	441.1	4.6
Other Income	21	307	(93.2)	30	(29.6)	103	390	(73.5)
PBT (excl. Ext Items)	484	693	(30.2)	671	(27.9)	1,690.30	1,380	22.5
Ext (Income)/Expense	-	-		-		-	-	
PBT (incl. Ext Items)	484	693	(30.2)	671	(27.9)	1,690	1,380	22.5
(% of Sales)	7.6	9.6		8.8		8.4	7.9	
Provision for Taxation	103	208	(50.6)	143	(28.2)	360	406	(11.2)
(% of PBT)	21.2	30.0		21.3		21.3	29.4	
Reported PAT	381	485	(21.5)	528	(27.8)	1,330	975	36.5
PATM	6.0	6.7		6.9		6.6	5.5	
Extra-ordinary Items	(5)	(2)		(15)		(34)	(14)	
Adjusted Profit After Extra-ordinary item	386	487	(20.8)	543	(29.0)	1,364	988	38.0

Source: Company, Angel Research

Outlook and Valuation

We expect Ashok Leyland to register net profit (reported) CAGR of ~10% to ~₹1,884cr over FY2018-20E mainly due to improvement in pre-buying sales (owing to introduction of BSVI norms in FY2020) and replacement demand (implementation of vehicle scrappage policy). **Thus, we recommend BUY on the stock with Target Price of ₹122.**

Downside risks to our estimates

- Slowdown in industrial activities could restrict sales volume for ALL.
- Delay in implementation of vehicle scrappage policy could restrict the additional sales growth for company.

Company Background

Ashok Leyland Ltd (ALL) 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 includes 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.

Standalone Profit & Loss Statement

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
Net Sales	18,937	20,019	26,248	28,293	31,122
% chg	39.6	5.7	31.1	7.8	10.0
Total Expenditure	17,498	18,341	23,774	25,435	28,010
Raw Material	13,195	13,973	18,621	20,229	22,252
Personnel	1,385	1,543	1,812	2,320	2,552
Others Expenses	2,918	2,825	3,341	2,886	3,206
EBITDA	1,439	1,677	2,474	2,858	3,112
% chg	79.4	16.5	47.5	15.5	8.9
(% of Net Sales)	7.6	8.4	9.4	10.1	10.0
Depreciation & Amortisation	488	518	555	624	680
EBIT	952	1,160	1,919	2,234	2,433
% chg	146.4	21.9	65.5	16.4	8.9
(% of Net Sales)	5.0	5.8	7.3	7.9	7.8
Interest & other Charges	248	155	131	73	61
Other Income	123	326	443	125	140
(% of PBT)	14.8	24.5	19.8	5.5	5.6
Recurring PBT	827	1,330	2,231	2,286	2,512
% chg	86.9	60.9	67.7	2.5	9.9
Tax	437	107	668	503	628
(% of PBT)	52.9	8.0	30.0	22.0	25.0
PAT (reported)	390	1,223	1,563	1,783	1,884
Extraordinary Items	(384)	(268)	(9)	(25)	-
ADJ. PAT	774	1,491	1,571	1,808	1,884
% chg	199.5	92.7	5.4	15.0	4.2
(% of Net Sales)	4.1	7.4	6.0	6.4	6.1
Basic EPS (₹)	2.6	5.1	5.4	6.2	6.4
Fully Diluted EPS (₹)	2.6	5.1	5.4	6.2	6.4
% chg	199.5	92.7	5.4	15.0	4.2

Standalone Balance Sheet

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
SOURCES OF FUNDS					
Equity Share Capital	285	285	293	293	293
Reserves & Surplus	5,123	5,841	6,861	8,107	9,590
Shareholders Funds	5,407	6,126	7,154	8,400	9,882
Total Loans	2,415	2,145	1,002	700	700
Deferred Tax Liability	753	741	726	726	726
Total Liabilities	8,575	9,012	8,882	9,826	11,308
APPLICATION OF FUNDS					
Gross Block	5,279	5,858	6,312	6,958	7,658
Less: Acc. Depreciation	487	887	1,338	1,962	2,641
Net Block	4,792	4,971	4,974	4,996	5,017
Capital Work-in-Progress	76	206	401	401	401
Investments	1,980	2,879	5,803	2,774	2,774
Current Assets	5,925	5,744	5,408	9,332	11,591
Inventories	1,625	2,501	1,710	2,558	3,070
Sundry Debtors	1,251	860	980	1,705	2,046
Cash	1,593	912	1,004	2,381	3,207
Loans & Advances	712	709	1,120	1,415	1,712
Other Assets	745	762	593	1,273	1,556
Current liabilities	4,623	5,402	8,131	7,748	8,469
Net Current Assets	1,303	342	(2,723)	1,584	3,122
Deferred Tax Asset	424	614	427	427	427
Mis. Exp. not written off	-	-	-	-	-
Total Assets	8,575	9,012	8,882	9,826	11,308

Standalone Cashflow Statement

Y/E March (Rs cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
Profit before tax	390	1223	1563	2286	2512
Depreciation	488	518	555	624	680
Change in Working Capital	(179)	190	2962	(2931)	(712)
Interest / Dividend (Net)	203	88	77	0	0
Direct taxes paid	(441)	(348)	(415)	(503)	(628)
Others	1223	484	677	0	0
Cash Flow from Operations	1683	2155	5418	(524)	1851
(Inc.)/ Dec. in Fixed Assets	34	(366)	(532)	(500)	(700)
(Inc.)/ Dec. in Investments	330	(1111)	(2800)	3028	0
Cash Flow from Investing	364	(1477)	(3332)	2528	(700)
Issue of Equity	0	0	0	0	0
Inc./(Dec.) in loans	(789)	(883)	(1270)	(302)	0
Dividend Paid (Incl. Tax)	(154)	(325)	(549)	(325)	(325)
Interest / Dividend (Net)	(263)	(151)	(175)	0	0
Cash Flow from Financing	(1205)	(1359)	(1994)	(628)	(325)
Inc./(Dec.) in Cash	842	(681)	92	1377	826
Opening Cash balances	751	1593	912	1004	2381
Closing Cash balances	1593	912	1004	2381	3207

Exhibit 2:

Y/E March	FY2016	FY2017	FY2018	FY2019E	FY2020E
Valuation Ratio (x)					
P/E (on FDEPS)	29.9	15.5	14.7	12.8	12.3
P/CEPS	26.4	13.3	10.9	9.6	9.0
P/BV	4.3	3.8	3.2	2.8	2.3
Dividend yield (%)	0.7	1.4	0.0	0.0	0.0
EV/Sales	1.2	1.1	0.7	0.7	0.6
EV/EBITDA	15.3	12.8	7.0	6.5	5.7
EV / Total Assets	2.6	2.4	1.9	1.8	1.5
Per Share Data (Rs)					
EPS (Basic)	2.6	5.1	5.4	6.2	6.4
EPS (fully diluted)	2.6	5.1	5.4	6.2	6.4
Cash EPS	3.0	5.9	7.2	8.2	8.8
DPS	0.5	1.1	0.0	0.0	0.0
Book Value	18.5	20.9	24.4	28.7	33.8
Returns (%)					
ROCE	12.2	14.0	23.5	24.5	23.0
Angel ROIC (Pre-tax)	22.4	25.9	142.2	56.6	52.9
ROE	14.3	24.3	22.0	21.5	19.1
Turnover ratios (x)					
Asset Turnover (Gross Block)	3.6	3.4	4.2	4.1	4.1
Inventory / Sales (days)	31	46	24	33	36
Receivables (days)	24	16	14	22	24
Payables (days)	50	56	66	60	60
Working capital cycle (ex-cash) (days)	6	5	(29)	(5)	-

Source: Company, Angel Research

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

DISCLAIMER

Angel Broking Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Metropolitan Stock Exchange Limited. It is also registered as a Depository Participant with CDSL and Portfolio Manager and Investment Adviser with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Disclosure of Interest Statement

Ashok Leyland

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to -15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)