

## Ashok Leyland Ltd.

### Performance Update

(` cr)	1QFY20	1QFY19	% yoy	4QFY19	% qoq
<b>Revenue</b>	<b>5,684</b>	<b>6,263</b>	<b>(9.2)</b>	<b>8,846</b>	<b>(35.7)</b>
<b>EBITDA</b>	<b>517</b>	<b>650</b>	<b>(20.5)</b>	<b>974</b>	<b>(46.9)</b>
<b>OPM (%)</b>	9.1	10.4	(129bp)	11.0	(191bp)
<b>Reported PAT</b>	<b>230</b>	<b>422</b>	<b>(45.4)</b>	<b>653</b>	<b>(64.7)</b>

Source: Company, Angel Research

For 1QFY2020, Ashok Leyland Ltd (ALL) posted disappointing results on both top-line and bottom-line fronts. Revenue de-grew by 9% yoy to `5,684cr. Further, operating margin contracted by 129bps. On the bottom-line front, ALL's PAT declined 45.4% yoy to `230cr on the back of lower sales and poor operating performance.

**Volume decline drags overall revenue:** The company's top-line de-grew by ~9% yoy to `5,684cr mainly due to 6% volume decline and ~3% decline in average realizations. The company has reported subdued top-line growth mainly due to lower freight availability and delay in purchases led by confusion around GST reduction. ALL expects CV industry to report flattish growth due to slowdown in economy and uncertainty around pre-buy ahead of BS-VI.

**PAT down 45% yoy:** On the operating front, the company's margins declined by 129bps yoy to 9.1% due higher discount provided by company (average M&HCVC discounts during Q1FY2020 were at Rs3.5-4L/unit, flat qoq). However, PAT de-grew ~45% yoy to `230cr on the back of lower volumes, poor operating performance and higher taxes.

**Outlook and Valuation:** During 1QFY2020, ALL's volume growth remained subdued due to overall slowdown in economy, lower freight availability and delay in purchases led by confusion around GST. However, ALL has outperformed the industry in 1QFY20. Further, we believe, any revival in CV industry (due pre-buying ahead of BS-VI) would benefit ALL owing to its strong position in industry (market share gains), diversified portfolio and strong brand & distribution network.

**Considering the above factors, we maintain our Buy recommendation on ALL with Target Price of `93.**

### Key Financials

Y/E March (` cr)	FY2018	FY2019	FY2020E	FY2021E
<b>Net sales</b>	<b>26,356</b>	<b>29,055</b>	<b>29,847</b>	<b>32,381</b>
% chg	31.7	10.2	2.7	8.5
<b>Adj. Net profit</b>	<b>1,736</b>	<b>2,027</b>	<b>1,493</b>	<b>1,697</b>
% chg	16.4	16.8	(26.4)	13.7
EBITDA margin (%)	10.2	10.6	9.6	9.9
<b>EPS (`)</b>	<b>5.9</b>	<b>6.9</b>	<b>5.1</b>	<b>5.8</b>
P/E (x)	10.9	9.3	12.6	11.1
P/BV (x)	2.6	2.3	2.1	1.9
RoE (%)	24.3	24.2	17.0	17.0
RoCE (%)	25.6	27.4	23.1	23.5
EV/Sales (x)	0.5	0.5	0.5	0.4
EV/EBITDA (x)	4.9	5.0	5.2	4.4

Please refer to my original Research Report at the end of this report

## BUY

CMP	`64
Target Price	`93
Investment Period	12 months

Stock Info	
Sector	Automobile
Market Cap (` cr)	18,905
Net Debt (` cr)	3,611
Beta	1.1
52 Week High / Low	135/61
Avg. Daily Volume	14,43,371
Face Value (`)	5
BSE Sensex	37,118
Nifty	10,997
Reuters Code	ASOK.BO
Bloomberg Code	AL.IN

Shareholding Pattern (%)	
Promoters	51.1
MF / Banks / Indian	6.3
FII / NRIs / OCBs	18.8
Indian Public/Others	23.8

Abs.(%)	3m	1yr	3yr
Sensex	4.8	(0.1)	32.7
ALL	(28.7)	(46.3)	(25.4)

### Historical share price chart



Source: Company, Angel Research

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**Exhibit 1: 1QFY2020 Performance**

Y/E March (₹ cr)	1QFY20	1QFY19	% yoy	4QFY19	% qoq	FY19	FY18	% chg
<b>Net Sales</b>	<b>5,684</b>	<b>6,263</b>	<b>(9.2)</b>	<b>8,846</b>	<b>(35.7)</b>	29,055	26,356	<b>10.2</b>
Consumption of RM	3974	4,317	(8.0)	6,429	(38.2)	20,680	18,431	12.2
(% of Sales)	69.9	68.9		72.7		71.2	69.9	
Staff Costs	500	500	0.1	573	(12.7)	2098.8	1837.8	14.2
(% of Sales)	8.8	8.0		6.5		7.2	7.0	
Other Expenses	693	795	(12.9)	870	(20.3)	3,198	3,405	(6.1)
(% of Sales)	12.2	12.7		9.8		11.0	12.9	
<b>Total Expenditure</b>	<b>5,167</b>	<b>5,613</b>	<b>(7.9)</b>	<b>7,872</b>	<b>(34.4)</b>	<b>25,977</b>	<b>23,674</b>	<b>9.7</b>
<b>Operating Profit</b>	<b>517</b>	<b>650</b>	<b>(20.5)</b>	<b>974</b>	<b>(46.9)</b>	<b>3,078</b>	<b>2,683</b>	<b>14.8</b>
OPM	9.1	10.4		11.0		10.6	10.2	
Interest	13	14	(11.6)	17	(24.4)	70	147	(52.2)
Depreciation	165	152	8.0	160	3.1	621.0	598.5	3.8
Other Income	21	52	(59.8)	9	131.4	110	449	(75.5)
<b>PBT (excl. Ext Items)</b>	<b>361</b>	<b>536</b>	<b>(32.7)</b>	<b>806</b>	<b>(55.3)</b>	<b>2,497</b>	<b>2,386</b>	<b>4.7</b>
Ext (Income)/Expense	-	-		-		-	-	
<b>PBT (incl. Ext Items)</b>	<b>361</b>	<b>536</b>	<b>(32.7)</b>	<b>806</b>	<b>(55.3)</b>	<b>2,497</b>	<b>2,386</b>	<b>4.7</b>
(% of Sales)	6.3	8.6		9.1		8.6	9.1	
Provision for Taxation	131	114	14.2	153	(15.0)	514	668	(23.1)
(% of PBT)	36.2	21.3		19.0		20.6	28.0	
<b>Reported PAT</b>	<b>230</b>	<b>422</b>	<b>(45.4)</b>	<b>653</b>	<b>(64.7)</b>	<b>1,983</b>	<b>1,718</b>	<b>15.5</b>
PATM	4.1	6.7		7.4		6.8	6.5	
Extra-ordinary Items	(20)	(13)		(9)		(44)	(18)	
<b>Adjusted Profit After Extra-ordinary item</b>	<b>250</b>	<b>435</b>	<b>(42.5)</b>	<b>662</b>	<b>(62.2)</b>	<b>2,027</b>	<b>1,736</b>	<b>16.8</b>

Source: Company, Angel Research

## Outlook and Valuation

During 1QFY2020, ALL's volume growth remained subdued due to overall slowdown in economy, lower freight availability and delay in purchases led by confusion around GST. However, ALL has outperformed the industry in 1QFY2020. Further, we believe, any revival in CV industry( due pre-buying ahead of BS-VI) would benefit ALL owing to its strong position in industry (market share gains), diversified portfolio and strong brand & distribution network. **Considering the above factors, we maintain our Buy recommendation on ALL with Target Price of ₹ 93.**

### 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 the company.

## Company Background

Ashok Leyland Ltd (ALL) is a holding company and 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)	FY2017	FY2018	FY2019	FY2020E	FY2021E
<b>Net Sales</b>	<b>20,019</b>	<b>26,356</b>	<b>29,055</b>	<b>29,847</b>	<b>32,381</b>
% chg	5.7	31.7	10.2	2.7	8.5
<b>Total Expenditure</b>	<b>18,341</b>	<b>23,674</b>	<b>25,977</b>	<b>26,982</b>	<b>29,176</b>
Raw Material	13,973	18,431	20,680	21,341	23,153
Personnel	1,543	1,838	2,099	2,209	2,461
Others Expenses	2,825	3,405	3,198	3,432	3,562
<b>EBITDA</b>	<b>1,677</b>	<b>2,683</b>	<b>3,078</b>	<b>2,865</b>	<b>3,206</b>
% chg	16.5	59.9	14.8	(6.9)	11.9
(% of Net Sales)	8.4	10.2	10.6	9.6	9.9
Depreciation & Amortisation	518	598	621	694	729
<b>EBIT</b>	<b>1,160</b>	<b>2,084</b>	<b>2,457</b>	<b>2,172</b>	<b>2,477</b>
% chg	21.9	79.7	17.9	(11.6)	14.0
(% of Net Sales)	5.8	7.9	8.5	7.3	7.6
Interest & other Charges	155	147	70	54	54
Other Income	326	449	110	110	110
(% of PBT)	24.5	18.8	4.4	4.9	4.3
<b>Recurring PBT</b>	<b>1,330</b>	<b>2,386</b>	<b>2,497</b>	<b>2,228</b>	<b>2,533</b>
% chg	60.9	79.4	4.7	(10.8)	13.7
Tax	107	668	514	735	836
(% of PBT)	8.0	28.0	20.6	33.0	33.0
<b>PAT (reported)</b>	<b>1,223</b>	<b>1,718</b>	<b>1,983</b>	<b>1,493</b>	<b>1,697</b>
Extraordinary Items	(268)	(18)	(44)	-	-
<b>ADJ. PAT</b>	<b>1,491</b>	<b>1,736</b>	<b>2,027</b>	<b>1,493</b>	<b>1,697</b>
% chg	92.7	16.4	16.8	(26.4)	13.7
(% of Net Sales)	7.4	6.6	7.0	5.0	5.2
<b>Basic EPS ( ₹ )</b>	<b>5.1</b>	<b>5.9</b>	<b>6.9</b>	<b>5.1</b>	<b>5.8</b>
<b>Fully Diluted EPS ( ₹ )</b>	<b>5.1</b>	<b>5.9</b>	<b>6.9</b>	<b>5.1</b>	<b>5.8</b>
% chg	92.7	16.4	16.8	(26.4)	13.7

**Standalone Balance Sheet**

Y/E March ( ₹ cr)	FY2017	FY2018	FY2019	FY2020E	FY2021E
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	285	293	294	293	293
Reserves & Surplus	5,841	6,861	8,065	8,496	9,664
<b>Shareholders Funds</b>	<b>6,126</b>	<b>7,154</b>	<b>8,358</b>	<b>8,789</b>	<b>9,957</b>
Total Loans	2,145	1,002	601	600	600
Deferred Tax Liability	741	726	927	726	727
<b>Total Liabilities</b>	<b>9,012</b>	<b>8,882</b>	<b>9,886</b>	<b>10,115</b>	<b>11,284</b>
<b>APPLICATION OF FUNDS</b>					
Gross Block	5,858	6,312	7,594	7,994	8,394
Less: Acc. Depreciation	887	1,338	1,979	2,673	3,402
<b>Net Block</b>	<b>4,971</b>	<b>4,974</b>	<b>5,615</b>	<b>5,321</b>	<b>4,992</b>
Capital Work-in-Progress	206	401	658	401	401
Investments	2,879	5,803	2,637	2,774	2,774
Current Assets	5,744	5,408	9,316	9,851	11,817
Inventories	2,501	1,710	2,685	2,944	3,194
Sundry Debtors	860	980	2,506	2,126	2,307
Cash	912	1,004	1,374	1,647	2,431
Loans & Advances	709	1,120	1,623	1,642	1,943
Other Assets	762	593	1,129	1,492	1,943
Current liabilities	5,402	8,131	9,015	8,091	8,356
<b>Net Current Assets</b>	<b>342</b>	<b>(2,723)</b>	<b>301</b>	<b>1,760</b>	<b>3,461</b>
<b>Deferred Tax Asset</b>	<b>614</b>	<b>427</b>	<b>677</b>	<b>427</b>	<b>428</b>
Mis. Exp. not written off	-	-	-	-	-
<b>Total Assets</b>	<b>9,012</b>	<b>8,882</b>	<b>9,886</b>	<b>10,115</b>	<b>11,284</b>

**Standalone Cashflow Statement**

Y/E March (Rs cr)	FY2017	FY2018	FY2019	FY2020E	FY2021E
Profit before tax	1223	1718	1983	2228	2533
Depreciation	518	598	621	694	729
Change in Working Capital	190	2969	(2964)	(1186)	(917)
Interest / Dividend (Net)	88	93	31	0	0
Direct taxes paid	(348)	(427)	(560)	(735)	(836)
Others	484	692	527	0	0
<b>Cash Flow from Operations</b>	<b>2155</b>	<b>5643</b>	<b>(362)</b>	<b>1000</b>	<b>1509</b>
(Inc.)/ Dec. in Fixed Assets	(366)	(534)	(731)	(400)	(400)
(Inc.)/ Dec. in Investments	(1111)	(2895)	3043	0	0
<b>Cash Flow from Investing</b>	<b>(1477)</b>	<b>(3429)</b>	<b>2312</b>	<b>(400)</b>	<b>(400)</b>
Issue of Equity	0	0	9	0	0
Inc./(Dec.) in loans	(883)	(1378)	(662)	(1)	0
Dividend Paid (Incl. Tax)	(325)	(549)	(860)	(325)	(325)
Interest / Dividend (Net)	(151)	(190)	(94)	0	0
<b>Cash Flow from Financing</b>	<b>(1359)</b>	<b>(2118)</b>	<b>(1608)</b>	<b>(327)</b>	<b>(325)</b>
Inc./(Dec.) in Cash	(681)	96	342	273	784
<b>Opening Cash balances</b>	<b>1593</b>	<b>908</b>	<b>1031</b>	<b>1374</b>	<b>1647</b>
<b>Closing Cash balances</b>	<b>912</b>	<b>1004</b>	<b>1374</b>	<b>1647</b>	<b>2431</b>

### Key Ratios

Y/E March	FY2017	FY2018	FY2019	FY2020E	FY2021E
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	12.6	10.9	9.3	12.6	11.1
P/CEPS	10.8	8.1	7.2	8.6	7.8
P/BV	3.1	2.6	2.3	2.1	1.9
Dividend yield (%)	1.7	0.0	0.0	0.0	0.0
EV/Sales	0.9	0.5	0.5	0.5	0.4
EV/EBITDA	10.3	4.9	5.0	5.2	4.4
EV / Total Assets	1.9	1.5	1.6	1.5	1.3
<b>Per Share Data (Rs)</b>					
EPS (Basic)	5.1	5.9	6.9	5.1	5.8
EPS (fully diluted)	5.1	5.9	6.9	5.1	5.8
Cash EPS	5.9	7.9	8.9	7.5	8.3
DPS	1.1	0.0	0.0	0.0	0.0
Book Value	20.9	24.4	28.6	30.0	34.0
<b>Returns (%)</b>					
ROCE	14.0	25.6	27.4	23.1	23.5
Angel ROIC (Pre-tax)	25.9	154.4	49.6	43.7	46.3
ROE	24.3	24.3	24.2	17.0	17.0
<b>Turnover ratios (x)</b>					
Asset Turnover (Gross Block)	3.4	4.2	3.8	3.7	3.9
Inventory / Sales (days)	46	24	34	36	36
Receivables (days)	16	14	31	26	26
Payables (days)	56	66	60	60	60
Working capital cycle (ex-cash) (days)	5	(29)	5	2	2

Source: Company, Angel Research

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Disclosure of Interest Statement	Ashok Leyland
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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

<b>Ratings (Returns):</b>	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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