

## Ashok Leyland Ltd.

### Performance Update

(₹ cr)	2QFY19	2QFY18	% yoy	1QFY19	% qoq
Revenue	7,608	6,047	25.8	6,250	21.7
EBITDA	790	609	29.7	623	26.8
OPM (%)	10.4	10.1	31	10.0	41
Reported PAT	460	334	37.5	370	24.2

Source: Company, Angel Research

For 2QFY2019, Ashok Leyland Ltd (ALL) posted good set of results both on top-line as well as bottom-line fronts. Revenue grew by 25.8% yoy to ₹7,608cr. On the bottom-line front, ALL reported PAT growth of 37.5% yoy to ₹460cr on the back of strong top-line growth and operating margin improvement.

**Strong volumes boost overall top-line growth:** The company's top-line grew by 25.8% yoy to ₹7,608cr on the back of strong volume growth (up ~27% yoy). During the quarter, MHCV segment grew by ~22% and LCV segment grew by ~42%. However, overall realization has declined by ~1% (higher discount given by ALL). Further, the growth pace in Q3FY19E is expected to remain slow owing to liquidity issues, however, post that strong sales growth is expected. The growth will be led by pre-buying sales (due to introduction of BS6 norms FY2020) and government's push for infra & construction projects (around 45% of ALL's truck volumes are from the infrastructure and construction segment).

**Strong revenue, healthy operating performance aids profitability:** On the operating front, the company's margin rose by 31bps yoy to 10.4%. Moreover, ALL reported ~38% yoy rise in its net profit to ₹460cr on the back of strong top-line growth.

**Outlook and Valuation:** We expect Ashok Leyland to report net profit (reported) CAGR of ~21% to ~₹2,303cr over FY2018-20E mainly due to improvement in pre-buying sales (due to introduction of BS6 norms in FY2020) and replacement demand (implementation of vehicle scrappage policy). **Thus, we recommend BUY on the stock with Target Price of ₹149.**

### Key Financials

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
Net sales	20,019	26,248	32,042	37,488
% chg	5.7	31.1	22.1	17.0
Adj. Net profit	1,491	1,571	1,918	2,303
% chg	92.7	5.4	22.1	20.0
EBITDA margin (%)	8.4	9.4	10.3	10.5
EPS (₹)	5.1	5.4	6.6	7.9
P/E (x)	21.0	19.9	16.3	13.6
P/BV (x)	5.1	4.4	3.7	3.1
RoE (%)	24.3	22.0	22.8	23.0
RoCE (%)	14.0	23.5	29.4	30.5
EV/Sales (x)	1.5	1.0	0.8	0.7
EV/EBITDA (x)	17.7	10.3	8.1	6.5

Source: Company, Angel Research Note

## BUY

CMP	₹108
Target Price	₹149

Investment Period	12 months
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Stock Info	
Sector	Automobile
Market Cap (₹ cr)	31,219
Net Debt (₹ cr)	3,739
Beta	1.1
52 Week High / Low	168/103
Avg. Daily Volume	12,80,187
Face Value (₹)	5
BSE Sensex	35,110
Nifty	10,569
Reuters Code	ASOK.BO
Bloomberg Code	AL.IN

Shareholding Pattern (%)	
Promoters	51.1
MF / Banks / Indian	5.8
FII / NRIs / OCBs	22.9
Indian Public/Others	20.2

Abs.(%)	3m	1yr	3yr
Sensex	(6.6)	6.4	37.2
ALL	(5.3)	5.1	19.6

### Historical share price chart



Source: Company, Angel Research

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**Exhibit 1: 2QFY2019 Performance**

Y/E March (₹ cr)	2QFY19	2QFY18	% yoy	1QFY19	% qoq	1HFY19	1HFY18	% chg
<b>Net Sales</b>	<b>7,608</b>	<b>6,047</b>	<b>25.8</b>	<b>6,250</b>	<b>21.7</b>	<b>13858</b>	<b>10334</b>	<b>34.1</b>
Consumption of RM	5529	4,314	28.2	4351	27.1	9,880	7,246	36.4
(% of Sales)	72.7	71.3		69.6		71.3	70.1	
Staff Costs	517	492	5.2	493	4.9	1010.4	887.8	13.8
(% of Sales)	6.8	8.1		7.9		7.3	8.6	
Other Expenses	772	632	22.1	783	(1.4)	1,551	1,301	19.2
(% of Sales)	10.1	10.5		12.5		11.2	12.6	
<b>Total Expenditure</b>	<b>6,818</b>	<b>5,438</b>	<b>25.4</b>	<b>5,627</b>	<b>21.2</b>	<b>12,442</b>	<b>9,434</b>	<b>31.9</b>
<b>Operating Profit</b>	<b>790</b>	<b>609</b>	<b>29.7</b>	<b>623</b>	<b>26.8</b>	<b>1,417</b>	<b>900</b>	<b>57.4</b>
OPM	10.4	10.1		10.0		10.2	8.7	
Interest	17	41	(57.7)	12	49.9	29	78	(62.7)
Depreciation	140	141	(0.7)	143	(2.0)	283	273	3.6
Other Income	28	56	(49.4)	53	(47.3)	78	94	(16.9)
<b>PBT (excl. Ext Items)</b>	<b>661</b>	<b>483</b>	<b>36.9</b>	<b>522</b>	<b>26.6</b>	<b>1,182.54</b>	<b>643.13</b>	<b>83.9</b>
Ext (Income)/Expense	-	-		-		-	-	
<b>PBT (incl. Ext Items)</b>	<b>661</b>	<b>483</b>	<b>36.9</b>	<b>522</b>	<b>26.6</b>	<b>1,183</b>	<b>643</b>	<b>83.9</b>
(% of Sales)	8.7	8.0		8.4		8.5	6.2	
Provision for Taxation	201	148	35.5	152	32.4	353	198	78.5
(% of PBT)	30.4	30.7		29.1		29.8	30.7	
<b>Reported PAT</b>	<b>460</b>	<b>334</b>	<b>37.5</b>	<b>370</b>	<b>24.2</b>	<b>829.68</b>	<b>445.50</b>	<b>86.2</b>
PATM	6.0	5.5		5.9		6.0	4.3	
Extra-ordinary Items	(16)			(10)		(21)	(8)	
<b>Adjusted Profit After Extra-ordinary item</b>	<b>476</b>	<b>334</b>	<b>42.3</b>	<b>380</b>	<b>25.0</b>	<b>850.89</b>	<b>453.27</b>	<b>87.7</b>

Source: Company, Angel Research

## Outlook and Valuation

We expect Ashok Leyland to report net profit (reported) CAGR of ~21% to ~₹2,303cr over FY2018-20E mainly due to improvement in pre-buying sales (due to introduction of BS6 norms in FY2020) and replacement demand (implementation of vehicle scrappage policy). **Thus, we recommend BUY on the stock with Target Price of ₹149.**

## 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 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.

**Standalone Profit & Loss Statement**

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
<b>Net Sales</b>	<b>18,937</b>	<b>20,019</b>	<b>26,248</b>	<b>32,042</b>	<b>37,488</b>
% chg	39.6	5.7	31.1	22.1	17.0
<b>Total Expenditure</b>	<b>17,498</b>	<b>18,341</b>	<b>23,774</b>	<b>28,742</b>	<b>33,552</b>
Raw Material	13,195	13,973	18,621	22,910	26,804
Personnel	1,385	1,543	1,812	2,627	3,074
Others Expenses	2,918	2,825	3,341	3,204	3,674
<b>EBITDA</b>	<b>1,439</b>	<b>1,677</b>	<b>2,474</b>	<b>3,300</b>	<b>3,936</b>
% chg	79.4	16.5	47.5	33.4	19.3
(% of Net Sales)	7.6	8.4	9.4	10.3	10.5
Depreciation & Amortisation	488	518	555	624	680
<b>EBIT</b>	<b>952</b>	<b>1,160</b>	<b>1,919</b>	<b>2,676</b>	<b>3,257</b>
% chg	146.4	21.9	65.5	39.5	21.7
(% of Net Sales)	5.0	5.8	7.3	8.4	8.7
Interest & other Charges	248	155	131	72	60
Other Income	123	326	443	140	140
(% of PBT)	14.8	24.5	19.8	5.1	4.2
<b>Recurring PBT</b>	<b>827</b>	<b>1,330</b>	<b>2,231</b>	<b>2,744</b>	<b>3,337</b>
% chg	86.9	60.9	67.7	23.0	21.6
Tax	437	107	668	851	1,034
(% of PBT)	52.9	8.0	30.0	31.0	31.0
<b>PAT (reported)</b>	<b>390</b>	<b>1,223</b>	<b>1,563</b>	<b>1,893</b>	<b>2,303</b>
Extraordinary Items	(384)	(268)	(9)	(25)	-
<b>ADJ. PAT</b>	<b>774</b>	<b>1,491</b>	<b>1,571</b>	<b>1,918</b>	<b>2,303</b>
% chg	199.5	92.7	5.4	22.1	20.0
(% of Net Sales)	4.1	7.4	6.0	6.0	6.1
<b>Basic EPS (₹)</b>	<b>2.6</b>	<b>5.1</b>	<b>5.4</b>	<b>6.6</b>	<b>7.9</b>
<b>Fully Diluted EPS (₹)</b>	<b>2.6</b>	<b>5.1</b>	<b>5.4</b>	<b>6.6</b>	<b>7.9</b>
% chg	199.5	92.7	5.4	22.1	20.0

**Standalone Balance Sheet**

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	285	285	293	293	293
Reserves & Surplus	5,123	5,841	6,861	8,107	9,700
<b>Shareholders Funds</b>	<b>5,407</b>	<b>6,126</b>	<b>7,154</b>	<b>8,400</b>	<b>9,993</b>
Total Loans	2,415	2,145	1,002	700	700
Deferred Tax Liability	753	741	726	726	726
<b>Total Liabilities</b>	<b>8,575</b>	<b>9,012</b>	<b>8,882</b>	<b>9,826</b>	<b>11,419</b>
<b>APPLICATION OF FUNDS</b>					
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	<b>4,792</b>	<b>4,971</b>	<b>4,974</b>	<b>4,996</b>	<b>5,017</b>
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	10,496	13,901
Inventories	1,625	2,501	1,710	2,897	3,697
Sundry Debtors	1,251	860	980	1,931	2,465
Cash	1,593	912	1,004	2,624	3,802
Loans & Advances	712	709	1,120	1,602	2,062
Other Assets	745	762	593	1,442	1,874
Current liabilities	4,623	5,402	8,131	8,801	10,249
<b>Net Current Assets</b>	<b>1,303</b>	<b>342</b>	<b>(2,723)</b>	<b>1,695</b>	<b>3,652</b>
<b>Deferred Tax Asset</b>	<b>424</b>	<b>614</b>	<b>427</b>	<b>427</b>	<b>427</b>
Mis. Exp. not written off	-	-	-	-	-
<b>Total Assets</b>	<b>8,575</b>	<b>9,012</b>	<b>8,882</b>	<b>9,826</b>	<b>11,419</b>

**Standalone Cashflow Statement**

Y/E March (Rs cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
Profit before tax	390	1223	1563	2744	3337
Depreciation	488	518	555	624	680
Change in Working Capital	(179)	190	2962	(2799)	(778)
Interest / Dividend (Net)	203	88	77	0	0
Direct taxes paid	(441)	(348)	(415)	(851)	(1034)
Others	1223	484	677	0	0
<b>Cash Flow from Operations</b>	<b>1683</b>	<b>2155</b>	<b>5418</b>	<b>(281)</b>	<b>2204</b>
(Inc.)/ Dec. in Fixed Assets	34	(366)	(532)	(500)	(700)
(Inc.)/ Dec. in Investments	330	(1111)	(2800)	3028	0
<b>Cash Flow from Investing</b>	<b>364</b>	<b>(1477)</b>	<b>(3332)</b>	<b>2528</b>	<b>(700)</b>
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
<b>Cash Flow from Financing</b>	<b>(1205)</b>	<b>(1359)</b>	<b>(1994)</b>	<b>(628)</b>	<b>(325)</b>
Inc./(Dec.) in Cash	842	(681)	92	1619	1179
<b>Opening Cash balances</b>	<b>751</b>	<b>1593</b>	<b>912</b>	<b>1004</b>	<b>2624</b>
<b>Closing Cash balances</b>	<b>1593</b>	<b>912</b>	<b>1004</b>	<b>2624</b>	<b>3802</b>

**Exhibit 2:**

Y/E March	FY2016	FY2017	FY2018	FY2019E	FY2020E
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	40.5	21.0	19.9	16.3	13.6
P/CEPS	35.7	18.0	14.8	12.4	10.5
P/BV	5.8	5.1	4.4	3.7	3.1
Dividend yield (%)	0.5	1.0	0.0	0.0	0.0
EV/Sales	1.6	1.5	1.0	0.8	0.7
EV/EBITDA	21.0	17.7	10.3	8.1	6.5
EV / Total Assets	3.5	3.3	2.9	2.6	2.1
<b>Per Share Data (Rs)</b>					
EPS (Basic)	2.6	5.1	5.4	6.6	7.9
EPS (fully diluted)	2.6	5.1	5.4	6.6	7.9
Cash EPS	3.0	5.9	7.2	8.6	10.2
DPS	0.5	1.1	0.0	0.0	0.0
Book Value	18.5	20.9	24.4	28.7	34.1
<b>Returns (%)</b>					
ROCE	12.2	14.0	23.5	29.4	30.5
Angel ROIC (Pre-tax)	22.4	25.9	142.2	72.3	79.1
ROE	14.3	24.3	22.0	22.8	23.0
<b>Turnover ratios (x)</b>					
Asset Turnover (Gross Block)	3.6	3.4	4.2	4.6	4.9
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)	0

Source: Company, Angel Research

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### 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%)*