

**CMP: Rs 79**

**Rating: SELL**

**Target: Rs 63**

(NR-Not Rated)

**Stock Info**

INDEX	
BSE	500477
NSE	ASHOKLEY
Bloomberg	AL IN
Reuters	ASOK.NS
Sector	Automobiles
Face Value (Rs)	1
Equity Capital (Rs mn)	2936
Mkt Cap (Rs bn)	233
52w H/L (Rs)	114 / 57
Avg Weekly Vol (BSE+NSE)	21464950

**Shareholding Pattern**

	%
<b>(As on March, 2019)</b>	
Promoters	51.1
Public & Others	48.9

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
ASHOK LEYLAND	31.0	-3.0	-32.3
SENSEX	8.5	8.2	14.1

Source: ACE Equity, Arihant Research

**ASHOK LEYLAND v/s SENSEX**



Source: ACE Equity, Arihant Research

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Ashok Leyland (AL) reported weak performance in Q2FY20 with decline in topline by -48% YoY / -31% QoQ at Rs. 39.3bn (vs est Rs.Rs.41.2bn). This was mainly due to plunge in realisation -41% YoY / -14% QoQ. Gross margins were 31%, YoY expansion of 309bps on account of better mix and lower raw material cost (69% of sales vs. 72% last year). EBITDA stood at Rs.2.3bn, de-growth of -72% YoY / -57% QoQ (vs est Rs.3.0bn). EBITDA margin at 5.8%, contracted by -506bps YoY / -363bps QoQ. Interest expenses at Rs.301mn, rose by 48% YoY / 140% QoQ. Other income rose +65% YoY at Rs.455mn. The company posted normalised PAT of Rs.1.04bn (vs est Rs.1.2bn), -81% YoY / -59% QoQ. PAT adjusted for exceptional loss was at Rs. 648mn which includes Rs.447mn of provision towards voluntary retirement scheme & Rs.175mn of obligation towards LCV subsidiary. The management highlighted on the call that the volume decline was in line with industry volume decline. There is no clarity about the industry revival but the company is hopeful to see some improvement in volumes in Q1FY21 onwards due to good range of product offerings & BS VI products.

**Concall highlights**

- Revenue breakup for Q2FY20 was domestic truck 45%, buses 13%, exports 12%, LCVs 13% and the balance is from defence & spares
- In Q2FY20 the domestic market share declined (30% vs 35% in Q2FY19) as the main focus was to reduce channel inventory. Retail sales were better than wholesale sales during the quarter.
- in October, inventory level at company plus dealership was 13K units vs. 18.2K units in September
- The management expects the realization to firm up in the coming quarters
- The focus for the year is to implement cost cutting measures (mainly related to fixed cost, VRS, WC etc), improvement in the productivity and launching new products
- The company has saved Rs. 200-230Cr in H1FY20 and expected to save cost of ~Rs.500cr for the full year. As per management, for full year exports will be lower
- The management has reduced capex guidance for FY20 to Rs.1800 Cr from Rs. 2300Cr. This is expected to come down further in FY21 looking at the current demand situation. The capex will be spent on technology, new product launch, BS VI transition. In H1FY20 the company spent Rs.550Cr
- In Q2FY20, the average discount was Rs.5.25L vs 4.25L in Q1FY20.
- Infrastructure for scrappage policy will take another 6-12 months
- The company is in process to launch new modular platform which will have right as well as left hand drive from 1st April along with BS VI. It will also be used for exports.
- The company has MAT carry forward hence for next couple of years the tax rate will be at old regime.
- The company has participated in tenders on electric buses (5K-6K buses). The bid is expected to open this week.
- The company has no plans to expand its distribution reach.

**Outlook:** We believe, presently the industry is under-going through a tough down-cycle due to weak sentiments, economic slow-down, cost escalation related to BS VI norms etc. The slowdown in the Indian truck industry has intensified in recent months, which can be seen in AL's H1FY20 volume nos. However, we believe, AL would do better in FY21 onwards on the back of new product/platform launches, improvement in exports. At CMP of Rs 79, stock is trading at a P/E of 19x FY21E. We cut our topline estimate by -21% / -13% for FY20/FY21E to factor in the current down-cycle. We assign PE multiple of 15x (expecting new launch & increase in exports) FY21E and downgrade rating to SELL for a TP of Rs 63 (-20% downside).

## Quarterly result summary

Rs Mn	Q2FY20	Q2FY19	Q1FY20	YoY %	QoQ %	H1FY20	H1FY19	YoY %
Net Sales	39,295	76,211	56,839	-48%	-31%	96,134	138,838	-31%
Cost of material consumed	21,726	53,467	44,963	-59%	-52%	66,690	103,943	-36%
Purchases of stock-in-trade	1,744	1,599	1,912	9%	-9%	3,655	3,644	0%
Changes in inventories	3,663	(89)	(7,138)	-4220%	-151%	(3,475)	(9,440)	-63%
Raw Material	27,133	54,976	39,737	-51%	-32%	66,870	98,146	-32%
Staff Cost	4,321	5,251	5,004	-18%	-14%	9,326	10,252	-9%
Other expenditure	5,555	7,693	6,728	-28%	-17%	12,283	15,469	-21%
Total Expenditure	37,009	67,920	51,469	-46%	-28%	88,478	123,868	-29%
EBITDA	2,286	8,290	5,370	-72%	-57%	7,656	14,970	-49%
Depreciation	1,600	1,481	1,646	8%	-3%	3,247	3,006	8%
EBIT	685	6,809	3,723	-90%	-82%	4,409	11,964	-63%
Interest	301	204	126	48%	140%	427	346	23%
Other Income	455	276	211	65%	116%	666	801	-17%
Exchange Gain or Loss	-	(20)	-	-100%	-	-	(20)	-100%
PBT	839	6,861	3,809	-88%	-78%	4,648	12,399	-63%
Current Tax	(666)	1,476	1,416	-145%	-147%	750	2,655	-72%
Deferred tax	468	(45)	(111)	-1138%	-522%	357	(81)	-541%
Fringe benefits Tax	-	-	-	-	-	-	-	-
Tax	(198)	1,431	1,305	-114%	-115%	1,108	2,574	-57%
PAT	1,037	5,431	2,503	-81%	-59%	3,540	9,825	-64%
Extraordinary	(648)	(193)	(201)	236%	222%	(849)	(371)	129%
Reported PAT	389	5,238	2,302	-93%	-83%	2,691	9,454	-72%
Equity	2,936	2,936	2,936	-	-	2,936	-	-
EPS	0.4	1.9	0.9	-	-	1.2	1.7	-
<b>Margins</b>	<b>Q2FY20</b>	<b>Q2FY19</b>	<b>Q1FY20</b>	<b>YoY %</b>	<b>QoQ %</b>	<b>H1FY20</b>	<b>H1FY19</b>	<b>YoY %</b>
Gross margins	31.0%	27.9%	30.1%	309	86	30.4%	29.3%	113
EBITDA	5.8%	10.9%	9.4%	(506)	(363)	8.0%	10.8%	(282)
PAT	3%	7%	4%	(449)	(177)	4%	7%	(339)
Tax Rate	-24%	21%	34%	-	-	24%	21%	307

Source: Company, Arianth Capital Markets

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## Key Financial

P&L (Rs mn)	FY18	FY19	FY20E	FY21E
Net sales	266,330	290,550	221,320	254,955
YoY (%)	32.2	9.1	(23.8)	15.2
Raw material cost	184,311	206,796	157,137	181,018
Employee Cost	18,378	20,988	20,988	22,667
Admin Expenses	34,006	31,409	22,575	26,770
Total expenses	236,695	259,192	200,699	230,455
<b>EBIDTA</b>	<b>29,635</b>	<b>31,357</b>	<b>20,620</b>	<b>24,500</b>
(%)	11.1%	10.8%	9.3%	9.6%
Depreciation	5,985	6,210	7,398	8,791
EBIT	23,650	25,147	13,223	15,709
Interest	1,473	704	864	961
Other income	1,966	1,099	1,099	1,649
PBT	24,143	25,543	13,459	16,397
(-) Tax	6,681	5,182	3,365	4,099
Tax/ PBT	27.7	20.3	25.0	25.0
<b>PAT</b>	<b>17,463</b>	<b>20,361</b>	<b>10,094</b>	<b>12,298</b>
YoY (%)	12.0	16.6	(50.4)	21.8
PAT(%)	6.6%	7.0%	4.6%	4.8%
Extraordinary	285	575	0	0
Reported Profit	<b>17,178</b>	<b>19,786</b>	<b>10,094</b>	<b>12,298</b>

B/Sheet (Rs mn)	FY18	FY19	FY20E	FY21E
Equity capital	2,927	2,936	2,936	2,936
Reserves	69,528	80,389	86,096	93,050
Net worth	72,455	83,324	89,032	95,985
Total Loans	6,126	3,984	10,409	13,621
Deferred Tax	2,986	2,497	2,497	2,497
<b>Total Liabilities</b>	<b>81,567</b>	<b>89,806</b>	<b>101,938</b>	<b>112,103</b>
Gross block	64,888	73,316	91,316	104,316
Less: Acc. Dep	9,408	17,171	24,568	33,359
Net block	55,480	56,145	66,747	70,957
Work in progress	4,226	6,576	6,576	6,576
Investments	63,067	35,903	38,903	41,903
Inventories	17,583	26,847	20,400	23,805
Debtors	9,448	25,057	13,142	16,066
Cash	10,422	13,736	8,236	6,328
Loans and advances	13,138	17,980	13,696	15,778
Current assets	50,591	83,620	55,473	61,977
Current liabilities	81,162	81,914	57,746	60,075
Provisions	10,635	10,524	8,016	9,235
Net current assets	(41,207)	(8,819)	(10,289)	(7,333)
Miscl Expenses				
<b>Total Assets</b>	<b>81,566</b>	<b>89,806</b>	<b>101,938</b>	<b>112,103</b>

Key Ratios	FY18	FY19	FY20E	FY21E
EPS	6.0	6.9	3.4	4.2
Book value	25	28	30	33
P/E (x)	13.2	11.4	23.0	18.9
EV/EBDITA (x)	5.5	5.9	9.5	8.1
P/B (x)	3.2	2.8	2.6	2.4
EV/Sales	0.6	0.6	0.9	0.8
ROCE	24%	24%	11%	12%
ROE	26%	25%	12%	13%
Dividend Yield	3.1%	3.1%	1.6%	1.9%
Gross asset turn	3.4	3.4	2.3	2.4
<b>Days</b>				
Inventory	35	47	47	48
Debtors	14	22	22	23
Creditors	79	87	78	65

Cash Flow	FY18	FY19	FY20E	FY21E
Net profit	17,178	19,786	10,094	12,298
Depreciation	5,985	6,210	7,398	8,791
Deferred tax	(92)	1,354	0	0
Change in W/C	33,250	(29,074)	(4,059)	(4,864)
Operating cash flow	56,321	(1,724)	13,433	16,225
Capex	(8,477)	(10,778)	(18,546)	(12,999)
Investments	(33,235)	26,874	(2,425)	(3,000)
Investing cash flow	(41,712)	16,096	(20,971)	(15,999)
<b>FCF</b>	<b>47,844</b>	<b>(12,501)</b>	<b>(5,113)</b>	<b>3,226</b>
Dividend	(7,080)	(8,598)	(4,387)	(5,344)
Equity	1,098	(319)	0	(0)
Debt	(7,324)	(2,142)	6,425	3,211
Financing cash flow	(13,307)	(11,059)	2,038	(2,133)
Net change in cash	1,302	3,314	(5,500)	(1,907)
Opening cash	9,120	10,422	13,736	8,235
Closing cash	10,422	13,736	8,235	6,328

Source: Arianth Capital Markets

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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