

**Demand to remain stable**

**19<sup>th</sup> February 2019**

<b>CMP</b>	<b>Rs. 79</b>
<b>Target Price</b>	<b>Rs. 91</b>
<b>Recommendation</b>	<b>Accumulate</b>

#### Stock Info

<b>BSE Group</b>	A
<b>BSE Code</b>	500477
<b>NSE Symbol</b>	ASHOKLEY
<b>Bloomberg</b>	AL IN
<b>Reuters</b>	ASOK.BO
<b>BSE Sensex</b>	35352
<b>NSE Nifty</b>	10605

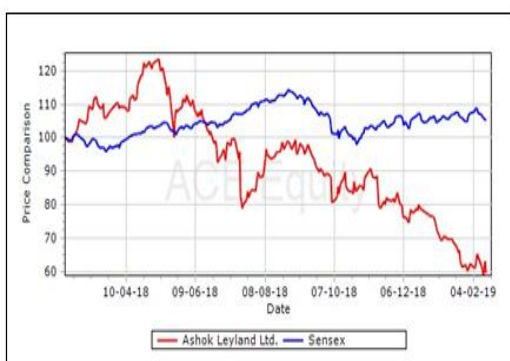
#### Market Info

<b>Market Capital</b>	Rs 317,06 cr
<b>Equity Capital</b>	293Cr
<b>6MAvg. Trading Vol.</b>	6,31,92,80
<b>52 Wk High/ Low</b>	167/78
<b>Face Value</b>	Rs.1

#### Shareholding Pattern (%) (DEC 2019)

<b>Promoters</b>	51.12
<b>Domestic Institutions</b>	9.19
<b>Foreign Institutions</b>	21.9
<b>Public &amp; Others</b>	17.79

#### Price Vs Sensex Chart



#### Result Highlights:

- Standalone Revenue stood at Rs.6325 Cr, a decline of 16.8% QoQ and 12% YoY. This decline was on account of lower sales volume during the quarter.
- EBITDA stood at Rs. 649 Cr, a decline of 20% QoQ and 23% YoY.
- PAT stood at Rs.384Cr, a decline of 29% QoQ and 16% YoY.
- Margins at 10.3% Vs 11.7% YoY. The decline was mainly on account of higher discounts during the quarter.

#### Management comments:

- The company is going to benefit in the next 2 years because of the following:
  - 1) Pre-buying because of BS VI norms which are expected to add an extra 30% demand in the next year.
  - 2) Scrappage policy by the government which is likely to ban commercial vehicles which are older than 20 years.
- After-Markets is growing at a pace of ~25%. It has contributed ~1000 Cr revenue in 9MFY19.
- The company is focusing a lot more on digital initiatives. This includes a wide range of electronic vehicles which the company is planning to launch in the upcoming years.
- Foreign markets & defence business will be the key growth drivers in the near term.
- The merger of the LCV business was successfully completed during the quarter. This will mainly help in cost reduction from a longer term prospective.
- The company has also got tax benefit of Rs ~85Cr due to the merger and total expected benefit is Rs. 250Cr.
- The management has given a Capex guidance range of Rs. 1000Cr for FY20. The majority of this will be used in developing the LCV business.
- Capex for 9MFY19 stood at ~Rs.600Cr another Rs. 250Cr is expected to get added to this for the final quarter.

#### What we believe:

Commercial vehicle industry is cyclical in nature. Poor set of numbers for one quarter does not imply negative outlook for the company. We continue to believe that the longer term prospects of the company remains positive. The company continues to do well despite of hurdles like axle norm changes, liquidity crisis etc. The defence business is also doing well and offers tremendous growth opportunity for the future. International business is a potential growth driver. The LCV business of the company continues to do well. The demand environment is likely to improve going forward. Change in emission norms is likely to add incremental demand in FY20.

#### Valuation:

After factoring in the Q3FY19 results, we have tweaked our FY19E and FY20E estimates and introduced FY21E estimates. At CMP of Rs 79, the stock is trading at a P/E of 10.4x to its FY21E earnings. We now value the stock at a target P/E of 12x its FY21E earnings. We change our rating to accumulate with a revised target price of Rs 91, an upside potential of 15.2%.

Quarterly Result					
Rs. In Crore	Q3FY19	Q2FY19	Q3FY18	YoY	QoQ
Net Sales	6325	7621	7190	-12%	-17%
Total Expenditure	5676	6792	6352	-11%	-16%
EBITDA	649	829	838	-23%	-22%
Depreciation	160	148	146	10%	8%
Interest	19	20	36	-47%	-5%
Other Income	21	28	42	-50%	-24%
PBT	491	689	698	-30%	-29%
Tax	106	147	239	-56%	-28%
NET Profit	385	542	459	-16%	-29%
EPS	1.3	1.8	1.7	-21%	-28%
EBITDA Margins(%)	10.3%	10.9%	11.7%	-12%	-6%
NET Profit Margin	6.1%	7.1%	6.4%	-5%	-14%

Source: Company data, Arihant Research

### ***Performance Snapshot***

Y/E March (Rs. in Crore)	FY18	FY19E	FY20E	FY21E
Net Revenue	29620	30771	34937	38958
Growth	30%	4%	14%	12%
EBITDA	4248	4253	4368	4870
Margins	14%	14%	13%	13%
NET Profit	1814	1812	1937	2230
Growth	11%	0%	7%	15%
EPS	6.2	6.2	6.6	7.6

Source: Company data, Arihant Research

**Company Financials:**

Income Statement				
Y/E March (Rs. in Crore)	FY-18	FY-19E	FY-20E	FY-21E
Revenue	29620	30771	34937	38958
COGS	19218	19995	23171	25907
Gross Profit	10402	10776	11767	13051
Other expenses	6153	6523	7399	8181
EBITDA	4248	4253	4368	4870
Depreciation	646	659	677	692
EBIT	3603	3594	3691	4178
Finance cost	1232	1306	1369	1410
Profit before tax	2578	2492	2532	2998
TOTAL TAX EXP	751	680	595	768
PAT	1814	1812	1937	2230
Eps	6.2	6.2	6.6	7.6

Balance Sheet				
Y/E March (Rs. in Crore)	FY-18	FY-19E	FY-20E	FY21E
Sources of Funds				
Share Capital	293	293	293	293
Reserves & Surplus	7953	9258	10517	12747
Net Worth	8246	9550	10810	13040
Total Non-current Liabilites	11081	11757	12257	13157
Total Current Liabilites	14191	14340	15664	17222
Total Equity and Liabilites	33518	35648	38730	43419
ASSETS				
Property Plant & Equipment	6134	6288	6629	6952
CWIP	439	439	439	439
Goodwill	1108	1108	1108	1108
Total Fixed Asset	8194	8335	8657	8966
Total current assets	25324	27313	30073	34454
Total Assets	33518	35648	38731	43419

Cash Flow Statement				
Y/E March (Rs. in Crore)	FY-18	FY-19E	FY-20E	FY-21E
PBT	2578	2492	2532	2998
Depreciation	646	659	677	692
(Inc)/dec in working capital	-1349	-1440	-1533	-2423
Operating cash flow	1477	1222	1154	1169
Cash Flow From Investing Activites	-3166	-788	-1983	-1983
Cash Flow From Financing Activites	1891	-131	1655	1097
Net Cash (Inflow/Outflow)	202	303	826	282
Opening Cash Balance	1013	1218	1521	2348
Closing Cash Balance	1218	1521	2348	2629

Ratio Analysis				
Y/E March (Rs. in Crore)	FY-18	FY-19E	FY-20E	FY21E
<b>Operational &amp; Financial Ratios</b>				
Earnings Per Share (Rs)	6.2	6.2	6.6	7.6
Book Value/Share	28.2	32.6	36.9	44.5
EBIT Margins (%)	12.2%	11.7%	10.6%	10.7%
PBT Margins(%)	8.7%	8.1%	7.2%	7.7%
PAT Margins (%)	6.1%	5.9%	5.5%	5.7%
ROA (%)	5.4%	5.1%	5.0%	5.1%
ROE (%)	22.0%	19.0%	17.9%	17.1%
Growth Ratio				
Net Sales Growth(%)	30%	4%	14%	12%
EBIT Growth(%)	32%	0%	3%	13%
PAT Growth(%)	11%	0%	7%	15%

Note: Closing cash in cash flow statement excludes bank balances.

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**Stock Rating Scale**

	<b>Absolute Return</b>
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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