

CMP: Rs 52

Rating: ACCUMULATE

Target Price: Rs 59

Stock Info

BSE	500477
NSE	ASHOKLEY
Bloomberg	AL IN
Reuters	ASOK.BO
Sector	Auto-LCVS & HCVS
Face Value (Rs)	1
Equity Capital (Rs mn)	2,936
Mkt Cap (Rs Mn)	1,53,967
52w H/L (Rs)	91 / 34
Avg Yearly Vol (in 000')	32164

Shareholding Pattern %

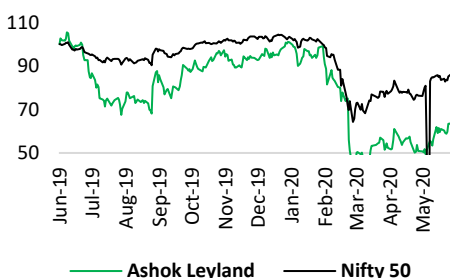
(As on March, 2020)

Promoters	51.54
Public & Others	48.46

Stock Performance (%)

	3m	6m	12m
Ashok leyland	24.2	-35.7	-38.6
Nifty	25.0	-15.5	-12.6

Ashok Leyland Vs Nifty



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Ashok Leland (AL) reported better operational performance amid challenging volume scenario. Standalone net sales stood at Rs. 38,142 mn (-56.3% YoY / -4.0% QoQ). Revenue was primarily impacted due to a sharp contraction in demand stemming from various reasons like excess capacity in the transport sector, increase in vehicle prices and weak macro-economic environment. EBITDA was at Rs 1830 mn (-81.4% YoY / -18.7 QoQ). Company has reported loss of Rs 573 mn during the quarter. The Company reported Exceptional charge of Rs -687 mn in Q4FY20 impairment in investments and discontinuation of certain products.

Q4FY20 Concall highlights

- In FY20, M&HCV the total industry volume went down to 40% due to economic downturn, transition from BS IV to BS VI and COVID-19 pandemic.
- On the demand front, tippers segment is showing some improvement at present. The company expects incremental QoQ betterment overall on the M&HCV side, going forward, with relative strength seen returning post Q2FY21E. Customisation benefits and total cost of ownership (TCO) advantage (particularly in fluid consumption) of recently launched modular programme (AVTR) is expected to stand the company in good stead. It also expects the bus market to revive after initial worries over public transport disappear.
- LCV segment is showing good confidence of customers. Phoenix project would be rolled out in Q2FY21E.
- The company did capex of Rs1227 crs in FY20, lower than its guidance.
- Capex: major capex cycle is over for the company and now it will be maintenance capex only.
- Gross margin improve on account of good discount from suppliers during the year end.
- In defence, opportunities are opening up in retrofitting. The company is targeting to spread up in different economies especially middle East countries.
- The company is targeting to increase its share in both ICV and LCV business. The company current market share for ICV segment is 21-22% and market share for LCV segment is 14-18%.
- Hinduja Leyland Finance is witnessing no liquidity related issues, with moratorium rate also not troublesome.

Outlook and valuation

At Price of Rs 52 Ashok Leyland Ltd., currently trades at PE of 64x it's FY20 earnings. Ashok Leyland earnings were ahead of street estimates as the company managed to maintain gross margins amid challenging volume scenario. However, other expenses saw a sharp reduction as the management has been trying to reduce and it will try for sustaining the same. Covid-19 related disruption has impacted Company's performance which is expected to recover from Q2FY21E.

We Value Ashok Leyland at PE multiple of 38x for parent auto maker for FY22E EPS of Rs 1.4 and with the 7% stake in Hinduja Leyland Finance contributing Rs 7 per share intrinsic value, **We upgrade our rating to Accumulate from Hold earlier and value it with SOTP valuation for a target price of Rs 59.**

Quarterly result summary

Quarterly Results					
Standalone (INRm)	Q4FY20	Q4FY19	YoY%	Q3FY20	QoQ%
Net Sales	38,142	87,226	-56.3%	39,733	-4.0%
Other operating income	243	1,233	-80.3%	423	-42.6%
Income from operation	38,385	88,459	-56.6%	40,157	-4.4%
Cost of material consumed	19,553	51,588	-62.1%	17,603	11.1%
Purchases of stock-in-trade	2,003	1,912	4.8%	2,274	-11.9%
Changes in inventories	5,734	10,793	-46.9%	9,656	-40.6%
Raw Material	27,290	64,292	-57.6%	29,532	-7.6%
Staff Cost	4,097	5,735	-28.6%	2,728	50.2%
Other expenditure	5,168	8,578	-39.7%	5,645	-8.4%
Total Expenditure	36,555	78,605	-53.5%	37,905	-3.6%
EBITDA	1,830	9,854	-81.4%	2,252	-18.7%
Depreciation	1,877	1,598	17.5%	1,575	19.2%
EBIT	(47)	8,257	-100.6%	677	-107.0%
Interest	331	166	99.3%	337	-1.7%
Other Income	344	91	279.3%	223	54.2%
PBT	(34)	8,182	-100.4%	563	-106.0%
Current Tax	(445)	67	-759.5%	412	-208.0%
Deferred tax	297	1,467	-79.8%	(148)	-301.2%
Tax	(148)	1,535	-109.6%	264	-155.9%
Adjusted PAT	114	6,647	-98.3%	299	-61.9%
Extraordinary	(687)	(117)	486.9%	(22)	3067.3%
Reported PAT	(573)	6,530	-108.8%	278	-306.6%
EPS	(2)	2		0.1	

Source: Arihant Research, Company Filings

Margins	Q4FY20	Q4FY19	YoY%	Q3FY20	QoQ%
Gross margins	28.9%	27.3%	158Bps	26.5%	245Bps
EBITDA	4.8%	11.1%	-637Bps	5.6%	-84Bps
Adjusted PAT	0.3%	8%	-722Bps	1%	-45Bps

Source: Arihant Research, Company Filings

P&L (Rs mn)	FY19	FY20	FY21E	FY22E
Net sales	2,90,550	1,74,675	1,66,924	1,85,031
YoY (%)	9.1	(39.9)	(4.4)	10.8
Raw material cost	2,06,796	1,23,692	1,18,516	1,29,522
Employee Cost	20,988	16,151	17,443	18,838
Admin Expenses	31,409	23,096	18,362	20,353
Total expenses	2,59,192	1,62,938	1,54,320	1,68,713
EBIDTA	31,357	11,737	12,604	16,318
(%)	10.8%	6.7%	7.6%	8.8%
Depreciation	6,210	6,698	8,333	9,501
EBIT	25,147	5,039	4,271	6,817
Interest	704	1,095	1,986	3,186
Other income	1,099	1,233	1,480	1,776
PBT	25,543	5,177	3,765	5,407
Exchange gain / (loss) on swap contracts	26	0.1	0	0
(-) Tax	5,182	1,224	941	1,352
Tax/ PBT	20.3	23.6	25.0	25.0
PAT	20,387	3,954	2,824	4,055
YoY (%)	16.7	(80.6)	(28.6)	43.6
PAT(%)	7.0%	2.3%	1.7%	2.2%
Extraordinary	-556	-1558	0	0
Reported Profit	19,832	2,395	2,824	4,055

B/Sheet (Rs mn)	FY19	FY20	FY21E	FY22E
Equity capital	2,936	2,936	2,936	2,936
Reserves	80,389	69,704	71,304	73,601
Net worth	83,324	72,640	74,239	76,536
Total Loans	3,984	30,778	44,174	46,854
Deferred Tax	2,497	2,648	2,648	2,648
Total Liabilities	89,806	1,06,066	1,21,062	1,26,038
Gross block	73,316	86,221	99,221	1,12,221
Less: Acc. Dep	17,171	18,461	26,793	36,294
Net block	56,145	67,760	72,427	75,926
Work in progress	6,576	5,941	5,941	5,941
Investments	35,903	33,413	36,413	39,413
Inventories	26,847	12,380	15,586	17,033
Debtors	25,057	11,804	10,518	11,659
Cash	13,736	13,225	15,224	14,585
Loans and advances	17,980	19,097	10,330	11,450
Current assets	83,620	56,506	51,658	54,728
Current liabilities	81,914	49,500	39,332	43,269
Provisions	10,524	8,055	6,046	6,702
Net current assets	-8,819	-1,049	6,280	4,757
Total Assets	89,806	1,06,066	1,21,062	1,26,038

Key Ratios	FY19	FY20	FY21E	FY22E
EPS	6.8	0.8	1.0	1.4
Book value	28	25	25	26
P/E (x)	7.8	64.3	54.5	38.0
EV/EBDITA (x)	3.5	11.8	11.6	9.0
P/B (x)	1.8	2.1	2.1	2.0
EV/Sales	0.4	0.8	0.9	0.8
ROCE	24%	4%	4%	6%
ROE	25%	3%	4%	5%
Dividend Yield	4.6%	0.6%	0.7%	0.9%
Gross asset turn	3.4	1.8	1.5	1.5
Days outstanding				
Inventory	47	47	48	48
Debtors	22	22	23	23
Creditors	87	78	65	65

Cash Flow	FY19	FY20	FY21E	FY22E
Net profit	19,832	2,395	2,824	4,055
Depreciation	6,210	6,698	8,333	9,501
Deferred tax	1,354	507	0	0
Change in W/C	-29,074	-8,281	-5,330	885
Operating cash flow	-1,678	1,319	5,826	14,441
Capex	-10,778	-12,270	-13,000	-13,000
Investments	28,005	-3,274	-3,000	-3,001
Investing cash flow	17,227	-15,545	-16,000	-16,001
FCF	-12,456	-10,951	-7,174	1,441
Dividend	-8,598	-1,038	-1,224	-1,758
Equity	-364	-12,041	-0	0
Debt	-2,142	26,794	13,397	2,679
Financing cash flow	-11,104	13,714	12,173	921
Net change in cash	4,445	-512	1,999	-639
Opening cash	9,292	13,736	13,225	15,224
Closing cash	13,736	13,225	15,224	14,585

Source: Arianth Research, Company Filings

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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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