

Worst is over; FY22 Outlook cautiously positive

CMP: Rs 62

Rating: ACCUMULATE

Target Price: Rs 69

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)	1,80,827
52w H/L (Rs)	88 / 34
Avg Yearly Vol (in 000')	32164

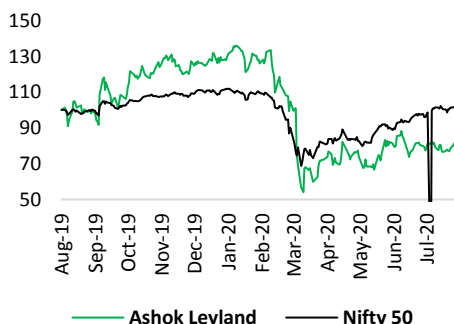
Shareholding Pattern %

(As on June, 2020)

Promoters	45.36
Public & Others	54.64

Stock Performance (%)	3m	6m	12m
Ashok leyland	22.6	-34.0	-12.5
Nifty	28.4	-5.91	3.76

Ashok Leyland Vs Nifty



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Ashok Leland (AL) loss for the quarter stood at Rs 3,888 Mn during Q1FY21 due to weak macro-economic factors coupled with the movement restrictions to contain the coronavirus pandemic. Standalone revenue stood at Rs 6,452 Mn for Q1FY21 vs Rs.56,118 Mn for the Q1FY20. Company has reported EBITDA loss of Rs 3,332 Mn, as compared to EBITDA gain of Rs 1,830 Mn in Q1FY20.

Q1FY21 Concall highlights

- The company expects the domestic CV industry's volumes to remain under pressure until 2QFY21E due to (1) Weak economic scenario due to the pandemic (2) the steep price increase due to BS-VI transition.
- However, the company is optimistic about recovery prospects going into 2HFY21 led by rebound in economic activity. The company is currently running at capacity utilization of 30-35% and all the plants have started their manufacturing operations. ICV and Tipper segments are recovering faster than other segments in the M&HCV space. The company continues to focus on cost reduction initiatives by relooking at every cost item related to distribution, manufacturing, IT, contracting and other overheads.
- The company saved Rs5-5.5 bn in FY2020 and will continue to focus on further savings in FY2021E under project Reset. Under project Reset, the company will focus on (1) pricing, (2) network profitability, (3) supply chain debottlenecking and (4) other manufacturing overheads.
- The company has maintained its guidance for capex of Rs5-6 bn for FY2021E, capex will be incurred on expansion of product portfolio in LCV segment, modular vehicle program, de-bottlenecking of plants for increase in capacity and towards electrification of LCV portfolio. The company had net debt of Rs42 bn at end of June 2020 versus net debt of Rs20bn as of March 2020.
- The company will invest around GBP10 mn per annum in Optare subsidiary going ahead. The company has won orders for buses in Dubai and London and expects to win orders from Australia as well. The company might also invest GBP2-3 mn in Albonair.
- The company may infuse cash in Hinduja Leyland Finance (if the company is unable to find any strategic investor), whose book size is around Rs270 bn. The company has made an investment of Rs3 bn in FY2020 in Hinduja Leyland finance and has not made any investments in 1QFY21. The company expects to invest Rs1.5 bn in Optare and Albonair in FY2021
- The company will launch Phoenix LCV over the next 2-3 months.

Outlook and valuation

At Price of Rs 62 Ashok Leyland Ltd., currently trades at PE of 75x. Covid-19 related disruption has impacted Company's performance which is expected to recover till 2HFY21 led by rebound in economic activity. However, Modular Programme AVTR is also seen helping by reducing inventory needs and production complexity. ALL expects to close FY22E with much better profitability levels than FY20. We Value Ashok Leyland at PE multiple of 25x for parent auto maker for FY22E EPS of Rs 2.5 and with the 7% stake in Hinduja Leyland Finance contributing Rs 7 per share intrinsic value, **We maintain our rating to Accumulate and value it with SOTP valuation for a target price of Rs 69.**

Quarterly result summary

Standalone (INRm)	Q1FY21	Q4FY20	Q1FY20	YoY%	QoQ%
Net Sales	6,452	38,142	56,118	-88.5%	-83.1%
Other operating income	57	243	721	-92.1%	-76.7%
Income from operation	6,509	38,385	56,839	-88.5%	-83.0%
Cost of material consumed	3,250	19,553	44,963	-92.8%	-83.4%
Purchases of stock-in-trade	744	2,003	1,912	-61.1%	-62.8%
Changes in inventories	180	5,734	(7,138)	-102.5%	-96.9%
Raw Material	4,175	27,290	39,737	-89.5%	-84.7%
Staff Cost	3,542	4,097	5,004	-29.2%	-13.6%
Other expenditure	2,125	5,168	6,728	-68.4%	-58.9%
Total Expenditure	9,841	36,555	51,469	-80.9%	-73.1%
EBITDA	(3,332)	1,830	5,370	-162.1%	-282.1%
Depreciation	1,637	1,877	1,646	-0.6%	-12.8%
EBIT	(4,969)	(47)	3,723	-233.5%	10450.1%
Interest	768	331	-		132.1%
Other Income	256	344	211	21.5%	-25.6%
PBT	(5,481)	(34)	3,809	-243.9%	16165.0%
Current Tax	0	(445)	1,416	-100.0%	-100.0%
Deferred tax	(1,610)	297	(111)	1351.8%	-642.7%
Tax	(1,610)	(148)	1,305	-223.4%	989.3%
Adjusted PAT	(3,871)	114	2,503	-254.6%	-3492.9%
Extraordinary	(17)	(687)	(201)	-91.7%	-97.6%
Reported PAT	(3,888)	(573)	2,302	-268.9%	578.3%
EPS	(1)	(2)	1		

Source: Arianth Research, Company Filings

Margins	Q1FY21	Q4FY20	Q1FY20	YoY%	QoQ%
Gross margins	35.9%	28.9%	30.1%	577Bps	696Bps
EBITDA	-51.2%	4.8%	9.4%	-6065Bps	-5597Bps
Adjusted PAT	-59.5%	0.3%	4%	-6388Bps	-5978Bps

Source: Arianth Research, Company Filings

P&L (Rs mn)	FY19	FY20	FY21E	FY22E
Net sales	2,90,550	1,74,675	1,42,062	1,92,604
YoY (%)	9.1	(39.9)	(18.7)	35.6
Raw material cost	2,06,796	1,23,692	1,00,864	1,37,134
Employee Cost	20,988	16,151	16,958	18,315
Admin Expenses	31,409	23,096	17,019	18,586
Total expenses	2,59,192	1,62,938	1,34,841	1,74,035
EBIDTA	31,357	11,737	7,221	18,569
(%)	10.8%	6.7%	5.1%	9.6%
Depreciation	6,210	6,698	7,009	6,935
EBIT	25,147	5,039	212	11,634
Interest	704	1,095	2,717	3,186
Other income	1,099	1,233	1,082	1,298
PBT	25,543	5,177	-1,423	9,746
Exchange gain / (loss) on swap contracts	26	0.1	0	0
(-) Tax	5,182	1,224	-285	2,436
Tax/ PBT	20.3	23.6	20.0	25.0
PAT	20,387	3,954	-1,139	7,309
YoY (%)	16.7	(80.6)	(128.8)	(741.9)
PAT(%)	7.0%	2.3%	-0.8%	3.8%
Extraordinary	-556	-1558	0	0
Reported Profit	19,832	2,395	-1,139	7,309

B/Sheet (Rs mn)	FY19	FY20	FY21E	FY22E
Equity capital	2,936	2,936	2,936	2,936
Reserves	80,389	69,704	69,059	73,200
Net worth	83,324	72,640	71,995	76,135
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	1,18,817	1,25,637
Gross block	73,316	86,221	91,221	96,221
Less: Acc. Dep	17,171	18,461	25,469	32,405
Net block	56,145	67,760	65,751	63,816
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	13,264	18,034
Debtors	25,057	11,804	8,952	12,137
Cash	13,736	13,225	18,323	26,804
Loans and advances	17,980	19,097	8,791	11,919
Current assets	83,620	56,506	49,331	68,894
Current liabilities	81,914	49,500	33,474	45,452
Provisions	10,524	8,055	5,146	6,976
Net current assets	-8,819	-1,049	10,711	16,466
Total Assets	89,806	1,06,066	1,18,817	1,25,637

Key Ratios	FY19	FY20	FY21E	FY22E
EPS	6.8	0.8	(0.4)	2.5
Book value	28	25	25	26
P/E (x)	9.1	75.5	-	24.7
EV/EBDITA (x)	4.3	14.1	23.6	8.7
P/B (x)	2.2	2.5	2.5	2.4
EV/Sales	0.5	0.9	1.2	0.8
ROCE	24%	4%	1%	9%
ROE	25%	3%	-2%	10%
Dividend Yield	3.9%	0.5%	-0.2%	1.5%
Gross asset turn	3.4	1.8	1.3	1.6
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	-1,139	7,309
Depreciation	6,210	6,698	7,009	6,935
Deferred tax	1,354	507	0	0
Change in W/C	-29,074	-8,281	-6,662	2,727
Operating cash flow	-1,678	1,319	-792	16,972
Capex	-10,778	-12,270	-5,000	-5,000
Investments	28,005	-3,274	-3,000	-3,001
Investing cash flow	17,227	-15,545	-8,000	-8,001
FCF	-12,456	-10,951	-5,792	11,972
Dividend	-8,598	-1,038	494	-3,169
Equity	-364	-12,041	0	0
Debt	-2,142	26,794	13,397	2,679
Financing cash flow	-11,104	13,714	13,890	-490
Net change in cash	4,445	-512	5,099	8,481
Opening cash	9,292	13,736	13,225	18,323
Closing cash	13,736	13,225	18,323	26,804

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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