

Good performance on the revenue front;
Well positioned to benefit from recovery in CV cycle

CMP: INR 125

Rating: Hold

Target Price: INR 132

Stock Info

| | |
|--------------------------|---------------------|
| BSE | 500477 |
| NSE | ASHOKLEY |
| Bloomberg | AL IN |
| Reuters | ASOK.BO |
| Sector | Auto-LCVS & HCVS |
| Face Value (INR) | 1 |
| Equity Capital (INR mn) | 2,936 |
| Mkt Cap (INR Mn) | 3,67,381 |
| 52w H/L (INR) | 143 /52 |
| Avg Yearly Vol (in 000') | 29,765 |

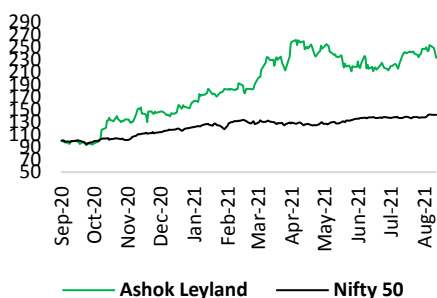
Shareholding Pattern %

(As on June, 2021)

| | |
|-----------------|-------|
| Promoters | 51.54 |
| Public & Others | 48.46 |

| Stock Performance (%) | 3m | 6m | 12m |
|-----------------------|------|-------|------|
| Ashok leyland | 1.79 | -3.32 | 82.7 |
| Nifty | 9.67 | 9.59 | 45.5 |

Ashok Leyland Vs Nifty



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- **Ashok Leyland (AL) has reported a mixed set of numbers during Q1 FY22. Good performance in the revenue growth While de-growth on the EBITDA and net loss.**
- **Standalone revenue stood at INR 29,346 Mn, against our estimate of INR 28,518 Mn registering +354.8% YoY/-57.9% QoQ.**
- **Gross margin of the company decreased by 998bps YoY at 25.9% due to commodity cost pressure like steel was impacting business.**
- **EBITDA stood at INR -1,401 Mn, against our estimate of INR 869 Mn, Registering -58%YoY/-126.2%QoQ.**
- **On the margins front, EBITDA margin was contracted by 1238bps QoQ to -4.7%, against our estimate of 3%.**
- **Standalone reported loss of INR 2,806 Mn against our estimate loss of INR 1,254 Mn. Ashok Leyland's domestic LCV volumes was up by 224% YoY to 8,690 units against 2,686 units in Q1 FY21. Export volumes (MHCV & LCV) for Q1 FY22 at up by 254% YoY to 1,437 units against 405 units in Q1 FY21. The management stated that the industry has seen signs of volume recovery in Q1FY22 over the Q1 FY21, and they expect this trend to continue going forward.**
- **The company saw strong demand for the AVTR range, and this demand is expected to further improve, mirroring the increased economic activity expected. In the LCV segment, the recently launched Bada Dost has been doing well and the company is ramping up production in line with market demand.**
- **The company was also working to improve its export sales with its left-hand-drive portfolio in line with its ambition to be among the top 10 CV makers globally.**

Outlook and valuation

At CMP of INR 125, Ashok Leyland Ltd is trading at a PE of 28.8x to its FY23 EPS of INR 4.3. The company is targeting on reducing its dependence on the cyclical truck business by increasing the revenue share of exports, defense, Power solution, LCV and the part business. Emerging businesses such as EVs and customer solutions are expected to assist in accompany the core business.

While Commodity inflation continues to be a concern and the company has not been able to completely pass-on the RM cost inflation. Commodity inflation expects to weigh on the margin in the 2HFY22, demand recovery and slowly price increases are expected to drive enhancement in the longer run

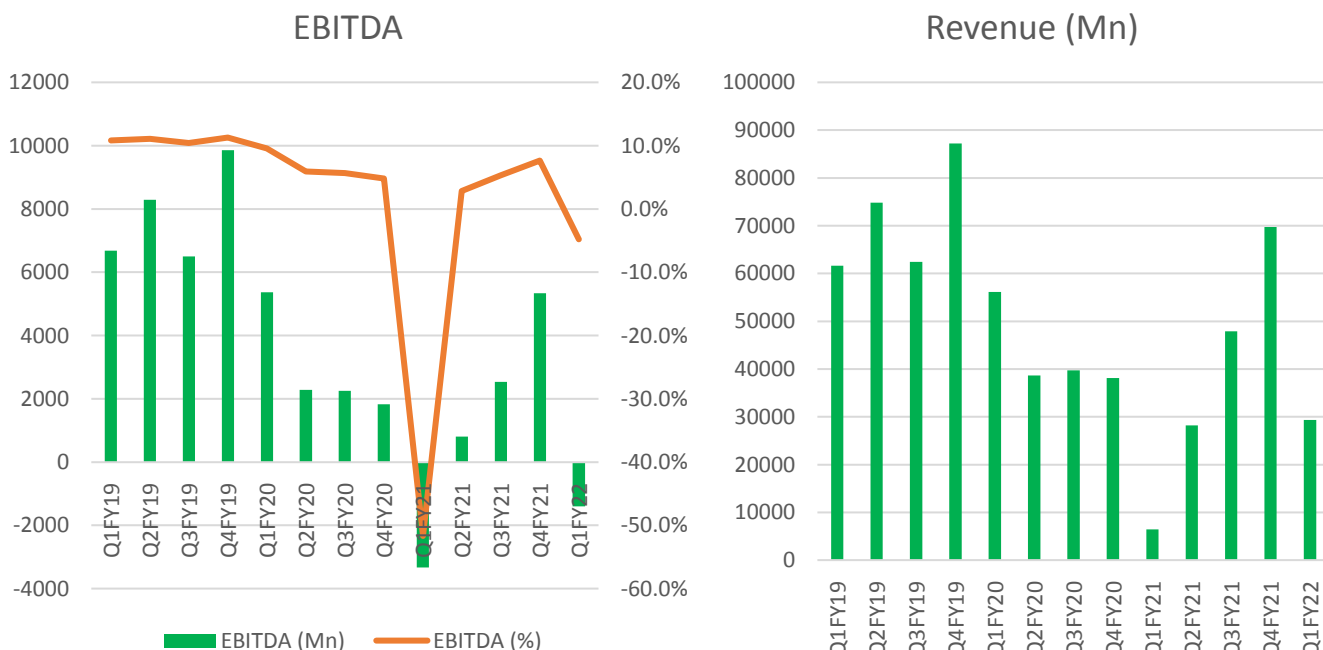
We Value Ashok Leyland at PE multiple of 29x for parent auto maker for FY23E EPS of INR 4.3 and with the 7% stake in Hinduja Leyland Finance INR 7 per share intrinsic value, **We assign a Hold rating and value it with SOTP valuation for a target price of INR 132.**

Quarterly result summary

Quarterly Results

| Standalone (INR mn) | Q1FY22 | Q4FY21 | Q1FY21 | YoY% | QoQ% |
|-----------------------------|---------|---------|---------|----------|----------|
| Net Sales | 29,346 | 69,720 | 6,452 | 354.8% | -57.9% |
| Other operating income | 164 | 285 | 57 | 189.2% | -42.4% |
| Income from operation | 29,510 | 70,005 | 6,509 | 353.4% | -57.8% |
| Cost of material consumed | 22,334 | 52,735 | 3,250 | 587.2% | -57.6% |
| Purchases of stock-in-trade | 2,117 | 2,576 | 744 | 184.5% | -17.8% |
| Changes in inventories | (2,579) | (1,477) | 180 | -1531.9% | 74.7% |
| Raw Material | 21,873 | 53,834 | 4,175 | 424.0% | -59.4% |
| Staff Cost | 4,243 | 4,016 | 3,542 | 19.8% | 5.7% |
| Other expenditure | 4,795 | 6,813 | 2,125 | 125.7% | -29.6% |
| Total Expenditure | 30,911 | 64,663 | 9,841 | 214.1% | -52.2% |
| EBITDA | (1,401) | 5,342 | (3,332) | -58.0% | -126.2% |
| Depreciation | 1,835 | 2,185 | 1,637 | 12.1% | -16.0% |
| EBIT | (3,236) | 3,157 | (4,969) | -34.9% | -202.5% |
| Interest | 707 | 771 | 768 | -7.9% | -8.2% |
| Other Income | 134 | 380 | 256 | -47.7% | -64.7% |
| PBT | (3,809) | 2,766 | (5,481) | -30.5% | -237.7% |
| Current Tax | - | - | 0.1 | | |
| Deferred tax | (1,003) | 728 | (1,610) | -37.7% | -237.9% |
| Tax | (1,003) | 728 | (1,610) | -37.7% | -237.9% |
| Adjusted PAT | (2,806) | 2,038 | (3,871) | -27.5% | -237.7% |
| Extraordinary | (17) | 374 | (17) | 0.6% | -104.5% |
| Reported PAT | (2,823) | 2,412 | (3,888) | -27.4% | -217.1% |
| EPS | (1.0) | 0.8 | (1) | | |
| | | | | | |
| | | | | | |
| Margins | Q1FY22 | Q4FY21 | Q1FY21 | YoY% | QoQ% |
| Gross margins | 25.9% | 23.1% | 35.9% | -998Bps | 278Bps |
| EBITDA | -4.7% | 7.6% | -51.2% | 4645Bps | -1238Bps |
| Adjusted PAT | -10% | 3% | -59.5% | 4997Bps | -1242Bps |

Source: Arianth Research, Company Filings



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Q1 FY22 earnings conference call highlights

- Industry has grown as compared to FY20 on a low base, but yet to reach peak covid days. Saw recovery in volumes Apr'21 for the CVs which were followed by the lockdowns. Seeing gradual demand recovery if there is no 3rd wave.
- TIV of 29,158 during Q1FY22 against 4,400 units last year. Bus industry volumes were only 1,086 units in Q1FY22 (TIVs) while on average it is ~40k TIV annually.
- Market share was 27% in Q1 FY22. Exports were down by 55% q/q. to 1090 units for the Q1 FY22. Middle East, Bangladesh, Sri Lanka markets are yet to open.
- Net Debt was INR 4,173cr and nil ICDs.
- Interest rates remain low, demand for real estate has started to come back and axle load norms demand has come off.
- LCVs have grown from 14% to ~28% in terms of market share. Started to looking strong for the company and increased contribution to the bottom line.
- Steel prices continue to remain firm from the last 2Q. The management expecting 2H FY22 to be better for steel prices and also for the industry. Ashok Leyland has not faced any semiconductor shortages and therefore production is not impacted.
- Saw a sudden shoot in demand during Apr'21. Pricing continues to remain a challenge in this environment. The company has taken 2% price increases 3 times in the last 4months. Expects steel price will normalize and soften. And the recovery in demand would be driven by a strong uptick of M&HCVs.
- Warranty costs have come up, which signifies the quality of vehicles has improved.
- Expects the platform to pick up significantly as volumes start scaling up.
- The company would be working on scaling down other expenses. Q1 other expenses/ sales were 16.2% against ~10% historically. One of item of ~INR45cr. Will return to normal levels.
- On ground Enquiries, situation remains positive. Saw the traction on the enquiries front in the last 4 months especially in Aug'21. As far as dealers are concerned, expects normalcy in operations by Sep-Oct'21.
- Demand for trucks remains robust, while the demand for Buses remains weak. Expects the bus segment to recover as and when schools and offices are opened as STUs have pre-dominantly been operating. LCVs have come back strong on the back of e-Commerce and FMCG activity.
- Leyland Finance: AUM INR 25,850cr; net NPA 2.6%; provisioning coverage ~48%, collection efficiency ~85% in June and July is even better. Revenue INR 6700 mn and Pat was INR 700 mn. It has a diversified portfolio and the business continues to do well. Leyland Finance book is ~40%-45% CVs and rest are diversified (Other segments and Loan against property)
- CV Financing has been an issue but the company expects the situation to improve in subsequent quarters. Also, dependent on the Covid 3rd wave.
- South was slow to recover after the 1st and 2nd wave of Covid. Expects market share to remain volatile in the near medium term. The Management indicated that the situation to improve on a sequential basis.
- On the EV, Looking at Switch to raise capital independently. However, if required it would infuse capital.
- Capex will be investing in LCVs in the future as there is further demand. Looking at de-bottlenecking M&HCV plants to optimize costs. Capex would be in the same range as the last 3-4 years.

| P&L (INR mn) | FY19 | FY20 | FY21 | FY22E | FY23E |
|--|---------------|--------------|---------------|--------------|---------------|
| Net sales | 2,90,550 | 1,74,675 | 1,53,015 | 1,97,033 | 2,34,345 |
| YoY (%) | 9.1 | (39.9) | (12.4) | 28.8 | 18.9 |
| Raw material cost | 2,06,796 | 1,23,692 | 1,14,033 | 1,46,001 | 1,65,213 |
| Employee Cost | 20,988 | 16,151 | 15,839 | 18,215 | 22,222 |
| Admin Expenses | 31,409 | 23,096 | 17,791 | 22,068 | 24,841 |
| Total expenses | 2,59,192 | 1,62,938 | 1,47,663 | 1,86,284 | 2,12,276 |
| EBIDTA | 31,357 | 11,737 | 5,351 | 10,749 | 22,069 |
| (%) | 10.8% | 6.7% | 3.5% | 5.5% | 9.4% |
| Depreciation | 6,210 | 6,698 | 7,477 | 7,575 | 6,246 |
| EBIT | 25,147 | 5,039 | -2,126 | 3,174 | 15,823 |
| Interest | 704 | 1,095 | 3,068 | 2,477 | 1,555 |
| Other income | 1,099 | 1,233 | 1,195 | 1,374 | 1,649 |
| PBT | 25,543 | 5,177 | -3,999 | 2,071 | 15,918 |
| Exchange gain / (loss) on swap contracts | 26 | 0.1 | 0 | 0 | 0 |
| (-) Tax | 5,182 | 1,224 | -982 | 425 | 3,184 |
| Tax/ PBT | 20.3 | 23.6 | 24.6 | 20.0 | 20.0 |
| PAT | 20,387 | 3,954 | -3,016 | 1,647 | 12,734 |
| YoY (%) | 16.7 | (80.6) | (176.3) | (154.6) | 673.4 |
| PAT(%) | 7.0% | 2.3% | -2.0% | 0.8% | 5.4% |
| Extraordinary | -556 | -1558 | 121 | 0 | 0 |
| Reported Profit | 19,832 | 2,395 | -3,137 | 1,647 | 12,734 |

| B/Sheet (INR mn) | FY19 | FY20 | FY21 | FY22E | FY23E |
|--------------------------|---------------|-----------------|-----------------|-----------------|-----------------|
| Equity capital | 2,936 | 2,936 | 2,936 | 2,936 | 2,936 |
| Reserves | 80,389 | 69,704 | 66,837 | 65,664 | 75,420 |
| Net worth | 83,324 | 72,640 | 69,772 | 68,600 | 78,356 |
| Total Loans | 3,984 | 31,053 | 37,463 | 38,745 | 39,002 |
| Deferred Tax | 2,497 | 2,648 | 1,708 | 1,708 | 1,708 |
| Total Liabilities | 89,806 | 1,06,341 | 1,08,943 | 1,09,053 | 1,19,065 |
| Gross block | 73,316 | 86,221 | 93,721 | 1,00,521 | 1,07,671 |
| Less: Acc. Dep | 17,171 | 18,185 | 23,217 | 30,792 | 37,038 |
| Net block | 56,145 | 68,036 | 70,504 | 69,728 | 70,633 |
| Work in progress | 6,576 | 5,941 | 3,719 | 3,719 | 3,719 |
| Investments | 35,903 | 33,413 | 34,180 | 34,180 | 35,180 |
| Inventories | 26,847 | 12,380 | 21,423 | 19,200 | 21,727 |
| Debtors | 25,057 | 11,889 | 28,163 | 13,495 | 16,051 |
| Cash | 13,736 | 13,225 | 8,230 | 11,188 | 20,752 |
| Loans and advances | 17,980 | 19,097 | 18,281 | 12,193 | 14,502 |
| Current assets | 83,620 | 56,591 | 76,096 | 56,077 | 73,031 |
| Current liabilities | 81,914 | 53,633 | 60,632 | 47,514 | 55,010 |
| Provisions | 10,524 | 4,007 | 14,924 | 7,137 | 8,488 |
| Net current assets | -8,819 | -1,049 | 540 | 1,426 | 9,534 |
| Total Assets | 89,806 | 1,06,341 | 1,08,943 | 1,09,053 | 1,19,065 |

Source: Arihant Research, Company Filings

| Cash Flow | FY19 | FY20 | FY21 | FY22E | FY23E |
|---------------------|----------------|----------------|---------------|--------------|---------------|
| Net profit | 19,832 | 2,395 | -3,137 | 1,647 | 12,734 |
| Depreciation | 6,210 | 6,485 | 7,286 | 7,575 | 6,246 |
| Deferred tax | 1,354 | 507 | -983 | 0 | 0 |
| Change in W/C | -29,074 | -8,281 | -6,585 | 2,074 | 1,457 |
| Operating cash flow | -1,678 | 1,107 | -3,419 | 11,296 | 20,437 |
| Capex | -10,778 | -12,333 | -5,810 | -6,922 | -7,150 |
| Investments | 28,005 | -3,274 | -2,446 | 121 | -1,001 |
| Investing cash flow | 17,227 | -15,607 | -8,256 | -6,801 | -8,151 |
| FCF | -12,456 | -11,227 | -9,228 | 4,374 | 13,287 |
| Dividend | -8,598 | -1,444 | 2,269 | -2,819 | -2,978 |
| Equity | -364 | -11,636 | -2,000 | -0 | 0 |
| Debt | -2,142 | 27,069 | 6,410 | 1,282 | 256 |
| Financing cash flow | -11,104 | 13,989 | 6,679 | -1,537 | -2,722 |
| Net change in cash | 4,445 | -512 | -4,995 | 2,958 | 9,564 |
| Opening cash | 9,292 | 13,736 | 13,225 | 8,229 | 11,188 |
| Closing cash | 13,736 | 13,225 | 8,229 | 11,188 | 20,752 |

| Key Ratios | FY19 | FY20 | FY21 | FY22E | FY23E |
|-------------------------|------|-------|-------|-------|-------|
| EPS | 6.8 | 0.8 | (1.1) | 0.6 | 4.3 |
| Book value | 28 | 25 | 24 | 23 | 27 |
| P/E (x) | 18.5 | 153.2 | - | 222.8 | 28.8 |
| EV/EBDITA (x) | 10.2 | 29.9 | 67.6 | 33.5 | 15.9 |
| P/B (x) | 4.4 | 5.1 | 5.3 | 5.3 | 4.7 |
| EV/Sales | 1.1 | 2.0 | 2.4 | 1.8 | 1.5 |
| ROCE | 24% | 4% | 0% | 4% | 13% |
| ROE | 25% | 3% | -4% | 2% | 17% |
| Dividend Yield | 1.9% | 0.3% | 0.5% | 0.6% | 0.7% |
| Gross asset turn | 3.4 | 1.8 | 1.4 | 1.8 | 2.1 |
| Days outstanding | | | | | |
| Inventory | 47 | 47 | 48 | 48 | 48 |
| Debtors | 22 | 22 | 25 | 25 | 25 |
| Creditors | 87 | 78 | 65 | 65 | 65 |

Source: Arian 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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