

CMP: INR 128

Rating: HOLD

Target Price: INR 135

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)	3,77,949
52w H/L (INR)	139 / 34
Avg Yearly Vol (in 000')	42566

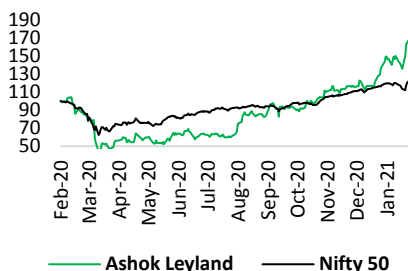
Shareholding Pattern %

(As on June, 2020)

Promoters	51.54
Public & Others	48.46

Stock Performance (%)	3m	6m	12m
Ashok leyland	43.2	139.2	58.6
Nifty	19.8	34.4	24.6

Ashok Leyland Vs Nifty



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Ashok Leyland (AL) reported a 70% increase in sequential quarter revenues in Q3 FY21. The standalone revenue stood at INR 47,898mn in Q3 FY21 (this includes a one- time VRS cost of INR 850 Mn) against 39,733mn in Q3FY20. Company reported net loss of INR 194mn against Profit of INR 278 mn in Q3FY20. Gross margin of the company decreased by -88bps YoY at 25.6%. EBITDA for the quarter grew by 215.5%/ 12.7% YoY to INR 2,538 mn. EBITDA margin for the quarter stood at 5.3% against 5.6% in Q3FY20. The company has also brought down net debt to 28800 mn gearing at 0.43 times lower from INR 30760 mn as on 30th September, which at that time was gearing at 0.45 times.

Q3FY21 Concall highlights

- The management said that among various CV segments, multi-axle vehicles and tippers are set to benefit from thrust on infra spends by the government along with pick up in mining and road building activity while ICVs and tractor-trailer category has done well. E-commerce continues to drive LCV category, while exports have done well on the back of new product introduction, reopening of some international markets and initiatives like network rejigging of distribution network in Africa. ALL expects further volume growth in Q4FY21E, subject to semiconductor supply shortage
- Company has manufactured 17911 unit MHCV's in Q3FY21, which is compared to 8431 unit MHCV in Q2FY21 and have ended the quarter with MHCV inventory of 3171 unit against 1853 unit in Q2FY21.
- Q3FY21 Closing Operating working capital was INR -5250 mn approximately which is sequentially at the same levels of Q2FY21.

Outlook and valuation

At Price of INR 128 Ashok Leyland Ltd is trading at a PE of 28x. Considering Q3FY21 result as the company has reported a 70% increase in sequential quarter revenues and the recent recovery in the domestic M&HCV space with Q3FY21 volumes up 7% YoY (trucks up 32%, LCV up 29%). We believe the cyclical bottom for the domestic M&HCV segment has been surpassed. Tangible pick-up in infra, construction and mining space along with continued resilience in the e-commerce industry has turned the demand outlook positive for trucks and LCVs, respectively, but buses remain an area of concern given the limited operations of schools, offices and travel activities. Recent Union Budget announcements in relation to increased capex spends and procurement of buses are additional positives for AL given its strong presence across CV segments. Separately, the company is slated to be a major beneficiary of the upcoming scrappage policy (for vehicles older than 15 years; list details are awaited). Key risk: More than anticipated rise in input costs thereby impacting gross as well as operating margins.

We Value Ashok Leyland at PE multiple of 28x for parent auto maker for FY23E EPS of INR 4.6 and with the 7% stake in Hinduja Leyland Finance contributing INR 7 per share intrinsic value, We maintain our rating to Hold and value it with SOTP valuation for a target price of INR 135.

Quarterly result summary

Standalone (INRm)	Q3FY21	Q3FY20	Q2FY21	YoY%	QoQ%
Net Sales	47,898	39,733	28,222	20.5%	69.7%
Other operating income	237	423	144	-44.0%	64.3%
Income from operation	48,135	40,157	28,366	19.9%	69.7%
Cost of material consumed	35,981	17,603	19,224	104.4%	87.2%
Purchases of stock-in-trade	2,147	2,274	1,999	-5.6%	7.4%
Changes in inventories	(2,304)	9,656	(1,022)	-123.9%	125.4%
Raw Material	35,824	29,532	20,201	21.3%	77.3%
Staff Cost	4,545	2,728	3,736	66.6%	21.6%
Other expenditure	5,228	5,645	3,625	-7.4%	44.2%
Total Expenditure	45,597	37,905	27,562	20.3%	65.4%
EBITDA	2,538	2,252	804	12.7%	215.5%
Depreciation	1,944	1,575	1,712	23.5%	13.6%
EBIT	594	677	(907)	-12.3%	-165.4%
Interest	656	337	872		-24.8%
Other Income	341	223	219	52.5%	55.7%
PBT	278	563	(1,561)	-50.7%	-117.8%
Current Tax	0	412	0	-100.0%	0.0%
Deferred tax	11	(148)	(111)	-107.7%	-110.1%
Tax	11	264	(111)	-95.7%	-110.2%
Adjusted PAT	266	299	(1,450)	-11.0%	-118.4%
Extraordinary	(460)	(22)	(17)	2021.2%	2607.6%
Reported PAT	(194)	278	(1,467)	-169.9%	-86.8%
EPS	0.1	(0.4)	0.09		

Margins	Q3FY21	Q3FY20	Q2FY21	YoY%	QoQ%
Gross margins	25.6%	26.5%	28.8%	-88Bps	-321Bps
EBITDA	5.3%	5.6%	2.8%	-33Bps	244Bps
Adjusted PAT	1%	1%	-5.1%	-19Bps	566Bps

Other Highlights

- Capex till Dec20 was approximately INR 4500 mn against INR 8690 mn in the Q3FY20 capex incurrence is towards the modular Business program the Phoenix variants which came out of which came the bada dost electric vehicles.
- Investments were INR 2600 mn INR 900 mn in HLFL in April-20 INR 1500 mn in optare in Q3 as against INR 580 mn during the same period last year.
- Ashok Leyland continue very focused on the bottom line as well as enhancing the Top Line growth both in the domestic Market as well as internationally and some of other light businesses. What is extremely important is that the entire company is contributing towards making sure the P&L is right size as the policies to ensure that take operating Leverage.
- Ashok Leyland may make some investments into Hinduja Leyland Finance in Q4FY21E or in Q1FY22E

Source: Arihant Research, Company Filings

P&L (INR mn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	2,90,550	1,74,675	1,35,798	2,15,394	2,60,837
YoY (%)	9.1	(39.9)	(22.3)	58.6	21.1
Raw material cost	2,06,796	1,23,692	99,812	1,59,068	1,88,846
Employee Cost	20,988	16,151	16,070	17,034	18,806
Admin Expenses	31,409	23,096	16,771	24,124	25,562
Total expenses	2,59,192	1,62,938	1,32,653	2,00,227	2,33,214
EBIDTA	31,357	11,737	3,146	15,167	27,623
(%)	10.8%	6.7%	2.3%	7.0%	10.6%
Depreciation	6,210	6,698	7,541	8,060	8,490
EBIT	25,147	5,039	-4,396	7,107	19,133
Interest	704	1,095	3,223	2,685	2,262
Other income	1,099	1,233	1,095	1,051	1,083
PBT	25,543	5,177	-6,523	5,474	17,955
Exchange gain / (loss) on swap contracts	26	0.1	0	0	0
(-) Tax	5,182	1,224	-1,500	1,385	4,543
Tax/ PBT	20.3	23.6	23.0	25.3	25.3
PAT	20,387	3,954	-5,023	4,089	13,412
YoY (%)	16.7	(80.6)	(227.1)	(181.4)	228.0
PAT(%)	7.0%	2.3%	-3.7%	1.9%	5.1%
Extraordinary	-556	-1558	0	0	0
Reported Profit	19,832	2,395	-5,023	4,089	13,412

B/Sheet (INR mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	2,936	2,936	2,936	2,936	2,936
Reserves	80,389	69,704	66,859	69,175	76,772
Net worth	83,324	72,640	69,795	72,111	79,708
Total Loans	3,984	30,778	44,174	46,854	47,389
Deferred Tax	2,497	2,648	2,648	2,648	2,648
Total Liabilities	89,806	1,06,066	1,16,617	1,21,613	1,29,745
Gross block	73,316	86,221	91,221	96,221	1,01,221
Less: Acc. Dep	17,171	18,461	26,002	34,062	42,552
Net block	56,145	67,760	65,219	62,159	58,669
Work in progress	6,576	5,941	5,941	5,941	5,941
Investments	35,903	33,413	36,413	39,413	42,413
Inventories	26,847	12,380	13,126	20,919	24,835
Debtors	25,057	11,804	9,301	14,753	17,866
Cash	13,736	13,225	15,734	24,746	35,439
Loans and advances	17,980	19,097	8,404	13,329	16,142
Current assets	83,620	56,506	46,565	73,747	94,280
Current liabilities	81,914	49,500	32,602	51,846	62,111
Provisions	10,524	8,055	4,919	7,802	9,448
Net current assets	-8,819	-1,049	9,044	14,099	22,722
Total Assets	89,806	1,06,066	1,16,617	1,21,613	1,29,745

Source: Arihant Research, Company Filings

Cash Flow	FY19	FY20	FY21E	FY22E	FY23E
Net profit	19,832	2,395	-5,023	4,089	13,412
Depreciation	6,210	6,698	7,541	8,060	8,490
Deferred tax	1,354	507	0	0	0
Change in W/C	-29,074	-8,281	-7,584	3,958	2,071
Operating cash flow	-1,678	1,319	-5,065	16,106	23,973
Capex	-10,778	-12,270	-5,000	-5,000	-5,000
Investments	28,005	-3,274	-3,000	-3,001	-3,001
Investing cash flow	17,227	-15,545	-8,000	-8,001	-8,001
FCF	-12,456	-10,951	-10,065	11,106	18,973
Dividend	-8,598	-1,038	2,178	-1,773	-5,815
Equity	-364	-12,041	0	-0	0
Debt	-2,142	26,794	13,397	2,679	536
Financing cash flow	-11,104	13,714	15,575	907	-5,279
Net change in cash	4,445	-512	2,509	9,012	10,693
Opening cash	9,292	13,736	13,225	15,734	24,746
Closing cash	13,736	13,225	15,734	24,746	35,439

Key Ratios	FY19	FY20	FY21E	FY22E	FY23E
EPS	6.8	0.8	(1.7)	1.4	4.6
Book value	28	25	24	25	27
P/E (x)	19.0	157.2	-	92.1	28.1
EV/EBDITA (x)	10.6	30.7	117.1	23.7	12.5
P/B (x)	4.5	5.2	5.4	5.2	4.7
EV/Sales	1.1	2.1	2.7	1.7	1.3
ROCE	24%	4%	-2%	6%	12%
ROE	25%	3%	-7%	6%	18%
Dividend Yield	1.9%	0.2%	-0.5%	0.4%	0.0%
Gross asset turn	3.4	1.8	1.2	1.8	2.1

Days outstanding					
Inventory	47	47	48	48	48
Debtors	22	22	25	25	25
Creditors	87	78	65	65	65

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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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