

CMP: Rs 65

Rating: ACCUMULATE

Target: Rs 75

(NR-Not Rated)

Stock Info

INDEX	
BSE	500477
NSE	ASHOKLEY
Bloomberg	AL IN
Reuters	ASOK.NS
Sector	Automobiles
Face Value (Rs)	1
Equity Capital (Rs mn)	2936
Mkt Cap (Rs bn)	267
52w H/L (Rs)	135 / 61
Avg Weekly Vol (BSE+NSE)	193,355

Shareholding Pattern

(As on March, 2019)	%
Promoters	51.1
Public & Others	48.9

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
ASHOK LEYLAND	-20.5	-17.7	-41.9
SENSEX	-6.7	-5.2	1.5

Source: ACE Equity, Arihant Research

ASHOK LEYLAND v/s SENSEX



Source: ACE Equity, Arihant Research

Result Highlights

Ashok Leyland (AL) reported weak operating performance as net sales stood at Rs 56.8bn (-9% YoY/-35.7% QoQ) vs our est of Rs 57.8bn on account of 6% YoY volume declines coupled with 3% YoY declines in realizations mainly due to higher discounting scenario. Sluggish M&HCV sales (-25.2% YoY) led by weakness in tippers were partially offset by robust LCV sales (+18% YoY) leading to an inferior product mix. Gross margins at 30.1% (-98bps YoY/ +277bps QoQ) were supported by stable commodity and currency costs. EBITDA stood at Rs 5.4bn (-19.6% YoY; -45.5% QoQ). The EBITDA margin stood at 9.4% (-122bps YoY/-169bps QoQ) were supported by stringent cost controls. Adj PAT stood at Rs 2.5bn (-43% YoY; -62.3% QoQ) on account of higher tax rate (34.3% vs 20.6% YoY). On the concall, management highlighted that the demand to remain extremely challenging in H1FY20 however is likely to see a comeback in H2FY20 on account of pre-buying ahead of the emission norms (we expect cost escalation of ~15% for BS VI vehicles from 1st Apr 2020).

Concall highlights

- **Volume outlook:** AL is confident of a flattish volume growth for FY20e which we believe is an uphill task in present scenario. LCV market share stands at 18.5%.
- In Q1, **dealer inventory** stood reasonably high at ~1.5 month whereas the management is confident of inventory de-stocking around the festive season.
- Average **discounts** continued to remain high at Rs 3.5 - 4 lac.
- **Margin outlook:** Gross margins improved QoQ due to flattish steel prices and profitable LCV business. AL expects Rs 4-5bn of costs savings to support margins in FY20e.
- In Q1, **Spare parts** revenue stood grew 1% YoY.
- **Exports** have been sluggish primarily due to weakness in the middle east, Bangladesh and Sri Lanka. However, the African market is picking up well. The company plans to launch new products in the LCV segment in the middle east.
- The revenues from **defence** for Q1FY20 stood at Rs 500mn (Rs 1.5bn in Q4FY19) and will only see uptick once the Government starts issuing orders.
- The company is working towards developing a **new modular platform for LCV segment codenamed phoenix** which it expects to launch near the BS VI in Apr 2020.
- AL plans to defer its non-essential **capex** of Rs 1.5bn pertaining to IT. Whereas the core capex will be incurred towards new product development, modular program and EVs.
- The **working capital** incurred was Rs 6.7bn in Q1FY20.

Outlook: Most of the negatives priced-in; Upgrade to ACCUMULATE

AL in Q1, has been able to gain market share despite weak sentiments. We believe, presently the industry is under-going a tough down-cycle due to softening of freight rates, tightening of liquidity, cost escalation related to BS VI norms. Whenever the industry recovers, AL will be better placed amongst peers on the back of new product/platform launches, market share gains attractive valuations. At CMP of Rs 65, stock is trading at a P/E of 11.3x FY21E. We cut our FY20/FY21e EPS estimates 29%/22% to factor in the current down-cycle. We value the stock at 13x FY21E for a target price of Rs 75 (vs Rs 88 earlier) and upgrade it to ACCUMULATE rating (vs HOLD earlier).

Key Risks:

- Volume recovery backed by pre-buying does not happen.

Quarterly result summary

Standalone (Rs Mn)	Q1FY20	Q1FY19	Q4FY19	% YoY	% QoQ
Net Sales	56,839	62,627	88,459	-9.2%	-35.7%
Cost of material consumed	44,963	50,476	51,588	-10.9%	-12.8%
Purchases of stock-in-trade	1,912	2,045	1,912	-6.5%	0.0%
Changes in inventories	(7,138)	(9,351)	10,793	-23.7%	-166.1%
Raw Material cost	39,737	43,170	64,292	-8.0%	-38.2%
Staff Cost	5,004	5,001	5,735	0.1%	-12.7%
Other expenses	6,728	7,776	8,578	-13.5%	-21.6%
Total expenses	51,469	55,948	78,605	-8.0%	-34.5%
EBITDA	5,370	6,680	9,854	-19.6%	-45.5%
Depreciation	1,646	1,525	1,598	8.0%	3.1%
EBIT	3,723	5,155	8,257	-27.8%	-54.9%
Interest	126	142	166	-11.6%	-24.4%
Other Income	211	525	91	-59.8%	132.2%
Exchange Gain or Loss	-	-	0	#DIV/0!	-100.0%
PBT	3,809	5,538	8,182	-31.2%	-53.5%
Current Tax	1,416	1,179	67	20.1%	2001.0%
Deferred tax	(111)	(36)	1,467	208.1%	-107.6%
Tax	1,305	1,143	1,535	14.2%	-15.0%
PAT	2,503	4,394	6,647	-43.0%	-62.3%
Exceptional Items	(201)	(178)	(117)		
Reported PAT	2,302	4,216	6,530		
Equity	2,936	2,936	2,936		
EPS	8.53	14.97	22.64	-43.0%	-62.3%
Margins	Q1FY20	Q1FY19	Q4FY19	% YoY	% QoQ
Gross margins	30.1%	31.1%	27.3%	-98	277
EBITDA	9.4%	10.7%	11.1%	-122	-169
PAT	4.4%	7.0%	7.5%	-261	-311
Tax Rate	34.3%	20.6%	18.8%	1,362	1,551

Source: Company, Aриhant Capital Markets

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P&L (Rs mn)	FY18	FY19	FY20E	FY21E
Net sales	262,479	290,570	280,281	291,462
YoY (%)	30.3	10.7	(3.5)	4.0
Raw material cost	186,213	206,796	197,318	203,732
Employee Cost	18,119	20,988	22,877	23,333
Admin Expenses	30,757	31,409	31,974	33,250
Total expenses	235,089	259,192	252,169	260,315
EBIDTA	27,390	31,378	28,112	31,147
(%)	10.4%	10.8%	10.0%	10.7%
Depreciation	5,546	6,210	7,082	7,888
EBIT	21,844	25,167	21,030	23,259
Interest	1,312	704	496	199
Other income	1,898	1,099	1,099	1,099
PBT	22,429	25,563	21,633	24,159
(-) Tax	6,681	5,182	6,490	7,248
Tax/ PBT	29.8	20.3	30.0	30.0
PAT	15,748	20,381	15,143	16,912
YoY (%)	1.0	29.4	(25.7)	11.7
PAT(%)	6.0%	7.0%	5.4%	5.8%
Extraordinary	122	549	0	0
Reported Profit	15,626	19,832	15,143	16,912

Key Ratios	FY18	FY19	FY20E	FY21E
EPS	5.4	6.9	5.2	5.8
Book value	24	28	32	35
P/E (x)	12.1	9.4	12.6	11.3
EV/EBDITA (x)	5.8	4.6	4.9	4.2
P/B (x)	2.7	2.3	2.1	1.9
EV/Sales	0.6	0.5	0.5	0.4
ROCE	22%	24%	17%	17%
ROE	24%	26%	17%	17%
Dividend Yield	3.7%	3.5%	2.6%	2.9%
Gross asset turn	3.4	3.4	3.0	2.9
Days				
Inventory	34	47	47	48
Debtors	13	22	22	23
Creditors	67	77	77	77

Source: Arianth Capital Markets

B/Sheet (Rs mn)	FY18	FY19	FY20E	FY21E
Equity capital	2,927	2,936	2,936	2,936
Reserves	68,721	80,373	89,581	99,865
Net worth	71,648	83,308	92,517	102,800
Total Loans	5,157	4,346	2,346	347
Deferred Tax	2,984	2,497	2,497	2,497
Total Liabilities	79,789	90,152	97,360	105,645
Gross block	64,159	74,659	83,659	92,660
Less: Acc. Dep	14,417	18,514	25,596	33,484
Net block	49,742	56,145	58,062	59,176
Work in progress	4,012	6,439	6,439	6,439
Investments	27,475	35,904	38,904	41,904
Inventories	17,099	26,847	25,616	26,792
Debtors	9,805	25,055	16,813	18,366
Cash	9,937	13,736	16,234	19,949
Loans and advances	42,848	22,523	21,726	22,592
Current assets	79,689	88,161	80,389	87,700
Current liabilities	72,417	85,945	76,283	79,018
Provisions	8,713	10,524	10,151	10,556
Net current assets	(1,441)	(8,336)	(6,046)	(1,874)
Misc Expenses				
Total Assets	79,788	90,152	97,360	105,645

Cash Flow	FY18	FY19	FY20E	FY21E
Net profit	15,626	19,832	15,143	16,912
Depreciation	5,546	6,210	7,082	7,888
Deferred tax	(91)	1,354	0	0
Change in W/C	(3,439)	10,666	207	(456)
Operating cash flow	17,641	38,063	22,433	24,343
Capex	(5,727)	(16,880)	(9,000)	(9,000)
Investments	1,314	(8,402)	(3,000)	(3,000)
Investing cash flow	(4,414)	(25,282)	(12,000)	(12,000)
FCF	11,914	21,183	13,433	15,343
Dividend	(7,080)	(7,773)	(5,935)	(6,628)
Equity	1,842	(399)	0	0
Debt	(7,171)	(811)	(2,000)	(2,000)
Financing cash flow	(12,410)	(8,982)	(7,935)	(8,628)
Net change in cash	818	3,799	2,498	3,715
Opening cash	9,120	9,937	13,736	16,234
Closing cash	9,937	13,736	16,234	19,949

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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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