

CMP: Rs 90

Rating: Hold

Target: Rs 88

(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)	152 / 77
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	14.4	-14.2	-35.1
SENSEX	3.9	12.7	13.8

Source: ACE Equity, Arihant Research

ASHOK LEYLAND v/s SENSEX



Source: ACE Equity, Arihant Research

Result Highlights

Ashok Leyland (AL) reported muted results as net sales stood at Rs 88.4bn (+1% YoY / +40% QoQ) led by 1% YoY volume growth while the realizations were at Rs 1.49mn (-1% YoY; +3% QoQ). Gross margins at 27.3% (-152bps YoY/ -250bps QoQ) were impacted by negative operating leverage and lower tonnage mix. EBITDA stood at Rs 9.8bn (-12% YoY; +52% QoQ). The EBITDA margin stood at 11.1% (-170bps YoY/+90bps QoQ) and was impacted by increase in material costs (+26% YoY) due to higher steel prices and high staff costs (+25% YoY). On the concall, management highlighted the that demand to remain subdued in H1FY20 and can see a pickup in H2FY20 led by pre-buying ahead of the emission norms (we expect cost escalation of ~15% for BS VI vehicles from 1st Apr 2020).

For FY19, the overall volumes stood 197k (+13% YoY), however the growth tapered down in H2FY19 due to revision in axle load norms in Aug 2018 which led to inventory mismatch and decline in overall tonnage. The impact was further severed by the liquidity crisis where the tightened financing situation led to weak sentiments across rural segments. During FY19, net sales stood at Rs 290bn (+10% YoY) led by 13% volume growth however impacted by 3% YoY decline in realizations led by increased discounting scenario. EBITDA stood at Rs Rs 31.5bn (+6% YoY) whereas the margins stood at 10.8% (-45% bps). Adjusted PAT stood at Rs 19.8bn (+15% YoY).

We believe, while the near term demand remains subdued, volumes could see a recovery in H2FY20 on account of pre-buying ahead of BS VI norms. However, the high capex guidance could impact the free cash flows and the return ratios in FY21E which remains a dampener. Thus we have a cautious outlook over the medium term.

Concall highlights

- The near term **demand outlook** subdued remains however it is expected to recover in H2FY20 led by pre-buying ahead of emission norms.
- In Q4, the **dealer inventory** stood at 20 days vs normalized levels of 15 days as the customer advances have also remained slow due to tightened financing
- Average **discounts** during Q4 stood at 15% (i.e. Rs 3.5-4 lac)
- **Margin outlook:** The company expects to maintain similar margin levels for FY20E.
- **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 FY19 stood at Rs 1.5bn (vs Rs 4.8bn in FY18) due to delay in government tenders in FY19. The company expects defence to form a larger revenue share over the long term.
- 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 incurred capex of Rs 9.5bn in FY19. Further the company has indicated to maintain a high capex of Rs 12-15bn for FY20E and ~Rs 8-10bn in FY21E.

Outlook and valuation

As the industry continues to negotiate with multiple headwinds such as axle load norms and the weak sentiments, we believe, AL may find it challenging to pass on the increased costs led by BS VI We estimate revenue/EBITDA/PAT CAGR of 3%/4%/3% over FY19-21E. At CMP of Rs 90, stock is trading at 12.3x FY21E. We value the stock at 12x FY21E for a target price of Rs 88 and ascribe a HOLD rating.

Quarterly result summary

Standalone (Rs Mn)	Q4FY19	Q4FY18	YoY %	Q3FY19	YoY %	FY19	FY18	YoY %
Net Sales	88,459	87,801	1%	63,252	40%	290,550	263,564	10%
Cost of material consumed	51,588	40,923	26%	53,192	-3%	208,723	164,966	27%
Purchases of stock-in-trade	1,912	1,893	1%	2,106	-9%	7,661	6,594	16%
Changes in inventories	10,793	19,663	-45%	(10,941)	-199%	(9,588)	12,751	-175%
Raw Material	64,292	62,479	3%	44,357	45%	206,796	184,311	12%
Staff Cost	5,735	4,588	25%	5,001	15%	20,988	18,378	14%
Other expenditure	8,578	9,478	-9%	7,398	16%	31,409	31,240	1%
Total Expenditure	78,605	76,545	3%	56,756	38%	259,192	233,929	11%
EBITDA	9,854	11,256	-12%	6,496	52%	31,357	29,635	6%
Depreciation	1,598	1,574	1%	1,607	-1%	6,210	5,985	4%
EBIT	8,257	9,682	-15%	4,890	69%	25,147	23,650	6%
Interest	166	244	-32%	192	-13%	704	1,473	-52%
Other Income	91	594	-85%	208	-56%	1,099	1,966	-44%
Exchange Gain or Loss	0	68	-100%	(9)	-103%	(26)	(32)	-18%
PBT	8,182	10,100	-19%	4,897	67%	25,517	24,111	6%
Tax	1,535	2,625	-42%	1,027	49%	5,136	6,681	-23%
PAT	6,647	7,475	-11%	3,869	72%	20,381	17,430	17%
Extraordinary	(117)	(44)	166%	(61)	92%	(549)	(253)	117%
Reported PAT	6,530	7,431	-12%	3,808	71%	19,832	17,177	15%
EPS	2.3	2.5	-12%	1.3	71%	6.9	5.9	15%
Margins	Q4FY19	Q4FY18	YoY %	Q3FY19	YoY %	FY19	FY18	YoY %
Gross margins	27.3%	28.8%	(152)	29.9%	(255)	28.8%	30.1%	(124)
EBITDA margin	11.1%	12.8%	(168)	10.3%	87	10.8%	11.2%	(45)
PAT margin	8%	9%	(100)	6%	140	7%	7%	40
Tax Rate	19%	26%	(723)	21%	(222)	20%	28%	(758)
Volumes (nos)								
MHCV	44,019	44,426	-1%	29,810	48%	146,078	131,390	11%
LCV	15,502	14,309	8%	13,953	11%	51,690	43,441	19%
Total Volumes	59,521	58,735	1%	43,763	36%	197,768	174,831	13%
Average Relisations (Rs Mn)	1.49	1.49	-1%	1.45	3%	1.47	1.51	-3%

Source: Company, Arianth Capital Markets

continued...

P&L (Rs mn)	FY18	FY19	FY20E	FY21E
Net sales	262,479	290,570	312,297	307,989
YoY (%)	30.3	10.7	7.5	(1.4)
Raw material cost	186,213	206,796	220,698	216,113
Employee Cost	18,119	20,988	22,877	22,719
Admin Expenses	30,757	31,409	35,627	35,135
Total expenses	235,089	259,192	279,201	273,968
EBIDTA	27,390	31,378	33,096	34,022
EBITDA margin (%)	10.4%	10.8%	10.6%	11.0%
Depreciation	5,546	6,210	7,082	7,888
EBIT	21,844	25,167	26,014	26,134
Interest	1,312	704	496	199
Other income	1,898	1,099	1,099	1,099
PBT	22,429	25,563	26,618	27,034
(-) Tax	6,681	5,182	5,396	5,480
Tax/ PBT	29.8	20.3	20.3	20.3
PAT	15,748	20,381	21,222	21,554
YoY (%)	1.0	29.4	4.1	1.6
PAT(%)	6.0%	7.0%	6.8%	7.0%
Extraordinary	122	549	0	0
Reported Profit	15,626	19,832	21,222	21,554

Key Ratios	FY18	FY19	FY20E	FY21E
EPS	5.4	6.9	7.2	7.3
Book value	24	28	33	37
P/E (x)	16.7	13.0	12.4	12.3
EV/EBDITA (x)	8.4	7.0	6.2	5.7
P/B (x)	3.7	3.2	2.7	2.4
EV/Sales	0.9	0.8	0.7	0.6
ROCE	22%	24%	23%	20%
ROE	24%	26%	24%	21%
Dividend Yield	2.7%	2.5%	2.7%	2.7%
Gross Asset Turnov	3.4	3.4	3.3	2.9
Days outstanding				
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	93,277	106,384
Net worth	71,648	83,308	96,213	109,319
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	101,057	112,164
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	28,651	28,420
Debtors	9,805	25,055	18,733	19,408
Cash	9,937	13,736	22,544	27,772
Loans and advances	42,848	22,523	24,208	23,874
Current assets	79,689	88,161	94,137	99,474
Current liabilities	72,417	85,945	85,175	83,674
Provisions	8,713	10,524	11,311	11,155
Net current assets	(1,441)	(8,336)	(2,349)	4,645
Misc Expenses				
Total Assets	79,788	90,152	101,057	112,164

Cash Flow	FY18	FY19	FY20E	FY21E
Net profit	15,626	19,832	21,222	21,554
Depreciation	5,546	6,210	7,082	7,888
Deferred tax	(91)	1,354	0	0
Change in W/C	(3,439)	10,666	2,821	(1,766)
Operating cash flow	17,641	38,063	31,125	27,675
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)
Free Cash Flow	11,914	21,183	22,125	18,675
Dividend	(7,080)	(7,773)	(8,317)	(8,448)
Equity	1,842	(399)	0	0
Debt	(7,171)	(811)	(2,000)	(2,000)
Financing cash flow	(12,410)	(8,982)	(10,317)	(10,448)
Net change in cash	818	3,799	8,808	5,228
Opening cash	9,120	9,937	13,736	22,544
Closing cash	9,937	13,736	22,544	27,772

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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%

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