

**Replacement demand to pick-up;
Well positioned to benefit from recovery in CV cycle**

CMP: INR 152

Rating: Hold

Target Price: INR 164

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)	431,523
52w H/L (INR)	153 / 87
Avg Yearly Vol (in 000')	23,845

Shareholding Pattern %

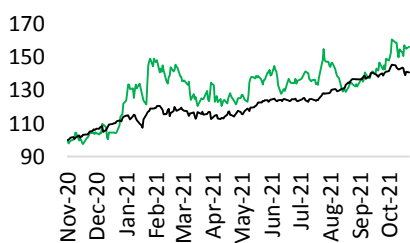
(As on September, 2021)

Promoters	51.12
Public	48.06
Shares Underlying DRs	0.82
Non Promoter- Non Public	0.82

Stock Performance (%)

	1m	3m	12m
Ashok Leyland	7.09	9.7	64.9
Nifty	-0.49	9.68	40.07

Ashok Leyland Vs Nifty



— Ashok Leyland — Nifty 50

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Ashok Leyland Ltd (AL) has reported Mixed performance during Q2FY22 with Net loss, revenue, and margin in line with the estimates.

- Standalone revenue from operations grew by 56.8% YoY/ 50.8% QoQ stood at INR 44,262 Mn in Q2 FY22 against our estimate of INR 44,026 Mn.

- EBITDA grew by 67.5%QoQ/-196.1%YoY to INR 1,347 Mn against our estimate of INR 1,278 Mn.

- EBITDA margin expanded by 19bps YoY/ 777bps QoQ to 3.0% Q2FY22 vs our estimate of 2.9%.

- The Company reported a net loss of INR 830 Mn in Q2FY22 against our estimate of INR -1,080 Mn.

- Basic EPS at INR -0.28 in Q2FY22 as against INR -0.49 in Q2FY21 (Q1FY22 was INR -0.96).

- Net Cash generated in Q2FY22 was INR 10,630 Mn which was used to pay down debt. Net Debt now stands at INR 31,120 Mn in Q2 (INR. 41750 Mn in Q1; debt equity 0.6x).

- Ashok Leyland's domestic LCV volumes for Q2 FY22 at 13328 nos. is higher than Q2FY21 by 22% (10952 nos.). Export volumes (MHCV & LCV) for Q2 FY22 at 2227 nos. is higher than Q2 FY21 by 49 % (1491 nos.).

- The EV arm of Ashok Leyland continues to grow its order book in India, UK, and EU and has generated significant interest at COP26, being the first automotive manufacturer to commit to achieving net-zero carbon in its operations for 2021.

Outlook and valuation

At the CMP of INR 146, Ashok Leyland Ltd is trading at a PE of 26.1x to its FY24E EPS of INR 5.8.

We believe replacement demand will pick-up going forward, led by a technology shift (moved to BS3 to BS6) and Vehicle age has been impacted due to less movement in the past two years, Scrappage policy with Economy gaining traction. sales. Trucks to lead a recovery in coming months. Therefore, M&HCV to draw support from core activities like construction, mining.

Tiller segment activity is to benefit from construction and mining activity. Expecting LCV to grow further owing to demand from last-mile transportation (e-commerce), Agriculture and allied sectors. Continue to grow exports, defence, PSB, LCV and part along with its core M&HCV business.

We Value Ashok Leyland at PE multiple of 27x for parent auto maker for its FY24E EPS of INR 5.8 and with the 7% stake in Hinduja Leyland Finance INR 7 per share intrinsic value, **We assign an Hold rating and value it with SOTP valuation for a target price of INR 164.**

Quarterly Results					
Standalone (INRm)	Q2FY22	Q1FY22	Q2FY21	YoY%	QoQ%
Net Sales	44,262	29,346	28,222	56.8%	50.8%
Other operating income	317	164	144	119.6%	93.0%
Income from operation	44,579	29,510	28,366	57.2%	51.1%
Cost of material consumed	30,925	22,334	19,224	60.9%	38.5%
Purchases of stock-in-trade	1,700	2,117	1,999	-15.0%	-19.7%
Changes in inventories	1,560	(2,579)	(1,022)	-252.6%	-160.5%
Raw Material	34,185	21,873	20,201	69.2%	56.3%
Staff Cost	4,003	4,243	3,736	7.1%	-5.7%
Other expenditure	5,043	4,795	3,625	39.1%	5.2%
Total Expenditure	43,232	30,911	27,562	56.9%	39.9%
EBITDA	1,347	(1,401)	804	67.5%	-196.1%
Depreciation	1,843	1,835	1,712	7.7%	0.4%
EBIT	(496)	(3,236)	(907)	-45.4%	-84.7%
Interest	871	707	872	-0.2%	23.1%
Other Income	209	134	219	-4.3%	56.2%
PBT	(1,157)	(3,809)	(1,561)	-25.9%	-69.6%
Current Tax	-	-	0	-100.0%	
Deferred tax	(325)	(1,003)	(111)	191.7%	-67.6%
Tax	(325)	(1,003)	(111)	191.9%	-67.6%
Adjusted PAT	(832)	(2,806)	(1,450)	-42.6%	-70.3%
Extraordinary	2.3	(16.8)	(17)	-113.5%	-113.7%
Reported PAT	(830)	(2,823)	(1,467)	-43.4%	-70.6%
EPS	(0.3)	(1.0)	0.09	-	-70.8%

Margins	Q2FY22	Q1FY22	Q2FY21	YoY%	QoQ%
Gross margins	23.3%	25.9%	14.4%	895Bps	-257Bps
EBITDA	3.0%	-4.7%	2.8%	19Bps	777Bps
Adjusted PAT	-2%	-10%	-5%	324Bps	324Bps

Source: Arihant Research, Company Filings

Ashok Leyland Q2FY22 Earnings Conference Call

- Recovery in domestic M&HCV continued into Q2FY22 after the setback of 2nd covid wave last quarter. M&HCV domestic volumes were up by 106%.
- Witnessed a 15% shift in volumes to ICVs (CNGs) from heavy tippers. Will be introducing additional products in CNG fuel during Q4FY22. Demand around the business is 40-45% against the ICVs.
- Volume contribution south total TIV in Q2FY22 is lower against last year. Both impacted the truck market in Q2FY22.
- **New launch:** Introducing product of CNG in Q4FY22 and this will support the share to grow.
- **Volume:** The volume is returning compare to H2FY21 after the opening up of the country. The company is also seeing the demand increasing, set to grow 9% in FY22 as the management is quite positive once the demand picking up.

- **Products:** The company saw strong demand for the AVTR range India's first modular truck platform, and this demand is expected to further improve, mirroring the expected increase in economic activity. In the LCV segment, the recently launched Bada Dost has been well accepted by the customers and the company is ramping up production in line with market demand. Going forward, last-mile connectivity demand propelled by e-commerce is likely to continue supporting ICV and LCV truck volumes.
- **PV:** This segment is going slow owing to covid-19 related disruption. Once the school and colleges reopen and intercity travel increases will see better volume.
- **Replacement demand:** To kick in due to a) Technology shift (moved to BS3 to BS6) b) Vehicles age has been impacted due to less movement in the last two years, Scrapage policy, c) Economy gaining traction.
- Average age as per an ICRA report is current about 9.5years, the highest ever in the last few years. 8.7years in FY19.
- Financing situation has improved after the moratorium period. Collection efficiency has improved quite significantly within the sector.
- **OHM Global mobility:** EV initiatives outside of ALL. Products like e-LCVs for global markets would be worked upon. Switch UK will have a subsidiary in India and will have an mfg capability for SEAsian region. The plan is to transfer OHM to Switch mobility, subject to regulatory approvals. Looking at raising capital at both the above-mentioned companies. The majority will be owned by ALL.
- **Demand:** Fleet utilization rates are ~75-85%. Most industries have started to commence operations. TIVs have not picked up fully but will come back really strong in subsequent quarters. If covid 3rd wave does not happen, expects a strong demand as goods and people would move and accordingly trucks and busses will be bought.
- Volatility in market share. Demand in the South has not come back to normal levels compared to other regions. ALL has a strong weight-age in the South.
- Discounting levels were quite high during the quarter.
- Will improve Market share by 1) Bus will come back and market share will grow straight away. 2) Expanding dealerships in the North and North East. 3) Higher tonnage will come back very strong as the economy picks up 4) AVTR: Value and effective product. 5) Shift to CNG and take action to address the demand.
- **Exports:** Africa and ME- Adding distributors in the region. Has a strong presence in Bangladesh and Sri Lanka.
- **Operating leverage:** Volumes are down by ~50% levels from their peak. The company has taken several cost-cutting initiatives during the last few years. When volumes double, expects a much better operating leverage to kick in.
- **Switch Mobility order wins:** The company have received orders from various STUs.
- **Hinduja Leyland Finance Ltd:** H1 Revenues INR 1,320cr , PAT INR 135cr 10% NPM, Provision of Rs323cr.
- **Outlook:** Trucks to lead a recovery in coming months. M&HCV to draw support from core activities like construction, mining and expected replacement demand supporting the volumes. Increased infrastructure outlay, conducive financing environment, scrapage policy and rebound in economic growth are expected to support growth and industry volumes. Tiller segment activity is to benefit from construction and mining activity. Expecting LCV to grow further owing to demand from last-mile transportation (e-commerce), Agri and allied sectors.
- Continue to grow exports, defence, PSB, LCV and part along with its core M&HCV business.

P&L (INR mn)	FY21	FY22E	FY23E	FY24E
Net sales	153,015	196,505	233,929	294,336
YoY (%)	(12.4)	28.4	19.0	25.8
Raw material cost	114,033	145,611	164,920	207,507
Employee Cost	15,839	19,007	23,188	28,290
Admin Expenses	17,791	22,009	24,796	31,200
Total expenses	147,663	186,626	212,905	266,996
EBIDTA	5,351	9,880	21,024	27,340
(%)	3.5%	5.0%	9.0%	9.3%
Depreciation	7,477	7,575	6,246	6,119
EBIT	(2,126)	2,304	14,779	21,221
Interest	3,068	2,477	1,944	1,756
Other income	1,195	1,315	1,577	1,893
PBT	(3,999)	1,142	14,412	21,358
Exchange gain / (loss) on swap contracts	0	0	0	0
(-) Tax	(982)	234	2,882	4,272
Tax/ PBT	24.6	20.0	20.0	20.0
PAT	(3,016)	908	11,530	17,086
YoY (%)	(176.3)	(130.1)	1170.0	48.2
PAT(%)	-2.0%	0.5%	4.9%	5.8%
Extraordinary	121	0	0	0
Reported Profit	(3,137)	908	11,530	17,086

B/Sheet (INR mn)	FY21	FY22E	FY23E	FY24E
Equity capital	2,936	2,936	2,936	2,936
Reserves	66,837	66,190	75,024	88,196
Net worth	69,772	69,126	77,959	91,132
Total Loans	37,463	38,745	39,002	39,053
Deferred Tax	1,708	1,708	1,708	1,708
Total Liabilities	108,943	109,579	118,668	131,892
Gross block	93,721	100,521	107,671	114,822
Less: Acc. Dep	23,217	30,792	37,038	43,156
Net block	70,504	69,728	70,633	71,665
Work in progress	3,719	3,719	3,719	3,719
Investments	34,180	34,180	35,180	36,180
Inventories	21,423	19,149	21,688	27,857
Debtors	28,163	13,459	16,023	20,966
Cash	8,230	11,688	20,335	33,612
Loans and advances	18,281	12,161	14,476	18,215
Current assets	76,096	56,456	72,522	100,650
Current liabilities	60,632	47,387	54,912	69,660
Provisions	14,924	7,118	8,473	10,661
Net current assets	540	1,951	9,137	20,328
Total Assets	108,943	109,579	118,668	131,892

Cash Flow	FY21	FY22E	FY23E	FY24E
Net profit	(3,137)	908	11,530	17,086
Depreciation	7,286	7,575	6,246	6,119
Deferred tax	(983)	0	0	0
Change in W/C	(6,585)	2,048	1,463	2,086
Operating cash flow	(3,419)	10,531	19,239	25,291
Capex	(5,810)	(6,922)	(7,150)	(7,151)
Investments	(2,446)	121	(1,001)	(1,001)
Investing cash flow	(8,256)	(6,801)	(8,151)	(8,152)
FCF	(9,228)	3,610	12,089	18,140
Dividend	2,269	(1,554)	(2,697)	(3,914)
Equity	(2,000)	0	0	0
Debt	6,410	1,282	256	51
Financing cash flow	6,679	(272)	(2,440)	(3,862)
Net change in cash	(4,995)	3,458	8,647	13,277
Opening cash	13,225	8,229	11,688	20,335
Closing cash	8,229	11,688	20,335	33,612

Key Ratios	FY21	FY22E	FY23E	FY24E
EPS	(1.1)	0.3	3.9	5.8
Book value	24	24	27	31
P/E (x)	-	491.8	38.7	26.1
EV/EBDITA (x)	82.5	44.5	20.5	15.2
P/B (x)	6.4	6.5	5.7	4.9
EV/Sales	2.9	2.2	1.8	1.3
ROCE	0%	3%	12%	32%
ROE	-4%	1%	16%	20%
Dividend Yield	0.4%	0.3%	0.5%	0.7%
Gross asset turn	1.4	1.8	2.0	5.0

Days outstanding	FY21	FY22E	FY23E	FY24E
Inventory	48	48	48	49
Debtors	25	25	25	26
Creditors	65	65	65	66

Source: Arihant 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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