Ashok Leyland

India Research

RESULT REVIEW

Bloomberg: AL IN
Reuters: ASOK.BO

BUY

Business Volumes to recover in FY20 – Maintain BUY

Ashok Leyland (ALL) Q4FY19 numbers were mixed bag. In the near term, the Company expects demand outlook for its products to remain soft for Q1FY20 however it anticipates strong Q2 and Q3 due to pre-buying before BSVI implementation in India. Management also anticipates vehicle scrappage policy likely to come through in the medium term. The Company is also planning to pursue export markets with more aggression. We reduce our volume and PAT estimates by 0.3%/ 0.2% and 3.9% /2.6% for FY20 and FY21 respectively. We expect, ALL to report 9.7% volume CAGR and 7.6% PAT CAGR over FY19-21E. We maintain our BUY rating on the stock with a revised price target Rs123 (15xFY21E core earnings + Rs7 Subsidiary Valuations).

Q4FY19 Result Highlights: During Q4FY19, ALL's sales increased by 0.8% YoY to Rs87.2bn (lower than our estimates of Rs88.9bn) with a combination of 1.3% volume growth and 0.6% decline in average realizations. EBITDA margins contracted by 168bps YoY to 11.1% on account of lower gross margins and higher staff cost (our estimates were 11.3%). PAT declined by 11.1% to Rs6.6bn (our estimates of Rs6.3bn). Lower tax rate and lower other income also influenced overall profitability.

Robust Business outlook for FY20: Going forward, FY20 is expected to be a positive growth year for ALL due to pre-buying of commercial vehicles in India before BSVI implementation. The pre-buying of commercial vehicles is expected to take place in Q2 and Q3 of FY20. The management also expects to benefit from old vehicle scrappage policy which is likely to be implemented in FY21. We believe, ALL being a prominent player in the MHCV segment, is well set to benefit from these developments in the medium term. Also any pick up in construction and infra-spending and mining activities in the Country is likely to create incremental business opportunities for the Company.

New product Launches: Currently, ALL offers commercial vehicles in the range of 2.5 tons to 49 tons in the Indian market. Along with its robust MHCV product portfolio, ALL plans to offer entire range of LCVs from FY21. The company plans to invest adequately over the next 2 years to introduce entire range of LCV segment (2.5 - 7 ton). We understand, this strategic decision has a potential to add additional revenue streams for ALL from domestic and international business going forward in the long term.

Key Financials:

Y/E (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	2,01,401	2,63,564	2,90,550	3,41,381	3,76,286
EBIDTA	22,026	29,635	31,357	38,338	41,129
EBIDTA (%)	10.9%	11.2%	10.8%	11.2%	10.9%
PAT	15,586	17,430	20,380	22,761	23,597
PAT %	7.7%	6.6%	7.0%	6.7%	6.3%
EPS (Rs)	5.5	6.0	6.9	7.8	8.0
ROCE (%)	18%	24%	25%	24.2%	22.0%
ROE (%)	21%	26%	27%	25.2%	22.6%
EV/EBITDA (x)	12.3	9.1	8.5	6.5	5.8
PE (x)	17.2	15.8	13.5	12.1	11.7
Core PE (x)	15.9	14.7	12.6	11.3	10.9

Source: Karvy Stock Broking

Recommendation

CMP:	Rs94
Target Price:	Rs123
Previous Target Price	Rs128
Upside (%)	30.8%

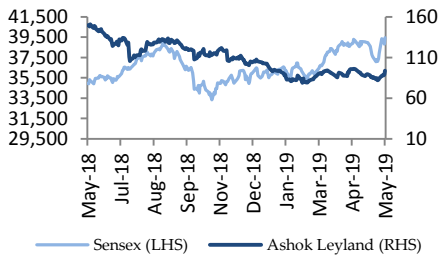
Stock Information

Market Cap. (Rsbn / US$ mn)	275/3,959
52-week High/Low (Rs)	152/77.5
3m ADV (Rsmn /US$ mn)	2,268/33
Beta	0.9
Sensex/ Nifty	39,435/11,844
Share outstanding (mn)	2,936

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	2.8	14.6	(35.1)	8.5
Rel. to Sensex	1.8	4.2	(42.9)	(16.3)

Performance



Source: Bloomberg

Earnings Revision

(%)	FY20E	FY21E
Revenue	↓ 0.2	↓ 0.1
EBITDA	↓ 0.9	↑ 1.0
PAT	↓ 3.9	↓ 2.6

Source: Karvy Stock Broking

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Market share Compression: ALL has witnessed its market share declining from 34.2% to 33.8% in domestic MHCV industry during FY19. This is due to aggression from Tata Motors which has led to increase in discounts in many of the previous quarters. To sustain its profitability ALL has not participated in orders wherein pricing has been lower than its benchmark margins. Going forward, we understand, on account of better volume growth outlook in FY20, the competitive intensity led by pricing is likely to decline which is likely to benefit ALL.

Sharp increase in Capex Plan: ALL plans to incur ~Rs30bn capital expenditure over the next two years to introduce new products and technologies in commercial vehicle segment in India. This also includes introducing Electrical vehicles in India. Since the Company is debt free with Rs7.5bn net cash on its balance sheet, funding of this capex is not likely to be challenging.

Change in Estimates: On account of benign business outlook, we reduce our volume estimates by 0.3% and 0.2% for FY20 and FY21 respectively. We also reduce our sales and PAT estimates by 0.2%/0.1% and 3.9% /2.6% for FY20 and FY21 respectively. Over FY19-21E, we expect, ALL to report 9.7% volume CAGR, 13.8% sales CAGR and 7.6% PAT CAGR. The Company is expected to report EPS of Rs7.8 and Rs8.0 in FY20E and FY21E respectively.

Maintain BUY: At CMP of Rs94, based on its core earnings, the stock is currently quoting at 11.7xFY21E earnings. We maintain our BUY rating on the stock with a revised price target Rs123 (15xFY21E core earnings + Rs7 Subsidiary Valuations).

Exhibit 1: Quarterly Performance

Rs Mn	Q4FY19	Q4FY18	YoY%	Q3FY19	QoQ%
Net Sales	88,459	87,801	0.7%	63,252	39.9%
Cost of material consumed	51,588	40,923	26.1%	53,192	-3.0%
Purchases of stock-in-trade	1,912	1,893	1.0%	2,106	-9.2%
Changes in inventories	10,793	19,663	-45.1%	(10,941)	-198.6%
Raw Material	64,292	62,478	2.9%	44,357	44.9%
Staff Cost	5,735	4,588	25.0%	5,001	14.7%
Other expenditure	8,578	9,478	-9.5%	7,398	15.9%
Total Expenditure	78,605	76,545	2.7%	56,756	38.5%
EBITDA	**9,854**	**11,256**	**-12.5%**	**6,496**	**51.7%**
Depreciation	1,598	1,574	1.5%	1,607	-0.6%
EBIT	8,257	9,682	-14.7%	4,890	68.9%
Interest	166	244	-31.9%	192	-13.4%
Other Income	91	594	-84.7%	208	-56.3%
Exchange Gain / Loss	0	68	-99.6%	(9)	-103.2%
PBT	8,182	10,101	-19.0%	4,897	67.1%
Tax	1,535	2,625	-41.5%	1,027	49.4%
PAT	6,647	7,475	-11.1%	3,869	71.8%
Exceptional Item	(117)	(44)	165.5%	(61)	92.3%
Reported PAT	6,530	7,431	-12.1%	3,808	71.5%
Margins	**Q4FY19**	**Q4FY18**	**YoY (bps)**	**Q3FY19**	**QoQ (bps)**
Gross margins	27.3%	28.8%	(152)	29.9%	(255)
EBITDA	11.1%	12.8%	(168)	10.3%	87
PAT	8%	9%	(100)	6%	140
Tax Rate	19%	26%	(723)	21%	(222)
Realizations	**Q4FY19**	**Q4FY18**	**YoY%**	**Q3FY19**	**QoQ%**
Volume (Nos)	59521	58734	1.3%	43762	36.0%
Avg Realizations (Rs)	14,86,186	14,94,891	-0.6%	14,45,373	2.8%

Source: Company, Karvy Stock Broking

Exhibit 2: Revision in Estimates

Old (Rs Mn)	FY20E	FY21E
Sales	3,42,114	3,76,767
EBITDA	38,678	40,712
Margins (%)	11.3%	10.8%
PAT	23,683	24,234
EPS (Rs)	8.1	8.3
New Estimates (Rs Mn)	**FY20E**	**FY21E**
Sales	3,41,381	3,76,286
EBITDA	38,338	41,129
Margins (%)	11.2%	10.9%
PAT	22,761	23,597
EPS (Rs)	7.8	8.0
Variance (%)	**FY20E**	**FY21E**
Sales	-0.2%	-0.1%
EBITDA	-1%	1%
Margins (bps)	(8)	12
PAT	-3.9%	-2.6%
EPS	-4.3%	-3.2%

Source: Company, Karvy Stock Broking

Q4FY19 Con-Call Takeaways:

- ALL's inventory is at 8900 units in FY19 and at the dealer's end inventory stood at ~20 days.
- The company plans to incur capex of Rs15bn in FY20 and similar Rs10-15 bn in FY21 which includes LCV project – Phoenix, Modular business program and capacity expansion.
- The company's average discounts stood at Rs 400,000 – 450,000. .
- ALL's market share has gained market share by 1.8% to 36.9% in FY19.

Financials

Exhibit 3: Profit & Loss Statement

Rs mn	FY17	FY18	FY19	FY20E	FY21E
Net sales	2,01,401	2,63,564	2,90,550	3,41,381	3,76,286
YoY (%)	6.4	30.9	10.2	17.5	10.2
Raw material cost	1,39,734	1,84,311	2,06,796	2,43,316	2,69,323
Employee Cost	14,801	18,378	20,988	22,824	25,157
Admin Expenses	24,841	31,240	31,409	36,904	40,677
Total expenses	1,79,375	2,33,929	2,59,192	3,03,043	3,35,157
EBIDTA	**22,026**	**29,635**	**31,357**	**38,338**	**41,129**
EBIDTA Margin (%)	10.9%	11.2%	10.8%	11.2%	10.9%
Depreciation	5,179	5,985	6,210	7,271	8,498
EBIT	16,847	23,650	25,147	31,066	32,631
Interest	1,554	1,473	704	415	137
Other income	1,363	1,966	1,098	962	1,216
PBT	16,656	24,143	25,542	31,613	33,710
(-) Tax	1,070	6,713	5,162	8,852	10,113
Tax/ PBT	6.4	27.8	20.2	28.0	30.0
PAT	**15,586**	**17,430**	**20,380**	**22,761**	**23,597**
YoY (%)	31.5	11.8	16.9	11.7	3.7
PAT Margin (%)	7.7%	6.6%	7.0%	6.7%	6.3%
Extraordinary Items	-3354	253	549	0	0
Reported PAT	12,231	17,683	20,928	22,761	23,597

Source: Company, Karvy Stock Broking

Exhibit 4: Balance sheet

Rs mn	FY17	FY18	FY19	FY20E	FY21E
Equity capital	2,846	2,927	2,936	2,936	2,936
Reserves	58,415	69,528	80,389	94,228	1,08,576
Net worth	61,261	72,455	83,324	97,164	1,11,512
Total Loans	12,328	6,126	3,984	1,984	-16
Deferred Tax	1,269	2,986	2,497	2,497	2,497
Total Liabilities	**74,858**	**81,567**	**89,806**	**1,01,645**	**1,13,993**
Gross block	58,579	64,159	72,516	87,516	99,516
Less: Acc. Dep.	8,871	14,417	20,627	27,898	36,397
Net block	49,708	49,742	51,889	59,618	63,119
Work in progress	2,059	4,226	6,576	6,576	6,576
Investments	28,789	56,067	26,365	26,365	26,365
Inventories	25,011	17,583	26,847	31,588	34,964
Debtors	8,601	9,448	25,055	20,270	22,342
Cash	9,120	10,422	13,736	27,816	38,701
Loans and advances	14,709	5,769	16,542	19,436	21,423
Current assets	57,440	43,222	82,180	99,109	1,17,431
Current liabilities	56,968	61,055	54,956	63,883	70,685
Provisions	6,169	10,635	22,248	26,140	28,813
Net current assets	-5,697	-28,468	4,975	9,086	17,933
Total Assets	**74,858**	**81,567**	**89,806**	**1,01,645**	**1,13,993**

Source: Company, Karvy Stock Broking

Exhibit 5: Cash Flow Statement

Rs mn	FY17	FY18	FY19	FY20E	FY21E
Net profit	12,231	17,177	19,831	22,761	23,597
Depreciation	5,179	5,985	6,210	7,271	8,498
Deferred tax	-2,067	-92	1,354	0	0
Change in W/C	7,717	24,073	-30,129	9,969	2,039
Operating cash flow	23,060	47,143	-2,734	40,002	34,134
Capex	-8,222	-6,378	-12,550	-15,000	-12,000
Investments	-8,984	-27,278	29,702	0	0
Investing cash flow	-17,206	-33,656	17,152	-15,000	-12,000
Free Cash Flow	**14,838**	**40,765**	**-15,284**	**25,002**	**22,134**
Dividend	-3,254	-7,080	-7,773	-8,921	-9,249
Equity	-1,788	1,098	-1,189	0	0
Debt	-7,623	-6,203	-2,142	-2,000	-2,000
Financing cash flow	-12,665	-12,185	-11,104	-10,921	-11,249
Net change in cash	-6,812	1,302	3,314	14,080	10,885
Opening cash	15,931	9,120	10,422	13,736	27,816
Closing cash	9,120	10,422	13,736	27,816	38,701

Source: Company, Karvy Stock Broking

Exhibit 6: Ratios

Key Ratios	FY17	FY18	FY19	FY20E	FY21E
EPS (Rs)	5.5	6.0	6.9	7.8	8.0
Book value (Rs)	22	25	28	33	38
P/E (x)	17.2	15.8	13.5	12.1	11.7
Core P/E (x)	15.9	14.7	12.6	11.3	10.9
EV/EBDITA (x)	12.3	9.1	8.5	6.5	5.8
P/B (x)	4.4	3.8	3.3	2.8	2.5
EV/Sales (x)	1.2	0.8	0.8	0.6	0.5
ROCE (%)	18%	24%	25%	24.2%	22.0%
ROE (%)	21%	26%	27%	25.2%	22.6%
Dividend/Share (Rs)	1.1	2.4	2.6	3	3
Dividend Yield (%)	1.2%	2.6%	2.8%	2.7%	2.8%
Gross Asset Turnover (x)	2.6	3.4	3.4	3.6	3.5
Avg Net WC Days	3.6	4.3	4.3	4.3	4.0
Net W/C (% of sales)	-7.4%	-14.8%	-3.0%	-5.5%	-5.5%

Source: Company, Karvy Stock Broking

Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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