

ASHOKLEY ACCUMULATE

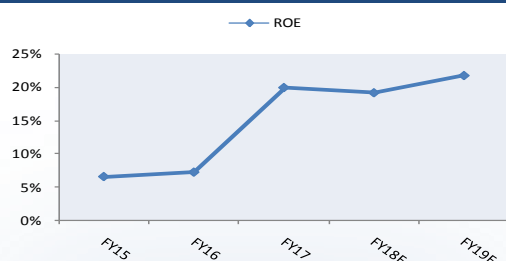
03-Jan-18

INDUSTRY - AUTOMOBILE
BLOOMBERG AL IN
BSE Code - 500477
NSE Code - ASHOKLEY
NIFTY - 10442

Company Data

CMP	123
Target Price	134
Previous Target Price	124
Upside	9%
52wk Range H/L	133/79
Mkt Capital (Rs Cr)	36,091
Av. Volume (,000)	907

RoE to maintain over 21% in FY19E

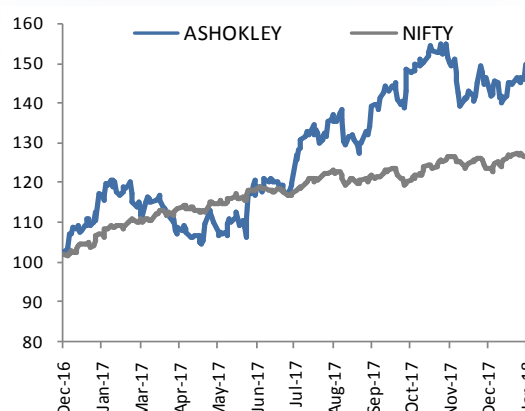


Shareholding patterns %

	2QFY18	1QFY18	4QFY17
Promoters	51.3	51.3	50.4
Public	48.7	48.7	49.6
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	2.8	0.8	52.3
Rel.to Nifty	(0.4)	(5.1)	24.7



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Key Highlights of the Report:

- ✓ Ashok Leyland reported a growth of whopping 79%YoY to 19253 units in total commercial vehicle volumes in December 2017.
- ✓ Medium & Heavy commercial vehicles sales grew by 82%YoY to 15950 units. Light commercial vehicles volume rose 69%YoY to 3303 units during the month.
- ✓ Ashok Leyland has gained additional 6% market share in last three years to become the second largest commercial vehicle manufacturer in India.
- ✓ Based on the strong demand outlook, we expect Revenue and PAT to grow at CAGR of 19% and 21% respectively, in FY17-19E. We expect a healthy ROE of over 21% in FY19. We value it at 21x FY19E EPS and change our rating from HOLD to ACCUMULATE with target price of Rs.134.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	13,562	18,937	20,019	24,466	28,210
EBITDA	1,027	2,255	2,203	2,486	2,966
EBIT	610	1,767	1,685	1,953	2,433
PAT	335	390	1,223	1,353	1,803
EPS (Rs)	1.2	1.4	4.3	4.8	6.3
EPS growth (%)	-965%	16%	214%	11%	33%
ROE (%)	7%	7%	20%	19%	22%
ROCE (%)	8%	24%	23%	25%	29%
BV	18	19	22	25	29
P/B (X)	1.9	5.7	3.9	5.0	4.2
P/E (x)	29	79	19	26	19

RECENT DEVELOPMENT: Export and defence new growth drivers

- ✓ Ashok Leyland has targeted Middle East, SAARC, Africa and South East Asian countries to expand its business.
- ✓ Export is approx. 12% of company's total revenue and the management is planning it to make approx.33% in next 3-5 years time frame.
- ✓ Under its global expansion plan the Ashok Leyland has established assembly plants in Middle East, Africa and Bangladesh.
- ✓ Recently Ashok Leyland participated in 13 tenders and won 12 of them which will significantly contribute in the defence revenue in years to come.
- ✓ The company has bid for supply of Light Specialist Vehicles and Light Armoured Multi-purpose Vehicle. The contract size for LAMV is estimated to be at least Rs 1,000 crore with order size being 702 units and each vehicle costing Rs 1.5 crore. The defence business is expected to achieve at least 3 times (revenue growth) in five years from currently Rs.500 cr.

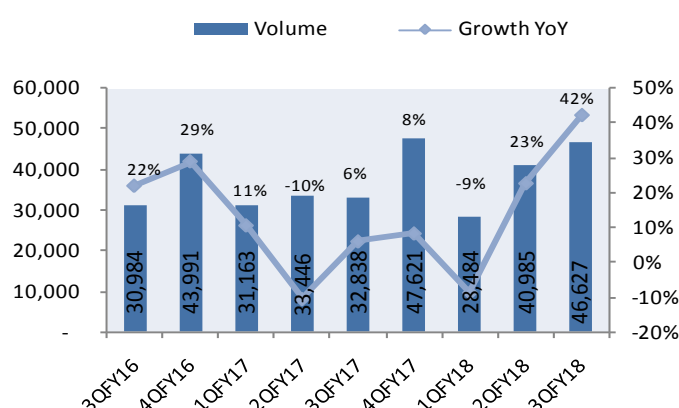
Quarterly Performance

Financials	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Total Volumes	33,446	32,838	47,621	28,484	40,985	23%	44%	1,04,898	1,40,502	34%
Realization(Rs.'000)	1,382	1,349	1,390	1,488	1,475	7%	-1%	1,348	1,380	2%
Net Sales	4,622	4,431	6,618	4,238	6,047	31%	43%	21,260	22,749	7%
Other Income	32	24	40	38	56	76%	45%	164	131	-20%
COGS	3,134	3,134	4,760	2,942	4,307	37%	46%	13,974	14,718	5%
Employee Cost	369	362	412	438	482	31%	10%	1,711	1,901	11%
Other Expenses	583	481	716	552	645	11%	17%	2,597	2,837	9%
EBITDA	536	454	730	306	612	14%	100%	2,979	3,294	11%
Depreciation	126	119	139	132	141	12%	7%	524	573	9%
Interest	34	31	42	37	41	21%	12%	925	1,049	13%
PBT	408	327	588	176	485	19%	176%	1,694	1,803	6%
Tax	120	78	(216)	49	148	23%	201%	497	196	-61%
PAT	294	180	495	108	334	14%	210%	712	1,633	129%

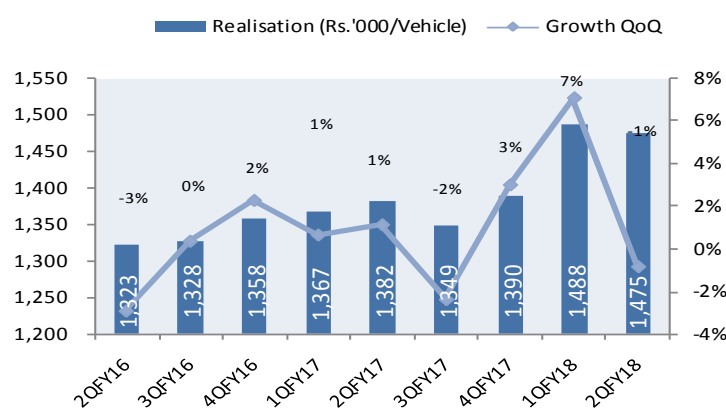
Volumes grew by 23%YoY; PAT up by 14%YoY

- ✓ The commercial vehicle giant posted Rs.6047 crore of net revenue in 2QFY18. The company witnessed sharp 23%YoY and 44%QoQ spurt in the volumes during the quarter owing to strong infra activity and heavy discounting.
- ✓ The M&HCV volumes grew by robust 24%YoY and LCV volumes grew by 18%YoY. The management expects growth in the range of 5-10% in 2HFY18 if there is no major event happens going ahead.
- ✓ Realization improved by 7%YoY because of price increases taken during the first quarter to net off the cost increase due to BS-IV transition.
- ✓ EBITDA grew by 14%YoY to Rs.612 crore on the back of higher volumes during the quarter. Though other expenses was higher due to expenses related to Hinduja Foundries Limited (approx. Rs.60 crores).
- ✓ Profit after tax also grew by 14%YoY to Rs.334 crores.

Volume trend



Realization trend

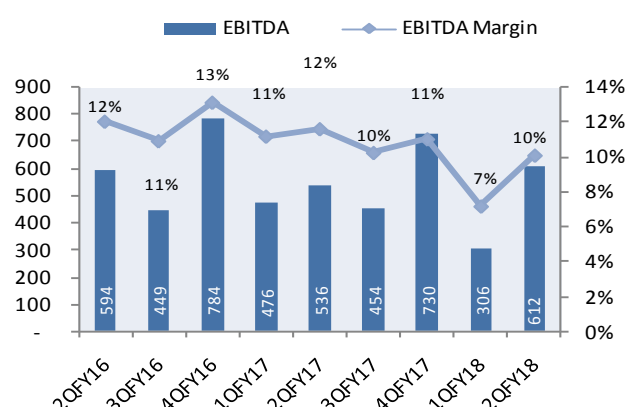


Margins declined sharply owing to higher other expenses and discounting

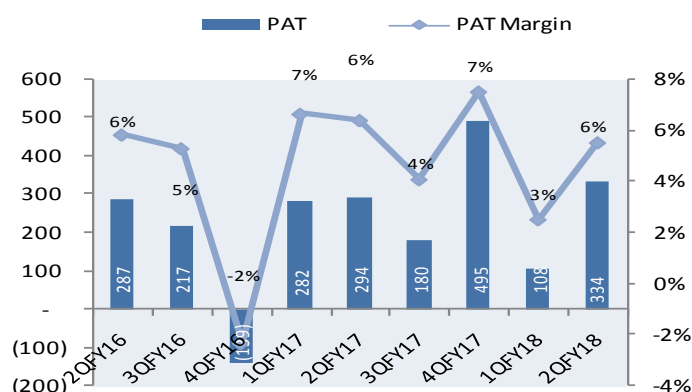
Margin %	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	32%	29%	28%	31%	29%	-3.41%	-0.02	34%	35%	0.01
EBITDA Margin	12%	10%	11%	7%	10%	-1.51%	0.03	14%	14%	0.00
PAT Margin	6%	4%	7%	3%	6%	-0.87%	0.03	3%	7%	0.04

- ✓ Gross Margin declined by 340 bpsYoY to 28.8% in the 2QFY18 due to higher commodity prices and reduction in excise benefits from Pantnagar plant from 13% to 8.1% after GST.
- ✓ EBITDA margin declined by approx 150 bps YoY to 10.1% during the quarter on account of higher other expenses which includes expenses related to Hinduja Foundries Limited and higher discounting.
- ✓ The company reported PAT margin of 5.5% during the quarter. Higher tax expenses in 2QFY18 led to decline in the margin by 87 bps YoY.

EBITDA (Rs.crore) and EBITDA Margin trend



PAT(Rs. Crore) and PAT Margin trend



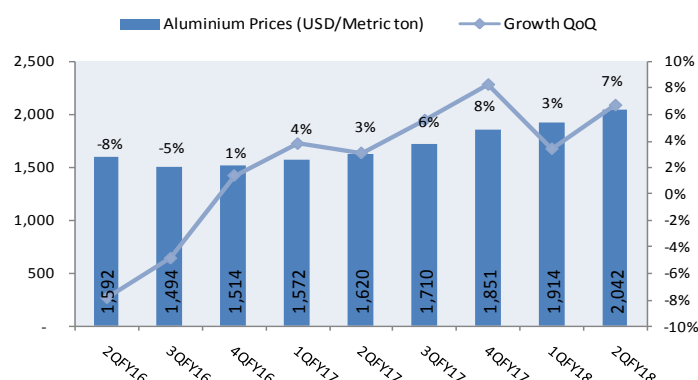
Concall Highlights:

- ✓ The management expects growth in the range of 5-10% for 2HFY18 and going ahead the company will grow at same rate as industry.
- ✓ The company has taken price rise of 1% in some models in November 2017.
- ✓ Exports so far have grown by 35%YoY.
- ✓ The company has sold 85-90% of the left BS-III inventory to Bangladesh and Sri Lanka, where the demand for BS-III vehicles are strong. However this region does not have good margin.
- ✓ Average discounts for the quarter is around Rs.350000 per vehicle.
- ✓ Defense revenue for the quarter was Rs.200 crores.
- ✓ Electric vehicles could be new growth opportunity for the company and the management expects significant orders to come in next 18-24 months.
- ✓ Spare parts revenue was around Rs.300 crores in 2QFY18.
- ✓ Earlier Pant nagar plant has enjoyed excise benefit of 13% but due to implementation of GST that benefit has reduced to 8.1%. The excise benefit will expire on 31st March 2020.
- ✓ Debt to equity ratio stands at 0.3:1.
- ✓ Capex guidance in the range of Rs.500-600 crore for FY18 onwards.
- ✓ The company has robust plans to launch 6-7 new products in the LCV segment in next 12 months.

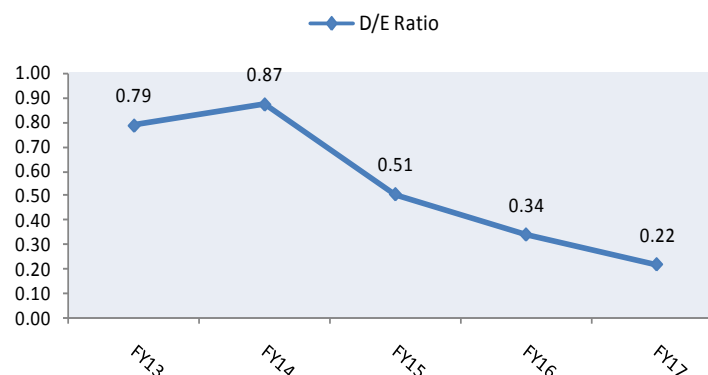
Investment Arguments:

- ✓ **Sharp recovery in M&HCV demand based on strong infra and mining activity:** The management has focused approach towards its core commercial vehicle business. We expect that M&HCV demand to be slow in 3QFY18 but the demand will pick up from the 4QFY18 onwards driven by strong infrastructure activities, mandatory scrappage policy, thus resulting in further expansion in EBITDA margin on account of operating leverage.
- ✓ **LCV to drive future growth prospects:** Ashok Leyland has done very well in the Light Commercial Vehicle segment where it commands over 15% market share. The company is targeting 30% market share in the course of next 2-3 years span with launching one new product every quarter starting from the current fiscal. The acquisition of Nissan Light commercial vehicle arm has become EBITDA positive and the management expects it will be accretive to the company from current fiscal.
- ✓ **Domestic-Exports mix to be 2:1 in 3-5 years:** Export is only 12% of total volumes, therefore the company is targeting the African and Middle East countries to expand its export contribution by setting up own assembly plants in these countries under the company's global expansion project. The exports is an important part of Ashok Leyland's strategic intent to globalise its product portfolio and derisk itself from supplying only into India. The company has target to make the domestic- export ratio to 2:1 in the 3-5 years timeframe.
- ✓ **Defence to become four-fold in 5 years:** The management expects its defence business to log four-fold jump in revenues at over Rs 2,000 crore in next five years as it gears up to provide an entire range of mobility solutions, including missile carrying vehicles to the armed forces. Ashok Leyland is the largest supplier of logistics vehicles to the Indian Army.

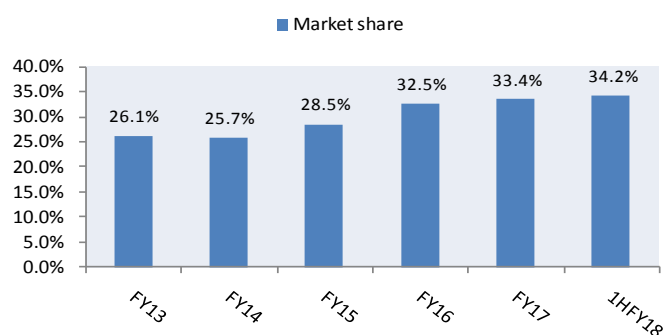
Rising commodity prices



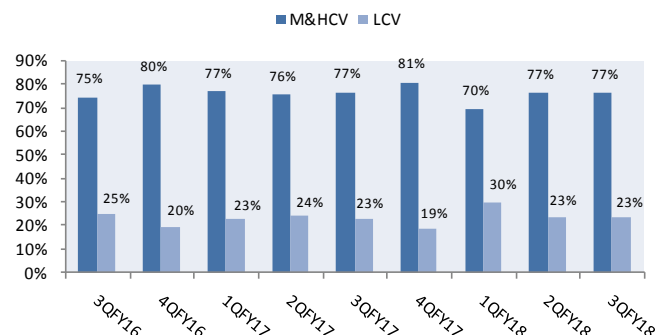
Debt to Equity ratio under control



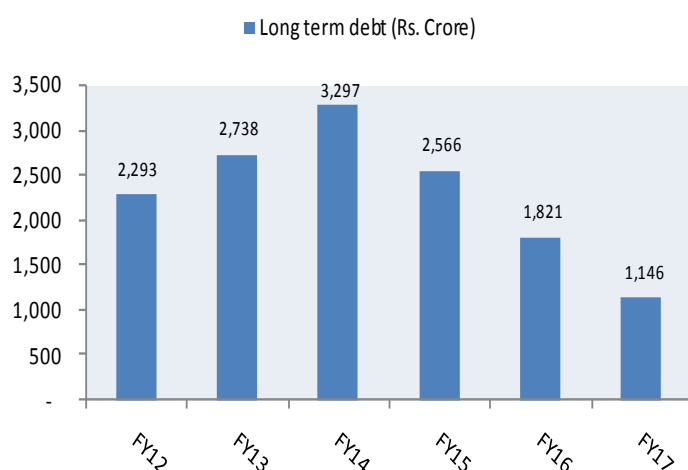
Increasing market share of M&HCV segment



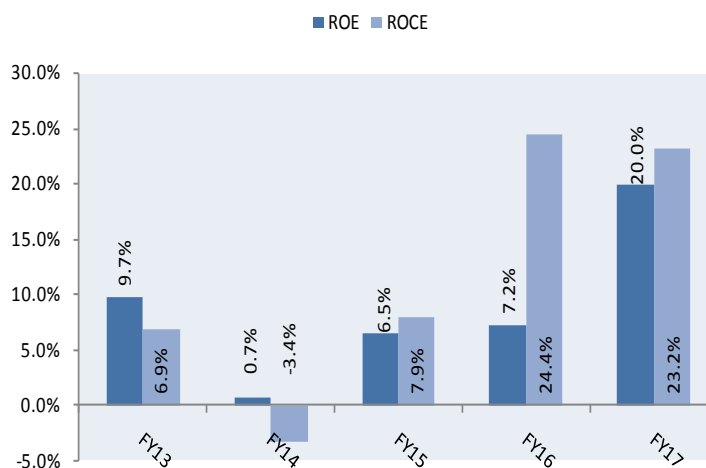
Product Mix in favor of M&HCV segment



Focus on reducing standalone debt level



ROE and ROCE trend



View & Valuation

Ashok Leyland reported a growth of whopping 79%YoY to 19253 units in total commercial vehicle volumes in December 2017. Sales of Medium & Heavy commercial vehicles grew by 82%YoY to 15950 units. The growth was largely attributed to increasing demand for the new tonnage vehicles and infrastructure development activities led by government funding. Light commercial vehicles volume rose 69%YoY to 3303 units during the month. Ashok Leyland ended 3QFY18 with sales of 46,647 units, a growth of 42%YoY. The products mix has also been in the favor of M&HCV segment, which will be responsible for higher margin during the quarter. Going forward the company is all set to deliver a healthy growth in M&HCV segment on account of strong order book from various state transport corporations, ongoing infra & mining segment demand scenario, implementation of mandatory scrappage policy and robust growth potential in defense business. The company's plan to launch one new product every quarter to expand its LCV portfolio and gain 30% market share in next 2-3 years is going as per schedule. Ashok Leyland is also working towards a renewed thrust in the international markets, with network expansion and dedicated products. The company has targeted to make the domestic- export ratio to 2:1 in the 3-5 years timeframe, currently it is 13% of total revenue. The company has also reduced its net debt to zero level on standalone basis and generating more cash to fulfill its future expansion requirements.

Based on the strong demand outlook, we expect Revenue and PAT to grow at CAGR of 19% and 21% respectively, in FY17-19E. We expect a healthy ROE of over 21% in FY19. We value it at 21x FY19E EPS and change our rating from HOLD to ACCUMULATE with target price of Rs.134.

Financials Snap Shot

Income Statement				
Rs in Crores				
Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	18,937	20,019	24,466	28,210
Change (%)	40%	6%	22%	15%
Other Operating Income				
EBITDA	2,255	2,203	2,486	2,966
Change (%)	120%	-2%	13%	19%
Margin (%)	12%	11%	10%	11%
Dep & Amortization	488	518	533	533
EBIT	1,767	1,685	1,953	2,433
Interest & other finance cost	248	155	162	53
Other Income	118	136	148	160
EBT	1,637	1,666	1,939	2,540
Exceptional Item	(815)	(351)	(13)	-
Tax	437	107	568	736
Minority Int & P/L share of Ass.				
Reported PAT	390	1,223	1,353	1,803
Adjusted PAT				
Change (%)	16%	214%	11%	33%
Margin(%)	2%	6%	6%	6%

Balance Sheet				
Rs in Crores				
Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	285	285	293	293
Reserves	5,123	5,841	6,761	7,987
Networth	5,408	6,126	7,054	8,280
Debt	1,846	1,345	1,399	461
Other Non Current Liab	481	299	312	337
Total Capital Employed	7,229	7,272	7,733	8,309
Net Fixed Assets (incl CWIP)	4,868	5,177	5,253	5,267
Non Current Investments	1,980	2,002	2,369	2,654
Other Non Current Assets	633	588	588	588
Non Current Assets	7,593	7,940	8,380	8,680
Inventory	1,625	2,501	3,057	3,524
Debtors	1,251	860	1,051	1,212
Cash & Bank	1,593	912	840	805
Other Current Assets	586	1,312	1,607	1,801
Current Assets	5,181	5,737	6,948	7,736
Creditors	2,563	3,052	3,730	4,301
Provisions	189	484	592	683
Other Current Liabilities	2,113	2,446	2,241	2,353
Curr Liabilities	4,865	5,982	6,563	7,337
Net Current Assets	316	(246)	385	399
Total Assets	12,774	13,800	15,329	16,415

Key Ratios				
Y/E March	FY16	FY17	FY18E	FY19E
ROE	7%	20%	19%	22%
ROCE	24%	23%	25%	29%
Asset Turnover	1.5	1.5	1.6	1.7
Debtor Days	24	16	16	16
Inventory Days	31	46	46	46
Payable Days	49	56	56	56
Interest Coverage	7	11	12	46
P/E	79	19	26	19
Price / Book Value	5.7	3.9	5.0	4.2
EV/EBITDA	40	36	63	72
Free Cash Flow	1,533	1,789	871	1,900
Dividend Yield	0.9%	1.9%	1.1%	1.5%

Assumptions

Y/E March	FY16	FY17	FY18E	FY19E
Volume	1,40,502	1,45,068	1,65,513	1,86,100
Volume Growth	34%	3%	14%	12%
Realization(Rs./vehicle)('000)	1,348	1,380	1,478	1,516
Realization Growth	4%	2%	7%	3%
Capex(Rs crore)	224	258	547	547

Cash Flow Statement				
Rs in Crores				
Y/E March	FY16	FY17	FY18E	FY19E
PBT	1,169	1,223	1,939	2,540
(inc)/Dec in Working Capital	(128)	190	(585)	58
Non Cash Op Exp	444	518	533	533
Interest Paid (+)	274	155	162	53
Tax Paid	(441)	(348)	(568)	(736)
others	358	13	-	-
CF from Op. Activities	1,676	2,155	1,481	2,447
(inc)/Dec in FA & CWIP	(147)	(378)	(610)	(547)
Free Cashflow	1,529	1,776	871	1,900
(Pur)/Sale of Investment	854	(2,166)	(360)	(366)
others	154	(28)	-	-
CF from Inv. Activities	388	(1,477)	(970)	(913)
inc/(dec) in NW	289	719	928	1,226
inc/(dec) in Debt	(783)	(773)	54	(938)
Interest Paid	(296)	(164)	(162)	(53)
Dividend Paid (inc tax)	(154)	(325)	(433)	(577)
others	-	-	-	-
CF from Fin. Activities	(1,233)	(1,372)	(541)	(1,569)
Inc(Dec) in Cash	830	(694)	(29)	(35)
Add: Opening Balance	705	1,563	869	830
Closing Balance	1,538	869	840	795



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