

ASHOK LEYLAND LTD.

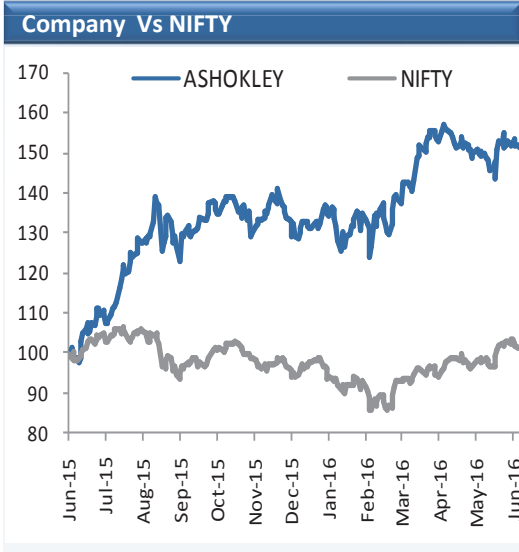
16-Jun-16

Result Update	
CMP	103
Target Price	120
Previous Target Price	
Upside	17%
Change from Previous	-

Market Data	
BSE Code	500477
NSE Symbol	ASHOKLEY
52wk Range H/L	112.80/63.95
Mkt Capital (Rs Cr)	29,327
Av. Volume	1223696
Nifty	8,109

Stock Performance			
	1Month	1Year	YTD
Absolute	2.6	59.7	57.8
Rel.to Nifty	-0.4	57.9	57.9

Share Holding Pattern-%			
	4QFY16	3QFY16	4QFY15
Promoter	50.38	50.38	38.82
Public	49.62	49.62	48.81
Others	--	--	12.38
Total	100.00	100.00	100.00



Strong volume growth of 34% YoY in M&HCV segment has kicked robust revenue growth of 32% YoY in 4QFY16. The demand for M&HCV vehicles came from infrastructure and mining sector. The company also gained market share which was 32.5% in FY16 versus 28.7% in FY15. Ashok Leyland has diminished investments upto 100 percent in its loss making subsidiaries to focus on the core commercial vehicle business. The management has suggested to wait and watch for the turn-around in some subsidiaries. Ashok Leyland is already manufacturing commercial vehicles with EURO-IV engines in India and EURO-VI engines for export market, which is similar to BS-IV and BS-VI norms. Management's approach towards concentrating in its core CV business will help the company to gain further market share and revenue growth in domestic and exports business.

Result Update

Revenue grew by 32% YoY to Rs.5955 crore in 4QFY16, which was based on volume growth of 29%YoY and realisation growth of 3%YoY.

EBITDA margin improved to 12.6% from 10.1%, due to lower commodity prices and cost cutting initiatives.

Reported PAT was Rs.77 crore for 4QFY16, a degrowth of 66% because of Rs.379 crore exceptional item. The company has diminished investment in its loss-making subsidiaries to focus on its core CV business.

Consolidated Revenue for the full year FY16 grew by 35% YoY to Rs.20,659 crore and PAT grew by 700% YoY to Rs.1,071 crore.

Outlook and Valuation

Going forward, we assume that the upcoming emission norms BS-IV to BS-VI, ban imposed by NGT on 10 years old diesel vehicles in different parts of the country and focus towards export market will be volume growth boosters for the company in FY17. Diminution of investments in subsidiaries will help the company to focus on its commercial vehicle business. Considering all above arguments we have positive view on this stock and we recommend 'BUY' with a target price Rs.120.

	Rs. In crore				
Financials	4QFY16	3QFY16	4QFY15	QoQ	YoY
Sales	5955	4085	4506	46%	32%
EBITDA	753	430	457	75%	65%
Net Profit	77	199	230	-61%	-67%
EBIDTA%	12.6%	10.5%	10.1%		
PAT %	1.3%	4.9%	5.1%		

(Source: Company/Eastwind)

Investment Argument

>>The country would be moving to BS-IV norms in April, 2017 and a significant amount of pre-buying expected, especially in the fourth quarter of FY17. Ashok Leyland's subsidiary, Albonair, holds a significant potential moving forward because Albonair does exhaust emission systems, selective catalytic reduction emission systems which are necessary for being BS-IV compliant.

>>Ashok Leyland is now focusing more on the core business of medium and heavy commercial vehicles (M&HCV). It has impaired investments in its loss making subsidiaries—

- 100% equity investment has been impaired in JVs- Ashok-Nissan, John Deere
- 100% equity investment has been impaired in subsidiary Optare PLC which is facing challenges in its business.
- Investment value has been brought down by 25% in Albonair, purely after looking at the valuation.

>>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.

>>Ban imposed by National Green Tribunal on ten years old diesel vehicles in NCR region can increase the replacement and fleet demand.

>>Other than replacement demand various roads and infrastructure projects announced by the government and recovery in the mining sector can accelerate volumes going forward.

Management Highlight

>>Industry volume growth expectation for FY17 is 15-20 percent and the company will also grow at the same rate. Volume growth ratio can be 45:55 (H1:H2) for the industry.

>>Margin will be maintained at the same level.

>>Capex guidance of Rs. 500 crore for FY17.

>>Every quarter price increase of 1-1.5 percent and 1-3 percent for FY17.

>>Total Market share in M&HCV segment stands at 32.7% in FY16 over 28.5% in FY15.

>>Ashok Leyland does not give any cash credit in its truck business.

>>Emission norms will come in effect from April 2017 and the company is prepared for that.

>>ROCE will start looking better in medium term.

>>Key strong areas are South and West region of the country.

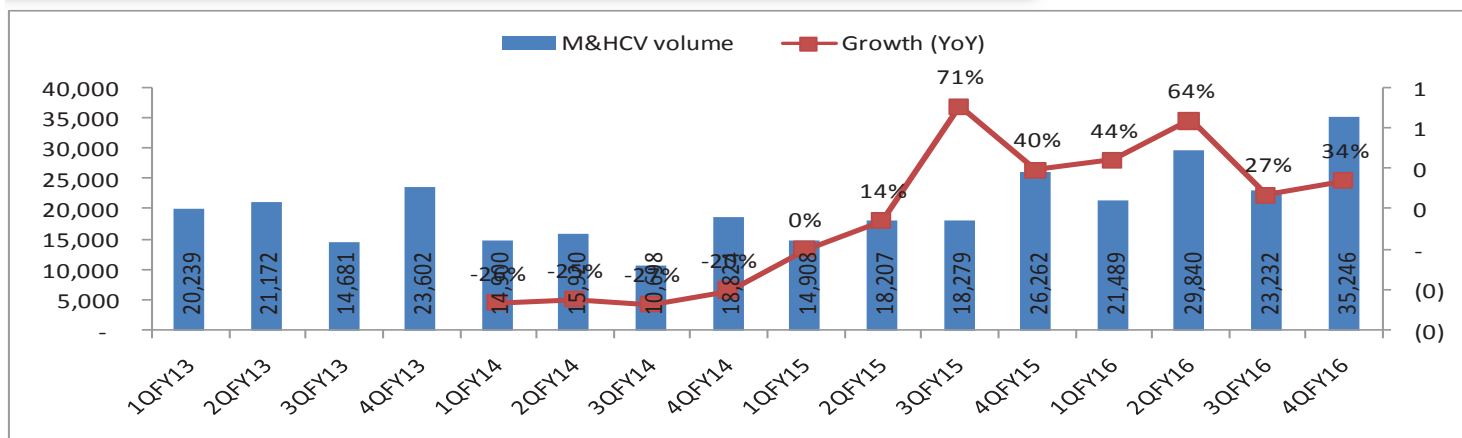
>>Domestic M&HCV contributes to 75% of the total revenue of Ashok Leyland.

>>Debt- Nissan JV- Rs. 500 crore and Optare PLC- Rs.370 crore.

>>Defense- focus on defense mobility and defense contribution is around 3% of total revenue.

>>Defense Revenue closer to around Rs 1,500 crore by FY18; Rs.600 crore in FY16.

M&HCV volume and growth trend



Financials Snap Shot

INCOME STATEMENT

	FY13	FY14	FY15	FY16
Revenue (Net of Excise D	12,481	11,487	15,341	20,659
Other Income	62	92	189	152
Total Revenue	12,544	11,579	15,530	20,811
COGS	9,123	8,138	10,443	13,558
GPM	1	1	1	1
Other Expenses	1,406	1,581	1,845	2,396
EBITDA	876	422	1,517	2,932
EBITDA Margin (%)	0	0	0	0
Depreciation	381	530	580	524
EBIT	496	(108)	937	2,408
Interest	377	805	872	968
PBT	181	(821)	254	1,592
Tax	37	(68)	172	528
Tax Rate (%)	0	0	1	0
Reported PAT	434	(164)	134	1,071
Dividend Paid	187	-	150	316
No. of Shares	266	266	285	285

Source: Eastwind/Company

RATIOS

	FY13	FY14	FY15	FY16
EPS	1.6	-0.6	0.5	3.8
Book Value	16.7	15.0	15.9	17.5
DPS	0.7	0.0	0.5	1.1
Payout (incl. Div. Tax.)	43%	0%	112%	30%
Valuation(x)				
P/E	13	-38	73	9
Price / Book Value	1.3	1.6	2.2	2.0
Dividend Yield (%)	3%	0%	2%	3%
Profitability Ratios				
RoE	10%	-4%	3%	21%
RoCE	7%	-1%	9%	19%
Turnover Ratios				
Asset Turnover (x)	1.0	0.7	0.8	0.9
Debtors (No. of Days)	42	44	32	27
Inventory (No. of Days)	76	69	55	55
Creditors (No. of Days)	73	82	73	52
Net Debt/Equity (x)	0.6	1.4	1.4	1.5

Source: Eastwind/Company

BALANCE SHEET

	FY13	FY14	FY15	FY16
Share Capital	266	266	285	285
Reserves	4189	3723	4227	4708
Net Worth	4455	3989	4511	4992
Long term Debt	2738	5491	6219	7597
Short term Debt	767	1264	827	1093
Deferred Tax	527	411	510	536
Total Capital Employed	7193	9480	10731	12589
Net Fixed Assets	5971	7087	6060	5894
Capital WIP	563	270	166	0
Debtors	1419	1381	1354	1515
Cash & Bank Balances	14	113	905	1758
Trade payables	2485	2592	3082	2966
Total Provisions	387	256	599	1081
Net Current Assets	-233	400	522	1016
Total Assets	13097	17534	19525	22963

Source: Eastwind/Company

CASH FLOW STATEMENT

	FY12	FY13	FY14	FY15
OP/(Loss) before Tax	690	471	(300)	(42)
Depreciation	353	381	530	580
Direct Taxes Paid	(150)	(110)	(97)	(112)
Operating profit before w	1,275	887	195	1,725
CF from Op. Activity	1,147	728	(104)	496
	-	-	-	-
Capital expenditure on fix	(698)	(649)	(408)	(251)
CF from Inv. Activity	(1,058)	(1,164)	(377)	(126)
Repayment of Long Term	(349)	(735)	(1,586)	(1,996)
Interest Paid	(247)	(363)	(499)	(803)
Divd Paid (incl Tax)	(309)	(309)	(187)	-
CF from Fin. Activity	(241)	417	461	381
Inc/(Dec) in Cash	(151)	(19)	(20)	751
Add: Opening Balance	175	27	127	106
Closing Balance	27	8	106	858

Source: Eastwind/Company