NARNOLIA

ASHOKLEY

BUY

ASHOK LEYLAND LTD.

25-Jul-16

Result Update	
CMP	97
Target Price	120
Previous Target Price	
Upside	24%
Change from Previous	-

Market Data	
BSE Code	500477
NSE Symbol	ASHOKLEY
52wk Range H/L	113/78
Mkt Capital (Rs Cr)	27,520
Av. Volume	1223696
Nifty	8,541

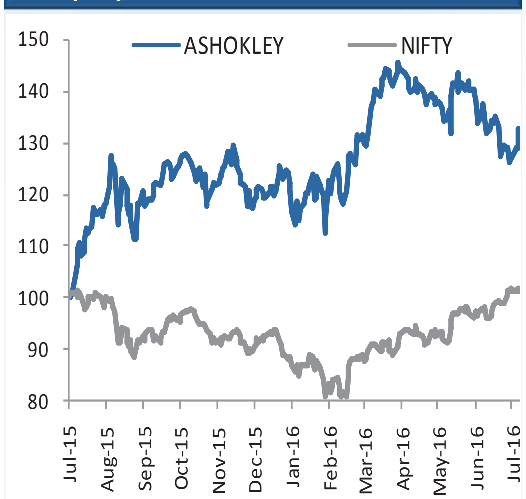
Stock Performance

	1Month	1Year	YTD
Absolute	0.4	21.9	9.0
Rel.to Nifty	-5.2	21.8	1.7

Share Holding Pattern-%

	1QFY17	4QFY16	3QFY16
Promoter	50.38	50.38	50.38
Public	49.62	49.62	49.62
Others	--	--	
Total	100.00	100.00	100.00

Company Vs NIFTY



Ashok Leyland posted 11% growth in revenue in 1QFY17. M&HCV segment volumes grew by 12% and LCV segment grew by 7% YoY.The realisation grew by 1% QoQ basis. The company has establlished a new assembly facility in Kenya with an investment of USD5 mn. The plant is for truck and buses and will be ready in next 8-12 months. The management remain focused towards their aggressive global expansion plan. BS-IV norms will be applicable in the country from 1st April 2017. 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 growth plans are centred around the core business of commercial vehicles and portfolio rationalisation for progressive exit from non-core and non-performing assets. Going ahead we assume that management's focused approach towards its core CV business and aggressive global expansion plan will help Ashok Leyland to gain more market share and volume growth in FY17.

Result Update

Revenue grew by 10.9% YoY to Rs.4259 crore in 1QFY17, which was based on volume growth of 10.6%YoY and realisation growth of 0.30%YoY.

EBITDA margin improved to 11.2% from 10.1%, due to lower commodity prices, cost cutting initiatives and lower other expenses.

PAT came to Rs.282 crore with a growth of 76.8% over the same period previous year. The company reported Rs.49.7 crore forex gain in profit & loss account under the new Ind AS.

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	*1QFY17*	*4QFY16*	*1QFY16*	*QoQ*	*YoY*
Sales	*4259*	*5955*	*3841*	*-28%*	*11%*
EBITDA	*476*	*753*	*389*	*-37%*	*23%*
Net Profit	*282*	*77*	*159*	*266%*	*77%*
EBIDTA%	*11.2%*	*12.6%*	*10.1%*		
PAT %	*6.6%*	*1.3%*	*4.1%*		

(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–

a) 100% equity investment has been impaired in JVs- Ashok-Nissan, John Deere

b) 100% equity investment has been impaired in subsidiary Optare PLC which is facing challenges in its business.

c) 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, Kerala and Haryana 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 North and West regions of the country.

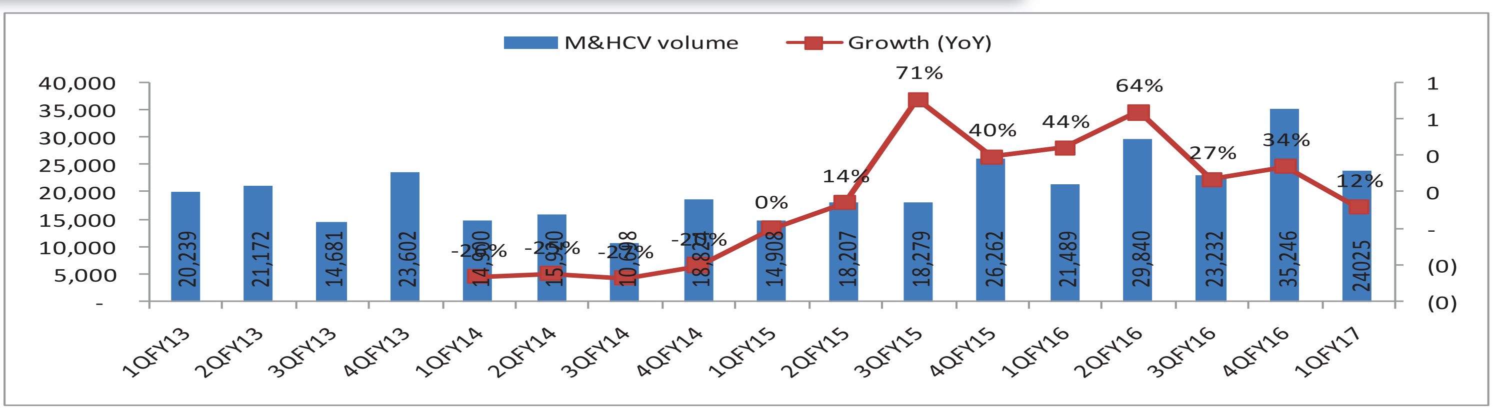
>>BS-IV cost impact would be Rs. 60000-70000 per vehicle and that would be passed on to the customers

>>The industry is expecting that Q4 is going to be a very healthy quarter.

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

>>Defense business in next 5 years going to be somewhere USD 750mn to USD 1bn.

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

Souce: 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

Souce: 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

Souce: Eastwind/Company

CASH FLOW STATEMENT

	FY13	FY14	FY15	FY16
OP/(Loss) before Tax	471	(300)	(42)	1,627
Depreciation	381	530	580	524
Direct Taxes Paid	(110)	(97)	(112)	(545)
Operating profit before w	887	195	1,725	2,431
CF from Op. Activity	728	(104)	496	(952)
	-	-	-	-
Capital expenditure on fix	(649)	(408)	(251)	(212)
CF from Inv. Activity	(1,164)	(377)	(126)	552
Repayment of Long Term	(735)	(1,586)	(1,996)	(2,362)
Interest Paid	(363)	(499)	(803)	(316)
Divd Paid (incl Tax)	(309)	(187)	-	(154)
CF from Fin. Activity	417	461	381	1,246
Inc/(Dec) in Cash	(19)	(20)	751	846
Add: Opening Balance	27	127	106	858
Closing Balance	8	106	858	1,718

Souce: Eastwind/Company