Narnolia
Advance Strategy · Simple Solutions

ASHOKLEY

BUY

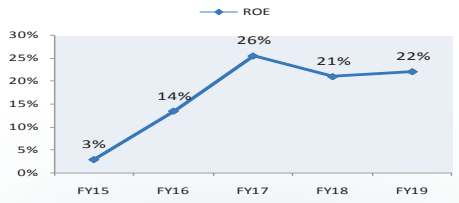
29-May-17

INDUSTRY -	AUTOMOBILE
BSE Code -	500477
NSE Code -	ASHOKLEY
NIFTY -	9695

Company Data

CMP	92
Target Price	**110**
Previous Target Price	110
Upside	**20%**
52wk Range H/L	112/74
Mkt Capital (Rs Cr)	26,097
Av. Volume (,000)	1,240

RoE to maintain over 20%

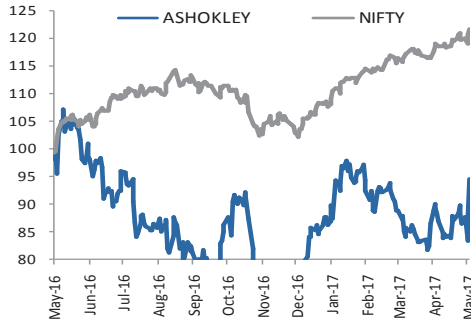


Shareholding patterns %

	4QFY17	3QFY17	2QFY17
Promoters	50.4	50.4	50.4
Public	49.6	49.6	49.6
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	4.6	2.7	(5.7)
Rel.to Nifty	2.0	(5.1)	(26.6)



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Key Highlights of the Report:

- ☑ The company reported 8.4%YoY volume growth in 4QFY17 on account of good traction from Medium and Heavy commercial vehicle segment. Light commercial vehicle growth remained slow due to demonetization because of larger presence in the rural areas.
- ☑ The company has maintained its EBITDA margin over 10% in last 9 quarters despite various challenges in the commercial vehicle space, which reflects management focused approach towards its core business.
- ☑ Ashok Leyland has gained additional 6% market share in last three years to become the second largest commercial vehicle manufacturer in India.
- ☑ Currently the stock is trading at 3.0x FY19E P/B. We maintain 'BUY' on Ashok Leyland considering the huge growth potential going ahead, with a target price of Rs.110.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	15,341	21,260	22,749	25,280	28,767
EBITDA	1,517	2,979	3,294	3,666	4,229
EBIT	937	2,455	2,721	3,062	3,622
PAT	134	712	1,633	1,567	1,937
EPS (Rs)	0.5	2.5	5.7	5.5	6.8
EPS growth (%)	176%	432%	129%	-4%	24%
ROE (%)	3%	14%	26%	21%	22%
ROCE (%)	9%	19%	18%	18%	19%
BV	16	18	22	26	31
P/B (X)	2	6	4	4	3
P/E (x)	73	43	15	17	13

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.
- ✓ Currently 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 (LSV) and Light Armoured Multi-purpose Vehicle (LAMV). 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. As per the management the defence business is expected to achieve at least 3 times (revenue growth) in five years from currently Rs.500 cr.

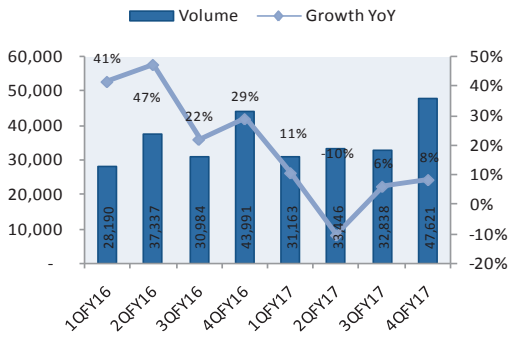
Quarterly Performance

Financials	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY %	QoQ%	FY16	FY17	YoY %
Total Volumes	43,991	31,163	33,446	32,838	47,621	8%	45%	1,04,898	1,40,502	34%
Realization(Rs.'000)	1,358	1,367	1,382	1,349	1,390	2%	3%	1,348	1,380	2%
Net Sales	5,973	4,259	4,622	4,431	6,618	11%	49%	21,260	22,749	7%
Other Income	22	44	32	24	40	85%	72%	164	131	-20%
COGS	4,206	2,931	3,134	3,134	4,760	13%	52%	13,974	14,718	5%
Employee Cost	333	358	369	362	412	24%	14%	1,711	1,901	11%
Other Expenses	651	494	583	481	716	10%	49%	2,597	2,837	9%
EBITDA	784	476	536	454	730	-7%	61%	2,979	3,294	11%
Depreciation	132	121	126	119	139	6%	17%	524	573	9%
Interest	54	34	34	31	42	-22%	36%	925	1,049	13%
PBT	620	366	408	327	588	-5%	80%	1,694	1,803	6%
Tax	140	125	120	78	(216)	-254%	-377%	497	196	-61%
PAT	(139)	282	294	180	495	455%	175%	712	1,633	129%

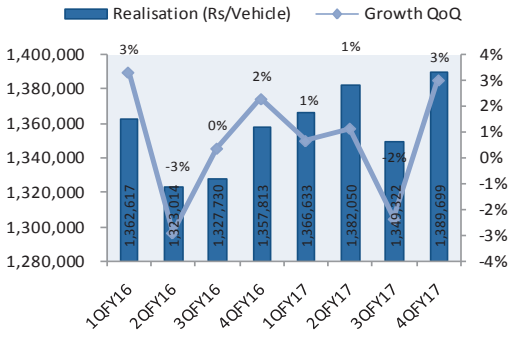
Strong revenue growth on the back of healthy volumes, realization up by 2%YoY

- ✓ The commercial vehicle giant has posted Rs.6618 crore of net revenue with a growth of 10.8% YoY in the 4QFY17. This growth was attributed to 8.4% volume growth and 2.4% realization growth during the quarter.
- ✓ EBITDA degrew by 7%YoY due to steep increase in commodity prices and BS-IV transition during the quarter. Other expenses stood on higher side with 10%YoY increase due to higher advertising and promotional expenses and discounts on BS-III vehicles.
- ✓ PAT increased sharply by 455% YoY to Rs.495 crore. The company acquired loss making arm Hinduja Foundries Limited in the 2QFY17 which resulted in tax benefit of 216 crore for Ashok Leyland in 4QFY17.
- ✓ On consolidated level company reported Rs.22749 crore of net revenue in FY17 with a growth of 7%YoY and PAT stood at Rs.1633 crore at a growth of 129% over the last year. Company had reported exceptional loss of Rs.411 crore related to impairment in the subsidiaries. In FY17 the company received tax benefit of Rs.244 crore related to losses in the Hinduja Foundries Limited.

Volume trend



Realization trend

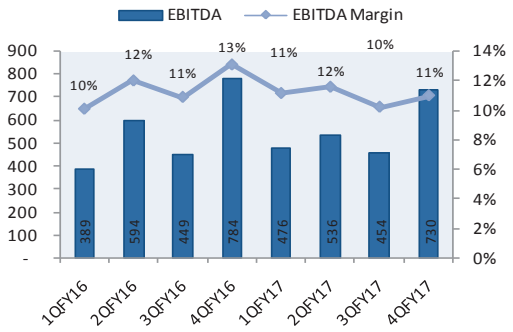


Margins maintained over 11% despite higher RM cost

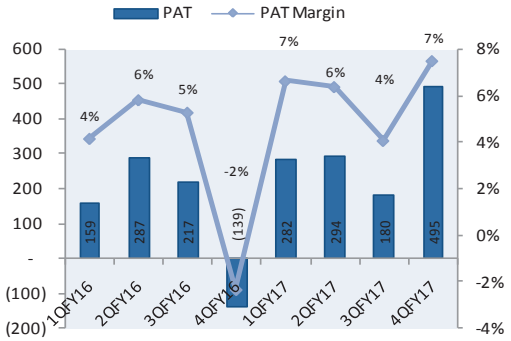
Margin %	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	30%	31%	32%	29%	28%	-1.51%	-0.01	34%	35%	0.01
EBITDA Margin	13%	11%	12%	10%	11%	-2.09%	0.01	14%	14%	0.00
PAT Margin	-2%	7%	6%	4%	7%	9.82%	0.03	3%	7%	0.04

- ✓ Gross Margin declined by 151 bps to 28% in the 4QFY17 due to higher commodity prices and transition to BS-IV from BS-III vehicles.
- ✓ EBITDA margin declined by 209 bps YoY to 11% during the quarter on account of higher discounts on BS-III vehicles and advertising and promotional expenses.
- ✓ The company reported PAT margin of 7% in 4QFY17 over negative PAT margin in 4QFY17. Ashok Leyland received tax benefit of Rs.216 crore during the quarter also.

EBITDA (Rs.crore) and EBITDA Margin trend



PAT(Rs. Crore) and PAT Margin trend



Concall Highlights:

- ✓ Good single digit growth for the industry and double digit growth for Ashok Leyland.
- ✓ Overall market share in the commercial vehicle segment is 32.4%
- ✓ 1QFY18 will difficult for the industry .
- ✓ Tax rate will be normal going forward.
- ✓ 2000 vehicles have already been converted to BS-IV and 2000 vehicles will be exported and it will take 5-6 months to convert rest of the vehicles in BS-IV.
- ✓ The management expects that the profitability will be at same level as FY17
- ✓ Domestic - Export ratio to become 2:1 in next 3-5 years.
- ✓ Hinduja Foundries Ltd have become EBITDA positive and it will become accretive to Ashok Leyland in the current fiscal.
- ✓ Spare parts revenue has reached over Rs.1000 crores.
- ✓ On the defence front the company has started supplying to Ministry of Defence and Jammu & Kashmir Police.
- ✓ Middle East is 50% LCV market. Dubai is the largest school bus consumer.
- ✓ Capex guidnce in the range of Rs.500-700 crore for FY18.
- ✓ The compnay has robust plans to launch one new product every quarter in the LCV segment starting from current fiscal.

Investment Arguments:

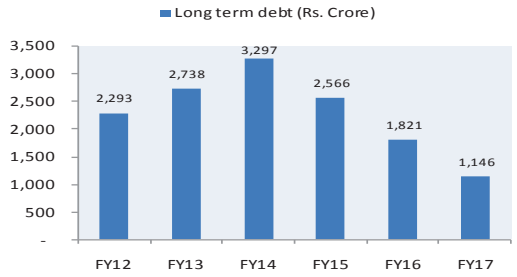
- ✓ **Sharp recovery in M&HCV demand besed on strong infra and mining activity:** The management has focused approach towards its core commercial vehicle business. We expect that M&HCV demand to be slow for the 1HFY18 but the demand will pick up from the 2HFY18 onwards driven by strong infrastructure activities, mandatory scrappage policy, thus resulting in further expansion in EBITDA margin on account of operating leverage.

- ✓ **LCV to drive future growth propects:** 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 Lighet commercial vehicle arm has become EBITDA positive and the management expects it will be accretive to the company from current fiscal.

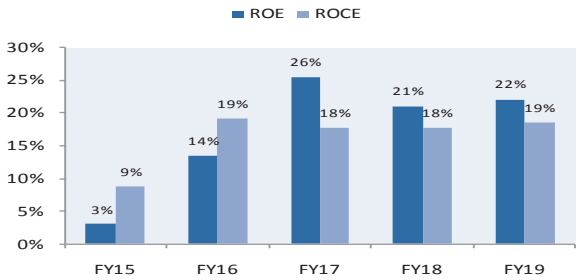
- ✓ **Domestic-Exports mix to be 2:1 in 3-5 years:** Export is only 12% of total volumes, therefore the company is targeting the African and Middle East countries to expand its export contribution by setting up own assembly plants in these countries under the company's global expansion project. The exports 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.

Focus on reducing standalone debt level



ROE and ROCE trend



View & Valuation

Ashok Leyland is well placed in the Indian commercial vehicle industry with the market share of 33.4%. The company is focusing on to launch one new product every quarter to expand its LCV portfolio and gain more market share in this category. The company has robust growth plans to become a No.1 player in the Indian CV industry and among top-10 CV players in the world. Going forward we expect improvement in demand from infrastructure & mining segment, mandatory scrappage policy, and government's initiative to develop defense products in the country under make in India initiative can be volume boosters for the company in FY18 & 19. Ashok Leyland is also working towards a renewed thrust in the international markets, with network expansion and dedicated products.The company has also reduced its net debt to zero level on standalone basis and generating more cash to fulfill its future expansion requirements. We expect that the company will maintain a healthy ROE of over 20% going ahead. Currently, the stock is trading at 3.0x FY19E P/B. We maintain 'BUY' on Ashok Leyland considering the huge growth potential going ahead, with a target price of Rs.110.

Financials Snap Shot

Income Statement

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	21,260	22,749	25,280	28,767
Change (%)	*39%*	*7%*	*11%*	*14%*
Other Operating Income				
EBITDA	*2,979*	*3,294*	*3,666*	*4,229*
Change (%)	96%	11%	11%	15%
Margin (%)	**14%**	**14%**	**15%**	**15%**
Dep & Amortization	*524*	*573*	*603*	*607*
EBIT	2,455	2,721	3,062	3,622
Interest & other finance cost	*925*	*1,049*	*1,145*	*1,250*
Other Income	164	131	259	318
EBT	1,694	1,803	2,177	2,690
Exceptional Item	**(411)**	**25**	-	-
Tax	497	196	609	753
Minority Int & P/L share of Ass.	(78)	(10)	-	-
Reported PAT	*712*	*1,633*	*1,567*	*1,937*
Adjusted PAT	**712**	**1,633**	**1,567**	**1,937**
Change (%)	*432%*	*129%*	*-4%*	*24%*
Margin(%)	3%	7%	6%	7%

Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E
ROE	14%	26%	21%	22%
ROCE	19%	18%	18%	19%
Asset Turnover	1.0	0.9	0.9	0.9
Debtor Days	25	17	17	17
Inventory Days	33	44	44	44
Payable Days	46	54	54	54
Interest Coverage	2.7	2.6	2.7	2.9
P/E	43.4	14.5	16.7	13.5
Price / Book Value	5.9	3.7	3.5	3.0
EV/EBITDA	*29.9*	*23.7*	*32.3*	*38.4*
FCF per Share	(4)	(1)	7	8
Dividend Yield	0.9%	1.9%	1.6%	2.0%

Assumptions

Y/E March	FY16	FY17	FY18E	FY19E
Volume	1,40,502	1,45,068	1,52,798	1,67,988
Volume Growth	34%	3%	5%	10%
Realization(Rs./vehicle)('000)	1,348	1,380	1,456	1,507
Realization Growth	4%	2%	6%	4%
Capex(Rs crore)	321	541	671	571

Balance Sheet

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	285	285	285	285
Reserves	4,979	6,108	7,163	8,466
Networth	**5,264**	**6,393**	**7,447**	**8,750**
Debt	*8,600*	*10,634*	*11,610*	*12,679*
Other Non Current Liab	749	411	432	461
Total Capital Employed	*12,791*	*15,269*	*17,211*	*19,491*
Net Fixed Assets (incl CWIP)	*5,223*	*5,727*	*5,747*	*5,711*
Non Current Investments	*767*	*845*	*1,196*	*1,665*
Other Non Current Assets	*6,249*	*7,456*	*8,121*	*8,851*
Non Current Assets	**13,330**	**15,505**	**16,540**	**17,704**
Inventory	1,922	2,771	3,079	3,504
Debtors	*1,461*	*1,034*	*1,149*	*1,307*
Cash & Bank	1,681	1,013	1,013	1,013
Other Current Assets	**3,804**	**5,981**	**7,187**	**8,516**
Current Assets	8,869	*10,799*	*12,428*	*14,341*
Creditors	2,701	3,385	3,762	4,281
Provisions	409	*505*	*561*	*638*
Other Current Liabilities	4,267	4,700	4,778	4,887
Curr Liabilities	7,169	8,401	8,891	9,566
Net Current Assets	**1,700**	**2,398**	**3,538**	**4,775**
Total Assets	*22,199*	*26,428*	*28,968*	*32,045*

Cash Flow Statement

Rs in Crores

Y/E March	FY16	FY17E	FY18E	FY19E
PBT	1,627	1,803	2,177	2,690
(inc)/Dec in Working Capital	(2,838)	(1,956)	(711)	(898)
Non Cash Op Exp	524	573	603	607
Interest Paid (+)	348	1,049	1,145	1,250
Tax Paid	(545)	(196)	(609)	(753)
others	(68)	(395)	-	-
CF from Op. Activities	**(952)**	**878**	**2,604**	**2,896**
(inc)/Dec in FA & CWIP	*(206)*	*(1,077)*	*(623)*	*(571)*
Free Cashflow	*(1,158)*	*(199)*	*1,981*	*2,325*
(Pur)/Sale of Investment	534	(902)	(1,299)	(1,510)
others	24	-	-	-
CF from Inv. Activities	**552**	**(1,979)**	**(1,921)**	**(2,081)**
inc/(dec) in NW	752	1,129	1,054	1,303
inc/(dec) in Debt	1,714	2,035	976	1,069
Interest Paid	(316)	(1,049)	(1,145)	(1,250)
Dividend Paid (inc tax)	**(154)**	**(534)**	**(513)**	**(634)**
others	1	-	-	-
CF from Fin. Activities	1,246	452	(682)	(815)
Inc(Dec) in Cash	846	(650)	1	(1)
Add: Opening Balance	**858**	**1,681**	**1,013**	**1,013**
Closing Balance	1,718	1,031	1,014	1,012