

Ashok Leyland Limited

Industry **Automobiles**
Bloomberg **AL IN**
BSE CODE **500477**

Higher discounting a concern in the industry; LCVs to drive margins ahead

RATING	BUY
CMP	80
Price Target	106
Potential Upside	32%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	168/78
Mkt Capital (Rs Cr)	23514
Free float (%)	49%
Avg. Vol 1M (,000)	24235
No. of Shares (Cr.)	294
Promoters Pledged %	0%

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Q3FY19 Result Update

- ❑ ASHOKLEY revenue for the quarter declined by 12% YoY to Rs.6325 crores (vs. our estimates of Rs.6442 crores) due to 6% YoY decline in volume and realization growth each. The M&HCV volumes declined by 17% YoY while LCV volumes grew by 28% YoY.
- ❑ Gross margin expanded by 201 bps to 29.9% QoQ due to improvement in bus segment profitability, higher after market sales and better LCV margins. However EBITDA margin declined by 61 bps to 10.3% QoQ due to higher employee expenses and weaker operating leverage.
- ❑ PAT for the quarter also declined by 21.5% YoY to Rs.381 crores (vs our estimates of Rs.358 crores). PAT margins also declined by 90 bps due to lower other income and higher depreciation expenses.
- ❑ The company is working on to develop modular platform for vehicles from 2020. The management expects 150 bps cost reduction from modularity of vehicles.

View and Valuation

EBITDA margin has declined by 60bps on sequential basis due to higher discounting levels and shift in demand towards lower tonnage vehicles because of axle load norms. The commercial vehicle industry has posted growth of over 25%YoY in 9MFY19 so we expect growth for FY19 would be in the range of 15-18%. Going ahead the growth will be driven by continued infrastructure development and pre buying due to BS-VI implementation in FY20 thus resulting in muted demand in FY21. The average discounts has reached to Rs.420000 per unit in the industry and due to increasing competitive intensity it is expected to remain on the higher side. However the company does not participate in such discounting thus it has lost 170bps market share in last 9 months. Going ahead we expect margins to be maintained over double digit as amalgamation of LCV business (higher margin as compared to standalone business) and development of modular platform which will provide 150bps cost benefit from FY21. Considering the slowdown in infra activity in the near term leading to demand side concerns, heavy discounting in the industry and market share loss due to increased competitive intensity we reduce our FY20 EPS estimates by 9%. We value the standalone business at 14x FY20e EPS and Rs.9 per share for HLFL to arrive at a target price of Rs.106 and maintain BUY.

Key Risks to our rating and target

- ❑ Increase in discounts on MHCVs
- ❑ Slowdown in MHCV demand

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	18937	20019	26248	28714	30990
EBITDA	2255	2203	2739	2984	3403
EBIT	1767	1685	2184	2373	2744
PAT	390	1223	1563	1792	2024
EPS (Rs)	1	4	5	6	7
EPS growth (%)	16	214	24	15	13
ROE (%)	7	20	22	22	22
ROCE (%)	24	23	29	28	29
BV	19	22	24	28	32
P/B (X)	6	4	7	3	3
P/E (x)	79	19	30	13	12

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3QFY19 Results

Margins better than expectation

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Volumes	35701	44425	30646	38386	29810	-17%	-22%	145068	174861	20.5%
Realization('000,	1,542	1,494	1,484	1,467	1,445	-6%	-1%	1,380	1,501	8.8%
Net Sales	7,191	8,772	6,250	7,621	6,325	-12%	-17%	20,019	26,248	31.1%
Other Income	42	58	50	28	21	-50%	-25%	136	190	39.3%
Total Income	7,232	8,830	6,300	7,649	6,346	-12%	-17%	20,155	26,438	31.2%
COGS	5,011	6,306	4,351	5,498	4,436	-11%	-19%	13,957	18,621	33.4%
Staff Cost	477	455	493	525	500	5%	-5%	1,531	1,812	18.4%
Other Exp.	864	979	758	769	740	-14%	-4%	2,328	3,076	32.1%
Expenditure	6,351	7,740	5,603	6,792	5,676	-11%	-16%	17,816	23,509	32.0%
EBITDA	839	1,033	648	829	650	-23%	-22%	2,203	2,739	24.4%
Depreciation	146	146	143	148	161	10%	8%	518	555	7.1%
EBIT	693	886	505	681	489	-29%	-28%	1,685	2,184	29.7%
Interest	37	20	12	20	19	-48%	-6%	155	131	-15.5%
PBT	698	924	543	688	491	-30%	-29%	1,666	2,243	34.7%
Excpt. Item	3	(0)	15	19	6	0%	0%	(351)	(13)	0.0%
Tax	208	263	152	143	103	-51%	-28%	107	668	524.4%
PAT	485	668	370	528	381	-21%	-28%	1,223	1,563	27.8%

Revenue declined due to lower volume and realization growth

The revenue for the quarter declined by 12% YoY primarily driven by 6% YoY decline in volume growth while realization also declined by 6% YoY due to higher discounting and shift towards lower tonnage vehicles.

The M&HCV volumes have declined by 17% YoY to 29810 units due to higher base effect, financing issues and axle load norms issues. The LCV volumes have increased by 28% YoY to 13953 units. The demand was triggered by increasing last mile connectivity across rural markets. Exports market has witnessed decline due to uncertainty in two of the major export destination; Sri Lanka and Middle East. Going ahead, the company has received orders for exports from Bangladesh.

Better LCV margins and higher aftermarket sales expanded gross margins

Gross margin expanded by 201 bps QoQ to 29.9% due to improvement in bus segment profitability, higher after market sales and better LCV margins. However, the company has taken price hike of 2% in January 2019 to mitigate some of the cost pressure. EBITDA margin have declined by 61 bps QoQ to 10.3% due to higher employee cost and weaker operating leverage.

Lower other income and higher depreciation expenses declined PAT growth

PAT for the quarter declined by 21.5% YoY to Rs 381 crores. PAT margins also declined by 90 bps due to lower other income and higher depreciation expenses. However the company has got tax benefit of Rs. 84 crores from the merger with LCV business. Overall tax benefit of Rs. 250 crores is expected to come by the end of FY19 from the merger.

Concall highlights

- The industry volume is expected to grow by 10-15% in FY19. In January, the industry growth has remained flattish.
- The industry may witness slowdown in demand after BS-VI implementation hence the government may bring the mandatory scrappage policy in order to maintain the demand in the system in FY21.
- The market share of the company dipped by 1.5% to 31.9% during the quarter. The company has not provided discounts which led to reduction in market share.
- The company does not have any concern on CEO transition.
- Post elections, there will be greater spending on Defence as the company has won many tenders but, as of now the government has not given any order.
- Q1FY20 is expected to be impacted by the elections and high base effects. Q2FY20 and Q3FY20 would be good due to pre buy. Overall FY20-21 is expected to remain flattish.
- The LCV business is gaining momentum with market share in Dost segment touching 18% in December 2018. In January, the market share has increased to 19%.
- Net debt for the quarter stands at Rs 1295 crs.
- Inventory level has come down by 3500 units vehicles in January. It stood 12763 units till December 2018.
- Capex guidance for FY19 is Rs. 900-1000 crs.

Exhibit: Volume and Volume Growth Trend

Volumes declined due to the higher base effect, financing issues and axle load norms issues

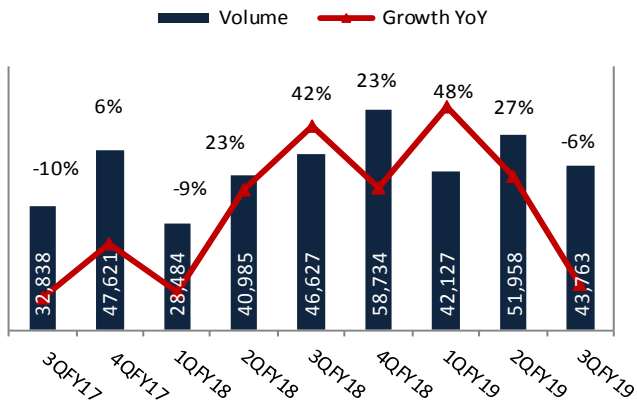


Exhibit: Realisation and Realisation Growth Trend

Shift in product mix towards LCVs led to decline in realization in 3QFY19

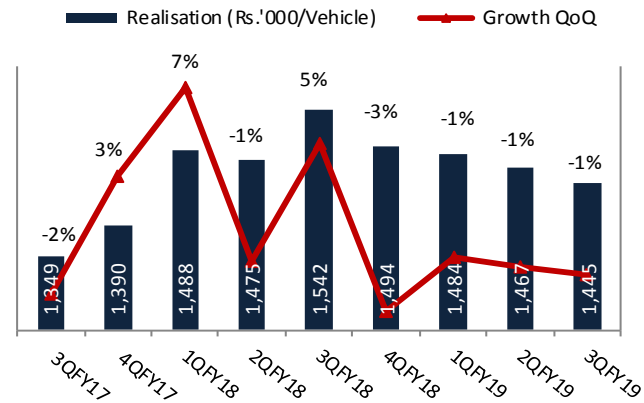


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

EBITDA margin have declined by 61 bps QoQ to 10.3% due to higher employee cost and weaker operating leverage

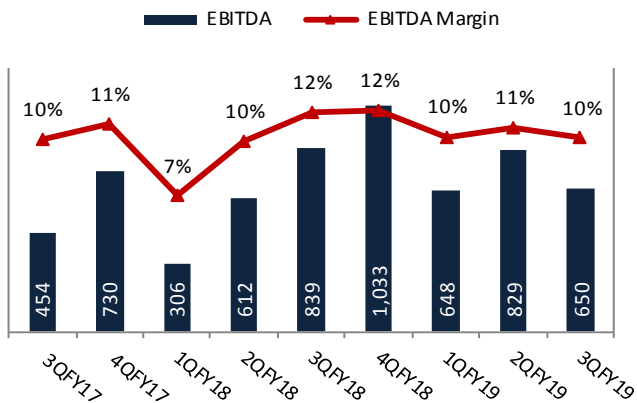


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

PAT margins declined by 90 bps due to lower other income and higher depreciation expenses

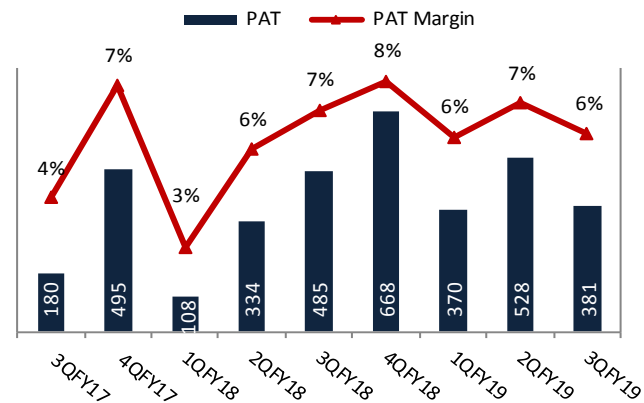


Exhibit: Product Mix in M&HCV Segment

Despite strong sales of higher tonnage trucks product mix shifted towards LCVs.

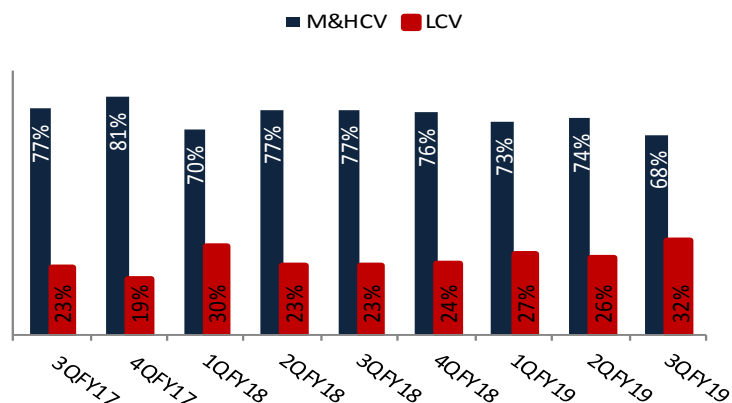
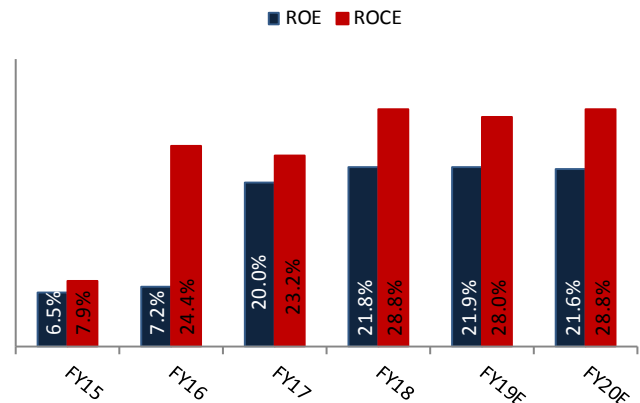


Exhibit: Return Ratios

As the profitability improves going ahead return ratios will follow the same



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	266	266	285	285	285	293	293	293
Reserves	4,189	4,182	4,834	5,123	5,841	6,872	7,906	9,073
Networth	4,455	4,448	5,119	5,408	6,126	7,165	8,198	9,366
Debt	3,505	3,884	2,591	1,846	1,345	516	339	198
Other Non Cur Liab	608	477	591	481	299	757	781	803
Total Capital Employed	7,193	7,744	7,685	7,229	7,272	7,580	8,487	9,514
Net Fixed Assets (incl CWIP)	5,971	5,841	5,376	4,868	5,177	5,375	5,814	5,805
Non Cur Investments	2,338	2,405	2,240	1,980	2,002	2,747	2,826	3,284
Other Non Cur Asst	492	1,035	1,002	633	588	509	509	509
Non Curr Assets	8,800	9,281	8,618	7,593	7,940	8,716	9,233	9,682
Inventory	1,896	1,189	1,399	1,625	2,501	1,710	2,045	2,208
Debtors	1,419	1,299	1,258	1,251	860	980	1,180	1,274
Cash & Bank	14	12	751	1,593	912	1,004	939	1,094
Other Curr Assets	967	1,027	1,285	586	1,312	3,797	3,926	4,647
Curr Assets	4,297	3,527	4,693	5,181	5,737	7,870	8,467	9,599
Creditors	2,485	2,214	2,828	2,563	3,052	4,659	4,720	5,094
Provisons (both)	309	88	256	189	484	616	674	728
Other Curr Liab	1,735	1,697	1,926	2,113	2,446	2,861	2,974	3,080
Curr Liabilities	4,529	3,999	5,011	4,865	5,982	8,147	8,380	8,913
Net Curr Assets	(233)	(472)	(318)	316	(246)	(277)	87	686
Total Assets	13,097	12,808	13,311	12,774	13,800	16,586	17,701	19,281

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	12,481	9,943	13,562	18,937	20,019	26,248	28,714	30,990
Change (%)	(3)	(20)	36	40	6	31	9	8
Other Income	62	116	124	118	136	190	144	171
EBITDA	876	117	1,027	2,255	2,203	2,739	2,984	3,403
Change (%)	(30)	(87)	778	120	(2)	24	9	14
Margin (%)	7.0	1.2	7.6	11.9	11.0	10.4	10.4	11.0
Depr & Amor.	381	377	416	488	518	555	612	659
EBIT	496	(260)	610	1,767	1,685	2,184	2,373	2,744
Int. & other fin. Cost	377	453	394	248	155	131	67	44
EBT	181	(597)	341	1,637	1,666	2,243	2,450	2,871
Exp Item	290	506	101	(815)	(351)	(13)	(40)	-
Tax	37	(121)	107	437	107	668	613	847
Minority Int & P/L share of Ass.								
Reported PAT	434	29	335	390	1,223	1,563	1,792	2,024
Adjusted PAT	434	29	335	390	1,223	1,563	1,792	2,024
Change (%)	(23)	(93)	1,040	16	214	28	15	13
Margin(%)	3.5	0.3	2.5	2.1	6.1	6.0	6.2	6.5

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	10%	1%	7%	7%	20%	22%	22%	22%
ROCE	7%	-3%	8%	24%	23%	29%	28%	29%
Asset Turnover	1.0	0.8	1.0	1.5	1.5	1.6	1.6	1.6
Debtor Days	42	48	34	24	16	14	15	15
Inv Days	55	44	38	31	46	24	26	26
Payable Days	73	81	76	49	56	65	60	60
Int Coverage	1	(1)	2	7	11	17	35	62
P/E	13	215	29	79	19	30	13	12
Price / Book Value	1	1	2	6	4	7	3	3
EV/EBITDA	10	100	15	16	14	20	11	7
FCF per Share	84	349	1,571	1,533	1,789	4,886	1,132	2,325
Div Yield	2.7%	0.0%	1.3%	0.9%	1.9%	1.5%	2.7%	3.0%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	471	(91)	442	1,169	1,223	1,563	2,450	2,871
(inc)/Dec in Working Capital	(49)	370	705	(128)	190	2,962	(335)	248
Non Cash Op Exp	381	377	416	444	518	555	612	659
Int Paid (+)	377	453	394	274	155	131	67	44
Tax Paid	(110)	(30)	(50)	(441)	(348)	(415)	(613)	(847)
others	(342)	(523)	(130)	358	416	623	-	-
CF from Op. Activities	728	556	1,777	1,676	2,155	5,418	2,182	2,975
(inc)/Dec in FA & CWIP	(649)	(220)	(211)	(147)	(378)	(537)	(1,050)	(650)
Free Cashflow	79	337	1,565	1,529	1,776	4,881	1,132	2,325
(Pur)/Sale of Inv	(99)	481	(49)	854	(2,166)	(2,880)	(139)	(1,117)
others	(416)	(372)	361	(320)	1,068	85	-	-
CF from Inv. Activities	(1,164)	(110)	102	388	(1,477)	(3,332)	(1,189)	(1,767)
inc/(dec) in NW	243	(7)	671	289	719	1,039	1,034	1,167
inc/(dec) in Debt	1,100	183	(1,424)	(783)	(773)	(1,154)	(177)	(141)
Int. Paid	(363)	(436)	(406)	(296)	(164)	(146)	(67)	(44)
Div Paid (inc tax)	(309)	(187)	-	(154)	(325)	(549)	(759)	(857)
others	(254)	(2)	(20)	(289)	(829)	(1,151)	(1,034)	(1,167)
CF from Fin. Activities	417	(449)	(1,179)	(1,233)	(1,372)	(1,961)	(1,002)	(1,042)
Inc(Dec) in Cash	(19)	(2)	699	830	(694)	125	(10)	166
Add: Opening Balance	27	8	5	705	1,563	869	994	928
Closing Balance	8	5	705	1,538	869	994	984	1,094

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