

Industry	Automobiles
Bloomberg	AL IN
BSE CODE	500477

Rising discounts shows demand concern

RATING	NEUTRAL
CMP	79
Price Target	79
Potential Upside	0%

Rating Change	↓
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	123/57
Mkt Capital (Rs Cr)	23264
Free float (%)	49%
Avg. Vol 1M (,000)	30871
No. of Shares (Cr.)	294
Promoters Pledged %	0%

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2QFY20 Result Update

- ❑ ASHOKLEY revenue for the quarter declined by 48% YoY to Rs.3930 crores due to 44% YoY decline in volume. Realization also declined by 7% YoY due to heavy discounting.
- ❑ The M&HCV volumes declined by 56% YoY due to weak economic sentiments while LCV volumes also declined by 11% YoY.
- ❑ On the exports front, the markets of UAE, Middle East along with Bangladesh, Nepal and Sri Lanka have been slow during the quarter which has impacted sales.
- ❑ Gross margin improved by 86 bps to 31% QoQ led by softening of commodity prices and favorable product mix. However EBITDA margin declined by 363 bps to 5.8% QoQ due to weaker operating leverage led by lower volumes.
- ❑ The overall discounts per vehicle in 2QFY20 were Rs. 5.25 lakhs as against Rs. 4.25 lakhs last year
- ❑ PAT for the quarter also declined by 93% YoY to Rs.39 crores. PAT margins also declined by 306 bps QoQ to 1% led by decline in EBITDA margins and exceptional loss of Rs. 65 crores during the quarter.
- ❑ Exceptional loss included provision for obligation relating to a subsidiary - Rs. 17.49, Obligation relating to discontinued products of LCV division Rs. 1.72 crores and Voluntary Retirement Scheme Rs. 44.74 crores.
- ❑ The market share of the company stood at 32.6% in H1FY20.
- ❑ The dealer's inventory level stood at 3000-3500 units as of October from 8000-8500 units in June.
- ❑ The management stated that the new CEO of the company would be in place before the end of this financial year.

View and Valuation

The retail sales have improved in last couple of months but the uncertainty related to demand still persists in the system. The overall discounts have inched up to Rs. 5.25 lakhs in 2QFY20 as against Rs. 4.25 lakhs last year. Lower volumes coupled with higher fixed cost have led to sharp contraction in margins. In addition to that sharp increase in debt levels will continue to hamper the overall profitability. However, new modular platform may help to improve margins by 100-150bps on full ramp up in FY21-22. We reduce our EPS estimate for FY20/21 by 25%/14%. We value standalone business at 11x FY21e EPS and Rs.8 per share for HLFL to arrive at a target price of Rs.79 and recommend NEUTRAL.

Key Risks to our rating and target

- ❑ Further increase in discounts on MHCVs
- ❑ Increase in commodity prices

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	20019	26248	29055	24721	28759
EBITDA	2203	2739	3136	2378	3198
EBIT	1685	2184	2515	1729	2485
PAT	1223	1563	1983	1227	1855
EPS (Rs)	4.3	5.3	6.8	4.2	6.3
EPS growth (%)	214	24	27	-38	51
ROE (%)	20	22	24	14	20
ROCE (%)	23	29	29	18	25
BV	22	24	28	29	31
P/B (X)	3.9	6.6	3.2	2.7	2.5
P/E (x)	19.4	30.2	13.5	18.9	12.5

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2QFY20 Results

Results below expectation

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	Fig in Rs Cr		
								FY18	FY19	YoY %
Volumes	51959	43763	59521	39608	28938	-44%	-27%	174830	197371	12.9%
Realization('000, 1467	1445	1486	1435	1358		-7%	-5%	1501	1472	-1.9%
Net Sales	7,621	6,325	8,846	5,684	3,930	-48%	-31%	26,248	29,055	10.7%
Other Income	28	21	9	21	46	65%	116%	190	110	-42.1%
Total Income	7,649	6,346	8,855	5,705	3,975	-48%	-30%	26,438	29,165	10.3%
COGS	5,498	4,436	6,429	3,974	2,713	-51%	-32%	18,621	20,680	11.1%
Staff Cost	525	500	573	500	432	-18%	-14%	1,812	2,099	15.8%
Other Exp.	769	740	858	673	556	-28%	-17%	3,076	3,141	2.1%
Expenditure	6,792	5,676	7,860	5,147	3,701	-46%	-28%	23,509	25,919	10.3%
EBITDA	829	650	985	537	229	-72%	-57%	2,739	3,136	14.5%
Depreciation	148	161	160	165	160	8%	-3%	555	621	12.0%
EBIT	681	489	826	372	69	-90%	-82%	2,184	2,515	15.1%
Interest	20	19	17	13	30	48%	140%	131	70	-46.4%
PBT	688	491	818	381	84	-88%	-78%	2,243	2,554	13.9%
Excpt. Item	19	6	12	20	-	0%	0%	(13)	(55)	0.0%
Tax	143	103	153	131	(20)	-114%	-115%	668	514	-23.1%
PAT	528	381	653	230	39	-93%	-83%	1,563	1,983	26.9%

Concall highlights

- The industry has witnessed a 53% decline in volumes in 2QFY20.
- The management expects the demand to improve going forward led by good monsoon, improved freight rates and improving economic conditions.
- Segment Wise Demand Outlook - The passenger buses have seen a stable demand, ICVs have seen a lower decline and it is further expected to grow. Tippers segment and LCVs are expected to see revive in demand going forward.
- The new launches from the modular business program will add to the domestic business going ahead from 1st April 2020 post BS-Vi implementation.
- 1QFY21 is expected to see a slower uptick with the new technology coming in, but after that, Full year FY21 is expected to be strong.
- The management looks forward to a strong 4QFY20 as the last quarter is traditionally a very strong quarter for all the commercial vehicles OEMs.
- In the exports front, the management expects higher volume sales from April 2020.
- The international markets of UAE, Middle East along with Bangladesh, Nepal and Sri Lanka have been slow during the quarter which has impacted sales.
- The management expects revival in Middle East, Saudi, UAE, Bangladesh and Africa markets going forward in H2FY20.
- The management stated that the new CEO of the company would be in place before the end of this financial year.
- The company has received ARAI certification for whole range of heavy duty BS VI vehicles.
- The management has planned to shut its plant for up to 12 days in November on account of tepid demand.
- The company will make new launches in LCVs by the end of FY20.
- The Phoenix model is expected to launch by the end of FY20.
- Revenue mix – Domestic Trucks at 45%, Domestic Buses at 13%, LCVs at 13% and Exports at 12% in 2QFY20.
- The retail sales were comparatively better than the wholesales during the quarter.
- The overall discounts per vehicle in 2QFY20 were Rs. 5.25 lakhs per vehicle as against Rs. 4.25 lakhs last year.
- The dealer's inventory level stood at 3000-3500 units as of October from 8000-8500 units in June.
- The overall inventory levels have moved down on MoM basis. On June, September and October, the inventory stood at 27500, 18200, 13200 units respectively.
- Debt level has increased in H1FY20 from Rs. 398 crs in FY19 to Rs. 1502 crs in H1FY20. It is expected to remain at the same level in FY20.
- Capex for FY20 has been reiterated from Rs. 2000 to Rs 1800 cr and it is further expected to reduce by Rs. 200-230 crs in H1FY20.

Exhibit: Volume and Volume Growth Trend

Volumes declined due to slowdown in consumer sentiments across domestic and international markets

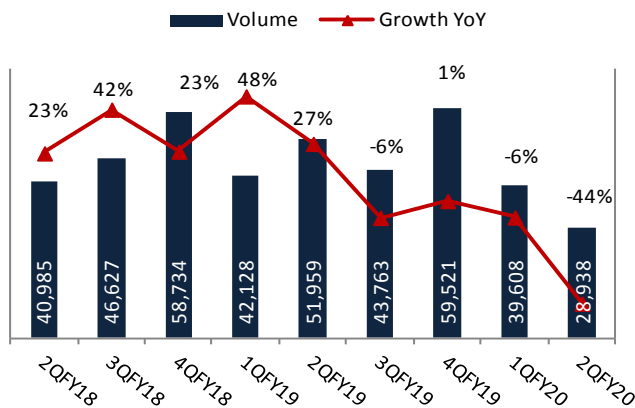


Exhibit: Realisation and Realisation Growth Trend

Realisation declined led by heavy discountings across the industry

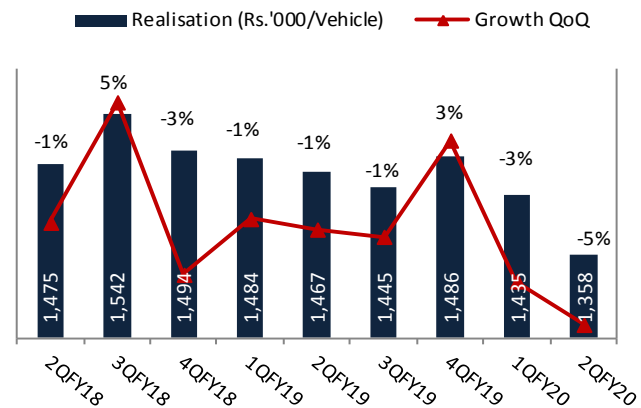


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

Weaker operating leverage due to lower volumes led to decline in EBITDA margins

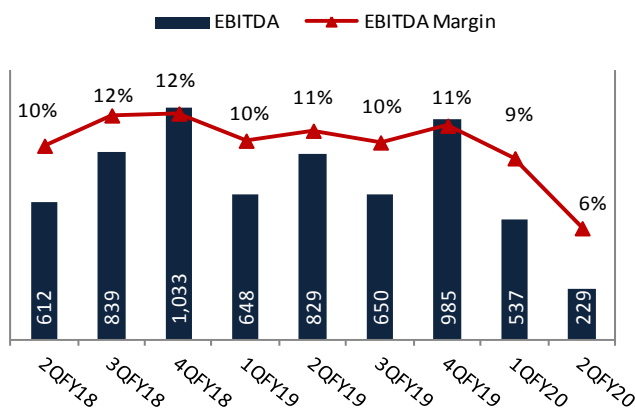


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

Dent in EBITDA margins and exceptional item (VRS) of Rs. 65 crores declined PAT margin

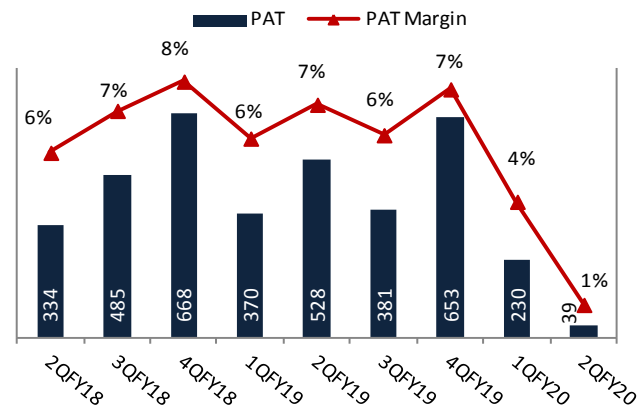


Exhibit: Product Mix in M&HCV Segment

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

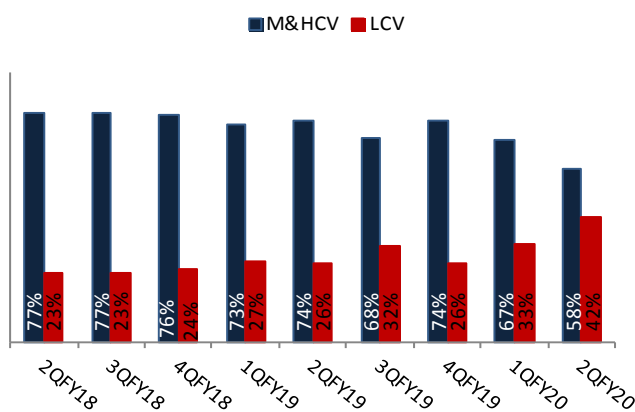
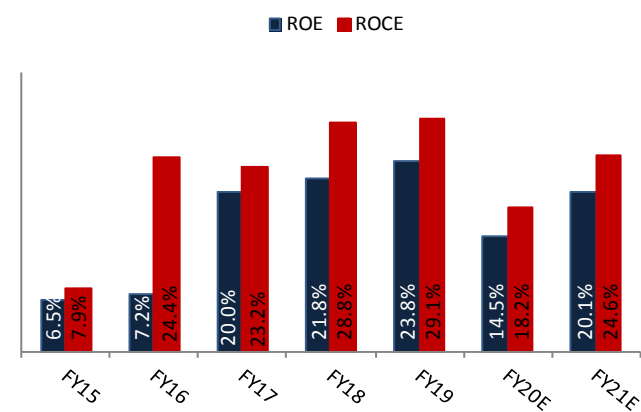


Exhibit: Return Ratios

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



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	266	285	285	285	293	294	294	294
Reserves	4,182	4,834	5,123	5,841	6,872	8,039	8,171	8,930
Networth	4,448	5,119	5,408	6,126	7,165	8,332	8,464	9,224
Debt	3,884	2,591	1,846	1,345	516	398	2,327	1,978
Other Non Cur Liab	477	591	481	299	757	501	464	498
Total Capital Employed	7,744	7,685	7,229	7,272	7,580	8,631	9,516	10,118
Net Fixed Assets (incl CWIP)	5,841	5,376	4,868	5,177	5,375	5,822	6,249	6,521
Non Cur Investments	2,405	2,240	1,980	2,002	2,747	2,637	2,666	2,700
Other Non Cur Asst	1,035	1,002	633	588	509	986	986	986
Non Curr Assets	9,281	8,618	7,593	7,940	8,716	10,038	10,495	10,800
Inventory	1,189	1,399	1,625	2,501	1,710	2,685	2,167	2,521
Debtors	1,299	1,258	1,251	860	980	1,365	1,161	1,351
Cash & Bank	12	751	1,593	912	1,004	31	103	199
Other Curr Assets	1,027	1,285	586	1,312	3,797	3,630	4,235	4,499
Curr Assets	3,527	4,693	5,181	5,737	7,870	8,186	8,144	9,047
Creditors	2,214	2,828	2,563	3,052	4,659	5,019	4,270	4,968
Provisons (both)	88	256	189	484	616	-	-	-
Other Curr Liab	1,697	1,926	2,113	2,446	2,861	2,077	2,006	2,072
Curr Liabilities	3,999	5,011	4,865	5,982	8,147	8,689	7,079	7,843
Net Curr Assets	(472)	(318)	316	(246)	(277)	(503)	1,065	1,204
Total Assets	12,808	13,311	12,774	13,800	16,586	18,224	18,638	19,847

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	9,943	13,562	18,937	20,019	26,248	29,055	24,721	28,759
Change (%)	(20)	36	40	6	31	11	(15)	16
Other Income	116	124	118	136	190	110	181	251
EBITDA	117	1,027	2,255	2,203	2,739	3,136	2,378	3,198
Change (%)	(87)	778	120	(2)	24	14	(24)	34
Margin (%)	1.2	7.6	11.9	11.0	10.4	10.8	9.6	11.1
Depr & Amor.	377	416	488	518	555	621	649	712
EBIT	(260)	610	1,767	1,685	2,184	2,515	1,729	2,485
Int. & other fin. Cost	453	394	248	155	131	70	186	256
EBT	(597)	341	1,637	1,666	2,243	2,554	1,723	2,480
Exp Item	506	101	(815)	(351)	(13)	(55)	(65)	-
Tax	(121)	107	437	107	668	514	411	625
Minority Int & P/L share of Ass.								
Reported PAT	29	335	390	1,223	1,563	1,983	1,227	1,855
Adjusted PAT	29	335	390	1,223	1,563	1,983	1,227	1,855
Change (%)	(93)	1,040	16	214	28	27	(38)	51
Margin(%)	0.3	2.5	2.1	6.1	6.0	6.8	5.0	6.4

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	1%	7%	7%	20%	22%	24%	14%	20%
ROCE	-3%	8%	24%	23%	29%	29%	18%	25%
Asset Turnover	0.8	1.0	1.5	1.5	1.6	1.6	1.3	1.4
Debtor Days	48	34	24	16	14	17	17	17
Inv Days	44	38	31	46	24	34	32	32
Payable Days	81	76	49	56	65	63	63	63
Int Coverage	(1)	2	7	11	17	36	9	10
P/E	214.6	29.3	79.3	19.4	30.2	13.5	18.9	12.5
Price / Book Value	1.4	1.9	5.7	3.9	6.6	3.2	2.7	2.5
EV/EBITDA	100	15	16	14	20	12	10	7
FCF per Share	349	1,571	1,533	1,789	4,886	(361)	313	1,938
Div Yield	0.0%	1.3%	0.9%	1.9%	1.5%	3.4%	3.9%	3.9%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	(91)	442	1,169	1,223	1,563	2,554	1,723	2,480
(inc)/Dec in Working Capital	370	705	(128)	190	2,962	(1,588)	(759)	99
Non Cash Op Exp	377	416	444	518	555	621	649	712
Int Paid (+)	453	394	274	155	131	70	186	256
Tax Paid	(30)	(50)	(441)	(348)	(415)	(514)	(411)	(625)
others	(523)	(130)	358	13	(106)	13	-	-
CF from Op. Activities	556	1,777	1,676	2,155	5,418	706	1,389	2,922
(inc)/Dec in FA & CWIP	(220)	(211)	(147)	(378)	(537)	(1,068)	(1,076)	(984)
Free Cashflow	337	1,565	1,529	1,776	4,881	(361)	313	1,938
(Pur)/Sale of Inv	481	(49)	854	(2,166)	(2,880)	661	(803)	(141)
others	138	387	154	(28)	85	-	-	-
CF from Inv. Activities	(110)	102	388	(1,477)	(3,332)	(407)	(1,879)	(1,125)
inc/(dec) in NW	(7)	671	289	719	1,039	1,168	132	760
inc/(dec) in Debt	183	(1,424)	(783)	(773)	(1,154)	(117)	1,929	(349)
Int. Paid	(436)	(406)	(296)	(164)	(146)	(70)	(186)	(256)
Div Paid (inc tax)	(187)	-	(154)	(325)	(549)	(859)	(1,095)	(1,095)
others	-	667	-	-	5	-	-	-
CF from Fin. Activities	(449)	(1,179)	(1,233)	(1,372)	(1,961)	(1,046)	647	(1,700)
Inc(Dec) in Cash	(2)	699	830	(694)	125	(747)	157	97
Add: Opening Balance	8	5	705	1,563	869	994	9	81
Closing Balance	5	705	1,538	869	994	247	166	178

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