

Results sharply below expectations

First Look

Ashok Leyland declared PAT of INR0.67bn (Nomura: INR0.97bn; Consensus: INR1.20bn), sharply below our and consensus estimates. Our estimates were 20% below consensus on expectations of higher costs due to LCV launch. Even we were surprised, however, by the extent of the increase in other expenditures.

In 3QFY12, other expenditures came in at INR2.68bn (up INR0.3bn qoq) vs. our expectations of INR2.09bn. Other exp/sales increased to 9.3% (2QFY12 was 7.6%); 180 bps higher than our expectations of 7.5%. There could possibly be some one-off expenses related to the launch of LCV 'Dost'. However, an increase of INR300mn qoq in other expenditure still appears quite high, in our view. We await more colour on this during the conference call scheduled for 11AM IST February 2.

- Net Sales at INR28.8bn was slightly ahead of our estimate of INR28.0bn
- Realization/vehicle came in at INR1.24mn vs. our expectations of INR1.20mn
- EBITDA margins came in at 7.3%, significantly below our estimate of 9.6%; EBITDA was around 22% below estimates.
- RM/Sales came in at 73.9% compared to our estimate of 73.5%
- Employee cost/sales came in at 9.5% compared to our estimate of 9.4%
- Other expenses/sales came in at 9.3% compared to our estimate of 7.5%
- Effective tax rate was 7% compared to our estimate of 20%.

February 1, 2012

Rating Remains	Buy
Target price Remains	INR 34
Closing price February 1, 2012	INR 29

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Fig. 1: Actual vs. Expectations

	INR mn			% difference from	
	Actual	Consensus	Nomura	Consensus	Nomura
Net Sales	28,798	29,344	27,974	-1.9%	2.9%
EBITDA	2,104	2,959	2,694	-28.9%	-21.9%
Margin	7.3%	10.1%	9.6%		
Net Profit	669	1,203	967	-44.4%	-30.8%

Source: Company data, Bloomberg, Nomura estimates

Fig. 2: 3QFY12 results

INR mn	3QFY11A	2QFY12A	3QFY12A	YoY	QoQ	3QFY12F
Net Sales	22,272	30,946	28,798	29.3%	-6.9%	27,974
Net Raw Materials	16,294	22,757	21,288	30.6%	-6.5%	20,561
Staff Welfare	2,439	2,515	2,723	11.6%	8.3%	2,631
Adjusted Other Expenditure	1,879	2,362	2,683	42.8%	13.6%	2,088
Total Cost	20,612	27,634	26,694	29.5%	-3.4%	25,280
Operating Profit	1,660	3,312	2,104	26.7%	-36.5%	2,694
OPM (%)	7.5	10.7	7.3	(0.1)	(3.4)	9.6
Non-Operating Income	17	103	32			41
Forex Gain/(Loss)	-	-	-			-
Extraordinary Income/(Exp)	-	-	-			-
Interest	475	627	550			657
Gross Profit	1,202	2,788	1,586	31.9%	-43.1%	2,078
Less: Depreciation	647	859	866			869
PBT	555	1,929	720	29.6%	-62.7%	1,209
Tax	122	388	51			242
Effective Tax Rate (%)	21.9	20.1	7.0			20.0
Reported PAT	433.7	1,540.8	669.0	54.3%	-56.6%	967.0
Adj PAT	433.7	1,540.8	669.0	54.3%	-56.6%	967.0
Adj EPS	0.16	0.58	0.25	54.3%	-56.6%	0.36

Source: Company data, Nomura estimates

Fig. 3: Cost ratios

	3QFY11A	2QFY12A	3QFY12A	YoY	QoQ	3QFY12F
RM/Sales	73.2	73.5	73.9	0.8	0.4	73.5
Staff Cost/Sales	11.0	8.1	9.5	(1.5)	1.3	9.4
Other Expenses/Sales	8.4	7.6	9.3	0.9	1.7	7.5
Total Cost/Sales	92.5	89.3	92.7	0.1	3.4	90.4
Realisation per vehicle (INR)	1,208,030	1,309,705	1,240,329	2.7%	-5.3%	1,204,853
RM/Vehicle (INR)	883,748	963,152	916,857	3.7%	-4.8%	885,567

Source: Company data, Nomura estimates

Appendix A-1

Analyst Certification

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Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Ashok Leyland	AL IN	INR 29	01-Feb-2012	Buy	Not rated	

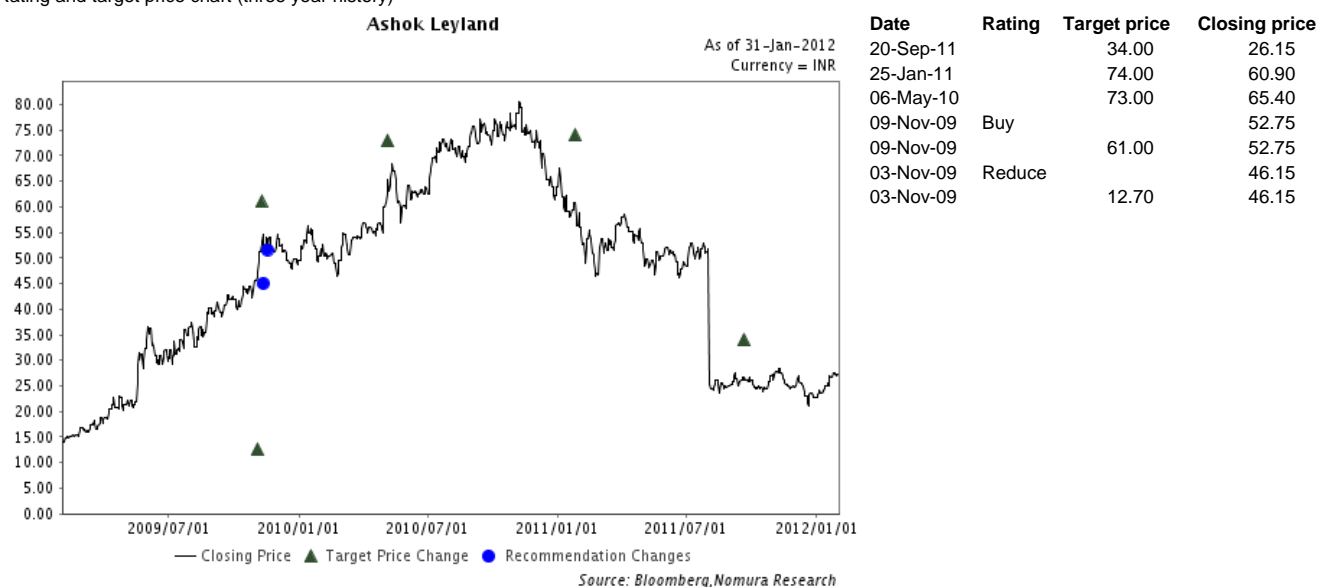
Previous Rating

Issuer name	Previous Rating	Date of change
Ashok Leyland	Reduce	09-Nov-2009

Ashok Leyland (AL IN)

INR 29 (01-Feb-2012) Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value Ashok Leyland based on DCF of FCFE at INR34/share. Our methodology is unchanged. We have used an assumption of 4% terminal growth and 13.4% cost of equity. Do note that we have not assigned any value to the group investments worth INR 5/share. This is because there is low visibility on earnings contribution from these investments. As the visibility improves there is a possibility that the market may start to value some of these investments.

Risks that may impede the achievement of the target price Key risks a) Slower-than-expected ramp up of new plant – In case AL is not able to produce 35,000 units from the new plant in FY12F, our margin estimates would be at risk. b) Slowdown in industrial growth – In case there is a sharp slowdown in industrial growth, our volume estimates would be at risk. c) New competition – New competition from players like Mahindra and Mahindra could be a risk to our volume estimates for FY13F.

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STOCKS

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

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