

Q3FY2012 Review
 Sector: Auto
 BSE Sensex: 17,432

ASHOK LEYLAND

 Downgrade ACCUMULATE
 CMP Rs27
 TP Rs30

02 February 2012

'Dost' A Burden On Profitability

Ashok Leyland's (AL) Q3FY12 results were disappointing as the LCV 'Dost' diluted the profitability. Incremental 8% contribution of LCV 'Dost' to overall volumes led to a 2.1% QoQ decline in blended realisations. However, raw material cost per vehicle declined by only 1.6%. Other expenditure too rose 13.6% QoQ largely due to increase in marketing spend and a forex loss of Rs150mn resulting in a steep 340bps contraction in margins to 7.3% (PINCe 10%). Net profits at Rs669mn were 40% below our estimate of Rs1.1bn.

Double digit volume growth, but on a low base: Volumes during Q3FY11 had been lower due to the pre-ponement of purchases ahead of the change in emission norms. On the depleted base domestic volumes excluding 'Dost' grew 18.7% YoY to 17.7k units. The company gained 270bps marketshare in the heavy bus segment, while its marketshare in the truck segment continued to slide, contracting 330bps QoQ. Overall marketshare in 9MFY12 has contracted 290bps to 22.4%. Additionally, the company sold ~1,700 units of the LCV 'Dost' manufactured through its JV with Nissan. Exports too were lacklustre declining 14.1% YoY (6.6% QoQ) to 3k units.

Realisations decline 2.1% sequentially: Under agreement with its JV partner Nissan, AL will be selling the LCV 'Dost' in markets outside Tamil Nadu. During the quarter the LCV contributed to ~8% of the volumes leading to an inferior product mix. Also, with an increase in discounting levels realisations declined 2.1% QoQ to Rs1.28mn/unit. Revenues grew 29.3% YoY to Rs28.8bn, in-line with estimates.

Margins contract 340bps QoQ to 7.3%: Margin pressure was witnessed across all cost heads. Traded goods purchased were up 70%, largely due to the 'Dost' which is a bought-out for the company. Fall in raw material cost per vehicle at 1.6% was lower than the fall in realisations. Employee expenses were up 8.3% on a Rs160mn bonus payment. Other expenditure saw a steep rise of 13.6% on Rs70mn marketing spend for the 'Dost' and a Rs150mn forex loss on restatement of liabilities.

Outlook: The management reiterated its endeavour to achieve 25% marketshare during the year and reach within striking distance of its initial guidance of 100k units in FY12. However, considering the loss of marketshare in the current year we reduce FY12 and FY13 volume estimates by 2% and 4.8% to 97k and 104k units respectively. Additionally, we have included 4k and 21k units of the 'Dost' in our FY12 and FY13 estimates. We have also cut our margin estimates resulting in a 16% and 20% reduction in our FY12 and FY13 earnings estimate to Rs2.1 and Rs2.4 respectively. We introduce FY14 earnings estimate of Rs2.8.

VALUATIONS AND RECOMMENDATION

The stock is currently trading at 11.3x FY13E earnings. We downgrade the stock to 'ACCUMULATE' with a revised price target of Rs30 (earlier Rs38) discounting FY13E earnings 12.5x.

KEY FINANCIALS						(Rs mn)
	FY10	FY11	FY12E	FY13E	FY14E	
Net Sales	72,447	111,177	128,206	146,292	163,156	
YoY Gr.(%)	21.1	53.5	15.3	14.1	11.5	
EBITDA	7,596	12,176	12,564	13,802	15,334	
EBITDA Marg.(%)	10.5	11.0	9.8	9.4	9.4	
Adjusted Net Profit	4,237	6,313	5,508	6,303	7,347	
YoY Gr.(%)	123.0	49.0	(12.7)	14.4	16.6	
KEY RATIOS						
Dil. EPS (Rs)	1.6	2.4	2.1	2.4	2.8	
ROCE (%)	13.7	18.4	15.5	15.2	16.2	
RoE (%)	19.0	25.2	20.0	14.8	16.2	
PER (x)	16.9	11.3	13.0	11.3	9.7	
EV/Net sales (x)	1.2	0.9	0.8	0.7	0.6	
EV/EBITDA (x)	11.7	7.9	8.3	7.7	6.8	

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QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Jun-11	Sep-11	Dec-11
Net Sales	24,955	30,946	28,798
YoY Gr. (%)	6.3	14.0	29.3
EBITDA	2,352	3,312	2,104
EBITDA mar. (%)	9.4	10.7	7.3
Adj. Net Profit	768	1,541	669
YoY Gr. (%)	(37.4)	(7.8)	54.3

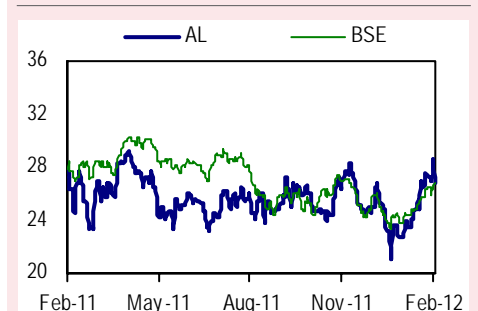
STOCK DATA

Market Cap	Rs71.4bn
Book Value per share	Rs10
Eq Shares O/S (F.V. Rs1)	2.7bn
Free Float	61%
Avg Trad. Value (6 mnths)	Rs141.3mn
52 week High/Low	Rs30/20
Bloomberg Code	AL IN
Reuters Code	ASOK.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	18.5	(0.7)	(3.6)
Relative	6.2	(0.5)	0.1

RELATIVE PERFORMANCE



Q3FY12 Performance and Concall Highlights

- On a low base, the overall volumes for Q3FY12 reported a significant jump of 21.9% to 22.5k units. The volumes in Q3FY11 were lower due to the pre-ponement of purchases ahead of the new emission effective from 1st Oct'11. The growth also was partly due to the incremental volumes of the LCV 'Dost' which was commercially launched during the quarter. The LCV is the first product in the JV with Nissan. The Dost is contract manufactured by AL for the JV. While the JV is responsible for sales within Tamil Nadu, AL retails the vehicle outside the state. Dost dispatches in AL's books during the quarter are estimated at 1,700 units.
- Domestic MHCV Goods segment volumes grew 35.7% while bus segment declined by 11.1% to 4.6k units due to lower off-take from the state transport units.
- The current market share of the company stands at 22.4% while the company targets to achieve 25% by the end of this fiscal year. Management indicated that the overall demand growth was primarily led by tipper segment (30% YTD growth) while the demand off-take for Tractor trailer and the Multi-Axle vehicles have slowed down. Management expects total industry volume to grow 9% in FY13 to 350k units. Management also indicated that company might fall short of 100k (ex-Dost) mark in FY12 and expects to grow at 4-6% in FY13.
- Engine revenues contributed Rs790mn and spare sales added Rs1.8bn to the total revenues.
- Management guided that the discounts in the industry have gone up and the inventory level have come down marginally to 9k units. Company has announced price hikes of around 1-2% on the domestic portfolio and USD400 in the export markets to compensate for the increasing input cost and other expenses. Company has also increased price on engines by 2-4% from Jan'12.
- Pantnagar contributed 22k units for YTD FY12. Tax benefits to the extent of 100% for the plant will continue till FY14.
- The company maintained its capital expenditure plan of Rs6bn for FY12 and bulk of which will be allocated towards Pantnagar facility and product development expenses. The long term debt on books stands at Rs31bn in addition to the Rs10bn working capital loans. The management expects reduction in working capital debt levels to the tune of Rs4-5bn by the year end.

Variance to PINC Estimate

(Rs mn)	Actual	Estimate	Var (%)	Comments
Net Sales	28,798	28,325	1.7	Inline with estimates
EBITDA	2,104	2,823	(25.5)	
EBITDA Margin (%)	7.3	10.0	(270)bps	Increase in cost across heads impacts margins
Adjusted PAT	669	1,120	(40.3)	Margin underperformance reflected in lower profits

Financial Table

Rs mn	Dec-11	Dec-10	YoY (%)	Sep-11	QoQ (%)	9MFY12	9MFY11	YoY (%)
Net Sales	28,798	22,272	29.3	30,946	(6.9)	84,699	72,892	16.2
EBITDA	2,104	1,660	26.7	3,312	(36.5)	7,767	7,077	9.8
<i>EBITDA Margins %</i>	7.3	7.5	(10)bps	10.7	(340)bps	9.2	9.7	(50)bps
Other Income	32	17	93.2	103	(68.7)	177	112	57.6
Interest	550	475	15.9	627	(12.3)	1,711	1,186	44.2
Depreciation	866	647	33.9	859	0.8	2,572	1,902	35.2
PBT	720	555	29.6	1,929	(62.7)	3,661	4,101	(10.7)
Tax	51	122	(58.4)	388	(86.9)	683	770	(11.3)
<i>Tax (%)</i>	7.0	21.9		20.1		18.7	18.8	(10)bps
Adjusted PAT	669	434	54.3	1,541	(56.6)	2,978	3,331	(10.6)
EPS (Rs)	0.5	0.3	54.3	1.2	(56.6)	2.2	2.5	(10.6)

Vehicle sales

(units)	Dec-11	Dec-10	YoY (%)	Sep-11	QoQ (%)	9MFY12	9MFY11	YoY (%)
Total Sales	22,468	18,437	21.9	23,628	(4.9)	65,373	64,429	1.5
MHCV Passenger	5,625	6,674	(15.7)	6,125	(8.2)	17,078	18,266	(6.5)
MHCV Goods	14,697	11,584	26.9	17,225	(14.7)	45,677	45,549	0.3
LCV Passenger	403	179	125.1	278	45.0	875	614	42.5
LCV Goods	1,743	0	-	0	-	1,743	0	-
Domestic Sales	19,451	14,924	30.3	20,398	(4.6)	56,587	56,626	(0.1)
MHCV Passenger	4,603	5,180	(11.1)	4,741	(2.9)	13,699	14,799	(7.4)
MHCV Goods	13,033	9,605	35.7	15,547	(16.2)	40,857	41,322	(1.1)
LCV Passenger	72	139	(48.2)	110	(34.5)	288	505	(43.0)
LCV Goods	1,743	0	-	0	-	1,743	0	-
Exports Sales	3,017	3,513	(14.1)	3,230	(6.6)	8,786	7,803	12.6
MHCV Passenger	1,022	1,494	(31.6)	1,384	(26.2)	3,379	3,467	(2.5)
MHCV Goods	1,664	1,979	(15.9)	1,678	(0.8)	4,820	4,227	14.0
LCV Passenger	331	40	727.5	168	97.0	587	109	438.5
LCV Goods	0	0	-	0	-	0	0	-

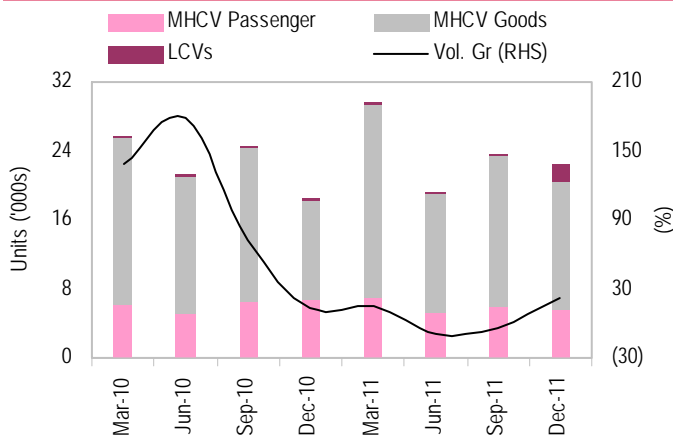
(%) of Sales

(%)	Dec-11	Dec-10	YoY (bps)	Sep-11	QoQ (bps)	9MFY12	9MFY11	YoY (bps)
Material Cost	73.9	73.2	80	73.5	40	73.2	73.5	(30)
Staff Cost	9.5	11.0	(150)	8.1	130	9.1	9.0	10
Other Expenses	9.3	8.4	90	7.6	170	8.5	7.7	70
EBITDA Margins	7.3	7.5	(10)	10.7	(340)	9.2	9.7	(50)

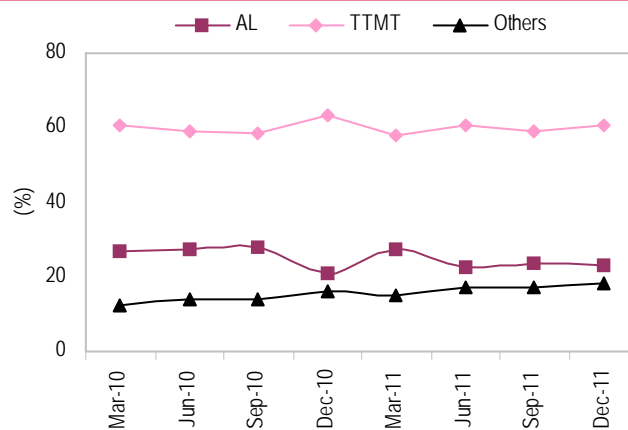
Per Vehicle

(Rs)	Dec-11	Dec-10	YoY (%)	Sep-11	QoQ (%)	9MFY12	9MFY11	YoY (%)
Realisations	1,281,733	1,208,030	6.1	1,309,705	(2.1)	1,295,623	1,131,350	14.5
Material cost	947,462	883,751	7.2	963,152	(1.6)	948,801	832,060	14.0
Staff cost	121,204	132,301	(8.4)	106,447	13.9	118,332	102,113	15.9
Other Expenses	119,434	101,931	17.2	99,952	19.5	109,680	87,338	25.6
EBITDA	93,632	90,048	4.0	140,154	(33.2)	118,808	109,839	8.2

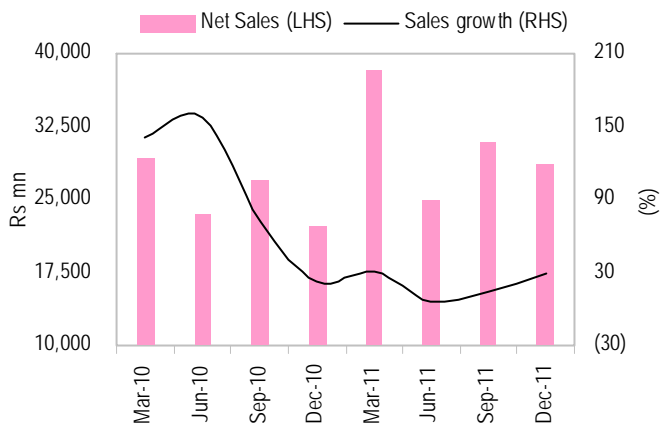
Sales Volumes Trend



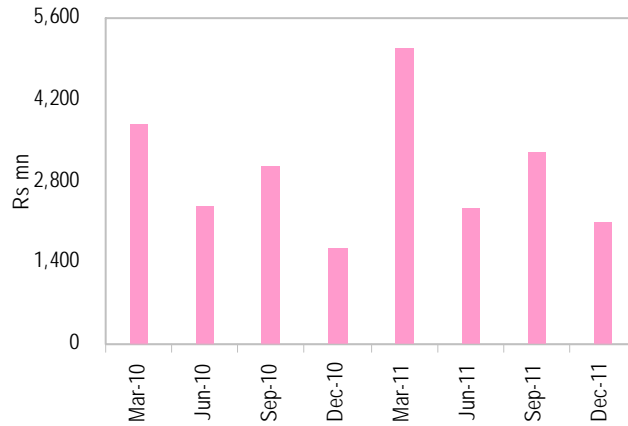
Domestic MHCV Marketshare



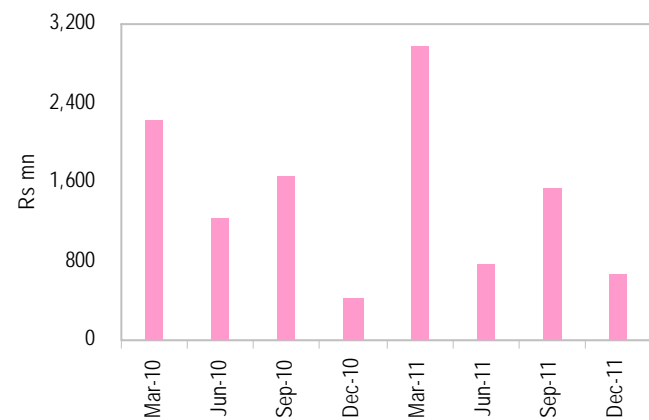
Revenue Trend



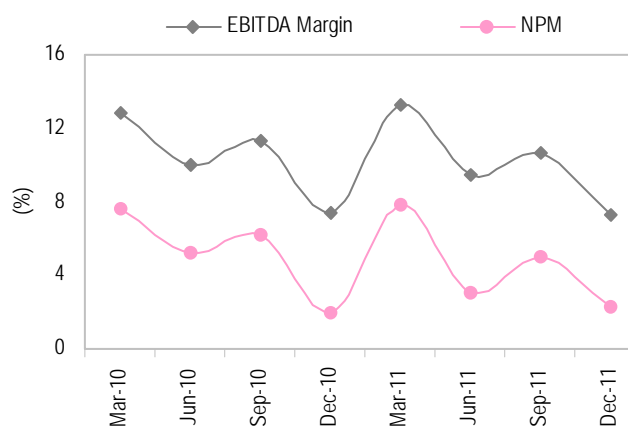
EBITDA Trend



Net Profits Trend



Profitability Trend

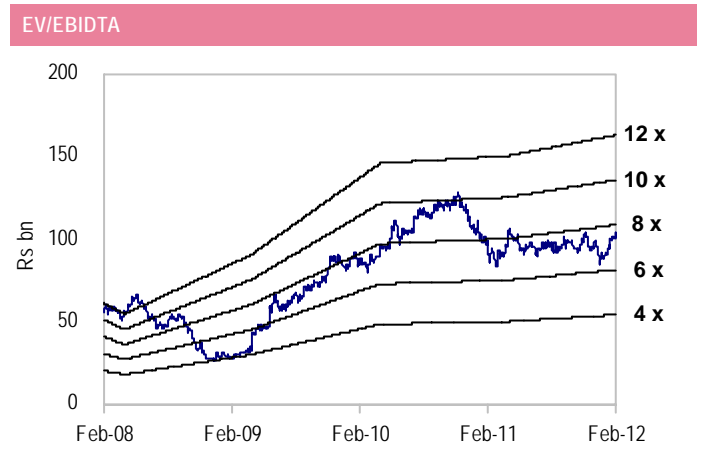
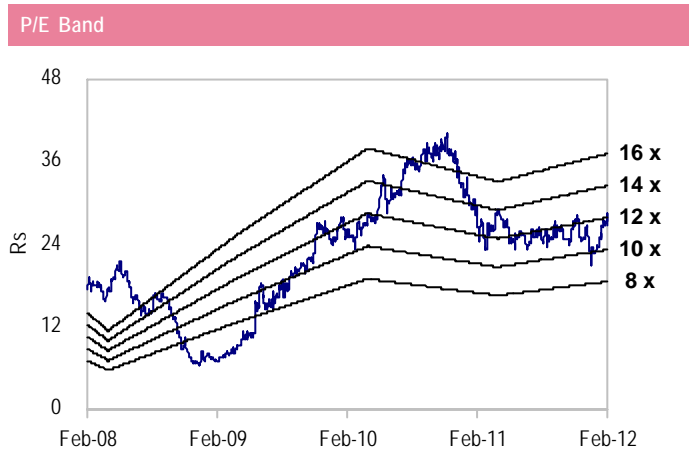


Income Statement	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	72,447	111,177	128,206	146,292	163,156
Growth (%)	21.1	53.5	15.3	14.1	11.5
Operating profit	7,596	12,176	12,564	13,802	15,334
Other operating income	-	-	-	-	-
EBITDA	7,596	12,176	12,564	13,802	15,334
Growth (%)	66.6	60.3	3.2	9.9	11.1
Depreciation	(2,041)	(2,674)	(3,408)	(3,788)	(4,118)
Other income	912	406	605	661	723
EBIT	6,466	9,907	9,761	10,675	11,939
Interest paid	(1,019)	(1,889)	(2,876)	(2,797)	(2,755)
PBT (before E/o items)	5,448	8,018	6,885	7,879	9,183
Tax provision	(1,211)	(1,705)	(1,377)	(1,576)	(1,837)
E/o Income / (loss)	-	-	-	-	-
Net profit	4,237	6,313	5,508	6,303	7,347
Adjusted net profit	4,237	6,313	5,508	6,303	7,347
Growth (%)	123.0	49.0	(12.7)	14.4	16.6
Diluted EPS (Rs)	1.6	2.4	2.1	2.4	2.8
Diluted EPS Growth (%)	123.0	49.0	(12.7)	14.4	16.6

Cash Flow Statement	FY10	FY11	FY12E	FY13E	FY14E
Pre-tax profit	5,448	8,018	6,885	7,879	9,183
Depreciation	2,149	2,890	3,525	3,905	4,235
Total tax paid	(14)	(1,112)	(1,127)	(1,326)	(1,587)
Chg in working capital	1,886	(635)	(1,177)	(861)	(995)
Other operating activities	-	-	-	-	-
Cash flow from oper. (a)	9,469	9,161	8,107	9,597	10,837
Capital expenditure	(6,285)	(4,698)	(7,020)	(5,450)	(3,950)
Chg in investments	(626)	(9,038)	(5,500)	(3,000)	(1,000)
Other investing activities	-	-	-	-	-
Cash flow from inv. (b)	(6,911)	(13,736)	(12,520)	(8,450)	(4,950)
Free cash flow (a+b)	2,558	(4,574)	(4,414)	1,147	5,887
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	3,223	3,778	7,951	1,556	(515)
Chg in Minorities int.	-	-	-	-	-
Dividend (incl. tax)	(1,556)	(2,327)	(3,092)	(3,502)	(3,891)
Other financing activities	84	(270)	(117)	(117)	-
Cash flow from fin. (c)	1,750	1,181	4,742	(2,063)	(4,406)
Net chg in cash (a+b+c)	4,308	(3,394)	328	(916)	1,481

Balance Sheet	FY10	FY11	FY12E	FY13E	FY14E
Equity capital	1,330	1,330	2,661	2,661	2,661
Reserves & surplus	35,357	38,299	38,858	41,153	44,492
Shareholders' funds	36,636	39,586	41,476	43,771	47,109
Preference Share Capital	-	-	-	-	-
Total Debt	22,804	26,582	34,533	36,089	35,574
Capital Employed	59,440	66,168	76,009	79,860	82,684
Net fixed assets	48,110	49,918	53,413	54,958	54,673
Cash & Cash Eq.	5,189	1,795	2,124	1,208	2,571
Net other Current Assets	6,600	6,594	7,362	7,833	8,829
Investments	3,262	12,300	17,800	20,800	21,800
Net Deferred Tax Assets	(3,721)	(4,439)	(4,689)	(4,939)	(5,189)
Total assets	59,440	66,168	76,009	79,860	82,684

Key Ratios	FY10	FY11	FY12E	FY13E	FY14E
EBITDA Margin(%)	10.5	11.0	9.8	9.4	9.4
Net margin (%)	5.8	5.7	4.3	4.3	4.5
Dividend yield (%)	2.8	3.7	4.2	4.7	4.7
Net deb/Equity (x)	0.8	0.9	1.1	1.1	1.0
Net Working Capital (days)	3	12	4	5	5
Asset turnover (x)	1.0	1.3	1.3	1.1	1.2
ROCE (%)	13.7	18.4	15.5	15.2	16.2
RoE (%)	19.0	25.2	20.0	14.8	16.2
EV/Net sales (x)	1.2	0.9	0.8	0.7	0.6
EV/EBITDA (x)	11.7	7.9	8.3	7.7	6.8
PER (x)	16.9	11.3	13.0	11.3	9.7
Price/Book (x)	3.1	2.7	2.5	2.3	2.1



T E A M

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Rating Objective		
Rating	Large Caps	Mid Caps
	M.Cap > USD1bn	M.Cap <= USD1bn
Return %		
BUY	More than 15	More than 20
Accumulate	5 to 15	10 to 20
Reduce	(-)5 to +5	0 to 10
Sell	Below (-)5	Less than 0



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