

February 02, 2012

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Rating	Accumulate
Price	Rs27
Target Price	Rs30
Implied Upside	11.1%
Sensex	17,432
Nifty	5,270

(Prices as on February 02, 2012)

Trading data

Market Cap. (Rs bn)	76.1
Shares o/s (m)	2,660.6
3M Avg. Daily value (Rs m)	152

Major shareholders

Promoters	38.61%
Foreign	15.57%
Domestic Inst.	15.84%
Public & Other	29.98%

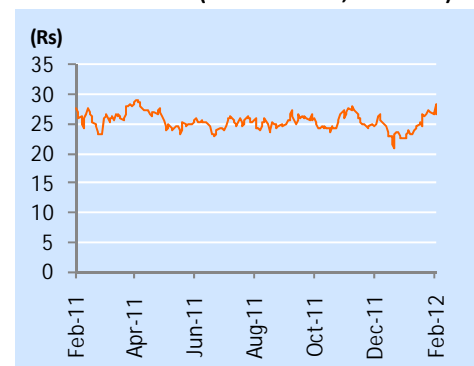
Stock Performance

(%)	1M	6M	12M
Absolute	18.8	3.3	(4.0)
Relative	6.5	7.0	(0.4)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	3.0	2.7	9.4
2014	3.5	3.1	11.2

Price Performance (RIC: ASOK.BO, BB: AL IN)



Source: Bloomberg

■ **Results below estimates on disappointing top-line:** Ashok Leyland (AL) reported growth of 29.3% YoY in its top-line at Rs28.8bn (PLe: Rs30.2bn). Volume for the quarter grew by 27.1% YoY, whereas average realisation grew by 1.8% YoY. Average realisation/vehicle resulted in a negative surprise, with a ~6% QoQ decline mainly hinting towards higher discounting on account of slowdown in demand. Spare revenues grew by 15.6% YoY to Rs1.8bn, whereas engine sales revenue grew by 21.5% YoY to Rs790m. On a QoQ basis, EBITDA margin (adj. for a forex loss of Rs150m) declined by 290bps to 7.8%. Employee expenses increased by 140bps QoQ on account of a one-time charge of bonus payment of Rs160m. At the same time, the AMC contract for DTC to the tune of Rs300m pertaining to FY12 was reflected in other expenditure. As a result, EBITDA stood at Rs2.2bn below our estimate of Rs2.5bn. PAT growth of 88.9% YoY was higher than the 35.7% YoY growth in EBITDA on account of lower tax rate (on account of higher R&D spend and MAT credit led).

■ **Conference call highlights:** According to the management, tractor, trailer and Multi Axle Vehicle (MAV) segments have witnessed de-growth, whereas Tipper segment has seen a growth of 30%+ during the quarter. Inventory during the quarter stood at 9,000 units compared to 9,500 units in Q2FY12. AL sold 3,600 units of the new LCV 'Dost' since its launch in October 2011. YTD FY12 production at Uttarakhand stood at 22,130 units. The loan on the books increased to Rs36bn compared to Rs33bn on account of working capital requirement.

■ **Outlook & Valuation:** We expect a muted 5% growth in M&HCV volumes in FY13E on account of slowdown in the truck and bus segment. We have modelled a volume of 27,000 units for LCV 'Dost' in FY13. However, with Q4FY12E expected to be a strong quarter in terms of volume and profitability, we maintain our 'Accumulate' call on the stock with TP based on 10x FY13E EPS.

Key financials (Y/e March)	2011	2012E	2013E	2014E
Revenues (Rs m)	111,177	130,996	160,675	173,929
Growth (%)	53.5	17.8	22.7	8.2
EBITDA (Rs m)	12,178	13,589	15,856	17,491
PAT (Rs m)	6,314	6,524	7,921	9,229
EPS (Rs)	2.4	2.5	3.0	3.5
Growth (%)	47.9	3.3	21.4	16.5
Net DPS (Rs)	1.0	1.0	1.3	1.3

Profitability & Valuation	2011	2012E	2013E	2014E
EBITDA margin (%)	11.0	10.4	9.9	10.1
RoE (%)	16.5	15.8	17.6	18.6
RoCE (%)	11.9	11.2	12.1	13.0
EV / sales (x)	0.9	0.8	0.6	0.6
EV / EBITDA (x)	7.8	7.4	6.3	5.6
PE (x)	11.3	10.9	9.0	7.7
P / BV (x)	1.8	1.7	1.5	1.4
Net dividend yield (%)	3.7	3.7	4.7	4.7

Source: Company Data; PL Research

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Exhibit 1: Q3FY12 Result Overview (Rs m)

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Net Sales	28,798	22,273	29.3	30,946	84,699	72,892	16.2
Raw Material Cost	21,288	16,294	30.6	22,757	62,026	53,608	15.7
<i>% of net sales</i>	<i>73.9</i>	<i>73.2</i>		<i>73.5</i>	<i>73.2</i>	<i>73.5</i>	
Staff Cost	2,723	2,439	11.6	2,515	7,736	6,579	17.6
<i>% of net sales</i>	<i>9.5</i>	<i>11.0</i>		<i>8.1</i>	<i>9.1</i>	<i>9.0</i>	
Other Expenses	2,533	1,879	34.8	2,362	6,926	5,626	23.1
<i>% of net sales</i>	<i>8.8</i>	<i>8.4</i>		<i>7.6</i>	<i>8.2</i>	<i>7.7</i>	
Total Expenses	26,544	20,612	28.8	27,634	76,687	65,813	16.5
Operating Profit	2,254	1,660	35.7	3,312	8,011	7,079	13.2
<i>Operating margin (%)</i>	<i>7.8</i>	<i>7.5</i>		<i>10.7</i>	<i>9.5</i>	<i>9.7</i>	
Interest	550	475	15.9	627	1,711	1,186	44.3
Depreciation	866	647	33.9	859	2,572	1,902	35.2
PBT before OI	837	539	55.5	1,825	3,729	3,991	(6.6)
Other Income	32	17	93.6	103	177	110	60.5
Exceptional item	(150)				(150)		
PBT	720	555	29.6	1,928	3,755	4,101	(8.4)
Total tax	51	122	(58.4)	388	683	770	(11.3)
<i>% of PBT</i>	<i>7.0</i>	<i>21.9</i>		<i>20.1</i>	<i>18.2</i>	<i>18.8</i>	
Adjusted PAT	819	434	88.9	1,541	3,222	3,332	(3.3)
Forex loss / (gain)	150	—		—	150	—	
Reported PAT	669	434	54.3	1,541	3,072	3,332	(7.8)

Source: Company Data, PL Research

Exhibit 2: Operating Metrics (Rs)

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Volume (nos)	23,425	18,437	27.1	23,659	66,361	64,428	3.0
Avg Price Realisation (net)	1,229,369	1,208,033	1.8	1,307,989	1,276,333	1,131,367	12.8
Material cost / vehicle	908,755	883,748	2.8	961,890	934,675	832,053	12.3
Other Expn / vehicle	108,152	101,931	6.1	99,821	104,361	87,324	19.5
EBITDA / vehicle	96,210	90,053	6.8	139,970	120,726	109,875	9.9
Net profit / vehicle	28,561	23,523	21.4	65,124	46,298	51,711	(10.5)

Source: Company Data, PL Research

Key Highlights of the Conference Call

- Industry grew by 9% YoY for 9MFY12 led by 12% YoY growth in the Truck segment and a 6% decline in the Bus Segment. However, for Q3FY12, the industry truck volumes grew by 19% YoY, whereas bus segment volumes were flat.
- According to the management, tractor trailer and Multi Axle Vehicle (MAV) segment have witnessed de-growth, whereas Tipper segment has seen a growth of 30%+ during the quarter.
- Spares revenues stood at Rs5.3bn, a growth of 17.5% YoY for 9MFY12. Engine sales declined by 9.1% YoY to 10,085 units for the same period.
- Inventory during the quarter stood at 9,000 units compared to 9,500 units in Q2FY12.
- AL sold 3,600 units of the new LCV 'Dost' since its launch in October 2011. During the quarter, the sales have been about 2,500 units.
- Uttarakhand production in January 2012 stood at 2,570, whereas cumulative production at Uttarakhand stood at 22,130 units.
- The loan on the books increased to Rs40bn compared to Rs33bn on account of working capital requirement. Out of the total debt, Rs10bn pertains to Working Capital which is likely to come down to Rs5bn by March-end.
- Capex till Dec'11 stood at Rs3.5bn, whereas full year guidance is pegged at Rs6bn. In addition to the capex, investment in various JVs (including Nissan and John Deere) stood at Rs1.5bn, with total investment spread over two years pegged at Rs2.5bn

Income Statement (Rs m)

Y/e March	2011	2012E	2013E	2014E
Net Revenue	111,177	130,996	160,675	173,929
Raw Material Expenses	81,210	96,488	120,254	130,045
Gross Profit	29,967	34,508	40,421	43,885
Employee Cost	9,597	10,461	11,768	12,710
Other Expenses	8,192	10,459	12,796	13,683
EBITDA	12,178	13,589	15,856	17,491
Depr. & Amortization	2,674	3,503	3,758	3,937
Net Interest	1,636	2,307	2,570	2,421
Other Income	151	90	250	260
Profit before Tax	8,019	7,869	9,778	11,394
Total Tax	1,705	1,495	1,858	2,165
Profit after Tax	6,314	6,374	7,921	9,229
Ex-Od items / Min. Int.	—	(150)	—	—
Adj. PAT	6,314	6,524	7,921	9,229
Avg. Shares O/S (m)	2,660.7	2,660.7	2,660.7	2,660.7
EPS (Rs.)	2.4	2.5	3.0	3.5

Cash Flow Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
C/F from Operations	9,695	6,356	11,966	10,577
C/F from Investing	(13,620)	(10,093)	(6,982)	(4,500)
C/F from Financing	531	7,984	(5,391)	(4,391)
Inc. / Dec. in Cash	(3,394)	4,248	(407)	1,686
Opening Cash	5,189	1,795	6,043	5,636
Closing Cash	1,795	6,043	5,636	7,322
FCFF	3,494	812	6,966	7,577
FCFE	7,137	10,579	5,466	7,077

Key Financial Metrics

Y/e March	2011	2012E	2013E	2014E
Growth				
Revenue (%)	53.5	17.8	22.7	8.2
EBITDA (%)	59.6	11.6	16.7	10.3
PAT (%)	47.9	3.3	21.4	16.5
EPS (%)	47.9	3.3	21.4	16.5
Profitability				
EBITDA Margin (%)	11.0	10.4	9.9	10.1
PAT Margin (%)	5.7	5.0	4.9	5.3
RoCE (%)	11.9	11.2	12.1	13.0
RoE (%)	16.5	15.8	17.6	18.6

Balance Sheet

Net Debt : Equity	0.6	0.7	0.6	0.5
Net Wrkng Cap. (days)	17	18	18	20

Valuation

PER (x)	11.3	10.9	9.0	7.7
P / B (x)	1.8	1.7	1.5	1.4
EV / EBITDA (x)	7.8	7.4	6.3	5.6
EV / Sales (x)	0.9	0.8	0.6	0.6

Earnings Quality

Eff. Tax Rate	21.3	19.0	19.0	19.0
Other Inc / PBT	1.9	3.0	2.6	2.3
Eff. Depr. Rate (%)	4.1	4.9	5.0	5.0
FCFE / PAT	113.0	162.1	69.0	76.7

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
Shareholder's Funds	39,629	42,891	46,920	52,258
Total Debt	25,683	35,450	33,950	33,450
Other Liabilities	5,338	6,291	6,325	6,325
Total Liabilities	70,650	84,632	87,195	92,033
Net Fixed Assets	49,918	52,415	52,657	51,720
Goodwill	—	—	—	—
Investments	12,300	16,300	18,300	19,800
Net Current Assets	8,390	15,853	16,159	20,433
<i>Cash & Equivalents</i>	<i>1,795</i>	<i>6,043</i>	<i>5,636</i>	<i>7,322</i>
<i>Other Current Assets</i>	<i>41,877</i>	<i>49,875</i>	<i>59,363</i>	<i>64,870</i>
<i>Current Liabilities</i>	<i>35,283</i>	<i>40,065</i>	<i>48,840</i>	<i>51,759</i>
Other Assets	43	64	80	80
Total Assets	70,650	84,632	87,195	92,033

Quarterly Financials (Rs m)

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Net Revenue	38,285	24,955	30,946	28,798
EBITDA	5,099	2,446	3,312	2,254
<i>% of revenue</i>	<i>13.3</i>	<i>9.8</i>	<i>10.7</i>	<i>7.8</i>
Depr. & Amortization	772	847	859	866
Net Interest	451	533	627	550
Other Income	41	41	103	32
Profit before Tax	3,917	1,107	1,928	720
Total Tax	935	245	388	51
Profit after Tax	2,982	863	1,541	669
Adj. PAT	2,982	863	1,541	819

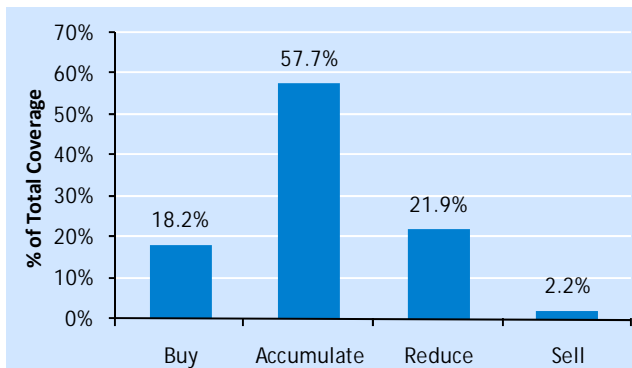
Key Operating Metrics

Y/e March	2011	2012E	2013E	2014E
M&HCV Goods (nos.)	68,009	74,183	78,479	84,132
M&HCV Passenger	25,226	23,015	24,670	26,484
Total Vol (nos.)	94,105	103,198	130,149	146,616
Net Real./Unt. (Rs)	1,181,415	1,269,366	1,234,549	1,186,291
RM Cost/Unt. (Rs)	862,975	934,975	923,975	886,975
Other Exp./Unt. (Rs)	87,052	101,346	98,320	93,327
EBITDA/Unt.	129,407	131,679	121,833	119,301
Net Profit/Unit. (Rs)	67,095	61,767	60,857	62,945

Source: Company Data, PL Research.

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Rating Distribution of Research Coverage



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BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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