

Ashok Leyland

Sensex: 26304

CMP: INR 87

Target: 63



Automobiles (CV)

Ashok Leyland's Q1FY16 results were inline with estimates on the topline at INR 49397 mn but PAT, at INR 2902 mn, came in lower than estimates because of lower than expected reduction in raw material cost and decent surge in employee cost & other expenses. Ashok Leyland's M&HCV volumes are expected to clock CAGR of 24.5% between FY15-17E and the company is likely to be a major beneficiary of pick up in the economy. In spite of all the positives, we maintain our Sell recommendation on Ashok Leyland as the stock is pricing in all the positives that may accrue to the company. We have SOTP based target price of INR 63.

M&HCV volumes up 64%

M&HCV volumes for the company increased by 64.1% YoY to 29852 units led by overall industry growth of ~43.0% and increase in market share. LCV volumes grew 4.4% YoY to 7497. The sales mix improved significantly in favour of M&HCVs vis-à-vis LCVs from 71.2% in Q2FY15 to 79.9% in Q2FY16 (Q1FY16 - 76.2%).

Realisations up 4.3%

Overall realisation/unit increased 4.3% YoY to INR 1.32 mn/ unit led by average price increase of 1.0%-1.5% across the product portfolio and change in sales mix in favour of M&HCVs. Industry wide discount during the quarter hovered between INR 0.20-0.25 Mn, which is largely unchanged from Q1FY16. Ashok Leyland has been maintaining the strategy of earning higher net selling price even after giving near-to-market prevailing discount levels, which is why the company has been taking regular price increase of ~1.0%-1.5% every quarter.

Margins up 482 bps YoY to 11.9%

COGS as a % of sales stood at 70.4% vis-à-vis 73.6% YoY and 69.4% QoQ. Even though the employee cost grew 29.8% YoY, it stood lower by 140 bps at 7.7% of sales whereas other expenses grew 52.6% YoY to INR 4937 mn (9.9% of sales v/s 10.1% YoY). During the downturn, the company had taken measures like cut in remuneration and layoffs to reduce employee costs and hence higher salary hikes is also aiding growth in employee cost.

Demand from Mining Industry yet to catch up

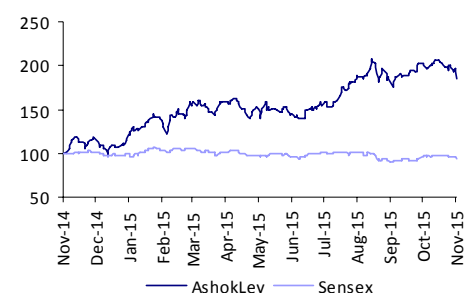
The current growth in the M&HCV industry is largely being driven by pent up replacement demand. Off late, new demand has also come from fleet operators catering to road construction sector, hence the company is seeing higher demand for multi axle vehicles (MAV). The demand from mining sector is yet to catch up and we expect tipper sales to partly fuel the next phase of growth for the CV industry on the back of pick up in mining operations (both Coal and Iron ore).

Outlook & Valuation

ALL, being a pure CV manufacturer, is a major beneficiary of the economic recovery and amongst the best play for continued traction in CV sales. With international quality & future-ready product portfolio and adequate capacities, the company is now reaping benefits of its investments. Further, the company has been generating good profits by keeping tight control over costs & opting for regular price hikes. We expect total volume, top line and bottomline to grow at a CAGR of 21.9%, 28.1% and 125.8% respectively between FY15-17E. In spite of all the positives, we maintain our Sell recommendation on Ashok Leyland as the stock is pricing in all the positives that may accrue to the company. We have SOTP based target price of INR 63.

Shareholding (%)	Sep-15
Promoters	38.82
FII's	36.09
DII's	11.02
Others	14.07

Relative Price Performance

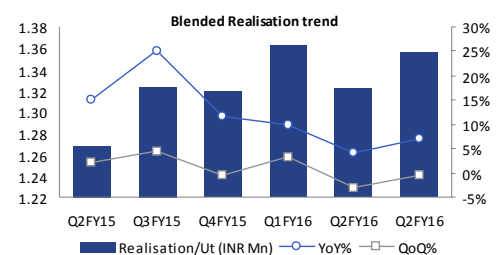
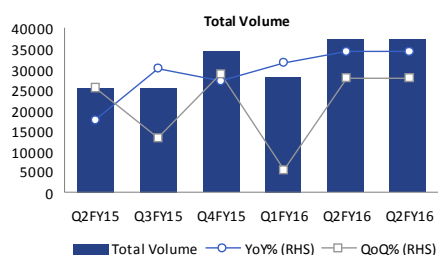
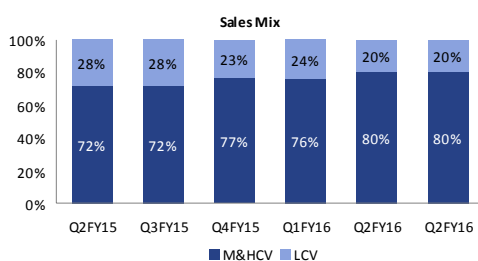


Key Data	
BSE Code	500477
NSE Code	ASHOKLEY
Bloomberg Code	AL IN
Reuters Code	ASOK.BO
Shares Outstanding (mn)	2845.88
Face Value	1
Mcap (INR bn)	247.02
52 Week H/L	99.50/43.20
2W Avg. Qty.NSE	17114048
Free Float (INR Bn)	151.14
Beta	1.37

Y/E (INR mn)	FY14	FY15	FY16E	FY17E
Net Sales	103009	139165	180926	228175
Growth (%)	-21.55%	35.10%	30.01%	26.12%
EBIDTAM (%)	0.59%	5.46%	10.33%	10.38%
Adj. PAT	(4857)	2539	9387	13241
Growth (%)	PL	LP	269.65%	41.06%
Adj. EPS (INR)	-1.83	0.89	3.30	4.65
P/E (x)	NA	82.42	26.68	18.91
EV/EBIDTA	181.35	30.98	14.71	11.53
Net Debt/Equity	1.05	0.51	0.43	0.35
RoACE (%)	1.14%	2.95%	12.31%	15.45%
RoAE (%)	-10.91%	5.31%	17.28%	21.88%

Quarterly performance

Particulars (INR Mn)	Q2FY16	Q1FY16	QoQ%	Q4FY15	Q3FY15	Q2FY15	YoY%	H1FY16	H1FY15	YoY%
Net Sales	49397	38412	28.60%	45057	33610	32177	53.52%	87810	56955	54.17%
Other Income	265	271	-2.36%	2534	173	1402	-81.13%	536	1789	-70.07%
Total Income	49662	38683	28.38%	47591	33783	33579	47.90%	88345	58744	50.39%
Raw Material Consumed	32747	25592	27.96%	28180	20364	20574	59.16%	58339	37723	54.65%
Stock Adjustment	(2431)	(2470)	-1.57%	82	2005	(892)	172.42%	(4901)	(2613)	87.53%
Purchase of Finished Goods	4468	3549	25.89%	4518	2662	4000	11.71%	8008	6731	18.96%
Employee Expenses	3784	3304	14.51%	3323	2770	2915	29.79%	7088	5746	23.34%
Provisions & Write Offs	0	0	NA	2242	0	0	NA	0	0	NA
Other Expenses	4937	4549	8.51%	4383	3406	3292	49.98%	9496	6074	56.33%
TOTAL EXPENDITURE	43505	34525	26.01%	42728	31208	29889	45.56%	78030	53662	45.41%
EBITDA	5893	3887	51.60%	2329	2402	2288	157.52%	9780	3293	196.97%
Depreciation	1129	1043	8.26%	1101	999	1031	9.57%	2173	2064	5.27%
EBIT	4763	2844	67.50%	1228	1403	1258	278.80%	7607	1229	518.82%
Interest	702	766	-8.35%	882	982	1008	-30.34%	1468	2071	-29.14%
PBT	4326	2349	84.16%	2880	594	1652	161.81%	6675	948	604.29%
Tax	1458	756	92.90%	580	273	446	227.30%	2214	221	904.08%
PAT	2868	1593	80.02%	2300	321	1207	137.64%	4461	727	513.32%
Extra-ordinary Items	(34)	0	NA	(64)	0	796	NA	(35)	869	NA
APAT	2902	1593	82.17%	2364	321	411	606.18%	4496	(142)	NA
Equity	2846	2846	0.00%	2846	2846	2846	0.00%	2846	2846	0.00%
Face Value	1	1	0.00%	1	1	1	0.00%	1	1	0.00%
EPS	1.02	0.56	82.17%	0.83	0.11	0.14	606.18%	1.58	(0.05)	NA
EBITDA (%)	11.93%	10.12%	181 bps	5.17%	7.15%	7.11%	482 bps	11.14%	5.78%	615 bps
OP (%)	12.47%	10.82%	164 bps	10.79%	7.66%	11.47%	99 bps	11.75%	8.92%	354 bps
APAT (%)	5.88%	4.15%	173 bps	5.25%	0.95%	1.28%	460 bps	5.12%	-0.25%	612 bps



Financials

Income Statement

Year End March (INR mn)	FY14	FY15	FY16E	FY17E
Net Sales	103009	139165	180926	228175
Growth in Sales (%)	-21.55%	35.10%	30.01%	26.12%
Cost of goods sold	76030	99652	127767	161605
Employees Cost	10511	11860	15379	18824
Other Expenses	15253	19233	18093	22818
Total Expenditure	102403	131570	162234	204502
EBIDTA (without OI)	606	7595	18693	23674
% Growth	-92.72%	1153.84%	146.13%	26.65%
EBITDA Margin %	0.59%	5.46%	10.33%	10.38%
Depreciation/Amortization	3770	4163	4117	4206
EBIT	(3165)	3431	14575	19467
EBIT Margin %	-3.07%	2.47%	8.06%	8.53%
Interest Expense	4529	3935	2998	2812
Other Income	6782	4926	1512	2047
EBT	(912)	4422	13088	18702
Tax Expenses	(1206)	1074	3701	5460
PAT	294	3348	9387	13241
Exceptionals	5151	809	0	0
APAT	(4857)	2539	9387	13241
% Growth	PL	LP	269.65%	41.06%
APAT Margin %	-4.71%	1.82%	5.19%	5.80%

Key Ratios

Year End March	FY14	FY15	FY16E	FY17E
Per Share Data (INR)				
Adj. EPS	-1.83	0.89	3.30	4.65
Growth (%)	PL	LP	269.65%	41.06%
CEPS	-0.41	2.36	4.75	6.13
DPS	0.00	0.45	1.48	2.09
BVPS	16.72	17.99	20.20	22.33
Return Ratios (%)				
RoACE	1.14%	2.95%	12.31%	15.45%
RoANW	-10.91%	5.31%	17.28%	21.88%
Liquidity Ratios				
Net Debt/Equity	1.05	0.65	0.48	0.47
Current Ratio	0.98	1.01	1.04	1.08
Efficiency Ratios				
Asset Turnover Ratio	1.15	1.58	2.13	2.56
Inventory Days	74	47	48	51
Debtor Days	48	34	31	31
Creditor days	124	91	82	77
Valuation Ratios				
P/E (x)	NA	82.42	26.68	18.91
P/BV (x)	4.40	4.09	4.36	3.94
P/CEPS (x)	NA	31.23	18.55	14.35
Dividend Yield (%)	0.00%	0.61%	1.69%	2.38%
EV/Net Sales (x)	1.07	1.69	1.52	1.20
EV/EBIDTA (x)	181.35	30.98	14.71	11.53

Balance Sheet

Year End March (INR mn)	FY14	FY15	FY16E	FY17E
Sources of funds				
Share capital	2661	2846	2846	2846
Reserves & Surplus	41818	48341	54633	60708
Total Networkth	44479	51187	57479	63554
Total Debt	46903	33497	27697	29697
Total Liabilities	91382	84684	85175	93251
Application of funds				
Net Block	56599	52556	50690	47983
Capital Work-in-Progress	1815	1201	450	450
Investments	27897	26488	26276	32146
Total Current Assets	31424	42845	51367	65491
Total Current Liabilities	31928	42521	49579	60588
Net Current Assets	(504)	324	1788	4903
Net Deferred Tax	(4068)	(5103)	(4877)	(4727)
Other Assets	9643	9218	10849	12496
Total Assets	91382	84684	85175	93251

Cash Flow

Year End March (INR mn)	FY14	FY15	FY16E	FY17E
EBT	(912)	4422	13088	18702
Less: Other Income/Exceptionals	(6782)	(4926)	(1512)	(2047)
Add: Depreciation	3770	4163	4117	4206
Add: Interest paid	4529	3935	2998	2812
Direct taxes paid	0	39	3927	5610
Change in Working Capital	6662	6568	(5864)	911
Cash Flow from operations (a)	7268	14201	16755	30195
Change in Fixed Assets	(6810)	1170	(2251)	(1500)
Change in CWIP	5074	614	751	0
Change in Investments	(4521)	3409	2212	(3870)
Others	(5442)	426	(1631)	(1647)
Cash Flow from Investing (b)	(11699)	5618	(919)	(7017)
Change in Equity	0	6667	0	0
Debt Raised/(Repaid)	3349	(13406)	(5801)	2000
Dividend paid	(2932)	(1596)	(261)	(1999)
Interest paid	(4529)	(3935)	(2998)	(2812)
Others	7457	(1749)	(9895)	(13398)
Cash Flow from Financing (c)	3345	(14020)	(18955)	(16209)
Net Change in Cash (a+b+c)	(1086)	5800	(3119)	6969
Opening Cash	139	117	7513	3113
Closing Cash	117	7513	3113	7139

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