

Ashok Leyland

BUY

INDUSTRY	AUTOS
CMP (as on 08 Nov 2017)	Rs 119
Target Price	Rs 141
Nifty	10,303
Sensex	33,219

KEY STOCK DATA	
Bloomberg	AL IN
No. of Shares (mn)	2,927
MCap (Rs bn) / (\$ mn)	349 / 5,365
6m avg traded value (Rs mn)	403

STOCK PERFORMANCE (%)			
52 Week high / low	Rs 134 / 74		
	3M	6M	12M
Absolute (%)	6.3	42.9	29.9
Relative (%)	2.5	31.9	9.5

SHAREHOLDING PATTERN (%)	
Promoters	51.29
FIs & Local MFs	9.38
FPIs	23.41
Public & Others	15.92

Source : BSE

Abhishek Jain
abhishekkumar.jain@hdfcsec.com
+91-22-6171-7320

Sneha Prashant
sneha.prashant@hdfcsec.com
+91-22-6171-7336

Ride on higher tonnage

Ashok Leyland (AL) posted in-line revenue (+31% YoY at Rs 60.4bn) in 2QFY18, while margins (-150bps YoY, 10.1%) came in below estimates. EBITDA at Rs 6.1bn (+14% YoY, 13% below est) was hit by higher discounts (+344bps YoY) and RM cost. APAT stood at Rs 3.3bn (+14% YoY, 18% below est).

The company has been a key beneficiary of a sharp recovery in the higher tonnage segment. The demand for high-tonnage vehicles (above 25 tonnage) is gaining traction on the back of government spending on the infrastructure sector continuously increasing, restrictions on overloading, and improving efficiency of trucks post GST.

AL is constantly gaining strong market share in the above-25T, 31T, 35T and 37T segments (mainly haulage and tipper trucks). We see strong volume growth (11% CAGR over FY17-F20E), supported by an increasing acceptance of iEGR technology and supporting macro-economic factors. A greater focus on high-margin businesses like spares, defence and exports is a potential margin trigger for the medium term.

Financial Summary

(Rs mn)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)	FY17	FY18E	FY19E	FY20E
Net Sales	60,469	46,224	30.8	42,378	42.7	200,187	227,083	260,555	291,954
EBITDA (adj.)	6,118	5,365	14.0	3,061	99.9	22,025	22,922	32,936	38,911
APAT	3,343	2,944	13.5	1,112	200.5	11,923	13,396	20,532	24,129
Diluted EPS (Rs)	1.14	1.01	13.5	0.4	200.5	4.3	4.6	7.0	8.2
P/E (x)						27.5	25.8	16.8	14.3
EV / EBITDA (x)						15.1	15.0	10.2	8.4
RoE (%)						20.7	20.7	27.9	28.4

Source: Company, HDFC sec Inst Research

We have a SOTP-based TP of Rs 141 (10x EV/EBITDA Sept 19E + 0.5x investment book). Maintain BUY.

Highlights of the quarter

- **Market share trend:** Domestic MHCV share increased by 60bps YoY to 33.6% in 2QFY18, led by strong market share gain in higher-tonnage vehicles (+25 tonnages, 300bps to 38%). Ashok Leyland is also aggressively expanding its product portfolio in the LCV segments to become a full-range player in the CV market. The company has launched a new version of Dost +, with a higher payload capacity. Guru ICV and Partner LCV are also receiving a favourable response from customers.
- **Bottom-line focus:** AL has concentrated on generating better profitability and curtailing debt via a reduction of working capital and controlling costs. Management's focussed approach is paying off, with market share gains in the M&HCV segment and near-zero debt in FY17.
- **Near-term outlook:** We expect 8% volume growth in 2H, owing to a pick-up in infra and construction activities. However, higher discounts would suppress margins.

AL's topline growth was in line with est, with 31% YoY increase in revenue supported by 23% volume growth

M&HCV volumes jumped 24% YoY (31.3k), and LCV volumes increased by 18.4 % (9.5k)

Although net ASP was up 7% owing to a price hike taken in Apr-17 for GST transition and BS4 vehicles, it declined sequentially in the absence of any price hike in 2Q

EBIDTA margins were hit by RM cost. Management indicated it will be difficult to take price hikes in 3Q, owing to prevailing higher discounts

HFL EBITDA turned positive (+8%) in 2QFY18, and management expects it will improve further on the back of product and cost rationalisation

Quarterly Financials Snapshot: Standalone

(Rs mn)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Volumes (in units)	40,985	33,440	22.6	28,495	43.8
Net ASP (Rs/veh)	1,475,391	1,382,300	6.7	1,487,202	(0.8)
Revenue	60,469	46,224	30.8	42,378	42.7
Material Expenses	43,074	31,337	37.5	29,425	46.4
Employee Expenses	4,825	3,692	30.7	4,376	10.2
Other Operating Expenses	6,452	5,830	10.7	5,516	17.0
EBITDA	6,118	5,365	14.0	3,061	99.9
Depreciation	1,411	1,261	11.9	1,321	6.8
EBIT	4,707	4,104	14.7	1,740	170.6
Other Income	530	382	38.9	357	48.4
Interest Cost	410	339	20.9	366	12.0
PBT	4,827	4,147	16.4	1,731	178.9
Tax	1,484	1,202	23.4	492	201.4
PAT	3,343	2,944	13.5	1,238	170.0
EO Items (Adj For Tax)	-	-	-	126	(100.0)
RPAT	3,343	2,944	13.5	1,112	200.5
Adj EPS	1.1	1.0	13.5	0.4	200.5

Source: Company, HDFC sec Inst Research

Margin Analysis: Standalone

	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Material Expenses % Net Sales	71.2	67.8	344	69.4	180
Employee Expenses % Net Sales	8.0	8.0	(1)	10.3	(235)
Other Expenses % Net Sales	10.7	12.6	(194)	13.0	(235)
EBITDA Margin (%)	10.1	11.6	(149)	7.2	290
Tax Rate (%)	30.7	29.0	175	28.5	229
APAT Margin (%)	5.5	6.4	(84)	2.9	261

Source: Company, HDFC sec Inst Research

The company is targeting 7-8% volume growth in FY18

Management indicated capex of Rs 6bn annually for FY18

Our TP of Rs 141 is based on 10x on Sept-19E EV/EBIDTA + 0.5x on the investment book

Volume Assumptions

(in units)	FY16	FY17	FY18	FY19E	FY20E
Domestic MHCV	98,814	102,313	107,146	120,599	135,756
% YoY	48.7	3.5	4.7	12.6	12.6
LCV	30,695	31,770	36,711	42,218	48,551
% YoY	12.7	3.5	15.6	15.0	15.0
Domestic volumes	129,509	134,083	143,858	162,817	184,307
% YoY	38.2	3.5	7.3	13.2	13.2
Exports	10,948	10,979	12,296	14,510	17,267
% YoY	(2.4)	0.3	12.0	18.0	19.0
Total sales	140,457	145,062	156,154	177,327	201,574
% YoY	33.9	3.3	7.6	13.6	13.7

Source: SIAM, HDFC sec Inst Research

SOTP Valuation

Rs mn	Value
EBITDA Sept-19E	35,924
EV/EBITDA (x)	10
EV from core business	359,236
Investments (0.5x FY19E BV)	24,017
Total EV	383,253
Net Debt	(17,977)
Equity value	401,230
Target price (Rs)	141

Source: HDFC sec Inst Research

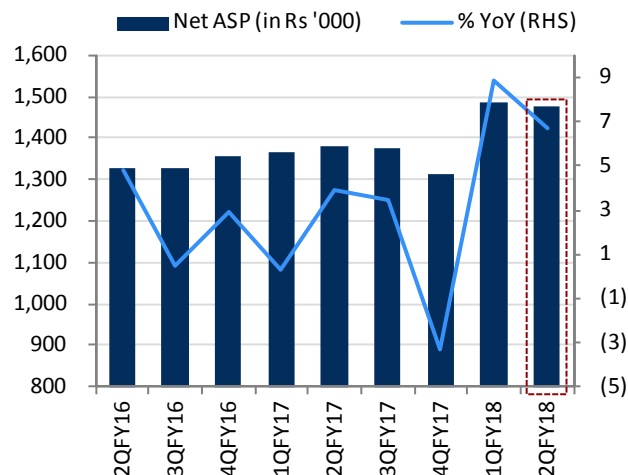
Despite a higher proportion of M&HCV, AL's ASP declined QoQ owing to higher discounts and absence of price hikes

EBITDA margin declined by 150bps YoY because of 344 bps YoY increase in RM cost, offset by 194 bps fall in other expenses

Share of MHCVs was higher in the mix, owing to increased demand of higher tonnage vehicles

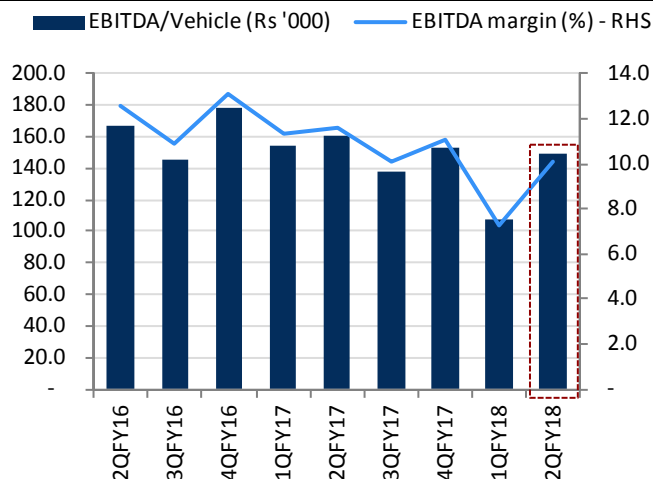
AL is also highly focussed on making business acyclical, by reducing India's truck business revenues to 50% in 5 years (from ~65% currently), by growing the share of buses, exports, spare parts and defence

ASP Declined QoQ Owing To Higher Discounts



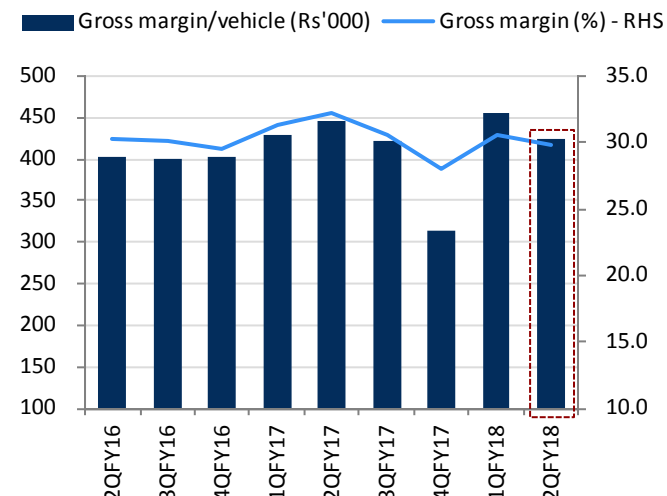
Source: Company, HDFC sec Inst Research

EBITDAM Declined YoY



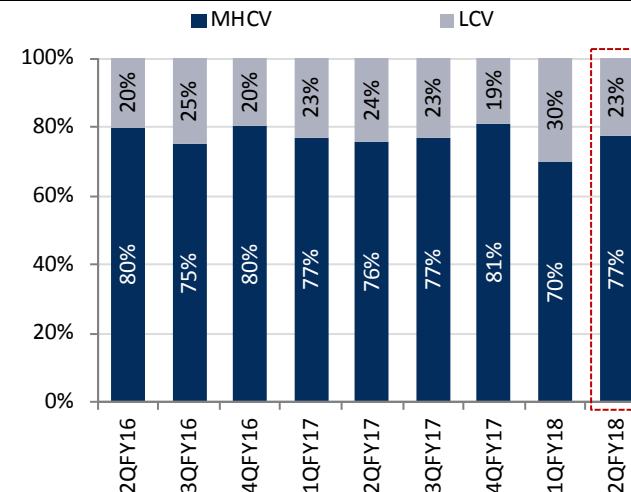
Source: Company, HDFC sec Inst Research

GM Declined Owing To Absence Of Price Hike



Source: Company, HDFC sec Inst Research

Product Mix Saw Shift In Favour Of M&HCV



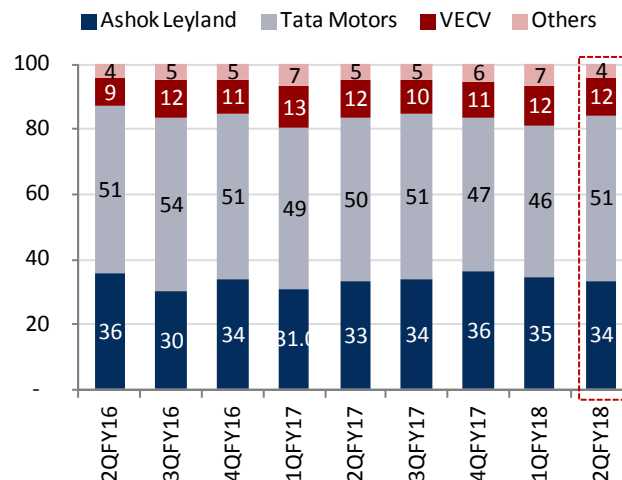
Source: Company, HDFC sec Inst Research

AL's market share climbed YoY, owing to strong traction in the high-tonnage truck segment

The company has adopted I-EGR technology for BS1V vehicles, which is getting a good response owing to lower maintenance cost (no requirement of ad Blue combines).

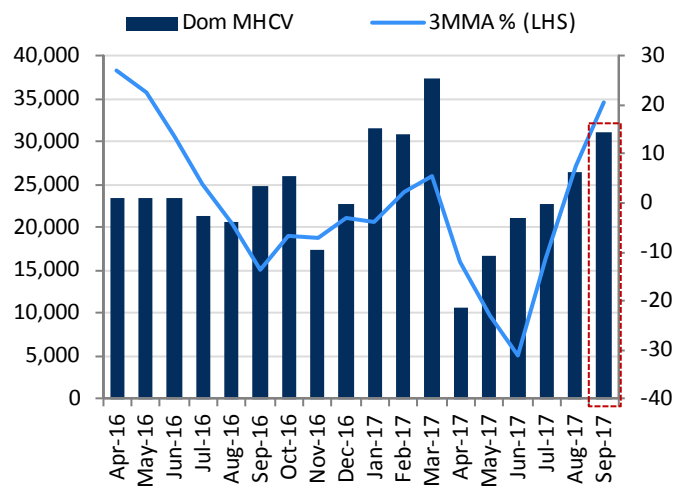
Post restructuring, during FY13-17, the balance sheet is now much leaner and net debt almost zero

AL's Market Share In Dom MHCV Increased In 2Q



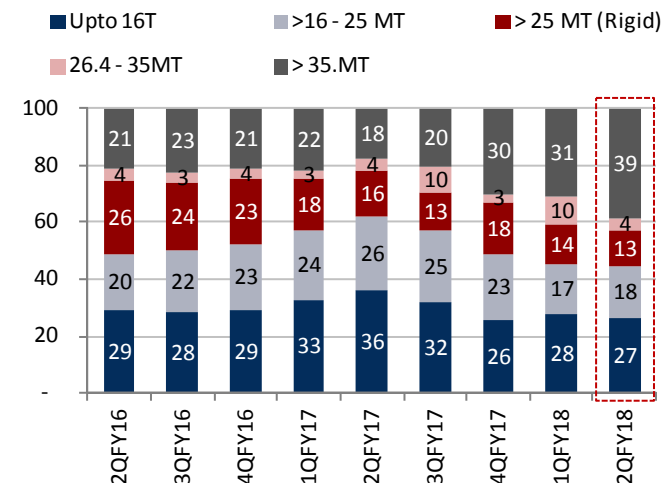
Source: SIAM, HDFC sec Inst Research

MHCV Volume Escalated In Q2



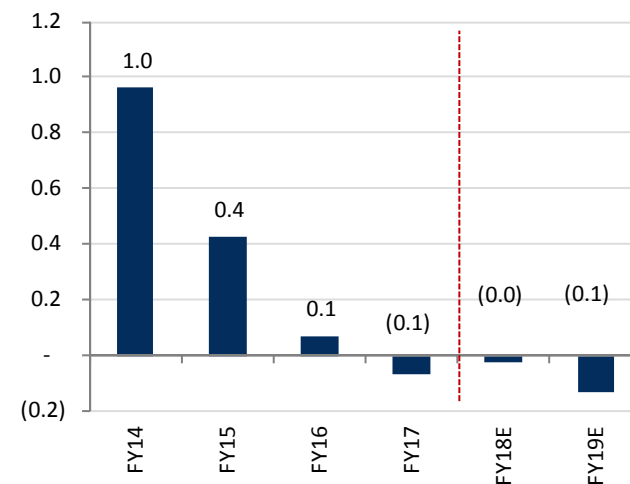
Source: SIAM, HDFC sec Inst Research

Tonnage Mix Turned Favourable YoY



Source: SIAM, HDFC sec Inst Research

Strong FCF To Drive Down AL's Gearing



Source: Company, HDFC sec Inst Research

Peer Valuations

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	Adj EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			RoE (%)		
					FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Maruti Suzuki	2,486	8,230	BUY	8,880	281.7	357.7	414.8	29.2	23.0	19.8	20.3	15.7	13.6	23.2	26.4	25.9
Tata Motors	1,487	438	BUY	516	27.1	44.8	52.8	16.2	9.8	8.3	5.3	3.7	3.2	10.1	14.9	15.2
Bajaj Auto	923	3,190	BUY	3,598	137.2	166.5	192.8	23.2	19.2	16.5	16.4	13.1	10.7	22.5	24.8	25.0
Eicher Motors	844	31,120	BUY	35,809	870.4	1,071.4	1,301.1	35.8	29.0	23.9	26.0	21.5	17.9	45.0	44.3	42.5
M&M	807	1,366	BUY	1,634	71.9	84.0	92.0	19.0	16.3	14.8	11.3	9.5	7.7	15.8	16.5	16.0
Hero Motocorp	725	3,632	BUY	4,360	173.8	208.6	227.3	20.9	17.4	16.0	14.1	11.7	10.7	32.4	35.1	34.6
Ashok Leyland	349	119	BUY	141	4.6	7.0	8.2	26.0	17.0	14.4	14.7	10.0	8.2	20.7	27.9	28.4
Force Motors	46	3,448	BUY	5,186	154.9	229.1	297.3	22.3	15.1	11.6	14.1	9.4	7.1	11.5	15.1	16.9
SML Isuzu	14	943	BUY	1,225	23.2	52.7	69.8	40.6	17.9	13.5	18.9	9.9	7.7	8.3	17.3	20.2
Atul Auto	9	430	BUY	528	24.5	31.5	36.5	17.6	13.7	11.8	10.2	8.0	6.6	26.9	28.5	27.2

Source: Company, HDFC sec Inst Research

Income Statement Standalone

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	189,373	200,187	227,083	260,555	291,954
Growth (%)	39.6	5.7	13.4	14.7	12.1
Material Expenses	131,949	139,573	159,447	178,760	200,725
Employee Expenses	13,851	15,309	16,313	17,618	19,204
Other Operating Expenses	21,027	23,279	28,401	31,241	33,115
EBITDA	22,546	22,025	22,922	32,936	38,911
EBITDA Margin (%)	11.9	11.0	10.1	12.6	13.3
EBITDA Growth (%)	119.6	(2.3)	4.1	43.7	18.1
Depreciation	4,879	5,179	5,301	5,572	6,035
EBIT	17,667	16,846	17,621	27,364	32,875
Other Income (Including EO Items)	1,176	1,363	1,600	1,627	1,871
Interest	2,476	1,554	871	476	277
PBT	16,367	16,655	18,350	28,516	34,470
Tax (Incl Deferred)	4,369	1,070	4,955	7,985	10,341
RPAT	11,998	15,585	13,396	20,532	24,129
EO (Loss) / Profit (Net Of Tax)	8,203	3,662	-	-	
APAT	3,795	11,923	13,396	20,532	24,129
APAT Growth (%)	13.3	214.2	12.4	53.3	17.5
Adjusted EPS (Rs)	1.4	4.3	4.6	7.0	8.2
EPS Growth (%)	16.4	213.9	6.5	53.3	17.5

Source: Company, HDFC sec Inst Research

Balance Sheet Standalone

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	2,846	2,846	2,846	2,846	2,846
Reserves	52,296	58,557	65,415	75,927	88,280
Total Shareholders' Funds	55,142	61,405	68,261	78,774	91,128
Minority Interest					
Long-term Debt	19,951	13,922	7,350	4,539	2,350
Short-term Debt	-	-	-	-	
Total Debt	19,951	13,922	7,350	4,539	2,350
Net Deferred Taxes	3,291	1,269	1,269	1,554	2,244
Long-term Provisions & Others	3,119	6,169	13,015	16,822	18,918
TOTAL SOURCES OF FUNDS	81,504	82,767	89,896	101,689	114,641
APPLICATION OF FUNDS					
Net Block	47,920	49,708	51,982	53,402	55,830
Goodwill	547	1,576	992	1,463	1,632
Investments	19,804	20,017	22,017	24,017	26,017
LT Loans & Advances	14,775	15,192	18,167	20,844	23,356
Total Non-current Assets	83,046	86,492	93,158	99,727	106,835
Inventories	16,250	25,011	27,996	31,409	35,994
Debtors	12,509	8,599	16,798	17,846	19,997
Cash & Equivalents	15,931	17,891	8,715	14,646	20,327
Total Current Assets	44,692	51,504	53,509	63,901	76,318
Creditors	25,877	32,508	32,763	36,731	41,795
Other Current Liabilities & Provns	20,358	22,721	24,009	25,209	26,722
Total Current Liabilities	46,234	55,229	56,772	61,940	68,516
Net Current Assets	(1,542)	(3,726)	(3,262)	1,961	7,802
TOTAL APPLICATION OF FUNDS	81,504	82,767	89,896	101,689	114,642

Source: Company, HDFC sec Inst Research

Cash Flow Standalone

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Reported PBT	16,367	16,655	18,350	28,516	34,470
Non-operating & EO items	(8,203)	(3,662)	-	-	-
Interest expenses	2,476	1,554	871	476	277
Depreciation	4,879	5,179	5,301	5,572	6,035
Working Capital Change	8,932	5,851	(5,915)	1,836	(574)
Tax Paid	(4,369)	(1,070)	(4,955)	(7,985)	(10,341)
OPERATING CASH FLOW (a)	20,082	24,507	13,653	28,416	29,867
Capex	387	(7,971)	(6,992)	(7,463)	(8,463)
Free cash flow (FCF)	20,469	16,536	6,661	20,953	21,404
Investments	2,600	(213)	(2,000)	(2,000)	(2,000)
Non-operating Income	1,444	(812)	143	285	518
INVESTING CASH FLOW (b)	4,430	(8,995)	(8,849)	(9,178)	(9,945)
Debt Issuance/(Repaid)	(13,560)	(6,029)	(6,572)	(2,811)	(2,189)
Interest Expenses	(2,476)	(1,554)	(871)	(476)	(277)
FCFE	4,432	8,953	(782)	17,666	18,939
Share Capital Issuance	-	-	-	-	-
Dividend	(3,197)	(5,969)	(6,538)	(10,020)	(11,776)
FINANCING CASH FLOW (c)	(19,234)	(13,552)	(13,980)	(13,307)	(14,241)
NET CASH FLOW (a+b+c)	5,278	1,960	(9,177)	5,931	5,681
Closing Cash & Equivalents	16,876	17,891	8,715	14,646	20,327

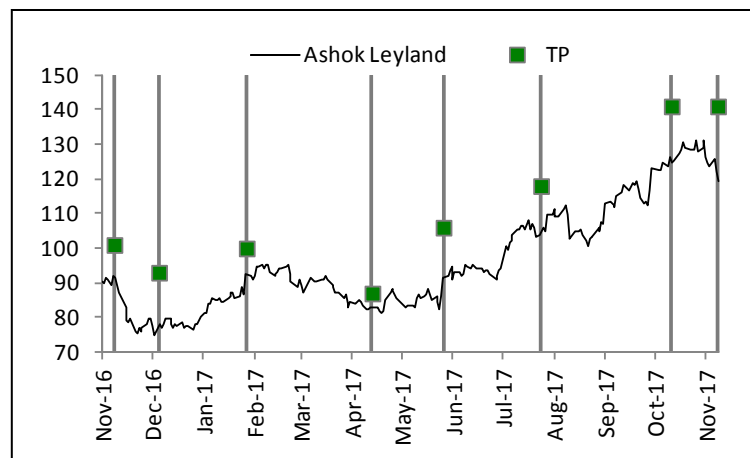
Source: Company, HDFC sec Inst Research

Key Ratios Standalone

	FY16	FY17	FY18	FY19E	FY20E
PROFITABILITY (%)					
GPM	30.3	30.3	29.8	31.4	31.2
EBITDA Margin	11.9	11.0	10.1	12.6	13.3
APAT Margin	2.0	6.0	5.9	7.9	8.3
RoE	7.2	20.7	20.7	27.9	28.4
RoIC (or Core RoCE)	18.6	26.3	20.3	28.5	31.6
RoCE	6.7	17.4	18.3	25.8	26.9
EFFICIENCY					
Tax Rate (%)	26.7	6.4	27.0	28.0	30.0
Fixed Asset Turnover (x)	3.6	3.4	3.4	3.6	3.6
Inventory (days)	31.3	45.6	45.0	44.0	45.0
Debtors (days)	24.1	15.7	27.0	25.0	25.0
Payables (days)	49.9	59.3	52.7	51.5	52.3
Other Current Liab & Provns (days)	39.2	41.4	38.6	35.3	33.4
Cash Conversion Cycle (days)	5.6	2.0	19.3	17.5	17.7
Debt/EBITDA (x)	0.9	0.6	0.3	0.1	0.1
Net D/E (x)	0.1	(0.1)	(0.0)	(0.1)	(0.2)
Interest Coverage (x)	7.1	10.8	20.2	57.5	118.9
PER SHARE DATA (Rs)					
EPS	1.4	4.3	4.6	7.0	8.2
CEPS	3.0	6.0	6.4	8.9	10.3
Dividend	1.0	2.1	3.0	3.5	4.0
Book Value	19.4	21.6	23.3	26.9	31.1
VALUATION					
P/E (x)	86.2	27.5	25.8	16.8	14.3
P/BV (x)	6.1	5.5	5.1	4.4	3.8
EV/EBITDA (x)	15.1	15.1	15.0	10.2	8.4
EV/Revenues (x)	1.8	1.7	1.5	1.3	1.1
OCF/EV (%)	5.9	7.4	4.0	8.5	9.1
FCF/EV (%)	6.0	5.0	1.9	6.3	6.5
FCFE/Mkt Cap (%)	1.3	2.7	(0.2)	5.1	5.5
Dividend Yield (%)	0.8	1.8	2.5	3.0	3.4

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
9-Nov-16	91	BUY	101
5-Dec-16	75	BUY	93
27-Jan-17	87	BUY	100
13-Apr-17	83	BUY	87
28-May-17	92	BUY	106
25-Jul-17	104	BUY	118
11-Oct-17	126	BUY	141
9-Nov-17	119	BUY	141

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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