

# Ashok Leyland (AL IN)

Future ready!

INDIA | AUTOMOBILES | Company Update

24 April 2017

- Our visit to AL's analyst day bolsters our fundamental positive view on the company.
- Focus on R&D has helped AL to get an upper hand over competition. Its unique iEGR BS4 engines are less expensive and better than competitors' SCR engines.
- It aims to become a leader in both MHCV and LCV segments, in the next 3-5 years.
- Defence, after-market, and exports are key growth drivers; it expects these to contribute 50% of revenues, up from 30% right now.
- Volumes could be weak in the near term, despite slower-than-expected pre-buying, as fleet operators have bought MHCVs only due to high discounts (highlighted [here](#)) and are not in a hurry to buy more.
- We tweak our estimates and reiterate BUY with a TP of Rs 105 (Rs 120 earlier)

## Innovative technology

AL has launched its BS4 trucks (130-400HP) using in-house technology named 'intelligent EGR or iEGR', which gives it an upper hand vs. peers (as per the management). AL says iEGR helps it to become more competitive as: (1) in iEGR, the additional cost of converting a BS3 engine to BS4 is Rs 20,000, while competition uses SCR technology that costs Rs 60-80K, (2) iEGR has less electronic components, hence it is more suited to Indian roads with lower maintenance, and (3) it has 10% higher fuel efficiency vs. peers.

Connected vehicles: In first in the industry, AL will start providing OBD devices (on-board diagnostics) on all its MHCVs – which it expects would help fleet operators in getting live information about vehicle location, mileage, and easy mobile-based diagnostics in case of a breakdown. This, the management believes, will help gain market share.

In the LCV segment, AL targets to launch a new vehicle every quarter in the 2-7 tonne category. Overall, it is targeting to be a #1 player in both MHCVs and LCVs in 3-5 years.

## Focus on defence

While defence forms a small proportion of AL's revenue (~3%), it expects strong growth in this domain. In recent years, the company has launched new products (including 10x10 trucks for carrying missiles, bullet-proof vehicles, mine-protected vehicles, mounted-gun vehicles) that have started gaining good traction. Its orderbook in this segment has been rising. Management sees defence revenues growing by 10x in the next five years.

## To strengthen exports dominance

Exports and after-market are other segments where AL sees robust growth. It has been seeing strong traction in exports and now dominates 60% share (up from 20%) in the Middle East; it is a leader in Ukraine. To strengthen its export footprint, AL will set up a plant in Kenya and the Ivory Coast over the next two years.

## After-market could be a big growth driver

After-market sales contributed 9-10% of AL's total sales, compared to 25%+ contribution in the case of global OEMs like Scania and Paccar. This is mainly because component players directly sell OE parts in the replacement market. To address this, AL has replaced few component providers and has launched parts with the name Ashok Leyland embedded on it. Management sees the revenue contribution from these new focus segments (defence, exports, after-market) to reach 50% of revenues (from 30%) within the next five years.

**Outlook and valuation:** While AL remains structurally strong, its near term might remain weak due to fragile demand. We cut our estimates by 7%, but reiterate BUY with a revised TP of Rs 105 (Rs 120 previously).

## BUY (Maintain)

CMP RS 87

TARGET RS 105 (21%)

### COMPANY DATA

O/S SHARES (MN) :	2846
MARKET CAP (RSBN) :	248
MARKET CAP (USDBN) :	3.7
52 - WK HI/LO (RS) :	113 / 74
LIQUIDITY 3M (USDMN) :	13.7
PAR VALUE (RS) :	1

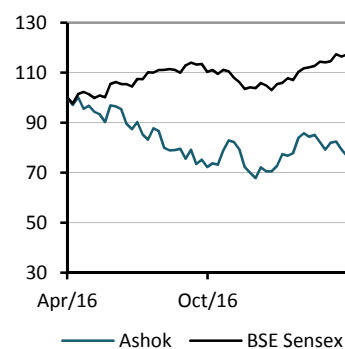
### SHARE HOLDING PATTERN, %

	Dec 16	Sep 16	Jun 16
PROMOTERS :	50.4	50.4	50.4
FII / NRI :	12.0	10.1	10.7
FI / MF :	8.8	8.6	9.5
NON PRO :	14.8	16.8	16.9
PUBLIC & OTHERS :	14.0	14.2	12.5

### PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-3.9	12.0	-17.9
REL TO BSE	-6.0	2.1	-36.8

### PRICE VS. SENSEX



Source: Phillip Capital India Research

### KEY FINANCIALS

Rs mn	FY17E	FY18E	FY19E
Net Sales	195,626	219,661	251,962
EBIDTA	21,341	23,974	27,500
Net Profit	11,442	13,278	15,798
EPS, Rs	4.0	4.7	5.6
PER, x	21.6	18.6	15.7
EV/EBIDTA, x	11.3	9.7	8.0
P/BV, x	3.8	3.2	2.7
ROE, %	17.7	17.4	17.5
Debt/Equity (%)	24.5	15.5	8.7

Source: PhillipCapital India Research Est.

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## Financials

### Statement

Y/E Mar, Rs mn	FY16	FY17e	FY18e	FY19e
<b>Net sales</b>	<b>185,771</b>	<b>195,626</b>	<b>219,661</b>	<b>251,962</b>
Growth, %	41	5	12	15
Other income	2,445	3,819	4,392	5,050
Total income	188,216	199,445	224,053	257,013
Raw material expenses	-132,620	-139,213	-156,389	-179,395
Employee expenses	-13,987	-14,759	-16,580	-19,019
Other Operating expenses	-19,949	-24,133	-27,110	-31,099
<b>EBITDA (Core)</b>	<b>21,660</b>	<b>21,341</b>	<b>23,974</b>	<b>27,500</b>
Growth, %	111.0	(1.5)	12.3	14.7
Margin, %	11.7	10.9	10.9	10.9
Depreciation	-4,437	-4,826	-5,051	-5,351
<b>EBIT</b>	<b>17,223</b>	<b>16,515</b>	<b>18,923</b>	<b>22,149</b>
Growth, %	182.2	(4.1)	14.6	17.1
Margin, %	9.3	8.4	8.6	8.8
Interest paid	-2,735	-1,338	-1,246	-886
Other Non-Operating Income	811	698	698	1,305
<b>Pre-tax profit</b>	<b>15,586</b>	<b>16,346</b>	<b>18,969</b>	<b>22,569</b>
Tax provided	-4,474	-4,904	-5,691	-6,771
<b>Profit after tax</b>	<b>11,112</b>	<b>11,442</b>	<b>13,278</b>	<b>15,798</b>
<b>Net Profit</b>	<b>11,112</b>	<b>11,442</b>	<b>13,278</b>	<b>15,798</b>
Growth, %	375.1	3.0	16.0	19.0
<b>Net Profit (adjusted)</b>	<b>11,112</b>	<b>11,442</b>	<b>13,278</b>	<b>15,798</b>
Unadj. shares (m)	2,846	2,846	2,846	2,846
Wtd avg shares (m)	2,846	2,846	2,846	2,846

### Balance Sheet

Y/E Mar, Rs mn	FY16	FY17e	FY18e	FY19e
Cash & bank	15,681	21,568	26,964	35,007
Debtors	12,509	13,173	14,792	16,967
Inventory	17,306	18,224	20,463	23,472
Loans & advances	16,583	16,583	16,583	16,583
Total current assets	63,227	70,696	79,950	93,177
Investments	19,179	21,179	23,179	25,179
Gross fixed assets	82,770	85,270	90,270	95,270
Less: Depreciation	-32,023	-36,849	-41,900	-47,251
Add: Capital WIP	546	546	546	546
Net fixed assets	51,293	48,967	48,916	48,565
<b>Total assets</b>	<b>133,700</b>	<b>140,842</b>	<b>152,045</b>	<b>166,921</b>
Current liabilities	46,938	48,297	51,613	56,069
Provisions	5,161	5,161	5,161	5,161
Total current liabilities	52,099	53,458	56,774	61,230
Non-current liabilities	26,615	22,615	18,883	15,164
Total liabilities	78,714	76,073	75,657	76,394
Paid-up capital	2,846	2,846	2,846	2,846
Reserves & surplus	52,296	62,079	73,698	87,837
Shareholders' equity	54,986	64,769	76,388	90,527
<b>Total equity &amp; liabilities</b>	<b>133,700</b>	<b>140,842</b>	<b>152,045</b>	<b>166,921</b>

Source: Company, PhillipCapital India Research Estimates

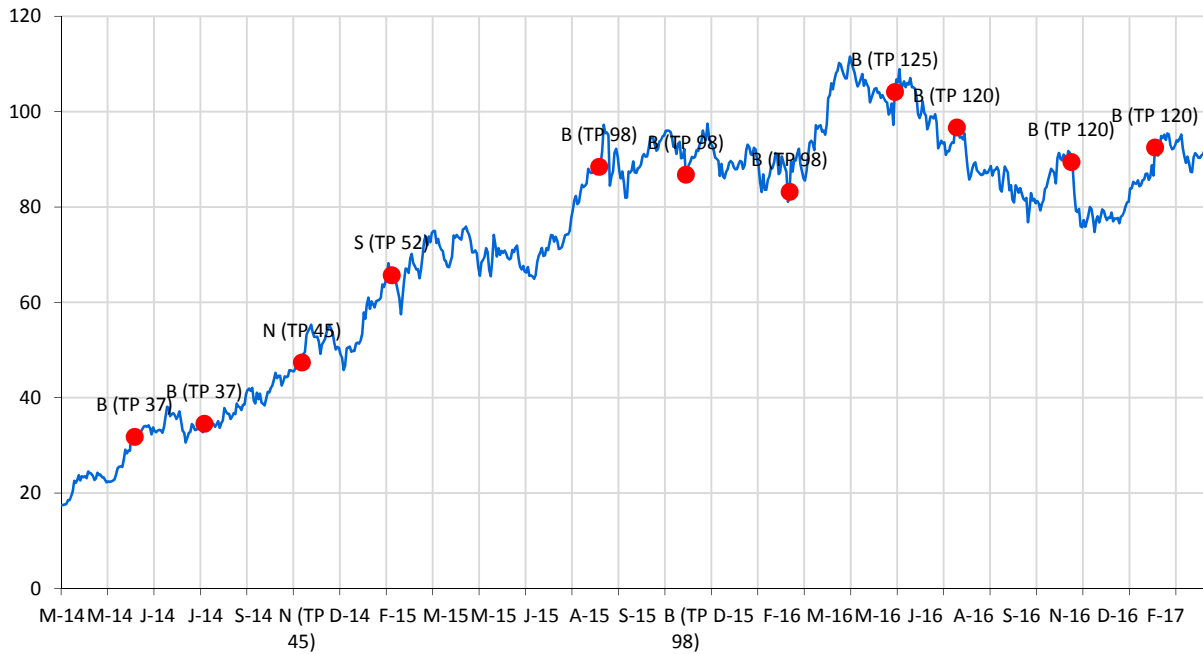
### Cash Flow

	FY16	FY17e	FY18e	FY19e
Pre-tax profit	11,692	16,346	18,969	22,569
Depreciation	4,437	4,826	5,051	5,351
Chg in working capital	-3,162	-222	-542	-728
Total tax paid	-1,174	-4,904	-5,423	-6,489
<b>Cash flow from operating activities</b>	<b>15,130</b>	<b>16,046</b>	<b>17,787</b>	<b>27,897</b>
Capital expenditure	-1,973	-2,500	-5,000	-5,000
Chg in investments	7,310	-2,000	-2,000	-2,000
<b>Cash flow from investing activities</b>	<b>5,337</b>	<b>-4,500</b>	<b>-7,000</b>	<b>-7,000</b>
Free cash flow	20,467	11,546	10,787	20,897
Equity raised/(repaid)	-5,056	-236	32	45
Debt raised/(repaid)	-5,820	-4,000	-4,000	-4,000
Dividend (incl. tax)	-1,423	-1,423	-1,423	-1,423
<b>Cash flow from financing activities</b>	<b>-12,298</b>	<b>-5,659</b>	<b>-5,391</b>	<b>-5,378</b>
Net chg in cash	8,168	5,887	5,396	15,519

### Valuation Ratios

	FY16	FY17e	FY18e	FY19e
<b>Per Share data</b>				
EPS (INR)	3.9	4.0	4.7	5.6
Growth, %	375.1	3.0	16.0	19.0
Book NAV/share (INR)	19.3	22.8	26.8	31.8
FDEPS (INR)	3.9	4.0	4.7	5.6
CEPS (INR)	5.5	5.7	6.4	7.4
CFPS (INR)	5.2	5.4	6.1	6.8
DPS (INR)	0.5	0.5	0.5	0.5
<b>Return ratios</b>				
Return on assets (%)	9.7	8.9	9.6	10.2
Return on equity (%)	20.2	17.7	17.4	17.5
Return on capital employed (%)	15.7	14.5	15.4	16.3
<b>Turnover ratios</b>				
Asset turnover (x)	3.6	3.8	4.4	5.0
Sales/Total assets (x)	1.4	1.4	1.5	1.6
Sales/Net FA (x)	3.5	3.9	4.5	5.2
Working capital/Sales (x)	(0.0)	(0.0)	(0.0)	(0.0)
Working capital days	(8.9)	(8.1)	(6.3)	(4.4)
<b>Liquidity ratios</b>				
Current ratio (x)	1.2	1.3	1.4	1.5
Quick ratio (x)	0.9	1.0	1.0	1.1
Interest cover (x)	7.0	19.1	29.0	25.0
Dividend cover (x)	7.8	8.0	9.3	11.1
Total debt/Equity (%)	36.1	24.5	15.5	8.7
Net debt/Equity (%)	7.6	(8.8)	(19.8)	(30.0)
<b>Valuation</b>				
PER (x)	22.3	21.6	18.6	15.7
Price/Book (x)	4.5	3.8	3.2	2.7
Yield (%)	0.6	0.6	0.6	0.6
EV/Net sales (x)	1.4	1.2	1.1	0.9
EV/EBITDA (x)	11.6	11.3	9.7	8.0
EV/EBIT (x)	14.6	14.6	12.3	10.0

## Stock Price, Price Target and Rating History



## Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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