

Ashok Leyland

Performance Highlights

Quarterly highlights (Standalone)

Y/E March (₹ cr)	3QFY16	3QFY15	% chg (yoy)	2QFY16	% chg (qoq)
Net Sales	4,085	3,361	21.6	4,940	(17.3)
EBITDA	430	240	78.9	594	(27.7)
EBITDA margin (%)	10.5	7.1	340 bp	12.0	(150 bp)
Adj. PAT	205	32	539.2	292	(29.7)

Source: Company, Angel Research

Results in line with estimates: Ashok Leyland Ltd (ALL)'s 3QFY2016 results have come in in line with our estimates. Revenues grew 22% yoy to ₹4,085cr, driven mainly by a 23% yoy growth in volumes. MHCV segment volumes (constituting 80% of total volumes) grew strongly by 27% yoy while volumes in the LCV segment grew by 9% yoy. Realisation/vehicle declined marginally by 1% yoy mainly due to slight deterioration in the product mix. The operating margin improved by 340bp yoy to 10.5% given the leverage due to strong volume growth and soft commodity prices. Margins were slightly lower than our estimate of 11%. The EBITDA at ₹430cr was in line with our expectations of ₹440cr. During the quarter, the company incurred an exceptional loss of ₹6.5cr (₹5cr due to diminution in value of investments in JV/Subsidiary and ₹1.5cr due to loss on sale of immovable property). The Adjusted PAT, at ₹205cr, is in line with our estimate of ₹196cr.

Outlook and valuation: Given the improvement in fleet operators' sentiments due to revival in the economy, improvement in profitabilities due to falling diesel prices, and policy action initiated in the infrastructure and the mining space, we expect demand for MHCVs to continue to grow in double digits. The MHCV industry is clearly in an up-cycle and we estimate ~20% CAGR in volume over FY2015- FY2017. Also, a better mix (higher proportion of MHCVs), reduction in record high discounts due to volume growth, and operating leverage would result in margin expansion, going forward. We expect the operating margin to improve from 7.6% in FY2015 to 11.4% in FY2017 (in line with the margins witnessed in the previous up-cycle in FY2011). **We reiterate our Buy on the stock with a price target of ₹111 (based on 13x FY2017E EV/EBITDA).**

Key financials (Standalone)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net Sales	9,943	13,562	18,404	21,995
% chg	(20.3)	36.4	35.7	19.5
Adjusted net profit	(476)	234	977	1,336
% chg	-	-	317.7	36.8
EBITDA (%)	1.7	7.6	11.0	11.4
EPS (₹)	(1.8)	0.8	3.4	4.7
P/E (x)	-	98.6	24.2	17.7
P/BV (x)	4.8	4.5	4.3	3.9
RoE (%)	(10.7)	4.6	17.7	22.3
RoCE (%)	(6.0)	5.6	17.7	22.8
EV/Sales (x)	2.5	1.8	1.4	1.1
EV/EBITDA (x)	150.3	23.8	12.4	9.8

Source: Company, Angel Research; Note: CMP as of February 12, 2016

BUY

CMP	₹83
Target Price	₹111

Investment Period	12 Months
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Stock Info

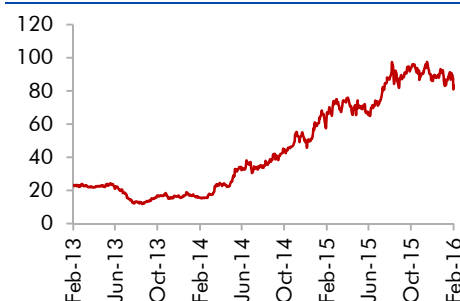
Sector	Automobile
Market Cap (₹ cr)	23,678
Net Debt (₹ cr)	1,432
Beta	1.3
52 Week High / Low	100/64
Avg. Daily Volume	1,245,853
Face Value (₹)	1.0
BSE Sensex	22,986
Nifty	6,981
Reuters Code	ASOK.BO
Bloomberg Code	AL@IN

Shareholding Pattern (%)

Promoters	50.4
MF / Banks / Indian FIs	10.5
FII / NRIs / OCBs	25.5
Indian Public / Others	13.6

Abs. (%)	3m	1yr	3yr
Sensex	(11.1)	(20.2)	17.5
Ashok Leyland	(8.1)	24.1	256.3

3 year price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly financial performance (Standalone)

Y/E March (₹ cr)	3QFY16	3QFY15	% chg (yoy)	2QFY16	% chg (qoq)	9MFY16	9MFY15	% chg (yoy)
Net Sales	4,085	3,361	21.6	4,940	(17.3)	12,866	9,056	42.1
Consumption of RM	2,380	2,237	6.4	3,032	(21.5)	7,724	5,748	34.4
(% of sales)	58.3	66.6		61.4		60.0	63.5	
Staff costs	349	277	26.0	378	(7.7)	1,058	852	24.2
(% of sales)	8.5	8.2		7.7		8.2	9.4	
Purchase of traded goods	512	266	92.2	446	14.8	1,312	939	39.7
(% of sales)	12.5	7.9		9.0		10.2	10.4	
Other expenses	415	341	21.7	490	(15.3)	1,359	948	43.4
(% of sales)	10.1	10.1		9.9		10.6	10.5	
Total Expenditure	3,656	3,121	17.1	4,345	(15.9)	11,453	8,487	35.0
Operating Profit	430	240	78.9	594	(27.7)	1,413	570	148.1
OPM (%)	10.5	7.1		12.0		11.0	6.3	
Interest	67	98	(32.2)	70	(5.1)	213	305	(30.1)
Depreciation	109	100	8.8	113	(3.8)	326	306	6.4
Other income	26	17	49.9	26	(2.2)	79	87	(8.9)
PBT (excl. Extr. Items)	280	59		438		953	45	
Extr. income/expense	(7)	0		(5)		(12)	109	(110.7)
PBT (incl. Extr. Items)	274	59	361.0	433	(36.7)	941	154	
(% of sales)	6.7	1.8		8.8		7.3	1.7	
Provision for taxation	75	27		146		297	49	
(% of PBT)	26.8	46.0		33.3		31.1	109.2	
Reported PAT	199	32	518.9	287	(30.7)	645	105	515.0
Adj PAT	205	32		292		656	(4)	
Adj. PATM	5.0	1.0		5.9		5.1	(0.0)	
Equity capital (cr)	285	266		285		285	266	
Adjusted EPS (₹)	0.7	0.1		1.0		2.3	(0)	

Source: Company, Angel Research

Exhibit 2: 3QFY2016 – Actual vs Angel estimates

Y/E March (₹ cr)	Actual	Estimates	Variation (%)
Net Sales	4,085	4,015	1.7
EBITDA	430	440	(2.4)
EBITDA margin (%)	10.5	11.0	(50 bp)
Adj. PAT	205	196	4.5

Source: Company, Angel Research

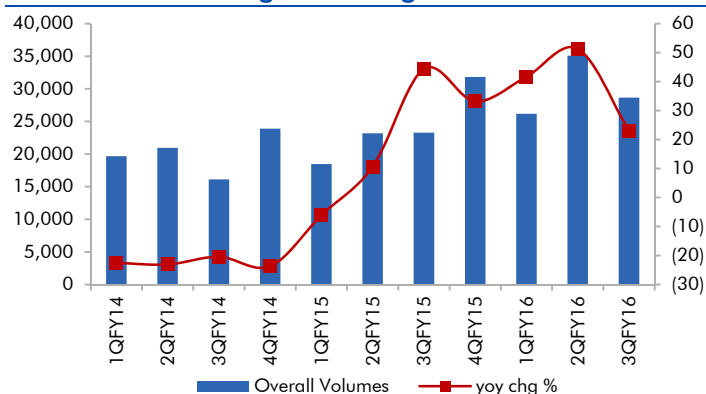
Exhibit 3: Quarterly volume performance

(units)	3QFY16	3QFY15	% chg (yoy)	2QFY16	% chg (qoq)	9MFY16	9MFY15	% chg (yoy)
MHCV passenger	5,291	5,007	5.7	7,051	(25.0)	17,509	14,271	22.7
MHCV goods	17,890	13,269	34.8	22,800	(21.5)	57,004	37,123	53.6
Total volume (ex. Dost)	23,181	18,276	26.8	29,851	(22.3)	74,513	51,394	45.0
LCV	7,752	7,049	10.0	7,428	4.4	21,853	19,063	14.6
Total volume (incl. Dost)	30,933	25,325	22.1	37,279	(17.0)	96,366	70,457	36.8

Source: Company, Angel Research

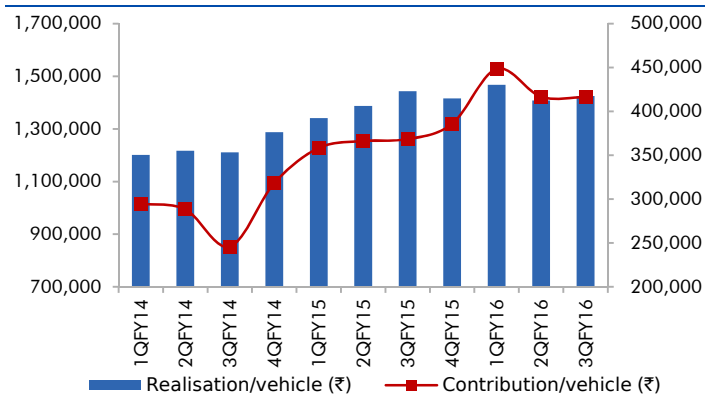
- ALL's volumes continued to improve, reporting double-digit growth for the sixth consecutive quarter. During 3QFY2016, volumes grew by a robust 23% yoy. The MHCV segment continued to outperform, growing by 27% yoy, helped by huge pent up demand, lower fuel prices which have led to improvement in fleet operators' profitability and revival in infrastructure projects. LCV volumes recovered, growing by 9% yoy during the quarter.
- Realisation/vehicle declined marginally by 1% yoy to ₹1,425,019, due to deterioration in the product mix (lower defense supplies). Contribution/vehicle grew 13% yoy to ₹416,315, given the soft commodity prices, increased contribution from excise free Pantnagar plant and raw material control initiatives.
- ALL continued to gain market share on back of higher proportion of the fast growing heavy trucks and geographical expansion. ALL's MHCV market share improved 490bp yoy from 27% in 9MFY2015 to 31.9% in 9MFY2016. Its MHCV truck market share improved 460bp yoy from 25.5% in 9MFY2015 to 30.1% in 9MFY2016. Similarly, ALL's market share in the MHCV passenger segment increased 790bp yoy from 35.8% in 9MFY2015 to 43.7% in 9MFY2016.

Exhibit 4: Double-digit volume growth continues



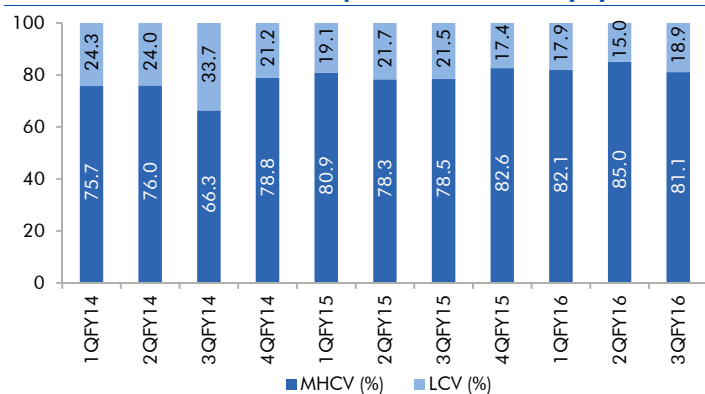
Source: Company, Angel Research

Exhibit 5: Realisation & contribution trend



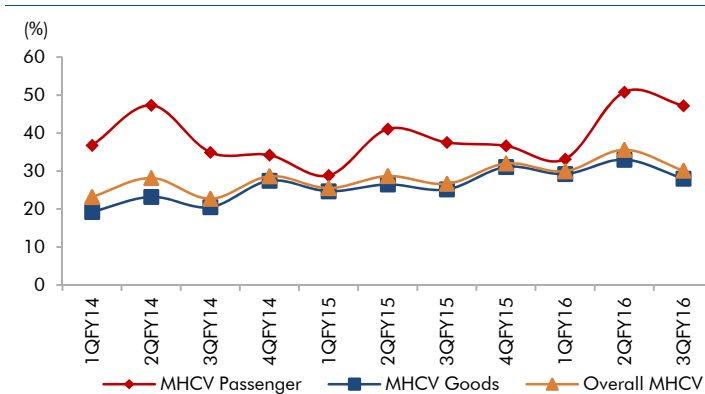
Source: Company, Angel Research

Exhibit 6: MHCVs share in product mix rises yoy



Source: SIAM, Angel Research

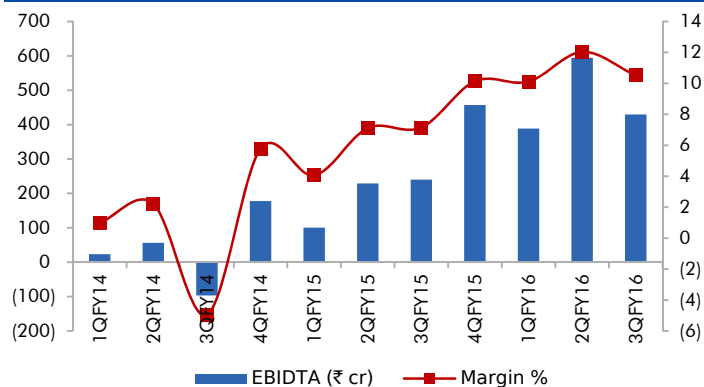
Exhibit 7: Domestic market share trend



Source: SIAM, Angel Research

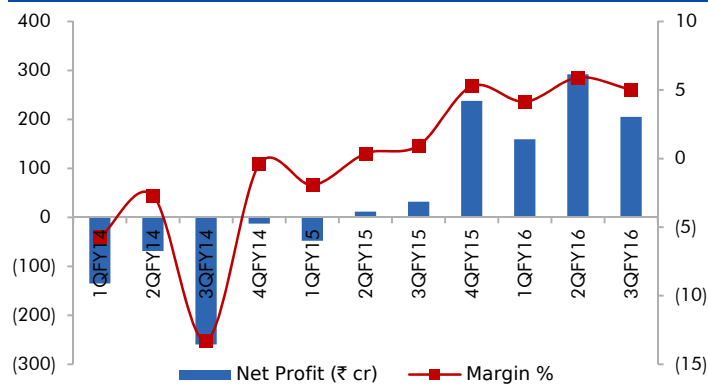
- ALL maintained its double-digit margin for the fourth consecutive quarter, with its margin for 3QFY2016 coming in at 10.5%. Higher proportion of MHCVs in the product mix, benign commodity prices and operating leverage led to the steep improvement in margins on a yoy basis.
- ALL's profits continue to improve, led by strong operating performance.

Exhibit 8: EBITDA margin improves sharply yoy



Source: Company, Angel Research

Exhibit 9: Bottom-line continues to improve yoy



Source: Company, Angel Research

Conference call – Key highlights

- The MHCV industry continues to maintain its strong momentum, reporting a 23% yoy growth in 3QFY2016. Better freight movement on back of improved economic growth and improvement in fleet operators' sentiment due to firm freight rates and decline in diesel prices are spurring demand for MHCVs. Further, a pick-up in infrastructure activities is also boosting MHCV demand. MHCV demand is estimated to remain robust with ALL's Management expecting a healthy double digit industry growth in FY2017.
- ALL continues to gain market share across regions backed by its improving distribution network. ALL's market share improved from 27% in 9MFY2015 to about 32% in 9MFY2016.
- In a bid to gain further market share, ALL would introduce two new products in the intermediate commercial vehicle segment where it has relatively lower market share. ALL would introduce a passenger variant (Sunshine) and a goods carrier (Guru).
- The production in the excise free Pantnagar plant stood at 10,000 units in 3QFY2016 as against 4,000 units in the corresponding quarter of last year.
- Discounting/vehicle in the MHCV space continues to remain high. In 3QFY2016 the blended discounting increased to ₹2.4 lakh from ₹2.25 lakh in 2QFY2016. ALL however has been taking periodic price increases to neutralize the impact of high discounts. ALL undertook a price increase of about 1% in 3QFY2016.
- ALL expects commodity prices to remain soft in the near term as lower raw material prices flow into the P&L with a lag of a quarter.

- ALL continues to focus on the export markets, particularly the Middle East and Africa to enable diversification and reduce cyclicality. ALL aims to increase the export contribution from 15% currently to 33% over the next three to five years.
- ALL has guided for overall capex and subsidiary investment of ₹500cr in FY2016. The capex would be towards new product development and R&D. Further, ALL would invest for meeting the funding requirements of its subsidiaries as well.

Investment arguments

Double-digit volume growth expected over the medium term as ALL would be a direct beneficiary of the improving CV cycle: ALL is a pure CV play and is poised to report strong double digit growth (~23% over FY2015-FY2017), given the uptrend in the CV cycle. The MHCV segment, accounting for 80% of ALL's total volumes, has undergone a sharp improvement, growing by 45% yoy in 9MFY2016. Improvement in fleet operators' sentiments on back of better economic outlook, and increase in profitability due to fall in diesel prices, would lead to continued improvement in demand. The MHCV industry has shown improvement after a gap of three years and we believe the industry would remain in an upcycle in the medium term. Further we also expect improvement in the LCV segment in FY2016 on back of gradual improvement in sentiments.

EBITDA margin to improve amid volume improvement and operating leverage: We expect ALL's margins to improve sharply in FY2016/FY2017 and reach the pre-down cycle levels. We estimate ALL's margins to improve from 7.6% in FY2015 and reach ~11% in FY2017 (in line with margin levels reported by the company in the FY2011 up-cycle). We believe the margin improvement would be driven by: (a) a sharp improvement in MHCV volumes, (b) benefits of operating leverage, given the sharp improvement in volumes, and (c) reduction in discounting levels. Currently the discount/vehicle, at ₹2.5 lakh, is at record levels and is expected to come down with sustained pick-up in demand.

Outlook and valuation

Given the improvement in fleet operators' sentiments due to revival in the economy, improvement in profitabilities due to falling diesel prices, and policy action initiated in the infrastructure and the mining space, we expect demand for MHCVs to continue to grow in double digits. The MHCV industry is clearly in an up-cycle and we estimate ~20% CAGR in volume over FY2015- FY2017. Also, a better mix (higher proportion of MHCVs), reduction in record high discounts due to volume growth, and operating leverage would result in margin expansion, going forward. We expect the operating margin to improve from 7.6% in FY2015 to 11.4% in FY2017 (in line with the margins witnessed in the previous up-cycle in FY2011). **We reiterate our Buy rating on the stock with a price target of ₹111 (based on 13x FY2017E EV/EBIDTA).**

Exhibit 10: Key assumptions

(units)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
MHCV passenger	26,312	23,472	19,328	20,722	24,866	27,602
MHCV goods	67,425	55,442	40,976	56,938	80,925	95,287
LCV	7,593	34,918	28,205	26,904	30,559	34,216
Total volume (units)	101,990	114,612	88,509	104,564	136,351	157,104
% yoy chg	8.4	12.4	(22.8)	18.1	30.4	15.2

Source: Company, Angel Research

Company background

Ashok Leyland Ltd (ALL) is the country's second largest CV manufacturer. The company has a strong presence in the MHCV segment, with a domestic market share of ~28% as of FY2015. ALL enjoys a dominant position in southern India, with a ~50% market share, and is currently focusing on expanding its presence in northern and western India by increasing its touch points in the regions. The company, through its JV with Nissan Motor and John Deere, intends to expand its product portfolio and reduce the dependence on domestic truck industry which contributes about 65% of the revenues.

Profit and loss statement (Standalone)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Total operating income	12,904	12,481	9,943	13,562	18,404	21,995
% chg	13.0	(3.3)	(20.3)	36.4	35.7	19.5
Total expenditure	11,807	11,650	9,777	12,536	16,373	19,479
Net raw material costs	9,464	9,123	7,603	9,965	12,986	15,684
Employee expenses	1,036	1,087	1,000	1,184	1,478	1,535
Other	1,030	1,140	925	1,386	1,909	2,260
EBITDA	1,098	831	167	1,027	2,030	2,516
% chg	(9.6)	(24.2)	(81.0)	516.4	97.8	23.9
(% of total op. income)	8.5	6.7	1.7	7.6	11.0	11.4
Depreciation & amortization	353	381	377	416	446	455
EBIT	745	451	(530)	466	1,530	2,064
% chg	(21.3)	(39.5)	NA	NA	228.5	34.9
(% of total op. income)	5.8	3.6	(5.3)	3.4	8.3	9.4
Interest and other charges	255	377	453	394	293	308
Other income	201	397	67	124	119	155
Recurring PBT	690	471	(597)	341	1,411	1,909
% chg	(13.9)	(31.8)	NA	NA	313.4	35.3
Extraordinary income/(exp.)	4	271	506	101	(5)	
PBT	686	200	(91)	442	1,405	1,909
Tax	124	37	(121)	107	434	573
(% of PBT)	18.1	18.5	132.2	24.3	30.9	30.0
PAT (reported)	566	434	29	335	972	1,336
ADJ. PAT	562	163	(476)	234	977	1,336
% chg	(10.7)	(71.0)	NA	NA	317.7	36.8
(% of total op. income)	4.4	1.3	(4.8)	1.7	5.3	6.1
Basic EPS (₹)	2.1	1.6	0.1	1.2	3.4	4.7
Adj. EPS (₹)	2.1	0.6	(1.8)	0.8	3.4	4.7
% chg	(10.7)	(71.0)	NA	NA	317.7	36.8

Balance sheet statement (Standalone)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS						
Equity share capital	266	266	266	285	285	285
Reserves & surplus	3,942	4,189	4,182	4,834	5,239	5,716
Shareholders' Funds	4,208	4,455	4,448	5,119	5,524	6,000
Total loans	2,395	3,505	3,884	2,591	2,500	2,400
Deferred tax liability	490	527	407	510	510	510
Other long term liabilities	4	2	2	2	4	4
Long term provisions	77	79	68	79	129	154
Total Liabilities	7,174	8,568	8,809	8,301	8,667	9,069
APPLICATION OF FUNDS						
Gross block	7,256	7,991	8,699	8,555	8,755	8,955
Less: Acc. depreciation	2,343	2,709	3,012	3,300	3,746	4,201
Net Block	4,914	5,282	5,686	5,256	5,010	4,755
Capital work-in-progress	548	689	155	120	155	155
Goodwill	-	-	-	-	-	-
Investments	1,534	2,338	2,790	2,649	2,990	3,340
Long term loans and adv.	608	480	673	983	1,012	1,210
Other noncurrent assets	7	12	33	19	60	75
Current assets	4,304	4,297	3,471	4,285	6,751	8,272
Cash	33	14	12	751	349	550
Loans & advances	810	967	801	569	1,533	1,937
Other	3,461	3,315	2,659	2,964	4,869	5,784
Current liabilities	4,741	4,529	3,999	5,011	7,311	8,738
Net current assets	(438)	(233)	(528)	(726)	(560)	(466)
Misc. exp. not written off	-	-	-	-	-	-
Total Assets	7,174	8,568	8,809	8,301	8,667	9,069

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	690	471	(91)	442	1,405	1,909
Depreciation	353	381	303	287	446	455
Change in working capital	22	(47)	274	609	(568)	107
Others	407	359	(325)	146	(18)	(187)
Other income	(201)	(397)	-			
Direct taxes paid	(124)	(37)	121	(107)	(434)	(573)
Cash Flow from Operations	1,147	730	281	1,377	832	1,711
(Inc./Dec. in fixed assets	(755)	(876)	(174)	178	(235)	(200)
(Inc./Dec. in investments	(304)	(803)	(452)	141	(342)	(350)
Other income	201	397	-	-		
Cash Flow from Investing	(859)	(1,282)	(626)	319	(576)	(550)
Issue of equity	0	(1)	-	19	-	-
Inc./Dec. in loans	47	1,110	379	(1,293)	(91)	(100)
Dividend paid (Incl. Tax)	309	187	-	(128)	(571)	(860)
Others	(793)	(761)	(37)	446	-	-
Cash Flow from Financing	(436)	534	342	(957)	(663)	(960)
Inc./Dec. in cash	(148)	(18)	(2)	740	(408)	202
Opening Cash balances	180	32	14	12	751	349
Closing Cash balances	32	14	12	751	349	550

Key ratios

Y/E March	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Valuation Ratio (x)						
P/E (on FDEPS)	39.5	149.1	NA	101.0	24.2	17.7
P/CEPS	24.4	41.7	NA	36.3	16.6	13.2
P/BV	7.6	5.0	5.0	4.6	4.3	3.9
Dividend yield (%)	1.2	0.7	NA	NA	2.1	3.1
EV/Sales	2.0	2.0	2.6	1.8	1.4	1.1
EV/EBITDA	23.7	28.7	153.5	24.4	12.4	9.8
EV / Total Assets	3.6	2.9	2.9	3.0	2.9	2.7
Per Share Data (₹)						
EPS (Basic)	2.1	0.6	(1.8)	0.8	3.4	4.7
EPS (fully diluted)	2.1	0.6	(1.8)	0.8	3.4	4.7
Cash EPS	3.4	2.0	(0.4)	2.3	5.0	6.3
DPS	1.0	0.6	-	-	1.7	2.6
Book Value	10.9	16.7	16.7	18.0	19.4	21.1
Returns (%)						
ROCE (Pre-tax)	10.6	2.8	(6.0)	5.6	17.7	22.8
Angel ROIC (Pre-tax)	12.8	2.8	(6.0)	6.2	18.4	24.2
ROE	13.8	3.2	(10.7)	4.6	17.7	22.3
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.9	1.5	1.1	1.6	2.1	2.5
Inventory / Sales (days)	63	55	44	45	45	45
Receivables (days)	34	42	48	48	48	48
Payables (days)	108	123	144	145	145	145
WC cycle (ex-cash) (days)	(6)	(26)	(52)	(52)	(52)	(52)
Solvency ratios (x)						
Net debt to equity	0.2	0.8	0.8	0.3	0.3	0.2
Net debt to EBITDA	0.8	4.0	20.9	1.4	0.8	0.5
Interest Coverage (EBIT / Int.)	2.9	0.6	(1.2)	1.2	5.2	6.7

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Disclosure of Interest Statement	Ashok Leyland
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
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