

November 05, 2015

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Rating	Accumulate
Price	Rs87
Target Price	Rs96
Implied Upside	10.3%
Sensex	26,304
Nifty	7,955

(Prices as on November 05, 2015)

Trading data

Market Cap. (Rs bn)	247.0
Shares o/s (m)	2,845.9
3M Avg. Daily value (Rs m)	1639.7

Major shareholders

Promoters	38.82%
Foreign	20.21%
Domestic Inst.	12.35%
Public & Other	28.62%

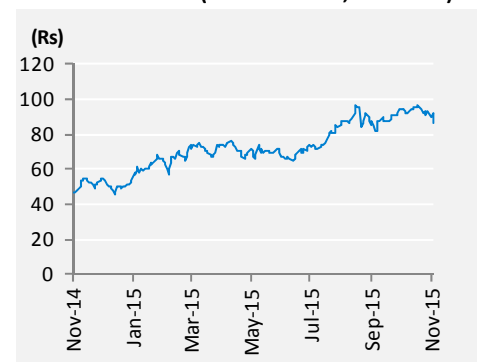
Stock Performance

(%)	1M	6M	12M
Absolute	(8.3)	23.0	85.7
Relative	(6.5)	27.2	91.4

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2016	3.2	3.4	-6.0
2017	5.3	5.2	1.5

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



Source: Bloomberg

Driven by strong M&HCV sales during Q2, Ashok Leyland's (AL's) results were better than expectations. While benefits of cost control and operating leverage helped achieve operating performance improvement, there was a negative from lower-than-expected average realisation per vehicle. This was attributable to an increase in discounts in some segments and an adverse product mix (including lower exports).

While the recovery in CV demand is expected to continue, the pace is now expected to slacken in H2 due to pre-buying/production in H1 and a higher base (residual growth estimate is 9.2%). CV demand is expected to be driven by the anticipated recovery in the capex and investment cycle in India, thereby, driving up AL's volumes. An improving balance sheet position and benefits of operating leverage provide financial stability. However, with the premium valuations, we maintain 'Accumulate', with a price target of Rs96. At our price target, AL would trade at a PE of 18x FY17e EPS. At the current market price, the stock is trading at 27.1x FY16E and 16.3x FY17E earnings.

■ AL's Q2FY16 vehicle sales achieved a new peak, reaching 37,348 units and grew 47.3% YoY and 32.5% QoQ. Growth was boosted by higher production prior to new safety and emission norms becoming applicable and from a combination of replacement demand, decrease in fuel costs and nascent improvement in the economic environment.

■ With a healthy sales performance, AL posted a 54.9% YoY growth in net sales to Rs48.8bn (realisation growth of 5.1%). Other operating income declined 9.5% YoY to Rs609m, resulting in total sales growth in Q2 of 53.5% YoY to Rs49.4bn. The realisation growth was lower than expected due to an increase in discount in segments and an adverse product mix including a lower share of exports.

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Key financials (Y/e March)	2014	2015	2016E	2017E
Revenues (Rs m)	99,434	135,622	178,029	219,627
Growth (%)	(20.3)	36.4	31.3	23.4
EBITDA (Rs m)	1,666	10,266	20,149	27,550
PAT (Rs m)	(4,257)	2,440	9,132	15,136
EPS (Rs)	(1.6)	0.9	3.2	5.3
Growth (%)	(362.3)	(153.6)	274.3	65.7
Net DPS (Rs)	—	0.4	0.8	1.0

Profitability & Valuation	2014	2015	2016E	2017E
EBITDA margin (%)	1.7	7.6	11.3	12.5
RoE (%)	(9.6)	5.1	16.7	23.7
RoCE (%)	(1.4)	5.7	13.4	19.7
EV / sales (x)	2.8	2.0	1.5	1.2
EV / EBITDA (x)	167.3	26.7	13.4	9.6
PE (x)	(54.2)	101.3	27.1	16.3
P / BV (x)	5.2	4.8	4.3	3.5
Net dividend yield (%)	—	0.5	0.9	1.2

Source: Company Data; PL Research

- EBITDA margin came in at 12% (up 470bps YoY and higher 190bps QoQ), which was higher than expected. EBITDA grew 153.6% YoY to Rs5.9bn.
- While gross margins were higher YoY by 320bps, on a QoQ basis, they were lower by 100bps. The QoQ dip was attributable to the poorer product mix and lower share of exports.
- The higher operating leverage led to staff /sales ratio being lower 140bps YoY. Other expenditure/sales was lower 20bps YoY.
- Interest cost was reined in on a YoY and QoQ basis and with a reduction in the absolute debt, it is likely to be lower in FY16 (especially with capex being curbed). The effective tax rate was higher than expected at 33.7% and the full year tax rate is likely to be ~33%.
- There was a one-time gain of Rs1.52bn on sale of long-term investments, which was off-set due to an extraordinary loss on a diminution in value of long-term investment of JVs/subsidiaries to the tune of Rs1.57bn. As a result, against a reported profit of Rs2.87bn, adjusted profit in Q2 was Rs2.92bn.

Conference call highlights

- AL's revenue mix in Q2 was 64% from trucks, 13% from buses, and 6.5% from LCVs.
- Replacement demand is expected to continue for sometime. AL has maintained outlook for ~20% growth.
- AL's current capacity stands at 150,000 units which can be augmented by addition of an extra shift and by debottlenecking.
- The excise duty benefit at the Pantnagar plant is to last till March 2020.
- Average discounts have increased in some segments.

Exhibit 1: Q2FY16 Result Overview (Rs m)

Y/e March	Q2FY16	Q2FY15	YoY gr. (%)	Q1FY16	H1FY16	H1FY15	YoY gr. (%)
Net Revenues	49,397	32,177	53.5	38,412	87,810	56,955	54.2
Raw Materials	34,774	23,682	46.8	26,672	61,446	41,841	46.9
<i>% of Net Sales</i>	<i>70.4</i>	<i>73.6</i>		<i>69.4</i>	<i>70.0</i>	<i>73.5</i>	
Personnel	3,784	2,915	29.8	3,304	7,088	5,746	23.3
<i>% of Net Sales</i>	<i>7.7</i>	<i>9.1</i>		<i>8.6</i>	<i>8.1</i>	<i>10.1</i>	
Manufacturing & Other Exp	4,895	3,236	51.3	4,549	9,444	5,863	61.1
<i>% of Net Sales</i>	<i>9.9</i>	<i>10.1</i>		<i>11.8</i>	<i>10.8</i>	<i>10.3</i>	
Total Expenditure	43,453	29,833	45.7	34,525	77,978	53,450	45.9
EBITDA	5,945	2,344	153.6	3,887	9,831	3,505	180.5
<i>EBITDA Margin (%)</i>	<i>12.0</i>	<i>7.3</i>		<i>10.1</i>	<i>11.2</i>	<i>6.2</i>	
Depreciation	1,129	1,031	9.6	1,043	2,173	2,064	5.3
EBIT	4,815	1,313	266.7	2,844	7,659	1,441	431.6
Interest Expenses	702	1,007	(30.3)	766	1,468	2,071	(29.1)
Non-operating income	265	257	3.0	271	536	488	9.7
Extraordinary Expenses	52	-	NA	-	52	-	NA
Extraordinary Income	-	1,090	NA	-	-	1,090	NA
PBT	4,326	1,652	161.8	2,349	6,675	948	604.3
Tax-Total	1,458	445	227.3	756	2,214	220	904.2
<i>Tax Rate (%) - Total</i>	<i>33.7</i>	<i>27.0</i>		<i>32.2</i>	<i>33.2</i>	<i>23.3</i>	
Reported PAT	2,868	1,207	137.6	1,593	4,461	727	513.3
Adj. PAT	2,915	226	NA	1,593	4,508	(253)	NA

Source: Company Data, PL Research

Exhibit 2: Operating Metrics (Rs m)

Y/e March	Q2FY16	Q2FY15	YoY gr. (%)	Q1FY16	H1FY16	H1FY15	YoY gr. (%)
Sales Volume (nos)	37,348	25,353	47.3	28,182	65,530	45,334	44.5
Net Realisation/Vehicle	1,322,625	1,269,151	4.2	1,363,003	1,339,990	1,256,338	6.7
Material cost / vehicle	931,090	934,089	(0.3)	946,409	937,678	922,945	1.6
Gross Profit / vehicle	391,535	335,062	16.9	416,595	402,312	333,393	20.7
Employee cost /vehicle	101,305	114,976	(11.9)	117,243	108,159	126,756	(14.7)
Other expenses / vehicle	131,065	127,635	2.7	161,428	144,123	129,327	11.4
EBITDA/vehicle	159,165	92,450	72.2	137,924	150,030	77,310	94.1
Net Profit/vehicle	78,040	8,919	775.0	56,532	68,790	(5,589)	NA

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2014	2015	2016E	2017E
Net Revenue	99,434	135,622	178,029	219,627
Raw Material Expenses	76,026	99,652	124,410	151,007
Gross Profit	23,408	35,970	53,619	68,621
Employee Cost	9,997	11,840	14,420	17,570
Other Expenses	11,746	13,863	19,049	23,500
EBITDA	1,666	10,266	20,149	27,550
Depr. & Amortization	3,770	4,163	4,549	4,677
Net Interest	3,864	2,690	1,996	1,096
Other Income	5,722	2,254	1,009	1,128
Profit before Tax	(912)	4,422	13,553	21,778
Total Tax	(1,206)	1,074	4,472	6,642
Profit after Tax	294	3,348	9,080	15,136
Ex-Od items / Min. Int.	4,551	908	(52)	—
Adj. PAT	(4,257)	2,440	9,132	15,136
Avg. Shares O/S (m)	2,660.7	2,845.9	2,845.9	2,845.9
EPS (Rs.)	(1.6)	0.9	3.2	5.3

Cash Flow Abstract (Rs m)

Y/e March	2014	2015	2016E	2017E
C/F from Operations	9,192	25,615	15,138	21,965
C/F from Investing	(8,224)	381	(7,000)	(9,500)
C/F from Financing	(991)	(18,600)	(15,191)	(12,319)
Inc. / Dec. in Cash	(23)	7,396	(7,053)	145
Opening Cash	139	117	7,513	460
Closing Cash	117	7,513	460	605
FCFF	(6,353)	14,930	6,295	13,225
FCFE	(2,815)	1,361	(3,705)	5,975

Key Financial Metrics

Y/e March	2014	2015	2016E	2017E
Growth				
Revenue (%)	(20.3)	36.4	31.3	23.4
EBITDA (%)	(80.7)	516.4	96.3	36.7
PAT (%)	(362.3)	(157.3)	274.3	65.7
EPS (%)	(362.3)	(153.6)	274.3	65.7
Profitability				
EBITDA Margin (%)	1.7	7.6	11.3	12.5
PAT Margin (%)	(4.3)	1.8	5.1	6.9
RoCE (%)	(1.4)	5.7	13.4	19.7
RoE (%)	(9.6)	5.1	16.7	23.7

Balance Sheet

Net Debt : Equity	1.1	0.5	0.4	0.2
Net Wrkng Cap. (days)	(2)	(19)	(15)	(16)

Valuation

PER (x)	(54.2)	101.3	27.1	16.3
P / B (x)	5.2	4.8	4.3	3.5
EV / EBITDA (x)	167.3	26.7	13.4	9.6
EV / Sales (x)	2.8	2.0	1.5	1.2

Earnings Quality

Eff. Tax Rate	132.2	24.3	33.0	30.5
Other Inc / PBT	(11.1)	36.5	7.8	5.2
Eff. Depr. Rate (%)	4.3	4.9	5.0	4.7
FCFE / PAT	66.1	55.8	(40.6)	39.5

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2014	2015	2016E	2017E
Shareholder's Funds	44,538	51,329	57,912	69,718
Total Debt	47,799	34,229	24,229	16,979
Other Liabilities	4,008	4,960	4,960	4,960
Total Liabilities	96,345	90,519	87,102	91,658
Net Fixed Assets	58,150	53,253	54,208	56,531
Goodwill	264	503	—	—
Investments	27,897	26,488	28,488	30,988
Net Current Assets	10,035	10,274	4,406	4,139
<i>Cash & Equivalents</i>	<i>117</i>	<i>7,513</i>	<i>460</i>	<i>605</i>
<i>Other Current Assets</i>	<i>41,652</i>	<i>45,357</i>	<i>56,426</i>	<i>66,527</i>
<i>Current Liabilities</i>	<i>31,734</i>	<i>42,596</i>	<i>52,480</i>	<i>62,994</i>
Other Assets	—	—	—	—
Total Assets	96,346	90,519	87,102	91,658

Quarterly Financials (Rs m)

Y/e March	Q3FY15	Q4FY15	Q1FY16	Q2FY16
Net Revenue	33,610	45,057	38,412	49,397
EBITDA	2,381	4,571	3,887	5,945
% of revenue	7.1	10.1	10.1	12.0
Depr. & Amortization	999	1,101	1,043	1,129
Net Interest	982	882	766	702
Other Income	193	372	271	265
Profit before Tax	594	2,880	2,349	4,326
Total Tax	273	580	756	1,458
Profit after Tax	321	2,300	1,593	2,868
Adj. PAT	321	2,372	1,593	2,915

Key Operating Metrics

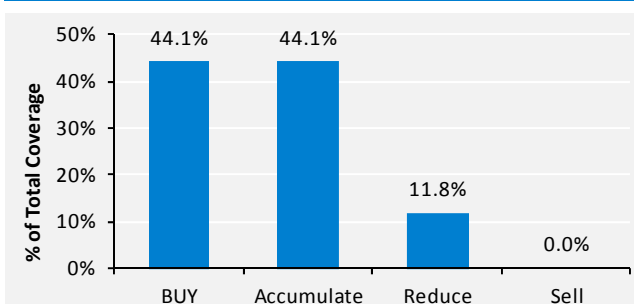
Y/e March	2014	2015	2016E	2017E
Passenger M&HCV sales (units)	19,328	20,722	24,603	26,609
Goods M&HCV sales (units)	40,976	56,938	76,100	91,113
Dost volumes (units)	28,153	25,223	28,477	32,973
Other LCV sales (units)	834	2,033	2,062	2,231
Total volume (units)	89,291	104,916	131,243	152,926
Realisation per vehicle (Rs)	1,090,337	1,268,743	1,335,361	1,415,919
Gross margin per vehicle (Rs)	262,158	342,843	408,544	448,718
EBITDA per vehicle (Rs)	18,654	97,853	153,525	180,155
Profit per vehicle (Rs)	(47,677)	23,254	69,580	98,973

Source: Company Data, PL Research.

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