

February 15, 2019

Q3FY19 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	103		146	
Sales (Rs. m)	324,956	321,307	349,894	361,249
% Chng.	(7.1)	(11.1)		
EBITDA (Rs. m)	34,363	32,052	36,639	39,425
% Chng.	(6.2)	(18.7)		
EPS (Rs.)	6.7	6.1	7.3	7.9
% Chng.	(7.5)	(22.3)		

Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. bn)	262	292	325	321
EBITDA (Rs. bn)	27	31	34	32
Margin (%)	10.4	10.5	10.6	10.0
PAT (Rs. bn)	16	18	20	18
EPS (Rs.)	5.3	6.0	6.7	6.1
Gr. (%)	24.2	13.0	11.7	(9.0)
DPS (Rs.)	2.4	1.9	2.2	2.2
Yield (%)	3.0	2.4	2.7	2.7
RoE (%)	23.5	22.9	22.3	19.0
RoCE (%)	13.7	13.3	13.4	11.2
EV/Sales (x)	0.8	0.7	0.6	0.6
EV/EBITDA (x)	7.4	6.9	5.7	6.0
PE (x)	15.0	13.2	11.9	13.0
P/BV (x)	3.3	2.8	2.5	2.5

Key Data

ASOK.BO | AL IN

52-W High / Low	Rs.168 / Rs.78
Sensex / Nifty	35,809 / 10,724
Market Cap	Rs.235bn/ \$ 3,292m
Shares Outstanding	2,936m
3M Avg. Daily Value	Rs.4662.41m

Shareholding Pattern (%)

Promoter's	51.20
Foreign	21.90
Domestic Institution	9.11
Public & Others	17.79
Promoter Pledge (Rs bn)	5.20

Stock Performance (%)

	1M	6M	12M
Absolute	(14.6)	(36.5)	(41.7)
Relative	(13.4)	(32.9)	(44.2)

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FY20 growth drivers intact; Valuations attractive

While Ashok Leyland's Q3FY19 performance surpassed our expectations with operating margins at 10.3% (80bps ahead of PLE) and PAT ~12% above our estimates, concerns regarding the liquidity issue in the industry, impact of axle norm changes and the high base of last year keep the near term volume growth outlook subdued. With the pre-buying expected ahead of BS VI implementation, FY20E should see a surge in volumes, however, industry growth beyond that is expected to remain muted (wherein increasing government focus on infrastructure activities and the anticipated scrappage policy should help negate some de-growth in FY21). Softening commodity prices will aid some margin improvement over Q4FY19 / Q1FY20 but the heavy discounting in the industry will continue to weigh on the margins. We continue to build in volume growth of 11.9/10.8%/-4.3% for FY19/20/21E and given the valuation comfort, maintain BUY with a lower target price of Rs103, at 9.5x Sep'20E EV/EBITDA (earlier 12x Mar'20E).

- OPM exceeds expectations:** Ashok Leyland (AL) reported a 12% YoY / 17% QoQ decline in revenue to Rs63.3bn (PLE: Rs64.8bn) on account of volume degrowth of 6.1% YoY (down 16% QoQ) & realization dip of 6.3% YoY (down 1.5% QoQ). Q3FY19 operating performance however, was head of estimates with EBITDA margin at 10.3%, lower 140bps YoY /60bps QoQ, but above PLE of 9.5%. Gross margins dipped 40bps YoY (up 200bps QoQ), staff costs as a % of sales rose 130bps YoY (up 100bps QoQ) while other expenses as a % of sales were lower 30bps YoY (up 160bps QoQ). Absolute EBITDA for the quarter plummeted 22.6% YoY / 21.6% QoQ to Rs6.5bn. EBITDA per vehicle was lower 17.5% YoY whereas Gross profit per vehicle declined 7.7% YoY in Q3FY19. With lower tax rate (Rs840mn tax benefit on account of LCV business merger into standalone entity), net adjusted profit (adjusted for one-time impairment loss & exchange loss amounting to Rs70mn) for the company stood at Rs3.9bn, down 21% YoY (~12% above PLE / 26% above consensus).
- Key con-call takeaways:** (1) Over Q3FY19, ~68% of revenue came from trucks, ~7% from buses, ~9% from LCV business and balance from aftermarket/defense/exports. (2) The LCVs business has been merged in the standalone business over the quarter, yielding a tax benefit of ~Rs840mn in Q3FY19 and ~Rs2.5bn over FY19E. (3) Aftermarket sales over Q3FY19 was higher 25-30% YoY (9MFY19 aftermarket revenue ~Rs10bn), where current penetration for AL is ~30%. (4) Average M&HCV discounts over Q3FY19 were higher at Rs4-4.2L as against ~Rs4L in Q2FY19 (5) AL had taken a small price increase in Nov'18 for the truck segment and another hike was taken in Jan'18. (6) Double digit margins maintained over Q3FY19 on the back of higher bus segment profitability, increased aftermarket share and merger of LCV business. (7) With commodity prices softening, Q4FY19 as well as Q1FY20 should see improvement in margins. (8) The company currently has a channel inventory of ~5K units. (9) The company is filling in the gaps in its LCV and ICV portfolios. (10) With their modular business program expected to come in by FY20-21, the company expects cost savings to the tune of ~150bps. (11) YTD FY19 capex spend has been ~Rs6bn, while Q4FY19 capex spend is expected to be ~Rs2-3bn.

Exhibit 1: Q3FY19 Result Overview (Rs m)

Y/e March	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
Net Revenues	63,252	71,907	(12.0)	76,211	201,964	175,249	15.2
Raw Materials	44,357	50,107	(11.5)	54,976	142,845	122,562	16.5
<i>% of Net Sales</i>	<i>70.1</i>	<i>69.7</i>		<i>72.1</i>	<i>70.7</i>	<i>69.9</i>	
Personnel	5,001	4,766	4.9	5,251	15,181	13,644	11.3
<i>% of Net Sales</i>	<i>7.9</i>	<i>6.6</i>		<i>6.9</i>	<i>7.5</i>	<i>7.8</i>	
Manufacturing & Other Exp	7,398	8,640	(14.4)	7,693	22,676	21,471	5.6
<i>% of Net Sales</i>	<i>11.7</i>	<i>12.0</i>		<i>10.1</i>	<i>11.2</i>	<i>12.3</i>	
Total Expenditure	56,756	63,514	(10.6)	67,920	180,702	157,677	14.6
EBITDA	6,496	8,393	(22.6)	8,290	21,262	17,572	21.0
<i>EBITDA Margin (%)</i>	<i>10.3</i>	<i>11.7</i>		<i>10.9</i>	<i>10.5</i>	<i>10.0</i>	
Depreciation	1,607	1,460	10.1	1,481	4,518	4,192	7.8
EBIT	4,890	6,934	(29.5)	6,809	16,744	13,380	25.1
Interest Expenses	192	368	(47.9)	204	512	1,144	(55.3)
Non-operating income	208	417	(50.2)	276	984	1,358	(27.6)
Extraordinary Expenses	70	55	27.4	193	472	234	101.8
PBT	4,836	6,928		6,708	16,763	13,359	25.5
Tax-Total	1,027	2,079	(50.6)	1,431	3,976	4,056	(2.0)
<i>Tax Rate (%) - Total</i>	<i>21.2</i>	<i>30.0</i>		<i>21.3</i>	<i>23.7</i>	<i>30.4</i>	
Reported PAT	3,808	4,849	(21.5)	5,277	12,787	9,304	37.4
Adj. PAT	3,872	4,898	(21.0)	5,433	13,194	9,514	38.7

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
Sales Volume (nos)	43,763	46,627	(6.1)	51,958	137,848	116,106	18.7
Net Realisation/Vehicle	1,445,340	1,542,167	(6.3)	1,466,773	1,465,123	1,509,388	(2.9)
Material cost / vehicle	1,013,578	1,074,631	(5.7)	1,058,091	1,036,249	1,055,603	(1.8)
Gross Profit / vehicle	431,762	467,536	(7.7)	408,682	428,873	453,785	(5.5)
Employee cost /vehicle	114,268	102,224	11.8	101,059	110,132	117,515	(6.3)
Other expenses / vehicle	169,051	185,307	(8.8)	148,066	164,499	184,927	(11.0)
EBITDA/vehicle	148,443	180,005	(17.5)	159,558	154,243	151,343	1.9
Net Profit/vehicle	88,469	105,053	(15.8)	104,567	95,715	81,944	16.8

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Net Revenues	262,479	291,651	324,956	321,307
YoY gr. (%)	31.1	11.1	11.4	(1.1)
Cost of Goods Sold	186,213	210,158	233,400	230,456
Gross Profit	76,266	81,493	91,555	90,851
Margin (%)	29.1	27.9	28.2	28.3
Employee Cost	18,119	18,957	21,122	20,885
Other Expenses	30,757	31,790	36,070	37,914
EBITDA	27,390	30,745	34,363	32,052
YoY gr. (%)	24.4	12.3	11.8	(6.7)
Margin (%)	10.4	10.5	10.6	10.0
Depreciation and Amortization	5,546	6,763	7,413	7,613
EBIT	21,718	23,983	26,950	24,438
Margin (%)	8.3	8.2	8.3	7.6
Net Interest	1,312	763	902	1,052
Other Income	1,898	2,012	2,130	2,254
Profit Before Tax	22,307	25,232	28,178	25,641
Margin (%)	8.5	8.7	8.7	8.0
Total Tax	6,681	7,570	8,453	7,692
Effective tax rate (%)	30.0	30.0	30.0	30.0
Profit after tax	15,626	17,662	19,724	17,949
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	15,626	17,662	19,724	17,949
YoY gr. (%)	27.8	13.0	11.7	(9.0)
Margin (%)	6.0	6.1	6.1	5.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	15,626	17,662	19,724	17,949
YoY gr. (%)	27.8	13.0	11.7	(9.0)
Margin (%)	6.0	6.1	6.1	5.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	15,626	17,662	19,724	17,949
Equity Shares O/s (m)	2,927	2,927	2,927	2,927
EPS (Rs)	5.3	6.0	6.7	6.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Non-Current Assets				
Gross Block	63,121	72,133	76,133	76,133
Tangibles	58,160	65,289	69,289	69,289
Intangibles	4,961	6,844	6,844	6,844
Acc: Dep / Amortization	13,378	20,141	27,554	27,554
Tangibles	11,283	18,046	25,459	25,459
Intangibles	2,095	2,095	2,095	2,095
Net fixed assets	49,742	51,992	48,579	48,579
Tangibles	46,876	47,243	43,830	43,830
Intangibles	2,866	4,749	4,749	4,749
Capital Work In Progress	4,012	-	-	-
Goodwill	-	-	-	-
Non-Current Investments	28,054	30,054	32,054	32,054
Net Deferred tax assets	(2,984)	(2,984)	(2,984)	(2,984)
Other Non-Current Assets	5,354	5,854	6,354	6,854
Current Assets				
Investments	30,552	27,552	27,552	27,552
Inventories	17,099	41,587	45,460	44,872
Trade receivables	9,805	10,201	11,365	11,218
Cash & Bank Balance	10,044	5,452	24,999	30,633
Other Current Assets	7,182	8,182	9,182	10,182
Total Assets	170,135	189,210	213,982	220,480
Equity				
Equity Share Capital	2,927	2,927	2,927	2,927
Other Equity	68,721	79,533	91,551	91,551
Total Networkth	71,648	82,460	94,478	94,478
Non-Current Liabilities				
Long Term borrowings	4,157	4,157	4,157	4,157
Provisions	2,550	2,550	2,550	2,550
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	5,866	6,866	8,866	10,866
Trade payables	46,586	48,649	54,203	53,501
Other current liabilities	30,017	35,217	40,417	45,617
Total Equity & Liabilities	170,135	189,210	213,982	220,480

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	22,429	25,232	28,178	25,641
Add. Depreciation	5,546	6,763	7,413	7,613
Add. Interest	1,312	763	902	1,052
Less Financial Other Income	1,898	2,012	2,130	2,254
Add. Other	1,474	(1,159)	(1,304)	(11,545)
Op. profit before WC changes	30,761	31,599	35,189	22,761
Net Changes-WC	31,473	(19,167)	4,116	3,634
Direct tax	(4,966)	(7,570)	(8,453)	(7,692)
Net cash from Op. activities	57,268	4,862	30,852	18,702
Capital expenditures	(7,534)	(5,000)	(4,000)	(7,613)
Interest / Dividend Income	-	-	-	-
Others	(29,238)	1,000	(2,000)	-
Net Cash from Inv. activities	(36,772)	(4,000)	(6,000)	(7,613)
Issue of share cap. / premium	81	-	-	-
Debt changes	(11,425)	1,000	2,000	2,000
Dividend paid	(6,915)	(5,692)	(6,403)	(6,403)
Interest paid	(1,312)	(763)	(902)	(1,052)
Others	-	-	-	-
Net cash from Fin. activities	(19,572)	(5,455)	(5,305)	(5,455)
Net change in cash	924	(4,592)	19,547	5,634
Free Cash Flow	49,734	(138)	26,852	11,089

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
Per Share(Rs)				
EPS	5.3	6.0	6.7	6.1
CEPS	7.2	8.3	9.3	8.7
BVPS	24.5	28.2	32.3	32.3
FCF	17.0	0.0	9.2	3.8
DPS	2.4	1.9	2.2	2.2
Return Ratio(%)				
RoCE	13.7	13.3	13.4	11.2
ROIC	12.9	11.4	12.7	10.8
RoE	23.5	22.9	22.3	19.0
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.3)	(0.4)	(0.5)
Net Working Capital (Days)	(27)	4	3	3
Valuation(x)				
PER	15.0	13.2	11.9	13.0
P/B	3.3	2.8	2.5	2.5
P/CEPS	11.1	9.6	8.6	9.2
EV/EBITDA	7.4	6.9	5.7	6.0
EV/Sales	0.8	0.7	0.6	0.6
Dividend Yield (%)	3.0	2.4	2.7	2.7

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Net Revenue	87,725	62,501	76,211	63,252
YoY gr. (%)	32.6	46.8	25.4	(12.0)
Raw Material Expenses	63,061	43,511	54,976	44,357
Gross Profit	24,664	18,990	21,234	18,895
Margin (%)	28.1	30.4	27.9	29.9
EBITDA	10,327	6,475	8,290	6,496
YoY gr. (%)	23.0	(37.3)	28.0	(21.6)
Margin (%)	11.8	10.4	10.9	10.3
Depreciation / Depletion	1,463	1,430	1,481	1,607
EBIT	8,864	5,045	6,809	4,890
Margin (%)	10.1	8.1	8.9	7.7
Net Interest	201	116	204	192
Other Income	577	500	276	208
Profit before Tax	9,240	5,429	6,881	4,906
Margin (%)	10.5	8.7	9.0	7.8
Total Tax	2,626	1,519	1,431	1,027
Effective tax rate (%)	28.4	28.0	20.8	20.9
Profit after Tax	6,615	3,910	5,450	3,879
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	6,615	3,910	5,450	3,879
YoY gr. (%)	38.1	209.2	61.8	(20.9)
Margin (%)	7.5	6.3	7.2	6.1
Extra Ord. Income / (Exp)	59	(209)	(173)	(70)
Reported PAT	6,674	3,701	5,277	3,808
YoY gr. (%)	40.2	232.7	57.9	(21.5)
Margin (%)	7.6	5.9	6.9	6.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,674	3,701	5,277	3,808
Avg. Shares O/s (m)	2,846	2,846	2,846	2,846
EPS (Rs)	2.3	1.4	1.9	1.4

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Apr-18	Accumulate	143	149
2	22-May-18	Accumulate	169	141
3	11-Jun-18	Accumulate	169	141
4	10-Jul-18	BUY	169	130
5	18-Jul-18	BUY	146	111
6	5-Oct-18	BUY	146	118
7	13-Nov-18	BUY	146	119
8	7-Jan-19	BUY	146	93

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	146	93
2	Atul Auto	Accumulate	397	347
3	Bajaj Auto	Reduce	2,362	2,500
4	Bharat Forge	Hold	504	478
5	CEAT	Accumulate	1,178	1,086
6	Eicher Motors	Hold	20,652	20,753
7	Exide Industries	Accumulate	238	224
8	Hero Motocorp	Accumulate	2,947	2,614
9	Mahindra & Mahindra	BUY	984	730
10	Mahindra & Mahindra Financial Services	BUY	878	682
11	Maruti Suzuki	BUY	7,600	6,513
12	Motherson Sumi Systems	Accumulate	150	133
13	Tata Motors	BUY	207	153
14	TVS Motors	Accumulate	665	554
15	Wabco India	Accumulate	7,111	6,475

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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