

February 14, 2021

Q3FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	155		133	
Sales (Rs. m)	2,33,942	2,71,755	2,41,689	2,77,678
% Chng.	(3.2)	(2.1)		
EBITDA (Rs. m)	21,516	29,534	22,652	30,350
% Chng.	(5.0)	(2.7)		
EPS (Rs.)	3.9	5.9	4.2	5.8
% Chng.	(7.7)	0.5		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	175	140	234	272
EBITDA (Rs. bn)	12	4	22	30
Margin (%)	6.7	2.7	9.2	10.9
PAT (Rs. bn)	3	(4)	11	17
EPS (Rs.)	1.2	(1.4)	3.9	5.9
Gr. (%)	(83.1)	(220.7)	(377.8)	50.1
DPS (Rs.)	0.5	0.6	0.7	0.8
Yield (%)	0.4	0.4	0.5	0.6
RoE (%)	4.4	(5.9)	16.2	20.8
RoCE (%)	2.9	(2.2)	8.6	11.1
EV/Sales (x)	2.3	2.9	1.7	1.4
EV/EBITDA (x)	33.6	106.6	18.6	13.2
PE (x)	109.9	(91.0)	32.8	21.8
P/BV (x)	5.2	5.7	5.0	4.2

Key Data

ASOK.BO | AL IN

52-W High / Low	Rs.139 / Rs.34
Sensex / Nifty	51,544 / 15,163
Market Cap	Rs.376bn/ \$ 5,175m
Shares Outstanding	2,936m
3M Avg. Daily Value	Rs.7445.89m

Shareholding Pattern (%)

Promoter's	51.54
Foreign	16.30
Domestic Institution	17.64
Public & Others	14.52
Promoter Pledge (Rs bn)	20.93

Stock Performance (%)

	1M	6M	12M
Absolute	5.5	137.7	57.7
Relative	1.3	77.0	27.1

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ECU shortage can hamper production in 4Q

Quick Pointers:

- Likely volume recovery QoQ but ECU supply shortage to impact production.
- RM pressure to sustain in 4Q, to be managed by price hikes and mix.
- Staff cost had one-off impact of ~60bp in 3Q.

AL's 3QFY21 results were weak on lower gross margins at 25.6% (PLe 26.8%) impacted by RM inflation and mix (higher MHCV share at 56% v/s 45% in 2Q). With healthy recovery in Tippers, ICV and LCVs, MAVs too are recovering which should drive volumes in 4Q. However, global shortage of semiconductors (ECUs) can likely impact production for few months. With improved economic activity linked recovery and a low base, MHCV recovery to benefit AL due to high dominance in HCVs. Also re-opening of schools/public transport should support bus volumes. We cut FY22 EPS by ~8% to factor in likely production cut and unfavorable mix impact, while we maintain FY23 EPS. We raise target multiple to 14x EV/EBITDA (v/s 12x) for strong growth in LCVs and market share gains in MHCVs. Hence we maintain BUY with revised TP of Rs155 (v/s Rs133). Current valuations at 18.6x/13.2x FY22/23 EV/EBITDA reflect early recovery cycle and do not fully capture AL's de-risking strategy of reducing M&HCV dependence.

- Q3FY21 Revenues came in at Rs48.1b (+20% YoY, PLe Rs49.7bn)** led by 7% YoY growth in volumes and 12% YoY growth in realizations at Rs1.44m (PLe Rs1.48m largely led by BS6 price increase).
- Higher RM, employee cost dent margins at 5.3% (-30bp YoY, PLe 7.2%).** Gross margins declined 90bp YoY at 25.6% (PLe 26.8%) due to higher share of MHCV to 56% (v/s 45% in 2Q). This coupled with high employee cost at Rs4.5b (PLe Rs3.9bn) resulted in EBITDA miss at Rs2.5b (+13% YoY, PLe Rs3.6b). Adjusted for one off expense of Rs310m (for COVID and leave encashment expenses), margins were at 5.9% (+30bp YoY).
- Adjusted PAT came lower at Rs295m (-21% YoY, PLe Rs930m)** led by weak operating performance and higher depreciation at Rs1.9b (PLe Rs1.75b).
- Net debt reduced to Rs28.8bn in Q3FY21 (v/s Rs30.8b in Q2FY21).
- Key con-call takeaways: 1) Outlook-** Improving demand outlook is led by tippers and sequential recovery visible for MAVs. Also, strong traction in LCVs to also help volumes. **2) Exports** demand to pick up gradually led by new products and increasing footprint in Africa, UAE. **3) Took price hike of 1.5% in Q4** and anticipate another price hike to offset RM inflation. **3) Capex incurred for 9MFY21 at Rs4.5b** (v/s Rs8.6bn YoY). Investment amounts to Rs2.6b (Rs0.9b in HLF and Rs1.5b in Optare). **5) Low plant inventory for M&HCV at 3.1k units (v/s 1.9k units in 2Q).** Channel inventory almost nil. **6) Leyland Finance** - Collections rate improving (~90% currently) as morat accounts are doing better with lower GNPA at 4.3%.

Exhibit 1: Q3FY21 Result Overview (Rs m)

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	9MFY21	9MFY20	YoY gr. (%)
Net Revenues	48,135	40,157	19.9	28,366	83,010	1,36,290	(39.1)
Raw Materials	35,824	29,532	21.3	20,201	60,199	96,401	(37.6)
<i>% of Net Sales</i>	<i>74.4</i>	<i>73.5</i>		<i>71.2</i>	<i>72.5</i>	<i>70.7</i>	
Personnel	4,545	2,728	66.6	3,736	11,823	12,053	(1.9)
<i>% of Net Sales</i>	<i>9.4</i>	<i>6.8</i>		<i>13.2</i>	<i>14.2</i>	<i>8.8</i>	
Manufacturing & Other Exp	5,228	5,645	(7.4)	3,625	10,978	17,928	(38.8)
<i>% of Net Sales</i>	<i>10.9</i>	<i>14.1</i>		<i>12.8</i>	<i>13.2</i>	<i>13.2</i>	
Total Expenditure	45,597	37,905	20.3	27,562	83,000	1,26,383	(34.3)
EBITDA	2,538	2,252	12.7	804	10	9,908	(99.9)
<i>EBITDA Margin (%)</i>	<i>5.3</i>	<i>5.6</i>		<i>2.8</i>	<i>0.0</i>	<i>7.3</i>	
Depreciation	1,944	1,575	23.5	1,712	5,293	4,821	9.8
EBIT	594	677	(12.3)	-907	-5,283	5,086	(203.9)
Interest Expenses	656	337	94.9	872	2,297	764	200.9
Non-operating income	341	223	52.5	219	816	889	(8.3)
Extraordinary Expenses	460	22		17	494	871	
PBT	-182	542		-1,578	-7,258	4,341	(267.2)
Tax-Total	11	264	(95.7)	-111	-1,710	1,372	(224.7)
<i>Tax Rate (%) - Total</i>	<i>-6.2</i>	<i>48.8</i>	<i>(112.7)</i>	<i>7.1</i>	<i>23.6</i>	<i>31.6</i>	<i>(25.5)</i>
Reported PAT	-194	278	(169.8)	-1,467	-5,548	2,969	(286.9)
Adj. PAT	295	373	(20.9)	-1,451	-5,032	3,359	(249.8)

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	9MFY21	9MFY20	YoY gr. (%)
Sales Volume (nos)	33,410	31,205	7.1	19,444	56,668	99,749	(43.2)
Net Realisation/Vehicle	14,40,739	12,86,861	12.0	14,58,846	14,64,841	13,66,330	7.2
Material cost / vehicle	10,72,257	9,46,396	13.3	10,38,912	10,62,314	9,66,439	9.9
Gross Profit / vehicle	3,68,482	3,40,465	8.2	4,19,934	4,02,527	3,99,892	0.7
Employee cost /vehicle	1,36,031	87,419	55.6	1,92,152	2,08,635	1,20,837	72.7
Other expenses / vehicle	1,56,489	1,80,894	(13.5)	1,86,417	1,93,720	1,79,729	7.8
EBITDA/vehicle	75,962	72,152	5.3	41,365	173	99,325	(99.8)
Net Profit/vehicle	8,830	11,949	(26.1)	-74,619	-88,798	33,679	(363.7)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	1,74,675	1,39,606	2,33,942	2,71,755
YoY gr. (%)	(39.9)	(20.1)	67.6	16.2
Cost of Goods Sold	1,23,692	1,02,677	1,70,180	1,94,877
Gross Profit	50,983	36,929	63,762	76,878
Margin (%)	29.2	26.5	27.3	28.3
Employee Cost	16,151	15,989	16,309	18,625
Other Expenses	23,096	17,125	25,937	28,719
EBITDA	11,737	3,815	21,516	29,534
YoY gr. (%)	(62.6)	(67.5)	463.9	37.3
Margin (%)	6.7	2.7	9.2	10.9
Depreciation and Amortization	6,698	7,311	7,143	7,932
EBIT	5,039	(3,496)	14,373	21,602
Margin (%)	2.9	(2.5)	6.1	7.9
Net Interest	1,095	2,985	1,407	1,361
Other Income	1,234	965	1,960	2,160
Profit Before Tax	3,619	(5,516)	14,926	22,402
Margin (%)	2.1	(4.0)	6.4	8.2
Total Tax	1,224	(1,379)	3,433	5,152
Effective tax rate (%)	33.8	25.0	23.0	23.0
Profit after tax	2,395	(4,137)	11,493	17,249
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,426	(4,137)	11,493	17,249
YoY gr. (%)	(83.1)	(220.7)	(377.8)	50.1
Margin (%)	2.0	(3.0)	4.9	6.3
Extra Ord. Income / (Exp)	(1,031)	-	-	-
Reported PAT	2,395	(4,137)	11,493	17,249
YoY gr. (%)	(87.9)	(272.7)	(377.8)	50.1
Margin (%)	1.4	(3.0)	4.9	6.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,395	(4,137)	11,493	17,249
Equity Shares O/s (m)	2,936	2,936	2,936	2,936
EPS (Rs)	1.2	(1.4)	3.9	5.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	96,199	1,06,890	1,12,890	1,20,390
Tangibles	96,199	1,06,890	1,12,890	1,20,390
Intangibles	-	-	-	-
Acc: Dep / Amortization	28,163	35,474	42,617	50,549
Tangibles	28,163	35,474	42,617	50,549
Intangibles	-	-	-	-
Net fixed assets	68,036	71,416	70,273	69,841
Tangibles	68,036	71,416	70,273	69,841
Intangibles	-	-	-	-
Capital Work In Progress	5,941	1,250	1,250	1,250
Goodwill	-	-	-	-
Non-Current Investments	27,196	29,446	30,946	32,446
Net Deferred tax assets	(2,648)	(2,372)	(3,119)	(4,239)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	12,380	9,945	16,664	19,358
Trade receivables	11,798	9,562	16,023	18,613
Cash & Bank Balance	13,225	6,652	9,602	15,445
Other Current Assets	24,766	19,889	38,456	46,161
Total Assets	1,63,896	1,48,542	1,83,856	2,03,859
Equity				
Equity Share Capital	2,936	2,936	2,936	2,936
Other Equity	69,704	63,537	72,700	87,271
Total Networkth	72,640	66,472	75,636	90,206
Non-Current Liabilities				
Long Term borrowings	13,814	16,814	15,314	13,764
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	17,110	20,110	18,110	16,110
Trade payables	26,368	21,037	35,252	37,227
Other current liabilities	31,316	21,737	36,426	42,314
Total Equity & Liabilities	1,63,896	1,48,542	1,83,856	2,03,859

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	5,039	(3,496)	14,373	21,602
Add. Depreciation	6,698	7,311	7,143	7,932
Add. Interest	766	965	1,960	2,160
Less Financial Other Income	1,234	965	1,960	2,160
Add. Other	(395)	-	-	-
Op. profit before WC changes	12,108	4,780	23,476	31,694
Net Changes-WC	(1,756)	(5,190)	(3,103)	(5,229)
Direct tax	(941)	1,103	(2,687)	(4,032)
Net cash from Op. activities	9,411	693	17,686	22,433
Capital expenditures	(12,923)	(6,000)	(6,000)	(7,500)
Interest / Dividend Income	-	-	-	-
Others	(8,852)	(2,250)	(1,500)	(1,500)
Net Cash from Inv. activities	(21,775)	(8,250)	(7,500)	(9,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	25,655	6,000	(3,500)	(3,550)
Dividend paid	(12,702)	(2,031)	(2,329)	(2,679)
Interest paid	(1,463)	(2,985)	(1,407)	(1,361)
Others	-	-	-	-
Net cash from Fin. activities	11,490	984	(7,236)	(7,590)
Net change in cash	(874)	(6,573)	2,950	5,843
Free Cash Flow	(3,512)	(5,307)	11,686	14,933

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	38,385	6,509	28,366	48,135
YoY gr. (%)	(56.6)	(88.5)	(27.8)	19.9
Raw Material Expenses	27,290	4,175	20,201	35,824
Gross Profit	11,095	2,334	8,165	12,311
Margin (%)	28.9	35.9	28.8	25.6
EBITDA	1,830	(3,332)	804	2,538
YoY gr. (%)	(81.4)	(162.1)	(64.8)	12.7
Margin (%)	4.8	(51.2)	2.8	5.3
Depreciation / Depletion	1,877	1,637	1,712	1,944
EBIT	(47)	(4,969)	(907)	594
Margin (%)	(0.1)	(76.3)	(3.2)	1.2
Net Interest	331	768	872	656
Other Income	344	256	219	341
Profit before Tax	(721)	(5,498)	(1,578)	(182)
Margin (%)	(1.9)	(84.5)	(5.6)	(0.4)
Total Tax	(148)	(1,610)	(111)	11
Effective tax rate (%)	20.5	29.3	7.1	(6.2)
Profit after Tax	(573)	(3,888)	(1,467)	(194)
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	(27)	(3,876)	(1,451)	295
YoY gr. (%)	(100.4)	(259.4)	(361.2)	(20.9)
Margin (%)	(0.1)	(59.6)	(5.1)	0.6
Extra Ord. Income / (Exp)	(546)	(12)	(16)	(489)
Reported PAT	(573)	(3,888)	(1,467)	(194)
YoY gr. (%)	(108.8)	(268.8)	(477.3)	(169.8)
Margin (%)	(1.5)	(59.7)	(5.2)	(0.4)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(573)	(3,888)	(1,467)	(194)
Avg. Shares O/s (m)	2,936	2,936	2,936	2,936
EPS (Rs)	-	(1.3)	(0.5)	0.1

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	1.2	(1.4)	3.9	5.9
CEPS	3.4	1.1	6.3	8.6
BVPS	24.7	22.6	25.8	30.7
FCF	(1.2)	(1.8)	4.0	5.1
DPS	0.5	0.6	0.7	0.8
Return Ratio(%)				
RoCE	2.9	(2.2)	8.6	11.1
ROIC	2.1	(1.8)	7.1	9.3
RoE	4.4	(5.9)	16.2	20.8
Balance Sheet				
Net Debt : Equity (x)	0.2	0.5	0.3	0.2
Net Working Capital (Days)	(5)	(4)	(4)	1
Valuation(x)				
PER	109.9	(91.0)	32.8	21.8
P/B	5.2	5.7	5.0	4.2
P/CEPS	37.2	118.6	20.2	15.0
EV/EBITDA	33.6	106.6	18.6	13.2
EV/Sales	2.3	2.9	1.7	1.4
Dividend Yield (%)	0.4	0.4	0.5	0.6

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
MHCV volumes (units)	78,607	49,353	89,203	1,00,538
LCV incl. Dost volumes (units)	46,646	47,654	66,716	76,893
Realisation ex. Dost (Rs/unit)	16,10,808	17,24,758	18,56,708	19,48,891

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Jan-21	BUY	133	113
2	09-Nov-20	BUY	100	84
3	09-Oct-20	BUY	95	76
4	13-Aug-20	BUY	76	61
5	11-Jul-20	Accumulate	59	51
6	27-Jun-20	Accumulate	59	52
7	09-Apr-20	Accumulate	59	46
8	17-Feb-20	Hold	80	82

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	133	113
2	Bajaj Auto	Hold	3,489	3,727
3	Bharat Forge	Hold	515	603
4	CEAT	Accumulate	1,434	1,310
5	Eicher Motors	Accumulate	3,129	2,901
6	Endurance Technologies	BUY	1,662	1,483
7	Exide Industries	BUY	238	194
8	Hero Motocorp	Accumulate	3,753	3,429
9	Mahindra & Mahindra	BUY	1,011	866
10	Maruti Suzuki	BUY	8,428	7,589
11	Motherson Sumi Systems	BUY	203	168
12	Tata Motors	Reduce	231	263
13	TVS Motors	Sell	437	529

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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