

# Ashok Leyland

18 August, 2022

Reuters: ASOK.NS; Bloomberg: AL IN

## Clear beneficiary of CV upcycle; focus on LCV to aid topline growth

We recently hosted Mr. Gopal Mahadevan, CFO & Mr. Balaji Kidambi, Dy. CFO, Ashok Leyland Ltd. as part of our "Investors Conference Week" to gain insights into the current business environment, demand trends & outlook, opportunities and headwinds (on account of the semiconductor shortage and elevated commodity cost issues).

Following are the key takeaways from the meeting.

### Demand trend and outlook:

- Demand traction in the domestic market across all the segments continues to remain strong. While demand for LCVs and ICVs is witnessing strong traction due to last-mile delivery requirements from e-commerce operators, reopening of educational institutions & corporate offices has led to a meaningful recovery in the Bus segment. The MHCV segment is also seeing strong traction on the back of increasing construction, infra and mining activities.
- Current average age of the fleet is ~10 years. With 5 lakh CVs on road currently, the management expects tremendous opportunities in the replacement market to aid volume recovery in the near term.
- Exports continues to perform well and the management is confident of sequential volume growth in 2QFY23. AL expects the export market to grow at a faster rate than the domestic market in FY23. Key focus export markets include SAARC, the Middle-East region and Africa. AL also plans to introduce LCVs in the export markets starting with South East Asia.
- New LCVs - Dost and Bada Dost - have been accepted very well in the market. However, semiconductor availability issue continued to hamper volume in the LCV segment. Going forward, the management expects semiconductor availability to improve gradually starting 2QFY23, which would aid volume recovery for LCVs.
- With the gap between Diesel and CNG prices narrowing, the management stated that there has again been a shift in preference in the favor of diesel models as the cost advantage of CNG vehicles has reduced. Also, CNG vehicles are priced higher than diesel models. However, the company will continue to launch new CNG models going forward.
- The management also stated that volume share of ICVs has increased from ~20% in FY19 to ~30-35% in FY22. However, they also mentioned that demand traction is moving from ICVs to higher tonnage segments.

### Commodity costs and price hikes:

- Commodity basket continues to remain mixed. While the price of steel remains stable, that of forgings and castings continues to increase in comparison to January'22 prices. Tyre prices have continue their upward trajectory due to the surge in the prices of natural rubber and crude derivatives. However, the management expects the RM basket to soften from 2HFY23.
- AL management reiterated that the CV business will continue to remain a buyer's market led by high competitive intensity. Thus, it becomes difficult to pass on high costs to the end customer.
- The company undertook price hikes of 1.8-1.9% in 1QFY23 and expects to take 1% increase in 2QFY23. Net realization improved by 1.7-1.8% in 1QFY23.
- While discounts for MHCVs continue to remain elevated, that for LCVs remain comparatively lower.
- The company stated that MHCV is the lowest margin product segment and it is focusing on improving the product mix by increasing the share of spare parts, exports and LCVs.
- The management expects to touch double-digit margins going ahead on the back of improving product mix, price hikes, softening commodity prices and operating leverage benefits.

### Other Points:

- AL is adopting different strategies throughout the country to preserve and gain market share. While South India continues to remain a key market and a stronghold for AL, it is exploring various strategies, including pricing to penetrate further in North and East markets.
- Vehicles at Switch Mobility are being built in-house. AL is working towards building a common facility for its EV and diesel variants.

**Our view:** AL has been regaining the lost market share over the last four quarters, led by ramp-up of its CNG portfolio and new product launches. Its M&HCV market share increased by 50bps QoQ to 31.1% in 1QFY23. We expect market share gains to continue with a robust product pipeline plugging product gaps and increasing penetration in new markets. The pick-up in the sales of Dost & Bada Dost models post easing of supply chain issues will further drive LCV segment volume and market share gain. We see AL to be a key beneficiary of the CV cycle recovery and expect further expansion in margins amid an improving product mix, softening RM prices and operating leverage benefits. However, competitive intensity remains high, preventing full pass-through of elevated input prices to end customers and leading to higher discounts. We model volume CAGR of 22% over FY22-25E and 450bps margin expansion. We keep our estimates unchanged and value the Auto business at 11x Sept'24E EV/EBITDA and HLFL at 1x PB to arrive at a target price (TP) of Rs171. We upgrade AL to BUY after a recent dip in share price.

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**BUY**

**Sector:** Automobiles

**CMP:** Rs147

**Target Price:** Rs171

**Upside:** 16%

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### Key Data

Current Shares O/S (mn)	2,936
Mkt Cap (Rsbn/US\$bn)	432.5/5.4
52 Wk H / L (Rs)	158/93
Daily Vol. (3M NSE Avg.)	16,223,900

### Price Performance (%)

	1 M	6 M	1 Yr
Ashok Leyland	0.5	16.5	17.7
Nifty Index	9.9	3.9	8.4

Source: Bloomberg

### [1QFY23 result](#)

## Financials

### Exhibit 1: Income statement

Y/E March (Rsmn)	FY20	FY21	FY22	FY23E	FY24E
<b>Net Sales</b>	<b>174,675</b>	<b>153,015</b>	<b>216,883</b>	<b>296,317</b>	<b>364,400</b>
<b>% Growth</b>	<b>(39.9)</b>	<b>(12.4)</b>	<b>41.7</b>	<b>36.6</b>	<b>23.0</b>
Raw material	123,692	114,033	167,611	220,756	269,656
<b>Gross margin (%)</b>	<b>29.2</b>	<b>25.5</b>	<b>22.7</b>	<b>25.5</b>	<b>26.0</b>
Staff costs	16,151	15,839	16,946	19,261	21,864
Other expenses	23,096	17,791	22,381	33,780	38,626
Total expenses	162,938	147,663	206,938	273,797	330,146
<b>EBITDA</b>	<b>11,737</b>	<b>5,351</b>	<b>9,945</b>	<b>22,520</b>	<b>34,254</b>
<b>% Growth</b>	<b>(62.6)</b>	<b>(54.4)</b>	<b>85.8</b>	<b>126.4</b>	<b>52.1</b>
<b>EBITDA margin (%)</b>	<b>6.7</b>	<b>3.5</b>	<b>4.6</b>	<b>7.6</b>	<b>9.4</b>
Other income	1,233	1,195	761	980	1,136
Interest costs	1,095	3,068	3,011	2,034	1,198
Depreciation	6,698	7,477	7,528	7,865	8,648
Profit before tax (before exceptional items)	5,177	(3,999)	168	13,602	25,544
Exceptional items	1,558	121	(5,108)	-	-
Tax	1,224	(982)	(142)	2,720	5,109
<b>Adj PAT</b>	<b>3,953</b>	<b>(3,016)</b>	<b>310</b>	<b>10,881</b>	<b>20,435</b>
<b>% Growth</b>	<b>(80.6)</b>	<b>(176.3)</b>	<b>(110.3)</b>	<b>3,410.1</b>	<b>87.8</b>
<b>Adj PAT margin (%)</b>	<b>2.3</b>	<b>(2.0)</b>	<b>0.1</b>	<b>3.7</b>	<b>5.6</b>
EPS (Rs)	1.3	(1.0)	0.1	3.7	7.0
<b>% Growth</b>	<b>(80.6)</b>	<b>(176.3)</b>	<b>(110.3)</b>	<b>3,410.1</b>	<b>87.8</b>
DPS (Rs)	0.5	0.6	1.0	1.0	2.0
<b>Payout (incl. div. tax) (%)</b>	<b>70.5</b>	<b>(64.6)</b>	<b>62.3</b>	<b>31.0</b>	<b>33.0</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 3: Balance sheet

Y/E March (Rsmn)	FY20	FY21	FY22	FY23E	FY24E
Share capital	2,936	2,936	2,936	2,936	2,936
Reserves	69,704	66,837	70,434	77,775	91,129
Net worth	72,640	69,772	73,369	80,710	94,065
Total debt	31,053	37,463	35,539	27,039	16,539
Net deferred tax liability	2,648	1,708	1,444	1,444	1,444
<b>Capital employed</b>	<b>106,341</b>	<b>108,943</b>	<b>110,351</b>	<b>109,192</b>	<b>112,047</b>
Gross block	96,199	105,576	108,609	116,109	124,109
Depreciation	28,163	35,072	42,600	50,465	59,113
Net block	68,036	70,504	66,009	65,644	64,996
Capital work-in-progress	5,941	3,719	1,943	1,943	1,943
Investments	27,196	30,687	48,196	53,196	59,196
Inventories	12,380	21,423	20,752	24,355	39,934
Debtors	11,804	28,163	31,111	40,591	49,918
Cash	13,225	8,230	10,470	7,351	2,554
Loans & advances & Other current assets	25,314	21,774	24,858	25,355	25,862
Total current assets	62,723	79,590	87,190	97,652	118,268
Creditors	26,239	51,647	68,752	81,183	99,836
Other current liabilities & provisions	31,316	23,909	24,234	28,060	32,521
Total current liabilities	57,555	75,556	92,986	109,243	132,356
Net current assets	5,168	4,033	(5,797)	(11,590)	(14,088)
<b>Application of funds</b>	<b>106,341</b>	<b>108,943</b>	<b>110,351</b>	<b>109,192</b>	<b>112,047</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 2: Cash flow

Y/E March (Rsmn)	FY20	FY21	FY22	FY23E	FY24E
OP/(loss) before tax	5,039	(2,126)	2,418	14,655	25,606
Depreciation & amortization	6,698	7,477	7,528	7,865	8,648
Other income	1,233	1,195	761	980	1,136
(Inc.)/dec. in working capital	(4,950)	(3,861)	12,070	2,675	(2,299)
Direct taxes paid	(1,073)	42	(122)	(2,720)	(5,109)
<b>Other/extra-ordinary Items</b>	<b>(13,170)</b>	<b>(615)</b>	<b>6,223</b>	<b>(605)</b>	<b>(1,209)</b>
<b>Cash flow from operations (after E/O)</b>	<b>(6,223)</b>	<b>2,113</b>	<b>28,877</b>	<b>22,851</b>	<b>26,772</b>
Capital expenditure (-)	(17,964)	(7,722)	(1,257)	(7,500)	(8,000)
<b>Net cash after capex</b>	<b>(24,187)</b>	<b>(5,609)</b>	<b>27,620</b>	<b>15,351</b>	<b>18,772</b>
Other investing activities	(831)	(3,491)	(17,509)	(5,000)	(6,000)
Dividends paid (-)	(1,468)	(1,761)	(2,936)	(2,936)	(5,871)
Inc./(dec.) in total borrowings	25,975	3,342	(4,935)	(10,534)	(11,698)
Others	-	-	-	-	-
<b>Cash from financial activities</b>	<b>24,507</b>	<b>1,581</b>	<b>(7,871)</b>	<b>(13,469)</b>	<b>(17,569)</b>
Opening cash balance	13,736	13,225	8,230	10,470	7,351
Closing cash balance	13,225	5,705	10,470	7,351	2,554
Change in cash balance	(511)	(7,520)	2,240	(3,118)	(4,797)

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 4: Key ratios

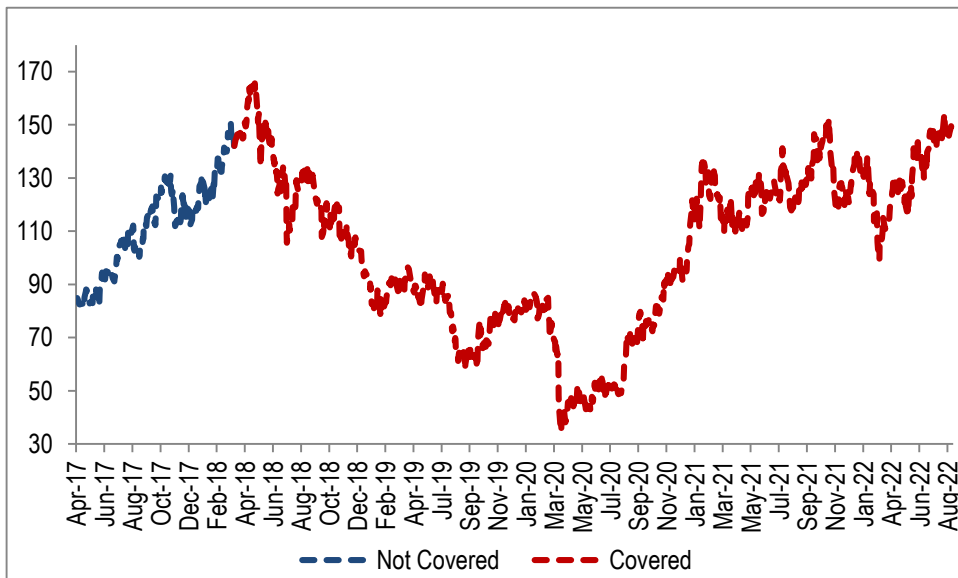
Y/E March	FY20	FY21	FY22	FY23E	FY24E
<b>Per share (Rs)</b>					
EPS	1.3	(1.0)	0.1	3.7	7.0
EPS Growth (%)	(80.6)	(176.3)	(110.3)	3,410.1	87.8
Cash EPS	3.6	1.5	2.7	6.4	9.9
Book value per share	24.7	23.8	25.0	27.5	32.0
DPS	0.5	0.6	1.0	1.0	2.0
Payout (incl. div. tax) %	70.5	(64.6)	62.3	31.0	33.0
<b>Valuation (x)</b>					
P/E	114.3	(149.9)	1,458.3	41.5	22.1
Cash P/E	42.4	101.3	57.7	24.1	15.5
EV/EBITDA	37.7	84.2	43.1	18.6	11.9
EV/Sales	2.5	2.9	2.0	1.4	1.1
P/BV	6.2	6.5	6.2	5.6	4.8
Dividend yield (%)	0.3	0.4	0.6	0.6	1.3
<b>Return ratios (%)</b>					
RoCE	5.9	(0.9)	2.9	14.3	23.9
RoE	5.4	(4.3)	0.4	13.5	21.7
<b>Profitability ratios (%)</b>					
EBITDA margin	6.7	3.5	4.6	7.6	9.4
PAT margin	2.3	(2.0)	0.1	3.7	5.6
<b>Turnover ratios</b>					
Debtors (days)	25	67	52	50	50
Inventory (days)	26	51	35	30	40
Creditors (days)	55	123	116	100	100
Asset turnover (x)	2	1	2	3	3
<b>Leverage Ratio</b>					
Debt/equity (x)	0.4	0.5	0.5	0.3	0.2

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
23 March 2018	Buy	142	167
23 May 2018	Buy	141	165
19 July 2018	Buy	111	129
18 September 2018	Buy	127	152
15 February 2019	Buy	84	152
2 August 2019	Buy	69	80
23 September 2019	Buy	75	80
13 November 2019	Buy	79	92
18 February 2020	Buy	82	98
30 March 2020	Buy	43	56
29 June 2020	Acc	52	52
14 August 2020	Acc	62	64
22 September 2020	Buy	75	103
09 November 2020	Buy	84	103
06 January 2021	Buy	108	128
15 February 2021	Acc	128	130
9 April 2021	Acc	126	150
28 June 2021	Buy	123	150
13 August 2021	Buy	130	150
15 November 2021	Buy	152	175
14 February 2022	Buy	124	170
22 May 2022	Buy	124	169
18 August 2022	Buy	147	171

## Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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