

Ashok Leyland Ltd

Scrappage policy to drive faster growth

Ashok Leyland Ltd (ALL) is the flagship company of the Hinduja Group, and one of the largest commercial vehicle manufacturers in India. ALL is engaged in the manufacturing of commercial vehicles and related components. ALL's products include buses, trucks, engines, defense and special vehicles. Ashok Leyland offers a range of products from 18 to 82 seater double-decker buses, from 7.5 to 49 tonne in haulage vehicles, from numerous special application vehicles to diesel engines for industrial, marine and genset applications. The company is headquartered in Chennai, India. The company's manufacturing facilities are spread across India with two facilities in Prague (Czech Republic) and Ras Al Khaimah (UAE). It has operations in India, Sri Lanka, Bangladesh, Mauritius, the Middle East and Africa.

Vehicle scrappage policy to trigger ALL's growth: The government has introduced vehicle scrappage policy for commercial vehicles older than 15 years of age. The ministry is considering to incentivise fleet operators for scrapping old vehicles in the form of reduced tax rate on new vehicles. However, the quantum of concessions to be offered for scrapping the old vehicles is in the process of finalisation and is expected to be out soon. As per the draft report, about 11 lakh MHCVs would qualify for scrappage, which provides huge opportunity for the industry (current industry size of 4 lakh units). ALL is leading MHCV player and in our view, ALL is set to capture the additional growth opportunity going ahead.

Strong growth momentum in LCV business: Post GST rollout, LCV demand is picking up strongly due to consolidation of warehouses (hub and spoke model). Moreover, improved rural demand coupled with boom in e-commerce will drive LCV demand. The LCV industry reported robust ~19% growth in 9MFY2018. Going ahead, we expect growth momentum remain strong.

ALL to launch one product every six months: ALL plans to introduce a new product every six months to widen offerings and fully harness the demand potential. Further, apart from the domestic market, ALL is targeting to capture new export markets (which were earlier restricted due to agreement with MNC partner) as well to tap the growth opportunity.

Outlook and Valuation: We expect Ashok Leyland to report net Profit (reported) CAGR of ~19% to ~`2,075cr over FY2017-20E mainly due to improvement in replacement demand (implementation of vehicle scrappage policy, which opens huge opportunity for ALL). **At the CMP of `139, the stock trades at PE of 19.6x its FY2020E EPS of `7.1. We initiate coverage on the stock with a Buy recommendation and Target Price of `163 based on 23x FY2020E EPS, indicating an upside of ~17% from the current levels.**

Key financials (Standalone)

Y/E March (` cr)	FY2017	FY2018E	FY2019E	FY2020E
Net sales	20,019	26,119	30,728	35,279
% chg	5.7	30.5	17.6	14.8
Net profit	1,491	1,479	1,771	2,075
% chg	92.7	(0.8)	19.8	17.2
EBITDA margin (%)	8.4	10.3	10.3	10.3
EPS (`)	5.1	5.1	6.1	7.1
P/E (x)	27.3	27.5	23.0	19.6
P/BV (x)	6.6	5.6	4.7	3.9
RoE (%)	24.3	20.3	20.3	19.8
RoCE (%)	14.0	22.2	23.8	23.9
EV/Sales (x)	2.0	1.5	1.2	1.1
EV/EBITDA (x)	23.3	14.3	12.0	10.2

Source: Company, Angel Research, Note: CMP as of March 6, 2018

BUY

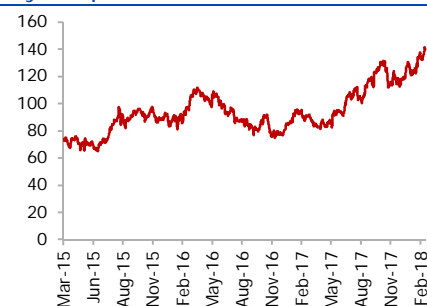
CMP	`139
Target Price	`163
Investment Period	12 Months

Stock Info	
Sector	Commercial Vehicles
Market Cap (` cr)	41,009
Net Debt (` cr)	1,411
Beta	1.1
52 Week High / Low	144/81
Avg. Daily Volume	1,165,131
Face Value (`)	1
BSE Sensex	33,317
Nifty	10,249
Reuters Code	ASOK.BO
Bloomberg Code	AL.IN

Shareholding Pattern (%)	
Promoters	51.3
MF / Banks / Indian Fls	11.4
FII / NRIs / OCBs	25.2
Indian Public / Others	12.1

Abs.(%)	3m	1yr	3yr
Sensex	2.9	16.2	14.6
ALL	91.5	22.7	60.4

3-year price chart



Source: Company, Angel Research

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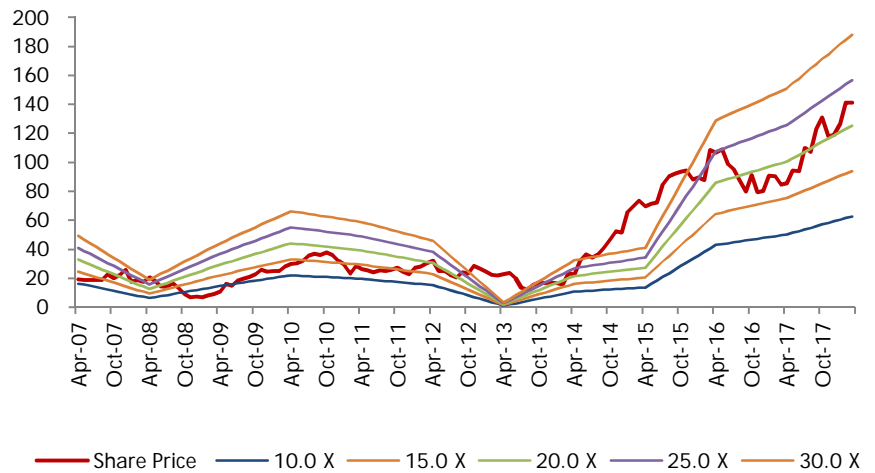
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Outlook and Valuation

We expect Ashok Leyland to report net Profit (reported) CAGR of ~19% to ~`2,075cr over FY2017-20E mainly due to improvement in replacement demand (implementation of vehicle scrappage policy, which opens huge opportunity for ALL). **At the CMP of `139, the stock trades at PE of 19.6x its FY2020E EPS of `7.1. We initiate coverage on the stock with a Buy recommendation and Target Price of `163 based on 23x FY2020E EPS, indicating an upside of ~17% from the current levels.**

Exhibit 1: One year forward PE Chart



Source: Company, Angel Research

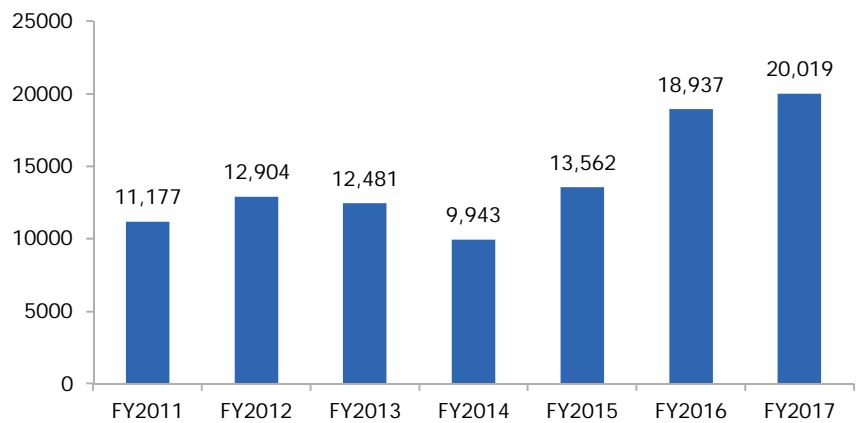
Downside risks to our estimates

- Slowdown in industrial activities could restrict sales volume for ALL
- Delay in implementation of vehicle scrappage policy could restrict the additional sales growth for company

Company Background

Ashok Leyland Ltd (ASL) is a holding company. The company is engaged in commercial vehicles and related components. Through its subsidiaries, it is engaged in manufacturing and trading in Medium and Heavy Commercial Vehicle (MHCV), Light Commercial Vehicles (LCV), Passenger Vehicles (PV), automotive aggregates, vehicle financing and engineering design services. It offers a range of 18 to 80 seater buses under categories such as city application and electric buses. It offers a range of trucks, which includes long haul trucks, mining and construction trucks, and distribution trucks. It designs, develops and manufactures defence vehicles for armed forces. It offers Light Vehicles, which include DOST, PARTNER, STiLE and MiTR. It offers power solutions for electric power generation, agricultural harvester combines, earth moving and construction equipment and marine and other non-automotive applications. It has operations in India, Sri Lanka, Bangladesh, Mauritius, the Middle East and Africa.

Exhibit 2: Historical CV Volume of ALL



Source: Company, Angel Research

Standalone Profit & Loss Statement

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Net Sales	18,937	20,019	26,119	30,728	35,279
% chg	39.6	5.7	30.5	17.6	14.8
Total Expenditure	17,498	18,341	23,429	27,563	31,645
Raw Material	13,195	13,973	18,675	21,970	25,225
Personnel	1,385	1,543	2,142	2,520	2,893
Others Expenses	2,918	2,825	2,612	3,073	3,528
EBITDA	1,439	1,677	2,690	3,165	3,634
% chg	79.4	16.5	60.4	17.6	14.8
(% of Net Sales)	7.6	8.4	10.3	10.3	10.3
Depreciation & Amortisation	488	518	573	615	652
EBIT	952	1,160	2,118	2,550	2,982
% chg	146.4	21.9	82.6	20.4	16.9
(% of Net Sales)	5.0	5.8	8.1	8.3	8.5
Interest & other Charges	248	155	154	149	140
Other Income	123	326	165	165	165
(% of PBT)	14.8	24.5	7.8	6.4	5.5
Recurring PBT	827	1,330	2,129	2,567	3,007
% chg	86.9	60.9	60.0	20.6	17.2
Tax	437	107	660	796	932
(% of PBT)	52.9	8.0	31.0	31.0	31.0
PAT (reported)	390	1,223	1,469	1,771	2,075
Extraordinary Items	(384)	(268)	(10)	-	-
ADJ. PAT	774	1,491	1,479	1,771	2,075
% chg	199.5	92.7	(0.8)	19.8	17.2
(% of Net Sales)	4.1	7.4	5.7	5.8	5.9
Basic EPS (₹)	2.6	5.1	5.1	6.1	7.1
Fully Diluted EPS (₹)	2.6	5.1	5.1	6.1	7.1
% chg	199.5	92.7	(0.8)	19.8	17.2

Standalone Balance Sheet

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
SOURCES OF FUNDS					
Equity Share Capital	285	285	285	285	285
Reserves & Surplus	5,123	5,841	6,995	8,441	10,190
Shareholders Funds	5,407	6,126	7,280	8,725	10,475
Total Loans	2,415	2,145	2,250	2,000	2,000
Deferred Tax Liability	753	741	741	741	741
Total Liabilities	8,575	9,012	10,271	11,466	13,216
APPLICATION OF FUNDS					
Gross Block	5,279	5,858	6,458	6,758	7,258
Less: Acc. Depreciation	487	887	1,460	2,074	2,726
Net Block	4,792	4,971	4,998	4,684	4,532
Capital Work-in-Progress	76	206	206	206	206
Investments	1,980	2,879	2,879	2,879	2,879
Current Assets	5,925	5,744	8,472	10,727	13,613
Inventories	1,625	2,501	3,506	4,293	5,123
Sundry Debtors	1,251	860	1,360	1,768	2,223
Cash	1,593	912	1,516	1,900	2,740
Loans & Advances	712	709	1,045	1,383	1,764
Other Assets	745	762	1,045	1,383	1,764
Current liabilities	4,623	5,402	6,898	7,643	8,629
Net Current Assets	1,303	342	1,574	3,084	4,985
Deferred Tax Asset	424	614	614	614	614
Mis. Exp. not written off	-	-	-	-	-
Total Assets	8,575	9,012	10,271	11,466	13,216

Source: Company, Angel Research

Standalone Cashflow Statement

Y/E March (Cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Profit before tax	390	1223	2129	2567	3007
Depreciation	488	518	573	615	652
Change in Working Capital	(179)	190	(627)	(1127)	(1061)
Interest / Dividend (Net)	203	88	0	0	0
Direct taxes paid	(441)	(348)	(660)	(796)	(932)
Others	1223	484	0	0	0
Cash Flow from Operations	1683	2155	1425	1259	1666
(Inc.)/ Dec. in Fixed Assets	34	(366)	(600)	(300)	(500)
(Inc.)/ Dec. in Investments	330	(1111)	0	0	0
Cash Flow from Investing	364	(1477)	(600)	(300)	(500)
Issue of Equity	0	0	0	0	0
Inc./(Dec.) in loans	(789)	(883)	105	(250)	0
Dividend Paid (Incl. Tax)	(154)	(325)	(325)	(325)	(325)
Interest / Dividend (Net)	(263)	(151)	0	0	0
Cash Flow from Financing	(1205)	(1359)	(220)	(575)	(325)
Inc./(Dec.) in Cash	842	(681)	604	383	840
Opening Cash balances	751	1593	912	1516	1900
Closing Cash balances	1593	912	1516	1900	2740

Key ratios

Y/E March	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Valuation Ratio (x)					
P/E (on FDEPS)	52.6	27.3	27.5	23.0	19.6
P/CEPS	46.4	23.4	19.9	17.1	14.9
P/BV	7.5	6.6	5.6	4.7	3.9
Dividend yield (%)	0.4	0.8	0.0	0.0	0.0
EV/Sales	2.1	2.0	1.5	1.2	1.1
EV/EBITDA	27.5	23.3	14.3	12.0	10.2
EV / Total Assets	4.6	4.3	3.8	3.3	2.8
Per Share Data (Rs)					
EPS (Basic)	2.6	5.1	5.1	6.1	7.1
EPS (fully diluted)	2.6	5.1	5.1	6.1	7.1
Cash EPS	3.0	5.9	7.0	8.1	9.3
DPS	0.5	1.1	0.0	0.0	0.0
Book Value	18.5	20.9	24.9	29.8	35.8
Returns (%)					
ROCE	12.2	14.0	22.2	23.8	23.9
Angel ROIC (Pre-tax)	22.4	25.9	41.2	42.9	43.5
ROE	14.3	24.3	20.3	20.3	19.8
Turnover ratios (x)					
Asset Turnover (Gross Block)	3.6	3.4	4.0	4.5	4.9
Inventory / Sales (days)	31	46	49	51	53
Receivables (days)	24	16	19	21	23
Payables (days)	50	56	53	50	50
Working capital cycle (ex-cash) (days)	6	5	15	22	26

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Disclosure of Interest Statement	Ashok Leyland
1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

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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