

Ashok Leyland

BSE SENSEX

36,324

S&P CNX

10,937

CMP: INR126 TP: INR159 (+26%)
Buy

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Stock Info

Bloomberg	AL IN
Equity Shares (m)	2,927
M.Cap.(INRb)/(USDb)	369.1 / 5.4
52-Week Range (INR)	168 / 99
1, 6, 12 Rel. Per (%)	-14/-2/6
12M Avg Val (INR M)	1922
Free float (%)	48.7

Financials Snapshot (INR b)

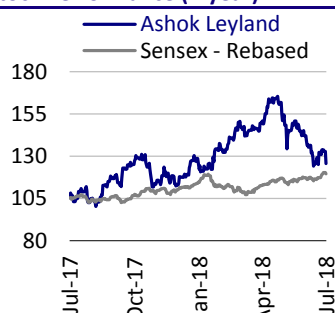
Y/E Mar	2018	2019E	2020E
Net Sales	262.5	304.7	353.5
EBITDA	27.4	33.0	42.6
PAT	15.8	20.2	26.8
EPS (INR)	5.4	6.9	9.2
Gr. (%)	23.9	28.3	32.7
BV/Sh (INR)	24.5	28.7	34.8
RoE (%)	23.7	26.0	28.9
RoCE (%)	20.7	23.3	26.5
P/E (x)	23.4	18.2	13.7
P/BV (x)	5.1	4.4	3.6

Shareholding pattern (%)

As On	Mar-18	Dec-17	Mar-17
Promoter	51.3	51.3	50.4
DII	11.2	11.5	9.9
FII	23.3	22.6	17.9
Others	14.3	14.6	21.9

FII Includes depository receipts

Stock Performance (1-year)



M&HCV axle load proposed to be increased up to 25%

Is it precursor to stricter norms on overloading?

According to media articles, the Indian government is expected to announce a hike in the axle load capacity for M&HCV (trucks and tractor trailers >16tons) by up to 25%. While we await further details on the same, our interaction with industry participants indicates a limited impact on M&HCV demand due to prevalence of overloading.

Proposed norms

- According to media articles, the government is set to hike the load carrying capacity for M&HCV trucks and tractor trailers by up to 25%. The new norms related to the same are likely to be announced tomorrow.
- The government is likely to increase the gross vehicle weight (GVW) from 16.2 to 19 tons for a two-axle truck, from 25 to 28.5 tons for a three-axle truck, from 37 to 43.5 tons for a five-axle truck and from 44 to 49 tons for a tractor trailer with five axles.
- The new rules, if implemented, will be applicable prospectively.

Likely implications

- The new norms could improve the profitability of transporters, as the load increase will facilitate higher GVW, and thus, higher loading capability.
- In intra-state transportation, where overloading is already prevalent, CV demand would not be materially impacted by the hike in load carrying capacity.
- We note that the overloading ban is prevalent in inter-state transportation. Thus, the new norms could have a negative impact on CV demand as the increase in vehicle load capacity will enhance truckload efficiencies.
- Further, the lack of clarity around this norm may lead to deferment in buying decisions in the near term.

What further measures may come?

- The move may propel the government to implement a strict overload ban across states. The government is considering higher penalties on load than the maximum permissible limit. This could be as high as 10x of the current penalties, apart from additional penalties under the Motor Vehicle Act.
- The long-awaited scrappage policy could get implemented from April 2020. Based on mandatory scrapping of trucks over 20 years old, there could be additional demand of 250k-300k units. This would help support demand in FY21, despite the pre-buy impact.

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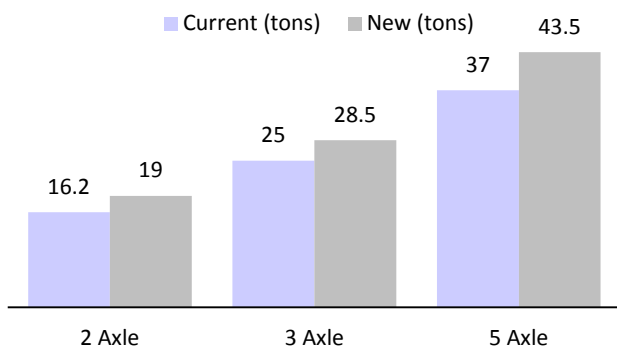
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Interview excerpts – Mr. Vinod Dasari (MD), Ashok Leyland ([Link](#))

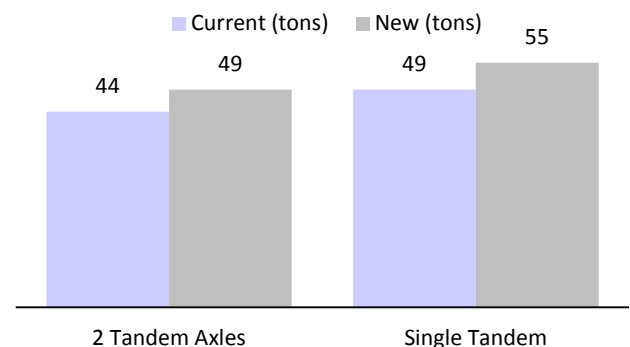
- “Government's decision is a little confusing for the industry at this point.”
- “Worried about safety norms being violated and not sure if government can be extra stringent on penalties.”
- “No one knows what the requirements are to develop these new capabilities and definitely there will be higher costs involved for the company to tweak these vehicles.”

Valuation and view

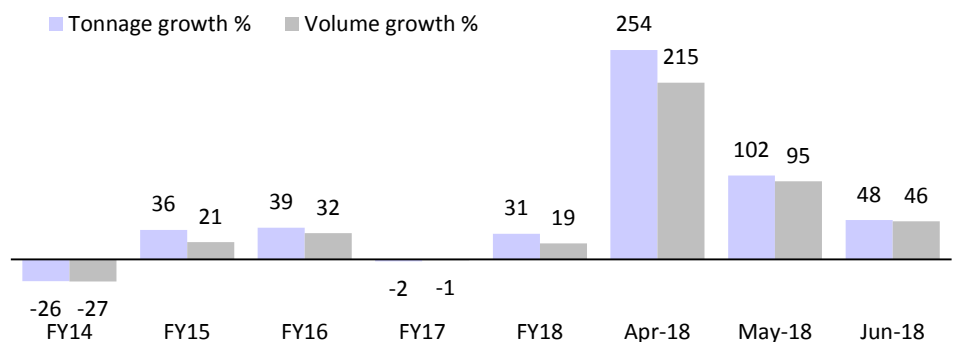
- We expect growth in CV demand to continue in FY19 and FY20, driven by pick-up in infra, construction and mining activities. Mandatory scrapping of trucks should further benefit CV demand.
- AL's focus on new growth areas by increasing the share of LCVs, exports, spare parts and defense should also drive strong revenue CAGR of 16% over FY18-20.
- With a recovery in demand, ramp-up in newer focus areas and cost-reduction measures, AL's EBITDA margin should gradually improve to 10.3% by FY20E.
- We are lowering our EV/EBITDA multiple to ~8x (in-line with five-year average, but at ~17% discount to 9.7x 10-year average) as increased regulatory actions (increase in rated load capacity, scrappage scheme, overloading ban, etc.) reduce demand visibility.
- This, coupled with impending downcycle in FY21, would warrant assigning of below 10-year-average multiple to peak earnings of FY20.
- The stock trades at 9.5x FY19 EV/EBITDA and 6.6x FY20 EV/EBITDA FY20E. Maintain **Buy** with a revised target price of INR159.

Exhibit 1: Proposed GVW for trucks

Source: Company, MOSL

Exhibit 2: Proposed GVW for trailers

Source: Company, MOSL

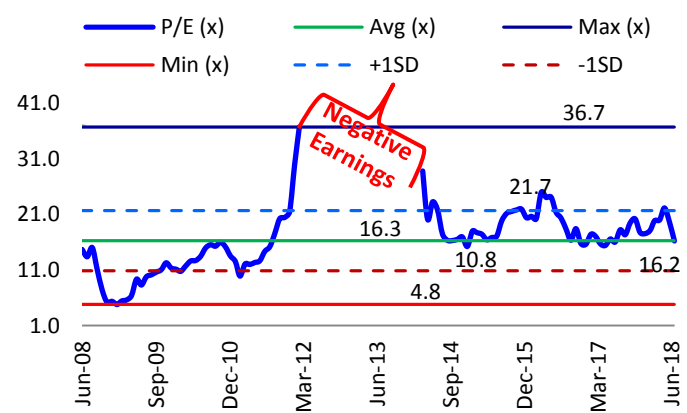
Exhibit 3: Tonnage growth outpaced volume growth in FY14-18

Source: SIAM

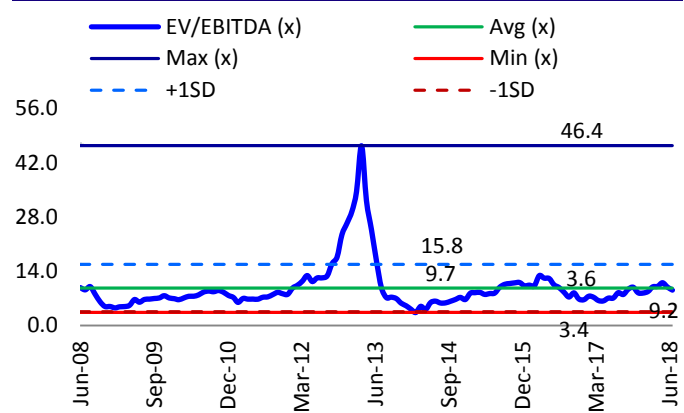
Exhibit 4: Snapshot of revenue model

000 units	FY15	FY16	FY17	FY18	FY19E	FY20E
HCV Passenger (units)	21	26	23	20	21	23
Growth (%)	7.7	24.1	-12.1	-10.5	6.0	8.0
HCV Goods (units)	57	84	91	111	127	142
Growth (%)	39.0	47.6	7.9	22.6	14.0	12.0
LCVs (units)	2	1	0	8	14	19
Growth (%)	306.0	-13.1	-89.3	4,784.6	80.0	35.0
DOST (units)	25	29	31	35	37	39
Growth (%)	-9.7	14.1	8.3	12.0	6.0	5.0
Non-DOST JV (units)	0	0	0	1	1	2
Growth (%)	-0.5	0.3	0.3	1.0	0.5	0.3
Total volumes ex Dost (units)	79	111	113	139	162	184
Growth (%)	30.9	40.2	2.0	22.6	16.5	13.4
Total Volumes incl Dost (units)	105	140	145	175	200	224
Growth (%)	17.4	33.8	3.4	20.5	14.5	12.0
ASP (INR '000/unit)	1,293	1,349	1,388	1,501	1,521	1,576
Growth (%)	16.1	4.4	2.9	8.1	1.3	3.6
Net Sales (INR b)	136	189	201	262	305	354
Growth (%)	36.4	39.6	6.4	30.3	16.1	16.0

Source: MOSL, Company

Exhibit 5: Recent valuation contraction reflects demand uncertainty

Source: MOSL



Source: MOSL

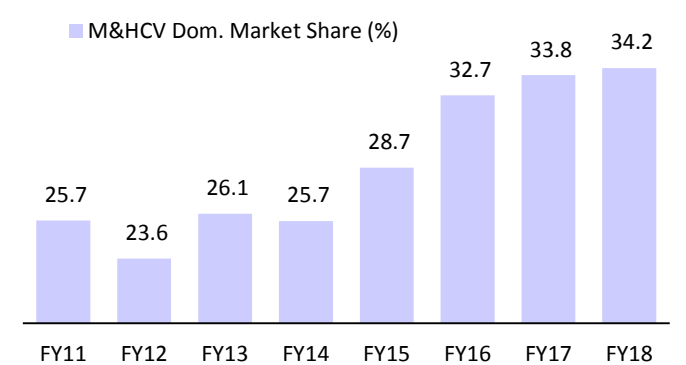
Exhibit 6: Comparative valuation

	CMP	Rating	TP	P/E (x)		EV/ EBITDA (x)		RoE (%)		Div Yield (%)		EPS CAGR (%)
	(INR)		(INR)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY18-20E
Auto OEM's												
Bajaj Auto	3,102	Buy	3,686	18.2	15.7	12.5	10.3	24.4	25.3	2.3	2.6	14.2
Hero MotoCorp	3,424	Neutral	3,828	17.0	14.9	10.2	8.9	32.2	32.4	3.1	3.4	11.3
TVS Motor	571	Neutral	572	32.4	22.3	18.9	13.7	26.3	30.8	0.7	0.9	35.7
M&M	900	Buy	1,043	18.0	16.6	14.5	13.0	14.9	14.9	1.1	1.1	16.2
Maruti Suzuki	9,378	Buy	10,508	27.7	21.7	17.0	13.7	20.9	22.7	1.1	1.3	27.2
Tata Motors	252	Buy	459	6.3	5.6	2.4	1.8	13.3	13.0	0.1	0.1	40.1
Ashok Leyland	126	Buy	159	18.2	13.7	8.6	5.9	26.0	28.9	1.8	2.0	30.5
Eicher Motors	27,393	Buy	34,264	27.8	21.2	22.5	18.3	33.2	33.2	0.6	0.7	52.7
Escorts	875	Neutral	973	17.3	13.5	14.0	10.7	18.7	20.3	0.6	0.6	28.2
Auto Ancillaries												
Bharat Forge	590	Buy	754	24.7	19.5	14.1	11.7	22.0	23.4	0.9	1.1	30.6
Exide Industries	262	Buy	296	25.5	20.9	14.6	12.2	14.6	15.8	1.0	1.2	23.7
Amara Raja Batteries	779	Buy	945	24.4	20.6	12.6	10.5	17.2	17.7	0.6	0.7	17.0
BOSCH	17,424	Neutral	19,017	30.1	24.7	19.1	15.5	16.8	18.4	1.1	1.4	22.4
Endurance Tech	1,222	Buy	1,483	33.4	24.7	15.5	12.2	21.7	24.7	0.5	1.0	30.4
Motherson Sumi	284	Buy	429	23.7	16.5	8.8	6.1	24.7	29.3	1.1	1.6	45.0
CEAT	1,241	Buy	1,669	15.4	11.9	9.7	7.4	11.9	13.7	0.7	0.9	27.7

Source: Company, MOSL

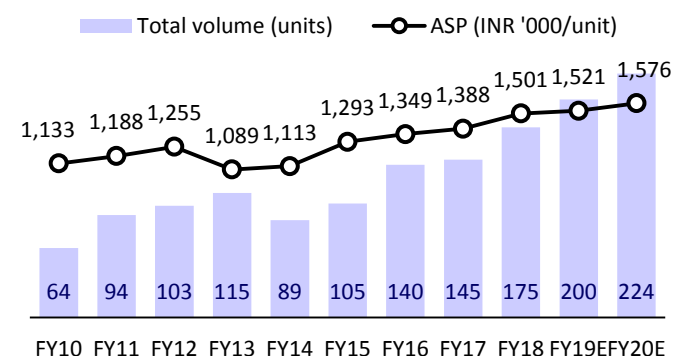
Ashok Leyland | Story in Charts: EPS to grow at CAGR of 30.5% in FY18-20E

Exhibit 7: AL continues to grow market share...



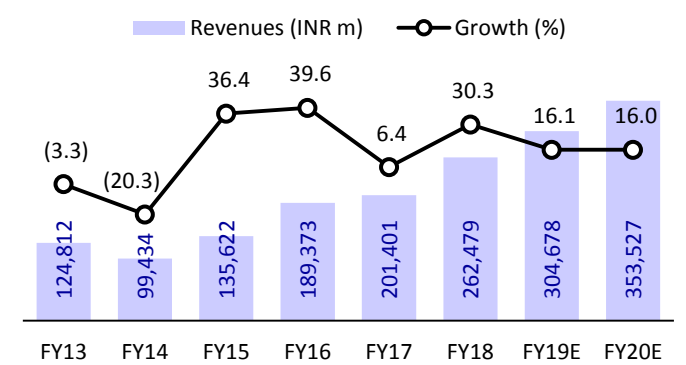
Source: Company, MOSL

Exhibit 8: ...without diluting pricing



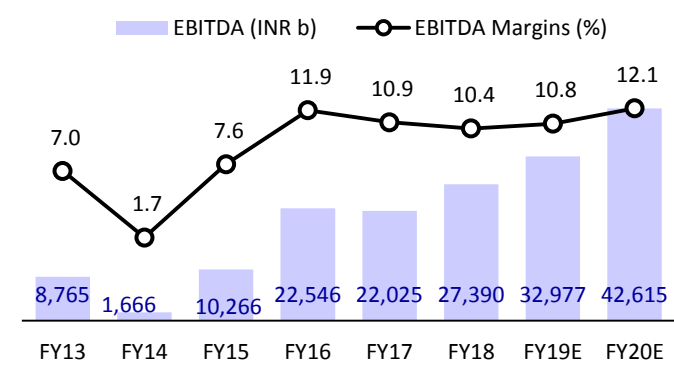
Source: Company, MOSL

Exhibit 9: Revenue to grow at 16.1% CAGR over FY18-20



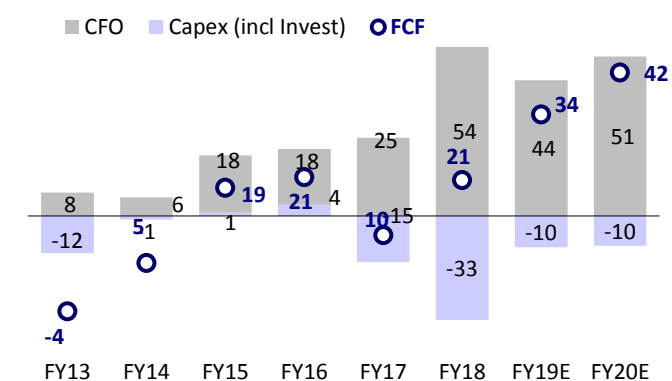
Source: Company, MOSL

Exhibit 10: Margins to gradually improve over FY18-20



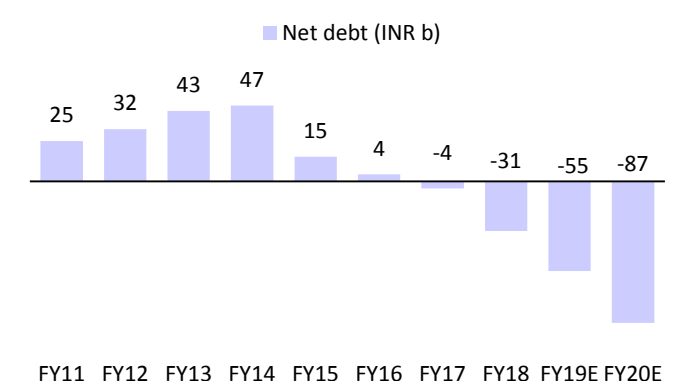
Source: Company, MOSL

Exhibit 11: Capex/investments to moderate significantly



Source: Company, MOSL

Exhibit 12: Focused on reducing debt levels



Source: Company, MOSL

Financials and valuations

Income Statement					(INR Million)	
Y/E March	2015	2016	2017	2018	2019E	2020E
Volumes ('000 units)	105	140	145	175	200	224
Growth (%)	17.4	33.8	3.4	20.5	14.5	12.0
Net Sales	135,622	189,373	201,401	262,479	304,678	353,527
Change (%)	36.4	39.6	6.4	30.3	16.1	16.0
EBITDA	10,266	22,546	22,025	27,390	32,977	42,615
Change (%)	516.4	119.6	-2.3	24.4	20.4	29.2
EBITDA Margins (%)	7.6	11.9	10.9	10.4	10.8	12.1
Depreciation	4,163	4,879	5,179	5,546	6,165	7,193
EBIT	6,103	17,667	16,846	21,844	26,812	35,422
Interest & Fin. Charges	3,935	2,476	1,554	1,312	752	753
Other Income	1,245	1,176	1,363	1,898	2,400	3,100
PBT	4,422	8,215	13,147	22,303	28,460	37,769
Tax	1,074	4,369	1,070	6,681	8,253	10,953
Effective Rate (%)	24.3	53.2	8.1	30.0	29.0	29.0
Rep. PAT	3,348	3,845	12,077	15,622	20,206	26,816
Change (%)	1,039.6	14.8	214.1	29.4	29.3	32.7
% of Net Sales	1,039.6	14.8	214.1	29.4	29.3	32.7
Adjusted PAT	2,339	11,998	12,360	15,752	20,206	26,816
Change (%)	-149.1	413.0	3.0	27.4	28.3	32.7
Balance Sheet					(INR Million)	
Y/E March	2015	2016	2017	2018	2019E	2020E
Sources of Funds						
Share Capital	2,846	2,846	2,846	2,927	2,927	2,927
Reserves	49,002	51,226	58,415	68,721	81,004	99,017
Net Worth	51,848	54,071	61,261	71,648	83,931	101,944
Loans	22,953	20,201	13,450	10,023	5,023	5,023
Deferred Tax Liability	2,861	3,291	1,269	2,984	4,407	6,295
Foreign currency translation	-	-	-	-	-	-
Capital Employed	77,662	77,563	75,979	84,655	93,361	113,262
Application of Funds						
Gross Fixed Assets	49,871	53,659	59,807	63,121	73,883	81,633
Less: Depreciation	5,600	4,859	8,871	13,378	19,543	26,736
Net Fixed Assets	44,271	48,800	50,937	49,742	54,339	54,897
Capital WIP	1,201	759	2,059	4,012	1,250	1,500
Investments	26,967	19,804	28,789	58,026	60,026	61,526
Curr.Assets, L & Adv.	59,308	60,992	58,615	54,080	78,324	111,653
Inventory	12,427	16,250	26,310	17,099	19,848	23,030
Sundry Debtors	7,262	12,511	10,644	9,805	11,381	13,206
Cash & Bank Balances	7,722	15,931	9,120	10,044	29,870	61,858
Loans & Advances	31,898	16,299	12,542	17,132	17,225	13,560
Current Liab. & Prov.	54,087	52,791	64,420	81,206	100,578	116,314
Sundry Creditors	28,283	25,627	31,170	46,586	54,258	62,957
Other Liabilities	22,457	24,046	26,742	25,907	35,894	41,648
Provisions	3,347	3,119	6,509	8,713	10,427	11,709
Net Current Assets	5,222	8,201	(5,805)	(27,126)	(22,254)	(4,661)
Application of Funds	77,662	77,563	75,979	84,655	93,361	113,262

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2015	2016	2017	2018	2019E	2020E
Basic (INR)						
EPS	0.8	4.2	4.3	5.4	6.9	9.2
EPS Fully Diluted	0.8	4.2	4.3	5.4	6.9	9.2
EPS Growth (%)	-145.9	412.9	3.0	23.9	28.3	32.7
Cash EPS	2.3	5.9	6.2	7.3	9.0	11.6
Book Value per Share	18.2	19.0	21.5	24.5	28.7	34.8
DPS	0.45	1.0	1.6	2.4	2.3	2.5
Payout (Excl. Div. Tax) %	54.8	23.7	35.9	45.2	32.6	27.3
Valuation (x)						
P/E	153.0	29.8	29.0	23.4	18.2	13.7
Cash P/E	55.0	21.2	20.4	17.3	14.0	10.8
EV/EBITDA	36.3	16.1	16.0	12.3	9.5	6.6
EV/Sales	2.8	1.9	1.8	1.3	1.0	0.8
Price to Book Value	6.9	6.6	5.8	5.1	4.4	3.6
Dividend Yield (%)	0.4	0.8	1.2	1.9	1.8	2.0
Profitability Ratios (%)						
ROE	4.9	22.7	21.4	23.7	26.0	28.9
RoCE	6.4	11.4	21.8	20.7	23.3	26.5
RoIC	8.6	20.0	40.2	63.0	257.5	-534.7
Turnover Ratios						
Debtors (Days)	20	24	19	14	14	14
Inventory (Days)	33	31	48	24	24	24
Creditors (Days)	76	49	56	65	65	65
Working Capital (Days)	-23	6	10	-27	-28	-28
Fixed-Asset Turnover (x)	3.1	3.9	4.0	5.3	5.6	6.4
Leverage Ratio						
Debt/Equity (x)	0.4	0.4	0.2	0.1	0.1	0.0

Cash flow Statement

Y/E March	2015	2016	2017	2018	2019E	2020E
(INR Million)						
OP/(Loss) before Tax	4,422	11,692	16,846	21,844	26,812	35,422
Interest/Dividends Received	290	485	690	552	2,400	3,100
Depreciation & Amortisation	4,182	4,489	5,179	5,546	6,165	7,193
Direct Taxes Paid	-502	-4,409	-3,476	-4,149	-6,830	-9,065
(Inc)/Dec in Working Capital	7,049	-1,276	1,903	35,987	14,955	14,394
Other Items	2,906	6,818	3,914	-5,596	0	0
CF from Oper. Activity	18,347	17,800	25,056	54,184	43,501	51,044
Extra-ordinary Items	0	0	-3,508	-126	0	0
CF after EO Items	18,347	17,800	21,548	54,058	43,501	51,044
(Inc)/Dec in FA+CWIP	-2,059	441	-3,660	-5,321	-8,000	-8,000
Free Cash Flow	16,288	18,241	17,888	48,737	35,501	43,044
CF from Inv. Activity	1,015	3,618	-14,768	-33,321	-10,000	-9,500
Inc/(Dec) in Debt	-14,239	-7,886	-8,827	-12,700	-5,000	0
Interest Rec./ (Paid)	-4,219	-2,679	-1,638	-1,464	-752	-753
Dividends Paid	0	-1,541	-3,254	-5,495	-7,923	-8,803
CF from Fin. Activity	-11,791	-12,107	-13,719	-19,613	-13,675	-9,557
Inc/(Dec) in Cash	7,571	9,311	-6,939	1,124	19,826	31,988
Add: Beginning Balance	469	8,040	17,352	10,412	11,536	31,362
Closing Balance	8,040	17,352	10,412	11,536	31,362	63,350

E: MOSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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