

SELL

TP: Rs 44 | ▼ 48%

ASHOK LEYLAND

Automobiles

09 November 2020

Weak macros, rich valuations – maintain SELL

Ashok Leyland's (AL) Q2FY21 revenue and earnings were broadly in line with our estimates. Demand remains tepid as operator utilisation languishes around the 50-60% mark, coupled with difficulty in obtaining financing. Though we assume a strong 75% MHCV volume revival in FY22, we believe AL's valuations are stretched and unsustainable. Inter-corporate deposits in group companies remain a cause for concern. We continue to value the stock at 16x Sep'22E EPS and maintain our price target at Rs 44. Recommend SELL.

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Q2 performance along expected lines: AL's topline declined 28% YoY to Rs 28.4bn due to a 33% drop in volumes during the quarter while ASP improved 7%, reflective of BSVI dispatches. The company reported EBITDA of Rs 804mn (-65% YoY), with margins at 2.8%, but an adjusted net loss of Rs 1.5bn (vs. Rs 1bn profit in Q2FY20).

Ticker/Price	AL IN/Rs 85
Market cap	US\$ 3.4bn
Shares o/s	2,936mn
3M ADV	US\$ 51.0mn
52wk high/low	Rs 88/Rs 34
Promoter/FPI/DII	52%/17%/15%

Source: NSE

Optimistic growth assumptions for FY22: Our channel checks suggest that current utilisation at fleet operators continues to hover at 50-60% and financing remains tight, which will dent demand. In addition, we believe the pending scrappage policy will fail to trigger a substantial demand push till the economy revives significantly. We have assumed strong 75% YoY volume growth in AL's MHCV segment in FY22 due to a low base (two years of negative growth in FY20/FY21E of 45%/~30%) and expectations of a strong economic revival in FY22.

STOCK PERFORMANCE



Maintain SELL: Despite strong growth assumptions, current valuations look stretched at 24x FY22E EPS. A steep increase in net debt since Mar'20 to Rs 30bn and inter-corporate deposits within group companies do not augur well. We value the stock at 16x one-year forward EPS, maintaining our Sep'21 TP of Rs 44. SELL.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	294,439	178,847	159,611	250,550	278,562
EBITDA (Rs mn)	30,748	11,736	9,406	19,673	22,506
Adj. net profit (Rs mn)	19,798	3,953	469	7,306	8,946
Adj. EPS (Rs)	6.8	0.8	0.2	2.5	3.0
Adj. EPS growth (%)	14.9	(80.0)	(88.1)	1458.5	22.5
Adj. ROAE (%)	23.8	5.4	0.6	15.0	15.5
Adj. P/E (x)	12.6	104.2	532.3	34.2	27.9
EV/EBITDA (x)	8.3	21.0	27.2	13.7	12.5

Source: Company, BOBCAPS Research

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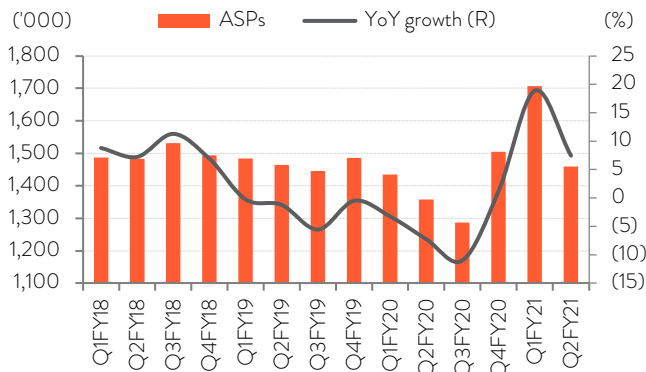


FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Volume (nos)	19,444	28,938	(32.8)	3,814	409.8	23,258	68,546	(66.1)
Avg. Realisation per Vehicle (Rs)	1,458,846	1,357,903	7.4	1,706,529	(14.5)	1,499,463	1,402,468	6.9
Total Income (A)	28,366	39,295	(27.8)	6,509	335.8	34,875	96,134	(63.7)
Operating Expenses:								
Raw materials consumed	20,201	27,133	(25.5)	4,175	383.9	24,375	66,870	(63.5)
Employee Expenses	3,736	4,321	(13.5)	3,542	5.5	7,278	9,326	(22.0)
Other Expenses	3,625	5,555	(34.7)	2,125	70.6	5,749	12,283	(53.2)
Total Expenditure (B)	27,562	37,009	(25.5)	9,841	180.1	37,403	88,478	(57.7)
EBITDA (A-B)	804	2,286	(64.8)	(3,332)	NA	(2,528)	7,656	NA
Other Income	219	455	(51.9)	256	(14.6)	475	666	(28.7)
Depreciation	1,712	1,600	6.9	1,637	4.6	3,348	3,247	3.1
EBIT	(689)	1,140	NA	(4,713)	NA	(5,402)	5,075	NA
Finance Costs	872	301	190.1	769	13.5	1,641	427	284.7
PBT before excep items	(1,561)	839	NA	(5,481)	NA	(7,042)	4,648	NA
Exceptional items	17	648	-	17	-	(34)	(849)	NA
PBT after excep items	(1,578)	191	NA	(5,498)	NA	(7,076)	3,799	NA
Tax expense	(111)	(198)	NA	(1,610)	NA	(1,721)	1,108	NA
Reported PAT	(1,467)	389	NA	(3,888)	NA	(5,355)	2,691	NA
Adjusted PAT	(1,450)	1,037	NA	(3,871)	NA	(5,321)	3,540	NA

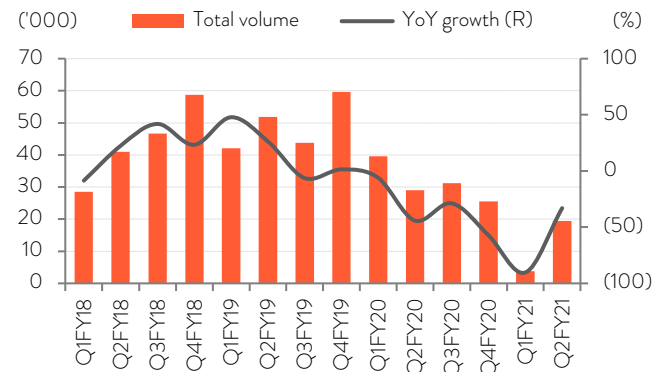
Source: Company, BOBCAPS Research

FIG 2 – AVERAGE SELLING PRICE (ASP)



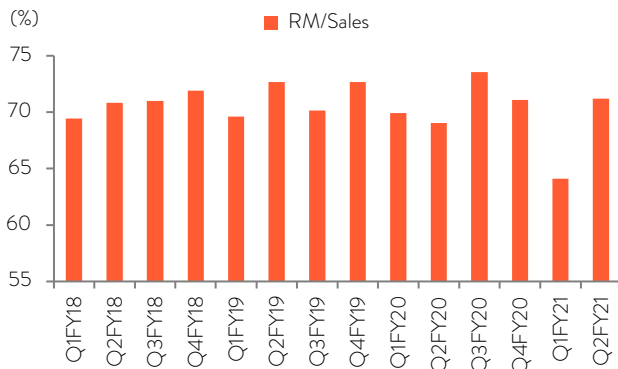
Source: Company, BOBCAPS Research

FIG 3 – VOLUME GROWTH TREND



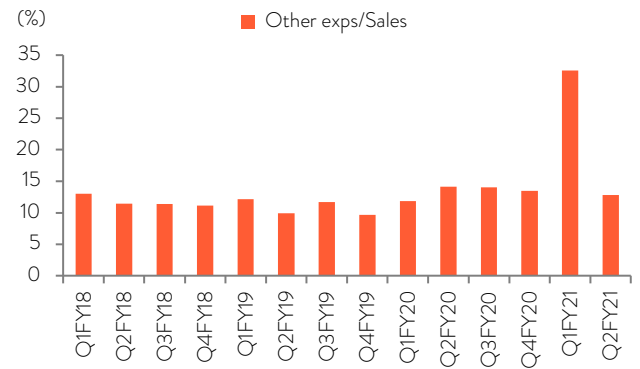
Source: Company, BOBCAPS Research

FIG 4 – RM COST/SALES TREND



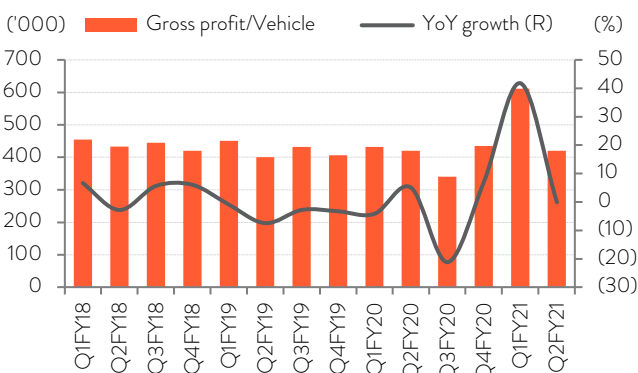
Source: Company, BOBCAPS Research

FIG 5 – OTHER EXPENSES /SALES TREND



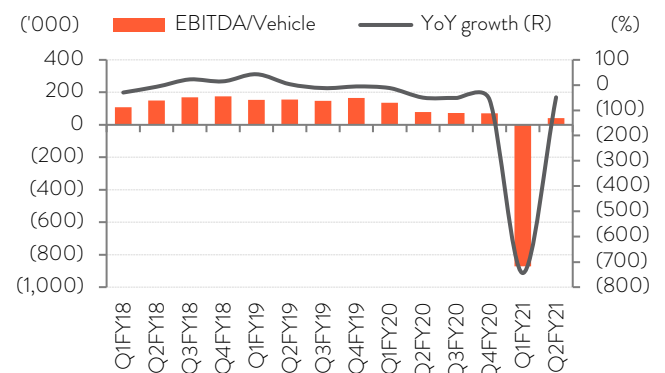
Source: Company, BOBCAPS Research

FIG 6 – GROSS PROFIT/VEHICLE TREND



Source: Company, BOBCAPS Research

FIG 7 – EBITDA/VEHICLE TREND



Source: Company, BOBCAPS Research

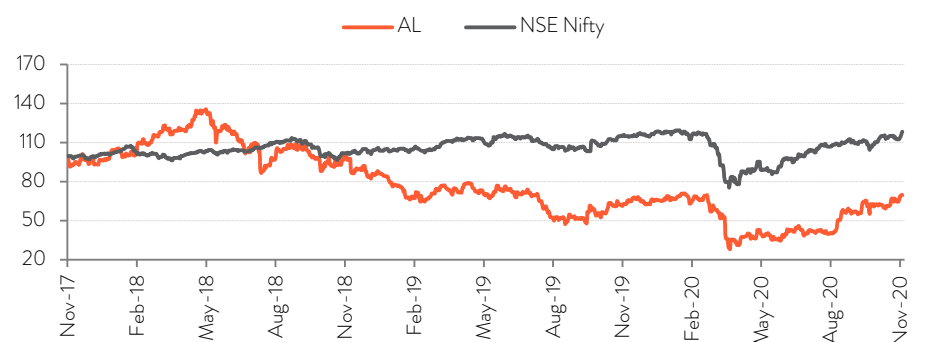
Earnings call highlights

- Management expects demand to recover from H2FY21 led by LCVs and tippers. The improving financing environment would also support a demand uptick.
- AL has taken price increases across products in October.
- The company currently has very low channel inventory and is not pushing stock to dealers at the moment.
- On the exports front, management expects the Bangladesh market to revive faster while the outlook for Sri Lanka remains hazy. The company is also trying to deepen its presence in Africa.
- Net debt totalled Rs 30bn at end-Q2FY21 from Rs 43bn at Q1 end.
- Inter-corporate deposits have come down by Rs 1bn and stand at Rs 3bn.
- For FY21, AL intends to incur capex of Rs 5bn-6bn and additional investment of Rs 1.5bn-1.7bn in Optare and Albonair. The company has expensed Rs 27bn till H1FY21.
- Collection efficiency at Hinduja Leyland Finance has been improving. Revenue for H1FY21 was at Rs 14.7bn with PAT of Rs 1.4bn. After taking provisions due to Covid-19, NPA stood at 2.3% of total AUM.

Valuation methodology

Despite strong growth assumptions, current valuations look stretched at 24x FY22E EPS. A steep increase in net debt since Mar'20 to Rs 30bn and inter-corporate deposits within group companies do not augur well for AL. We continue to value the stock at 16x one-year forward EPS and maintain our Sep'21 target price of Rs 44. Reiterate SELL.

FIG 8 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- A scrappage scheme with significant government support in the form of large incentives for fleet replacement could lend a short-term boost to CV demand.
- Economic recovery backed by additional fiscal stimulus from the government could drive a faster-than-expected revival in CV volumes.
- Delay in DFC commissioning could defer the potential volume shift from road to rail.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	294,439	178,847	159,611	250,550	278,562
EBITDA	30,748	11,736	9,406	19,673	22,506
Depreciation	6,210	6,698	7,742	8,529	9,438
EBIT	25,638	6,272	2,823	12,304	14,228
Net interest income/(expenses)	(704)	(1,095)	(2,355)	(2,877)	(2,685)
Other income/(expenses)	1,099	1,233	1,159	1,160	1,160
Exceptional items	57	(1,558)	0	0	0
EBT	24,991	3,619	469	9,427	11,543
Income taxes	5,136	1,224	0	2,121	2,597
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	19,855	2,395	469	7,306	8,946
Adjustments	(57)	1,558	0	0	0
Adjusted net profit	19,798	3,953	469	7,306	8,946

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	51,545	26,239	35,234	38,769	50,012
Other current liabilities	24,977	18,227	20,497	38,569	29,623
Provisions	8,028	8,055	8,055	8,055	8,055
Debt funds	6,324	32,814	52,814	51,814	45,814
Other liabilities	5,549	3,273	3,273	3,273	3,273
Equity capital	2,936	2,936	2,936	2,936	2,936
Reserves & surplus	80,389	69,704	70,173	45,722	54,668
Shareholders' fund	83,324	72,640	73,108	48,658	57,604
Total liabilities and equities	179,747	161,248	192,981	189,138	194,381
Cash and cash eq.	13,736	13,225	31,276	10,783	13,053
Accounts receivables	25,055	11,798	16,180	20,593	20,606
Inventories	26,847	12,380	15,305	19,220	19,843
Other current assets	16,225	17,855	28,972	33,823	34,599
Investments	26,365	27,196	23,196	23,196	23,196
Net fixed assets	56,145	68,036	67,235	71,706	72,268
CWIP	6,576	5,941	6,000	5,000	6,000
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(2,497)	(2,648)	(2,648)	(2,648)	(2,648)
Other assets	11,294	7,464	7,464	7,464	7,464
Total assets	179,747	161,247	192,981	189,138	194,381

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	26,065	9,093	8,210	15,835	18,384
Interest expenses	704	1,095	2,355	2,877	(2,685)
Non-cash adjustments	(1,099)	(1,233)	(1,159)	(1,160)	(1,160)
Changes in working capital	(27,814)	(4,380)	(7,159)	8,428	886
Other operating cash flows	(453)	(470)	0	0	0
Cash flow from operations	(2,598)	4,104	2,247	25,980	15,426
Capital expenditures	(9,225)	(17,954)	(7,000)	(12,000)	(11,000)
Change in investments	29,702	(831)	4,000	0	0
Other investing cash flows	1,099	1,233	1,159	1,160	1,160
Cash flow from investing	21,576	(17,552)	(1,841)	(10,840)	(9,840)
Equities issued/Others	86	0	0	0	0
Debt raised/repaid	(5,939)	26,490	20,000	(1,000)	(6,000)
Interest expenses	(704)	(1,095)	(2,355)	(2,877)	(2,685)
Dividends paid	(8,598)	(12,702)	0	(31,756)	0
Other financing cash flows	(508)	244	0	0	0
Cash flow from financing	(15,663)	12,937	17,645	(35,633)	(8,685)
Changes in cash and cash eq.	3,315	(511)	18,051	(20,493)	(3,099)
Closing cash and cash eq.	13,736	13,225	31,276	10,783	13,053

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	6.7	1.3	0.2	2.5	3.0
Adjusted EPS	6.8	0.8	0.2	2.5	3.0
Dividend per share	2.9	4.3	0.0	10.8	0.0
Book value per share	28.4	24.7	24.9	16.6	19.6

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	0.9	1.4	1.6	1.1	1.0
EV/EBITDA	8.3	21.0	27.2	13.7	12.5
Adjusted P/E	12.6	104.2	532.3	34.2	27.9
P/BV	3.0	3.4	3.4	5.1	4.3

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	79.2	109.2	100.0	77.5	77.5
Interest burden (PBT/EBIT)	97.5	57.7	16.6	76.6	81.1
EBIT margin (EBIT/Revenue)	8.7	3.5	1.8	4.9	5.1
Asset turnover (Revenue/Avg TA)	319.1	175.4	134.2	215.1	264.7
Leverage (Avg TA/Avg Equity)	1.2	1.3	1.6	1.9	2.0
Adjusted ROAE	25.4	5.1	0.6	12.0	16.8

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	10.0	(39.3)	(10.8)	57.0	11.2
EBITDA	14.7	(61.8)	(19.9)	109.2	14.4
Adjusted EPS	14.9	(80.0)	(88.1)	1458.5	22.5
Profitability & Return ratios (%)					
EBITDA margin	10.4	6.6	5.9	7.9	8.1
EBIT margin	8.7	3.5	1.8	4.9	5.1
Adjusted profit margin	6.7	2.2	0.3	2.9	3.2
Adjusted ROAE	23.8	5.4	0.6	15.0	15.5
ROCE	22.1	4.1	2.4	8.2	10.5
Working capital days (days)					
Receivables	21	38	32	27	27
Inventory	28	40	32	25	26
Payables	90	115	102	78	84
Ratios (x)					
Gross asset turnover	0.3	0.5	0.6	0.5	0.4
Current ratio	1.0	1.1	1.4	1.0	1.0
Net interest coverage ratio	(36.4)	(5.7)	(1.2)	(4.3)	(5.3)
Adjusted debt/equity	0.1	0.5	0.7	1.1	0.8

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

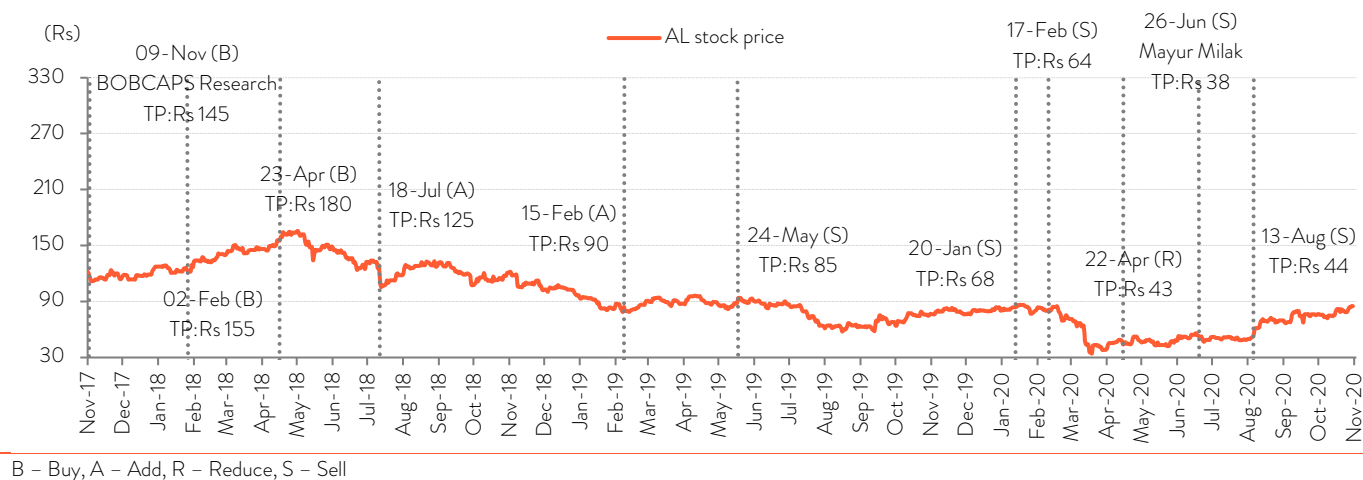
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): ASHOK LEYLAND (AL IN)



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