

SELL

TP: Rs 60 | ▼ 56%

ASHOK LEYLAND

Automobiles

12 February 2021

Lacklustre quarter – maintain SELL

Ashok Leyland (AL) reported a weak Q3FY21 as revenue at Rs 48.1bn fell 5% short of our estimate. Below-expected gross margins weighed on operating performance, muting EBITDA growth at 13% YoY to Rs 2.5bn and capping margins at 5.3% (7.7% est.). Though we assume a healthy 29% volume CAGR over FY21-FY23, near-term headwinds from higher RM prices are likely to erode earnings. Current valuations at 54X FY22E EPS look stretched – maintain SELL with an unchanged Mar'22 TP of Rs 60.

 Mayur Milak | Nishant Chowhan, CFA
 research@bobcaps.in

Weak Q3: AL's topline grew 20% YoY to Rs 48.1bn but was below estimates as ASP fell short due to higher discounts. EBITDA margin was further eroded by soft gross margins (25.6% vs. 28% est.) and contracted 30bps YoY to 5.3%. EBITDA increased 13% YoY to Rs 2.5bn whereas PAT adjusted for one-offs fell 11% to Rs 267mn. AL reported a one-time loss of Rs 853mn owing to rollout of a VRS scheme, which was partially offset by a Rs 393mn gain from discontinuation of certain products in the LCV division.

Ticker/Price	AL IN/Rs 135
Market cap	US\$ 5.4bn
Shares o/s	2,936mn
3M ADV	US\$ 49.5mn
52wk high/low	Rs 139/Rs 34
Promoter/FPI/DII	52%/17%/15%

Source: NSE

Near-term margin stress: We assume a healthy volume CAGR of 41%/15% for AL's MHCV/LCV divisions over FY21-FY23. But the recent steep increase in steel prices would weigh on margins and offset gains from expected volume growth and product mix improvement. Also, the short supply of semiconductors globally may affect the production of vehicles.

STOCK PERFORMANCE

Source: NSE

Maintain SELL: We bake in a volume/revenue CAGR of 29%/36% for AL over FY21-FY23. Despite our strong growth assumptions, current valuations look stretched at 54x/44x FY22E/FY23E EPS. We value the stock at an unchanged multiple of 20x one-year forward EPS, maintaining our Mar'22 TP of Rs 60.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	294,439	178,847	153,878	257,361	286,134
EBITDA (Rs mn)	30,748	11,736	4,839	19,986	22,694
Adj. net profit (Rs mn)	19,798	3,953	(4,341)	7,392	9,028
Adj. EPS (Rs)	6.8	0.8	(1.6)	2.5	3.1
Adj. EPS growth (%)	14.9	(80.0)			22.1
Adj. ROAE (%)	23.8	5.4	(6.4)	10.5	12.3
Adj. P/E (x)	20.0	165.5	(82.0)	53.6	43.9
EV/EBITDA (x)	13.1	33.5	83.2	21.1	18.7

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE

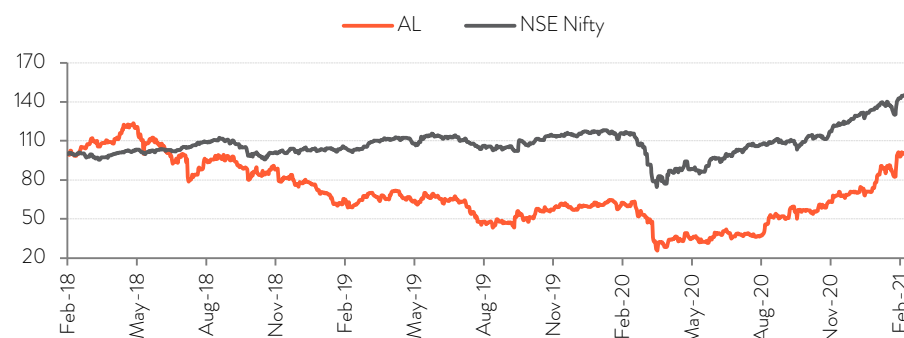
(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Volume (nos)	33,410	31,205	7.1	19,444	71.8	56,668	99,751	(43.2)
Avg. Realisation per Vehicle (Rs)	1,440,739	1,286,861	12.0	1,458,846	(1.2)	1,464,841	1,366,303	7.2
Total Income (A)	48,135	40,157	19.9	28,366	69.7	83,010	136,290	(39.1)
Operating Expenses:								
Raw Materials Consumed	35,824	29,532	21.3	20,201	77.3	60,199	96,402	(37.6)
Employee Expenses	4,545	2,728	66.6	3,736	21.6	11,823	12,053	(1.9)
Other Expenses	5,228	5,645	(7.4)	3,625	44.2	10,978	17,928	(38.8)
Total Expenditure (B)	45,597	37,905	20.3	27,562	65.4	83,000	126,383	(34.3)
EBITDA (A-B)	2,538	2,252	12.7	804	215.5	10	9,907	(99.9)
Other Income	341	223	52.5	219	55.7	816	889	(8.3)
Depreciation	1,944	1,575	23.5	1,712	13.6	5,293	4,821	9.8
EBIT	934	900	3.8	(689)	(235.7)	(4,467)	5,975	(174.8)
Finance Costs	656	337	94.9	872	(24.8)	2,297	763	201.0
PBT before Excep Items	278	563	(50.7)	(1,561)	(117.8)	(6,765)	5,211	(229.8)
Exceptional Items	460	22	-	17	-	427	(828)	NA
PBT after Excep Items	(182)	542	(133.7)	(1,578)	(88.4)	(6,338)	4,384	(244.6)
Tax Expense	11	264	(95.7)	(111)	(110.2)	(1,710)	1,372	(224.7)
Reported PAT	(194)	278	(169.8)	(1,467)	(86.8)	(4,628)	3,012	(253.6)
Adjusted PAT	267	299	(10.9)	(1,450)	(118.4)	(5,055)	3,840	(231.6)

Source: Company, BOBCAPS Research

Valuation methodology

We bake in a volume/revenue CAGR of 29%/36% for AL over FY21-FY23. Despite our strong growth assumptions, current valuations look stretched at 54x/44x FY22E/FY23E EPS. We value the stock at an unchanged multiple of 20x one-year forward EPS, yielding a Mar'22 target price of Rs 60 – SELL.

FIG 2 – 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	153,878	257,361	286,134
EBITDA	30,748	11,736	4,839	19,986	22,694
Depreciation	6,210	6,698	7,252	7,989	8,840
EBIT	25,638	6,272	(1,216)	13,356	15,213
Net interest income/(expenses)	(704)	(1,095)	(3,125)	(3,819)	(3,563)
Other income/(expenses)	1,099	1,233	1,197	1,360	1,360
Exceptional items	57	(1,558)	(494)	0	0
EBT	24,991	3,619	(4,835)	9,537	11,650
Income taxes	5,136	1,224	0	2,146	2,621
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	19,855	2,395	(4,835)	7,392	9,028
Adjustments	(57)	1,558	494	0	0
Adjusted net profit	19,798	3,953	(4,341)	7,392	9,028

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	51,545	26,239	35,681	41,229	54,349
Other current liabilities	24,977	18,227	19,554	38,511	27,814
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	64,869	67,179	70,619
Shareholders' fund	83,324	72,640	67,804	70,115	73,554
Total liabilities and equities	179,747	161,248	187,182	212,998	212,860
Cash and cash eq.	13,736	13,225	22,683	27,971	24,225
Accounts receivables	25,055	11,798	15,599	21,153	21,166
Inventories	26,847	12,380	14,755	19,743	20,382
Other current assets	16,225	17,855	28,407	34,383	35,180
Investments	26,365	27,196	27,196	27,196	27,196
Net fixed assets	56,145	68,036	67,725	72,736	73,896
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	187,182	212,998	212,860

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	26,065	9,093	2,416	15,381	17,869
Interest expenses	704	1,095	3,125	3,819	(3,563)
Non-cash adjustments	(1,099)	(1,233)	(1,197)	(1,360)	(1,360)
Changes in working capital	(27,814)	(4,380)	(5,958)	7,988	974
Other operating cash flows	(453)	(470)	0	0	0
Cash flow from operations	(2,598)	4,104	(1,613)	25,828	13,919
Capital expenditures	(9,225)	(17,954)	(7,000)	(12,000)	(11,000)
Change in investments	29,702	(831)	0	0	0
Other investing cash flows	1,099	1,233	1,197	1,360	1,360
Cash flow from investing	21,576	(17,552)	(5,803)	(10,640)	(9,640)
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)	(3,125)	(3,819)	(3,563)
Dividends paid	(8,598)	(12,702)	0	(5,081)	(5,589)
Other financing cash flows	(508)	244	0	0	0
Cash flow from financing	(15,663)	12,937	16,875	(9,900)	(15,152)
Changes in cash and cash eq.	3,315	(511)	9,458	5,288	(10,873)
Closing cash and cash eq.	13,736	13,225	22,683	27,971	24,225

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	6.7	1.3	(1.5)	2.5	3.1
Adjusted EPS	6.8	0.8	(1.6)	2.5	3.1
Dividend per share	2.9	4.3	0.0	1.7	1.9
Book value per share	28.4	24.7	23.1	23.9	25.1

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	1.4	2.2	2.6	1.6	1.5
EV/EBITDA	13.1	33.5	83.2	21.1	18.7
Adjusted P/E	20.0	165.5	(82.0)	53.6	43.9
P/BV	4.8	5.5	5.8	5.7	5.4

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	79.2	109.2	89.8	77.5	77.5
Interest burden (PBT/EBIT)	97.5	57.7	397.7	71.4	76.6
EBIT margin (EBIT/Revenue)	8.7	3.5	(0.8)	5.2	5.3
Asset turnover (Revenue/Avg TA)	319.1	175.4	132.3	206.6	230.9
Leverage (Avg TA/Avg Equity)	1.2	1.3	1.7	1.8	1.7
Adjusted ROAE	25.4	5.1	(6.2)	10.7	12.6

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)	(14.0)	67.3	11.2
EBITDA	14.7	(61.8)	(58.8)	313.0	13.5
Adjusted EPS	14.9	(80.0)			22.1
Profitability & Return ratios (%)					
EBITDA margin	10.4	6.6	3.1	7.8	7.9
EBIT margin	8.7	3.5	(0.8)	5.2	5.3
Adjusted profit margin	6.7	2.2	(2.8)	2.9	3.2
Adjusted ROAE	23.8	5.4	(6.4)	10.5	12.3
ROCE	22.1	4.1	(1.0)	8.3	9.5
Working capital days (days)					
Receivables	21	38	32	26	27
Inventory	28	40	32	24	26
Payables	90	115	100	75	84
Ratios (x)					
Gross asset turnover	0.3	0.5	0.7	0.4	0.4
Current ratio	1.0	1.1	1.3	1.2	1.1
Net interest coverage ratio	(36.4)	(5.7)	0.4	(3.5)	(4.3)
Adjusted debt/equity	0.1	0.5	0.8	0.7	0.6

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

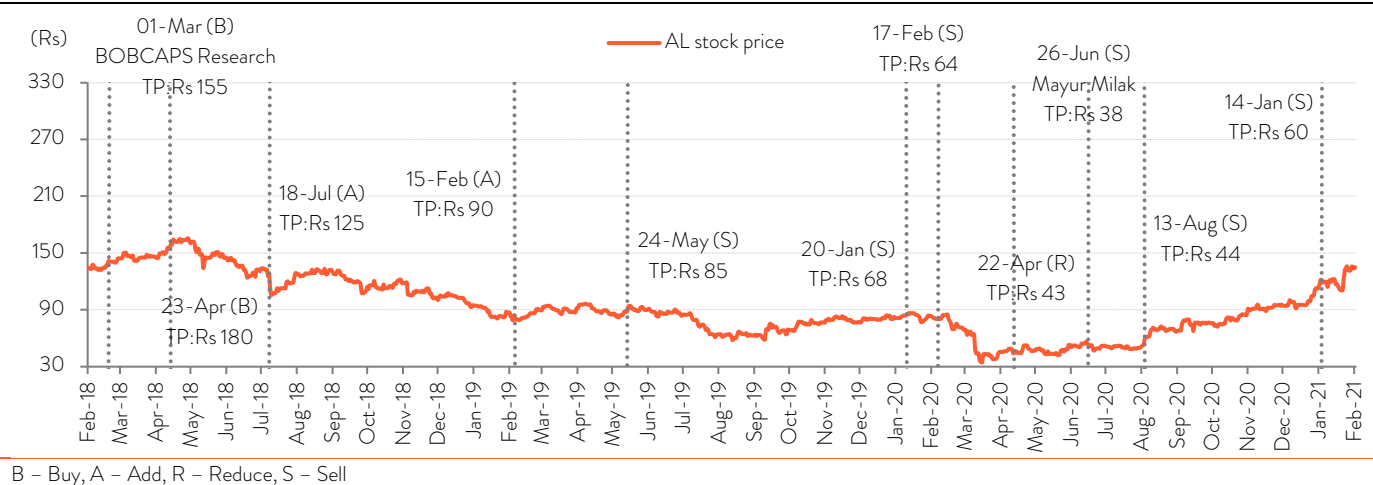
ADD – Expected return from >+5% to +15%

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)



Rating distribution

As of 31 January 2021, out of 88 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 41 have BUY ratings, 13 have ADD ratings, 6 are rated REDUCE and 28 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations

expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.