

SELL

TP: Rs 44 | ▼ 28%

ASHOK LEYLAND

Automobiles

13 August 2020

Weak macros, rich valuations – maintain SELL

Ashok Leyland's (AL) Q1FY21 performance was disappointing despite a strong boost to blended average realisations from BS-VI price upgrades. Demand remains tepid as operator utilisation continues to languish at 50%, coupled with difficulty in obtaining financing. While we assume a strong 44% volume revival in FY22, we believe most optimism is in the price. Inter-corporate deposits in group companies are a cause for concern amid ballooning gross debt over the last three months. We roll over to a Sep'21 TP of Rs 44 (vs. Rs 38). SELL.

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Disastrous Q1FY21: AL's topline declined 89% YoY to Rs 6.5bn led by a 90% YoY drop in volumes during the quarter. Average selling price improved 19% YoY, reflective of BS-VI dispatches and higher non-MHCV sales. The company reported negative EBITDA of Rs 3.3bn, (+Rs 5.4bn in Q1FY20), with margins at -51%. Gross margins improved substantially but higher staff costs and other expenses pulled down EBITDA, leading to a net loss of Rs 3.9bn.

Ticker/Price	AL IN/Rs 61
Market cap	US\$ 2.4bn
Shares o/s	2,936mn
3M ADV	US\$ 30.9mn
52wk high/low	Rs 88/Rs 34
Promoter/FPI/DII	52%/17%/15%

Source: NSE

Near-term challenges persist: Our channel checks suggest that current utilisation at fleet operators continues to hover at ~50% 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 introduce FY23 estimates and assume a 10% volume CAGR for AL over FY20-FY23; EPS is pegged at Rs 2.1/Rs 3.4 for FY22/FY23.

STOCK PERFORMANCE



Source: NSE

Maintain SELL: Despite strong growth assumptions, current valuations look stretched at 29x FY22E EPS. A steep increase in net debt since Mar'20 to Rs 43bn and inter-corporate deposits within group companies do not augur well. We value the stock at 16x EPS (vs. 18x earlier) and roll valuations forward to Sep'22, yielding a revised Sep'21 TP of Rs 44 (from Rs 38). Reiterate SELL.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	294,439	174,675	163,997	240,336	267,206
EBITDA (Rs mn)	30,748	11,737	10,240	17,914	23,258
Adj. net profit (Rs mn)	19,832	3,953	1,151	6,163	9,965
Adj. EPS (Rs)	6.8	0.8	0.4	2.1	3.4
Adj. EPS growth (%)	15.1	(80.1)	(70.9)	435.3	61.7
Adj. ROAE (%)	23.8	5.4	1.6	8.1	11.6
Adj. P/E (x)	9.0	74.9	155.8	29.1	18.0
EV/EBITDA (x)	6.1	15.0	18.0	11.2	8.6

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Volume	3,814	39,608	(90.4)	25,504	(85.0)
Avg. Realization per Vehicle (Rs)	1,706,529	1,435,028	18.9	1,505,042	13.4
Total Income (A)	6,509	56,839	(88.5)	38,385	(83.0)
Operating Expenses:					
Raw materials consumed	4,175	39,737	(89.5)	27,290	(84.7)
Employee Expenses	3,542	5,004	(29.2)	4,097	(13.6)
Other Expenses	2,125	6,728	(68.4)	5,168	(58.9)
Total Expenditure (B)	9,841	51,469	(80.9)	36,555	(73.1)
EBITDA (A-B)	(3,332)	5,370	NA	1,830	NA
Other Income	256	211	21.5	344	(25.6)
Depreciation	1,637	1,646	(0.6)	1,877	(12.8)
EBIT	(4,713)	3,934	(219.8)	297	NA
Finance Costs	769	126	512.4	331	132.2
PBT before exceptional items	(5,481)	3,809	NA	(34)	NA
Exceptional items	17	201	-	687	-
PBT after exceptional items	(5,498)	3,607	NA	(721)	NA
Tax expense	(1,610)	1,305	NA	(148)	NA
Reported PAT	(3,888)	2,302	NA	(573)	NA
Adjusted PAT	(3,871)	2,503	NA	114	NA

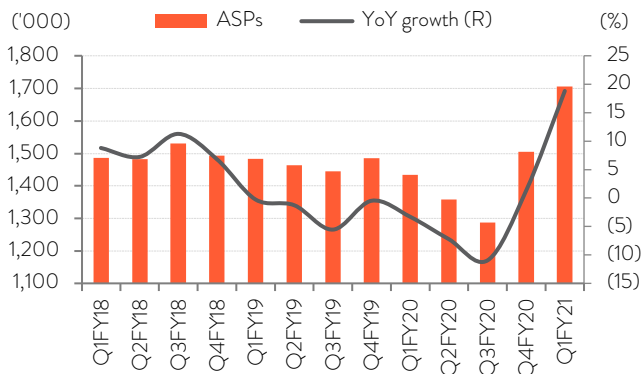
Source: Company, BOBCAPS Research

FIG 2 – PER UNIT PARAMETERS

(%)	Q1FY21	Q1FY20	YoY (bps)	Q4FY20	QoQ (%)
Gross margin	35.9	30.1	577	28.9	696
EBITDA margin	(51.2)	9.4	(6,065)	4.8	(5,597)
EBIT margin	(72.4)	6.9	(7,933)	0.8	(7,318)
PBT margin	(84.2)	6.7	(9,092)	(0.1)	(8,413)
Adj PAT margin	(59.5)	4.4	(6,388)	0.3	(5,978)

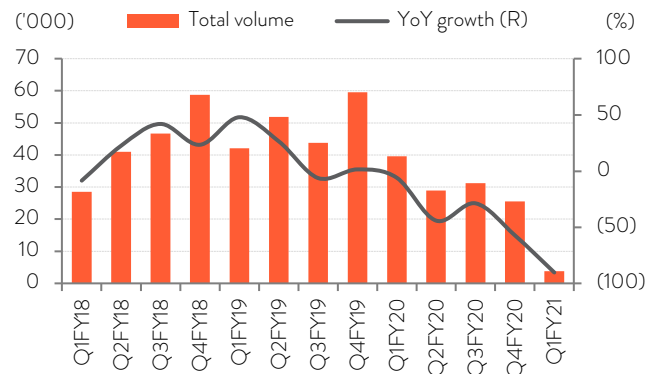
Source: Company, BOBCAPS Research

FIG 3 – AVERAGE SELLING PRICE (ASP)



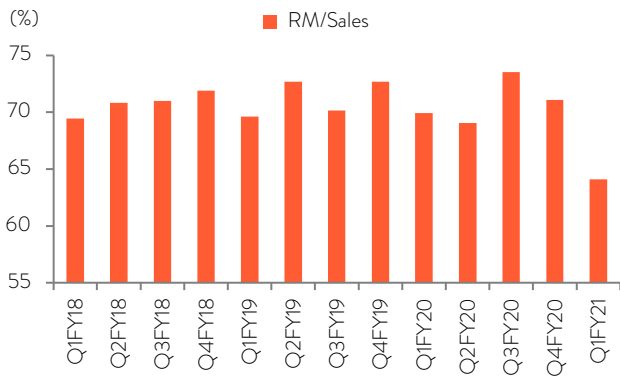
Source: Company, BOBCAPS Research

FIG 4 – VOLUME GROWTH TREND



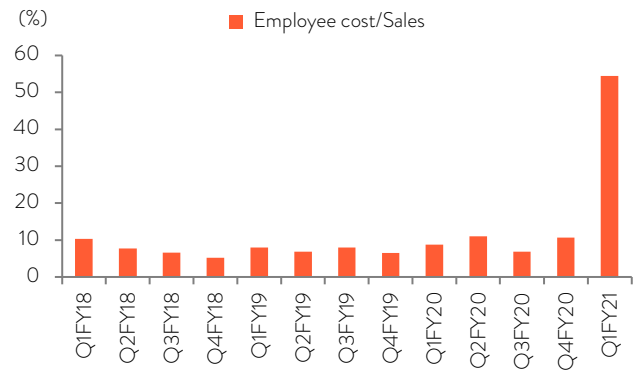
Source: Company, BOBCAPS Research

FIG 5 – RM COST/SALES TREND



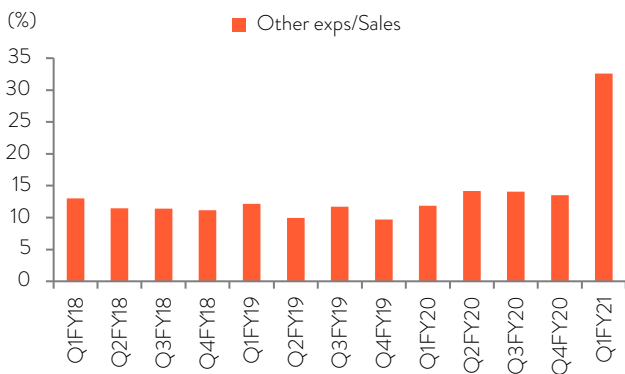
Source: Company, BOBCAPS Research

FIG 6 – EMPLOYEE COST/SALES TREND



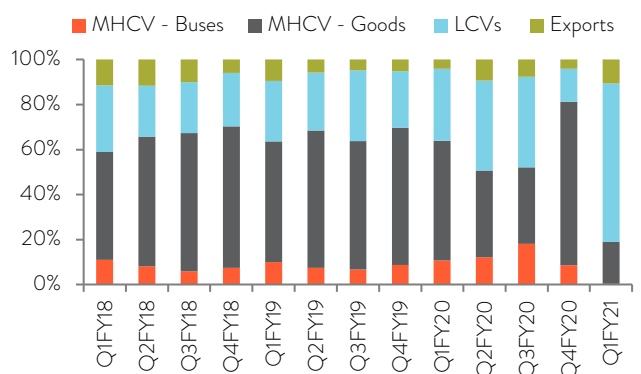
Source: Company, BOBCAPS Research

FIG 7 – OTHER EXPENSES/SALES TREND



Source: Company, BOBCAPS Research

FIG 8 – VOLUME MIX



Source: Company, BOBCAPS Research

Earnings call highlights

- AL expects demand to recover from H2FY21 led by LCVs and tippers, and forecasts production of 10k units in Q2.
- All plants are operational with average utilisation at 35%. The LCV plant at Hosur is running at full capacity.
- Per management, the financing scenario remains tight as banks are cautious on lending and thus loan-to-value (LTV) ratios are also low.
- LCV 'Phoenix' will be launched in H2FY21 and should aid demand traction in the LCV segment.
- Net debt totalled Rs 43bn at end-Q1 and AL expects it to trend down in coming quarters. Creditor unwinding stood at Rs 12bn on lower volumes.
- For FY21, AL intends to incur capex of Rs 5bn-6bn and additional investment of Rs 1.5bn-1.7bn in Optare and Albonair.
- Moratorium at Hinduja Leyland Finance is at 40% of the loan book.
- Non-vehicle revenue share was at 60%, with contribution from spares at 25%.

Valuation methodology

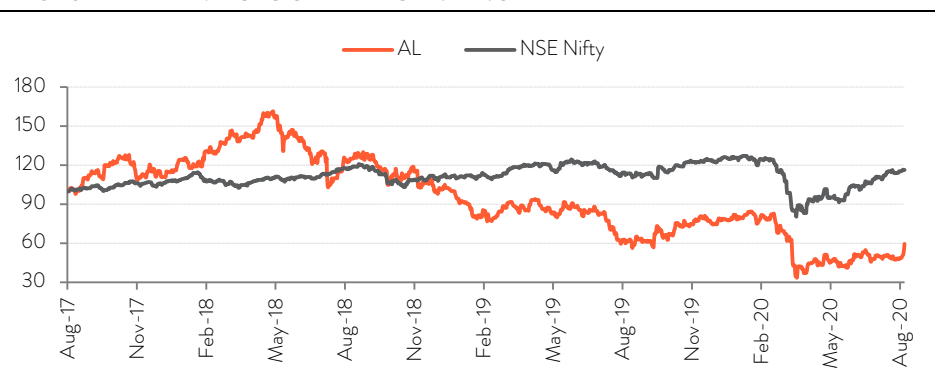
The stock has rallied nearly 50% since Apr'20. Despite strong growth assumptions, current valuations look stretched at 29x FY22E EPS. We value the stock at 16x EPS (vs. 18x earlier) and roll valuations forward to Sep'22, yielding a revised Sep'21 target price of Rs 44 (Rs 38 earlier). Maintain SELL.

FIG 9 – KEY VOLUME ASSUMPTIONS

Particulars	FY20A	FY21E	FY22E	FY23E
Total volumes	125,255	106,907	153,600	167,424
YoY growth (%)	(36.5)	(14.6)	43.7	9.0
MHCVs	78,609	64,459	96,000	104,640
YoY growth (%)	(45.0)	(18.0)	48.9	9.0
LCVs	46,646	42,448	57,600	62,784
YoY growth (%)	(14.4)	(9.0)	35.7	9.0

Source: Company, BOBCAPS Research

FIG 10 – 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	174,675	163,997	240,336	267,206
EBITDA	30,748	11,737	10,240	17,914	23,258
Depreciation	6,210	6,698	7,821	8,727	9,714
EBIT	25,672	6,272	3,428	10,463	14,819
Net interest income/(expenses)	(704)	(1,095)	(2,276)	(2,511)	(1,961)
Other income/(expenses)	1,133	1,233	1,008	1,276	1,276
Exceptional items	57	(1,558)	0	0	0
EBT	25,025	3,619	1,151	7,953	12,859
Income taxes	5,136	1,224	0	1,789	2,893
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	19,889	2,395	1,151	6,163	9,965
Adjustments	(57)	1,558	0	0	0
Adjusted net profit	19,832	3,953	1,151	6,163	9,965

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	51,545	26,242	36,134	39,215	49,225
Other current liabilities	24,977	20,392	21,104	34,995	28,269
Provisions	8,028	8,055	8,055	8,055	8,055
Debt funds	6,324	30,648	50,648	40,648	30,648
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	70,856	73,179	83,145
Shareholders' fund	83,324	72,640	73,791	76,115	86,080
Total liabilities and equities	179,747	161,250	193,006	202,302	205,550
Cash and cash eq.	13,736	13,225	26,561	22,164	21,773
Accounts receivables	25,055	11,798	16,624	19,754	19,766
Inventories	26,847	12,380	15,726	18,437	19,034
Other current assets	16,226	17,858	30,927	34,506	35,250
Investments	26,365	27,196	23,196	23,196	23,196
Net fixed assets	56,145	68,036	69,156	74,430	75,715
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	161,250	193,006	202,302	205,550

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	26,099	9,093	8,972	14,890	19,680
Interest expenses	704	1,095	2,276	2,511	(1,961)
Non-cash adjustments	(1,133)	(1,233)	(1,008)	(1,276)	(1,276)
Changes in working capital	(27,814)	(2,215)	(10,637)	7,553	1,930
Other operating cash flows	(487)	0	0	0	0
Cash flow from operations	(2,632)	6,739	(396)	23,678	18,373
Capital expenditures	(9,225)	(17,954)	(9,000)	(13,000)	(12,000)
Change in investments	29,702	(831)	4,000	0	0
Other investing cash flows	1,133	1,233	1,008	1,276	1,276
Cash flow from investing	21,610	(17,552)	(3,992)	(11,724)	(10,724)
Equities issued/Others	86	0	0	0	0
Debt raised/repaid	(5,939)	24,325	20,000	(10,000)	(10,000)
Interest expenses	(704)	(1,095)	(2,276)	(2,511)	(1,961)
Dividends paid	(8,598)	(1,536)	0	(3,840)	0
Other financing cash flows	(508)	(11,393)	0	0	0
Cash flow from financing	(15,663)	10,302	17,724	(16,351)	(11,961)
Changes in cash and cash eq.	3,315	(511)	13,335	(4,397)	(4,312)
Closing cash and cash eq.	13,736	13,225	26,561	22,164	21,773

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	6.8	1.3	0.4	2.1	3.4
Adjusted EPS	6.8	0.8	0.4	2.1	3.4
Dividend per share	2.9	0.5	0.0	1.3	0.0
Book value per share	28.4	24.7	25.1	25.9	29.3

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	0.6	1.0	1.1	0.8	0.8
EV/EBITDA	6.1	15.0	18.0	11.2	8.6
Adjusted P/E	9.0	74.9	155.8	29.1	18.0
P/BV	2.2	2.5	2.4	2.4	2.1

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	33.6	76.0	86.8
EBIT margin (EBIT/Revenue)	8.7	3.6	2.1	4.4	5.5
Asset turnover (Revenue/Avg TA)	319.1	173.2	140.0	194.0	222.6
Leverage (Avg TA/Avg Equity)	1.2	1.3	1.6	1.7	1.5
Adjusted ROAE	25.5	5.1	1.6	8.2	12.3

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	10.0	(40.7)	(6.1)	46.5	11.2
EBITDA	14.7	(61.8)	(12.7)	74.9	29.8
Adjusted EPS	15.1	(80.1)	(70.9)	435.3	61.7
Profitability & Return ratios (%)					
EBITDA margin	10.4	6.7	6.2	7.5	8.7
EBIT margin	8.7	3.6	2.1	4.4	5.5
Adjusted profit margin	6.7	2.3	0.7	2.6	3.7
Adjusted ROAE	23.8	5.4	1.6	8.1	11.6
ROCE	22.1	4.1	2.9	6.5	9.6
Working capital days (days)					
Receivables	21	39	32	28	27
Inventory	28	41	31	26	26
Payables	90	115	98	81	85
Ratios (x)					
Gross asset turnover	0.3	0.5	0.6	0.5	0.5
Current ratio	1.0	1.0	1.4	1.2	1.1
Net interest coverage ratio	(36.5)	(5.7)	(1.5)	(4.2)	(7.6)
Adjusted debt/equity	0.1	0.4	0.7	0.5	0.4

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

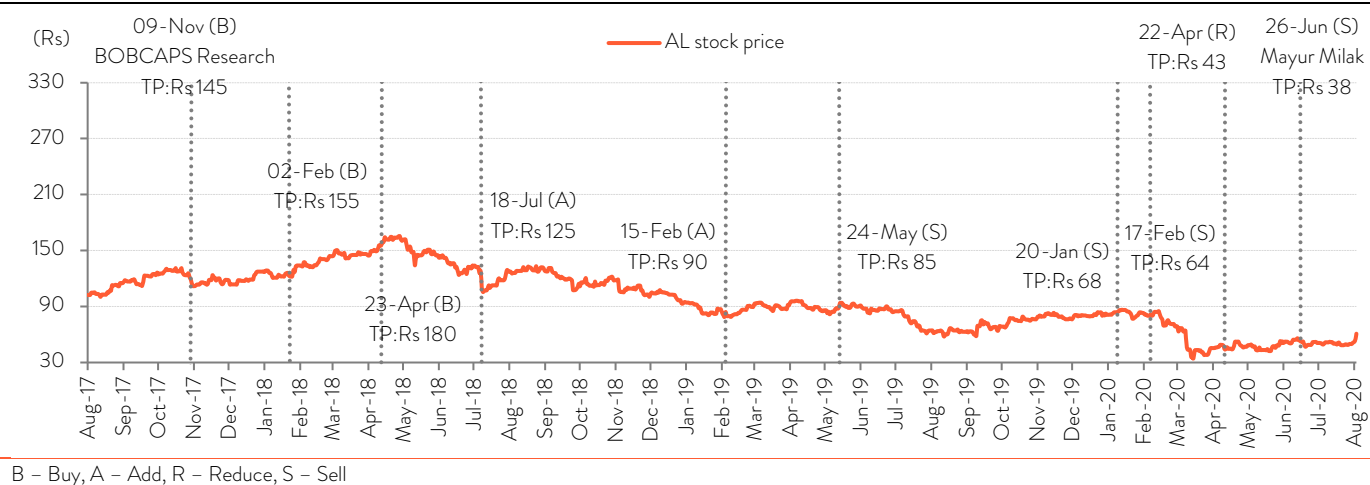
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: ASHOK LEYLAND (AL IN)



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