

BUZZING

STOCK

Ashok Leyland Ltd.

CMP – Rs. 38

Analyst

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Key Stock Data

Sensex	13897
Nifty	4084
Sector	Automobiles
Bloomberg	AL IN
Reuters	ASOK.BO
No. of shares (m)	1,324
Market Cap (Rs m)	49,514
Market Cap (US\$ m)	1,179
52-week H/L	Rs.54/30

Shareholding Pattern (%)

Promoters	49.59
Mutual Funds	19.28
FII's	17.82
Corporate Bodies	1.82
Pubic & Others	11.5

Business overview

Ashok Leyland Ltd. (ALL), the Indian flagship of the Hinduja Group, is the second player in the domestic commercial vehicle industry – predominantly in the M&HCV segment with a market share of ~ 28%.

The company is also the largest supplier of Defence support vehicles to the Indian Armed Forces and is aggressively looking at marketing their Defence vehicles in the overseas markets, particularly Middle East and North Africa where the company already has a significant presence in the CV segment.

Figure 1: Market share - M&HCV (%)

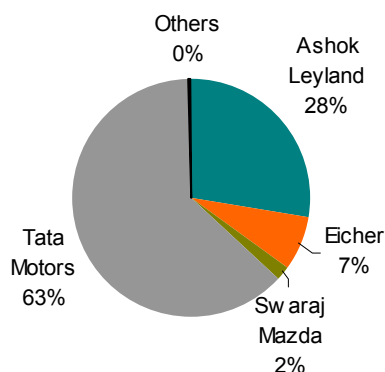
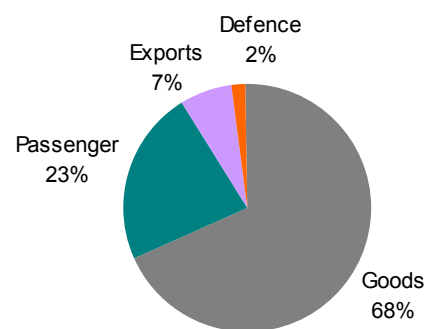


Figure 2: Sales breakup (%)



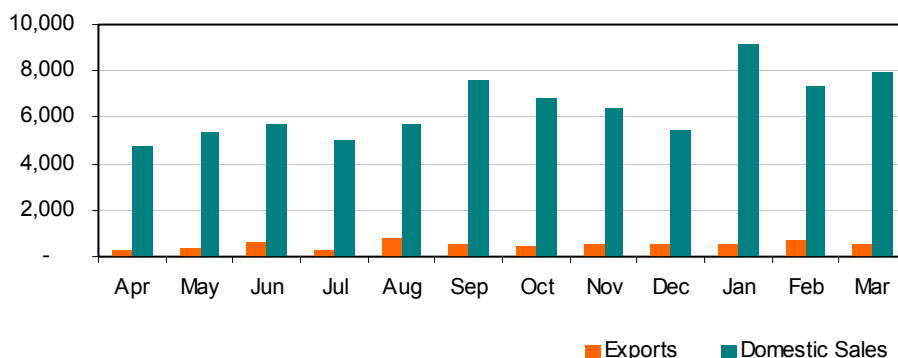
Source: Company reports; IDBI Capital Market Services

Sales update

For FY07, Ashok Leyland has posted robust volumes growth of 35% YoY to 83,101 vehicles. This growth was driven by the Medium Density Vehicles (MDV) Goods segment.

The key trigger for volumes growth has been the continued robustness in the industrial activity, normal monsoons and a larger than estimated impact of the Supreme Court ban on overloading of commercial vehicles.

Figure 3: Sales snapshot FY07



Source: Company reports; IDBI Capital Market Services

Hythane Gas technology for CNG engines :

Ashok Leyland has recently signed an agreement with Brehon Energy, Australia to forward technical support for the use of hythane gas in CNG engines. Brehon Energy has acquired and developed patents, for the production, storage, dispensing and use of hythane.

The agreement with Brehon will enable the company to offer its 6-cylinder 'H' series engines to operate on Hythane. Use at Hythane, which is prepared blend of hydrogen and natural gas, dramatically reduces gaseous emissions compared to CNG, which is by itself a 'clean' fuel. Currently, ALL produces Bharat Stage – III- compliant diesel and CNG engines. The re-engineered engines using Hythane will meet the most stringent and future emission norms of Bharat Stage – IV.

Aviva Acquisition :

The company's wholly owned foreign subsidiary Aviva Ashok Leyland Motors has begun its business operations post acquisition in Q3FY07. Aviva, a Czech Republican company is known for lower tonnage vehicles like D-series trucks consisting of 6T, 7.5T and 9T GVW models.

ALL has virtually no presence in the fast-growing LCV segment of the domestic CV industry. However, going forward we believe the acquisition to help ALL fill the gap in its product portfolio.

The strategic location of Aviva has opened the possibilities of using its facilities as an assembly and marketing base for some of ALL's future products on the anvil. This acquisition has opened new markets for Ashok Leyland in Africa and Europe.

Assembly unit in UAE

ALL has announced setting up a bus assembly unit at Ras-al-Khaimah in United Arab Emirates. The company will invest ~ Rs.230m. Initially for a capacity to assemble about 1,000 buses at this plant. The plant would be upgraded to assemble buses and trucks and would start operations in a year.

ALL sells more than 1,200 buses in the UAE and setting up a plant there would bring the company closer to the customer. This plant would help the company tap the North African market and to some extent the East European market.

Integrated facility in Uttaranchal :

ALL has firmed up plans to set up an integrated facility in Pantnagar, Uttaranchal. The facility shall become operational in 2009-10 and shall have an initial capacity of 25,000 vehicles, with a potential to further scale up to 50,000 vehicles. The unit will have chassis, cab facilities and an engine plant. The Capex shall entail an investment to the tune of Rs.1000crs. This facility is expected to strengthen ALL's presence in the northern region, which contributes to one fourth of its sales.

Engine Capacity Ramp up :

Ashok Leyland has charted out plans to scale up its engine production capacity. The company plans to set up a new engine line at their manufacturing facility at Ennore, Chennai for an additional capacity of 50,000 engines per year. The new engine line shall build a variety of engines conforming to both Euro III and Euro IV standards. Currently, the company's annual engine production capacity across six manufacturing plants in India stands at 90,000 units. With the addition of the new engine line, the company is expected to produce 1.4 lakh engines a year.

Impressive Order Book :

Ashok Leyland has recently completed delivery of over 250 specially designed 2516H multi-axle vehicles to Karnataka based VRL Logistics against an order of 600 vehicles worth Rs.830m.

VRL Logistics plans to purchase 1,000 vehicles this year, of which ALL will supply 800. Apart from 600 units of 2516H, 100 numbers of 12 mini buses and 100 numbers of Ecomet 912s will also be inducted into the VRL fleet. This order is the single largest order ever bagged by ALL.

Q3FY07 – Result Highlights :

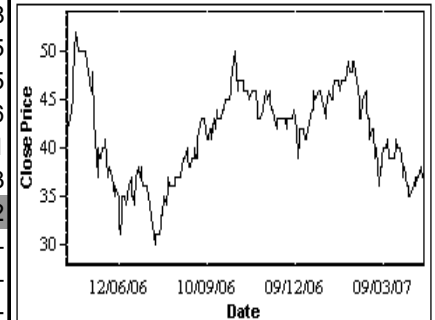
Total Revenues at Rs.17,839m were up 48% YoY. Operating Profits grew 62% YoY to Rs.1,904m. EBIDTA margins (OPM) expanded 68bps. Net Profit for the quarter skyrocketed 86% YoY to Rs.1,053m.

Outlook

Strong economic growth of around 8% in FY07, coupled with better road infrastructure, Supreme Court's order of ban on overloading coupled with continued thrust on infrastructure and construction in the budget will drive the demand of commercial vehicle (CV) industry. With a balanced product mix and rich product pipeline Ashok Leyland (ALL), the second largest Medium & Heavy Commercial Vehicles (M&HCV) player in India is fully geared for growth. The stock is currently trading at 11.8 x its Q3FY07 annualized EPS of Rs.3.2

Financial Snapshot

Ashok Leyland Ltd.						Rs.m	Ratios (%)			
	Q3 FY07	Q3 FY06	Chg. (%)	FY06	FY05	Chg. (%)		FY06	FY05	Chg.(%)
Financial Year End: March										
Net Sales	17776	12012	48	52477	41819	26	Debt -Equity	0.6	0.6	-
Other Income	64	25	158	631	538	17	PBIDTM	10	10	(1)
Total Income	17839	12036	48	53108	42357	25	PBDTM	9	10	(1)
Total Expenditure	15966	10872	47	47160	37686	25	RoCE	24	22	9
PBIDT	1873	1165	61	5948	4670	27	RoNW	26	25	3
Interest	26	79	(68)	165	28	488				
PBDT	1847	1086	70	5783	4642	25				
Depreciation	332	290	15	1260	1092	15				
Tax	422	207	104	1131	895	26				
Reported Profit After Tax	1053	545	93	3273	2714	21				
Extra -ordinary Items	(22)	(15)	49	159	(72)	323				
Adj. Profit After Extra-ordinary item	1074	560	92	3114	2786	12				
No. of shares (m)	1324	1189	-	1222	1222	-				
EPS (annualised.) (Rs.)	3.2	1.8	-	2.7	2.3	-				
P/E	11.8	20.6	-	14.0	16.5	-				



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