

Ashok Leyland

 BSE code: 500477
 NSE code: ASHOKLEY

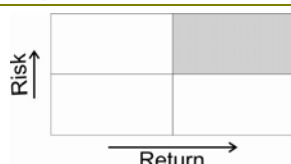
CMP: Rs 37
Target: Rs 48
BUY
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Company data

Particulars	
Market cap (Rs bn / US\$ bn)	49.2/1.2
Outstanding equity shares (mn)	1,330.3
52-week high/low (Rs)	51/34
6-month average daily volume	4,717,678

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs bn)	73.2	81.7	91.8
Growth (%)	37.3	11.7	12.3
Adj net profit (Rs bn)	4.3	4.8	5.2
Growth (%)	40.8	13.3	7.6
FDEPS (Rs)	3.2	3.6	3.9
Growth (%)	29.9	13.3	7.6
P/E (x)	11.5	10.2	9.4
ROE (%)	26.0	23.9	22.4

Risk-return profile

Shareholding pattern

(%)	Sep-07	Jun-07
Promoters	38.6	38.8
FII's	30.3	29.5
Banks & FI's	17.3	17.8
Public & Others	13.8	13.9

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Ashok Leyland	38	(7.2)	(2.0)	(4.8)
Sensex	18,513	9.5	17.9	30.2
BSE Auto	5,404	2.9	7.6	9.4

Company website www.ashokleyland.com
Rolling ahead smoothly

Ashok Leyland's (ALL) Q2FY08 results have surpassed our PAT expectations by 10% due to 6% higher volume growth and a 30bps higher EBIDTA margin than estimated. During the quarter, the company announced its intention to form three joint ventures with Nissan Motors to support its light commercial vehicle (LCV) business in India at an initial investment of over Rs 20bn. We believe this partnership will enable ALL to bring new products to the Indian CV market besides expanding exports in the long run. However, we expect the JV facilities to be commercially operational only two years from now.

We remain bullish on the company's future growth prospects and believe the stock is attractively valued at a P/E of 9.4x, P/CEPS of 6.1x and EV/EBITDA of 6.4x on FY09E. We maintain our Buy call on the stock with a target price of Rs 48.

Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	17,458.9	15,342.1	13.8
EBIDTA	1,684.9	1,448.6	16.3
PAT	803.4	728.5	10.3
EPS (Rs)	0.6	0.6	9.7

Source: Company, Religare Research
Quarterly results

(Rs mn)	Q2FY08	Q2FY07	% Chg YoY	Q1FY08	% Chg QoQ
Volumes (in nos)	18,892.0	19,863.0	(4.9)	18,163.0	4.0
Realisation per vehicle	924,144.6	843,639.4	9.5	892,551.9	3.5
Net sales	17,458.9	16,757.2	4.2	16,211.4	7.7
EBITDA	1,684.9	1,350.4	24.8	1,708.1	(1.4)
EBITDA margin (%)	9.7	8.1	-	10.5	-
EBITDA per vehicle	89,183.3	67,987.7	31.2	94,040.6	(5.2)
Depreciation	466.2	364.5	27.9	412.9	12.9
Interest	126.3	3.7	3,303.0	127.6	(1.0)
Other Income	111.4	336.6	(66.9)	75.5	47.5
PBT	1,203.8	1,318.9	(8.7)	1,243.1	(3.2)
PAT	803.4	953.6	(15.8)	916.8	(12.4)
PAT margin (%)	4.6	5.7	-	5.7	-
Core PAT per vehicle	36,627.1	31,063.3	17.9	46,319.4	(20.9)
EPS (Rs)	0.6	0.7	(17.1)	0.7	(12.8)
Cash EPS (Rs)	1.0	1.0	(5.2)	1.0	(5.0)
Core EPS (Rs)	0.5	0.5	10.4	0.6	(18.2)

Source: Company, Religare Research

Result highlights

Volume sales registered a 5% YoY decline, but higher pricing aided 4% revenue growth

Revenue growth of 4% YoY

ALL's revenue grew 4% YoY in Q2FY08 to Rs 17.5bn, mainly on the back of a 10% hike in per vehicle realisations and a strong 35% YoY growth in spare part sales to Rs 2.2bn. The improvement in realisations was aided by price hikes effected during Q1FY08 when ALL had increased prices by Rs 7,500 per vehicle in the truck segment and Rs 4,500 in the bus segment.

Overall sale volumes, however, registered a 5% YoY decline during the quarter on account of a 25% decline in the medium and heavy commercial vehicle segment. The sharp downside in this segment pulled down overall volume growth despite the strong 77% increase in the passenger carrier segment (primarily buses).

Volume snapshot

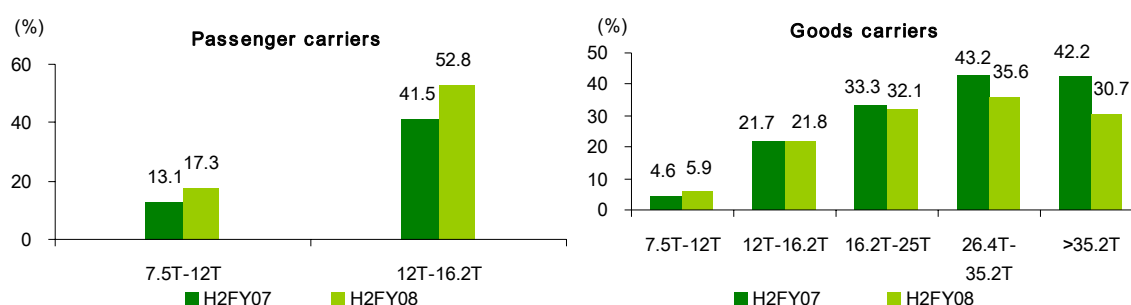
(units)	Q2FY08	Q2FY07	% Chg
Passenger carrier			
Domestic	5,572	2,925	90.5
Exports	1,112	846	31.4
Total	6,684	3,771	77.2
Goods carrier			
Domestic	11,642	15,257	(23.7)
Exports	419	753	(44.4)
Total	12,061	16,010	(24.7)
LCV			
Domestic	115	88	30.7
Exports	32	0	-
Total	147	88	67.0
Overall			
Domestic	17,329	18,270	(5.2)
Exports	1,563	1,599	(2.3)
Grand total	18,892	19,869	(4.9)

Source: Company

100% volume growth in 12T-16.2T CV sub-segment

ALL continues to maintain its dominant position in the high-tonnage passenger carrier segment. The company reported a 100% YoY increase in volume sales for the 12T-16.2T sub-segment at 11,266 units in H2FY08. Consequently, its market share in this category rose by 11 percentage points to 52.8% in H2FY08. However, ALL reported a decline in the goods carrier segment, almost across the board with the exception of the 7.5T-12T segment.

CV market share trend



Source: Siam, Religare Research

Borrowings of US\$ 60mn to fund acquisitions and capex led to sharp rise in interest burden

JVs will undertake vehicle and powertrain manufacture as well as technological development.

Maintain target of Rs 48, a potential upside of 30%; Buy

EBITDA margin expands 160bps

The EBITDA margin expanded 160bps YoY to 9.7% (which was 30bps higher than expected) due to a favourable product mix comprising higher tonnage vehicles like defence vehicles and passenger buses. As a result, operating profit grew by 25% YoY to Rs 1.7bn.

Interest and depreciation costs lower net profit by 16% YoY

ALL's net profit declined by 16% YoY to Rs 803mn due to higher interest and depreciation costs. The company's interest burden surged significantly to Rs 126mn in Q2FY08 as against Rs 4mn in Q2FY07, while depreciation costs increased by 28%. This was on account of additional borrowings of US\$ 60mn during the previous quarter for funding the acquisition of US-based automotive testing services company Defiance Testing and Engineering Service. The funds raised were also used to finance the company's capex and working capital requirements.

Financial outlook

Marginal hike in product prices

ALL has hiked average prices by 1–2% across product segments in October 2007. Any further hike in the near term seems difficult as competitors are expected to announce incentives ahead of the festive season.

Three JVs to be formed with Nissan at an initial investment of Rs 20bn

In a major development, ALL has recently signed a Heads of Agreement (HoA) with Nissan Motor to form three joint venture companies to support its LCV business in India. Two of the JVs will undertake manufacturing activities (vehicle and powertrain manufacture), while the third will be engaged in technological development.

ALL and Nissan are also studying cooperation in the area of sales and distribution, which includes providing Nissan access to ALL's dealer network in India and vice-versa. Following the signing of the HoA, both companies will embark on a feasibility study covering all proposed areas of cooperation, which is expected to be concluded by the end of October 2007.

The initial investments in the manufacturing JVs are estimated to be in excess of Rs 20bn. We believe that this partnership will enable ALL to offer new products in the Indian CV market and more importantly, drive exports in the long run. However, we expect the JV facilities to be commercially operational only two years from now.

Maintain target and recommendation

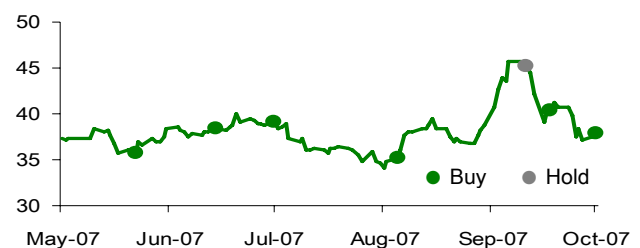
The stock is currently trading at a P/E of 9.4x, P/CEPS of 6.1x and EV/EBITDA of 6.4x on FY09E. At our target price of Rs 48, the stock will discount FY09E earnings by 12.2x, which we believe is justified. We remain positive about the company's growth prospects in the medium term and reiterate our Buy call on the stock.

Recommendation history

Date	Event	Reco price	Tgt price	Reco
14-Jun-07	Company Update	36	48	Buy
5-Jul-07	Company Update	38	48	Buy
23-Jul-07	Results Update	39	48	Buy
28-Aug-07	Company Update	35	48	Buy
5-Oct-07	Quarterly Preview	45	48	Hold
10-Oct-07	Company Update	41	48	Buy
25-Oct-07	Results Update	37	48	Buy

Source: Religare Research

Stock performance



Source: Religare Research

Financials

Profit and Loss statement

(Rs bn)	FY06	FY07	FY08E	FY09E
Revenues	53.3	73.2	81.7	91.8
Growth (%)	25.5	37.3	11.7	12.3
EBITDA	5.3	6.7	8.1	9.4
Growth (%)	28.6	26.5	21.1	15.5
Depreciation	1.3	1.5	2.0	2.8
EBIT	4.1	5.2	6.1	6.6
Growth (%)	33.4	28.7	17.4	8.1
Interest	0.4	0.3	0.7	1.0
Other income	0.9	1.1	1.2	1.3
EBT	4.5	6.0	6.6	6.9
Growth (%)	27.4	33.7	9.4	4.7
Tax	1.2	1.6	1.8	1.7
Effective tax rate	27.6	27.0	27.0	25.0
Adj net income	3.0	4.3	4.8	5.2
Growth (%)	20.7	40.8	13.3	7.6
Shares outstanding (mn)	1,221.6	1,323.9	1,323.9	1,323.9
FDEPS (Rs)	2.5	3.2	3.6	3.9
DPS (Rs)	1.2	1.2	1.3	1.5
CEPS (Rs)	3.5	4.4	5.2	6.0

Source: Company, Religare Research

Cash flow statement

(Rs bn)	FY06	FY07	FY08E	FY09E
Net income	3.3	4.4	4.8	5.2
Depreciation	1.3	1.5	2.0	2.8
Other adjustments	(1.1)	1.9	0.0	0.0
Changes in WC	(0.3)	(2.9)	(3.3)	2.8
Operating cash flow	3.2	5.0	3.5	10.7
Capital expenditure	(1.9)	(5.8)	(9.0)	(10.0)
Investments	(1.4)	1.5	0.0	0.0
Other investing inc/(exp)	2.0	0.5	0.0	0.0
Investing cash flow	(1.3)	(3.8)	(9.0)	(10.0)
Free cash flow	1.9	1.2	(5.5)	0.7
Issue of equity	0.0	0.1	0.0	0.0
Issue/repay debt	(1.9)	(0.5)	4.5	5.0
Dividends paid	(1.6)	(1.8)	(1.9)	(2.2)
Others	(0.3)	(0.7)	0.0	0.0
Financing cash flow	(3.8)	(2.9)	2.6	2.8
Beg. cash & cash eq	8.0	6.0	4.3	1.5
Chg in cash & cash eq	(1.9)	(1.7)	(2.9)	3.5
Closing cash & cash eq	6.0	4.3	1.5	5.0

Source: Company, Religare Research

Balance sheet

(Rs bn)	FY06	FY07	FY08E	FY09E
Cash and cash eq	6.0	4.3	1.5	5.0
Accounts receivable	4.2	5.2	5.2	8.9
Inventories	9.0	10.7	11.4	14.1
Others current assets	3.0	6.7	11.3	12.7
Current assets	22.3	27.0	29.4	40.6
LT investments	3.7	2.2	2.2	2.2
Net fixed assets	9.4	13.1	20.1	27.3
CWIP	1.4	2.4	2.4	2.4
Total assets	36.9	44.6	54.0	72.5
Payables	10.5	14.3	13.7	20.2
Others	3.6	3.2	5.8	9.8
Current liabilities	14.1	17.6	19.5	30.0
LT debt	6.9	6.4	10.9	15.9
Other liabilities	1.8	2.0	2.0	2.0
Equity capital	1.2	1.3	1.3	1.3
Reserves	12.9	17.6	20.6	23.5
Net worth	14.1	18.7	21.7	24.6
Total liabilities	36.9	44.6	54.0	72.5
BVPS (Rs)	11.5	14.1	16.4	18.6

Source: Company, Religare Research

Financial ratios

	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	10.0	9.2	10.0	10.2
EBIT margin (%)	7.6	7.1	7.5	7.2
Net profit margin (%)	5.7	5.8	5.9	5.7
FDEPS growth (%)	17.6	29.9	13.3	7.6
Receivables (days)	30.2	23.6	23.3	28.0
Inventory (days)	70.0	66.1	67.0	68.9
Payables (days)	90.8	83.1	84.8	91.6
Current ratio (x)	1.6	1.5	1.5	1.4
Interest coverage (x)	10.6	18.1	8.6	6.9
Debt/equity ratio (x)	0.5	0.3	0.5	0.6
ROE (%)	23.7	26.0	23.9	22.4
ROCE (%)	19.7	22.6	21.2	18.1
ROAE (%)	13.0	14.1	13.6	11.9
EV/Sales (x)	0.9	0.7	0.7	0.7
EV/EBITDA (x)	8.7	7.6	7.2	6.4
P/E (x)	14.9	11.5	10.2	9.4
P/BV (x)	3.2	2.6	2.3	2.0
P/CEPS (x)	10.5	8.5	7.2	6.1

Source: Company, Religare Research

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Recommendation parameters

Large-caps*	> 10%	< - 5%	Returns	Absolute
	BUY	SELL		
Mid-caps**	> 25%	< 10%		

*Market cap over US\$ 1bn **Market cap less than US\$ 1bn

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