

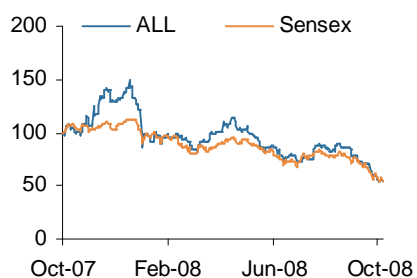
Ashok Leyland Ltd (Q2 FY09)

October 23, 2008
Stock data

Sensex:	10,170
CMP (Rs):	21
52 Week h/l (Rs):	58/20
Market cap (Rs cr)	2,740
6m Avg vol BSE&NSE ('000 nos):	7,270
No of o/s shares (mn):	1,330
FV (Re):	1
Bloomberg code:	AL IN
Reuters code:	ASOK.BO
BSE code:	500447
NSE code:	ASHOKLEY

Shareholding pattern

September 2008	(%)
Promoters	38.6
Foreign & Institutions	30.2
Non promoter corp hold	2.4
Public & others	28.8

Share price trend


- Volumes down 6.8% yoy and 4.6% qoq following decline in demand
- Price hike of 5% have improved realizations for CV segment
- Significant jump in revenues from engines and spare parts segment
- OPM down 140bps yoy but to 8.2% primarily on account of higher overheads
- Other income jumped by 156% yoy on back of Rs155mn profit on sale of investments in Indusind Bank
- Profitability further hit on account of 94.7% yoy jump in interest cost
- Volume growth to remain subdued in the remaining part of the year as the industrial production has significantly slowed down

Result table

Period	Q2 FY09	Q2 FY08	Growth	Q1 FY09	Growth
Rs mn	(3)	(3)	Yoy %	(3)	qoq %
Net sales	18,664	18,839	6.9	18,839	(0.9)
Total expenditure	(17,125)	(17,328)	8.6	(17,328)	(1.2)
Operating profit	1,539	1,511	(8.6)	1,511	1.9
Other income	285	122	155.8	122	134.2
Depreciation	(505)	(441)	8.4	(441)	14.6
Interest	(246)	(107)	94.7	(107)	129.8
PBT	1,073	1,084	(10.9)	1,084	(1.0)
Tax	(236)	(218)	(37.0)	(218)	8.2
PAT	838	866	0.9	866	(3.3)
Extra ordinary items	(165)	(361)	523.5	(361)	(54.2)
APAT	672	506	(16.3)	506	33.0
Equity	1,330	1,330		1,330	
OPM(%)	8.2	8.0		8.0	
NPM(%)	3.6	2.7		2.7	
EPS (Rs) Annualized	2.0	1.5		1.5	
EPS (Rs) Quarterly	0.5	0.4		0.4	
Tax rate	22.0	20.1		20.1	

Source: Company, India Infoline Research

Higher engine and spare part sales drive sales growth

Ashok Leyland Ltd (ALL) reported a 6.9% yoy growth in net sales to Rs18.7bn, in spite of a 6.8% yoy and 4.6% qoq drop in volumes. Slowing industrial growth and high interest regime has severely impacted demand in the industry. The company took price hikes of about 5% in H1 FY09 for its CV sales. The growth in sales can primarily be attributed to robust jump in sales of engines and spare parts. For H1 FY09, engines and spare parts contributed about 17% of gross sales compared to 12% in H1 FY08. Both volumes and realizations were higher for these segments. The company currently has an inventory of about 13,000 vehicles, which it plans to bring down to 5,000 vehicles by March 2009. This will be done via production cuts in the next couple of quarters. Current order book is of about 4,000 vehicles from STCs to be sold over the next 4 months.

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OPM down on back of higher overheads

Operating profit for Q2 FY09 was down by 8.6% yoy and OPM fell by 140bps yoy. The fall was on back of higher overheads which was on account one time expenses such as 1) diamond jubilee celebrations 2) maintenance shut down at Hosur plant and 3) power cuts in Tamil Nadu. Margins for the CV segment were lower as raw material costs were higher by about 7% whereas the company had hiked the prices only by 5%. The company has raised its prices by 2% with effect from November, which will help improve the margins in a declining commodity prices scenario. With spare parts earning highest operating margins, a robust jump in volumes have provided some cushion to margins.

Cost analysis

As % of sales	Q2 FY09	Q2 FY08	Inc/(Dec)	Q1 FY09	Inc/(Dec)
	(3)	(3)	bps yoy	(3)	bps qoq
Raw materials	71.0	72.8	(176)	73.8	(280)
Purchases	3.7	2.2	149	2.5	124
Staff cost	8.4	9.3	(86)	8.6	(22)
Other exp	8.6	6.0	254	7.0	155
Total exp	91.8	90.3	140	92.0	(0.2)

Source: Company, India Infoline Research

Higher other income offset by rise in interest costs

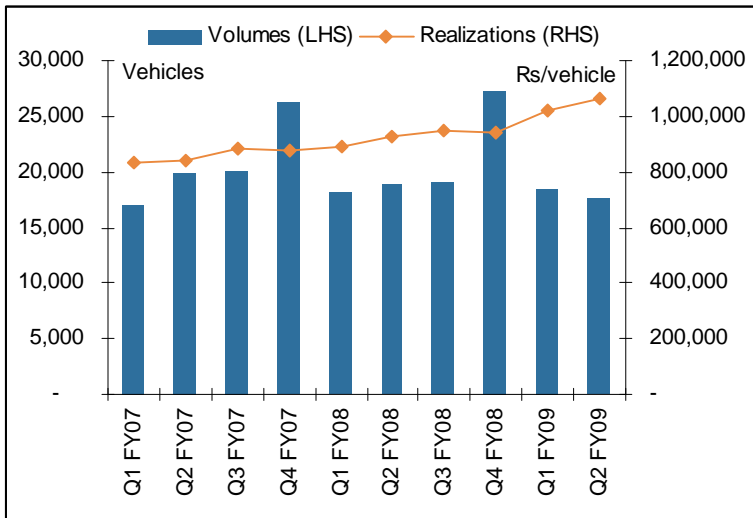
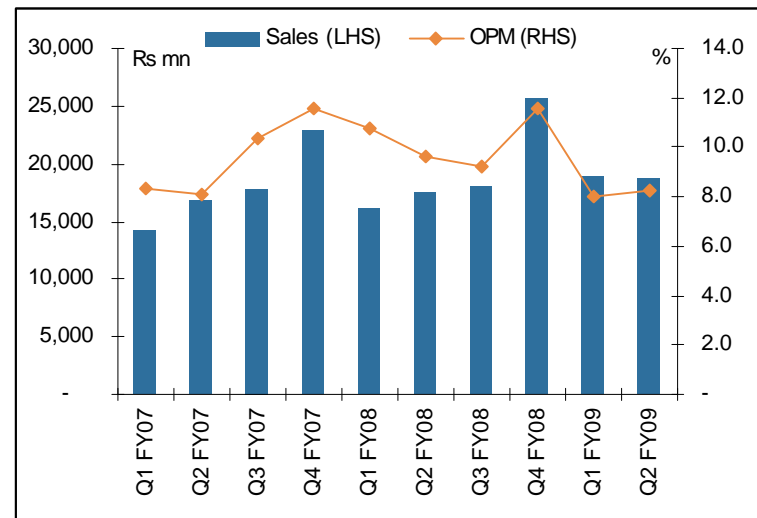
Other income for Q2 FY09 jumped 156% yoy to Rs285mn, which was driven by Rs155mn profit on sale of investments in Indusind Bank, leading to reduction in its stake in the bank to 6.84% from 8.05%. However, the gains were more than offset as interest costs surged 95% yoy due to complete drawings of the US\$200mn ECB. PBT was down 10.9% yoy but PAT remained flat at Rs838mn as effective tax rate was lower by 6.3 percentage points. Lower tax rate was on account of tax-free nature of profits from sale of investments and higher levels of R&D expenses. MTM foreign exchange losses for Q2 FY09, routed through P&L statement stood at Rs144mn as compared to Rs340mn in Q1 FY09 due to change in accounting policy. Under the new policy, the company will route MTM losses on forward contracts through balance sheet. On a combined basis, MTM losses remained flat qoq despite a sharper depreciation in INR against the USD as some losses were offset due to MTM gains on advances to associate companies. APAT was down by 16.3% yoy.

Outlook continues to remain bleak for CV business

We expect volumes to decline even in H2 FY09 as industrial growth has significantly slowed down, interest rates continues to remain high and fleet operators face diesel shortage. However, engines and spare parts business are expected to post robust growth. Margins are likely to improve as realizations improve on account of price hikes and costs decrease due to fall in raw material prices.

Other highlights

- ALL aims to reduce its working capital requirement from the current levels of Rs15bn to about Rs7bn by year end.
- Capex planned for the year is at Rs9bn in comparison to above Rs10bn budgeted at the beginning of the fiscal. In H1 FY09 the company spent Rs4bn towards capex.
- Capex envisaged for Uttarakhand plant has been reduced by Rs2bn.
- ALL is raising Rs5bn debt from Indian markets at the rate of 12%.
- Company expects man power costs to reduce marginally as negotiations are concluded with workers at Bhandara plant.

Trend in volumes and realization

Trend in sales and OPM


Source: Company, India Infoline Research

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