

RESULT UPDATE

MID CAP

Share Data

Reuters code	ASOK.BO
Bloomberg code	AL IN
Market cap. (US\$ mn)	1,298
6M avg. daily turnover (US\$ mn)	4.2
Issued shares (mn)	1330
Target price (Rs)	56

Performance (%) 1M 3M 12M

Absolute	8	26	150
Relative	17	22	42

Valuation Ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs.)	2.8	3.8
+/- (%)	118.2	35.9
PER (x)	16.6	12.2
PBV (x)	2.6	2.3
Dividend/Yield (%)	2.2	3.3
EV/Sales (x)	1.0	0.8
EV/EBITDA (x)	9.8	7.3

Major shareholders (%)

Promoters	39
FII's	11
MF's	5
BFSI's	15
Public & Others	30

Financial highlights

(Rs mn)	2QFY10	2QFY09	YoY (%)	1QFY10	QoQ (%)	1HFY09	1HFY10	YoY (%)	FY10E	YoY (%)	FY11E	YoY (%)
Net Sales	15,777	18,664	(15.5)	9,125	72.9	37,503	24,901	(33.6)	69,313	15.9	87,208	25.8
EBITDA	1,660	1,539	7.9	122	1264.7	3,050	1,782	(41.6)	7,234	58.7	9,591	32.6
EBITDA Margins %	10.5	8.2	2.3	1.3	9.2	8.1	7.2	(1.0)	10.4	2.8	11.0	0.6
Other Income	56	141	(60.7)	91	(39.1)	(76)	147	(293.2)	268	(61.4)	374	39.4
Interest	170	246	(30.8)	258	(34.1)	353	428	21.4	900	(43.9)	1,000	11.1
Depreciation	506	505	0.1	435	16.3	946	941	(0.6)	2,166	21.4	2,912	34.4
PBT	1,040	930	11.9	(480)	(316.7)	1,675	560	(66.6)	4,436	137.6	6,054	36.5
PAT	895	694	28.9	(427)	(309.6)	1,221	468	(61.7)	3,672	118.2	4,991	35.9
Extra-ordinary Items	(9)	(22)	(60.4)	505	(101.7)	(43)	496	(1244.6)	496	128.9	200	(59.7)
Reported PAT	886	672	31.8	78	1040.1	1,178	964	(18.2)	4,168	119.4	5,191	24.5
NPM (%)	5.7	3.7	2.0	(4.7)	10.3	3.3	1.9	(1.4)	5.3	2.5	5.7	0.4
EPS	0.7	0.5	28.9	(0.3)	(309.6)	0.9	0.4	(61.7)	2.8	118.2	3.8	35.9

Ashok Leyland

Price: Rs 46

BSE Index: 15,896

Maintain BUY

31 October 2009

2QFY10 Result – A strong bounce back

Ashok Leyland's (AL) results were ahead of our and street expectations with strong operating performance despite decline in volumes. Net sales at Rs 15.8 bn (in line) declined by 15.5% on back of 16.9% volume decline and 1.7% growth in realisations. However, realisation of commodity cost reduction (down 460 bps) ensured improvement in operating margins by 230 bps to 10.5%. Pain of high old cost inventory reduced considerably helping it to benefit from the lower commodity prices. Operating profit at Rs 1.7 bn was higher by 8%. The company further reduced its interest expenditure to Rs 170 mn (Rs 258 mn in 1QFY10) as it reduced working capital requirement by tighter inventory control and reduced receivables by shifting to cash and carry system for dealer dispatches. Adjusted PAT stood at Rs 895 mn (up 28.9% YoY) against a loss of Rs 427 mn in 1QFY10. Reported PAT stood at Rs 886 mn due to a VRS expense of Rs 9 mn.

We expect AL to sell around 18,700 units a quarter in 2HFY10 against 14,000 units in 2QFY10 resulting in strong operating leverage. Strong pricing action being taken by Tata Motors and AL (increase of 1.5% from 12 October 2009) will reduce the pain of commodity cost pressure and reflects the strong demand environment. Our revised earnings are Rs 2.8 for FY10E and Rs 3.8 for FY11E. (see page 2 for key assumptions and page 4 for concall highlights)

Due to the strong demand pick up the company is now planning to meet its fund requirement of Rs 4 bn from internal accruals and additional debt ruling out any possible equity dilution. Gross debt for the quarter stood unchanged at Rs 19 bn. Plant level inventory is currently at 5,900 units of which we expect ~1,000 units will be high old cost inventory.

We maintain our Buy call with a revised target price of Rs 56 discounting FY11E EPS 15x.

Key Assumptions

(Units)	Revised		Earlier		1HFY10	Residual
	FY10E	FY11E	FY10E	FY11E		FY10E
Buses	19,650	22,597	19,650	22,597	6,649	13,001
YoY %	1.3	15.0	1.3	15.0	(41.9)	63.5
Truck	38,739	49,701	32,608	45,164	14,865	23,874
YoY %	17.1	28.3	(1.5)	38.5	(37.3)	154.4
Total M&HCV	58,389	72,298	52,258	67,761	21,514	36,875
YoY %	11.2	23.8	(0.5)	29.7	(38.8)	112.7
LCV	982	1,170	982	1,170	485	497
YoY %	(20.0)	19.1	(20.0)	19.1	2.5	-34.1
Total sales	59,372	73,468	53,240	68,931	21,999	37,373
YoY %	10.5	23.7	(0.9)	29.5	(38.3)	106.6
Realisation (Rs)	1,163,073	1,182,962	1,157,475	1,175,812	1,131,931	1,188,334
YoY %	4.9	1.7	4.4	1.6	7.5	-S
EBITDA Margins (%)	10.4	11.0	8.3	9.5	7.2	12.3
EPS (Rs)	2.8	3.8	1.4	2.9	0.4	2.4
YoY %	118.2	35.9	9.6	105.6	(61.7)	311.0

Vehicle Sales

(in units)	2QFY10	2QFY09	YoY (%)	1QFY10	QoQ (%)	1HFY09	1HFY10	YoY (%)
Total Sales	14,301	17,207	(16.9)	7,698	85.8	35,632	21,999	(38.3)
MDV Passenger	4,192	6,718	(37.6)	2,457	70.6	11,448	6,649	(41.9)
MDV Goods	9,855	10,261	(4.0)	5,010	96.7	23,711	14,865	(37.3)
LCV	254	228	11.4	231	10.0	473	485	2.5
Domestic Sales	12,606	15,181	(17.0)	6,795	85.5	32,326	19,401	(40.0)
MDV Passenger	3,647	5,406	(32.5)	2,211	64.9	9,405	5,858	(37.7)
MDV Goods	8,767	9,658	(9.2)	4,456	96.7	22,643	13,223	(41.6)
LCV	192	117	64.1	128	50.0	278	320	15.1
Export Sales	1,695	2,026	(16.3)	903	87.7	3,306	2,598	(21.4)
MDV Passenger	545	1,312	(58.5)	246	121.5	2,043	791	(61.3)
MDV Goods	1,088	603	80.4	554	96.4	1,068	1,642	53.7
LCV	62	111	(44.1)	103	(39.8)	195	165	(15.4)

% of Sales

(%)	2QFY10	2QFY09	YoY (%)	1QFY10	QoQ (%)	1HFY09	1HFY10	YoY (%)
Material Cost	70.2	74.8	(4.5)	72.6	(2.4)	75.5	71.1	(5.9)
Employee Expenses	10.6	8.4	2.2	15.8	(5.2)	8.5	12.5	46.8
Other Expenses	8.6	8.6	0.0	10.2	(1.6)	7.8	9.2	18.1
EBIDTA Margins	10.5	8.2	2.3	1.3	9.2	8.1	7.2	(12.0)

Per Vehicle Sale

(Rs)	2QFY10	2QFY09	YoY (%)	1QFY10	QoQ (%)	1HFY09	1HFY10	YoY (%)
Average Realisations	1,103,199	1,084,677	1.7	1,185,310	(6.9)	698,848	1,704,744	143.9
Material Cost	774,718	810,809	(4.5)	860,837	(10.0)	496,912	1,287,672	159.1
Employee Cost	117,127	91,255	28.4	187,182	(37.4)	87,448	145,309	66.2
Other Expenses	95,243	93,148	2.2	121,485	(21.6)	64,472	133,119	106.5
EBIDTA	116,111	89,465	29.8	15,806	634.6	50,016	138,644	177.2

Source: Company

After the results we spoke with the management and attended the post result conference call and below are the key highlights:

- **Outlook:** The company expects a strong growth of ~65% for its 2HFY10 volumes due to strong pick-up in demand and clean-up of pipeline inventory taking the overall volumes to ~62,000 units. For FY11 the company expects growth of around 25% for the industry.
- **Buses:** The company expects to execute bulk of the 5,000 buses order under JNNURM in 3QFY10. In addition to this the company has a order for 4,000 buses from state transport undertakings.
- **Spares and engine sales:** During the quarter, spare sales stood at Rs 1.4 bn and defence supplies to Vehicle Factory Jabalpur (VFJ) stood at Rs 270 mn. Engine sales declined 10% to 5,400 units in 2QFY10 and generated revenues of Rs 960 mn. The company expects strong double digit growth in spares sales in 2HFY10 and will also execute the outstanding order of 1,600 kits.
- **Working capital:** The company has reduced working capital requirements to Rs 9 bn from Rs 15 bn in 1QFY10 by reducing receivables and reducing vehicle inventory. Reduction in receivables is due to shift to cash and carry system for dealer dispatches. The company aims to reduce the working capital requirement by another Rs 2 bn.
- **Pricing actions:** In addition to the 2.1% price increase in 1HFY10 the company has increased prices by another 1.5% in October 2009 to pass on the higher input costs.
- **Tax haven operations:** The plant at Uttarakhand will commence operations from mid-January and expected to roll out 30,000 units in FY11E. The company expects per unit savings of Rs 60,000 for vehicles manufactured at this plant in FY11E.
- **Capex:** Of the Rs 20 bn intended to be spent over FY10E and FY11E the company spent Rs 3.5 bn in 1HFY10.
- **Fund raising:** Due to the strong demand pick up the company is now planning to meet its fund requirement of Rs 4 bn from internal accruals and additional debt rather than by equity.
- **Debt:** Gross debt for the quarter stood unchanged at Rs 19 bn.
- **Inventory:** Plant level inventory is currently at 5,900 units of which we expect ~1,000 units will be high old cost inventory.

Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net sales	77,291	59,586	69,054	86,910
<i>Growth (%)</i>	<i>7.8</i>	<i>(22.9)</i>	<i>15.9</i>	<i>25.9</i>
Operating expenses	(69,348)	(55,251)	(62,078)	(77,616)
Operating profit	7,943	4,334	6,975	9,293
Other operating income	135	225	259	298
EBITDA	8,077	4,560	7,234	9,591
<i>Growth (%)</i>	<i>20.1</i>	<i>(43.6)</i>	<i>58.7</i>	<i>32.6</i>
Depreciation	(1,774)	(1,784)	(2,166)	(2,912)
Other income	508	695	268	374
EBIT	6,812	3,471	5,336	7,054
Interest paid	(763)	(1,603)	(900)	(1,000)
Pre-tax profit	6,049	1,867	4,436	6,054
(before non-recurring items)				
Non-recurring items	334	217	496	200
Pre-tax profit	6,382	2,084	4,932	6,254
(after non-recurring items)				
Tax (current + deferred)	(1,688)	(185)	(765)	(1,063)
Net profit	4,694	1,900	4,168	5,191
Adjusted net profit	4,360	1,683	3,672	4,991
<i>Growth (%)</i>	<i>1.2</i>	<i>(61.4)</i>	<i>118.2</i>	<i>35.9</i>
Net income	4,694	1,900	4,168	5,191

Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Current assets	32,403	31,656	29,149	25,827
Investments	2,448	2,635	1,860	3,409
Net fixed assets	20,548	43,975	48,320	55,416
Other non-current assets	160	0	0	0
Total assets	55,559	78,266	79,329	84,652
Current liabilities	22,719	21,369	21,308	25,059
Total Debt	8,875	19,581	17,977	16,586
Other non-current liabilities	2,698	2,634	2,736	2,839
Total liabilities	34,292	43,585	42,022	44,484
Share capital	1,330	1,330	1,330	1,330
Reserves & surplus	20,159	33,447	36,053	38,904
Less: Misc. expenditure	(223)	(97)	(76)	(67)
Shareholders' funds	21,267	34,681	37,308	40,168
Total equity & liabilities	55,559	78,266	79,329	84,652

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	6,382	2,084	4,932	6,254
Depreciation	1,037	1,372	2,171	2,917
Chg in working capital	1,337	(7,118)	3,338	5,715
Total tax paid	(1,244)	(76)	(676)	(960)
Cash flow from oper. (a)	7,513	(3,738)	9,765	13,925
Capital expenditure	(6,140)	(24,799)	(6,517)	(10,012)
Chg in investments	(3,888)	3,464	775	(1,549)
Other investing activities	0	12,995	0	0
Cash flow from inv. (b) (10,028)	(8,340)	(5,742)	(11,561)	
Free cash flow (a+b)	(2,515)	(12,078)	4,024	2,364
Equity raised/(repaid)	215	127	21	9
Debt raised/(repaid)	2,471	10,706	(1,604)	(1,391)
Dividend (incl. tax)	0	(2,337)	(1,556)	(1,556)
Other financing activities	(6)	(51)	(5)	0
Cash flow from fin. (c)	2,680	8,445	(3,144)	(2,939)
Net chg in cash (a+b+c)	165	(3,633)	879	(575)

Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
EPS (Rs)	3.3	1.3	2.8	3.8
EPS growth	0.7	(61.4)	118.2	35.9
EBITDA margin	10.4	7.6	10.4	11.0
EBIT margin	8.8	5.8	7.7	8.1
ROCE	22.7	7.7	9.3	12.0
Net debt/Equity	3.3	53.9	43.5	38.4

Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	14.0	36.2	16.6	12.2
PCE	9.9	17.6	10.4	7.7
Price/Book	2.9	2.9	2.6	2.3
Yield (%)	3.3	2.2	2.2	3.3
EV/Net sales	0.7	1.2	1.0	0.8
EV/EBITDA	6.8	16.1	9.8	7.3

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	5.6	2.8	5.3	5.7
Asset turnover	1.5	0.9	0.9	1.1
Leverage factor	2.5	2.4	2.2	2.1
Return on equity (%)	21.8	6.0	10.2	12.9

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 2. **OUTPERFORMER:** 0 to +25%
 3. **UNDERPERFORMER:** 0 to -25%
 4. **SELL:** Potential downside of < -25% (absolute returns)
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