



Ashok Leyland (ALL)

CMP: INR 43

Target Price: INR 50

MARKET PERFORMER

Sensex:	11,896
S&P Nifty:	3,536
52 Wk High INR:	44.4
52 Wk Low INR:	22.6
Face Value: INR:	1.0
Equity INR Mln.:	1,222
Mkt Cap: INR Mln.:	52,651
Financial Year End:	March

Codes:

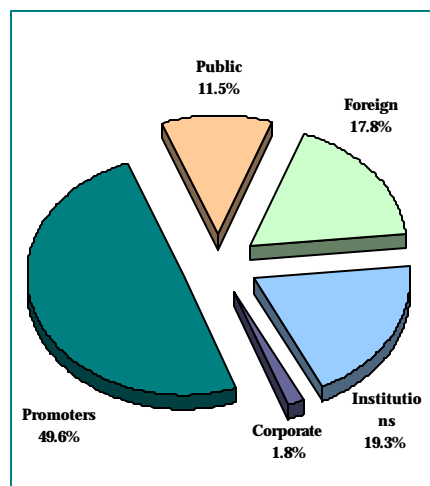
BSE Code:	500477
Bloomberg Code:	AL@IN
Reuters Code:	ASOK.BO
NSE Code:	ASHOKLEY
BSE Group:	A

Group:	Hinduja
Industry:	Automobiles – LCVs/HCVs

Listings

Chennai, Mumbai, NSE, London

Shareholding Pattern (%)



As on March 31, 2006

Analyst: Alpa Shah
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Investment Arguments:

- ✓ Strong GDP growth is a healthy sign for the automobile sector particular the commercial vehicle industry mainly when the growth is fuelled on back of a good performance by the industrial sector. India's GDP has grown at 8.1% for 2005-06 and is expected to maintain a growth rate of 7.5 – 8.1% for 2006-07
- ✓ Economic revival, better road infrastructure, Supreme court order on overloading coupled with stress laid on infrastructure and construction in the budget will drive the demand of commercial Vehicle (CV) industry. Mainly for the M/HCV segment where ALL has strong presence.
- ✓ ALL has outperformed the industry growth rate of M/HCV - 4.5%, reporting a growth of 12.6%. Gaining market share of 24% (higher by 1%) in goods carrier segment and 46.7% (higher by 5.3%) in the passenger carrier segment of M/HCV.
- ✓ ALL is the largest supplier of Defence support vehicles to the Indian Armed Forces and is aggressively now 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 commercial vehicles segment.
- ✓ The company is planning to make an investment of around Rs. 5500Mln in 2006-2008 to:
 - Increase production capacity to 1,00,000 from 77,000 vehicles per annum.
 - Setting up two manufacturing plants at a cost of Rs. 2500 Mln. One to make engines for heavy commercial vehicles and other and the second plant to make gear box
 - The company plans to make the H -series engines at the Ennore plant with a total planned capacity of 40,000 engines at a cost of Rs. 1500Mln and the commercial production to start will take around 18 months.
- ✓ Company cast its strategies for the passenger car market centered around fully built buses. Company has entered the premium segment with intercity segment with "Inter century Luxury" featuring the international technology from Irizar. Company plans to know focus on metro transport sector and offer its entire range of buses, from minibuses to 12 Mtr buses in fully built form.
- ✓ The company plans the following launches in the current
 - 12Mtr buses, Luxury buses and NEWGEN range of vehicles

Valuations:

The **company is a sector performer** currently trading at a PE multiple of 17.6X 2006EPS and 14.5X 2008EPS. We believe that stock is trading at a discount to its peer set mainly due to its strong presence in the M/HCV, which is cyclical in nature. However we believe that the demand for commercial vehicle will remain strong in the near future with the Indian economy growing at a rapid space coupled with supreme court order of overloading will lead to additional one time demand. We put a **BUY** call on the stock with a minimum downside. We expect a **Target Price of Rs. 50** for the stock.



Industry:

Commercial Vehicle industry has grown in line with the expectation at the rate of 12.3% on a YoY basis for 2005-06. We expect an overall growth of around 10% in 2006-07 which is much lower than in 2004-2005 the a slow down in growth is mainly due to high base, in spite of a strong focus by the government towards core sectors like infrastructure and improving competitiveness of private business. With the opening up of trade under the GATT rules will help to push the demand of the industry.

India economy is growing at a fast rate of 8.1% in 2005-06 with major growth coming from the industry and service sector like most other developed economies. It Seems that the Indian economy, which was earlier, a rural centric, agricultural driven economy is turning into an urban-centric, industry and service based economy.

Structural reforms started in 90's, including private participation and privatization in order to address to India infrastructural development. The Golden Quadrilateral Project and the other highways and road construction programs being implemented by National Highway Authority of India have had a significant and positive impact in transport and commercial vehicle industry. The focus area of the government will continue to remain on road upgradation.

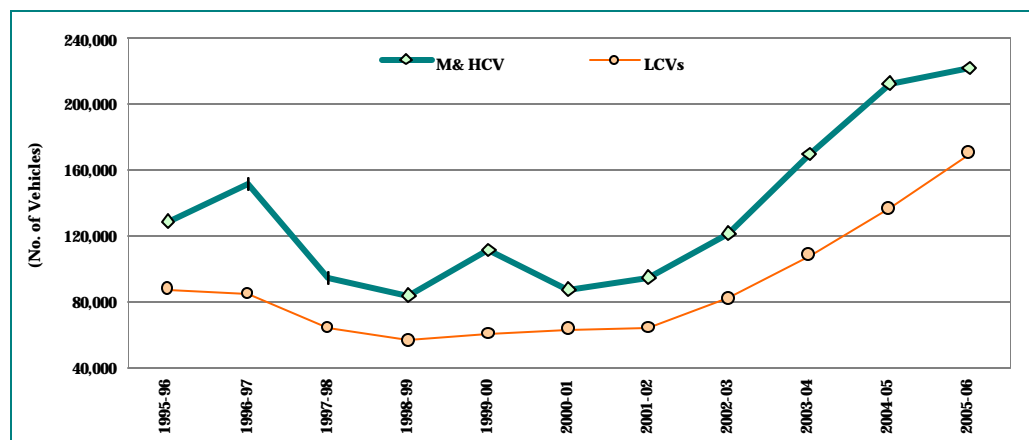
Factors influencing the Commercial Vehicle Industry Demand:

- ✓ Industrial growth
- ✓ Road Infrastructure Development
- ✓ SHIFT from rail to road
- ✓ Restriction on overloading
- ✓ Legislation on age of vehicle
- ✓ Emphasis on Mass transportation
- ✓ Retail financing
- ✓ Environmental and safety norms
- ✓ Privatization of state transport undertakings, tax levis and implementation of WTO.

Threats:

- ✓ Rising input cost
- ✓ Rising Oil Prices
- ✓ Competition both from international and domestic manufacturers
- ✓ Cyclic in nature

Industry Growth Rate:

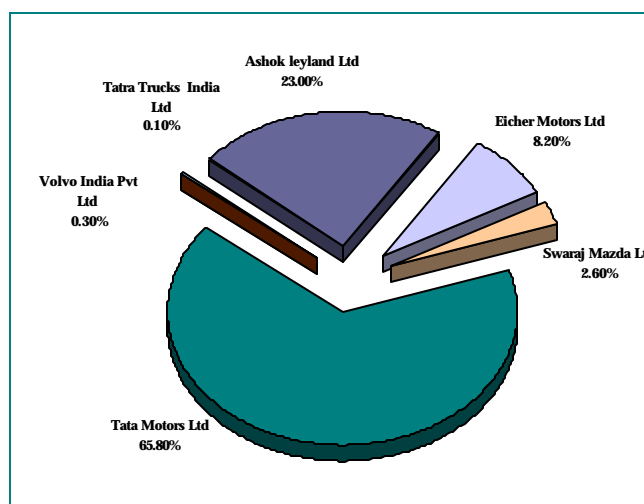


Source: SIAM and Khandwala Research



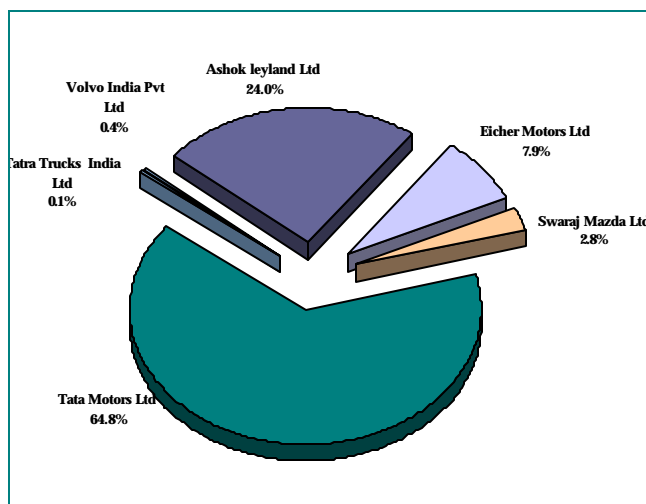
Market Share of Medium & Heavy Commercial Vehicle:

Goods Carrier Segment (2004-05):



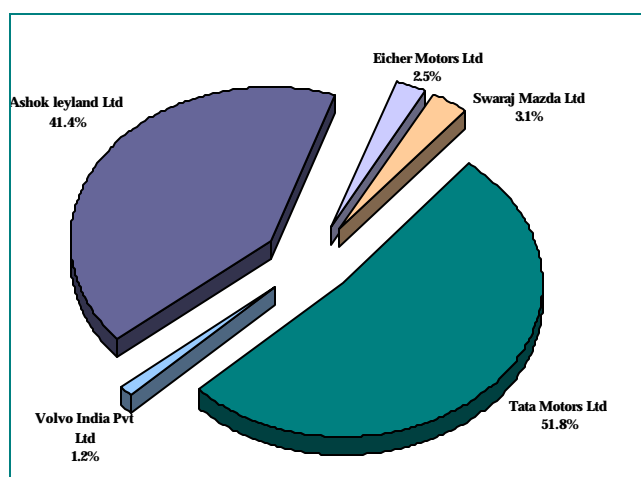
Source: SIAM and Khandwala Research

Goods Carrier Segment (2005-06):



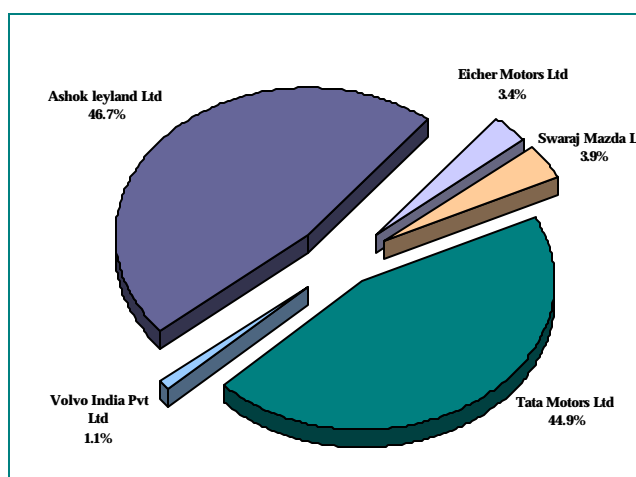
Source: SIAM and Khandwala Research

Passenger Carrier Segment (2004-05):



Source: SIAM and Khandwala Research

Passenger Carrier Segment (2005-06):

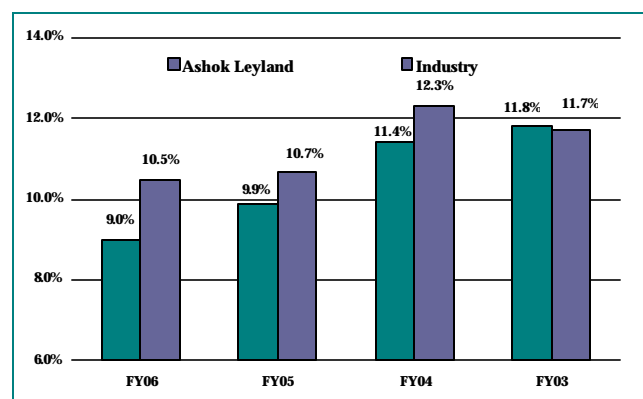


Source: SIAM and Khandwala Research



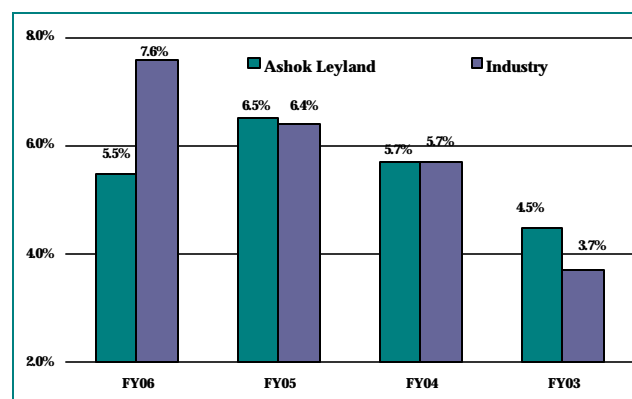
Operational Performance:

Operating Margins (%):



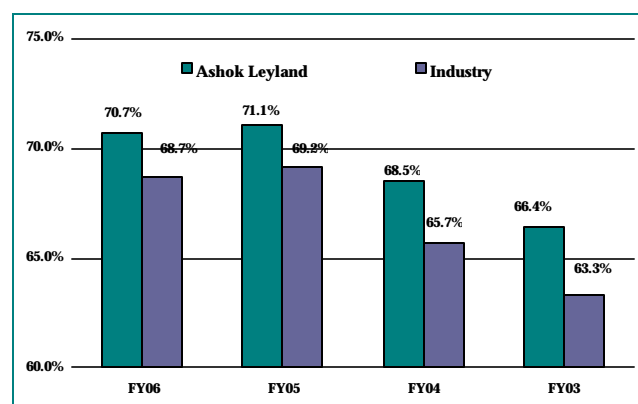
Source: Khandwala Research, Cline and Company

Net Margins (%):



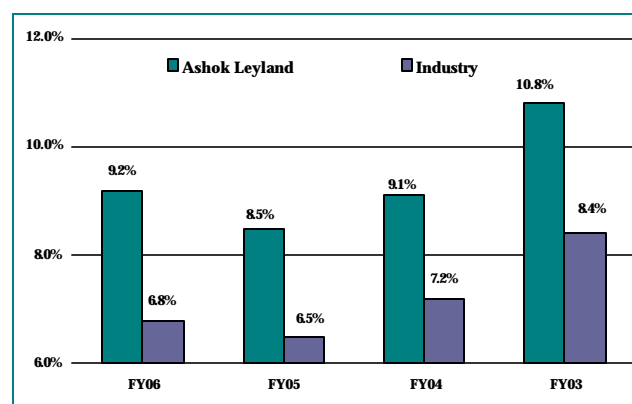
Source: Khandwala Research, Cline and Company

Raw Materials to Net Sales (%):



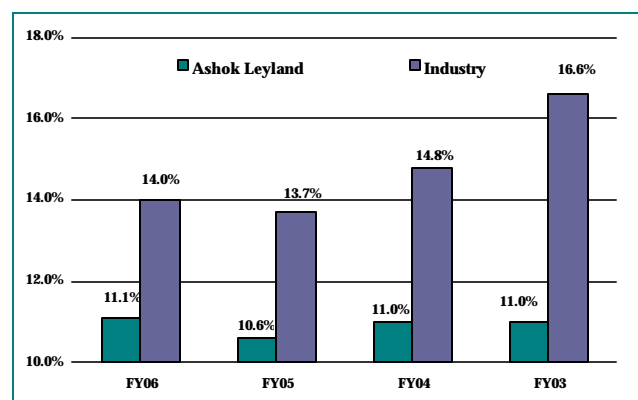
Source: Khandwala Research, Cline and Company

Employee Costs to Net Sales (%):



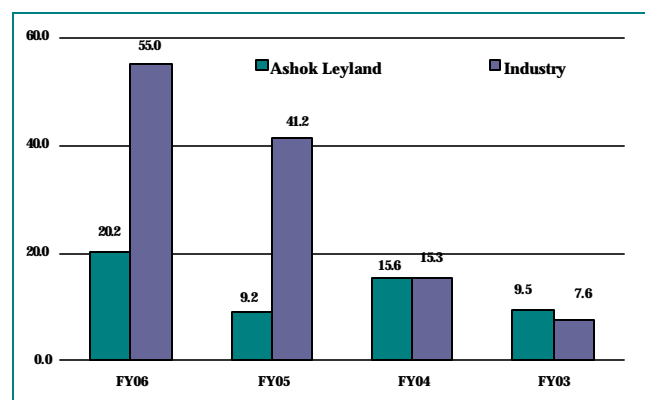
Source: Khandwala Research, Cline and Company

Other Expenses to Net Sales (%):



Source: Khandwala Research, Cline and Company

P/E Ratio:



Source: Khandwala Research, Cline and Company

**Financial Summary:****Quarterly Results Update:**

Particulars	Dec-05	Dec-04	Y-O-Y	Sept-05	Q-O-Q
(Rs. Mln)	3QFY06	3QFY05	(%)	2QFY06	(%)
Net Sales	12,024.3	9,871.3	21.8%	12,500.9	-3.8%
Number of vehicles	13,038.0	12,831.0	1.6%	14,895.0	-12.5%
Raw Material Cost	8,486.3	7,126.7	19.1%	8,837.5	-4.0%
Employee Cost	1,002.0	845.4	18.5%	1,174.8	-14.7%
Other Expense	1,375.0	879.7	56.3%	1,326.2	3.7%
Operating Profit	1,161.0	1,019.5	13.9%	1,162.5	-0.1%
Operating Margins	9.7%	10.3%		9.3%	
Other Income	16.1	62.2	-74.1%	169.9	-90.5%
Interest	70.8	18.3	286.1%	7.3	874.8%
Depreciation	290.2	255.2	13.7%	342.1	-15.2%
Profit before Tax	816.2	808.3	1.0%	983.0	-17.0%
Tax	250.3	247.6	1.1%	215.2	16.3%
Profit after Tax	565.9	560.7	0.9%	767.8	-26.3%
Extraordinary Items	20.8	24.2	-13.7%	17.7	17.5%
Net Profit	545.1	536.5	1.6%	750.0	-27.3%
Equity Capital	1,189.3	1,189.3	0.0%	1,189.3	0.0%
EPS (Rs.)	0.5	0.5	2.2%	0.6	-27.0%

Profit & Loss Statement:

Particulars	200303	200403	200503	200603E	200703E	200803E
Net Sales	26,803.8	33,920.2	41,823.8	54,511.9	62,928.5	69,963.9
Growth	18.5%	26.5%	23.3%	30.3%	15.4%	11.2%
Raw Material	17,797.3	23,886.9	30,437.3	38,516.3	44,679.2	49,814.3
Employee Expenses	2,906.5	3,097.4	3,540.5	4,771.6	5,411.9	5,946.9
Other Expenses	2,937.1	2,989.8	3,617.5	5,997.2	6,796.3	7,486.1
Operating Profit	3,162.9	3,946.0	4,228.5	5,226.7	6,041.1	6,716.5
Operating Margins	11.8%	11.6%	10.1%	9.6%	9.6%	9.6%
Other Income	152.9	186.2	537.5	235.5	150.0	150.0
Interest	585.1	207.9	28.0	137.0	40.0	40.0
Depreciation	1,029.7	964.5	1,092.1	1,229.8	1,500.0	1,650.0
Profit Before tax	1,701.0	2,959.8	3,645.9	4,095.5	4,651.1	5,176.5
Margins	6.3%	8.7%	8.7%	7.5%	7.4%	7.4%
Tax	498.9	928.8	836.0	1,166.1	1,395.3	1,553.0
Reported Profit After Tax	1,202.1	2,031.0	2,809.9	2,929.4	3,255.8	3,623.6
Margins	4.5%	6.0%	6.7%	5.4%	5.2%	5.2%

**Balance Sheet:**

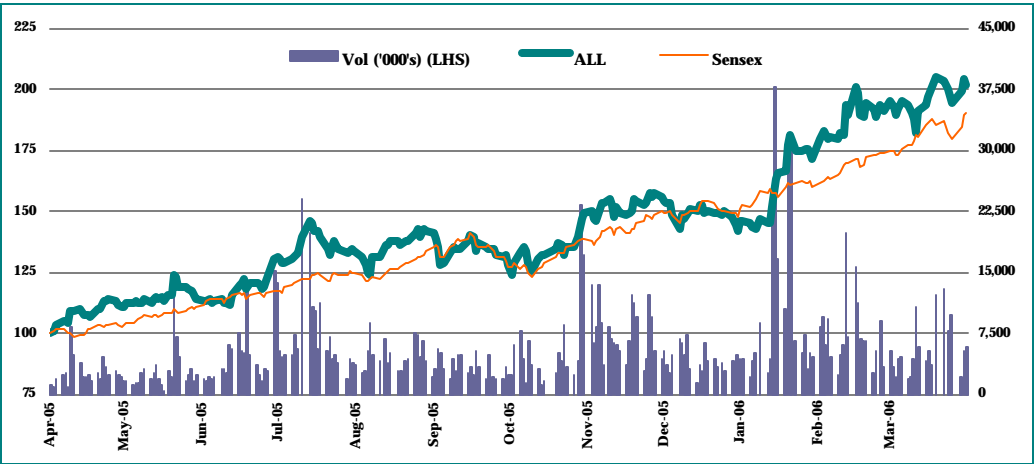
Particulars	200303	200403	200503	200603E	200703E	200803E
SOURCES OF FUNDS:						
Share Capital	1,189.3	1,189.3	1,189.3	1,215.2	1,330.0	1,215.2
Reserves Total	8,405.6	9,328.7	10,489.4	12,955.5	17,969.3	20,044.6
Shareholders Funds	9,594.9	10,518.0	11,678.7	14,170.7	19,299.3	21,259.8
Debt	7,175.2	4,990.7	8,804.1	8,458.6	4,818.5	4,618.3
Total Liabilities	16,770.1	15,508.7	20,482.7	22,629.3	24,117.7	25,878.1
APPLICATION OF FUNDS:						
Fixed Assets	9,025.2	8,748.3	8,938.5	9,708.7	11,938.5	13,288.5
Capital Work in Progress	373.2	462.7	851.6	400.0	400.0	400.0
Investments	1,575.8	1,466.0	2,291.9	2,291.9	2,291.9	2,291.9
Net Current Assets	7,480.9	6,311.4	9,916.0	11,743.9	11,002.5	11,412.9
Miscell. Expenses not w/o	0.0	323.2	193.3	193.3	193.3	193.3
Net Deferred Tax	-1,685.0	-1,802.9	-1,708.5	-1,708.5	-1,708.5	-1,708.5
Total Assets	16,770.1	15,508.7	20,482.7	22,629.3	24,117.7	25,878.1
Contingent Liabilities	4,122.5	2,466.6	2,466.6	2,466.6	2,466.6	2,466.6

Key Financial Ratios:

Particulars	200303	200403	200503	200603E	200703E	200803E
Performance						
Sales growth	18.5%	26.5%	23.3%	30.3%	15.4%	11.2%
Operating Profit growth	8.3%	24.8%	7.2%	23.6%	15.6%	11.2%
EPS growth	30.3%	69.0%	-86.2%	2.0%	1.5%	21.8%
Operating Margins	11.8%	11.6%	10.1%	9.6%	9.6%	9.6%
Net Margins	4.5%	6.0%	6.7%	5.4%	5.2%	5.2%
Return on Equity	12.5%	19.3%	24.1%	20.7%	16.9%	17.0%
Return on Capital Employed	10.7%	14.4%	13.9%	13.6%	13.7%	14.2%
Valuation						
EV (Rs in Mln)	14,862.9	30,376.1	23,580.1	53,598.0	51,690.0	48,708.2
Market Cap. (Rs in Mln)	11,482.7	30,101.2	25,034.8	52,375.1	57,722.0	52,739.7
EV/Sales	0.6	0.9	0.6	1.0	0.8	0.7
EV/EBITDA	4.5	7.4	4.9	9.8	8.3	7.1
Price to book Value	1.2	2.9	2.1	3.7	3.0	2.5
Sales/Market Cap	2.3	1.1	1.7	1.0	1.1	1.3
PE	9.6	14.8	8.9	17.9	17.7	14.6
Per Share Data						
EPS	10.1	17.1	2.4	2.4	2.4	3.0
Book Value	80.7	88.4	9.8	11.7	14.5	17.5
Face Value	10.0	10.0	1.0	1.0	1.0	1.0
Price	96.6	253.1	21.1	43.1	43.4	43.4
Solvency Ratio						
Net Debt to Equity	0.7	0.5	0.8	0.6	0.2	0.2
Net Debt to Total Assets	0.4	0.3	0.4	0.4	0.2	0.2
Net Debt to EBITDA	2.2	1.2	1.8	1.5	0.8	0.7



Comparative share price movement:



Source: Analyst (Comline)



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