



# Ashok Leyland

Relative to sector: **Neutral**

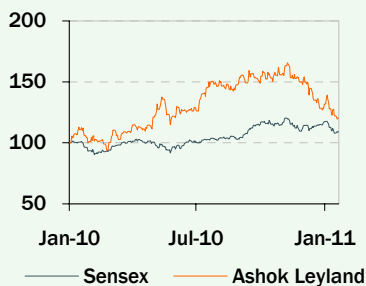
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**Relative Performance**



Source: Bloomberg, ENAM Research

**Stock data**

No. of shares : 1,330 mn  
Market cap : Rs 81 bn  
52 week high/low : Rs 82/ Rs 46  
Avg. daily vol. (6mth) : 5.0 mn shares  
Bloomberg code : AL IB  
Reuters code : ASOK.BO

**Shareholding (%) Dec-10 QoQ chg**

Promoters	: 38.6	0.0
FIs	: 14.9	(0.2)
MFs / UTI	: 4.5	(0.7)
Banks / FIs	: 0.1	(12.4)
Others	: 41.9	13.3

**Financial summary**

Y/E Mar	Sales (Rs mn)	EBITDA (Rs mn)	Adj. PAT (Rs mn)	EPS (Rs.)	Change YoY (%)	P/E* (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)
FY09	59,811	4,694	1,818	1.4	(59)	-	6.5	6.9	-
FY10	72,447	7,628	3,715	2.8	104	-	10.4	7.7	-
FY11E	108,176	11,337	6,002	4.5	62	12.1	15.7	11.6	9.5
FY12E	126,993	13,595	7,368	5.5	23	9.8	17.3	12.2	7.8

Source: Company ENAM estimates, \*Note: P/E is adjusted for VOI of Rs 6/share

**EMISSION NORM CHANGE DAMPENS PROFITABILITY**

Ashok Leyland's (ALL) Q3FY11 operating performance was under pressure, with EBITDA margins declining by 383 bps QoQ to 7.5% (vs. 11.4% in Q3FY10). This is due to: a) emission norm change to BS3 from Oct; and b) a one-time charge of Rs 260 mn towards employee wage settlements. The mgmt has re-iterated its volume guidance of >95,000 units for FY11 with ~10.5% EBITDA margin; which translates into ~30,000 units for Q4 with operating profitability of >12%.

**Key Highlights**

- The co. reported revenues of Rs 22 bn (↓ 18% QoQ, ↑ 23% YoY), EBITDA of Rs 1.9 bn (↓ 46% QoQ and 19% YoY) and adj. PAT of Rs 434 mn (↓74% QoQ and 59% YoY). Volumes have been impacted sequentially (↓ 25% QoQ, ↑ 14% YoY) at 18,437 units due to the emission norm change to BS3 from 1st Oct 2010.
- ALL has produced ~4,000 units from Pantnagar in Q3 (~6,000 units in 9mFY11), and intends to scale up to 15,000 units in FY11E and 35,000 units in FY12E.
- The co. raised prices across all products by Rs 31,000 and by another Rs 30,000 on BS3 products in Q3 to absorb the higher raw material costs. ALL has further hiked prices by ~2% in Jan'11 in-line with cost inflation.
- ALL is currently carrying an inventory of ~9,500 units (mostly BS3) which is likely to reduce in Q4. With inventory reduction & payments from STUs (Rs 4-5 bn), ALL is targeting to reduce Rs 6-8 bn of working capital in Q4. Debt as of Dec'10 stood at Rs 30 bn.

**Business at trough with cheap valuations. Upgrade to BUY**

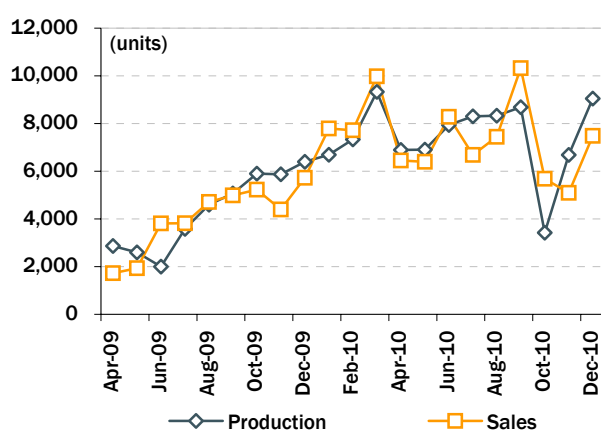
ALL has guided for 120,000 units for FY12 (20% growth vs. our est of 15%) with improving margins as Pantnagar ramps-up. While we are reducing our FY11E and FY12E ests by 6% and 8% resp., for higher interest costs and higher input costs, we believe that current valuations price in all the near-term negatives. We upgrade our rating on the stock to **BUY** with a revised TP of Rs 73 (8.5x FY12E EV/EBITDA + Rs 6/ share for investment at 1x BV).

## Results update

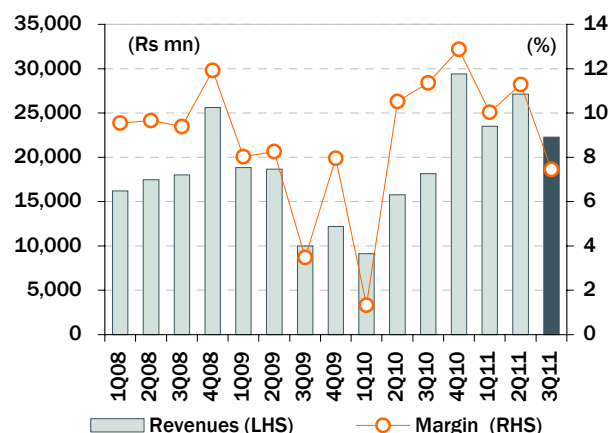
(Rs mn)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
<b>Net Sales</b>	<b>22,272</b>	<b>18,155</b>	<b>23</b>	<b>27,140</b>	<b>(18)</b>	<b>108,176</b>	<b>72,447</b>	<b>49.3</b>
<b>EBITDA</b>	<b>1,660</b>	<b>2,062</b>	<b>(19)</b>	<b>3,063</b>	<b>(46)</b>	<b>11,337</b>	<b>7,628</b>	<b>48.6</b>
Other income	17	20	(14)	48	(65)	165	150	10.0
<b>PBIDT</b>	<b>1,677</b>	<b>2,082</b>	<b>(19)</b>	<b>3,111</b>	<b>(46)</b>	<b>11,502</b>	<b>7,778</b>	<b>47.9</b>
Depreciation	647	513	26	641	1	2,554	2,041	25.1
Interest	475	162	-	395	20	1,628	811	-
<b>PBT</b>	<b>555</b>	<b>1,407</b>	<b>(61)</b>	<b>2,075</b>	<b>(73)</b>	<b>7,320</b>	<b>4,926</b>	<b>48.6</b>
Tax	122	351	(65)	405	(70)	1,318	1,211	8.8
<b>Adjusted PAT</b>	<b>434</b>	<b>1,056</b>	<b>(59)</b>	<b>1,671</b>	<b>(74)</b>	<b>6,002</b>	<b>3,715</b>	<b>61.6</b>
Extra ordinary income/ (exp.)	-	(10)	-	-	-	-	522	-
Forex Loss / (Gain)	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>434</b>	<b>1,046</b>	<b>(59)</b>	<b>1,671</b>	<b>(74)</b>	<b>6,002</b>	<b>4,237</b>	<b>41.7</b>
No. of shares (mn)	1,330	1,330	-	1,330	-	1,330	1,330	-
EBITDA margin (%)	7.45	11.4	-	11.3	-	10.5	10.5	-
PBIDT margin (%)	7.5	11.5	-	11.5	-	10.6	10.7	-
<b>EPS - annualized (Rs.)</b>	<b>1.3</b>	<b>3.2</b>	<b>(59)</b>	<b>5.0</b>	<b>(74)</b>	<b>4.5</b>	<b>2.8</b>	<b>61.6</b>

Source: Company, ENAM Research

## ALL: M&amp;HCV Inventory trend



## ALL: Revenue &amp; margin trends



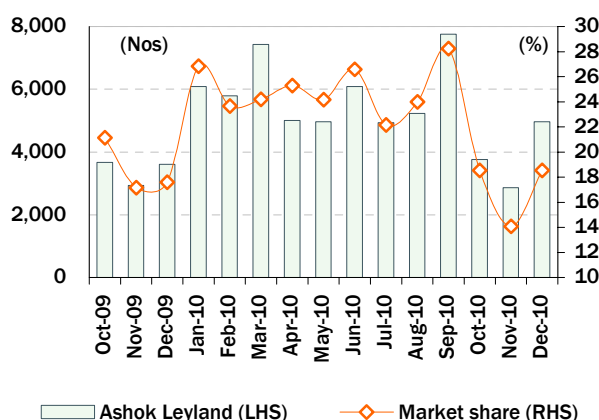
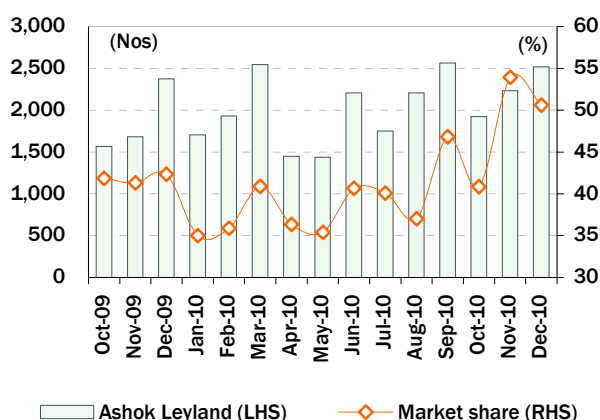
Source: Company, ENAM Research, SIAM

## Key highlights contd...

- ❑ Ashok Leyland sold 600 defense kits in Q3 (1,000+ in 9mFY11), and has received orders of ~800–1,000 kits for Q4FY11E.
- ❑ Sales to state transport undertakings stood at ~3,600 units in Q3 (~25% of dom. vols), which adversely impacted product mix and hence profitability. We believe that this trend is unlikely to continue in coming quarters

**Passenger Vehicles: Volumes and market share**

**Goods vehicles: Volumes and market share**



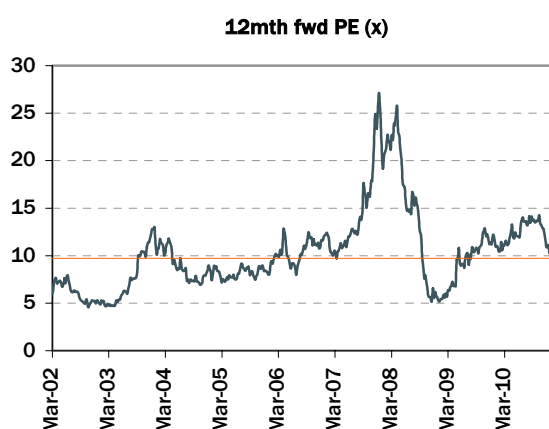
Source: Company, Industry, ENAM Research

**Product mix trend**

(%)	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
<b>M&amp;HCV goods</b>	<b>4,386</b>	<b>5,253</b>	<b>4,977</b>	<b>9,850</b>	<b>10,215</b>	<b>19,304</b>	<b>16,039</b>	<b>17,926</b>	<b>11,584</b>
<b>Goods carrier</b>									
7.5-12T	8.2	8.1	4.0	5.2	5.3	3.9	4.2	5.3	4.7
12-16T	41.4	43.7	50.8	33.1	31.3	26.8	27.5	29.8	43.2
16-25T	40.6	40.8	39.3	40.6	42.1	45.1	39.6	36.1	27.9
>25T	3.6	3.8	0.4	6.0	4.9	7.2	15.1	13.5	11.9
<b>Haulage vehicles</b>									
16-35T	2.4	0.9	2.5	8.0	10.3	10.3	6.1	7.9	5.6
>35T	3.8	2.7	3.0	7.0	6.2	6.7	7.5	7.5	6.7
<b>M&amp;HCV passenger</b>	<b>3,498</b>	<b>4,788</b>	<b>2,485</b>	<b>4,192</b>	<b>5,628</b>	<b>6,180</b>	<b>5,088</b>	<b>6,511</b>	<b>6,674</b>
7.5-12T	4.3	5.3	10.9	10.9	5.1	6.4	10.6	7.7	4.5
12-16T	95.7	94.7	89.1	89.1	94.9	93.6	89.4	92.3	95.5

Source: SIAM, Company, ENAM Research

**Valuation charts: ALL currently trading at historical averages**



Source: Company, ENAM Research

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