

Ashok Leyland

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Shareholding (%)

| | |
|---------------|------|
| Promoters | 38.8 |
| FII's | 10.8 |
| MFs | 7.6 |
| Insurance Co. | 12.7 |
| Others | 30.1 |

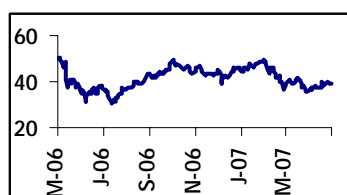
Share price performance

52-week high/low (Rs) 52/29

| | -1m | -3m | -12m |
|----------|------|-------|-------|
| Abs (%) | 8.7 | -21.1 | -23.5 |
| Rel* (%) | -0.9 | -18.5 | -34.9 |

*to Nifty

Stock chart



Exceeding expectations

Ashok Leyland Ltd. (ALL) has posted good numbers for Q4FY07, both on the topline and bottomline. It registered strong 32% growth YoY in topline to Rs22,910mn. Operating profit in absolute terms grew by 21% YoY to Rs.2,649mn; though the margin shed 100bps on the back of higher raw material costs. Substantial decrease in interest costs saw net profit surge 29% YoY to Rs17,515mn in Q4FY07. For the full year, topline and bottom line grew 37% and 35% YoY respectively.

Key highlights:

- Sales up 32% in Q4FY07:** In Q4FY07, topline was up 32% YoY and on full year basis it was up 37%, mainly on the back of robust volume growth of 35%. During FY07, ALL's sales volume touched an all time high of 83,094 units. Also, there was a gain in the overall market share by 80bps to 28% in the M&HCV segment.
- EBITDA up 21% YoY:** EBITDA for the quarter, in absolute terms grew by 21%; though margin was down 100bps, as material costs continue to rise. Material cost per vehicle has gone up by Rs25,000 on an average. Compared to last quarter however the margins improved 120 bps on back of increased labour productivity. On a full year basis also the margins were down marginally by 40 bps to 9.6%
- Q4FY07 net profit up 29%:** The company witnessed 29% surge in net profit in Q4FY07 as it was able to reduce interest costs substantially by 81% by way of loan pay-offs. On full year basis, bottom line grew 35% YoY at Rs4,413mn, despite higher taxation.
- Better working capital management:** ALL has been successful in reducing its working capital substantially to Rs1,500mn in FY07, which has in turn resulted in savings of interest cost to the tune of Rs120mn.
- Judicious cost management:** The company has managed to reduce its operating cost by 10% due to reduction in its power and fuel costs by consciously moving towards non-conventional energy by setting up windmills. Also, increased productivity from employees reduced its overall operating costs by about 80bps.
- Capacity ramp-up:** ALL currently has the capacity to manufacture 84,000 vehicles per annum, which will be enhanced to 134,000 vehicles by October 2007.

Accumulate Rs39

May 8, 2007

Market cap

Rs bn 52

US\$ mn 1,259

Avg 3m daily volume

5,068,642

Avg 3m daily value

USD mn 5

Shares outstanding (mn)

1,324

Reuters

ASOK.BO/ASHOKLEY.NS

Bloomberg

AL IN

Sensex

13,879

Nifty

4,111

Ashok Leyland Ltd

Additionally, The capacity will be enhanced further to 184,000 vehicles by FY10 once the Uttaranchal facility becomes fully operational.

- ▲ **Capacity expansion at Ennore:** ALL is setting up an additional plant at its Ennore facility for the manufacture of engines and gear boxes at a cost of about Rs3,500mn. The new plant is expected to be operational by the end of first half of current fiscal, taking its total production capacity to 100,000 units by FY08. ALL will not be recruiting new employees to run this plant; instead it will make do with existing manpower. This will result in reduction of ALL's overall employee cost
- ▲ **New green-field facility at Uttaranchal:** ALL is setting up a green-field facility with capacity to manufacture 50,000 vehicles. Half of this capacity will be operational in FY09, while the entire facility will be operational by FY10. Capex requirement for this project is Rs4,000mn, which will be financed mainly through the ECB route. ALL has acquired excise and sales tax exemption for this facility.
- ▲ **Exports on track:** ALL's export volume grew by 23.5% to 6,025 units YoY. Of this, 50% was to Sri Lanka, 20% to the Middle East and the rest to countries like Nepal and Bhutan.
- ▲ **Aggressive capex plans to fund expansion:** ALL has outlined a capex plan of about Rs14bn (details in table below).

| | |
|---|---------|
| Cab facility in Uttaranchal- | 4000 mn |
| Ennore facility- | 3500 mn |
| Product development & new vehicle launches- | 1000 mn |
| Essential capex- | 1000 mn |
| Acquisition of testing facility in Detroit- | 700 mn |
| Inorganic growth- | 3000 mn |
| Middle east expansion- | 350 mn |
| Other expenses- | 450 mn |

Out of this, Rs10bn will be funded by loans and the rest through internal accruals. ALL is planning to raise the additional Rs4bn for vehicle financing, if needed.

- ▲ **Valuation:** At the CMP of Rs39, ALL is discounted at 11x its FY08E earnings. The company is expected to grow at 10-12% CAGR over next three years on the back of overall growth in M&HCV sector and new product launches like multi-axle vehicles. Given an environment of rising interest rates, we believe the growth can slowdown slightly. Also, the company's aggressive capex plans, which will be mainly funded by debt, could result in subdued net margins. We downgrade it to 'Accumulate'.

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Table 1. Quarterly result table

| Rs mn | Q407 | Q406 | YoY (%) | Q307 | QoQ (%) | FY07 | FY06 | YoY (%) |
|-----------------------|----------|----------|---------|----------|---------|---------|----------|---------|
| Net Sales | 22,909.9 | 17,348.1 | 32% | 17,775.9 | 29% | 71681.8 | 52476.57 | 36.6% |
| Total Expenses | 20,260.6 | 15,161.3 | 34% | 15,935.4 | 27% | 64785.7 | 47075.87 | 37.6% |
| Inc / Dec in stock | 1,680.4 | 1,961.2 | | (951.6) | | -646.93 | -2049.46 | -68.4% |
| Raw material consumed | 15,378.8 | 10,876.7 | 41% | 14,177.2 | 8% | 54038.3 | 39739.45 | 36.0% |
| Empolyee cost | 1,163.2 | 815.6 | | 1,149.0 | 1% | 4806.95 | 4038.87 | 19.0% |
| Other Expenses | 2,038.2 | 1,507.8 | 35% | 1,560.8 | 31% | 6587.38 | 5347.01 | 23.2% |
| EBIDTA | 2,649.3 | 2,186.8 | 21% | 1,840.5 | 44% | 6896.09 | 5400.7 | 27.7% |
| Other Income | 169.1 | 110.2 | 53% | 63.5 | 166% | 708.03 | 329.74 | 114.7% |
| PBIDT | 2,818.4 | 2,297.1 | 23% | 1,904.1 | 48% | 7604.12 | 5730.44 | 32.7% |
| Interest | 18.8 | 98.0 | -81% | 25.7 | -27% | 53.32 | 164.53 | -67.6% |
| Gross Profit | 2,799.6 | 2,199.0 | 27% | 1,878.4 | 49% | 7,550.8 | 5,565.9 | 35.7% |
| Depreciation | 481.3 | 330.3 | 46% | 332.3 | 45% | 1,505.7 | 1,260.1 | 19.5% |
| PBT | 2,318.4 | 1,868.7 | 24% | 1,546.1 | 50% | 6,045.1 | 4,305.9 | 40.4% |
| Tax | 572.7 | 513.3 | 12% | 462.5 | 24% | 1,632.2 | 1,249.8 | 30.6% |
| PAT | 1,745.7 | 1,355.4 | 29% | 1,083.6 | 61% | 4,412.9 | 3,056.1 | 44.4% |
| Extraordinary items | 30.4 | 20.9 | 46% | 31.1 | -2% | - | (217.2) | -100.0% |
| Adjusted Net profit | 1,715.2 | 1,334.6 | 29% | 1,052.6 | 63% | 4,412.9 | 3,273.2 | 34.8% |
| Equity | 1,323.9 | 1,221.6 | 8% | 1,323.3 | 0% | 1,323.3 | 1,221.6 | |
| EPS | 1.3 | 1.1 | 19% | 0.8 | 63% | 3.4 | 2.7 | |
| Key Ratios (%) | | | | | | | | |
| EBIDTA Margin | 11.6 | 12.6 | | 10.4 | | 9.6 | 10.3 | |
| Interest / Sales | 0.1 | 0.6 | | 0.1 | | 0.1 | 0.3 | |
| Tax / PBT | 24.7 | 27.5 | | 29.9 | | 27.0 | 29.0 | |
| NPM | 7.5 | 7.7 | | 5.9 | | 6.2 | 6.2 | |

Source: IISL research, company

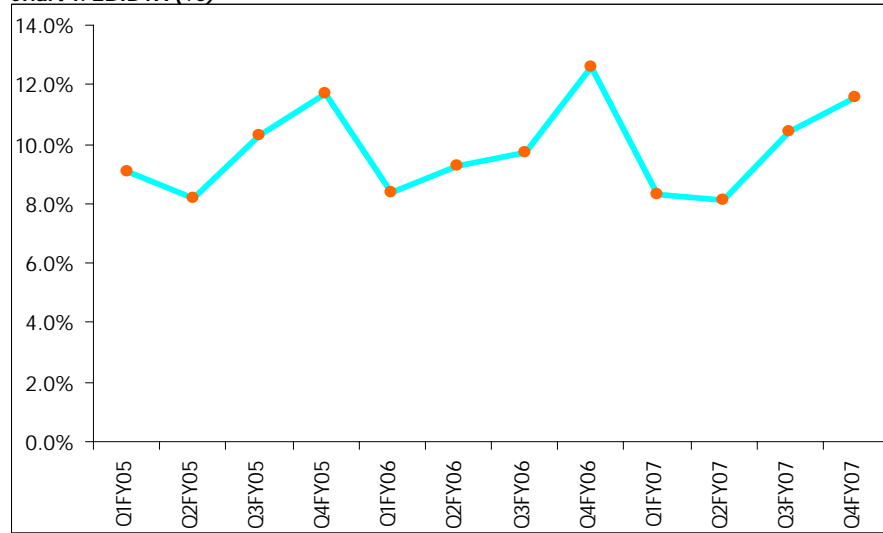
Table 2. Estimates

| Rs. mn | FY06 | FY07 | FY08E |
|---------------|--------|--------|--------|
| Net Sales | 52,477 | 71,682 | 80,284 |
| % change | | 36.6% | 12.0% |
| EBIDTA | 5,401 | 6,896 | 7,547 |
| % change | | 27.7% | 9.4% |
| EBIDTA margin | 10.3% | 9.6% | 9.4% |
| PAT | 3,273 | 4,413 | 4,576 |
| % change | | 34.8% | 3.7% |
| PAT margin | 6.2% | 6.2% | 5.7% |
| EPS | 2.5 | 3.4 | 3.5 |
| % change | | 36.5% | 2.3% |
| P/E(x) | 15.8 | 11.5 | 11.3 |

Source: IISL research, company

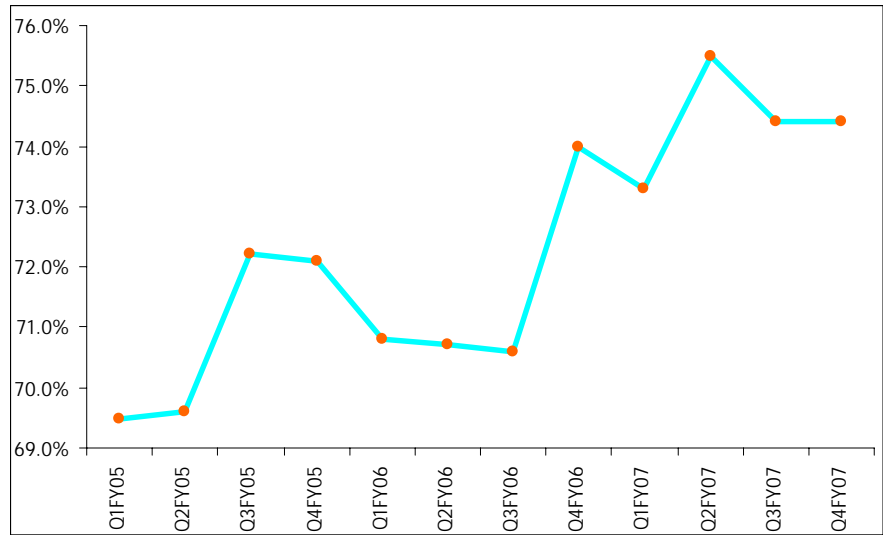
Ashok Leyland Ltd

Chart 1. EBITDA (%)



Source: IISL research, company

Chart 2. RM/Sales (%)



Source: IISL research, company

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