

Q2FY2012 Review  
 Sector: Auto  
 BSE Sensex: 17,563

## ASHOK LEYLAND

 Maintain BUY  
 CMP Rs28  
 TP Rs38

### Strong Profitability Despite Low Volumes

Ashok Leyland (AL) reported a strong performance in Q2FY12 beating our profit estimate by 35%. Blended realisations during the quarter grew 1.2% sequentially to Rs1.31mn/unit and were higher than our estimate which led to the outperformance. On a high base, dispatch volumes declined marginally by 3.9% YoY but were up by 22.6% QoQ. The increase in realisations and operating leverage aided the company to expand margins by 130bps QoQ to 10.7% as against our estimate of 9.4%. Net profits, although down 7.8% YoY at Rs1.54bn were ahead of our expectation of Rs1.14bn.

**Volumes decline albeit on a high base:** Total industry volumes in Q2FY11 had received a boost due to the preponement in purchase ahead of implementation of Bharat III emission norms from 1st Oct'10 across the country. On this high base, volumes in Q2FY12 declined 3.9% YoY to 23.6k units. Additionally, lower demand for MHCV goods vehicles in AL's key markets of Tamil Nadu and Andhra Pradesh also impacted this quarter volumes and led to marketshare erosion of 380bps YoY. The domestic MHCV bus segment volumes were lower by 12.8% while MHCV truck segment declined 6.7%. Export growth continued to remain robust, growing 37.4% to 3,230 units.

**Realisations above estimate:** Supply of defense kits to Vehicle Factory Jabalpur increased five fold to Rs1bn. This in tandem with the price hikes helped in a 18.7% YoY increase in realisations to Rs1.31bn, 2.3% higher than our estimate. Revenues were up 14% YoY to Rs30.9bn.

**Higher realisations aid in a margins surprise:** Employee expenses jumped 18.9% YoY as the company added 2k employees to its payroll. Similarly with the ramp up of capacity at Pantnagar, overheads increased 18.5% YoY to Rs2.4bn. Subsequently, margins declined 60bps YoY to 10.7%. However, with realisations higher than our estimate, margins were 130bps ahead of our expectation.

**Outlook:** Considering the macro headwinds, management has guided for a nominal industry volume growth of 5-6% in FY12 and expects AL to cross the 100k unit volume mark. We have reduced our FY12 volume estimates by 5% to 98.5k units. The strong margin performance despite lower volumes during H1FY12 reaffirms our belief that the Pantnagar facility would be instrumental in reducing seasonal volatility in the profitability of the company. We have increased our FY12 and FY13 margin estimates by 55bps and 75bps respectively. As a result our FY12 earnings estimate is unchanged at Rs2.5, while FY13 estimate is increased by 3% to Rs3.1.

### VALUATIONS AND RECOMMENDATION

The stock is currently trading at 9.1x FY13E earnings. We continue to remain positive on the stock with a revised price target of Rs38 (earlier Rs37) discounting FY13E earnings 12.5x.

KEY FINANCIALS		(Rs mn)				
	FY09	FY10	FY11	FY12E	FY13E	
Net Sales	59,811	72,447	111,177	129,095	145,380	
YoY Gr.(%)	(22.8)	21.1	53.5	16.1	12.6	
EBITDA	4,559	7,596	12,176	13,992	15,913	
EBITDA Marg.(%)	7.6	10.5	11.0	10.8	10.9	
Adjusted Net Profit	1,900	4,237	6,313	6,687	8,119	
YoY Gr.(%)	(59.5)	123.0	49.0	5.9	21.4	
KEY RATIOS						
Dil. EPS (Rs)	0.7	1.6	2.4	2.5	3.1	
ROCE (%)	9.6	13.7	18.4	17.9	18.2	
RoE (%)	13.3	19.0	25.2	23.7	18.2	
PER (x)	38.9	17.4	11.7	11.0	9.1	
EV/Net sales (x)	1.5	1.3	0.9	0.8	0.7	
EV/EBITDA (x)	20.3	12.0	8.1	7.5	6.7	

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### QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Mar-11	Jun-11	Sep-11
Net Sales	38,285	24,955	30,946
YoY Gr. (%)	30.3	6.3	14.0
EBITDA	5,099	2,352	3,312
EBITDA mar. (%)	13.3	9.4	10.7
Adj. Net Profit	2,982	768	1,541
YoY Gr. (%)	33.7	(37.4)	(7.8)

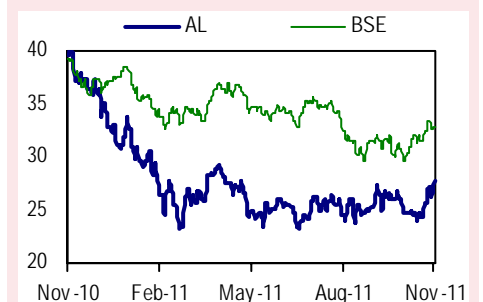
### STOCK DATA

Market Cap	Rs73.8bn
Book Value per share	Rs10
Eq Shares O/S (F.V. Rs1)	2.7bn
Free Float	61%
Avg Trad. Value (6 mnths)	Rs180.6mn
52 week High/Low	Rs41/23
Bloomberg Code	AL IN
Reuters Code	ASOK.BO

### PERFORMANCE (%)

	1M	3M	12M
Absolute	11.2	13.3	(29.1)
Relative	0.5	11.8	(13.1)

### RELATIVE PERFORMANCE



## Q2FY12 Performance and Concall Highlights

- The overall volumes for Q2FY12 were lower by 3.9% at 23.6k units. The decline in volumes was predominantly due to the high base of Q2FY11 as preonement purchases on account of change in emission norms from Oct'10 boosted volumes. Additionally, AL lost marketshare to the tune of 380bps and 140bps in the MHCV trucks and bus segments respectively during Q2FY12. The turmoil in Andhra Pradesh and drop in volumes in the State Transport Utility (STU) purchases were the prime reasons in the marketshare contraction.
- Exports remained robust for AL as volumes in the segment grew by 37.4% YoY to 3,230 units. The management is confident of achieving its target of 13k unit of exports during the year.
- Engine supplies during the quarter were at 3.4k units. However, with the decline of business to the telecom sector, the company has witnessed a shift in the mix in favour for engines produced in-house as compared to outsourced. The company also undertook a price hike of 4% on engines in the month of July.
- In Q2FY12, dispatches of kits to vehicle factory Jabalpur were to the tune of Rs1bn as against Rs200mn in Q2FY11. Of the order book of 2,700 units, the company has dispatched ~1,500 units in H1FY12.
- The company had undertaken a price hike of ~1% in July in domestic markets. The hike in addition to the higher revenues from defense kits led to a 1.2% QoQ increase in realisations to Rs1.31mn/ unit.
- Contribution of Pantnagar increased to 7k units in Q2FY12 and is targeted to contribute 20k units in H2FY12.
- U-truck platform contributed about 2k units in H1FY12 and is expected to further contribute 6k units in H2FY12.
- **LCV Launch:** Company launched its first LCV product 'Dost' in Q2FY12 with its JV partner Nissan. Sales within Tamil Nadu would take place through the JV while AL would market the product in the rest of the country. The JV managed to sell 210 units of the Dost in Q2 of which 94 units were marketed by AL. Management expects significant ramp up in LCV business with a target of 10k units for H2FY12.

## Outlook

- **Volumes Guidance:** Management stated that freight rates in the Southern and Eastern regions remained soft while the rates increased in the Northern and Western region. Interest rates and the possibility of a diesel price hike are the primary concerns for the industry. Management toned down its growth estimate for the industry to 5-6% with AL striving to maintain marketshare. Alongwith a target of 13k units in exports, it expects to cross the 100k units for FY12. However, we remain cautious and expect the company to fall short of its target by 1-2k units.
- **Margin Guidance:** Management expects input cost pressures to subside in H2FY12 and is optimistic to achieve EBITDA margin of 10.5% for FY12.

**Variance to PINC Estimate**

(Rs mn)	Actual	Estimate	Var (%)	Comments
Net Sales	30,946	30,250	2.3	Higher contribution of defense kits boosts realisations
EBITDA	3,312	2,850	16.2	
EBITDA Margin (%)	10.7	9.4	130bps	Better realisations and lower employee expenses boost margins
Adjusted PAT	1,541	1,140	35.2	Benefit of higher than expected margins flows to the bottomline

**Financial Table**

Rs mn	Sep-11	Sep-10	YoY (%)	Jun-11	QoQ (%)	H1FY12	H1FY11	YoY (%)
<b>Net Sales</b>	<b>30,946</b>	<b>27,140</b>	<b>14.0</b>	<b>24,955</b>	<b>24.0</b>	<b>55,901</b>	<b>50,619</b>	<b>10.4</b>
<b>EBITDA</b>	<b>3,312</b>	<b>3,063</b>	<b>8.1</b>	<b>2,352</b>	<b>40.8</b>	<b>5,663</b>	<b>5,417</b>	<b>4.6</b>
EBITDA Margins %	10.7	11.3	(60)bps	9.4	130bps	10.1	10.7	(60)bps
Other Income	103	48	114.5	41	150.8	144	95	51.4
Interest	627	395	58.8	533	17.5	1,160	711	63.2
Depreciation	859	641	34.1	847	1.5	1,706	1,255	35.9
PBT	1,929	2,075	(7.1)	1,013	90.4	2,941	3,546	(17.0)
Tax	388	405	(4.2)	245	58.4	633	649	(2.5)
Tax (%)	20.1	19.5	60bps	24.2	(410)bps	21.5	18.3	320bps
<b>Adjusted PAT</b>	<b>1,541</b>	<b>1,671</b>	<b>(7.8)</b>	<b>768</b>	<b>100.6</b>	<b>2,309</b>	<b>2,897</b>	<b>(20.3)</b>
<b>EPS (Rs)</b>	<b>1.2</b>	<b>1.3</b>	<b>(7.8)</b>	<b>0.6</b>	<b>100.7</b>	<b>1.7</b>	<b>2.2</b>	<b>(20.3)</b>

**Vehicle sales**

(units)	Sep-11	Sep-10	YoY (%)	Jun-11	QoQ (%)	H1FY12	H1FY11	YoY (%)
<b>Total Sales</b>	<b>23,628</b>	<b>24,590</b>	<b>(3.9)</b>	<b>19,277</b>	<b>22.6</b>	<b>42,905</b>	<b>45,992</b>	<b>(6.7)</b>
MHCV Passenger	6,125	6,504	(5.8)	5,328	15.0	11,453	11,592	(1.2)
MHCV Goods	17,225	17,926	(3.9)	13,755	25.2	30,980	33,965	(8.8)
LCV	278	160	73.8	194	43.3	472	435	8.5
<b>Domestic Sales</b>	<b>20,398</b>	<b>22,240</b>	<b>(8.3)</b>	<b>16,738</b>	<b>21.9</b>	<b>37,136</b>	<b>41,702</b>	<b>(10.9)</b>
MHCV Passenger	4,741	5,435	(12.8)	4,355	8.9	9,096	9,619	(5.4)
MHCV Goods	15,547	16,658	(6.7)	12,277	26.6	27,824	31,717	(12.3)
LCV	110	147	(25.2)	106	3.8	216	366	(41.0)
<b>Exports Sales</b>	<b>3,230</b>	<b>2,350</b>	<b>37.4</b>	<b>2,539</b>	<b>27.2</b>	<b>5,769</b>	<b>4,290</b>	<b>34.5</b>
MHCV Passenger	1,384	1,069	29.5	973	42.2	2,357	1,973	19.5
MHCV Goods	1,678	1,268	32.3	1,478	13.5	3,156	2,248	40.4
LCV	168	13	1192.3	88	90.9	256	69	271.0

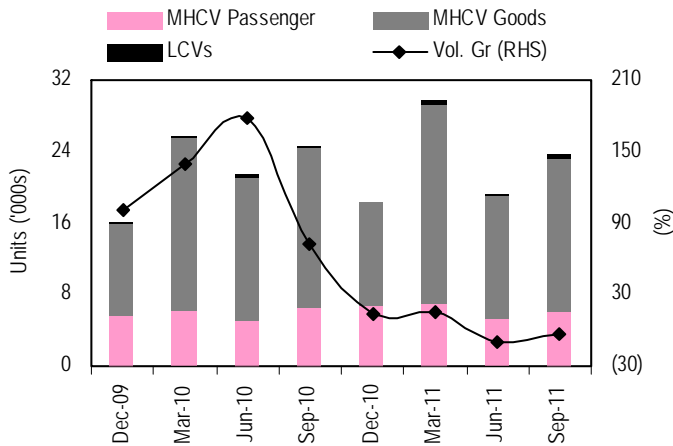
**(%) of Sales**

(%)	Sep-11	Sep-10	YoY (bps)	Jun-11	QoQ (bps)	H1FY12	H1FY11	YoY (bps)
Material Cost	73.5	73.6	0	72.1	150	72.9	73.7	(80)
Staff Cost	8.1	7.8	30	10.0	(190)	9.0	8.2	80
Other Expenses	7.6	7.3	30	8.5	(90)	8.0	7.4	60
<b>EBITDA Margins</b>	<b>10.7</b>	<b>11.3</b>	<b>(60)</b>	<b>9.4</b>	<b>130</b>	<b>10.1</b>	<b>10.7</b>	<b>(60)</b>

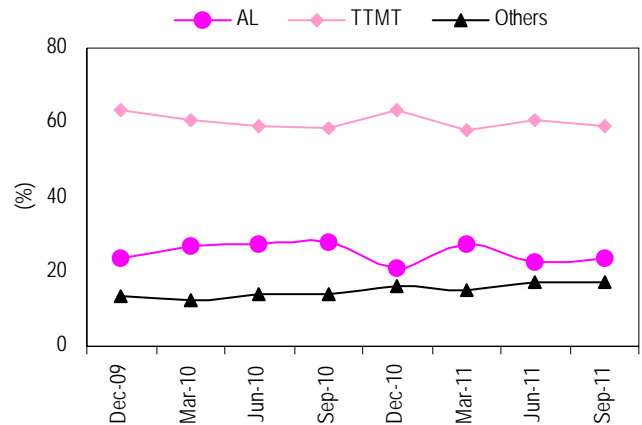
**Per Vehicle**

(Rs)	Sep-11	Sep-10	YoY (%)	Jun-11	QoQ (%)	H1FY12	H1FY11	YoY (%)
Realisations	1,309,705	1,103,682	18.7	1,294,551	1.2	1,302,896	1,100,612	18.4
Material cost	963,152	812,082	18.6	932,773	3.3	949,503	811,339	17.0
Staff cost	106,447	86,006	23.8	129,553	(17.8)	116,828	90,012	29.8
Other Expenses	99,952	81,048	23.3	110,236	(9.3)	104,572	81,488	28.3
<b>EBITDA</b>	<b>140,154</b>	<b>124,546</b>	<b>12.5</b>	<b>121,990</b>	<b>14.9</b>	<b>131,993</b>	<b>117,773</b>	<b>12.1</b>

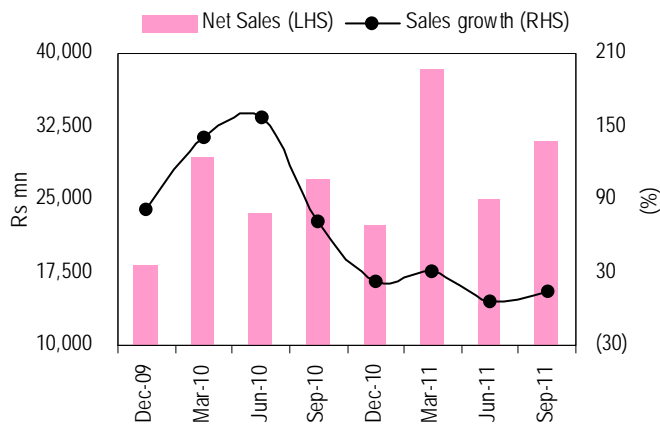
Sales Volumes Trend



Domestic MHCV Marketshare



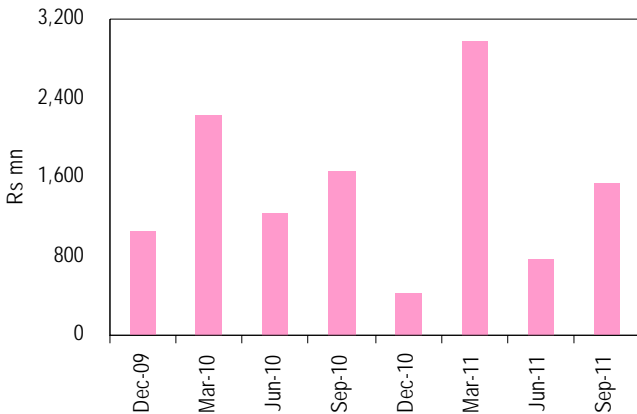
Revenue Trend



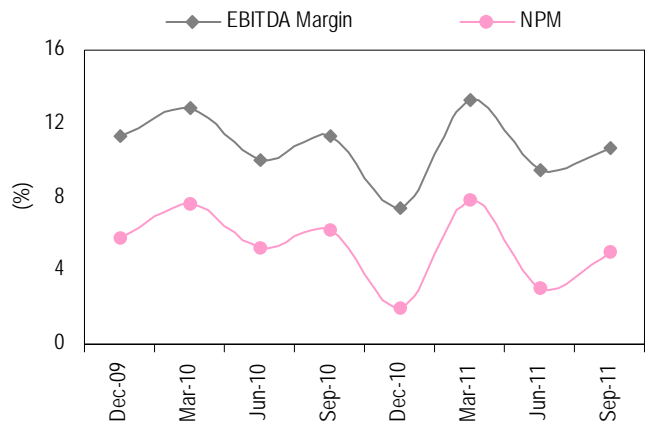
EBITDA Trend



Net Profits Trend



Profitability Trend

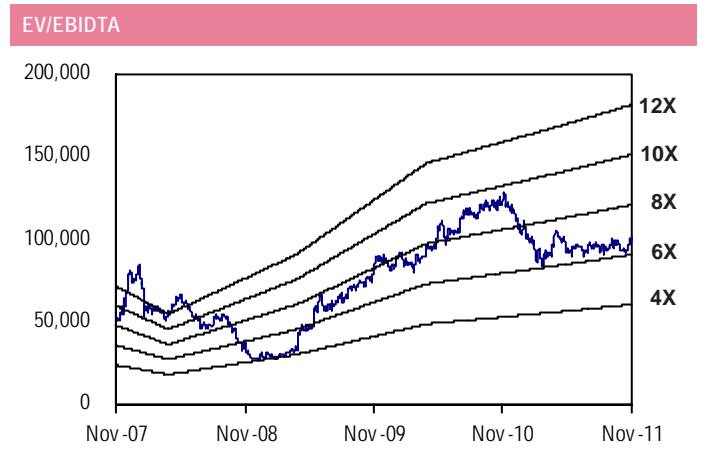
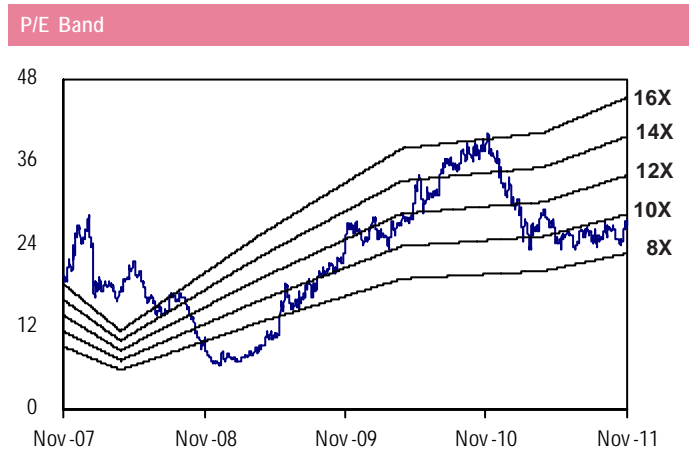


Income Statement	FY09	FY10	FY11	FY12E	FY13E
Net Sales	59,811	72,447	111,177	129,095	145,380
Growth (%)	(22.8)	21.1	53.5	16.1	12.6
Operating profit	4,559	7,596	12,176	13,992	15,913
Other operating income	-	-	-	-	-
EBITDA	4,559	7,596	12,176	13,992	15,913
Growth (%)	(43.5)	66.6	60.3	14.9	13.7
Depreciation	(1,784)	(2,041)	(2,674)	(3,408)	(3,788)
Other income	912	912	406	605	661
EBIT	3,688	6,466	9,907	11,189	12,786
Interest paid	(1,603)	(1,019)	(1,889)	(2,830)	(2,637)
PBT (before E/o items)	2,084	5,448	8,018	8,359	10,149
Tax provision	(185)	(1,211)	(1,705)	(1,672)	(2,030)
E/o Income / (loss)	-	-	-	-	-
Net profit	1,900	4,237	6,313	6,687	8,119
Adjusted net profit	1,900	4,237	6,313	6,687	8,119
Growth (%)	(59.5)	123.0	49.0	5.9	21.4
Diluted EPS (Rs)	0.7	1.6	2.4	2.5	3.1
Diluted EPS Growth (%)	(59.5)	123.0	49.0	5.9	21.4

Cash Flow Statement	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	2,084	5,448	8,018	8,359	10,149
Depreciation	1,373	2,149	2,890	3,525	3,905
Total tax paid	(76)	(14)	(1,112)	(1,422)	(1,780)
Chg in working capital	(7,080)	1,886	(635)	(1,214)	(787)
Other operating activities	-	-	-	-	-
Cash flow from oper. (a)	(3,698)	9,469	9,161	9,249	11,487
Capital expenditure	(24,799)	(6,285)	(4,698)	(7,020)	(5,450)
Chg in investments	(187)	(626)	(9,038)	(5,500)	(4,000)
Other investing activities	13,425	-	-	-	-
Cash flow from inv. (b)	(11,561)	(6,911)	(13,736)	(12,520)	(9,450)
Free cash flow (a+b)	(15,260)	2,558	(4,574)	(3,271)	2,037
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	10,706	3,223	3,778	5,951	1,556
Chg in Minorities int.	-	-	-	-	-
Dividend (incl. tax)	(2,337)	(1,556)	(2,327)	(3,092)	(3,502)
Other financing activities	(393)	84	(270)	(117)	(117)
Cash flow from fin. (c)	7,976	1,750	1,181	2,742	(2,063)
Net chg in cash (a+b+c)	(7,284)	4,308	(3,394)	(529)	(26)

Balance Sheet	FY09	FY10	FY11	FY12E	FY13E
Equity capital	1,330	1,330	1,330	2,661	2,661
Reserves & surplus	33,409	35,357	38,299	40,037	44,148
Shareholders' funds	34,642	36,636	39,586	42,655	46,766
Preference Share Capital	-	-	-	-	-
Total Debt	19,581	22,804	26,582	32,533	34,089
Capital Employed	54,224	59,440	66,168	75,188	80,855
Net fixed assets	43,974	48,110	49,918	53,413	54,958
Cash & Cash Eq.	881	5,189	1,795	1,266	1,240
Net other Current Assets	9,406	6,600	6,594	7,398	7,796
Investments	2,636	3,262	12,300	17,800	21,800
Net Deferred Tax Assets	(2,673)	(3,721)	(4,439)	(4,689)	(4,939)
Total assets	54,224	59,440	66,168	75,188	80,855

Key Ratios	FY09	FY10	FY11	FY12E	FY13E
EBITDA Margin(%)	7.6	10.5	11.0	10.8	10.9
Net margin (%)	3.2	5.8	5.7	5.2	5.6
Dividend yield (%)	1.8	2.7	3.6	4.1	4.5
Net deb/Equity (x)	0.9	0.8	0.9	1.1	1.0
Net Working Capital (days)	23	3	12	3	3
Asset turnover (x)	1.1	1.0	1.3	1.3	1.1
ROCE (%)	9.6	13.7	18.4	17.9	18.2
RoE (%)	13.3	19.0	25.2	23.7	18.2
EV/Net sales (x)	1.5	1.3	0.9	0.8	0.7
EV/EBITDA (x)	20.3	12.0	8.1	7.5	6.7
PER (x)	38.9	17.4	11.7	11.0	9.1
Price/Book (x)	3.5	3.2	2.8	2.5	2.2



## T E A M

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