

January 24, 2011

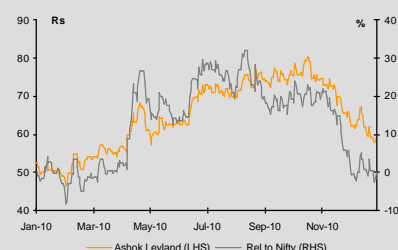
Reco	Previous Reco
Accumulate	Hold
CMP	Target Price
Rs 59	Rs 68
EPS change FY11E/12E (%)	-8.5/-11.2
Target Price change (%)	-10
Nifty	5,697
Sensex	19,008

Price Performance

(%)	1M	3M	6M	12M
Absolute	(10)	(23)	(19)	11
Rel. to Nifty	(5)	(17)	(22)	(1)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Automobiles
Bloomberg	AL@IN
Equity Capital (Rs mn)	1330
Face Value(Rs)	1
No of shares o/s (mn)	1330
52 Week H/L	82/46
Market Cap (Rs bn/USD mn)	79/1,730
Daily Avg Volume (No of sh)	5104824
Daily Avg Turnover (US\$m)	7.7

Shareholding Pattern (%)

	D'10	S'10	J'10
Promoters	38.6	38.6	38.6
FII/NRI	29.2	29.3	27.9
Institutions	16.4	17.7	19.3
Private Corp	5.7	4.6	4.5
Public	10.1	9.8	9.6

Source: Capitaline

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- **EBIDTA at Rs 1.9bn (est.-Rs 2.1bn) and PAT at Rs 694mn (est.-Rs 965mn) were below est. due to higher staff cost, other expenses, interest cost and depreciation**
- **EBIDTA margins for the quarter were at 8.6% vs est of 9.8% despite abv est. sales at Rs 22.3bn (est of 21.7bn) as sales mix was adverse (higher share of STU sales and FBS)**
- **Management reiterates FY11 vol. target of 95000 units. We retain our vol. est. of 92692 units (implied volumes for 4QFY11 at 28264 units, YoY growth of 9.5%)**
- **Reduce our FY11/FY12 EPS by 8.5%/11.2% to Rs 4.7/Rs 5.7. Upgrade rating to ACCUMULATE due to price correction. 4QFY11 volumes and margins will be the key to stock perf.**

Net Sales – marginally above estimate

Net sales at Rs 22.3bn was marginally above est. of Rs 21.7bn due to higher share of fully built solutions (FBS) and higher sales to STU. Average selling price (ASP) increased by 5.9% YoY/8.9% QoQ despite adverse product mix due to price hikes (3% general price hike and 3% for emission norms) and higher share of FBS. Avg. realization per vehicle stood at Rs 1,217,448 against est. of Rs 1,181,989.

Product mix %	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11
Units sold (Nos)	16,128	25,807	21,402	24,590	18,437
Passenger Carriers	35.8	24.3	24.1	26.6	36.6
Goods Carriers	64.2	75.7	75.9	73.4	63.4
Total	100.0	100.0	100.0	100.0	100.0
Goods Carriers (M&HCVs)					
upto 16 t	37.1	30.7	31.6	35.1	47.9
> 16 t	62.9	69.3	68.4	64.9	52.1
Total	100.0	100.0	100.0	100.0	100.0

Source: SIAM, Emkay Research

EBIDTA margins at 8.6% below est. of 9.8%

EBIDTA margins nose dive by 270 bps YoY to 8.6% due to sharp increase in staff cost and other expenses. Also adverse product mix also affected margins. Increase in other expenses is due to higher logistic costs and running expenses for Pantnagar facility.

Financial Snapshot

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
FY09	59,811	4,694	7.8	1,827	1.4	(60.0)	8.7	43.0	20.1	3.7
FY10	72,447	7,628	10.5	3,889	2.9	112.9	17.6	20.2	12.1	3.4
FY11E	106,965	11,493	10.7	6,293	4.7	61.8	25.3	12.5	7.7	3.0
FY12E	120,374	12,986	10.8	7,600	5.7	20.8	26.6	10.3	6.4	2.6

Source: Company, Emkay Research

Quarterly Summary

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Revenue	18,155	29,390	23,480	27,140	22,272	22.7	(17.9)	72,892	43,057	69.3
Expenditure	16,093	25,606	21,117	24,077	20,352	26.5	(15.5)	65,546	39,211	67.2
as % of sales	88.6	87.1	89.9	88.7	91.4			89.9	91.1	
Consumption of RM	12,960	21,509	17,346	19,969	16,294	25.7	(18.4)	53,609	30,666	74.8
as % of sales	71.4	73.2	73.9	73.6	73.2			73.5	71.2	
Employee Cost	1,736	1,807	2,025	2,115	2,179	25.5	3.0	6,319	4,851	30.3
as % of sales	9.6	6.1	8.6	7.8	9.8			8.7	11.3	
Other expenditure	1,397	2,290	1,746	1,993	1,879	34.5	(5.7)	5,618	3,694	52.1
as % of sales	7.7	7.8	7.4	7.3	8.4			7.7	8.6	
EBITDA	2,062	3,784	2,363	3,063	1,920	(6.9)	(37.3)	7,346	3,846	91.0
Depreciation	513	588	615	641	647	26.2	1.0	1,902	1,454	30.9
EBIT	1,550	3,196	1,748	2,422	1,273	(17.8)	(47.4)	5,444	2,392	127.6
Other Income	20	23	47	48	17	(14.3)	(65.2)	112	166	(32.6)
Interest	162	221	316	395	475	192.8	20.3	1,186	590	100.9
PBT	1,407	2,998	1,479	2,075	815	(42.1)	(60.7)	4,370	1,968	122.0
Total Tax	351	768	244	405	122	(65.3)	(70.0)	770	443	73.8
Adjusted PAT	1,056	2,231	1,235	1,671	694	(34.3)	(58.5)	3,600	1,525	136.1
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-			-	-	
Adj. PAT after MI	1,056	2,231	1,235	1,671	694	(34.3)	(58.5)	3,340	2,011	66.1
Extra ordinary items	(10)	(4)	-	-	(260)	2,568.3	#DIV/0!	(260)	486	(153.5)
Reported PAT	1,046	2,227	1,235	1,671	434	(58.6)	(74.0)	3,340	2,011	66.1
Reported EPS	0.8	1.7	0.9	1.3	0.3	(58.6)	(74.0)	2.5	1.5	66.1

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	11.4	12.9	10.1	11.3	8.6	(274)	(266)	10.1	8.9	115
EBIT	8.5	10.9	7.4	8.9	5.7	(282)	(321)	7.5	5.6	191
EBT	7.7	10.2	6.3	7.6	3.7	(409)	(399)	6.0	4.6	142
PAT	5.8	7.6	5.3	6.2	3.1	(270)	(304)	4.9	3.5	140
Effective Tax rate	24.9	25.6	16.5	19.5	14.9	(1,003)	(459)	17.6	22.5	(489)

Source: Company, Emkay Research

APAT – higher interest cost affects net profits

Net profits at Rs 434mn was significantly below est of Rs 965mn due to sharp jump in interest expenses and slightly higher depreciation charge. Interest cost stood at Rs 475mn (est of Rs 300mn) due to higher working capital requirements (inventory as well as receivables from STUs).

Valuations and View

We have lowered our FY11/FY12 EPS est. by 8.5%/11.2 to Rs 4.7/5.7 per share due to cost pressures. At Rs 59, the stock trades at 10.3x and EV/EBIDTA of 6.4x our FY12 estimates. We have lowered our TP to Rs 68 per share ((down 10%). However, post the stock price correction; upgrade the rating on the stock to ACCUMULATE.

Revision in Estimates

Rs mn	FY11E			FY12E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Volumes	92,692	92,692	-	101,929	101,929	-
Sales	108,335	106,965	(1.3)	121,910	120,374	(1.3)
EBIDTA	11,580	11,493	(0.8)	13,373	12,986	(2.9)
EBIDTA margins (%)	10.7	10.7		11.0	10.8	
Net Profits	6,877	6,293	(8.5)	8,558	7,600	(11.2)
EPS	5.2	4.7	(8.5)	6.4	5.7	(11.2)

Source: Emkay Research

Key Con Call Extracts

- Lost market share during the quarter due to production and logistic issues. Pantnagar produced ~3800 units in 3QFY11 and ~6000 units in 9MFY11. In the month of January, expect production level at Pantnagar is ~3000 units
- Product mix was adverse in the quarter as not only the share of low tonnage vehicles was higher also the sale of FBS and sales to STU was higher. Sales to STU was ~3600 units or 20% of total sale and ~30% of domestic sales
- Demand outlook remains strong as buyers of new vehicles are confident of utilization of vehicle for 70% of the time. In such a scenario, higher interest rate may not have any impact. Diesel price hike at the stage is a cause of concerns but expect similar hike in the freight rates..
- Maintain its guidance of ~95000 units for FY11. Most of the supply to southern STU is complete.
- Pricing action – Over all price hike in the range of 12% during the year. Raised prices by 1.5% to 2% in January 2011
- Price hike should take care of cost pressures in 4QFY11
- Inventory is around 9500 units. However, there is a sharp increase in receivable as Some STUs are yet to release the payment
- Capex and investment – FY11 and FY12 combine – Rs 20 bn. Amount spent in 9MFY11 is approximately Rs 7bn
- Gross Debt at Rs 36bn, including cash credit. Long term debt at Rs 26 bn. Aim is to reduce the debt to Rs 25bn by end of the year through lower working capital.

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	59,811	72,447	106,965	120,374
<i>Growth (%)</i>	(2.2)	21.1	47.6	12.5
Expenditure	55,116	64,819	95,472	107,388
Materials Consumed	44,524	52,193	78,135	88,205
Employee Cost	5,663	6,716	8,543	9,506
Other Exp	4,929	5,909	8,795	9,676
EBITDA	4,694	7,628	11,493	12,986
<i>Growth (%)</i>	(42.8)	62.5	50.7	13.0
EBITDA margin (%)	7.8	10.5	10.7	10.8
Depreciation	1,784	2,041	2,537	2,681
EBIT	2,910	5,587	8,956	10,305
EBIT margin (%)	4.9	7.7	8.4	8.6
Other Income	281	209	176	452
Interest expenses	1,187	811	1,458	1,488
PBT	2,004	4,985	7,674	9,269
Tax	177	1,097	1,381	1,668
<i>Effective tax rate (%)</i>	8.9	22.0	18.0	18.0
Adjusted PAT	1,827	3,889	6,293	7,600
<i>Growth (%)</i>	(60.0)	112.9	61.8	20.8
Net Margin (%)	3.1	5.4	5.9	6.3
(Profit)/loss from JV's/Ass/MI	-	-	-	-
Adj. PAT after MI	1,827	3,889	6,293	7,600
E/O items	73	348	-	-
Reported PAT	1,900	4,237	6,293	7,600
<i>Growth (%)</i>	(59.5)	123.0	48.5	20.8

Cash Flow Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	1,723	4,776	7,498	8,817
Depreciation	1,784	2,041	2,537	2,681
Interest Provided	1,187	811	1,458	1,488
Other Non-Cash items	(1,886)	1,564	-	-
Chg in working cap	(7,887)	2,806	(167)	1,163
Tax paid	(177)	(1,097)	(1,381)	(1,668)
Operating Cashflow	(5,256)	10,902	9,944	12,480
Capital expenditure	(11,007)	(6,429)	(1,885)	(3,000)
Free Cash Flow	(16,263)	4,473	8,059	9,480
Other income	281	209	176	452
Investments	4,084	(1,612)	(5,500)	(5,000)
Investing Cashflow	4,365	(1,403)	(5,324)	(4,548)
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	10,706	2,457	(2,667)	400
Interest Paid	(1,187)	(811)	(1,458)	(1,488)
Dividend paid (incl tax)	(1,556)	(2,327)	(2,935)	(3,545)
Income from investments				
Others	(3,371)	1,914		
Financing Cashflow	4,592	1,233	(7,060)	(4,633)
Net chg in cash	(7,306)	4,303	(4,324)	299
Opening cash position*	8,157	851	5,189	865
Closing cash position*	851	5,155	865	1,164

* represents cash and cash equivalents for FY09 and FY10

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	1,330	1,330	1,330	1,330
Reserves & surplus	33,447	35,233	38,590	42,646
Net worth	34,777	36,563	39,921	43,976
Minority Interest				
Secured Loans	3,044	7,116	5,549	4,149
Unsecured Loans	16,537	14,923	13,823	15,623
Loan Funds	19,581	22,039	19,372	19,772
Net deferred tax liability	2,634	4,611	4,611	4,611
Total Liabilities	56,993	63,213	63,904	68,359
Gross Block	49,389	60,186	66,186	69,186
Less: Depreciation	15,398	17,691	20,228	22,909
Net block	33,991	42,496	45,959	46,278
Capital work in progress	9,983	5,615	1,500	1,500
Investment	2,636	3,262	8,761	13,761
Current Assets	31,656	41,397	39,137	42,208
Inventories	13,300	16,382	15,927	17,923
Sundry debtors	9,580	10,221	9,556	10,037
Cash & bank balance	881	5,189	865	1,164
Loans & advances	7,895	9,605	12,789	13,084
Other current assets	-	-	-	-
Current lia & Prov	21,369	29,608	31,505	35,440
Current liabilities	18,689	25,921	26,157	29,421
Provisions	2,680	3,687	5,348	6,019
Net current assets	10,287	11,789	7,632	6,768
Misc. exp	97	51.7	51.7	51.7
Total Assets	56,994	63,213	63,904	68,359

Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	7.8	10.5	10.7	10.8
Net Margin	3.1	5.4	5.9	6.3
ROCE	8.4	12.5	18.2	20.4
ROE	8.7	17.6	25.3	26.6
RoIC	12.6	17.1	23.8	26.4
Per Share Data (Rs)				
EPS	1.4	2.9	4.7	5.7
CEPS	2.7	4.5	6.6	7.7
BVPS	15.8	17.4	19.9	23.0
DPS	1.0	1.5	1.9	2.3
Valuations (x)				
PER	43.0	20.2	12.5	10.3
P/CEPS	21.7	13.2	8.9	7.6
P/BV	3.7	3.4	3.0	2.6
EV / Sales	1.6	1.3	0.8	0.7
EV / EBITDA	20.1	12.1	7.7	6.4
Dividend Yield (%)	1.7	2.5	3.2	3.9
Gearing Ratio (x)				
Net Debt/ Equity	0.5	0.4	0.4	0.4
Net Debt/EBIDTA	3.7	2.1	1.5	1.3
Working Cap Cycle (days)	25.6	3.4	(2.3)	(4.4)

*calculated ex revaluation reserve

Recommendation History: Ashok Leyland Ltd. – AL IN

Date	Reports	Reco	CMP	Target
25/10/2010	Ashok Leyland Q2FY11 Result Update	Hold	75	76
15/09/2010	Ashok Leyland Analyst Meet Update	Hold	77	76
28/07/2010	Ashok Leyland Q1FY11 Result Update	Hold	73	71
30/04/2010	Ashok Leyland 4QFY10 Result Update	Hold	55	60

Recent Research Reports

Date	Reports	Reco	CMP	Target
20/01/2011	Bajaj Auto Q3FY11 Result Update	Buy	1,297	1,650
21/01/2011	TVS Motor Q3FY11 Result Update	Accumulate	62	72
12/01/2011	Mahindra & Mahindra Management Meet Update	Buy	736	880
16/12/2010	Hero Honda Event Update	Hold	1,679	1,720

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