

November 04, 2011

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Rating	Accumulate
Price	Rs27
Target Price	Rs30
Implied Upside	11.1%
Sensex	17,482

(Prices as on November 3, 2011)
Trading data

Market Cap. (Rs bn)	72.2
Shares o/s (m)	2,660.6
3M Avg. Daily value (Rs m)	184.5

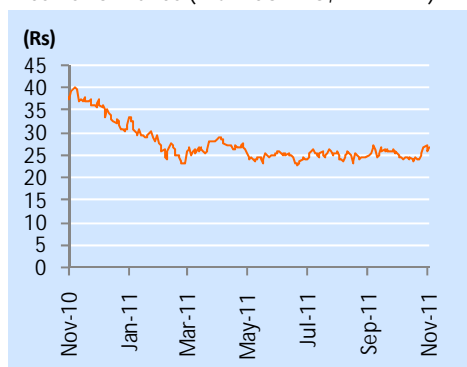
Major shareholders

Promoters	38.61%
Foreign	16.18%
Domestic Inst.	15.40%
Public & Other	29.81%

Stock Performance

(%)	1M	6M	12M
Absolute	6.9	10.0	(27.9)
Relative	(1.3)	15.7	(13.3)

Price Performance (RIC: ASOK.BO, BB: AL IN)



Source: Bloomberg

■ **Good performance despite tough environment:** Ashok Leyland (AL) reported growth of 14.0% YoY in its top-line at Rs30.9bn (PLe: Rs30.2bn). Volume for the quarter declined by 3.9% YoY, whereas average realisation grew by 18.7% YoY. Average realisation/vehicle was higher than our expectation on account of higher sales to the defence sector (Revenue of Rs1bn v/s Rs200m) and price hikes taken in previous quarters. Material cost/vehicle increased by 18.6% as against 18.7% improvement in average realization/vehicle. However, on account of 18.9% YoY increase in employee cost and 18.6% YoY growth in other expenditure, EBITDA for the quarter grew by only 8.1% YoY to Rs3.3bn (PLe: Rs3.0bn). On a QoQ basis, EBITDA improved by 90bps due to sequential decline of 50bps in other expenses. Interest expenses grew by 58.9% YoY on account of borrowing for higher working capital requirement. As a result, PAT for the quarter declined by 7.8% YoY to Rs1.54bn (PLe: Rs1.37m).

■ **Loan funds increase substantially:** There was an increase of Rs7.7bn in the loan funds as of September 2011, taking the total loans to Rs33bn. Out of this, around Rs6bn loan has been on account of working capital requirement.

■ **Our volumes estimates:** We maintain our volume estimate of 93K units for FY12E, lower than the management guidance of 1.0lac. We have assumed volumes of 8k units and 18k units of the new LCV 'Dost' in FY12E and FY13E, respectively. As a result, we expect 18.0% YoY growth in FY13E volumes.

■ **Outlook & Valuation:** Our ground level interaction with truckers suggests that in some pockets, fleet operators are postponing their purchase decision which could lead to muted growth in M&HCV segment in FY12E. In our view, the operating performance is likely to improve on account of higher sales from the tax-free Uttarakhand plant (~33% of overall domestic sales). Maintain '**Accumulate**' on account of fair valuations of 9.9x FY13E EPS.

Key financials (Y/e March)	2010	2011	2012E	2013E
Revenues (Rs m)	72,448	111,177	121,020	143,334
Growth (%)	21.1	53.5	8.9	18.4
EBITDA (Rs m)	7,629	12,178	12,819	15,424
PAT (Rs m)	4,270	6,314	5,793	7,303
EPS (Rs)	1.6	2.4	2.2	2.7
Growth (%)	25.7	47.9	(8.2)	26.1
Net DPS (Rs)	0.8	1.0	1.0	1.2

Source: Company Data; PL Research

Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	10.5	11.0	10.6	10.8
RoE (%)	12.0	16.5	14.1	16.6
RoCE (%)	8.5	11.9	10.7	12.3
EV / sales (x)	1.2	0.9	0.8	0.7
EV / EBITDA (x)	11.7	7.9	8.0	6.5
PE (x)	16.9	11.4	12.5	9.9
P / BV (x)	2.0	1.8	1.7	1.6
Net dividend yield (%)	2.8	3.7	3.7	4.4

Source: Company Data; PL Research

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**Exhibit 1: Q2FY12 Result Overview (Rs m)**

Y/e March	Q2FY12	Q2FY11	YoY gr. (%)	Q1FY12	H1FY12	H1FY11	YoY gr. (%)
Net Sales	30,946	27,140	14.0	24,955	55,901	50,619	10.4
Raw Materials	22,757	19,968	14.0	17,981	40,738	37,314	9.2
<i>% of Net Sales</i>	<i>73.5</i>	<i>73.6</i>		<i>72.1</i>	<i>72.9</i>	<i>73.7</i>	
Personnel	2,515	2,115	18.9	2,497	5,013	4,140	21.1
<i>% of Net Sales</i>	<i>8.1</i>	<i>7.8</i>		<i>10.0</i>	<i>9.0</i>	<i>8.2</i>	
Mfgr & Other Exp.	2,362	1,992	18.6	2,030	4,392	3,747	17.2
<i>% of Net Sales</i>	<i>7.6</i>	<i>7.3</i>		<i>8.1</i>	<i>7.9</i>	<i>7.4</i>	
Total Expenditure	27,634	24,075	14.8	22,509	50,143	45,200	10.9
EBITDA	3,311.5	3,064.7	8.1	2,446.2	5,757.8	5,419	6.3
<i>EBITDA Margin (%)</i>	<i>10.7</i>	<i>11.3</i>		<i>9.8</i>	<i>10.3</i>	<i>10.7</i>	
Depreciation	859	641	34.1	847	1,706	1,255	35.9
EBIT	2,452	2,424	1.2	1,600	4,052	4,163	(2.7)
Net Interest	627	395	58.9	533	1,160	711	63.3
Non-operating income	103	46	123.9	41	144	93	55.1
PBT	1,928	2,076	(7.1)	1,107	3,036	3,546	(14.4)
Tax Total	388	404	(4.1)	245	633	648	(2.4)
<i>Tax Rate (%)</i>	<i>22.0</i>	<i>19.0</i>		<i>22.1</i>	<i>20.8</i>	<i>18.3</i>	
Profit after tax	1,541	1,671	(7.8)	863	2,403	2,898	(17.1)

Source: Company Data, PL Research

Exhibit 2: Operating Metrics

Y/e March	Q2FY12	Q2FY11	YoY gr. (%)	Q1FY12	H1FY12	H1FY11	YoY gr. (%)
CV Sales (no.)	23,628	24,589	(3.9)	19,277	42,905	45,991	(6.7)
Net Realisation/vehicle	1,309,705	1,103,725	18.7	1,294,551	1,302,896	1,100,633	18.4
Material cost / vehicle	963,152	812,066	18.6	932,773	949,503	811,330	17.0
Contribution / vehicle	346,553	291,659	18.8	361,778	353,393	289,303	22.2
Other expenses / vehicle	99,952	81,012	23.4	105,328	102,367	81,469	25.7
EBITDA/vehicle	140,153	124,638	12.4	126,898	134,198	117,822	13.9
Net Profit/vehicle	65,209	67,977	(4.1)	44,745	56,015	63,004	(11.1)

Source: Company Data, PL Research


Income Statement (Rs m)

Y/e March	2010	2011	2012E	2013E
Net Revenue	72,448	111,177	121,020	143,334
Raw Material Expenses	52,176	81,210	87,678	104,800
Gross Profit	20,272	29,967	33,342	38,534
Employee Cost	6,659	9,597	10,653	11,718
Other Expenses	5,984	8,192	9,870	11,392
EBITDA	7,629	12,178	12,819	15,424
Depr. & Amortization	2,042	2,674	3,125	3,500
Net Interest	811	1,636	2,457	2,850
Other Income	671	151	190	170
Profit before Tax	5,448	8,019	7,427	9,244
Total Tax	1,211	1,705	1,634	1,941
Profit after Tax	4,237	6,314	5,793	7,303
Ex-Od items / Min. Int.	(33)	—	—	—
Adj. PAT	4,270	6,314	5,793	7,303
Avg. Shares O/S (m)	2660.7	2660.7	2660.7	2,660.7
EPS (Rs.)	1.6	2.4	2.2	2.7

Cash Flow Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
C/F from Operations	10,745	9,695	6,040	12,041
C/F from Investing	(6,567)	(13,620)	(10,093)	(6,982)
C/F from Financing	131	531	3,984	(4,891)
Inc. / Dec. in Cash	4,309	(3,394)	(69)	168
Opening Cash	881	5,189	1,795	1,727
Closing Cash	5,189	1,795	1,727	1,895
FCFF	(1,536)	3,494	345	7,041
FCFE	922	7,137	6,112	6,041

Key Financial Metrics

Y/e March	2010	2011	2012E	2013E
Growth				
Revenue (%)	21.1	53.5	8.9	18.4
EBITDA (%)	62.5	59.6	5.3	20.3
PAT (%)	151.3	47.9	(8.2)	26.1
EPS (%)	25.7	47.9	(8.2)	26.1
Profitability				
EBITDA Margin (%)	10.5	11.0	10.6	10.8
PAT Margin (%)	5.9	5.7	4.8	5.1
RoCE (%)	8.5	11.9	10.7	12.3
RoE (%)	12.0	16.5	14.1	16.6
Balance Sheet				
Net Debt : Equity	0.5	0.6	0.7	0.6
Net Wrkng Cap. (days)	3	17	18	17
Valuation				
PER (x)	16.9	11.4	12.5	9.9
P / B (x)	2.0	1.8	1.7	1.6
EV / EBITDA (x)	11.7	7.9	8.0	6.5
EV / Sales (x)	1.2	0.9	0.8	0.7
Earnings Quality				
Eff. Tax Rate	22.2	21.3	22.0	21.0
Other Inc / PBT	12.8	1.9	2.6	1.8
Eff. Depr. Rate (%)	3.4	4.1	4.4	4.6
FCFE / PAT	21.6	113.0	105.5	82.7

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	36,687	39,629	42,310	45,722
Total Debt	22,039	25,683	31,450	30,450
Other Liabilities	4,486	5,338	6,291	6,325
Total Liabilities	63,212	70,650	80,051	82,497
Net Fixed Assets	48,110	49,918	52,792	53,292
Goodwill	—	—	—	—
Investments	3,262	12,300	16,300	18,300
Net Current Assets	11,789	8,390	10,895	10,825
<i>Cash & Equivalents</i>	<i>5,189</i>	<i>1,795</i>	<i>1,727</i>	<i>1,895</i>
<i>Other Current Assets</i>	<i>36,208</i>	<i>41,877</i>	<i>46,801</i>	<i>53,589</i>
<i>Current Liabilities</i>	<i>29,608</i>	<i>35,283</i>	<i>37,633</i>	<i>44,659</i>
Other Assets	52	43	64	80
Total Assets	63,213	70,650	80,051	82,497

Quarterly Financials (Rs m)

Y/e March	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Net Revenue	22,273	38,285	24,955	30,946
EBITDA	1,660	5,099	2,446	3,312
<i>% of revenue</i>	<i>7.5</i>	<i>13.3</i>	<i>9.8</i>	<i>10.7</i>
Depr. & Amortization	647	772	847	859
Net Interest	475	451	533	627
Other Income	17	41	41	103
Profit before Tax	555	3,917	1,107	1,928
Total Tax	122	935	245	388
Profit after Tax	434	2,982	863	1,541
Adj. PAT	434	2,982	863	1,541

Key Operating Metrics

Y/e March	2010	2011	2012E	2013E
M&HCV Goods (nos.)	44,320	68,009	61,822	67,017
M&HCV Passenger	18,485	25,226	23,904	25,651
Total Vol (nos.)	63,926	94,105	93,726	110,668
Net Real./Unt. (Rs)	1,133,314	1,181,415	1,291,212	1,295,167
RM Cost/Unt. (Rs)	816,194	862,975	935,475	946,975
Other Exp./Unt. (Rs)	93,608	87,052	105,306	102,936
EBITDA/Unt.	119,345	129,407	136,774	139,373
Net Profit/Unit. (Rs)	66,791	67,095	61,812	65,990

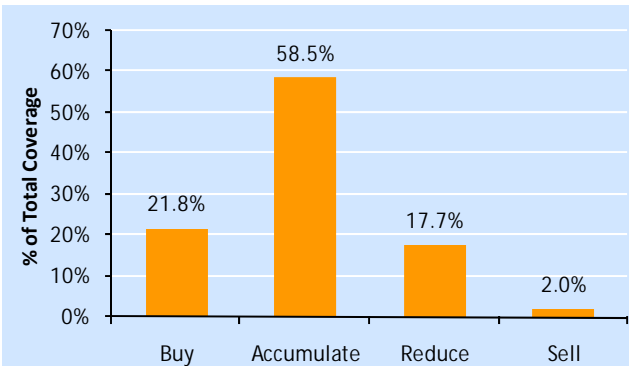
Source: Company Data, PL Research.

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Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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