

November 4, 2011

Reco	Previous Reco
Hold	Accumulate
CMP	Target Price
Rs 28	Rs 30
EPS change FY12E/13E (%)	3.6/4.2
Target Price change (%)	3.4
Nifty	5,284
Sensex	17,563

Price Performance

(%)	1M	3M	6M	12M
Absolute	12	13	11	(29)
Rel. to Nifty	1	14	17	(16)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Automobiles
Bloomberg	AL@IN
Equity Capital (Rs mn)	2661
Face Value(Rs)	1
No of shares o/s (mn)	2661
52 Week H/L	41/23
Market Cap (Rs bn/USD mn)	74/1,503
Daily Avg Volume (No of sh)	6317267
Daily Avg Turnover (US\$mn)	3.3

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	38.6	38.6	38.6
FII/NRI	30.6	27.9	27.5
Institutions	15.3	16.5	16.8
Private Corp	4.7	5.9	6.8
Public	10.8	11.1	10.3

Source: Capitaline

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- **Results above est. with EBITDA at Rs 3.3bn (est.-Rs 3bn), PAT at Rs 1.5bn (est-Rs1.3bn). Regional disparity in demand and production constraint continues to affect AL**
- **Oct 2011 volumes affected by civil unrest at Pantnagar and component shortage. Volume uptick in Nov/Dec 2011 key for stock performance**
- **Lower FY12E/13E vol. by 2.5%. Raise EPS by 4% to Rs2.4 /Rs3 due to price hikes/lower discounts/lower RM cost. Raise TP by 3% to Rs 30. However, lower rating to HOLD**
- **Upside risks exists from (1) implementation of overloading ban in UP/MP/Bihar/Karnataka (2) LCV business (~3% to ~7% EPS upgrade)**

Net Sales – In line with our est.

Net sales at Rs 30.9bn was inline with our est. of Rs 30.6bn. Average selling price (ASP) increased by 18.7% YoY/1.2% QoQ to Rs 1.3mn. Sales to Vehicle factory Jabalpur (VFJ) was ~ Rs1bn in the quarter vs Rs 200mn last year.

Product mix %	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Units sold (Nos)	24,590	18,437	29,679	19,277	23,628
Passenger Carriers	26.6	36.6	23.7	27.9	27.1
Goods Carriers	73.4	63.4	76.3	72.1	72.9
Total	100.0	100.0	100.0	100.0	100.0
Goods Carriers (M&HCVs)					
upto 16 t	35.1	47.9	54.3	41.6	41.2
> 16 t	64.9	52.1	45.7	58.4	58.8
Total	100.0	100.0	100.0	100.0	100.0

Source: SIAM, Emkay research

EBITDA: ~10% above est.

EBITDA at Rs 3.3bn (margins at ~10.7%) was higher than our est. of Rs 3bn. This was largely driven by lower other expense. RM/sales was up by 140 bps QoQ (flat YoY) to 73.5%. Key positive was drawdown in inventory to the extent of ~5.5% of sales. Production at Pantnagar was ~6800 units vs ~1700 units in Q2FY11. Other expenses at Rs 2.4bn was impacted by a one time advertisement expense of Rs 50-60mn and annual maintenance charges of Rs 80 mn. Staff costs at Rs 2.5bn was in line with our est.

Financial Snapshot

YE-	Net	EBITDA	EPS	EPS	RoE	EV/				
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	72,447	7,628	10.5	3,889	1.5	112.9	17.6	18.5	11.2	3.1
FY11	111,177	12,436	11.2	6,573	2.5	69.0	26.4	10.9	6.7	2.7
FY12E	125,427	13,492	10.8	6,274	2.4	(4.5)	22.3	11.4	5.9	2.4
FY13E	142,747	15,415	10.8	7,862	3.0	25.3	24.7	9.1	4.9	2.1

Source: Company, Emkay Research

Quarterly Summary

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Revenue	27,140	22,272	38,285	24,955	30,946	14.0	24.0	55,901	50,619	10.4
Expenditure	24,077	20,352	33,187	22,603	27,634	14.8	22.3	50,238	45,194	11.2
as % of sales	88.7	91.4	86.7	90.6	89.3			89.9	89.3	
Consumption of RM	19,969	16,294	27,603	17,981	22,757	14.0	26.6	40,738	37,315	9.2
as % of sales	73.6	73.2	72.1	72.1	73.5			72.9	73.7	
Employee Cost	2,115	2,179	3,018	2,497	2,515	18.9	0.7	5,013	4,140	21.1
as % of sales	7.8	9.8	7.9	10.0	8.1			9.0	8.2	
Other expenditure	1,993	1,879	2,566	2,125	2,362	18.5	11.1	4,487	3,739	20.0
as % of sales	7.3	8.4	6.7	8.5	7.6			8.0	7.4	
EBITDA	3,063	1,920	5,099	2,352	3,312	8.1	40.8	5,663	5,426	4.4
Depreciation	641	647	772	847	859	34.1	1.5	1,706	1,255	35.9
EBIT	2,422	1,273	4,327	1,505	2,452	1.2	62.9	3,957	4,170	(5.1)
Other Income	48	17	41	41	103	114.5	150.8	144	95	51.5
Interest	395	475	451	533	627	58.8	17.5	1,160	711	63.2
PBT	2,075	815	3,917	1,013	1,929	(7.1)	90.4	2,941	3,555	(17.3)
Total Tax	405	122	935	245	388	(4.2)	58.4	633	649	(2.5)
Adjusted PAT	1,671	694	2,982	768	1,541	(7.8)	100.6	2,309	2,906	(20.6)
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-			-	-	
Adj. PAT after MI	1,671	694	2,982	768	1,541	(7.8)	100.6	2,309	2,906	(20.6)
Extra ordinary items	-	(260)	-	95	-			95	-	
Reported PAT	1,671	434	2,982	863	1,541	(7.8)	78.6	2,403	2,906	(17.3)
Reported EPS	0.6	0.2	1.1	0.3	0.6	(7.8)	78.6	0.9	1.1	(17.3)

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	11.3	8.6	13.3	9.4	10.7	(58)	128	10.1	10.7	(59)	
EBIT	8.9	5.7	11.3	6.0	7.9	(100)	189	7.1	8.2	(116)	
EBT	7.6	3.7	10.2	4.1	6.2	(141)	217	5.3	7.0	(176)	
PAT	6.2	3.1	7.8	3.1	5.0	(118)	190	4.1	5.7	(161)	
Effective Tax rate	19.5	14.9	23.9	24.2	20.1	60	(407)	21.5	18.2	326	

Per Vehicle (Rs)						YoY (%)	QoQ (%)				YoY (%)
Revenue	1,103,682	1,208,030	1,289,980	1,294,551	1,309,705	18.7	1.2	1,302,896	1,100,612	18.4	
Raw Material	812,082	883,748	930,051	932,773	963,152	18.6	3.3	949,503	811,339	17.0	
Staff Cost	86,006	118,199	101,691	129,553	106,447	23.8	(17.8)	116,828	90,012	29.8	
Other Expense	81,048	101,931	86,443	110,236	99,952	23.3	(9.3)	104,572	81,292	28.6	
EBITDA	124,546	104,153	171,795	121,990	140,154	12.5	14.9	131,993	117,968	11.9	
PAT	67,938	37,624	100,485	39,836	65,212	(4.0)	63.7	53,811	63,183	(14.8)	

APAT – Rs 1.5bn vs our est. of Rs 1.3bn

Adjusted net profit at Rs 1.5bn was above our est. of Rs 1.3bn due to better operating performance. Depreciation expense at Rs 859mn was in line with our est. Interest expense of Rs 627mn (our est. Rs 530 mn) was partly due to higher utilization level of working capital borrowing (~ Rs 6bn). Earnings also benefited from higher other income of Rs 103mn (est. Rs 40mn) and lower tax rates of ~20.1% (est. 22.1%).

Revision in Estimates

We revise our EPS estimates by 3.6%/4.2% in FY12/13 largely driven by better operating performance. We lower our volume est. by 2.5% in FY12/13 given weak volumes in 1HFY12 and October 2011 (due to civil unrest at Pantnagar). Our topline is higher by 2.8%/2.9% as we factor in pricing action and higher defense/spare parts/engine sales. Given the sustained high working capital requirements, we factor in higher interest expense of Rs 2.3bn/1.9bn (vs Rs 2bn/1.8bn) in FY12/13. However, management reiterated its objective of bringing the working capital down by ~ Rs 4.5bn

Rs mn	FY12E			FY13E		
	Earlier	Revised	%Change	Earlier	Revised	%Change
Volumes	99,636	97,026	(2.5)	110,646	107,865	(2.5)
Sales	122,040	125,427	2.8	138,777	142,747	2.9
EBIDTA	12,965	13,492	4.1	14,868	15,415	3.7
EBIDTA margins (%)	10.6	10.8		10.7	10.8	
Net Profits	6,058	6,274	3.6	7,544	7,862	4.2
EPS	2.3	2.4	3.6	2.8	3.0	4.2

Valuations and View

Based on our revised estimates, the stock trades at 11.4x/9.1x PER and 5.9x/4.9x EV/EBIDTA on our FY12/13 estimates. We raise our TP to Rs 30 per share, valuing the company at 12.7x/10x PER and 6.4x/5.4x EV-EBIDTA of our FY12/FY13 estimates. Uncertainty with respect to demand for AL (due to regional disparity) continues to be a concern on the volume front. However, price hikes and lower RM cost can provide cushion against the drop in earnings due to lower volumes. Also, there exist upside risk to our FY13 estimates to the extent of 3% to 7% based on the ramp up in the LCV business. We have not yet factored in the same due to lack of clarity on accounting of the same.

Key Con Call Extracts

- Management expects industry growth to moderate to ~5-6% in FY12. Higher interest rates, rising fuel prices and sluggish freight rates in South/East are likely to impact sentiments negatively.
- Higher tonnage tipper segment is witnessing strong demand with ~50% YoY growth in H1FY12 largely driven by construction activities. Region wise sales increased by ~112% in west, 42% in South, ~15% in North and decline in East.
- AL volumes in H1FY11 were affected by ~20% decline in industry growth in South due to elections and Telangana issue. AL's strength in Tipper segment was also affected due to supply constraints of fully built vehicles.
- Management expects AL to maintain ~25% market share in FY12 driven by penetration in northern and eastern markets. To achieve this AL is increasing dealerships/service stations, increasing production of fully built vehicles (FBV), necessary price corrections (for select products). It aims to do ~ 3500 units of FBV vs current run rate of ~2000 to 2500 units per month
- Implementation of ban on overloading has been gaining momentum in Uttar Pradesh, Madhya Pradesh, Bihar and now also Karnataka. However, effectiveness of the same is to be tested
- AL has started dispatches of its LCV 'Dost' under Nissan JV with volumes of ~210 units in October. ~96 units (within TN) were sold by JV and ~94 units were invoiced under AL (outside TN) mainly to avail VAT benefits. AL targets volumes of ~12,000 units in H2FY12 with an upward bias. It has set a target of ~55,000 units in FY13
- Pricing action – ~1% increase was taken in the domestic market during November.
- Raw Material – International prices of metals like Aluminum, Copper are witnessing marginal reduction which is partly offset by unfavorable exchange rate. Management expects benefits from H2FY12 and maintains EBITDA margins of ~10.5% for FY12.
- Engine business: sales were at 3,373 units vs 3,430 units in Q2FY11. Significant improvement is seen in manufactured engine sales with volumes at 5,000 units in H1FY12. Management targets 9,000 units of manufactured engine sales in H2FY12.
- Defense sales: Expects to supply the balance of 1,200 – 1,500 kits in H2FY12
- Spare parts sales were at Rs 3.7bn in H1 and management targets Rs 4bn in H2FY12
- JVs: John Deere is expected to launch its first product (Backhoe loader) in November followed by wheel loader in FY13. Management targets volumes of ~8,000 – 9,000 units during stable operations.
- Continental JV has started supplying dashboard electronic equipment to be fitted in U-Truck platform. Expected turnover is ~Rs 200mn with gradual ramp up in coming years.
- Management expects major JVs to turn EBITDA positive in the next 2-3 years.
- U-Truck has been launched in tractor-trailer and tipper segments only with volumes of ~2,000 units in H1FY12. Management expects volumes of ~6,000 in H2FY12.
- Management targets to bring down production inventory by another Rs 2bn (currently at Rs 8bn).
- October volumes at ~5,000 units was affected by production loss of ~20 days in Pantanagar and shortage of fuel injection pumps from Bosch due to strike.
- Balance Sheet: Loans & Advances are up by Rs 3.1 bn largely due to VAT accumulation of Rs 460mn and excise of Rs 550mn. Also, capital advances are up by Rs 500mn. Management targets to bring this down by Rs 1bn going ahead.
- Maintain exports target of 13,000 vehicles for FY12 and targets ~15% of total volumes as exports. Increased penetration in new markets of Latin America and Africa

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	72,447	111,177	125,427	142,747
Growth (%)	21.1	53.5	12.8	13.8
Expenditure	64,819	98,742	111,935	127,333
Materials Consumed	52,193	81,235	91,281	103,964
Employee Cost	6,716	9,486	11,012	12,488
Other Exp	5,909	8,021	9,642	10,880
EBITDA	7,628	12,436	13,492	15,415
Growth (%)	62.5	63.0	8.5	14.3
EBITDA margin (%)	10.5	11.2	10.8	10.8
Depreciation	2,041	2,674	3,411	3,591
EBIT	5,587	9,761	10,081	11,823
EBIT margin (%)	7.7	8.8	8.0	8.3
Other Income	209	153	277	364
Interest expenses	811	1,637	2,287	1,977
PBT	4,985	8,278	8,071	10,210
Tax	1,097	1,705	1,796	2,348
Effective tax rate (%)	22.0	20.6	22.3	23.0
Adjusted PAT	3,889	6,573	6,274	7,862
Growth (%)	112.9	69.0	(4.5)	25.3
Net Margin (%)	5.4	5.9	5.0	5.5
(Profit)/loss from JV's/Ass/MI	-	-	-	-
Adj. PAT after MI	3,889	6,573	6,274	7,862
E/O items	348	(260)	95	-
Reported PAT	4,237	6,313	6,369	7,862
Growth (%)	123.0	49.0	0.9	23.4

Cash Flow Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	4,776	8,125	7,794	9,847
Depreciation	2,041	2,674	3,411	3,591
Interest Provided	811	1,637	2,287	1,977
Other Non-Cash items	1,564	(4,822)	-	-
Chg in working cap	2,806	6	765	(821)
Tax paid	(1,097)	(1,705)	(1,796)	(2,348)
Operating Cashflow	10,902	5,914	12,461	12,245
Capital expenditure	(6,429)	(4,697)	(3,000)	(3,000)
Free Cash Flow	4,473	1,216	9,461	9,245
Other income	209	153	277	364
Investments	(1,612)	(4,633)	(5,500)	(1,400)
Investing Cashflow	(1,403)	(4,480)	(5,223)	(1,036)
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	2,457	3,644	900	(1,600)
Interest Paid	(811)	(1,637)	(2,287)	(1,977)
Dividend paid (incl tax)	(2,327)	(3,092)	(3,120)	(3,851)
Income from investments				
Others	1,914	949		
Financing Cashflow	1,233	(136)	(4,506)	(7,428)
Net chg in cash	4,303	(3,400)	(269)	781
Opening cash position*	851	5,189	1,795	1,621
Closing cash position*	5,155	1,789	1,527	2,402

* represents cash and cash equivalents for FY09 and FY10

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	1,330	1,330	1,330	1,330
Reserves & surplus	35,233	38,299	41,549	45,559
Net worth	36,563	39,630	42,879	46,890
Minority Interest				
Secured Loans	7,116	11,823	9,423	8,022
Unsecured Loans	14,923	13,860	17,160	16,960
Loan Funds	22,039	25,683	26,583	24,983
Net deferred tax liability	4,611	5,338	5,338	5,338
Total Liabilities	63,213	70,650	74,800	77,210
Gross Block	60,186	66,919	69,919	72,919
Less: Depreciation	17,691	20,581	23,992	27,584
Net block	42,496	46,338	45,927	45,335
Capital work in progress	5,615	3,580	3,580	3,580
Investment	3,262	12,300	17,800	19,200
Current Assets	41,397	43,672	44,389	51,076
Inventories	16,382	22,089	18,676	21,255
Sundry debtors	10,221	11,852	10,458	11,903
Cash & bank balance	5,189	1,795	1,621	2,402
Loans & advances	9,605	7,936	13,633	15,516
Other current assets	-	-	-	-
Current lia & Prov	29,608	35,283	36,939	42,023
Current liabilities	25,921	30,379	30,667	34,886
Provisions	3,687	4,903	6,271	7,137
Net current assets	11,789	8,390	7,450	9,053
Misc. exp	51.7	43.1	43.1	43.1
Total Assets	63,213	70,650	74,800	77,210

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	10.5	11.2	10.8	10.8
Net Margin	5.4	5.9	5.0	5.5
ROCE	12.5	18.5	17.4	19.4
ROE	17.6	26.4	22.3	24.7
RoIC	17.1	25.8	25.7	30.5
Per Share Data (Rs)				
EPS	1.5	2.5	2.4	3.0
CEPS	2.2	3.5	3.6	4.3
BVPS	8.7	10.0	11.2	12.7
DPS	0.7	1.0	1.0	1.2
Valuations (x)				
PER	18.5	10.9	11.4	9.1
P/CEPS	12.1	7.8	7.4	6.3
P/BV	3.1	2.7	2.4	2.1
EV / Sales	1.2	0.8	0.6	0.5
EV / EBITDA	11.2	6.7	5.9	4.9
Dividend Yield (%)	2.8	3.7	3.7	4.6
Gearing Ratio (x)				
Net Debt/ Equity	0.7	0.9	0.8	0.6
Net Debt/EBITDA	2.1	1.8	1.7	1.3
Working Cap Cycle (days)	3.4	11.7	(4.5)	(4.4)

*calculated ex revaluation reserve

Recommendation History: Ashok Leyland Ltd. – AL IN

Date	Reports	Reco	CMP	Target
07/09/2011	Auto Sector Report Cruising through barriers			
25/07/2011	Ashok Leyland Company Update	Accumulate	52	57
20/07/2011	Ashok Leyland Q1FY12 Result Update	Accumulate	50	57
20/05/2011	Ashok Leyland Q4FY11 Result Update	Accumulate	51	63

Recent Research Reports

Date	Reports	Reco	CMP	Target
03/11/2011	TVS Motor Q2FY12 Result Update	Hold	66	72
31/10/2011	Maruti Suzuki Q2FY12 Result Update	Hold	1,128	1,140
24/10/2011	Bajaj Auto Q2FY12 Result Con Call Update	Buy	1,693	2,210
20/10/2011	Bajaj Auto Q2FY12 Result Update First Cut	Accumulate	1,367	1,950

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