

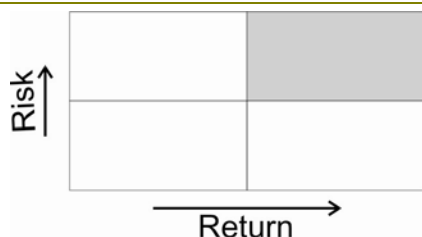
Ashok Leyland

CMP: Rs 36
Target: Rs 48
BUY
Piyush Parag

(91-22) 6612 4730

piyush.parag@religare.in

BSE Code	500477
NSE Code	ASHOKLEY
Sensex	14,003
Nifty	4,113

Risk-return profile

Company data

Particulars	
Market cap (Rs bn / US\$ bn)	47.7/1.2
Outstanding equity shares (mn)	1,323.9
Free float (%)	61.2
52-week high/low (Rs)	52/31
6-month average daily volume	5,209,805

Stock performance

Returns (%)	1-mth	3-mth	6-mth
Ashok Leyland	(4.7)	(4.6)	(8.8)
Sensex	0.3	7.9	6.2
BSE Auto	(6.4)	(4.9)	(7.4)

Shareholding pattern

(%)	Mar-07	Dec-06
Promoters	38.8	38.8
FIs	26.2	26.1
Banks & FIs	20.3	20.5
Public & Others	14.7	14.6

Source: BSE

Rolling ahead smoothly

Large-scale capacity expansion amid rising vehicular demand to fuel performance

- ❖ Q4FY07 results in line with expectations. PAT grew 21% YoY in Q4FY07 and 46% in FY07
- ❖ Recent acquisition of Avia (Czech Republican company) to increase product range and geographical reach
- ❖ Aggressive Rs 40bn capacity expansion plans over the next 3-4 years which include setting up a cab and vehicle assembly facility at Uttaranchal
- ❖ PAT CAGR of 11% expected over FY07-FY09 to Rs 6bn, driven by a 13% CAGR in revenue and a 60bps improvement in EBITDA margin
- ❖ We initiate coverage with Buy with an end-FY08 target price of Rs 48, which represents a potential upside of 33% from the current level

Financial snapshot

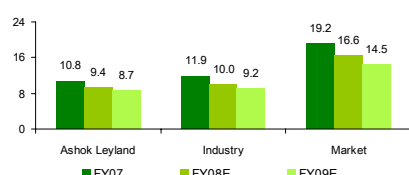
(Rs bn)	Sales	PAT	FDEPS (Rs)	P/E (x)	EV/EBITDA	RoE (%)
FY07	71.7	4.4	3.3	10.8	7.1	28.6
FY08E	81.5	5.1	3.8	9.4	6.7	27.6
FY09E	91.5	5.5	4.1	8.7	6.2	25.3

Source: Company, Religare Research

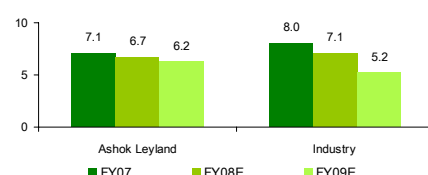
Growth profile

(%)	Sales	EBITDA	PAT	FDEPS
FY07	34.5	32.2	45.9	34.6
FY08E	13.7	17.3	14.8	14.8
FY09E	12.3	15.4	8.1	8.1

Source: Religare Research

P/E multiple (x)


Source: Religare Research

EV/EBITDA multiple (x)


Source: Religare Research

We expect Ashok Leyland (ALL) to be a major beneficiary of the strong growth prospects for the domestic freight industry. India's robust economy and rapid infrastructure growth is expected to boost road freight demand as well as replacement demand for ageing vehicles. Accordingly, we expect ALL to record a sales volume CAGR of 10% over FY07-FY09, resulting in 13% revenue CAGR and 12% PAT CAGR. The company is foraying into the LCV business as well, which is likely to accelerate with the acquisition of Avia (of the Czech Republic). ALL is also seeking a strategic partner that would provide access to new products and technology.

Company overview

Ashok Leyland (ALL), a part of the Hinduja Group, is the second largest manufacturer of commercial vehicles (CV) in India with a capacity of nearly 90,000 vehicles p.a. The company has manufacturing facilities in six locations comprising the mother plant at Ennore (near Chennai), two plants at Hosur (Hosur I and Hosur II, along with a press shop), and the assembly plant at Alwar (Rajasthan) and Bhandara (Maharashtra). Net sales and net income in FY07 were Rs 72bn and Rs 4.4bn, respectively.

Acquisition of Avia's truck unit

ALL recently acquired the truck unit of Czech Republic-based Avia for US\$ 35m. Avia manufactures LCVs in the range of 6-9 tonnes and has a capacity of 20,000 units per annum. The acquisition has given ALL ready access to the entire range of Avia trucks, as well as Avia's press shop with dies and tools, welding lines, paint shop and R&D facilities. We believe the acquisition should help the company to expand its geographical reach to the European Union, with the eastern European markets providing a base for assembling vehicles.

The company has plans to scale up production at Avia's plant to enter new markets including the Middle East, Southeast Asia and Russia. ALL also plans to introduce the Avia range of products in India in a phased manner.

On the lookout for a strategic partner

The promoters of ALL, Land Rover Leyland International Holdings (LRLIH), are scouting for a strategic partner. Some global giants like Volvo, Scania and Daimler-Benz have already expressed their interest in picking up a stake in the company. We believe the inclusion of a strategic partner will be positive for ALL and provide access to the latest products and technology of the new partner.

New product launches

During the year, the company launched *Comet 1611*, a factory-built fuel-efficient cab customised to specific industry requirements. Going forward, ALL is expected to launch the top-end *Intercentury Luxura* buses by end-Q1FY08. The launch is in line with the company's strategy to gain 50% market share in the luxury bus segment. The company has further plans to launch tippers (8x4 with 350 hp engine), branded buses and customised vehicles for the defence sector.

Aggressive capex plans

ALL has planned a Rs 40bn capacity expansion programme over the next three to four years. The company plans to spend Rs 12bn to set up a vehicle and cab assembly facility at Uttaranchal with an annual capacity of 25,000 units. The Uttaranchal plant is expected to be commissioned during the current quarter. This plant will enjoy excise duty exemption and income tax concession for five/ten years.

Besides this, ALL plans to increase the vehicle capacity at its existing plant from 90,000 units per annum to 100,000 units by end-FY08. Further, the company will commission an engine assembly plant (50,000 units/annum) by September 2007 and a gear box assembly facility (50,000 units/annum) by March 2008 at Ennore. It will also spend a part of the capex towards the restructuring of Avia and setting up of a bus assembly plant in the UAE.

Acquisition of Avia's truck unit will extend geographical reach to the EU

New vehicle and cab assembly facility at Uttaranchal to be commissioned in Q1FY08

Financial review and outlook

Q4FY07: Estimated v/s actual performance

(Rs bn)	Actual	Estimated	% Variance
Net sales	22.9	23.2	(1.3)
EBIDTA	2.6	2.5	6.0
EBIDTA margin (%)	11.6	10.7	-
PAT	1.7	1.5	14.3
PAT margin (%)	7.5	6.5	-
EPS (Rs)	1.3	1.1	14.3

Source: Company, Religare Research

Q4FY07 results

(Rs bn)	Q4FY07	Q4FY06	% Chg YoY	Q3FY07	% Chg QoQ
Sales	22.9	17.3	32.1	17.8	28.9
Realisation/ vehicle (Rs)	876,196.9	850,313.7	3.0	886,534.8	(1.2)
EBITDA	2.6	2.2	22.3	1.8	43.9
EBITDA margin (%)	11.6	12.5	-	10.4	-
PAT	1.7	1.3	27.1	1.1	63.0
PAT margin (%)	7.5	7.8	-	5.9	-
EPS (Rs)	1.3	1.1	17.3	0.8	62.9
Cash EPS (Rs)	1.7	1.4	20.7	1.0	58.5
Core EPS (Rs)	1.2	1.0	15.1	0.7	56.3

Source: Company

Sales grew in line with our estimates

ALL's revenue grew by a robust 32% YoY during Q4FY07. The growth was aided by 28% volume growth and a better product mix resulting in a 3% improvement in realisation. The goods carrier segment contributed a bulk of the sales with a robust 30% YoY increase, while sales of the passenger carrier segment increased 26% YoY.

Positive surprise on EBITDA margin

The company's EBITDA margin improved 120bps QoQ, while declining 90bps YoY to 11.6% against our estimated 10.7%. The year-on-year drop is attributed to a steep rise in the raw material cost. During the year, the company effected two price hikes which were just about enough to offset the impact of the high raw material prices.

PAT increased by 27% YoY

ALL's reported net profit has increased by 27% YoY and 63% QoQ to Rs 1.7bn in Q4FY07. This translates into an EPS of Rs 1.3 as against our estimated EPS of Rs 1.1.

Expect a revenue CAGR of 13% over FY07-FY09

We expect ALL's earnings to grow at a CAGR of 11% over FY07-FY09, aided by 13% revenue growth and a 60bps EBITDA margin expansion.

**EBITDA margin improved
120bps QoQ to 11.6% against
our estimated 10.7%**

Valuation

DCF methodology yields fair value of Rs 48

We have valued ALL's business at Rs 48/share, assuming a weighted average cost of capital (WACC) of 14% and a terminal growth of 3% and a beta of 1.1.

DCF assumptions

Particulars	
Beta	1.1
Risk free rate (%)	8.0
Market risk premium (%)	7.0
Cost of equity (%)	16.8
Cost of debt (%)	9.2
Cost of capital (%)	14.3
Terminal growth rate (%)	3.0

Source: Religare Research

Potential upside of 33%; Recommend Buy

The stock is currently trading at a P/E of 9.4x, P/CEPS of 7x and EV/EBITDA of 6.7x on FY08 estimates. We believe the stock has a potential upside of 33% from the current level. We therefore recommend a Buy on ALL with a one-year target price of Rs 48. At the target price, the stock will discount FY08 earnings by 12.6x, which we believe is justified.

Recommend Buy with a DCF target of Rs 48

Financials

Profit and Loss statement

(Rs bn)	FY06	FY07	FY08E	FY09E
Revenues	53.3	71.7	81.5	91.5
Growth (%)	25.5	34.5	13.7	12.3
EBITDA	5.3	7.0	8.2	9.5
Growth (%)	28.6	32.2	17.3	15.4
Depreciation	1.3	1.5	1.8	2.6
EBIT	4.1	5.5	6.5	6.9
Growth (%)	33.4	36.1	17.3	6.9
Interest	0.4	0.1	0.2	0.3
Other income	0.9	0.7	0.7	0.8
EBT	4.5	6.2	7.0	7.4
Growth (%)	27.4	36.6	13.9	5.1
Tax	1.2	1.6	2.0	1.9
Effective tax rate	27.6	26.4	28.0	26.0
Adj net income	3.0	4.4	5.1	5.5
Growth (%)	20.7	45.9	14.8	8.1
Shares outstanding (mn)	1,221.6	1,323.9	1,323.9	1,323.9
FDEPS (Rs)	2.5	3.3	3.8	4.1
DPS (Rs)	1.2	1.2	1.3	1.5
CEPS (Rs)	3.5	4.5	5.2	6.1

Source: Company, Religare Research

Cash flow statement

(Rs bn)	FY06	FY07	FY08E	FY09E
Net income	3.3	4.5	5.1	5.5
Depreciation	1.3	1.5	1.8	2.6
Other adjustments	(1.1)	(0.2)	0.0	0.0
Changes in WC	(0.3)	(2.6)	(1.0)	(0.1)
Operating cash flow	3.2	3.3	5.8	7.9
Capital expenditure	(1.9)	(3.0)	(9.0)	(10.0)
Investments	(1.4)	0.0	0.0	0.0
Other investing inc/(exp)	2.0	0.0	0.0	0.0
Investing cash flow	(1.3)	(3.0)	(9.0)	(10.0)
Free cash flow	1.9	0.3	(3.2)	(2.1)
Issue of equity	0.0	0.1	0.0	0.0
Issue/repay debt	(1.9)	(3.9)	4.5	5.0
Dividends paid	(1.6)	(1.8)	(1.9)	(2.2)
Others	(0.3)	0.0	0.0	0.0
Financing cash flow	(3.8)	(5.6)	2.6	2.8
Beg. cash & cash eq	8.0	6.0	0.8	0.2
Chg in cash & cash eq	(1.9)	(5.3)	(0.5)	0.7
Closing cash & cash eq	6.0	0.8	0.2	0.9

Source: Company, Religare Research

Recommendation history

Date	Event	Target (Rs)	Reco
14-Jun-07	Company Update	48	Buy

Source: Religare Research

Balance sheet

(Rs bn)	FY06	FY07	FY08E	FY09E
Cash and cash eq	6.0	0.8	0.2	0.9
Accounts receivable	4.2	5.8	5.4	7.5
Inventories	9.0	8.1	10.6	11.1
Others current assets	3.0	9.9	11.2	12.6
Current assets	22.3	24.5	27.4	32.2
LT investments	3.7	3.7	3.7	3.7
Net fixed assets	9.4	10.9	18.2	25.6
CWIP	1.4	1.4	1.4	1.4
Total assets	36.9	40.5	50.6	62.9
Payables	10.5	14.5	13.1	13.0
Others	3.6	4.4	8.3	12.4
Current liabilities	14.1	18.9	21.4	25.4
LT debt	6.9	3.0	7.5	12.5
Other liabilities	1.8	1.8	1.8	1.8
Equity capital	1.2	1.3	1.3	1.3
Reserves	12.9	15.5	18.7	22.0
Net Worth	14.1	16.8	20.0	23.2
Total liabilities	36.9	40.5	50.6	62.9
BVPS (Rs)	11.5	12.7	15.1	17.5

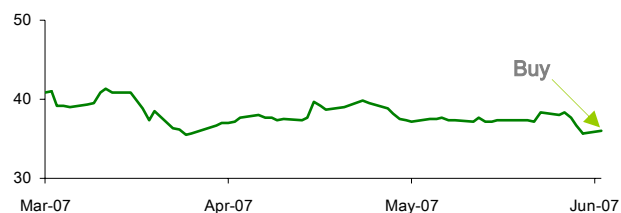
Source: Company, Religare Research

Financial ratios

	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	10.0	9.8	10.1	10.4
EBIT margin (%)	7.6	7.7	7.9	7.6
Net profit margin (%)	5.7	6.2	6.2	6.0
EPS growth (%)	17.6	34.6	14.8	8.1
Receivables (days)	30.2	25.5	24.9	25.7
Inventory (days)	70.0	58.4	56.2	58.3
Payables (days)	90.8	85.3	83.4	70.1
Current ratio (x)	1.6	1.3	1.3	1.3
Interest coverage (x)	10.6	103.5	34.6	22.2
Debt/equity ratio (x)	0.5	0.2	0.4	0.5
ROE (%)	23.7	28.6	27.6	25.3
ROCE (%)	19.9	27.2	27.5	22.1
ROAE (%)	19.7	27.1	27.4	21.9
EV/Sales (x)	0.8	0.7	0.7	0.6
EV/EBITDA (x)	8.4	7.1	6.7	6.2
P/E (x)	14.5	10.8	9.4	8.7
P/BV (x)	3.1	2.8	2.4	2.1
P/CEPS (x)	10.3	8.1	7.0	5.9

Source: Company, Religare Research

Stock performance



Source: Religare Research

RELIGARE RESEARCH

Fundamental Research

Amitabh Chakraborty, CFA, FRM	President - Equity	amitabh.chakraborty@religare.in
Piyush Parag	Auto, Auto Ancillaries, Shipping	piyush.parag@religare.in
Abhishek Agarwal	Bank, Agri-Commodities	abhishek.a@religare.in
Dinesh Shukla	Bank, Agri-Commodities	dinesh.shukla@religare.in
Ashish Kila	Capital Goods, Engineering, Power	ashish.kila@religare.in
Ronald Siyoni	Capital Goods, Engineering, Power	ronald.siyoni@religare.in
Dalpat Mehta	Cement, Textiles	dalpat.mehta@religare.in
Anurag Purohit	Information Technology, Telecom	anurag.purohit@religare.in
Hitesh Punjabi	Information Technology, Telecom	hitesh.punjabi@religare.in
Ram Patnaik	Media, FMCG	ram.patnaik@religare.in
Reema Deshkar	Media, FMCG	reema.deshkar@religare.in
Suman Memani	Mid-caps, Construction, Realty	suman.memani@religare.in
Sudeep Anand	Oil & Gas, Chemicals	sudeep.anand@religare.in
Bhawana Verma	Oil & Gas, Chemicals	bhawana.verma@religare.in
Alok Dalal	Pharmaceuticals	alok.dalal@religare.in

Derivatives Research

Anil Gupta	anil.g@religare.in
Samir Badami	samir.badami@religare.in
Somendra Agarwal	somendra.agarwal@religare.in

Production

Anisha deSa	anisha.desa@religare.in
R Murali	r.murali@religare.in
Rajesh Mhatre	rajesh.mhatre@religare.in

Administration

Shraddha Hosalkar	shraddha.hosalkar@religare.in
-------------------	-------------------------------

Religare Securities Limited

Mumbai: 3rd Floor, Dheeraj Arma, Anant Kanekar Marg, Bandra (East), Mumbai-400 051. Phone: +91 22 66124600 Fax- 66124781

New Delhi: 19, Nehru Place, New Delhi - 110019, Phone: +91 11 30815100.

Disclaimer: This document has been prepared by Religare Securities Limited (Religare). This is not an offer to buy or sell or the solicitation of an offer to buy or sell any security or to participate in any particular trading strategy or as an official confirmation of any transaction. The views expressed are those of analyst. The information contained herein is from publicly available data or other sources believed to be reliable or developed through analysis. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. Religare accepts no obligation to correct or update the information or opinions in it. Religare may discontinue research coverage of a subject company or change the opinion(s) without notice. The investment discussed or views expressed may not be suitable for all investors and certain investors may not be eligible to purchase or participate in some or all of them. Religare recommends that investors independently evaluate particular investments and strategies. The user assumes the entire risk of any use made of this information. Neither Religare nor any of its affiliates, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. Religare and its affiliates, officers, directors, and employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or act as advisor or lender / borrower to such company (ies) or have other potential conflict or interest with respect to any recommendation and related information and opinions. The recipient should take this into account before interpreting the document. This report is not directed or intended for distribution, publication, availability or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication availability or use would be contrary to law regulation or which would subject Religare and affiliates to any registration or licensing requirements within such jurisdiction, persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. **Copyright in this document vests exclusively with Religare.** This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose, without prior written permission from Religare. We do not guarantee the integrity of any e-mails or attached files and are not responsible for any changes made to them by any other person.