

ASHOK LEYLAND LIMITED

Ashok Leyland Limited [ALL] is the second largest commercial vehicle manufacturer in India. The company mainly caters to 3 segments: Trucks & Buses, Engines and Spare parts.

- Ashok Leyland commenced its production at their tax exempted Uttaranchal Plant during Q4FY10. The Uttaranchal plant has a capacity of 50,000 trucks and has 10 year excise duty exemption and 100% tax exemption for the next 5 years.
- The bus order book, a robust consequent of JNNURM and regular orders from State Transport Undertakings are helping them to regain the lost market share. The current market share of ALL stands at 22.7 percent.
- ALL continues to diversify into non cyclical revenue which contributed 50% in FY09. We expect rise in demand and thereby pick up in exports which will boost the topline and bottom-line.
- ALL maintains its focus on technology upgrade and product launches. It has planned a capex of Rs 17bn for the next two years to be funded via debt and internal accruals.
- The outlook of the management on the future of Commercial Vehicle industry is extremely positive and they expect a strong volume growth this fiscal with 64,000 units.

Based on a P/E multiple of 15, the fair value per share for the company works out to Rs. 63

Financial Snapshot

Projections(Rsmn)	FY08	FY09	FY10E	FY11E
Net Revenue	79,355	61,260	67,977	86,400
Y-o-Y Growth %		-23%	11%	27%
EBITDA	8,918	5,472	7,892	11,681
Y-o-Y Growth %		-39%	44%	48%
PAT	4,508	1,788	3,197	5,580
Y-o-Y Growth %		-60%	79%	75%
EPSRs	3.4	1.3	2.4	4.2
BVPSRs	16.2	26.1	28.5	32.7
EBITDA Margin %	11.2%	8.9%	11.6%	13.5%
NPM %	5.7%	2.9%	4.7%	6.5%
RoE%	21%	5%	8%	13%
PERx	16.8	42.3	23.7	13.6
P/B Ratio	3.5	2.2	2.0	1.7

Recommendations	<= 1 year	1 - 2 yrs	2 - 5 yrs
Strong Buy			
Buy			
Hold			
Reduce			
Sell			

Strong Buy – Expected Returns > 20% p.a.
Buy – Expected Returns from 10 to 20% p.a.
Hold – Expected Returns from 0% to 10% p.a.
Reduce – Expected Returns from 0% to 10% p.a. with possible downside risk
Sell – Returns < 0%



STOCK DATA

BSE/ NSE Code	500477/ASHOKLEY
Bloomberg Code	AL IN Equity
No. of Shares (Mn)	1330.3
Sensex / Nifty	17693 / 5290

PRICE DATA

OMP (as on April 1, 2010)	56.90
Beta	1.03
Market Cap (Rs mn)	75,694
52 Week High-low	57.95 / 17.80
Average Daily Volume	399,615

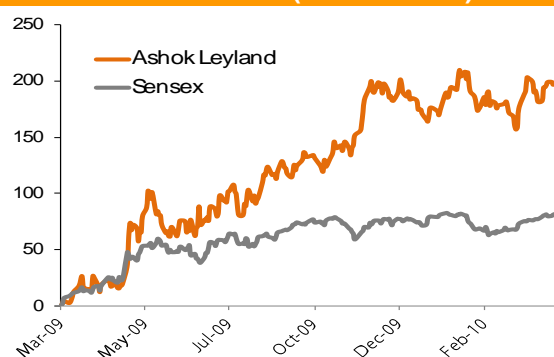
STOCK RETURN (%)

	30D	3M	6M	1Y
Ashok Leyland	9%	15%	35%	214%
Sensex	5%	0.4%	2%	81%
Nifty	5%	1%	3%	74%

SHARE HOLDING PATTERN (%)

Promoter	38.6
Institution	32.2
Non Institution	29.2
Total	100.0

1 Year Price Performance (Rel. to Sensex)



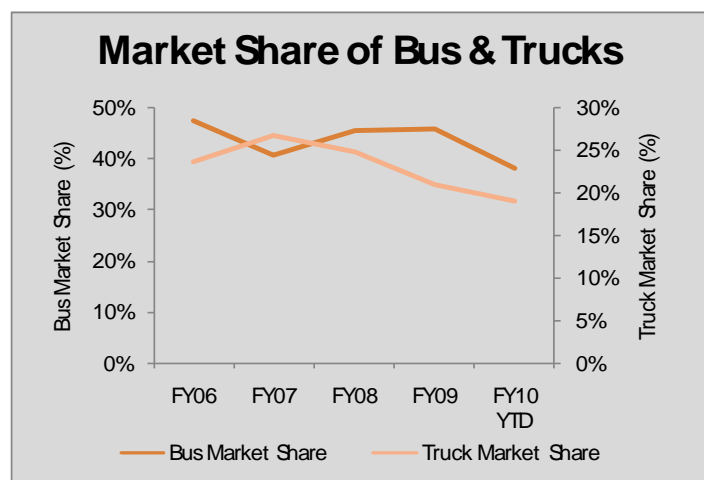
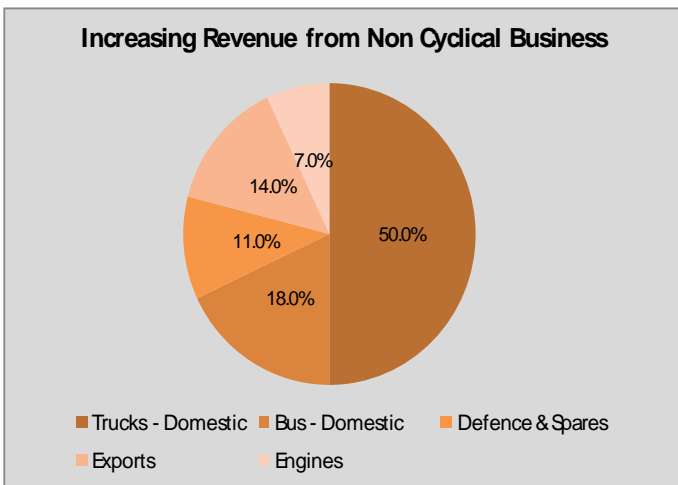
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BUSINESS PROFILE

Ashok Leyland is engaged in the manufacturing of commercial vehicles and related components. The Company's products range from 18 seater to 82 seater double-decker buses, 7.5 tons to 49 tons in haulage vehicles, special application vehicles to diesel engines for industrial, marine and genset applications. Its product categories include buses, trucks, engines, and defence and special vehicles. It offers bus models, such as compressed natural gas (CNG), double decker and vestibule bus. It also offers trucks and tractor-trailers. In addition, the Company offers diesel engines for industrial, genset and marine applications. It also offers logistic vehicles to the Indian army.

The management aims to sell 64,000 units by end of FY10



Entry into LCV and construction equipments via JV's

ALL has entered into agreements with Nissan to set up three separate JVs for production of LCVs (Light Commercial Vehicle), power trains and research & development activities. The company has already invested Rs110mn in the JVs out of its total investment plan of ~Rs4bn over the next few years. We believe this would mark ALL's entry into the fast-growing LCV market. Further, the company can use spare capacity at existing facilities for to manufacture LCVs, thereby reducing the need for large capital investments.

Company has aggressive plans to step up its non cyclical revenue streams

Through another 50:50 JV with John Deere, ALL plans to enter the high-growth construction equipment segment. The company has already identified land for the project and product plan, and is likely to roll-out vehicles by Oct 10. The two JVs, although not significant as of now, would help ALL expand into new segments, thereby diversifying its revenue base.

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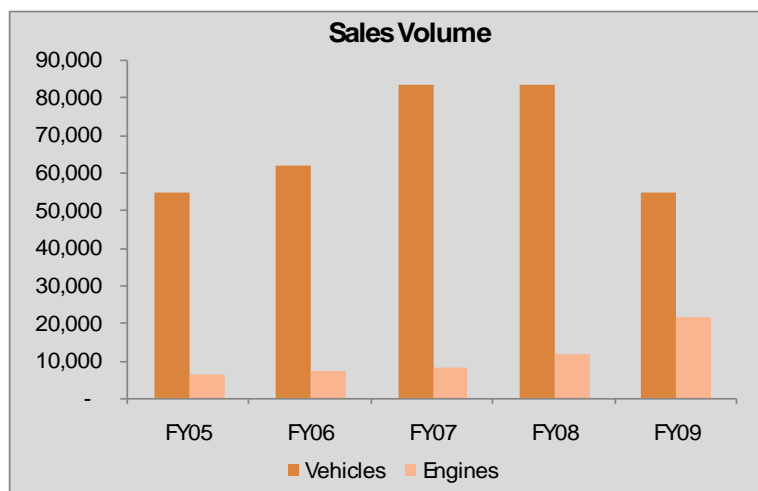
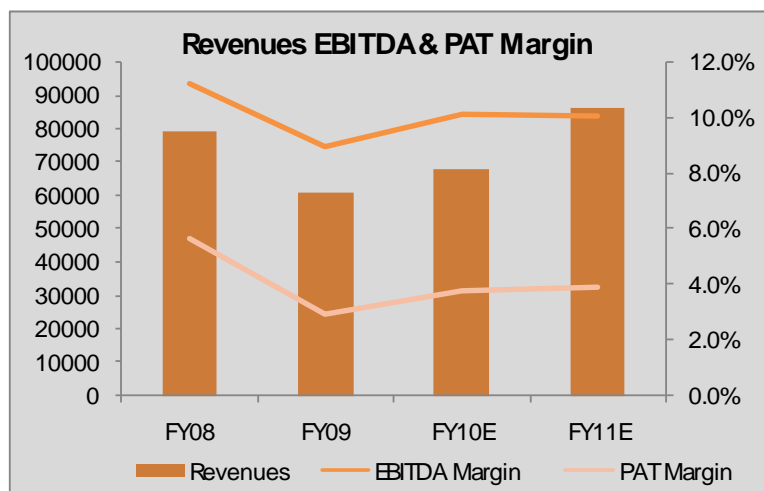


BUSINESS PERFORMANCE

Robust Q3FY10 Performance

Net sales in Q3FY10 jumped 79.3% Y-o-Y (and 15.1%Q-o-Q), to Rs18.2bn. QoQ, realizations grew 2.7%, while volume growth was 12.1%. Volume growth was robust due to the ongoing recovery in the CV cycle. The EBITDA margin improved 90bps Q-o-Q to 11.4%. EBITDA shot up over 24.2% Q-o-Q to Rs2.06bn, mainly due to lower 'other expenses' and staff expenses. The benefits of the cash-and-carry system and better working capital management continue to be felt, as interest expense, at Rs162mn, came significantly lower than the Rs394mn in the previous-year corresponding quarter.

ALL has been using stringent working capital measures for the past 2 quarters



Peer Comparison

We believe that the company has been taking stringent measures to control the working capital requirement which is visible in the last two quarters. The demand for CV's has already seen an uptick and going forward the company is likely to benefit from the road and infrastructure projects.

Company is well poised to take benefit from Road and Infrastructure Projects

Peer Group Comparison

Companies	Revenues (Rs mn)	Operating Margins %	PAT Margins %	ROE	P/E (x)	P/B (x)	CMP	FV
Ashok Leyland	55,237	10.3%	4.7%	5.1%	29.8	3.6	56.9	1
Tata Motors	297,922	16.3%	7.4%	7%	18.9	3.4	775.9	10
Eicher Motors	3,750	15.2%	10.0%	10%	46.9	4.4	659.4	10

TTM figures used

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VALUATIONS

We believe ALL is likely to benefit from the upturn in the commercial vehicle segment. We expect an increase in overall market share in all the segments. We also expect the demand from export market to pick up and thereby improve the top line of the company. At the CMP of 56.90 the stock trades 13.6x at FY11E. We expect revenues to grow at CAGR of 18.76% for the period FY09-FY11E.

Based on a P/E multiple of 15, the fair value for the company comes to Rs. 63

Based on a P/E multiple of 15, the fair value per share for the company works out to Rs. 63.

We recommend a 'BUY' rating on the stock.

Financial Analysis and Projections

Particulars(Rsmn)	FY2008	FY2009	FY2010E	FY2011E
Net Revenue	79,355	61,260	67,977	86,400
Other Income	842	912	1,020	1,296
Stock Adjustments	975	10	340	691
Total Income	81,171	62,183	69,336	88,387
Operating Expenditure	72,253	56,711	61,444	76,706
EBITDA	8,918	5,472	7,892	11,681
EBITDA Margin (%)	11.2%	8.9%	11.6%	13.5%
Depreciation	1,774	1,784	2,392	2,890
Interest	763	1,603	1,435	1,600
Profit Before Tax	6,382	2,085	4,065	7,191
Less: Tax	1,688	185	732	1,438
Extraordinary Items	186	112	136	173
Profit After Tax	4,508	1,788	3,197	5,580
PAT Margin (%)	5.7%	2.9%	4.7%	6.5%
ROE (%)	21%	5%	8%	13%
EPS (Rs)	3.4	1.3	2.4	4.2
BVPS (Rs)	16.2	26.1	28.5	32.7

Valuation Ratios(x)	FY2010E	FY2011E
P/E	23.7	13.6
P/B	2.0	1.7

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Board Of Directors

Director Name	Current Position	Description
R. Seshasayee	Managing Director	Mr. R. Seshasayee serves as a Managing Director & Executive Director of Ashok Leyland Limited. He is a Chartered Accountant. He joined Ashok Leyland in January 1976 in the Internal Audit Department. Over the years, he handled Corporate Planning/Corporate Finance functions before becoming the Deputy Managing Director in 1993. He was appointed as Managing Director from April 1998. Mr. Seshasayee has been an active member of the Central Council of the Confederation of Indian Industry (CII), the premier Industry Association in India. He was also the President of the Society of Indian Automobile Manufacturers. He served as Member/Chairman of various trade and professional committees both at national and international levels.
Vinod K Dasari	Whole Time Director	Mr. Vinod K Dasari serves as a Chief Operating Officer & Whole time Director of Ashok Leyland Limited. He joined the Company as Chief Operating Officer on 1.4.2005. Mr. Vinod K Dasari has contributed significantly to the Company's growth and profitability in his capacity as Chief Operating Officer. Mr. Vinod K Dasari, years, is a Graduate Engineer from University of Louisville and MBA from North Western University, USA. He has to his credit more than 19 years rich experience in different capacities in India and USA.
Dheeraj G Hinduja	Non Executive Co - Chairman	Mr. Dheeraj G. Hinduja is Non-Executive Co-Chairman of the Board of Ashok Leyland Limited. He is a Honors Graduate from University College, London, and an MBA from Imperial College, University of London with specialization in Project Management. He has been actively involved in business from 1994, and has been associated in India and abroad with the development of several infrastructure projects. He has been a Director of the Company from 1996. Presently, he is the Co-Chairman of the Board. He was also a Member of the Audit Committee till July 2004.
D.J Balaji Rao	Independent Non Executive Director	Mr. D. J. Balaji Rao is an Independent Non-Executive Director of Ashok Leyland Limited. He is a former Deputy Managing Director of ICIQ Limited. He is a qualified Mechanical and Industrial Engineer, and pursued his career engineering for about 8 years before joining ICIQ Limited 1970. After wide ranging responsibilities in different locations, he reached the position of Deputy Managing Director of ICIQ Limited and subsequently took over as Managing Director of ICIQ Limited in 1996. He retired the Managing Director of Infrastructure Development Finance Company Limited in the year 2000. He has been Director on the Companies Board for 7 years from 1989- 1996 and has again been a Director since July 2000. is a Member of the Audit Committee of the Board, and Chairman of the Remuneration Committee of the Board.
F Sahami	Non Executive Director	Mr. F. Sahami is Non-Executive Director of Ashok Leyland Limited. He is a Chartered Accountant with wide international audit, accounting and financial management experience, having served in the Middle East, Europe etc., He is presently a Director of LRLH Limited, London, the major shareholders of the Company. He has been a Director of the Company from 1988 and is a Member of the Audit Committee and the Remuneration Committee.
A. Spare	Non Executive Director	Mr. A. Spare is Non-Executive Director of Ashok Leyland Limited. He holds a Master's Degree in Business Administration from Gothenborj School of Economics, Sweden. He worked as a Business Development Director in SAS before joining Scania. He served as a Managing Director of Scania till 2002. He has wide experience in the Automotive Industry. Presently, he is the Chief Executive Officer of LRLH Limited, London, the shareholders of the Company

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