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Ashok Leyland AL IN

BUY

NOMURA

NOMURA STRUCTURED FINANCE SERVICES PRIVATE LIMITED, INDIA

RESULTS FIRST LOOK

Ashok Leyland declared adj 2QFY12 PAT of INR1.44bn, in-line with our estimates but marginally above consensus estimates. The company has been able to deliver 5% y-y EBITDA growth in tough market conditions despite a 7% y-y decline in volumes. We expect volumes to improve next year as the interest rate cycle starts to turn. We maintain our estimates and BUY rating on the stock.

Price target: 34.0 INR | Price (03 Nov 2011): 27.15 INR

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2QFY12 results in-line with estimates

- **Earnings vs. our Forecast:** **IN LINE**

Likely Impact:

- **Earnings Estimates:** **NO CHANGE**
- **Dividend Estimates:** **NO CHANGE**
- **Price Target:** **NO CHANGE**
- **Long-term View:** **CONFIRMED**

- Net Sales at INR30.9bn were ahead of our estimate of INR29.4bn
- EBITDA margins came in at 10.4%, lower than our estimate of 11.0%
- RM/Sales came in at 73.5% compared to our estimate of 72.1%
- Employee cost/Sales came in at 8.1% versus our estimate of 8.6%
- Other expenses/Sales came in at 7.9% versus our estimate of 8.3%
- Effective tax rate was 20.1% compared to our estimate of 22%
- Our numbers are adjusted for INR94mn gain due to change in accounting policy related to leasehold land.

Exhibit 1: Actual vs. Forecasts

	INR m			% difference from	
	Actual	Consensus	Nomura	Consensus	Nomura
Net Sales	30,946	30,382	29,440	1.9%	5.1%
EBITDA	3,217	3,207	3,247	0.3%	-0.9%
Margin	10.4%	10.6%	11.0%		
Net Profit	1,446	1,403	1,449	3.1%	-0.2%

Source: Company data, Bloomberg, Nomura estimates

Exhibit 2: 2QFY12 earnings review

INR mn	2QFY11A	1QFY12A	2QFY12A	YoY	QoQ	2QFY12F
Net Sales	**27,140**	**24,955**	**30,946**	**14.0%**	**24.0%**	**29,440**
Net Raw Materials	19,969	17,981	22,757	14.0%	26.6%	21,226
Staff Welfare	2,115	2,497	2,515	18.9%	0.7%	2,538
Adjusted Other Expenditure	1,993	2,125	2,456	23.3%	15.6%	2,429
Total Cost	24,077	22,603	27,729	15.2%	22.7%	26,193

Operating Profit	**3,063**	**2,352**	**3,217**	**5.0%**	**36.8%**	**3,247**
OPM (%)	***11.3***	***9.4***	***10.4***	**(0.9)**	**1.0**	***11.0***
Non-Operating Income	48	41	103			41
Forex Gain/(Loss)	-	-	-			-
Extraordinary Income/(Exp)	-	95	95			-
Interest	395	533	627			563
Gross Profit	2,716	1,954	2,788	2.6%	42.7%	2,725
Less: Depreciation	641	847	859			867
PBT	2,075	1,107	1,929	-7.1%	74.2%	1,858
Tax	405	245	388			409
Effective Tax Rate (%)	19.5	22.1	20.1			22.0
Reported PAT	**1,670.6**	**862.5**	**1,540.8**	**-7.8%**	**78.6%**	**1,449.2**
Adj PAT	**1,670.6**	**767.9**	**1,446.2**	**-13.4%**	**88.3%**	**1,449.2**

Source: Company data, Nomura estimates

Exhibit 3: Key ratios

	2QFY11A	**1QFY12A**	**2QFY12A**	**YoY**	**QoQ**	**2QFY12F**
RM/Sales	73.6	72.1	73.5	(0.0)	1.5	*72.1*
Staff Cost/Sales	7.8	10.0	8.1	0.3	(1.9)	*8.6*
Other Expenses/Sales	7.3	8.5	7.9	0.6	(0.6)	*8.3*
Total Cost/Sales	88.7	90.6	89.6	0.9	(1.0)	*89.0*
Realisation per vehicle (INR)	1,103,682	1,294,551	1,345,466	21.9%	3.9%	1,279,980
RM/Vehicle (INR)	812,086	932,773	989,450	21.8%	6.1%	922,874

Source: Company data, Nomura estimates

Valuation Methodology and Investment Risks: We value Ashok Leyland based on DCF of FCFE at INR34/share. We use an assumption of 4% terminal growth and 13.4% cost of equity. We have not assigned any value to the group investments worth INR5/share, as there is low visibility on earnings contribution from these investments. As the visibility improves, there is a possibility that the market may start to value some of these investments.Key risks a) Slower-than-expected ramp up of new plant – In case AL is not able to produce 35,000 units from the new plant in FY12F, our margin estimates would be at risk. b) Slowdown in industrial growth – In case there is a sharp slowdown in industrial growth, our volume estimates would be at risk. c) New competition – New competition from players like Mahindra and Mahindra could be a risk to our volume estimates for FY13F.

Note: Ratings and Price Targets are as of the date of the most recently published report (http://go.nomuranow.com/research/globalresearchportal) rather than the date of this email.

Results First Look is the analyst's preliminary interpretation of the results announcement. Our recommendation and earnings estimates are not beingchanged in this report. Any formal changes to our recommendation or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed in this report.

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Mentioned companies

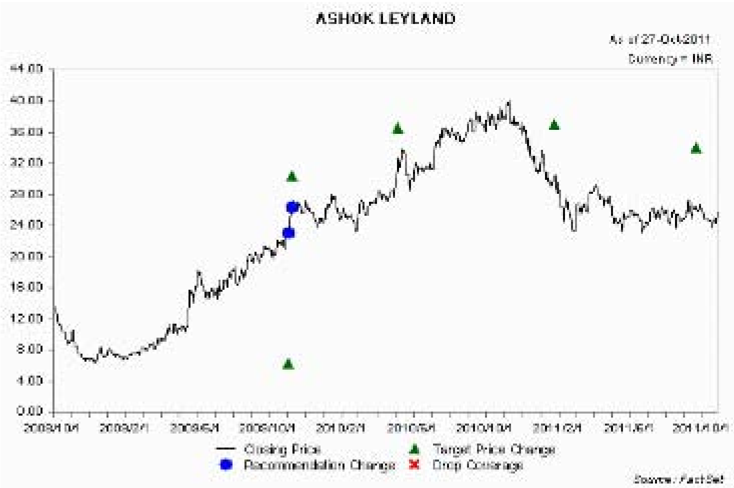
Issuer name	Ticker	Price	Price date	Stock rating	Disclosures
Ashok Leyland	AL IN	27.15 INR	03 Nov 2011	Buy	

Previous Rating

Issuer name	Previous Rating	Date of change
Ashok Leyland	Reduce	09 Nov 2009

Ashok Leyland (AL IN) **27.15 INR (03 Nov 2011)** Buy

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
20-Sep-2011		34.00	26.10
25-Jan-2011		37.00	30.48
06-May-2010		36.50	32.65
09-Nov-2009		30.50	26.40
09-Nov-2009	Buy		26.40
03-Nov-2009		6.35	23.10
03-Nov-2009	Reduce		23.10

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value Ashok Leyland based on DCF of FCFE at INR34/share. Our methodology is unchanged. We have used an assumption of 4% terminal growth and 13.4% cost of equity. Do note that we have not assigned any value to the group investments worth INR 5/share. This is because there is low visibility on earnings contribution from these investments. As the visibility improves there is a possibility that the market may start to value some of these investments.

Risks that may impede the achievement of the target price Key risksa) Slower-than-expected ramp up of new plant – In case AL is not able toproduce 35,000 units from the new plant in FY12F, our margin estimateswould be at risk.b) Slowdown in industrial growth – In case there is a sharp slowdown inindustrial growth, our volume estimates would be at risk.c) New competition – New competition from players like Mahindra andMahindra could be a risk to our volume estimates for FY13F.

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

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Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009

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