

**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
<b>Net Sales</b>	<b>27,140</b>	<b>24,955</b>	<b>30,946</b>	<b>14.0%</b>	<b>24.0%</b>	<b>29,440</b>
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

<b>Operating Profit</b>	<b>3,063</b>	<b>2,352</b>	<b>3,217</b>	<b>5.0%</b>	<b>36.8%</b>	<b>3,247</b>
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
<b>Reported PAT</b>	<b>1,670.6</b>	<b>862.5</b>	<b>1,540.8</b>	<b>-7.8%</b>	<b>78.6%</b>	<b>1,449.2</b>
<b>Adj PAT</b>	<b>1,670.6</b>	<b>767.9</b>	<b>1,446.2</b>	<b>-13.4%</b>	<b>88.3%</b>	<b>1,449.2</b>

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.

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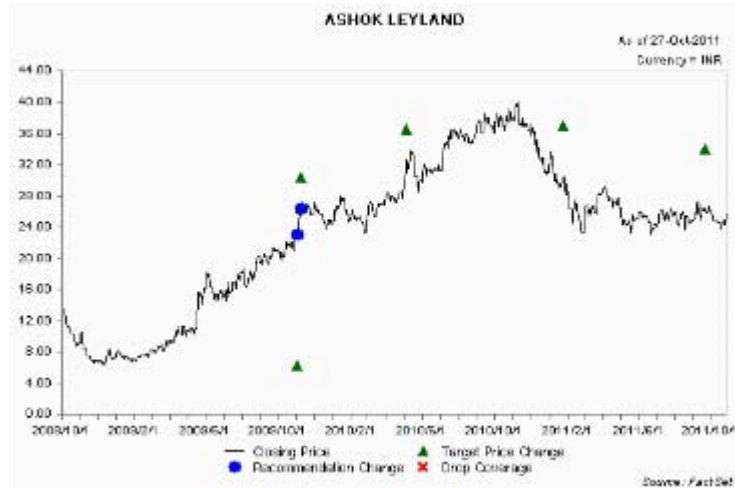
Issuer name	Ticker	Price	Price date	Stock rating	Disclosures
Ashok Leyland	AL IN	27.15 INR	03 Nov 2011	Buy	

## 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 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.

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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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