6 July 2012

Ashok Leyland

Rating: **Sell**
Target Price: ₹30
Share Price: ₹26

Conference call: aggressive capex plans, optimistic targets

A key takeaway from Ashok Leyland's conference call is management's optimistic outlook on the company's growth prospects, in contrast to its view on the industry, driven by its stronghold in south Indian markets. The company plans to invest ~₹40bn till FY15, partly on Greenfield capacity of 190,000 LCVs.

- **Industry outlook bleak but company upbeat on growth prospects.** Management estimates ~4% industry growth in FY13, but expects the company to outperform with 14% growth in M&HCVs' reporting sales to 107,000 units (93,000 in domestic and 14,000 in exports). It expects 'Dost' volumes to grow to 32,000 units in FY13.
- **Growth to go north due to markets down south.** M&HCV growth, according to management, will be driven by southern markets. While M&HCV volumes declined ~5% YTD vs industry's -14%, revival is expected in 3Q, with early signs showing up. The haulage segment volumes in the country fell ~11% yoy, whereas the South grew 9% yoy. Bus volumes are likely to be boosted by government incentives like JNNURM in Tamil Nadu. The ICV segment grew 8% YTD higher than the country (flat yoy). Political stability in Tamil Nadu, the lifting of the mining ban from 14-15 iron ore mines and any clarity on Andhra Pradesh's elections should help demand.
- **Aggressive capex plans.** Ashok Leyland signed an MOU with Tamil Nadu to invest ~₹40bn till FY15. The company spent ₹9.5bn on MHCVs till Mar'12, ₹3bn will be spent in FY13e and ~₹7.5bn in FY14 and FY15 each. It has spent ₹2bn till Mar'12 on LCVs. An additional ₹8bn is to be funded by debt, ₹5bn from the Nissan JV and ₹5bn by itself; all for a Greenfield plant of 190,000 units capacity. The company seeks an enabling resolution for fund raising through debt or equity (last option).
- **Valuation.** The stock trades at 10.5x FY13e. We retain a Sell. **Risks.** Strong economic growth, rise in freight rates, greater LCV profitability.

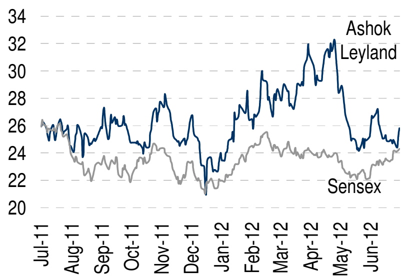
Key financials (YE Mar)	FY10	FY11	FY12e	FY13e	FY14e
Sales (₹m)	72,447	111,177	126,896	142,449	159,331
Net profit (₹m)	3,821	6,313	6,373	6,596	7,356
EPS (₹)	1.4	2.4	2.4	2.5	2.8
Growth (%)	120.0	65.2	0.9	3.5	11.5
EV/EBITDA (x)	6.3	3.8	6.4	5.8	5.2
P/E (x)	18.1	11.0	10.9	10.5	9.4
PBV (x)	1.5	1.3	2.3	2.2	2.0
RoE (%)	16.4	24.0	21.4	20.6	21.4
RoCE (%)	12.0	17.3	14.6	15.2	16.1
Dividend yield (%)	5.8	7.7	4.6	5.4	6.2
Net gearing (%)	61.1	66.7	68.3	69.2	68.9

Source: Company, Anand Rathi Research

Key data	ALIN / AL.BO
52-week high / low	₹33 / ₹20
Sensex / Nifty	17539 / 5327
3-m average volume	US$3.7m
Market cap	₹68.7bn / US$1.3bn
Shares outstanding	2661m

Shareholding pattern (%)	Mar'12	Dec '11	Sep '11
Promoters	38.61	38.61	38.61
- of which, pledged	7.05	7.05	7.05
Free float	61.39	61.39	61.39
- Foreign institutions	16.22	15.57	16.18
- Domestic institutions	14.73	15.84	15.40
- Public	30.44	29.98	29.81

Relative price performance



Source: Bloomberg

Other key conference call takeaways:

- The recent additional discounts of ~₹12,000-15,000 being given by the company, have nullified the price increases taken. The absolute discount/vehicle is now ~₹50,000-60,000.
- For every incremental MHCV sold in Tamil Nadu (higher than the 14,000 units segment included in the scheme), Ashok Leyland will get an incentive of ₹150,000-180,000 per vehicle.
- The passenger version of the Dost will be in the market by 3Q FY13, while the van version will take a year to launch.
- In 1Q FY13 the company produced ~7,500 vehicles only, mainly due to production cuts in Pantnagar in Jun '12, when it produced ~1,450 vehicles.
- The duties in Sri Lanka will not impact CV volumes, but the currency and fund situation is not very positive.
- The company has repaid an ECB of ~6bn (USD denominated).
- Gross debt as of June 2012 was ₹40bn (including working capital).
- Market share was ~26.2% YTD FY13, vs 22.3% YTD FY12.
- The management expects EBITDA margins to be ~10% in FY13.

Appendix 1

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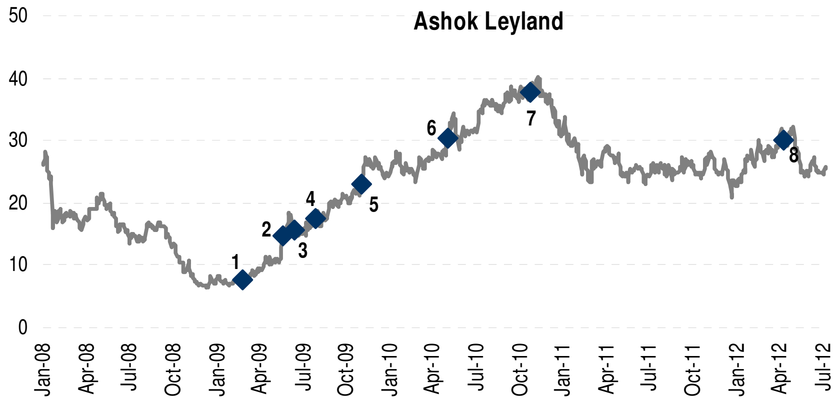
Rating and Target Price History (as of 5 July 2012)



	Date	Rating	TP (₹)	Share Price (₹)
1	25-Feb-09	Sell	7	8
2	19-May-09	Sell	8	12
3	12-Jun-09	Sell	13	17
4	28-Jul-09	Sell	14	18
5	3-Nov-09	Buy	28	20
6	3-May-10	Buy	37	30
7	22-Oct-10	Buy	46	38
8	9-Apr-12	Sell	30	30

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Large Caps (>US$1bn)	>20%	5-20%	<5%
Mid/Small Caps (<US$1bn)	>30%	10-30%	<10%

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