

**Ashok Leyland Ltd.**

₹ 26

*Reaching out to the Globe***Buy**

July 06, 2012

**Financial Performance**

Ashok Leyland reported net sales of ₹ 43bn in Q4 FY12, a growth of 12% YoY and a 49% QoQ in line with market expectations. Volumes for the quarter were at 35,690 units, which were 54% higher QoQ and 20% YoY. Ashok Leyland had a disappointing year in terms of core MHCV performance as volumes declined due to overall slowdown in industrial activity & issues such as mining ban etc. The LCV segment for ALL has been a new volume catalyst, which has managed to maintain growth rate achieving sales of 4,893 units of the LCV Dost.

On margin front, Ashok Leyland has posted strong operating performance. It was on account of growing operating leverage. Its Pant Nagar plant which has been ramped up to full capacity rolled out 4,001 vehicles in March 2012. However, the proportion of LCV Dost's selling out of TN is expected to increase thus putting pressure on margins. Management of the company expect Dost to turn positive in 18 month time. Operating profit of the company stood little above 10% at ₹ 4.59 bn. The management is confident of maintaining the margins to be at 10% including Dost. PAT came at ₹ 2.59 bn 14% down YoY. This was on account of higher interest rate burden (30%) and higher tax liability.

**Increasing Reach**

Though Ashok Leyland is a known predominantly in south India, it has taken measures to become a pan India brand. The number of dealers of the company in India has increased to 410 out of which nearly 230 are in north. It is improving its marketing strategy as well with the signing of MS Dhoni as its brand ambassador. At the same time, it aims to be globally among the top-10 truck and top-5 bus manufacturers. It has won an order, worth around \$6 mn for 50 vestibule buses from the Bangladesh Road Transport Corporation (BRTC) under the Indian Line of Credit (LoC) scheme. Over the years, it has exported more than 9,500 vehicles (of different models) to Bangladesh. Ashok Leyland has supplied 100 Falcon buses to Ghana worth \$7.6 million. It also successfully collaborated with body-builders in countries such as Vietnam, Singapore, Turkey, Ukraine, Egypt and Peru, to build buses on its chassis in CIS (Russian) countries and Sub-Saharan Africa.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 09	Mar 10	Mar 11
Revenue (₹ mn)	62604.6	75316.8	114477.6
<b>Rev. growth (%)</b>	<b>(22.42)</b>	<b>20.31</b>	<b>51.99</b>
EBITDA (₹ mn)	5664.8	8721.2	12504.8
Net profit (₹ mn)	1902.6	4236.7	6313.0
Shares outstanding (mn)	1330.5	1330.5	1330.5
EPS (₹)	1.4	3.2	4.7
<b>EPS growth (%)</b>	<b>(59.46)</b>	<b>122.68</b>	<b>49.01</b>
P/E (x)	6.3	8.8	6.0
EV/ EBITDA	24.6	44.5	32.2
<b>ROCE (%)</b>	<b>5.51</b>	<b>9.99</b>	<b>13.03</b>

**Arpit Jain**

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**Previous Report**

Date	: Dec 09, 2011
Recommendation	: Accumulate
Price	: ₹ 25
Target Reached on	: Jan 24, 2012

**Market Data**

52 Wk Range (₹)	: 33 / 20
Shares in Issue (mn)	: 1330.5
Mkt. Cap (₹ bn)	: 68.24
BSE 2 Wk Avg Vol (mn)	: 1.29

**Share Holding Pattern (%)**

Promoters	: 38.61
DII's	: 14.73
FII's	: 16.22
Others	: 17.01

**Investment Theme**

Ashok Leyland has traditionally been a defensive player in the MHCV segment, predominantly in South Indian Market. However as it had started to feel the heat of competition it has taken some crucial strategic decisions. It is making strong efforts to boost its presence in the industry on the back of a newly defined positioning, product innovations and celebrity endorsements. It is trying to expand in overseas markets as well. Its LCV Dost has been a success in the domestic market. The company's trailing 12-month EPS was at ₹ 4.75 per share. The stock's P/E ratio was 5.28. The latest book value is ₹ 10.89 per share. At current value, the price-to-book value of the company stands at 2.3. We remain positive about the company and expect the transport industry to revive in the near future. Thus we recommend to buy this share.

**Rev Up your Portfolio**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 09	Mar 10	% Chg	Mar 11	% Chg
Total Sales + Excise	68269.6	80717.5	18.23	123933.6	53.54
Other Income	914.8	954.9	4.38	406.1	(57.47)
Change in Stocks	10.4	2518.4	24115.38	1755.4	(30.30)
Raw Material Con.	43521.7	52893.5	21.53	81328.1	53.76
Employee Exp.	5797.4	6748.8	16.41	9746.0	44.41
Indirect Taxes	6622.7	6411.3	(3.19)	9914.8	54.65
Other Exp.	7588.2	9416.0	24.09	12601.4	33.83
Operating Exp.	63519.6	72951.2	14.85	111834.9	53.30
Operating Profit	4750.0	7766.3	63.50	12098.7	55.78
Total Interest	1750.7	1273.5	(27.26)	1771.2	39.08
Gross Profit	3914.1	7447.7	90.28	10733.6	44.12
Net Dep.	1827.0	2000.0	9.47	2715.6	35.78
Total Taxation	184.5	1211.0	556.37	1705.0	40.79
Net Profit/Loss	1902.6	4236.7	122.68	6313.0	49.01

### 4 Years Balance Sheet

(₹ mn)

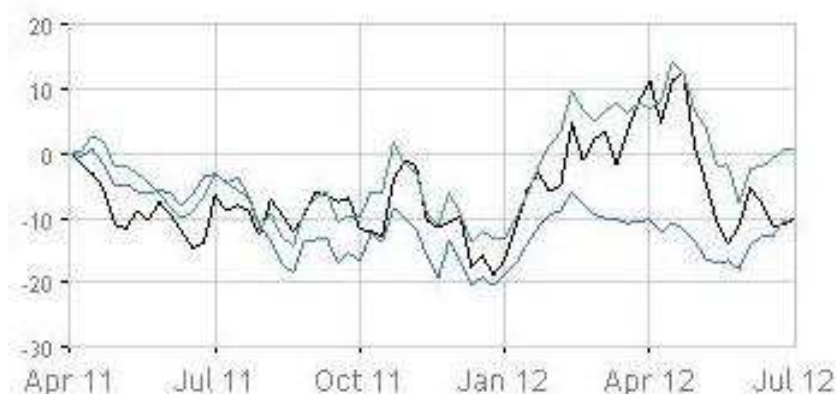
Balance Sheet as on 31 <sup>st</sup>	Mar 08	Mar 09	Mar 10	Mar 11
<b>SOURCES OF FUNDS</b>	<b>30141.1</b>	<b>40710.2</b>	<b>45270.4</b>	<b>52249.5</b>
Equity Share capital	1330.3	1330.3	1330.3	1330.3
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	19935.8	19798.5	21901.1	25236.6
Loan Funds	1902.4	3044.1	7115.7	11823.0
Unsecured Loans	6972.6	16537.3	14923.3	13859.6
<b>USES OF FUNDS</b>	<b>30141.1</b>	<b>40710.2</b>	<b>45270.4</b>	<b>52249.5</b>
Gross Block	29424.3	49389.6	60186.4	66918.9
Less : Revaluation Reserves	223.8	13648.6	13331.7	13062.8
Less : Accumulated Depreciation	14168.9	15398.3	17690.7	20580.9
<b>Net Block</b>	<b>15031.6</b>	<b>20342.7</b>	<b>29164.0</b>	<b>33275.2</b>
Capital Work in Progress	6610.8	10431.9	6160.5	3878.3
Investments	6099.0	2635.6	3261.5	12300.0
Current Assets	27736.8	32099.8	41254.8	43751.0
Less : Current Liabilities	25560.0	24896.7	34622.1	40998.1
<b>Total Net Current Assets</b>	<b>2176.8</b>	<b>7203.1</b>	<b>6632.7</b>	<b>2752.9</b>
Misc. Expenses not written	222.9	96.9	51.7	43.1
<b>NOTE</b>				
Bk Val Unquoted Investments	566.1	942.5	2380.1	11114.9
Mkt Val. Quoted Investments	7569.1	1939.8	3283.6	5241.3
Contingent Liabilities	17894.5	7543.6	4450.3	8817.7
Dividend (%)	150.0	100.0	150.0	200.0

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Jun 11	Sep 11	Dec 11	Mar 12
Net Sales	24,955.10	30,945.70	28,798.00	43,110.20
Cost Of Sales	22,508.90	27,634.20	26,694.30	38,410.80
Operating Profit	2,446.20	3,311.50	2,103.70	4,699.40
Recurring Income	41.20	103.30	32.30	124.80
Adjusted PBDIT	2,487.40	3,414.80	2,136.00	4,824.20
Financial Expenses	533.50	627.00	550.10	724.00
Depreciation	846.60	859.30	866.30	955.90
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	1,107.30	1,928.50	719.60	3,144.30
Tax Charges	244.80	387.70	50.60	556.90
Adjusted PAT	862.50	1,540.80	669.00	2,587.40
Non Recurring Items	0.00	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	862.50	1,540.80	669.00	2,587.40

## 52 Week Index Relative Percentage Appreciation



## ASHOKLEY vs SENSEX vs Auto

## Key Points

- Ashok Leyland has traditionally been a heavy duty player focussing more on the above-25 tonnes category. It plans to strengthen its presence in the 5-12-tonne range of vehicles. The company had joined hands with Nissan to enter the LCV space. The first model, Dost, was sold under the Ashok Leyland brand. Since its launch in October 2011, the company sold 12,116 units of the LCV, Dost. The vehicle has received good response from the market and has almost 18% of market share. The company is estimated to have an order backlog of 6,000-7,000 units. It is planning to launch the CNG version of the vehicle and is aiming to sell 32,000-36,000 units in current fiscal.
- Ashok Leyland is implementing ₹ 12 bn investment plan. It is ramping up its production facility, and expanding research and development (R&D) and joint ventures (JVs) capability. It plans raise ₹ 7.5 bn through issue of securities on private placement basis to finance the firm's capital expenditure requirements. Company has also ramped up its R&D facilities and now have more than 1000 staff in R&D centres. Recently, they signed an agreement with the Tamil Nadu government to set up a factory at Pillaipakkam, close to Sriperumbudur (40 km from this city), with an investment of ₹ 16 bn. This will also help the company to save tax as Tamil Nadu Government offers tax incentives.

**In a Nutshell**

Ashok Leyland, the flagship company of Hinduja Group is a major player in Commercial vehicle segment. Over the years the company has remained amongst the market leaders in the CV industry. Its product portfolio is very well diversified and so is its customer mix. It has been foremost supplier of buses to State Transport undertakings. Through its joint ventures with John Deere & Nissan, it has been increasing its portfolio in the LCV segment. Ashok Leyland has traditionally been a defensive player in MHCV segment. It was predominantly in South Indian Market. However as the company had started to feel the heat of competition it has taken some crucial strategic decisions. It is making strong efforts to boost its presence in the industry on the back of a newly defined positioning, product innovations and celebrity endorsements. It is trying to expand in overseas markets as well. Ashok Leyland's bet on the light commercial vehicles (LCV) has begun to pay-off. Its LCV Dost has been a success in the domestic market. It is investing ₹ 12 bn to ramp up its plants capacity and R&D facilities. At current value, the price-to-book value of the company stands at 2.3. We remain positive about the company and expect the transport industry to revive in the near future. Thus we recommend to buy this share

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**Rating Interpretation**

<b>Buy</b>	: Expected to appreciate 20% or more over 12-months	<b>Reduce</b>	: Expected to depreciate up to 10% over 12-months
<b>Accumulate</b>	: Expected to appreciate 10% to 20% over 12-months	<b>Sell</b>	: Expected to depreciate 10% or more over 12-months
<b>Trade Buy</b>	: Expected to appreciate more than 10% over 45-days	<b>Trade Sell</b>	: Expected to depreciate more than 10% over 45-days

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