

Ashok Leyland Ltd.**₹ 25****Company with an impressive CV Accumulate**

December 09, 2011

Financial Performance

Ashok Leyland posted below normal results for the quarter ended on September 2011. The company registered a 14% increase in turnover at ₹ 30.95 bn during the second quarter of the current fiscal against ₹27.14 bn during corresponding previous quarter. The volume declined by 17.3% YoY. However on sequential basis domestic sales posted a stronger recovery of nearly 19%. Its international sales continue to post strong numbers registering a rise of 37.4%.

In spite of the drop in sales volume, the Company's EBITDA margin for the quarter was up 8.6. It was mainly on the back of better product mix and better cost control. However Company's financial Expenses were higher at ₹ 627 mn (up by nearly 60%). Consequently, company's Q2 net profit was down 7.77% at ₹ 1.54 bn versus ₹ 1.67 bn during the corresponding previous quarter. During the quarter, Ashok Leyland issued a bonus share of ₹ 1 to all its shareholders in the ratio of 1:1. EPS of the company (annualized) stood almost flat at ₹ 2.3.

Investment Rationale**Portfolio Expansion**

- ➔ Ashok Leyland in Joint Venture with US major John Deere recently launched its first product - 435 backhoe loader. The JV located at a 48-acre facility at Gummidipoondi near Chennai aims at tapping Indian construction equipment market, which is one of the fast growing markets. The 435 Backhoe Loader is priced at ₹ 2.35 mn & will be powered by Ashok Leyland's engine.
- ➔ During the Q2FY11, Nissan Ashok Leyland Technologies a joint venture between Ashok Leyland and Nissan Motors launched its first product – Dost, a LCVs for cargo transportation. The reaction and response from the market has been very positive. The booking had surpassed 3,000 units with sales clocking over 800 during the November month. The company is planning to ramp up the production capacity of Dost. In the second phase of expansion, the company is planning to launch passenger segment vehicles & different variants of commercial light vehicles for goods transportation powered by diesel and CNG fuel.

Key Financials

Year Ended 31 st	Mar 09	Mar 10	Mar 11
Revenue (₹ mn)	62604.6	75316.8	114477.6
Rev. growth (%)	(22.42)	20.31	51.99
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
EPS growth (%)	(59.46)	122.68	49.01
P/E (x)	6.3	8.8	6.0
EV/ EBITDA	24.6	44.5	32.2
ROCE (%)	5.51	9.99	13.03

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Previous Report

Date	: Feb 04, 2011
Recommendation	: Accumulate
Price	: ₹ 54
Target Achieved	: Apr 05, 2011

Market Data

52 Wk Range (₹)	: 72 / 23
Shares in Issue (bn)	: 2.66
Mkt. Cap (₹ bn)	: 68.0
BSE 2 Wk Avg Vol	: 625000

Share Holding Pattern (%)

Promoters	: 38.61
DII's	: 15.40
FII's	: 16.18
Others	: 16.38

Investment Theme

In spite of strong headwinds, Ashok Leyland posted robust sales volume for November month. Its total sales in November 2011 were 7,878 vehicles, higher by 53% from 5,137 in November 2010. The company's domestic sales for November 2011 were 6,477, higher by 67% over 3,885 in November last year. We expect volumes to improve in the second half. The company has been expanding production capacities at its plants. Going forward as the rate cycle settles, the demand could pick up. Ashok Leyland has been expanding its product portfolio as well as its production facilities. Management expects contribution from Pantnagar to increase to 20000 units in H2FY12. Since the facility enjoys tax benefits, it can add to margins of the company.

Businesses are Automobiles...**... they have to be driven**

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)

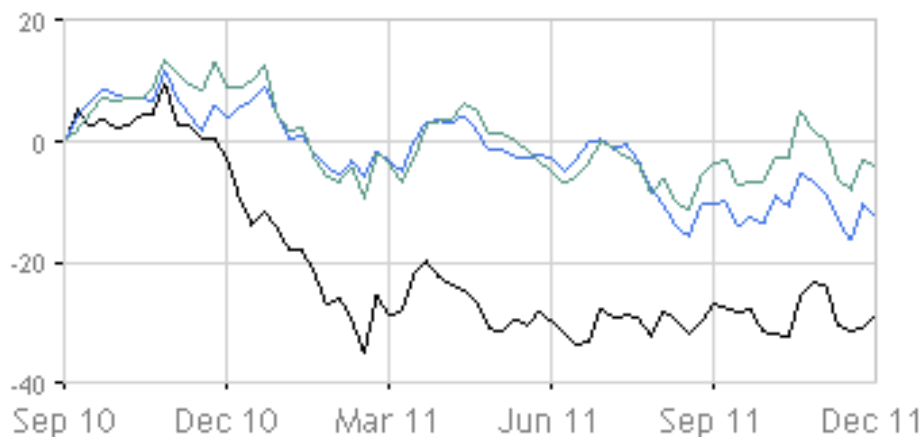
Balance Sheet as on 31 st	Mar 08	Mar 09	Mar 10	Mar 11
SOURCES OF FUNDS	30141.1	40710.2	45270.4	52249.5
Equity Share capital	1330.3	1330.3	1330.3	1330.3
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	19935.8	19798.5	21901.1	25236.6
Loan Funds	1902.4	3044.1	7115.7	11823.0
Unsecured Loans	6972.6	16537.3	14923.3	13859.6
USES OF FUNDS	30141.1	40710.2	45270.4	52249.5
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
Net Block	15031.6	20342.7	29164.0	33275.2
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
Total Net Current Assets	2176.8	7203.1	6632.7	2752.9
Misc. Expenses not written	222.9	96.9	51.7	43.1
NOTE				
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	Dec 10	Mar 11	Jun 11	Sep 11
Net Sales	22272.50	38285.30	24955.10	30945.70
Cost Of Sales	20612.20	33186.60	22508.90	27634.20
Operating Profit	1660.30	5098.70	2446.20	3311.50
Recurring Income	16.70	41.20	41.20	103.30
Adjusted PBDIT	1677.00	5139.90	2487.40	3414.80
Financial Expenses	474.80	450.80	533.50	627.00
Depreciation	646.90	772.10	846.60	859.30
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	555.30	3917.00	1107.30	1928.50
Tax Charges	260.60	934.70	244.80	387.70
Adjusted PAT	294.70	2982.30	862.50	1540.80
Non Recurring Items	139.00	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	433.70	2982.30	862.50	1540.80

52 Week Index Relative Percentage Appreciation



ASHOKLEY vs SENSEX vs Auto

Key Points

- The Indian automotive industry is emerging as one of the largest in the world. India ranks number two globally in the two-wheeler segment next only to China. It ranks 11th in car production and 13th in commercial vehicle production globally. With increasing industrial production and growing spending power of the Indian middle class households, the demand for automotive has been steadily rising. Not only Global players are coming to India, but Indian players are also enjoying larger exports contribution to their revenues. The Indian market not only offers great opportunities for passenger vehicle, but also for commercial vehicles as well. As the second fastest growing economy, the demand for CVs has been rising. The development of infrastructure has remained a priority of government policies.
- The sharp rise in the raw material prices has been eating the margins of most of the auto companies. This coupled with the fuel prices reaching their new highs has put a break on demand. To curb the inflation the central bank – RBI had to successively raise the key policy rates for a record 12 times. The higher cost of borrowing has further curtailed the demand. As the economic growth across the world is slowing down, the demand for commercial vehicle could take a hit. Also due to larger difference in Petrol & Diesel, the demand has been polarized towards, diesel products; thereby affecting petrol based product sales.

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. It is also planning to introduce new variants in passenger vehicles. Going forward as the rate cycle settles, the demand could pick up. Despite the strong headwinds, the auto industry has been able to give excellent results. However as interest rates are at their peaks, we believe that demand should moderate here & should revive only after the rates start tapering down. Share price of Ashok Leyland has been underperforming when compared to its peers. But the company is expanding its product portfolio as well as its production facilities. Management expects contribution from Panthnagar to increase to 20000 units in H2FY12. Since this facility enjoys tax free benefits, it can add to margins of the company. The new products are expected to boost the sales revenues. We therefore believe that the company would do well in near future & thus recommend to accumulate the stock.

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Rating Interpretation

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

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