

# Ashok Leyland

₹ 17

**Business Refocussed !****Accumulate**

Oct 25, 2013

## Company Background

Ashok Leyland is the flagship of the Hinduja Group, one of the largest commercial vehicle manufacturers in India with a turnover of US \$ 2.3 bn in 2012-13. For over six decades, the company has been in the transport business transporting both people and goods, touching millions across 50 countries worldwide. Headquartered in Chennai, India, its manufacturing footprint is pan-India with 2 facilities in Prague (Czech Republic) and Ras Al Khaimah (UAE). It is the largest vehicle supplier to the Indian Army. It has also inked 50:50 Joint Ventures (JV) with Nissan Motor Company (Japan) for Light Commercial Vehicles and John Deere (USA) for construction equipment. A JV with Continental AG (Germany) is for developing automotive Infotronics while the one with the Alteams Group is for producing high press die casting extruded aluminum components for both the automotive and telecom sectors.

## Key Highlights

- ➔ Ashok Leyland has announced that it would offload its stake in the US based subsidiary, Defiance Testing & Engineering Services (DTE) to Exova. DTE which was acquired by AL in 2007 provides testing and engineering services to manufacturers and suppliers in the passenger car, light truck, bus and military vehicle sectors. While the company has not disclosed the financials of the deal, the decision to sale DTE reflects the stated strategy of the management to divest non core assets and focus on reducing the debt. The management expects to reduce the company's debt by around ₹1,000cr in FY2014 by selling some of the non core assets.
- ➔ In 2012-13, Ashok Leyland completed its first full year of participation in the fast-growing LCV segment in India. Its first product, 'Dost', has contributed to transforming the SCV segment, by shifting the market emphasis from sub 2 tonnes to 2-3.5 tonnes GVW and garnered a gross sale of to 35,000 units. Today, 'Dost' is the second largest selling product in its segment, with a pan India market share of 18.5%, despite being launched only in 11 States where it enjoys market leadership and a share of 25.6%. The Company has also just started exporting 'Dost' to SAARC countries.

## Key Financials

Year Ended 31 <sup>st</sup>	Mar 11	Mar 12	Mar 13
Revenue (INR mn)	114,510.3	135,726.5	135,349.0
Rev. growth (%)	52.04	18.53	(0.28)
EBITDA (INR mn)	12,613.4	14,589.1	12,745.2
Net profit (INR mn)	6,313.0	5,659.8	4,337.1
Shares outstanding (mn)	1,330.3	2,660.7	2,660.7
EPS (INR)	4.7	2.1	1.6
EPS growth (%)	49.01	(55.17)	(23.37)
P/E (x)	6.0	14.2	13.5
RONW (%)	25.5	20.4	14.3
ROCE (%)	13.0	10.1	6.4

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## Info Codes

Reuters	: ASOK.BO
Bloomberg	: AL@IN
NSE	: ASHOKLEY
BSE	: 500477

## Market Data

52 Wk Range (₹)	: 29 / 12
Shares in Issue (mn)	: 2660.7
Mkt. Cap (₹ bn)	: 44.43
BSE 2 Wk Avg Vol	: 5138000

## Share Holding Pattern (%)

Promoters	: 38.61
DII's	: 12.38
FII's	: 16.00
Others	: 33.01

## Investment Theme

Ashok Leyland the flagship company of the Hinduja Group is looking out to de-risk its core business, the recent steps taken by the company include, appointing of new dealers in its off-focus market the north of India to ensure uniform reach, focussing on non-cyclical businesses related to the core like spares, power, etc. Moving out to the globe given the recent political and economical turmoil resulting in a slow down. The company is also keen on entering newer segments and has already initiated in the LCV segment creating a new category for the 2.5 to 3 ton GVW the Dost. Last but not the least in its effort to make the core business more viable the company is also trading off non core assets so that the debt burden on the core business is reduced and the product margins get a breathing space. Looking at all the above future seems bright for Ashok Leyland

**A U Turn back to the core !**

## Financial Statements

## Income Statement

(₹ mn)

Year end	Mar 11	Mar 12	% Chg	Mar 13	% Chg
Total Sales + Excise	123927.8	141964.1	14.55	139479.8	(1.75)
Other Income	411.3	1987.3	383.18	3961.8	99.36
Change in Stocks	1755.4	1750.3	(0.29)	(2793.6)	(259.61)
Raw Material Con.	81328.0	91948.3	13.06	76137.0	(17.20)
Employee Exp.	9597.2	10206.1	6.34	10755.1	5.38
Indirect Taxes	9914.8	8312.9	(16.16)	8197.2	(1.39)
Other Exp.	14324.5	22863.7	59.61	35393.2	54.80
Operating Exp.	113409.1	131580.7	16.02	133276.1	1.29
Operating Profit	10518.7	10383.4	(1.29)	6203.7	(40.25)
Total Interest	1873.8	4008.3	113.91	3666.7	(8.52)
Gross Profit	9056.2	8362.4	(7.66)	6498.8	(22.29)
Net Dep.	1038.2	1462.6	40.88	1791.7	22.50
Total Taxation	1705.0	1240.0	(27.27)	370.0	(70.16)
Net Profit/Loss	6313.0	5659.8	(10.35)	4337.1	(23.37)

## 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 10	Mar 11	Mar 12	Mar 13
<b>SOURCES OF FUNDS</b>	<b>45,270.4</b>	<b>52,249.6</b>	<b>59,968.7</b>	<b>75,139.0</b>
Equity Share capital	1,330.3	1,330.3	2,660.7	2,660.7
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	21,901.1	25,236.6	26,329.1	28,923.9
Long Term Loans	21,372.3	25,382.7	29,961.4	35,184.5
Short Term Loans	666.7	300.0	1,017.5	8,369.9
<b>USES OF FUNDS</b>	<b>45,270.4</b>	<b>52,249.6</b>	<b>59,968.7</b>	<b>75,139.0</b>
Gross Block	60,186.4	66,918.9	72,564.3	79,913.3
Less : Revaluation Reserves	13,331.7	13,062.8	13,133.6	12,966.5
Less : Accumulated Depreciation	17,690.7	20,581.0	23,429.4	27,094.3
Net Block	29,164.0	33,275.1	36,001.3	39,852.5
Capital Work in Progress	6,160.5	3,579.7	5,482.2	6,889.3
Investments	3,261.5	12,300.0	15,844.9	23,376.4
Current Assets	41,261.1	43,913.0	48,859.9	48,329.2
Less : Current Liabilities	34,628.4	40,861.4	46,318.2	43,469.4
Total Net Current Assets	6,632.7	3,051.6	2,541.7	4,859.8
Misc. Expenses not written	51.7	43.2	98.6	161.0
<b>NOTE</b>				
Bk Val Unquoted Investments	2,380.1	11,114.9	14,067.0	22,133.9
Mkt Val. Quoted Investments	3,283.6	5,241.3	6,815.2	5,513.1
Contingent Liabilities	4,450.3	8,817.7	9,859.2	3,206.9
Dividend (%)	150	200	100	60

**Quarterly Income Sheets**

(₹ mn)

Quarter Ended	Sep 12	Dec 12	Mar 13	Jun 13
Net Sales	32,960.50	24,063.70	37,284.60	23,638.10
Cost Of Sales	29,619.60	23,030.00	35,301.50	23,405.70
Operating Profit	3,340.90	1,033.70	1,983.10	232.40
Recurring Income	238.70	1,703.60	1,849.80	122.70
Adjusted PBDIT	3,579.60	2,737.30	3,832.90	355.10
Financial Expenses	1,036.40	1,071.10	827.70	1,006.80
Depreciation	984.10	931.10	1,000.10	951.70
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	1,559.10	735.10	2,005.10	(1,603.40)
Tax Charges	133.10	(16.90)	113.80	0.00
Adjusted PAT	1,426.00	752.00	1,891.30	(1,603.40)
Non Recurring Items	0.00	(10.60)	(391.00)	185.90
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	1,426.00	741.40	1,500.30	(1,417.50)

**52 Week Index Relative Percentage Appreciation**

**Ashok Leyland vs SENSEX**
**Points to Ponder**

Ashok Leyland has a growing international footprint and exports to over 30 countries worldwide. It is a market leader in the bus markets of Sri Lanka, Bangladesh and Mauritius and has significant presence in the Middle East and Africa too. AVIA Ashok Leyland Motors, headquartered in Prague, the Czech Republic, represents its European presence. Its trucks are popular on the roads of Hungary, UK, Ireland, Slovakia, Spain, Czech Republic and soon in the Middle East. With the Ras Al Khaimah Investment Authority, the company has set up a state-of-the-art facility at Ras Al Khaimah, UAE, with an initial annual capacity to manufacture 2,000 vehicles of international quality. The 75.1% stake in Optare Plc., a leading bus maker in the UK, gives impetus to its global bus strategy. The Company is now seeking to make inroads into CIS and Latin America. The Company is constantly on the try to accelerate technology adoption, develop new products and address new markets.

**Risks Associated**

Ashok Leyland has been concentrated more in the southern parts of India and still has market exposure to only some states. Any economic slowdown would hamper the demand since the company is not fully operational pan-India. Further, a more exposure to cyclical products imparts more risks to the business. Focused majorly on the Medium and heavy commercial vehicle segment, the company also faces a risk of less products in the passenger and the Light Commercial Vehicle segments. Legislative changes in pollution norms also pose a continuous risk to the company and so does the rise in cost of raw materials and fuel. However, over the past year, the company has taken stringent steps to mitigate all the above-mentioned risks by appointing newer dealers in the north and introducing its 2 to 3.5 GVW variant Dost, which is fast picking up.

## Ashok Leyland

### In a Nutshell

Ashok Leyland, is 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. The Company is diversifying its product portfolio and its customer mix. It has been foremost supplier of buses to State Transport undertakings and the largest supplier of vehicles to the Indian Army. 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 too. Going forward as the rate cycle settles, the demand could pick up, despite the strong headwinds. 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. Newer products like Dost have shown impressive growth and 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

<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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