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Established in September 1948, Ashok Leyland is the second largest manufacturer of MHCVs (Medium & Heavy Commercial Vehicles) in India, the fourth largest manufacturer of buses in the world and the sixteenth largest manufacturer of trucks globally. Ashok Leyland is the flagship company of the Hinduja group, with the group holding 51% stake in the company. Headquartered in Chennai (India), the company is one of the most fully-integrated manufacturing companies with its footprints across 50 countries across the globe.

Investment Rationale

Optimistic outlook for MHCV industry augurs well for Ashok Leyland:

Ashok Leyland recorded a healthy double digit volume growth of 44% YoY in Q3FY15 as the MHCV segment, which accounts for ~80% to the company's total volumes, continued to outperform with 71% YoY volume growth. The robust growth in volumes was driven by Ashok Leyland's efforts to increase the distribution reach to northern, eastern and central regions. In the southern region, the company already has a strong distribution network.

Improving economic outlook coupled with expectations for healthy growth in MHCV industry makes us optimistic for Ashok Leyland's prospects going forward. During Q3FY15, the MHCV industry grew robustly by 41% YoY and is expected to maintain the growth momentum on hopes for a rise in freight movement and huge demand.

Revenue to grow at a CAGR of ~10% over FY13-17E: We expect the revenue to grow at a CAGR of ~10% over FY13-17E on the back of healthy volume growth across its segments - MHCV and LCV. While the company witnessed a robust volume growth in MHCV in Q3FY15, volumes in LCV declined 8% YoY. However, we believe that improvement in business sentiments would drive growth in LCV as well.

Market share increased to 27% in 9MFY15 driven by stronger growth in

Southern markets: Ashok Leyland's market share in the MHCV has improved to 27% in 9MFY15 as compared to 24.7% in 9MFY14 driven by stronger growth in Southern markets coupled with market share gains in other regions as well. We believe that stronger growth in higher tonnage segments (where Ashok Leyland has higher market share) will also help the company to further expand market share in this segment.

Debt - no more a major concern: In a move to bring down the debt level, Ashok Leyland is actively looking to sell stakes in its overseas subsidiaries, Albonair GmbH (also Albonair India) and Avia Ashok Leyland Motors Ltd. The company has been able to reduce the debt to ₹36,979.7 mn in H1FY15, as against ₹38,839.1 mn in FY14 and remains sharply focused on reducing working capital and lowering debt. We expect the company's efforts to lower down its debt will improve company's profitability in the coming quarters.

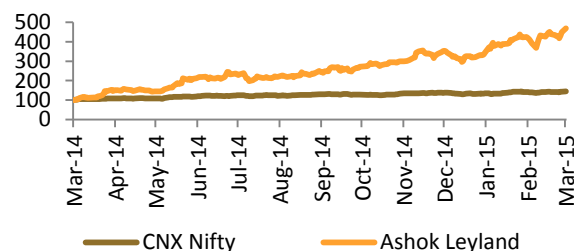
Market Data

Rating	BUY
CMP (₹)	70.8
Target (₹)	84.7
Potential Upside	~19.6%
Duration	Long Term
Face Value (₹)	1.0
52 week H/L (₹)	76.1/17.4
Adj. all time High (₹)	76.1
Decline from 52WH (%)	7.0
Rise from 52WL (%)	306.9
Beta	1.4
Mkt. Cap (₹bn)	188.4
Enterprise value (₹bn)	227.1

Fiscal Year Ended

Y/E	FY14A	FY15E	FY16E	FY17E
Revenue (₹bn)	99.4	121.2	148.4	178.0
EBITDA (₹bn)	1.7	8.7	13.4	16.0
Adj. Net Profit	(4.8)	0.5	3.8	5.5
EPS (₹)	0.1	0.6	1.3	1.9
Adj. P/E (x)	(39.6)	388.0	52.5	36.9
P/BV (x)	4.2	3.8	3.7	3.5
EV/EBITDA (x)	136.3	25.7	16.6	13.7
ROCE (%)	(1.8)	6.5	11.2	13.2
ROE (%)	0.7	3.1	7.0	9.5

One year Price Chart



Shareholding Pattern	Dec'14	Sep'14	Diff.
Promoters	38.8	38.8	-
FII	19.6	21.5	(1.9)
DII	13.2	13.2	-
Others	28.4	26.5	1.9

Ashok Leyland is the second largest manufacturer of MHCV with ~27% market share.

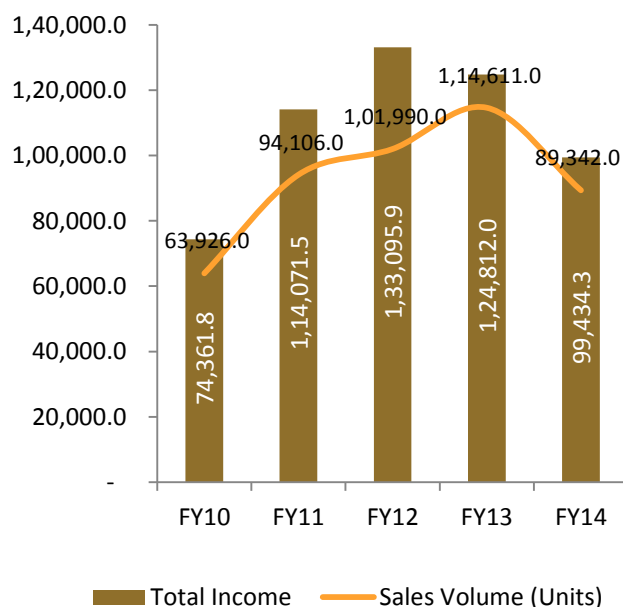
In order to expand its product offerings, the company has entered into a 50:50 JV with Nissan for LCVs and with John Deere for construction equipment.

Ashok Leyland Ltd - the second largest MHCV player in India

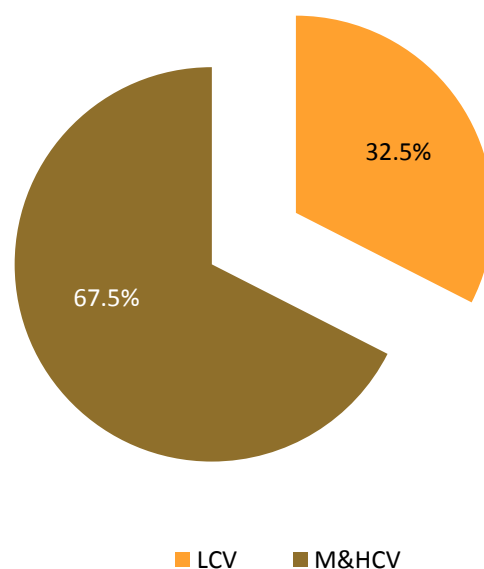
Ashok Leyland, the flagship company of Hinduja Group, is the second largest manufacturer of MHCVs with ~27% market share (as in 9MFY15) and is also among the largest bus manufacturers in the world. Hinduja Group holds 51% stake in the company through its holding company, Hinduja Automotive (UK). The company operates in two major segments, namely, MHCV and LCV. While, within its portfolio of LCVs comes Dost, Partner, Stile and Mitra; under the MHCV segment comes buses, trucks and defence vehicles with some popular names like Boss, U-Truck, AVIA Truck etc. With six manufacturing plants at five locations in India, namely, Ennore (Tamil Nadu), Hosur (Tamil Nadu), Alwar (Rajasthan), Bhandara (Maharashtra) and Pantnagar (Uttaranchal), Ashok Leyland focuses on MHCV segment and has a significant presence in the bus segment. To expand its product offerings, the company has entered into 50:50 JV with Nissan for LCVs and John Deere for construction equipment.

With its headquartered in Chennai, India, the company has expanded its footprints across the globe in 50 countries. Further, in order to avail the advantages of diversification and reap the benefits of entering profitable adjacencies, the company has forged a series of Joint Ventures (JV) with various global leaders. The company's JV partners include Nissan Motor Company (Japan) for Light Commercial Vehicles, John Deere (USA) for Construction Equipment, Continental AG (Germany) for Automotive Infotronics and the Alteams Group for the manufacture of high-pressure die-casting extruded aluminum components for the automotive and telecommunications sectors.

Revenue (in ₹mn) and sales volume (Units) trend



Segment-wise revenue breakup (as in FY14)

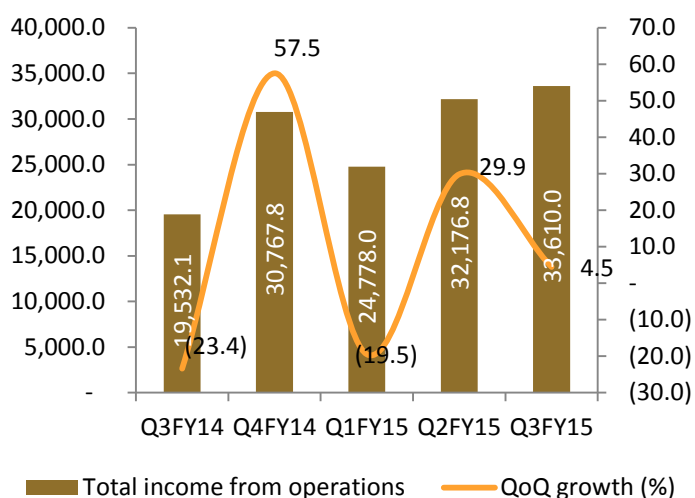


Ashok Leyland showcased a healthy performance in Q3FY15 with robust growth in standalone revenue followed by a decent bottom-line.

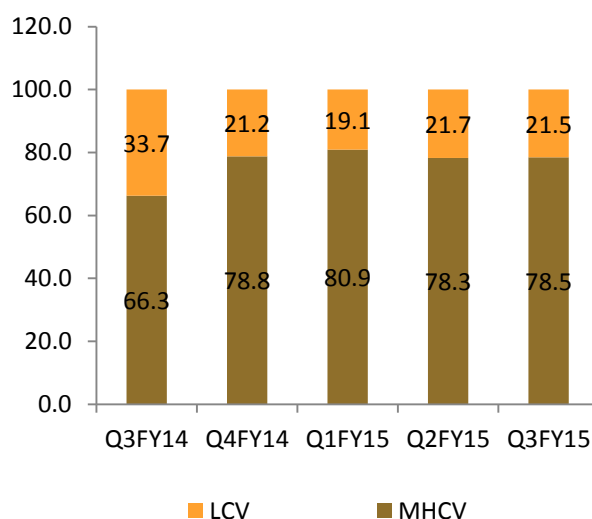
Healthy performance in Q3FY15; strong volume growth in MHCV makes outlook brighter

Ashok Leyland showcased a healthy performance in Q3FY15 with robust growth in standalone revenue followed by a decent bottom-line. Total income from operations reported a substantial growth of 72% YoY at ₹33,610.0 mn led by a 44% YoY pick in volumes on account of sharp growth in MHCV segment. The MHCV segment continued to outperform with a volume growth of 71% YoY compared to an 8% YoY decline in LCV segment's volume, during the quarter. The higher proportion of MHCV in the product mix coupled with price hikes resulted in a 19% YoY growth in realisations to ₹1,443,969.

Quarterly revenue trend (₹ mn)



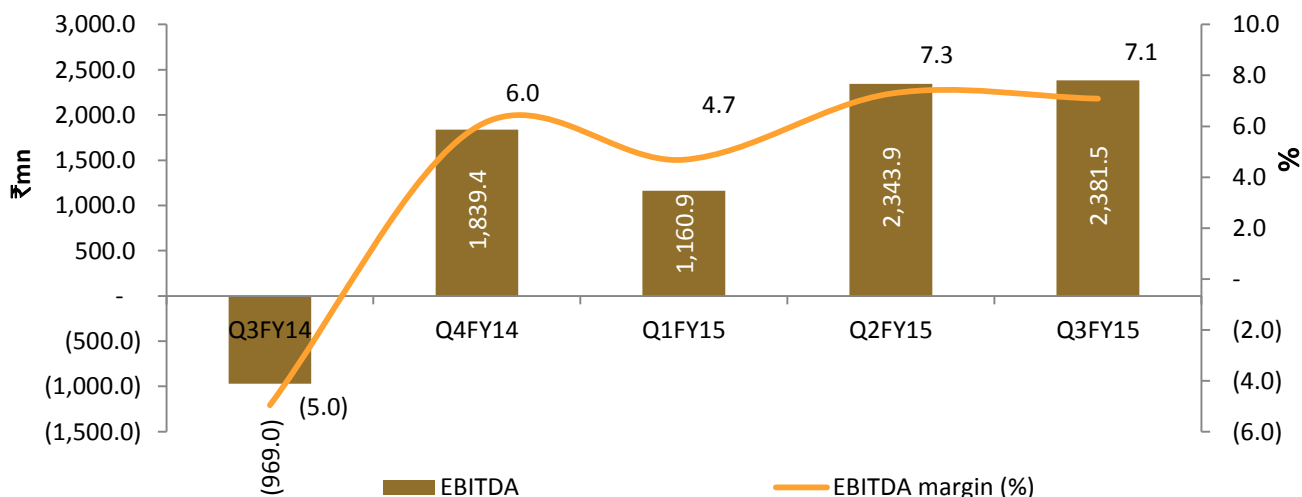
MHCVs – leading the product mix (%)



Supported by lower operating expenses, Ashok Leyland was able to turn the operating loss witnessed in Q3FY14 into profit in Q3FY15.

The company reported an operating profit of ₹2,381.5 mn in Q3FY15 as against an operating loss of ₹969.0 mn in the corresponding quarter a year ago primarily on account of a decline in operating expenses. During the quarter, purchases of stock-in-trade, employee and other expenses (as a % of sales) declined 1,103bps, 403bps and 279bps YoY to 7.9%, 8.2% and 10.2%, respectively. Consequently, EBITDA margin expanded to 7.1% in Q3FY15.

EBITDA & margin trend



Going forward, growing volumes from the MHCV segment, which accounts for ~80% of the company's total volumes, makes us positive for Ashok Leyland.

The company's Pantnagar plant (Uttarakhand) which contributed ~35% to the overall volumes in Q3FY15 verifies the fact that the company has been able to draw the attention in Northern India, during the quarter.

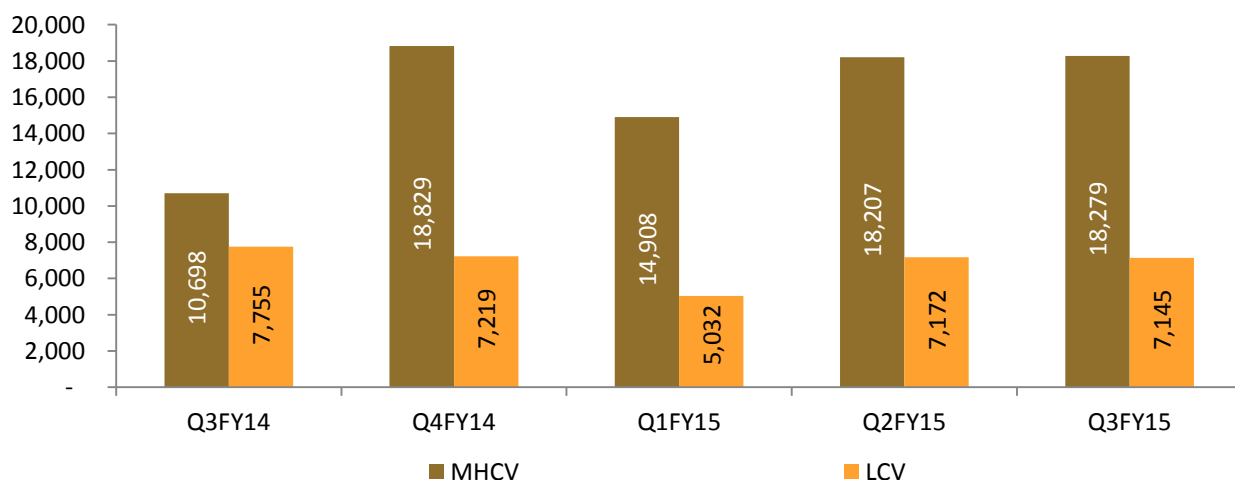
Ashok Leyland registered an adj. net profit of ₹320.9 mn in Q3FY15 as against a net loss of ₹2,595.3 in Q3FY14. While, sequentially, the standalone adj. net profit reported triple digit growth, up by 173.9%. The growth in net profit was mainly led by substantial decline in taxes by 206.8% YoY followed by 13.1% and 14.8% YoY fall in depreciation and interest charges, respectively.

Going forward, expectations for continued volume growth in the MHCV segment, which accounts for ~80% of the company's total volumes, makes us positive for Ashok Leyland. The company has been gaining market share in the MHCV segment on the back of increasing distribution reach. Since Ashok Leyland is expanding its presence in north, eastern and central markets, we believe, the market share to grow further in the upcoming quarters. Expectations for an improvement in LCV segment on the back of gradual improvement in sentiments also make the company's prospects brighter.

Increase in sales volume to revive growth further

Ashok Leyland's total sales volume grew by 44% YoY to 25,424 units during Q3FY15 led by medium and heavy commercial vehicles sales, which were up 71% YoY to 18,279 units during Q3FY15, while the LCV segment sales volume declined by 8% to 7,145 during the said period. One of the reasons the company outperformed the sector was the higher sales in the southern part of the country. Further, higher sales of tractor trailers drove the volumes in the higher tonnage segment. Since the company has a strong presence in southern part of the country, it has been taking continuous efforts to grab a significant share in the northern, eastern and central parts as well. The company's Pantnagar plant (Uttarakhand) which contributed ~35% to the overall volumes in Q3FY15 verifies the fact that the company has been able to draw the attention in Northern India, during the quarter. With hopes of higher production from this plant, the management expects an improvement in margins by 50-60bps in FY16.

Sales volume trend (units)



To de-risk its portfolio which is more inclined towards MHCV segment (cyclical in nature), the company is seeking higher growth in non-truck commercial products.

Aims to de-risk portfolio by focusing more on export market and LCV segment

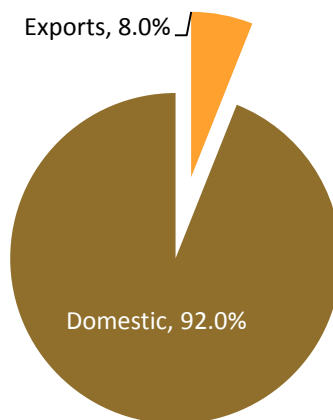
In order to maintain its growth trajectory, the company is aiming to boost exports. Buoyed by 25% growth in its overseas operations in the first half of this fiscal, Ashok Leyland is now working on a strategy to expand exports. With the current ~8% (as in Q3FY15) contribution to revenue from exports, the management aims to increase the contribution to ~30% over the

The company remains committed towards introducing more variants and products that will drive future volumes growth.

next four to five years. Noting that the company is currently serving Bangladesh, Sri Lanka and the Middle East markets, the management highlighted that the three markets together account for 80% of the total exports. Besides targeting the three markets, the company is also looking at entering newer geographies including Africa, South America and South East Asian markets.

Further, to de-risk its portfolio which is more inclined towards MHCV segment (cyclical in nature), the company is seeking higher growth in non-truck commercial products. New launch of "DOST" in the LCV segment proved as the game changer for the company in the LCV segment, by increasing its contribution to 32.5% of the total sales at the end of FY14. Further, according to reports, the company is expecting its joint venture with Nissan for LCV to turn profitable in the next three years. The company remains committed towards introducing more

Sales volume distribution in Q3FY15



Ashok Leyland has been sharply focused on reducing working capital and lowering debt. We expect company's efforts to lower down its debt will improve company's profitability in the coming quarters.

Plans to sell its non-core assets to reduce debt; likely to show good numbers in the coming quarters

Ashok Leyland remains committed towards lowering its debt burden and has managed to bring down its total debt to ₹36,979.7 mn in H1FY15 (₹38,839.1 mn in FY14), which was partly funded through funds raised from qualified institutional investor's placement in the current fiscal. Further, to strengthen its financial leverage, Ashok Leyland is actively looking to sell stakes in its overseas subsidiaries Albonair GmbH (also Albonair India) and Avia Ashok Leyland Motors Ltd so as to lower down its debt. The company is in the process of identifying suitable buyers to sell its non-core assets. The sale of stakes in subsidiaries is expected to improve the financial situation of the company.

Albonair is a German company which is a complete solution provider for reducing the automotive emissions and has presence in both passenger and commercial vehicle sectors globally. While, Avia Ashok Leyland Motors Ltd. is a Czech subsidiary which specializes in trucks. The Ashok Leyland Boss range of intermediate commercial vehicles which is being manufactured at the company's Pantnagar facility is derived from Avia. The sale of Avia is not expected to affect the Boss-related technology rights that Ashok Leyland has access to.

Going forward, we expect the debt to further reduce to ₹36,254.6 mn in FY15E and to ₹34,672.3 mn in FY16E. With gradual reduction in the company's debt obligations, we believe there would be a significant improvement in bottom-line on the back of reduction in interest cost, which strengthens the company's outlook going forward.

Balance Sheet (Standalone)

Y/E (₹mn)	FY14A	FY15E	FY16E	FY17E
Share Capital	2,660.7	2,845.9	2,845.9	2,845.9
Reserve & surplus	41,818.2	49,736.8	52,230.7	54,842.2
Net Worth	44,478.8	52,582.7	55,076.6	57,688.1
Total debt	38,839.1	36,254.6	34,672.3	35,592.8
Provisions	1,559.9	1,562.4	1,707.7	1,834.9
Deferred tax liability	4,067.7	4,288.1	4,288.1	4,288.1
Other non-current liabilities	23.7	29.8	29.8	29.8
Other current liabilities	39,110.7	40,942.0	47,582.5	55,396.3
Capital Employed	128,080.0	135,659.6	143,357.0	154,830.1
Fixed Assets	58,413.9	59,797.9	62,787.8	65,927.2
Investments	27,896.9	28,556.1	26,948.5	27,407.9
Loans & advances	14,734.8	15,301.5	18,514.8	21,214.3
Other non-current assets	330.9	136.2	136.2	136.2
Other current Assets	26,703.5	31,867.9	34,969.7	40,144.6
Capital Deployed	128,080.0	135,659.6	143,357.0	154,830.1

Key Ratios (Standalone)

Y/E	FY14A	FY15E	FY16E	FY17E
EBITDA Margin (%)	1.7	7.2	9.0	9.0
EBIT Margin (%)	(1.4)	4.6	6.6	6.7
NPM (%)	0.3	1.3	2.6	3.1
Adj. NPM (%)	(4.8)	0.4	2.6	3.1
ROCE (%)	(1.8)	6.5	11.2	13.2
ROE (%)	0.7	3.1	7.0	9.5
EPS (₹)	0.1	0.6	1.3	1.9
P/E (x)	641.1	125.2	52.5	36.9
Adj. P/E (x)	(39.6)	388.0	52.5	36.9
BVPS(₹)	16.7	18.5	19.4	20.3
P/BVPS (x)	4.2	3.8	3.7	3.5
EV/Net Sales (x)	2.3	1.8	1.5	1.2
EV/EBITDA (x)	136.3	25.7	16.6	13.7

Profit & Loss Account (Standalone)

Y/E (₹mn)	FY14A	FY15E	FY16E	FY17E
Net Sales	99,434.3	121,178.7	148,357.4	178,028.9
Expenses	97,768.6	112,453.9	135,005.2	162,006.3
EBITDA	1,665.6	8,724.9	13,352.2	16,022.6
Other Income	665.2	976.3	976.3	976.3
Depreciation	3,770.4	4,147.4	4,562.1	5,018.3
EBIT	(1,439.5)	5,553.8	9,766.3	11,980.6
Interest	4,529.2	4,117.5	3,743.2	3,402.9
Profit Before Tax	(5,968.8)	1,436.3	6,023.2	8,577.7
Exceptional Item	5,056.6	1,089.7	-	-
Tax	(1,206.0)	916.9	2,186.4	3,113.7
Net Profit	293.8	1,609.0	3,836.7	5,464.0
Adj. Net Profit	(4,762.8)	519.3	3,836.7	5,464.0

Valuation and view

Given the positive outlook for MHCVs, revival in economic growth and Ashok Leyland's focus on exports and low-growth LCV segment, we expect improvement in the company's performance in the coming quarters. Further, the plans to lower down the discounts currently offered to boost sales volume are expected to push revenue. Moreover, the company has been able to take price hikes during the past quarters to offset the discounts. Besides, the company has laid focus on working capital management and accordingly lowered its working capital requirement. Going ahead, the positive operating leverage from volume growth will be beneficial to the margins. Further, on the back of cost control initiatives taken by the company, we expect some uptick in margins in the coming quarters.

At a current market price (CMP) of ₹70.8, the stock trades at an EV/EBITDA of 16.6x FY16E and 13.7x FY17E. We recommend 'BUY' with a target price of ₹84.7, which implies potential upside of ~19.6% to the CMP from long term perspective

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