

CMP: ₹ 130

Target: ₹ 160 (23%)

Target Period: 12 months

BUY

August 13, 2021

Outsized beneficiary of looming CV cyclical recovery

About the stock: Ashok Leyland (ALL) is a pure-play CV manufacturer domestically, with FY21 market share at 16.3%. The company is present in M&HCV trucks and buses as well as LCV goods segments.

- FY21 product mix – LCV goods 48.3%, trucks 45.8%, buses 5.6%
- Subsidiary Switch Mobility is focused on EV space with 280 vehicles on road

Q1FY22 Results: The company reported weak Q1FY22 results.

- Standalone operating income fell 57.8% QoQ to ₹ 2,951 crore
- EBITDA was at negative ₹ 140 crore vs. 7.6% margins in Q4FY21
- Consequent loss after tax came in at ₹ 282 crore

What should investors do? ALL's share price has grown at ~9% CAGR over the past five years (from ~₹ 85 levels in August 2016), outperforming Nifty Auto index

- We retain **BUY** rating given CV revival play & structural margin tailwinds

Target Price and Valuation: We value ALL at revised SOTP based target price of ₹ 160 (15x CV FY23E EV/EBITDA, 2x P/BV for investments; earlier TP ₹ 150)

Key triggers for future price performance:

- Set to be an outsized beneficiary of impending M&HCV revival riding on government's infra push and pickup in core industrial activity (mining, construction, road building). LCV to continue to gain from last mile mobility
- Blended ASPs to rise amid exports push in line with global top-10 vision
- Switch Mobility is targeting meaningful share of business from global EV addressable market of ~US\$70 billion (2030)
- We build 28% volume & 38% net sales CAGR over FY21-23E; margins seen rising to 10% levels by FY23E on the back of operating leverage benefits and cost, cash, capex actions under Project Reset

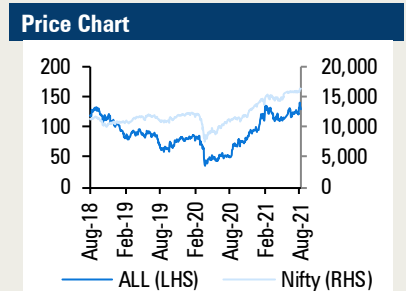
Alternate Stock Idea: Besides ALL, in our auto OEM coverage we like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with target price of ₹ 1,000



Particulars	
Particular	₹ crore
Market Capitalization	38,052.4
Total Debt (FY21P)	3,771.3
Cash & Inv. (FY21P)	823.0
EV (₹ Crore)	41,000.6
52 week H/L (₹)	143 / 52
Equity capital (₹ crore)	293.6
Face value (₹)	1.0

Shareholding pattern				
	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	51.5	51.5	51.5	51.5
FII	14.6	16.3	18.1	17.0
DII	17.6	17.6	16.7	18.2
Other	16.3	14.5	13.7	13.3



Recent event & key risks

- Dana Incorporated acquired 1% stake in Switch Mobility
- **Key Risk:** (i) Sustained sluggishness in buses, (ii) More than anticipated rise in input costs constricting margins

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Key Financial Summary

Key Financials	FY19	FY20	FY21P	5 year CAGR (FY16-21P)	FY22E	FY23E	2 year CAGR (FY21P-23E)
Net Sales	29,055.0	17,467.5	15,301.5	-4.2%	22,084.3	28,984.9	37.6%
EBITDA	3,135.7	1,173.6	535.1	-25.0%	1,212.6	2,900.8	132.8%
EBITDA Margins (%)	10.8	6.7	3.5		5.5	10.0	
Net Profit	1,983.2	239.5	(313.7)	PL	129.8	1,364.9	LP
EPS (₹)	6.8	0.8	(1.1)		0.4	4.6	
P/E	19.2	159.3	(121.6)		293.9	28.0	
RoNW (%)	24.3	4.7	(4.4)		1.9	17.7	
RoCE (%)	25.7	4.5	(1.9)		3.2	16.5	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Larger than anticipated losses at EBITDA, PAT level

- Revenue decline for the quarter tracked 59.2% sequential drop in volumes to 17,987 units
- ASPs for the quarter rose 3.3% QoQ to ₹ 16.4 lakh/unit despite M&HCV: LCV mix deteriorating to 50:50 vs. 60:40 in Q4FY21
- Margin performance was severely hurt by negative operating leverage. However, a silver lining was the ~280 bps gross margin uptick for Q1FY22

Q1FY22 Earnings Conference Call highlights

- The government's infra spends and low interest rates are drivers for CV demand but freight rates are yet to scale up. Underlying enquiry levels remain strong and demand is slated to improve, going forward. Evolution of Covid-19 (possible third wave) and semiconductor supplies are monitorables. LCV demand is slated to be stable amid e-commerce pull. Key export markets (Bangladesh, Nepal, Sri Lanka) are yet to open completely
- Excess capacity created due to increased payloads under revised axle load norms has now been fulfilled
- Steel prices rose 13-15% QoQ in Q1FY22. The company expects them to start cooling off from H2FY22E onwards. ALL has undertaken price hikes of 2% each in Q4FY21 and Q1FY22 in addition to another hike in July. However, given the steep volume decline these have not been able to cover up entirety of commodity cost increases. Going forward, the company continues to work on reducing material cost by employing alternative materials and alternative designs
- Industry discounting intensity is high at present
- Banks are slightly cautious about CV financing at present
- Warranty costs have come down due to improvement in product quality
- Other expenses in Q1FY22 have a one-off element of ~₹ 45 crore
- Switch Mobility would continue to raise money on its own in the future. Any infusion by ALL would be in a limited manner
- Hinduja Leyland Finance AUM was at ₹ 25,850 crore, with net NPAs at 2.6%. Collection efficiency was at 85% in June, improving further in July
- Medium to long term capex spends would be in line with the previous trend and is expected to be below ₹ 1,000 crore

Peer comparison

Exhibit 1: Peer Comparison (4-W)

Company	CMP	TP	Rating	Mcap	Total lakh volumes			EBITDA margin (%)			RoCE (%)			EV/EBITDA (x)		
	₹	₹		₹ crore	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Ashok Leyland (ASHLEY)	130	160	Buy	38,052	1.0	1.3	1.6	3.5	5.5	10.0	(1.9)	3.2	16.5	76.6	34.3	14.1
Tata Motors (TATMOT)	306	375	Buy	1,17,167	4.9	6.2	7.2	14.3	13.4	14.9	6.3	7.9	14.8	5.3	5.0	3.3
M&M (MAHMAH)	776	1,000	Buy	96,472	3.5	4.3	4.9	14.4	13.4	13.5	9.5	9.8	10.9	14.4	13.5	11.8

Source: Company, ICICI Direct Research; Note – volume data above is for Tata Motors' India business and M&M's automotive business only

We believe ALL would be an outsized beneficiary of the impending CV revival domestically given its presence across industry segments. Blended realisations are set to improve amid exports focus. Riding on operating leverage gains, margins and RoCE are set to expand to 10%, 17% by FY23E, respectively.

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Total Operating Income	2,951.0	2,707.8	650.9	353.4	7,000.5	-57.8	Topline came in ahead of estimates tracking beat on ASPs
Raw Material Expenses	2,187.3	2,090.0	417.5	424.0	5,383.4	-59.4	RM costs for the quarter came in at 74.1%, down 280 bps QoQ courtesy low cost metal inventory with the company coupled with favourable product mix
Employee Expenses	424.3	352.0	354.2	19.8	401.6	5.7	
Other expenses	479.5	284.3	212.5	125.7	681.3	-29.6	Other expenses were higher at 16.2% of sales and included some element of one-offs (₹ 40-45 crore)
EBITDA	-140.1	-18.6	-333.2	-58.0	534.2	-126.2	
EBITDA Margin (%)	-4.7	-0.7	-51.2	4645 bps	7.6	-1238 bps	EBITDA margins for the quarter were in the negative territory courtesy perils of negative operating leverage
Other Income	13.4	32.5	25.6	-47.7	38.0	-64.7	
Depreciation	183.5	199.0	163.7	12.1	218.5	-16.0	Depreciation for the quarter was a tad below estimates
Interest	70.7	65.1	76.8	-7.9	77.1	-8.2	
Tax	-100.3	-63.1	-161.0	-37.7	72.8	-237.9	
Reported PAT	-282.3	-187.2	-388.8	-27.4	241.2	-217.1	PAT was substantially negative tracking muted EBITDA margins profile (-4.7% in Q1FY22)
EPS	-1.0	-0.6	-1.3	-27.4	0.8	-217.1	
Key Metrics							
ASPs (₹ lakh/unit)	16.4	15.1	17.1	-3.9	15.9	3.3	ASP's were up 3.3% QoQ to ₹ 16.4 lakh/unit

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	20,327	22,084	8.6	26,173	28,985	10.7	We raise upward our sales estimates tracking commodity led increase in ASPs across product profile. We expect net sales to grow at a CAGR of 37.6% over FY21-23E, building in ~28% volume CAGR
EBITDA	1,324	1,213	-8.4	2,651	2,901	9.4	
EBITDA Margin (%)	6.5	5.5	-101 bps	10.1	10.0	-9 bps	Muted Q1FY22 leads to sharp downgrade in margin and earning estimates for FY22E. Broadly maintain margin estimates for FY23E
PAT	323	130	-59.8	1,289	1,365	5.9	
EPS (₹)	1.1	0.4	-59.8	4.4	4.6	5.9	We expect ALL to report robust earnings CAGR over FY21-23E, albeit on a low base and clock an EPS of ₹ 4.6 in FY23E

Source: ICICI Direct Research

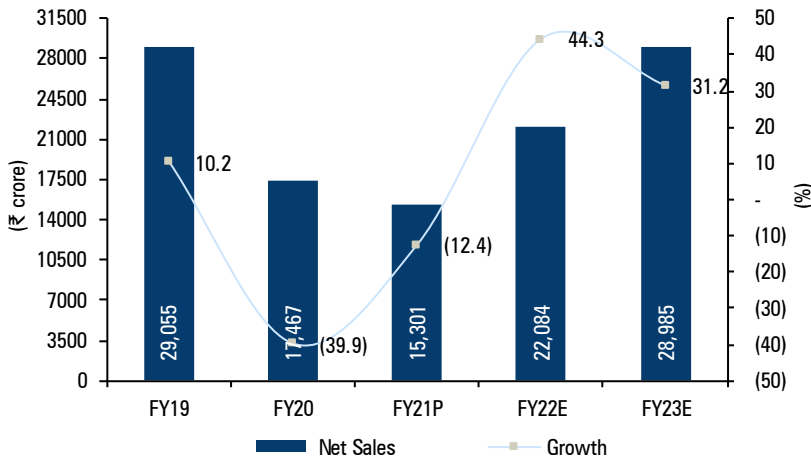
Exhibit 4: Assumptions

	FY19	FY20	FY21P	Current		Earlier		Comments
				FY22E	FY23E	FY22E	FY23E	
M&HCV Passenger volumes	19,871	23,397	5,632	9,336	12,033	9,501	11,877	Going forward, we expect sales volume to grow at 28% CAGR of in FY21-23E, led by a pick-up in infrastructure, mining and e-commerce activity. M&HCV volumes are leading the charge with volume CAGR expected at 32% in the aforesaid period followed by LCV volume CAGR at 24% over FY21-23E. We expect the company to be an outsized beneficiary of impending cyclical recovery in the CV space
M&HCV Goods volumes	122,987	55,197	46,137	60,616	77,857	60,445	75,338	
Total M&HCV Sales Volume	142,858	78,594	51,769	69,951	89,890	69,946	87,215	
LCV volumes	54,508	46,560	48,908	61,688	74,826	61,040	76,300	
Total Sales Volume	197,366	125,154	100,677	131,639	164,716	130,987	163,515	
YoY Growth (%)		-37%	-20%	31%	25%			
ASPs (₹ lakh/unit)	14.4	12.8	15.0	16.6	17.6	15.5	16.0	

Source: ICICI Direct Research

Financial story in charts

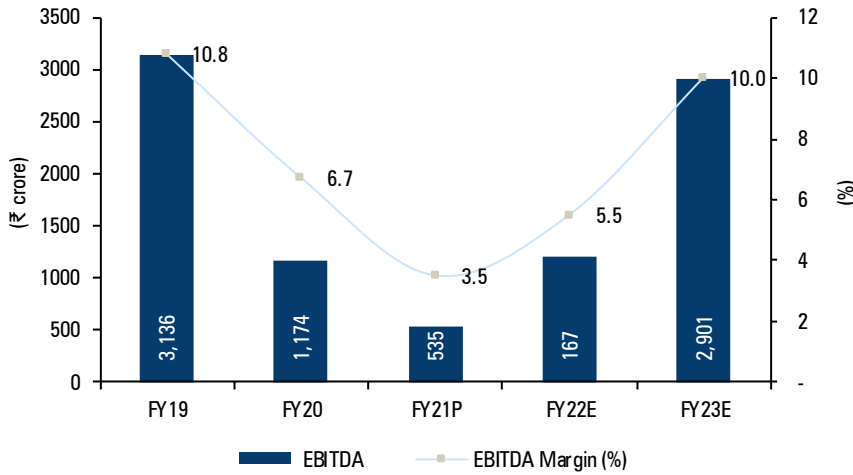
Exhibit 5: Topline trend



We expect sales to grow at a CAGR of 37.6% over FY21-23E backed by 28% volume CAGR

Source: Company, ICICI Direct Research

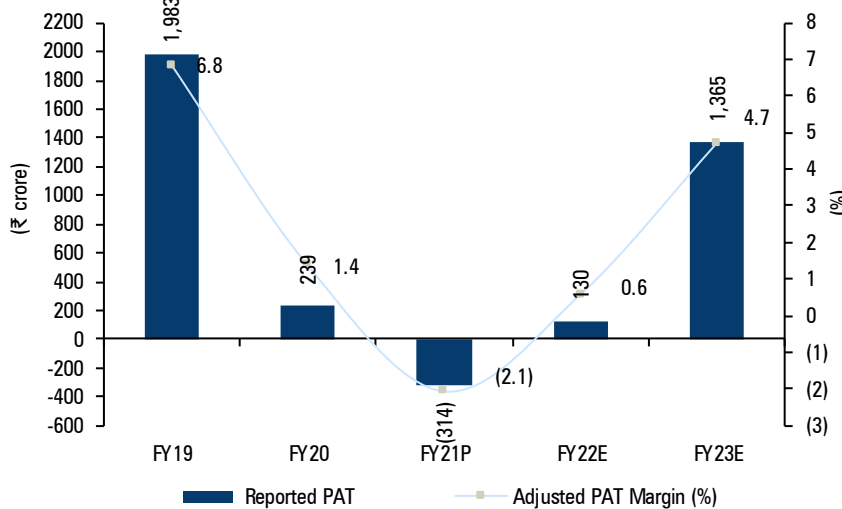
Exhibit 6: Trend in margins



We expect ALL to post double digit margins by FY23E, riding on substantial operating leverage gains and cost control measures

Source: Company, ICICI Direct Research

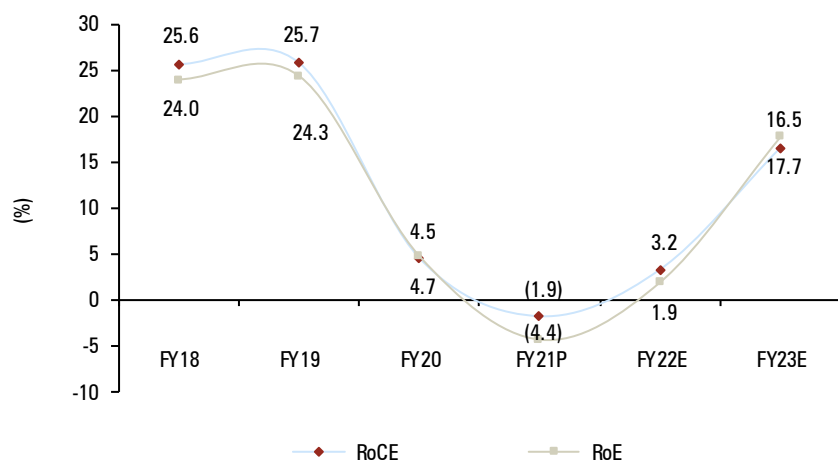
Exhibit 7: Trend in profitability



PAT is expected to reach ₹ 1,365 crore in FY23E

Source: Company, ICICI Direct Research

Exhibit 8: Trend in return ratios



The company is poised to post healthy double digit return ratios in FY23E

Source: Company, ICICI Direct Research

Exhibit 9: SOTP-based valuation

SOTP	
Target EV/EBITDA (x)	15.0
EBITDA (FY23E)	2,901
Enterprise Value (₹ Crore)	43,512
Net Debt (₹ crore)	2,829
Target Market cap Core business (₹crore)	40,682
Value/Share (A)	140
Strategic Investments FY23E (₹ crore)	3,419
P/BV(x)	2.0
Total Value/Share post applying 20% Holdco. Discount (B)	20
Price target (₹, A + B)	160

Source: Company, ICICI Direct Research

Exhibit 10: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	26,356	31.7	5.9	36.6	22.2	11.8	24.0	25.6
FY19	29,055	10.2	6.8	15.1	19.2	11.9	24.3	25.7
FY20	17,467	(39.9)	0.8	(87.9)	NM	34.1	4.7	4.5
FY21P	15,301	(12.4)	(1.1)	NA	NM	76.6	(4.4)	(1.9)
FY22E	22,084	44.3	0.4	NM	NM	34.3	1.9	3.2
FY23E	28,985	31.2	4.6	NM	28.0	14.1	17.7	16.5

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
Total operating Income	17,467.5	15,301.5	22,084.3	28,984.9
Growth (%)	-39.9	-12.4	44.3	31.2
Raw Material Expenses	12,369.2	11,403.4	16,573.9	21,482.0
Employee Expenses	1,615.1	1,583.9	1,756.9	1,874.6
Other Expenses	2,309.6	1,779.1	2,541.0	2,727.5
Total Operating Expenditure	16,293.8	14,766.4	20,871.7	26,084.1
EBITDA	1173.6	535.1	1212.6	2900.8
Growth (%)	-62.6	-54.4	126.6	139.2
Depreciation	669.8	747.7	828.2	898.5
Interest	109.5	306.8	295.0	264.0
Other Income	123.3	119.5	80.5	86.5
PBT	517.7	-399.9	170.0	1824.7
Others	0.0	0.0	0.0	0.0
Total Tax	122.4	-98.2	38.5	459.8
PAT	239.5	-313.7	129.8	1364.9
Growth (%)	-87.9	-231.0	-141.4	951.3
EPS (₹)	0.8	-1.1	0.4	4.6

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
Profit after Tax	239.5	-313.7	129.8	1,364.9
Add: Depreciation	669.8	747.7	828.2	898.5
(Inc)/dec in Current Assets	2,683.8	-2,495.2	-33.9	-1,696.3
Inc/(dec) in CL and Provisions	-3,383.5	1,989.1	-48.9	1,758.1
CF from operating activities	319.0	234.7	1170.2	2589.2
(Inc)/dec in Investments	-83.1	-349.1	-250.0	-100.0
(Inc)/dec in Fixed Assets	-1,243.4	-681.5	-800.0	-800.0
Others	-275.1	86.3	-184.1	-184.2
CF from investing activities	-1601.7	-944.3	-1234.1	-1084.2
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	2,648.9	489.9	500.0	-500.0
Dividend paid & dividend tax	-176.7	-176.1	-176.1	-587.1
Others	-1,240.8	-103.7	-295.0	-264.0
CF from financing activities	1231.5	210.1	28.9	-1351.1
Net Cash flow	-51.2	-499.4	-35.0	153.9
Opening Cash	1,373.6	1,322.4	823.0	788.0
Closing Cash	1322.4	823.0	788.0	941.8

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
Liabilities				
Equity Capital	293.6	293.6	293.6	293.6
Reserve and Surplus	6,970.4	6,683.7	6,637.4	7,415.2
Total Shareholders funds	7264.0	6977.3	6931.0	7708.8
Total Debt	3,281.3	3,771.3	4,271.3	3,771.3
Deferred Tax Liability	264.8	170.8	170.8	170.8
Other non-current liabilities	327.3	280.5	280.5	280.5
Total Liabilities	11318.2	11389.4	11843.1	12120.9
Assets				
Gross Block	7,802.9	8,706.7	9,728.5	10,578.5
Less: Acc Depreciation	2,359.8	3,107.5	3,935.7	4,834.2
Net Block	5443.1	5599.2	5792.9	5744.3
Capital WIP	594.1	371.9	150.0	100.0
Total Fixed Assets	6,037.2	5,971.0	5,942.9	5,844.3
Investments	2,719.6	3,068.7	3,318.7	3,418.7
Inventory	1,238.0	2,142.3	2,117.7	2,779.4
Debtors	1,188.4	2,816.0	2,117.7	2,382.3
Loans and Advances	23.0	20.6	29.8	39.1
Other current assets	0.0	0.0	0.0	0.0
Cash	1322.4	823.0	788.0	941.8
Total Current Assets	3,771.8	5,801.9	5,053.1	6,142.6
Creditors	3,037.3	5,164.7	4,537.9	5,558.7
Provisions	624.9	465.0	408.5	500.4
Other current Liabilities	685.5	693.6	1,001.0	1,313.8
Total Current Liabilities	3,662.1	5,629.6	4,946.4	6,059.2
Net Current Assets	109.7	172.3	106.7	83.4
Application of Funds	11318.2	11389.4	11843.1	12120.9

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY20	FY21P	FY22E	FY23E
Per share data (₹)				
EPS	0.8	-1.1	0.4	4.6
Cash EPS	3.1	1.5	3.3	7.7
BV	24.7	23.8	23.6	26.3
DPS	0.5	0.6	0.6	2.0
Cash Per Share	4.5	2.8	2.7	3.2
Operating Ratios (%)				
EBITDA Margin	6.7	3.5	5.5	10.0
PBT / Net sales	3.0	-2.6	0.8	6.3
PAT Margin	1.4	-2.1	0.6	1.3
Inventory days	25.9	51.1	35.0	35.0
Debtor days	24.8	67.2	35.0	30.0
Creditor days	63.5	123.2	75.0	70.0
Return Ratios (%)				
RoE	4.7	-4.4	1.9	17.7
RoCE	4.5	-1.9	3.2	16.5
RoIC	5.4	-2.1	3.5	18.1
Valuation Ratios (x)				
P/E	111.4	-125.3	291.0	28.0
EV / EBITDA	34.1	76.6	34.3	14.1
EV / Net Sales	2.3	2.7	1.9	1.4
Market Cap / Sales	2.2	2.5	1.7	1.3
Price to Book Value	5.3	5.5	5.5	5.0
Solvency Ratios				
Debt/Equity	0.5	0.5	0.6	0.5
Current Ratio	1.0	1.1	1.1	1.1
Quick Ratio	0.7	0.7	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E
Apollo Tyre (APOTYR)	225	275	Buy	14,257	5.5	10.2	16.6	40.7	21.9	13.5	6.7	7.0	5.1	7.6	6.1	9.1	6.4	5.5	8.4
Ashok Leyland (ASHLEY)	130	160	Buy	38,052	-1.1	0.4	4.6	-121.6	293.9	28.0	76.6	34.3	14.1	-1.9	3.2	16.5	-4.4	1.9	17.7
Bajaj Auto (BAAUTO)	3,769	4,350	Hold	1,09,064	157.4	167.7	193.6	23.9	22.5	19.5	17.7	16.5	13.9	18.2	19.3	22.5	18.1	18.9	21.4
Balkrishna Ind. (BALIND)	2,300	2,825	Buy	44,463	59.8	67.0	78.4	38.5	34.3	29.3	25.2	22.1	19.1	19.3	19.9	21.0	19.2	18.7	19.0
Bharat Forge (BHAFOR)	825	1,000	Buy	38,410	-2.7	17.2	25.1	NM	48.0	32.9	47.4	22.4	17.5	2.2	9.3	12.7	3.3	14.0	16.8
Eicher Motors (EICMOT)	2,615	2,920	Hold	71,468	49.3	64.9	96.4	53.1	40.3	27.1	35.8	27.6	18.7	11.3	13.7	17.8	11.8	14.0	18.0
Escorts (ESCORT)	1,265	1,325	Hold	15,506	71.2	67.7	78.2	17.8	18.7	16.2	11.1	11.9	9.7	18.7	14.7	15.1	16.2	13.6	13.8
Hero Moto (HERHON)	2,783	3,440	Buy	55,577	148.4	170.8	196.5	18.7	16.3	14.2	11.9	10.0	8.6	20.8	23.1	24.5	19.5	20.7	21.7
M&M (MAHMAH)	776	1,000	Buy	96,472	2.3	33.6	39.1	344.7	23.1	19.9	14.4	13.5	11.8	9.5	9.8	10.9	2.7	10.9	11.4
Maruti Suzuki (MARUTI)	7,012	6,400	Reduce	2,11,818	140.0	153.1	228.5	50.1	45.8	30.7	31.5	26.3	18.0	4.3	5.9	9.5	8.2	8.5	11.7
Minda Industries (MININD)	719	725	Buy	19,556	7.6	10.9	19.1	94.6	66.1	37.6	28.1	23.5	16.6	9.1	10.6	16.7	10.4	14.2	19.6
Motherson (MOTSUM)	224	270	Buy	70,738	3.3	5.4	9.0	NM	41.3	24.9	15.6	11.3	8.3	6.7	12.4	19.5	8.8	12.7	18.8
Tata Motors (TATMOT)	306	375	Buy	1,17,167	-35.0	0.9	37.9	NM	355.3	8.1	5.2	5.0	3.3	6.3	7.9	14.8	-23.6	0.6	20.3

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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