

**Replacement demand to pick-up;
Well positioned to benefit from recovery in CV cycle**

CMP: INR 130

Rating: Accumulate

Target Price: INR 147

Stock Info

BSE	500477
NSE	ASHOKLEY
Bloomberg	AL IN
Reuters	ASOK.BO
Sector	Auto-LCVS & HCVS
Face Value (INR)	1
Equity Capital (INR mn)	2,936
Mkt Cap (INR Mn)	378,680
52w H/L (INR)	154 /93
Avg Yearly Vol (in 000')	16,120

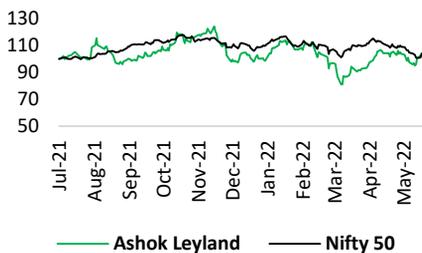
Shareholding Pattern %

(As on March, 2022)

Promoters	51.12
Public	48.06
Shares Underlying DRs	0.82
Non Promoter- Non Public	0.82

Stock Performance (%)	1m	3m	12m
Ashok Leyland	7.09	9.7	64.9
Nifty	-0.49	9.68	40.07

Ashok Leyland Vs Nifty



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Ashok Leyland Ltd (AL) has reported strong set of numbers during Q4FY22. Standalone revenue from operations grew by 24.8%YoY/ 58.1% QoQ stood at INR 87,033 Mn in Q4FY22 above our estimate of INR 81,193 Mn. Performance supported by the successful AVTR range. Q4 MHCV and LCV exports were at 4173, growing by 32% over Q4FY21. However, the Gross Profit margin declined 135bps YoY/33bps QoQ to 21.8% in Q4FY22 vs 23.1% in Q4FY21. EBITDA grew by 45.3% YoY/247%QoQ to INR 7,760 Mn above our estimate of INR 6,244 Mn. EBITDA margin expanded by bps 124YoY/ +483bps QoQ to 8.9% Q4FY22 above our estimate of 7.69%. The Company reported a net profit of INR 9,014 Mn in Q4FY22 against our estimate of INR 6,244 Mn. The company has an Exceptional item of INR 4702.6 Mn. Basic EPS at INR 3.07 in Q4FY22 as against INR 0.02 in Q3FY22 (Q4FY21 was INR 0.82). Net cash flow from operations declined to INR 26469 Mn in FY22 vs INR 211 Mn in FY21. Long term borrowings increased by 11.4% YoY to INR 28506 Mn in FY22. The company has recommended a dividend of INR 1 per equity share. Volume: In Q4 MHCV & LCV exports at 4173 nos. have grown by 32% over 44 last year (3,164 nos.). FY22 the company's export volumes at 11014 units is higher than last year 8,001 unit by 38%.

Outlook and valuation

At the CMP of INR 130, Ashok Leyland Ltd is trading at a PE of 27.9x to its FY24E EPS of INR 4.7.

We believe replacement demand will pick-up going forward, led by government focus on infrastructure, scrappage policy, and the average vehicle age at higher levels of ~9.5 years against 4-5 years in the previous upcycle. Therefore, M&HCV to draw support from core activities like construction, mining.

Tiller segment activity is to benefit from construction and mining activity. Ashok Leyland recorded 31% market share in 4Q against 27% for the full year, as it launched CNG vehicles and expanded network. The EV arm, Switch, is seeing fair order wins in both domestic and global markets front for E-bus and light vehicles.

We Value Ashok Leyland at PE multiple of 30x for parent auto maker based on its FY24E EPS of INR 4.7 and with the 7% stake in Hinduja Leyland Finance, implying INR 7 per share intrinsic value. **We upgrade our rating to Accumulate from Hold earlier and Value it with SOTP valuation for a target price of INR 147.**

YE	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
March (INR Mn)							
FY21	1,53,015	5,351	-3,016	(1.1)	3.5%	-4.4%	-
FY22	2,16,883	9,945	310	1.8	4.6%	7.6%	70.6
FY23E	2,90,789	18,315	6,362	2.2	6.3%	8.4%	60.1
FY24E	3,45,209	27,644	13,692	4.7	8.0%	16.2%	27.9

Source: Arihant Research, Company Filings

Quarterly Results					
Standalone (INRm)	Q4FY22	Q3FY22	Q4FY21	YoY%	QoQ%
Net Sales	87,033	55,036	69,720	24.8%	58.1%
Other operating income	410	315	285	44.0%	29.9%
Income from operation	87,443	55,352	70,005	24.9%	58.0%
Cost of material consumed	64,299	41,574	52,735	21.9%	54.7%
Purchases of stock-in-trade	2,676	2,476	2,576	3.9%	8.1%
Changes in inventories	1,447	(918)	(1,477)	-198.0%	-257.6%
Raw Material	68,422	43,131	53,834	27.1%	58.6%
Staff Cost	4,376	4,324	4,016	9.0%	1.2%
Other expenditure	6,885	5,658	6,813	1.1%	21.7%
Total Expenditure	79,683	53,113	64,663	23.2%	50.0%
EBITDA	7,760	2,239	5,342	45.3%	246.6%
Depreciation	1,954	1,897	2,185	-10.6%	3.0%
EBIT	5,807	342	3,157	83.9%	1595.9%
Interest	765	668	771	-0.8%	14.4%
Other Income	242	176	380	-36.3%	37.0%
PBT	5,284	(149)	2,766	91.0%	-3634.4%
Current Tax	101	-	-		
Deferred tax	872	213	728	19.8%	309.1%
Tax	973	213	728	33.7%	356.5%
Adjusted PAT	4,311	(363)	2,038	111.5%	-1288.9%
Extraordinary	4,702.6	420.2	374	1159.1%	1019.1%
Reported PAT	9,013.7	57.6	2,412	273.7%	15548.8%
EPS	3.07	0.02	0.8	274.4%	15250.0%

Margins	Q4FY22	Q3FY22	Q4FY21	YoY%	QoQ%
Gross margins	21.8%	22.1%	23.1%	-135Bps	-33Bps
EBITDA	8.9%	4.0%	7.6%	124Bps	483Bps
Adjusted PAT	5%	-1%	3%	202Bps	559Bps

Source: Arianth Research, Company Filings

Ashok Leyland Q4FY22 Earnings Conference Call

- FY22 has been a turnaround year for AL, led by Q4. After 10 quarters, the M&HCV segment finally grew its market share as volumes grew strong.
- **M&HCV:** Market share of 30.6% vs 28.9% last year of M&HCV. Volumes have grown significantly by 43% QoQ. April 22 market share was at 31% vs.29% last year. EBITDA has more than doubled as well, despite RM price increases.
- **LCV:** The company LCV segment has been impacted by semiconductor shortages. However volumes are still higher than last year.
- **Operating:** The company International operation grew 38% YoY. While domestic grew by 14% YoY. Operating profit grew 91% y/y.
- **Net Debt:** The company debt reduced by ~INR 1095cr in Q4FY22. The company has launched two models in CNG for 14 and 16-ton segments. This should allow them to sustain and grow their market share going ahead.

- **Margins:** The company had Raw material prices been normal, it could have done 10-11% margins in the quarter. When steel prices soften, it expects strong margins of 10-11% in the near term.
- The current uptick in the economic environment and rise in freight prices have aided well for the industry as well as for the Ashok leyland.
- **Government scrappage policy:** As per the policy fleet average age is 9.9 years and expects replacement demand to kick in the near term. Also as government is focusing more on the development on the Infra structure side is positive for the company.
- **Raw material Prices:** Management believes that steel prices continue to increase in Q4.
- **Utilization:** Fleet utilization levels on the rise in FY22, despite high diesel prices.
- **Product:** Dost and Bada Dost continue to do well, however, semiconductor has impacted offtake.
- Switch India is operational with its own dedicated team and has received approvals to transfer OHM global EVs to India.
- **Market share:** Last 4-5 years, AL has been at 30% and above level, while last two years it was down. CNG aided in clawing back some market share as it was ~10-12% of TIV sales. Also, the company completely re-aligned its network and dealerships. And AVTR too raised the bar. The company has 4 more upcoming launches in CNG and in Q4FY22, it launched 2 CNGs which worked well for the volume growth and sustain market share.
- **Expenses:** The company has managed to keep overheads tight. Admin overheads have been at FY15 levels. The team worked closely to manage the same.
- **Prices: The company took the increase of** prices in November, March and April. Price increase of 2-2.5% is not sufficient. Once market share is gained and volumes pick up, would further raise prices then. Also, expecting steel prices to soften.
- **Replacement Cycle:** Average age of trucks is at an all-time high of 9.9years. Fleet operators have come back in the market. Replacement cycle has certainly begun.
- **Demand:** Globally, there are uncertainties. However, seeing growth in Middle East and Africa. Bangladesh remains strong, while Sri Lanka is going through a turmoil.
- **CAPEX:** FY22 was at ~INR 400cr. For FY23 INR 500-600cr. If company decides to expand LCV portfolio, it will require additional capex. HLFL ~INR100cr.
- **Non-current investments:** Reversal of impairment charges from Optare, led to a jump in investments.
- **CV Cycle:** Cycle lasts for 3-4 years and followed by a 6-18month decline. Bus Industry has come down too. ALL was the market leader and volumes have come down by 1/3rd in last two years.
- **Financing:** Truck financing is slowly improving.
- **Electric Bus:** ALL has been operating EV bus for close to 3 years. ALL is well positioned for the long term. Short term, OEMs are too aggressive for market share gains. Penetration would be launching a bus for European markets. While it also has an order book of 5,000 busses.
- Investment in Alpine air has paid off well for ALL.
- Level of repossession during covid times has stopped now and is predominantly over. There is more demand coming from first-time buyers.
- **Inventory:** The company has no back pressure at all as of now.
- **Outlook:** The company management expects demand to come back for the bus segment.

P&L (INR mn)	FY21	FY22	FY23E	FY24E
	1,53,01			
Net sales	5	2,16,883	2,90,789	3,45,209
YoY (%)	(12.4)	41.7	34.1	18.7
	1,14,03			
Raw material cost	3	1,67,611	2,18,092	2,53,728
Employee Cost	15,839	16,946	19,488	22,411
Admin Expenses	17,791	22,381	34,895	41,425
	1,47,66			
Total expenses	3	2,06,938	2,72,474	3,17,564
EBIDTA	5,351	9,945	18,315	27,644
(%)	3.5%	4.6%	6.3%	8.0%
Depreciation	7,477	7,528	7,856	7,684
EBIT	-2,126	2,418	10,458	19,960
Interest	3,068	3,011	3,724	4,246
Other income	1,195	761	914	1,096
PBT	-3,999	168	7,648	16,811
Exchange gain / (loss) on swap contracts	0	0	0	0
(-) Tax	-982	-142	1,286	3,119
Tax/ PBT	24.6	(84.7)	16.8	18.6
PAT	-3,016	310	6,362	13,692
YoY (%)	(176.3)	(110.3)	1952.1	115.2
PAT(%)	-2.0%	0.1%	2.2%	4.0%
Extraordinary	121	5108	0	0
Reported Profit	-3,137	5,418	6,362	13,692

Key Ratios	FY21	FY22	FY23E	FY24E
EPS	(1.1)	1.8	2.2	4.7
Cash EPS	1.4	4.4	4.8	7.3
Book value	24	25	27	31
P/E (x)	-	70.6	60.1	27.9
EV/EBDITA (x)	70.6	38.0	20.0	12.6
P/B (x)	5.5	5.2	4.9	4.2
EV/Sales	2.5	1.7	1.3	0.8
ROCE	0%	7%	8%	28%
ROE	-4%	8%	8%	16%
Dividend Yield	0.5%	0.5%	0.3%	0.4%
Gross asset turn	1.4	1.9	2.3	5.3
Days outstanding				
Inventory	47	47	47	47
Debtors	22	22	22	22
Creditors	79	80	80	80

B/Sheet (INR mn)	FY21	FY22	FY23E	FY24E
Equity capital	2,936	2,936	2,936	2,936
Reserves	66,837	70,434	75,307	87,348
Net worth	69,772	73,369	78,243	90,284
Total Loans	37,463	43,873	50,412	57,081
Deferred Tax	1,708	1,444	1,444	1,444
Total Liabilities	1,08,943	1,18,686	1,30,098	1,48,808
Gross block	93,721	97,721	1,03,721	1,09,721
Less: Acc. Dep	23,217	30,744	38,601	46,285
Net block	70,504	66,976	65,120	63,436
Work in progress	3,719	1,943	1,943	1,943
Investments	34,180	38,594	38,994	39,394
Inventories	21,423	20,752	28,083	32,672
Debtors	28,163	31,111	17,527	20,807
Cash	8,230	10,470	27,896	52,008
Loans and advances	18,281	38,733	40,620	44,357
Current assets	76,096	1,01,066	1,14,126	1,49,844
Current liabilities	60,632	75,332	79,552	93,305
Provisions	14,924	14,560	10,533	12,504
Net current assets	540	11,173	24,041	44,035
Total Assets	1,08,943	1,18,686	1,30,098	1,48,808

Cash Flow	FY21	FY22	FY23E	FY24E
Net profit	-3,137	5,418	6,362	13,692
Depreciation	7,286	7,528	7,856	7,684
Deferred tax	-983	-243	-243	-243
Change in W/C	-6,585	-3,426	-305	4,362
Operating cash flow	-3,419	9,277	13,669	25,494
Capex	-5,810	-2,224	-6,000	-6,000
Investments	-2,446	-9,401	4,707	-401
Investing cash flow	-8,256	-11,626	-1,293	-6,401
FCF	-9,228	7,053	7,669	19,494
Dividend	2,269	-2,156	-1,488	-1,651
Equity	-2,000	334	0	0
Debt	6,410	6,410	6,538	6,669
Financing cash flow	6,679	4,589	5,050	5,018
Net change in cash	-4,995	2,240	17,427	24,111
Opening cash	13,225	8,229	10,470	27,896
Closing cash	8,229	10,470	27,896	52,008

Source: Arian Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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