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Q1FY22 result review and earnings revision

Automobiles

Target price: Rs156

Earnings revision

(%)	FY22E	FY23E
Sales	↑ 1.1	↑ 2.1
EBITDA	↑ 1.9	↑ 6.2
EPS	↑ 4.7	↑ 9.5

Target price revision

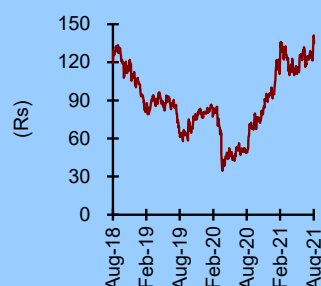
Rs156 from Rs143

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	51.5	51.5	51.5
Institutional investors	34.0	34.8	35.2
MFs and others	11.0	9.8	11.2
FIs/Banks	3.0	2.8	2.2
Insurance	3.5	4.0	3.9
FII	16.5	18.2	17.9
Others	14.5	13.7	13.3

Source: BSE

Price chart



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INDIA

Ashok Leyland

ICICI Securities

BUY

Maintained

Rs134

Difficult quarter; gross margins remain resilient

Ashok Leyland's (AL) Q1FY22 operating performance was below consensus estimates as EBITDA margin dropped 1,238bps QoQ to -4.7%. Drop was largely driven by negative operating leverage as fixed costs remained elevated on lower volumes. With the Govt's infra push and commodity prices reaching new highs, key industry monitorables are: a) pace of recovery of economic activity and capex trends across segments; b) used vehicle demand/pricing trends; and c) trends in freight rates/fleet utilizations. We estimate AL's volumes to rebound at ~31% CAGR across FY21-FY23E driven by strong market share gains in LCVs and M&HCV revival coupled with building of an EV ready portfolio. AL remains a good proxy play to cyclical recovery in M&HCV segment. Valuations remain fair (FY23E FCF yield: 5%, EV/EBITDA: 13x). Maintain BUY.

Conference call on Aug 13, Friday, at 9:00 hours IST. Number: +91 022 6280 1149/ [Link](#)

- **Key highlights of the quarter:** Topline declined 58% QoQ to ~Rs29.5bn as volumes fell by a similar 59% QoQ to ~18k units. ASP witnessed a marginal 1% growth QoQ at Rs1.6mn/vehicle driven by commodity-led price hikes. EBITDA margin slumped 1,238bps to -4.7% even as gross margin improved 278bps QoQ to 25.9% (aided by better fixed cost absorption due to higher inventorisation). Employee expenses and other expenses rose 864bps and 652bps respectively and the company reported PAT loss of Rs2.8bn.
- **Pivot into electric mobility could be the key driver of long-term value creation:** AL has planned strong targets to build an EV ecosystem with *Switch* Mobility to accelerate the electrification in buses, LCVs. With 'digital twin' technology and OHM pay-as-you-use mobility-as-a-service model, the company plans to democratize zero-carbon mobility with superior TCO offerings. We believe, longer term success of Switch mobility could create meaningful value for AL. On the core business, domestic CV segment (~60-70% of revenue) has been in a downcycle since FY18 and AL, is likely to benefit from the demand recovery. Govt's infrastructure push along with strong demand from the mining sector are expected to be key drivers of this recovery. AL has also enhanced its exports push in its existing markets of GCC, SAARC and Africa, and expansion in newer geographies (e.g. CIS and Asean).
- **Maintain BUY:** We believe H2FY22E could start a multi-year upcycle in M&HCV demand with strong export ambitions from the new *Phoenix*, while AVTR platforms could boost margins to the 11-12% trajectory. We upgrade our FY22E/FY23E estimates by ~4.7%/9.5% on the back superior fixed costs control. We value the core business at 14.5x (earlier: 14x) FY23E EV/EBITDA on the improving CV cycle outlook and add Rs6/share for investments to arrive at an SoTP-based target price of Rs156 (earlier: Rs143). Maintain **BUY**.

Market Cap	Rs392bn/US\$5.3bn
Reuters/Bloomberg	ASOK.BO/AL IN
Shares Outstanding (mn)	2,935.5
52-week Range (Rs)	141/52
Free Float (%)	48.5
FII (%)	17.9
Daily Volume (US\$/'000)	37,251
Absolute Return 3m (%)	17.7
Absolute Return 12m (%)	147.5
Sensex Return 3m (%)	13.3
Sensex Return 12m (%)	44.5

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	1,74,675	1,53,015	2,18,118	2,75,979
Net Income (Rs mn)	2,395	(3,137)	5,614	16,098
EPS (Rs)	1.2	(1.0)	1.9	5.5
% Chg YoY	(83.1)	NC	NC	NC
P/E (x)	114.4	NC	69.8	24.4
CEPS (Rs)	3.1	1.5	4.7	8.6
EV/E (x)	34.5	77.9	23.7	12.8
Dividend Yield (%)	0.4	0.4	0.6	1.5
RoCE (%)	4.3	(0.7)	7.2	16.0
RoE (%)	4.4	(4.3)	7.9	20.6

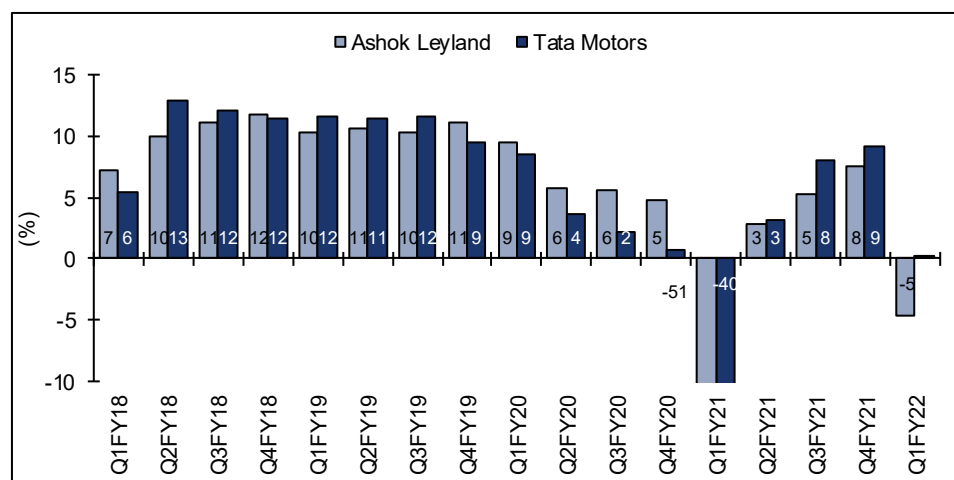
Please refer to important disclosures at the end of this report

Table 1: Q1FY22 result review (standalone)

(Rs mn, year ending March 31)

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Units sold	17,987	4,569	294	44,060	(59)
of which LCV	8,937	3,548	152	17,783	(50)
of which M&HCV	9,050	1,021	786	26,277	(66)
Average Realisation (Rs mn/unit)	1.60	1.42	12.7	1.59	1.0
Net operating income	29,510	6,509	353	70,005	(58)
Raw material costs	21,873	4,175	424	53,834	(59)
Employee costs	4,243	3,542	20	4,016	6
Other expenditures	4,795	2,125	126	6,813	(30)
Total operating expenses	30,911	9,841	214	64,663	(52)
EBITDA	-1,401	-3,332	NC	5,342	(126)
EBITDA Margin (%)	(4.7)	(51.2)	4645 bps	7.6	-1238 bps
Depreciation and Amortisation	1,835	1,637	12	2,185	(16)
Other Income	134	256	(48)	380	(65)
Interest costs	707	768	(8)	771	(8)
Forex Gain/(Loss)	0	0		0	
PBT	-3,809	-5,481	NC	2,766	NC
Tax	-1,003	-1,610	NC	728	(238)
Exceptional Items	-17	-17	NC	374	(104)
PAT	-2,823	-3,888	NC	2,412	NC
Adjusted PAT	-2,810	-3,877	NC	2,132	NC

Source: Company data, I-Sec research

Chart 1: CV EBITDA margins comparison: Tata Motors vs Ashok Leyland

Source: Company data, I-Sec research

Table 2: Volume assumptions

	FY18	FY19	FY20	FY21	FY22E	FY23E
M&HCV trucks (7.5te+)	1,02,826	1,15,613	53,897	43,210	56,195	71,721
7.5-12te	12,533	17,295	10,496	3,127	5,003	6,254
12-25te	30,931	41,633	22,291	15,459	21,643	27,053
25+te	59,362	56,685	21,110	24,624	29,549	38,413
Buses	42,078	16,323	18,141	2,795	4,193	6,289
LCV	16,239	53,129	44,912	46,671	67,673	81,208
Exports	16,239	12,301	8,290	8,039	11,657	14,571
Total volumes	1,74,437	1,97,366	1,25,240	1,00,715	1,39,717	1,73,788

Source: Company data, I-Sec research

Outlook and valuations

We believe H2FY22E could start a multi-year upcycle in M&HCV demand with strong export ambitions from the new Phoenix, while AVTR platforms could boost margins to the 11-12% trajectory. We upgrade our FY22E/FY23E estimates by ~4.7%/9.5% on the back superior fixed costs control. We value the core business at 14.5x (earlier: 14x) FY23E EV/EBITDA on the improving CV cycle outlook and add Rs6/share for investments to arrive at an SoTP-based target price of Rs156 (earlier: Rs143). Maintain **BUY**.

Upside risks: Well incentivised scrappage policy, faster CV upcycle.

Downside risks: Slower than expected margin improvement, market share loss.

Table 3: SoTP valuation

(Rs mn, year ending March 31)

Valuation	(Rs mn)
EBITDA FY23E	31,797
EV/EBITDA Multiple (x)	14.5
Enterprise Value	4,61,064
Net Debt FY23E	20,276
Equity Value	4,40,788
Equity Value (Per Share)	150
Investment Value (Per Share)	6
Target Price	156

Source: Company data, I-Sec research

Table 4: Earnings revision

(Rs mn, year ending March 31)

	FY22E			FY23E		
	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales	2,15,670	2,18,118	1.1	2,70,316	2,75,979	2.1
EBITDA	17,247	17,584	1.9	29,938	31,797	6.2
PAT	5,363	5,614	4.7	14,707	16,098	9.5
EPS (Rs)	1.8	1.9	4.7	5.0	5.5	9.5

Source: Company data, I-Sec research

Financial summary (standalone)

Table 5: Profit and Loss statement
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Total Volumes	1,25,240	1,00,715	1,39,717	1,73,788
Operating Income (Sales)	1,74,675	1,53,015	2,18,118	2,75,979
Operating Expenses	1,62,938	1,47,663	2,00,535	2,44,181
EBITDA	11,737	5,351	17,584	31,797
% margins	6.7	3.5	8.1	11.5
Depreciation & Amortisation	6,698	7,477	8,206	9,007
Gross Interest	1,095	3,068	3,187	2,782
Other Income	1,233	1,195	1,315	1,512
Recurring PBT	5,177	(3,999)	7,505	21,521
Add: Extraordinaries	(1,558)	(121)	-	-
Less: Taxes	1,224	(982)	1,891	5,423
- Current tax	717	0	1,109	3,179
- Deferred tax	507	(983)	783	2,245
Less: Minority Interest	-	-	-	-
Net Income (Reported)	2,395	(3,137)	5,614	16,098
Recurring Net Income	3,426	(3,045)	5,614	16,098

Source: Company data, I-Sec research

Table 6: Balance sheet
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	55,253	75,091	74,603	88,155
of which cash & cash eqv.	13,225	8,230	2,537	6,636
Total Current Liabilities & Provisions	54,557	72,438	70,874	80,948
Net Current Assets	696	2,653	3,729	7,207
Investments	27,196	30,687	29,865	33,865
of which				
Strategic/Group	27,196	30,687	29,865	33,865
Other Marketable	-	-	-	-
Net Fixed Assets	73,977	74,222	73,017	72,010
Capital Work-in-Progress	5,941	3,719	3,719	3,719
Total Assets	1,08,092	1,11,059	1,10,107	1,16,579
Liabilities				
Borrowings	31,552	37,912	32,912	26,912
Deferred Tax Liability	3,900	3,375	4,158	6,402
Minority Interest	-	-	-	-
Equity Share Capital	2,936	2,936	2,936	2,936
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	69,704	66,837	70,102	80,329
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	72,640	69,772	73,038	83,264
Total Liabilities	1,08,092	1,11,059	1,10,107	1,16,579

Source: Company data, I-Sec research

Table 7: Cashflow statement
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	6,669	1,231	15,533	27,750
Working Capital Changes	(1,143)	(1,020)	(8,014)	(292)
Capital Commitments	(13,125)	(6,561)	(7,000)	(8,000)
Free Cashflow	(7,599)	(6,350)	519	19,458
Cashflow from Investing Activities	(3,153)	2,162	315	512
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	27,222	6,360	(5,000)	(6,000)
Dividend paid	(1,761)	(1,761)	(2,348)	(5,871)
Chg. in Cash & Bank balance	(3,828)	(7,722)	(5,693)	4,099

Source: Company data, I-Sec research

Table 8: Key ratios
(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (Rs)				
EPS(Basic Recurring)	1.2	(1.0)	1.9	5.5
Diluted Recurring EPS	0.8	(1.1)	1.9	5.5
Recurring Cash EPS	3.1	1.5	4.7	8.6
Dividend per share (DPS)	0.5	0.6	0.8	2.0
Book Value per share (BV)	24.7	23.8	24.9	28.4
Growth Ratios (%)				
Operating Income	(39.9)	(12.4)	42.5	26.5
EBITDA	(62.6)	(54.4)	228.6	80.8
Recurring Net Income	(83.1)	NC	NC	NC
EPS(Diluted Recurring)	(83.1)	NC	NC	NC
Diluted Recurring CEPS	(65.1)	(52.3)	218.4	81.7
Valuation Ratios (x)				
P/E	114.4	NC	69.8	24.4
P/CEPS	43.1	90.3	28.4	15.6
P/BV	5.4	5.6	5.4	4.7
EV / EBITDA	34.5	77.9	23.7	12.8
EV / Operating Income	2.3	2.7	1.9	1.5
EV / Operating FCF	73.3	NC	55.5	14.9
Operating Ratios				
Raw Material/Sales (%)	70.8	74.5	73.3	71.2
SG&A/Sales (%)	3.9	2.7	2.3	2.1
Other Income / PBT (%)	23.8	(29.9)	17.5	7.0
Effective Tax Rate (%)	23.6	24.6	25.2	25.2
NWC / Total Assets (%)	(20.2)	(12.5)	(7.4)	(8.3)
Inventory Turnover (days)	6.4	6.8	7.5	8.6
Receivables (days)	38.6	47.8	48.6	42.3
Payables (days)	118.9	131.3	109.1	87.5
D/E Ratio (x)	48.8	59.2	50.8	40.0
Return/Profitability Ratios (%)				
Recurring Net Income Margins	2.0	(2.0)	2.6	5.8
RoCE	4.3	(0.7)	7.2	16.0
RoNW	4.4	(4.3)	7.9	20.6
Dividend Payout Ratio	73.5	(56.1)	41.8	36.5
Dividend Yield	0.4	0.4	0.6	1.5
EBITDA Margins	6.7	3.5	8.1	11.5

Source: Company data, I-Sec research

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