AXIS SECURITIES

Result Update
29th Jun 2020

Ashok Leyland
Auto OEM

HOLD
Target Price
50

Q4FY20 weak and in-line; FY21 may be more dismal than FY20

Ashok Leyland reported a weak and in-line set of numbers with revenue declining by ~57% YoY at Rs 3838 cr. EBITDA came in at Rs 183 cr ahead of our estimates. EBITDA margin was at 4.8% down ~640 bps YoY and 84 bps QoQ. Ashok Leyland reported a net loss in this quarter of Rs 57 cr. Apart from the dismal performance the last two quarters have been marred by unnecessary and questionable inter-group dealings like buying promoter stake in finance arm and lending to group firms instead of reducing its own debt at a time when demand is simply absent. FY21 will be an unprecedented challenge for the CV industry and Ashok Leyland will be better off dealing with its own set of problems than handling the group's and promoter problems

Key Result Highlights

Revenue: Q4FY20 revenue de grew by 56.6% YoY and was down 4% QoQ. The result was in-line with our estimates on a similar volume decline of ~57%. FY20revenue declined by 40% YoY to come at Rs 1746cr

Margins: Gross margin was up by 160 bps YoY driven by better mix and higher other operating income while the negative operating leverage led to a steep fall in EBITDA margin (down 640 bps and down 84 bps QoQ) despite the GM expansion. With nearly an 81% fall in EBITDA margins don't a lot of indication on performance

PAT: PAT in Q4FY20 was at Rs-57cr (down 108% YoY, down 300% QoQ) on account ofhigh depreciation cost and a one-time impairment charge on its investment in Optare. For the full year PAT was down 88% on a YoY basis

Key Con Call Highlights

Demand: Management has not seen any significant pick-up in demand in the first quarter of FY21 and expects material improvement to come in only from Q3FY21 onwards. MHCV passenger demand which was relatively better in FY20 will also face severe challenges as most states will defer their capex due to cash crunch brought about by COVID-19. LCV could fare well with demand coming from e-commerce players and both 'Dost' brand and project phoenix (to be launched next quarter) should do well for the company

Inter-corporate dealing: Company has an outstanding deposit of Rs 500cr with an entity within Hinduja group in its FY20 balance sheet which should have rather been paid off to reduce its Net Debt of nearly Rs 2000 cr. Management said that it is a regular practice as it is able to borrow money at lower rates and lend it to group companies at higher rates earning a spread. This raises transparency concerns and raises concerns about the companies' priorities in a time of crisis

Outlook And Valuation

The challenges of FY21 will be humungous and we have cut our FY21/22 estimates sharply lower as the recovery cycle is delayed by at least a year and there is no near term visibility of demand. **We downgrade Ashok Leyland to HOLD and value the company at 16X FY22E EPS of Rs 3.15 to arrive at a TP of Rs 50 a downside of 3% from current market price**

Key Financials (Standalone)

Y/E March (Rs. cr)	FY19	FY20	FY21E	FY22E
Net Sales	29055	17467	14640	22176
EBITDA	3136	1174	573	1878
EBITDA margin (%)	10.8	6.7	3.9	8.5
Adj. Net Profit	1972.2	347.3	-3.3	924.8
EPS(Rs.)	6.7	1.2	0.0	3.2
RoE (%)	24.0	4.1	0.0	10.6
RoCE (%)	21.9	4.5	0.1	9.8
PER (x)	7.7	43.9	-4597.4	16.5
P/BV	1.8	1.8	1.8	1.8
EV/ EBITDA	4.6	12.7	26.9	8.2

Source: Company, Axis Research

(CMP as of June 26, 2020)

CMP (Rs)	52
Upside /Downside (%)	-3%
High/Low (Rs)	91/34
Market cap (Cr)	15719.8
Avg. daily vol. (6m) Shrs.	9515817
No. of shares (Cr)	293.6

Shareholding (%)

	Mar-20	Dec-19	Sep-19
Promoter	51.1	51.1	51.1
FIIs	16.8	19.2	17.1
MFs / UTI	9.7	7.4	7.3
Banks / FIs	2.3	1.6	1.7
Others	20.1	20.7	22.9

Financial & Valuations

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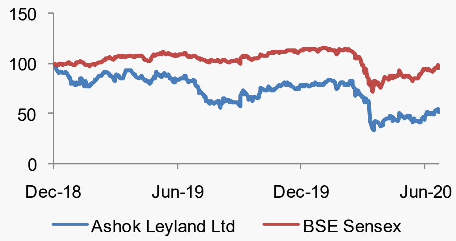
Axis vs Consensus

EPS Estimates	2021E	2022E
Axis	0.01	3.2
Consensus	1.60	3.44
Mean Consensus TP (12M)		**62.6**

Relative performance



Source: Capitaline, Axis Securities

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Other Key Concall Takeaways

1) **Demand Outlook:** Management has not seen any significant pick-up in demand in the first quarter of FY21 and expects material improvement to come in only from Q3FY21 onwards. MHCV passenger demand which was relatively better in FY20 will also face severe challenges as most states will defer their capex due to cash crunch brought about by COVID-19. LCV could fare well with demand coming from e-commerce players and both ‘Dost’ brand and project phoenix (to be launched next quarter) should do well for the company

2) **Inter-corporate dealing:** Company has an outstanding deposit of Rs 500 crwith an entity within Hinduja group in its FY20 balance sheet which should have rather been paid off to reduce its net debt of nearly Rs 2000 cr. Management said that it is a regular practice as it is able to borrow money at lower rates and lend it to group companies at higher rates earning a spread. This raises transparency concerns and raises concerns about the companies’ priorities in a time of crisis

3) **Debt Position:** Management noted that they have a net debt of nearly Rs 4000 cr as of now as they had to pay suppliers in the past 3 months and this has led to a temporary increase in debt by Rs 1600 cr roughly. As the production cycle starts and normalizes debt should get reduced but the higher interest cost burden would further weaken FY21 P&L. From a net cash position of Rs 740 cr in FY19 and despite substantial cost saving efforts, Ashok Leyland now has a high debt burden. This has largely been due to high investments in BSVI upgradation and project phoenix and about Rs 400 cr of investment in subsidiaries coupled with extremely low profitability

4) **Modular Program:** There is an expectation that the recently launched modular program will have given an advantage to consumer from a total cost of ownership perspective and will help company in performing better than industry

5) **Exports:** They emphasized that exports would be a key part of achieving longer term vision of emerging asa global CV player and company will accelerate this journey with launch of modular program and Project Phoenix.They have strengthened dealerships in Africa, Middle Eastand SAARC regions and expect do well this year

6) **Discounting:** Company will not participate in a discounting competition going on in the industry to drive sales and grab market share. They will wait for demand to revive and produce accordingly

7) **Hinduja Leyland Finance:** Management said that the financing arm has seen good traction and moratorium opted by customers was not alarming

Quarterly Performance (Standalone)

	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ (%)
Net Sales	**3,838**	**8,846**	***(56.6)***	**4,016**	***(4.4)***
Less:					
Net Raw Material consumed	2,729	6,429	*(57.6)*	2,953	*(7.6)*
Other Manufacturing & Sales Exp.	517	858	*(39.7)*	564	*(8.4)*
Personnel	410	573	*(28.6)*	273	*50.2*
Total Expenditure	**3,656**	**7,860**	***(53.5)***	**3,791**	***(3.6)***
EBIDTA	**183**	**985**	***(81.4)***	**225**	***(18.7)***
Less: Depreciation	188	160	*17.5*	157	*19.2*
EBIT	**(5)**	**826**	***(100.6)***	**68**	***(107.0)***
Less: Interest	33	17	*99.3*	34	*(1.7)*
Add: Other income	34	9	*279.3*	22	*54.2*
Profit Before Extra-ordinary items and Tax	**(3)**	**818**	***(100.4)***	**56**	***(106.0)***
Less: Total Tax	(15)	153	*(109.6)*	26	*(155.9)*
Profit After Tax Before Extra-ordinary	**11**	**665**	*(98.3)*	**30**	***(61.9)***
Less: Extraordinary Expense/(Income)	69	12	*488.4*	2	***3,067.3***
Profit After Tax	**(57)**	**653**	***(108.8)***	**28**	***(306.6)***
Adj. PAT	**(9)**	**662**	***(101.4)***	**29**	***(131.5)***
Shares Outstanding (cr)	294	2,936		2,936	
Reported EPS (Rs.)	**(0.20)**	**0.22**	***(187.8)***	**0.01**	***(2,165.6)***
Adj. EPS (Rs.)	**(0.03)**	**0.23**	***(113.9)***	**0.01**	***(414.6)***

Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY19	FY20E	FY21E	FY22E
Net revenues	29055.0	17467.5	14640.5	22176.2
Operating expenses	25919.3	16293.8	14067.0	20297.8
EBIDTA	3,136	1,174	573	1,878
EBIDTA margin (%)	10.8	6.7	3.9	8.5
Other income	38.7	123.3	146.8	156.8
Interest	70.4	109.5	12.4	9.9
Depreciation	621.0	669.8	712.3	792.3
Profit Before Tax	2496.8	361.9	-4.4	1233.1
Tax	513.6	122.4	-1.1	308.3
Reported Net Profit	1983.2	239.5	-3.3	924.8
Net Margin (%)	6.8	1.4	0.0	4.2

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY19	FY20E	FY21E	FY22E
Equity capital	294	294	294	294
Reserves & surplus*	8,039	8,101	8,010	8,227
Shareholders' funds	8,332	8,395	8,303	8,520
Total Loans	398	298	248	198
Deferred tax liability	250	250	250	250
Total Liabilities and Equity	**8,981**	**8,943**	**8,801**	**8,968**
Gross block	8,402	9,840	10,810	11,810
Depreciation	1,690	2,360	3,072	3,864
Net block	6,712	7,480	7,738	7,945
Capital WIP	658	520	550	550
Investments	2,637	2,837	3,037	3,237
Inventory	2,685	1,419	1,123	1,701
Debtors	2,506	861	722	1,094
Cash & Bank Bal	1,374	634	69	121
Loans & Advances	1,654	1,822	2,008	2,212
Current Assets	8,218	4,737	3,922	5,128
Sundry Creditors	5,019	2,902	2,736	3,615
Other Current Liability	4,225	3,729	3,708	4,276
Current Liability& Provisions	9,244	6,631	6,445	7,891
Net current assets	-1,026	-1,893	-2,523	-2,763
Total Assets	**8,981**	**8,943**	**8,801**	**8,968**

Source: Company, Axis Securities

Cash Flow (Rs Cr)

Y/E March	FY19	FY20E	FY21E	FY22E
EBIT	2,515	504	(139)	1,086
Other Income	39	123	147	157
Depreciation & Amortisation	621	670	712	792
Interest paid(-)	(70)	(109)	(12)	(10)
Dividends paid(-)	(860)	(177)	(88)	(708)
Tax paid(-)	(514)	(122)	1	(308)
Extra Ord Income	14	(156)	0	0
Operating Cash Flow	1,744	732	620	1,009
Change in Working Capital	-2880.8	128.3	64.3	292.4
Cash flow from Operations	**(1,136)**	**861**	**685**	**1,302**
Capex	(1,203)	(1,300)	(1,000)	(1,000)
Investment	2,970	(200)	(200)	(200)
Cash flow from Investing	**1,767**	**(1,500)**	**(1,200)**	**(1,200)**
Change in borrowing	(214)	(100)	(50)	(50)
Others	(85)	0	0	0
Cashflow from Financial Activities	**(299)**	**(100)**	**(50)**	**(50)**
Change in Cash	331	(739)	(565)	52
Opening cash	1,042	1,374	634	69
Closing cash	1,374	634	69	121

Source: Company, Axis Securities

Ratio Analysis (%)

Y/E March	FY19	FY20E	FY21E	FY22E
Revenue Growth	9.1	-39.9	-16.2	51.5
EBITDA Margin	10.8	6.7	3.9	8.5
Net Profit Margin	6.8	2.0	0.0	4.2
ROCE (%)	21.9	4.5	0.1	9.8
ROE (%)	24.0	4.1	0.0	10.6
P/E (x)	7.7	43.9	-4597.4	16.5
P/ BV (x)	1.8	1.8	1.8	1.8
EV/ EBITDA (x)	4.6	12.7	26.9	8.2
Fixed Assets Turnover Ratio (x)	5.3	2.8	2.3	3.4
Debt / Equity (x)	0.0	0.0	0.0	0.0
EV/ Sales (x)	0.5	0.9	1.1	0.7

Source: Company, Axis Securities

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