

- **In an ever-changing business environment, some of our investment ideas seem more convincing than others due to better earning visibility and/or attractive valuation. Every Monday, we bring you such fundamental stock ideas through our “Pick of the Week” report.**
 - **Investment Horizon:** Though the ideal investment horizon for such ideas remain 6-9 months, our picks may provide some profit-making opportunities even to short-term investors.
 - **Risk-Return Profile:** Pick of the week ideas are the best high return research ideas at this point in time.

Scrip	Mcap (Rs Cr)	CMP (Rs)*	Target Price	Potential Upside (%)	Reco
Ashok Leyland Ltd	22,163	75.85	90	19%	BUY

* Note: Investment horizon Approx. 6-9 months., CMP as on 9th October, 2020



CMP (Rs)	Target (Rs)
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75.85	90
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MARKET DATA

No. of Shares	: 293.55 cr
Market Cap	: Rs.22,163 Cr
52-week High / Low	: Rs.87.5/ 33.7
BSE Code	: 500477
NSE Code	: ASHOKLEY

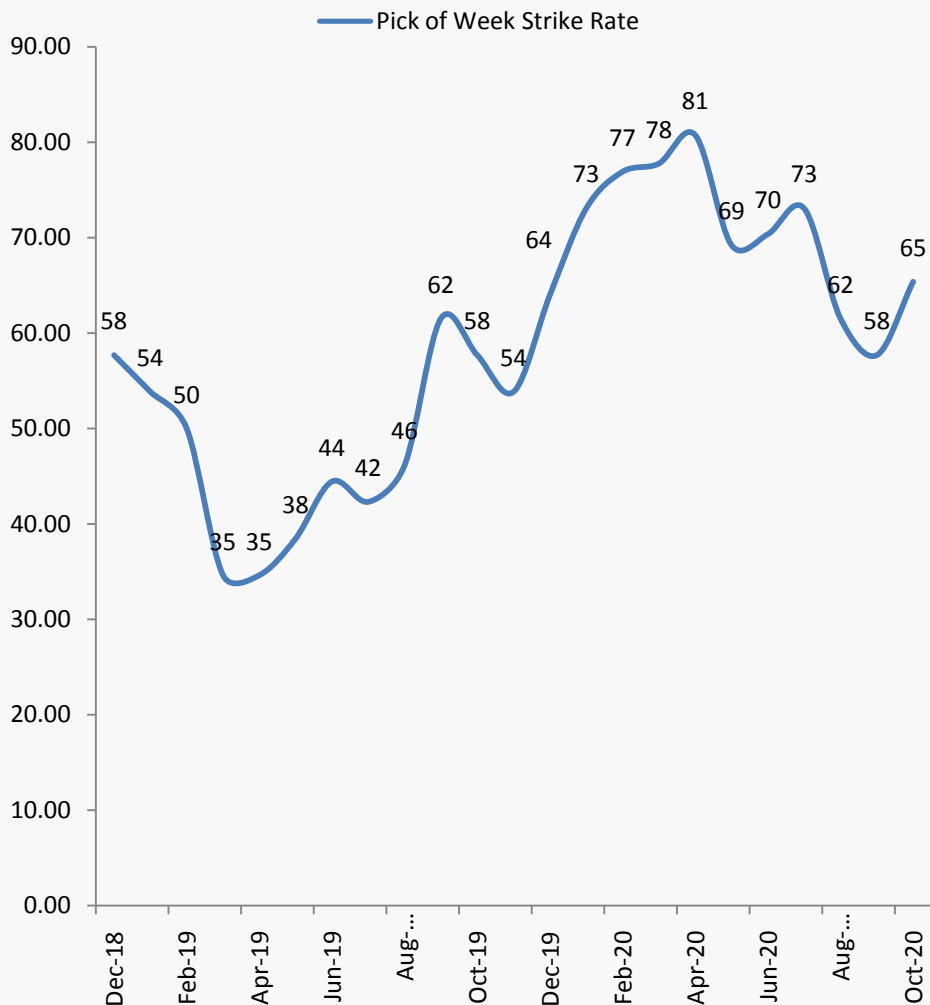
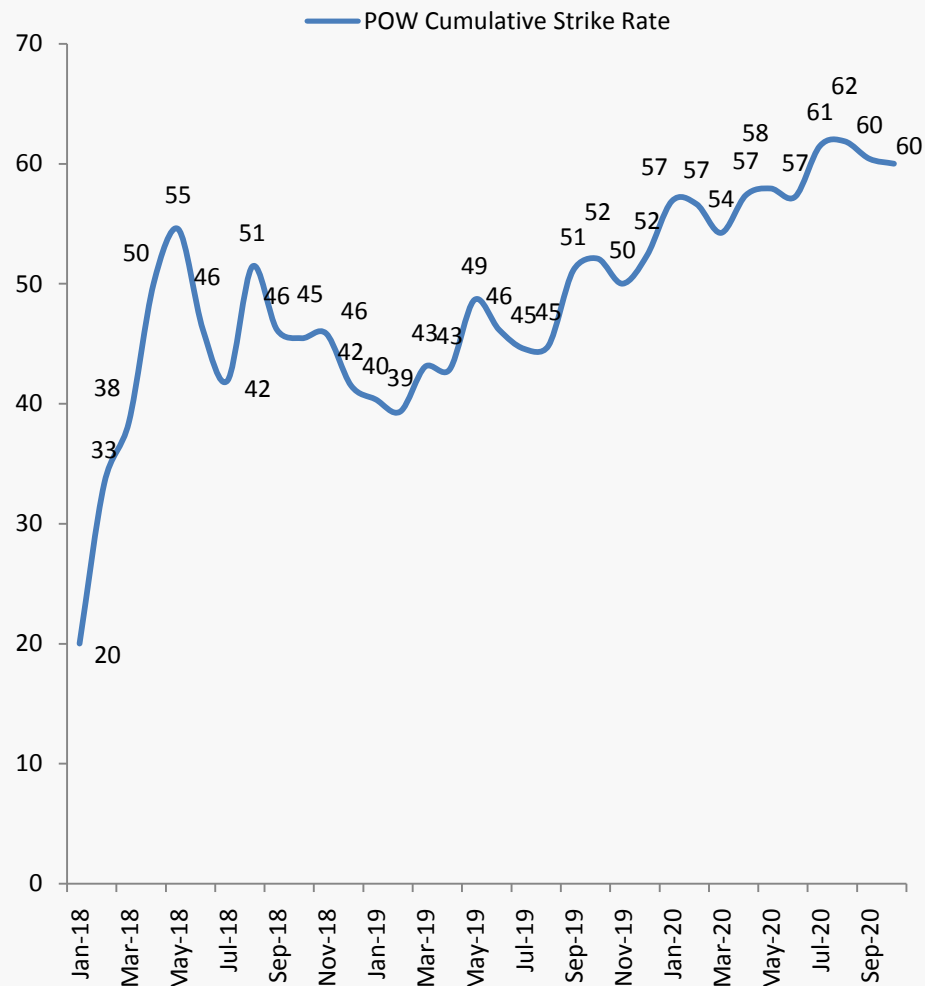
Ashok Leyland (AL), flagship of the Hinduja Group, is the 2nd largest manufacturer of commercial vehicles (CV) in India and 12th largest manufacturer of trucks globally. It is headquartered in Chennai and has 9 manufacturing facilities, out of which 7 are based out of India and the rest provide AL international exposure – a Bus manufacturing facility in RAK, UAE and one at Leeds, United Kingdom. The Hinduja Group holds 51% stake in the company through the holding company, Hinduja Automotive (UK). AL is also the largest defense logistics supplier worldwide.

Investment Rationale

- ❑ **Green offshoots in demand visible:** In our opinion, the domestic CV industry is near the bottom of the cycle, and growth trajectory would improve hereon, although the pace of the recovery is uncertain currently. Demand has seen a gradual recovery in Aug and Sept on the back of opening up of the economy and pent-up demand. LCV demand is picking up, with production levels ramping up quicker as compared to MHCV segment. AL is witnessing most traction in ICV and tippers segment. Rebound in infra activity would hold key to uptick in truck demand.
- ❑ **Major beneficiary of the scrappage policy:** The Govt of India is close to finalizing a scrappage policy for the automotive sector. MHCVs are expected to be biggest beneficiaries of the scrappage policy given the higher population of older vehicles. An incentive based scrappage policy is likely to encourage fleet owners to scrap their old vehicles and replace them with new trucks thereby boosting the demand. AL will become the biggest beneficiary of the additional demand for new CVs as AL has ~50% market share in the high tonnage segment whereas it has ~34% market share in the overall MHCV segment.
- ❑ **New Modular Platform and Phoenix:** AL's new BSVI modular platform 'AVTR' has received excellent feedback from both fleet operators as well as drivers. The 'AVTR' platform is expected to reduce manufacturing complexity, lower inventory and new product development costs and improve productivity, making operations more efficient. The management stated that margins will be higher on this platform. The initial bookings for the recently-launched 'Bada Dost' i3 and i4 under Project 'Phoenix' have also been very encouraging. AL expects its addressable market to improve from 35% of LCV industry currently to 65% in 2-3 years .
- ❑ **Focus on building non-cyclical business:** AL is scaling up its non-truck businesses to mitigate the impact of business cyclicity and earnings volatility. These businesses include spare parts, exports, LCV, defense and power solutions.. AL has reiterated its focus on diversifying revenue and building a lean business model to better withstand current and future downturns. AL's electric vehicle thrust is likely to drive most of the EV bus sales volume in the upcoming financial years.
- ❑ **We recommend to buy with a target price of Rs. 90.**

Financial Summary (Standalone)

Y/E	Revenue	EBITDA	PAT	EV/Ebitda	P/BV	EPS	P/E	ROCE	ROE	D/E
March	(Rs mn)	(Rs mn)	(Rs mn)	(x)	(x)	(Rs)	(x)	(%)	(%)	(X)
2020	1,74,675	11,737	3,111	20.4	3.1	1.1	71.2	3.6	3.7	0.4
2021E	1,34,872	6,663	(1,082)	36.5	3.1	(0.4)	(204.8)	0.6	(1.5)	0.4
2022E	2,07,234	19,256	8,751	12.6	3.1	3.0	25.3	8.9	11.7	0.4
2023E	2,79,993	30,227	16,455	7.8	2.7	5.6	13.5	15.1	20.4	0.4

Strike rate based on rolling 6 months

Strike rate since Jan 2018


Note: We have changed our methodology of calculation of strike rates for PoW product from July 2020; and shifted to calculations using 6 months rolling returns method and cumulative basis as against earlier method of calculating the strike rate for last 9 months. The performance under the revised methodology is as above.

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Sr. No	Name	Designation	E-mail
1	Naveen Kulkarni	Chief Investment Officer	naveen.kulkarni@axissecurities.in
2	Pankaj Bobade	Research Analyst – (Research Head)	pankaj.bobade@axissecurities.in
3	Neeraj Chadawar	Quantitative Head	neeraj.chadawar@axissecurities.in
4	Suvarna Joshi	Research Analyst	suvarna.joshi@axissecurities.in
5	Siji Philip	Research Analyst	siji.philip@axissecurities.in
6	Omkar Tanksale	Research Analyst	omkar.tanksale@axissecurities.in
7	Uttamkumar Srimal	Research Analyst	uttamkumar.srimal@axissecurities.in
8	Ankush Mahajan	Research Analyst	ankush.mahajan@axissecurities.in
9	Gaurav Uttrani	Research Analyst	gaurav.uttrani@axissecurities.in
10	Dnyanada Vaidya	Research Analyst	dnyanada.vaidya@axissecurities.in
11	Hiren Trivedi	Research Associate	hiren.trivedi@axissecurities.in
12	Darshan Gangar	Research Associate	darshan.gangar@axissecurities.in
13	Tanvi Shetty	Research Associate	tanvi.shetty@axissecurities.in

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