SINCE 1986
DALAL STREET INVESTMENT JOURNAL
DEMOCRATIZING WEALTH CREATION

Ashok Leyland

Large Rhino
Swiftest Performers Among Heavy Weights

BSE Code	:	**500477**
Time Duration	:	**18 months**
CMP	:	**₹163 (as on 26 April, 2018)**
Target Price	:	**₹220**

The Large Rhino recommendation for the month of April is Ashok Leyland - country's one of the largest CV player. Ashok Leyland, a Hinduja group company, is ran ked 2 nd largest commercial vehicle manufacturer in the country, 4 th largest in bus segment and 12 th largest in truck in the world. C ompany has global presence with offices in 50 countries and also has strong partnership with Indian Army for trucks and buses. The company has 6 manufacturing plants across 5 locations in India including Ennore, Hosur, Alwar, Bhandara&Pantnagar. Its 85 per cent of the revenue comes from M&HCV space and remaining 15 per cent from LCV, Defence, etc.

Positive outlook for automobile segment

Automobile industry has a positive co-relation with the economic growth of the country. According to the World Bank report, global GDP is expected to grow at 3.8 per cent this year. This bodes well for the global outlook on automobile demand in US, EU and Asian countries. Having a buoyant outlook on the emerging markets, World bank expects India to grow at 7.3 per cent in 2018.

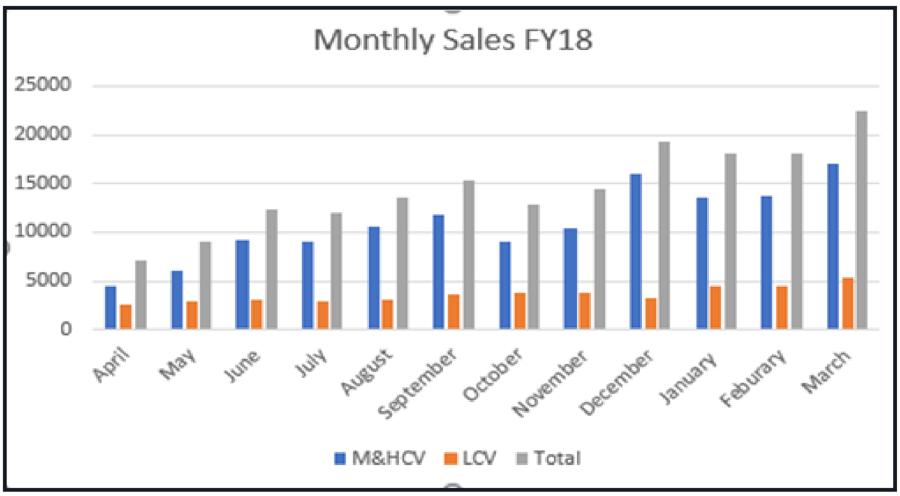
Key growth triggers for CV industry are -

1) 7th Pay Commission and higher farm income with rise in Minimum Support Price. This is expected to boost LCV demand.
2) Government initiatives like Bharatmala project of building 83,000 km by 2022 will aid infrastructure development and use of commercial vehicles.

The CV industry is recovering from the disruptions caused due to demonetization, GST implementation, BS-IV norms and interest rate revisions.

Strong momentum in sales and productions

The company achieved strong 20 per cent yoy rise in sales for the month of March. Company sold 22,453 units in March 2018 as against 18,701 units in the same month previous year. This was largely contributed by 58 per cent yoy increase in sales of LCV vehicles at 5,396 units in March 2018 as against 3,424 units in March 2017. The M&HCV segment also showed buoyancy in sales with 12 per cent yoy increase at 17,057 units in March 2018 as against 15,277 units in March 2017. On a cumulative basis, for the April 17-March 18, the total sales grew strongly by 21 per cent yoy to 1,74,873 units as against 1,45,085 units in the same period previous year. This indicates a continued growth trajectory over last year.



New Launches to boost market share

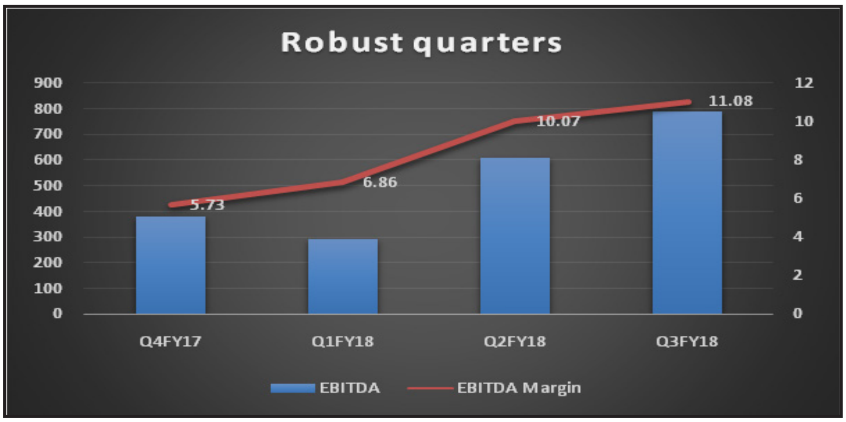
The company has strong product pipeline to cater to the rising demand for medium and higher commercial vehicles (MHCV). Company also has strong launch pipeline of new products – 3718 Tipper, Guru Boss 12T, 4932-49T truck, 4193-41T lift axle and school buses in MHCV segment. Also, in Light commercial vehicles it is witnessing higher sales. In LCV space, the company eyes 3.75 tons variant of its Dost model which is expected to receive good response due to restriction on age old practice of overloading. The company holds almost 15 per cent market share in the 2 to 3.5 ton segment. It has recently launched 2.75 variant of Dost variant. Further, the company has emphasized on increasing market share across the country. It currently has 33 per cent market share in the commercial vehicle space. Strong demand and higher penetration in non-south region will aid better market share gains. Further, the company has widened its presence across the country from 350 points to 2000 points presence in the country.

Strong order book - Electric and defence orders to further lift the order book

Company dominates in the M&HCV and LCV segments. The company has received significant electric bus orders from various state transport units. In addition, it won order from Institute of Road Transport, Tamil Nadu for supply of 2,000 passenger chassis and 100 fully-built small buses. It also has multiple orders for electric buses across the country and expect the segment to augment further. Besides this, it also holds significant position in defence orders and has order book of Rs.5000cr to be executed over next 5 years. The company has won 12 out of 15 tenders it participated in the year in the defence segment particularly. It is the largest mobility solution provider to Indian Army. Recently, the company won a 10x10 HMV (High mobility vehicle for carrying smerch rockets order from the Ministry of Defence.

Improving financial performance

The company witnessed strong revenue growth of 47.3 per cent yoy and 17.6 per cent qoq to Rs. 7,113 crore in Q3FY18. The EBITDA for the quarter also rose by 85.2 per cent yoy and 37.7% qoq to Rs.843 crore in Q3FY18. The EBITDA margin saw 240 bps expansion over previous year at 11.8 per cent for Q3FY18 vs 9.4 per cent in Q3FY18 and 170 bps over previous quarter from 10.1 per cent in Q2FY18. The bottom-line showed stellar increase of 178 per cent yoy to Rs. 450 crore in Q3FY18 vs Rs. 162 crore in Q3FY17 and 34.5 per cent qoq increase from 334 crore per cent.



Valuation

The stock of Ashok Leyland is trading at 35x P/E on TTM earnings, considering potential growth in coming fiscals we believe this valuation is justifiable. Further, its strong dividend payout ratio at 36.3 per cent also gives return potential. In terms of return ratio company's Return on equity stands at 22 per cent strong compared to its closest peers like tata motors at 9.6 per cent, M&M 13.9 per cent. Hence, we urge our investors to **BUY** this scrip with a target price of Rs.220 over next 18 months.

Our view

Going forward, the company is poised to benefit significantly from buoyant economic outlook. Rising infrastructure spend by the government and increase in logistics activity due to rising e-commerce business is expected to add significantly to commercial vehicle demand. In addition, the stricter implementation of restrictions on overloading of vehicle in the few states have increased demand for higher tonnage vehicles. Revised salaries after 7th Pay Commission, higher farm incomes is expected to propel LCV demand. Further, the company eyes major revenue increase from export market and more than 50 per cent revenue from non-cyclical segments in the coming years. We see rising oil and metal prices to remain key risks for margins. However, cut in discounts and rate revisions will provide necessary cushioning to margins.

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Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201703	201603	201503	201403	201303
Net Sales	20018.66	18937.30	13562.18	9943.43	12481.20
Total Income	20170.32	19069.50	13686.65	10009.95	12543.55
Total Expenditure	17816.12	16692.20	12535.55	9776.86	11604.73
PBIDT	2354.20	2377.30	1151.10	233.08	938.82
PAT	1223.08	389.60	334.81	29.38	433.71
Dividend %	156.00	95.00	45.00		60.00
Adj. EPS(Rs)	4.30	1.37	1.18	0.11	1.63

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201712	201709	Q on Q Var%	201612	Y on Y Var%
Net Sales	7113.16	6046.89	17.63	4828.26	47.32
Total Expenditure	6324.92	5437.74	16.32	4437.85	42.52
PBIDT (Excl OI)	788.24	609.15	29.40	390.41	101.90
PAT	449.71	334.26	34.54	161.72	178.09
PBIDTM% (Excl OI)	11.08	10.07	10.03	8.09	36.96
PBIDTM%	11.62	10.99	5.73	8.62	34.80
PATM%	6.32	5.53	14.29	3.35	88.66
Adj. EPS(Rs)	1.54	1.14	35.09	0.57	170.18