

Stock Update

MHCV growth accelerates; Maintain Buy with revised PT of Rs.139

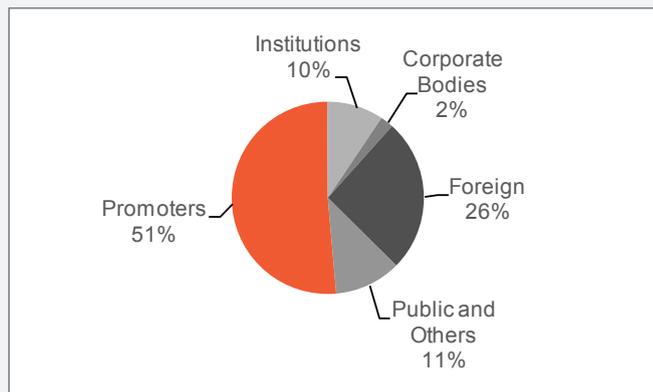
Ashok Leyland

Reco: Buy | CMP: Rs122

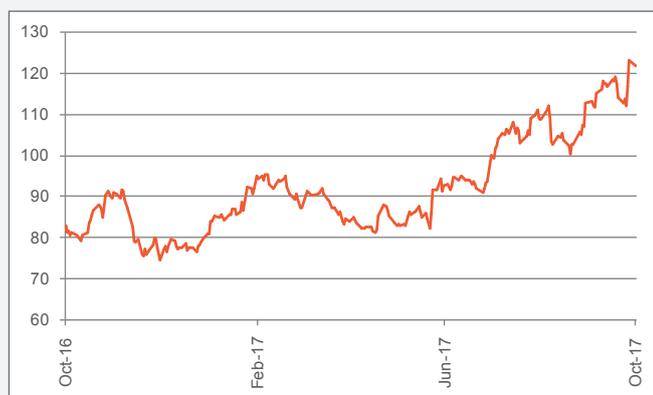
Company details

Price target:	Rs139
Market cap:	Rs35,792 cr
52-week high/low:	Rs126/74
NSE volume: (No of shares)	1.09 cr
BSE code:	500477
NSE code:	ASHOKLEY
Sharekhan code:	ASHOKLEY
Free float: (No of shares)	142.5 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	14.9	33.1	47.8	56.9
Relative to Sensex	16.5	31.0	38.6	38.0

Key points

- MHCV growth picks up in Q2FY2018; Raises FY2018 outlook:** After a dismal performance in Q1FY2018 (volumes dropped 32% YoY), the MHCV industry bounced back sharply in Q2FY2018, reporting robust 22% YoY growth. Increased thrust on infrastructure, gradual pick in the economy post GST-related blip, improved festive demand and low base of the corresponding quarter last year (Q2FY2017 MHCV volumes were down 14% YoY) drove MHCV growth. Further, a favourable low base in Q3FY2017 on account of demonetisation (MHCV volumes dipped 3%) would lead to continued healthy growth for the MHCV industry going ahead. The MHCV industry is poised to grow in low single digits (3-4%) in FY2018 as against earlier expectations of flat growth. We expect the MHCV industry to grow by 10-12% in H2FY2018 as against 4% drop reported in H1FY2018. Ashok Leyland Limited (ALL), being a pure MHCV player, is poised to benefit from improved MHCV outlook. We expect ALL's MHCV volumes to grow by 7% in FY2018.
- LCV business poised for robust double-digit growth on account of new launches and export focus:** ALL has enhanced its focus on the LCV business after taking over the JV business from MNC partner in November 2016. ALL has plans to launch a new product every quarter to effectively tap the fast-growing LCV space. At time of taking over the LCV business, ALL had only one product (Dost, which served the 2-3.5 tonne category). ALL recently launched Mitr and Partner LCV in the 5 tonne and above category to broaden its presence. Further, ALL is aiming to tap the export markets (earlier ALL had no access to exports given the JV agreement), which provides tremendous growth potential. As per the company, it readily has network presence in exports and is currently customising products to boost LCV exports. ALL is targeting to sell 40,000 units in the LCV space in FY2018 as against ~32,000 units sold in FY2017, implying strong growth of 25%.
- Outlook - Volume growth to accelerate; Expect double-digit volume growth over the next two years:** After subdued volumes in FY2017 (ALL volume growth was 3%) and temporary blip in Q1FY2018 on account of switchover to new BS4 emission norms and GST-related disruption, volume growth picked up in Q2FY2018. Given

the improved growth of the MHCV segment in FY2018 coupled with ALL's renewed focus on the LCV segment, we expect ALL to report 10% volume CAGR over FY2017-FY2019.

- ♦ **Valuation - Raise estimates; Maintain Buy with a revised PT of Rs.139:** We have raised our FY2018 and FY2019 earnings estimates by

5% each to factor better-than-expected volume growth in Q2FY2018 and improved outlook for the MHCV industry. ALL is the best stock to play the MHCV revival cycle. We retain our Buy rating on the stock with a revised price target (PT) of Rs.139 (earlier PT of Rs.120).

Valuation

Particulars	Rs cr				
	FY15	FY16	FY17*	FY18E*	FY19E*
Net sales	13,562.2	18,937.1	19,930.0	24,542.7	27,800.7
Growth (%)	36.4	39.6	5.2	23.1	13.3
EBIDTA	1,026.6	2,249.1	2,202.7	2,660.8	3,066.8
OPM (%)	7.6	11.9	11.1	10.8	11.0
PAT	233.9	1,191.6	1,582.7	1,568.1	1,845.5
Growth (%)	-149.1	409.5	32.8	-0.9	17.7
FD EPS (Rs)	0.8	4.2	5.4	5.4	6.3
P/E (x)	148.5	29.1	22.5	22.7	19.3
P/BV (x)	6.7	6.4	5.8	5.3	4.9
EV/EBITDA (x)	36.9	16.2	16.7	13.5	11.4
RoCE (%)	6.9	20.8	19.7	22.8	25.7
RoE (%)	4.5	22.0	25.8	23.5	25.1

*Includes Hinduja Foundries nos

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