

Stock Update

Axle load norms impacting demand; Downgrade to Hold

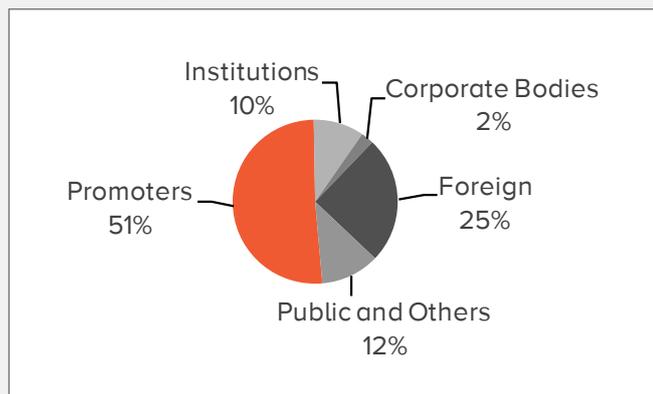
Ashok Leyland

Reco: Hold | CMP: Rs104

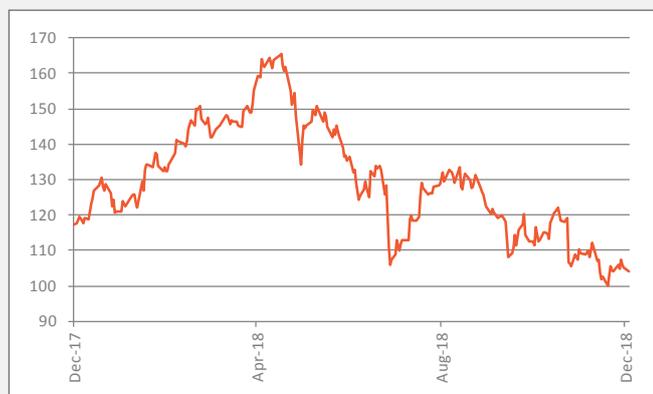
Company details

Price target:	Rs117
Market cap:	Rs30,618 cr
52-week high/low:	Rs168/98
NSE volume: (No of shares)	2.4 cr
BSE code:	500477
NSE code:	ASHOKLEY
Sharekhan code:	ASHOKLEY
Free float: (No of shares)	143.4 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.5	-13.9	-20.6	-8.7
Relative to Sensex	-5.9	-11.4	-21.7	-14.8

Key points

- Revised axle load norms impacting MHCV volumes; Industry mix deteriorating; ALL to be adversely impacted:** The government has announced an increase in the axle load carrying capacity in August 2018. As per the new norms, the maximum permissible payload capacity of trucks has been increased by 20-25%. The norms have increased carrying capacity in the trucking industry, which is impacting volume growth. From strong double-digit growth of 48% in H1FY2019, the MHCV industry's growth moderated to 17% in October 2018. November 2018 witnessed a sharp reversal, with MHCV sales declining by 11%. November sales were below expectations and clearly witnessed the impact of increased axle load norms. With increased capacity, MHCV volumes are expected to remain under pressure in the near term. Apart from the volume drop, the MHCV industry mix has also deteriorated, with a proportion of heavy commercial vehicles (trucks exceeding 25 tonne) dropping from 46.7% in Q2FY2019 to 39.3% in October-November 2018. With increased payload capacity under the revised axle load norms, the share of heavy vehicles is clearly dropping and the trend is expected to continue. Adverse mix will impact the financials of Ashok Leyland Limited (ALL) and we expect Q3FY2019's MHCV volumes to drop by 15% and revenue to drop by 18%. We expect volumes of ALL to remain under pressure and drop by 4% in Q4FY2019. FY2020 may witness the impact of prebuying (due to change from BS4 to BS6 norms), but we expect growth to be back-ended starting from H2FY2020. We have factored 7% MHCV volume growth for ALL for FY2020.
- Outlook: Earnings to decline in double digits in H2FY2019; Downgrade to Hold:** ALL's MHCV volumes are expected to decline by 9% in H2FY2019. Revenue is expected to drop by 12% given the adverse mix. With double-digit drop in volumes, we expect OPM to decline by 190 BPS y-o-y to 9.5% in H2FY2019. Earnings are expected to decline by 31% in H2FY2019. Given the trend reversal of earnings drop, we downgrade our rating to Hold.
- Valuation: Cut estimates to factor lower volumes and consequent reduction in**

margins: We have lowered our H2FY2019 and FY2020 volume assumptions to factor the impact of axle load norms. Further, ALL's OPM is expected to drop considering volume pressures and increased pricing competition in wake of volume slowdown. We have reduced

our FY2019 and FY2020 earnings estimates by 16% and 21%, respectively. We downgrade our recommendation on the stock to Hold from Buy earlier. We have arrived at a price target (PT) of Rs. 117 for the stock.

Valuation

Particulars	Rs cr				
	FY16	FY17	FY18	FY19E	FY20E
Net sales (Rs. cr)	18,937.1	20,140.1	26,247.9	27,937.3	29,651.0
Growth (%)	39.6	6.4	30.3	6.4	6.1
EBIDTA (Rs. cr)	2,249.1	2,202.6	2,739.0	2,795.8	2,965.9
OPM (%)	11.9	10.9	10.4	10.0	10.0
PAT (Rs. cr)	1,191.6	1,558.6	1,574.8	1,638.2	1,717.3
Growth (%)	409.5	30.8	1.0	4.0	4.8
FD EPS (Rs.)	4.2	5.3	5.4	5.6	5.9
P/E (x)	24.8	19.5	19.3	18.5	17.7
P/BV (x)	5.5	5.0	4.2	3.7	3.1
EV/EBITDA (x)	13.9	14.0	10.9	11.1	9.7
RoCE (%)	20.8	21.6	25.9	23.4	21.9
RoE (%)	22.0	25.4	22.0	19.8	18.2

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

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