

July 25, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs 52	Rs 57
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,634
Sensex	18,722

### Price Performance

(%)	1M	3M	6M	12M
Absolute	11	(5)	(13)	(29)
Rel. to Nifty	4	(1)	(12)	(32)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Automobiles
Bloomberg	AL@IN
Equity Capital (Rs mn)	1330
Face Value(Rs)	1
No of shares o/s (mn)	1330
52 Week H/L	82/45
Market Cap (Rs bn/USD mn)	69/1,556
Daily Avg Volume (No of sh)	1326002
Daily Avg Turnover (US\$m)	1.5

### Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	38.6	38.6	38.6
FII/NRI	27.9	27.5	29.2
Institutions	16.5	16.8	16.4
Private Corp	5.9	6.8	5.7
Public	11.1	10.3	10.1

Source: Capitaline

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- ALL is like any other cyclical stock. Earnings based valuations can be misleading due to inability to forecast the demand cycle (both upturn and downturn)
- Dividend yield is a lead indicator for stock perf. (short term and long term) due to consistent dividend, cyclical demand and excessive focus on near term earnings
- Analysis of 15 year data indicate DPS has been stable or rising irrespective of profits and FCF.
- Retain ACCUMULATE rating with a TP of Rs 57 (FY13 PER ~10x). Expect DPS of Rs 2 (flat YoY)/2.4 leading to div. yield of 3.8%/4.7% on our FY12/13E est.

### ALL is like any other cyclical stock

We consider ALL as another cyclical stock (commodities/tyres). Hence we do not give excessive importance to earnings based valuations given the cyclical nature of M&HCV. Historical analysis of PER indicates that the earnings based multiple expands during periods of strong volumes while it contracts significantly with volume declines (refer to graphs in next page). We believe this is due to two reasons – inability to capture the demand cycle (during upturn as well as downturn) and excessive focus on near term earnings.

### For ALL dividend yield is a strong lead indicator of stock performance

As can be seen from the graphs in Page 3, dividend yield has been a strong lead indicator of stock performance (short term as well as long term). Whenever, dividend yield has crossed ~4%, the stock has generated strong returns (in next 4 to 5 months). Interestingly, this is true even when volumes have failed to pick up.

### Consistent DPS is the most important reason

Our analysis of last 15 year data indicates that ALL has either maintained or increased the DPS. The only period when the drop in DPS was seen was FY98 and FY09. Both these period witnessed economic recession. Also, ALL has managed to maintain the same dividend despite a volatile cash flow (see graphs in Page 4)

### Valuation & View

We have an ACCUMULATE rating on the stock. Our TP of Rs 57 implies 12x/10x PER and 6.4x/5.3x EV-EBIDTA of our FY12/FY13 estimates. We expect 2QFY11 to be the worst quarter on YoY basis for the company and things should improve thereafter in terms of margins and profitability. We factor in DPS of Rs 2/2.4 in FY12/13 which implies div. yield of 3.8%/4.7%. The stock is currently trading at 11.3x/9.1x PER and 5.8x/4.9x EV/EBIDTA on our FY12/13 estimates. Dividend yield is one of the important reasons for our positive view on the stock despite lack of clarity on near term earnings.

### Financial Snapshot

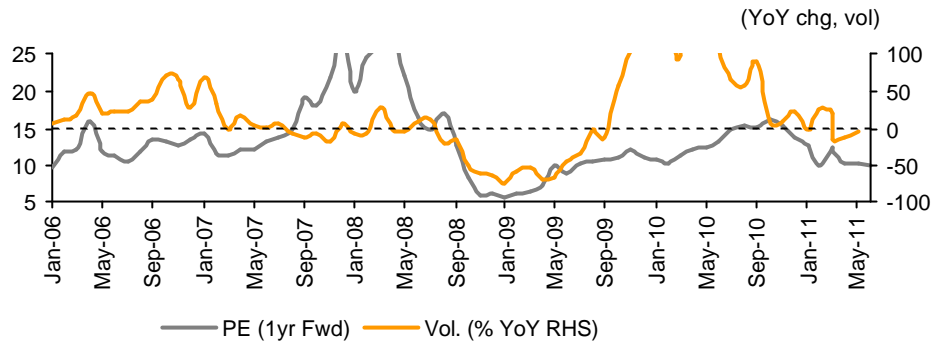
YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY10	72,447	7,628	10.5	3,889	2.9	112.9	17.6	17.6	10.8	3.0
FY11	111,177	12,436	11.2	6,573	4.9	69.0	26.4	10.4	6.4	2.6
FY12E	122,040	12,965	10.6	6,058	4.6	(7.8)	21.6	11.3	5.8	2.3
FY13E	138,777	14,868	10.7	7,543	5.7	24.5	24.0	9.1	4.9	2.1

Source: Company, Emkay Research

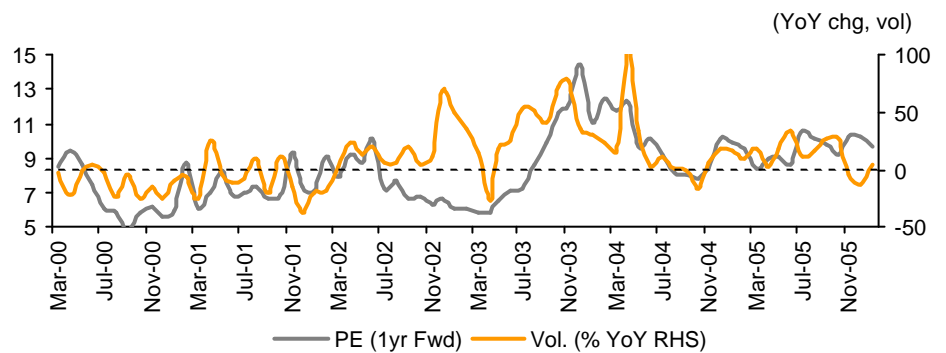
**ALL is like any other cyclical stock**

We consider ALL as another cyclical stock (commodities/tyres). Hence we do not give excessive importance to earnings based valuations given the cyclicity of M&HCV. Historical analysis of PER indicates that the earnings based multiple expands during periods of strong volumes while it contracts significantly with volume declines. We believe this is due to two reasons – inability to capture the demand cycle (during upturn as well as downturn) and excessive focus on near term earnings.

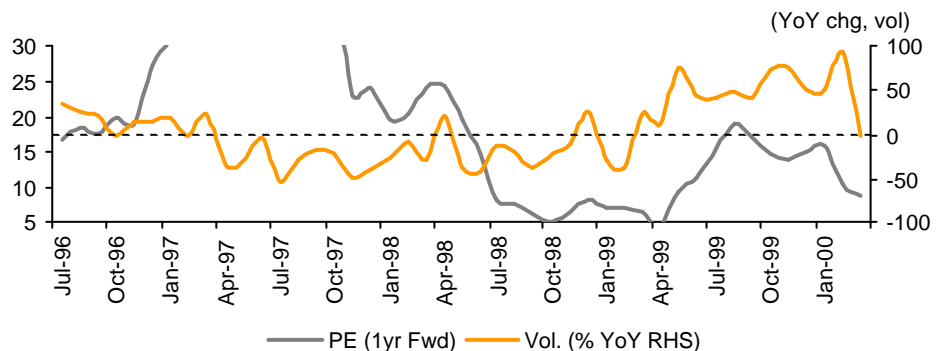
**2006 – 2011: PE multiple vs volume growth**



**2000 – 2005: PE multiple vs volume growth**



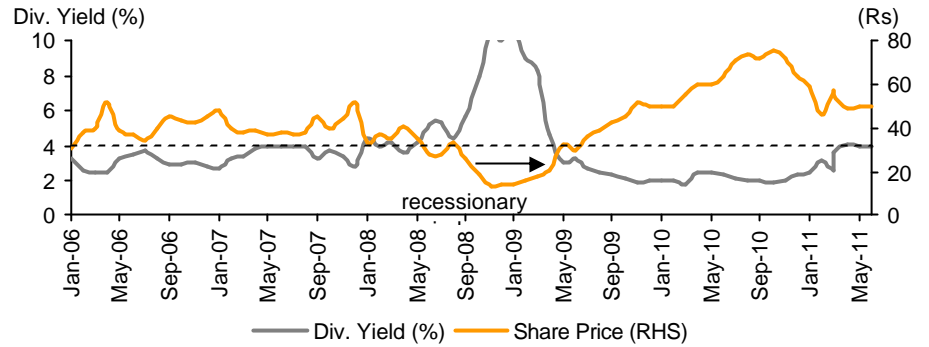
**1996 – 2000: PE multiple vs volume growth**



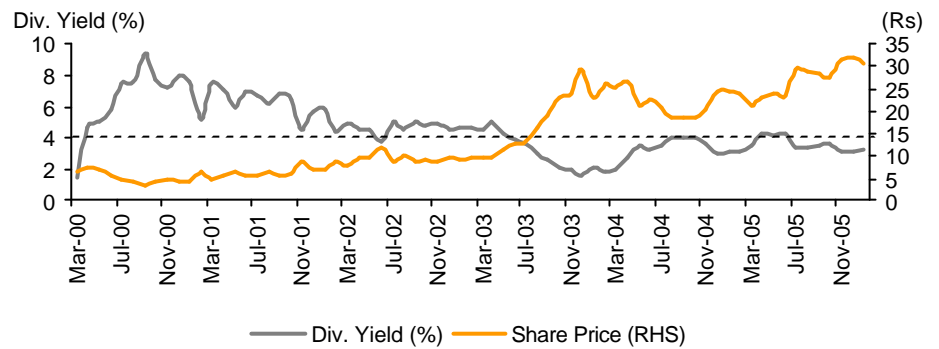
**For ALL dividend yield is a strong lead indicator of stock performance**

As can be seen from the graphs below, dividend yield has been a strong lead indicator of stock performance (short term as well as long term). Whenever, dividend yield has crossed ~4%, the stock has generated strong returns (in next 4 to 5 months). Interestingly, this is true even when volumes have failed to pick up.

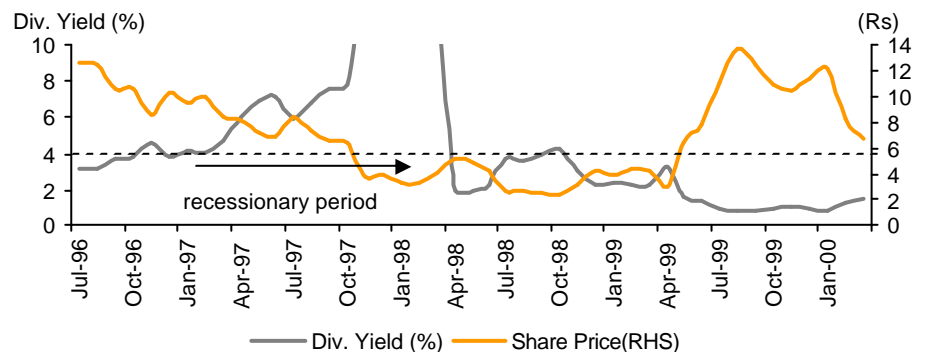
**2006 – 2011: Stock performance vs Div. yield**



**2000 – 2005: Stock performance vs Div. yield**



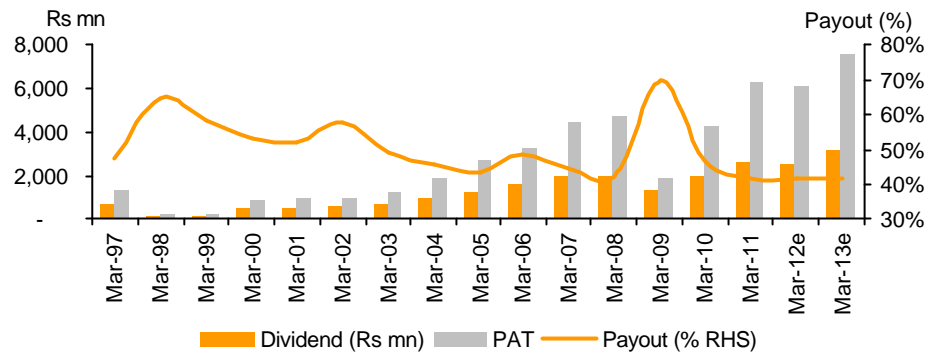
**1996 – 2000: Stock performance vs Div. yield**



### Consistent DPS is the most important reason

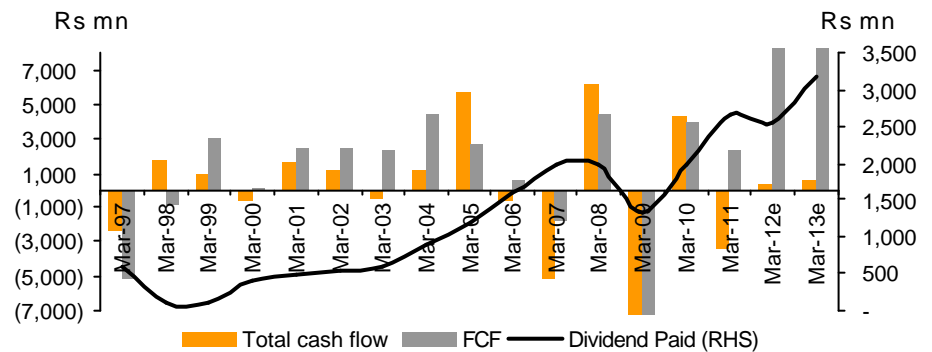
Our analysis of last 15 year data indicates that ALL has either maintained or increased the DPS. The only period when the drop in DPS was seen was FY98 and FY09. Both these period witnessed economic recession

#### Stable dividend irrespective of profitability



Also, ALL has managed to maintain the same dividend despite a volatile cash flow (see graph below)

#### Stable dividend irrespective of cash flows



### Valuation & View

We have a ACCUMULATE rating on the stock. Our TP of Rs 57 implies 12x/10x PER and 6.4x/5.3x EV-EBIDTA of our FY12/FY13 estimates. We expect 2QFY11 to be the worst quarter on YoY basis for the company and things should improve thereafter in terms of margins and profitability. We factor in DPS of Rs 2/2.4 in FY12/13 which implies div. yield of 4%/4.8%. The stock is currently trading at 11.3x/9.1x PER and 5.8x/4.9x EV/EBIDTA on our FY12/13 estimates. Dividend yield is one of the important reasons for our positive view on the stock despite lack of clarity on near term earnings.

## Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	<b>72,447</b>	<b>111,177</b>	<b>122,040</b>	<b>138,777</b>
Growth (%)	21.1	53.5	9.8	13.7
<b>Expenditure</b>	<b>64,819</b>	<b>98,742</b>	<b>109,075</b>	<b>123,908</b>
Materials Consumed	52,193	81,235	88,948	101,094
Employee Cost	6,716	9,486	11,012	12,488
Other Exp	5,909	8,021	9,114	10,326
<b>EBITDA</b>	<b>7,628</b>	<b>12,436</b>	<b>12,965</b>	<b>14,868</b>
Growth (%)	62.5	63.0	4.3	14.7
<b>EBITDA margin (%)</b>	<b>10.5</b>	<b>11.2</b>	<b>10.6</b>	<b>10.7</b>
Depreciation	2,041	2,674	3,411	3,591
<b>EBIT</b>	<b>5,587</b>	<b>9,761</b>	<b>9,554</b>	<b>11,277</b>
<b>EBIT margin (%)</b>	<b>7.7</b>	<b>8.8</b>	<b>7.8</b>	<b>8.1</b>
Other Income	209	153	277	364
Interest expenses	811	1,637	2,063	1,843
<b>PBT</b>	<b>4,985</b>	<b>8,278</b>	<b>7,767</b>	<b>9,797</b>
<b>Tax</b>	<b>1,097</b>	<b>1,705</b>	<b>1,709</b>	<b>2,253</b>
Effective tax rate (%)	22.0	20.6	22.0	23.0
<b>Adjusted PAT</b>	<b>3,889</b>	<b>6,573</b>	<b>6,058</b>	<b>7,544</b>
Growth (%)	112.9	69.0	(7.8)	24.5
<b>Net Margin (%)</b>	<b>5.4</b>	<b>5.9</b>	<b>5.0</b>	<b>5.4</b>
(Profit)/loss from JV's/Ass/MI	-	-	-	-
<b>Adj. PAT after MI</b>	<b>3,889</b>	<b>6,573</b>	<b>6,058</b>	<b>7,544</b>
E/O items	348	(260)	-	-
<b>Reported PAT</b>	<b>4,237</b>	<b>6,313</b>	<b>6,058</b>	<b>7,544</b>
Growth (%)	123.0	49.0	(4.0)	24.5

## Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	1,330	1,330	1,330	1,330
Reserves & surplus	35,233	38,299	41,330	45,103
<b>Net worth</b>	<b>36,563</b>	<b>39,630</b>	<b>42,660</b>	<b>46,434</b>
<b>Minority Interest</b>				
Secured Loans	7,116	11,823	9,423	8,023
Unsecured Loans	14,923	13,860	17,660	17,460
<b>Loan Funds</b>	<b>22,039</b>	<b>25,683</b>	<b>27,083</b>	<b>25,483</b>
Net deferred tax liability	4,611	5,338	5,338	5,338
<b>Total Liabilities</b>	<b>63,213</b>	<b>70,650</b>	<b>75,081</b>	<b>77,255</b>
Gross Block	60,186	66,919	69,919	72,919
Less: Depreciation	17,691	20,581	23,992	27,584
<b>Net block</b>	<b>42,496</b>	<b>46,338</b>	<b>45,927</b>	<b>45,335</b>
Capital work in progress	5,615	3,580	3,580	3,580
<b>Investment</b>	<b>3,262</b>	<b>12,300</b>	<b>17,800</b>	<b>19,200</b>
<b>Current Assets</b>	<b>41,397</b>	<b>43,672</b>	<b>43,717</b>	<b>49,983</b>
Inventories	16,382	22,089	18,171	20,664
Sundry debtors	10,221	11,852	10,176	11,572
Cash & bank balance	5,189	1,795	2,105	2,663
Loans & advances	9,605	7,936	13,265	15,084
Other current assets	-	-	-	-
<b>Current lia &amp; Prov</b>	<b>29,608</b>	<b>35,283</b>	<b>35,985</b>	<b>40,886</b>
Current liabilities	25,921	30,379	29,883	33,947
Provisions	3,687	4,903	6,102	6,939
<b>Net current assets</b>	<b>11,789</b>	<b>8,390</b>	<b>7,732</b>	<b>9,097</b>
Misc. exp	51.7	43.1	43.1	43.1
<b>Total Assets</b>	<b>63,213</b>	<b>70,650</b>	<b>75,081</b>	<b>77,255</b>

## Cash Flow Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
<b>PBT (Ex-Other income)</b>	<b>4,776</b>	<b>8,125</b>	<b>7,490</b>	<b>9,433</b>
Depreciation	2,041	2,674	3,411	3,591
Interest Provided	811	1,637	2,063	1,844
Other Non-Cash items	1,564	(4,822)	-	-
Chg in working cap	2,806	6	967	(806)
Tax paid	(1,097)	(1,705)	(1,709)	(2,253)
<b>Operating Cashflow</b>	<b>10,902</b>	<b>5,914</b>	<b>12,224</b>	<b>11,809</b>
Capital expenditure	(6,429)	(4,697)	(3,000)	(3,000)
<b>Free Cash Flow</b>	<b>4,473</b>	<b>1,216</b>	<b>9,224</b>	<b>8,809</b>
Other income	209	153	277	364
Investments	(1,612)	(4,633)	(5,500)	(1,400)
<b>Investing Cashflow</b>	<b>(1,403)</b>	<b>(4,480)</b>	<b>(5,223)</b>	<b>(1,036)</b>
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	2,457	3,644	1,400	(1,600)
Interest Paid	(811)	(1,637)	(2,063)	(1,844)
Dividend paid (incl tax)	(2,327)	(3,092)	(3,028)	(3,770)
Income from investments				
Others	1,914	949		
<b>Financing Cashflow</b>	<b>1,233</b>	<b>(136)</b>	<b>(3,691)</b>	<b>(7,214)</b>
<b>Net chg in cash</b>	<b>4,303</b>	<b>(3,400)</b>	<b>309</b>	<b>559</b>
Opening cash position*	851	5,189	1,795	2,105
<b>Closing cash position*</b>	<b>5,155</b>	<b>1,789</b>	<b>2,105</b>	<b>2,663</b>

\* represents cash and cash equivalents for FY09 and FY10

## Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
<b>Profitability (%)</b>				
EBITDA Margin	10.5	11.2	10.6	10.7
Net Margin	5.4	5.9	5.0	5.4
ROCE	12.5	18.5	16.5	18.5
ROE	17.6	26.4	21.6	24.0
RoIC	17.1	25.8	24.4	29.2
<b>Per Share Data (Rs)</b>				
EPS	2.9	4.9	4.6	5.7
CEPS	4.5	7.0	7.1	8.4
BVPS	17.4	19.9	22.2	25.1
DPS	1.5	2.0	2.0	2.4
<b>Valuations (x)</b>				
PER	17.6	10.4	11.3	9.1
P/CEPS	11.6	7.4	7.2	6.2
P/BV	3.0	2.6	2.3	2.1
EV / Sales	1.1	0.7	0.6	0.5
EV / EBITDA	10.8	6.4	5.8	4.9
Dividend Yield (%)	2.9	3.9	3.8	4.7
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.7	0.9	0.8	0.6
Net Debt/EBITDA	2.1	1.8	1.8	1.4
Working Cap Cycle (days)	3.4	11.7	(4.6)	(4.5)

\*calculated ex revaluation reserve

**Recommendation History: Ashok Leyland Ltd. – AL IN**

Date	Reports	Reco	CMP	Target
20/07/2011	<a href="#">Ashok Leyland Q1FY12 Result Update</a>	Accumulate	50	57
20/05/2011	<a href="#">Ashok Leyland Q4FY11 Result Update</a>	Accumulate	51	63
24/01/2011	<a href="#">Ashok Leyland Q3FY11 Result Update</a>	Accumulate	59	68
25/10/2010	<a href="#">Ashok Leyland Q2FY11 Result Update</a>	Hold	75	76

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
21/07/2011	<a href="#">Hero Honda Q1FY12 Result Update</a>	Hold	1,789	1,840
19/07/2011	<a href="#">Bajaj Auto Q1FY12 Result Concall Update</a>	Buy	1,417	1,680
14/07/2011	<a href="#">Bajaj Auto Q1FY12 Result Update First Cut</a>	Buy	1,421	1,700
14/07/2011	<a href="#">Motherson Sumi Event Update</a>	Accumulate	231	260

**Emkay Global Financial Services Ltd.**

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