

Ashok Leyland

Increasing focus on LCVs in tough times

AL's margins in 4Q at 4.8% were largely in line with our estimates. We believe that the CV cycle will witness a delayed recovery, due to the COVID outbreak as well as the low utilisation levels (post the axle norm increase by 15%). Further, the DFC remains an overhang and will impact the extent of recovery. The OEM is focusing on LCVs to broad base the sales mix. We reiterate our Reduce Rating.

- 4QFY20 Financials:** Volumes (down 57/18% YoY/QoQ), remains affected due to the downturn in the CV cycle. MHCV/LCV volumes declined 61/45% YoY. Revenues declined 57% YoY and EBITDA margin contracted 640/85bps YoY/QoQ to 4.8%. The co reported a loss of Rs 573mn. There was an exceptional loss of Rs 687mn towards impairment of investment in its UK subsidiary - Optare. APAT was at Rs 114mn.
- ICD's/group investments:** The OEM has recently increased its stake in Hinduja Leyland finance (by purchasing the stake of Everstone) and has invested Rs 5bn as ICDs in group companies. While gearing levels are under check (below 0.5x), we believe that the management should adopt a calibrated approach towards group investments. Ashok Leyland has reduced investments in group companies over FY15-17, which had led to an improvement in return ratios.
- Call & other takeaways:** (1) **Debt levels:** Cos' debt as of FY20 was ~Rs20bn. However, the current net debt levels have risen to ~Rs 40bn and are expected to moderate as demand improves/working capital cycle normalizes. The company has given Inter Corporate Deposits of Rs 5bn to group companies in FY20. (2) **BSVI transition:** The BSVI transition has been smooth for the co with AL carrying nil BSIV inventory. As the OEM focused on inventory rationalization, they could limit the discounts in 4Q. (3) **LCVs:** The OEM will launch the Phoenix LCV shortly in the 5-7.5T segment – AL is focusing on this segment to de-risk the business model/benefit from higher e-commerce led demand. (4) **MHCV recovery:** The management believes that a pick-up in volumes is expected from 2QFY21 and will be led by an improvement in tipper sales (driven by a pick-up in infrastructure activities). Also, the co believes that the modular platform- AVTR will support volumes.
- Reiterate REDUCE:** We are tweaking our estimates and set a revised TP of Rs 47 @ 13x FY22 EPS (vs. 46 earlier). **Key Risks:** A sharper than expected economic recovery

Financial Summary

| YE Mar (Rs mn) | 4Q FY20 | 4Q FY19 | YoY (%) | 3Q FY20 | QoQ (%) | FY18 | FY19 | FY20P | FY21E | FY22E |
|-----------------|------------|------------|------------|------------|------------|---------|---------|---------|---------|---------|
| Net Sales | 38,385 | 88,459 | (56.6) | 40,157 | (4.4) | 263,564 | 290,550 | 174,675 | 161,059 | 195,686 |
| EBITDA | 1,830 | 9,854 | (81.4) | 2,252 | (18.7) | 29,635 | 31,357 | 11,736 | 9,986 | 19,862 |
| APAT | 114 | 6,647 | (98.3) | 299 | (61.9) | 17,382 | 20,289 | 3,426 | 2,684 | 10,619 |
| Adj. EPS (Rs) | 0.0 | 2.3 | (98.3) | 0.1 | (61.9) | 5.9 | 6.9 | 1.2 | 0.9 | 3.6 |
| APAT Growth (%) | | | | | | 13.5 | 16.7 | (83.1) | (21.7) | 295.7 |
| P/E (x) | | | | | | 8.8 | 7.6 | 44.9 | 57.3 | 14.5 |
| RoE (%) | | | | | | 26.0 | 26.0 | 4.1 | 3.2 | 11.9 |

Source: Company, HSIE Research

REDUCE

| | |
|--------------------------|--------|
| CMP (as on 26 June 2020) | Rs 52 |
| Target Price | Rs 47 |
| NIFTY | 10,383 |

| KEY CHANGES | OLD | NEW |
|--------------|--------------|--------------|
| Rating | REDUCE | REDUCE |
| Price Target | Rs 46 | Rs 47 |
| EPS % | FY21E -9% | FY22E +3% |

KEY STOCK DATA

| | |
|-----------------------------|-----------|
| Bloomberg code | AL IN |
| No. of Shares (mn) | 2,936 |
| MCap (Rs bn) / (\$ mn) | 154/2,038 |
| 6m avg traded value (Rs mn) | 1,989 |
| 52 Week high / low | Rs 91/34 |

STOCK PERFORMANCE (%)

| | 3M | 6M | 12M |
|--------------|------|--------|--------|
| Absolute (%) | 22.4 | (34.0) | (38.8) |
| Relative (%) | 5.0 | (19.4) | (27.6) |

SHAREHOLDING PATTERN (%)

| | Dec-19 | Mar-20 |
|-----------------|--------|--------|
| Promoters | 51.1 | 51.5 |
| FIs & Local MFs | 12.4 | 15.1 |
| FPIs | 19.2 | 16.9 |
| Public & Others | 17.3 | 16.5 |
| Pledged Shares | 0.0 | 0.0 |

Source : BSE

Aditya Makharia

aditya.makharia@hdfcsec.com
+91-22-6171-7316

Mansi Lall

mansi.lall@hdfcsec.com
+91-22-6171-7357

Quarterly Financial Snapshot

MHCV vols remained lacklustre (-61% YoY, -6% QoQ) owing to COVID outbreak

Realizations improved owing to higher share of MHCV vehicles in the mix, ahead of BSVI transition

EBITDA margin at 4.8% declined 640/85bps YoY/QoQ due to negative operating leverage

| Particulars (Rs mn) | 4Q FY20 | 4Q FY19 | YoY (%) | 3Q FY20 | QoQ (%) | FY20 | FY19 | YoY (%) |
|-----------------------------------|---------------|---------------|----------------|---------------|----------------|----------------|----------------|---------------|
| Volumes (in units) | 25,504 | 58,722 | (56.6) | 31,200 | (18.3) | 125,250 | 196,570 | (36.3) |
| Net ASP (Rs '000/veh) | 1,505 | 1,506 | (0.1) | 1,287 | 16.9 | 1,395 | 1,478 | (5.6) |
| Net sales (incl OOI) | 38,385 | 88,459 | (56.6) | 40,157 | (4.4) | 174,675 | 290,550 | (39.9) |
| Material Expenses | 27,290 | 64,292 | (57.6) | 29,532 | (7.6) | 123,692 | 206,796 | (40.2) |
| Employee Expenses | 4,097 | 5,735 | (28.6) | 2,728 | 50.2 | 16,151 | 20,988 | (23.0) |
| Other Operating Expenses | 5,168 | 8,578 | (39.7) | 5,645 | (8.4) | 23,096 | 31,409 | (26.5) |
| Total Expenditure | 36,555 | 78,605 | (53.5) | 37,905 | (3.6) | 162,938 | 259,192 | (37.1) |
| EBITDA | 1,830 | 9,854 | (81.4) | 2,252 | (18.7) | 11,737 | 31,357 | (62.6) |
| Depreciation | 1,877 | 1,598 | 17.5 | 1,575 | 19.2 | 6,698 | 6,210 | 7.9 |
| EBIT | (47) | 8,257 | (100.6) | 677 | (107.0) | 5,039 | 25,147 | (80.0) |
| Other Income (including EO items) | (343) | (26) | 1,218.7 | 202 | (270.1) | (325) | 525 | (161.9) |
| Interest Cost | 331 | 166 | 99.3 | 337 | (1.7) | 1,095 | 704 | 55.5 |
| PBT | (721) | 8,065 | (108.9) | 542 | (233.1) | 3,619 | 24,969 | (85.5) |
| Tax | (148) | 1,535 | (109.6) | 264 | (155.9) | 1,224 | 5,136 | (76.2) |
| RPAT | (573) | 6,530 | (108.8) | 278 | (306.5) | 2,395 | 19,833 | (87.9) |
| E/O items (net of tax) | (687) | (117) | 488.4 | (22) | 3,067.3 | (1,031) | (456) | 126.0 |
| APAT | 114 | 6,647 | (98.3) | 299 | (61.9) | 3,426 | 20,289 | (83.1) |
| Adj EPS | 0.0 | 2.3 | (98.3) | 0.1 | (61.9) | 1.2 | 6.9 | (83.1) |

Source: Company, HSIE Research

The co has cut back on capex for FY21 as large investments for BSVI are already through

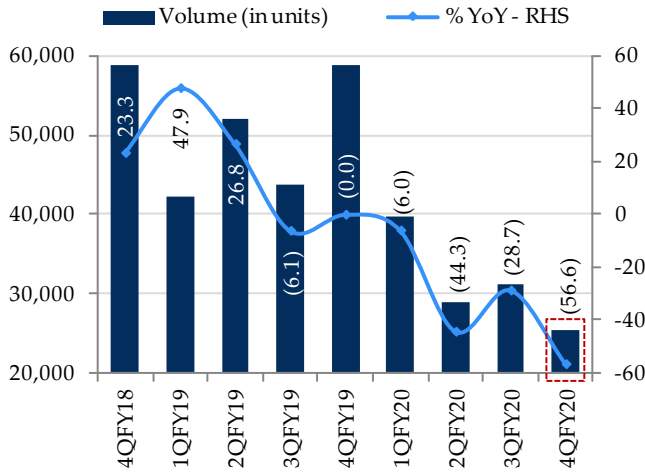
Phoenix LCV will be the new launch after the success of the Dost in the 2-ton segment

Quarterly Performance Analysis

| As % of sales | 4Q FY20 | 4Q FY19 | YoY (bps) | 3Q FY20 | QoQ (bps) | FY20 | FY19 | YoY (bps) |
|--------------------------|--------------|-------------|--------------|-------------|--------------|-------------|-------------|--------------|
| Material Expenses | 71.1 | 72.7 | (158) | 73.5 | (245) | 70.8 | 71.2 | (36) |
| Employee Expenses | 10.7 | 6.5 | 419 | 6.8 | 388 | 9.2 | 7.2 | 202 |
| Other Operating Expenses | 13.5 | 9.7 | 377 | 14.1 | (59) | 13.2 | 10.8 | 241 |
| Total Expenditure | 95.2 | 88.9 | 637 | 94.4 | 84 | 93.3 | 89.2 | 407 |
| EBITDA | 4.8 | 11.1 | (637) | 5.6 | (84) | 6.7 | 10.8 | (407) |
| RPAT | (1.5) | 7.4 | (888) | 0.7 | (218) | 1.4 | 6.8 | (545) |
| APAT | 0.3 | 7.5 | (722) | 0.7 | (45) | 2.0 | 7.0 | (502) |
| Tax as % of PBT | 20.5 | 19.0 | 147 | 48.8 | (2,827) | 33.8 | 20.6 | 1,325 |

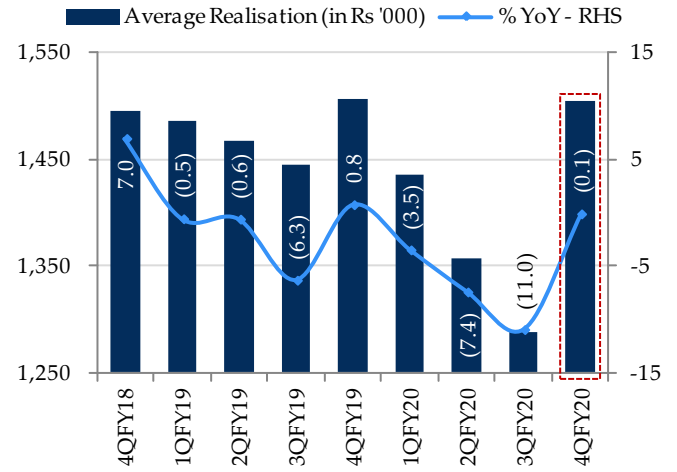
Source: Company, HSIE Research

Volumes impacted due to downturn in the CV cycle



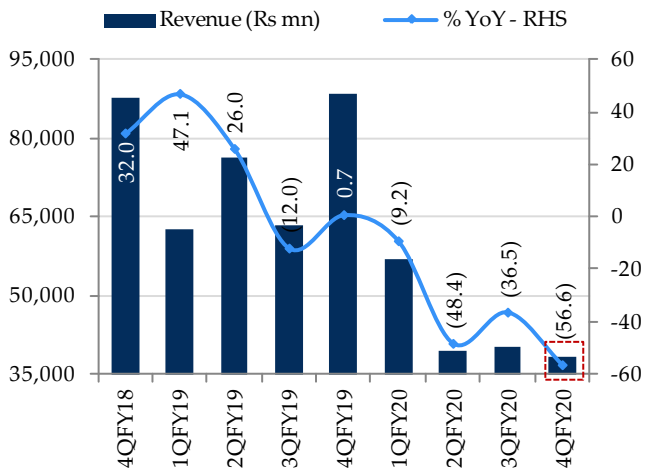
Source: Company, HSIE Research

Change in product mix improved average realizations



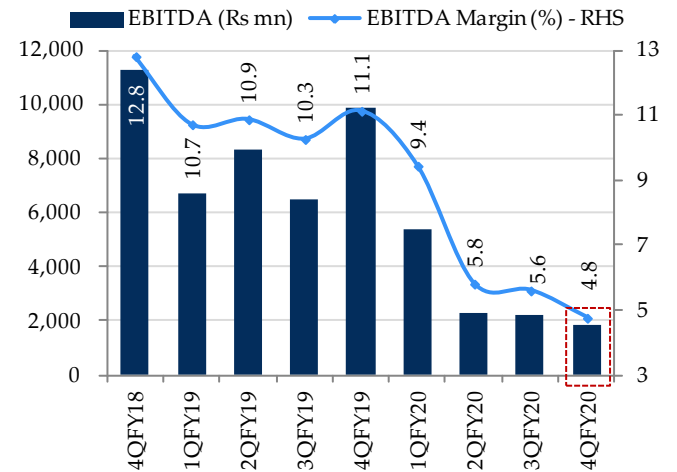
Source: Company, HSIE Research

Revenues were impacted in the downturn



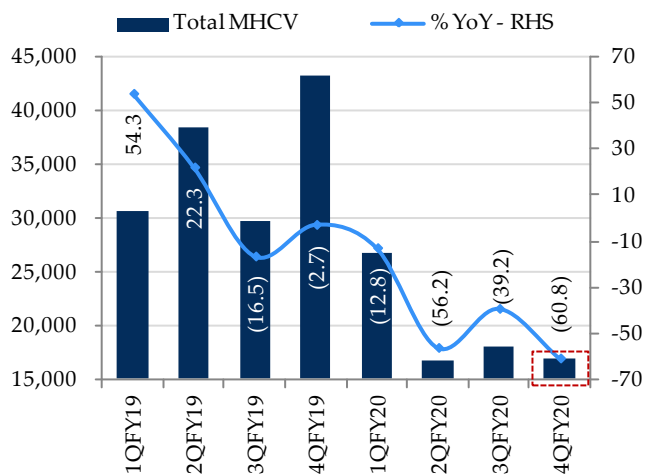
Source: Company, HSIE Research

EBITDA margin impacted by negative op lev



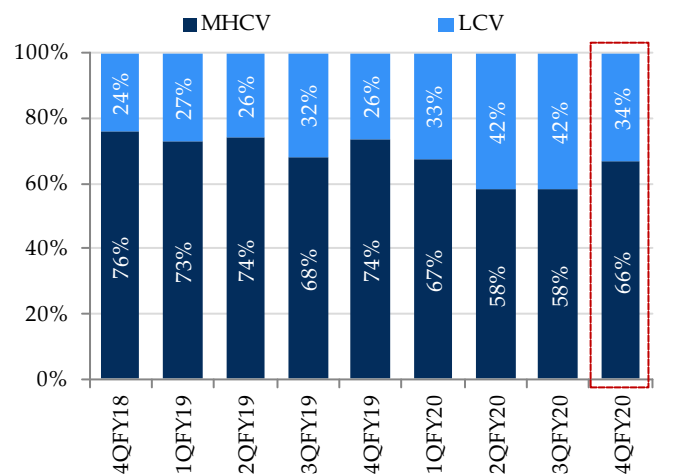
Source: Company, HSIE Research

Quarterly MHCV volume trend



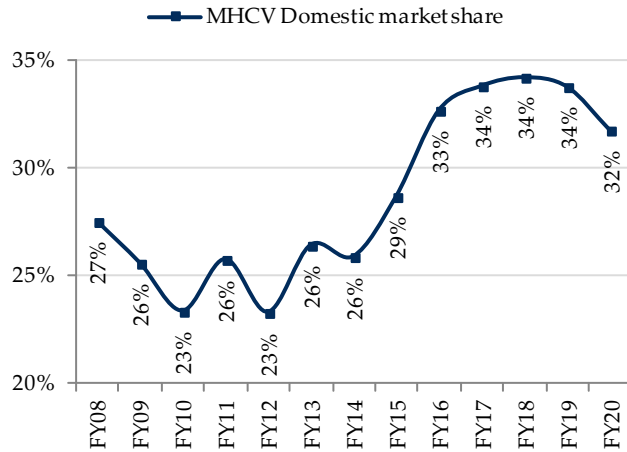
Source: Company, HSIE Research

Quarterly product mix (%)



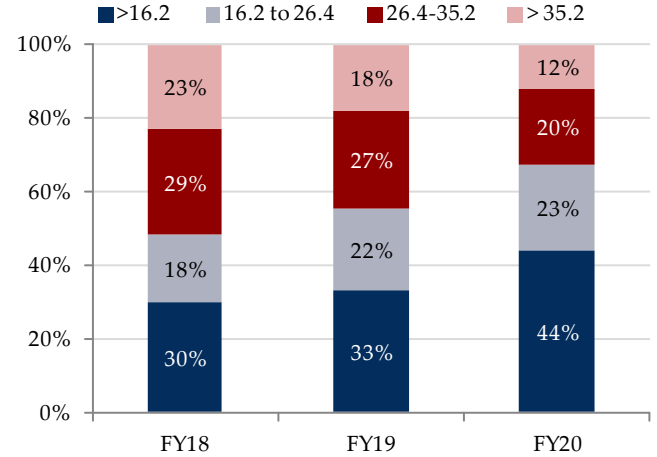
Source: Company, HSIE Research

AL's Market share loss in MHCV segment in FY20



Source: SIAM, Company, HSIE Research

Industry: Lower tonnage vehicles gaining share



Source: SIAM, Company, HSIE Research

Ashok Leyland had scaled back investments in group companies over FY15-17, which had improved return ratios

| Non-current investments (Rs mn) | FY15 | FY16 | FY17 |
|--|---------------|---------------|---------------|
| IndusInd Bank Limited | 4,487 | - | - |
| Hinduja Leyland Finance Limited | 7,785 | 7,785 | 9,227 |
| Ashok Leyland John Deere Construction Equipment Co | 1,861 | - | 250 |
| Ashok Leyland Wind Energy Ltd. | 48 | 48 | 91 |
| Hinduja Properties Limited | 6 | 7 | - |
| Albonair (India) Private Limited | - | 211 | 261 |
| Ashok Leyland Nissan Vehicles Limited | 1,959 | 1,959 | 1,959 |
| Gulf Ashley Motor Limited | 176 | 233 | 279 |
| Optare | 1,499 | 1,499 | 1,499 |
| Hinduja Tech Limited | 974 | 974 | 974 |
| Ashley Alteams India Limited | 356 | 381 | 406 |
| Hinduja Foundries Limited | - | 221 | 174 |
| Hinduja Energy (India) Limited | 1,931 | 1,931 | 1,871 |
| Ashok Leyland Defence Systems | - | 30 | 43 |
| Others | 5,887 | 4,527 | 2,982 |
| Total Non-current investments | 26,967 | 19,804 | 20,017 |

Source: Company, HSIE Research

Volume assumptions

| (in units) | FY16 | FY17 | FY18 | FY19 | FY20 | FY21E | FY22E |
|---------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| MHCV | 109,760 | 113,292 | 131,432 | 142,858 | 78,604 | 67,390 | 80,128 |
| % YoY | 41.3 | 3.2 | 16.0 | 8.7 | (45.0) | (14.3) | 18.9 |
| LCV | 30,598 | 31,774 | 43,419 | 54,508 | 46,646 | 41,938 | 47,892 |
| % YoY | 13.8 | 3.8 | 36.6 | 25.5 | (14.4) | (10.1) | 14.2 |
| Total sales | 140,358 | 145,066 | 174,851 | 197,366 | 125,250 | 109,328 | 128,021 |
| % YoY | 34.2 | 3.4 | 20.5 | 12.9 | (36.5) | (12.7) | 17.1 |
| Average Realisation (Rs) | 1,349,215 | 1,388,342 | 1,507,363 | 1,472,136 | 1,394,608 | 1,473,172 | 1,528,546 |
| % YoY | 4.0 | 2.9 | 8.6 | (2.3) | (5.3) | 5.6 | 3.8 |

Source: Company, HSIE Research

Change in Estimates

| Rs mn | New | | Old | | Change (%) | |
|---------------|---------|---------|---------|---------|------------|-------|
| | FY21E | FY22E | FY21E | FY22E | FY21E | FY22E |
| Revenue | 161,059 | 195,686 | 156,102 | 189,794 | 3 | 3 |
| EBITDA | 9,986 | 19,862 | 9,678 | 19,169 | 3 | 4 |
| EBITDA margin | 6.2 | 10.2 | 6.2 | 10.1 | 0 bps | 5 bps |
| PAT | 2,684 | 10,619 | 2,934 | 10,305 | (9) | 3 |
| EPS | 0.9 | 3.6 | 1.0 | 3.5 | (9) | 3 |

Source: HSIE Research

Peerset comparison

| | Mcap (Rs bn) | CMP (Rs/sh) | Reco | Adj EPS (Rs/sh) | | P/E (x) | | RoE (%) | |
|----------------------|-----------------|----------------|---------------|-----------------|------------|-------------|-------------|------------|-------------|
| | | | | FY21E | FY22E | FY21E | FY22E | FY21E | FY22E |
| Ashok Leyland | 154 | 52 | REDUCE | 0.9 | 3.6 | 57.3 | 14.5 | 3.2 | 11.9 |
| Bajaj Auto | 828 | 2,861 | ADD | 149.4 | 167.6 | 19.2 | 17.1 | 18.2 | 18.8 |
| Eicher | 503 | 18,465 | REDUCE | 560.6 | 705.1 | 32.9 | 26.2 | 14.0 | 15.6 |
| Escorts Ltd. | 125 | 1,017 | BUY | 49.9 | 63.1 | 20.4 | 16.1 | 12.0 | 12.2 |
| Hero Motocorp | 507 | 2,541 | BUY | 128.7 | 155.5 | 19.7 | 16.3 | 17.3 | 19.2 |
| M&M | 598 | 502 | ADD | 25.8 | 34.4 | 19.4 | 14.6 | 8.4 | 10.5 |
| Maruti Suzuki | 1,738 | 5,756 | BUY | 146.0 | 252.4 | 39.4 | 22.8 | 8.5 | 13.6 |
| Tata Motors | 369 | 102 | ADD | (21.9) | (0.2) | NA | NA | NA | NA |

Source: HSIE Research

Financials

Standalone Income Statement

| (Rs mn) | FY16 | FY17 | FY18 | FY19 | FY20P | FY21E | FY22E |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Net Revenues | 189,373 | 201,401 | 263,564 | 290,550 | 174,675 | 161,059 | 195,686 |
| <i>Growth (%)</i> | <i>39.6</i> | <i>6.4</i> | <i>30.9</i> | <i>10.2</i> | <i>(39.9)</i> | <i>(7.8)</i> | <i>21.5</i> |
| Material Expenses | 131,949 | 139,734 | 184,311 | 206,796 | 123,692 | 115,157 | 137,665 |
| Employee Expenses | 13,851 | 14,801 | 18,378 | 20,988 | 16,151 | 16,267 | 17,220 |
| Other Operating Expenses | 21,027 | 24,842 | 31,240 | 31,409 | 23,096 | 19,649 | 20,938 |
| Total Expenses | 166,827 | 179,376 | 233,929 | 259,192 | 162,938 | 151,074 | 175,823 |
| EBITDA | 22,546 | 22,025 | 29,635 | 31,357 | 11,736 | 9,986 | 19,862 |
| <i>EBITDA Margin (%)</i> | <i>11.9</i> | <i>10.9</i> | <i>11.2</i> | <i>10.8</i> | <i>6.7</i> | <i>6.2</i> | <i>10.2</i> |
| <i>EBITDA Growth (%)</i> | <i>119.6</i> | <i>(2.3)</i> | <i>34.5</i> | <i>5.8</i> | <i>(62.6)</i> | <i>(14.9)</i> | <i>98.9</i> |
| Depreciation | 4,879 | 5,179 | 5,985 | 6,210 | 6,698 | 6,572 | 6,634 |
| EBIT | 17,667 | 16,846 | 23,650 | 25,147 | 5,038 | 3,413 | 13,228 |
| Other Income (including EO items) | (6,926) | (1,992) | 1,681 | 525 | (325) | 1,295 | 1,489 |
| Interest | 2,476 | 1,554 | 1,473 | 704 | 1,095 | 1,232 | 997 |
| PBT | 8,265 | 13,301 | 23,858 | 24,968 | 3,619 | 3,476 | 13,720 |
| Tax (Incl Deferred) | 4,369 | 1,070 | 6,681 | 5,136 | 1,224 | 793 | 3,101 |
| Minority Interest | - | - | - | - | - | - | - |
| RPAT | 3,896 | 12,231 | 17,177 | 19,832 | 2,395 | 2,684 | 10,619 |
| EO (Loss) / Profit (Net Of Tax) | (8,102) | (3,085) | (205) | (457) | (1,031) | - | - |
| APAT | 11,998 | 15,315 | 17,382 | 20,289 | 3,426 | 2,684 | 10,619 |
| <i>APAT Growth (%)</i> | <i>364.4</i> | <i>27.7</i> | <i>13.5</i> | <i>16.7</i> | <i>(83.1)</i> | <i>(21.7)</i> | <i>295.7</i> |
| Adjusted EPS (Rs) | 4.2 | 5.4 | 5.9 | 6.9 | 1.2 | 0.9 | 3.6 |
| <i>EPS Growth (%)</i> | <i>364.4</i> | <i>27.7</i> | <i>10.3</i> | <i>16.4</i> | <i>(83.1)</i> | <i>(21.7)</i> | <i>295.7</i> |

Source: Company, HSIE Research

Standalone Balance Sheet

| (Rs mn) | FY16 | FY17 | FY18 | FY19 | FY20P | FY21E | FY22E |
|------------------------------------|---------------|---------------|----------------|---------------|----------------|----------------|----------------|
| SOURCES OF FUNDS | | | | | | | |
| Share Capital - Equity | 2,846 | 2,846 | 2,927 | 2,936 | 2,936 | 2,936 | 2,936 |
| Reserves | 51,226 | 58,415 | 69,528 | 80,389 | 81,114 | 82,862 | 89,163 |
| Total Shareholders Funds | 54,071 | 61,261 | 72,455 | 83,324 | 84,050 | 85,798 | 92,098 |
| Total Debt | 20,201 | 13,450 | 6,126 | 3,984 | 18,690 | 13,529 | 9,936 |
| Net Deferred Taxes | 3,291 | 1,269 | 2,986 | 2,497 | 3,004 | 3,066 | 3,286 |
| TOTAL SOURCES OF FUNDS | 77,563 | 75,979 | 81,567 | 89,806 | 105,743 | 102,393 | 105,320 |
| APPLICATION OF FUNDS | | | | | | | |
| Net Block | 48,800 | 50,937 | 50,981 | 51,646 | 60,024 | 58,638 | 59,517 |
| CWIP | 759 | 2,059 | 4,226 | 6,576 | 1,500 | 1,314 | 1,301 |
| Goodwill | - | - | 4,498 | 4,499 | 4,499 | 4,499 | 4,499 |
| Investments | 19,804 | 20,017 | 24,515 | 26,365 | 31,365 | 32,865 | 34,365 |
| Cash & Equivalents | 15,931 | 17,891 | 41,973 | 13,736 | 22,643 | 22,017 | 23,099 |
| Inventories | 16,250 | 26,310 | 17,583 | 26,847 | 18,185 | 15,885 | 19,300 |
| Debtors | 12,511 | 10,644 | 9,448 | 25,055 | 17,228 | 15,003 | 18,228 |
| Other Current Assets | 16,299 | 12,542 | 20,138 | 27,520 | 30,272 | 33,299 | 36,629 |
| Total Current Assets | 60,992 | 67,387 | 89,143 | 93,158 | 88,328 | 86,204 | 97,256 |
| Creditors | 25,627 | 31,170 | 48,879 | 50,189 | 33,499 | 30,006 | 35,384 |
| Other Current Liabilities & Provns | 27,164 | 33,250 | 42,918 | 42,249 | 46,474 | 51,121 | 56,234 |
| Total Current Liabilities | 52,791 | 64,420 | 91,797 | 92,438 | 79,973 | 81,127 | 91,618 |
| Net Current Assets | 8,201 | 2,967 | (2,654) | 719 | 8,355 | 5,077 | 5,639 |
| TOTAL APPLICATION OF FUNDS | 77,563 | 75,979 | 81,566 | 89,806 | 105,743 | 102,393 | 105,320 |

Source: Company, HSIE Research

Standalone Cash Flow

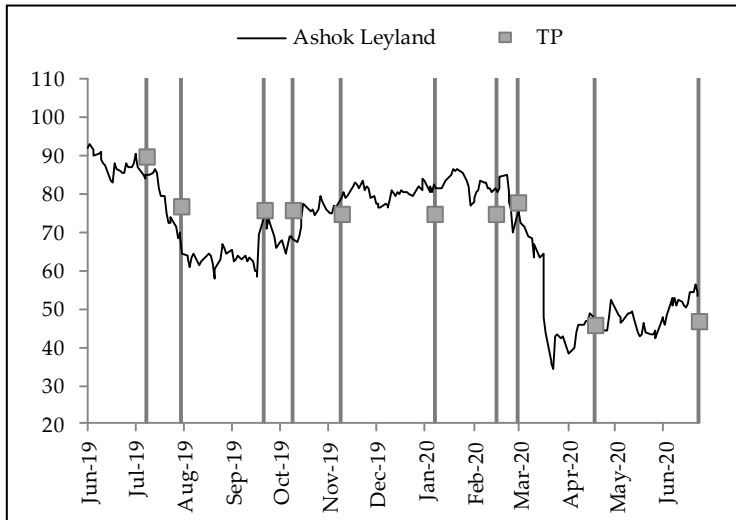
| (Rs mn) | FY16 | FY17 | FY18 | FY19 | FY20P | FY21E | FY22E |
|----------------------------------|----------------|-----------------|-----------------|-----------------|-----------------|----------------|----------------|
| Reported PBT | 8,265 | 13,301 | 23,858 | 24,968 | 3,619 | 3,476 | 13,720 |
| Non-operating & EO Items | 6,926 | 1,992 | (1,681) | (525) | 325 | (1,295) | (1,489) |
| Interest Expenses | 2,476 | 1,554 | 1,473 | 704 | 1,095 | 1,232 | 997 |
| Depreciation | 4,879 | 5,179 | 5,985 | 6,210 | 6,698 | 6,572 | 6,634 |
| Working Capital Change | 5,231 | 7,194 | 29,703 | (31,611) | 1,271 | 2,652 | 520 |
| Tax Paid | (3,939) | (3,092) | (4,964) | (5,625) | (717) | (730) | (2,881) |
| OPERATING CASH FLOW (a) | 23,838 | 26,127 | 54,374 | (5,878) | 12,290 | 11,908 | 17,501 |
| Capex | (8,965) | (8,616) | (12,695) | (9,226) | (10,000) | (5,000) | (7,500) |
| Free Cash Flow (FCF) | 14,873 | 17,511 | 41,679 | (15,104) | 2,290 | 6,908 | 10,001 |
| Investments | 7,163 | (212) | (4,498) | (1,850) | (5,000) | (1,500) | (1,500) |
| Non-operating Income | (6,926) | (1,992) | 1,681 | 525 | (325) | 1,295 | 1,489 |
| INVESTING CASH FLOW (b) | (8,727) | (10,820) | (15,512) | (10,552) | (15,325) | (5,205) | (7,511) |
| Debt Issuance/(Repaid) | (2,752) | (6,751) | (7,324) | (2,142) | 14,706 | (5,161) | (3,593) |
| Interest Expenses | (2,476) | (1,554) | (1,473) | (704) | (1,095) | (1,232) | (997) |
| FCFE | 9,645 | 9,206 | 32,882 | (17,949) | 15,902 | 515 | 5,411 |
| Share Capital Issuance | 1,525 | 928 | 2,401 | 1,637 | 0 | (0) | (0) |
| Dividend | (3,197) | (5,969) | (8,383) | (10,601) | (1,670) | (936) | (4,319) |
| FINANCING CASH FLOW (c) | (6,901) | (13,347) | (14,779) | (11,808) | 11,942 | (7,329) | (8,909) |
| NET CASH FLOW (a+b+c) | 8,210 | 1,960 | 24,082 | (28,238) | 8,907 | (626) | 1,082 |
| Closing Cash & Equivalents | 15,932 | 17,892 | 41,974 | 13,736 | 22,643 | 22,017 | 23,099 |

Key Ratios

| KEY RATIOS | FY16 | FY17 | FY18 | FY19 | FY20P | FY21E | FY22E |
|----------------------------|------|-------|-------|--------|-------|-------|-------|
| PROFITABILITY (%) | | | | | | | |
| GPM | 30.3 | 30.6 | 30.1 | 28.8 | 29.2 | 28.5 | 29.7 |
| EBITDA Margin | 11.9 | 10.9 | 11.2 | 10.8 | 6.7 | 6.2 | 10.2 |
| EBIT Margin | 9.3 | 8.4 | 9.0 | 8.7 | 2.9 | 2.1 | 6.8 |
| APAT Margin | 6.3 | 7.6 | 6.6 | 7.0 | 2.0 | 1.7 | 5.4 |
| RoE | 22.7 | 26.6 | 26.0 | 26.0 | 4.1 | 3.2 | 11.9 |
| RoIC (or Core RoCE) | 12.7 | 25.9 | 34.9 | 34.5 | 4.2 | 3.2 | 12.6 |
| RoCE | 10.7 | 20.2 | 21.6 | 23.3 | 3.4 | 2.5 | 9.9 |
| EFFICIENCY | | | | | | | |
| Tax Rate (%) | 52.9 | 8.0 | 28.0 | 20.6 | 33.8 | 22.8 | 22.6 |
| Fixed Asset Turnover (x) | 3.9 | 4.0 | 5.2 | 5.6 | 2.9 | 2.7 | 3.3 |
| Inventory (days) | 31 | 48 | 24 | 34 | 38 | 36 | 36 |
| Debtors (days) | 24 | 19 | 13 | 31 | 36 | 34 | 34 |
| Payables (days) | 49 | 56 | 68 | 63 | 70 | 68 | 66 |
| Debt/EBITDA (x) | 0.2 | (0.2) | (1.2) | (0.3) | (0.3) | (0.9) | (0.7) |
| Net D/E (x) | 0.1 | (0.1) | (0.5) | (0.1) | (0.0) | (0.1) | (0.1) |
| Interest Coverage (x) | 7.1 | 10.8 | 16.1 | 35.7 | 4.6 | 2.8 | 13.3 |
| PER SHARE DATA (Rs) | | | | | | | |
| EPS | 4.2 | 5.4 | 5.9 | 6.9 | 1.2 | 0.9 | 3.6 |
| CEPS | 3.1 | 6.1 | 7.9 | 8.9 | 3.1 | 3.2 | 5.9 |
| Dividend | 1.0 | 1.8 | 2.5 | 3.1 | 0.5 | 0.3 | 1.3 |
| Book Value | 19 | 22 | 25 | 28 | 29 | 29 | 31 |
| VALUATION | | | | | | | |
| P/E (x) | 12.4 | 9.7 | 8.8 | 7.6 | 44.9 | 57.3 | 14.5 |
| P/BV (x) | 2.8 | 2.4 | 2.1 | 1.8 | 1.8 | 1.8 | 1.7 |
| EV/EBITDA (x) | 6.8 | 6.6 | 4.0 | 4.6 | 12.8 | 14.5 | 7.1 |
| EV/Revenues (x) | 0.8 | 0.7 | 0.4 | 0.5 | 0.9 | 0.9 | 0.7 |
| OCF/EV (%) | 15.6 | 18.1 | 46.3 | (4.1) | 8.2 | 8.2 | 12.5 |
| FCF/EV (%) | 9.7 | 12.1 | 35.5 | (10.5) | 1.5 | 4.8 | 7.1 |
| FCFE/Mkt Cap (%) | 6.3 | 6.0 | 21.4 | (11.7) | 10.3 | 0.3 | 3.5 |
| Dividend Yield (%) | 1.8 | 3.4 | 4.7 | 6.0 | 0.9 | 0.5 | 2.4 |

Source: Company, HSIE Research

RECOMMENDATION HISTORY



| Date | CMP | Reco | Target |
|-----------|-----|--------|--------|
| 10-Jul-19 | 84 | NEU | 90 |
| 1-Aug-19 | 69 | NEU | 77 |
| 22-Sep-19 | 69 | NEU | 76 |
| 11-Oct-19 | 69 | NEU | 76 |
| 12-Nov-19 | 79 | NEU | 75 |
| 9-Jan-20 | 81 | NEU | 75 |
| 17-Feb-20 | 82 | NEU | 75 |
| 2-Mar-20 | 70 | REDUCE | 78 |
| 20-Apr-20 | 49 | REDUCE | 46 |
| 26-Jun-20 | 52 | REDUCE | 47 |

From 2nd March 2020, we have moved to new rating system

Rating Criteria

- BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
 SELL: >10% Downside return potential

Disclosure:

We, **Aditya Makharia, CA & Mansi Lall, MBA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

Any holding in stock –No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600 HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

HDFC securities**Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com