

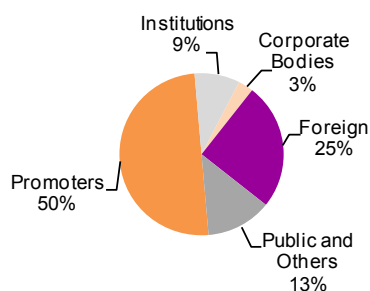
Ashok Leyland

Reco: Buy
Demonetisation to impact MHCV demand in near term; maintain Buy with revised PT of Rs90
CMP: Rs78

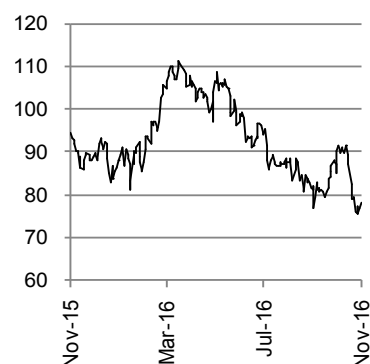
Company details

Price target:	Rs90
Market cap:	Rs22,269 cr
52-week high/low:	Rs113/74
NSE volume: (No of shares)	1.2 cr
BSE code:	500477
NSE code:	ASHOKLEY
Sharekhan code:	ASHOKLEY
Free float: (No of shares)	141.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-12.2	-11.0	-20.0	-17.9
Relative to Sensex	-6.3	-6.1	-22.2	-20.8

Key points

- GDP growth to moderate in near term due to demonetisation; to impact MHCV sales:** The government's recent demonetisation move (banning of high denomination currency, viz Rs500 and Rs1000 notes) would lead to liquidity crunch, which in turn will impact the consumption demand. Lower consumption will impact GDP growth. The government expects Q3FY2017 GDP growth to moderate to 5.5% as against the 7.1% GDP growth expected in H1FY2017. Slower GDP growth will impact freight generation and consequently the MHCV demand. Further, the truckers' existing fleet utilisation has been impacted on the back of the current liquidity crunch (fleet operators ~25-30% of expenses, viz payment to drivers, vehicle maintenance and repairs are predominantly in cash), which would lead to deferment of the new vehicle purchases. We expect the current liquidity crunch to persist in H2FY2017 with the situation expected to normalise only in FY2018. We expect the MHCV industry to report flat volumes for FY2017.
- FY2018 to be a better year; GST implementation and likely scrappage scheme to boost growth:** We expect the demonetisation to impact the MHCV demand in the next two quarters. However, FY2018 is likely to see GDP growth picking up once the liquidity situation normalises and the business cycle attains stability. Also, the government's focus on infrastructure spending will further propel economic growth. The implementation of GST will also boost economic growth and lead to improvement in fleet productivity (as trucks run time would increase owing to reduction in time spent at toll plazas), leading to uptick in the MHCV demand. Further, in order to control pollution, the government is also working on the MHCV scrappage scheme, which intends to offer incentives to replace MHCV vehicles more than 15 years old. We expect some announcements about the scheme in the upcoming Union Budget, which is likely to be announced in February 2017. The scheme would further aid MHCV growth in FY2018.
- Earnings estimates cut; Retain Buy with revised PT of Rs90:** The MHCV demand is likely to be impacted in the near term due to the demonetisation move. We have reduced our FY2017 and FY2018 earnings estimates by 14% and 16%, respectively, to factor in the lower MHCV demand and the consequent drop in the margins. However, given the long-term growth prospects and expectations of demand pick-up in FY2018, we have retained 'Buy' rating on the stock with a revised PT of Rs90.

Valuation

Particulars	FY14	FY15	FY16	FY17E*	FY18E*
Net sales	9,943.4	13,562.2	18,890.9	20,214.0	22,074.5
Growth (%)	-20.3	36.4	39.3	7.0	9.2
EBIDTA	116.9	1,026.6	2,199.4	2,298.8	2,470.0
OPM (%)	1.2	7.6	11.6	11.4	11.2
PAT	-476.3	233.9	1,153.2	1,331.9	1,430.8
Growth (%)	-421.5	-149.1	393.1	15.5	7.4
FD EPS (Rs)	-1.8	0.8	4.1	4.6	4.9
P/E (x)	NA	94.9	19.2	17.1	15.9
P/BV (x)	4.7	4.3	4.0	3.8	3.5
EV/EBITDA (x)	228.0	24.0	10.5	10.9	10.2
RoCE (%)	-3.0	7.4	21.2	19.5	19.4
RoE (%)	-10.7	4.6	20.9	22.2	22.0

*include Hinduja Foundries nos



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Compliance Officer: Ms. Namita Amod Godbole; Tel: 022-6115000; For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com