

Ashok Leyland



Broadening horizons

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Ashok Leyland

BSE Sensex
34,761S&P CNX
10,460

CMP: INR114

TP: INR148(+30%)

Buy



ASHOK LEYLAND

Stock Info

Bloomberg	AL IN
Equity Shares (m)	2,927
M.Cap.(INRb)/(USDb)	335.7 / 4.5
52-Week Range (INR)	168 / 103
1, 6, 12 Rel. Per (%)	-4/-23/-18
12M Avg Val (INR M)	2274
Free float (%)	48.9

Financials Snapshot (INR b)

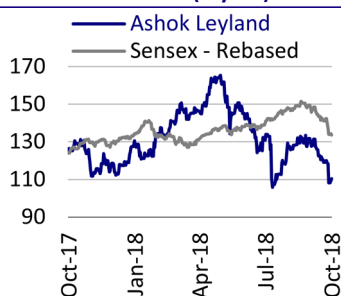
Y/E Mar	2018	2019E	2020E
Net Sales	262.5	304.6	365.1
EBITDA	27.4	33.7	42.5
PAT	15.8	20.4	26.0
EPS (INR)	5.4	7.0	8.9
Gr. (%)	23.9	29.6	27.3
BV/Sh (INR)	24.5	28.4	34.1
RoE (%)	23.7	26.4	28.4
RoCE (%)	20.7	23.6	26.1
P/E (x)	21.2	16.4	12.9
P/BV (x)	4.7	4.0	3.4

Shareholding pattern (%)

As On	Jun-18	Mar-18	Jun-17
Promoter	51.1	51.3	51.3
DII	10.2	11.2	9.5
FII	23.5	23.3	22.2
Others	15.1	14.3	17.0

FII Includes depository receipts

Stock Performance (1-year)



Broadening horizons

Focus on expanding and creating new profit/revenue pools

Over FY18-21, we expect domestic M&HCV volumes CAGR of ~8% (base case), driven by economic recovery, proliferation of hub & spoke model, and overload restrictions. The growth rate could be even higher (~18% CAGR) if the proposed scrappage policy (for vehicles over 20 years old) is implemented in FY21. The competitive environment is benign, as reflected in the consistent price increases taken by OEMs and the stability in gross margins. After gaining market share profitably over FY15-18, Ashok Leyland (AL) is now shifting its focus toward expanding and creating new revenue/profit pools. This should likely drive revenue/EBITDA/PAT CAGR of 12%/15%/16% over FY18-22. A sharp improvement in the key performance indicators would be key driver of further re-rating.

Unlike last three years, macros/regulations are now supportive

- Domestic M&HCV volumes increased at ~13% CAGR (FY15-18) from the downcycle of FY13/14, despite mixed macro trends, led by the recovery in infra and agri activity, and the strict implementation of the overload ban.
- We expect domestic M&HCV volumes CAGR of ~8% (under our base-case scenario) over FY18-21, driven by an economic recovery, proliferation of the hub & spoke model for the transport of goods, and increased demand for truck makers due to overload restrictions. The growth rate could be even higher (~18% CAGR) if the scrappage policy is implemented in FY21.
- Despite several headwinds (easing of the overloading ban in UP, an increase in rated load and a significant rise in diesel cost), momentum in CV demand remains healthy (growth of ~55% in FY19YTD, though off a low base – 1QFY18 had a pre-buy impact), indicating strength in the underlying demand drivers.

Low risk of substantial volume decline in FY21; competitive intensity remains benign

- We believe that M&HCV demand would be influenced by several factors in FY21. These include (a) the underlying economic environment, (b) the impact of pre-buy (in FY20 ahead of BS6 from April 2020), (c) operationalization of dedicated freight corridors (DFCs) and (d) the potential benefits from the implementation of the proposed scrappage policy.
- Contrary to the general perception, there is no historical evidence of a decline in volumes in a year of transition to new emission norms. In fact, on all three previous occasions of transition, CV volumes have grown, suggesting that demand drivers (IIP, agri, capex/investment, etc.) play a more important role.
- We expect a limited impact on new CV demand from higher rated load, as only select segments will benefit from it. Considering the benefit only to trucks under 8 years of age, the impact should be at ~23% of FY18 volumes.
- Despite higher discounts, competitive intensity is benign, as reflected in the consistent price increases taken by OEMs and the stability in gross margins. In FY20, the combined utilization of AL and Tata Motors (TTMT) is expected to touch 90% (~84% for the industry), implying more pricing power.

AL v2.0: Focus on creating and expanding profit/revenue pools

- AL's transformation journey (v1.0) from FY14 led to a profitable market share gain to 34.2% in FY18 (from 26.4% in FY13) and an improvement in the EBITDA margin (+340bp over FY13 to ~10.4% in FY18). Importantly, AL has now turned into a net cash company (~INR31b in FY18 from net debt of ~INR43b in FY13).
- Under AL v2.0, the company has shifted its focus toward expanding and creating new revenue and profit pools. De-risking of the M&HCV business, along with expansion of nascent business like spares (5% of sales), exports (9% of sales) and defence (3% of sales), is the key focus area. Also, it is stepping up its presence in relatively weak segments like LCVs, ICVs and school buses.
- AL has set up a new business vertical – Customer Solution – to target a higher share of the customer wallet across lifecycle in areas like finance, spares and fuel. A trucker who buys ~INR2m truck would also be spending ~INR35m over a 10-year period in operating and maintaining the truck.

Expect ~15% EBITDA CAGR over FY18-22

- AL's focus on expanding and creating new profit/revenue pools is likely to drive revenue/EBITDA/PAT CAGR of 12%/15%/16% over FY18-22.
- The strategy to de-risk business is expected to yield results, with the share domestic trucks in revenue likely to shrink to 60% by FY22 (v/s 66% in FY18).
- EBITDA margin is expected to expand from 10.4% in FY18 to 11.5% in FY22 (11.6% in FY20 and 10.3% in FY21), led by the mix shift toward nascent businesses with higher margins and operating leverage benefits.
- The merger of LCV subsidiaries from 2HFY19 is expected to be EBITDA and PAT accretive. We expect ~30bp accretion to standalone EBITDA margin upon the merger.

Valuations – further scope of re-rating

- Structural changes in balance sheet and de-risking of the business model are expected to result in free cash flow of INR58b over FY19-21, with RoE/RoCE of 20.8%/19.2% by FY21 (v/s 23.7%/20.7% in FY18 and 28.4%/26.1% in FY20).
- Despite re-rating since FY14, current valuations still do not fully reflect the sharp improvement in its key performance indicators.
- We have revised our estimates upward to factor in no material impact on volumes from an increase in rated load. We are upgrading our EPS estimates for FY19/20 by ~5%/2%.
- The stock trades at 9.1x/6.8x FY19/20 EV/EBITDA. It is trading below 10 year average EV/EBITDA of ~8.2x and near 1 standard deviation below mean. Based on reverse DCF calculation, implied terminal growth at current price is 0.4%.
- We roll forward AL's target price to FY21 to capture the negative impact of the potential decline in volumes. On downcycle earnings (10% EBITDA decline in FY21E), we value AL at 9x EV/EBITDA (v/s ten-year average multiple of 8.2x). We assign INR13 to NBFC post 20% hold-co to arrive at a revised target price of INR148 (Mar-21).

CV recovery in last three years despite mixed macros

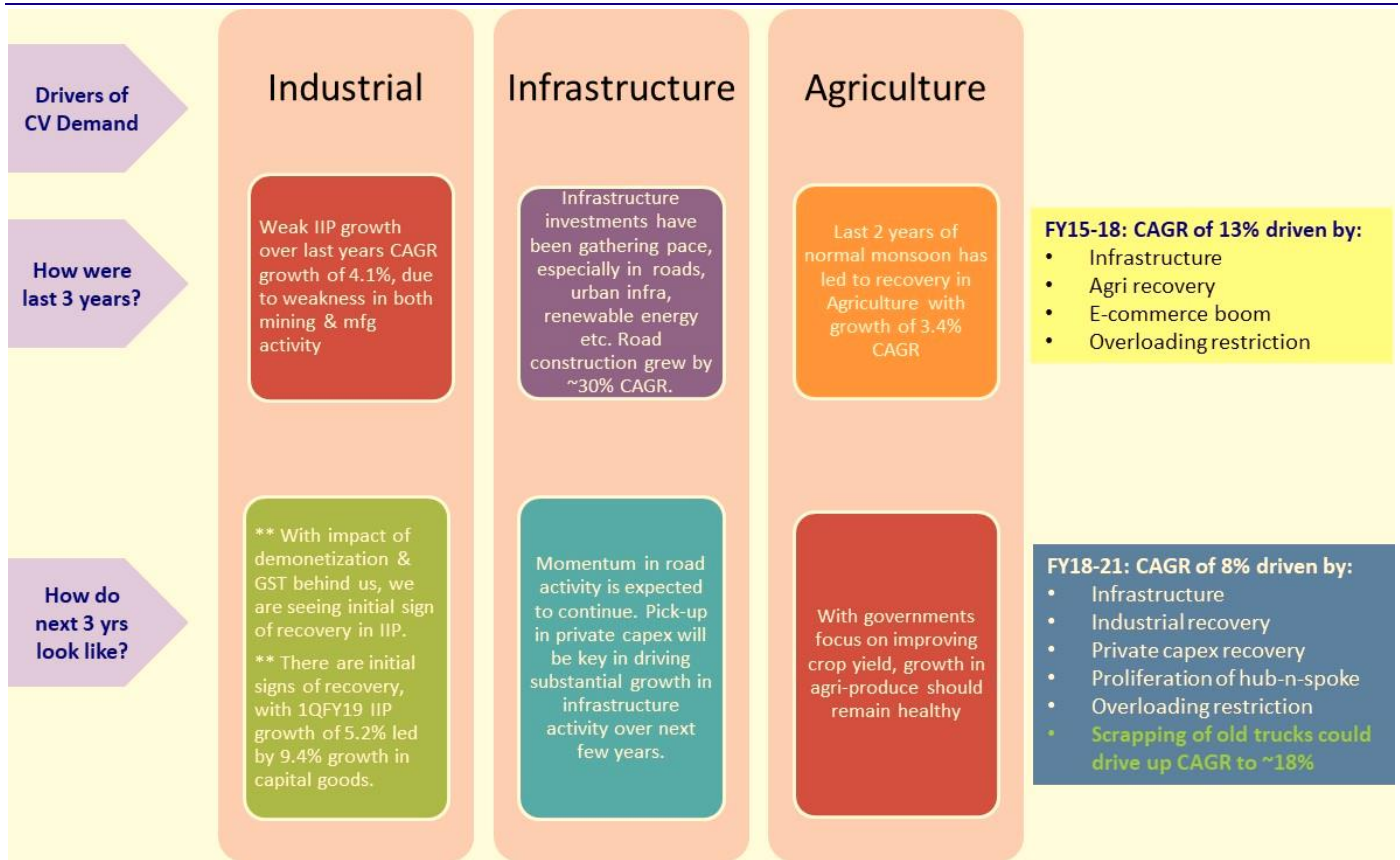
Improving macro, broad-based capex & scrappage policy key to CV demand

- Domestic M&HCV volumes increased at ~13% CAGR (FY15-18) from the downcycle of FY13/14, despite mixed macro trends, led by the recovery in infra and agri activity, and the strict implementation of the overload ban.
- We expect domestic M&HCV volumes CAGR of ~8% (base-case) over FY18-21, driven by an economic recovery, proliferation of the hub & spoke model for the transport of goods, and increased demand for truckmakers due to overload restrictions. The growth rate could be even higher (~18% CAGR) if the proposed scrappage policy (for vehicles over 20 years old) is implemented in FY21.
- Despite several headwinds (easing of the overloading ban in UP, an increase in rated load and a significant rise in diesel cost), momentum in CV demand remains healthy (growth of ~55% in FY19YTD, though off a low base – 1QFY18 had a pre-buy impact), indicating strength in underlying demand drivers.
- Low CV penetration at ~0.6 units/1,000 population (v/s 2.8 units in China and 1.4 units in the US) leaves enough headroom for sustained growth.

Can macros turn favorable after exhibiting mixed trends over past few years?

- CV industry volumes are highly correlated with industrial activity, agri GDP and capex/investment cycle, which were not favorable over FY15-18.
- Over FY15-18, M&HCV volumes recovered from lows of FY14 with CAGR of ~13%, led by a recovery in agri GDP and infra activity. Also, stricter implementation of overloading ban drove tonnage growth. Notably, this recovery was despite adverse industrial activity and declining private capex.
- However, volumes for both M&HCV and LCVs are yet to cross peak levels of FY12/FY13, though tonnage volumes in FY18 did cross the peak of FY12.
- We expect domestic M&HCV volumes CAGR of ~8% over FY18-21, driven by an economic recovery, proliferation of the hub & spoke model for the transport of goods, and increased demand for truckmakers due to overload restrictions.
- The growth rate could be even higher (~18% CAGR) if the proposed scrappage policy (for vehicles over 20 years old) is implemented in FY21.

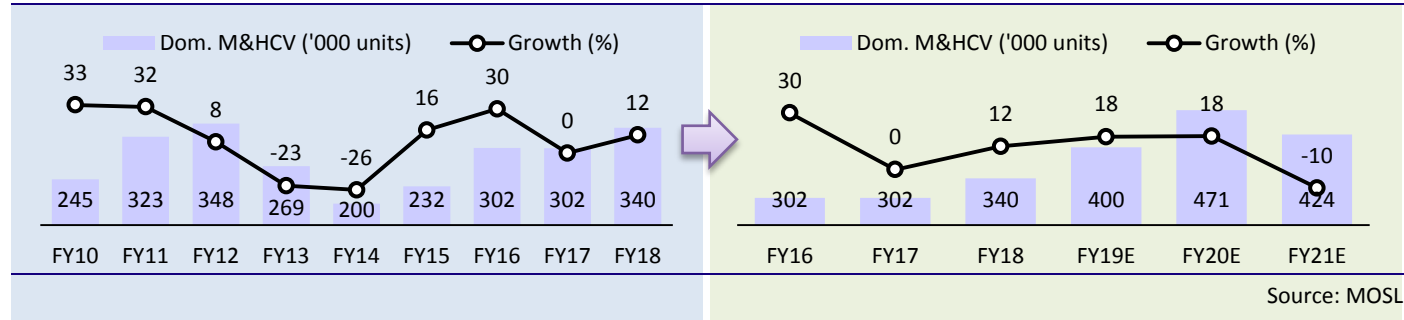
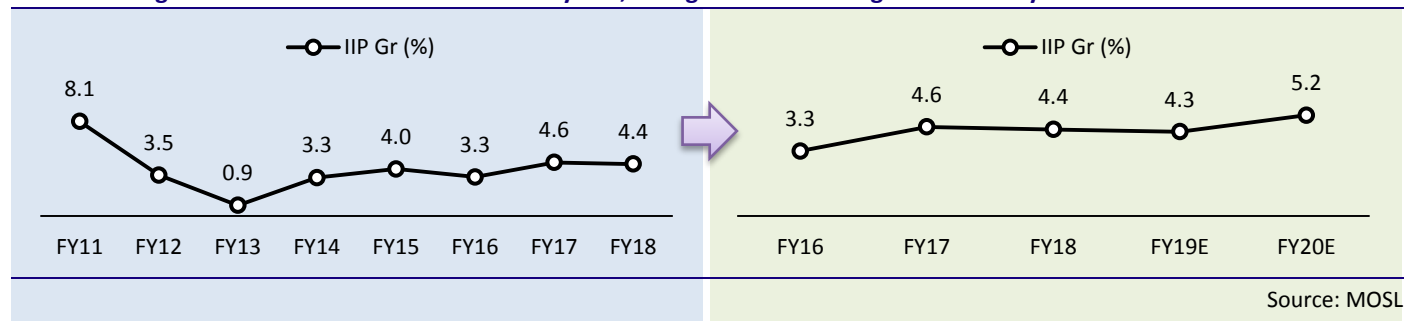
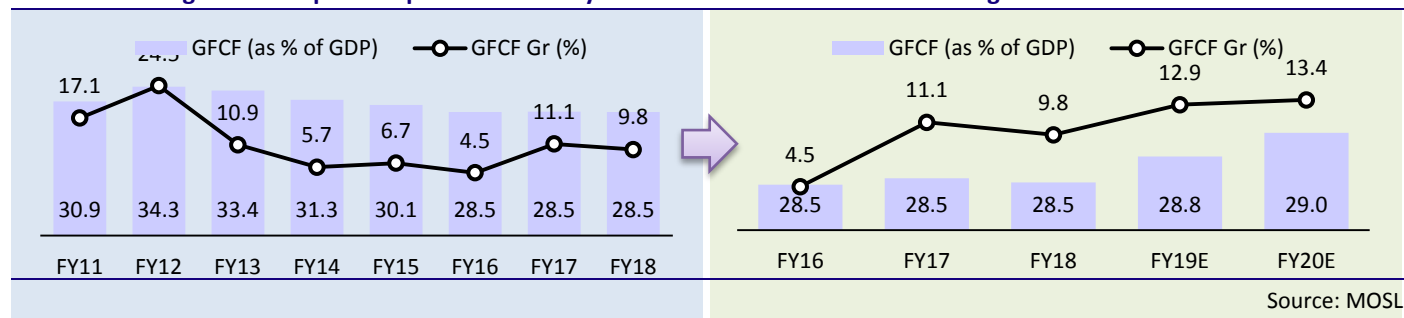
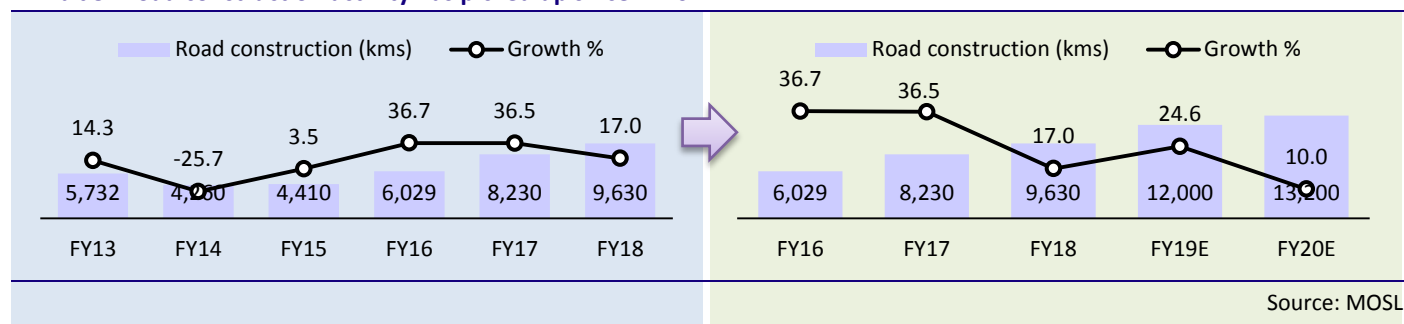
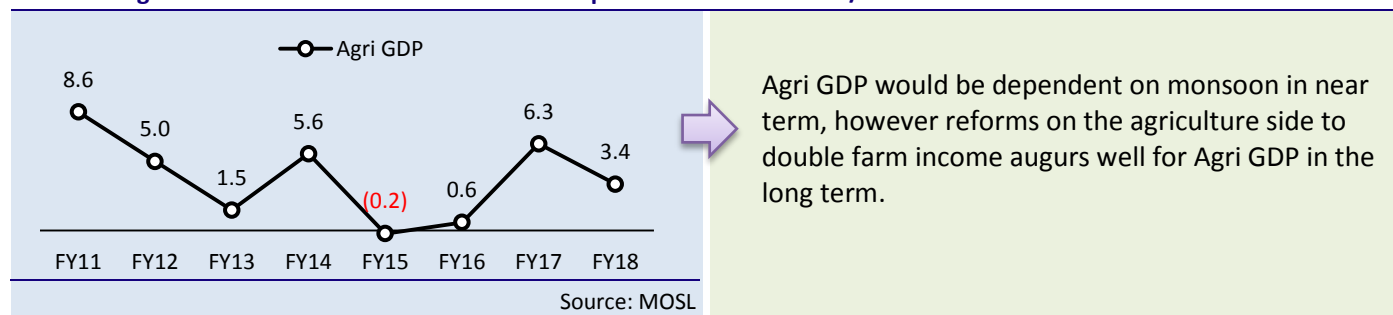
Exhibit 1: CVs: Fortunes closely linked with IIP, infra and agri GDP



Source: MOSL

FY15-18

FY18-21E

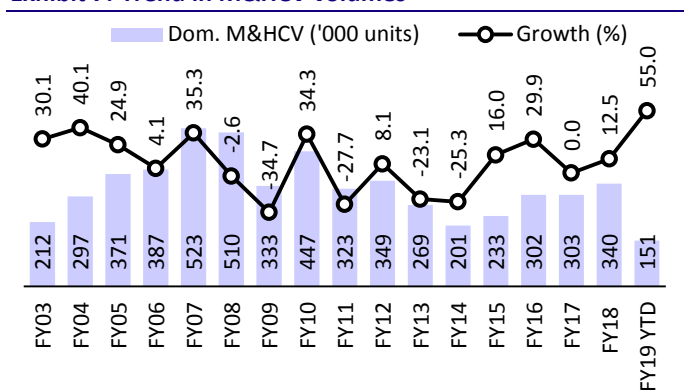
Exhibit 2: M&HCV volume recovery over FY15-18 off a low base; underlying macros key for growth over FY18-21**Exhibit 3: IIP growth has been weak over last five years, though some initial signs of recovery are visible****Exhibit 4: GFCF growth has picked up since last two years and momentum remains strong****Exhibit 5: Road construction activity has picked up since FY16****Exhibit 6: Agri GDP recovered from two consecutive poor monsoons in FY15/16**

M&HCV demand momentum remains strong

- CV demand remains healthy, despite headwinds in the form of overload restrictions in key markets like UP, increased rated load and a significant increase in diesel costs. Domestic M&HCV volumes grew ~55% in FY19 YTD (though off a low base of 1QFY18 which had pre-buy impact).
- CV demand remained resilient on account of healthy underlying demand from heavy industries, agriculture, infrastructure and e-commerce segments, leading to increased utilization of existing fleet and new fleet addition by large and small fleet operators.
- However, the shift toward higher-tonnage vehicles has moderated due to relaxation on overloading ban in markets like UP, as reflected in M&HCV truck tonnage growth of 62.5% in FY19YTD (v/s volume growth of 63.2%). This compares with tonnage CAGR of 21% over FY15-18 (v/s volume CAGR of 16% for M&HCV Trucks).

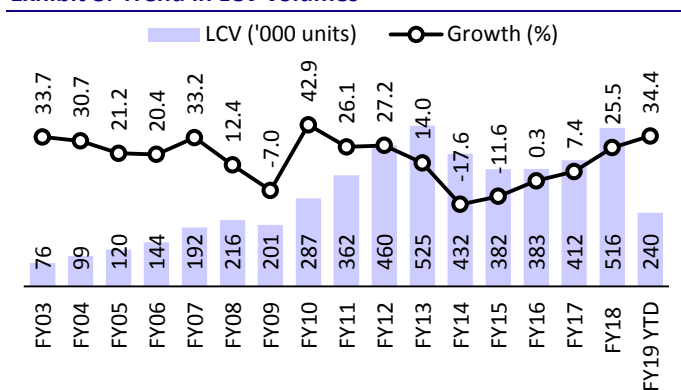
M&HCV and LCVs: Both witnessing robust volume growth, but volumes yet to cross previous peak of FY12/13

Exhibit 7: Trend in M&HCV volumes



Source: SIAM

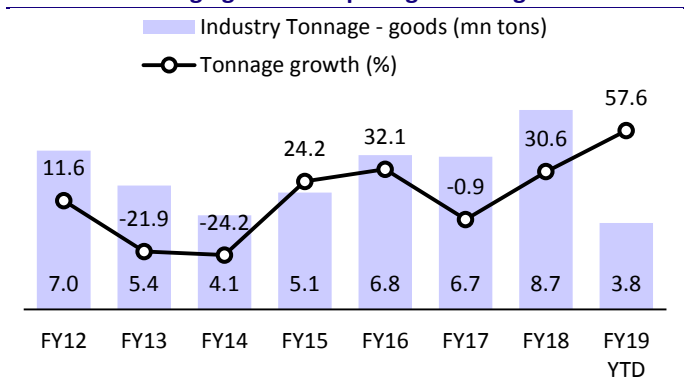
Exhibit 8: Trend in LCV volumes



Source: SIAM

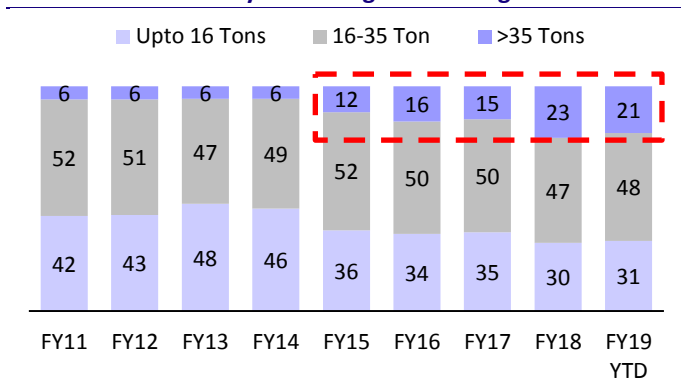
Tonnage volumes just crossed FY12 peak in FY18, suggesting further headroom for growth

Exhibit 9: Tonnage growth outpacing volume growth...

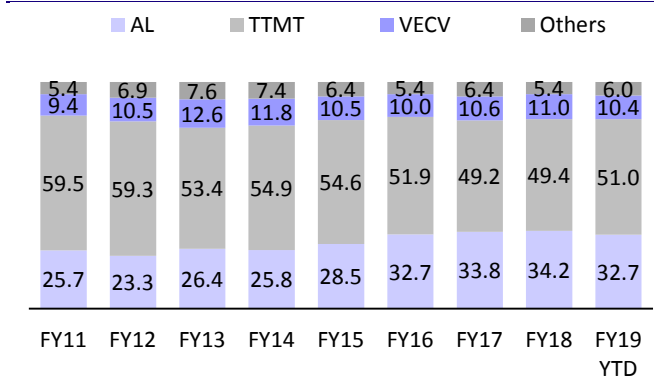


Source: SIAM, MOSL

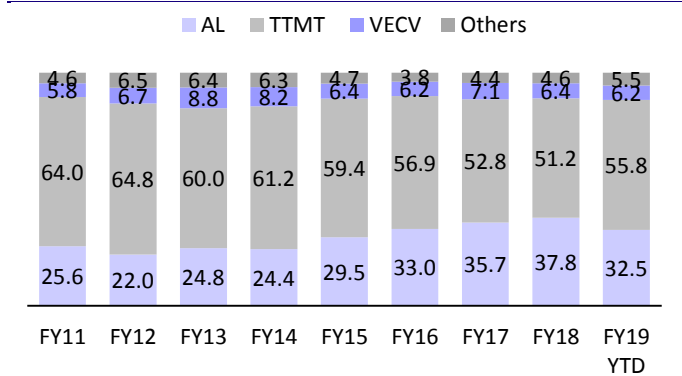
Exhibit 10: ...driven by increasing share of higher-ton trucks



Source: SIAM, MOSL

Exhibit 11: Trend in volume market share for M&HCVs (%)

Source: SIAM, MOSL

Exhibit 12: Trend in tonnage market share for M&HCVs (%)

Source: SIAM, MOSL

Substantial headroom for growth in India's CV industry: India has a wide road network of 5,603k KMs (v/s 4,774k KMs of China and 6,650k KMs of the US) and highway network of 115k KMs (v/s 115KMs of China and 77k KMs of US), but CV penetration per thousand population in the country is as low as 0.6 units (v/s 2.8 units in China and 1.4 units in the US).

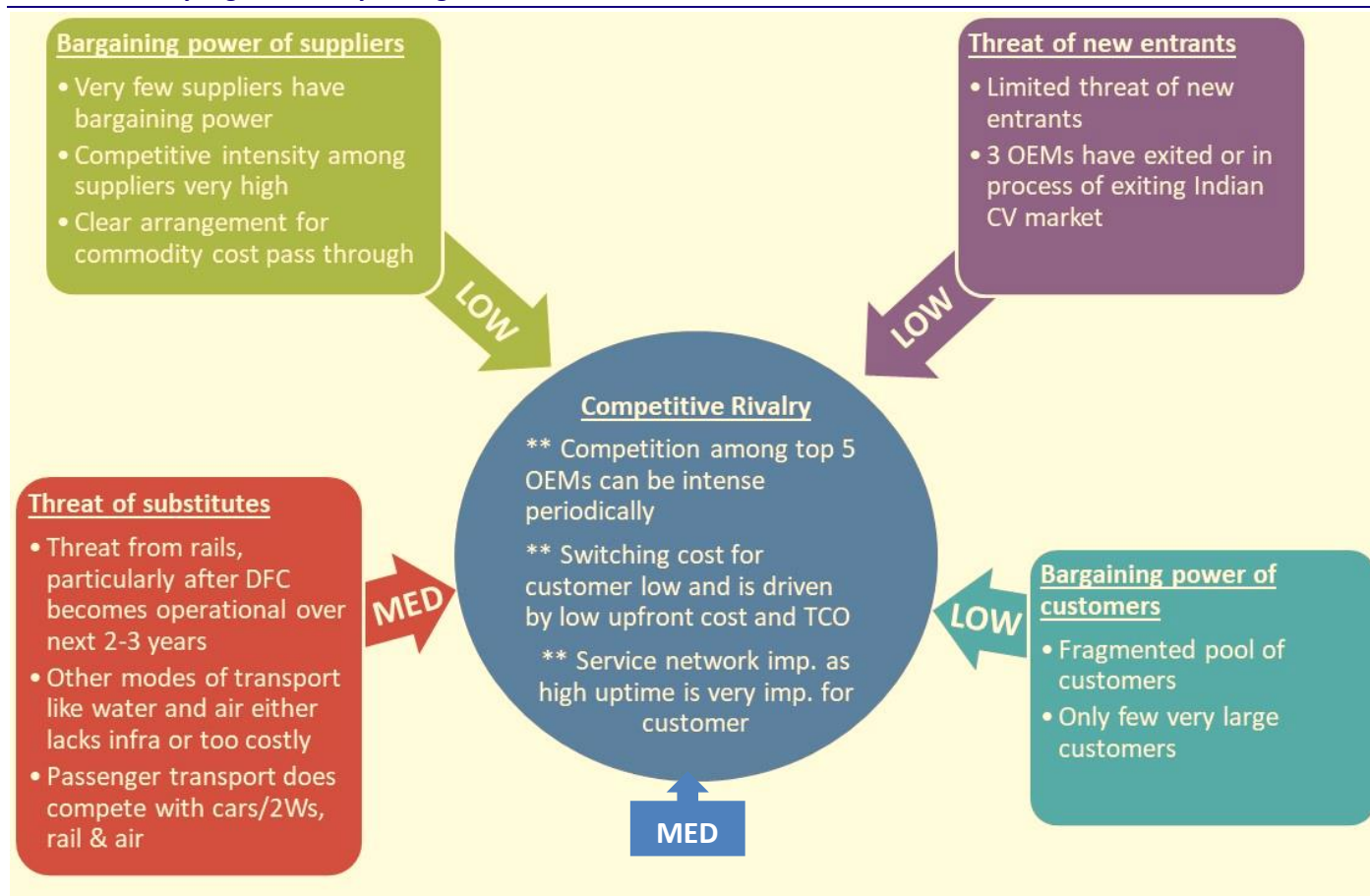
Exhibit 13: CV industry in India still nascent

USA		China		India	
CVs per 1000 population	1.4	CVs per 1000 population	2.8	CVs per 1000 population	0.6
Land area (Mn Sq Kms)	9.1	Land area (Mn Sq Kms)	9.3	Land area (Mn Sq Kms)	3
Road network ('000 KMs)	6,650	Road network ('000 KMs)	4,774	Road network ('000 KMs)	5,603
- of which Highways ('000 KMs)	77	- of which Highways ('000 KMs)	137	- of which Highways ('000 KMs)	115
Rail network ('000 Kms)	257.7	Rail network ('000 Kms)	127	Rail network ('000 Kms)	67.4
Road Share (%)	52	Road Share (%)	53	Road Share (%)	68

Source: MOSL

Analyzing CV industry through Porter's five forces model: CV industry fundamentals are attractive, with all five forces indicating low/medium intensity of threat – low threat of new entrants, low bargaining power of customers, low bargaining power of suppliers, medium threat of substitutes (rail and waterways) and medium competitive intensity.

Exhibit 14: Analyzing CV industry through Porter's five forces model

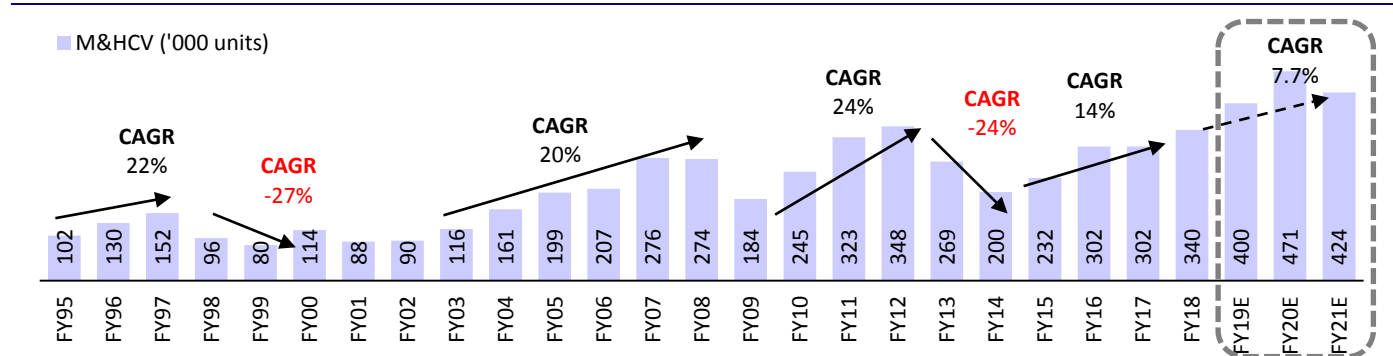


Source: MOSL

CV industry: Expect 8% CAGR over FY18-21

- In our base case, we estimate domestic M&HCV industry volumes CAGR (FY18-21) of ~8% – we factor in volumes decline of 10% in FY21.
- In our bull case, we estimate volumes CAGR (FY18-21) of 18% – we factor in 10% growth in FY21 volumes due to the benefit from the scrappage policy).
- In our bear case, we expect in volumes CAGR (FY18-21) of 1% – we factor in volumes growth of 10% in FY19 (implying residual decline of ~8%), 10% growth in FY20 and a 15% decline in FY21 (assuming no scrappage policy and negative impact of DFC implementation).

Exhibit 15: Trend in domestic M&HCV industry volumes



Source: SIAM, MOSL

Exhibit 16: Scenario analysis – domestic M&HCV volumes for industry

	Base Case				Bull Case			Bear Case		
	FY18	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
M&HCV ('000 units)	340	400	471	424	411	513	565	375	412	350
Growth (%)	12.5	17.6	18.0	-10	21	25	10	10.3	10	-15
Remarks	Implies residual growth ~2.5% in FY19				Implies residual ~7% growth in FY19			Implies residual ~8% decline in FY19		
	FY21 assumes no Scrappage scheme				FY21 assumes benefit of Scrappage scheme			FY21 assumes no Scrappage scheme and impact of DFC		

Source: MOSL

Don't expect substantial volume pressure in FY21

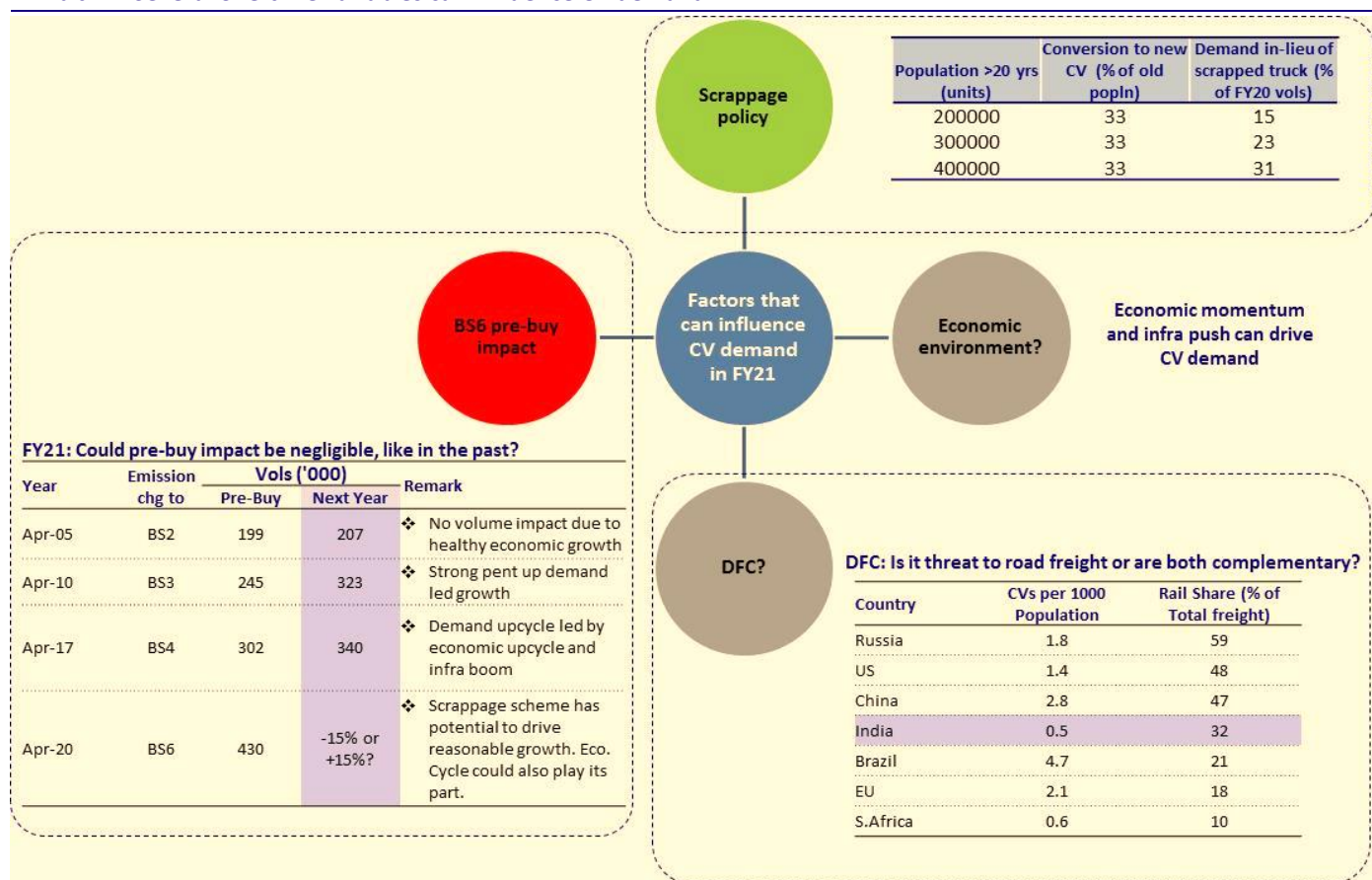
Benign competitive intensity | Low impact of increase in rated load

- We believe that M&CV demand would be influenced by several factors in FY21. These include (a) the underlying economic environment, (b) the impact of pre-buy (in FY20 ahead of BS6 from April 2020), (c) operationalization of DFC, undermining truck sales and (d) the potential benefits of scrappage policy.
- Contrary to the general perception, there is no historical evidence of a decline in volumes in a year of transition to new emission norms. In fact, on all three previous occasions of transition, CV volumes have grown, suggesting that demand drivers (IIP, agri, capex/investment, etc.) play a more important role.
- We expect a limited impact on new CV demand from an increase in rated load norms, as only select segments will benefit from it. Considering the benefit only to trucks under eight years of age, the impact is expected to be 78k units (~23% of FY18 volumes).
- Despite higher discounts, competitive intensity is benign, as reflected in the consistent price increases taken by OEMs and the stability in gross margins. In FY20, the combined utilization of AL and TTMT is expected to touch 90% (~84% for the industry), implying more pricing power.

Concern # 1: How would CV volumes fare in FY21? Don't expect a major decline

- The market is concerned that CV volumes might come under substantial pressure in FY21 due to pre-buy in FY20 ahead of BS6 implementation from Apr-20 (resulting in an increase in cost of 8-10%).
- We, however, believe that the improvement in the macroeconomic environment will be the single largest factor influencing CV demand in FY21. Moreover, the potential implementation of the CV scrappage policy (for vehicles older than 20 years) from April 2020 can support demand in FY21.
- Contrary to the general perception, there is no historical evidence of a decline in volumes in a year of transition to new emission norms. In fact, on all three previous occasions of transition, CV volumes have grown, suggesting that demand drivers (IIP, agri, capex/investment, etc.) play a more important role.
- The upcoming dedicated freight corridors (delayed to FY21) can be a potential threat to CV demand as bulk cargo can shift to rail. However, given low CV penetration (0.5 units) and low rail share (32%) in total freight, it is unlikely to have a sustained impact on CV demand.

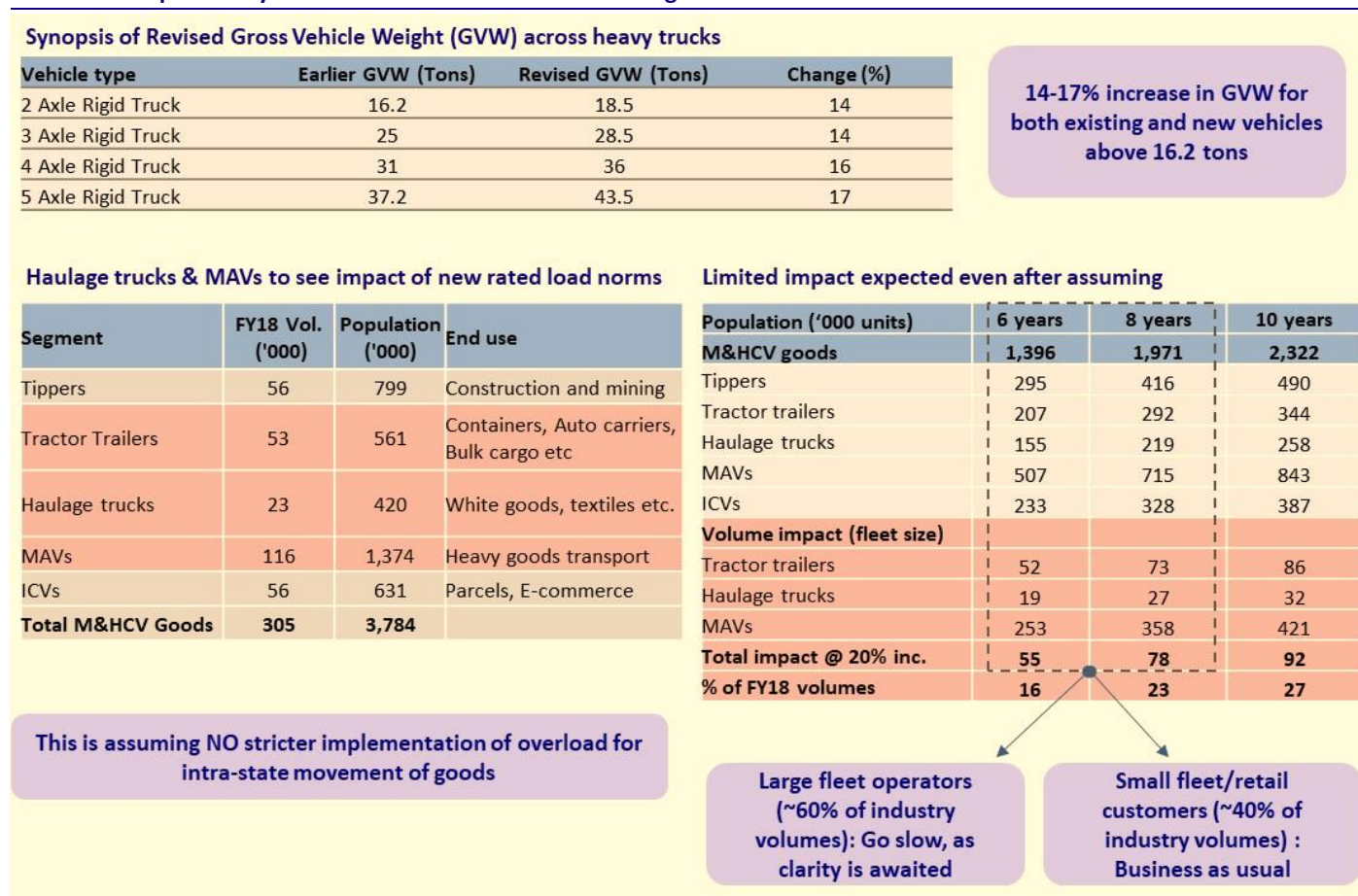
Exhibit 17: Several one-time variables can influence CV demand in FY21



Source: MOSL

Concern # 2: What's the impact of tonnage norms?

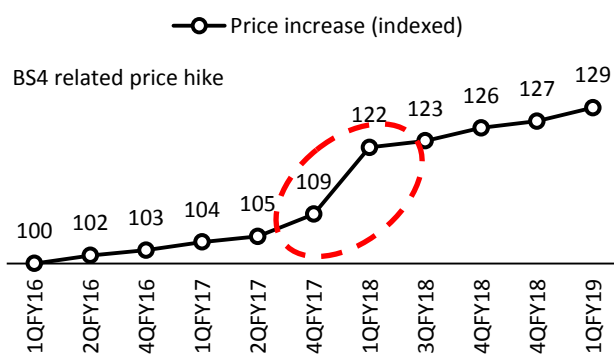
- The Ministry of Road Transport & Highways (MoRTH) has recently increased rated load carrying capacity of M&HCVs (for vehicle above 16 ton) by 14-17%, bringing it in line with global norms. This move partly formalizes the rampant overloading practice in certain states.
- Benefit of this increase in rated load would be limited to certain segments, i.e., tonnage metric cargo plying on national highway where currently overloading is minimal.
- At the same time, goods carriers handling bulk commodities have scope to improve the tonnage carried per truck. We believe multi axle trucks (MAVs), tractor trailers and haulage trucks should benefit from the new axle norms.
- Volume metric segments like auto-carriers, consumer durables, oil containers and cement bulkers are not expected to benefit from this change. Similarly, tippers (rampant overloading) and ICVs will not get impacted by this norm.
- Small fleet customers (~40% of industry volumes) have not delayed their purchases. Large fleet operators, though, did defer their buying decisions initially.
- According to our estimate, even after assuming a 17% increase in GVW capacity and considering a fleet size of eight years as a base case, the impact of new axle norms will be 78k units (~23% of FY18 volumes). This is based on the assumption of status quo on ongoing overloading (particularly in intra-state transportation) and no stricter implementation of rated load norms.

Exhibit 18: Impact analysis of new axle norms on different segments

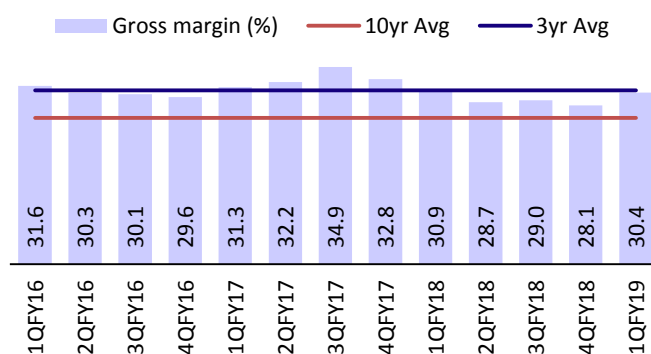
Source: MOSL

Concern # 3: High competitive intensity → More noise, less substance

- While headline competition remains high, industry has taken consistent price increases to offset cost inflation (due to high commodity costs and increased expenses to comply with regulations). CV players have consistently taken price increase on a quarterly basis, with cumulative price increase averaging ~29% since 1QFY16.
- This is also reflected in the stable gross margins for the industry. AL, too, has recorded stable gross margins of ~30% over the last three years.
- Also, rising capacity utilization points toward a benign competitive environment. In FY20, combined utilization of AL and TTMT is expected to touch 90% (~84% for the industry), ensuring good pricing power.
- Moreover, competitive intensity is expected to remain benign, given that three players (MAN, Scania and AMW) have exited the domestic M&HCV industry and that no new player is likely to enter this space.

Exhibit 19: Price hikes offset RM and regulation impact

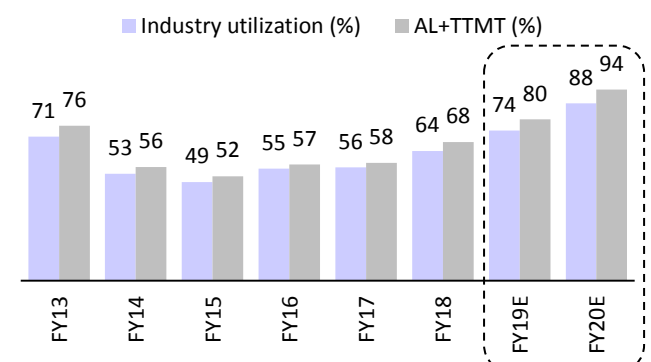
Source: MOSL

Exhibit 20: AL's gross margins have been stable

Source: MOSL

Exhibit 21: No new player entering, three exits; remaining competitors to AL have other battles to fight

Source: MOSL

Exhibit 22: FY20 will see supply crunch, ensuring better pricing power for OEMs

Source: MOSL

AL v2.0: Focus on creating/expanding profit pools

Thought leader with differentiated thinking

- AL has focused on innovating and thinking differently, resulting in several firsts from AL – not just in India but also globally. This has been the key differentiating factor for the company.
- The company's transformation journey (v1.0) FY14 onward led to a profitable market share gain to 34.2% in FY18 (from 26.4% in FY13) and an improvement in the EBITDA margin (+340bp over FY13 to ~10.4% in FY18). Importantly, AL has now turned into a net cash company (~INR31b in FY18 from net debt of ~INR43b in FY13).
- Under AL v2.0, the company has shifted its focus toward expanding and creating new revenue and profit pools. De-risking of the M&HCV business, along with expansion of nascent business like spares (5% of sales), exports (9% of sales) and defence (3% of sales), is the key focus area. Also, it is stepping up its presence in relatively weak segments like LCVs, ICVs and school buses.
- AL has set up a new business vertical – Customer Solution – to target a higher share of the customer wallet across lifecycle in areas like finance, spares and fuel. A trucker who buys ~INR2m truck would also be spending ~INR35m over a 10-year period in operating and maintaining the truck.

AL – a thought leader with ability to think differently

- AL has focused on innovating and thinking differently, resulting in several firsts from AL – not just in India but also globally (refer table below).
- AL has demonstrated a track record of breaking the mold on engine innovation to meet stricter emission norms. The company has several global firsts to its credit, such as (a) meeting BS3 emission norms using mechanical pump, (b) complying with BS4 with just iEGR (against global norm of more expensive SCR) and (c) complying with BS4/BS6 using in-line mechanical pump.
- Similarly, AL's quest for quality helped it become the world's first CV plant to bag the coveted Deming Prize in Nov-16 and repeating this feat at another plant in Nov-17. This focus on quality enabled the company to increase the warranty period to 48 months from 18 months earlier.
- AL's modular platform strategy is likely to not only bring economies of scale and higher flexibility but also enhance its product offering drastically with customization option in both buses and trucks.

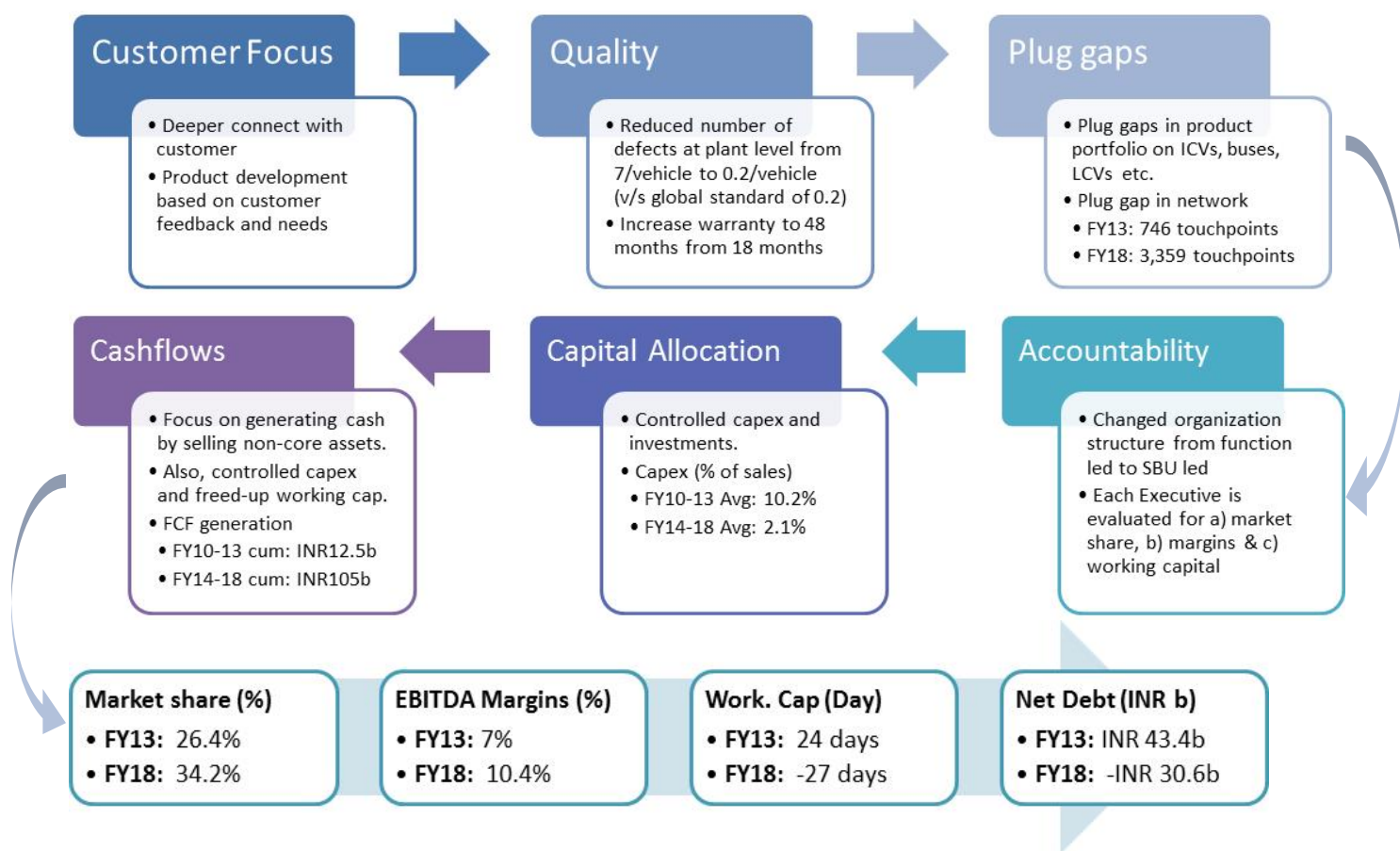
Exhibit 23: AL's ability to think differently resulting in several segment firsts

Innovative solutions with Global firsts!	<ul style="list-style-type: none"> • Focus on creating solutions for lowering TCO and gain competitive advantage • Only In-line mechanical fuel pump to meet BS3 emission • iEGR: Solution for meeting BS4 standards with lower capex & opex cost • Innoline: World's 1st BS4 engine based on in-line pump; Future-ready for BS6 norms.
Deming Prize for Quality	<ul style="list-style-type: none"> • AL increases warranty period to 48 months from 18 months on all its CVs. • AL's Pantnagar plant became World's 1st truck and bus plant in Nov-16 to bag the coveted Deming Prize – the Oscar for quality manufacturing. • Now two of its key plant (Hosur & Pantnagar) have bagged Deming Prize.
Customer Solutions	<ul style="list-style-type: none"> • One of the key focus area of CEO. • Focus to capture large part of customers' spending on truck post purchase of truck. For an INR2m truck, cum. opex over 10 year period is ~INR35m! • AL's has presence in spares and finance. Recently launched co-branded fuel card.
Digital Solutions	<ul style="list-style-type: none"> • Digital market place is combination of 4 apps that aims to tap the addressable aftermarket of ~INR120b. Targeting revenues of ~INR10b from digital market place. • These digital solutions also covers regular workshop (non-authorized), thus widening scope for spare part sales.
Modular Platform	<ul style="list-style-type: none"> • All BS6 vehicles will be on modular platform, enabling customers to configure their vehicles. • Brings higher flexibility, reduce turnaround time/inventory and economies of scale.
Battery Swapping	<ul style="list-style-type: none"> • Taking different approach for e-buses by offering battery swapping, designed keeping in mind usage patterns of intra-city public transport. • Helps reducing upfront cost and weight of the bus, at the same time enabling faster turnaround due swapping rather than charging.

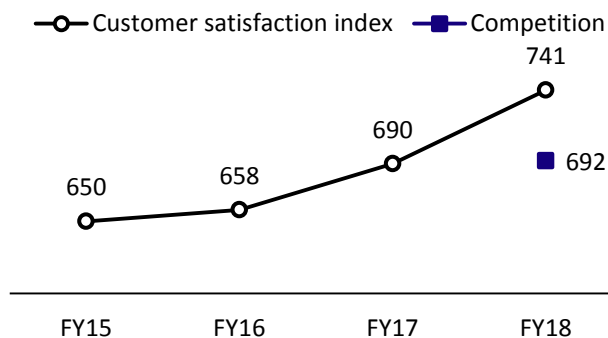
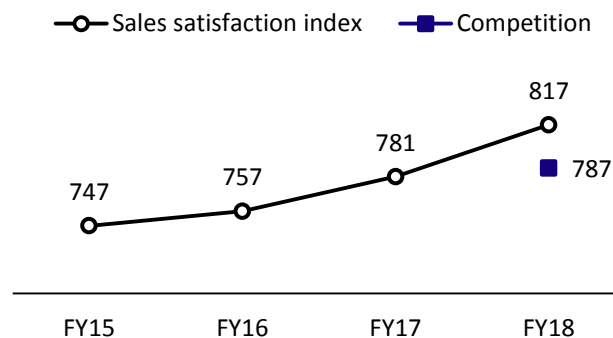
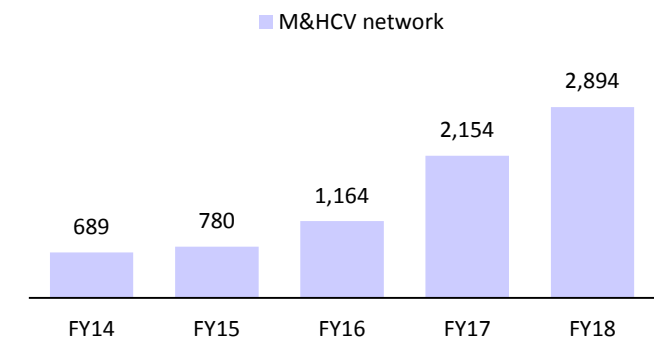
Source: MOSL

AL v1.0 [FY14-18]: Focus on profitable market share gain

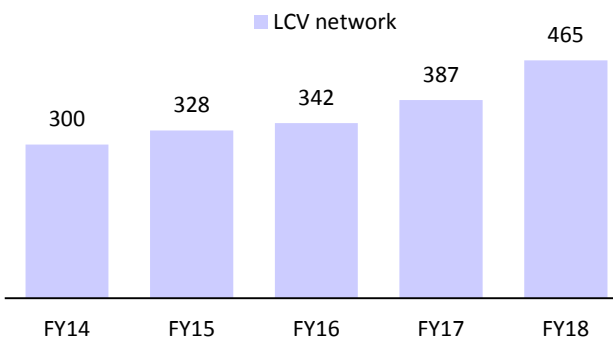
- AL embarked upon its transformation journey (v1.0) from FY14, with a clear objective of profitable market share gain. It took several initiatives to gain market share, improve profitability and reduce debt.
- AL successfully expanded its market share to 34.2% in FY18 (from 26.4% in FY13), driven by its strong focus on deeper connect with customers and new product development.
- The gain in market share was not only driven by plugging of product gaps but also by aggressive market expansion. Overall touch points increased to 3,359 in FY18 (v/s 746 in FY13).
- The focus on quality resulted in a reduced number of defects at the plant level – from 7.8/vehicle in 1QFY12 to 0.2/vehicle in FY18.
- Better capital allocation and accountability at each SBU level have resulted in a notable improvement in all key financial parameters, as reflected in EBITDA margin expansion of 340bp to ~10.4% over FY13-18 and AL turning into a net cash company (~INR31b in FY18 from net debt of ~INR43b in FY13).

Exhibit 24: What changes AL v1.0 necessitated? Everything!

Source: Company

Exhibit 25: Strong customer focus reflects in increasing CSI...**Exhibit 26: ...so SSI also improved consistently over the years****Exhibit 27: M&HCV network grew 4x in last five years**

Source: Company







Exhibit 28: Continues expansion in LCV network too

Source: Company

AL v2.0 [FY18-23]: Focus on expanding and creating new revenue/profit pools

- After successfully implementing v1.0 of strategy and gaining market share profitably, AL has now shifted its focus toward expanding and creating new revenue and profit pools.
- De-risking of the M&HCV business, along with expansion of nascent businesses like spares (5% of sales), exports (9% of sales) and defence (3% of sales), is the key focus area in v2.0.
- Moreover, AL is stepping up its presence in relatively weak segments like LCVs (plan to introduce 8-10 new products), ICVs (launch of Guru in value segment and Boss in premium) and school buses (launch of Sunshine).

Exhibit 29: De-risk M&HCV dependence by focusing on nascent businesses and launching new products in areas of weakness

Focus on these nascent but highly profitable businesses to reduce M&HCV contribution to ~50% from ~66%					
		Revenues (INR b)		% of sales	AL's Initiatives/ drivers
		Current	4 Year Target		
SPARES		13	30	5	** Improve availability of spare parts through Leyparts ** Digital Solutions also driving spares demand from 3rd party garages ** Shift towards genuine part with increasing electrical content
EXPORTS		22.5	50	9	** Product portfolio export ready; Setting-up distribution network in key markets ** Set-up global hub for exports in Dubai ** Set-up assembly units in key hubs of 5 targeted clusters viz ME, Africa, ASEAN, CIS and S.America
DEFENCE		7.6	20	3	** Expand product portfolio from 4x4 to 6x6, 8x8, 10x10, 12x12 ** Expanding addressable market from ~INR20b pa to ~INR130b pa ** AL won 12 of the 15 tenders it participated in it
Launching new products in area of weakness – potential to drive growth and market share					
Weakness		Current Vols ('000 units)	Mkt Sh. (%)	% of Volumes	Remarks
LCVS		43.4	8.2	25	** Took full control of its JV with Nissan for LCV ** Plans to introduce 8-10 products over next 2-3 years ** Turnaround LCV business in first full year of control in FY18
ICVS		13	21-22	7	** Launch of Guru - value ICV product, to complement Boss in premium segment ** Guru offers highest payload capacity in its segment
SCHOOL BUSES		7.0	22	4	** Launch of Sunshine - next gen school bus with focus on safety and comfort ** Only school bus in India with rollover compliant design and frontal crash protection

Source: MOSL

Exhibit 30: Capturing entire value chain of spare sales

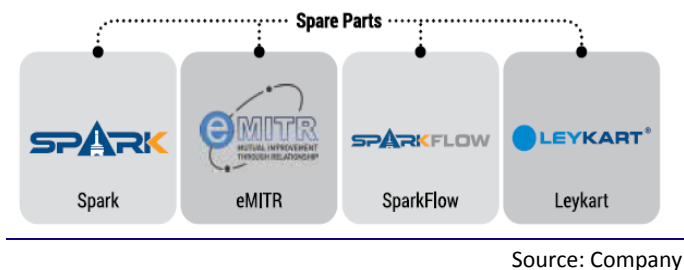
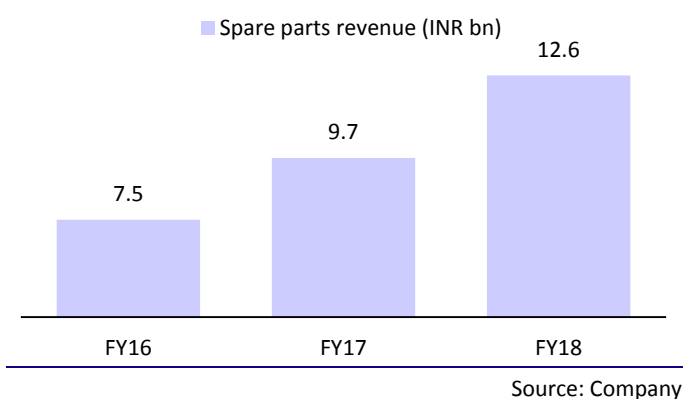


Exhibit 31: 30% CAGR in spare parts revenues



“Our card will help Ashok Leyland customers save as much as INR50,000 per truck per year,” Mr Vinod Dasari, MD, Ashok Leyland

Targeting higher share of truckers wallet

- AL has set up a new business vertical – Customer Solution Business – to target a higher share of customer wallet across lifecycle. According to management, a trucker who buys ~INR2m truck would be spending ~INR35m over a 10-year period in operating and maintaining the truck.
- As highlighted by Mr. Vinod Dasari – MD and CEO, Ashok Leyland, **“One of the things that we learnt is 90 per cent of what our customer spends in a life-time of a vehicle comes after the vehicle is sold. So, we have created a whole new vertical customer solutions business, to tap the opportunities in the after-sales segment.”**
- Currently, AL has offerings in finance (through subsidiary Hinduja Leyland Finance) and spares & AMC. It also offers body building services for buses.
- Further, it has aggressive plans for spare parts business, with targeted contribution of ~10% of sales (v/s ~5% currently). It has taken several initiatives to drive spare parts sales, including leveraging digital platforms.
- Recently, it has launched eN-Dhan card (co-branded with HPCL) participating in fuel cost, which is the largest operating expense (up to 60% of cost across lifecycle) of a trucker. This fuel card potentially will lead to savings of 1.5-3% on fuel cost for the fleet operator.
- While it is yet to share its targeted areas and strategies for ramp-up, we see opportunities in body building/fully built vehicle and Insurance (like Maruti’s insurance agency model).

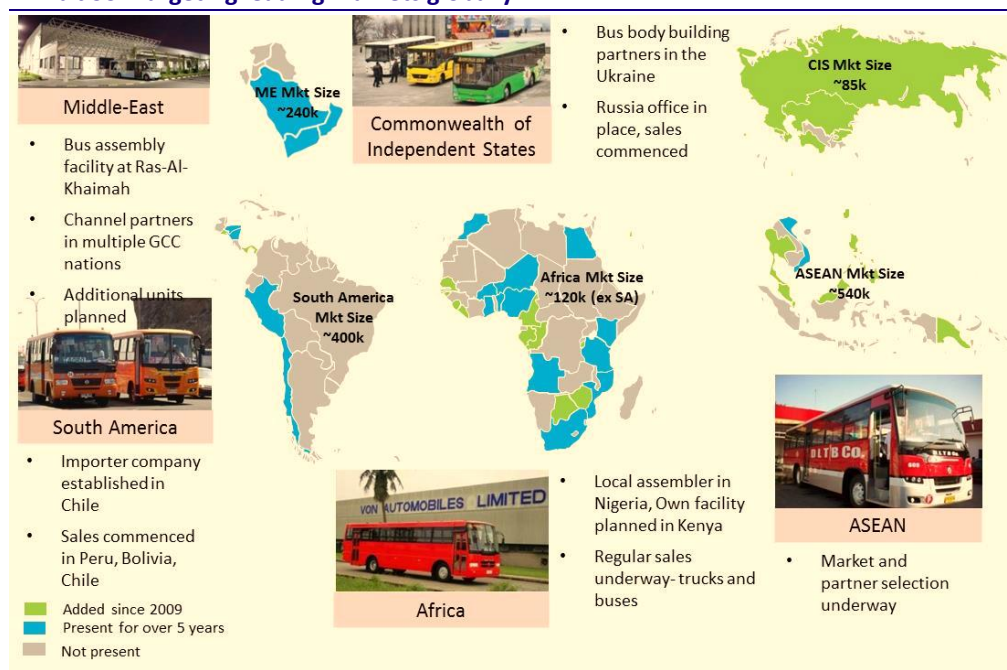
Exhibit 32: After-sales opportunity ~14x of new vehicle sales

Source: MOSL

Exports: Targeting revenue contribution of ~25%

- As part of de-risking its domestic M&HCV business, AL targets exports revenue of INR50b in 4-5 years and overall contribution is likely to be ~25% over the long-term period. It is focused on transforming the exports business from a tender-driven to a retail-led model.
- It is targeting five clusters – Middle-East (ME), Africa, CIS, South-America and ASEAN countries.
- With its product portfolio now being exports ready, AL is setting up distribution network/assembly in key exports.
- Along with its assembly units in key export hubs such as ME and Africa, it is targeting assembly facilities in the ASEAN, South America and CIS markets. It is also developing a distribution network for key target markets.

Exhibit 33: Targeting leading markets globally

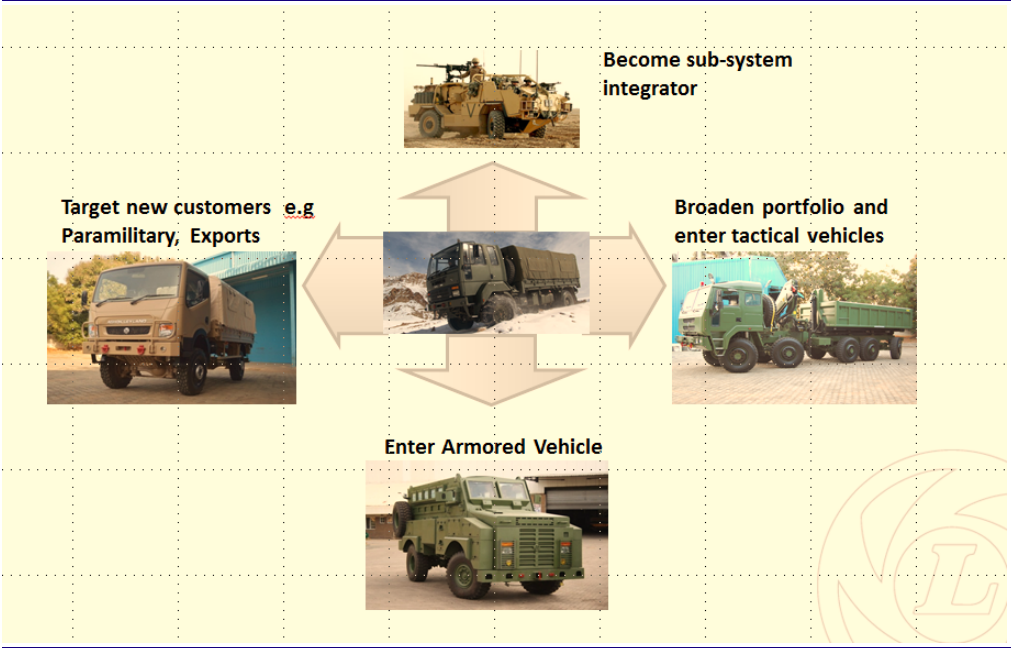


Source: Company

Defence: Building blocks in place, expanding product portfolio

- Defence is another key focus area to de-risk domestic M&HCV dependence. AL is targeting revenue of INR20b in four years (FY18: INR7.6b).
- AL has expanded its scope in defence – it was only a provider of logistics solutions for men and material, but now is also engaged in movement of artillery.
- It has expanded its product portfolio from 4x4 trucks to 6x6, 8x8, 10x10 and 12x12 trucks.
- As a result, AL has expanded its addressable market from ~INR20b to ~INR130b per annum.
- AL has managed to secure 12 of the 15 tenders it participated, though the timeline for ordering is dependent on the government.

Exhibit 34: New product launch helped strengthen positioning in Defence



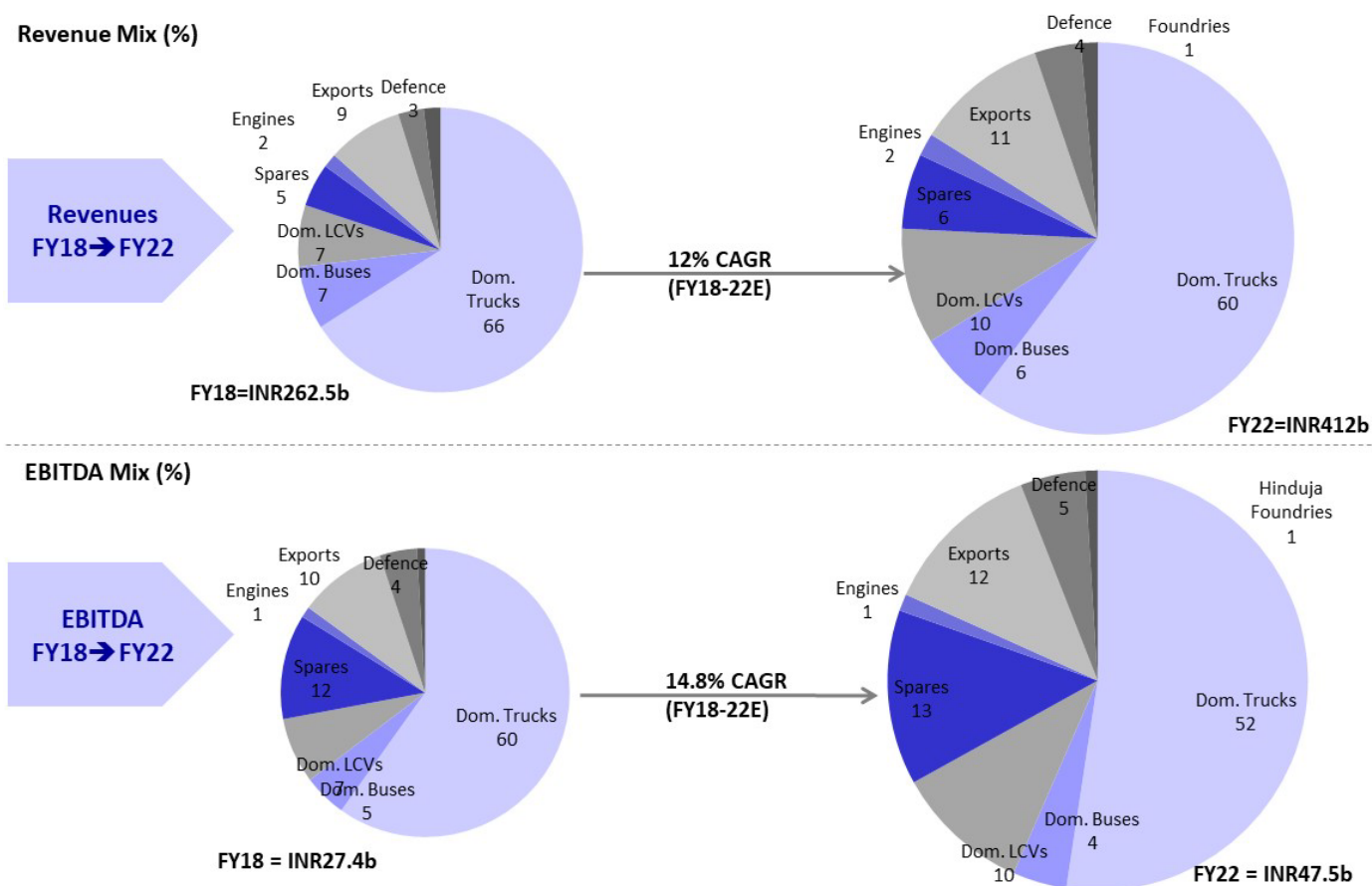
Source: Company

Expect ~15% EBITDA CAGR over FY18-22

Expect revenue and PAT CAGR of ~12% and ~16%, respectively

- AL's focus on expanding and creating a new profit pool is likely to drive revenue/EBITDA/PAT CAGR of 12%/15%/16% over FY18-22.
- The strategy to de-risk business is expected to yield results, with the share domestic trucks in revenue to shrink to 60% by FY22 (v/s 66% in FY18). This would be driven by an increase in revenue contribution by 1-2% each in LCVs, spares, exports and defence.
- EBITDA margin is expected to expand from 10.4% in FY18 to 11.5% in FY22 (11.6% in FY20 and 10.3% in FY21), led by the mix shift toward nascent businesses with higher margins and operating leverage benefits.
- The merger of LCV subsidiaries from 2HFY19 is expected to be EBITDA and PAT accretive. We expect ~30bp accretion to standalone EBITDA margin upon the merger.

Exhibit 35: AL's focus on expanding and creating new profit pools



Source: MOSL

Merger of LCV subsidiaries in 2HFY19 would be EBITDA and PAT accretive**Exhibit 36: EBITDA accretion on LCV subsidiaries merger**

INR m	FY17	FY18
EBITDA in Subs		
ALVL	575	1,785
ALT	361	361
APT	110	110
Total EBITDA in LCV Subs	1,046	2,256
Less: Contract manufacturing income in AL	1,080	1,490
Net accretion to EBITDA	-33	766
% of AL's S/A EBITDA	-0.2	2.8
Accretion to S/A EBITDA Margins (%)	0.0	0.3

Source: MOSL, Company

Exhibit 37: Unabsorbed losses and depreciation as of Mar-18

Unabsorbed losses & depreciation as of Mar-18 (INR m)	Losses	Depreciation	Total
ALVL	1,973	4,490	6,463
ALT	1,343	86	1,429
APT	-	-	-
Total	3,316	4,576	7,892

Source: MOSL, Company

Exhibit 38: Snapshot of revenue model

000 units	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
HCV Passenger (units)	19	21	26	23	20	21	25	24	26
Growth (%)	-18.0	7.7	24.1	-12.1	-10.5	6.0	15.0	-3.6	10.5
HCV Goods (units)	41	57	84	91	111	131	155	142	151
Growth (%)	-26.1	39.0	47.6	7.9	22.6	18.0	18.0	-8.1	6.4
LCVs (units)	29	27	31	32	43	53	62	65	81
Growth (%)	-47.0	306.0	-13.1	-89.3	4,784.6	15.0	44.4	32.1	37.6
Total M&HCV volumes (units)	60	78	110	113	131	153	179	166	178
Growth (%)	-23.7	29.0	41.3	3.2	16.0	16.2	17.6	-7.5	7.0
Total Volumes incl LCVs (units)	89	105	140	145	175	205	241	231	259
Growth (%)	-22.1	17.4	33.8	3.4	20.5	17.3	17.7	-4.3	12.0
ASP (INR '000/unit)	1,113	1,293	1,349	1,388	1,501	1,484	1,512	1,603	1,591
Growth (%)	2.2	16.1	4.4	2.9	8.1	-1.1	1.9	6.0	-0.8
Net Sales (INR b)	99	136	189	201	262	305	365	371	412
Growth (%)	-20.3	36.4	39.6	6.4	30.3	16.0	19.9	1.5	11.2

Source: MOSL, Company

Valuations – further scope of re-rating

Sharp improvement in key performing indicators to drive further re-rating

- We expect CV demand to continue growing in FY19 (17.6% growth, implying residual growth of 2.5%) and FY20 (18% growth), driven by continued momentum in infra, agri, pick-up in industrial activity, and pre-buy ahead of BS6 implementation. Moreover, mandatory scrapping of trucks should benefit CV demand beyond FY20.
- In the base case, we estimate domestic M&HCV volumes CAGR of 7.7% over FY18-21 (based on 17.6%/18%/-10% growth in FY19/20/21).
- AL's focus on new growth areas by expanding the share of defence, exports and spare parts, as well as ramp-up in LCVs and ICVs, should drive strong volume/revenue CAGR of 10%/12% over FY18-21.
- Factoring in ample growth catalysts, we estimate an EBITDA margin of 11.1%/11.6%/10.3% in FY19/20/21 (v/s 10.4% in FY18) and earnings CAGR of ~12% over FY18-21.
- Structural changes in balance sheet and de-risking of business model are likely to drive free cash flow of INR58b over FY19-21, with RoE/RoCE of 20.8%/19.2% by FY21 (v/s 23.7%/20.7% in FY18 and 28.4%/26.1% in FY20).
- Despite re-rating since FY14, current valuations still do not fully reflect the sharp improvement in the key performance indicators (refer exhibit: 40).
- We have revised our estimates upward to factor in no material impact of the increase in rated load on volumes. We are upgrading our EPS estimates for FY19/20 by ~5%/2%.
- The stock trades at 9.1x/6.8x FY19/20 EV/EBITDA. It is trading below 10 year average EV/EBITDA of ~8.2x and near 1 standard deviation below mean. Based on reverse DCF calculation, implied terminal growth at current price is 0.4%.
- We roll forward AL's target price to FY21 to capture the negative impact of the potential decline in volumes. On downcycle earnings (10% EBITDA decline in FY21E), we value AL at 9x EV/EBITDA (v/s ten-year average multiple of 8.2x). We assign INR13 to NBFC post 20% hold-co to arrive at a revised target price of INR148 (Mar-21).

Exhibit 39: AL trading near 10-year median EV/EBITDA (x) and premium to 10-year average P/B (x)

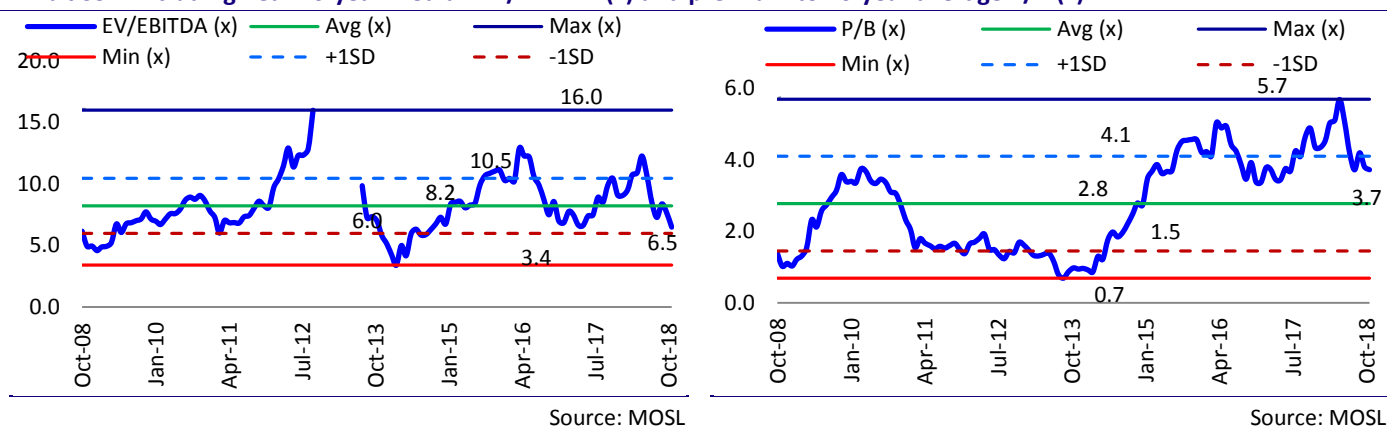


Exhibit 40: Substantial improvement in all key parameters

Parameters	FY08-13	FY14-18
Market share (%)	26.1	31.0
South (% of AL's Dom. Vols) *	50	32
Work Cap (days)	20	-5
R&D personnel	120	1,100
Capex (% of sales)	7.3	1.4
Non-Core Assets (% of Cap. Emp) *	20.9	12.2
Net Debt:Equity (x) *	1.0	-0.4
RoIC (%)	13.6	26.6
EV/EBITDA (x)	7.6	8.4
P/B (x)	1.7	3.7

* for FY13 and FY18 respectively

Source: Company, MOSL

Exhibit 41: Revised Forecast

(INR M)	FY19E			FY20E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Volumes (units)	205,197	192,516	6.6	241,423	217,773	10.9
Net Sales	304,568	289,614	5.2	365,080	339,879	7.4
EBITDA margins (%)	11.1	11.0	0bp	11.6	12.0	-30bp
Net Profit	20,413	19,484	4.8	25,982	25,482	2.0
EPS (INR)	7.0	6.7	4.8	8.9	8.7	2.0

Source: Company, MOSL

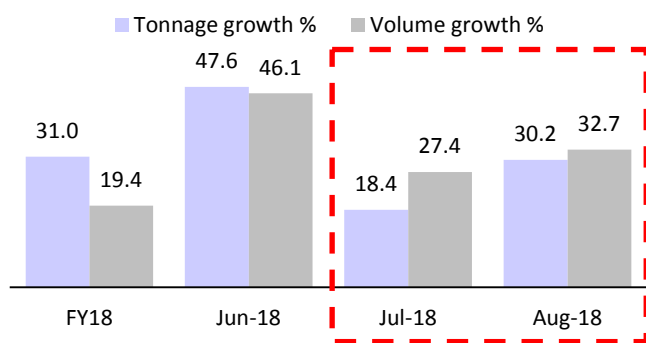
Exhibit 42: Comparative valuation

	CMP	Rating	TP	P/E (x)		EV/EBITDA (x)		RoE (%)		Div Yield (%)		EPS CAGR (%)
	(INR)*		(INR)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY18-20E
Auto OEM's												
Bajaj Auto	2,582	Buy	3,454	16.3	13.3	10.5	8.0	22.8	24.7	2.3	2.7	13.3
Hero MotoCorp	2,914	Neutral	3,238	16.2	14.2	9.3	8.2	29.2	30.4	3.6	3.9	5.2
TVS Motor	528	Neutral	571	33.2	22.9	18.0	13.1	24.1	28.8	0.8	0.9	28.7
M&M	764	Buy	1,048	15.5	13.8	12.1	10.5	14.9	15.2	1.3	1.3	16.2
Maruti Suzuki	7,011	Buy	8,909	25.4	19.8	13.6	11.4	17.6	20.1	1.4	1.8	15.3
Tata Motors	189	Buy	335	9.3	5.4	2.6	2.0	7.0	11.0	0.2	0.2	23.6
Ashok Leyland	114	Buy	148	16.4	12.9	9.1	6.8	26.4	28.4	2.2	2.3	28.4
Eicher Motors	22,455	Buy	28,057	23.5	18.7	18.9	16.0	32.4	31.5	0.8	0.9	22.5
Escorts	591	Neutral	691	12.0	10.3	9.3	7.6	18.3	18.3	0.8	0.8	20.7
Auto Ancillaries												
Bharat Forge	589	Buy	767	24.5	19.6	14.0	11.7	22.1	23.3	0.9	1.1	27.7
Exide Industries	257	Buy	312	25.2	21.2	14.0	11.7	14.4	15.4	1.0	1.2	21.8
Amara Raja Batteries	735	Buy	858	26.0	20.7	13.0	10.4	15.4	16.9	0.6	0.7	13.4
BOSCH	18,564	Neutral	20,905	33.1	27.0	21.3	16.9	16.3	18.1	1.0	1.3	21.0
Endurance Tech	1,197	Buy	1,556	31.9	24.3	14.9	11.8	22.2	24.5	0.6	1.0	30.3
Motherson Sumi	232	Buy	345	23.6	16.5	8.3	5.8	20.6	25.2	1.1	1.6	32.1
CEAT	1,090	Buy	1,432	15.2	11.8	9.1	7.2	10.6	12.4	0.7	0.9	20.3

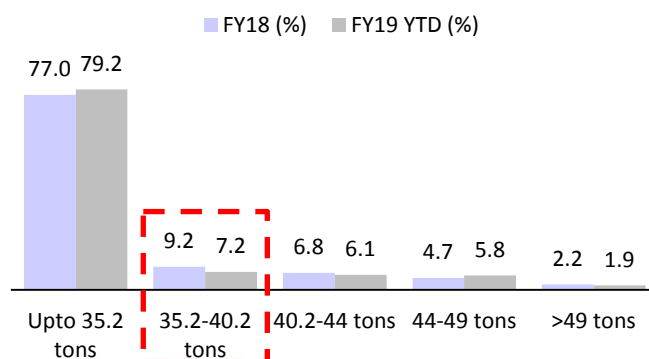
Source: Company, MOSL

Key risks:**A] Increase in rated load capacity can reverse trend of shift toward higher-tonnage vehicles**

Increasing preference for higher-tonnage trucks, primarily due to overload restrictions in key markets, is the key factor driving growth in M&HCV volumes. As a result, M&HCV tonnage growth of 31% significantly exceeded volume growth of 19.4% in FY18. However, with the overload restriction easing in markets like UP and the implementation of new axle norms since July-18, volume growth has outpaced tonnage growth, indicating a shift toward lower-tonnage trucks.

Exhibit 43: Reversing trend of higher tonnage growth

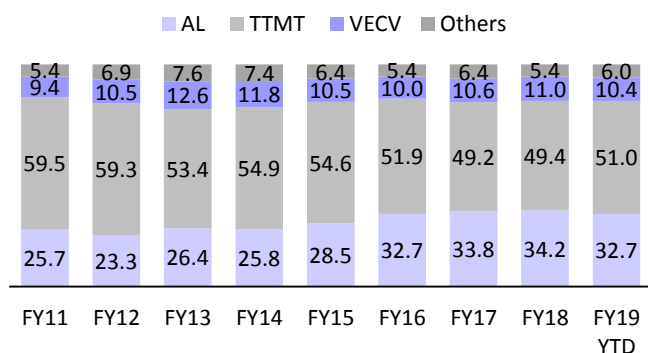
Source: Company

Exhibit 44: Tonnage shift in M&HCV segment

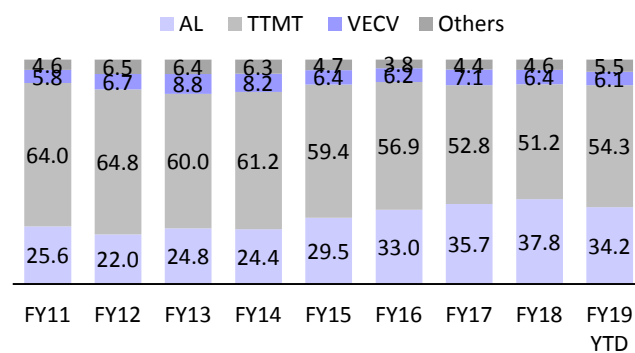
Source: Company

B] Increasing competitive intensity resulting in loss in market share and

shrinking margins: Due to intensifying competition and easing of overload restrictions, AL's market share in the domestic M&HCV segment has contracted by 160bp to 32.7% in volume terms and by 360bp to 34.2% in tonnage terms in FY19 YTD.

Exhibit 45: Trend in volume market share in M&HCV (%)

Source: Company

Exhibit 46: Trend in tonnage market share in M&HCV (%)

Source: Company

C] Other risks: (i) DFCs are driving a sharp recovery in the share of rail in freight, which is likely to impact CV volumes over the medium term. (ii) Slower-than-expected ramp-up in any of the newer business like defence, exports and spares. (iii) Any dilution in capital allocation discipline could negatively impact the returns profile.

Scenario analysis: Favorable risk reward

Bull-case upside of ~86%, bear-case has downside of ~14%



Bull case

- ✓ Our bull-case analysis assumes 20%/25% growth in volumes/revenues over FY18-21. In FY21, we assume volume growth of ~14.6%, driven by the scrappage policy and the ramp-up in the LCV business due to new model launches. We also factor in gradual margin expansion of 90bp over FY18-21, led by operating leverage benefits, price increases and a favorable product mix.
- ✓ According to our sensitivity analysis, AL could generate EPS of INR7.7/10.5/11.8 in FY19/20/21 in the bull case (v/s INR7/8.9/7.6 in the base case). Valuing AL at 9x FY21E EV/EBITDA and INR13/share value for NBFC (post 20% holdco discount), we derive a fair value of INR212 (base TP: INR148), implying an upside of ~86% from CMP.



Bear case

- ✓ Our bear-case analysis factors in volumes CAGR of 2.5% over FY18-21 based on a 5% decline in volumes in 2HFY19, 11% growth in FY20 and ~12% decline in FY21. We assume a contraction in the EBITDA margin (by ~110bp to 9.3% in FY21) to factor in negative operating leverage and mix, led by higher sales of lower-tonnage trucks.
- ✓ According to sensitivity analysis, AL could generate EPS of INR6.1/7.2/5 in FY19/20/21 in the bear case (v/s INR7/8.9/7.6 in the base case). Valuing AL at 8x FY21E EV/EBITDA and INR13/share value for NBFC (post 20% holdco), we derive a fair value of INR99 (base TP: INR148), implying a downside of ~14% from CMP.

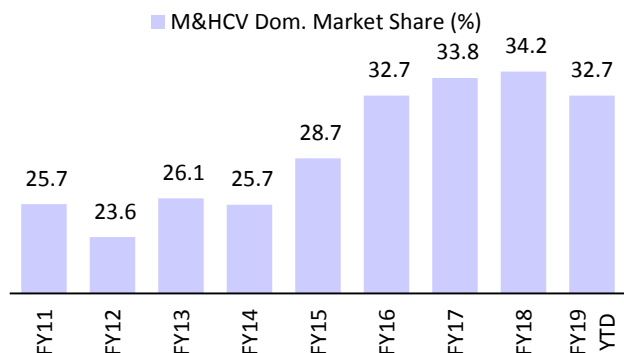
Exhibit 47: Scenario analysis

(INR M)	Base Case			Bull Case			Bear case		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Dom. M&HCV	135,865	159,885	143,896	140,739	175,924	193,516	128,286	143,680	122,128
Growth (%)	17	18	-10	21	25	10	10	12	-15
Dom. LCV	51,270	60,498	63,523	52,844	66,055	82,569	49,174	54,092	48,683
Growth (%)	21	18	5	25	25	25	16	10	-10
Exports	18,062	21,040	23,728	19,132	23,915	28,697	15,146	16,660	17,493
Growth (%)	13	16	13	20	25	20	-5	10	5
Total volume (Units)	205,197	241,423	231,147	212,715	265,893	304,782	192,606	214,433	188,304
Growth (%)	17.3	17.7	-4.3	21.6	25.0	14.6	10.1	11.3	-12.2
CV Realizations (INR)	1,318,030	1,342,975	1,407,372	1,344,657	1,396,999	1,491,927	1,291,403	1,290,016	1,326,073
Growth (%)	-1.0	1.9	4.8	1.0	3.9	6.8	-3.0	-0.1	2.8
CV Revenues	270,455	324,225	325,310	286,028	371,453	454,713	248,732	276,622	249,706
Non CV revenues	34,113	40,855	45,314	35,592	44,490	55,613	32,626	35,236	38,760
Total revenues	304,568	365,080	370,625	321,621	415,943	510,326	281,359	311,858	288,465
Growth (%)	16	20	2	23	29	23	7	11	-8
EBITDA	33,679	42,488	38,102	37,173	50,487	57,568	29,706	34,734	26,771
EBITDA margins (%)	11.1	11.6	10.3	11.6	12.1	11.3	10.6	11.1	9.3
PAT (INR m)	20,413	25,982	22,113	22,572	30,769	34,667	17,840	21,054	14,617
EPS (INR)	7.0	8.9	7.6	7.7	10.5	11.8	6.1	7.2	5.0
Growth (%)	30	27	-15	43	36	13	13	18	-31
Target EV/EBITDA (x)	8.0	8.0	9.0	9.0	9.0	9.0	8.0	8.0	9.0
Net debt (INR m)	-28,032	-47,316	-53,851	-30,190	-52,104	-66,404	-17,750	-33,844	-38,451
Hinduja Ley Fin @20% Holdco	8	10	13	8	10	13	8	10	13
Target Price	110	143	148	133	183	212	95	117	99
Upside (%)		24.7	29.5		60.3	85.6		2.1	-13.5
Implied PE at TP (x)			20			18			20

Source: MOSL

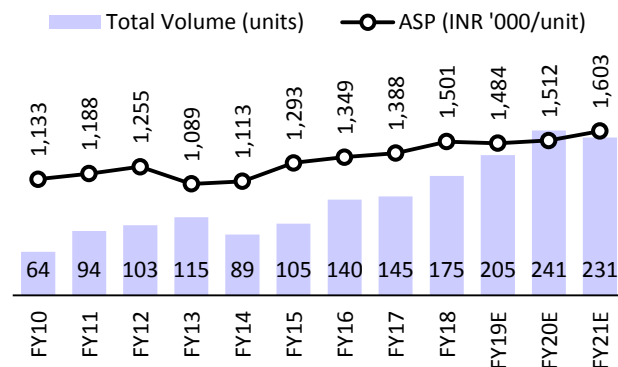
Ashok Leyland | Story in Charts: Expect EPS CAGR of ~12% over FY18-21

Exhibit 48: AL's M&HCV market share trend



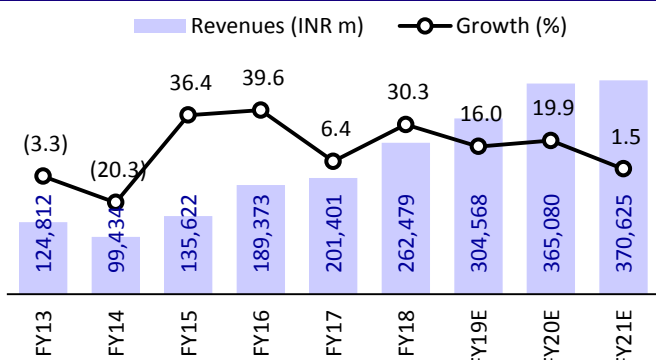
Source: Company, MOSL

Exhibit 49: Volume and ASP trend



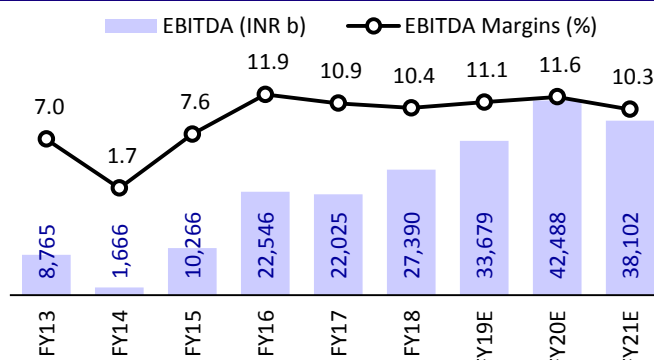
Source: Company, MOSL

Exhibit 50: Expect revenue CAGR of 12.2% over FY18-21



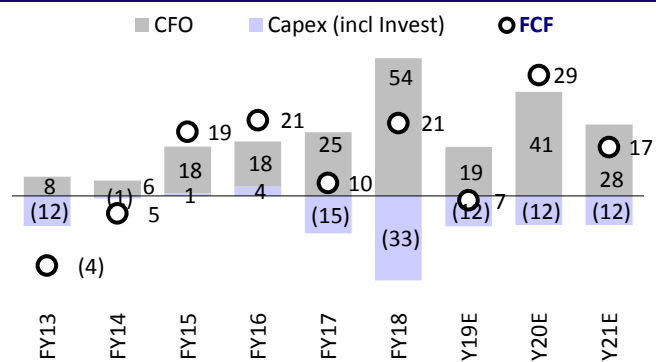
Source: Company, MOSL

Exhibit 51: Margins to gradually improve over FY18-20



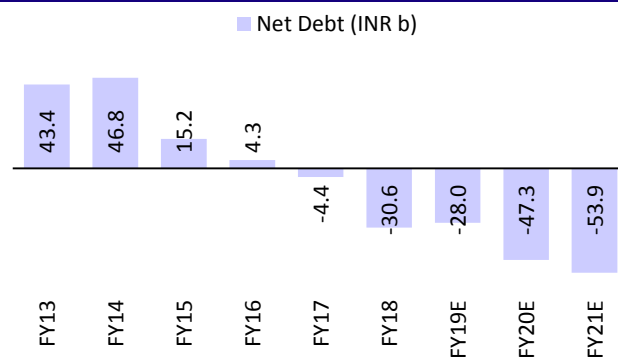
Source: Company, MOSL

Exhibit 52: Capex/investments to moderate significantly



Source: Company, MOSL

Exhibit 53: Focused on reducing debt levels



Source: Company, MOSL

Financials and Valuations

Income Statement

(INR m)

Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
Volumes ('000 units)	105	140	145	175	205	241	231
Growth (%)	17.4	33.8	3.4	20.5	17.3	17.7	-4.3
Net Sales	135,622	189,373	201,401	262,479	304,568	365,080	370,625
Change (%)	36.4	39.6	6.4	30.3	16.0	19.9	1.5
EBITDA	10,266	22,546	22,025	27,390	33,679	42,488	38,102
Change (%)	516.4	119.6	-2.3	24.4	23.0	26.2	-10.3
EBITDA Margins (%)	7.6	11.9	10.9	10.4	11.1	11.6	10.3
Depreciation	4,163	4,879	5,179	5,546	6,255	7,470	8,395
EBIT	6,103	17,667	16,846	21,844	27,424	35,018	29,707
Interest & Fin. Charges	3,935	2,476	1,554	1,312	752	753	753
Other Income	1,245	1,176	1,363	1,898	2,080	2,330	2,750
PBT	4,422	8,215	13,147	22,303	28,751	36,594	31,704
Tax	1,074	4,369	1,070	6,681	8,338	10,612	9,590
Effective Rate (%)	24.3	53.2	8.1	30.0	29.0	29.0	30.2
Rep. PAT	3,348	3,845	12,077	15,622	20,413	25,982	22,113
Change (%)	1,039.6	14.8	214.1	29.4	30.7	27.3	-14.9
% of Net Sales	1,039.6	14.8	214.1	29.4	30.7	27.3	-14.9
Adjusted PAT	2,339	11,998	12,360	15,752	20,413	25,982	22,113
Change (%)	-149.1	413.0	3.0	27.4	29.6	27.3	-14.9

Balance Sheet

(INR m)

Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
Sources of Funds							
Share Capital	2,846	2,846	2,846	2,927	2,927	2,927	2,927
Reserves	49,002	51,226	58,415	68,721	80,155	96,805	109,587
Net Worth	51,848	54,071	61,261	71,648	83,082	99,732	112,514
Loans	22,953	20,201	13,450	10,023	5,023	5,023	5,023
Deferred Tax Liability	2,861	3,291	1,269	2,984	4,421	6,251	7,836
Capital Employed	77,662	77,563	75,979	84,655	92,527	111,007	125,374
Application of Funds							
Gross Fixed Assets	49,871	53,659	59,807	63,121	75,883	85,633	95,883
Less: Depreciation	5,600	4,859	8,871	13,378	19,633	27,104	35,499
Net Fixed Assets	44,271	48,800	50,937	49,742	56,249	58,529	60,384
Capital WIP	1,201	759	2,059	4,012	1,250	1,500	1,250
Investments	26,967	19,804	28,789	58,026	60,026	61,526	63,026
Curr.Assets, L & Adv.	59,308	60,992	58,615	54,080	61,583	87,802	100,416
Inventory	12,427	16,250	26,310	17,099	25,033	25,006	30,462
Sundry Debtors	7,262	12,511	10,644	9,805	16,689	20,004	20,308
Cash & Bank Balances	7,722	15,931	9,120	10,044	2,503	21,788	28,322
Loans & Advances	31,898	16,299	12,542	17,132	17,358	21,005	21,324
Current Liab. & Prov.	54,087	52,791	64,420	81,206	86,582	98,351	99,703
Sundry Creditors	28,283	25,627	31,170	46,586	50,066	60,013	60,925
Other Liabilities	22,457	24,046	26,742	25,907	25,033	26,006	26,401
Provisions	3,347	3,119	6,509	8,713	11,483	12,332	12,378
Net Current Assets	5,222	8,201	(5,805)	(27,126)	(24,999)	(10,549)	713
Application of Funds	77,662	77,563	75,979	84,655	92,527	111,007	125,374

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
Basic (INR)							
EPS	0.8	4.2	4.3	5.4	7.0	8.9	7.6
EPS Fully Diluted	0.8	4.2	4.3	5.4	7.0	8.9	7.6
EPS Growth (%)	-145.9	412.9	3.0	23.9	29.6	27.3	-14.9
Cash EPS	2.3	5.9	6.2	7.3	9.1	11.4	10.4
Book Value per Share	18.2	19.0	21.5	24.5	28.4	34.1	38.4
DPS	0.45	1.0	1.6	2.4	2.6	2.7	2.7
Payout (Excl. Div. Tax) %	54.8	23.7	35.9	45.2	36.6	29.9	35.1
Valuation (x)							
P/E	139.1	27.1	26.3	21.2	16.4	12.9	15.1
Cash P/E	50.0	19.3	18.6	15.7	12.6	10.0	11.0
EV/EBITDA	33.2	14.6	14.6	11.1	9.1	6.8	7.4
EV/Sales	2.5	1.7	1.6	1.2	1.0	0.8	0.8
Price to Book Value	6.3	6.0	5.3	4.7	4.0	3.4	3.0
Dividend Yield (%)	0.4	0.9	1.4	2.1	2.2	2.3	2.3
Profitability Ratios (%)							
ROE	4.9	22.7	21.4	23.7	26.4	28.4	20.8
RoCE	6.4	11.4	21.8	20.7	23.6	26.1	19.2
RoIC	8.6	20.0	40.2	63.0	94.2	90.5	70.3
Turnover Ratios							
Debtors (Days)	20	24	19	14	20	20	20
Inventory (Days)	33	31	48	24	30	25	30
Creditors (Days)	76	49	56	65	60	60	60
Working Capital (Days)	-23	6	10	-27	-10	-15	-10
Fixed-Asset Turnover (x)	3.1	3.9	4.0	5.3	5.4	6.2	6.1
Leverage Ratio							
Net Debt/Equity (x)	0.3	0.1	-0.1	-0.4	-0.3	-0.5	-0.5

Cash flow Statement

Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
(INR m)							
OP/(Loss) before Tax	4,422	11,692	16,846	21,844	27,424	35,018	29,707
Int/Div Received	290	485	690	552	2,080	2,330	2,750
Depreciation	4,182	4,489	5,179	5,546	6,255	7,470	8,395
Direct Taxes Paid	-502	-4,409	-3,476	-4,149	-6,900	-8,783	-8,005
(Inc)/Dec in Work Cap.	7,049	-1,276	1,903	35,987	-9,667	4,834	-4,728
Other Items	2,906	6,818	3,914	-5,596	0	0	0
CF from Oper. Activity	18,347	17,800	25,056	54,184	19,191	40,869	28,119
Extra-ordinary Items	0	0	-3,508	-126	0	0	0
CF after EO Items	18,347	17,800	21,548	54,058	19,191	40,869	28,119
(Inc)/Dec in FA+CWIP	-2,059	441	-3,660	-5,321	-10,000	-10,000	-10,000
Free Cash Flow	16,288	18,241	17,888	48,737	9,191	30,869	18,119
CF from Inv. Activity	1,015	3,618	-14,768	-33,321	-12,000	-11,500	-11,500
Inc/(Dec) in Debt	-14,239	-7,886	-8,827	-12,700	-5,000	0	0
Interest Rec./(Paid)	-4,219	-2,679	-1,638	-1,464	-752	-753	-753
Dividends Paid	0	-1,541	-3,254	-5,495	-8,979	-9,331	-9,331
CF from Fin. Activity	-11,791	-12,107	-13,719	-19,613	-14,732	-10,085	-10,085
Inc/(Dec) in Cash	7,571	9,311	-6,939	1,124	-7,541	19,284	6,534
Add: Beginning Balance	469	8,040	17,352	10,412	11,536	3,996	23,280
Closing Balance	8,040	17,352	10,412	11,536	3,996	23,280	29,814

E: MOSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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