Ashok Leyland Limited

January 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	500.00	CARE AA; Negative (Double A; Outlook: Negative)	Reaffirmed
Long Term / Short Term Bank Facilities	3,700.00	CARE AA; Negative / CARE A1+ (Double A; Outlook: Negative/ A One Plus)	Reaffirmed
Total Bank Facilities	**4,200.00 (Rs. Four Thousand Two Hundred Crore Only)**		
Non Convertible Debentures	600.00	CARE AA; Negative (Double A; Outlook: Negative)	Reaffirmed
Total Long Term Instruments	**600.00 (Rs. Six Hundred Crore Only)**		
Commercial Paper	2,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short Term Instruments	**2,000.00 (Rs. Two Thousand Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and various debt instruments of Ashok Leyland Limited (ALL) continue to draw strength from the company being part of the Hinduja group, ALL's long track record of operations with strong brand image and wide distribution network with pan-India presence, its presence in all sub-segments of the Commercial Vehicles (CV) segment with strong market position in the domestic Medium & Heavy Commercial Vehicles (M&HCV) segment, improving market share of Light Commercial Vehicles (LCV) segment which improved further in H1FY22 on the back of new launches. The ratings also factor in the need-based financial support available to ALL from the Hinduja group.

The ratings continue to be tempered by moderate diversification of revenue stream with M&HCV segment accounting for significant portion of income and inherent risk associated with cyclical nature of the segment, tepid demand in M&HCV bus segment, lower sales volume in the LCV category due to semi-conductor shortage, pressure on the operating margins due to commodity inflation which cannot be fully absorbed despite price hikes from time to time. The ratings also continue to be tempered by ALL's exposure to group entities and increasing competition in the industry. The ratings also factor in the moderation in financial performance of the company on account of decline in the sales volume witnessed across entire CV industry due to COVID-19 pandemic in FY21 (refers to the period April 1 to March 31) and Q1FY22. The ratings also continue to be tempered by moderation in the debt coverage indicators of the company in FY21 which continued in H1FY22 as well. The overall gearing deteriorated from 0.52x as on March 31, 2020, to 0.63x as on March 31, 2021, and further to 0.96x as on September 30, 2021.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- *Improvement in the level of diversification in revenue stream along with geographical diversification across vehicle segments*
- *Improvement in the PBILDT margin to 10% and improvement in Total DEBT/PBIDLT to 1.5 times on a sustained basis*

Negative Factors- Factors that could lead to negative rating action/downgrade:

- *Continuous increase in the debt level resulting in deterioration in the overall gearing to 0.75x on a sustained basis*
- *Higher than envisaged investment in subsidiaries/group companies leading to deterioration in the debt coverage indicators of the company*
- *Deterioration in the net debt/PBILDT margin to 3x on a sustained basis*

<u>Outlook: Negative</u>

The continuation of Negative outlook is on account of slow revival in domestic M&HCV Bus volumes due to delay in full-fledged re-opening of schools and offices on account of third wave of COVID in India which may keep the demand for M&HCV Bus segment tepid in the near term and lower-than-expected growth in M&HCV and LCV volumes due to shortage of semi-conductors. The negative outlook also factors in the pressure on operating margins of the company due to commodity inflation as witnessed in H1FY22. The operating margin was weak in FY21 due to negative operating leverage and was negative in H1FY22 primarily because of increase in freight costs and raw material price increase which despite price hikes cannot be fully passed on. The outlook may be revised to stable with sustained improvement in M&HCV Truck segment, improvement in demand for the M&HCV Bus segment and improvement in the operating margin of the company.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers

Key Rating Strengths

Flagship company of the Hinduja group which has diversified presence across various industries
Ashok Leyland Limited (ALL) is a part of the Hinduja group founded by Mr Parmanand Deepchand Hinduja more than hundred years back. The Hinduja group is a conglomerate which has presence inter alia in Banking & Finance, Transport & Energy, Technology, Media and Renewables industries and the group's operations span across 70 countries. The Hinduja group acquired stake in ALL in 1987; since then, ALL has grown to become one of the major companies of the Hinduja group.

Long track record of operations with strong brand image and distribution network
ALL has a long track record of operations of over 70 years. ALL has built a strong brand image over the years with a diversified product profile consisting of Buses, Trucks, Light vehicles, Defence vehicles, Engines, Gensets, etc., with vehicle weight ranging from 2.5T to 55T, catering to the LCV-GC, M&HCV-GC, LCV-PC and M&HCV-PC segments. Over the years, ALL has become a synonymous name in the bus segment, wherein it is among the global top five players in this segment. ALL is one of the leading players in domestic M&HCV segment with strong market position through a variety of product offerings. ALL offers wide range of Trucks, Tippers, haulage, tractors in the M&HCV-GC segment and Lynx, Viking, Cheetah, 12M in the M&HCV-PC segment. The sales volumes of M&HCV Truck segment are improving in congruence with revival in economic activities. ALL had market share of 28.6% in the M&HCV segment in FY21.

Presence in LCV segment which provides diversification
For the past many decades, ALL had been generating majority of its sales volume and revenue from M&HCV segment. In order to exploit emerging trends in the industry in the recent years, ALL has taken various initiatives and launched products in LCV segment (Bada Dost) to increase its presence in the addressable LCV segment. As the trend in CV market has resulted in increase in share of LCV in overall CV volume, it had become inevitable for ALL to have presence in domestic LCV market to secure its long-term growth prospects. During FY21, total industry volume in LCV segment declined by 17.3% on a YoY basis. However, ALL reported increase in market share by 2.1% in FY21 with volume increase of 5%.

Key Rating Weaknesses
Inherent cyclical nature of the automotive industry
The automotive industry is cyclical in nature as it derives its demand from the investments and spending by the Government and individuals. After two successive years of good volume growth in FY18 and FY19, domestic CV industry has witnessed degrowth of 29% and 21%, respectively, in FY20 and FY21 due to a confluence of factors like revised axle load norms which increased the capacity of CV by at-least 20%-25%, NBFC crisis, transition to BS-VI, general economic slowdown and onslaught of COVID-19. While LCV segment was quicker to recover from COVID-19, MHCV segment recovery was a bit tepid. However, demand scenario in the MHCV segment started improving with increase in economic activities. Going forward, increased infrastructure spending by Government of India and proposed implementation of scrappage policy for commercial vehicles from April 2023 are expected to augur well for domestic CV sales.

Susceptibility of margins to volatility in raw material prices
The key raw materials required for auto OEMs are steel, iron, aluminium, copper, rubber and glass. The prices of metals (especially steel) and rubber have elevated since H2FY21. Accordingly, most of the OEMs have undertaken increase in prices to mitigate the impact of higher input costs. However, passing on the increase in prices entirely to the end consumer is challenging especially in the areas where there is intense competition and lower demand. Thus, the margins of the OEMs are subject to variations in the raw material prices. ALL reported negative operating margin in H1FY22 largely impacted by higher input prices.

Moderation in the financial performance debt coverage indicators in FY21; debt coverage indicators continued to be under stress in H1FY22
During FY21, ALL registered 12.5% decline in the total operating income (TOI) due to 20% de-growth in the overall sales volume. The M&HCV Truck volumes declined by 19% and M&HCV Bus volumes declined by 85% in FY21. The operating margin deteriorated in FY21 due to negative operating leverage. The debt coverage indicators moderated to an extent in FY21 as evinced by overall gearing of 0.63x in FY21 (PY: 0.52x) due to additional debt availed to fund capex requirements. The debt level continued to be high in H1FY22 as well and the overall gearing further deteriorated to 0.96x in H1FY22 due to increase in short-term debt to fund working capital requirement.

Exposure to group entities which are strategic in nature
The company had planned to expand its scale and scope of operations, wherein it had invested in various subsidiaries, associate companies and JVs, which are in related line of business. Total investments (net of provision for diminution in value of investments) stood at Rs.3,019 crore (around 51% of net-worth) as on March 31, 2021 as against Rs.2,688 crore as on March 31, 2020 (42% of net-worth). In FY21, major chunk of investments were in Optare Plc. (Rs.150 crore) and ALL's NBFC arm, Hinduja Leyland Finance Ltd (Rs.90 crore-rated 'CARE AA-/Stable/CARE A1+') which is engaged in lending (mainly vehicle loans).

Liquidity: Adequate

ALL has adequate liquidity with cash and liquid investments of Rs.2,012 crore as on September 30, 2021. As against the same, the company has debt repayments to the tune of Rs.12.50 crore (principal) in FY22. The company enjoys financial flexibility and re-financing ability by being a part of the Hinduja group.

Analytical approach: Standalone

CARE Ratings Ltd has considered ALL's standalone financials as ALL contributed to around 78% of the consolidated total income in FY21 as per the annual report. However, financial and operational performances of major subsidiaries and likely investment commitments to group companies have been factored in during the analysis.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Manufacturing Companies
Rating Methodology - Commercial Vehicle Industry
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company

Ashok Leyland Limited (ALL), flagship company of the Hinduja group, is one of the largest commercial vehicle manufacturers in India. Hinduja Group holds 51.54% stake in ALL as on September 30, 2021. ALL is one of the largest manufacturers of Medium and Heavy Commercial Vehicles (M&HCV) in India and also has significant presence in the Light Commercial Vehicle (LCV) segment. ALL's product profile includes buses, trucks, engines and defence vehicles.

ALL has eight manufacturing plants (total manufacturing capacity of 150,000 units of M&HCV and 66,000 units of LCV) across six different locations with the parent plant located at Ennore (Chennai, Tamil Nadu), three plants at Hosur (Tamil Nadu), foundry at Sriperumbudur (Tamil Nadu), gearbox manufacturing and vehicle assembly plant at Bhandara (Maharashtra), assembly plant at Alwar (Rajasthan) and a fully integrated unit in Pant Nagar (Uttarakhand).

Brief Financials-Standalone (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	17,471.73	15,294.60	7,408.84
PBILDT	1,177.91	528.29	-5.41
PAT	239.52	-313.68	-365.30
Overall gearing (times)	0.52	0.63	0.96
Interest coverage (times)	10.76	1.72	NM

A: Audited; UA: Unaudited; NM: Not meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	1200.00	CARE AA; Negative / CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	500.00	CARE AA; Negative / CARE A1+
Term Loan-Long Term	-	-	-	FY27	500.00	CARE AA; Negative
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	2000.00	CARE AA; Negative / CARE A1+
Proposed Debentures-Non Convertible Debentures	-	-	-	-	600.00	CARE AA; Negative
Commercial Paper-Commercial Paper (Standalone)	-	-	-	-	2000.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT/ ST-Working Capital Limits	LT/ST*	2000.00	CARE AA; Negative / CARE A1+	1)CARE AA; Negative / CARE A1+ (08-Apr-21)	1)CARE AA; Negative / CARE A1+ (06-May-20)	1)CARE AA+; Negative / CARE A1+ (24-Mar-20) 2)CARE AA+; Stable / CARE A1+ (05-Apr-19)	-
2	Commercial Paper-Commercial Paper (Standalone)	ST	2000.00	CARE A1+	1)CARE A1+ (08-Apr-21)	1)CARE A1+ (26-Mar-21)	1)CARE A1+ (24-Mar-20) 2)CARE A1+ (28-Jun-19) 3)CARE A1+ (05-Apr-19)	-
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	1200.00	CARE AA; Negative / CARE A1+	1)CARE AA; Negative / CARE A1+ (08-Apr-21)	1)CARE AA; Negative / CARE A1+ (06-May-20)	1)CARE AA+; Negative / CARE A1+ (24-Mar-20) 2)CARE AA+; Stable / CARE A1+ (05-Apr-19)	-
4	Fund-based/Non-fund-based-LT/ST	LT/ST*	500.00	CARE AA; Negative / CARE A1+	1)CARE AA; Negative / CARE A1+ (08-Apr-21)	1)CARE AA; Negative / CARE A1+ (06-May-20)	1)CARE AA+; Negative / CARE A1+ (24-Mar-20) 2)CARE AA+; Stable / CARE A1+ (05-Apr-19)	-
5	Term Loan-Long Term	LT	500.00	CARE AA; Negative	1)CARE AA; Negative (08-Apr-21)	1)CARE AA; Negative (06-May-20)	1)CARE AA+; Negative (24-Mar-20)	-
6	Debentures-Non Convertible Debentures	LT	600.00	CARE AA; Negative	1)CARE AA; Negative (08-Apr-21)	1)CARE AA; Negative (06-May-20) 2)CARE AA+; Negative (01-Apr-20)	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not available

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Non Convertible Debentures	Simple
3	Fund-based - LT/ ST-Working Capital Limits	Simple
4	Fund-based/Non-fund-based-LT/ST	Simple
5	Non-fund-based - LT/ ST-BG/LC	Simple
6	Term Loan-Long Term	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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