Ashok Leyland Limited

November 07, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	400.00 (Reduced from 500.00)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Long-term/short-term bank facilities	3,700.00	CARE AA; Stable/CARE A1+ (Double A; Outlook: Stable/A One Plus)	Reaffirmed; Outlook revised from Negative
Total bank facilities	**4,100.00 (₹ Four thousand one hundred crore only)**		
Non-convertible debentures	600.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Total long-term instruments	**600.00 (₹ Six hundred crore only)**		
Commercial paper	2,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	**2,000.00 (₹ Two thousand crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the outlook assigned to the bank facilities and various debt instruments of Ashok Leyland Limited (ALL) factors in strong recovery in the commercial vehicles (CV) industry in FY22 (refers to the period April 1 to March 31), especially for medium & heavy commercial vehicles (M&HCV) and light commercial vehicle (LCV) segment leading to better-than-expected operating performance and improved liquidity profile. The growth momentum in CV industry is expected to continue in FY23 ensuring strong revenue visibility and improved cashflows. The ratings continue to draw strength from the company being part of the Hinduja Group, ALL's long track record of operations with established presence with strong brand image and wide distribution network with PAN-India presence, its presence in all sub-segments of the CV segment with strong and improving market share in the domestic M&HCV segment on the back of new launches and also healthy market share of the LCV segment. 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 and highly competitive nature of the segment, pressure on the operating margins due to increase in costs on account of new emission norms w.e.f. April 01, 2020 and subsequent commodity costs increase since H2FY21 which cannot be fully absorbed despite price hikes from time to time. However, softening of the raw material prices and improving operating leverage would lead to improved operating margins in FY23. The ratings also continue to be tempered by ALL's exposure to group entities with key loss-making subsidiaries impacting the profitability and leverage at consolidated levels. At standalone basis, the overall gearing remains comfortable at 0.59x as on March 31, 2022 (PY: 0.68x) though total debt/EBITDA remains high at 3.49x as on March 31, 2022.

Rating sensitivities

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

- Improvement in the revenue diversification and significant improvement in market share.
- Improvement in the total debt/PBILDT to 1.5x 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 total debt/EBITDA to 3x on a sustained basis.
- Higher-than-envisaged investment in the subsidiaries/group companies leading to deterioration in the debt coverage indicators 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: ALL is a part of the Hinduja group founded by Parmanand Deepchand Hinduja more than hundred years back. The Hinduja group is a conglomerate having 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. It 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. 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 the economic activities. ALL had market share of 31% in the M&HCV segment in H1FY23.

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 the 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 FY22 and H1FY23, the total industry volume (domestic) in the LCV segment improved by 16.7% and 58.8% on a Y-o-Y basis, respectively. However, ALL reported volume growth (domestic) of 11.9% and 42.7% on a Y-O-Y basis during FY22 and H1FY23, respectively. ALL had market share of 10.4% in the LCV segment in H1FY23.

Improving operating performance led by growth in volumes during FY22 and Q1FY23: During FY22, ALL reported 41% growth in the total operating income (TOI) on Y-o-Y basis due to 27% growth in the overall sales volume especially due to recovery in demand for MHCV segment and improved prices. This was largely due to resumption of economic activity supported by immediate government interventions and infrastructure growth. ALL reported volume growth of 41.5% and 142.9% on a Y-o-Y basis in the MHCV segment (domestic) during FY22 and H1FY23, respectively. The MHCV truck segment (domestic) volumes improved by 41.9% and 135.7% on a Y-o-Y basis during FY22 and H1FY23, respectively. The MHCV bus segment (domestic) volumes improved by 35.6% and 280.1% on a Y-o-Y basis during FY22 and H1FY23, respectively. The volumes in the LCV segment (domestic) also improved by 11.9% and 42.7% on a Y-o-Y basis during FY22 and H1FY23, respectively. During FY23, the company expects to record robust growth driven by improving demand in the domestic MHCV and LCV segments. The operating margin improved to 4.69% in FY22 due to the benefits of operating leverage but however, lower than pre-covid levels. Softening of the raw material prices and improving operating leverage would though lead to improved operating margins in FY23.

Comfortable financial risk profile: The overall gearing as on March 31, 2022, improved to 0.59x (PY: 0.68x) with lower debt levels given the controlled working capital. The other debt coverage indicators also improved to driven by improved profitability. The debt level as on March 31, 2022 stood at ₹3,553.88 crore (PY: ₹3,758.81 crore) and net debt stood at ₹761.58 crore (₹2,628.68 crore). The long-term debt was primarily availed in the form of rupee term loan and non-convertible debenture (NCD) of ₹450 crore and ₹200 crore respectively for funding the capex. The overall gearing on a net basis stood at 0.13x as on March 31, 2022 vs. 0.48x as on March 31, 2021. Going forward, the net debt level of the company is expected to be marginally elevated in FY23 to support capex requirements. However, it is expected to come down in FY24 and be net-debt free in FY25.

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%, non-banking finance company (NBFC) crisis, transition to BS-VI, general economic slowdown and onslaught of COVID-19. During FY22, the CV industry bounced back with growth of 30% and is expected to record volume growth of 22-25% in FY23 driven by improving transporter profitability, higher fleet utilisation levels, materialisation of deferred replacement demand and healthy demand from construction and infra projects. The domestic CV industry has grown Y-o-Y in H1FY23 recording sales volumes at 4.56 lakh units during H1FY23 as against 3.75 lakh units in H1FY20. The sales in the second half is higher historically attributable to the year-end sales push by original equipment manufacturers (OEMs) and higher construction activities.

The sales of LCV are driven by robust e-commerce and logistics sectors and the need to transport agricultural produce, fast-moving consumer goods (FMCG) and dairy products over short distances. 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 the prices to mitigate the impact of higher input costs. However, passing on the increase in the 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. The prices started to cool off from April 2022 onwards.

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 joint ventures (JVs), which are in related line of business. The total investments (net of provision for diminution in value of investments) stood at ₹3,472 crore (around 58% of net worth) as on March 31, 2022 as against ₹3,019 crore as on March 31, 2021 (55% of net worth). Major investments are in ALL's NBFC arm, Hinduja Leyland Finance Ltd (rated 'CARE AA/Stable/CARE A1+'), which is engaged in lending (mainly vehicle loans), Optare Plc. and Albonair GmbH. The investments in various subsidiaries, associate companies and JVs is estimated at around ₹900 crore over the medium term of next three years. Some of the key invested subsidiaries/group entities continue to remain loss making with high debt levels and guarantee extended by ALL, which impacts the profitability and leverage profile at consolidated levels. Any further deterioration in profitability and leverage ratios at consolidated levels (excluding NBFC) remain key monitorable.

Liquidity: Strong

ALL has strong liquidity with cash and liquid investments of ₹2,792.30 crore as on March 31, 2022. As against the same, the company has debt repayments to the tune of ₹401 crore (principal) in FY23. The company enjoys financial flexibility and re-financing ability by being a part of the Hinduja group.

Analytical approach: Standalone

CARE Ratings Limited (CARE Ratings) has considered ALL's standalone financials, as ALL contributed to around 83% of the consolidated total income in FY22 as per the annual report. However, the financial and operational performances of major subsidiaries and likely investment commitments to group companies have been factored-in during the analysis.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Commercial Vehicle
Manufacturing Companies

About the company

Ashok Leyland Limited (ALL), the flagship company of the Hinduja group, is one of the largest commercial vehicle manufacturers in India. The Hinduja Group holds 51.12% stake in ALL as on June 30, 2022. 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 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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (UA)
Total operating income	15,389.08	21,712.63	7,248.49
PBILDT	621.16	1,018.86	345.92
PAT	(313.68)	541.83	68.05
Overall gearing (times)	0.68	0.59	NA
Interest coverage (times)	2.02	3.38	5.02

A: Audited; UA: Unaudited; NA: Not available

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial paper*	Provided below	Provided below	Provided below	Provided below	2000.00	CARE A1+
Proposed debentures-Non-convertible debentures	-	-	-	-	600.00	CARE AA; Stable
Fund-based - LT/ ST-Working capital limits	-	-	-	-	2000.00	CARE AA; Stable / CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	500.00	CARE AA; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	1200.00	CARE AA; Stable / CARE A1+
Term loan-Long term	-	-	-	09-09-2026	400.00	CARE AA; Stable

*Details of commercial paper issue:

ISIN	Date of issue	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
INE208A14CO1	September 21, 2022	6.40%	December 19, 2022	500.00	CARE A1+
Proposed	-	-	-	1500.00	CARE A1+
Total				2000.00	

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT/ ST-Working capital limits	LT/ST*	2000.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Negative / CARE A1+ (07-Jan-22) 2)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+ (07-Jan-22) 2)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; Stable / CARE A1+	-	1)CARE AA; Negative / CARE A1+ (07-Jan-22) 2)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; Stable / CARE A1+	-	1)CARE AA; Negative / CARE A1+ (07-Jan-22) 2)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	400.00	CARE AA; Stable	-	1)CARE AA; Negative (07-Jan-22) 2)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; Stable	-	1)CARE AA; Negative (07-Jan-22) 2)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 the covenants of the rated instruments/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 instruments: CARE Ratings 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 us:
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