

Ashok Leyland Limited

April 08, 2021

Ratings

Facilities/Instruments*	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	500	CARE AA; Negative (Double A; Outlook: Negative)	Reaffirmed
Long Term / Short Term Bank Facilities	3,700	CARE AA; Negative / CARE A1+ (Double A; Outlook: Negative/ A One Plus)	Reaffirmed
Total Bank Facilities	4,200 (Rs. Four Thousand Two Hundred Crore Only)		
Non-Convertible Debentures (Proposed)	600	CARE AA; Negative (Double A; Outlook: Negative)	Reaffirmed
Total Long Term Instruments	600 (Rs. Six Hundred Crore Only)		
Commercial Paper (Standalone)	2,000	CARE A1+ (A One Plus)	Reaffirmed
Total Short Term Instruments	2,000 (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 company being part of the Hinduja Group, ALL's long track record of operations with strong brand image & wide distribution network with pan-India presence, its presence in all sub-segments of the CV (Commercial Vehicles) segment with strong market position in the domestic M&HCV (Medium & Heavy Commercial Vehicles) segment, improving market share of LCV (Light Commercial Vehicles) segment and continuation of comfortable leverage levels notwithstanding the increase in debt levels during 9mFY21 (refers to period from April 01 to December 31). 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, ALL's exposure to group entities and increasing competition in the industry. The rating also factors in the moderation in financial performance of the company during 9mFY21 on account of moderation in sales volume witnessed across entire CV industry due to COVID-19 pandemic and resultant nation-wide lockdown imposed during H1FY21 (refers to period from April 01 to September 30).

Rating Sensitivities

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

- Improvement in level of diversification in revenue stream along with geographical diversification across vehicle segments

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

- Continuous increase in debt level resulting in deterioration of capital structure on sustained basis

Outlook: Negative

The continuation of Negative outlook is on account of slow revival in domestic M&HCV sales volume during 11mFY21 (refers to period from April 01 to February 28). The year on year decline in domestic CV sales volume which started in May 2019 continued till January 2021 in the backdrop of COVID-19 pandemic induced economic slowdown. Following the phased relaxation in lockdown norms, domestic CV sales volume of both the industry and ALL witnessed positive growth in the month of February 2021. However, sustenance of revival in domestic CV sales volume, especially that of M&HCV segment which is major contributor to ALL's income remains to be seen. The outlook may be revised to stable if the domestic sales volume in M&HCV segment shows sustained positive growth on year on year basis during the next quarter, i.e., Q1FY22.

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 part of Hinduja group founded by Shri 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. Hinduja group acquired stake in ALL in 1987; since then ALL has grown to become one of the major companies of the Hinduja Group.

Well qualified & diversified board of directors backed by an experienced management team

ALL's Board of Directors consists of a well-defined mix of independent directors and representatives from the Hinduja Group. The chairman, Mr. Dheeraj G Hinduja (s/o Mr. Gopichand P Hinduja, Co-Chairman), is from the Hinduja Group. The Board of Directors of ALL consists of seven independent directors and one non-independent director. The board of directors is backed by an experienced top management team consisting of Mr. Vipin Sondhi, Managing Director and Mr. Gopal Mahadevan, Wholetime Director & Chief Financial Officer.

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 (Source: FY20 Annual report). 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.

M&HCV Goods carrier (GC) Segment

With respect to the M&HCV (GC) segment, market share of ALL improved from 20.4% in FY12 to 28.9% in FY20. However, during 9MFY21, market share of ALL slightly moderated to 27.5%. It is to be noted that the success of captain range of trucks and U truck models helped ALL gain market share in the 25T, 31T, 35T & 37T segments during previous years. Further, the company has launched new range of Modular Trucks named, AVTR, in June 2020 which has multiple options of axle configurations, loading spans, cabins, suspensions, and drivetrains on a single platform for the entire range of Rigid trucks, Tippers and Tractors in the 18.5T to 55T category. These are critical categories of trucks where bulk of haulage and tipper trucks, which are directly linked to the economic activities in the country are sold.

M&HCV Passenger carrier (PC) Segment

Over the years, ALL has become a synonymous name in the bus segment, wherein it is one of the market leaders with vehicles ranging from 19 to 80 seats. During 9MFY21 industry witnessed 91% degrowth and ALL witnessed 94% degrowth in sales volume of M&HCV PC segment. Market share of ALL in M&HCV (PC) during 9MFY21 stood at 32.7% as against 45.9% in FY20.

Comfortable capital structure notwithstanding increase in debt levels during 9mFY21

During FY20, ALL registered 40% decline in the total operating income to Rs. 17,547 crore due to unfavorable CV industry scenario which resulted in total volume degrowth of 37% for ALL (Total Industry Volume declined by 28.8%). PBILDT margin during FY20 stood at 7.14% as against 10.87% in FY19. Overall gearing of ALL as on March 31, 2020 stood at 0.52x as against 0.08x as on March 31, 2019 as the company had raised around Rs. 1,215 crore of long term debt during the year for capex. Total debt level increased further during 9mFY21 to fund capex, working capital requirements and general corporate purposes. Though leverage levels increased in 9mFY21 due to debt funded capex and general corporate purposes, leverage levels continue to be comfortable. Net overall gearing as on December 31, 2020 stood at 0.54x as against net overall gearing of 0.32x as on March 31, 2020.

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 FY20, total industry volume in LCV segment declined by 20.1% on y-o-y basis. However, sales degrowth in LCV segment of ALL in domestic market is limited to 15.5%. Market share of ALL in LCV segment during FY20 stood at 9.1% as against 8.6% in FY19. During 9mFY21, ALL has improved its market share to 10.7% in LCV segment.

Key Rating Weaknesses

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. Rs. 2,688 crore (~42% of networth) as on March 31, 2020 as against Rs. 2,626 crore as on March 31, 2019. As on March 31, 2020, major chunk of investments (Rs. 1,841 crore) was in its subsidiary, Hinduja Leyland Finance Ltd (rated CARE AA-; Stable/CARE A1+) which is engaged in lending (mainly vehicle loans).

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 & FY19, domestic CV industry has witnessed significant degrowth in FY20. During FY20, total CV sales volume witnessed degrowth of 28.75% to 717,688 units as against 10,07,311 units in FY19. Factors such as slowdown in GDP growth, changes in axle load norms which lead to overcapacity, improved turn-around time, transition from BS 4 to BS6 emission norms, and tight liquidity situation faced by NBFCs has resulted in volume degrowth in FY20. Further, the outbreak of COVID-19 pandemic and nation-wide lockdown during H1FY21 resulted in economic slowdown and production disruption which resulted in 56% decline in CV sales volume during H1FY21 on y-o-y basis. However, following the phased relaxation in lockdown norms and resumption of regular economic activities, demand started to improve since October 2020. Going forward, increased infrastructure spending by Government of India as envisaged in the union budget for 2021-22 and proposed implementation of scrappage policy for commercial vehicles from April 2023 are expected to have a positive impact on the domestic CV sales.

Liquidity: Adequate

ALL has sufficient liquidity with cash and liquid investments of Rs. 1,145 crore as on December 31, 2020. ALL has repaid debt obligations of Rs. 213 crore in FY21 and repayment obligation for FY22 is nil. With a gearing of 0.52x and net overall gearing of 0.32x as on March 31, 2020, the company has sufficient gearing headroom. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year.

Analytical approach:

CARE has considered ALL's standalone financials as ALL contributed to ~80% of the consolidated total income in FY20 as per the annual report. One of its subsidiaries, Hinduja Leyland Finance Ltd (HLF) accounted for 14% of operating income in FY20. However, HLF being an NBFC interpretation of consolidated accounts is not meaningful.

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 Vehicles](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

Ashok Leyland Limited (ALL; CIN No: L34101TN1948PLC000105), Flagship Company of the Hinduja Group, is one of the largest commercial vehicle manufacturers in India. The company was promoted as Ashok Motors Limited in 1948, to assemble the Austin cars. During 1950, ALL commenced assembly and distribution of Leyland commercial vehicles, through the agreement with Leyland Motors Limited, U.K. Currently, Hinduja Group, holds 51.54% stake in ALL as on December 31, 2020.

ALL is one of the largest manufacturers of Medium and Heavy Commercial Vehicles (M&HCV) and also has presence in the Light Commercial Vehicle (LCV) segment. ALL's product profile includes buses, trucks, engines and defense vehicles. ALL has seven manufacturing plants (total manufacturing capacity of 1,50,500 units) across five different locations, with the parent plant 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 with bus body building facility at Alwar (Rajasthan) and a fully integrated unit in Pant Nagar (Uttarakhand)

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	29,119	17,547
PBILDT	3,164	1,254
PAT	1,983	240
Overall gearing (times)	0.08	0.52

Interest coverage (times)	44.96	11.45
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A: Audited

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	-	-	-	September 2026	500.00	CARE AA; Negative
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	2000.00	CARE AA; Negative / CARE A1+
Debentures-Non Convertible Debentures (Proposed)	-	-	-	-	600.00	CARE AA; Negative
Commercial Paper-Commercial Paper (Standalone)	-	-	-	7 days to 1 year	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	2000.00	CARE AA; Negative / CARE A1+	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)	-	1)CARE AA+; Stable / CARE A1+ (30-Mar-18) 2)CARE AA; Stable / CARE A1+ (25-Apr-17)
2.	Commercial Paper-Commercial Paper (Standalone)	ST	2000.00	CARE A1+	1)CARE A1+ (26-Mar-21)	1)CARE A1+ (24-Mar-20) 2)CARE A1+ (28-Jun-19) 3)CARE A1+ (05-Apr-19)	-	1)CARE A1+ (30-Mar-18) 2)CARE A1+ (19-Sep-17)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1200.00	CARE AA; Negative / CARE A1+	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)	-	1)CARE AA+; Stable / CARE A1+ (30-Mar-18) 2)CARE AA; Stable / CARE A1+ (25-Apr-17)
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	500.00	CARE AA; Negative / CARE A1+	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)	-	1)CARE AA+; Stable / CARE A1+ (30-Mar-18) 2)CARE AA; Stable / CARE A1+ (25-Apr-17)
5.	Term Loan-Long Term	LT	500.00	CARE AA; Negative	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 (06-May-20) 2)CARE AA+; Negative (01-Apr-20)	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not Applicable
Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of the 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

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

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