

Ashok Leyland Limited

March 24, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term bank facilities – Term Loan	500	CARE AA+; Negative (Double A Plus; Outlook: Negative)	Assigned
Long/ Short term Bank Facilities	3,700	CARE AA+; Negative/ CARE A1+ (Double A Plus; Outlook: Negative/A One Plus)	Reaffirmed; Outlook revised from Stable to Negative
Total Bank Facilities	4,200 (Rs. Four thousand two hundreds crores only)		
Commercial Paper (Standalone)	2,000 (Rs. Two thousand crore only)	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities and various debt instruments continue to draw strength from Ashok Leyland Ltd (ALL) 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 strong market position in the domestic M&HCV (Medium & Heavy Commercial Vehicles) segment, its presence in all sub-segments of the CV (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 9mFY20 (refers to period from April 01 to December 31) to fund the capex.

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.

Key rating sensitivities
Positive rating sensitivities

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

Negative rating sensitivities

- Continuation of negative growth in the sales volume beyond Q2FY21
- Deterioration of capital structure on a sustained basis

Outlook: Negative

The revision in outlook from Stable to Negative is on account of unfavourable CV (Commercial Vehicles) industry scenario. The moderation in the sales volume which started in May 2019 continued till Feb 2020. Due to various factors including slowdown in GDP growth, changes in axle load norms resulting in increase in capacity of existing vehicles, proposed transition from BS 4 to BS 6 and expected increase in prices of BS 6 models, sales volume growth for the industry is expected to remain muted in Q4FY20 and Q1FY21. The outlook may be revised to stable if the sales volume growth shows meaningful positive growth for a period of six months.

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 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.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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. The board of directors is backed by an experienced top management team. Mr. Vipin Sondhi has been appointed as Managing Director effective from December 12, 2019.

Long track record of operations with strong brand image and distribution network

ALL has a long track record of operations of over 65 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 49T, 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.

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 32.9% in FY19. However during 9mFY20, market share of ALL slightly moderated to 29.2%. 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.

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 9mFY20 industry witnessed 7.93% growth and ALL achieved 20.8% growth in sales.

Comfortable capital structure notwithstanding increase in debt levels during 9mFY20 to fund capex

During FY19, ALL registered 10.2% growth in the total income to Rs.29,096 crore supported by CV sales volume growth of 16%. PBILDT margin during FY19 stood at 10.92% as against 11.43% in FY18. Overall gearing of ALL as on March 31, 2019 stood at 0.08x as against 0.18x as on March 31, 2018. During 9mFY20, ALL has raised term debt to the tune of Rs.1,072 crore to fund its capex resulting in overall gearing of 0.33x as on December 31, 2019. Though leverage levels increased in 9mFY20 due to debt funded capex, leverage levels continues to be comfortable.

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 (Dost) and also strengthened its presence in ICV segment. During FY19, industry witnessed 19% growth in LCV sales volume and ALL has witnessed growth of 26% in FY19 on y-o-y basis. ALL also garnered a market share of 8.6% in FY19 as against 8.2% in FY18. For 9mFY20, LCV industry witnessed a de-growth of 11.34% and ALL witnessed de-growth of 4% thereby ALL has improved its market share to 9.34% in LCV segment during this period.

Key rating weakness

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.2,637 crore (~33% of networth) as on March 31, 2019 as against Rs.2,452 crore as on March 31, 2018. As on March 31, 2019, major chunk of investments (Rs.1,541 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. Domestic CV Industry experienced poor demand between FY13-15 in the backdrop of slow economic growth. Post FY15 the business sentiments showed signs of revival. The domestic Commercial Vehicle industry registered 17.6% growth during FY19 after reporting growth of 20% in FY18. However, growth has witnessed moderation significantly since the second quarter of FY20 on account of different factors viz., slowdown in the economy with GDP growth dropping below 5%, changes in axle load norms which lead to overcapacity, improved turn-around time, impending transition to BS 6 norms from current BS 4 norms and tight liquidity in the market due to crisis in NBFC sector.

Liquidity: Adequate

ALL has sufficient liquidity with GCA of Rs. 800 Crore during 9mFY20 vis-à-vis scheduled repayment obligations of Rs.234 crore for FY20 and its average CC utilization is around 22.26%. Cash and bank balance as on December 31, 2019 stood at Rs.697 crore.

ALL's inventory levels remained at around 34 days during FY19 and with better credit terms from its creditors, working capital cycle also stood at (-13) days against (-10) days in FY18. However average working capital utilization levels (CC & CP combined) for one year period ended January 2020 increased to 40.62% compared to 14% in previous year for same time period.

Analytical approach: Standalone

CARE has considered ALL's standalone financials as ALL contributed to ~89% of the consolidated total operating income in FY19. One of its subsidiaries, Hinduja Leyland Finance Ltd (HLF) accounted for 8% of operating income in FY19. However, HLF being an NBFC interpretation of consolidated accounts is not meaningful.

Applicable Criteria

[Criteria on assigning Outlook and CreditWatch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

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

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology – Commercial Vehicle Industry](#)

[Criteria for short term instruments](#)

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 51.12% stake in ALL as on December 31, 2019.

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)	FY18 (A)	FY19 (A)
Total operating income	26,412	2,9096
PBILDT	3,019	3,177
PAT	1,718	1,983
Overall gearing (times)	0.18	0.08
Interest coverage (times)	16.43	36.32

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

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(Proposed)	-	-	-	-	500.00	CARE AA+; Negative / CARE A1+
Term Loan-Long Term	-	-	-	January 2026	500.00	CARE AA+; Negative
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	2000.00	CARE AA+; Negative / CARE A1+
Commercial Paper	-	-	-	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	2000.00	CARE AA+; Negative / CARE A1+	1)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)	1)CARE AA; Stable / CARE A1+ (06-Feb-17) 2)CARE AA- / CARE A1+ (11-May-16)
2.	Commercial Paper	ST	2000.00	CARE A1+	1)CARE A1+ (28-Jun-19) 2)CARE A1+ (05-Apr-19)	-	1)CARE A1+ (30-Mar-18) 2)CARE A1+ (19-Sep-17)	1)CARE A1+ (06-Feb-17) 2)CARE A1+ (11-May-16)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1200.00	CARE AA+; Negative / CARE A1+	1)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)	1)CARE AA; Stable / CARE A1+ (06-Feb-17) 2)CARE AA- / CARE A1+ (11-May-16)
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	500.00	CARE AA+; Negative / CARE A1+	1)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	-	-	-	-

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

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