

## Ashok Leyland Limited

May 06, 2020

### Ratings

Facilities*	Amount (Rs. crore)	Ratings <sup>1</sup>	Remarks
Long-term bank facilities – Term Loan	500	CARE AA; Negative (Double A; Outlook: Negative)	Revised from CARE AA+; Negative (Double A Plus; Outlook: Negative)
Long/ Short-term Bank Facilities	3,700	CARE AA; Negative/ CARE A1+ (Double A; Outlook: Negative/ A One Plus)	Revised from CARE AA+; Negative/ CARE A1+ (Double A Plus; Outlook: Negative/ A One Plus)
Total Bank Facilities	4,200 (Rs. Four thousand two hundred crore only)		
Debentures-Non Convertible Debentures (Proposed)	600 (Rs. Six hundred crore only)	CARE AA; Negative (Double A; Outlook: Negative)	Revised from CARE AA+; Negative (Double A Plus; Outlook: Negative)

*Details of instruments/facilities in Annexure-1*

#### Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the bank facilities and various debt instruments of Ashok Leyland Ltd (ALL) factors in the increased level of uncertainty associated with recovery & demand growth in the Commercial Vehicle (CV) industry in FY21 (refers to period from April 01 to March 31) in the backdrop of coronavirus pandemic led economic slowdown and resultant impact on the financial performance of the company in FY21. Earlier, CARE had revised the rating outlook assigned to the bank facilities and instruments of ALL on March 24, 2020, from 'Stable' to 'Negative'. The revision in negative outlook was on account of unfavourable CV industry scenario and muted growth expected in Q4FY20 and Q1FY21. Post which Government of India announced nationwide lockdown which was extended for a period upto May 03, 2020. The unprecedented nationwide lockdown is expected to adversely impact the economic growth rate. Amid the stressed ecosystem, recovery in demand for CV industry could take longer than expected in turn resulting in moderation in profits for ALL. The rating also takes note of the impact of the pandemic on some of the subsidiaries of ALL where funding support is expected to be extended in the near term. In the near term, debt in relation to GCA (Gross Cash Accruals) is expected to increase on account of increase in debt to fund its capex and subsidiaries. However, ALL's liquidity remains comfortable with cash and liquid investments of Rs. 1,279 crore as on March 31, 2020 and relatively low debt obligations in the near term.

The ratings of 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. 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

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

The outlook continues to factor in the unfavourable CV industry scenario. The moderation in the sales volume which started in May 2019 continued till March 2020. Due to various factors including slowdown in GDP growth on account of impact of COVID-19, 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 subdued in FY21. 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. 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 expected increase in debt levels**

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. In view of moderate performance expected in the near term, total debt to GCA is expected to increase, going forward.

##### **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 cash and bank balance of Rs. 1,279 crore as on March 31, 2020 and relatively low repayment obligation of Rs. 218.30 crore for FY21 as compared to GCA of Rs.800 crore during 9mFY20.

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. 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	29,096
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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Working Capital Limits	-	-	-	2000.00	CARE AA; Negative / CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	1200.00	CARE AA; Negative / CARE A1+

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	500.00	CARE AA; Negative / CARE A1+
Term Loan-Long Term	-	-	January 2026	500.00	CARE AA; Negative
Debentures-Non Convertible Debentures(proposed)	-	-	-	600.00	CARE AA; Negative

## 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+ (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	ST	2000.00	CARE A1+	-	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)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1200.00	CARE AA; Negative / CARE A1+	-	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+ (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 (24-Mar-20)	-	-
6.	Debentures-Non Convertible Debentures	LT	600.00	CARE AA; Negative	1)CARE AA+; Negative (01-Apr-20)	-	-	-

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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