Ashok Leyland Limited

June 28, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Commercial Paper	**2,000 (enhanced from Rs.1,500 crore)**	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**2,000 (Rupees Two Thousand crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings continue to draw strength from ALL being part of the Hinduja Group, ALL's long track record of operations with strong brand image & widening distribution network with pan-India presence, its strong market position in the domestic M&HCV segment, its presence in all sub-segments of the CV segment and low leverage levels.

The rating continues 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.

Going forward, sustenance of the market share in view of intense competition in the industry & changing emission norms with transition to BS VI, extent of diversification of revenue in terms of geography & sub-segments, and significant change in debt levels would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Part 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) is from the Hinduja Group. The Board of Directors of ALL consists of eight independent directors. The Board of Directors is backed by an experienced top management team. Mr.Vinod Dasari who was the Chief Executive Officer & Managing Director of ALL has announced his resignation from the company with effect from March 31, 2019. Meanwhile, Mr.Dheeraj G Hinduja is elevated as executive chairman to facilitate smooth transition until a new successor is found.

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

ALL has a long track record of operations of 70 years. ALL has built a strong brand image over the years with a diversified product profile consisting of buses, trucks, light vehicles, defense vehicles, engines, gensets, etc., with vehicle weight ranging from 2.5 tons (T) to 49T, catering to the LCV-GC, M&HCV-GC and M&HCV-PC segments.

One of the key requirements to maintain market position is to have a geographical presence across the country. ALL's distribution network comprises of Dealer Outlets, Authorised Service Centers and Service and Support that Satisfies You (SASSY) units across pan-India. It is to be noted that while ALL has strong presence in Southern and Western India, its dealer network in North, East & Central regions account for 70% of total dealer network.

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 33.8% in FY18. However during FY19, market shared of ALL slightly moderated to 32.9%. 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. 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 FY19 the market share of ALL in M&HCV (PC) stood at 41.2% as against 38.5% in FY18. It is to be noted that share of PC (passenger carriers) in total M&HCV sales volume (Domestic) stood at 12% in FY18.

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

Presence in LCV segment which provides diversification
ALL's wholly owned subsidiary, Ashok Leyland Vehicle Limited's (ALVL) first LCV (GVW < 3.5 T) named 'Dost' was launched in September 2011. This product is presently marketed across the country by ALL. LCV sales volume grew by 37% in FY18 to 43,441 units as against 31,770 units in FY17. During FY19, LCV sales volume witnessed growth of 25% on y-o-y basis to 54,508 units.

Low leverage levels
Total operating income of ALL has grown from Rs.20,244 crore in FY17 to Rs.26,343 crore in FY18 primarily driven by growth in sales volume and market share. Supported by healthy cash accruals, ALL has considerably reduced the debt levels which have resulted in significant improvement in the capital structure. During FY19 also ALL generated gross cash accruals of Rs.2,740 crore. Total gross debt outstanding has declined from Rs.2,146 crore as on March 31, 2017 to Rs. 632 crore as on March 31, 2019. The overall gearing which stood at 0.37x as on March 31, 2017 has improved to 0.08x as on March 31, 2019.

Improvement in the financial performance during FY18 & FY19 on the back of strong growth in CV sales; However M&HCV sales volume witnessed moderation during the period November 2018 to March 2019
During FY18, ALL registered 30% growth in the total income to Rs.26,343 crore supported by CV sales volume growth of 21%, of which M&HCV segment witnessed sales growth of 16% and LCV segment witnessed growth of 37% on y-o-y basis. PBILDT margin during FY18 stood at 10.61% as against 11.22% in FY17. Moderation in PBILDT margin can be attributed to increase in input cost mainly steel.
The total operating income of ALL during FY19 has improved by 9% to Rs.29,055 crore on the back of 12.9% growth in the total CV sales with relatively higher growth coming from LCV sales. PBILDT margin during FY19 was 10.79%.
During 7mFY19, CV sales volume (including exports) of ALL witnessed 33% growth on y-o-y basis, of which M&HCV segment witnessed growth of 30.5% and LCV segment grown by 38%. However, during the period Nov'2018 to Mar'2019 CV sales volume dropped by 5% on y-o-y basis with M&HCV segment witnessing drop of 10% during the period. The moderation was on account of liquidity crisis prevailing in the NBFC market and implementation of new truck overloading norms. Notwithstanding the same, for the whole year FY19 total CV sales volume witnessed 12.9% growth on y-o-y basis.

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 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.2,747 crore as on March 31, 2018 as against Rs.2,002 crore as on March 31, 2017. As on March 31, 2018, major chunk of investments (Rs.1,416 crore) was in its subsidiary, Hinduja Leyland Finance Ltd (rated CARE AA-; Stable/CARE A1+) which is engaged in lending (mainly vehicle loans). Total investments in group companies as on March 31, 2019 stood at Rs.2,636.50 crore

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. The Indian Commercial Vehicle (CV) industry can be classified into Goods Carriers (GCs) and Passenger Carriers (PCs). On the basis of the load-carrying capacity, the CV industry can be classified into Light Commercial Vehicles (LCVs) and Medium and Heavy Commercial Vehicles (MHCVs). The Indian CV industry is dominated by GCs (Approximate 88 per cent of domestic CV sales) and hence, the domestic sales are dependent largely upon the economic activities like industrial and agricultural production. CV industry has exhibited higher volatility in the past.
CV manufacturers ordered to migrate to Bharat Stage (BS) VI emission norms from April 2020 by the government. Considering that prices of BS VI compliant vehicles are likely to be expensive than present BS IV vehicles, certain amount of pre-buying is expected to result in better growth during FY20. However, unfavorable scenario w.r.t. availability of funding may impact the growth in the immediate term. Extent of success of BS-VI technologies adopted by the players and the strategies used for various products in their respective portfolio are expected to influence the market share of various players, going forward.

Prospects
The CV industry has witnessed higher volume growth in FY18 with truck manufacturers reporting double digit growth. Though higher growth rates continued till October 2018 of FY19, growth has witnessed moderation since then on account of moderation in funding by NBFC sector.
Supported by strong volume growth in M&HCV segment for the past three years ended March 2018 and market share gains, the financial performance of ALL witnessed significant improvement over the years with total income increasing from Rs.18,960 crore in FY16 to Rs.29,055 crore in FY19. Despite moderation in the CV sales from November 2018, the financial performance of ALL improved during FY19 (on y-o-y basis) on account of higher CV sales growth witnessed during H1FY19.

Going forward, sustenance of the market share in view of intense competition in the industry & changing emission norms with transition to BS VI, extent of diversification of revenue in terms of geography & sub-segments, and significant change in debt levels would be the key rating sensitivities.

Liquidity
ALL's inventory levels remained at around 37 days during FY18 and with better credit terms from its creditors, working capital cycle also stood at -9 day. Average working capital utilization levels for one year period ended May 2019 remained comfortable at 18%. Cash and bank balance including mutual fund investment as on March 31, 2019 stood at Rs.1,374 crore.

Analytical approach:
CARE has considered ALL's standalone financials as ALL contributed to ~89% of the consolidated total operating income in FY18. One of its subsidiaries, Hinduja Leyland Finance Ltd (HLF) accounted for 7% of operating income in FY18. However, HLF being an NBFC interpretation of consolidated accounts is not meaningful.
CARE has taken a limited review based on the key financials of ALL for the year ended FY2019 (Audited.) as reported in the stock exchange.

Applicable criteria
Criteria on assigning Outlook 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 Automotive Limited (HAL), fully owned by the Hinduja Group, holds 51.12% stake in ALL as on March 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), 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)	FY17 (A)	FY18 (A)
Total operating income	20,244	26,343
PBILDT	2,271	2,794
PAT	1,223	1,563
Overall gearing (times)	0.37	0.15
Interest coverage (times)	14.62	21.29

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
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	900.00	CARE AA+; Stable / 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+ (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+; Stable / 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+; Stable / 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)	-

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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