Farsight

MORNING FARSIGHT

Wednesday, September 05, 2018

ASHOK LEYLAND	CMP:RS 128	TRGT:RS 155	TIME HORIZON: 1 YEAR

Ashok Leyland is looking a good buy after robust monthly sales data for August, wherein company has registered volume growth of 28% YoY and 15%MoM at 17,386 units, and likely to end Q2FY19 with total sales of over 50,000 units, growing by 17%QoQ and 21% YoY. Management is delivering everything they have promised and we believe that its guidance for more than 30% Volume growth in FY20 will also fructify, due to BSVI Pre Buying and strong demand from Govt's infra push, as demand is already outpacing supply and many OEMs are facing capacity constraints. There are multiple triggers for CV growth industry which has made management to revise volume growth guidance upwards. With real GDP growth seen accelerating to 8.2% for Apr-Jun, against 7.7%from Jan-Mar period, it is clearly evident that private capex recovery is now strong and that would be a positive for CV demand in India. Secondly, Ashok Leyland's LCV sales were up 36%in F18, and the company gained 30bps of market share in India. In F19, the company is targeting more launches in segments where it has limited presence and seek to gain share. Defense is the next big opportunity for Ashok Leyland, where it offers mobility solutions (logistics vehicles from bulletproof personal carriers to carrying guns) to defense forces. Defense revenues were around Rs 800 crores in F18 (3% of sales) — but following new order wins, company has visibility for around Rs 5,000 crores over the next five years. Lastly, Following the April 1 2020 implementation of Bharat Stage VI emission norms, sales volumes will see big jump in FY20. Scrappage Policy is next big kicker for CV Industry. Of the top 20 most polluted cities in the world, 10 are in India (per the World Health Organization, 2017). Thus, the pollution debate is getting bigger in India and as per the International Council on Clean Transportation (ICCT), heavy-duty vehicles contribute the majority of transportation-related emissions of black carbon (BC), fine particulate matter (PM2.5), and nitrogen oxides (NOX) in India. To address pollution levels, the govemment has been talking about introducing a fleet scrappage policy, but nothing concrete has emerged yet, which on emerges will lead to robust rise in sales. Thus, strong volume growth outlook and attractive valuations warrant further upside. Share ruling at Rs 128 can move to Rs 155 in 1 year.