

October 25, 2021 ^(Revised)

Ashok Leyland Limited: Ratings reaffirmed, and outlook continues to be Negative; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Non-convertible debenture	600.00	600.00	[ICRA]AA (Negative); reaffirmed
Short-term: Commercial paper	2,000.00	2,000.00	[ICRA]A1+; reaffirmed
Long-term/Short-term: Fund-based working capital limits	2,000.00	2,000.00	[ICRA]AA (Negative)/[ICRA]A1+; reaffirmed
Long-term/Short-term: Non-fund-based limits	1,200.00	1,200.00	[ICRA]AA (Negative)/[ICRA]A1+; reaffirmed
Long-term: Term loans	800.00	1,000.00	[ICRA]AA (Negative); reaffirmed
Long-term/Short-term: Unallocated	250.00	900.00	[ICRA]AA (Negative)/[ICRA]A1+; reaffirmed
Total	6,850.00	7,700.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of ratings factor in Ashok Leyland Limited's (ALL) long-standing presence as the second largest player in the domestic medium and heavy commercial vehicle (M&HCV) segment supported by a wide product portfolio, strong brand, and well-diversified distribution and service network across the country. The ratings also consider ALL's improving market share in the light commercial vehicle (LCV) segment with the launch of new products, thereby improving its addressable market, focus on cost saving measures, comfortable capital structure and adequate liquidity position. Improving economic sentiments amid widening vaccine coverage, revival in consumption demand and expected acceleration in Government spending is likely to boost demand for M&HCV (especially trucks) over the next few quarters. Further, the bus segment, which was affected by the pandemic-led aversion to public transportation, curtailed capital expenditure by corporates and education institutions, and stress on state finances, is also likely to recover with opening up of activities and schools.

Following two years of demand slowdown, ALL witnessed strong uptick in volumes in Q4 FY2021 although the growth pace was pulled down by the impact of the second wave of Covid-19 pandemic on economic activities in Q1 FY2022. Though there has been a month-on-month increase in volumes since June 2021 (post Covid 2.0), the recovery has been relatively weaker compared to the first wave. While demand is expected to improve with macroeconomic revival in H2 FY2022, supply-side constraints, primarily on account of the semiconductor chip shortage issues, is a key monitorable. Further, rising diesel prices, could exert pressure on the profitability of fleet operators with consequent impact on potential demand recovery. Though ALL's market share in the M&HCV truck segment remains healthy, it witnessed a marginal contraction in H1 FY2022 to 23.6% (26.3% in H1 FY2021), owing to its focus on profitable growth, limited presence in the Intermediate CV (ICV) CNG segment (which has been witnessing increasing traction due to higher diesel prices) and relatively lower growth in South India (ALL's stronghold) as compared to other markets. While ALL's margins could be impacted in the near term owing to relatively high commodity prices, it is likely to be partially offset by the cost saving measures undertaken (net savings of ~Rs. 530 crore in FY2021, which have reduced the break-even levels) and better product mix (with increase in higher tonnage vehicle sales). In the light of these factors, ICRA continues to maintain the negative outlook on the long-term rating.

Akin to other CV players, ALL's earnings are vulnerable to stiff competition and the inherent cyclicality in the domestic CV industry, with earnings and return indicators moderating during periods of downturns and improving thereafter as industry volumes revive. Nevertheless, improving presence in the LCV segment, wherein the troughs are flatter, would mitigate the cyclicality risk to an extent. Despite a sharp ~64% contraction in standalone revenues in H1 FY2021, aided by steady LCV volumes and pick up in M&HCV volumes in H2 FY2021, ALL's revenues declined by ~12% with net losses of Rs. 313.7 crore in FY2021. Its standalone net debt as of September 2021 was over Rs. 3,000.0 crore (against Rs. 2,628.7 crore as on March 31, 2021 and Rs. 2,042.8 crore as on March 31, 2020). Nevertheless, the capitalisation indicators remain comfortable, and the liquidity position remains adequate, with cash and liquid investments of about Rs. 2,000.0 crore as of September 2021. The ratings also factor the subdued performance of key subsidiaries/group entities, which lowers the profitability at a consolidated level. ICRA would continue to monitor the ability of these entities to turnaround and support the consolidated cashflows going forward. ALL's investments to the group entities are expected to remain moderate going forward.

Key rating drivers and their description

Credit strengths

Established market presence in the domestic CV industry; improvement in LCV market share – ALL is the second largest player in the domestic M&HCV industry with healthy market share over the past several years, aided by its long operational track record, strong brand, and well-diversified distribution and service network presence. Over the last decade, ALL has transformed from a South-centric to a pan-India player and holds a strong market share in most of the geographies that it operates in. ALL's M&HCV trucks market share remained healthy at 28.2% in FY2021 (vis-à-vis 28.9% in FY2020). However, ALL lost some market share in M&HCV trucks segment to 23.6% in H1 FY2022 primarily owing to a) the higher growth in ICV-CNG segment, wherein the company has limited presence and b) relatively lower growth in Southern India vis-à-vis other parts of the country. The ability of the company to improve its presence in ICV-CNG segment over the near term and regain the market share under the M&HCV trucks segment would remain a key monitorable. ALL derived 48% its CV sales volumes from LCV segment, while the balance 52% was derived from M&HCV segment (46% from trucks and 6% from buses) in FY2021. In the LCV segment, its market share improved to 11.6% in H1 FY2022 from 10.0% in H1 FY2021, aided by healthy volumes from the newly launched 'Bada Dost' model under the indigenously developed Phoenix platform. Improving presence in the LCV segment provides diversity to the ALL's revenue profile.

Comfortable capitalisation metrics and adequate cash and liquid investments - ALL's capitalisation indicators remain comfortable with net gearing of 0.4 times (standalone) and 0.9 times (consolidated excluding NBFC business) as on March 31, 2021, although the company's debt levels have increased over the last year, owing to net losses and debt-funded capex and investments in group entities. Despite losses in FY2021, ALL's networth remains strong supported by its healthy earnings during FY2017-2019 when the industry was in an upcycle on the back of healthy demand from core industries, and pickup in construction activities. The company's liquidity position is adequate, supported by cash and liquid investments of about Rs. 2,000.0 crore as of September 2021.

Favourable medium-term demand outlook; healthy YoY growth in volumes anticipated in FY2022 - The domestic CV industry, after two years of contraction, had seen a healthy recovery in H2 FY2021. However, it was affected by the second wave of the pandemic in Q1 FY2022. ALL is expected to post healthy growth in volumes in FY2022 on a YoY basis, primarily owing to a lower base in Q1 FY2021 and healthy growth anticipated in H2 FY2022. Nevertheless, headwinds such as hardening commodity prices, semiconductor shortages, etc can limit the pace of recovery. Recovery in demand is likely to be healthy over the medium term aided by construction and mining-led demand and macro-economic revival. Moreover, the replacement demand is expected to pick up after two years of deferral. That said, recovery to the industry highs of FY2019 would remain some time away and will depend on the pace of economic growth and improved supply scenario.

Credit challenges

Vulnerability to inherent cyclicity and competition in CV industry; earnings susceptible to headwinds such as semiconductor shortage, rising commodity and diesel prices – Over 90% of ALL's consolidated (excluding NBFC business) revenues were derived from its standalone operations in FY2021. CV sales, which constituted to ~80% of ALL's standalone revenues in FY2021, remains inherently cyclical in nature, with the industry volumes strongly correlated to the level of economic activity, industrial growth and infrastructure investments. Further, regulatory changes (emission norms, scrappage policy, etc.) also have an impact on volumes, and stiff competition in the industry has led to a prevalence of aggressive discounting practices, constraining the profitability of players. CV demand has been sluggish over the past two years affected by revision in axle load norms, slowing economic growth, tightened financing environment, and pandemic-induced lockdowns and interstate restrictions. Although the second wave of the pandemic tempered the demand recovery witnessed in the previous quarter and resulted in operating losses in Q1 FY2022, ALL's profitability and return indicators are likely to gain support from recovery in volumes as economic activity stabilizes again. The industry currently faces headwinds in the form of semiconductor shortage, which could affect the production volumes and rising diesel prices, which could exert pressure on profitability of fleet operators, resulting in lower demand. Also, the earnings are susceptible to movement in commodity prices, which are at all time high at present. Nevertheless, focused cost saving initiatives, together with product price corrections, would help the company in mitigating the commodity price increase to an extent.

Subdued performance of key investee entities impacting the overall profitability - Over the years, ALL has written off/closed several loss-making ventures and remains open to further pruning of investments, if required. While some of these investments were aimed at strengthening technological capabilities and achieving business and geographical diversification, the performance of key investee entities (primarily Optare Plc) remains subdued (despite Albonair GmbH and Ashok Leyland, UAE turning profitable in FY2021), dragging the overall profitability of the company. ICRA would continue to monitor the ability of the investee entities to achieve self-sustenance and support the consolidated cash flows going forward. While ALL's investments towards the investee entities remained high in the past, ICRA expects the same to moderate going forward. Recently, ~1% of stake was acquired by Dana Inc in Switch Mobility Limited, UK (subsidiary of Optare Plc) for USD 18 million.

Liquidity position: Adequate

ALL's liquidity is **adequate** with cash and liquid investments of over ~Rs. 2,000.0 crore as of September 2021 (comprising cash and bank balances of ~Rs. 300.0 crore, investments in mutual funds of over ~Rs. 1,100.0 crore and balance deployed in fixed deposits). It primarily uses the low-cost commercial paper for funding its working capital requirements. The company has plans to enhance its long-term loans towards funding capex and general corporate purposes. This apart, the company enjoys exceptional financial flexibility and lender/investor comfort, which enables it to meet any funding needs at a short notice and this is expected to continue going forward as well. As against these sources of cash, the company has debt repayment obligations of Rs. 12.5 crore in FY2022 and Rs. 369.0 crore in FY2023 on the existing loans. The company has total capex and investment plans of ~Rs. 1,070.0 crore in FY2022 and ~Rs. 947.0 crore in FY2023, which is to be funded through a mix of debt and internal accruals. Overall, ICRA expects ALL to be able to meet its near-term commitments through internal as well as external sources of cash and yet be left with sufficient cash surpluses.

Rating sensitivities

Positive factors – An upgrade in the long-term rating is unlikely given the negative outlook. Sharp improvement in earnings, cashflows and debt coverage metrics supported by demand recovery shall support a revision in outlook to Stable.

Negative factors – Downward pressure on the rating could arise with sustained deterioration in ALL's financial profile affected by delay in demand recovery, high debt funded capital expenditure, investments in group companies or dividend payouts. Specific triggers for downgrade could be Net Debt/OPBDITA of above 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for Commercial Vehicle Manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ALL, excluding the NBFC-subsidiary - Hinduja Leyland Finance Limited (HLFL). However, the analysis considers the ongoing and future funding support likely to be extended by ALL to HLFL.

About the company

ALL is the second-largest manufacturer in the M&HCV segment in India. ALL is the flagship entity of the Hinduja Group. ALL's key products include buses, trucks, engines, defence and special vehicles. It has manufacturing plants located in Ennore (Tamil Nadu), Hosur (Tamil Nadu), Alwar (Rajasthan), Bhandara (Maharashtra), and Pantnagar (Uttarakhand), with a capacity of 1,50,000 units for M&HCV and 66,000 units for LCVs. In FY2019, ALL merged its wholly owned LCV-related subsidiaries namely Ashok Leyland Vehicles Limited, Ashley Powertrain Limited and Ashok Leyland Technologies Limited with itself to have operational synergies and greater flexibility in decision making. ALL plans to combine all its electric mobility assets under Switch Mobility Ltd., headquartered in UK.

Key financial indicators (audited)

	Standalone		Consolidated#	
	FY2020	FY2021	FY2020	FY2021
Operating Income (Rs. crore)	17,467.5	15,301.5	21,951.3	19,454.1
PAT (Rs. crore) ¹	239.5	-313.7	456.9	-69.1
OPBDIT/OI (%)	6.7%	3.5%	14.7%	12.7%
PAT/OI (%)	1.4%	-2.1%	2.1%	-0.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.6	3.3	3.6
Total Debt/OPBDIT (times)	2.8	7.0	6.9	9.8
Interest Coverage (times)	10.7	1.7	1.8	1.3

Source: Company, ICRA Research; Note: Amount in Rs. crore; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances.

#Consolidated includes NBFC and hence profit margins and debt metrics in the table above are not comparable with numbers mentioned in the body of the rationale. For analysis purpose, NBFC related figures are excluded although funding support for the same has been factored.

Status of non-cooperation with previous CRA: Not applicable

Any other information: No

¹ Net profits including share of profits/(losses) from JV stood at Rs. 459.8 crore in FY2020 and net losses including share of profits/(losses) from JV stood at Rs. 69.6 crore in FY2021

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020			Date & Rating in FY2018	
					Oct 25, 2021	December 04, 2020	March 25, 2020	July 26, 2019	April 29, 2019	March 30, 2018	Sep 28, 2017
1	Commercial paper	Short- term	2,000.00	1,000.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Non-convertible Debenture	Long- term	600.00	600.00	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	-	-	-	-
3	Non-convertible Debenture	Long- term	-	-	-	-	-	-	Withdrawn	[ICRA]AA (Positive)	[ICRA]AA (Stable)
4	Fund based limits	Long- term / Short-term	2,000.00	250.00	[ICRA]AA (Negative)/ [ICRA]A1+	[ICRA]AA (Negative)/ [ICRA]A1+	-	-	-	-	-
5	Fund based limits	Long- term	-	-	-	-	[ICRA]AA (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Negative)
6	Term loans	Long- term	1,000.00	1,000.00	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	-	-	[ICRA]AA (Negative)	[ICRA]AA (Negative)
7	Non-fund based limits	Long- term / Short-term	1,200.00	603.00	[ICRA]AA (Negative)/ [ICRA]A1+	[ICRA]AA (Negative)/ [ICRA]A1+	-	-	-	-	-
8	Non-fund based limits	Short-term	-	-	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
9	Unallocated	Long- term / Short-term	900.00	NA	[ICRA]AA (Negative)/ [ICRA]A1+	[ICRA]AA (Negative)/ [ICRA]A1+	-	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Commercial paper	Very Simple
Non-convertible Debenture	Very Simple
Long-Term/Short-Term Fund based limits	Simple
Long-Term/Short-Term non-fund-based limits	Very Simple
Long-Term Term loan	Simple
Long-Term/Short-Term Unallocated	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/ banker name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook	
State Bank of India	Cash Credit/WCDL	-	-	-	250.00	[ICRA]AA (Negative)/ [ICRA]A1+	
HDFC Bank Limited	Cash Credit/WCDL	-	-	-	400.00		
Standard Chartered Bank	Cash Credit/WCDL	-	-	-	225.00		
Citi Bank N.A	Cash Credit/WCDL	-	-	-	50.00		
Federal Bank	Cash Credit/WCDL	-	-	-	200.00		
Axis Bank	Cash Credit/WCDL	-	-	-	190.00		
IDBI Bank	Cash Credit/WCDL	-	-	-	140.00		
Bank of Baroda	Cash Credit/WCDL	-	-	-	105.00		
ICICI Bank Limited	Cash Credit/WCDL	-	-	-	220.00		
MUFG Bank Limited (BOT)	Cash Credit/WCDL	-	-	-	45.00		
Yes Bank	Cash Credit/WCDL	-	-	-	30.00		
Central Bank of India	Cash Credit/WCDL	-	-	-	25.00		
DBS Bank	Cash Credit/WCDL	-	-	-	120.00		
State Bank of India	LC/BG	-	-	-	225.00		[ICRA]AA (Negative)/ [ICRA]A1+
HDFC Bank Limited	LC/BG	-	-	-	300.00		
Axis Bank	LC/BG	-	-	-	110.00		
IDBI Bank	LC/BG	-	-	-	150.00		
Bank of Baroda	LC/BG	-	-	-	5.00		
ICICI Bank Limited	LC/BG	-	-	-	190.00		
MUFG Bank Limited (BOT)	LC/BG	-	-	-	5.00		
Yes Bank	LC/BG	-	-	-	145.00		
Central Bank of India	LC/BG	-	-	-	20.00		
DBS Bank	LC/BG	-	-	-	50.00		
INE208A14CJ1	Commercial paper	May 25, 2021	4.50%	Feb 22, 2022	200.00	[ICRA]A1+	
INE208A14CI3	Commercial paper	May 21, 2021	4.60%	March 15, 2022	300.00		
INE208A14CK9	Commercial paper	July 23, 2021	4.25%	March 29, 2022	250.00		
INE208A14CL7	Commercial paper	July 23, 2021	4.25%	March 30, 2022	250.00		
NA**	Commercial paper	NA	NA	7-365 days	1,000.00		
INE208A07380	NCD	May 2020	8.00%	FY2024	400.00	[ICRA]AA (Negative)	
INE208A07398	NCD	June 2020	7.65%	FY2024	200.00		
Federal Bank	Term loan	Sep 2020	8.15%	FY2027	500.00	[ICRA]AA (Negative)	
Axis Bank	Term loan	March 2020	1-year MCLR + 0.1%	FY2027	300.00		
Bank of Baroda	Term loan	March 2021	1-year MCLR + 0.25%	FY2026	100.00		
EXIM Bank	Term loan	March 2021	1-year MCLR + 0.75%	FY2029	100.00		
NA	Unallocated	-	-	-	900.00	[ICRA]AA (Negative)/ [ICRA]A1+	

Source: Ashok Leyland Limited; ** - Yet to be placed

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation approach
Subsidiaries		
Global TVS Bus Body Builders Limited	66.67%	Full Consolidation
Gulf Ashley Motor Limited	93.15%	Full Consolidation
Optare Plc and its subsidiaries	91.63%	Full Consolidation
Ashok Leyland (Nigeria) Limited	100.00%	Full Consolidation
Ashok Leyland (Chile) SA	100.00%	Full Consolidation
HLF Services Limited	85.58%	Full Consolidation
Albonair (India) Private Limited	100.00%	Full Consolidation
Albonair GmbH and its subsidiary	100.00%	Full Consolidation
Ashok Leyland (UAE) LLC and its subsidiaries	100.00%	Full Consolidation
Ashley Aviation Limited	100.00%	Full Consolidation
Hinduja Tech Limited	100.00%	Full Consolidation
Hinduja Leyland Finance Limited and its subsidiary	68.81%	Full Consolidation
Vishwa Bus and Coaches Limited	100.00%	Full Consolidation
Joint ventures		
Ashley Alteams India Limited	50.00%	Equity method
Associates		
Ashok Leyland Defence Systems Limited	48.49%	Equity method
Mangalam Retail Services Limited	37.48%	Equity method
Lanka Ashok Leyland Plc	27.85%	Equity method

Source: Ashok Leyland Limited

Corrigendum

Details of lenders have been updated in Annexure 1

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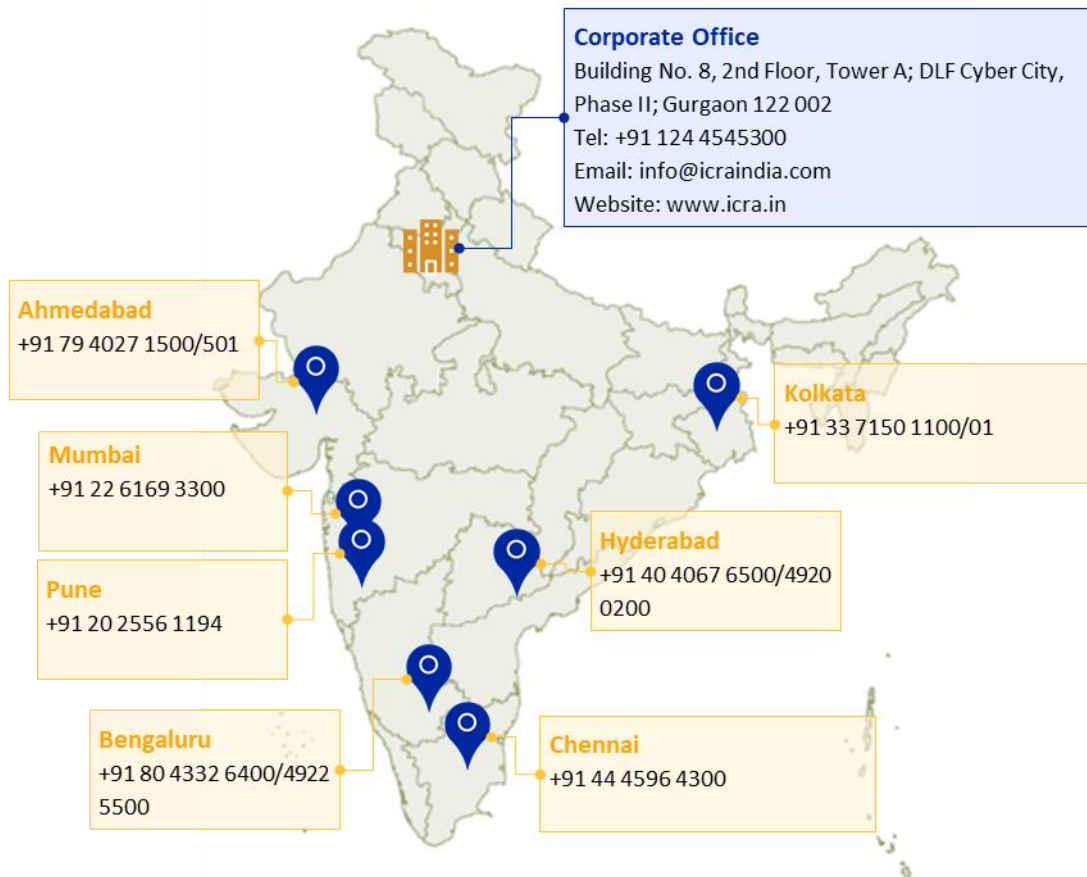
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