October 31, 2022

Ashok Leyland Limited: Ratings reaffirmed; outlook on the long-term rating revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term: Commercial paper	2,000.00	2,000.00	[ICRA]A1+ reaffirmed
Long-term: Non-convertible debenture	850.00	850.00	[ICRA]AA reaffirmed; outlook revised to Stable from Negative
Long term/Short term: Fund based limits	2,000.00	2,000.00	[ICRA]AA reaffirmed; outlook revised to Stable from Negative; [ICRA]A1+ reaffirmed
Long term/Short term: Non-fund based limits	1,200.00	1,200.00	[ICRA]AA reaffirmed; outlook revised to Stable from Negative; [ICRA]A1+ reaffirmed
Long-term: Term loans	1,000.00	1,318.75	[ICRA]AA reaffirmed; outlook revised to Stable from Negative
Long term/Short term: Unallocated	650.00	200.00	[ICRA]AA reaffirmed; outlook revised to Stable from Negative; [ICRA]A1+ reaffirmed
Total	**7,700.00**	**7,568.75**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook on long-term rating of Ashok Leyland Limited (ALL/the company) factors the favourable demand environment, likely improvement in ALL's earnings, cashflows and debt metrics in FY2023 and expectation of a stable performance in FY2024. ALL witnessed uptick in its sales volumes in both the medium and heavy commercial vehicle (M&HCV) and light commercial vehicle (LCV) segments since Q4 FY2022 with the momentum improving in H1 FY2023. It remains the second largest player in the domestic M&HCV segment and witnessed an increase in its M&HCV trucks' market share to 31.7% in H1 FY2023 with enhanced product offerings and revamping of dealership network. On the other hand, ALL's LCV sales volumes are propelled by increasing addressable market; favourable demand for last mile connectivity with growth in the e-commerce segment; demand from agriculture and allied sectors; and strong brand recall of its products, *Dost* and *Bada Dost*. With reopening of schools, colleges and offices, bus segment is witnessing traction in recent months. Benefits of operating leverage, softening commodity prices in recent months and cost optimisation measures undertaken are likely to aid ALL's margin expansion in the next few quarters.

ALL has adequate liquidity and has a planned annual capital expenditure (capex) and investments of less than Rs. 1,000 crore in the existing businesses. However, the investments are sizeable for its electric vehicle (EV) venture, wherein it intends to create a presence in the bus and LCV segments. The estimated capex/opex requirement for the EV vertical is ~$350 million over the medium term, which is planned to be funded by a mix of debt and equity. Also, being in its initial years of operation, the cashflow contribution from the EV vertical is likely to be minimal in the next 1-2 years.

Akin to other CV players, ALL's earnings are vulnerable to stiff competition and 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, is likely to mitigate the cyclicality risk to an extent. The ratings also factor the subdued performance of key subsidiaries/group entities, which lowers the profitability at the consolidated level. While ICRA expects the capital structure to remain comfortable, performance of group entities and the impact of EV business on ALL's overall financial profile remain monitorables.

Key rating drivers and their description

Credit strengths

Established market presence in the domestic CV industry - 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. Over the last decade, ALL has transformed itself 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 witnessed a strong uptick in M&HCV trucks volume in Q4 FY2022 and H1 FY2023 aided by improvement in the macroeconomic environment and the consequent demand from the end-user industries. ALL's market share rose to 31.7% in H1 FY2023 aided by enhanced product range (like CNG), better acceptance of its vehicles in the AVTR range (modular truck platform) and measures undertaken in revamping the dealership network. Its LCV sales improved because of increase in addressable market, increased demand for last mile connectivity with growth in the e-commerce segment; demand from agriculture and allied sectors; and healthy performance of 'Dost' and 'Bada Dost' category of vehicles by ALL. ALL's LCV trucks' market share stood at 11.1% in H1 FY2023 (vis-à-vis 9.1% in FY2019). With the reopening of schools, colleges and offices, volumes in bus segment are witnessing healthy traction in recent months and the momentum is expected to sustain going forward.

Comfortable capitalisation metrics and adequate liquidity - ALL's capitalisation indicators are comfortable with net gearing of 0.1 times (standalone) and 0.3 times (consolidated excluding NBFC business) as on March 31, 2022, although the company's debt levels have increased over the last few years, owing to net losses, debt-funded capex and investments in group entities. Despite net losses in FY2021 and FY2022, ALL's net worth remains strong, and the liquidity position is adequate, supported by cash and liquid investments of over Rs. 1,235.0 crore and undrawn bank lines of over Rs. 2,000 crore as of June 2022. This apart, the anticipated improvement in accruals from volume scale-up and exceptional financial flexibility with lenders further supports its financial profile.

Favourable demand outlook - The Indian Commercial Vehicle (CV) industry registered a healthy growth of 68% on a YoY basis in wholesale dispatches in H1 FY2023, supported by replacement demand, improvement in the macroeconomic environment and healthy traction in the underlying industries. Moreover, freight rates have held up, which coupled with healthy freight availability, is supporting fleet operator viability. This has augured well for ALL as well. The sequential recovery momentum is expected to continue, with the industry gradually expected to inch towards previous highs going forward. ICRA expects the CV industry volumes to grow at mid-teens in FY2023. The industry growth is likely to translate into volume uptick for ALL, given its market position. The growth is expected to be driven by steady freight demand, economic recovery, the Government's focus on infrastructure spending and boom in e-commerce. However, the sharp rise in interest rates, elevated fuel prices and its impact on the viability of fleet operators are likely to be key headwinds.

Credit challenges

Vulnerability to inherent cyclicality and competition in CV industry - Over 90% of ALL's (consolidated excluding NBFC business) revenues were derived from its standalone operations in FY2022. CV sales, which constituted to over 80% of ALL's standalone revenues in FY2022, remains inherently cyclical in nature, with industry volumes strongly correlated to the level of economic activity, industrial growth and infrastructure investments. Other factors like regulatory changes (emission norms, scrappage policy, etc.) and stiff competition leading to aggressive discounting practices, also impact the earnings profile of industry players. While CV demand has improved in the last few quarters, it was sluggish in the last few years, affected by revision in axle load norms, slowing economic growth, tightened financing environment, and pandemic-induced lockdowns and interstate restrictions. Sharp fluctuation in raw material prices can also impact the earnings profile of industry players, as witnessed in H2 FY2021 and FY2022.

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 remains subdued, dragging down the overall profitability of the company. The pickup in CV demand is likely to result in performance improvement in subsidiaries. However, being in its initial years of operation, the cashflow contribution from the EV vertical is likely to be minimal in the next 1-2 years. While ALL's investments towards the investee entities remained high in the past, it has moderated in the last year and ICRA expects the same to continue going forward. ICRA would continue to monitor the ability of the investee entities to achieve self-sustenance and support the consolidated cash flows going forward.

Significant capex expected for EV segment over the medium term – ALL has a planned annual capex and investments of less than Rs. 1,000 crore in the existing businesses. However, for its electric vehicle vertical, the company has capex/opex requirement of ~$350 million over the medium term, to be funded by a mix of debt and equity. Also, being in its initial years of operation, the cashflow contribution from the EV vertical could remain minimal over the next 1-2 years. While ICRA expects the capital structure to remain comfortable, the impact of the EV business' accruals and debt on the margins and coverage metrics of ALL (consolidated ex-NBFC) over the medium term remains a monitorable.

Environmental and Social Risks

Environmental considerations - Automotive manufacturers like ALL remain exposed to climate transition risks arising from a likelihood of tightening emission control requirements across its key operating markets, given the increasing focus on reducing the adverse impact of automobile emission. The company's initiatives on increasing its penetration in electric vehicles is a positive step in this direction. ALL could be required to invest to develop products to cater to the regulatory thresholds or expected transition to other alternative fuel vehicles going forward apart from what is being done already. This could have a moderating impact on return and credit metrics temporarily.

Social considerations - ALL, akin to other automotive OEMs, has a healthy dependence on human capital. Retaining human capital, maintaining healthy employee and supplier relationships remain essential for disruption-free operations. ALL also faces risks of product safety and quality, wherein instances of product recalls may not only lead to financial implications but could also harm the reputation and create a more long-lasting adverse impact on demand. Nevertheless, its history of limited warranty expenses augurs well for the company. Akin to other automotive OEMs, ALL is also exposed to any shift in customer preferences/demographics, which is a key driver for demand, and accordingly may need to make investments to realign its product portfolio. Product innovations, including the AVTR range and phoenix platform vehicles, and healthy market acceptance of the same provide comfort on this front.

Liquidity position: Adequate

ALL's liquidity position is adequate with cash and liquid investments of over Rs. 1,235.0 crore (comprising cash and bank balances of over Rs. 350.0 crore, investments in mutual funds of over Rs. 75.0 crore and balance deployed in fixed deposits) and undrawn bank lines of over Rs. 2,000.0 crore as of June 2022. The healthy improvement in accruals, from volume scale-up, should also support the company's liquidity. This apart, ALL enjoys exceptional financial flexibility and lender/investor comfort, which helps it meet any funding needs at short notice and this is expected to continue going forward as well. It primarily uses low-cost commercial paper for funding its working capital requirements. As against these sources of cash, the company has debt repayment obligations of Rs. 400.8 crore for the period July 2022 to March 2023, Rs. 1,131.0 crore in FY2024 and Rs. 619.8 crore in FY2025 on its existing loans. The company has planned annual capex and investments of less than Rs. 1,000 crore in the existing businesses. For its EV vertical, the company has capex/opex requirement of ~$350 million over the medium term, to be funded by a mix of debt and equity. Overall, ICRA expects ALL to be able to meet its medium-term commitments through internal as well as external sources of cash and yet be left with sufficient cash surpluses.

Rating sensitivities

Positive factors - Strengthening of the company's business and financial profile, through significant rise in market share, and sustained and material improvement in profitability indicators and debt metrics, could be a trigger for improvement in the long-term rating.

Negative factors - Downward pressure on the ratings could arise with sustained deterioration in ALL's financial profile affected by relatively slow recovery or loss of market share and consequent impact on volumes, high debt funded capital expenditure, investments in group companies or dividend pay-outs. Specific triggers for downgrade could be net debt/OPBDITA 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

Ashok Leyland Limited (ALL / the company), the flagship entity of Hinduja Group, is the second-largest manufacturer in the medium and heavy commercial vehicles segment in India. Globally, it is the third largest manufacturer of buses, and the 10th largest manufacturer of trucks. ALL's key products include buses, trucks, defence and special application vehicles like fire-fighters and diesel engines for industrial, genset and marine applications. Headquartered in Chennai, it has nine manufacturing plants as on date. Of these, seven are in India (Ennore, Sriperumbudur, Hosur, Bhandara, Alwar, Pantnagar and Vijayawada), while two facilities are overseas including a bus manufacturing facility in Ras Al Khaimah (the UAE) and Leeds (the UK). The company has presence in the EV segment through Switch Mobility Limited. This entity manufactures EVs, and provides E-Mobility as a service solutions through its subsidiary Ohm International Mobility Limited.

Key financial indicators (audited)

	Standalone		Consolidated#	
	FY2021	FY2022	FY2021	FY2022
Operating income	15,301.5	21,688.3	19,454.1	26,237.2
PAT	-313.7	541.8	-69.1	-293.0
OPBDIT/OI	3.5%	4.6%	12.7%	10.5%
PAT/OI	-2.1%	2.5%	-0.4%	-1.1%
Total outside liabilities/Tangible net worth (times)	1.6	1.8	3.6	4.1
Total debt/OPBDIT (times)	7.0	3.6	9.8	8.7
Interest coverage (times)	1.7	3.3	1.3	1.5

Source: Company, *ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Note: Amount in Rs. crore; All calculations are as per ICRA Research; #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: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020	
					Oct 31, 2022	Jan 28, 2022	Oct 25, 2021	December 04, 2020	March 25, 2020	July 26, 2019	April 29, 2019
1	**Commercial paper**	Short- term	2,000.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	**Non-convertible Debenture**	Long- term	800.00	800.00	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	-	-
3	**Non-convertible Debenture**	Long- term	50.00	-	[ICRA]AA (Stable)	[ICRA]AA (Negative)	-	-	-	-	-
4	**Non-convertible Debenture**	Long- term	-	-	-	-	-	-	-	-	[ICRA]AA+ (Stable); withdrawn
5	**Fund based limits**	Long- term / Short-term	2,000.00	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Negative)/ [ICRA]A1+	[ICRA]AA (Negative)/ [ICRA]A1+	[ICRA]AA (Negative)/ [ICRA]A1+	-	-	-
6	**Fund based limits**	Long- term	-	-	-	-	-	-	[ICRA]AA (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
6	**Term loans**	Long- term	1,318.75	1,318.75	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	-	-
7	**Non-fund based limits**	Long- term / Short-term	1,200.00	NA	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Negative)/ [ICRA]A1+	[ICRA]AA (Negative)/ [ICRA]A1+	[ICRA]AA (Negative)/ [ICRA]A1+	-	-	-
8	**Non-fund based limits**	Short-term	-	-	-	-	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
9	**Unallocated**	Long- term / Short-term	200.00	NA	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Negative)/ [ICRA]A1+	[ICRA]AA (Negative)/ [ICRA]A1+	[ICRA]AA (Negative)/ [ICRA]A1+	-	-	-

Complexity level of the rated instruments

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	Not applicable

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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA**	Commercial Paper	NA	NA	NA	2,000.00	[ICRA]A1+
INE208A07380	NCD	19-May-20	8.00%	19-May-23	400.00	[ICRA]AA (Stable)
INE208A07398	NCD	25-Jun-20	7.65%	23-Jun-23	200.00	[ICRA]AA (Stable)
INE208A07406	NCD	17-Mar-22	7.30%	17-Mar-27	200.00	[ICRA]AA (Stable)
NA**	NCD	NA	NA	NA	50.00	[ICRA]AA (Stable)
NA	Long term/Short term fund based limits	NA	NA	NA	2,000.00	[ICRA]AA (Stable)/[ICRA]A1+
NA	Long-Term/Short-Term non-fund-based limits	NA	NA	NA	1,200.00	[ICRA]AA (Stable)/[ICRA]A1+
NA	Long-Term Term loan	FY2020	7.50%	FY2029	1,318.75	[ICRA]AA (Stable)
NA	Long-Term/Short-Term Unallocated	NA	NA	NA	200.00	[ICRA]AA (Stable)/[ICRA]A1+

*Source: Company; **Yet to be placed*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	ALL 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	98.91%	Full Consolidation
Vishwa Bus and Coaches Limited	100.00%	Full Consolidation
Gro Digital Platforms Limited	84.40%	Full Consolidation
Joint ventures		
Ashley Alteams India Limited	50.00%	Equity method
Associates		
Ashok Leyland Defence Systems Limited	48.49%	Equity method

Company Name	ALL Ownership	Consolidation Approach
Mangalam Retail Services Limited	37.48%	Equity method
Lanka Ashok Leyland Plc	27.85%	Equity method

Source: ALL's Annual report FY2022

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