

September 28, 2017

Ashok Leyland Limited

Summary of rated instruments

Instruments*	Rated Amount (Rs. crore)	Rating Action
Commercial Paper	1,500.0 (enhanced from 900.0)	[ICRA]A1+ / assigned
Non Convertible Debenture	400.0	[ICRA]AA (stable) / outstanding
Fund based limits (refer note)	900.0	[ICRA]AA (stable) / outstanding
Term loans (proposed)	55.0	[ICRA]AA (stable) / outstanding
Non-fund based limits (refer note)	750.0	[ICRA]A1+ / outstanding
Fund based limits – proposed	200.0	[ICRA]A1+ / outstanding

*Instrument details are provided in Annexure-1

Note: The ratings of [ICRA]AA- (stable)/ [ICRA]A1+ shall be applicable depending on usage of the facilities

Rating action

ICRA has assigned a rating of [ICRA]A1+ to the Rs. 1,500.0 crore¹ (enhanced from Rs. 900.0 crore) Commercial Paper programme of Ashok Leyland Limited (“ALL” / “the company”)².

ICRA also has rating of [ICRA]AA (pronounced ICRA double A) outstanding on the Rs. 400.0 crore non-convertible debenture (NCD) programme, Rs. 900.0 crore fund based limits and Rs. 55.0 crore long term loans, and Rs. 750.0 crore short term non-fund based limits and Rs. 200.0 crore proposed short term fund based limits of ALL. The outlook on long term rating is stable.

Rationale

The ratings draw strength from ALL’s strong business risk profile marked by its sustained gain in market share in the domestic Medium and Heavy Commercial Vehicle (M&HCV) segment in recent years and improvement in operational efficiencies following cost rationalisation initiatives undertaken. While M&HCV sales volumes witnessed moderation during Q1FY2018, recovery in demand is expected for ALL during H2FY18 with likely growth in replacement demand led by rise in infrastructure and rural spending, and acceptance of new product technology. ALL’s financial profile remains comfortable with stable cash accruals, comfortable debt indicators, and strong liquidity position as of June 2017.

The ratings also consider susceptibility of ALL’s standalone revenues and profits to cyclical and competition in the M&HCV industry. ALL’s ability to restrict its cash outflows towards the investee companies, while maintaining its standalone credit profile remain key rating sensitivities.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA’s website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

- **Strong brand equity and steady market share gains in M&HCV segment** - Amidst challenging operating environment, ALL managed to increase its market share to 34.3% in Q1FY2018 from 23.3% in FY2012, aided by aggressive network expansion over the last five years supported by increased acceptance of its products in new geographies, particularly in North and East India.
- **Performance in FY2018 to draw support from likely recovery in demand** - Against the flattish industry volumes during FY2017, ALL's sales growth in the M&HCV segment stood at 4%. Sluggish freight demand and lower than expected pre-buying volumes during Q4FY2017, ahead of the change in emission norms from BS-III to BS-IV in April 2017 affected industry volumes. Demand remained subdued in Q1FY2018 as fleet operators held on to the purchases ahead of the rollout of Goods and Services Tax (GST); ALL sales volume de-grew by 2% in Q1FY2018 (vis.-a-vis. industry de-growth of 13%). ALL's performance is expected to gain traction in H2, FY2018 with the expected recovery in replacement demand led by rise in infrastructure and rural spending and better acceptance of new product technology.
- **Healthy financial profile** – ALL's standalone financial profile is strong with cash and liquid investments of ~ Rs. 18.0 billion as of March 2017; the Hinduja Foundries Limited merger with ALL had some impact on networth position. Revenue growth during FY2017 stood modest at 5.7% affected by muted growth in M&HCV sales volumes, while operating margins was healthy at 10.8%. ALL's debt indicators are comfortable with gearing of 0.4x, interest coverage and total debt to operating profit ratio of 14.2x and 1.0x respectively.

Credit weaknesses

- **High dependence on the cyclical M&HCV segment** – ALL derives 86% of revenues from the M&HCV segment, which is inherently cyclical, and closely linked to the performance of the economy. Past diversification into non-core businesses were unsuccessful and hence the skew towards the domestic M&HCV sales remains high. That said, it was prudent for ALL to exit some of these RoCE drag ventures, which necessitated continuous parental support. Going forward, the skew is likely to moderate with growth in other segments like Light commercial vehicles (LCV), spares, power solutions, defence and exports.
- **Exposure to group companies** – ALL made significant debt funded investments in recent years in an attempt to de-risk its product portfolio and for geographical diversity. However, performance of some of the key investee entities was weak due to demand slowdown leading to delay in achieving break-even volumes and increasing funding requirements from ALL. Ability to reduce cash outflows towards the investee companies will remain a key credit monitorable.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Commercial Vehicle Industry](#)

**About the company:**

Ashok Leyland Limited (ALL / the company) is the second -largest manufacturer in the Medium and Heavy Commercial Vehicles segment in India. The company is the flagship entity of Hinduja Group. ALL operates from six manufacturing locations with a total capacity of 150,500 units and its key products include buses, trucks, engines, and defence & special vehicles.

ALL operates from six locations – one at Ennore (Chennai), two at Hosur, assembly plants at Alwar (Rajasthan) and Bhandara (Maharashtra) and one at Pantnagar (Uttarakhand). ALL's product profile includes commercial vehicles, buses, defence and special application vehicles like fire fighters at international airports and diesel engines for industrial, genset and marine applications.

Key Financial Indicators (Standalone)

	FY2016	FY2017
Operating Income (Rs. crore)	19,373.2	20,477.7
PAT (Rs. crore)	389.6	1,223.1
OPBDIT/ OI (%)	11.6%	10.8%
RoCE (%)	14.6%	19.2%
Total Debt/ TNW (times)	0.5	0.4
Total Debt/ OPBDIT (times)	1.1	1.0
Interest coverage (times)	9.1	14.2
NWC/ OI (%)	-1%	-3%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount rated (Rs. crore)	Date and rating	Date and rating in FY2017	Date and rating in FY2016	Date and rating in FY2015
				Sep 2017	Jan 2017	May 2015	Jul 2014
1	Commercial paper	Short term	1,500 (enhanced from 900)	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Non-convertible Debenture	Long term	400	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA- (stable)	[ICRA]A+ (stable)
3	Fund based limits	Long term	900	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA- (stable)	[ICRA]A+ (stable)
4	Term loans (proposed)	Long term	55	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA- (stable)	[ICRA]A+ (stable)
5	Non-fund based limits	Short term	750	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Fund based limits – proposed	Short term	200	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

**Annexure-1
Instrument Details**

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Commercial paper	-	-	Short term, varies from 7 to 364 days	1,500.0	[ICRA]A1+
Fund based - cash credit	-	-	-	900.00	[ICRA]AA (Stable)
Non-Convertible debenture	FY2012 & FY2013	Range between 9.6% & 10.2%	FY2017 & FY2018	400.0	[ICRA]AA (Stable)
Term Loans (proposed)	-	-	-	55.00	[ICRA]AA (Stable)
Fund based (proposed)	-	-	-	200.00	[ICRA]A1+
Non-fund based	-	-	-	750.00	[ICRA]A1+

Source: ALL

Contact Details

Analyst Contacts

Subrata Ray

+91 22 6114 3408

subrata@icraindia.com

Pavethra P

+91 44 45964314

pavethrap@icraindia.com

Srikumar K

+91 44 45964318

ksrikumar@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500