Ashok Leyland Limited

March 30, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)[1]	Current Rated Amount (Rs. crore)	Rating Action
Non Convertible Debenture	150.0	150.0	[ICRA]AA (positive) reaffirmed / outlook revised from stable
Fund based limits	900.0	900.0	[ICRA]AA (positive) reaffirmed/ outlook revised from stable
Term loans (proposed)	55.0	55.0	[ICRA]AA (positive) reaffirmed/ outlook revised from stable
Non-fund based limits	750.0	750.0	[ICRA]A1+; reaffirmed
Fund based limits (proposed)	200.0	200.0	[ICRA]A1+; reaffirmed
Non Convertible Debenture	250.0	-	[ICRA]AA(Stable); rating withdrawn
Commercial paper	1,500.0	1,500.0	[ICRA]A1+ /reaffirmed
Total	**3,805.0**	**3,555.0**	

**Instrument details are provided in Annexure-1*

Rating action

ICRA has reaffirmed the long-term rating outstanding on the Rs. 150.0 crore non-convertible debenture (NCD) programme, Rs. 900.0 crore fund-based limits and Rs. 55.0 crore proposed long term loans of Ashok Leyland Limited (ALL / the company) at [ICRA]AA (pronounced ICRA double A)[2]. The outlook on long term rating has been revised from 'stable' to 'positive'. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs. 1,500.0 crore Commercial Paper, Rs. 750.0 crore short term non-fund-based limits and Rs. 200.0 crore proposed short term fund-based limits of ALL. ICRA has also withdrawn the [ICRA]AA rating outstanding on the Rs. 250.0 crore NCD programme, as the same has been redeemed by ALL.

Rationale

The revision in rating outlook to 'positive' considers the expected strengthening of ALL's credit profile with favourable demand outlook for the domestic Medium and Heavy Commercial Vehicle (M&HCV) and Light Commercial vehicle (LCV) industry, its sustained market share improvement, and continued focus on operational efficiencies. Over the medium term, improving Gross domestic product (GDP) growth, thrust on infrastructure projects, and favourable regulatory environment (stricter implementation of overloading norms, proposed fleet modernisation program) shall support the M&HCV demand while LCV segment will derive support from the pent-up replacement demand and strong demand from consumption-driven sectors. With strong presence in the higher tonnage vehicle segment, good product recall, well-connected network and strong brand equity, ALL is favourable positioned to address the demand potential. ALL's long track record, experienced management, diversified board profile, improving profitability and strong financial flexibility with lenders continue to support the ratings. The ratings, however, remain constrained by exposure of ALL's earnings to the cyclicality and competition in commercial vehicle (CV) industry and exposure to group companies although the extent of funding support has reduced in FY2018, as compared to the past.

[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*

Outlook: Positive

The positive outlook reflects ICRA's expectation of improvement in ALL's standalone financials supported by stable growth in sales volumes and market share aided by favourable demand. Further, improvement in performance of key investee companies is expected to support ALL's consolidated credit profile over the medium term. The outlook may be revised to 'stable' with higher than expected financial support to investee entities or sharp fall in cash accruals leading to weakening of credit profile.

Key rating drivers

Credit strengths

Sustained rise in market share: ALL is the second largest player in the domestic M&HCV industry with a market share of 34% in FY2018, the share having increased steadily over years (from 23% in FY2012). ALL has moved from a South-centric to pan-India player and holds strong market share in most of the regions it operates in. Aggressive network expansion (especially in non-south markets), strong brand outreach, new product launches, increased acceptance of its engines and technology, and strong servicing capabilities have aided market share gains, amidst challenging operating environment (rising competition, elevated discounts, change in technology). While ALL has managed to combat these challenges in the past, its ability to sustain / improve market share remains to be seen with increasing competitive intensity in business.

Higher than industry volume growth: ALL's performance in the M&HCV segment continues to remain better than industry supported by improved product mix and increasing sales in non-south markets. Wider market coverage with increasing touch points, market share gains, expanding product portfolio and good product acceptance among fleet operators had supported the revenue growth in recent years. For 11MFY2018, ALL's M&HCV volume growth in the domestic and export markets stood at 14% and 43% respectively, vis-à-vis industry growth of 12% and -0.5% respectively

Favourable demand outlook over the medium term: Government reforms in the infrastructure space (especially roads), evolving regulatory and customer requirements, recovery in the mining segment and stricter compliance of Central Motor Vehicle Rules with respect to dimension of automobile carriers had supported the demand for M&HCVs in the current fiscal. Continued thrust on infrastructure spending by the Government and buoyant replacement demand with increasing restrictions on overloading bodes well for ALL, given its strong market share in the higher tonnage segment leading to enhanced realizations and margins.

Strong financial profile: ALL's standalone financial profile remains strong with sizeable net worth, comfortable debt protection metrics and liquidity profile. Sharp growth in revenues (up 29.4% YoY) supported by stable margins has resulted in strong cash accruals during 9MFY2018. Level of indebtedness has gone down significantly from peak levels of Rs. 4,700 crore in FY2014 to Rs. 1,250 crore as of December 2017. ALL's liquidity profile is strong with cash and liquid investments of Rs. 1,963.1 crore as on December 31, 2017. With capital expenditure (capex) + investments plans limited to Rs. 950-1,000 crore p.a. over the next three years, ICRA expects the dependence on debt to remain limited. Compared to the standalone profile, the consolidated credit profile (excluding NBFC) witnessed marginal moderation due to the losses in some of its key investee companies (like Optare plc, Albonair GmbH etc). However with improving performance of LCV-related subsidiaries, the profile is expected to improve in the current year.

Pruning of loss making subsidiaries has supported improvement in return indicators: Over the years, the company has written off/closed several loss-making diversifications and remains open to further pruning of investments, if required. The company amalgamated Hinduja Foundries Limited, loss making but critical to operations, during FY2017 and has also provided for other loss making entities (like Optare, Albonair etc). Future investments are expected to be limited to range Rs. 250-300 crore pa—for capex and working capital support. Its investments in group concerns (including loans and advances) has reduced from Rs. 3,000 crore in March 2014 to Rs. 2,475 crore in December 2017; core RoCE (ex-cash and liquid investments) has improved from -5% to 39% during the same period. Further, upside to the balance sheet includes its 61% stake in Hinduja Leyland Finance Limited, which can be monetized, if required.

Credit challenges

Earnings exposed to cyclicality and competition in the CV industry: Around 85% of the standalone and 75% of ALL's consolidated[3] revenues are derived from the CV segment; the industry exhibits significant cyclicality linked closely to economic development, industrial growth, investments in infrastructure and regulatory changes (emission norms, scrappage policy etc). Volatile freight rates dependent on economic growth impact the viability of fleet operators and therefore demand for new CVs. Competitive intensity in the industry remains high with pricing pressure from existing and new players; nevertheless, ALL has sustained its market share in the recent years. Within the CV segment, the company is diversified across M&HCVs and Light commercial vehicles (LCVs).

Exposure to group companies: ALL continues to support few of its group companies towards loss funding and capital expenditure requirements, but the same has declined and is expected to further reduce going forward. Some of the current investments (like Optare, Albonair etc) are aimed at strengthening technological capabilities and achieving business diversification. Ability of the group companies to attain self-sustenance and support the consolidated cash flows will be critical credit monitorables.

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 (audited)

Standalone	FY2016	FY2017
Operating Income (Rs. crore)	19,397.5	20,512.5
PAT (Rs. crore)	389.6	1223.1
OPBDIT/ OI (%)	11.6%	10.7%
RoCE (%)	13.6%	18.4%
Total Debt/ TNW (times)	0.45	0.35
Total Debt/ OPBDIT (times)	1.07	0.97
Interest coverage (times)	9.10	14.18
NWC/ OI (%)	-3%	-5%

Source: ALL, ICRA research

[3] *Consolidated excluding NBFC operations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					Mar 2018	Sep 2017	Jan 2017	May 2015	Jul 2014
1	Commercial paper	Short term	1,500	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Non-convertible Debenture	Long term	150	150		[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA- (stable)	[ICRA]A+ (stable)
			250	-	Withdrawn	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA- (stable)	[ICRA]A+ (stable)
3	Fund based limits	Long term	900	NA	[ICRA]AA (positive)	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA- (stable)	[ICRA]A+ (stable)
4	Term loans (proposed)	Long term	55	NA	[ICRA]AA (positive)	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA- (stable)	[ICRA]A+ (stable)
5	Non-fund based limits	Short term	750	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Fund based limits - proposed	Short term	200	NA	[ICRA]A1+	[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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated(Rs. crore)	Current Rating and Outlook
INE208A07364	NCD	June 2013	9.6%	June 2018	150	[ICRA]AA (positive)
NA	Commercial Paper	NA	NA	7-365 days	1,500	[ICRA]A1+
NA	Term loans (propose	NA	NA	NA	55	[ICRA]AA (positive)
NA	Fund based limits	NA	NA	NA	900	[ICRA]AA (positive)
NA	Non fund-based limits	NA	NA	NA	750	[ICRA]A1+
NA	Fund based limits (proposed)	NA	NA	NA	200	[ICRA]A1+

Source: ALL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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