December 04, 2020

Ashok Leyland Limited: Ratings reaffirmed; 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	600.0	600.0	[ICRA]AA (Negative); reaffirmed
Short-term: Commercial paper	2,000.00	2,000.00	[ICRA]A1+; reaffirmed
Long-term: Fund-based working capital limits	2,000.00	-	[ICRA]AA (Negative) / [ICRA]A1+; assigned / reaffirmed
Long-term/Short-term: Fund-based working capital limits	-	2,000.00	
Short-term: Non-fund based limits	1,200.00	-	[ICRA]AA (Negative) / [ICRA]A1+; assigned / reaffirmed
Long-term/Short-term: Non-fund based limits	-	1,200.00	
Long-term: Term loans	500.00	500.00	[ICRA]AA (Negative); reaffirmed
Long-term: Term loans	-	300.00	[ICRA]AA (Negative); assigned
Long-term/Short-term: Unallocated	-	250.00	[ICRA]AA (Negative) / [ICRA]A1+; assigned
Total	**6,300.00**	**6,850.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings remain supported by Ashok Leyland Limited's (ALL) long-standing presence in the domestic medium and heavy commercial vehicle (M&HCV) segment, experienced management team and healthy market share in the M&HCV segment supported by wide product portfolio, strong brand and well-diversified distribution and service network across the country. The ratings also consider ALL's improving addressable market in the light commercial vehicle (LCV) segment aided by new product launches in H1 FY2021, focus on cost saving measures, comfortable capital structure and strong liquidity position. The ratings however remain constrained by the impact of ongoing demand slowdown in the CV industry on ALL's financial risk profile with sharp deterioration expected in its earnings, cash flows and debt coverage indicators in FY2021. Likely improvement in demand conditions coupled with ALL's expanded product range and cost conservation measures is expected to result in improvement in earnings and debt metrics during FY2022. The ratings continue to be tempered by vulnerability of ALL's earnings to the inherent cyclicality and stiff competition in CV industry and subdued performance of key subsidiaries and group entities, thus necessitating continuous funding requirement.

The negative outlook reflects ICRA's opinion that ALL's credit profile shall be affected by the sizeable volume contraction in CV industry, especially in the M&HCV segment. Factors like slowing economic activities, Covid-19 impact on end-user industries, and surplus capacity, has impacted the demand for new trucks, though there are some green shoots of recovery in recent weeks. The bus segment, which has been affected by the pandemic-led aversion to public transportation, curtailed capital expenditure by corporates and education institutions, and stress on state finances, continues to languish.

Key rating drivers and their description

Credit strengths

Established market presence and strong market share in the domestic CV industry – ALL is the second largest player in domestic M&HCV industry with a stable market share of over 30% in the last few years aided by its long operational track record, strong brand, and well-diversified distribution and service network presence. ALL's market share declined to ~27% in H1 FY2021 due to sharp decline in sales volumes and ALL's focus on profitable growth amidst pandemic-led demand contraction and stiff competition. Over the last one 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. Aggressive network expansion in non-south markets, brand outreach, new product launches, increased acceptance of its engines and technology, and strong servicing capabilities aided its market share gains. Under its new modular platform for M&HCV trucks (domestic), ALL works on a made-to-order production system with launch of more product variants through which the company aims at both market share gains, improved supply chain management and better margins. In the LCV segment, ALL's market share was low at ~10% till H1 FY2021; however, the addressable market has increased considerably with the launch of its new product (Bada Dost) in the current year thus providing scope for increase in volume as well as market share gains, apart from providing diversity to its revenue profile.

Comfortable capitalisation metrics and strong liquidity profile – Despite the rise in debt levels over the last one year, ALL's capitalisation indicators remain comfortable with net gearing of 0.4 times (standalone) and 0.6 times (consolidated excluding NBFC related business) as of September 30, 2020. ALL's networth position is strong supported by stable growth in earnings during the period FY2017-19 on the back of healthy demand from core industries, and pickup in construction activities. The company's liquidity position continues to be strong supported by over Rs. 1,100 crore of cash balances (as of October 2020) and sanctioned fund-based lines of Rs. 2,000 crore, on which the utilisation has been moderate.

Credit challenges

Vulnerability of earnings to the cyclicality and competition in CV industry – Over 90% of ALL's consolidated (excluding NBFC) revenues were derived from its standalone operations during FY2020. The standalone business primarily represents income from domestic CV segment, which is inherently cyclical and has close linkages to the level of economic activities, industrial growth, investments in infrastructure and regulatory changes (emission norms, scrappage policy etc). Also, the industry is characterised by intense competition with elevated pricing pressure from major players. CV demand has been sluggish in the last two years affected by revision in axle load norms, slowing economic growth, and tightened financing environment. Covid-19 had further affected the CV industry with the pandemic-led lockdown impacting end-user demand considerably. Owing to this, ALL's standalone revenues de-grew by a sharp 64% in H1 FY2021 with net loss of Rs. 535.5 crore. ALL's net debt has increased to ~Rs. 3,000 crore as of September 2020 (up from ~Rs. 2,750 crore in September 2019). ICRA expects the demand scenario to improve in H2 FY2021 which coupled with ALL's improved product range and cost conservation measures shall result in improvement in earnings and debt metrics going forward. For FY2021, capex spend is estimated at ~Rs. 750 crore (down from ~Rs. 1,300 crore in FY2020), of which 40% has been spent till September 2020.

Increased investment in group companies and subdued performance of key investee entities - 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 are aimed at strengthening technological capabilities and achieving business and geographical diversification, the performance of key investee entities remains subdued. ICRA expects the funding support to continue with an estimated support of over Rs. 500 crore in FY2021 to entities like Optare plc, Ashok Leyland (UAE) LLC, Albonair GmBH, Hinduja Tech Limited, Hinduja Leyland Finance Limited etc. Ability of these investee entities to achieve self-sustenance and support the consolidated cash flows will be key monitorables.

Liquidity position: Strong

ALL's liquidity is **strong** with cash and liquid investments of over Rs. 1,100 crore as of October 2020, and sanctioned fund-based lines of Rs. 2,000 crore, on which the utilisation has been minimal. It primarily uses the low-cost commercial paper (Rs. 2,000 crore) for funding its working capital requirements. This apart, ALL has a strong flexibility with its lenders to meet any funding needs at a short notice. ALL's cumulative spend on capex and investments is estimated at ~Rs. 1,250 crore for FY2021, portion of which has been funded by the long-term loans raised in H1 FY2021. On the debt maturities, ALL does not have obligations till FY2020 and the scheduled debt repayments include Rs. 346 crore in FY2023, Rs. 1,021 crore in FY2024 and Rs. 421 crore in FY2025.

Rating sensitivities

Positive triggers: Negative outlook on the long-term rating currently restricts an upgrade in the rating. Sustained improvement in earnings, cashflows and debt coverage metrics supported by a faster than expected revival in demand shall support a favourable rating action.

Negative triggers: Downward pressure on the rating could arise with sharp deterioration in ALL's financial profile affected by longer than expected recovery in demand scenario, high debt funded capital expenditure/investment in group companies or large dividend payouts.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Commercial Vehicle Industry
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 1,64,000 units for M&HCV and 72,000 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.

Key financial indicators (audited)

	Standalone		Consolidated#	
	FY2019	**FY2020**	**FY2019**	**FY2020**
Operating Income (Rs. crore)	29,055.0	17,467.5	33,196.8	21,951.3
PAT (Rs. crore)	1,983.2	239.5	2,194.6	459.8
OPBDIT/OI (%)	10.8%	6.7%	14.8%	14.7%
RoCE (%)	30.8%	5.1%	16.81%	8.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.3	3.0	3.3
Total Debt/OPBDIT (times)	0.2	2.8	3.9	6.9
Interest Coverage (times)	44.6	10.7	3.3	1.8
DSCR	4.2	3.6	0.9	0.5

Source: ALL, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit after Tax; RoCE: Return on Capital Employed

#Consolidated includes NBFC and hence profitability and debt metrics are not comparable. 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	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating FY2021	Chronology of Rating History for the past 3 years FY2020			FY2018	
					Dec 4, 2020	Mar 25, 2020	Jul 26, 2019	Apr 29, 2019	Mar 30, 2018	Sep 28, 2017
1	Commercial paper	Short term	2,000	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Non-convertible Debenture	Long term	600.0	600.0	[ICRA]AA (negative)	[ICRA]AA (negative)	-	-	-	-
3	Non-convertible Debenture	Long term	0.0	0.0	-	-	-	Withdrawn	[ICRA]AA (positive)	[ICRA]AA (stable)
4	Fund based limits	Long / Short term	2,000	NA	[ICRA]AA (negative) / [ICRA]A1+	[ICRA]AA (negative)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA (positive)	[ICRA]AA (stable)
5	Term loans	Long term	500.0	500.0	[ICRA]AA (negative)	[ICRA]AA (negative)	-	-	[ICRA]AA (positive)	[ICRA]AA (stable)
6	Non-fund based limits	Long / Short term	1,200	NA	[ICRA]AA (negative) / [ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Fund based limits	Short term	0.0	NA		-	-	-	[ICRA]A1+	[ICRA]A1+
8	Unallocated	Short term	0.0	NA		-	[ICRA]A1+	[ICRA]A1+	-	-
9	Term loans	Long term	300.0	300.0	[ICRA]AA (negative)	-	-	-	-	-
10	Unallocated	Long / Short term	250.0	NA	[ICRA]AA (negative) / [ICRA]A1+	-	-	-	-	-

Amount in Rs. crore

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 click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit/WCDL	-	-	-	2,000.00	[ICRA]AA (negative) / [ICRA]A1+
NA	Non-fund based	-	-	-	1,200.00	[ICRA]AA (negative) / [ICRA]A1+
NA	Commercial paper	-	~6%	7-365 days	2,000.00	[ICRA]A1+
NA	Term loans	Sep 2020	8.15%	FY2026	500.0	[ICRA]AA (negative)
INE208A07380	NCD	May 2020	8%	FY2024	400.0	[ICRA]AA (negative)
INE208A07398	NCD	Jun 2020	7.65%	FY2024	200.00	[ICRA]AA (negative)
NA	Term loans	Mar 2020	1 yr MCLR + 0.1%		300.00	[ICRA]AA (negative)
NA	Unallocated	NA	NA	NA	250.00	[ICRA]AA (negative) / [ICRA]A1+

Source: ALL

Annexure-2: List of entities considered for consolidation (as of 31.03.2020)

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	99.24%	Full consolidation
Ashok Leyland (Nigeria) Limited	100.00%	Full consolidation
Ashok Leyland (Chile) SA	100.00%	Full consolidation
HLF Services Limited	84.84%	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
Joint ventures		
Ashley Alteams India Limited	50.00%	Equity method
Hinduja Tech Limited	62.00%	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

***Note** - Ashok Leyland Vehicles Limited, Ashley Powertrain Limited and Ashok Leyland Technologies Limited (erstwhile subsidiaries) were merged with ALL in FY2019*

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About ICRA Limited:

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