

Annual Report Threadbare

ASHOK LEYLAND FY20

Ashok Leyland's (AL) FY20 Annual Report highlights its muted operating performance. Standalone EBITDA declined by 63% YoY to INR11.7b (FY19: INR31.4b), led by decrease in domestic volumes of LCVs/M&HCVs by 14%/46% due to the weak operating environment. HLF's standalone PAT growth was subdued 4% YoY to INR2.9b due to 92% decline in other income to INRO.1b. Losses of other subsidiaries increased to INR1.8b (FY19:INR1.5b) while revenue declined. Standalone capitalization of expenses increased to INR4.6b, 68.9%/5.2% of overall R&D spends/gross block (FY19: INR2.9b, 43.6%/3.8%). Standalone Intangible assets increased 46% YoY to INR10.8b, 14.9% of net worth (NW), mainly comprising 'in-house developed' intangible assets. In FY20, 'acquired technical knowhow' of INR528m (net block) has been regrouped into 'in-house developed'. Useful life of 'acquired'/'in-house developed' intangible assets stands at 5-6 years/6-10 years. CFO turned positive to INR9.4b (FY19: -INR3.6b), primarily due to liquidation of BS-IV inventory worth INR14.5b. As a result, inventory days reduced by 12 days in FY20 to 37 days and cash conversion cycle improved to -33days (FY19: -25 days). Inter-corporate deposits (ICDs) of INR9.5b (FY19: INR 7.4b) were given during the year from standalone; of which INR5.0b remained outstanding as at end-FY20. These ICD's o/s pertain to 5 companies (of INR 1 b each), which includes Hinduja Energy - a fellow subsidiary. Standalone gross and net debt increased in FY20 to INR33.2b (FY19: INR6.3b) and INR20.0b (FY19: net cash of INR7.4b), respectively.

- Liquidation of BS-IV inventory led to spurt in cash flow: Cash flow from operations increased to INR9.4b in FY20 (FY19: -INR3.6b), primarily due to liquidation of BS-IV inventory, which led to decline in inventory by INR14.5b YoY to INR12.4b in FY20. This resulted in inventory days declining by 10 days YoY to 37 days. Thus, earnings to cash conversion ratio increased to 88% in FY20 (FY19: 6%). Standalone free cash flow (post interest) remained negative at INR5.0b (FY19: INR12.0b) due to rising capital intensity. Capex in FY20 rose to INR12.9b (FY19: INR7.3b).
- Expense capitalization increases intangibles (including IAUD) to 14.9% of NW: During FY20, the company capitalized expenses of INR4.6b, 68.9%/5.2% of overall R&D expense/gross block (v/s FY19: INR2.9b, 43.6%/3.8% of R&D/gross block). This primarily pertains to BSVI, AVTR (Modular Platform) and the LCV project. These mainly comprised (a) employee benefit expense of INR0.7b, (b) finance cost of INR0.3b, and (c) other expense of INR3.6b. Total intangibles increased to 9.1b, 12.5% of NW in FY20 (FY19: INR3.6b, 4.3% of NW), mainly due to 'in-house developed' technical knowhow of INR8.2b. IAUD stood at INR1.7b, 2.4% of NW.
- Losses of other subs continue; capital infused, impairment recognized: During FY20, AL made fresh investments of INR4.3b in subsidiaries, primarily by (a) Increasing stake in HLF to 67.2% (FY19: 61.9%) by purchasing shares from existing shareholders for INR3.0b, (b) Optare PLC INR1.0b. HLF's standalone PAT increased by 4% to INR2.9b, while losses of other subsidiaries increased to INR1.8b (FY19: INR1.5b). AL made an additional impairment provision of INR3.6b, writing down the entire value of investment in Optare PLC. Impairment provision of all the investments in subsidiaries/ JVs/ associates increased to INR10.3b (FY19: INR6.6b).

The ART of annual report analysis



- Capitalization of expense increased to INR4.6b, 68.9% of overall R&D spends in FY20.
- Outstanding ICDs stood at INR5b equally spread amongst 5 companies.
- Inventory liquidation of INR14.5b due to BSVI transition turned CFO positive to INR9.4b (FY19: -INR3.6b).
- HLF's performance muted; losses of other subsidiaries increased to INR1.8b (FY19: INR1.5b).

Stock Info

Bloomberg AL Equity Shares (m) 2,92 M.Cap.(INRb)/(USDb) 198.3 / 2 52-Week Range (INR) 88 / 3
M.Cap.(INRb)/(USDb) 198.3 / 2
52-Week Range (INR) 88 / 3
1, 6, 12 Rel. Per (%) 34/-7
12M Avg Val (INR M) 229
Free float (%) 48

Shareholding pattern (%)

As on	Jun-20	Mar-20	Jun-19
Promoter	51.1	51.1	51.1
DII	14.0	14.9	11.0
FII	16.3	17.6	18.8
Others	18.6	16.3	19.1

Note: FII Includes depository receipts

Stock Performance (1-year)



Research analyst

Sandeep Ashok Gupta

(S.Gupta@MotilalOswal.com)

Umesh Jain

(Umesh.Jain@MotilalOswal.com)

Decline in volumes due to weak operating environment hurts profitability.

Volume decline dents profitability; HLF's performance muted

- AL's standalone operating performance was down as revenue plunged 40% YoY to INR175b. This was led by decrease in domestic volumes of LCVs/M&HCVs by 14%/46%. EBITDA plummeted 63% to INR11.7b (FY19: INR31.4b). Capitalization of expenses increased to INR4.6b, 40% of EBITDA (FY19: INR2.9b, 9% of EBITDA).
- Hinduja Leyland Finance's (HLF) consolidated revenue grew 15.6% to INR31.4b (FY19: INR27.2b), supported by 14.4% revenue growth to INR29.2b on standalone basis. NII grew 21% YoY to INR11.2b (FY19: INR9.3b). However, standalone PAT growth was relatively muted at 4% YoY to INR2.9b (FY19: INR2.8b), primarily due to 92% fall in other income to INR0.1b (FY19: INR1.0b).
- Consolidated revenues declined 34% to INR219.5b (FY19: INR332.0b), primarily due to standalone operations. The 18% revenue growth of HLF led to an increase in its share in overall revenues to 13% (FY19: 7%). PBT, before exceptional items, declined 72% to INR7.9b (FY19: INR28.6b). We note that ~56% of the consolidated FY20 PBT was contributed by HLF.

Exhibit 1: Volume decline in weak operating environment hurts profitability (INR b)

		Stand	alone		Hino	luja Leyl	and Fin	ance	Su	bsidiary	(Derive	ed)		Conso	lidated	
Particulars	FY19	(%)	FY20	(%)	FY19	(%)	FY20	(%)	FY19	(%)	FY20	(%)	FY19	(%)	FY20	(%)
Net Revenue	290.5	100.0	174.7	100.0	24.6	100.0	29.2	100.0	16.8	100.0	15.6	100.0	332.0	100.0	219.5	100.0
Raw Materials Consumed	206.8	71.2	123.7	70.8	0.0	0.0	0.0	0.0	9.2	54.6	9.8	62.4	216.0	65.1	133.5	60.8
Gross Margin	83.8	28.8	51.0	29.2	24.6	100.0	29.2	100.0	7.6	45.4	5.9	37.6	116.0	34.9	86.1	39.2
OPEX & Admin	31.4	10.8	23.1	13.2	7.1	28.7	7.9	27.2	2.0	12.0	0.8	5.0	40.5	12.2	31.8	14.5
Personnel Cost	21.0	7.2	16.2	9.2	1.0	4.2	1.3	4.5	4.4	26.0	4.4	28.4	26.4	8.0	21.9	10.0
EBITDA	31.4	10.8	11.7	6.7	16.5	67.1	20.0	68.4	1.3	7.5	0.6	4.1	49.1	14.8	32.3	14.7
Depreciation	6.2	2.1	6.7	3.8	0.1	0.3	0.1	0.4	0.5	2.8	0.7	4.5	6.8	2.0	7.5	3.4
EBIT	25.1	8.7	5.0	2.9	16.4	66.8	19.8	68.0	0.8	4.6	-0.1	-0.3	42.3	12.8	24.8	11.3
Financial Charges	0.7	0.2	1.1	0.6	13.2	53.7	15.5	53.2	1.1	6.6	1.4	8.8	15.0	4.5	18.0	8.2
EBT	24.4	8.4	3.9	2.3	3.2	13.1	4.3	14.8	-0.3	-2.0	-1.4	-9.2	27.3	8.2	6.8	3.1
Other Income	1.1	0.4	1.2	0.7	1.0	4.1	0.1	0.3	-0.8	-5.0	-0.2	-1.5	1.3	0.4	1.1	0.5
PBT (Bef. EI)	25.5	8.8	5.2	3.0	4.2	17.2	4.4	15.0	-1.2	-7.0	-1.7	-10.7	28.6	8.6	7.9	3.6
Exceptional Items	-0.6	-0.2	-1.6	-0.9	0.0	0.0	0.0	0.0	0.6	3.6	1.0	6.6	0.0	0.0	-0.5	-0.2
PBT	25.0	8.6	3.6	2.1	4.2	17.2	4.4	15.0	-0.5	-2.9	-0.5	-3.4	28.7	8.7	7.5	3.4
Tax	5.1	1.8	1.2	0.7	1.5	6.0	1.5	5.0	0.2	1.0	0.1	0.6	6.8	2.0	2.8	1.3
PAT	19.8	6.8	2.4	1.4	2.8	11.2	2.9	10.0	-0.6	-3.8	-0.6	-4.0	21.9	6.6	4.7	2.1
Minority interest													1.2	0.3	1.2	0.6
Profit available for owners													20.8	6.3	3.5	1.6

Note: Subsidiary derived numbers are before intercompany elimination

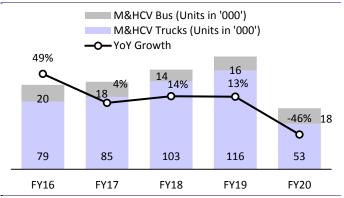
Exhibit 2: LCV volumes fall 14% YoY on BS-VI transition...

Source: Company annual report, MOFSL

LCV Volume (Units in '000') -O-YoY Growth 37% 26% 13% 3% 46.6 14% 30.7 43.4 54.5 ď 31.7 FY16 FY17 FY18 FY19 FY20

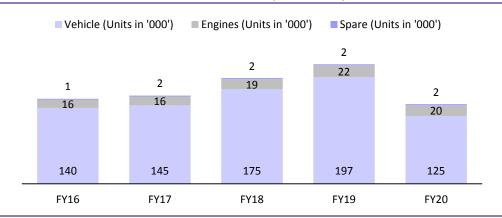
Source: Company annual report, MOFSL

Exhibit 3: M&HCV domestic sales fall 46% YoY in FY20



Source: Company annual report, MOFSL

Exhibit 4: Vehicle volume's declined 37% in FY20 (Units in'000)



Source: Company annual report, MOFSL

Capitalizing 'In-house developed' technical knowhow' raises intangibles

'In-house developed technical knowhow' increased to INR8.2b in FY20 (FY19: INR2.0b). Total intangibles (including IAUD) increased to INR10.8b, 14.9% of NW.

- On a standalone basis, AL continued to capitalize various expenses into intangibles. During FY20, the company capitalized expenses of INR4.6b, 68.9%/5.2% of overall R&D expense/gross block (v/s FY19: INR2.9b, 43.6%/3.8% of R&D/gross block). This primarily comprised (a) employee benefit expense of INR0.7b (FY19: INR0.6b), (b) finance cost of INR0.3b (FY19: INR0.2b), and (c) other expense of INR3.6b (FY19: INR2.1b).
- 'In-house developed technical knowhow' increased 4.0x from INR2.0b in FY19 to INR8.2b in FY20. During the year, carrying value of acquired technical knowhow of INR528m was regrouped into 'In-house developed technical knowhow'.
- The useful life of 'acquired technical knowhow' is 5-6 years, whereas for 'inhouse technical knowhow', it is 6-10 years.
- Total intangibles (excluding IAUD) increased from INR3.6b (4.3% of NW) to INR9.1b (12.5% of NW) in FY20. This was primarily on account of capitalization of expenses pertaining to investments in R&D for BS-VI, AVTR (modular platform) and the LCV project.
- While standalone intangible assets under development stood at INR1.7b, 2.4% of NW in FY20 (FY19: INR3.8b, 4.6% of NW).

Exhibit 5: Standalone capitalization of expense on rising...

Standalone	FY17	FY18	FY19	FY20
Employee benefit expense	232	290	573	714
Finance cost	-	49	197	336
Other expense	458	950	2,079	3,582
Exchange (gain)/loss	(47)	3	19	7
Total Expense	644	1,292	2,868	4,638

Source: Company annual report, MOFSL

Exhibit 6: ...increased to 5.2% of gross block in FY20 (INR m)

Particulars	FY17	FY18	FY19	FY20
Capitalised expenses	644	1,292	2,868	4,638
Revenue expenses	3,205	3,233	3,714	2,095
Total R&D	3,849	4,525	6,581	6,734
Expense Capitalised:				
% of total R&D	16.7%	28.6%	43.6%	68.9%
% of PBT	3.9%	5.4%	11.2%	89.6%
% of gross block	1.1%	2.0%	3.8%	5.2%

Note: Revenue R&D expenses has been derived by deducting capitalized R&D expense from total R&D expense.

Source: Company annual report, MOFSL

Exhibit 7: Significant increase in 'in-house developed technical knowhow' (INR m)

Standalone	FY17	FY18	FY19	FY20
Computer software				
- Developed	682	549	416	438
- Acquired	247	517	610	438
Technical knowhow				
- Developed	1,238	1,034	2,033	8,229
- Acquired	980	766	528	
Total intangibles	3,147	2,866	3,586	9,105
% of NW	5.1%	4.0%	4.3%	12.5%

^{*}During the year from acquired technical knowhow of INR528m (net block) has been regrouped to Inhouse developed.

Source: Company annual report, MOFSL

Exhibit 8: Intangible assets under development stood at 2.4% of NW (INR m)

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Particulars	FY17	FY18	FY19	FY20
IAUD	483	1883	3830	1732
% of Net worth	0.8%	2.6%	4.6%	2.4%

Source: Company annual report, MOFSL

Exhibit 9: Useful life of intangibles

Particulars	Useful life of intangibles
Computer Software	
Acquired	5
Developed	5/10
Technical Knowhow	
Acquired	5/6
Developed	6/10

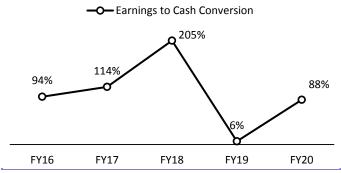
Source: Company annual report, MOFSL

Liquidation of BS-IV inventory leads to improvement in operating cash flows

Inventory liquidation of INR14.5b has led to improvement in OCF. Free cash flow remained negative at INR5.0b in FY20.

- On a standalone basis, operating cash flow before working capital dipped to INR11.2b in FY20 (FY19: INR26.0b) due to the weak operating environment. However, cash generated from operations turned positive to INR9.4b in FY20 (FY19: -INR3.6b). This was primarily due to liquidation of BS-IV inventory, which led to INR14.5b YoY decline in closing inventory to 12.4b in FY20 (FY19: INR26.8b).
- Earnings to cash flow conversion increased to 88% in FY20 (FY19: 6%) as cash conversion cycle improved to -33 days in FY20 (FY19: -25 days). This was primarily due to (a) decline in inventory days by 10 days to 37 days in FY20, and (b) decline in receivable days by 6 days to 25 days. A part of this was offset by 12 days decline in payable days to 77 days.
- Free cash flow after capex and finance cost remained negative at INR5.0b in FY20 (FY19: INR12.0b). Capital expenditure increased from INR7.3b in FY19 to INR12.9b in FY20.

Exhibit 10: Earning to cash conversion cycle increased to 88%



Source: Company annual report, MOFSL

Exhibit 11: Cash conversion cycle improved in FY20

Particulars	FY16	FY17	FY18	FY19	FY20
Inventory Days	45	65	35	47	37
Receivable Days	24	16	13	31	25
Advance Income	1	1	4	8	13
Advance from Customers	5	4	11	5	5
Other Payables	12	15	-	1	-
Payable Days	71	80	97	89	77
Cash conversion cycle	-20	-19	-64	-25	-33

Source: Company annual report, MOFSL

Exhibit 12: Finished goods inventory liquidated on BS-VI transition (INR b)

Particulars	FY19	FY20	YOY Change
Raw materials and components	8.2	5.6	(2.5)
Work-in-progress	3.9	2.5	(1.5)
Finished goods	12.3	1.8	(10.5)
Spare parts and auto components	1.5	1.5	(0.0)
Stores, spares and consumable tools	1.0	1.0	(0.0)
Inventory	26.8	12.4	(14.5)

Source: Company annual report, MOFSL

Exhibit 13: BS-IV liquidation led to a surge in OCF; Rising capital intensity hurt free cash flow - Standalone (INR b)

Particulars	FY19	FY20
PBT	19.8	2.4
Add/Less: Non-operating expenses/(Income)	11.8	9.7
Less: Direct Taxes Paid	-5.6	-0.9
Operating Profit Before Working Capital Changes	26.0	11.2
Inventories	-9.3	14.5
Trade Receivables	-15.7	13.1
Financial Assets	-0.6	0.3
Loans and Advances	0.0	0.0
Other Current Assets/Non current	-7.7	3.7
Related party advances/receivables(net)	0.0	0.0
Trade Payables	1.3	-24.0
Non-current and current financial liabilities	2.6	-3.3
Other non-current and current liability	-10.1	-4.2
Contract asset	-0.1	0.0
Contract liability	10.6	-2.0
Redemption payment to escrow account	-0.7	0.8
Current Liabilities and Provisions	0.1	-0.7
Cash Generated from Operations after Tax	-3.6	9.4
Less: Financial Cost	-1.0	-1.5
Free Cash Flow from Operations post Interest	-4.7	7.9
Less: Capital Expenditure	-7.3	-12.9
Free Cash Flows after Capex & finance cost	-12.0	-5.0

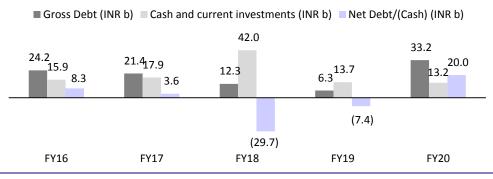
Source: Company annual report, MOFSL

Debt level increases due to rising capital intensity and weak operating environment

Gross debt increased to INR33.2b in FY20

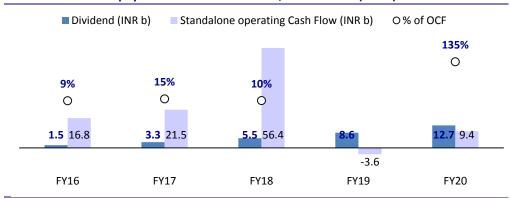
- Standalone gross debt increased to INR33.2b in FY20 (FY19: INR6.3b). On the other hand, cash and cash equivalent stood at INR13.2b (FY19: INR13.7b). Higher capital intensity has again led the company to have net debt of INR20.0b (v/s net cash of INR7.4b in FY19).
- Dividend payment in FY20 increased to INR12.7b (FY19: INR9.4b). This stood at 135% of standalone operating cash flow in FY20.

Exhibit 14: Gross/net debt increased due to rising capital intensity and weak environment (INR b)



Source: Company annual report, MOFSL

Exhibit 15: Dividend payment of INR12.7b in FY20, 135% of OCF (INR b)



Source: Company annual report, MOFSL

Losses of other subsidiaries increased; Muted performance of HLF

- Hinduja Leyland Finance's (HLF) standalone overall revenue grew 14.4% YoY to INR29.3b (FY19: INR25.6b). Income on loan assignment grew 10.3% YoY to INR1.9b (FY19: INR1.7b) (part of revenue).
- HFL's NII grew 21% YoY to INR11.2b in FY20 (FY19: INR9.3b). However, PAT growth was relatively muted at 4% YoY to INR2.9 in FY20 (FY19: INR2.8b). This was primarily due to 92% decline in other income to INR0.1b (FY19: INR1.0b). FY19 other income includes income from related parties (associate entities) of INR0.9b (FY20: NIL), the details of which were not provided.
- Higher cost of employee benefit expenses increased 26% YoY to INR1.3b (FY19: INR1.0b) while rising provisions and write-off of loans increased 9% YoY to INR6.2b (FY19: INR 5.7b), limiting net profit growth.
- Performance of other subsidiaries continued to deteriorate. On an aggregate basis, their revenues declined from INR26.8b in FY19 to INR21.8b in FY20. Their aggregate losses increased to INR1.8b in FY20 (FY19: INR1.5b), primarily due to increase in loss of Optare PLC to INR1.4b (FY19: INR0.8b).
- AL's goodwill remains high at INR11.2b (FY19: INR11.2b). This primarily pertains to (a) Light Commercial Vehicle (LCV) division's INR4.5b, (b) Albonair GmBH and its subsidiary's INR2.1b, and (c) HLF's INR4.3b. Goodwill is tested for impairment at the end of each year.

Exhibit 16: Other subsidiaries continue to drag with revenue declining and losses increasing (INR m)

	FY1	.9	FY20		
Particulars	Turnover	Profit	Turnover	Profit	
HLF - Consolidated # (A)	27,126	2,994	31,364	3,265	
Other subsidiaries					
Gulf Ashley Motors Limited	9,558	267	4,837	(71)	
Optare PLC and its subsidiaries	4,499	(853)	3,362	(1,382)	
HFL Service Limited	1,951	13	1,133	14	
Ashok Leyland (UAE) LLC and its sub.	5,146	(889)	7,701	4	
Albonair GmbH Germany and its sub.	4,396	(5)	3,570	(316)	
Other	1,201	(21)	1,136	(76)	
Total - Other subsidiaries (B)	26,751	-1,487	21,739	-1,827	
Total (C= A+B)	53,877	1,507	53,103	1,438	

While HLF (standalone) performance remained muted losses in other subsidiaries increased to INR1.8b (FY19: INR1.5b)

Exhibit 17: Contribution from JVs and Associates decline (INR m)

Particulars	FY19	FY20
Income statement	113	29
Other comprehensive income	(22)	(3)
Total	91	26

Source: Company annual report, MOFSL

Exhibit 18: HLF – Muted profitability growth due to lower other income (Standalone INR b)

Particulars	FY19	FY20	YoY
Revenue from operations (A - Ex. B below)	22.9	27.3	19%
Other Income	1.0	0.1	-92%
Income on assignment of loans (B)	1.7	1.9	10%
Overall revenue (A+B)	25.6	29.3	14%
Finance Costs	13.2	15.6	18%
Employee Cost	1.0	1.3	26%
Impairment on financial assets	5.7	6.2	9%
Profit after tax	2.8	2.9	4%
Net Interest Income	9.3	11.2	21%
Loan Book	168.9	177.1	5%
Net Worth	27.2	32.5	19%
Leverage (x)	6.2	5.5	-12%
ROA	1.7%	1.7%	
ROE	11.6%	9.8%	

Source: Company annual report, MOFSL

Exhibit 19: Goodwill on consolidation remains high (INR m)

Particulars	FY17	FY18	FY19	FY20
Hinduja Leyland Finance Limited	4,265	4,265	4,265	4,265
Light commercial vehicle division	4,499	4,499	4,499	4,499
Albonair GmbH and its subsidiary	2,089	2,089	2,089	2,089
Others	224	224	303	303
Goodwill (INR m)	11,077	11,077	11,156	11,156

Source: Company annual report, MOFSL

Fresh investment in subsidiaries stood at INR4.3b in FY20. Cumulative impairment provision on all the investments in subsidiaries/associates/JVs increased to INR10.3b in FY20 (FY19: INR6.6b).

Fresh investment in subsidiaries continue, so does impairment

- AL (standalone) continued to invest in its subsidiaries. During FY20, an additionally INR4.3b (FY19: INR2.0b) was infused. These investments primarily comprised (a) purchase of equity share of HLF from existing shareholders for INR3.0b (holding increased from 61.9% to 67.2%), and (b) equity shares in Optare PLC of INR1.0b.
- During FY20, the company made an additional provision of INR3.7b toward investments in Optare PLC. With this, the entire carrying value of investment in Optare Plc has been provided. The total provisioning made on investments of subsidiaries increased to INR10.3b (FY19: INR6.7b).
- We note that reported exceptional item of INR1.6b in FY20 (FY19: INR0.5b) stood lower than impairment provision (FY20: INR3.7b) as exceptional items are reported as net of 'reversal of provision for obligation.' The Annual Report does not provide details of reversal of provision obligation.
- Management has highlighted (in the conference call) that Optare has advanced technologies for electric vehicles. They have deployed some of their best personnel at Optare to bring in cost efficiency and implement operational strategies to improve its performance and achieve break-even.

Exhibit 20: Fresh investments in subsidiaries/associates/JV's increased again in FY20 (INR m)

	•	•	_	•	•		
Particulars	FY15	FY16	FY17	FY18	FY19	FY20	Cumulative
Investment in equity/preference shares							
Hinduja Leyland Finance			1,441	4,938	1,243	3,000	10,621
Albonair India Pvt Ltd			50		100	200	350
Albonair GmbH	257	398	287				942
Ashok Leyland John Deere	325	465	250				1,040
Gulf Ashley Motor Limited	44	58	46				147
Ashley Aviation Limited					60	40	100
Ashok Leyland (Chile) SA		34					34
Optare PLC				5,128	181	1,004	6,313
Ashok Leyland Defence Systems Limited		50	65	35			150
Ashok Leyland Wind Energy Limited			43				43
Ashok Leyland (UAE) LLC					432		432
Ashley Alteams India Ltd		25	25	12	10	12	84
							-
Loans / Advance extended				-			-
Hinduja Tech Limited	(335)			-			(335)
Optare PLC		1,199	1,081	208			2,487
Albonair GmbH				-			-
Total	400	2,228	3,288	10,321	2,025	4,257	22,518
Less: Loan converted into equity				(2,635)*			(2,635)
Fresh Investments	400	2,228	3,288	7,686	2,025	4,257	19,883

*The outstanding loan from Optare PLC has been converted into equity in FY18 Source: Company annual report, MOFSL

Exhibit 21: Additional impairment in equity instrument is INR3.7b in FY20... (INR m)

Particulars	FY19	FY20	YOY Change
Ashok Leyland John Deere Construction Equipment	17	17	-
Ashley Aviation Limited	34	55	21
Optare PLC	4,150	7,812	3,662
Albonair GmbH	2,207	2,207	-
Albonair (India) Private Limited	123	123	-
Ashok Leyland (Chile) S.A.	38	38	-
Impairment in value of investments	6,569	10,253	3,684

Source: Company annual report, MOFSL

Exhibit 22: ...reported exceptional item is INR1.0b net of reversal of provision for obligation (INR m)

Particulars	FY19	FY20
Impairment loss in the value of equity investment (net of reversal of provision of obligation)	181	1,004
Impairment reversal/ loss in the value of investment	38	21
Loss on sale of immovable property	159	-
Obligation relating to discontinued products of LCV division	171	77
Voluntary retirement scheme	-	456
Total exceptional item	549	1,558

Source: Company annual report, MOFSL

ICDs continue; Outstanding ICD to Hinduja Energy increases

Inter-corporate deposits increased from INR7.4b in FY19 to INR9.5b in FY20; of which, INR5.0b (FY19: NIL) remained outstanding as at end-FY20.

- AL is continuing to extend ICDs from its standalone balance sheet. During FY17-19, the ICDs extended were received back toward the year-end. In FY20, the company extended ICDs of INR9.5b. Of this, INR4.5b ICDs was received back while the balance INR5.0 (FY19: NIL) remained outstanding.
- The outstanding ICD exposure was spread equally (of INR1b each) to five companies – Hinduja Energy (a fellow subsidiary), Hinduja Realty Venture, NXT Digital, IndusInd Media and Communications and Hinduja Group.
- We note that in FY20, the standalone entity extended ICDs of INR2.0b (FY19: INR1.5b) to Hinduja Energy (Group company), of which INR1.0b (FY19: INR1.5b) was received back during the same year while the balance was outstanding.
- Also, Hinduja Leyland Finance extended ICDs of INR1.8b (FY19: INR0.9b) to Hinduja Energy in FY20. The same (along with the previous year's outstanding balance of INR.4b) was received back during the year.

Management (on conference call) has highlighted that the objective of these ICDs is to provide an avenue for parking their surplus funds than providing liquidity to their group companies. Further, it has also highlighted that they would prefer to keep high gross debt with low net debt to carry a liquidity spread for uncertain times.

Exhibit 23: ICDs given and repaid increased in FY20 (INR m)

Standalone - Cash flow	FY16	FY17	FY18	FY19	FY20
ICD given during the year	5,012	7,061	5,730	7,350	9,500
ICD repaid during the year	5,012	7,061	5,730	7,350	4,500

Source: Company annual report, MOFSL

Exhibit 24: Loans assistance to Hinduja Energy continues - ICDs (INR m)

Particulars	FY17	FY18	FY19	FY20	FY17-20
Loans given during the year					
-By standalone entity	3,650	2,730	1,450	2,000	9,830
-By HLF	2,500	1,900	900	1,750	7,050
Loans repaid during the year					
-To standalone entity	3,650	2,730	1,450	1,000	8,830
-To HLF	2,000	1,950	900	2,200	7,050

Source: Company annual report, MOFSL

Exhibit 25: O/s balance of ICDs given by HLF and AL Standalone to Hinduja Energy (INR m)

ICD's Receivables from Hinduja Energy	FY17	FY18	FY19	FY20
HLF	500	450	450	-
AL - Standalone	-	-	-	1000

Source: Company annual report, MOFSL

Expense in forex decreased to 12.2% of export sales; Break-up not provided

Break-up of earnings and expense in foreign currency was not provided in FY20.

- Export revenue has decreased from INR14.9b in FY19 to INR13.9b in FY20. Foreign currency expense stood at INR1.7b in FY20 (FY19: INR2.4b).
- AL has not provided break-up of foreign currency earnings and expense in FY20.
- During FY19, royalty payment in foreign currency increased to INR305m (FY18: INR168m); this payment is toward the LCV business to Nissan.

Exhibit 26: Break-up of foreign currency earnings and expenses is not provided in FY20 (INR m)

Particulars	FY18	% to export sales	FY19	% to export sales	FY20	% to export sales
Earnings						
Export sales (FOB Value)	19,672	100.0	14,869	100.0	13,896	100.0
Interest, Dividend and Other income	1,255	6.4	746	5.0		
Expenses	-					
Commission on export sales	1,381	7.0	677	4.6		
Packing and Forwarding	700	3.6	340	2.3		
Freight charges	289	1.5	63	0.4		
Others Expense	655	3.3	261	1.8		
Royalty	168	0.9	305	2.1		
R&D	263	1.3	243	1.6		
Travel Interest and Professional Cost	662	3.4	485	3.3		
Total expense	4,118	20.9	2,374	16.0	1,690	12.2

Source: Company annual report, MOFSL

Contingent liability stood at INR4.8b, 6.1% of NW as at FY20.

Contingent liabilities increased to 6.1% of NW

- Aggregate contingent liabilities has declined from INR5,158m in FY19 to INR4,762m in FY20, primarily due to decline in claims for excise duty from INR608m to INR82m in FY20. However, other claims increased to INR1,059m (FY19: INR851m).
- Contingent liabilities as % of NW increased to 6.1% (FY19: 5.9%).

Exhibit 27: Contingent liability increased to 6.1% of NW (INR m)

Particulars	FY19	FY20
Claims against the Group not acknowledged as debts (net)		
Sales tax / VAT	2,739	2,754
Excise duty	608	82
Service Tax	668	625
Customs Duty	4	4
Others	851	1,059
Corporate guarantees given to others for loans taken by a JV	266	237
Share of contingent liabilities of joint ventures and associates	21	2
Total Contingent Liabilities	5,158	4,762
% of NW	5.9%	6.1%

Source: Company annual report, MOFSL

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	<-10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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