ASHOK LEYLAND
Aapki Jeet. Hamari Jeet.

April 30, 2019

National Stock Exchange of India Limited
Exchange Plaza
C-1, Block G, Bandra Kurla Complex
Bandra (E), Mumbai - 400 051

Scrip Code : ASHOKLEY

Through : NEAPS

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai - 400 001

Stock Symbol : 500477

Through: BSE Listing Centre

Dear Sirs,

Sub: Intimation under Regulation 30 (4) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 - Revision in Credit Rating

Pursuant to Regulation 30 (4) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 please find below the details of the revision in Credit Rating for the Company:

Name of the agency	Type of instrument	Amount Rs. Crs.	Existing	Rating Action
ICRA Limited	Long term: Fund based limits	900.00	[ICRA]AA (Positive)	[ICRA]AA+ (Stable)
	Short term: Non-fund based limits	750.00	[ICRA]A1+	Reaffirmed
	Short-term: Unallocated	255.00	[ICRA]A1+	Reaffirmed
	Commercial Paper	1500.00	[ICRA]A1+	Reaffirmed

A copy of the report from the credit rating agency covering the rationale for revision in credit rating is enclosed for your information.

Yours faithfully,
for ASHOK LEYLAND LIMITED

N Ramanathan
Company Secretary
Encl.:a/a

Ashok Leyland Limited

April 29, 2019

Ashok Leyland Limited: Long-term rating upgraded to [ICRA]AA+ (Stable); short-term rating reaffirmed at [ICRA]A1+

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)[1]	Current Rated Amount (Rs. crore)	Rating Action
Long term: Fund based limits	900.0	900.0	[ICRA]AA+ (stable) / upgraded from [ICRA]AA (positive)
Long term: Term loans (proposed)	55.0	0.0	-
Short term: Non-fund based limits	750.0	750.0	[ICRA]A1+; reaffirmed
Short-term Fund based limits (proposed)	200.0	0.0	-
Short-term: Unallocated	0.0	255.0	[ICRA]A1+; reaffirmed
Commercial paper	1,500.0	1,500.0	[ICRA]A1+ /reaffirmed
Non-Convertible Debenture	150.0	0.0	Rating withdrawn
Total	**3,555.0**	**3,405.0**	

Rationale

The upgrade in the long-term rating considers the sustained improvement in Ashok Leyland Limited's (ALL) credit profile (both standalone and consolidated) in the last three-year period ending FY2019e. The standalone credit profile is marked by strong volume growth in medium and heavy commercial vehicle (M&HCV) (domestic sales volume up by 10%, three-year CAGR ending FY2019), stable market share (~34%), improving profitability supported by scale economies, increasing skew towards higher tonnage vehicles, various cost control initiatives, healthy liquidity position and its robust debt protection metrics. With ~89% and 86% of consolidated revenues and net profits, respectively coming from its standalone operations in FY2018, growth in standalone credit profile coupled with an improvement in the performance of the key investee entities supported ALL's consolidated credit profile. The ratings continue to derive comfort from its extensive operational track record, experienced leadership team, diversified board profile, good product and brand recall, strong technological capability, well-connected network and strong financial flexibility with lenders. The ratings, however, remain constrained by the exposure of ALL's earnings to the inherent cyclicality in the commercial vehicle (CV) industry as it leads to volatility in cash flows, stiff competition in both M&HCV and LCV businesses, and exposure to group entities although the extent of funding support has reduced significantly in recent years.

Outlook: Stable

ICRA believes ALL's financial profile will remain healthy supported by stable demand outlook for the M&HCV and LCV segments. The outlook may be revised to Positive with sustained growth in earnings, diversification of revenue base to counter cyclicality and comfortable debt protection metrics (both standalone and consolidated). The outlook maybe revised to Negative with any sharp deterioration in the financial profile (both standalone and consolidated) due to weak earnings or large debt-funded capital expenditure.

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[1] *100 lakh = 1 crore = 10 million*

Key rating drivers

Credit strengths

- **Sustained market share:** ALL is the second largest player in the domestic M&HCV industry with a dominant market share of ~34% in FY2019, which has been maintained in the last three years. In 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 (especially in non-South markets), strong brand outreach, new product launches, increased acceptance of its engines and technology, and strong servicing capabilities aided its market share gains, amidst headwinds in the form of high discounts, rapid and costly technology changes, and regulatory challenges.
- **Healthy growth in volume over the past two years:** ALL reported a 13.2% growth in M&HCV domestic sales in FY2019, following a 13.9% growth in FY2018. Stable underlying demand from core industries, pickup in construction activities as well as pent-up demand post transition to Goods and Service Tax (GST) supported the growth. The company's truck sales grew by 12.4% in FY2019 (vis-à-vis industry growth of 15.3%). The growth was stronger till October 2018, and then the truck sales contracted sharply owing to tightened financing environment following the liquidity crunch, surplus capacity created through revised axle norms, and viability pressure for small fleet operators because of higher fuel costs and weak freight rates. In the bus segment, ALL reported a strong 19.1% volume growth in FY2019 (vis-à-vis industry growth of 9.7%) aided by higher order flows from the state road transport undertakings (SRTUs) and stable demand from schools, colleges and staff carrier segment.

  In the LCV segment, there was a strong recovery in demand in FY2018 and FY2019 driven by replacement, consumption-driven sectors and increased requirement of small vehicles for last-mile logistics by e-commerce sector. This apart, favourable monsoons and demand from the construction segment supported the rural demand.

  Exports, representing less than 10% of M&HCV sales volume, witnessed a 27% degrowth in FY2019, following 36% growth in FY2018, affected by weak demand from its key destinations like Sri Lanka, Bangladesh, Middle East etc.

  Going forward, while the domestic M&HCV demand is likely to be subdued in Q1 FY2020 due to factors like surplus capacity with fleet operators, Union elections etc, ALL's volume growth in FY2020 shall be primarily supported by a strong pre-buying ahead of change in vehicle emission norms (BS-VI) with effect from April 1, 2020. Sustained replacement-led demand from SRTUs and public transport segments shall support the bus sales in FY2020 as well. While growth in exports shall remain dependent on demand recovery in key markets, ALL's entry into newer markets and launch of new products under new platform shall support growth.
- **Healthy financial profile:** ALL's standalone financial profile remains strong with sizeable net worth, comfortable debt protection metrics and liquidity profile. Healthy growth in revenues (up by 15.0% YoY) supported by stable operating margins resulted in strong cash accruals (up by 34.3% YoY) in 9M FY2019. With strong cash accruals, the debt levels significantly reduced over the last two years. As of December 2018, the gearing stood at 0.2 times with interest cover of 40.0 times and total debt to OPBDITA of 0.5 times. While capital expenditure (capex) and investments (in Group entities) are expected in the range of Rs. 1,500-1,700 crore in FY2020, the extent of debt funding shall be minimal. The company's consolidated profile (excluding NBFC) improved in the last three years (ending in FY2018) aided by strong performance of standalone operations and turnaround in key investee entities (LCV-related subsidiaries[2], Optare Plc, Albonair GmbH etc) as reflected by sharp improvement in cash accruals and the net debt turning negative.

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[2]*LCV-related subsidiaries namely Ashok Leyland Vehicles Limited, Ashley Powertrain Limited and Ashok Leyland Technologies Limited were merged with ALL in FY2019*

Credit challenges

- **Earnings exposed to cyclicality and competition in CV industry:** ALL derives over 80% of its revenues from the cyclical CV segment, while the balance is derived from the sale of spare parts, defence kits and engines. Skew towards the CV segment exposes ALL's earnings to any sharp demand slowdown, as witnessed in the past. CV industry is closely linked to economic development, industrial growth, investments in infrastructure and regulatory changes (emission norms, scrappage policy etc). Volatile freight rates, which depend on economic growth, impact the viability of fleet operators and hence the demand for new CVs. Moreover, the CV industry is characterised by intense competition with pricing pressure from the existing and new players. However, ALL sustained its market share in the recent years and plans to launch more vehicles under its new platform in the next 12-18 months.
- **Exposure to Group companies:** Over the years, ALL has written off/closed several loss-making diversifications and remains open to further pruning of investments, if required. ALL had supported loss funding in a few Group companies and for their capital expenditure requirements till FY2017. However, the same declined in FY2018 and is expected to further reduce going forward. Some of its investments (in Optare, Albonair etc) are aimed at strengthening technological capabilities and achieving business diversification. The ability of the Group companies to attain self-sustenance and support the consolidated cash flows will be critical credit monitorables.

Liquidity Position

ALL's liquidity position is comfortable with strong cash balances and unutilised working capital lines (Rs. 900 crore) and stable cash accruals.

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). 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)

Fiscal	Standalone		Consolidated#	
	FY2017	FY2018	FY2017	FY2018
Operating Income (Rs. crore)	20,140.1	26,247.9	22,850.0	29,619.6
PAT (Rs. crore)	1,223.1	1,562.6	1,632.9	1,813.8
OPBDITA/OI (%)	10.9%	10.4%	14.4%	14.3%
RoCE (%)	18.4%	29.3%	15.7%	17.5%
Total Debt/TNW (times)	0.4	0.1	1.9	1.9
Total Debt/OPBDITA (times)	1.0	0.4	4.0	3.7
Interest Coverage (times)	14.2	20.9	3.1	3.4

Source: Company, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit After Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth; #Consolidated includes NBFC; however, the NBFC has been excluded for analysis purpose

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)					Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date &Rating April 2019	Date &Rating March 2018	Date &Rating in Sep 2017	Date & Rating in FY2017	Date & Rating in FY2016
1	Commercial paper	Short term	1,500	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Non-convertible Debenture	Long term	0.0	0.0	Withdrawn	[ICRA]AA (positive)	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA- (stable)
3	Fund based limits	Long term	900	NA	[ICRA]AA+ (stable)	[ICRA]AA (positive)	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA- (stable)
4	Term loans (proposed)	Long term	0.0	NA	-	[ICRA]AA (positive)	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA- (stable)
5	Non-fundbased limits	Short term	750	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Fund based limits (proposed)	Short term	0.0	NA	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Unallocated	Short term	255	NA	[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
NA	Commercial Paper	NA	NA	7-365 days	1,500	[ICRA]A1+
NA	Fund based limits	NA	NA	NA	900	[ICRA]AA+ (stable)
NA	Non fund-based limits	NA	NA	NA	750	[ICRA]A1+
NA	Unallocated	NA	NA	NA	255	[ICRA]A1+

Source: ALL

Annexure-2: List of entities considered for consolidation (as of 31.03.2018)

Company name	Ownership	Consolidation Approach
Subsidiaries		
Global TVS Bus Body Builders Limited	66.67%	Full consolidation
Gulf Ashley Motor Limited	92.98%	Full consolidation
Optare Plc and its subsidiaries	99.08%	Full consolidation
Ashok Leyland (Nigeria) Limited	100.00%	Full consolidation
Ashok Leyland (Chile) SA	100.00%	Full consolidation
HLF Services Limited	82.39%	Full consolidation
Albonair (India) Private Limited	100.00%	Full consolidation
Albonair GmbH and its subsidiary	100.00%	Full consolidation
Ashok Leyland Vehicles Limited^	100.00%	Full consolidation
Ashley Powertrain Limited^	100.00%	Full consolidation
Ashok Leyland Technologies Limited^	100.00%	Full consolidation
Ashok Leyland (UAE) LLC and its subsidiaries	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
Ashley Aviation Limited	49.00%	Equity method
Lanka Ashok Leyland Plc	27.85%	Equity method

^Ashok Leyland Vehicles Limited, Ashley Powertrain Limited and Ashok Leyland Technologies Limited were merged with ALL in FY2019

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Pavethra P
+91 44 45964314
pavethrap@icraindia.com

K Srikumar
+91 44 45964318
k.srikumar@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 2224331084
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91- 124- 2866928(open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 020 6606 9999