

July 26, 2024

RESULT REPORT Q1FY25 | Sector: Automobile

# Ashok Leyland

## Positive MHCV outlook maintained for FY25

### Valuation and View – MHCV volume trajectory key to watch for

AL's 1QFY25 operating performance was slightly weak led by one-off operating cost related to EV development (battery pack and software, advance engineering and setting up of center of excellence) while RM continues to be benign. We believe, despite volumes trajectory likely to be uncertain (flat to mid-single digit growth), margins would likely expand QoQ led by, 1) benign RM, 2) stable net pricing & favorable mix and 3) cost controls initiatives. Performance of non-auto business continues to be healthy in 1QFY25 led by, 1) Aftermarket (+12.5% YoY), 2) Defence revenues grew >3x YoY with volumes crossed ~1k vehicles (vs 250 vehicles YoY) and 3) power solutions ~20% YoY decline led by pre buy last year.

We are building in ~5.3% MHCV volume CAGR over FY24-26E with growth of ~8% in FY25E. However, we believe AL's de-risking strategy to help as it reduces domestic MHCV exposure by adding new revenue pools such as LCVs (11-12%) and non-vehicle revenues. The management sounded positive on demand momentum with not much of an impact of ongoing general elections with industry volumes expected to be flat in the worst case. We raise FY25/26 EPS by 8%/2% for positive impact of continued growth momentum in non-vehicle segments on revenue/profitability. We maintain ADD with TP of Rs271 (v/s Rs248 at ~13x of Mar'26 EV/EBITDA) and ~Rs25 for NBFC. External funding for EV business (Switch) and increase in replacement volumes are key catalyst ahead.

### Result Highlights – Non-vehicle revenues continues to be healthy

- Revenues grew 5% YoY (-23.7% QoQ) at ~Rs86b (est ~Rs88.8b) as ASP declined ~1.1% YoY/-2.2% QoQ at ~Rs1.95m/unit (est Rs2.02m/unit), partially offset volumes decline of 6.2% YoY (-22% QoQ) at 43.9k units. Decline in ASP is led by unfavorable mix (within M&HCV), while LCVs increased to 36.5% (v/s 34% QoQ)
- Gross margins expanded 160bp YoY (-40bp QoQ) at 27.8% (est 28.5%). Co indicated benign RM for couple quarters with price disciplined expected to be maintained. Co indicated one-off expense related to EV development part of P&L, which impacted EBITDA (though have not shared the quantum). Hence, EBITDA grew ~11% YoY (-42.8% QoQ) at Rs9.1b (est Rs10.2b) with margins expanded 60bp YoY (-350bp QoQ) to 10.6% (est 11.5%). Led by weak operating performance and lower other income at Rs223m (est Rs430m, -56% YoY), Adj.PAT declined by ~9% YoY (-44.4% QoQ) at Rs5.2b (est Rs5.8b).
- Non-vehicle performance - Defence** revenues grew 3x YoY with volumes at >1k (vs 250 vehicles YoY). **Spares** revenues grew ~12.5% YoY. **Power solution volumes** fell ~20% YoY led by pre buy last year but still expect healthy growth in FY25E.

### Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	85,985	88,769	87,800	-3.1	-2.1	EBITDA miss was led by one-offs related to EV development.
EBITDA	9,109	10,200	9,680	-10.7	-5.9	
EBITDA margins %	10.6	11.5	11.0	-90bp	-40bp	
Adj. PAT	5,256	5,850	5,473	-10.2	-4.0	

Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 246
Target Price	: Rs 271
Potential Return	: +10%

### Stock data (as on July 26, 2024)

Nifty	24,385
52 Week h/l (Rs)	249 / 158
Market cap (Rs/USD mn)	6,82,719 / 8,157
Outstanding Shares (mn)	2,936
6m Avg t/o (Rs mn):	2,990
Div yield (%):	2.1
Bloomberg code:	AL IN
NSE code:	ASHOKLEY

### Stock performance



### Shareholding pattern (As of Mar'24)

Promoter	51.1%
FII+DII	33.5%
Others	14.6%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	271	248

### Δ in earnings estimates

	FY25E	FY26E
EPS (New)	10.9	11.0
EPS (Old)	10.1	10.8
% change	+8.1%	+2.0%

### Financial Summary

Y/E Mar (Rs b)	2024	2025E	2025E
Sales	383.7	419.7	438.7
EBITDA	46.1	52.5	54.8
Adj. PAT	27.1	32.0	32.4
Adj. EPS (INR)	9.2	10.9	11.0
EPS Gr. (%)	109.3	17.9	1.2
BV/Sh. (INR)	30.0	35.4	40.5
RoE (%)	31.5	33.3	29.0
RoCE (%)	24.0	27.1	24.3
Payout (%)	53.6	50.1	54.0
P/E (x)	26.7	22.6	22.4
P/BV (x)	8.2	7.0	6.1
EV/EBITDA (x)	15.5	13.8	13.0
Div. Yield (%)	2.0	2.2	2.4

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## Exhibit 2: Quarterly snapshot

Y/E Mar (Rs mn)	Q1FY25	Q1FY24	YoY chg	Q4FY24	FY24	FY23	YoY chg
Net Revenues	85,985	81,893	5.0	112,667	383,670	361,441	6.2
Raw Materials	62,046	60,372	2.8	80,906	279,120	278,492	0.2
% of Net Sales	72.2%	73.7%		71.8%	72.7%	77.1%	
Personnel	5,498	5,376	2.3	5,535	22,334	21,139	5.7
% of Net Sales	6.4%	6.6%		4.9%	5.8%	5.8%	
Manufacturing & Other Exp	9,333	7,938	17.6	10,305	36,151	32,504	11.2
% of Net Sales	10.9%	9.7%		9.1%	9.4%	9.0%	
Total Expenditure	76,877	73,685	4.3	96,746	337,605	332,135	1.6
EBITDA	9,109	8,208	11.0	15,921	46,066	29,307	57.2
EBITDA Margin (%)	10.6%	10.0%		14.1%	12.0%	8.1%	
Depreciation	1,727	1,794	(3.7)	1,797	7,178	7,320	(1.9)
EBIT	7,382	6,414	15.1	14,124	38,888	21,987	76.9
Interest Expenses	591	699	(15.5)	592	2,494	2,891	(13.7)
Non-operating income	223	512	(56.4)	1,179	2,466	1,161	112.3
Extraordinary Expenses	0	6		697	937	(846)	
PBT	7,014	6,221		14,014	37,922	21,104	79.7
Tax-Total	1,759	457	284.9	5,010	11,743	7,303	60.8
Tax Rate (%) - Total	25.1%	7.3%		35.8%	31.0%	34.6%	
Reported PAT	5,256	5,764	(8.8)	9,004	26,179	13,801	89.7
Adj. PAT	5,256	5,770	(8.9)	9,452	26,730	12,916	107.0
PAT Margin	6.1	7.0		8.4	7	3.6	
<b>Key Operating Metrics</b>							
Sales Volume (nos)	43,893	41,329	6.2	56,267	194,683	192,205	1.3
Net Realisation/Vehicle	2,335,278	2,332,028	0.1	2,002,362	1,970,744	1,880,499	4.8
Material cost / vehicle	1,690,741	1,714,668	(1.4)	1,437,889	1,433,716	1,448,930	(1.1)
Gross Profit / vehicle	545,392	520,734	4.7	564,473	537,028	431,569	24.4
Employee cost /vehicle	127,526	138,602	(8.0)	98,376	114,719	109,979	4.3
Other expenses / vehicle	217,181	217,491	(0.1)	183,141	185,690	169,113	9.8
EBITDA/vehicle	299,830	261,267	14.8	282,956	236,620	152,477	55.2
Net Profit/vehicle	181,788	138,012	31.7	167,981	137,298	67,198	104.3

Source- Company, YES Sec

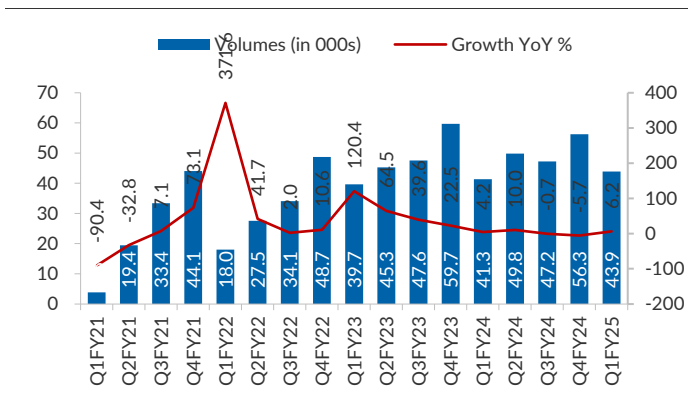
## KEY CON-CALL HIGHLIGHTS

- **Outlook** – Believe positive narrative is building up for the good prospects. Seeing 2QFY25 momentum is positive with full year growth likely to be flat (worse case) and see growth (base case).
  - **EV Bus** – Switch have order book of ~550 units from Delhi (to be completed by Mar), ~300 units from Bangalore, ~100 units from UP. Additionally, post Apr'25 have orders for ~400 units for Delhi. Participating in more tenders as well with launch of 9m bus.
  - **MHCV pax** – ~37 lacs trucks of which ~10 lacs sold in past 4 years which are BS6. Vehicles sold between 2017-2020, pax is ~8.5 lacs units.
- **Expect replacement demand to be healthy** – Aging of fleet is at its peak at ~10-11 years (vs average age of 7-8 years) which will lead to healthy replacement demand in FY26/27.
- **New products and network expansion which should help volumes and market share**
  - **LCV** business have high growth headroom with ~6 new launches in FY25E (of which 2 launched in 1QFY24). Sub 2 ton launch not expected in FY25E and its a mid-term project.
  - **Bus** – MS share in ICV bus segment is <20% and want to gain the same with launch of new products.
  - **EV LCV** – IEV 4 sales is more of B2B segment and volumes are small. Expect slow transition to EV LCV segment.
  - **Network** – overall touch point is now ~1k.
- **One-time expense related to EV development** such as battery pack and software, advance engineering and setting up of center of excellence for EV and software defined vehicles etc. are accounted under S/A accounts in other expense. Such expense for trucks will be part of S/A while for Bus and LCV, the same will be accounted in subs accounts.
- **Overall RM remained benign in 1QFY25** and expected to remain so for subsequent quarters. Have not taken any price hikes in 1QFY25 and also in July'24.
- **PLI** – meeting all the requirements of PLI/FAME and hoping to get PLI certification for the products.
- Capex for FY25E expected at ~Rs7.5b plus investments in Switch and other subs. FY24 capex at ~Rs5b for FY24.
- **Non-vehicle segment performance**
  - Defence revenues grew 3x with volumes crossed ~1k vehicles (vs 250 vehicles YoY). Order pipeline too remain strong. Expect to double defence business in 2-3 years.
  - Spares revenues grew ~12.5% YoY.
  - **Power solution** volumes declined ~20% YoY led by pre buy last year but still expect healthy growth in FY25E.
  - **Exports** – some of the markets which were under pressure over the past 2 years is seeing signs of rebound.

- **HLFL reverse merger will also cover housing finance subsidiary as well.**
  - **HLFL financials** – AUM of HLFL is ~Rs400b and housing finance AUM is ~Rs110.5b with total AUM of Rs510.5b. HLFL 1QFY25 revenues at Rs13.8b with PAT of Rs1.3b.
  - Expect HLFL listing to be before end of Mar'25.
  - Loan book contribution - <25% is from AL.
- **Don't expect large investment in engine technology** – If need be, can scale up engine power to 300-350 HP and even beyond. Expect some shift from 250HP (belly of the market) towards 280-300 HP. Have engine platform (A6 6 cylinder) which can have options even beyond 350HP.
- **Net debt at Rs12.95b as of 1QFY25.**

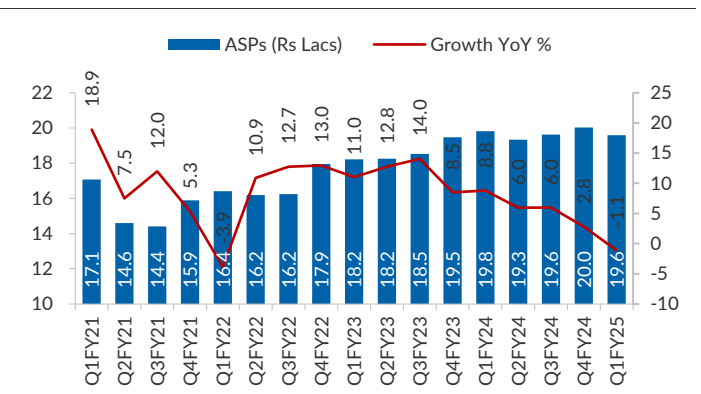
## CHARTS

**Exhibit 1: 1QFY25 volumes grew by 6.2% YoY**



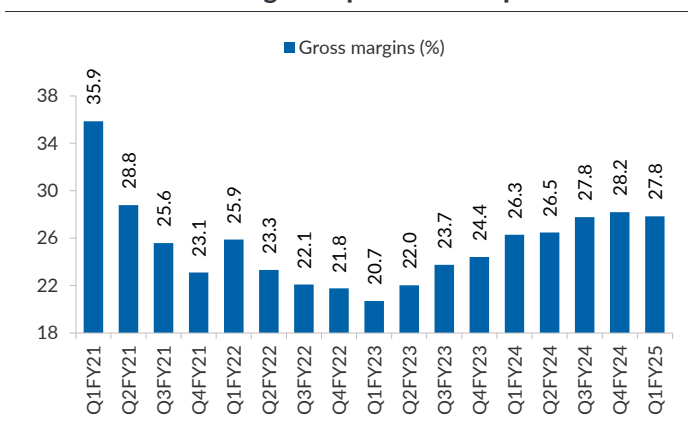
Source: Company, YES Sec

**Exhibit 2: ASP declined 1.1% YoY at Rs1.96m/unit**



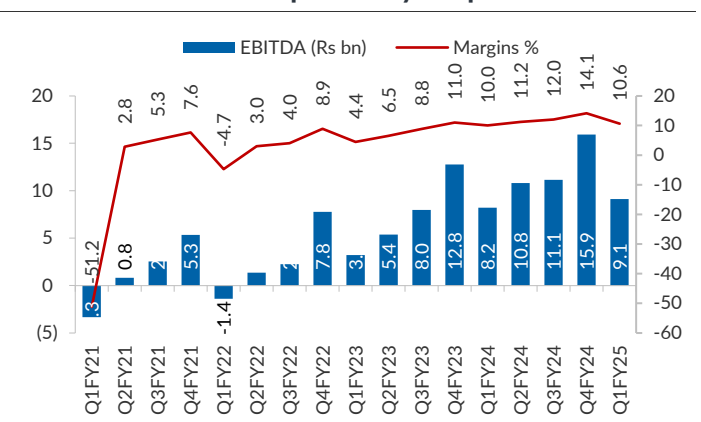
Source: Company, YES Sec

**Exhibit 3: Gross Margins expanded 150bp YoY at 27.8%**



Source: Company, YES Sec

**Exhibit 4: EBITDAM expanded by 60bp YoY at 10.6%**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 5: Balance Sheet

Y/E March	2020	2021	2022	2023	2024	2025E	2026E
Sources of Funds							
Share Capital	2,936	2,936	2,936	2,936	2,936	2,936	2,936
Reserves	69,704	66,837	70,434	81,322	85,167	101,133	116,012
Net Worth	72,640	69,772	73,369	84,258	88,104	104,069	118,948
Loans	31,053	37,588	35,539	32,248	22,994	19,994	16,994
Deferred Tax Liability	2,648	1,708	1,444	5,035	5,563	7,753	10,063
<b>Capital Employed</b>	<b>106,341</b>	<b>109,068</b>	<b>110,351</b>	<b>121,541</b>	<b>116,661</b>	<b>131,816</b>	<b>146,005</b>
Application of Funds							
Gross Fixed Assets	96,199	105,576	107,635	111,511	114,435	122,700	128,700
Less: Depreciation	28,163	35,072	41,626	48,470	54,917	62,742	70,787
Net Fixed Assets	68,036	70,504	66,009	63,042	59,518	59,958	57,913
Capital WIP	5,941	3,719	1,943	1,325	2,015	1,250	1,250
Investments	27,196	30,687	48,196	66,636	55,598	60,108	64,618
Curr.Assets, L & Adv.	62,723	79,590	87,190	98,442	118,987	155,604	173,895
Inventory	12,380	21,423	20,752	27,745	31,907	34,903	40,864
Sundry Debtors	11,889	28,163	31,110	40,627	35,699	39,051	40,818
Cash & Bank Balances	13,225	8,230	10,470	5,013	34,382	18,409	26,110
Loans & Advances	25,229	21,774	24,858	25,057	16,999	63,241	66,103
Current Liab. & Prov.	57,555	75,431	92,986	107,903	119,457	145,104	151,671
Sundry Creditors	30,373	51,647	68,752	71,751	63,052	80,489	84,131
Other Liabilities	19,127	17,239	17,530	25,767	42,657	46,662	48,774
Provisions	8,055	6,545	6,705	10,385	13,748	17,953	18,765
<b>Application of Funds</b>	<b>106,341</b>	<b>109,068</b>	<b>110,351</b>	<b>121,541</b>	<b>116,661</b>	<b>131,816</b>	<b>146,005</b>

Source: Company, YES Sec

## Exhibit 6: Income statement

Y/E March	2020	2021	2022	2023	2024	2025E	2026E
Net Sales	174,675	153,015	216,883	361,441	383,670	419,691	438,685
Change (%)	(39.9)	(12.4)	41.7	66.7	6.2	9.4	4.5
EBITDA	11,737	5,351	9,945	29,307	46,066	52,507	54,763
Change (%)	(62.6)	(54.4)	85.8	194.7	57.2	14.0	4.3
EBITDA Margins (%)	6.7	3.5	4.6	8.1	12.0	12.5	12.5
Depreciation	6,698	7,477	7,528	7,320	7,178	7,825	8,045
EBIT	5,039	(2,126)	2,418	21,987	38,888	44,681	46,719
Interest & Fin. Charges	1,095	3,068	3,011	2,891	2,494	2,364	2,034
Other Income	1,233	1,195	761	1,161	2,466	1,475	1,530
Non-recurring Expense / (Inc)	1,558	121	(5,108)	(846)	937	-	-
PBT	3,619	(4,119)	5,276	21,104	37,922	43,792	46,214
Tax	1,224	(982)	(142)	7,303	11,743	11,824	13,864
Effective Rate (%)	33.8	23.8	(2.7)	34.6	31.0	27.0	30.0
Rep. PAT	2,395	(3,137)	5,418	13,801	26,179	31,968	32,350
Adjusted PAT	3,426	(3,045)	172	12,955	27,116	31,968	32,350
Change (%)	(83.1)	(188.9)	(105.7)	7,417.9	109.3	17.9	1.2

Source: Company, YES Sec

## Exhibit 7: Cash Flow Statement

Y/E March	2020	2021	2022	2023	2024	2025E	2026E
OP/(Loss) before Tax	2,395	(3,137)	5,418	13,801	26,179	44,681	46,719
Int/Div Received	(766)	(946)	(221)	(404)	(1,362)	1,475	1,530
Depreciation	6,698	7,477	7,528	7,320	7,178	7,825	8,045
Direct Taxes Paid	(941)	779	714	(4,002)	(6,245)	(9,634)	(11,554)
(Inc)/Dec in Work Cap.	(1,756)	(6,058)	15,696	(4,265)	(15,229)	(26,943)	(4,024)
Other Items	3,949	2,165	(2,666)	8,910	14,511	-	-
CF from Oper. Activity	9,579	280	26,469	21,360	25,031	17,405	40,716
Extra-ordinary Items	(168)	(69)	-	-	-	-	-
CF after EO Items	9,411	211	26,469	21,360	25,031	17,405	40,716
(Inc)/Dec in FA+CWIP	(12,923)	(6,166)	(3,933)	(4,884)	(4,815)	(7,500)	(6,000)
Free Cash Flow	(3,512)	(5,954)	22,536	16,477	20,217	9,905	34,716
CF from Inv. Activity	(21,775)	(9,752)	(14,589)	(17,345)	9,021	(12,010)	(10,510)
Inc/(Dec) in Debt	25,655	4,780	(2,721)	(3,868)	(9,080)	(3,000)	(3,000)
Interest Rec./ (Paid)	(1,463)	(2,720)	(2,755)	(2,598)	(2,461)	(2,364)	(2,034)
Dividends Paid	(12,702)	-	(1,761)	(2,936)	(7,634)	(16,003)	(17,471)
CF from Fin. Activity	11,490	2,060	(7,238)	(9,402)	(19,175)	(21,367)	(22,505)
Inc/(Dec) in Cash	(874)	(7,481)	4,643	(5,387)	14,878	(15,973)	7,701

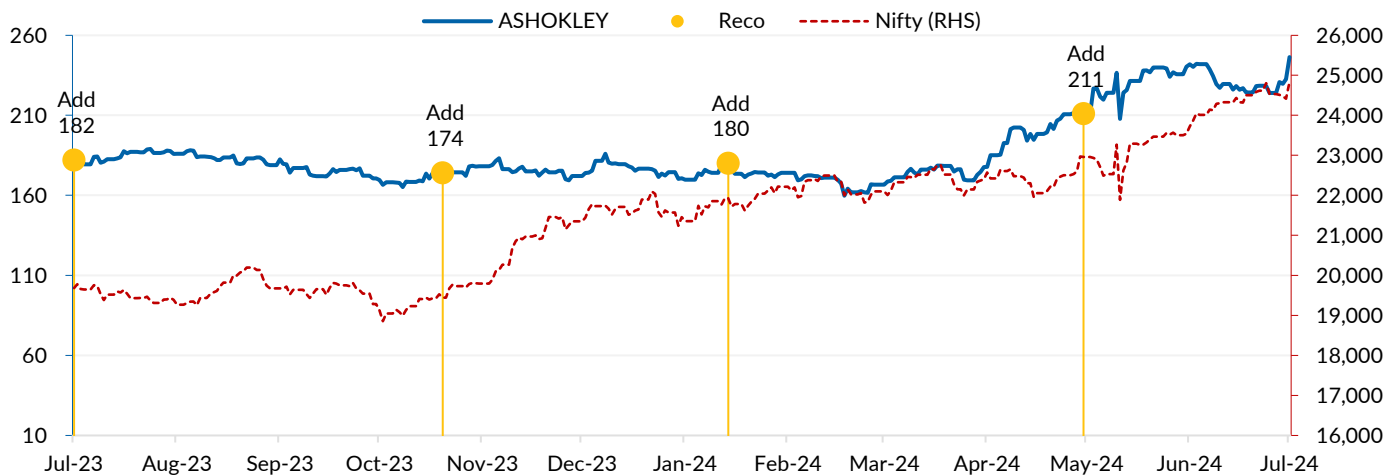
Source- Company, YES Sec

**Exhibit 8: Growth and Ratio matrix**

Y/E March	2020	2021	2022	2023	2024	2025E	2026E
<b>Basic (INR)</b>							
EPS	1.2	(1.0)	0.1	4.4	9.2	10.9	11.0
EPS Fully Diluted	1.2	(1.0)	0.1	4.4	9.2	10.9	11.0
EPS Growth (%)	(83.1)	(188.9)	(105.7)	7,416.3	109.3	17.9	1.2
Cash EPS	3.4	1.5	2.6	6.9	11.7	13.6	13.8
Book Value per Share	24.7	23.8	25.0	28.7	30.0	35.4	40.5
DPS	0.5	0.6	1.0	2.6	5.0	5.5	6.0
Payout (Excl. Div. Tax) %	42.8	(57.8)	1,703.5	58.9	53.6	50.1	54.0
<b>Valuation (x)</b>							
P/E	211.0	(237.5)	4,196.6	55.8	26.7	22.6	22.4
Cash P/E	71.4	163.2	93.9	35.7	21.1	18.2	17.9
EV/EBITDA	63.1	140.6	75.2	25.6	15.5	13.8	13.0
EV/Sales	4.2	4.9	3.4	2.1	1.9	1.7	1.6
Price to Book Value	10.0	10.4	9.9	8.6	8.2	7.0	6.1
Dividend Yield (%)	0.2	0.2	0.4	1.1	2.0	2.2	2.4
<b>Profitability Ratios (%)</b>							
ROE	4.4	(4.3)	0.2	16.4	31.5	33.3	29.0
RoCE	4.2	(0.7)	3.0	13.1	24.0	27.1	24.3
RoIC	6.5	(2.6)	4.3	29.3	73.3	85.0	61.7
<b>Turnover Ratios</b>							
Debtors (Days)	24.8	67.2	52.4	41.0	34.0	34.0	34.0
Inventory (Days)	25.9	51.1	34.9	28.0	30.4	30.4	34.0
Creditors (Days)	63.5	123.2	115.7	72.5	60.0	70.0	70.0
Working Capital (Days)	(12.8)	(4.9)	(28.4)	(3.4)	4.3	(5.7)	(2.0)
Fixed-Asset Turnover (x)	2.6	2.2	3.3	5.7	6.4	7.0	7.6
<b>Leverage Ratio</b>							
Net Debt/Equity (x)	0.2	0.4	0.5	0.4	0.3	0.2	0.1

Source- Company, YES Sec

## Recommendation Tracker



Source – YES Sec

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Analyst signature

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