

Ashok Leyland | BUY

Margin miss on one-offs, Demand outlook remains positive

In 1QFY25, Ashok Leyland (AL) reported EBITDAM of 10.6%, 90bps below JMFe. 160bps YoY improvement in gross margin was led by better price realisation, cost reduction initiatives and steady RM cost. Demand momentum in domestic market continues to remain healthy led by pick-up in replacement demand. The company re-iterated its focus on profitable growth. Medium-term demand drivers (higher infra spends, scrappage policy, etc.) remain intact and AL aims for higher share in MHCVs (to c.35%) and LCV led by network expansion and addressing product gaps. Focus on higher net realisation and cost control initiatives are expected to support profitability. We estimate 7% / 16% revenue / EPS CAGR over FY24-27E. Maintain BUY with Jun'25 TP of INR 275 (20x fwd. EPS). Increase in competitive intensity remains key monitorable going forward.

- 1QFY25 - Margin below estimate:** In 1QFY25, AL reported net sales of INR 86bn (+5% YoY, -24%QoQ), 2% below JMFe. Blended realisations declined c.1% YoY (-2% QoQ). Total volume increased c.6% YoY (-22% QoQ). EBITDA margin stood at 10.6% (+60bps YoY; -350bps QoQ), 90bps below JMFe. Margin miss was due to higher other expenses on account of one-time spend towards development of centre of excellence for battery packs, electric drive units and software defined vehicles. EBITDA stood at INR 9.1bn (+11% YoY, -43% QoQ). Adj. PAT was at INR 5.3bn (-9% YoY; -46% QoQ).
- Demand outlook:** AL indicated despite on-going general elections in India, underlying demand for MHCV remained healthy. Truck fleet age remains high (10-11yrs vs. 7-8yrs historically) and the company expects acceleration in replacement demand going forward to drive volume momentum. Continued focus of GOI on infrastructure remains industry tailwind for medium-to-long term. AL highlighted that currently 3.7mn CV trucks are on road of which ~50% are aged over 11 years and thus it expects healthy pickup in replacement demand. Overall it remains optimistic for FY25 and expects bus, tractor trailers to lead the MHCV segment demand going forward. AL's LCV segment market share has been gradually increasing and the company targets further expansion led by new launches (6 in FY25) that will address white spaces in product portfolio (addressable mkt. to increase from 50% to 80%). AL's focus is on profitable growth and it does not plan to resort to aggressive pricing to gain market share. AL's export business is witnessing early signs of recovery (vol. grew by c.5% YoY in 1Q) and the management indicated that other businesses (defence and aftermarket) continued to grow strongly with healthy order pipeline (esp. for defence which it plans to double in next 2 years).
- Profitability outlook:** During 1Q, gross margins improved c.160bps YoY led by better price realisation, cost reduction efforts and steady RM costs. AL has not taken a price hike so far (during Apr-Jul'24). The company re-iterated its focus on pricing discipline and profitable growth. Commodity prices are expected to increase during 2Q. Astute cost controls and better pricing (net of discount) is expected to support margins going ahead.
- Update on EV business:** AL indicated Switch Mobility India has a healthy order book of 1,500+ e-buses. Recently launched e-LCV has also received strong response especially from e-commerce and delivery companies. AL's e-MaaS subsidiary OHM is managing e-bus operations in Bengaluru, Ahmedabad, Bihar and Chandigarh. The company reiterated that new product pipeline for both India and EU market remains healthy.



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We acknowledge the support services of Dev Jogani and Neha Ayyer in preparation of this report

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	275
Upside/(Downside)	11.6%
Previous Price Target	275
Change	0.0%

Key Data – AL IN

Current Market Price	INR246
Market cap (bn)	INR723.5/US\$8.6
Free Float	64%
Shares in issue (mn)	2,845.9
Diluted share (mn)	2,936.3
3-mon avg daily val (mn)	INR4,178.3/US\$49.9
52-week range	249/158
Sensex/Nifty	81,333/24,835
INR/US\$	83.7

Price Performance

%	1M	6M	12M
Absolute	2.6	45.1	36.0
Relative*	-0.3	28.4	10.7

* To the BSE Sensex

Financial Summary

Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	3,61,441	3,83,670	4,15,571	4,50,647	4,70,984
Sales Growth	66.7%	6.2%	8.3%	8.4%	4.5%
EBITDA	29,307	46,066	53,089	60,726	63,489
EBITDA Margin	8.1%	12.0%	12.8%	13.5%	13.5%
Adjusted Net Profit	12,955	27,116	33,983	39,804	41,934
Diluted EPS (INR)	4.4	9.2	11.6	13.6	14.3
Diluted EPS Growth	4,073.0%	109.3%	25.3%	17.1%	5.4%
ROIC	29.6%	82.3%	187.7%	303.0%	527.2%
ROE	16.4%	31.5%	34.7%	33.1%	28.7%
P/E (x)	55.8	26.6	21.3	18.1	17.2
P/B (x)	8.6	8.2	6.7	5.4	4.5
EV/EBITDA (x)	24.8	15.0	12.7	10.9	10.1
Dividend Yield	0.4%	1.1%	2.0%	2.0%	2.0%

Source: Company data, JM Financial. Note: Valuations as of 26/Jul/2024

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
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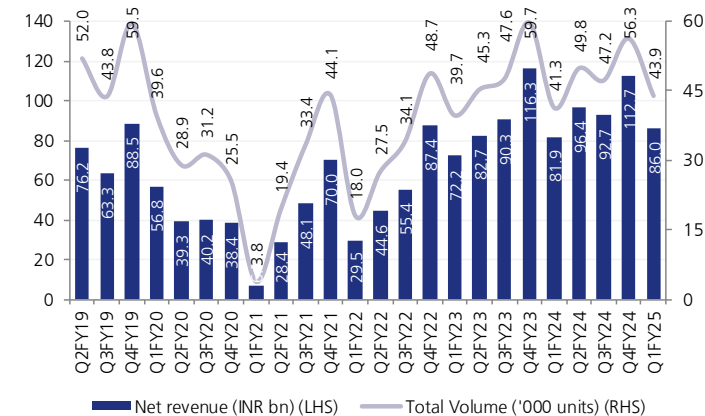
- **Other highlights:** 1) AL indicated that there is no impact of DFC so far and may take a few years before it becomes effective. 2) HLFL performed well; Current AUM stands at c.515+bn, 1Q revenue / PAT stood at INR 13.7bn / INR 1.3bn. HLFL reverse merger – approvals are in progress and the company expects its listing by FY25 end. 3) Capex guidance for FY25 stands between INR 5-7bn. 4) Power Solutions / Spares segment grew by 12.5% YoY during 1QFY25.

Exhibit 1. Standalone quarterly performance

AL (INR mn)	Q1FY25	Q1FY24	% YoY	Q4FY24	% QoQ	Q1FY25E	% A/E
MHCV (Units)	27,885	26,165	6.6	37,149	-24.9	27,885	0.0
LCV (Units)	16,008	15,164	5.6	19,120	-16.3	16,008	0.0
Total Volumes (Units)	43,893	41,329	6.2	56,269	-22.0	43,893	0.0
Average Realisation (Net, INR)	1,958,975	1,981,488	-1.1	2,002,291	-2.2	2,005,628	-2.3
Sales	85,985	81,893	5.0	112,667	-23.7	88,033	-2.3
RM	62,046	60,372	2.8	80,906	-23.3	63,824	-2.8
As a % of sales	72.2	73.7	-160bps	71.8	30bps	72.5	-30bps
Employee Exp	5,498	5,376	2.3	5,535	-1	5,282	4.1
As a % of sales	6.4	6.6	-20bps	4.9	150bps	6.0	40bps
Other Costs	9,333	7,938	17.6	10,305	-9.4	8,803	6.0
As a % of sales	10.9	9.7	120bps	9.1	170bps	10.0	90bps
Expenditure	76,877	73,685	4.3	96,746	-20.5	77,909	-1.3
EBITDA	9,109	8,207	11	15,921	-42.8	10,124	-10.0
EBITDA Margin	10.6	10.0	60bps	14.1	-350bps	11.5	-90bps
Other Income	224	512	-56.3	1,179	-81.0	550	-59.4
Interest	591	699	-15.5	592	-0.3	615	-4.0
Depreciation	1,727	1,794	-3.7	1,797	-3.9	1,815	-4.8
PBT	7,015	6,227	12.6	14,711	-52.3	8,244	-14.9
Tax	1,759	457	284.9	5,010	-64.9	2,473	-28.9
Tax rate (%)	25.1	7.3		34.1		30.0	
PAT (Adjusted)	5,256	5,770	-8.9	9,701	-45.8	5,771	-8.9
PAT Margin (Adjusted)	6.1	7.0	-90bps	8.6	-250bps	6.6	-40bps
EPS (Rs)	1.8	2.0	-8.9	3.3	-45.8	2.0	-8.9

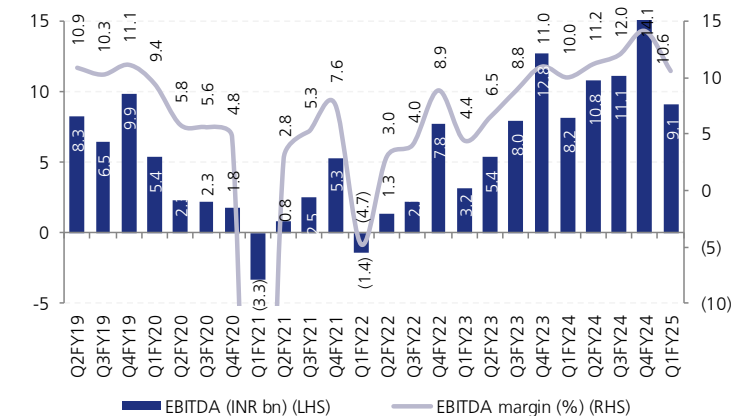
Source: Company, JM Financial

Exhibit 2. Revenue and volume trend



Source: Company, JM Financial

Exhibit 3. EBITDA and Margin trend



Source: Company, JM Financial; Note: 1QFY21 margin at -51%

Exhibit 4. AL - change in assumptions (standalone)

Ashok Leyland	New assumption			Old assumption			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue (INR mn)	415,571	450,647	470,984	415,805	450,897	NA	-0.1%	-0.1%	NA
MHCV volume (nos.)	133,271	142,397	145,229	133,358	142,488	NA	-0.1%	-0.1%	NA
Growth (%)	6.7%	6.8%	2.0%	6.8%	7.9%	NA			
LCV volume (nos.)	73,290	76,955	78,878	73,290	76,955	NA	0.0%	0.0%	NA
Growth (%)	5.0%	5.0%	5.0%	5.0%	0.0%	NA			
EBITDA (INR mn)	53,089	60,726	63,489	53,175	60,820	NA	-0.2%	-0.2%	NA
EBITDA margin (%)	12.8%	13.5%	13.5%	12.8%	13.5%	NA	90bps	250bps	NA
PAT (INR mn)	33,983	39,804	41,934	34,434	40,681	NA	-1.3%	-2.2%	NA
EPS (INR)	11.6	13.6	14.3	11.7	13.9	NA	-1.3%	-2.2%	NA

Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	3,61,441	3,83,670	4,15,571	4,50,647	4,70,984	
Sales Growth	66.7%	6.2%	8.3%	8.4%	4.5%	
Other Operating Income	0	0	0	0	0	
Total Revenue	3,61,441	3,83,670	4,15,571	4,50,647	4,70,984	
Cost of Goods Sold/Op. Exp	2,78,492	2,79,120	2,98,436	3,20,085	3,33,566	
Personnel Cost	21,139	22,334	24,567	27,024	29,186	
Other Expenses	32,504	36,151	39,479	42,811	44,743	
EBITDA	29,307	46,066	53,089	60,726	63,489	
EBITDA Margin	8.1%	12.0%	12.8%	13.5%	13.5%	
EBITDA Growth	194.7%	57.2%	15.2%	14.4%	4.5%	
Depn. & Amort.	7,320	7,178	7,454	7,864	8,174	
EBIT	21,987	38,888	45,635	52,862	55,314	
Other Income	1,161	2,466	1,973	2,170	2,387	
Finance Cost	2,891	2,494	2,224	1,874	1,699	
PBT before Excep. & Forex	20,258	38,859	45,383	53,157	56,002	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	20,258	38,859	45,383	53,157	56,002	
Taxes	7,303	11,743	11,400	13,353	14,068	
Extraordinary Inc./Loss(-)	846	-937	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	13,801	26,179	33,983	39,804	41,934	
Adjusted Net Profit	12,955	27,116	33,983	39,804	41,934	
Net Margin	3.6%	7.1%	8.2%	8.8%	8.9%	
Diluted Share Cap. (mn)	2,936.1	2,936.3	2,936.3	2,936.3	2,936.3	
Diluted EPS (INR)	4.4	9.2	11.6	13.6	14.3	
Diluted EPS Growth	4,073.0%	109.3%	25.3%	17.1%	5.4%	
Total Dividend + Tax	2,936	7,634	14,535	14,682	14,682	
Dividend Per Share (INR)	1.0	2.6	5.0	5.0	5.0	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	84,258	88,104	1,07,552	1,32,675	1,59,927	
Share Capital	2,936	2,936	2,936	2,936	2,936	
Reserves & Surplus	81,322	85,167	1,04,616	1,29,739	1,56,991	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	32,248	22,994	19,494	15,994	15,994	
Def. Tax Liab. / Assets (-)	5,035	5,563	5,563	5,563	5,563	
Total - Equity & Liab.	1,21,541	1,16,661	1,32,609	1,54,232	1,81,485	
Net Fixed Assets	64,367	61,533	60,095	59,246	58,087	
Gross Fixed Assets	1,11,652	1,15,307	1,21,322	1,28,337	1,35,353	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	48,611	55,789	63,243	71,107	79,281	
Capital WIP	1,325	2,015	2,015	2,015	2,015	
Investments	66,636	55,598	68,098	80,598	93,098	
Current Assets	94,914	1,18,987	1,35,686	1,56,579	1,82,075	
Inventories	27,745	31,907	34,157	37,039	38,711	
Sundry Debtors	40,627	35,699	39,849	43,213	45,163	
Cash & Bank Balances	5,013	34,382	43,661	57,227	77,955	
Loans & Advances	21,529	16,999	18,019	19,100	20,246	
Other Current Assets	0	0	0	0	0	
Current Liab. & Prov.	1,04,375	1,19,457	1,31,269	1,42,191	1,51,774	
Current Liabilities	71,751	63,052	69,499	74,540	77,680	
Provisions & Others	32,624	56,405	61,770	67,650	74,095	
Net Current Assets	-9,461	-470	4,417	14,389	30,300	
Total - Assets	1,21,541	1,16,661	1,32,609	1,54,232	1,81,485	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	20,258	38,859	45,383	53,157	56,002	
Depn. & Amort.	7,320	7,178	7,454	7,864	8,174	
Net Interest Exp. / Inc. (-)	2,891	2,494	2,224	1,874	1,699	
Inc (-) / Dec in WCap.	-1,792	20,378	4,392	3,594	4,816	
Others	0	0	0	0	0	
Taxes Paid	-7,303	-11,743	-11,400	-13,353	-14,068	
Operating Cash Flow	21,374	57,166	48,054	53,137	56,624	
Capex	-3,735	-4,345	-6,015	-7,015	-7,015	
Free Cash Flow	17,639	52,821	42,039	46,122	49,609	
Inc (-) / Dec in Investments	-18,440	11,038	-12,500	-12,500	-12,500	
Others	-2,891	-2,494	-2,224	-1,874	-1,699	
Investing Cash Flow	-25,065	4,199	-20,740	-21,390	-21,215	
Inc / Dec (-) in Capital	1	0	0	0	0	
Dividend + Tax thereon	-2,936	-7,634	-14,535	-14,682	-14,682	
Inc / Dec (-) in Loans	-3,291	-9,254	-3,500	-3,500	0	
Others	4,461	-15,108	0	0	0	
Financing Cash Flow	-1,765	-31,996	-18,035	-18,182	-14,682	
Inc / Dec (-) in Cash	-5,457	29,369	9,279	13,566	20,728	
Opening Cash Balance	10,470	5,013	34,382	43,661	57,227	
Closing Cash Balance	5,013	34,382	43,661	57,227	77,955	

Source: Company, JM Financial

Dupont Analysis		FY23A	FY24A	FY25E	FY26E	FY27E
Y/E March						
Net Margin		3.6%	7.1%	8.2%	8.8%	8.9%
Asset Turnover (x)		3.2	3.4	3.5	3.3	2.9
Leverage Factor (x)		1.4	1.3	1.2	1.1	1.1
RoE		16.4%	31.5%	34.7%	33.1%	28.7%

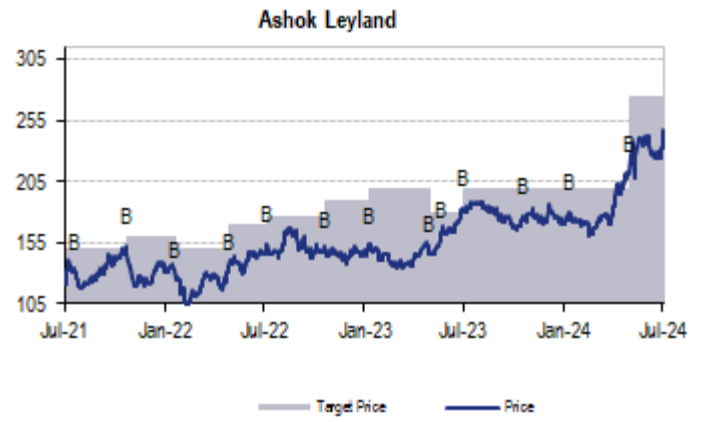
Key Ratios		FY23A	FY24A	FY25E	FY26E	FY27E
Y/E March						
BV/Share (INR)		28.7	30.0	36.6	45.2	54.5
ROIC		29.6%	82.3%	187.7%	303.0%	527.2%
ROE		16.4%	31.5%	34.7%	33.1%	28.7%
Net Debt/Equity (x)		0.3	-0.1	-0.2	-0.3	-0.4
P/E (x)		55.8	26.6	21.3	18.1	17.2
P/B (x)		8.6	8.2	6.7	5.4	4.5
EV/EBITDA (x)		24.8	15.0	12.7	10.9	10.1
EV/Sales (x)		2.0	1.8	1.6	1.5	1.4
Debtor days		41	34	35	35	35
Inventory days		28	30	30	30	30
Creditor days		79	68	70	70	70

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
26-Jun-20	Buy	70	
13-Aug-20	Buy	80	14.3
21-Sep-20	Buy	100	25.0
9-Nov-20	Buy	100	0.0
21-Dec-20	Buy	120	20.0
12-Feb-21	Buy	150	25.0
25-Jun-21	Buy	150	0.0
13-Aug-21	Buy	150	0.0
15-Nov-21	Buy	160	6.7
14-Feb-22	Buy	150	-6.3
22-May-22	Buy	170	13.3
1-Aug-22	Buy	177	4.1
13-Nov-22	Buy	190	7.3
2-Feb-23	Buy	200	5.3
25-May-23	Buy	180	-10.0
15-Jun-23	Buy	180	0.0
24-Jul-23	Buy	200	11.1
12-Nov-23	Buy	200	0.0
6-Feb-24	Buy	200	0.0
26-May-24	Buy	275	37.5

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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Rating	Meaning
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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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