

November 08, 2024

RESULT REPORT Q2 FY25 | Sector: Automobile

Ashok Leyland

Positive MHCV outlook maintained for 2HFY25

Valuation and View – MHCV volume trajectory key to watch for

AL's 2QFY25 operating performance was slightly better as EBITDA margins came in at 11.6% (vs est 11.2%, cons 11.1%, +40bp/+100bp YoY/QoQ). This was led by better-than-expected gross margins as RM continues to be benign (+50bp impact) and cost control initiatives (+50bp impact). 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 2QFY25 led by, 1) Aftermarket (+13% YoY), 2) Defence revenues grew >2x YoY in 1HFY25 and 3) engines +17% YoY and exports growth despite macro challenges in key markets.

We are building in ~4% MHCV volume CAGR over FY24-27E with decline 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 to build-up in 2HFY25 led by likely pickup in fleet sentiments and improvement in infra-activities. We largely maintain FY26/27 EPS while cut FY25 EPS by ~4% to build for positive impact of continued growth momentum in non-vehicle segments on revenue/profitability partially offset by slight volume cuts. We maintain ADD with TP of Rs256 (v/s Rs260 at ~12x of Mar'27 EV/EBITDA) and ~Rs15 for NBFC. External funding for EV business (Switch) and trend in replacement volumes are key catalyst.

Result Highlights – Margins trajectory healthy given weak volumes

- Revenues grew 9% YoY (+2% QoQ) at ~Rs87.7b (est Rs89b) as ASP declined ~0.6% YoY/-1.9% QoQ at ~Rs1.92m/unit (est Rs1.94m/unit), while volumes declined by 8.5% YoY (+3.9% QoQ) at 45.6k units. Decline in ASP is led by unfavorable mix even within M&HCV, while LCVs increased to 38.2% (v/s 35.6% YoY/36.5% QoQ)
- Gross margins expanded 230bp YoY (+100bp QoQ) at 27.8% (est 27.4%) led by benign RM where steel prices declined by Rs2.5/kg lead (+50bp impact) and cost savings (+50bp impact). This has offset by higher employee cost at Rs6b (+9% QoQ, est Rs5.5b) and other expense at Rs9.1b (est Rs9b). EBITDA degrew ~5.8% YoY (+11.7% QoQ) at Rs10.1b (est Rs9.9b) with margins expanded 40bp YoY (+100bp QoQ) to 11.6% (est 11.2%). Steady operating performance was supported by higher other income at Rs973m (est Rs300m, +1x YoY), Adj.PAT grew ~19% YoY (+29.3% QoQ) at Rs6.8b (est Rs5.9b).
- Non-vehicle performance - Defence revenues double in 1HFY25 expect the same to continue in FY25/26. Spares revenues grew +13% YoY. Power solution volumes was slightly negative in 1HFY25 due to higher base due to pre-buy.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	87,688	89,001	90,410	-1.5	-3.0	Higher other income/tax credits boosts Adj. PAT.
EBITDA	10,173	9,939	10,025	2.4	1.5	
EBITDA margins %	11.6	11.2	11.1	40bp	50bp	
Adj. PAT	6,793	5,931	5,717	14.5	18.8	

Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 222
Target Price	: Rs 256
Potential Return	: +15%

Stock data (as on Nov 8, 2024)

Nifty	24,148
52 Week h/l (Rs)	265 / 158
Market cap (Rs/USD mn)	6,33,975 / 7,516
Outstanding Shares (mn)	2,936
6m Avg t/o (Rs mn):	2,889
Div yield (%):	2.2
Bloomberg code:	AL IN
NSE code:	ASHOKLEY

Stock performance



	1M	3M	1Y
Absolute return	(0.3%)	(9.9%)	+27.9%

Shareholding pattern (As of Sep'24)

Promoter	51.5%
FII+DII	36.8%
Others	11.7%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	256	260

Δ in earnings estimates

	FY25E	FY26E
EPS (New)	9.8	11.2
EPS (Old)	10.2	11.3
% change	(3.7%)	(1.1%)

Financial Summary

Y/E Mar (Rs b)	FY25E	FY26E	FY27E
Sales	379.3	422.4	450.3
EBITDA	45.7	53.2	57.2
Adj. PAT	28.8	32.9	35.7
Adj. EPS (INR)	9.8	11.2	12.2
EPS Gr. (%)	6.2	14.4	8.4
BV/Sh. (INR)	34.8	40.0	45.7
RoE (%)	30.3	30.0	28.4
RoCE (%)	25.5	25.9	25.0
Payout (%)	55.6	53.1	53.0
P/E (x)	22.6	19.8	18.3
P/BV (x)	6.4	5.5	4.9
EV/EBITDA (x)	14.4	12.1	11.0
Div. Yield (%)	2.5	2.7	2.9

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Exhibit 2: Quarterly snapshot

Y/E Mar (Rs mn)	Q2FY25	Q2FY24	YoY chg	Q1FY25	1HFY25	1HFY24	YoY chg
Net Revenues	87,688	96,380	(9.0)	85,985	173,674	178,273	(2.6)
Raw Materials	62,410	70,866	(11.9)	62,046	124,457	131,237	(5.2)
<i>% of Net Sales</i>	71.2%	73.5%		72.2%	71.7%	73.6%	
Personnel	5,987	5,728	4.5	5,498	11,484	11,104	3.4
<i>% of Net Sales</i>	6.8%	5.9%		6.4%	6.6%	6.2%	
Manufacturing & Other Exp	9,118	8,989	1.4	9,333	18,451	16,927	9.0
<i>% of Net Sales</i>	10.4%	9.3%		10.9%	10.6%	9.5%	
Total Expenditure	77,515	85,583	(9.4)	76,877	154,392	159,268	(3.1)
EBITDA	10,173	10,798	(5.8)	9,109	19,282	19,005	1.5
EBITDA Margin (%)	11.6%	11.2%		10.6%	11.1%	10.7%	
Depreciation	1,754	1,803	(2.7)	1,727	3,482	3,597	(3.2)
EBIT	8,419	8,995	(6.4)	7,382	15,800	15,409	2.5
Interest Expenses	607	587	3.4	591	1,197	1,286	(6.9)
Non-operating income	973	475	105.0	223	1,196	986	21.3
Extraordinary Expenses	0	229		0	0	235	
PBT	9,958	8,654		7,014	16,973	14,875	14.1
Tax-Total	2,257	3,044	(25.8)	1,759	4,016	3,501	14.7
<i>Tax Rate (%) - Total</i>	22.7%	35.2%		25.1%	23.7%	23.5%	
Reported PAT	7,701	5,610	37.3	5,256	12,957	11,374	13.9
Adj. PAT	6,793	5,704	19.1	5,256	12,049	11,474	5.0
PAT Margin	7.7	5.9		6.1	6.9	6.4	
Key Operating Metrics							
Sales Volume (nos)	45,624	49,846	(8.5)	43,893	89,517	91,175	(1.8)
Net Realisation/Vehicle	1,921,977	1,933,563	(0.6)	1,958,975	1,940,119	1,955,287	(0.8)
Material cost / vehicle	1,367,929	1,421,689	(3.8)	1,413,583	1,390,315	1,439,397	(3.4)
Gross Profit / vehicle	554,048	511,875	8.2	545,392	549,804	515,890	6.6
Employee cost /vehicle	131,220	114,920	14.2	125,248	128,292	121,787	5.3
Other expenses / vehicle	199,853	180,329	10.8	212,624	206,115	185,654	11.0
EBITDA/vehicle	222,975	216,625	2.9	207,521	215,397	208,450	3.3
Net Profit/vehicle	148,897	114,430	30.1	119,741	134,601	125,841	7.0

Source- Company, YES Sec

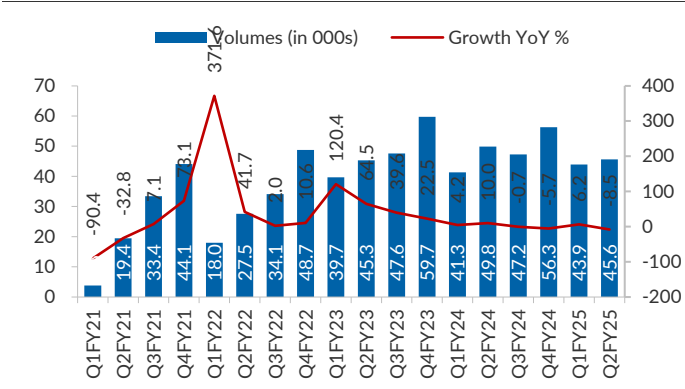
KEY CON-CALL HIGHLIGHTS

- **Outlook – MHCV demand drivers moving in right direction which should lead to better 2HFY25**
 - **MHCV outlook** – Believe things are moving better such as fleet utilization, freight rates. Saw temporary blip in fleet utilization to 30-60% in Central/East. Expect industry to post 0-3% in FY25, as per ICRA. Not seeing any degrowth in 2HFY25 and at worst flattish. Fleet age is 10-10.5 years now (vs historical average of 7-7.5 years).
 - **Comments on 2Q demand trends** - MHCV industry started on good note with 10% in 1Q while momentum dampened in 2W led by seasonal factors led to 12% decline in 2Q. remain optimistic for 2H and medium term. 2QFY25 replacement demand were weak though.
 - MHCV market share (MS) expanded to 31.2% vs 30.6% in 1Q, Bus MS at 35%. MHCV MS of 35% remain. Bus had lot of pent-up demand which is playing out.
 - **LCV addressable TIV** was lower 8% while AL vol declined 3% resulting in improving market share vs 19.8% (vs 18.9% YoY). South markets market share at 30-35% while North and East at single digit.
 - **Exports** – Despite macro/geopolitical challenges, seeing healthy volumes led by market expansion in key regions like SAARC, ME, African, GCC and Asia. Expect to do best ever exports for FY25. Have entered Southeast Asian markets.
 - **Engine** volumes grew +17% YoY in 2Q.
 - **Power solution** business was slight negative in 1HFY25 due to higher base due to prebuy ahead of emission changes.
 - **Spares** revenues grew +13% YoY in 2Q and +14% in 1HFY25.
 - **Defense** – FY24 saw doubling of revenues and same continued in 1HFY25 as well. Expect the same to continue in FY25/26.
 - Non-vehicle revenues continued healthy growth in 2QFY25.
- **New launch continued in 2QFY25** such as, 1) LCV - Bada dost i5, 2) ICV - Oyster ZiSE Bus. AL is number 2 player in 2.5-3-ton segment. AL have launched 13.5-meter launch last year and 15 meter will be launched in FY25. Issues around ICV buses is now sorted and expect to gain market share while focus is to maintain the market share in MHCV segment.
- **Alternate fuels** – Have recently secured order for ~180 EV trucks in 19-ton and 55-ton categories.
- **Switch** – **On-track to achieve EBITDA breakeven by 4QFY25 or 1QFY26E at current volumes run-rate. Look to be PAT positive at higher volumes. Haven't taken PLI benefits in consideration as yet.**
 - OHM have secured ~300 units EV bus from Bengaluru and 500 from Chennai state transport in addition to 1,200 orders received from DTC in prior quarters by Switch India. DTC/Bengaluru buses are 12-meter ultra-low floor buses with recent advancement and technology.
 - Switch have overall order book of 2,000 units to be completed in ~15 months.
- **RM decline was led by benign RM** (steel prices declined by Rs2.5/kg leading to 50bp positive impact), increased share from high margins verticals such as spares, power solutions and exports while cost control initiatives (50bp positive impact) continued.
 - Co have worked on lowering break-even levels across past few years.
 - Believe industry profitability is insulated to sharp volatility in industry volumes.

- **Net debt at Rs9.01b as of Sep'24** (vs Rs11.29b at 2QFY24 and Rs12.95b as of 1QFY25). D/E at 0.05x.
- Capex spends at Rs1.53b in 2QFY25 and Rs3.07b in 1HFY25. No investment done in subsidies during 2QFY25 but expect it be required to be made in 2HFY25 towards HLFL to the tune of Rs2-2.5b. Switch and OHM investments would be <Rs4.5-5b. Expect capex at Rs7.5b and investments of Rs5b for FY25.
- **Mandatory AC/aircons cabins norms** – don't expect significant impact as price delta would be at ~0.5%. Expect regulations to be implemented from Jun'25.
- **Hinduja Leyland Finance (HLFL)** – listing through reverse merger route is expected by 1QFY26. Delay is due to regulatory approvals. Don't feel true value of the co is captured in AL today.
 - **1HFY25 performance** - Overall AUM of Rs545b of which HLFL (ex-housing finance) is ~Rs420b and housing fin AUM is Rs12.5b. Revenue is ~Rs30b and profit of Rs3.5b.

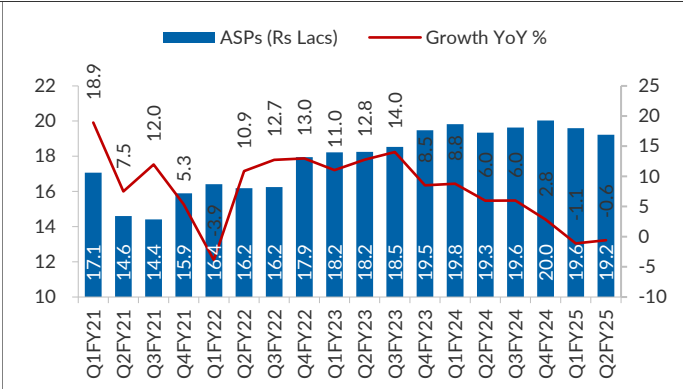
CHARTS

Exhibit 1: 2QFY25 volumes de-grew by 8.5% YoY



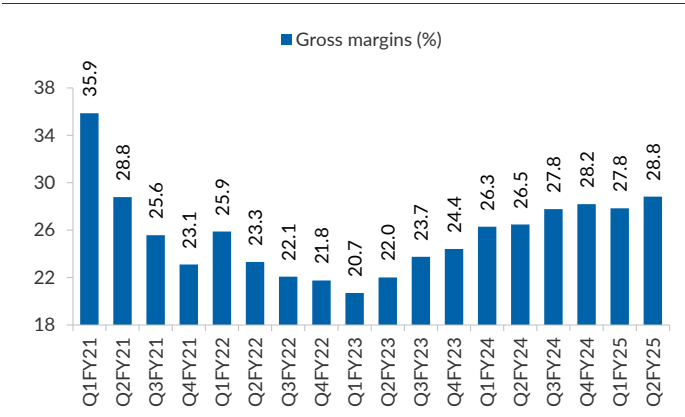
Source: Company, YES Sec

Exhibit 2: ASP declined 0.6% YoY at Rs1.92m/unit



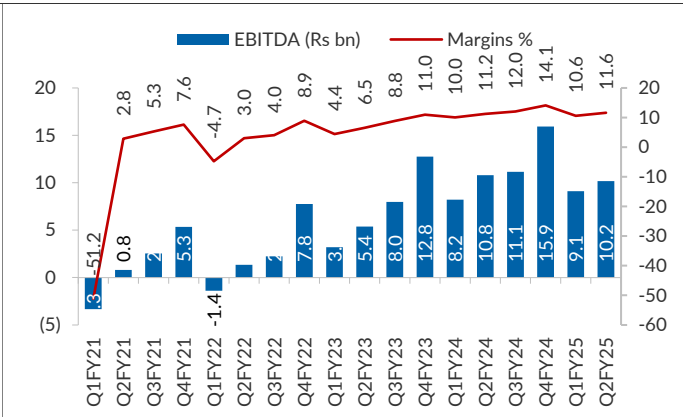
Source: Company, YES Sec

Exhibit 3: Gross Margins expanded 240bp YoY at 28.8%



Source: Company, YES Sec

Exhibit 4: EBITDAM expanded by 40bp YoY at 11.6%



Source: Company, YES Sec

FINANCIALS

Exhibit 5: Balance Sheet

Y/E March	2021	2022	2023	2024	2025E	2026E	2027E
Sources of Funds							
Share Capital	2,936	2,936	2,936	2,936	2,936	2,936	2,936
Reserves	66,837	70,434	81,322	85,167	99,130	114,583	131,345
Net Worth	69,772	73,369	84,258	88,104	102,067	117,520	134,282
Loans	37,588	35,539	32,248	22,994	14,994	11,994	8,994
Deferred Tax Liability	1,708	1,444	5,035	5,563	7,509	9,764	12,209
Capital Employed	109,068	110,351	121,541	116,661	124,570	139,278	155,485
Application of Funds							
Gross Fixed Assets	105,576	107,635	111,511	114,435	122,700	128,700	134,700
Less: Depreciation	35,072	41,626	48,470	54,917	62,268	70,313	78,742
Net Fixed Assets	70,504	66,009	63,042	59,518	60,432	58,387	55,958
Capital WIP	3,719	1,943	1,325	2,015	1,250	1,250	1,250
Investments	30,687	48,196	66,636	55,598	61,098	65,608	70,118
Curr.Assets, L & Adv.	79,590	87,190	98,442	118,987	132,927	160,073	183,842
Inventory	21,423	20,752	27,745	31,907	31,543	39,347	41,945
Sundry Debtors	28,163	31,110	40,627	35,699	35,292	39,303	41,898
Cash & Bank Balances	8,230	10,470	5,013	34,382	8,938	17,774	32,147
Loans & Advances	21,774	24,858	25,057	16,999	57,154	63,649	67,852
Current Liab. & Prov.	75,431	92,986	107,903	119,457	131,137	146,040	155,683
Sundry Creditors	51,647	68,752	71,751	63,052	72,742	81,008	86,357
Other Liabilities	17,239	17,530	25,767	42,657	42,171	46,963	50,064
Provisions	6,545	6,705	10,385	13,748	16,225	18,068	19,262
Application of Funds	109,068	110,351	121,541	116,661	124,570	139,278	155,485

Source: Company, YES Sec

Exhibit 6: Income statement

Y/E March	2021	2022	2023	2024	2025E	2026E	2027E
Net Sales	153,015	216,883	361,441	383,670	379,295	422,400	450,291
Change (%)	(12.4)	41.7	66.7	6.2	(1.1)	11.4	6.6
EBITDA	5,351	9,945	29,307	46,066	45,703	53,235	57,164
Change (%)	(54.4)	85.8	194.7	57.2	(0.8)	16.5	7.4
EBITDA Margins (%)	3.5	4.6	8.1	12.0	12.0	12.6	12.7
Depreciation	7,477	7,528	7,320	7,178	7,351	8,045	8,429
EBIT	(2,126)	2,418	21,987	38,888	38,352	45,191	48,735
Interest & Fin. Charges	3,068	3,011	2,891	2,494	2,279	1,619	1,469
Other Income	1,195	761	1,161	2,466	1,670	1,530	1,640
Non-recurring Expense / (Inc)	121	(5,108)	(846)	937	(1,174)	-	-
PBT	(4,119)	5,276	21,104	37,922	38,917	45,101	48,906
Tax	(982)	(142)	7,303	11,743	8,951	12,177	13,205
Effective Rate (%)	23.8	(2.7)	34.6	31.0	23.0	27.0	27.0
Rep. PAT	(3,137)	5,418	13,801	26,179	29,966	32,924	35,701
Adjusted PAT	(3,045)	172	12,955	27,116	28,792	32,924	35,701
Change (%)	(188.9)	(105.7)	7,417.9	109.3	6.2	14.4	8.4

Source: Company, YES Sec

Exhibit 7: Cash Flow Statement

Y/E March	2021	2022	2023	2024	2025E	2026E	2027E
OP/(Loss) before Tax	(3,137)	5,418	13,801	26,179	38,352	45,191	48,735
Int/Div Received	(946)	(221)	(404)	(1,362)	1,670	1,530	1,640
Depreciation	7,477	7,528	7,320	7,178	7,351	8,045	8,429
Direct Taxes Paid	779	714	(4,002)	(6,245)	(7,005)	(9,922)	(10,759)
(Inc)/Dec in Work Cap.	(6,058)	15,696	(4,265)	(15,229)	(27,704)	(3,407)	247
Other Items	2,165	(2,666)	8,910	14,511	-	-	-
CF from Oper. Activity	280	26,469	21,360	25,031	12,664	41,436	48,291
Extra-ordinary Items	(69)	-	-	-	1,174	-	-
CF after EO Items	211	26,469	21,360	25,031	13,838	41,436	48,291
(Inc)/Dec in FA+CWIP	(6,166)	(3,933)	(4,884)	(4,815)	(7,500)	(6,000)	(6,000)
Free Cash Flow	(5,954)	22,536	16,477	20,217	6,338	35,436	42,291
CF from Inv. Activity	(9,752)	(14,589)	(17,345)	9,021	(13,000)	(10,510)	(10,510)
Inc/(Dec) in Debt	4,780	(2,721)	(3,868)	(9,080)	(8,000)	(3,000)	(3,000)
Interest Rec./ (Paid)	(2,720)	(2,755)	(2,598)	(2,461)	(2,279)	(1,619)	(1,469)
Dividends Paid	-	(1,761)	(2,936)	(7,634)	(16,003)	(17,471)	(18,939)
CF from Fin. Activity	2,060	(7,238)	(9,402)	(19,175)	(26,282)	(22,090)	(23,408)
Inc/(Dec) in Cash	(7,481)	4,643	(5,387)	14,878	(25,444)	8,836	14,373

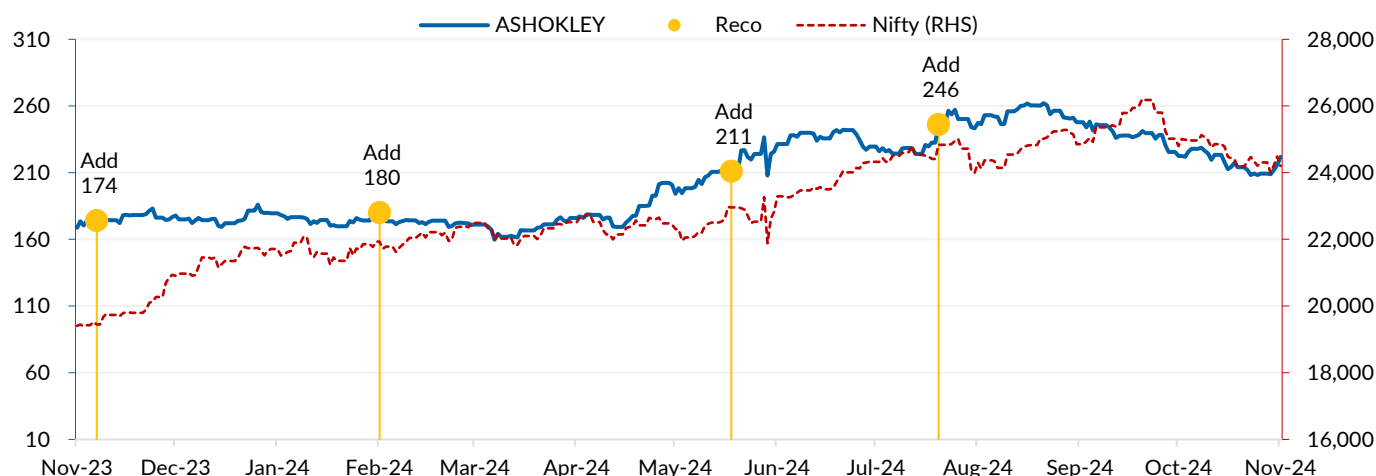
Source- Company, YES Sec

Exhibit 8: Growth and Ratio matrix

Y/E March	2021	2022	2023	2024	2025E	2026E	2027E
Basic (INR)							
EPS	(1.0)	0.1	4.4	9.2	9.8	11.2	12.2
EPS Fully Diluted	(1.0)	0.1	4.4	9.2	9.8	11.2	12.2
EPS Growth (%)	(188.9)	(105.7)	7,416.3	109.3	6.2	14.4	8.4
Cash EPS	1.5	2.6	6.9	11.7	12.3	14.0	15.0
Book Value per Share	23.8	25.0	28.7	30.0	34.8	40.0	45.7
DPS	0.6	1.0	2.6	5.0	5.5	6.0	6.5
Payout (Excl. Div. Tax) %	(57.8)	1,703.5	58.9	53.6	55.6	53.1	53.0
Valuation (x)							
P/E	(214.0)	3,781.8	50.3	24.0	22.6	19.8	18.3
Cash P/E	147.0	84.6	32.1	19.0	18.0	15.9	14.8
EV/EBITDA	127.3	68.0	23.2	13.9	14.4	12.1	11.0
EV/Sales	4.5	3.1	1.9	1.7	1.7	1.5	1.4
Price to Book Value	9.3	8.9	7.7	7.4	6.4	5.5	4.9
Dividend Yield (%)	0.3	0.5	1.2	2.2	2.5	2.7	2.9
Profitability Ratios (%)							
ROE	(4.3)	0.2	16.4	31.5	30.3	30.0	28.4
RoCE	(0.7)	3.0	13.1	24.0	25.5	25.9	25.0
RoC	(2.6)	4.3	29.3	73.3	75.8	61.1	66.7
Turnover Ratios							
Debtors (Days)	67.2	52.4	41.0	34.0	34.0	34.0	34.0
Inventory (Days)	51.1	34.9	28.0	30.4	30.4	34.0	34.0
Creditors (Days)	123.2	115.7	72.5	60.0	70.0	70.0	70.0
Working Capital (Days)	(4.9)	(28.4)	(3.4)	4.3	(5.7)	(2.0)	(2.0)
Fixed-Asset Turnover (x)	2.2	3.3	5.7	6.4	6.3	7.2	8.0
Leverage Ratio							
Net Debt/Equity (x)	0.4	0.5	0.4	0.3	0.1	0.1	0.1

Source- Company, YES Sec

Recommendation Tracker



Source - YES Sec

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