

November 10, 2023

RESULT REPORT Q2 FY24 | Sector: Automobile

# Ashok Leyland

## Cost tailwinds to keep margins elevated

### Valuation and View

AL's 2QFY24 operating performance was in-line as EBITDA margins expanded 470bp YoY/ 120bp QoQ at 11.2% (FY18 levels). This was led by combination of factors such as soft RM, better ASPs, operating leverage and cost controls. We believe, margins to continue to remain at an elevated level led by 1) cumulative price hikes of ~8-9% in past 3 quarters, 2) RM decline (~8% in 1Q and 2Q), 3) net pricing retention with continues to be healthy and 4) cost controls initiatives (savings of Rs6-6.5b in FY23). AL continues to gain market share with overall MHCV market share at ~31% in 1HFY24 led by new AVTR range, increased after sales support and network expansion. Improving demand from higher tonnage segment bode well for margin trajectory ahead.

We are building in MHCV volume growth of ~8% in FY24E with a decline of ~5% in FY25E. We believe AL's de-risking strategy to help as it reduces domestic MHCV exposure by adding new revenue pools such as LCVs (12-13%), exports (9-10% of sales) and spares (8-9% of sales). We believe, sustenance of MHCV market share gains is likely led by new launches and network expansion. We cut FY24/25 EPS by 3-4% for moderating volume outlook. Led by recent valuations expansion, we maintain the stock to ADD with TP of Rs200 (v/s Rs207 at ~12x of Mar'25 EV/EBITDA) and ~Rs14.5 for NBFC. An announcement related to external funding for EV business (Switch) would be value accretive.

### Result Highlights – In-line performance

- Revenues grew 16.6% YoY (+17.7% QoQ) at Rs96.4b (est Rs101b, cons Rs99.3b) as volume grew 10% YoY (+20.6% QoQ) at ~49.8k units and ASP grew 6% YoY (-2.4% QoQ) at Rs1.93m/unit (est Rs2m/unit). Decline in ASPs QoQ is a surprise as share of MHCV in overall volumes were at ~68% in 2Q (v/s 63% in 1Q).
- Gross margins expanded 450bp YoY (+20bp QoQ) at 26.5% (in-line).
- EBITDA grew ~1x YoY (+31.6% QoQ) at Rs10.8b (in-line to our/street) with margins expanded 470bp YoY (+120bp QoQ) to 11.2% (in-line).
- Led by healthy operating performance and higher other income at Rs475m (est Rs400m, +1.3x YoY), Adj.PAT grew 2.2x YoY (+7.8% QoQ) at Rs6.2b (in-line to our/street).
- 1HFY24 revenue/EBITDA/Adj.PAT grew 15%/1.2x/3.2x. at Rs178b/Rs8.6b/Rs12b.

### Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	96,380	101,238	99,294	-4.8	-2.9	Operating performance in-line.
EBITDA	10,798	11,006	10,827	-1.9	-0.3	
EBITDA margins %	11.2	10.9	10.9	30bp	30bp	
Adj. PAT	6,218	6,199	6,193	0.3	0.4	

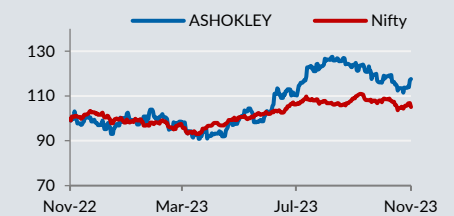
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 174
Target Price	: Rs 200
Potential Return	: +15%

### Stock data (as on Nov 10, 2023)

Nifty	19,425
52 Week h/l (Rs)	192 / 133
Market cap (Rs/USD mn)	500316 / 6008
Outstanding Shares (mn)	2,936
6m Avg t/o (Rs mn):	1,883
Div yield (%):	1.5
Bloomberg code:	AL IN
NSE code:	ASHOKLEY

### Stock performance



	1M	3M	1Y
Absolute return	0.1%	-6.7%	18.6%

### Shareholding pattern (As of Sep'23)

Promoter	51.1%
FII+DII	36.5%
Others	11.6%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	200	207

### Δ in earnings estimates

	FY24E	FY25E
EPS (New)	9.4	9.5
EPS (Old)	9.8	9.9
% change	(4.3%)	(3.7%)

### Financial Summary

Y/E Mar (Rs b)	2023	2024E	2025E
Sales	361.4	405.1	392.1
EBITDA	29.3	47.6	46.6
Adj. PAT	13.0	27.5	27.9
Adj. EPS (INR)	4.4	9.4	9.5
EPS Gr. (%)	NA	111.9	1.5
BV/Sh. (INR)	28.7	34.9	40.8
RoE (%)	16.4	29.4	25.1
RoCE (%)	13.1	22.5	20.2
Payout (%)	58.9	33.2	37.9
P/E (x)	39.4	18.6	18.3
P/BV (x)	6.1	5.0	4.3
EV/EBITDA (x)	18.3	11.1	11.3
Div. Yield (%)	1.5	1.8	2.1

### DEEP SHAH

Lead Analyst

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## Exhibit 2: Quarterly snapshot

Y/E Mar (Rs mn)	Q2FY24	Q2FY23	YoY chg	Q1FY24	H1FY24	H1FY23	YoY chg
<b>Net Revenues</b>	<b>96,380</b>	<b>82,660</b>	<b>16.6</b>	<b>81,893</b>	<b>178,273</b>	<b>154,888</b>	<b>15.1</b>
Raw Materials	70,866	64,466	9.9	60,372	131,237	121,746	7.8
% of Net Sales	73.5%	78.0%		73.7%	73.6%	78.6%	
Personnel	5,728	5,271	8.7	5,376	11,104	9,725	14.2
% of Net Sales	5.9%	6.4%		6.6%	6.2%	6.3%	
Manufacturing & Other Exp	8,989	7,550	19.1	7,938	16,927	14,841	14.1
% of Net Sales	9.3%	9.1%		9.7%	9.5%	9.6%	
Total Expenditure	85,583	77,286	10.7	73,685	159,268	146,312	8.9
<b>EBITDA</b>	<b>10,798</b>	<b>5,373</b>	<b>101.0</b>	<b>8,208</b>	<b>19,005</b>	<b>8,576</b>	<b>121.6</b>
<b>EBITDA Margin (%)</b>	<b>11.2%</b>	<b>6.5%</b>		<b>10.0%</b>	<b>10.7%</b>	<b>5.5%</b>	
Depreciation	1,803	1,768	2.0	1,794	3,597	3,592	0.1
<b>EBIT</b>	<b>8,995</b>	<b>3,605</b>	<b>149.5</b>	<b>6,414</b>	<b>15,409</b>	<b>4,984</b>	<b>209.1</b>
Interest Expenses	587	771	(23.8)	699	1,286	1,459	(11.9)
Non-operating income	475	200	137.4	512	986	456	116.2
Extraordinary Expenses	229	(82)		6	235	(213)	
<b>PBT</b>	<b>8,654</b>	<b>3,117</b>		<b>6,221</b>	<b>14,875</b>	<b>4,194</b>	<b>254.7</b>
Tax-Total	3,044	1,124	170.8	457	3,501	1,520	130.3
Tax Rate (%) - Total	35.2%	36.1%		7.3%	23.5%	36.2%	
<b>Reported PAT</b>	<b>5,610</b>	<b>1,993</b>	<b>181.5</b>	<b>5,764</b>	<b>11,374</b>	<b>2,674</b>	<b>325.4</b>
<b>Adj. PAT</b>	<b>6,218</b>	<b>1,936</b>	<b>221.2</b>	<b>5,770</b>	<b>11,987</b>	<b>2,534</b>	<b>373.0</b>
<b>PAT Margin</b>	<b>6.5</b>	<b>2.3</b>		<b>7.0</b>	<b>7</b>	<b>1.6</b>	
<b>Key Operating Metrics</b>							
Sales Volume (nos)	49,846	45,295	10.0	41,329	91,175	84,946	7.3
Net Realisation/Vehicle	1,933,563	1,824,914	6.0	1,981,488	1,955,287	1,823,370	7.2
Material cost / vehicle	1,421,689	1,423,243	(0.1)	1,460,754	1,439,397	1,433,220	0.4
Gross Profit / vehicle	511,875	401,671	27.4	520,734	515,890	390,150	32.2
Employee cost /vehicle	114,920	116,359	(1.2)	130,068	121,787	114,480	6.4
Other expenses / vehicle	180,329	166,681	8.2	192,076	185,654	174,710	6.3
EBITDA/vehicle	216,625	118,631	82.6	198,589	208,450	100,961	106.5
Net Profit/vehicle	124,739	42,736	191.9	139,603	131,477	29,832	340.7

Source- Company, YES Sec

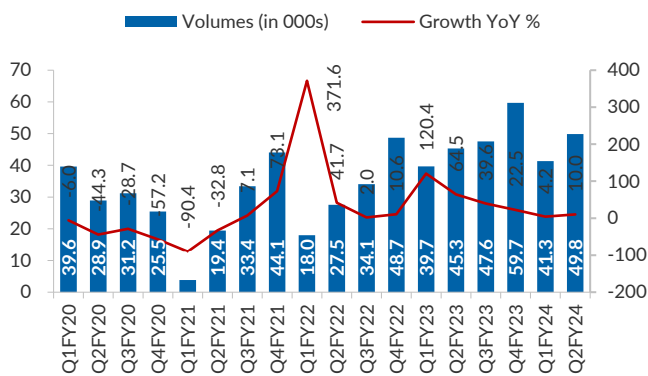
## KEY CON-CALL HIGHLIGHTS

- Demand outlook- Maintain growth guidance of 8-10% YoY MHCV volumes
  - Demand is very strong and currently not seeing any negative sentiments. While 2HFY24 growth outlook seems to be positive, believe the momentum should continue even in FY25.
  - The growth has been driven by macro factors such as GDP, spend on infra by the government helping MAV, tippers, etc. During 1HFY24, MHCV volumes have grown by 10% YoY while tractors/Tippers have grown by 50%/20% YoY respectively led by growth coming from core sector such as coal, steel and iron ore and containerized movement of goods.
- Channel inventory is not a major concern and it can be adjusted if required.
- **LCV** - Volumes grew 2-2.5% YoY in 1HFY24, which was lower than the annual guidance of 4-5% growth. However, this is expected to be healthier in 2H vs 1H due to some green shoots visible in segments such as e-commerce, agri, consumer durables and private consumption.
- **Bus** - Order pipeline is strong. The company has won large tenders on diesel bus side. Order pipeline is big enough to spill to FY25.
  - TIV for bus industry has growth by 46% in 2Q vs AL's growth of 95% YoY. Market share in bus segment has increased from 28.3% last year to 37.8% now.
- **E-buses** - Industry was worried about payment security mechanism earlier. There has been discussions between government and industry. Government is working on it seriously to resolve the payment issues.
- **Price hike**- There were significant price increase by peers in 3Q. On the ground, the company is not seeing such price increase happening in Oct. 1-1.5% price increase might happen in 3Q.
- **Switch**- Currently have an order book of 1,100 buses and LOIs of over 10k units e-LCV. Expect delivery of first e-LCV batch from 4QFY24.
  - It is keen on getting external investments but at the right valuations and strategic partner, but till then AL will support the future funding if required.
  - Switch India is expected to be cash positive at operating level going forward. Any capex in future will be small, especially towards R&D and product development. However, it would be self-sufficient.
  - EU market is still not going strong and more investments will be required in FY25.
  - OHM - Funding will depend of the pipeline.
- **Dealer addition** - 24 added each for dealerships and service centers. Now there are total of 471 dealers and 386 service centers. Plan is to take it to 1000. Similarly, LCV touch points count is 670, as the company has added 8 dealers and 42 service centers in 2QFY24.
- **Commodity**- Believe commodity softening trend to continue.
  - Gross margin was ~4.5% higher due to metal cost and on account of realization. Steel prices (40-45% of vehicle), declined 8% YoY in 1Q and 2QFY23. Looks like pricing in the industry is improving by 1.5-2% per quarter and this trend will continue.
  - Steel price came off, improved price realization and operating leverage has helped profitability to grow for entire industry. Rs6-6.5b of savings last year- new material, consolidating vendor, optimizing design. Will continue this year as well.
  - Have been able to get better price realization across all the business lines and believe this should continue.

- **Capex guidance of ~Rs6b for FY24.** Company has incurred capex of Rs2b in 1HFY24. Focusing on- i) de-bottlenecking, ii) improving productivity, iii) reducing operating costs.
- **Tax rate** - Expect ~25% tax rate in FY25, however for the remaining quarter this year it should be ~35%. 1Q was lower due to credit on deferred tax of INR1.72b.
- **HLFL**- Not looking to invest in HFL. The capital adequacy is ~21%. Between HFL and Hinduja housing finance, overall book is Rs36k crore.
  - Listing of HLFL to happen in 4Q. Received some approvals very recently.
- **Defence business** - Pipeline is at historic high. Have strong chance to touch Rs8b revenue v/s 1HFY24 revenues of Rs3b.

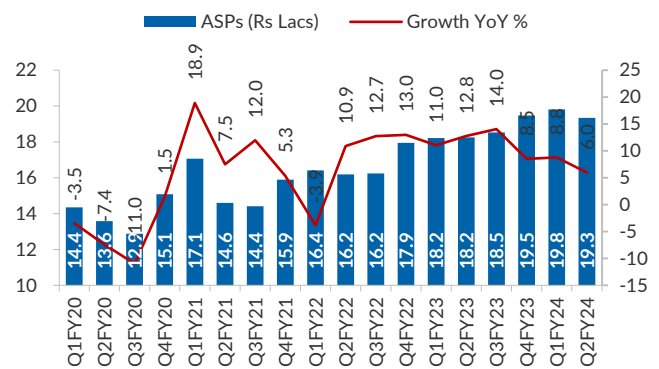
## CHARTS

**Exhibit 1: 2QFY24 volumes increased ~20.6% QoQ...**



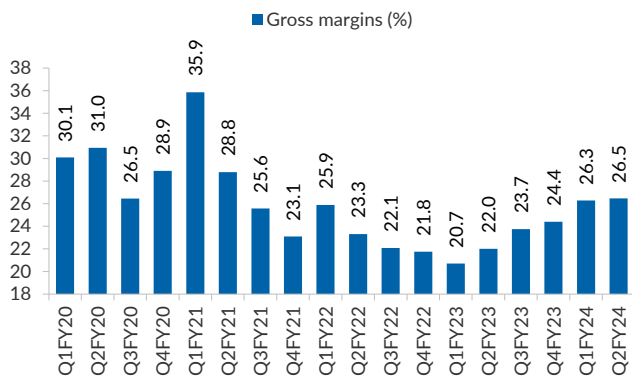
Source: Company, YES Sec

**Exhibit 2: ...while ASP fell ~2.4% QoQ at Rs1.93m/unit**



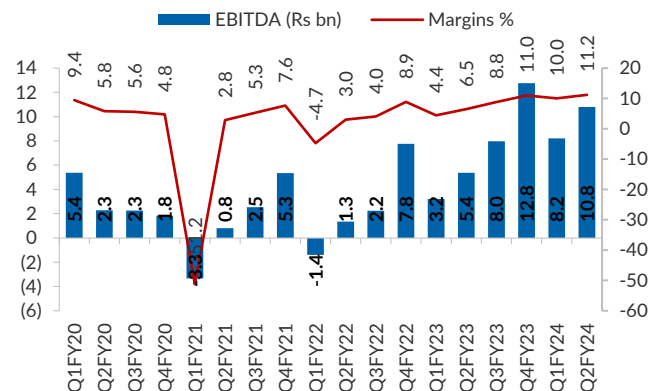
Source: Company, YES Sec

**Exhibit 3: Gross Margins expanded 20bp QoQ at 26.5%**



Source: Company, YES Sec

**Exhibit 4: Margins increased by 120bp QoQ at 11.2%**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 5: Balance Sheet

Y/E March	2020	2021	2022	2023	2024E	2025E
<b>Sources of Funds</b>						
Share Capital	2,936	2,936	2,936	2,936	2,936	2,936
Reserves	69,704	66,837	70,434	81,322	99,675	116,981
<b>Net Worth</b>	<b>72,640</b>	<b>69,772</b>	<b>73,369</b>	<b>84,258</b>	<b>102,611</b>	<b>119,917</b>
Loans	31,053	37,588	35,539	32,248	29,248	26,248
Deferred Tax Liability	2,648	1,708	1,444	5,035	6,996	8,880
<b>Capital Employed</b>	<b>106,341</b>	<b>109,068</b>	<b>110,351</b>	<b>121,541</b>	<b>138,856</b>	<b>155,045</b>
<b>Application of Funds</b>						
Gross Fixed Assets	96,199	105,576	107,635	111,511	119,587	125,587
Less: Depreciation	28,163	35,072	41,626	48,470	56,096	64,187
<b>Net Fixed Assets</b>	<b>68,036</b>	<b>70,504</b>	<b>66,009</b>	<b>63,042</b>	<b>63,490</b>	<b>61,400</b>
Capital WIP	5,941	3,719	1,943	1,325	1,250	1,250
Investments	27,196	30,687	48,196	66,636	72,191	76,701
<b>Curr.Assets, L &amp; Adv.</b>	<b>62,723</b>	<b>79,590</b>	<b>87,190</b>	<b>98,442</b>	<b>128,535</b>	<b>156,016</b>
Inventory	12,380	21,423	20,752	27,745	31,093	30,096
Sundry Debtors	11,889	28,163	31,110	40,627	57,706	55,857
Cash & Bank Balances	13,225	8,230	10,470	5,013	11,656	10,985
Loans & Advances	25,229	21,774	24,858	25,057	28,081	59,079
<b>Current Liab. &amp; Prov.</b>	<b>57,555</b>	<b>75,431</b>	<b>92,986</b>	<b>107,903</b>	<b>126,611</b>	<b>140,322</b>
Sundry Creditors	30,373	51,647	68,752	71,751	80,409	95,601
Other Liabilities	19,127	17,239	17,530	25,767	28,876	27,950
Provisions	8,055	6,545	6,705	10,385	17,326	16,771
<b>Application of Funds</b>	<b>106,341</b>	<b>109,068</b>	<b>110,351</b>	<b>121,541</b>	<b>138,856</b>	<b>155,045</b>

Source: Company, YES Sec

## Exhibit 6: Income statement

Y/E March	2020	2021	2022	2023	2024E	2025E
Net Sales	174,675	153,015	216,883	361,441	405,055	392,070
Change (%)	(39.9)	(12.4)	41.7	66.7	12.1	(3.2)
EBITDA	11,737	5,351	9,945	29,307	47,621	46,645
Change (%)	(62.6)	(54.4)	85.8	194.7	62.5	(2.1)
EBITDA Margins (%)	6.7	3.5	4.6	8.1	11.8	11.9
Depreciation	6,698	7,477	7,528	7,320	7,626	8,091
EBIT	5,039	(2,126)	2,418	21,987	39,995	38,554
Interest & Fin. Charges	1,095	3,068	3,011	2,891	2,614	2,359
Other Income	1,233	1,195	761	1,161	1,840	1,475
Non-recurring Expense / (Inc)	1,558	121	(5,108)	(846)	-	-
PBT	3,619	(4,119)	5,276	21,104	39,221	37,670
Tax	1,224	(982)	(142)	7,303	11,766	9,794
Effective Rate (%)	33.8	23.8	(2.7)	34.6	30.0	26.0
Rep. PAT	2,395	(3,137)	5,418	13,801	27,455	27,876
Adjusted PAT	3,426	(3,045)	172	12,955	27,455	27,876
Change (%)	(83.1)	(188.9)	(105.7)	7,417.9	111.9	1.5

Source: Company, YES Sec

## Exhibit 7: Cash Flow Statement

Y/E March	2020	2021	2022	2023	2024E	2025E
OP/(Loss) before Tax	2,395	(3,137)	5,418	13,801	39,995	38,554
Int/Div Received	(766)	(946)	(221)	(404)	1,840	1,475
Depreciation	6,698	7,477	7,528	7,320	7,626	8,091
Direct Taxes Paid	(941)	779	714	(4,002)	(9,805)	(7,911)
(Inc)/Dec in Work Cap.	(1,756)	(6,058)	15,696	(4,265)	(4,743)	(14,441)
Other Items	3,949	2,165	(2,666)	8,910	-	-
CF from Oper. Activity	9,579	280	26,469	21,360	34,913	25,768
Extra-ordinary Items	(168)	(69)	-	-	-	-
CF after EO Items	9,411	211	26,469	21,360	34,913	25,768
(Inc)/Dec in FA+CWIP	(12,923)	(6,166)	(3,933)	(4,884)	(8,000)	(6,000)
Free Cash Flow	(3,512)	(5,954)	22,536	16,477	26,913	19,768
CF from Inv. Activity	(21,775)	(9,752)	(14,589)	(17,345)	(13,555)	(10,510)
Inc/(Dec) in Debt	25,655	4,780	(2,721)	(3,868)	(3,000)	(3,000)
Interest Rec./ (Paid)	(1,463)	(2,720)	(2,755)	(2,598)	(2,614)	(2,359)
Dividends Paid	(12,702)	-	(1,761)	(2,936)	(9,102)	(10,570)
CF from Fin. Activity	11,490	2,060	(7,238)	(9,402)	(14,716)	(15,929)
Inc/(Dec) in Cash	(874)	(7,481)	4,643	(5,387)	6,643	(671)

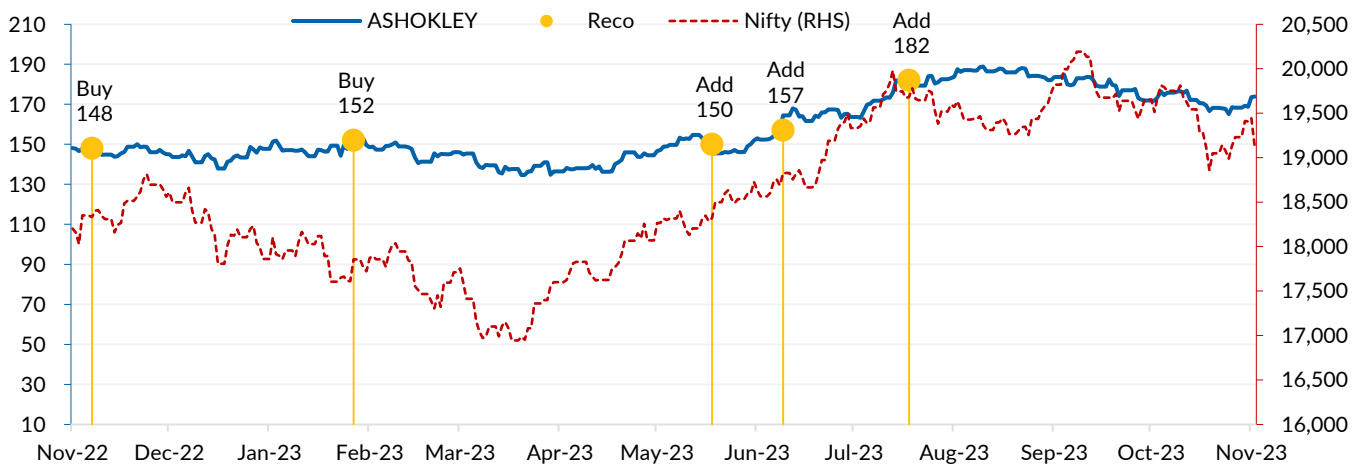
Source- Company, YES Sec

**Exhibit 8: Growth and Ratio matrix**

Y/E March	2020	2021	2022	2023	2024E	2025E
<b>Basic (INR)</b>						
EPS	1.2	(1.0)	0.1	4.4	9.4	9.5
EPS Fully Diluted	1.2	(1.0)	0.1	4.4	9.4	9.5
EPS Growth (%)	(83.1)	(188.9)	(105.7)	7,416.3	111.9	1.5
Cash EPS	3.4	1.5	2.6	6.9	11.9	12.2
Book Value per Share	24.7	23.8	25.0	28.7	34.9	40.8
DPS	0.5	0.6	1.0	2.6	3.1	3.6
Payout (Excl. Div. Tax) %	42.8	(57.8)	1,703.5	58.9	33.2	37.9
<b>Valuation (x)</b>						
P/E	148.9	(167.5)	2,959.8	39.4	18.6	18.3
Cash P/E	50.4	115.1	66.2	25.2	14.5	14.2
EV/EBITDA	45.0	100.8	53.8	18.3	11.1	11.3
EV/Sales	3.0	3.5	2.5	1.5	1.3	1.3
Price to Book Value	7.0	7.3	7.0	6.1	5.0	4.3
Dividend Yield (%)	0.3	0.3	0.6	1.5	1.8	2.1
<b>Profitability Ratios (%)</b>						
ROE	4.4	(4.3)	0.2	16.4	29.4	25.1
RoCE	4.2	(0.7)	3.0	13.1	22.5	20.2
RoIC	6.5	(2.6)	4.3	29.3	54.7	47.6
<b>Turnover Ratios</b>						
Debtors (Days)	24.8	67.2	52.4	41.0	52.0	52.0
Inventory (Days)	25.9	51.1	34.9	28.0	28.0	28.0
Creditors (Days)	63.5	123.2	115.7	72.5	72.5	89.0
Working Capital (Days)	(12.8)	(4.9)	(28.4)	(3.4)	7.6	(9.0)
Fixed-Asset Turnover (x)	2.6	2.2	3.3	5.7	6.4	6.4
<b>Leverage Ratio</b>						
Net Debt/Equity (x)	0.2	0.4	0.5	0.4	0.3	0.2

Source- Company, YES Sec

## Recommendation Tracker



Source – YES Sec

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