

Ashok Leyland Ltd.

Nifty: 24951 CMP: INR 257 Target Price: INR 333 Rating: Buy

WHERE ADVISORY MEETS EXCELLENCE

Commercial Vehicles

In Q1 FY25, Ashok Leyland's M&HCV segment achieved solid growth, capturing a 31% market share, despite negative sentiment surrounding the H1 FY25 outlook in the CV industry. While the overall LCV segment remained flat YoY, AL's domestic LCV sales rose by 8%, although both domestic and international sales experienced significant double-digit declines quarterly. AL's defence and spare parts segments, particularly the defence sector nearing the Rs. 1000 crore revenue mark, contributed positively to revenues with higher margins. Conversely, the power solutions business saw a 20% decline compared to last year due to last year's pre-buy. The company reported an 11% EBITDA margin, improved from last year but down 43% from the prior quarter due to a 30% increase in employee expenses. Looking ahead, AL plans various product launches and the establishment of Centres of Excellence to drive innovation and maintain control over its offerings.

CV Industry Outlook

Management indicates a modest growth of 10% across the entire CV segment, with buses being the standout performer-sales increased by 50% within the industry. However, the truck segment experienced a decline of 2-3% for the company, primarily due to the impact of the election season, which stalled many projects and delayed the initiation of new ones. Management views this downturn as temporary, particularly in the tipper truck segment, and is optimistic about a recovery beginning in Q2.

Product Launches

Ashok Leyland has an ambitious product launch strategy for the current year, planning to unveil six new products. Company aims to expand its addressable footprint in the LCV segment from 50% to 80% of the domestic market. The company launched two new models in Q1 FY25 and plans to introduce four additional models by March 2025. However, it is important to note that the much-anticipated sub-2 tonne segment LCV is a medium-term project and will not be launched this year. In the bus segment, the company aims to introduce new vehicles, particularly in the ICV category, where AL currently holds a market share of approximately 20%. Despite being a leader in the general bus segment, the company's limited presence in the ICV bus segment presents significant growth opportunities. Additionally, the company is responding to

rising demand for SWITCH buses, receiving multiple tenders from various regions across the country.

Developments in EVs

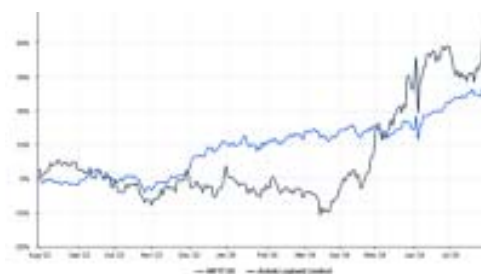
Ashok Leyland is sharpening its focus on enhancing technological capabilities and integrating its product designs, moving away from reliance on suppliers. The company boasts a robust range of EV products and is taking significant steps to bolster its EV business by establishing three Centres of Excellence. These centres will specialize in battery packs and modules, electric drive units, and software-defined vehicles (SDVs). This strategic initiative is aimed at enhancing the company's autonomy in developing innovative EV solutions. Additionally, Switch India has commenced deliveries of e-LCVs from last quarter and is expected to launch new products and platforms in the upcoming quarters, further enhancing its competitive position in the EV market.

Defence and Spare Parts Performance

Both the defence vehicle and spare parts segments are high-margin businesses for Ashok Leyland, contributing significantly to overall profitability. The defence vehicle segment has demonstrated remarkable growth, with revenues nearing Rs.1,000 crores in Q1 which is a substantial increase compared to the previous year's figure. Additionally, the spare parts business has also performed well, experiencing a 12% increase in revenue overall.

Shareholding (%)	Jun-24
Promoters	51.52
FIIIs	22.03
DIIIs	14.12
Others	12.33

Relative Price Performance



Key Data	
BSE Code	500477
NSE Symbol	ASHOKLEY
Bloomberg Code	AL IN
Reuters Code	ASOK.BO
Shares Outstanding (mn)	2940
Face Value	1
Mcap (INR bn)	741
52 Week H/L	260/158
2W Avg. Qty.BSE (in .lakh)	13.38
CMP	257
Beta	1.39

(INR mn)	FY23	FY24	FY25E	FY26E
Net Sales	361,441	383,670	446,213	525,008
Growth (%)	67%	6%	16%	18%
EBIDTAM(%)	8.1%	12.0%	11.1%	11.5%
Reported PAT	13,801	26,179	30,674	38,317
PAT Growth(%)	155%	90%	17%	25%
EPS	4.7	8.9	12.2	14.6
Return on assets	6.4	11.3	14.2	14.8
Return on equity	17.5	30.4	35.6	32.9
Net debt/Equity	32.3	-12.9	-30.2	-53.4
EV/EBITDA (x)	25.6	15.5	11.8	9.5

Commercial Vehicles

HLF Update

The establishment of Hinduja Leyland Finance (HLF) is progressing as planned, with an anticipated launch by the end of March 2025. HLF will serve as the parent company for HLF Housing Finance, which is projected to contribute Rs.11,500 crore to the collective AUM of Rs.51,500 crore. In Q1, HLF reported revenues of Rs.1,377 crore and a profit of Rs.130 crore, underscoring a strong start for this financial initiative. This strategic alignment positions HLF and HLF Housing Finance for significant growth in the financial services sector.

Outlook & Valuation

The CV market is currently experiencing sales volatility that is likely to persist until the end of Q2 FY25. However, we anticipate that once the effects of the general elections and the monsoon season conclude in September, the government's planned focus on infrastructure development will drive sales growth for AL, leading to enhanced earnings potential. We project EBITDA margins to be approximately 11.1% for FY25E and 11.5% for FY26E. With a positive outlook for domestic M&HCV sales, we are maintaining our BUY rating and setting a target price of Rs. 333, based on a multiple of 12.2x FY25E EPS and 21x FY25E PE.

Quarterly Financials

INR Mn	1Q FY25	1Q FY24	4Q FY24	% Chg (YoY)	% Chg (QoQ)
Net Sales	85,985	81,893	112,667	5%	-24%
RM Cost	62,046	60,372	80,906	3%	-23%
Employee Cost	5,498	5,376	5,535	2%	-1%
Other Expenses	9,333	7,938	10,305	18%	-9%
Total Expenditure	76,877	73,685	96,746	4%	-21%
EBITDA	9,109	8,207	15,921	11%	-43%
Depreciation	1,727	1,794	1,797	-4%	-4%
Other Income	223	512	1,179	-56%	-81%
EBIT	7,605	6,926	15,303	10%	-50%
Interest	591	699	592	-15%	0%
PBT	7,014	6,227	14,711	13%	-52%
Tax	1758.6	457	5,010	285%	-65%
PAT	5,256	5,770	9,701	-9%	-46%
Equity	2936	2,936	2,936	0%	0%
Face Value	1.00	1.00	1.00	0%	0%
EPS	1.79	1.97	3.30	-9%	-46%
% of Sales				bps	bps
RM Cost	72.2	73.7	71.8	-156.1	34.9
Employee Expenses	6.4	6.6	4.9	-17.1	148.1
Other Expenses	10.9	9.7	9.1	116.0	170.7
EBITDAM (%)	10.9	10.6	15.2	20.6	-432.4
PATM (%)	6.1	7.0	8.6	-93.3	-249.7

Financials

Income Statement

Y/E (INR mn)	FY23	FY24	FY25E	FY26E
Sales Turnover	361,441	383,670	446,213	525,008
Growth	67%	6%	16%	18%
Net Sales	361,441	383,670	446,213	525,008
Total Operating Expenditure	332,134	337,605	396,530	464,734
EBITDA	29,307	46,066	49,683	60,274
EBITDA Margin	8.1%	12.0%	11.1%	11.5%
Depreciation	7,320	7,178	7,958	8,132
Other Income	1,161	2,466	2,589	2,718
EBIT	23,149	41,353	44,314	54,860
EBIT Margin	6.40%	10.78%	9.93%	10.45%
Interest Expenses	2,891	2,494	2,431	2,737
Exceptional Income/ Expenses	846	(937)	(984)	(1,033)
PBT	21,104	37,922	40,899	51,089
EBT Margin	6%	10%	9%	10%
Provision For Tax	7,303	11,743	10,225	12,772
PAT	13,801	26,179	30,674	38,317
PAT Margin	3.8%	6.8%	6.9%	7.3%
Growth in PAT	155%	90%	17%	25%

Key Ratios

Y/E	FY23	FY24	FY25E	FY26E
Per Share Data (INR)				
EPS	4.7	8.9	12.2	14.6
Book NAV/share	28.7	30	38.7	49.8
FDEPS	4.7	8.9	12.2	14.6
DPS	2.6	2.8	3.0	3.0
Return ratios (%)				
Return on assets	6.4	11.3	14.2	14.8
Return on equity	17.5	30.4	35.6	32.9
Return on capital employed	11.4	22.7	24.5	23.8
ROIC	11.3	29.3	37.3	50.0
Turnover ratios				
Asset turnover (x)	6.0	6.7	8.0	10.2
Sales/Net FA (x)	5.6	6.2	7.4	9.4
Working capital/Sales (x)	-45.8	88.6	12.0	6.4
Receivable days	36.2	36.3	36.6	40.2
Inventory days	31.8	39.0	37.7	33.2
Payable days	92.1	88.1	78.5	77.0
Working capital days	-8.0	4.1	30.3	57.3
Liquidity ratios (x)				
Current ratio	0.9	1.0	1.3	1.6
Quick ratio	0.5	0.6	0.8	0.9
Interest cover	7.6	15.6	22.7	32.3
Total debt/Equity	38.3	26.1	20.2	15.7
Net debt/Equity	32.3	-12.9	-30.2	-53.4
Valuation				
PER (x)	52.4	27.6	20.2	16.9
PEG (x) yoy growth	0.3	0.3	0.5	0.9
Price/Book (x)	8.6	8.2	6.4	4.9
EV/Net sales (x)	2.1	1.9	1.6	1.3
EV/EBITDA (x)	25.6	15.5	11.8	9.5
EV/EBIT (x)	34.1	18.3	13.5	10.7

Balance Sheet

Y/E (INR mn)	FY23	FY24	FY25E	FY26E
Sources of Funds				
Shareholder's Funds	84,258	88,104	101,747	118,790
Total Debt	31,801	22,545	26,068	28,673
LT Debt	17,662	11,316	11,316	11,316
Deferred Tax Liabilities (Net)	5,035	5,563	5,702	5,845
Other Long Term Liabilities	3,041	3,342	3,711	4,367
Long Term Provisions	5,192	7,241	7,386	7,533
Total Non-current Liabilities	115,188	115,566	129,863	147,851
Trade Payables	71,751	63,052	78,389	92,231
Other Current Liabilities	19,536	39,596	34,386	40,458
ST Borrowings	14,139	11,229	14,751	17,356
ST Provisions	5,193	6,507	6,804	8,005
Total Current Liabilities	110,619	120,384	134,329	158,050
Liabilities as Held for Sale and discontinued Operations	109	168	169	169
Total Liabilities	225,916	236,118	264,361	306,070
APPLICATION OF FUNDS :				
Net Block	63,042	58,055	55,097	51,965
Capital Work in Progress	490	955	2,978	3,989
Intangible assets	836	1,060	1,081	1,103
NC Investments	38,922	53,107	53,107	53,107
Long Term Loans & Advances	5,131	6,196	6,587	7,750
Other Non Current Assets	461	113	115	118
Total Non-Current Assets	108,881	119,486.75	118,965	118,031
Currents Investments	27,714	2,491	2,540	2,591
Inventories	27,745	31,907	34,688	40,813
Sundry Debtors	40,621	35,697	44,379	52,216
Cash and Bank	5,013	34,382	47,591	73,478
Other Current Assets	4,540	6,958	6,686	7,867
ST Loans and Advances	10,684	4,537	8,851	10,414
Total Current Assets	116,316	115,971	144,735	187,379
Assets as Held for Sale and discontinued Operations	719	660	660	660
Total Assets	225,916	236,118	264,361	306,070

Cash Flow

Y/E	FY23	FY24	FY25E	FY26E
PBT	21,104	37,922	40,899	51,089
Add: Depreciation	7,320	7,178	7,958	8,132
Add: Changes in Working Capital	11,927	(39,479)	1,610	(6,964)
Add: Interest Paid	2,891	2,494	2,431	2,737
Add: Taxes	7,303	11,743	10,225	12,772
Net Operating Cash Flow (a)	12,084	75,330	39,454	56,151
Capex	(4,352)	(2,192)	(5,000)	(5,000)
CWIP	622	(466)	(2,022)	(1,011)
Intangible Assets	(4)	(224)	(21)	(22)
Investments	(3,706)	(14,185)	0	0
Long Term Loans & Advances	(587)	(1,065)	(391)	(1,163)
Other Non Current Assets	(52)	348	(2)	(2)
Net cash from investments (b)	(8,080)	(17,784)	(7,436)	(7,198)
Loans Availed/Repaid	(10,844)	(6,346)	0	0
Equity Raised	0	19	0	0
Dividend Paid	(7,634)	(14,535)	(17,031)	(21,274)
Deferred Taxes	3,592	528	139	143
Other LT Liabilities	497	301	370	655
LT Provisions	3,190	2,049	145	148
Interest Paid	(2,891)	(2,494)	(2,431)	(2,737)
Net Cash from Financing Activities (c)	(14,090)	(20,479)	(18,808)	(23,065)
Net Change in Cash and Cash equivalents (a)+(b)+ (c)	(10,086)	37,067	13,209	25,887
Opening cash and cash equivalent	10,470	5,013	34,382	47,591
Closing cash and cash equivalent	5,013	34,382	47,591	73,478

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Arete Securities Ltd: Mittal Court, A-Wing, 10th Floor, Nariman Point, Mumbai - 400 021, Tel. No. : +91-022-4289 5600, Fax: +91 (22) 2657 3708/9

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