

Ashok Leyland | BUY

In-line performance; maintains FY24 outlook

In 2QFY24, Ashok Leyland (AL) EBITDAM came in at 11.2% (+120bps QoQ), 20bps above JMFe. Improvement in margin was led by benign commodity cost and higher operating leverage. Higher discounts during 2Q impacted realisation (-2% QoQ). Management indicated that demand momentum is expected to remain healthy and MHCV industry is expected to grow by 8-10% during FY24 owing to pre-election led govt. infra spends. AL aims for higher share in MHCVs (to c.35%) led by network expansion (in North and East) and addressing product gaps. LCV demand, which has been lagging so far, is also expected to improve during 2H led by rural recovery. Intensity of discounts remain key monitorable. Benign commodity cost and cost control initiatives are expected to support profitability. We estimate revenue CAGR of 9% and healthy growth in profitability during FY23-26E. We maintain BUY with Sept'24 TP of INR 200 (20x fwd. earnings). Slowdown in economy and increase in competitive intensity are the key risks.

- Revenue misses; margin tad higher than JMFe:** In 2QFY24, AL reported net sales of INR 96.4bn (+17% YoY, +18%QoQ) 3% below estimate. Blended realisation decreased c.2% QoQ (+6% YoY). Total volume increased by c.10% YoY (+21% QoQ). EBITDA margin stood at 11.2% (+470bps YoY, +120% QoQ), 20bps above JMFe. YoY improvement in margin was led by softening RM cost, higher operating leverage and cost control initiatives. EBITDA stood at INR 10.8bn (+32% YoY, -1% QoQ). Adj. PAT stood at INR 5.8bn (+2x YoY, +1% QoQ).
- Demand outlook:** AL indicated that healthy vol. growth (+10% YoY) during 2QFY24 was led by higher demand for tractor trailers and tippers from sectors like Cement, Steel, Iron-Ore etc. Demand momentum is expected to remain robust led by expected govt. infra spends (owing to pre-election) and healthy replacement demand. The company maintained MHCV industry growth guidance 8-10% during FY24. LCV is expected to grow by 4-5% during FY24. Order book for state transport buses remains robust. AL's MHCV trucks market share declined by c.40bps during 1H to 31.4% AL is focusing on dealer network expansion to cover underpenetrated areas (added 47 touch points in North and East). In exports, volumes grew by (1% YoY). Defence revenue for 1H stood at INR 3bn and AL expects to end FY24 with over INR8bn defence revenue on the back of robust order pipeline.
- Profitability outlook:** Realisations declined by 2% QoQ as the company could not retain c.3% price hike taken during 1Q. The company indicated that net price realisation continues to improve for the industry and it intends to increase net realisation by avg. c.1% per quarter. Benign commodity price, cost control initiatives, better pricing (net of discount) and higher operating leverage is expected to support margins going ahead.
- Update on EV business:** During the quarter, the company invested INR 12bn in Switch Mobility to fund the latter's investment for new product development. Switch Mobility has a healthy order book of 1,100 e-buses and has received LOIs for 10k units of its e-LCV (deliveries to start in 4QFY24). New product pipeline for both India and EU market remains healthy.

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	2,16,883	3,61,441	4,10,033	4,51,310	4,68,758
Sales Growth	42.3%	66.7%	13.4%	10.1%	3.9%
EBITDA	9,946	29,307	44,890	50,968	46,916
EBITDA Margin	4.6%	8.1%	10.9%	11.3%	10.0%
Adjusted Net Profit	310	12,955	24,785	31,277	28,499
Diluted EPS (INR)	0.1	4.4	8.4	10.7	9.7
Diluted EPS Growth	0.0%	4,073.0%	91.3%	26.2%	-8.9%
ROIC	7.5%	29.6%	57.8%	75.6%	76.3%
ROE	0.4%	16.4%	26.7%	27.8%	21.3%
P/E (x)	1,645.6	39.4	20.6	16.3	17.9
P/B (x)	7.0	6.1	5.0	4.1	3.6
EV/EBITDA (x)	52.3	17.8	11.5	9.9	10.4
Dividend Yield	0.9%	0.6%	1.5%	1.7%	1.7%

Source: Company data, JM Financial. Note: Valuations as of 10/Nov/2023



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	200
Upside/(Downside)	15.1%
Previous Price Target	200
Change	0.0%

Key Data – AL IN

Current Market Price	INR174
Market cap (bn)	INR510.3/US\$6.1
Free Float	65%
Shares in issue (mn)	2,845.9
Diluted share (mn)	2,936.1
3-mon avg daily val (mn)	INR2,426.8/US\$29.1
52-week range	192/133
Sensex/Nifty	64,905/19,425
INR/US\$	83.3

Price Performance

%	1M	6M	12M
Absolute	-1.4	16.7	17.6
Relative*	0.6	11.5	12.0

* To the BSE Sensex

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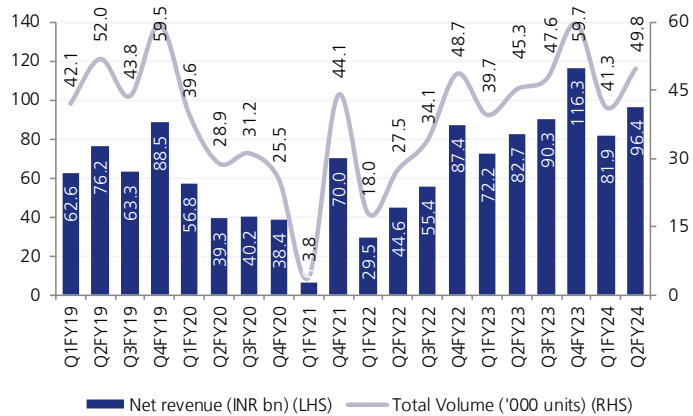
- **Other highlights:** 1) HLFL reverse merger is expected to be completed by 4QFY24. 2) Capex during 1QFY24 stood at INR 2bn. FY24 capex is expected to be INR 6bn, largely towards new product development and supply-chain de-bottlenecking. 3) Tax expense is expected to be 30+% for FY24 and the company will switchover to lower tax regime from FY25.

Exhibit 1. Standalone quarterly performance

AL (INR mn)	Q2FY24	Q2FY23	% YoY	Q1FY24	% QoQ	Q2FY24E	% A/E
MHCV (Units)	32,086	27,841	15.2	26,165	22.6	32,086	0.0
LCV (Units)	17,760	17,454	1.8	15,164	17.1	17,760	0.0
Total Volumes (Units)	49,846	45,295	10.0	41,329	20.6	49,846	0.0
Average Realisation (Net, INR)	1,933,563	1,824,914	6.0	1,981,488	-2.4	1,990,520	-2.9
Sales	96,380	82,660	16.6	81,893	17.7	99,219	-2.9
RM	70,866	64,466	9.9	60,372	17.4	72,926	-2.8
As a % of sales	73.5	78.0	-450bps	73.7	-20bps	73.5	0bps
Employee Exp	5,728	5,271	8.7	5,376	7	6,251	-8.4
As a % of sales	5.9	6.4	-40bps	6.6	-60bps	6.3	-40bps
Other Costs	8,989	7,550	19.1	7,938	13.2	9,128	-1.5
As a % of sales	9.3	9.1	20bps	9.7	-40bps	9.2	10bps
Expenditure	85,583	77,286	10.7	73,685	16.1	88,305	-3.1
EBITDA	10,798	5,373	101	8,207	31.6	10,914	-1.1
EBITDA Margin	11.2	6.5	470bps	10.0	120bps	11.0	20bps
PAT (Adjusted)	5,839	1,911	205.6	5,770	1.2	6,682	-12.6
PAT Margin (Adjusted)	6.1	2.3	370bps	7.0	-100bps	6.7	-70bps
EPS (Rs)	2.0	0.65	NA	1.97	1.2	2.3	-12.6

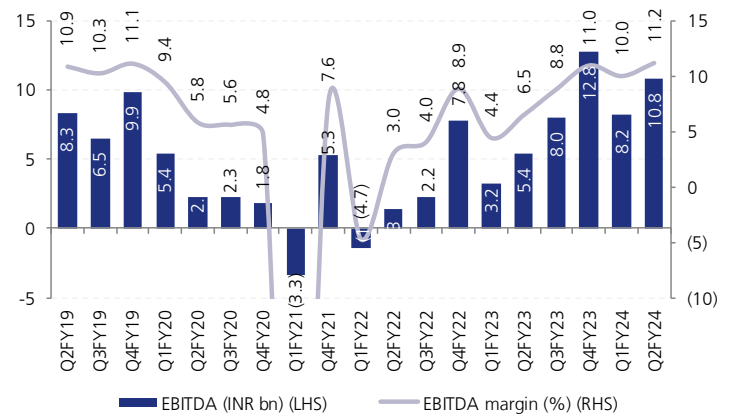
Source: Company, JM Financial

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)

	New assumption			Old assumption			% Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue (INR mn)	410,033	451,310	468,758	406,247	445,515	n.a.	0.9%	1.3%	n.a.
MHCV vol. (nos.)	136,497	148,346	154,287	134,868	146,779	n.a.	1.2%	1.1%	n.a.
Growth (%)	10%	9%	10%	9%	9%	n.a.			
LCV vol. (nos.)	71,501	75,791	79,580	71,501	75,076	n.a.	0.0%	1.0%	n.a.
Growth (%)	5%	6%	0%	5%	5%	n.a.			
EBITDA (INR mn)	44,890	50,968	46,916	43,916	50,403	n.a.	2.2%	1.1%	n.a.
EBITDAM (%)	10.9%	11.3%	10.0%	10.8%	11.3%	n.a.	10bps	-	n.a.
PAT (INR mn)	24,785	31,277	28,499	25,161	29,821	n.a.	-1.5%	4.9%	n.a.
EPS (INR)	8.4	10.7	9.7	8.6	10.2	n.a.	-1.5%	4.9%	n.a.

Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	2,16,883	3,61,441	4,10,033	4,51,310	4,68,758	
Sales Growth	42.3%	66.7%	13.4%	10.1%	3.9%	
Other Operating Income	0	0	0	0	0	
Total Revenue	2,16,883	3,61,441	4,10,033	4,51,310	4,68,758	
Cost of Goods Sold/Op. Exp	1,67,611	2,78,492	3,03,408	3,33,490	3,51,447	
Personnel Cost	16,946	21,139	24,832	26,685	28,675	
Other Expenses	22,381	32,504	36,903	40,167	41,719	
EBITDA	9,946	29,307	44,890	50,968	46,916	
EBITDA Margin	4.6%	8.1%	10.9%	11.3%	10.0%	
EBITDA Growth	110.6%	194.7%	53.2%	13.5%	-8.0%	
Depn. & Amort.	7,528	7,320	7,732	8,480	8,998	
EBIT	2,418	21,987	37,158	42,488	37,918	
Other Income	761	1,161	1,568	1,803	2,074	
Finance Cost	3,011	2,891	2,805	2,309	1,739	
PBT before Excep. & Forex	168	20,258	35,921	41,983	38,253	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	168	20,258	35,921	41,983	38,253	
Taxes	-142	7,303	11,135	10,706	9,755	
Extraordinary Inc./Loss(-)	5,108	846	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	5,418	13,801	24,785	31,277	28,499	
Adjusted Net Profit	310	12,955	24,785	31,277	28,499	
Net Margin	0.1%	3.6%	6.0%	6.9%	6.1%	
Diluted Share Cap. (mn)	2,935.5	2,936.1	2,936.1	2,936.1	2,936.1	
Diluted EPS (INR)	0.1	4.4	8.4	10.7	9.7	
Diluted EPS Growth	0.0%	4,073.0%	91.3%	26.2%	-8.9%	
Total Dividend + Tax	4,403	2,936	7,634	8,808	8,808	
Dividend Per Share (INR)	1.5	1.0	2.6	3.0	3.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	168	20,258	35,921	41,983	38,253	
Depn. & Amort.	7,528	7,320	7,732	8,480	8,998	
Net Interest Exp. / Inc. (-)	3,011	2,891	2,805	2,309	1,739	
Inc (-) / Dec in WCcap.	12,070	-1,792	837	2,823	4,450	
Others	0	0	0	0	0	
Taxes Paid	142	-7,303	-11,135	-10,706	-9,755	
Operating Cash Flow	22,919	21,374	36,160	44,889	43,685	
Capex	-1,257	-3,735	-7,500	-7,500	-7,500	
Free Cash Flow	21,662	17,639	28,659	37,389	36,185	
Inc (-) / Dec in Investments	-17,509	-18,440	-12,500	-12,500	-12,500	
Others	-3,011	-2,891	-2,805	-2,309	-1,739	
Investing Cash Flow	-21,777	-25,065	-22,806	-22,309	-21,739	
Inc / Dec (-) in Capital	0	1	0	0	0	
Dividend + Tax thereon	-4,403	-2,936	-7,634	-8,808	-8,808	
Inc / Dec (-) in Loans	-1,924	-3,291	-6,000	-6,000	-6,000	
Others	7,426	4,461	0	0	0	
Financing Cash Flow	1,098	-1,765	-13,634	-14,808	-14,808	
Inc / Dec (-) in Cash	2,240	-5,457	-280	7,772	7,138	
Opening Cash Balance	8,230	10,470	5,013	4,733	12,505	
Closing Cash Balance	10,470	5,013	4,733	12,505	19,643	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	73,369	84,258	1,01,409	1,23,878	1,43,569	
Share Capital	2,936	2,936	2,936	2,936	2,936	
Reserves & Surplus	70,434	81,322	98,473	1,20,942	1,40,633	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	35,539	32,248	26,248	20,248	14,248	
Def. Tax Liab. / Assets (-)	1,444	5,035	5,035	5,035	5,035	
Total - Equity & Liab.	1,10,351	1,21,541	1,32,693	1,49,162	1,62,852	
Net Fixed Assets	67,952	64,367	64,135	63,155	61,657	
Gross Fixed Assets	1,07,300	1,11,652	1,19,152	1,26,653	1,34,153	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	41,291	48,611	56,343	64,823	73,821	
Capital WIP	1,943	1,325	1,325	1,325	1,325	
Investments	48,196	66,636	79,136	91,636	1,04,136	
Current Assets	87,190	94,914	1,00,358	1,16,610	1,28,043	
Inventories	20,752	27,745	33,701	37,094	38,528	
Sundry Debtors	31,111	40,627	39,318	43,276	44,949	
Cash & Bank Balances	10,470	5,013	4,733	12,505	19,643	
Loans & Advances	24,858	21,529	22,605	23,736	24,922	
Other Current Assets	0	0	0	0	0	
Current Liab. & Prov.	92,986	1,04,375	1,10,936	1,22,240	1,30,984	
Current Liabilities	68,752	71,751	74,813	82,230	86,658	
Provisions & Others	24,234	32,624	36,123	40,009	44,326	
Net Current Assets	-5,797	-9,461	-10,578	-5,629	-2,941	
Total - Assets	1,10,351	1,21,541	1,32,693	1,49,162	1,62,852	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Margin	0.1%	3.6%	6.0%	6.9%	6.1%	
Asset Turnover (x)	2.0	3.2	3.4	3.3	3.1	
Leverage Factor (x)	1.5	1.4	1.3	1.2	1.1	
RoE	0.4%	16.4%	26.7%	27.8%	21.3%	

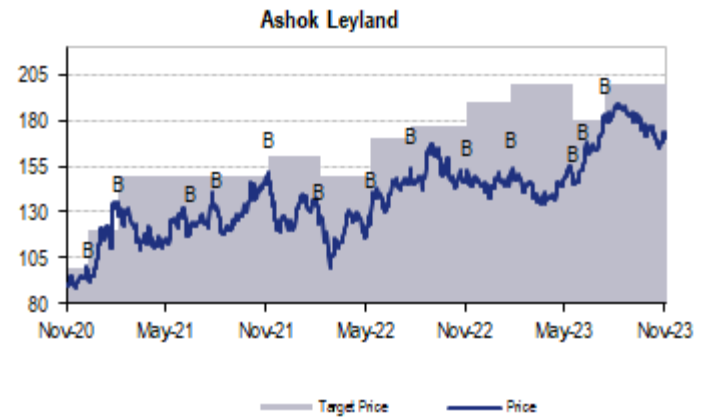
Key Ratios						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
BV/Share (INR)	25.0	28.7	34.5	42.2	48.9	
ROIC	7.5%	29.6%	57.8%	75.6%	76.3%	
ROE	0.4%	16.4%	26.7%	27.8%	21.3%	
Net Debt/Equity (x)	0.3	0.3	0.2	0.1	0.0	
P/E (x)	1,645.6	39.4	20.6	16.3	17.9	
P/B (x)	7.0	6.1	5.0	4.1	3.6	
EV/EBITDA (x)	52.3	17.8	11.5	9.9	10.4	
EV/Sales (x)	2.4	1.4	1.3	1.1	1.0	
Debtor days	52	41	35	35	35	
Inventory days	35	28	30	30	30	
Creditor days	121	79	75	75	75	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
17-Feb-20	Hold	85	
21-Apr-20	Buy	70	-17.6
4-Jun-20	Buy	70	0.0
26-Jun-20	Buy	70	0.0
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

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Rating	Meaning
Buy	Total expected returns of more than 10% stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
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.
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* REIT refers to Real Estate Investment Trusts.

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