

Ashok Leyland Ltd.

Nifty: 19675

CMP: INR 175

Target Price: INR 214

WHERE ADVISORY MEETS EXCELLENCE

Commercial Vehicles

Revenue for Q2 came at INR 96,380 Mn up 17% on YoY basis and 18% on sequential basis which was mainly due to strong underlying demand in core sectors. Company's MHCV segment grew by 10% in H1FY24, driven by a favourable macroeconomic environment and healthy replacement demand, resulting in market share improvement from 31.2% in Q1FY24 to 31.9% in Q2FY24. EBITDA for the quarter stood at INR 10,798 Mn compared to INR 5,373 Mn YoY and Rs 8,207 Mn QoQ. EBITDA margin stood at 11.2% +120bps QoQ and +470bps YoY. This was aided by the softening of commodity prices and operating leverage, which helped maintain double-digit margins. Raw material cost are expected to remain soft for a few more months. We are optimistic about further margin improvements to sustain for the remaining quarters of FY24. PAT came in at Inr 5,610 Mn down 3% on QoQ basis. Effective tax rate was at 35% due to adjustment in deferred tax.

Continued Growth Amidst Surging Demand:

M&HCV volumes grew 10% this H1FY24. Management expects the domestic M&HCV industry to remain strong for the rest of the year and next year, driven by healthy replacement demand and favourable macros. Management retains its M&HCV industry growth guidance of 8-10% for FY24. We expect MHCV volumes of AL to grow around 10-12% over FY24E. LCV industry guidance is around 4-5%. AL's share in the 2-3.5T segment is 20% and company is also considering to enter the 0-2T segment which is a high volume, mature and competitive market. TIV for bus has grown by 46% in the quarter and the corresponding growth for Ashok Leyland was 95%. Bus market share has improved from 28.3% last year to 37.8% now. This is 9.5% increase over market share during the same period last year. Products volumes for TIV has grown by 15% and AL volumes have also grown resulting in 31.1% market share for Ashok Leyland. Sustained expansion within key end-user sectors such as cement, steel, coal, iron ore, and container movements, coupled with notable enhancements in overall manufacturing activities and consumption patterns, continue to bolster demand from fleet operators and diverse customer segments. The remarkable surge in bus requirements across various categories, encompassing tourist, intercity, private carriage, state transport services, as well as school and staff transportation, has significantly bolstered the industry's prospects. Projections suggest a resilient growth trajectory ahead, primarily propelled by robust factors like ongoing developments in mining, infrastructure, notably in road construction, and the steady enhancement of industrial output, serving as pivotal drivers for MHCV trucks. Moreover, the burgeoning need for bus fleet replacements, initiatives to enhance public transportation networks, and requirements for school and staff transport services are poised to stimulate the demand for buses in the foreseeable future.

Enhancing Profitability: Sustainable Double-Digit Margins:

Amidst initial upticks in steel prices during the early stages of FY24, subsequent softening has been observed and is anticipated to persist for the coming months. In response, the company has initiated significant measures aimed at cost reduction across product-related aspects and overheads. These proactive endeavours have yielded commendable results, enabling the achievement of an EBITDA margin of 11.2% for the quarter. We project the Ebitda margins to hover around 10.6% over FY24E and 11.7% over FY25E.

Other Highlights

Switch Mobility: AL will invest Rs12bn in Optare, which is the holding company for Switch UK and Switch India. This equity will be inducted in one or more tranches over the next 3-6 months. Company has secured orders for 1,100 buses and holds LOIs for over 10,000 electric LCVs. Initial deliveries of electric LCVs are scheduled for 4QFY24, alongside progress in developing the E1 bus for the European market. Amidst these developments, Ashok Leyland launched new products and expanded its network to bolster market presence and drive revenue growth.

Market share: The Company's market share in the MHCV segment remained above 30% for the seventh consecutive quarter at 31.9%. Bus market share improved by 950bps YoY to 37.8%

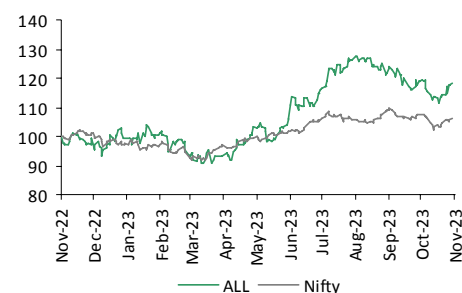
Exports: Export volume stood at 2,901 vehicles +4.3% YoY in 2QFY24.

Outlook and Valuation:

We expect robust overall Volume /Revenue growth at 9%/14% over FY24E. We project the Ebitda margins to hover around 10.6% over FY24E and 11.7% over FY25E. Given the positive outlook for domestic M&HCV sales volume, we confidently maintain our BUY rating with a target of Rs. 214 (valuing at 10.8 FY25E EPS & 13.5 FY25E PE).

Shareholding (%)	Sep-23
Promoters	51.53
FII's	20.21
DII's	16.51
Others	11.66

Relative Price Performance



Key Data	
BSE Code	500477
NSE Symbol	ASHOKLEY
Bloomberg Code	AL IN
Reuters Code	ASOK.BO
Shares Outstanding (mn)	2935
Face Value	1
Mcap (INR bn)	513.53
52 Week H/L	186/133
2W Avg. Qty.BSE (in .lakh)	11.22
CMP	175
Beta	1.5

(INR mn)	FY22	FY23	FY24E	FY25E
Net Sales	216,883	361,441	410,342	466,319
Growth (%)	41.74%	66.65%	13.53%	13.64%
EBIDTAM(%)	4.72%	8.11%	10.64%	11.70%
Reported PAT	5,713	13,801	24,501	31,801
PAT Growth(%)	-272.7%	154.7%	77.5%	29.8%
Adj. EPS (INR)	1.8	4.7	8.3	10.8
P/E (x)	64.5	29.6	17.5	13.5
EV/EBIDTA	34.2	14.0	9.8	7.8
Net Debt/Equity	0.3	0.3	0.2	0.1
RoACE (%)	1.6%	10.8%	15.9%	18.8%
RoANW (%)	7.6%	17.5%	26.9%	33.3%

Commercial Vehicles

Quarterly Financials

INR Mn	2Q FY24	2QFY23	1Q FY24	% Chg (YoY)	% Chg (QoQ)
Revenue	96,380	82,660	81,893	16.6	17.7
RM Cost	70,866	64,466	60,372	9.9	17.4
Employee Cost	5,728	5,271	5,376	8.7	6.6
Other Expenses	8,989	7,550	7,938	19.1	13.2
Total Expenditure	85,583	77,286	73,685	10.7	16.1
EBITDA	10,798	5,373	8,207	101.0	31.6
Depreciation	1,803	1,767	1,794	2.0	0.5
Other Income	475	200	512	137.4	-7.3
EBIT	9,470	3,806	6,926	148.8	36.7
Interest	587	771	699	-23.8	-16.0
Exceptional Items	-229	82	-6	-378.0	3,778.0
PBT	8,654	3,118	6,221	177.6	39.1
Tax	3,044	1,124	457	170.8	566.1
Profit After Tax	5,610	1,994	5,764	181.4	-2.7
	5,838.9	1,911.3	5,770.1		
Equity	0	0	0		
Face Value	2,936.1	2,935.5	2,936.1		
EPS	1.0	1.0	1.0	-	-
	1.9	0.7	2.0		
% of Sales				bps	bps
RM Cost	73.5	78.0	73.7	-446.3	-19.3
Employee Expenses	5.9	6.4	6.6	-43.3	-62.1
Other Expenses	9.3	9.1	9.7	19.3	-36.7
					-
EBITDAM Excl Other income (%)	11.2	6.5	10.0	470.3	118.1
EBITDAM (%)	11.7	6.7	10.6	495.3	104.9
PATM (%)	5.8	2.4	7.0	340.9	-121.8

Financials

Income Statement

Y/E (INR mn)	FY22	FY23	FY24E	FY25E
Net Sales	216,883	361,441	410,342	466,319
Net Sales Growth(%)	41.74%	66.65%	13.53%	13.64%
Cost of Goods Sold	167,611	278,492	316,169	357,573
Employee Cost	16,946	21,139	18,505	19,153
Other Optg. Exps.	22,087	32,504	32,026	35,022
Total Optg. Exps.	206,643	332,134	366,701	411,747
EBITDA(excl OI)	10,240	29,307	43,641	54,572
EBITDA Growth(%)	88.83%	194.68%	48.91%	25.05%
EBITDA Margins(%)	4.72%	8.11%	10.64%	11.70%
Dep./Amortization	7,527.6	7,319.6	7,805.7	8,333.3
Other Income	761	1,161	1,219	1,280
EBIT	3,473	23,149	37,055	47,519
EBIT Margins(%)	1.60%	6.40%	9.03%	10.19%
Interest Expense	3,011	2,891	2,941	3,022
Exceptionals	5,108	846	888	933
EBT	5,571	21,104	35,002	45,431
Tax Expenses	-142	7,303	10,500	13,629
PAT	5,713	13,801	24,501	31,801
PAT Growth(%)	-272.7%	154.7%	77.5%	29.8%
PAT Margins (%)	2.6%	3.8%	6.0%	6.8%

Key Ratios

Y/E	FY22	FY23	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	1.8	4.7	8.3	10.8
Adj.EPS	1.8	4.7	8.3	10.8
CEPS	4.5	7.2	11.0	13.7
DPS	1.3	2.6	0.2	0.2
BVPS	25.0	28.7	31.0	34.1
Return Ratios(%)				
RoACE	1.6%	10.8%	15.9%	18.8%
RoANW	7.6%	17.5%	26.9%	33.3%
Liquidity Ratios				
Net Debt/Equity	0.3	0.3	0.2	0.1
Interest Coverage Ratio	1.1	8.0	12.6	15.7
Current Ratio	1.0	1.1	1.1	1.2
Quick Ratio	0.4	0.4	0.4	0.5
Efficiency Ratios				
Asset Turnover Ratio	1.1	1.7	1.7	1.8
Inventory Days	36.6	30.5	27.4	27.7
Debtor Days	52.4	41.0	36.2	36.2
Creditor Days	121.3	78.9	79.4	80.3
Valuation Ratios				
P/E(x)	64.5	29.6	17.5	13.5
P/BV(x)	4.8	5.0	4.6	4.2
P/CEPS(x)	26.4	20.0	13.1	10.5
Dividend Yield(%)	1.12%	1.87%	0.14%	0.14%
EV/Net Sales(x)	1.7	1.2	1.1	0.9
EV/EBITDA(x)	34.2	14.0	9.8	7.8

Balance Sheet

Y/E (INR mn)	FY22	FY23	FY24E	FY25E
Share Capital (Incl Warrants)	3,315	3,315	3,315	3,315
Reserves and Surplus	70,055	80,944	87,804	96,708
Total Networth	73,369	84,258	91,118	100,023
Long Term Debt	28,506	17,662	17,662	17,662
Short Term Debt	6,565	14,139	11,752	13,356
Total Debt	35,071	31,801	29,415	31,018
Net Deferred Tax Liability	1,444	5,035	5,136	5,239
Other Liabilities	4,546	8,233	8,466	9,005
Liabilities as Held for Sale and Discontinued Operations	118	109	109	109
Sources of Funds	114,548	129,436	134,244	145,392
Net Block	66,009	63,042	62,236	58,903
CWIP	1,111	490	3,745	4,372
Investments	35,216	38,922	38,922	38,922
Current Assets	94,582	116,316	126,976	154,401
Current Liabilities	88,790	96,480	105,168	119,515
Net Current Assets	5,792	19,836	21,808	34,886
Other Assets	5,784	6,428	6,815	7,590
Assets as Held for Sale and Discontinued Operations	636	719	719	719
Application of Funds	114,548	129,436	134,244	145,392

Cash Flow

Y/E	FY22	FY23	FY24E	FY25E
PBT	5,276	21,104	35,002	45,431
Add: Depreciation	7,528	7,320	7,806	8,333
Add: Interest paid	3,011	2,891	2,941	3,022
Change in Working Capital	-5,210	-11,927	1,510	3,404
Less: Taxes	142	-7,303	-10,500	-13,629
Cash Flow from operations (a)	10,747	12,084	36,758	46,560
Change in Fixed Assets	-3,033	-4,352	-7,000	-5,000
Change in CWIP	1,177	622	-3,255	-628
Change in Investments	-4,529	-3,706	0	0
Others	912	-591	-378	-766
Cash Flow from Investing (b)	-5,473	-8,028	-10,633	-6,394
Change in Equity	-43	0	0	0
Debt Raised/(Repaid)	2,926	-10,844	0	0
Dividend paid	-3,905	-7,635	-17,641	-22,897
Interest paid	-3,011	-2,891	-2,941	-3,022
Others	-419	7,278	334	641
Cash Flow from Financing (c)	-4,452	-14,091	-20,248	-25,278
Net Change in Cash (a+b+c)	823	-10,034	5,877	14,888
Opening Cash	8,230	10,470	5,013	10,880
Closing Cash	10,470	5,013	10,880	25,759

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