Ashok Leyland Limited

Nifty: 25,387 CMP: Rs. 160 Target Price: Rs. 173 Rating: HOLD

ARETE SECURITIES LTD.
WHERE ADVISORY MEETS EXCELLENCE

Automobile

Ashok Leyland delivered record volumes in Q2 FY27, although margins remained under pressure. Revenue reached Rs.133,643 Mn (+39.4% YoY), with EBITDA at Rs.13,500 Mn (+16.2% YoY) at a margin of 10.1% (-202 bps YoY, flat QoQ) and PAT at Rs.8,690 Mn (+12.7% YoY). Domestic CV volumes excluding defence rose 34% YoY to 59,575 units, the highest ever for a second quarter, while domestic MHCV volumes grew 44%, outperforming industry growth of 39%. Material cost rose to 74.9% of revenue (+335 bps QoQ) on higher steel, rubber, fuel and forex costs, but volume leverage cut employee and other costs by about 340 bps as a share of revenue and absorbed the increase. Net cash (cash and bank balances + current investments - borrowings) was Rs.32,530 Mn at end-Q2FY27, and an interim dividend of Rs.1 per share was declared.

Key Highlights

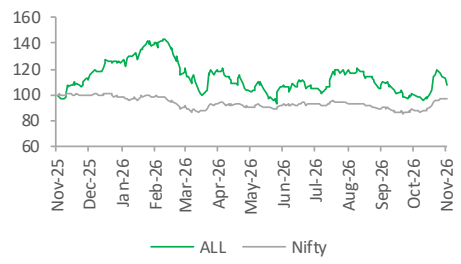
- **Share gains in a capacity-constrained upcycle:** Domestic MHCV market share rose 120 bps YoY to 32.1%, while LCV market share increased 30 bps to 13.6%, led by Hippo tractors, Taurus tippers and air-suspension multi-axle trucks, which lifted multi-axle share of truck volumes from 20% to 25% QoQ. Management expects FY27 CV industry growth in the double-digit to mid-teens range. Plants, however, ran at close to 90% utilisation, so growth is now supply-limited and depends on debottlenecking and a greenfield facility with no committed timeline.
- **Margin recovery is deferred, not delivered:** Management now expects commodity inflation to remain elevated in Q3, after the cost peak was earlier guided for Q2, and has asked investors to track absolute profit rather than margin. Pricing is the offset: net realisation has risen 1-1.25% a quarter, a 100-150 bps price increase has already been implemented in Q3 and one more is likely in Q4. The mid-teen EBITDA goal was reiterated without a timeline, so we assign limited weight to this target.
- **Non-vehicle businesses cushion mix, exports lag:** Domestic aftermarket revenue grew 20% YoY, Power Solutions revenue increased 33% YoY, while defence revenue grew 66% YoY to ~Rs. 4,000 Mn. The contribution from non-vehicle businesses supported margin resilience despite approximately 40% YoY growth in trucks, the company's lower-margin business. Exports rose only 7% YoY as GCC volumes fell about 20% on West Asia disruption. An H2 GCC turnaround is guided, but the August call had indicated RAK output reaching 800 units a month by September, while GCC volumes still fell about 20% in Q2. The recovery remains to be proven.
- **Capex rising, subsidiary funding continues:** FY27 capex is now guided at Rs.10,000-12,000 Mn, above the Rs.7,500-10,000 Mn indicated earlier. Subsidiary funding stood at Rs. 4,830 Mn in H1, including Rs. 3,240 Mn towards repayment of the Switch UK loan and Rs. 1,500 Mn for the e-mobility subsidiary. Switch India holds an order book of about 2,800 e-buses, while battery-pack production now starts in Q3 of next year versus Q2 FY27 earlier.
- **HLF merger advances, but an audit disclaimer clouds it:** The NCLT order makes NDL Ventures the legal and accounting acquirer of Hinduja Leyland Finance (HLF) from 1 April 2026, with completion guided within Q4 FY27, roughly three quarters behind the original timeline. HLF's auditors have disclaimed an opinion on loan balances, citing system discrepancies whose impact is not ascertainable; an independent review will take 4-6 weeks.

Outlook and Valuation

We cut FY27E EBITDA margin to 10.6% (from 12.8%) and EPS to Rs.6.26 (from Rs.7.03, -11%), while lifting revenue to Rs.531,000 Mn (+20.7%) on H1 volumes. Q3E assumes RM at 75.2% of revenue, with EBITDA margin recovering slightly from 10.3% to 11.6% in Q4E as pricing catches up. FY28E revenue is Rs.589,000 Mn (+10.9%), EBITDA margin 11.5% and EPS Rs.7.73, assuming only partial commodity relief, since we assume about a quarter of the 2.4pp margin decline from FY26 is regained by FY28E, as the timing of steel and rubber relief remains uncertain. At CMP the stock trades at 25.5x FY27E EPS and 20.7x FY28E EPS. We roll over to 22.4x FY28E, implying a TP of Rs.173 (+8% upside), and maintain HOLD rating: demand and cash generation are strong but largely priced in, and the HLF disclaimer is unresolved. Key risks: prolonged commodity inflation, capacity limits and West Asia logistics. Upgrade triggers: Q4 material costs below 74% of revenue, EBITDA margin exceeding 12%, and satisfactory resolution of the HLF loan-balance discrepancies.

Shareholding (%)	Sep-26
Promoters	51.5%
FII's	19.9%
DII's	16.6%
Others	12.0%

Relative Price Performance



Key Data	
BSE Code	500477
NSE Symbol	ASHOKLEY
Bloomberg Code	AL IN
Reuters Code	ASOK.BO
Shares Outstanding (mn)	5,873.9
Face Value	1
Mcap (INR bn)	939.8
52 Week H/L	215/138
2W Avg. Qty.BSE (in .lakh)	13.23
CMP	160
Beta	0.82

(INR mn)	FY25	FY26	FY27E	FY28E
Net Sales	3,87,527	4,40,070	5,31,000	5,89,000
Growth (%)	1.0%	13.6%	20.7%	10.9%
EBITDAM(%)	12.7%	13.0%	10.6%	11.5%
Reported PAT	33,033	35,655	36,794	45,377
PAT Growth(%)	26.2%	7.9%	3.2%	23.3%
P/E (x)	14.9	26.4	25.5	20.7
Net Debt/Equity	-0.1	-0.1	-0.2	-0.3
RoACE (%)	18.2%	19.7%	17.1%	18.6%
RoANW (%)	32.5%	29.0%	26.4%	28.8%

Anshu Narayan
anshu.narayan@aretesecurities.com
Ph. No. 91 22 4289 5600 (Ext. 605)

Quarterly Financials (Standalone)

INR Mn.	Q2FY27	Q2FY26	Q1FY27	% Chg (YoY)	% Chg (QoQ)
Revenue	**1,33,643**	**95,882**	**96,344**	**39.4**	**38.7**
RM Cost	1,00,089	68,237	68,924	46.7	45.2
Employee Cost	7,094	6,478	6,927	9.5	2.4
Other Expenses	12,960	9,546	10,797	35.8	20.0
Total Expenditure	**1,20,142**	**84,260**	**86,648**	**42.6**	**38.7**
EBITDA	**13,500**	**11,622**	**9,695**	**16.2**	**39.2**
Depreciation	1,855	1,723	1,829	7.7	1.4
Other Income	649	1,348	851	-51.8	-23.7
EBIT	**12,295**	**11,246**	**8,717**	**9.3**	**41.0**
Interest	422	420	415	0.5	1.6
Exceptional Items	-	-400	-	NA	NA
PBT	**11,873**	**10,427**	**8,302**	**13.9**	**43.0**
Tax	3,183	2,716	2,211	17.2	44.0
Profit After Tax	**8,690**	**7,711**	**6,091**	**12.7**	**42.7**
Equity	5,873.9	5,873.5	5,873.9	0.0	-
Face Value	1.0	1.0	1.0	-	-
EPS	1.48	1.31	1.04	13.0	42.3
% of Sales				**bps**	**bps**
RM Cost	74.9	71.2	71.5	372.5	335.3
Employee Expenses	5.3	6.8	7.2	-144.8	-188.2
Other Expenses	9.7	10.0	11.2	-25.8	-150.9
EBITDAM (%)	**10.1**	**12.1**	**10.1**	**-201.9**	**3.9**
PATM (%)	**6.5**	**8.0**	**6.3**	**-153.9**	**18.0**

Financials

Income Statement

Y/E (INR mn.)	FY25	FY26	FY27E	FY28E
Net Sales	**3,87,527**	**4,40,070**	**5,31,000**	**5,89,000**
Net Sales Growth(%)	1.0%	13.6%	20.7%	10.9%
Cost of Goods Sold	2,76,228	3,14,171	3,94,400	4,32,300
Employee Cost	24,063	26,067	28,720	31,500
Other Optg. Exps.	37,931	42,510	51,660	57,430
Total Optg. Exps.	**3,38,222**	**3,82,748**	**4,74,780**	**5,21,230**
EBITDA(excl OI)	49,306	57,322	56,220	67,770
EBITDA Growth(%)	7.0%	16.3%	-1.9%	20.5%
EBITDA Margins(%)	12.7%	13.0%	10.6%	11.5%
Dep./Amortization	7,193	7,152	7,480	8,300
Other Income	2,503	3,152	3,000	3,400
EBIT	**44,615**	**53,322**	**51,740**	**62,870**
EBIT Margins(%)	11.51%	12.12%	9.74%	10.67%
Interest Expense	2,169	1,697	1,680	1,550
Exceptionals	1,037	-3,485	0	0
EBT	**43,483**	**48,140**	**50,060**	**61,320**
Tax Expenses	10,450	12,485	13,266	15,943
PAT	**33,033**	**35,655**	**36,794**	**45,377**
PAT Growth(%)	26.2%	7.9%	3.2%	23.3%
PAT Margins (%)	8.5%	8.1%	6.9%	7.7%

Balance Sheet

Y/E (INR mn.)	FY25	FY26	FY27E	FY28E
Source of Funds				
Share Capital (Incl Warrents)	2,937	5,874	5,874	5,874
Reserves and Surplus	1,12,251	1,25,260	1,41,496	1,61,909
Total Networth	1,15,188	1,31,134	1,47,370	1,67,782
Long Term Debt	9,022	5,179	7,000	6,000
Short Term Debt	5,332	6,338	4,000	4,000
Total Debt	14,354	11,517	11,000	10,000
Net Deferred Tax Liability	5,479	5,357	5,550	5,700
Other Liabilities	11,261	11,000	13,100	14,200
Liabilities as Held for Sale and Discontinued Operations	47	0	0	0
Current Liab. (excl. ST Debt)	1,08,929	1,26,928	1,43,500	1,56,500
Sources of Funds	**2,55,258**	**2,85,937**	**3,20,520**	**3,54,182**
Application of Funds				
Net Block	58,455	63,889	66,509	72,109
CWIP	2,769	2,100	3,000	3,300
Investments	56,543	65,593	72,500	77,500
Current Assets	1,23,086	1,46,620	1,70,011	1,92,274
Intangible Assets	1,479	2,693	3,200	3,500
Other Assets	12,690	5,042	5,300	5,500
Assets as Held for Sale and Discontinued Operations	237	0	0	0
Application of Funds	**2,55,258**	**2,85,937**	**3,20,520**	**3,54,182**

Key Ratios

Y/E	FY25	FY26	FY27E	FY28E
Per Share Data (RS.)				
No. of Shares	**2,936.5**	**5,873.9**	**5,873.9**	**5,873.9**
Reported EPS	11.2	6.1	6.3	7.7
CEPS	13.7	7.3	7.5	9.1
DPS	6.25	3.50	3.50	4.25
Return Ratios(%)				
RoACE	18.2%	19.7%	17.1%	18.6%
RoANW	32.5%	29.0%	26.4%	28.8%
Liquidity Ratios				
Net Debt/Equity	-0.11	-0.14	-0.23	-0.26
Debt/Equity	0.12	0.09	0.07	0.06
Interest Coverage Ratio	20.6	31.4	30.8	40.6
Current Ratio	1.1	1.1	1.2	1.2
Quick Ratio	0.5	0.4	0.5	0.6
Efficiency Ratios				
Asset Turnover Ratio	1.6	1.6	1.8	1.7
Inventory Days	32	33	30	30
Debtor Days	27	24	24	24
Creditor Days	79	79	75	75
Valuation Ratios				
P/E(x)	14.9	26.4	25.5	20.7
P/CEPS(x)	12.3	22.0	21.2	17.5
Dividend Yield(%)	3.7	2.2	2.2	2.7

Cash Flow

Y/E (INR mn.)	FY25	FY26	FY27E	FY28E
PBT	**43,483**	**48,140**	**50,060**	**61,320**
Add:Depreciation	7,193	7,152	7,480	8,300
Add: Interest paid	2,169	1,697	1,680	1,550
Change in Working Capital	-20,560	-1,818	6,083	-800
Less: Taxes	-10,450	-12,485	-13,266	-15,943
Cash Flow from operations (a)	**21,835**	**42,687**	**52,037**	**54,427**
Change in Fixed Assets	-6,130	-12,586	-10,100	-13,900
Change in CWIP	-1,813	669	-900	-300
Change in Investments	-3,436	-9,050	-6,907	-5,000
Others	-8,263	6,434	-765	-500
Cash Flow from Investing (b)	**-19,642**	**-14,533**	**-18,672**	**-19,700**
Change in Equity	0	2,937	0	0
Debt Raised/(Repaid)	-2,294	-3,844	1,821	-1,000
Dividend paid	-18,353	-20,559	-20,559	-24,964
Interest paid	-2,169	-1,697	-1,680	-1,550
Others	595	-383	2,293	1,250
Cash Flow from Financing (c)	**-22,221**	**-23,545**	**-18,125**	**-26,264**
Net Change in Cash (a+b+c)	**-20,028**	**4,608**	**15,240**	**8,463**
Opening Cash	41,683	21,655	26,264	41,504
Closing Cash	**21,655**	**26,264**	**41,504**	**49,967**

Analyst Certification of Independence: The analyst(s) for this report certifies that all the views expressed in this report accurately reflect his or her personal views about the subject company(ies) or issuers and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Arete Securities Limited, and have no bearing whatsoever on any recommendation that they have given in the Research Report. Disclaimer and Disclosures as required under SEBI (Research Analyst) Regulations, 2014: Arete Securities Limited (hereinafter refer as Arete Securities) and its affiliates are engaged in investment banking, investment advisory, stock broking, institutional equities, Mutual Fund Distributor and insurance broking. Arete Securities is a SEBI registered securities broking Company having membership of NSE and BSE for Equity, Future & Option, Currency Derivatives segment and Wholesale Debt Market. The Company is focused primarily on providing securities broking services to institutional clients and is empanelled as an approved securities broker with all the major Nationalised, Private and Co-operative banks, Corporate houses, Insurance Companies, Financial Institutions, Asset Management Companies and Provident Fund Trusts. Details of affiliates are available on our website i.e. http://www.aretesecurities.com.
Arete Securities Limited is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014. Vide SEBI Reg. No. INH00002615.
We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in the last five years. We have not been debarred from doing business by any Stock Exchange/ SEBI or any other authorities, nor has our certificate of registration been cancelled by SEBI at any point of time.
General Disclosures: This Research Report (hereinafter called "report") has been prepared by Arete Securities and is meant for sole use by the recipient and not for circulation. This Report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, (as defined under section 2(h) of securities Contracts (Regulation) Act.1956, through Arete Securities nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security (ies) referred to herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments.
This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by Arete Securities to be reliable, although its accuracy and completeness cannot be guaranteed. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. Any review, retransmission or any other use is prohibited.
The information, opinions, views expressed in this Research Report are those of the research analyst as at the date of this Research Report which are subject to change and do not represent to be an authority on the subject. While we would endeavour to update the information herein on a reasonable basis, we are under no obligation to update the information. Also, there may be regulatory, compliance or other reasons that prevent us from doing so. Hence all such information and opinions are subject to change without notice.
Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.
This Research Report should be read and relied upon at the sole discretion and risk of the recipient. If you are dissatisfied with the contents of this complimentary Research Report or with the terms of this Disclaimer, your sole and exclusive remedy is to stop using this Research Report. Neither Arete Securities nor its affiliates or their respective directors, employees, agents or representatives shall be responsible or liable in any manner, directly or indirectly, for the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.
Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. Arete Securities may have issued other reports in the past that are inconsistent with and reach different conclusion from the information presented in this report.
Arete Securities, its affiliates and employees may, from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report.
The user should consult their own advisors to determine the merits and risks of investment and also read the Risk Disclosure Documents for Capital Markets and Derivative Segments as prescribed by Securities and Exchange Board of India before investing in the Indian Markets.
A graph of daily closing prices of securities is available at www.nseindia.com and http://economictimes.indiatimes.com/markets/stocks/stock-quotes. (Choose a company from the list on the browser and select the "three years" icon in the price chart).
Disclaimers in respect of jurisdiction: This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject Arete Securities or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently send or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of Arete Securities.
List of Associates as per SEBI (Research Analyst) Regulations, 2014

Statements on ownership and material conflicts of interest, compensation - Arete and Associates	
Disclosure of interest statement	**Yes/No**
Arete Securities/its Affiliates/Analyst/his or her Relative financial interest in the company	**No**
Arete Securities/its Affiliates/Analyst/his or her Relative actual/beneficial ownership of more than 1% in subject company at the end of the month. Immediately preceding the date of the publication of the research report or date of public appearance	**No**
Investment banking relationship with the company covered	**No**
Any other material conflict of interest at the time of publishing the research report	**No**
Receipt of compensation by Arete Securities or its Affiliated Companies from the subject company covered for in the last twelve months: • Managing/co-managing public offering of securities • Investment banking/merchant banking/brokerage services • products or services other than those above • in connection with research report	**No**
Whether Research Analyst has served as an officer, director or employee of the subject company covered	**No**
Whether the Research Analyst or Research Entity has been engaged in market making activity of the Subject Company;	

For statements on ownership and material conflicts of interest, compensation, etc. for individual Research Analyst(s), please refer to each specific research report.

Arete Securities Ltd.

ARETE SECURITIES LTD	SEBI Reg. Nos.
NSE Capital Market	INZ000241036
NSE Future & Option	INZ000241036
NSE Currency Derivatives	INZ000241036
NSE Future & Option	INZ000241036
BSE Cash	INZ000241036
BSE Wholesale Debt Market	INZ000241036
BSE Currency Derivatives	INZ000241036
NSDL DP	DP ID IN303680
Research Analyst	INH100002615
Merchant Banker	INM000012740
Investment Advisor	INA000014614