

ASHOK LEYLAND LIMITED

Modest Q1 on seasonality, CV cycle revival remains key to growth

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Ashok Leyland (AL) reported topline growth of 5% yoy and a decline of 24% qoq on seasonality. Volumes during the quarter saw a growth of 6% yoy growth. Realizations de-grew by 1.1% yoy. The company witnessed good growth in bus market share. EBITDA margins moved up to 10.6% up by 60 bps yoy from 10%. There was a sequential fall in margins by 350 bps. This was due to increased commodity costs (72.2% of sales v/s 71.8% qoq), unfavorable product mix and a one-time expense sitting in other expenses. Other income was down sharply both qoq and yoy at ₹223 mn, while tax rate was at 25% as the company has shifted to new tax regime. PAT came in at ₹5.2bn, down 9% yoy.

Volume growth to revive by Q4 FY25, FY 26 to see a strong growth

MHCV segment grew at 10% growth in Q1, on lower base of last year and a 50% growth in the bus segment. However, the MHCV trucks segment posted a decline of 2-3%, due to elections in the country leading to lower demand. However, underlying drivers such as infrastructure & mining, construction and demand from big fleet operators for transportation of cement, steel, coal, iron ore etc. is going at a steady pace. The company is also gaining orders from the fleet owners mainly from the e-commerce and the logistics industries. Demand for Tippers was down in Q1, while there was a strong shift from MAVs to Tractor Trailers (20% up) as construction and mining activities gained momentum. Q2 is seeing a good pick up in Tippers as per the management. Even the demand for ICVs was good in Q1. The demand for buses is also very high from schools, offices and orders from various STUs. Also the EV version of buses are getting an encouraging response. AL has a growing order book for its EV busses from places like Delhi (560 buses to be supplied by March'25 and 400 at a later date), Bangalore (300+), UP (100+) and other cities as well and has received LOIs of ~10K buses. The deeper penetration has led to higher sales in Northern and Eastern parts of the country as well where AL is traditionally has a low presence. The company has been continuously adding dealerships and service centres across India. The company plans to touch 1000 dealers and service centres soon, mainly led by North and East India.

AL launched various model variants in most of its segments across HPs. The company recently launched the e-Comet 1915 CNG, Boss 1815, Avatar 3525, couple of AC buses, Dost CNG, a School bus and a defense vehicle to address the gap in its portfolio. All these models are fetching a very strong demand especially the Avatar range of trucks.

Key Financials	FY 23	FY 24	FY 25E	FY 26E
Revenues (₹ bn)	361.44	383.67	425.05	487.08
EBITDA (%)	8.1%	12.0%	12.2%	12.5%
PAT (%)	3.8%	6.8%	7.5%	8.1%
Adj EPS (₹)	4.41	9.24	10.91	13.52
EPS growth (%)	4075.0%	109.3%	18.2%	23.8%
P/E (x)	56.0	26.7	22.6	18.3
P/B (x)	8.6	8.2	6.5	5.1
EV/EBITDA (x)	25.7	15.8	13.8	11.5
ROCE (%)	19.1%	33.7%	32.6%	32.3%
ROE (%)	16.4%	29.7%	28.6%	28.0%

BUY

Current Market Price (₹)	246
12 M Price Target (₹)	284
Potential upside (%)	15

Stock Data

Sector :	Autos
FV (₹) :	1
Total Market Cap (₹ bn) :	724
Free Float Market Cap (₹ bn) :	355
52-Week High / Low (₹) :	249 / 158
BSE Code / NSE Symbol :	500477 / ASHOKLEY
Bloomberg :	AL IN

Shareholding Pattern

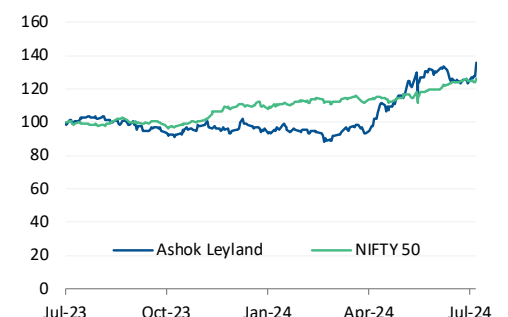
(%)	Jun-24	Mar-24	Dec-23	Sep-23
Promoter	51.52	51.52	51.53	51.53
FPIs	22.03	21.45	20.49	20.22
MFs	6.80	5.84	8.71	10.10
Insurance	6.02	4.62	4.03	4.73
Others	13.63	16.57	15.24	13.42

Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
Ashok Leyland	2.6%	33.2%	45.1%	35.4%
Nifty 50	4.0%	10.8%	16.3%	26.3%

* To date / current date : July 26, 2024

Ashok Leyland vs Nifty 50

Apart from the high base effect we do not believe there are any structural hindrances for the CV sector to not report a recovery in Q4 FY25 and a higher growth in FY 26. Overall, we expect AL's market share to reach ~35% in FY2026E with new launches. With robust bus segment growth and capex cycle boost expected to support growth in the MHCVs in mid to long term, we expect AL to outperform the industry post a slow growth expected to continue in Q2 and Q3. Management expects the MHCV trucks segment to grow flattish or at a single digit in FY 25.

Margins to be driven by various factors...

Q1 witnessed a yoy growth of 60 bps in margins. We saw little rise in input costs mainly in copper and aluminium. Going forward, management expects input costs to post slight growth. Management has not taken any price hike in Q1 or in Q2 till date. The company is also into stringent cost cutting initiatives, adding value added products to their portfolio, whilst improving demand for higher tonnage trucks and tractor trailers. Operating leverage shall further come into play as volumes further grow. We expect 12.2%/12.5% EBITDA margins in FY25E/26E respectively.

Quarterly Standalone

YE Mar (₹ mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy
Total income	85,985	112,667	-23.7%	81,893	5.0%
Raw Material Cost	62,046	80,906	-23.3%	60,372	2.8%
Staff Cost	5,498	5,535	-0.7%	5,376	2.3%
Other Expenses	9,333	10,305	-9.4%	7,938	17.6%
Total Expenses	76,877	96,746	-20.5%	73,685	4.3%
EBITDA	9,109	15,921	-42.8%	8,208	11.0%
EBITDA margin (%)	10.6%	14.1%	-350 bps	10.0%	60 bps
Other Income	223	1,179	-81.1%	512	-56.4%
Depreciation	1,727	1,797	-3.9%	1,794	-3.7%
Interest	591	592	-0.3%	699	-15.5%
PBT	7,014	14,711	-52.3%	6,227	12.6%
Total tax	1,759	5,010	-64.9%	457	284.9%
Adjusted PAT	5,256	9,701	-45.8%	5,770	-8.9%
Exceptional items	-	(697)	N/A	(6)	N/A
Reported PAT	5,256	9,004	-41.6%	5,764	-8.8%

Source: Company, LKP Research

Outlook and valuation

We believe volume growth in MHCVs to remain subdued in mid-term, while bounce back in Q4 and grow strongly in FY 26. Buses shall grow within the segment at a stronger pace mainly on EV demand. Gol's continuous thrust on capex and strong Infrastructure outlay shall ensure MHCV to lead a come back. LCV demand is in place and shall grow at mid to higher single digit in FY 25. Also on the back of improving margin profile, we maintain **BUY** with a raised target price of ₹284 (valuing at 21X times FY 26E earnings).

Per unit parameters	Q1 FY25	Q4 FY24	Q3 FY24	Q2 FY24	Q1 FY24	Q4 FY23	Q3 FY23	Q2 FY23
Avg Price Realisation (net)	1,958,975	2,002,291	1,970,423	1,933,563	1,981,488	1,947,446	2,061,333	1,824,914
Material cost / unit (₹)	1,413,583	1,437,838	1,423,204	1,421,689	1,460,754	1,472,213	1,571,928	1,423,243
Staff cost / unit (₹)	125,248	98,372	121,005	114,920	130,068	99,156	125,435	116,359
Other Expn / unit (₹)	212,624	183,135	189,516	180,329	192,076	162,375	181,945	166,681
Total Expn / unit (₹)	1,751,455	1,719,345	1,733,724	1,716,938	1,782,898	1,733,744	1,879,308	1,706,283
EBITDA per unit	207,521	282,946	236,699	216,625	198,589	213,703	182,025	118,631
APAT per unit	119,741	172,399	123,376	117,139	139,614	116,418	80,909	42,186

Source: Company, LKP Research

Income Statement

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
Total Revenues	361,441	383,670	425,046	487,078
Raw Material Cost	278,492	279,120	310,708	354,593
Employee Cost	21,139	22,334	23,803	27,763
Other Exp	32,504	36,151	38,679	43,837
EBITDA	29,307	46,066	51,856	60,885
EBITDA Margin(%)	8.1%	12.0%	12.2%	12.5%
Other income	1161	2466	2500	2600
Depreciation	7,320	7,178	7,054	7,111
Interest	2891	2494	2170	2015
PBT	20,258	38,859	45,131	54,359
PBT Margin(%)	5.6%	10.1%	10.6%	11.2%
Tax	7,303	11,743	13,088	14,677
Adj PAT	12,955	27,116	32,043	39,682
Adj PAT Margins (%)	3.6%	7.1%	7.5%	8.1%
Exceptional items	846.1	-937.2	0.0	0.0
PAT	13,801	26,179	32,043	39,682
PAT Margin (%)	3.8%	6.8%	7.5%	8.1%

Key Ratios

YE Mar	FY 23	FY 24	FY 25E	FY 26E
Per Share Data (₹)				
Adj. EPS	4.41	9.24	10.91	13.52
CEPS	6.9	11.7	13.3	15.9
BVPS	28.7	30.0	38.2	48.3
DPS	1.0	2.6	2.7	3.4
Growth Ratios(%)				
Total revenues	66.7%	6.2%	10.8%	14.6%
EBITDA	194.7%	57.2%	12.6%	17.4%
Adj. PAT	4075.0%	109.3%	18.2%	23.8%
EPS	4075.0%	109.3%	18.2%	23.8%
Valuation Ratios (x)				
PE	56.0	26.7	22.6	18.3
P/CEPS	35.8	21.1	18.5	15.5
P/BV	8.6	8.2	6.5	5.1
EV/Sales	2.1	1.9	1.7	1.4
EV/EBITDA	25.7	15.8	13.8	11.5
Operating Ratios (Days)				
Inventory days	28.0	30.4	32.0	36.0
Receivable Days	41.0	34.0	30.0	28.0
Payables day	72.5	60.0	58.0	55.0
Profitability Ratios (%)				
ROCE	19.1%	33.7%	32.6%	32.3%
ROE	16.4%	29.7%	28.6%	28.0%
Dividend payout	21.3%	29.2%	25.0%	25.0%

Balance Sheet

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
EQUITY AND LIABILITIES				
Shareholder's funds				
Share capital	2,936	2,936	2,936	2,936
Reserves and surplus	81,322	85,167	109,200	138,961
Total networth	84,257	88,104	112,136	141,897
Non current liabilities				
Long term borrows & provs	22,855	18,557	16,557	15,557
Deferred tax liabilities	5035.1	5563.1	5563.1	5563.1
Current liabilities				
Short term borrowings	14139	11229	9729	8229
Current liabilities and provs	76,944	69,559	74,048	79,902
Other current liabilities	19,645	39,764	39,764	39,764
Total equity and liabilities	225,916	236,118	261,140	294,255
ASSETS				
Net block	47,479	45,022	47,968	50,857
Capital work in progress	490	955	1,555	2,155
Intangible assets	16,399	15,556	15,556	15,556
Non current investments				
Long term loans & advances	0	0	0	0
Long term investments	44,513	57,953	70,953	80,953
Total non current assets	108,880	119,486	136,033	149,521
Current assets				
Inventories	27,745	31,907	27,240	34,974
Trade receivables	40,621	35,697	38,197	40,697
Cash and cash bank	4,541	19,419	30,062	39,455
Short term loans & advances	0	950	950	950
Other current assets	15,944	11,205	11,205	11,205
Total current assets	117,036	116,631	125,107	144,733
Total Assets	225,916	236,118	261,140	294,255

Cash Flow

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
PBT	13,801	26,179	32,043	39,682
Depreciation	7,147	6,997	7,054	7,111
Interest	2,891	2,494	2,170	2,015
Chng in working capital	13,579	(10,387)	(5,233)	5,156
Tax paid	(4,002)	(6,245)	(13,088)	(14,677)
Other operating cash flows	(12,056)	5,993	23,477	3,641
Cash flow from operations (a)	21,360	25,031	46,424	42,928
Capital expenditure	(5,021)	(4,955)	(10,600)	(10,600)
Chng in investments	(198)	(15,670)	(13,000)	(10,000)
Other investing activities	(12,126)	29,647	0	0
Cash flow from investing (b)	(17,345)	9,021	(23,600)	(20,600)
Inc/dec in borrowings	(3,692)	(8,880)	(2,000)	(1,000)
Dividend paid (incl. tax)	(2,936)	(7,634)	(8,011)	(9,920)
Other financing activities	(2,775)	(2,661)	(2,170)	(2,015)
Cash flow from financing (c)	(9,402)	(19,175)	(12,181)	(12,935)
Net chng in cash (a+b+c)	(5,386)	14,878	10,643	9,393
Closing cash & cash equiv.	4,542	19,419	30,062	39,455

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