

ASHOK LEYLAND LIMITED

Good results, outlook positive

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Revenues grew 9% yoy (+2% qoq) at ~₹87.7b as ASP declined ~0.6% yoy/-1.9% qoq at ~₹1.92m/unit, while volumes declined by 8.5% yoy (+3.9% qoq) at 45.6k units. Decline in ASP is led by unfavorable mix even within M&HCV, while LCVs increased to 38.2%. AL's Q2 FY25 operating performance was slightly better as EBITDA margins came in at 11.6%, +40bp/+100bp yoy/qoq). This was led by better than expected gross margins as RM continues to be benign and cost control initiatives. We believe, despite volumes trajectory likely to be uncertain (flat to mid-single digit growth), margins would likely expand led by, 1) benign RM, 2) stable net pricing & favorable mix and 3) cost controls initiatives. Performance of non-auto business continues to be healthy in Q2 FY25 led by, 1) Aftermarket (+13% yoy), 2) Defence revenues grew >2x yoy in H1 FY25 and 3) Engines +17% YoY and exports growth despite macro challenges in key markets.

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

AL gained market share of ~60 bps in Q2 in MHCVC industry, which it aims to increase to ~35%. We believe market share gains shall continue, led by product expansion and new product launches. The management sounded positive on demand momentum to buildup in H2 FY25 led by likely pickup in fleet sentiments and improvement in infra activities. We are building in ~4% MHCVC volume CAGR over FY24-27E with decline of ~7% in FY25E. However, we believe AL's de-risking strategy to help as it reduces domestic MHCVC exposure by adding new revenue pools such as LCVs and nonvehicle revenues.

Replacement cycle for MHCVC has got considerably stretched in this up-cycle largely because of improved vehicle quality and better service support. Average commercial fleet age stands at ~10-12 years now while average replacement cycle used to be 6-7 years earlier. We however, believe replacement demand will come back in the next 12-18 months with ageing fleet population and improving fleet utilization. Further, we believe LCV volumes will also recover on the back of a pickup in consumption.

Margins to be driven by various factors

Q2 witnessed a yoy growth of 40 bps in margins. We saw a decline in input costs as RM to sales came down to 71.2% from 73.5% yoy and 72.2% qoq. Going forward, management expects input costs to remain benign. The CV industry has been oligopolistic in nature.

Key Financials	FY 23	FY 24	FY 25E	FY 26E
Revenues (₹ bn)	361	384	425	487
EBITDA (%)	8.1%	12.0%	10.9%	11.4%
PAT (%)	3.8%	6.8%	7.3%	7.5%
Adj EPS (₹)	4.41	9.24	10.12	12.52
EPS growth (%)	4075.0%	109.3%	9.5%	23.7%
P/E (x)	51.2	24.5	22.3	18.1
P/B (x)	7.9	7.5	6.0	4.8
EV/EBITDA (x)	23.6	14.5	14.1	11.6
ROCE (%)	19.1%	33.7%	28.7%	29.7%
ROE (%)	16.4%	29.7%	27.8%	26.5%

BUY

Current Market Price (₹)	224
12 M Price Target (₹)	263
Potential upside (%)	17

Stock Data

Sector :	Autos
FV (₹) :	1
Total Market Cap (₹ bn) :	656
Free Float Market Cap (₹ bn) :	319
52-Week High / Low (₹) :	265 / 158
BSE Code / NSE Symbol :	500477 / ASHOKLEY
Bloomberg :	AL IN

Shareholding Pattern

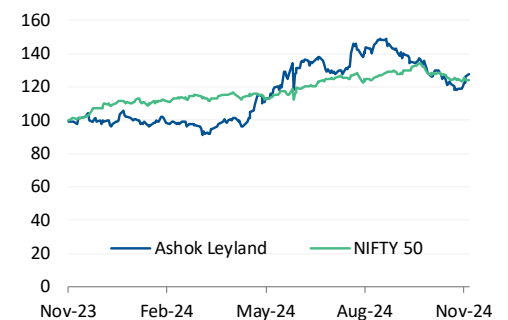
(%)	Sep-24	Jun-24	Mar-24	Dec-23
Promoter	51.52	51.52	51.52	51.53
FPIs	24.40	22.03	21.45	20.49
MFs	5.38	6.80	5.84	8.71
Insurance	6.37	6.02	4.62	4.03
Others	12.33	13.63	16.57	15.24

Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
Ashok Leyland	-1.5%	-11.4%	13.1%	27.5%
Nifty 50	-3.3%	-0.9%	9.5%	23.6%

* To date / current date : November 11, 2024

Ashok Leyland vs Nifty 50

We have seen the industry maintaining healthy pricing discipline despite the slowdown in H1 FY25. Even the company is guiding for stable pricing environment and not chasing market share at the cost of margins. The management has guided to achieve medium term margins in the mid-teens in the near term. We however, conservatively build in 50bps margin expansion by FY26 constrained by industry slowdown.

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. GoI'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 target price of ₹263 (valuing at 21X times FY 26E earnings). External funding for EV business (Switch) and trend in replacement volumes are key catalyst.

Quarterly Standalone

YE Mar (₹ mn)	Q2 FY25	Q1 FY25	% qoq	Q2 FY24	% yoy
Total income	87,688	85,985	2.0%	96,380	-9.0%
Raw Material Cost	62,410	62,046	0.6%	70,866	-11.9%
Staff Cost	5,987	5,498	8.9%	5,728	4.5%
Other Expenses	9,118	9,333	-2.3%	8,989	1.4%
Total Expenses	77,515	76,877	0.8%	85,583	-9.4%
EBITDA	10,173	9,109	11.7%	10,798	-5.8%
EBITDA margin (%)	11.6%	10.6%	100 bps	11.2%	40 bps
Other Income	973	223	335.4%	475	105.0%
Depreciation	1,754	1,727	1.6%	1,803	-2.7%
Interest	607	591	2.8%	587	3.4%
PBT	8,785	7,014	25.2%	8,882	-1.1%
Total tax	2,257	1,759	28.4%	3,044	-25.8%
Adjusted PAT	6,527	5,256	24.2%	5,839	11.8%
Exceptional items	1,174	-	N/A	(228)	N/A
Reported PAT	7,701	5,256	46.5%	5,611	37.3%

Source: Company, LKP Research

Per unit parameters	Q2 FY25	Q1 FY25	Q4 FY24	Q3 FY24	Q2 FY24	Q1 FY24	Q4 FY23	Q3 FY23
Avg Price Realisation (net)	19,21,977	19,58,975	20,02,291	19,70,423	19,33,563	19,81,488	19,47,446	20,61,333
Material cost / unit (₹)	13,67,929	14,13,583	14,37,838	14,23,204	14,21,689	14,60,754	14,72,213	15,71,928
Staff cost / unit (₹)	1,31,220	1,25,248	98,372	1,21,005	1,14,920	1,30,068	99,156	1,25,435
Other Expn / unit (₹)	1,99,853	2,12,624	1,83,135	1,89,516	1,80,329	1,92,076	1,62,375	1,81,945
Total Expn / unit (₹)	16,99,003	17,51,455	17,19,345	17,33,724	17,16,938	17,82,898	17,33,744	18,79,308
EBITDA / unit (₹)	2,22,975	2,07,521	2,82,946	2,36,699	2,16,625	1,98,589	2,13,703	1,82,025
APAT / unit (₹)xx	1,43,065	1,19,741	1,72,399	1,23,376	1,17,139	1,39,614	1,16,418	80,909

Source: Company, LKP Research

Key con-call highlights

- Management shared a positive outlook for the industry in H2 FY25 and the medium term, pointing to better fleet utilization rates (reaching 95%), favorable macroeconomic conditions, growing private capital expenditures, expected increases in government spending, and the possibility of interest rate reductions.
- The anticipated industry growth predicted by ICRA for full-year is of 0-3% growth.
- The focus continues on achieving profitable growth by improving price realization, optimizing sourcing, and enhancing operational efficiency, with the goal of reaching mid-teen EBITDA in the medium term.
- The long-term goal is to achieve a MHCV market share of 35% and exceed 50k units in export volume.
- The Q2 FY25 performance was impacted by seasonal factors such as extreme weather, irregular rainfall, and sluggish government spending. Although considered temporary, management recognizes the possibility of continuing challenges.
- Replacement demand was subdued in Q2 FY25, but an improvement is expected as the environment becomes more favorable.
- Despite macroeconomic and geopolitical challenges, management is witnessing strong volume growth driven by market growth in key regions such as SAARC, the Middle East, Africa, the GCC, and Asia. Management anticipates achieving the highest export levels in FY25 and have successfully entered Southeast Asian markets.
- The decline in raw material costs was driven by lower steel prices (which fell by ₹2.5/kg, resulting in a 50bps positive impact), a higher contribution from high-margin segments like spares, power solutions, and exports, as well as ongoing cost control measures (providing a 50bp positive impact).
- Switch India is projected to reach EBITDA breakeven this fiscal year, with an order book of approximately 2k units expected to be completed within the next 12 to 15 months.
- In the defense sector, FY24 experienced a two fold increase in revenues, a trend that has continued into H1 FY25. Management expect this growth to persist in FY25 and FY26.
- In the alternative fuels sector, Company recently received an order for approximately 180 EV trucks in the 19T and 55T categories.
- Additional investments are expected in subsidiaries in H2, including ₹2,000-2,500 mn in Hinduja Leyland Finance and less than ₹5,000 mn in Switch and OHM.
- The reverse merger of Hinduja Leyland Finance with Next Digital is on track to conclude by the end of Q1 FY26.

Income Statement

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
Total Revenues	3,61,441	3,83,670	4,25,046	4,87,078
Raw Material Cost	2,78,492	2,79,120	3,10,708	3,55,567
Employee Cost	21,139	22,334	25,503	28,251
Other Exp	32,504	36,151	42,505	47,734
EBITDA	29,307	46,066	46,330	55,527
<i>EBITDA Margin(%)</i>	<i>8.1%</i>	<i>12.0%</i>	<i>10.9%</i>	<i>11.4%</i>
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	39,606	49,001
<i>PBT Margin(%)</i>	<i>5.6%</i>	<i>10.1%</i>	<i>9.3%</i>	<i>10.1%</i>
Tax	7,303	11,743	9,901	12,250
Adj PAT	12,955	27,116	29,704	36,751
<i>Adj PAT Margins (%)</i>	<i>3.6%</i>	<i>7.1%</i>	<i>7.0%</i>	<i>7.5%</i>
Exceptional items	846.1	-937.2	1173.8	0.0
PAT	13,801	26,179	30,878	36,751
<i>PAT Margin (%)</i>	<i>3.8%</i>	<i>6.8%</i>	<i>7.3%</i>	<i>7.5%</i>

Key Ratios

YE Mar	FY 23	FY 24	FY 25E	FY 26E
Per Share Data (₹)				
Adj. EPS	4.41	9.24	10.12	12.52
CEPS	6.9	11.7	12.5	14.9
BVPS	28.7	30.0	37.9	47.3
DPS	1.0	2.6	2.6	3.1
Growth Ratios(%)				
Total revenues	66.7%	6.2%	10.8%	14.6%
EBITDA	194.7%	57.2%	0.6%	19.9%
Adj. PAT	4075.0%	109.3%	9.5%	23.7%
EPS	4075.0%	109.3%	9.5%	23.7%
Valuation Ratios (x)				
PE	51.2	24.5	22.3	18.1
P/CEPS	32.7	19.3	18.1	15.1
P/BV	7.9	7.5	6.0	4.8
EV/Sales	1.9	1.7	1.5	1.3
EV/EBITDA	23.6	14.5	14.1	11.6
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%	28.7%	29.7%
ROE	16.4%	29.7%	27.8%	26.5%
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	1,08,326	1,35,889
Total networth	84,257	88,104	1,11,262	1,38,825
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 & provs	76,944	69,559	74,048	79,902
Other current liabilities	19,645	39,764	39,764	39,764
Total equity and liabilities	2,25,916	2,36,118	2,60,266	2,91,183
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 & advs	0	0	0	0
Long term investments	44,513	57,953	70,953	80,953
Total non current assets	1,08,880	1,19,486	1,36,033	1,49,521
Current assets				
Inventories	27,745	31,907	27,240	35,070
Trade receivables	40,621	35,697	38,197	40,697
Cash and cash bank	4,541	19,419	29,188	36,286
Short term loans & advs	0	950	950	950
Other current assets	15,944	11,205	11,205	11,205
Total current assets	1,17,036	1,16,631	1,24,233	1,41,661
Total Assets	2,25,916	2,36,117	2,60,266	2,91,182

Cash Flow

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
PBT	13,801	26,179	30,878	36,751
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)	(9,901)	(12,250)
Other operating cash flows	(12,056)	5,993	20,291	1,118
Cash flow from operations (a)	21,360	25,031	45,259	39,901
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)	(7,720)	(9,188)
Other financing activities	(2,775)	(2,661)	(2,170)	(2,015)
Cash flow from financing (c)	(9,402)	(19,175)	(11,890)	(12,202)
Net chng in cash (a+b+c)	(5,386)	14,878	9,769	7,099
Closing cash & cash equivalents	4,542	19,419	29,188	36,286

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