

# Ashok Leyland Limited

Nifty: 22,929 CMP: Rs. 213 Target Price: Rs. 264 Rating: Buy

## Automobile

Despite volume declines, Ashok Leyland saw strong financial growth, driven by improved margin expansion from a favourable product mix in both truck and bus segments, particularly in multi-axle vehicles and tippers with higher ASPs. Looking ahead, the management expresses a positive outlook for the CV sector in Q4, buoyed by increased government CapEx and an ambitious goal of exporting 15k units this fiscal year—78% of which has been accomplished by Jan-25. Revenue grew by 2% YoY to Rs.94,787 million on the back of a 2% YoY decline in volumes and a 4% YoY rise in ASPs. EBITDA saw a rise of 9% YoY to Rs.12,114 million, and an EBITDA Margin increase of 77.5 bps YoY to 12.8%, driven by favourable steel prices, improved realizations, and ongoing cost reduction initiatives over the past two years. PAT rose by 31% YoY to Rs.7,617 million with PAT margin improving by 178 bps YoY to 8%.

### Industry Performance

After a slowdown in Q2, the MHCV industry saw a recovery in Q3, primarily driven by increased consumption demand during the festive season and a better flow of government capital expenditure towards the quarter's end. This resulted in a 10% sequential increase in domestic MHCV TIV for Q3, though it was still down by 1% YoY. However, this was a significant improvement from Q2's 12% YoY decline, indicating a market comeback. The industry momentum continued into Q4, with January recording positive growth, further supported by expectations for a strong February and March. This performance suggests a stabilization and potential growth in the CV sector, aligning with broader economic recovery signals in India.

### Market Share Expansion in MHCV and LCV Segments

The company is focused on expanding its MHCV and LCV market presence. In the MHCV segment, it holds a 30% market share for 9MFY25, targeting 35%. Despite a slight volume decline in Q3FY25, market share remained stable. The bus segment is strong, with a 4,000-unit order book for Q4 and a 38%+ market share. Truck volumes fell 2% YoY in Q3, but premiumization and rising replacement demand due to an aging fleet are key growth drivers. In defence, they expect 10,000-12,000 truck replacements over

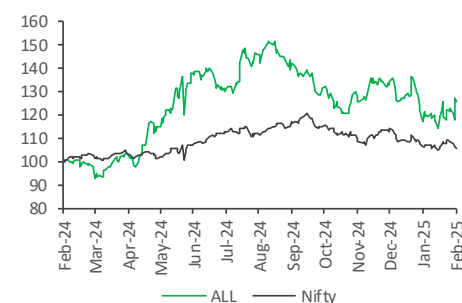
the next 3-4 years, with 70,000 trucks in service. For LCVs, the company plans to increase its 2-4 tonne category market share from 18.5% to 25% in the medium term, supported by new products like SAATHI and an expansion strategy to grow market coverage from 50% to 80%. The quick commerce boom is expected to further benefit the ICV and LCV segments.

### Strategic Focus on Electric and Alternative Fuel Vehicles

The company is positioning itself at the forefront of the transition to electric and alternative fuel vehicles, which is the future of CV sector. Switch Mobility, has made significant strides with an order book of over 1,800 eBuses by the end of Q3FY25, including exports to Mauritius. They've also introduced innovative products like the Switch eIV 12 for the Indian market and the e1 bus for Europe, indicating a global approach to e-mobility. Additionally, the company displayed concepts like an electric port terminal tractor and a 15-meter bus with unique features at the Auto Expo, signalling their commitment to product innovation in sustainable transport solutions. With expectations of growth in the eBus market in India and ongoing evaluations for the UK market, company's focus on EVs could lead to a significant market share in this emerging sector.

Shareholding (%)	Dec-24
Promoters	51.52
FIIIs	24.09
DIIs	13.04
Others	11.35

### Relative Price Performance



Key Data	
BSE/BSE Code	500477
NSE Symbol	ASHOKLEY
Bloomberg Code	AL IN
Reuters Code	ASOK.BO
Shares Outstanding (mn)	2940
Face Value	1
Mcap (INR bn)	637
52 Week H/L	265/158
2W Avg. Qty.BSE (in .lakh)	13.38
CMP	217
Beta	0.51

(INR mn)	FY23	FY24	FY25E	FY26E
Net Sales	3,61,441	3,83,670	4,46,213	5,25,008
Growth (%)	67%	6%	16%	18%
EBIDTAM(%)	8.1%	12.0%	11.1%	11.5%
Reported PAT	13,801	26,179	30,674	38,317
PAT Growth(%)	155%	90%	17%	25%
EPS	4.7	8.9	12.2	14.6
Return on assets	6.4	11.3	14.2	14.8
Return on equity	17.5	30.4	35.6	32.9
Total debt/Equity	0.38	0.26	0.26	0.24
EV/EBITDA (x)	25.6	15.5	11.8	9.5

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### Robust Growth in Non-CV and Export Businesses

The company's non-CVs and export market shows promising growth prospects. Non-CV revenues saw a 14% increase in spare parts revenue and a 4% rise in engine volume in Q3 FY '25. The defence segment experienced a 33% degrowth in the current quarter, with revenue at INR 100 crore. However, with a significant pipeline and expected replacement demand for over 70,000 trucks currently in service, there's potential for substantial future orders. On the export front, there was a 33% growth in Q3, with the company aiming for 15k units for FY25, up from around 12k units last year. This is part of a broader goal to reach 25k units in the medium term. The focus on these areas not only diversifies revenue

sources but also positions the company to mitigate risks associated with domestic market fluctuations, thereby supporting consistent growth.

### Outlook and Valuation

Anticipating growth, Ashok Leyland aims to increase market shares in MHCV and LCV, supported by export gains and non-CV businesses. Their EV strategy and market expansion plans suggest future upside, with the company confident of achieving good margins irrespective of cycle type. We expect Revenue/EBITDA/PAT to rise by 18%/21%/25% in FY26(E). Given the positive sentiment in the MHCV sector, we maintain our **BUY** rating with a target price of **Rs.264**, based on a multiple of 14.6x FY26E EPS and 18.1x FY26E PE.

### Quarterly Standalone

INR Mn	3Q FY25	3Q FY24	2Q FY25	% Chg (YoY)	% Chg (QoQ)
<b>Net Sales</b>	<b>94,787</b>	<b>92,730</b>	<b>87,688</b>	<b>2%</b>	<b>8%</b>
RM Cost	67,743	66,977	62,410	1%	9%
Employee Cost	6,064	5,695	5,987	1%	6%
Other Expenses	8,866	8,925	7,944	-1%	12%
<b>Total Expenditure</b>	<b>82,672</b>	<b>81,597</b>	<b>76,341</b>	<b>1%</b>	<b>8%</b>
<b>EBITDA</b>	<b>12,114</b>	<b>11,133</b>	<b>11,347</b>	<b>9%</b>	<b>7%</b>
Depreciation	1,923	1,785	1,754	8%	10%
Other Income	247	300	973	-18%	-75%
<b>EBIT</b>	<b>10,438</b>	<b>9,649</b>	<b>10,565</b>	<b>8%</b>	<b>-1%</b>
Interest	501	616	607	-19%	-18%
<b>PBT</b>	<b>9,937</b>	<b>9,033</b>	<b>9,959</b>	<b>10%</b>	<b>0%</b>
Tax	2320	3,232	2,257	-28%	3%
<b>PAT</b>	<b>7,617</b>	<b>5,800</b>	<b>7,701</b>	<b>31%</b>	<b>-1%</b>
Equity	2936	2936	2936		
Face Value	1.00	1.00	1.00		
EPS	2.59	1.98	2.62	31%	-1%
<b>% of Sales</b>				<b>bps</b>	<b>bps</b>
RM Cost	71.5	72.2	71.2	-76.0	29.6
Employee Expenses	6.4	6.5	6.5	-5.9	-9.7
Other Expenses	9.4	9.6	9.1	-27.1	29.4
EBITDAM (%)	12.8	12.0	12.9	77.5	-15.9
PATM (%)	8.0	6.3	8.8	178.2	-74.6
<b>Volume Analysis</b>					
Description	3Q FY25	3Q FY24	2Q FY25	% Chg (YoY)	% Chg (QoQ)
Volumes (units)	46404	47241	45624	-2%	2%
Realization	20,42,641	19,62,914	19,21,977	4%	6%
RM Cost/vehicle	14,59,848	14,17,781	13,67,929	3%	7%
EBITDA/vehicle	2,61,064	2,35,668	2,48,707	11%	5%
PAT/vehicle	1,64,154	1,22,777	1,68,797	34%	-3%

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## Financials

### Income Statement

Y/E Mar (RS. mn)	FY23	FY24	FY25E	FY26E
<b>Sales Turnover</b>	<b>3,61,441</b>	<b>3,83,670</b>	<b>4,46,213</b>	<b>5,25,008</b>
Growth	67%	6%	16%	18%
<b>Net Sales</b>	<b>3,61,441</b>	<b>3,83,670</b>	<b>4,46,213</b>	<b>5,25,008</b>
Total Operating Expenditure	3,32,134	3,37,605	3,96,530	4,64,734
<b>EBITDA</b>	<b>29,307</b>	<b>46,066</b>	<b>49,683</b>	<b>60,274</b>
EBITDA Margin	8.1%	12.0%	11.1%	11.5%
Depreciation	7,320	7,178	7,958	8,132
Other Income	1,161	2,466	2,589	2,718
<b>EBIT</b>	<b>23,149</b>	<b>41,353</b>	<b>44,314</b>	<b>54,860</b>
EBIT Margin	6.40%	10.78%	9.93%	10.45%
Interest Expenses	2,891	2,494	2,431	2,737
Exceptional Income/ Expenses	846	(937)	(984)	(1,033)
<b>PBT</b>	<b>21,104</b>	<b>37,922</b>	<b>40,899</b>	<b>51,089</b>
EBT Margin	6%	10%	9%	10%
Provision For Tax	7,303	11,743	10,225	12,772
<b>PAT</b>	<b>13,801</b>	<b>26,179</b>	<b>30,674</b>	<b>38,317</b>
PAT Margin	3.8%	6.8%	6.9%	7.3%
Growth in PAT	155%	90%	17%	25%

### Key Ratios

Y/E	FY23	FY24	FY25E	FY26E
<b>Per Share Data (RS.)</b>				
EPS	4.7	8.9	12.2	14.6
Book NAV/share	28.7	30	38.7	49.8
FDEPS	4.7	8.9	12.2	14.6
DPS	2.6	2.8	3.0	3.0
<b>Return ratios (%)</b>				
Return on assets	6.4	11.3	14.2	14.8
Return on equity	17.5	30.4	35.6	32.9
Return on capital employed	11.4	22.7	24.5	23.8
ROIC	11.3	29.3	37.3	50.0
<b>Turnover ratios</b>				
Asset turnover (x)	6.0	6.7	8.0	10.2
Sales/Net FA (x)	5.6	6.2	7.4	9.4
Working capital/Sales (x)	-45.8	88.6	12.0	6.4
Receivable days	36.2	36.3	36.6	40.2
Inventory days	31.8	39.0	37.7	33.2
Payable days	92.1	88.1	78.5	77.0
Working capital days	-8.0	4.1	30.3	57.3
<b>Liquidity ratios (x)</b>				
Current ratio	0.9	1.0	1.3	1.6
Quick ratio	0.5	0.6	0.8	0.9
Interest cover	7.6	15.6	22.7	32.3
Total debt/Equity	0.38	0.26	0.26	0.24
<b>Valuation</b>				
PER (x)	52.4	27.6	20.2	16.9
PEG (x) yoy growth	0.3	0.3	0.5	0.9
Price/Book (x)	8.6	8.2	6.4	4.9
EV/Net sales (x)	2.1	1.9	1.6	1.3
EV/EBITDA (x)	25.6	15.5	11.8	9.5
EV/EBIT (x)	34.1	18.3	13.5	10.7

### Balance Sheet

Y/E Mar (RS. mn)	FY23	FY24	FY25E	FY26E
<b>SOURCES OF FUNDS:</b>				
Shareholder's Funds	84,258	88,104	1,01,747	1,18,790
Total Debt	31,801	22,545	26,068	28,673
LT Debt	17,662	11,316	11,316	11,316
Deferred Tax Liabilities (Net)	5,035	5,563	5,702	5,845
Other Long Term Liabilities	3,041	3,342	3,711	4,367
Long Term Provisions	5,192	7,241	7,386	7,533
<b>Total Non-current Liabilities</b>	<b>1,15,188</b>	<b>1,15,566</b>	<b>1,29,863</b>	<b>1,47,851</b>
Trade Payables	71,751	63,052	78,389	92,231
Other Current Liabilities	19,536	39,596	34,386	40,458
ST Borrowings	14,139	11,229	14,751	17,356
ST Provisions	5,193	6,507	6,804	8,005
Total Current Liabilities	1,10,619	1,20,384	1,34,329	1,58,050
Liabilities as Held for Sale and Discontinued Operations	109	168	169	169
<b>Total Liabilities</b>	<b>2,25,916</b>	<b>2,36,118</b>	<b>2,64,361</b>	<b>3,06,070</b>
<b>APPLICATION OF FUNDS :</b>				
Net Block	63,042	58,055	55,097	51,965
Capital Work in Progress	490	955	2,978	3,989
Intangible assets	836	1,060	1,081	1,103
NC Investments	38,922	53,107	53,107	53,107
Long Term Loans & Advances	5,131	6,196	6,587	7,750
Other Non Current Assets	461	113	115	118
<b>Total Non-Current Assets</b>	<b>1,08,881</b>	<b>1,19,486.75</b>	<b>1,18,965</b>	<b>1,18,031</b>
Currents Investments	27,714	2,491	2,540	2,591
Inventories	27,745	31,907	34,688	40,813
Sundry Debtors	40,621	35,697	44,379	52,216
Cash and Bank	5,013	34,382	47,591	73,478
Other Current Assets	4,540	6,958	6,686	7,867
ST Loans and Advances	10,684	4,537	8,851	10,414
<b>Total Current Assets</b>	<b>1,16,316</b>	<b>1,15,971</b>	<b>1,44,735</b>	<b>1,87,379</b>
Assets as Held for Sale and Discontinued Operations	719	660	660	660
<b>Total Assets</b>	<b>2,25,916</b>	<b>2,36,118</b>	<b>2,64,361</b>	<b>3,06,070</b>

### Cash Flow

Y/E Mar (RS. mn)	FY23	FY24	FY25E	FY26E
<b>PBT</b>	<b>21,104</b>	<b>37,922</b>	<b>40,899</b>	<b>51,089</b>
Add: Depreciation	7,320	7,178	7,958	8,132
Add: Changes in Working Capital	11,927	(39,479)	1,610	(6,964)
Add: Interest Paid	2,891	2,494	2,431	2,737
Add: Taxes	7,303	11,743	10,225	12,772
<b>Net Operating Cash Flow (a)</b>	<b>12,084</b>	<b>75,330</b>	<b>39,454</b>	<b>56,151</b>
Capex	(4,352)	(2,192)	(5,000)	(5,000)
CWIP	622	(466)	(2,022)	(1,011)
Intangible Assets	(4)	(224)	(21)	(22)
Investments	(3,706)	(14,185)	0	0
Long Term Loans & Advances	(587)	(1,065)	(391)	(1,163)
Other Non Current Assets	(52)	348	(2)	(2)
<b>Net cash from investments (b)</b>	<b>(8,080)</b>	<b>(17,784)</b>	<b>(7,436)</b>	<b>(7,198)</b>
Loans Availed/Repaid	(10,844)	(6,346)	0	0
Equity Raised	0	19	0	0
Dividend Paid	(7,634)	(14,535)	(17,031)	(21,274)
Deferred Taxes	3,592	528	139	143
Other LT Liabilities	497	301	370	655
LT Provisions	3,190	2,049	145	148
Interest Paid	(2,891)	(2,494)	(2,431)	(2,737)
<b>Net Cash from Financing Activities (c)</b>	<b>(14,090)</b>	<b>(20,479)</b>	<b>(18,808)</b>	<b>(23,065)</b>
<b>Net Change in Cash and Cash equivalents (a)+(b)+(c)</b>	<b>(10,086)</b>	<b>37,067</b>	<b>13,209</b>	<b>25,887</b>
<b>Opening cash and cash equivalent</b>	<b>10,470</b>	<b>5,013</b>	<b>34,382</b>	<b>47,591</b>
<b>Closing cash and cash equivalent</b>	<b>5,013</b>	<b>34,382</b>	<b>47,591</b>	<b>73,478</b>

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