

Results Beat Estimates; Product Diversification to Improve Margins Further
Est. vs. Actual for Q3FY25: Revenue – **BEAT** ; EBITDA – **BEAT** ; PAT – **BEAT**
Change in Estimates post Q3FY25
FY25E/FY26E: Revenue: -1.8%/-1.8%; EBITDA: 0.1%/-2.3%; PAT: 4.6%/-2.1%

Recommendation Rationale

- **Company Growth Outlook:** Ashok Leyland is advancing toward its medium-term targets, including mid-teen EBITDA margins, 35% MHCV market share, non-MHCV business expansion, alternate fuel leadership, and value unlocking from subsidiaries. The company is seeing growth in tippers, multi-axle products, and has a strong order book for electric vehicles under Switch. Non-CV businesses such as engines and spare parts have seen 3.5%/14% YoY growth, respectively.
- **Export Outlook:** Exports remain a key growth driver for the company, with Q3FY25 export volumes up 33% YoY. FY25 export volumes are projected at 15,000 units, up from 11,800 in FY24. The company is on track to meet its medium-term target of 25,000 units. It has also set a long-term goal of 50,000 units annually, supported by localisation efforts and improving market conditions in GCC, SAARC, and Africa. Investments in assembly facilities and local market operations have further strengthened the company's presence in these key regions.
- **Healthy EBITDA Margins:** Q3FY25 EBITDA stood at Rs 1,211 Cr with margins improving to 12.8% (up 77 bps YoY). The margin expansion was fueled by cost reduction initiatives (~Rs 650 Cr annually), a stronger product mix (higher share of tippers and multi-axle trucks), and relatively stable commodity prices. Looking ahead, continued premiumisation, operational efficiencies, and growth in high-margin non-CV businesses should further strengthen EBITDA margins, keeping the company on course for its mid-teen margin target.

Sector Outlook: Cautiously Positive

Company Outlook & Guidance: AL is focused on gaining CV market share by improving its domestic presence and meeting customers' requirements by investing in the non-auto side of its business and product development, including diverse powertrain technologies. Further, optimising operational efficiencies, material cost reduction efforts, and pricing discipline are expected to generate strong positive cash flows.

Current Valuation: 18x P/E on FY27E EPS and Rs 21/share for stake in HLF Ltd.(unchanged)

Current TP: Rs 245/share (earlier Rs 250/share)

Recommendation: We maintain our BUY rating on the stock.

Financial Performance: In Q3FY25, Ashok Leyland's Revenue/EBITDA/PAT beat our estimates. Revenue was at Rs 9,479 Cr (Beat), up 2.2%/8.1% YoY/QoQ, despite a 1.8% drop in volumes YoY due to higher ASP, uptick in higher tonnage vehicles and pricing discipline in terms of discounting. EBITDA (Beat) stood at Rs 1,211 Cr, up 8.8%/19.1% YoY/QoQ, on account of cost control measures and a richer product mix. EBITDA Margins were 12.8%, up 77bps/118bps YoY/QoQ. PAT (Beat) stood at Rs 762 Cr, up 31.2%/10.7% YoY/QoQ, largely following the EBITDA and lower effective tax rate.

Key Financials (Standalone)

(Rs Cr)	Q3FY25E	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	9,479	8.1%	2.2%	9,086	4.3%
EBITDA	1,211	19.1%	8.8%	1,044	16.0%
EBITDA Margin	12.8%	118 bps	77 bps	11.5%	129 bps
Adj Net Profit	762	10.7%	31.2%	680	12.0%
Adj EPS (Rs)	2.59	10.7%	31.2%	2.32	11.9%

Source: Company, Axis Securities Research

(CMP as of 12th February 2025)

CMP (Rs)	220
Upside /Downside (%)	11%
High/Low (Rs)	265/158
Market cap (Cr)	64,468
Avg. daily vol. (6m)Shrs.	83,16,440
No. of shares (Cr)	293.65

Shareholding (%)

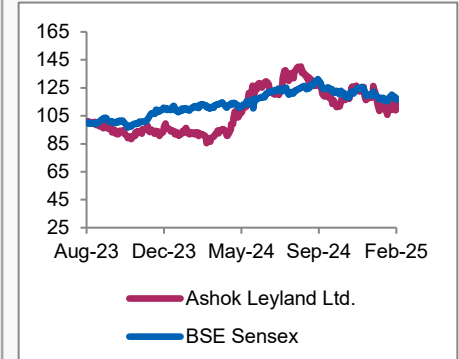
	Mar-24	Jun-24	Sep-24
Promoter	51.5	51.5	51.5
FII	22.0	24.4	24.1
Mutual Funds	6.8	5.4	6.3
Others	19.6	18.6	17.9
Total	100.0	100.0	100.0

Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	38,676	41,116	43,573
EBITDA	4,815	5,153	5,589
Adj. Net Profit	3,063	3,288	3,588
EPS (Rs.)	10.4	11.2	12.2
PER (x)	21.1	19.7	18.0
EV/EBITDA (x)	13.1	11.4	10.0
P/BV (x)	5.5	4.4	3.6
ROE (%)	29.5	24.7	21.7

Change in Estimates (%)

Y/E Mar	FY25E	FY26E	FY27E
Sales	-1.8%	-1.8%	-1.7%
EBITDA	0.1%	-2.3%	-0.4%
PAT	4.6%	-2.1%	-1.4%

Relative Performance


Source: Ace Equity, Axis Securities

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Outlook

We remain positive on the long-term prospects of AL, factoring in recovery in MHCV industry momentum and product diversification. We, therefore, arrive at a sustainable long term volume guidance of 4.3% CAGR volume growth over FY24-27E. We estimate AL to post Revenue/EBITDA/PAT growth of 4%/7%/11% CAGR over FY24-27E.

Valuation & Recommendation

We maintain our BUY rating on the stock with the TP at Rs 245/share (earlier Rs 250/share); valuing the stock at 18x P/E on FY27E EPS (unchanged) and assign Rs 21/share for stake in Hinduja Leyland Finance Ltd.

Key Highlights

- **Industry CV Outlook:** The domestic MHCV industry saw a 10% QoQ growth in Q3FY25 due to festive demand and increased government capital expenditure. However, it was down flat YoY, an improvement from the 12% YoY decline in Q2FY25. Jan' 25 witnessed positive industry growth, and as per management, robust volumes can be expected in Q4FY25. The company anticipates growth across LCV, ICV, and MHCV segments in FY26, driven by replacement demand, infrastructure Capex, and pick up in economic recovery.
- **Switch India:** Switch India has an order book of 1,800+ buses, including 100 exports to Mauritius. The monthly e-LCV volumes now exceed 100 units, and the company has unveiled new models, including the Switch EIV12 electric bus. India's business is expected to achieve EBITDA break-even by Q1/Q2FY26.
- **Optare & Switch UK:** Ashok Leyland has approved a Rs 500 Cr investment in Optare (Switch's holding company) to retire debt in Switch UK and support Capex requirements in Switch India. While Switch India remains on track for EBITDA profitability by Q1/Q2FY26, Switch UK is facing headwinds due to weak EV adoption and market uncertainties, prompting a review of strategic options. The company is evaluating strategic options for cost reduction and debt management in the UK business.
- **Hinduja Leyland Finance Ltd (HLFL):** Hinduja Leyland Finance Ltd. (HLFL) continued strong growth, driven by expansion in vehicle and housing financing. As of the end of Q3FY25, HLFL reported an AUM of Rs 44.4k Cr, up 26% YoY. Meanwhile, Hinduja Housing Finance, a subsidiary of HLFL, saw its AUM grow 43% YoY to Rs 13.4 Cr. The reverse merger of HLFL with NDL Ventures is on track for completion by Q1FY26, which is expected to enhance operational efficiencies and improve capital access. To support capital adequacy, Ashok Leyland's Board has approved an additional Rs 200 crore investment in HLFL.
- **Defence:** Defense revenue for Q3FY25 stood at Rs 100 Cr (down from Rs 150 Cr in Q2), primarily due to order delays. However, the management maintains that the long-term pipeline remains robust, with a 10,000–12,000 truck replacement opportunity over the next 3-4 years, given that a significant portion of the Indian Army's 70,000+ fleet is ageing. The defence business is expected to see a strong rebound in the next few quarters.
- **LCV Growth:** The company's market share in the 2-4 tonne LCV segment is at 18.5%, with a goal to reach 20% in the short term and 25% in the medium term. The recently launched SAATHI- entry level mini truck targets entry-level in this segment.
- **Debt:** The company has turned net debt-free, as of the end of Q3FY25, becoming cash-positive at Rs 958 Cr compared to a net debt of Rs 1,747 Cr at the end of Q3 last year.

Change in Estimates

	Revised			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	38,676	41,116	43,573	39,398	41,882	44,342	-1.8%	-1.8%	-1.7%
EBITDA	4,815	5,153	5,589	4,812	5,275	5,613	0.1%	-2.3%	-0.4%
PAT	3,063	3,288	3,588	2,930	3,358	3,638	4.6%	-2.1%	-1.4%

Source: Company, Axis Securities Research

Q3FY25 Results Review

YE March (Rs Crs)	Q3FY24	Q2FY25	Axis Sec Estimates	Q3FY25	YoY (%)	QoQ (%)	Axis Sec Var (%)
M&HCV	27,250	25,685		26,838	-1.5%	4.5%	
LCV	16,863	16,629		15,415	-8.6%	-7.3%	
Total Domestic	44,113	42,314		42,253	-4.2%	-0.1%	
M&HCV	2,517	2,139		3,220	27.9%	50.5%	
LCV	419	762		931	122.2%	22.2%	
Total Exports	3,128	3,310		4,151	32.7%	25.4%	
Total Volume (units)	47,241	45,624	46,404	46,404	-1.8%	1.7%	0.0%
	Q3FY24	Q2FY25	Q3FY25E	Q3FY25	YoY (%)	QoQ (%)	Axis Sec Var (%)
Net Sales	9,273	8,769	9,086	9,479	2.2%	8.1%	4.3%
ASP (Rs/vehicle)	19,62,916	19,21,977	19,58,008	20,42,641	4.1%	6.3%	4.3%
Less:							
Net Raw Material consumed	6,698	6,241	6,487	6,774	1.1%	8.5%	4.4%
Other Manufacturing & Sales Exp.	892	912	945	887	-0.6%	-2.8%	-6.2%
Personnel	569	599	609	606	6.5%	1.3%	-0.5%
Total Expenditure	8,159	7,752	8,041	8,267	1.3%	6.7%	2.8%
EBITDA	1,114	1,017	1,044	1,211	8.8%	19.1%	16.0%
Less: Depreciation	178	175	175	192	7.8%	9.6%	9.9%
EBIT	935	842	869	1,019	8.9%	21.1%	17.2%
Less: Interest	62	61	53	50	-18.8%	-17.5%	-5.1%
Add: Other income	30	97	91	25	-17.7%	-74.6%	-72.7%
Profit Before Extraordinary Items and Tax	904	878	907	994	9.9%	13.1%	9.5%
Less: Extraordinary Expense/(Income)	1	(117)	-	-	-100.0%	NA	NA
Profit Before Tax	903	996	907	994	10.0%	-0.2%	9.5%
Less: Total Tax	323	226	227	232	-28.2%	2.8%	2.3%
Profit After Tax	580	770	680	762	31.3%	-1.1%	12.0%
Adj. PAT	580	688	680	762	31.2%	10.7%	12.0%
Shares Outstanding (cr)	294	294	294	294	0.0%	0.0%	0.0%
Reported EPS (Rs.)	2.0	2.6	2.3	2.6	31.3%	-1.1%	11.9%
Adj. EPS (Rs.)	2.0	2.3	2.3	2.6	31.2%	10.7%	11.9%
Margin Analysis	Q3FY24	Q2FY25	Axis Sec Estimates	Q3FY25	Change in bps	Change in bps	Change in bps
Gross Margins	27.8%	28.8%	28.6%	28.5%	76 bps	-30 bps	-7 bps
EBITDA Margin	12.0%	11.6%	11.5%	12.8%	77 bps	118 bps	129 bps
Adj. NPM	6.3%	7.8%	7.5%	8.0%	178 bps	19 bps	55 bps
Effective Tax Rate	35.8%	25.7%	25.0%	23.3%	-1242 bps	-235 bps	-165 bps
Cost Analysis							
RM/Net Sales	72.2%	71.2%	71.4%	71.5%	-76 bps	30 bps	7 bps
Other Mfg & Sales Exp/Net Sales	9.6%	10.4%	10.4%	9.4%	-26 bps	-104 bps	-104 bps
Personnel/Net Sales	6.1%	6.83%	6.7%	6.4%	26 bps	-43 bps	-31 bps

Source: Company, Axis Securities Research.

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March (Rs Cr)	FY24	FY25E	FY26E	FY27E
Net revenues	38,367	38,676	41,116	43,573
Operating expenses	33,760	33,861	35,963	37,984
EBIDTA	4,607	4,815	5,153	5,589
EBIDTA margin (%)	12.0	12.5	12.5	12.8
Other income	247	201	234	234
Interest	249	219	165	199
Depreciation	718	745	798	798
Profit Before Tax	3,792	4,170	4,424	4,827
Tax	1,174	1,018	1,096	1,196
Reported Net Profit	2,618	3,152	3,328	3,631
Net Margin (%)	6.8	8.2	8.1	8.3
Adjusted Net Profit	2,618	3,063	3,288	3,588

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March (Rs cr)	FY24	FY25E	FY26E	FY27E
Equity capital	294	294	294	294
Reserves & surplus	8,517	11,375	14,410	17,747
Shareholders' funds	8,810	11,669	14,704	18,041
Total Loans	2,255	1,955	1,655	1,355
Deferred tax liability	556	556	556	556
Total Liabilities and Equity	11,621	14,180	16,914	19,951
Gross block	10,972	11,423	11,923	12,423
Depreciation	4,469	5,214	6,012	6,810
Net block	6,502	6,209	5,911	5,613
Capital WIP	202	250	250	250
Investments	5,560	5,760	5,960	6,160
Inventory	3,191	2,958	2,813	2,982
Debtors	3,570	4,027	3,943	4,178
Cash & Bank Bal	3,438	3,484	7,255	9,989
Loans & Advances	1,149	2,577	3,058	3,593
Current Assets	11,348	13,045	17,069	20,742
Sundry Creditors	6,305	6,324	7,390	7,805
Other Current Liability	5,685	4,760	4,886	5,009
Current Liability & Provisions	11,991	11,084	12,276	12,814
Net current assets	(642)	1,961	4,794	7,929
Total Assets	11,621	14,180	16,915	19,951

Source: Company, Axis Securities Research.

Cash Flow

(Rs Cr)

Y/E March (Rs Cr)	FY24	FY25E	FY26E	FY27E
EBIT	3,889	4,071	4,355	4,791
Other Income	247	201	234	234
Depreciation & Amortization	718	745	798	798
Interest paid (-)	-249	-219	-165	-199
Tax paid (-)	-1,174	-1,018	-1,096	-1,196
Extra Ord Income	-94	117	0	0
Operating Cash Flow	3,336	3,897	4,126	4,429
Change in Working Capital	1,958	-2,557	939	-401
Cash flow from Operations	5,294	1,339	5,065	4,028
Capex	-354	-500	-500	-500
Investment	1,104	-200	-200	-200
Cash flow from Investing	749	-700	-700	-700
Change in borrowing	-926	-300	-300	-300
Others	-1,887	0	0	0
Dividends paid (-)	-294	-294	-294	-294
Cashflow from Financial Activities	-3,106	-594	-594	-594
Change in Cash	2,937	46	3,771	2,734
Opening cash	501	3,438	3,484	7,255
Closing cash	3,438	3,484	7,255	9,989

Source: Company, Axis Securities Research

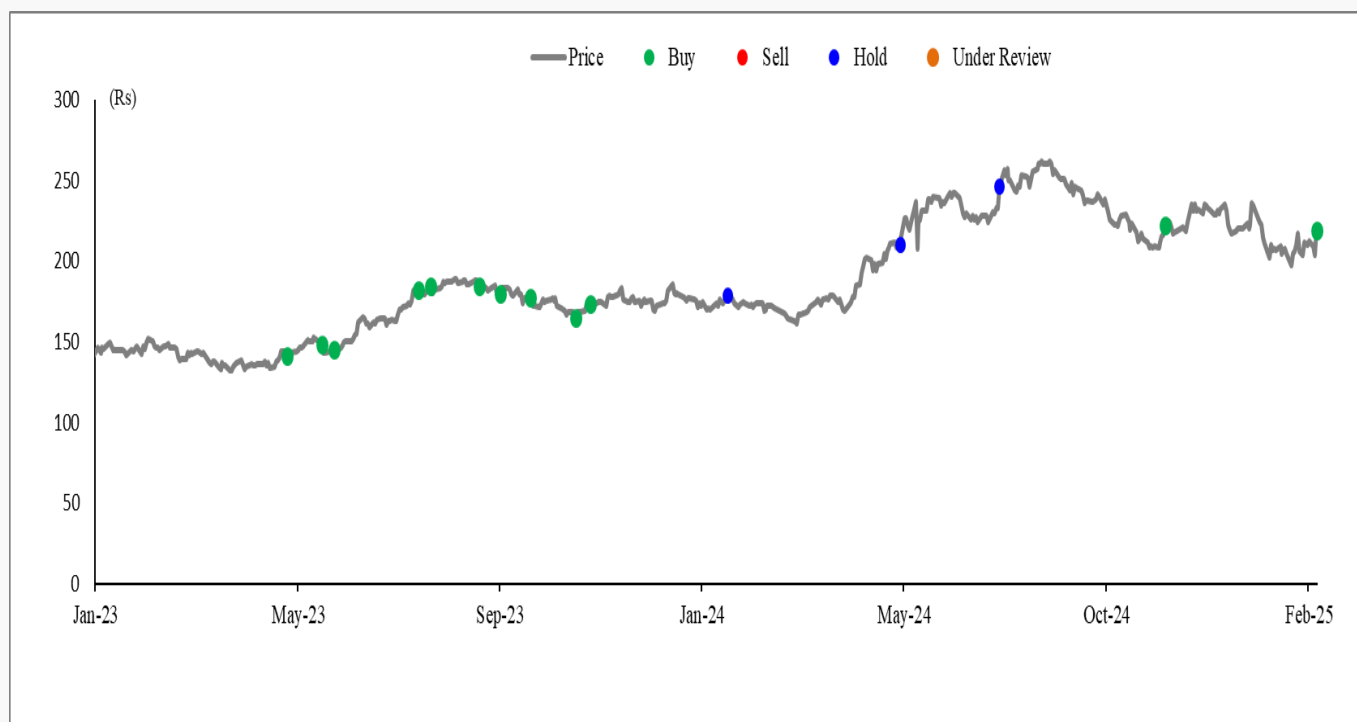
Ratio Analysis

(%)

Y/E March	FY24	FY25E	FY26E	FY27E
Revenue Growth	6.2	0.8	6.3	6.0
EBITDA Margin	12.0	12.5	12.5	12.8
Net Profit Margin	6.8	7.9	8.0	8.2
ROCE (%)	22.6	24.1	21.3	19.8
ROE (%)	29.9	29.5	24.7	21.7
EPS	8.9	10.4	11.2	12.2
P/E (x)	19.2	21.1	19.7	18.0
P/ BV (x)	5.7	5.5	4.4	3.6
EV/ EBITDA (x)	10.6	13.1	11.4	10.0
Fixed Assets Turnover Ratio (x)	7.6	8.1	9.2	10.5
Debt / Equity (x)	0.3	0.2	0.1	0.1
EV/ Sales (x)	1.3	1.6	1.4	1.3

Source: Company, Axis Securities Research

Ashok Leyland Price Chart and Recommendation History



Source: Axis Securities research

Date	Reco	TP	Research
01-Jan-23	BUY	175	Top Picks
02-Feb-23	BUY	175	Top Picks
03-Feb-23	BUY	175	Result Update
01-Mar-23	BUY	175	Top Picks
01-Apr-23	BUY	175	Top Picks
01-May-23	BUY	175	Top Picks
24-May-23	BUY	175	Result Update
01-Jun-23	BUY	175	Top Picks
01-Jul-23	BUY	190	Top Picks
25-Jul-23	BUY	210	Result Update
01-Aug-23	BUY	210	Top Picks
01-Sep-23	BUY	210	Top Picks
15-Sep-23	BUY	210	Company Update
03-Oct-23	BUY	210	Top Picks
01-Nov-23	BUY	210	Top Picks
10-Nov-23	BUY	205	Result Update
06-Feb-24	HOLD	185	Result Update
27-May-24	HOLD	222	Result Update
29-Jul-24	HOLD	230	Result Update
11-Nov-24	BUY	250	Result Update
13-Feb-25	BUY	245	Result Update

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Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.