

ASHOK LEYLAND LIMITED

Strong margin performance

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Ashok Leyland (AL) reported solid topline growth of 2.7% yoy and 3.8% yoy drop. Volumes during the quarter saw a moderation of 7% yoy growth and a 6% qoq fall. Realizations grew by 2% qoq, while fell by 4.4% yoy. The company witnessed a small decline in MHCV market share, while gained market share by 1-2% in the LCVs business, while bus market share saw a significant growth. EBITDA margins expanded to 12% up by 80 bps sequentially and 320 bps yoy from 8.8%. This was due to decreased commodity costs (72.2% of sales v/s 73.5% qoq and 76.3% yoy), prudent cost management, improved product mix as LCVs and spare parts revenues were good. Other income was down qoq at ₹300 mn from ₹475 mn, while tax rate was at 35.8% as the company is still going with the old tax regime. PAT came in at ₹5.8bn to ₹3.54 bn, up 64% yoy.

Volume growth to moderate in mid-term, FY 26 to see a revival

We witnessed a fall in MHCV market share as CV cycle is losing its pace and according to the management, election in some states also led to market share fall. Going forward, on a high base, we expect Q4 volumes also to be subdued. 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 order from the fleet owners. Demand for Tractor Trailers and Tippers is growing at a good speed. The demand for buses is also high with opening of schools, colleges & offices, orders from STUs etc. Also the EV versions of buses are getting an encouraging response. While Bus TIV grew by 38% in Q2, AL's bus volumes grew by 68% in the same period and has an order book of >1500 buses, and LOI 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 less present. The company has added 44 dealerships and 37 service centres in 9M FY 24 and has reached 491 dealers and 399 service centres across India. The company plans to touch 1000 dealers and service centres soon, mainly in the North and East India. For LCVs, AL has added 17 dealers and 53 service centres to take the dealer count up to 690 dealers.

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 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. AL has currently a strong order book for EV buses under its SWITCH India business arm pertaining to electrification of its vehicles. SWITCH has received several huge orders from STUs, while on the other hand AL has secured orders from private fleet operators.

Key Financials	FY 23	FY 24E	FY 25E	FY 26E
Revenues (₹ bn)	361.44	379.05	408.53	472.15
EBITDA (%)	8.1%	11.2%	11.7%	12.1%
PAT (%)	3.9%	6.3%	7.2%	7.6%
Adj EPS (₹)	4.48	8.15	10.04	12.23
EPS growth (%)	-	81.7%	23.2%	21.9%
P/E (x)	39.7	21.8	17.7	14.6
P/B (x)	6.2	5.1	4.2	3.5
EV/EBITDA (x)	18.8	12.9	11.4	9.3
ROCE (%)	19.1%	27.3%	26.9%	27.8%
ROE (%)	16.6%	23.4%	23.7%	23.7%

Rating	BUY
Current Market Price (₹)	180
12 M Price Target (₹)	208
Potential upside (%)	16

Stock Data

Sector :	Autos
FV (₹) :	1
Total Market Cap (₹ bn) :	527
Free Float Market Cap (₹ bn) :	527
52-Week High / Low (₹) :	192 / 133
BSE Code / NSE Symbol :	500477 / ASHOKLEY
Bloomberg :	AL IN

Shareholding Pattern

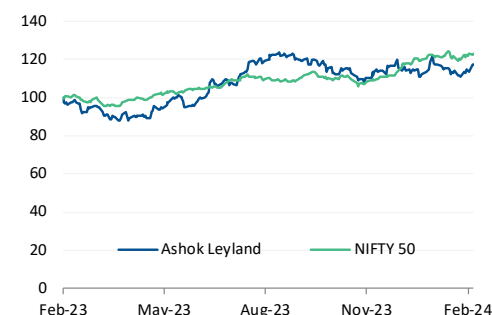
(%)	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	51.53	51.53	51.53	51.53
FPIs	20.49	20.22	16.59	14.85
MFs	8.71	10.10	13.24	14.52
Insurance	4.03	4.73	5.64	5.81
Others	15.24	13.42	13.00	13.29

Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
Ashok Leyland	0.0%	6.4%	-1.6%	17.4%
Nifty 50	1.0%	13.0%	12.4%	23.4%

* To date / current date : February 6, 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 good growth in second half of FY 25 and lead to a higher growth in FY 26. Overall, we expect AL's market share to reach ~35% in FY2026E with easing of chip shortage issue. 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 slowdown expected over the next 6 months. For FY 24 and 25, we expect MHCV growth to grow at low single digit.

LCV likely to grow at low single digit in the current fiscal

YTD LCV industry sales have de-grown by 3%, while AL's sales have gone up by 3%, thus leading to a market share gain for AL. The company has a LCV portfolio of products such as Dost and its variant Bada Dost, Guru, Mitra and Partner models. Among these models, Dost and Bada Dost are finding good response. LCVs being a high margin business are expected to add operating synergies and provide cost benefits to the company as volumes grow steadily. Management mentioned that LCV volumes are driven by increased demand for last-mile connectivity, especially from the e-commerce, pharma and consumer durable sectors. Going forward with new launches in the segment (Dost CNG and EV launches of Dost and Bada Dost in June 23 and EV LCV order book of ~10K), we foresee a better FY 25 for LCV segment..

Margins on a rising trend, to grow further...

Q3 witnessed a solid surge in EBITDA margins at 12% from 11.2% in Q2, and 8.8% a year ago. We saw input costs including steel and aluminium coming down now. Also discounts did not rise, while marketing costs normalized. Realizations went up on better product mix qoq. Going forward, management expects input costs to soften further. Management targets profitable growth products and service and not through rising discounts level. The company is also into stringent cost cutting initiatives, adding value added products to their portfolio, while improving demand for higher tonnage trucks and tractor trailers. Operating leverage shall further come into play as volumes further expand. We expect 11.2%/11.74%/12.1% EBITDA margins in FY24E/25E/26E respectively.

Quarterly Standalone

YE Mar (₹ mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
Total income	92,730	96,380	-3.8%	90,297	2.7%
Raw Material Cost	66,977	70,866	-5.5%	68,858	-2.7%
Staff Cost	5,695	5,728	-0.6%	5,495	3.6%
Other Expenses	8,919	8,989	-0.8%	7,970	11.9%
Total Expenses	81,591	85,583	-4.7%	82,323	-0.9%
EBITDA	11,139	10,798	3.2%	7,974	39.7%
EBITDA margin (%)	12.0%	11.2%	80 bps	8.8%	320 bps
Other Income	300	475	-36.7%	316	-4.9%
Depreciation	1,785	1,803	-1.0%	1,890	-5.5%
Interest	616	587	5.0%	804	-23.3%
PBT	9,039	8,882	1.8%	5,596	61.5%
Total tax	3,232	3,044	6.2%	2,052	57.5%
Adjusted PAT	5,806	5,839	-0.6%	3,544	63.8%
Exceptional items	(6)	(228)	N/A	69	N/A
Reported PAT	5,800	5,611	3.4%	3,614	60.5%

Source: Company, LKP Research

Outlook and Valuation

The company posted a stellar margin growth in Q3. CV demand slowed down in Q3 on high base. However, this sector is well supported by higher influx of infra projects, mining & construction activities etc. However, on high base and Union Elections in Q1 FY 25, we see a subdued demand to continue over the next two quarters. New launches and focus on geographic mix seen in Q3 should help AL to further improve sales and fill in the gaps within the portfolio. We expect AL to gain market share in MHCVs now given its new launches, tractor trailer demand and rapid network expansion. Launch of EV truck should add to the volumes. LCV demand has been low, but with higher orders or EV LCVs, we expect FY 25 to be better. Bus demand is robust on demand from STUs, schools and offices rising. Both bus and LCV demand shall get a further fillip with ongoing strong demand for their EV variants with AL's EV arm SWITCH Mobility getting good orders. Defense also has been a strong segment for AL off late, with higher order inflows leading to expectations of Rs 8bn topline this year and a four digit number next year. Exports revenues, power solutions volumes and aftermarket sales all have grown well in Q3, which should add well to the financials. On the margin front, cost cutting initiatives, lower discounting, price hikes, superior product mix along with softening input costs shall aid margin growth. To sum it up, we believe volume growth in MHCVs to fall in mid-term, while bounce back in second half of FY 25 and grow strongly in FY 26, while buses shall grow within the segment at a stronger pace. On the back of strong margin growth, we maintain BUY with a target of ₹208 (valuing at rolled over earnings of FY 26E at 17x).

Per unit parameters	Q3 FY24	Q2 FY24	Q1 FY24	Q4 FY23	Q3 FY23	Q2 FY23	Q1 FY23	Q4 FY22
Avg Price Realisation (net)	1,970,423	1,933,563	1,981,488	1,947,446	2,061,333	1,824,914	1,821,606	1,794,842
Material cost / unit (₹)	1,423,204	1,421,689	1,460,754	1,472,213	1,571,928	1,423,243	1,444,619	1,404,403
Staff cost / unit (₹)	121,005	114,920	130,068	99,156	125,435	116,359	112,333	89,817
Other Expn / unit (₹)	189,516	180,329	192,076	162,375	181,945	166,681	183,882	141,321
Total Expn / unit (₹)	1,733,724	1,716,938	1,782,898	1,733,744	1,879,308	1,706,283	1,740,833	1,635,541
EBITDA per unit	236,699	216,625	198,589	213,703	182,025	118,631	80,773	159,301
APAT per unit	123,376	117,139	139,614	116,418	80,909	42,186	13,879	88,501

Source: Company, LKP Research

Income Statement

(₹ mn)	FY 23	FY 24E	FY 25E	FY 26E
Total Revenues	361,441	379,051	408,535	472,151
Raw Material Cost	278,492	277,845	298,230	343,726
Employee Cost	21,139	23,122	24,512	27,857
Other Exp	32,504	35,631	37,994	43,438
EBITDA	29,307	42,454	47,799	57,130
<i>EBITDA Margin(%)</i>	8.1%	11.2%	11.7%	12.1%
Other income	1161	1500	1700	1900
Depreciation	7,320	7,186	7,686	8,386
Interest	2891	2595	2525	2755
PBT	20,258	34,173	39,287	47,889
<i>PBT Margin(%)</i>	5.6%	9.0%	9.6%	10.1%
Tax	7,090	10,252	9,822	11,972
Adj PAT	13,168	23,921	29,465	35,917
<i>Adj PAT Margins (%)</i>	3.6%	6.3%	7.2%	7.6%
Exceptional items	846.1	0.0	0.0	0.0
PAT	14,014	23,921	29,465	35,917
<i>PAT Margin (%)</i>	3.9%	6.3%	7.2%	7.6%

Key Ratios

YE Mar	FY 23	FY 24E	FY 25E	FY 26E
Per Share Data (₹)				
Adj. EPS	4.48	8.15	10.04	12.23
CEPS	7.0	10.6	12.7	15.1
BVPS	28.7	34.8	42.3	51.5
DPS	1.0	2.0	2.5	3.1
Growth Ratios(%)				
Total revenues	66.7%	4.9%	7.8%	15.6%
EBITDA	194.7%	44.9%	12.6%	19.5%
Adj. PAT	4143.5%	81.7%	23.2%	21.9%
EPS	4143.5%	81.7%	23.2%	21.9%
Valuation Ratios (x)				
PE	39.7	21.8	17.7	14.6
P/CEPS	25.5	16.8	14.1	11.8
P/BV	6.2	5.1	4.2	3.5
EV/Sales	1.5	1.4	1.3	1.1
EV/EBITDA	18.8	12.9	11.4	9.3
Operating Ratios (Days)				
Inventory days	28.0	32.0	35.0	40.0
Receivable Days	41.0	45.0	48.0	51.0
Payables day	81.2	70.0	68.0	65.0
Profitability Ratios (%)				
ROCE	19.1%	27.3%	26.9%	27.8%
ROE	16.6%	23.4%	23.7%	23.7%
Dividend payout	21.0%	25.0%	25.0%	25.0%

Balance Sheet

(₹ mn)	FY 23	FY 24E	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	99,263	121,362	148,299
Total networth	84,257	102,198	124,297	151,235
Non current liabilities				
Long term borrowings & provs	22,855	18,855	16,855	15,855
Deferred tax liabilities	5,035	5,035	5,035	5,035
Current liabilities				
Short term borrowings	14139	14639	15139	16139
Current liabilities & provisions	85,602	77,888	81,304	89,275
Other current liabilities	10,988	10,988	10,988	10,988
Total equity and liabilities	225,916	232,643	256,658	291,566
ASSETS				
Net block	47,479	46,293	48,607	50,221
Capital work in progress	490	990	1,590	2,190
Intangible assets	16,399	16,399	16,399	16,399
Non current investments				
Long term loans and advances	0	0	0	0
Long term investments	44,513	53,513	66,513	76,513
Total non current assets	108,880	117,195	133,109	145,323
Current assets				
Inventories	27,745	24,359	28,597	37,669
Trade receivables	40,621	43,121	45,621	48,121
Cash and cash bank	4,541	3,840	5,202	16,326
Short term loans & advances	0	0	0	0
Other current assets	15,944	15,944	15,944	15,944
Total current assets	117,036	115,449	123,550	146,245
Total Assets	225,916	232,644	256,658	291,567

Cash Flow

(₹ mn)	FY 23	FY 24E	FY 25E	FY 26E
PBT	13,801	23,921	29,465	35,917
Depreciation	7,320	7,186	7,686	8,386
Interest	2,891	2,595	2,525	2,755
Chng in working capital	13,579	(10,387)	(6,328)	(2,823)
Tax paid	(4,002)	(10,252)	(9,822)	(11,972)
Other operating cash flows	(12,229)	14,311	13,327	12,195
Cash flow from operations (a)	21,360	27,374	36,854	44,458
Capital expenditure	(5,021)	(6,500)	(10,600)	(10,600)
Chng in investments	(198)	(9,000)	(13,000)	(10,000)
Other investing activities	(12,126)	0	0	0
Cash flow from investing (b)	(17,345)	(15,500)	(23,600)	(20,600)
Inc/dec in borrowings	(3,692)	(4,000)	(2,000)	(1,000)
Dividend paid (incl. tax)	(2,936)	(5,980)	(7,366)	(8,979)
Other financing activities	(2,789)	(2,595)	(2,525)	(2,755)
Cash flow from financing (c)	(9,416)	(12,575)	(11,892)	(12,735)
Net chng in cash (a+b+c)	(5,401)	(701)	1,362	11,123
Closing cash & cash equivalents	4,541	3,840	5,202	16,326

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