

Traction in new product launches; Well positioned to benefit from the recovery in CV cycle

CMP: INR 154

Rating: Buy

Target Price: INR 190

Stock Info

BSE	500477
NSE	ASHOKLEY
Bloomberg	AL IN
Reuters	ASOK.BO
Sector	Auto-LCVS & HCVS
Face Value (INR)	1
Equity Capital (INR mn)	2,936
Mkt Cap (INR Mn)	447,960
52w H/L (INR)	158 / 93
Avg Yearly Vol (in 000')	16,011

Shareholding Pattern %

(As on June, 2022)

Promoters	51.54
FII	15.03
DII	21.74
Others	11.69

Stock Performance (%)	1m	3m	12m
Ashok Leyland	5.4	21.3	16.1
Nifty	9.6	0.9	9.5

Ashok Leyland Vs Nifty



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Ashok Leyland Ltd (AL) revenue slightly above our estimates driven by better volume: Standalone revenue stood at INR 71,893 Mn, against our estimate of INR 68,315 Mn registering a de-growth 17.4% QoQ/ 145% YoY. The domestic LCV volume increased by 66%YoY/-10% QoQ to 14,384 units. Export volume (MHCV & LCV) for Q1FY23 at 2527 numbers is higher than the same period last year by 76% (1437 nos.). The Company continued to see strong demand for the AVTR range - India's first Modular Truck Platform and this demand is expected to further improve consequently to anticipated growth in the Total Industry Volume.

Miss on the margin sequentially due to higher raw material cost, operational deleverage and benefits of cost reversal in Q4FY22: EBITDA stood at INR 3,203 Mn, against our estimate of INR 4,110 Mn, Registering a de-growth of -58.7%QoQ/-328.6% due to commodity price increase. On the margins front, EBITDA margin contraction by -444bps QoQ/918bps YoY to 4.4%, against our estimate of 6%. (In Q1FY22 -4.7%). We are expecting margin to grow 8.7% in FY23E and 10% in FY24E.

Traction in LCV segment: The LCV segment, the Bada Dost has been well accepted by the customers and the company is ramping up production in line with market demand. Last-mile connectivity propelled by e-commerce is likely to maintain the demand for LCV trucks. Other businesses of the Company like Power Solutions and Aftermarket continue to contribute strongly to the bottom line of the Company. The volume of LCV could have been better but for the inadequate availability of ECUs, which is now gradually improving. We believe, going forward will see good traction in this segment.

Outlook and valuation

Ashok Leyland, Q1FY23 performance is led by strong domestic truck segment performance. In Q1, M&HCV volume grew by 46% almost resulting improvement of the company market share of 31.1% against 26.2% in Q1FY22. In M&HCV QoQ 50bps 31.1% vs 30.6%. The company launched 2 more tractor products during the quarter 4225 and 4825 parallel launches. Expects to sustain the market share gains achieved in last 3 quarters. We expect domestic volume to witness a growth in FY23 due to better demand in the urban market and expectation of improvement in rural demand. Also new launches will drive volume and market share growth and the company will see better-operating margin due to the downtrend in raw material prices. **We Value Ashok Leyland at a PE multiple of 25x for the parent automaker for its FY24E EPS of INR 4.5 and with the 7% stake in Hinduja Leyland Finance INR 7 per share intrinsic value, We upgrade our rating to Buy from Hold earlier and value it with SOTP valuation for a target price of INR 190.**

YE	Net Sales	EBITDA	PAT	EPS	EBITDA	RoE (%)	P/E (x)
March					Margin %		
(INR Mn)				(INR)			
FY21	153,015	5,351	-3,016	(1.1)	3.5%	-4.4%	-
FY22	216,883	9,945	310	1.8	4.6%	7.6%	83.6
FY23E	301,330	26,314	13,290	4.5	8.7%	16.9%	34.1
FY24E	371,693	37,060	21,475	7.3	10.0%	23.1%	21.1

Source: Arihant Research, Company Filings

Quarterly Results					
Standalone (INRm)	Q1FY23	Q4FY22	Q1FY22	YoY%	QoQ%
Net Sales	71,893	87,033	29,346	145.0%	-17.4%
Other operating income	335	410	164	104.5%	-18.1%
Income from operation	72,229	87,443	29,510	144.8%	-17.4%
Cost of material consumed	61,314	64,299	22,334	174.5%	-4.6%
Purchases of stock-in-trade	2,590	2,676	2,117	22.3%	-3.2%
Changes in inventories	(6,623)	1,447	(2,579)	156.8%	-557.7%
Raw Material	57,281	68,422	21,873	161.9%	-16.3%
Staff Cost	4,454	4,376	4,243	5.0%	1.8%
Other expenditure	7,291	6,885	4,795	52.0%	5.9%
Total Expenditure	69,026	79,683	30,911	123.3%	-13.4%
EBITDA	3,203	7,760	(1,401)	-328.6%	-58.7%
Depreciation	1,824	1,954	1,835	-0.6%	-6.6%
EBIT	1,379	5,807	(3,236)	-142.6%	-76.3%
Interest	689	765	707	-2.6%	-9.9%
Other Income	256	242	134	91.3%	6.1%
PBT	946	5,284	(3,809)	-124.8%	-82.1%
Current Tax	415	101	-	-	310.6%
Deferred tax	(19)	872	(1,003)	-98.1%	-102.2%
Tax	396	973	(1,003)	-139.5%	-59.3%
Adjusted PAT	550	4,311	(2,806)	-119.6%	-87.2%
Extraordinary	130.1	4,702.6	(16.8)	-874.4%	-97.2%
Reported PAT	680.5	9,013.7	(2,823)	-124.1%	-92.5%
EPS	0.23	3.07	(1.0)	-124.0%	-92.5%

Margins	Q1FY23	Q4FY22	Q1FY22	YoY%	QoQ%
Gross margins	20.7%	21.8%	25.9%	-519Bps	-106Bps
EBITDA	4.4%	8.9%	-4.7%	918Bps	-444Bps
Adjusted PAT	1%	5%	-10%	1027Bps	-417Bps

Source: Arianth Research, Company Filings

Ashok Leyland Q1FY23 Earnings Conference Call

- **Margins:** The company aiming EBITDA margins of 10% and above in FY24.As and when the volumes come back strong.
- Q1FY23 performance led by strong performance in domestic truck segment. Q1 M&HCV volume grown at 46% almost resulting improvement of Ashok Leyland market share 31.1% vs 26.2% in Q1FY22. In M&HCV QoQ 50bps 31.1% vs 30.6%
- **L&HCV sales** which was impacted due to chip shortage grown by 66% YoY.International operational sales has registered 76% YoY.
- **Working capital:** The company was 1400 cr due to increase of production inventory.
- **Net cash:** Increase by 1560 cr during the quarter.
- **Debt equity:** decreased 0.25 vs 0.65 last year.
- **Launch 2 model:** The company launched 2 more tractor products during the quarter 4225 and 4825 parallel launches. Expects to sustain the market share gains achieved in last 3 quarters.
- **Domestic CV industry volume:** Domestic CV industry 166% YoY basis due to low base of previous year. M&HCV volumes are expected to grow 15-20% as per ICRA. The passenger segment is expected to grow ~30%. LCV is expected to grow 8-10% in FY23. Softening of commodity prices such as steel should positively impact margins in coming quarters.
- **Aftermarket and international businesses** continue to do well. Switch India is operational with its own team. The company is waiting for approvals to transfer assets to OHM mobility India.
- **Net Debt:** Net debt was at INR 22,820 Mn in Q1FY23 as against INR 7,200 Mn in Q4FY22. Debt equity as at the end of the quarter was at point 3X Capital expenditure for the quarter was at INR1150 Mn, CapEx spend for the full year is estimated to be around INR7500 Mn.
- **Market share improvement:** The M&HCV products are performing very well. Also, increasing its network in North and Eastern regions & shift towards Diesel has helped the company.

Other Highlights

- **Price increases:** Steel has softened but the impact has not come so far. There has been cost reduction internally. Steel prices have gone up by INR 5-6 per kg. Price increase realization is 1.7-2%. Steel prices are expected to come down in Q2.
- **Other Expenses** are higher in Q1 on the back of a low back in Q4. During Q4, it rationalized a few things which helped to reduce costs, contract labour, etc. Moving further, there should be a slight improvement in other expenses.
- **Despite softening commodities**, competition remains intense. All they want to grow market share profitably. Management is confident that going forward, Gross margin would improve.
- **Retail segment kicks** in good, but only till the up-cycle trend has momentum. B2B would always be the heavy lifter and in the long run ratio of large fleet owners would be greater than retails.
- **Industry:** TIVs are going up fast. Govt spending on infra is driving demand for trucks. Schools and colleges opening up have driven demand for passenger buses. 1) RM Prices 2) Increase in TIV 3) Product performance is getting better and has gained market share in CNG and Diesel. 4) Internal cost-cutting measures. This would help them to grow in domestic markets.
- **Discounts continue to remain high.** Ashok leyland is offering extended warranty and other things. Net price realization is improving m/m basis. Exports reported 75% growth in Q1 FY23.
- Switch India has a ~600 order book across BEST, other STU and some private players. Most of this is under e mobility as a service.
- **Product launches:** Introduce CNG in its ICE segment. Working on making available all models on the CNG platform in the next few months. In the LCV segment, seeing a strong trend of customers moving towards electric. Larger volumes are coming from STUs for electric buses. Companies are buying electric buses. Such as BPOs and other companies that are trying to reduce carbon emissions.
- **ECU shortage:** The company could have done 500-1000 vehicles more had the Semiconductor shortage did not play spoilsport.
- **Product:** Dost and Bada Dost have performed exceptionally well. Only present in North and West markets. It would hit pan India levels soon.
- **Hinduja Leyland finance (HLF):** HLF is doing well. Margins are improving. Done exceptionally well in the housing finance business. The portfolio is quite diverse such as 2w, 3w, tractors, and other CVs. Consolidated AUM is INR 307500 Mn; Disbursements of INR 34840 Mn, Income of ~INR 8000Mn and PAT of Rs97cr. GNPA of 3.7% and NNPA of 2.7%
- **Spares** 8% of total revenue and marginally lower on a sequential basis.

Exhibit 2: Revenue slightly above our estimates driven by better volume.

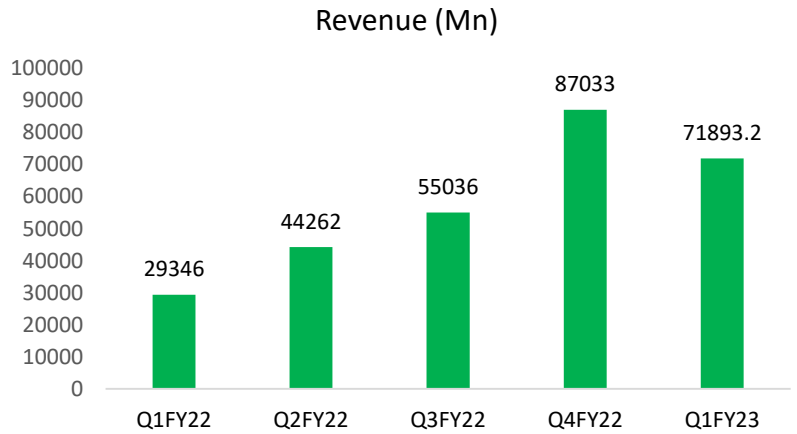


Exhibit 3: The volume decline due to significant constraints by the inadequate availability of semi-conductors.

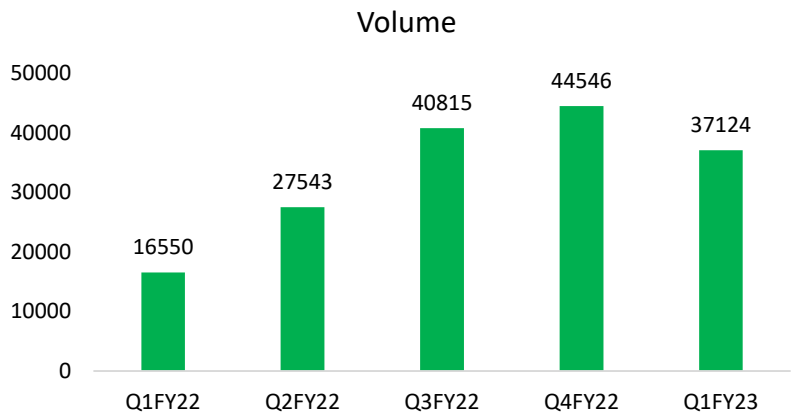
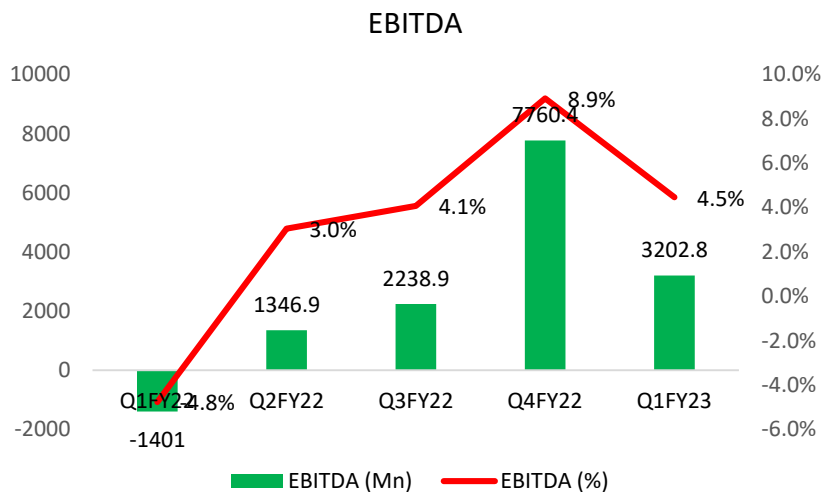


Exhibit 4: The company EBITDA showing decline in Q1FY23 due to higher Commodity cost.



Source: Aриhant Research, Company Filings,

P&L (INR mn)	FY21	FY22	FY23E	FY24E
Net sales	153,015	216,883	301,330	371,693
YoY (%)	(12.4)	41.7	38.9	23.4
Raw material cost	114,033	167,611	222,381	271,336
Employee Cost	15,839	16,946	19,488	22,411
Admin Expenses	17,791	22,381	33,146	40,886
Total expenses	147,663	206,938	275,015	334,633
EBIDTA	5,351	9,945	26,314	37,060
(%)	3.5%	4.6%	8.7%	10.0%
Depreciation	7,477	7,528	7,407	7,628
EBIT	(2,126)	2,418	18,907	29,432
Interest	3,068	3,011	3,724	4,246
Other income	1,195	761	1,142	1,370
PBT	(3,999)	168	16,325	26,556
Exchange gain / (loss) on swap contracts	-	-	-	-
(-) Tax	(982)	(142)	3,035	5,081
Tax/ PBT	24.6	(84.7)	18.6	19.1
PAT	(3,016)	310	13,290	21,475
YoY (%)	(176.3)	(110.3)	4187.0	61.6
PAT(%)	-2.0%	0.1%	4.4%	5.8%
Extraordinary	121	5108	-	-
Reported Profit	(3,137)	5,418	13,290	21,475

B/Sheet (INR mn)	FY21	FY22	FY23E	FY24E
Equity capital	2,936	2,936	2,936	2,936
Reserves	66,837	70,434	80,681	99,622
Net worth	69,772	73,369	83,616	102,557
Total Loans	37,463	43,873	50,412	57,081
Deferred Tax	1,708	1,444	1,444	1,444
Total Liabilities	108,943	118,686	135,471	161,082
Gross block	93,721	97,721	105,221	112,721
Less: Acc. Dep	23,217	30,744	38,152	45,780
Net block	70,504	66,976	67,069	66,941
Work in progress	3,719	1,943	1,943	1,943
Investments	34,180	38,594	38,994	39,394
Inventories	21,423	20,752	28,635	34,939
Debtors	28,163	31,111	18,162	22,403
Cash	8,230	10,470	31,882	62,804
Loans and advances	18,281	38,733	41,344	46,176
Current assets	76,096	101,066	120,024	166,323
Current liabilities	60,632	75,332	81,643	100,056
Provisions	14,924	14,560	10,914	13,463
Net current assets	540	11,173	27,466	52,804
Total Assets	108,943	118,686	135,471	161,082

Cash Flow	FY21	FY22	FY23E	FY24E
Net profit	(3,137)	5,418	13,290	21,475
Depreciation	7,286	7,528	7,407	7,628
Deferred tax	(983)	(243)	(230)	(230)
Change in W/C	(6,585)	(3,426)	242	5,815
Operating cash flow	(3,419)	9,277	20,709	34,688
Capex	(5,810)	(2,224)	(7,500)	(7,500)
Investments	(2,446)	(9,401)	4,707	(401)
Investing cash flow	(8,256)	(11,626)	(2,793)	(7,901)
FCF	(9,228)	7,053	13,209	27,188
Dividend	2,269	(2,156)	(3,042)	(2,534)
Equity	(2,000)	334	0	0
Debt	6,410	6,410	6,538	6,669
Financing cash flow	6,679	4,589	3,496	4,135
Net change in cash	(4,995)	2,240	21,413	30,922
Opening cash	13,225	8,229	10,470	31,882
Closing cash	8,229	10,470	31,882	62,804

Key Ratios	FY21	FY22	FY23E	FY24E
EPS	(1.1)	1.8	4.5	7.3
Cash EPS	1.4	4.4	7.1	9.9
Book value	24	25	28	35
P/E (x)	-	83.6	34.1	21.1
EV/EBDITA (x)	83.7	45.0	16.4	11.0
P/B (x)	6.5	6.2	5.4	4.4
EV/Sales	2.9	2.1	1.4	0.9
ROCE	0%	7%	13%	38%
ROE	-4%	8%	17%	23%
Dividend Yield	0.4%	0.4%	0.6%	0.5%
Gross asset turn	1.4	1.9	2.4	5.5
Days outstanding				
Inventory	47	47	47	47
Debtors	22	22	22	22
Creditors	79	80	80	80

Source: Aриhant Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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