

CMP: INR 182

Rating: Accumulate

Target Price: INR 205

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)	535,549
52w H/L (INR)	186/133
Avg Yearly Vol (in 000')	11,193

Shareholding Pattern %

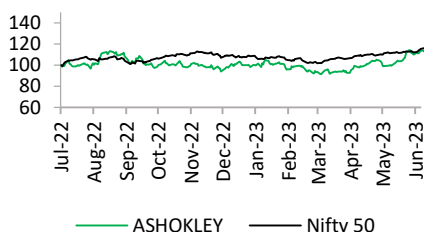
(As on June, 2023)

Promoters	51.53
FII	16.59
DII	20.79
Others	11.09

Stock Performance (%)

	1m	3m	12m
Ashok Leyland	12.9	33.7	23.9
Nifty	5.3	10.8	17.6

Ashok Leyland Vs Nifty



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Ashok Leyland Ltd (AL) Performance was driven by higher part sales and financial services business; Beat on Margin front. Standalone revenue stood at INR 81,520 Mn, against our estimate of INR 82,009 Mn registering a growth of 13.4% YoY/ -29.6% QoQ. EBITDA stood at INR 8,208 Mn, against our estimate of INR 6,933 Mn, Registering a growth of 156.3%YoY/ -35.7%QoQ. On the margins front, EBITDA margin expansion by 559bps YoY/ -95bpsQoQ to 10.0%, against our estimate of 8.5% led by higher than the expected gross margin (increase by 558 bps YoY/188 bps QoQ to 26.3% in Q1FY24). Standalone PAT saw an increase of 747.1%YoY/ -23.3% QoQ to INR 5,764 Mn against our estimate of INR 4,060 Mn led by benefiting from higher demand for its vehicles including trucks and buses as well as easing prices of raw materials. EPS stood at INR 1.90 in Q4FY23 against INR 2.56 in Q4FY23 (INR 0.23 in Q1FY23).

Q1FY24 Performance driven by higher growth in parts segment: The company grown >30% on parts, this growth is a testament to the positive impact of our expanding network and increased market share, especially in the North and East regions, where they have achieved a 25% MS and expect it to further increase to 35% in the future.

Margin beat led by higher gross margin and softening of commodity: The softening of raw material costs, improved price realization, and operating leverage, contributed to achieving a double-digit EBITDA margin. The company aims to sustain this growth in the near term while setting its sights on reaching mid-teens EBITDA margin in the long run

Strong product portfolio driven further growth in MS: The EV business under Switch is vital for AL's future-proofing strategy. While external investors may be considered, AL fully supports Switch in developing top-notch electric products. The upcoming launch of Switch's electric LCVs, coupled with recent vehicle introductions, With these initiatives and network expansion, the company aims to maintain market share gains, evident from the 7% YoY growth in MHCV volumes during Q1, surpassing industry growth.

Outlook and valuation

Ashok Leyland Ltd (AL) Performance was driven by higher part sales and financial services business. The company is confident about sustained recovery in volumes and margins in the medium term. Ashok Leyland aims for significant market share in M&HCV (35%) and LCV 2.0 to 3.5-ton (25%) segments, supported by a zone-wise strategy. The company plans to double its addressable volume in the international market by FY25. Through structural margin improvements, cost engineering, mix enhancement, and focus on international markets and non-CV revenues, Ashok Leyland aims to achieve mid-teen margins in the medium term and double-digit margins in FY24. **We Value AL at a PE multiple of 18x for the parent automaker for its FY26E EPS of INR 10.9 (Include INR ~9 for HLF). We maintain our rating to Accumulate and value it with SOTP valuation for a target price of INR 205. (Earlier target price of INR 170 per share)**

Exhibit 1: Financial Performance

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY23	3,61,441	29,307	12,955	4.7	8.1%	17.5%	38.8
FY24E	4,08,605	43,111	24,299	8.3	10.6%	25.6%	22.0
FY25E	4,45,856	49,177	27,974	9.5	11.0%	23.7%	19.1
FY26E	5,06,858	56,551	32,094	10.9	11.2%	22.2%	16.7

Source: Arihant Research, Company Filings

Exhibit 2: Quarterly performance Q1FY24

Quarterly Results					
Standalone (INRm)	Q1FY24	Q4FY23	Q1FY23	YoY%	QoQ%
Revenue	81,520	1,15,792	71,893	13.4%	-29.6%
Other operating income	373	465	335	11.3%	-19.6%
Net Sales	81,893	1,16,257	72,229	13.4%	-29.6%
Cost of material consumed	58,764	80,802	61,314	-4.2%	-27.3%
Purchases of stock-in-trade	3,582	3,354	2,590	38.3%	6.8%
Changes in inventories	(1,975)	3,731	(6,623)	-70.2%	-152.9%
Raw Material	60,372	87,887	57,281	5.4%	-31.3%
Staff Cost	5,376	5,919	4,454	20.7%	-9.2%
Other expenditure	7,938	9,693	7,291	8.9%	-18.1%
Total Expenditure	73,685	1,03,499	69,026	6.8%	-28.8%
EBITDA	8,208	12,757	3,203	156.3%	-35.7%
Depreciation	1,794	1,838	1,824	-1.7%	-2.4%
EBIT	6,414	10,919	1,379	365.2%	-41.3%
Interest	699	628	689	1.4%	11.3%
Other Income	512	389	256	99.6%	31.5%
PBT	6,227	11,245	946	558.0%	-44.6%
Current Tax	2,132	4,004	415	-	-46.8%
Deferred tax	(1,675)	(273)	(19)	-	513.8%
Tax	457	3,731	396	15.4%	-87.8%
Adjusted PAT	5,770	7,514	550	948.3%	-23.2%
Extraordinary	(5.9)	-	130.1	-	-
Reported PAT	5,764.2	7,514.1	680.5	747.1%	-23.3%
EPS	1.90	2.56	0.23	726.1%	-25.8%
Total Volumes (Nos)	41,329	59,697	39,651	4.2%	-30.8%
Net Realisation (INR)	19,81,488	19,47,446	18,21,606	8.8%	1.7%
EBITDA / Vehicle (INR)	1,98,589	2,13,703	80,775	145.9%	-7.1%
Margins	Q1FY24	Q4FY23	Q1FY23	Change in bps	Change in bps
Gross margins	26.3%	24.4%	20.7%	558Bps	188Bps
EBITDA	10.0%	11.0%	4.4%	559Bps	-95Bps
Adjusted PAT	7%	6%	1%	628Bps	58Bps
Effective Tax Rate	7.3%	33.2%	41.8%	-3451Bps	-2584Bps
Cost Analysis					
RM/Net Sales	73.72%	75.60%	79.30%	-558Bps	-188Bps
Other Exp/Net Sales	9.69%	8.34%	10.09%	-40Bps	136Bps
Staff cost/Net sales	6.56%	5.09%	6.17%	40Bps	147Bps
Volume (In Units)	Q1FY24	Q4FY23	Q1FY23	YoY%	QoQ%
MHCV	24286	33830	22740	18.4%	19.7%
LCV	14,821	3,981	21,147	-75.1%	-75.1%
Total Sales	39,107	37,811	43,887	-15.1%	-15.3%
EXPORT	53,928	41,792	65,034	-17.1%	29.0%
M&HCV	1,879	6,661	2,247	93.6%	164.6%
LCV	343	15,225	280	1979.9%	1979.9%
Total Exports	2,222	21,886	2,527	-12.1%	-89.8%
Total Volume	41,329	59,697	39,651	22.5%	22.5%

Source: Arihant Research, Company Filings

Ashok Leyland Q1FY24 Earnings Conference Call

- **Guidance:** The softening of raw material costs, improved price realization, and operating leverage, contributed to achieving a double-digit EBITDA margin. The company aims to sustain this growth in the near term while setting its sights on reaching mid-teens EBITDA margin in the long run. Furthermore, for the entire FY24, the company foresees an 8-10% growth in the MHCV segment and a 5-6% growth in the LCV segment.
- **M&HCV:** The domestic MHCV volume saw a 7% increase, resulting in a rise in MS from 30.0% to 31.2%. However, the growth in this segment was slightly subdued due to pre-buying effect in Q4FY23 caused by the applicability of OBD II norms from April 1st of the same year.
- **LCV:** In Q1FY24, the domestic LCV volume stood at 14,821 units, showing a 3% growth compared to 14,384 units in the previous year.
- The bus segment experienced remarkable growth of 93% YoY, leading to an improvement in market share from 20.2% to 28.1% compared to last year.
- **AVTR:** The Company witnessed robust demand for the modular AVTR range of trucks and Bada Dost range.
- **Defense segment:** The Company received a substantial order worth INR 800 Cr from the army, resulting in a strong order book.
- **Margin:** The company aims to achieve a double-digit margin and has a medium to long-term goal of reaching a mid teen margin, driven by the anticipated softening of steel prices in the second half, which will consequently reduce raw material costs.
- **Price Increase:** Ashok Leyland demonstrated resilience against commodity price fluctuations, outperforming the industry in Q1, with consistent price hikes and cost reduction efforts leading to improved margins YoY.
- **New launch:** The company is preparing to launch Switch electric LCVs in the H2FY24 and has recently expanded its product range with the introduction of the company has successfully introduced various new products, including AVTR 6x4 EDPTO ReadyMix Concrete, eComet Star 1915, 28 20 G45 FPS, eComet Star 16 and 18 ton 24 feet, 4225 MAV, and a 13.5-meter bus with 19.5-ton GBW.
- **Aftermarket:** The company's aftermarket sales surged by 34% YoY, reaching INR 6,170 Mn compared to INR 4,590 Mn last year, and with the addition of recent and upcoming launches, Ashok Leyland is poised to expand its market share even further.
- **Tax:** The tax expense for the quarter includes a one-time deferred tax credit of INR 172 crores due to the expected transition to a lower tax regime.
- Net debt came at INR 14,640 Mn vs negative of INR 2430 Mn on account of working capital movement which has gone up from (-1) day to now 9 days.
- **Capex** of INR 950 Mn incurred for this quarter.
- **Reverse merger:** Hinduja Leyland Finance is going to merge into NXT Digital and expected during H2FY24.

Exhibit 3: Ashok Leyland Ltd (AL) Performance was driven by higher part sales and financial services business.

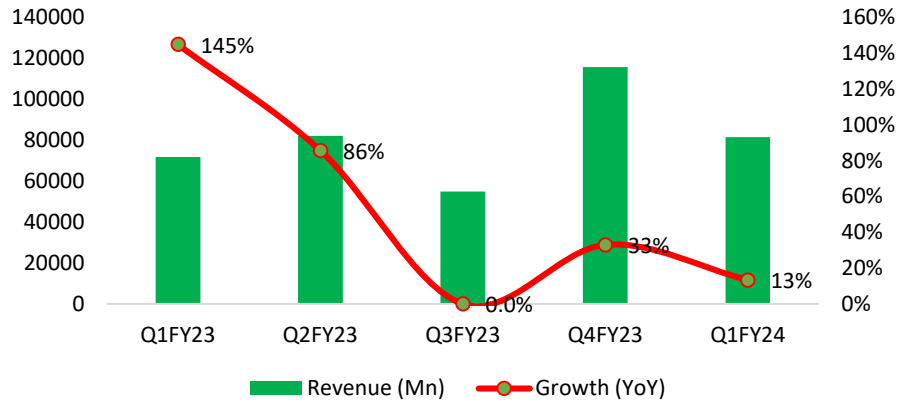


Exhibit 4: The company EBITDA showing expansion in Q1FY24 QoQ due to softening in raw material cost.

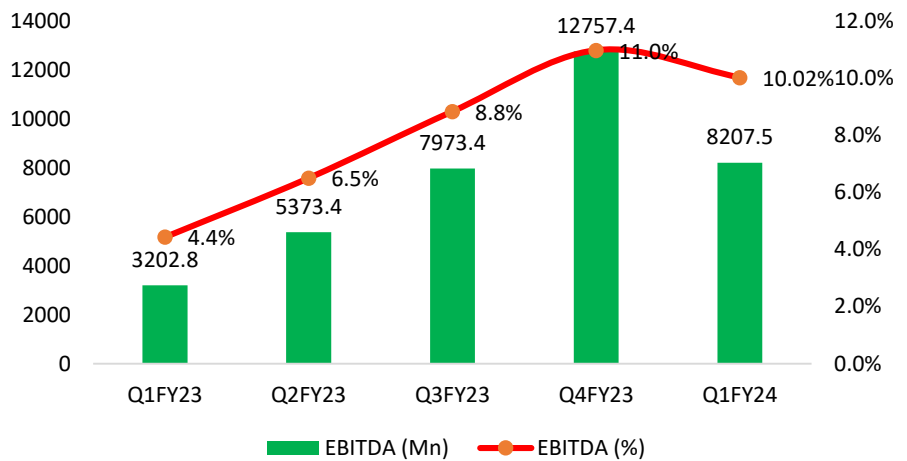
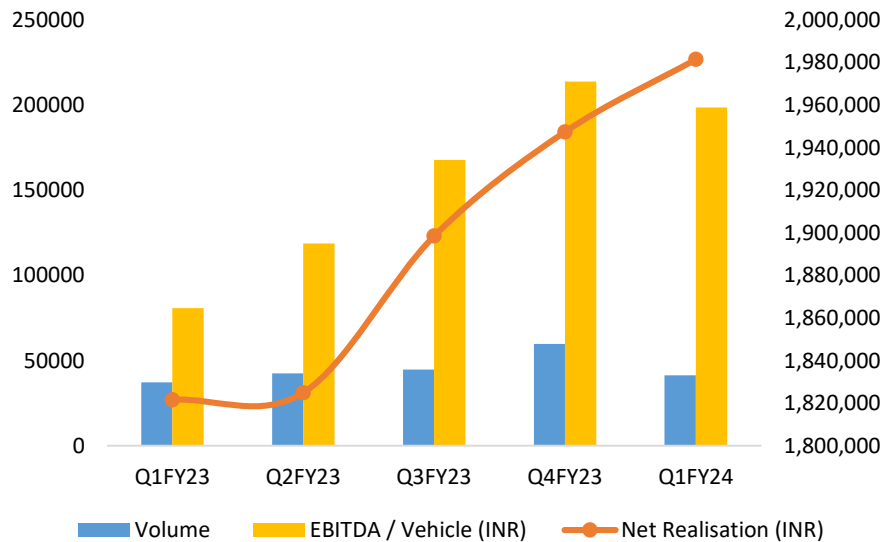


Exhibit 5: Volume and Market Share gains as all the new products were doing well



Source: Aриhant Research, Company Filings,

P&L (INR mn) Standalone	FY23	FY24E	FY25E	FY26E	B/Sheet (INR mn)Standalone	FY23	FY24E	FY25E	FY26E
Net sales	3,61,441	4,08,605	4,45,856	5,06,858	Equity capital	2,936	2,936	2,936	2,936
YoY (%)	66.7	13.0	9.1	13.7	Reserves	81,322	1,02,692	1,27,293	1,55,518
Raw material cost	2,78,492	2,96,239	3,19,679	3,62,404	Net worth	84,258	1,05,628	1,30,229	1,58,454
Employee Cost	21,139	24,309	27,956	32,149	Total Loans	50,283	56,822	63,491	70,293
Admin Expenses	32,504	44,947	49,044	55,754	Deferred Tax	5,035	-	-	-
Total expenses	3,32,134	3,65,495	3,96,679	4,50,307	Total Liabilities	1,39,576	1,62,449	1,93,720	2,28,747
EBIDTA	29,307	43,111	49,177	56,551	Gross block	1,01,722	1,09,222	1,17,222	1,25,222
(%)	8.1%	10.6%	11.0%	11.2%	Less: Acc. Dep	38,064	45,447	53,373	62,464
Depreciation	7,320	7,383	7,926	9,092	Net block	63,658	63,775	63,849	62,758
EBIT	21,987	35,727	41,252	47,459	Work in progress	1,325	1,325	1,325	1,325
Interest	2,891	3,481	3,910	4,348	Investments	42,195	42,595	42,995	43,395
Other income	1,161	1,278	1,303	1,329	Inventories	36,154	38,146	41,164	47,659
PBT	20,258	33,524	38,645	44,441	Debtors	40,621	40,301	39,089	41,660
Exchange gain / (loss) on swap contracts					Cash	5,013	3,605	10,354	42,820
(-) Tax	7,303	9,225	10,671	12,346	Loans and advances	52,198	1,01,498	1,07,831	1,18,201
Tax/ PBT	36.0	27.5	27.6	27.8	Current assets	1,33,986	1,83,550	1,98,437	2,50,339
PAT	12,955	24,299	27,974	32,094	Current liabilities	78,110	1,13,995	96,738	1,10,711
YoY (%)	4079.0	87.6	15.1	14.7	Provisions	23,477	14,800	16,149	18,359
PAT(%)	3.6%	5.9%	6.3%	6.3%	Net current assets	32,399	54,755	85,550	1,21,270
Extraordinary	846.10	-	-	-	Total Assets	1,39,576	1,62,449	1,93,720	2,28,747
Reported Profit	13,801	24,299	27,974	32,094					

Cash Flow Standalone	FY23	FY24E	FY25E	FY26E	Key Ratios	FY23	FY24E	FY25E	FY26E
Net profit	13,801	24,299	27,974	32,094	EPS	4.7	8.3	9.5	10.9
Depreciation	7,320	7,383	7,926	9,092	Cash EPS	7.2	10.8	12.2	14.0
Deferred tax	-497	-497	-497	-497	Book value	29	36	44	54
Change in W/C	-26,855	-29,147	-23,549	-2,755	P/E (x)	38.8	22.0	19.1	16.7
Operating cash flow	-6,231	2,038	11,852	37,934	EV/EBDITA (x)	18.4	12.7	11.1	9.2
Capex	-3,384	-7,500	-8,000	-8,000	P/B (x)	6.4	5.1	4.1	3.4
Investments	660	445	-401	-401	EV/Sales	1.5	1.4	1.2	1.0
Investing cash flow	-2,723	-7,055	-8,401	-8,401	ROCE	13%	17%	18%	17%
FCF	-9,615	-5,462	3,852	29,934	ROE	18%	26%	24%	22%
Dividend	-5,984	-2,929	-3,372	-3,869	Dividend Yield	0.9%	0.5%	0.5%	0.6%
Equity	3,072	-	-	-	Gross asset turn	2.8	2.5	2.5	2.2
Debt	6,410	6,538	6,669	6,802	Days outstanding				
Financing cash flow	3,498	3,609	3,297	2,933	Inventory	47	47	47	48
Net change in cash	-5,457	-1,408	6,748	32,466	Debtors	36	36	32	30
Opening cash	10,470	5,013	3,605	10,354	Creditors	92	92	92	93
Closing cash	5,013	3,605	10,354	42,820					

Source: Arian 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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