

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

CMP: INR 148

Rating: Accumulate

Target Price: INR 172

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)	432,660
52w H/L (INR)	169 / 93
Avg Yearly Vol (in 000')	1456

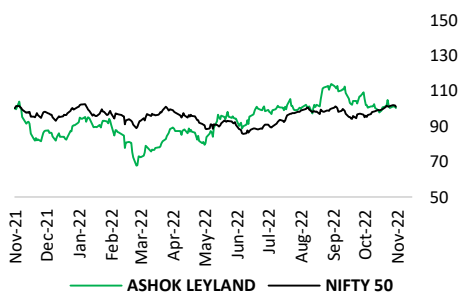
Shareholding Pattern %

(As on June, 2022)

Promoters	51.54
FII	15.03
DII	21.74
Others	11.69

Stock Performance (%)	1m	3m	12m
Ashok Leyland	(1.24)	1.06	0.58
Nifty	8.04	3.91	2.66

Ashok Leyland Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Ashok Leyland Ltd (AL) revenue above our estimates driven by better volume: Standalone revenue stood at INR 82,234 Mn, against our estimate of INR 81,442 Mn registering a growth of 85.8% YoY/ 14.4% QoQ. Ashok Leyland's domestic MHCV volume at 25475 units grew by 113% over the same period last year 11988 units which is more than double the industry growth. This helped Ashok Leyland achieve market share gains of 9.6% in Q2FY23. Domestic LCV volumes for Q2FY23 at 17040 units is higher than Q2FY22 by 28% to 13328 units. Export volumes (MHCV & LCV) for Q2FY23 at 2780 units is more elevated than Q2FY22 by 25 % to 2227 units.

Margin below our estimates led by higher employee cost; Despite higher than expected gross margin sequentially: EBITDA stood at INR 5,373 Mn, against our estimate of INR 6,049 Mn, Registering a growth of 298.9%YoY/ 67.8%QoQ. On the margins front, EBITDA margin expansion by 348bps YoY/ 207bpsQoQ to 6.5%, against our estimate of 7.4% led by higher than the expected gross margin (increase by 131 bps QoQ to 22% in Q2FY23).

Challenges on the export market: Middle Eastern markets have done well and the company has added 16 new distributors for the African market. The tractor-trailer segment has been growing well in the domestic markets. The company market share is ~26%, from 18% last year. The overall share of Tractor-trailer in M&HCV has gone up to 13% from 9%. We believe, demand continues in export segments and will grow going forward.

Outlook and valuation

Ashok Leyland, Q2FY23 performance beat the top line with facing slight margin and cost pressure. While gross margin improves sequentially. The company has increased prices during Q1 (1.9%) & Q2FY23 (1% and after recently announcing a 1.5% price increase despite the price increase, Ashok Leyland has gained market share in all geographies. We expect a margin in the range of 6.5%-9.4% during FY23E-FY25E. The company will be launching the EV of dost and bada dost by mid-FY23. A lot of customers queries for the electric version of the same. We expect domestic volume to witness growth in FY23 due to better demand in the urban market and the expectation of improvement in rural demand. Also, new launches will drive volume and market share growth. The company will see a better-operating margin due to the softening of commodity prices. We Value Ashok Leyland at a PE multiple of 19x for the parent automaker for its FY25E EPS of INR 8.7 and with the 7% stake in Hinduja Leyland Finance INR 7 per share intrinsic value. **We downgrade our rating to Accumulate from Buy earlier (The previous Price target was INR 190 per share) and value it with SOTP valuation for a target price of INR 172.**

Exhibit 1: Financial Highlights

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoEP/E (%)	(x)
FY22	2,16,883	9,945	310	1.8	4.6%	7.6%	80.0
FY23E	3,01,330	19,610	7,970	2.7	6.5%	10.4%	54.4
FY24E	3,71,693	33,162	18,483	6.3	8.9%	21.1%	23.5
FY25E	4,56,434	42,774	25,603	8.7	9.4%	23.9%	16.9

Source: Arihant Research, Company Filings

Exhibit 2: Quarterly performance Q2FY23

Quarterly Results					
Standalone (INRm)	Q2FY23	Q1FY23	Q2FY22	YoY%	QoQ%
Net Sales	82,234	71,893	44,262	85.8%	14.4%
Other operating income	425	335	317	34.3%	26.8%
Income from operation	82,660	72,229	44,579	85.4%	14.4%
Cost of material consumed	58,320	61,314	30,925	88.6%	-
Purchases of stock-in-trade	2,739	2,590	1,700	61.1%	5.8%
Changes in inventories	3,407	(6,623)	1,560	118.4%	-
Raw Material	64,466	57,281	34,185	88.6%	12.5%
Staff Cost	5,271	4,454	4,003	31.7%	18.3%
Other expenditure	7,550	7,291	5,043	49.7%	3.5%
Total Expenditure	77,286	69,026	43,232	78.8%	12.0%
EBITDA	5,373	3,203	1,347	298.9%	67.8%
Depreciation	1,768	1,824	1,843	-4.1%	-3.1%
EBIT	3,605	1,379	(496)	-827.2%	161.5%
Interest	771	689	871	-11.5%	11.9%
Other Income	200	256	209	-4.5%	-22.0%
PBT	3,035	946	(1,157)	-362.2%	220.7%
Current Tax	1,168	415	(325)	-	181.3%
Deferred tax	(44)	(19)	-	-	127.7%
Tax	1,124	396	(325)	-446.0%	183.9%
Adjusted PAT	1,911	550	(832)	-	247.2%
Extraordinary	82.3	130.1	2.3	3478.3%	-36.7%
Reported PAT	1,993.1	680.5	(830)	-340.1%	192.9%
EPS	0.68	0.23	(0.28)	-342.9%	195.7%

Margins	Q2FY23	Q1FY23	Q2FY22	YoY%	QoQ%
Gross margins	22.0%	20.7%	23.3%	-130Bps	131Bps
EBITDA	6.5%	4.4%	3.02%	348Bps	207Bps
Adjusted PAT	2%	1%	-2%	418Bps	155Bps

Volume (In Units)	Q2FY23	Q1FY23	Q2FY22	YoY%	QoQ%
Domestic CV					
M&HCV commercial	23,275	21147	11,503	102.3%	10.1%
M&HCV Passenger	2,200	1593	485	353.6%	38.1%
Total M&HCVs	25,475	22,740	11,988	112.5%	12.0%
LCV commercial	16,811	14,209	13,309	26.3%	18.3%
LCV Passenger	229	175	19	1105.3%	30.9%
Total LCVs	17,040	14,384	13,328	27.9%	18.5%
Total Domestic	42,515	37,124	25,316	67.9%	14.5%
Exports	2780	2527	2227	24.8%	10.0%
Total Sales	45,295	39,651	27,543	64.5%	14.2%

Source: Arianth Research, Company Filings

Ashok Leyland Q2FY23 Earnings Conference Call

- Q2FY23 continues to be good. Aided by strong truck sales in domestic markets. 32.3% vs 22.2% last year's market share. Q2 M&HCV have grown. ALL grew 112% vs TIV growth of 39%. LCV has been marginally impacted due to semicon. Despite that, Q2 was higher by 20% y/y. Domestic aftermarket sales grew 26% y/y.
- Debt/ Equity as 0.4x. Debt grew by INR 400cr. Net Debt stood at INR 2,677cr.
- Launched 4825 tractor trailer with a 4-valve engine, AVTR 4220 4420, etc during the quarter.
- M&HCV and LCV TIVs are supported by improvements in freight availability and replacement demand. Freight rates have to help up strong. M&HCV trucks are to grow by 21-23%, Buses by 105% and LCV trucks by 20% as per CRISIL. It expects to grow 5-10% CAGR up to FY27. Demand for CVs remains robust in the long term, aided by buses.
- Softening commodity prices (steel and others) should improve margins going forward. The company raised prices as well.
- **Switch Mobility:** Developing it as a global electric vehicle company. India, sales pipeline is growing strong. In UK, there is headroom for growth. Regarding funding, it is in active discussions with various partners.
- **Capex incurred for Q2:** INR102cr; H1FY23 INR 218cr. For FY23: ~INR 600cr. Expects to do INR 500-700cr from FY25 onwards.
- INR 200cr has been lent to Switch mobility. The company has got good orders. The EV sector globally has taken somewhat of a beating on the back of high valuations to raise capital.
- Ashok Leyland will be launching the electric version of dost and bada dost by mid-2023. A lot of customers (last mile connectivity) are asking for the electric version of the same.
- **Pricing:** Ashok Leyland has been raising prices since Q1FY23 by 1.9%. Q2FY23 1%, and recently announced a 1.5% price increase. Despite price increases, it has gained market share in all geographies.
- **Discounts:** In line with Q1.
- **Staff costs:** Raised bonus provision for employees and salary hikes. Management expects staff costs to remain between Q1FY23 and Q2FY23.
- **RM cost:** Steel prices had risen by INR 5/ kg in Q1FY23 and saw a decrease in Q2FY23. Prices are softening further. Apart from prices, Ashok Leyland is also taking action to manage costs better. Due to opening stock/inventory, profitability would have been better.
- **Debt outlook:** Debt levels could come off sharply by end of the year.
- **EV Capex:** INR 600cr DOES NOT include capex for EV. All capex under Switch. The switch requirement in 2 years would be US\$200-300mn. It would make all types of EV LCVs and so on.
- Total cost of ownership is much better in Avtr and ALL products which cater to BS6 compared to competitors.
- **Defense:** INR 50cr of revenues in Q2. Management expects the government of India offtake to start in Q3/ Q4. Earlier it hardly had any products. Today it has Medium/ light bulletproof vehicles. Missile transporters and other transporters. As tendering activity picks up, ALL would be a big beneficiary.
- Management expects TIVs to be close to the last peak. In the medium term, it expects the volumes to grow in line with the GDP growth.
- AVTR was launched in 2020. 2021 was a washout while H1FY22 was a washout. The real play on the ground has barely been a year. Mgmt. expects this platform to grow strong as volumes pick up. AVTR products are modular and can be adapted as per requirements.
- Spares ~7-8% of overall revenues.
- HLFL would be listed by Jun FY23. AUM is Rs21,700cr. Turnover of INR 1020cr and PAT of INR 215cr.
- GNPA 6.3% NNPA 4.4%. Hinduja Housing finance is also doing well and growing very fast.

Exhibit 3: Revenue slightly above our estimates driven by better volume.

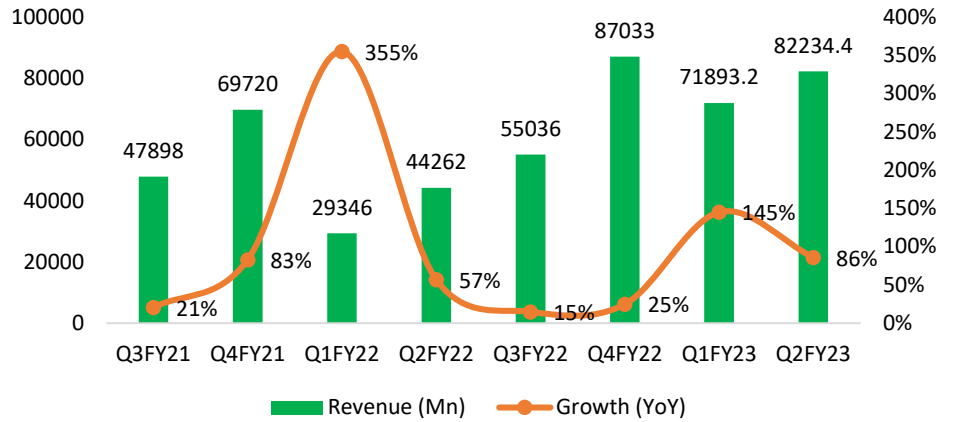


Exhibit 4: The company EBITDA showing expansion in Q2FY23 QoQ due to softening in raw material cost.

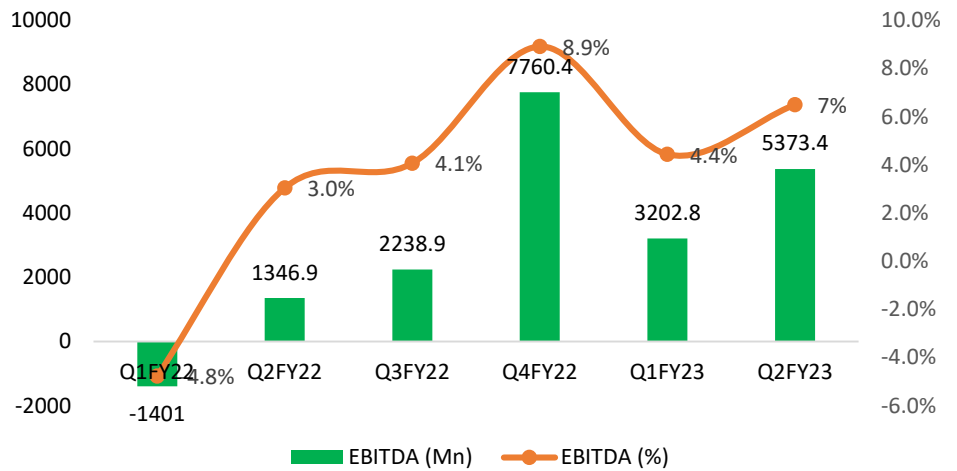
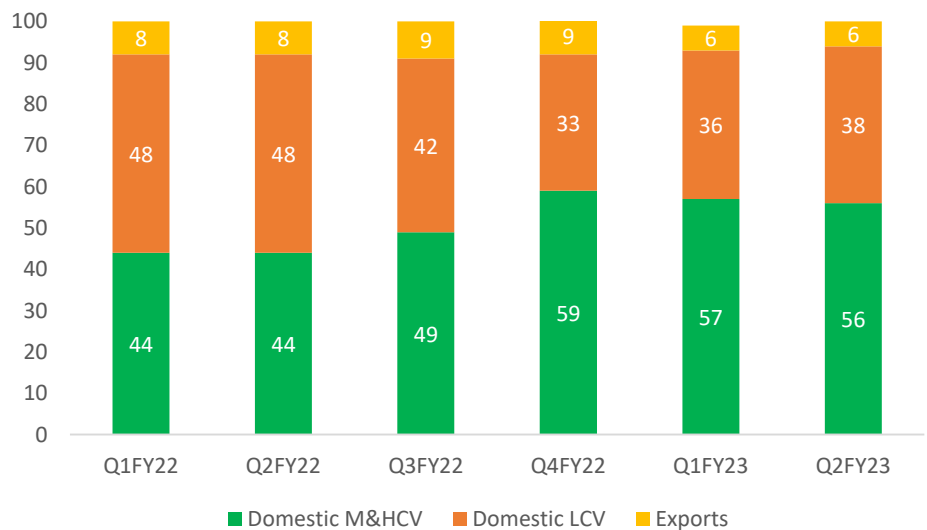


Exhibit 5: Segmental Volume Contribution (%)



Source: Aриhant Research, Company Filings,

P&L (INR mn) Standalone	FY22	FY23E	FY24E	FY25E
		3,01,33		
Net sales	2,16,883	0	3,71,693	4,56,434
		2,24,18		
Raw material cost	1,67,611	9	2,71,336	3,33,197
Employee Cost	16,946	22,877	26,309	30,255
Admin Expenses	22,381	34,653	40,886	50,208
		2,81,71		
Total expenses	2,06,938	9	3,38,531	4,13,659
EBIDTA	9,945	19,610	33,162	42,774
(%)	4.6%	6.5%	8.9%	9.4%
Depreciation	7,528	7,353	7,470	7,925
EBIT	2,418	12,258	25,692	34,849
Interest	3,011	3,724	4,246	4,778
Other income	761	1,142	1,370	1,645
PBT	168	9,675	22,816	31,716
Exchange gain / (loss) on swap contracts				
(-) Tax	-142	1,705	4,333	6,113
Tax/ PBT	(84.7)	17.6	19.0	19.3
PAT	310	7,970	18,483	25,603
YoY (%)	(110.3)	2471.1	131.9	38.5
PAT(%)	0.1%	2.6%	5.0%	5.6%
Extraordinary	5108	-	-	-
Reported Profit	5,418	7,970	18,483	25,603

Cash Flow Standalone	FY21	FY22	FY23E	FY24E	FY25E
Net profit	-3,137	5,418	7,970	18,483	25,603
Depreciation	7,286	7,528	7,353	7,470	7,925
Deferred tax	-983	-243	-230	-230	-230
Change in W/C	-6,585	-3,426	406	5,651	7,218
Operating cash flow	-3,419	9,277	15,499	31,375	40,517
Capex	-5,810	-2,224	-6,000	-6,000	-7,000
Investments	-2,446	-9,401	4,707	-401	-401
Investing cash flow	-8,256	-11,626	-1,293	-6,401	-7,401
FCF	-9,228	7,053	9,499	25,375	33,517
Dividend	2,269	-2,156	-1,825	-2,181	-3,021
Equity	-2,000	334	-0	0	0
Debt	6,410	6,410	6,538	6,669	6,802
Financing cash flow	6,679	4,589	4,714	4,488	3,781
Net change in cash	-4,995	2,240	18,920	29,462	36,897
Opening cash	13,225	8,229	10,470	29,390	58,851
Closing cash	8,229	10,470	29,390	58,851	95,748

Source: Arianth Research, Company Filings

B/Sheet (INR mn)Standalone	FY22	FY23E	FY24E	FY25E
Equity capital	2,936	2,936	2,936	2,936
Reserves	70,434	76,579	92,881	1,15,463
Net worth	73,369	79,515	95,817	1,18,399
Total Loans	43,873	50,412	57,081	63,883
Deferred Tax	1,444	1,444	1,444	1,444
Total Liabilities	1,18,686	1,31,370	1,54,341	1,83,725
Gross block	97,721	1,03,721	1,09,721	1,16,721
Less: Acc. Dep	30,744	38,097	45,567	53,493
Net block	66,976	65,624	64,153	63,228
Work in progress	1,943	1,943	1,943	1,943
Investments	38,594	38,994	39,394	39,794
Inventories	20,752	28,868	34,939	42,905
Debtors	31,111	18,162	22,403	27,511
Cash	10,470	29,390	58,851	95,748
Loans and advances	38,733	41,344	46,176	51,997
Current assets	1,01,066	1,17,764	1,62,370	2,18,161
Current liabilities	75,332	82,040	1,00,056	1,22,867
Provisions	14,560	10,914	13,463	16,533
Net current assets	11,173	24,810	48,851	78,761
Total Assets	1,18,686	1,31,370	1,54,341	1,83,725

Key Ratios	FY22	FY23E	FY24E	FY25E
EPS	1.8	2.7	6.3	8.7
Cash EPS	4.4	5.2	8.8	11.4
Book value	25	27	33	40
P/E (x)	80.0	54.4	23.5	16.9
EV/EBDITA (x)	43.1	21.2	11.8	8.5
P/B (x)	5.9	5.5	4.5	3.7
EV/Sales	2.0	1.4	1.1	0.8
ROCE	7%	9%	14%	18%
ROE	8%	10%	21%	24%
Dividend Yield	0.4%	0.4%	0.4%	0.6%
Gross asset turn	1.9	2.4	2.4	2.7
Days outstanding				
Inventory	47	47	47	47
Debtors	22	22	22	22
Creditors	80	80	80	80

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880