

**CMP: INR 174**

**Rating: Buy**

**Target Price: INR 214**

**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)	513,528
52w H/L (INR)	191.4/133
Avg Yearly Vol (in 000')	10,865

**Shareholding Pattern %**

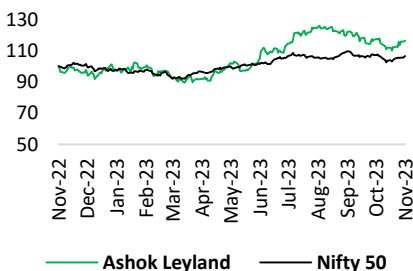
(As on Sep, 2023)

Promoters	51.53
FII	20.21
DII	16.50
Others	11.76

**Stock Performance (%)**

	1m	3m	12m
Ashok Leyland	-0.5	-6.4	16.4
Nifty	-0.6	0.9	6.5

**Ashok Leyland Vs Nifty**



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Ashok Leyland Ltd (AL), the top-line was boosted by increased demand across the segment, and the margins remained in line. Standalone revenue stood at INR 95,916 Mn, against our estimate of INR 99,100 Mn registering a growth of 16.6% YoY/ 17.7% QoQ. The company introduced new products in the Tipper, Tractor, and MAV categories and expanded its distribution network by adding 47 touchpoints, particularly in the Northern and Eastern regions.. EBITDA stood at INR 10,798 Mn, against our estimate of INR 10,900 Mn, Registering a growth of 101%YoY/31.6%QoQ. On the margins front, EBITDA margin expansion by 470bps YoY/118 bpsQoQ to 11.2%, in line with our estimate of 11% led by higher than the expected gross margin (increase by 446 bps YoY/19 bps QoQ to 26.5% in Q2FY24). There is tremendous focus on margin enhancement, network expansion, operational efficiency, cost optimization and deployment of digital as an enabler for growth and productivity. Standalone PAT saw an increase of 205.6%YoY/ +1.2% QoQ to INR 5,839 Mn in line with our estimate of INR 5,736 Mn. Overall, MHCV MS is moving in the right direction, with a significant increase in bus MS, making it the No.1 bus manufacturer in India.

**Investment Rationale**

**Strategic Investment in Switch Mobility**

AL has committed to investing INR 12 bn in Optare, the holding company overseeing Switch UK and Switch India. This financial infusion will occur in one or multiple installments over the coming 3-6 months. Currently, the company boasts a substantial order book, including 1,100 buses and Letters of Intent (LOIs) for over 10,000 electric LCVs. The initial delivery of the electric LCVs is scheduled for the fourth quarter of FY24. Progress on the development of the E1 bus, tailored for the European market, is advancing positively. Concurrently, AL has introduced several new products and expanded its network during the quarter, demonstrating a strategic effort to enhance market share and drive revenue growth.

**Demand Outlook for CV and LCV Segments**

The management of AL sustains its growth projections, anticipating a growth rate of 8-10% for the CV segment and 4-5% for the LCV segment in FY24. The company foresees increased demand for CVs propelled by heightened freight availability and a favorable demand-supply dynamic for fleet operators.

**Outlook and valuation**

We expect growth in the volumes of domestic M&HCV is projected to achieve a CAGR of 6% during the FY23 to FY26. This growth is expected to result from increased economic activity, replacement demand, government initiatives in infrastructure, and a robust demand for buses. The expansion of the EBITDA margin is foreseen, driven by a heightened emphasis on profitability (in line with industry peers), improved scale, and a more favorable mix of tonnage. we foresee a growth of 10% in revenue, 12.6% in EBITDA, and a 13% increase in PAT.

**Value AL at a PE multiple of 18.5x for the parent automaker for its FY26E EPS of INR 11.1 (Include INR ~9 for HLF). We upgrade our rating to Buy from Accumulate and value it with SOTP valuation for a target price of INR 214. (Earlier target price of INR 205 per share)**

**Exhibit 1: Financial Performance**

YE March	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
(INR Mn)							
FY23	361,441	29,307	12,955	4.7	8.1%	17.5%	37.0
FY24E	401,344	45,123	25,728	8.8	11.2%	26.9%	19.9
FY25E	438,233	50,926	29,217	10.0	11.6%	24.4%	17.5
FY26E	483,059	57,217	32,568	11.1	11.8%	22.2%	15.7

Source: Arihant Research, Company Filings

## Exhibit 2: Quarterly performance

Quarterly Results					
Standalone (INRm)	Q2FY24	Q1FY24	Q2FY23	YoY%	QoQ%
<b>Revenue</b>	<b>95,916</b>	<b>81,520</b>	<b>82,234</b>	<b>16.6%</b>	<b>17.7%</b>
Other operating income	464	373	425	9.2%	24.3%
<b>Net Sales</b>	<b>96,380</b>	<b>81,893</b>	<b>82,660</b>	<b>16.6%</b>	<b>17.7%</b>
Cost of material consumed	69,923	58,764	58,320	19.9%	19.0%
Purchases of stock-in-trade	3,552	3,582	2,739	29.7%	-0.9%
Changes in inventories	(2,609)	(1,975)	3,407	-176.6%	32.1%
Raw Material	70,866	60,372	64,466	9.9%	17.4%
Staff Cost	5,728	5,376	5,271	8.7%	6.6%
Other expenditure	8,989	7,938	7,550	19.1%	13.2%
Total Expenditure	85,583	73,685	77,286	10.7%	16.1%
<b>EBITDA</b>	<b>10,798</b>	<b>8,208</b>	<b>5,373</b>	<b>101.0%</b>	<b>31.6%</b>
Depreciation	1,803	1,794	1,768	2.0%	0.5%
EBIT	8,995	6,414	3,605	149.5%	40.2%
Interest	587	699	771	-23.8%	-16.0%
Other Income	475	512	200	137.4%	-7.3%
PBT	8,883	6,227	3,035	192.7%	42.6%
Current Tax	3,022	2,132	1,168	158.8%	41.7%
Deferred tax	22	(1,675)	(44)	-150.6%	-101.3%
Tax	3,044	457	1,124	170.8%	566.1%
<b>Adjusted PAT</b>	<b>5,839</b>	<b>5,770</b>	<b>1,911</b>	<b>205.6%</b>	<b>1.2%</b>
Extraordinary	(228.8)	(5.9)	82.3	-378.0%	3778.0%
Reported PAT	5,610.1	5,764.2	1,993.1	181.5%	-2.7%
EPS	1.90	1.96	0.68	179.4%	-3.1%
Total Volumes (Nos)	49,846	41,329	45,295	10.0%	20.6%
<b>Net Realisation (INR)</b>	<b>1,933,563</b>	<b>1,981,488</b>	<b>1,824,914</b>	<b>6.0%</b>	<b>-2.4%</b>
<b>EBITDA / Vehicle (INR)</b>	<b>216,625</b>	<b>198,589</b>	<b>118,631</b>	<b>82.6%</b>	<b>9.1%</b>
<b>Margins</b>					
	Q2FY24	Q1FY24	Q2FY23	YoY (Bps)	QoQ (Bps)
Gross margins	26.5%	26.3%	22.0%	446Bps	19Bps
EBITDA	11.2%	10.0%	6.5%	470Bps	118Bps
Adjusted PAT	6%	7%	2%	375Bps	-99Bps
Effective Tax Rate	34.3%	7.3%	37.0%	-277Bps	2693Bps
<b>Cost Analysis</b>					
RM/Net Sales	73.53%	73.72%	77.99%	-446Bps	-19Bps
Other Exp/Net Sales	9.33%	9.69%	9.13%	19Bps	-37Bps
Staff cost/Net sales	5.94%	6.56%	6.38%	-43Bps	-62Bps
<b>Volume (In Units)</b>					
	Q2FY24	Q1FY24	Q2FY23	YoY%	QoQ%
MHCV	29947	24286	25475	17.6%	23.3%
LCV	16,998	14,821	17,040	-0.2%	14.7%
<b>Total Sales</b>	<b>46,945</b>	<b>39,107</b>	<b>42,515</b>	<b>10.4%</b>	<b>20.0%</b>
EXPORT	63,943	53,928	59,555	7.4%	18.6%
M&HCV	2,139	1,879	2,366	-9.6%	13.8%
LCV	762	343	414	84.1%	122.2%
<b>Total Exports</b>	<b>2,901</b>	<b>2,222</b>	<b>2,780</b>	<b>4.4%</b>	<b>30.6%</b>
Total Volume	<b>49,846</b>	<b>41,329</b>	<b>45,295</b>	<b>10.0%</b>	<b>20.6%</b>

Source: Arihant Research, Company Filings

**Ashok Leyland - Earnings Conference Call**

The company's forecast of achieving a revenue growth between 8-10% for FY24. Additionally, the company is placing emphasis on introducing new products and expanding its network. In a strategic move, AL plans to inject INR 12 bn into Switch Mobility, aiming to propel its EV program and fulfill existing orders and Letters of Intent.

**MHCV Segment**

- The MHCV segment experienced a 10% growth in 1HFY24, attributed to a positive macroeconomic environment and robust replacement demand.
- Key drivers for future demand include sustained growth in end-user industries such as Cement, Steel, Coal, Iron Ore, and container movements. General manufacturing activity and consumption trends are also contributing factors.
- Significant demand for buses across various categories, including tourist, intercity, private carriage, state transport, school, and office staff, is positively impacting the CV industry.
- The growth outlook remains strong, with Mining, infrastructure development (especially roads), and improving industrial output expected to drive demand. Replacement of existing bus fleets, public transport initiatives, and increased demand for school and office staff transportation are also identified as growth factors.
- The estimated CV industry growth for FY24 is maintained at 8-10%.

**LCV Segment:**

- The addressable LCV industry witnessed a 3% YoY growth in 1HFY24, slightly below the initial estimate of 4-5%. However, optimism exists for improvement in the future.
- Medium and long-term prospects for the LCV market are considered strong, with anticipated demand growth in Agriculture, Consumer Deliverables, Grains, E-commerce, and private consumption.

**Margin Expansion**

- Steel prices increased initially in FY24 but have softened since. The company is actively taking measures to reduce costs, resulting in an EBITDA margin of 11.2% for the quarter.

**Market Share**

- The company maintains a market share above 30% in the MHCV segment for the seventh consecutive quarter (31.9%). Bus market share improved by 950bps YoY to 37.8%.

**Discounting Trend**

- In Q2FY24, discounts were provided due to aggressive price hikes in 1QFY24 following new regulations. The management plans to increase prices by ~1-1.5% per quarter in the future.

**Capex Intensity**

- Capex for 2QFY24 amounted to INR 1,040mn. FY24 capex expected at INR 6bn.

**Exports:**

- Export volume stood at 2,901 vehicles (+4.3% YoY) in 2QFY24.

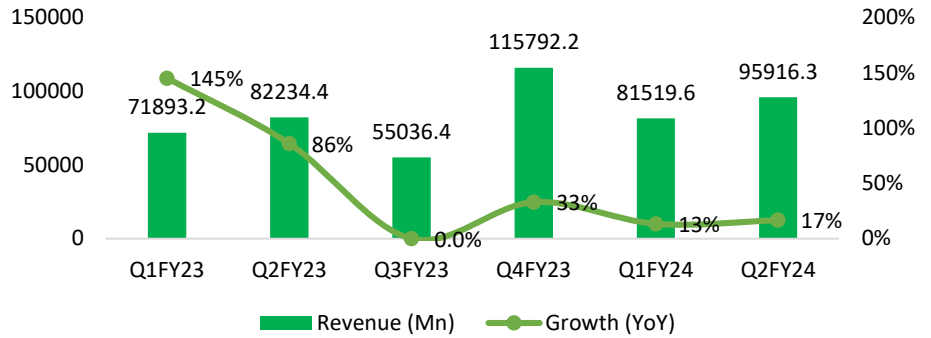
**Switch Mobility (EV Business)**

- The company is actively pursuing external investments for its EV business. An equity investment of INR 12bn in Optare, the holding company for Switch UK and Switch India, is approved and will be infused in tranches over the next 3-6 months.
- Switch has an order book of over 1,100 buses and LOIs for over 10,000 Electric LCVs.

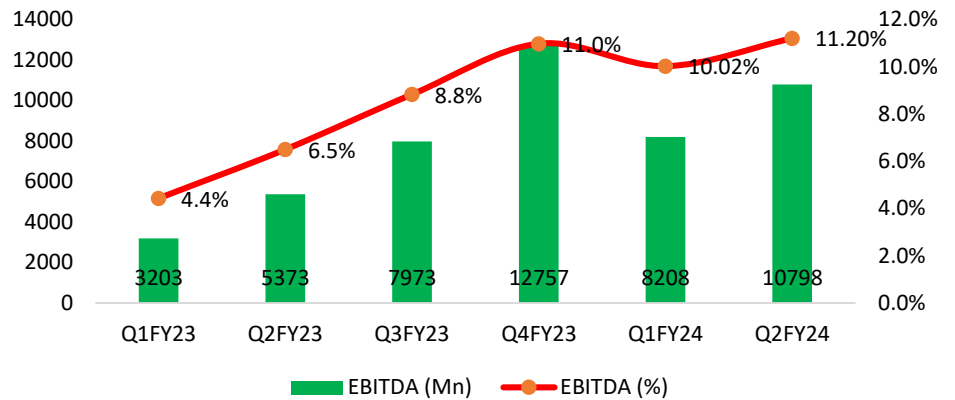
**Network Expansion**

- Progress is reported in network expansion plans, with added service centers and dealers for MSPVs and LCVs in 1HFY24. The aim is to increase these numbers further.

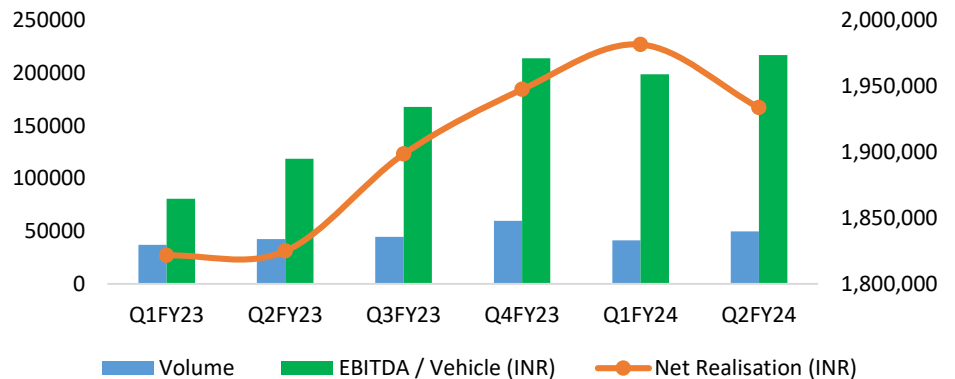
**Exhibit 3: Ashok Leyland Ltd (AL) Performance was driven by higher part sales and financial services business.**



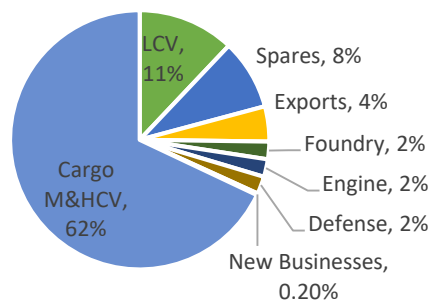
**Exhibit 4: The company EBITDA showing expansion in Q2FY24 QoQ due to softening in raw material cost.**



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



**Exhibit 6: Revenue Mix**



Source: Arihant Research, Company Filings,

<b>P&amp;L (INR mn) Standalone</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>
Net sales	361,441	401,344	438,233	483,059
YoY (%)	66.7	11.0	9.2	10.2
Raw material cost	278,492	290,975	314,213	345,387
Employee Cost	21,139	24,309	27,956	32,149
Admin Expenses	32,504	40,937	45,138	48,306
Total expenses	332,134	356,221	387,307	425,842
EBIDTA	29,307	45,123	50,926	57,217
(%)	8.1%	11.2%	11.6%	11.8%
Depreciation	7,320	7,331	7,786	8,904
EBIT	21,987	37,793	43,141	48,313
Interest	2,891	3,481	3,910	4,348
Other income	1,161	1,278	1,303	1,329
PBT	20,258	35,589	40,534	45,294
Exchange gain / (loss) on swap contracts				
(-) Tax	7,303	9,824	11,217	12,593
Tax/ PBT	36.0	27.6	27.7	27.8
<b>PAT</b>	<b>12,955</b>	<b>25,765</b>	<b>29,316</b>	<b>32,701</b>
YoY (%)	4079.0	98.9	13.8	11.5
PAT(%)	3.6%	6.4%	6.7%	6.8%
Extraordinary	846.10	-	-	-
<b>Reported Profit</b>	<b>13,801</b>	<b>25,765</b>	<b>29,316</b>	<b>32,701</b>

<b>Cash Flow Standalone</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>
Net profit	13,801	25,765	29,316	32,701
Depreciation	7,320	7,331	7,786	8,904
Deferred tax	(497)	(497)	(497)	(497)
Change in W/C	(26,855)	(28,807)	(23,151)	(1,314)
Operating cash flow	(6,231)	3,792	13,454	39,794
Capex	(3,384)	(6,000)	(7,000)	(8,000)
Investments	660	445	(401)	(401)
Investing cash flow	(2,723)	(5,555)	(7,401)	(8,401)
<b>FCF</b>	<b>(9,615)</b>	<b>(2,208)</b>	<b>6,454</b>	<b>31,794</b>
Dividend	(5,984)	(3,106)	(3,534)	(3,942)
Equity	3,072	-	-	-
Debt	6,410	6,538	6,669	6,802
Financing cash flow	3,498	3,432	3,135	2,860
Net change in cash	(5,457)	1,669	9,188	34,254
Opening cash	10,470	5,013	6,682	15,870
Closing cash	5,013	6,682	15,870	50,123

<b>B/Sheet (INR mn) Standalone</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>
Equity capital	2,936	2,936	2,936	2,936
Reserves	81,322	103,981	129,763	158,522
Net worth	84,258	106,917	132,699	161,458
Total Loans	50,283	56,822	63,491	70,293
Deferred Tax	5,035	-	-	-
<b>Total Liabilities</b>	<b>139,576</b>	<b>163,739</b>	<b>196,190</b>	<b>231,751</b>
Gross block	101,722	107,722	114,722	122,722
Less: Acc. Dep	38,064	45,395	53,180	62,084
Net block	63,658	62,327	61,542	60,638
Work in progress	1,325	1,325	1,325	1,325
Investments	42,195	42,595	42,995	43,395
Inventories	36,154	37,468	40,460	45,421
Debtors	40,621	39,585	38,420	39,703
Cash	5,013	6,682	15,870	50,123
Loans and advances	52,198	100,264	106,535	114,155
Current assets	133,986	183,998	201,285	249,403
Current liabilities	78,110	111,970	95,083	105,512
Provisions	23,477	14,537	15,873	17,497
Net current assets	32,399	57,492	90,328	126,394
<b>Total Assets</b>	<b>139,576</b>	<b>163,739</b>	<b>196,190</b>	<b>231,751</b>

<b>Key Ratios</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>
EPS	4.7	8.8	10.0	11.1
Cash EPS	7.2	11.3	12.6	14.2
Book value	29	36	45	55
P/E (x)	37.0	19.8	17.4	15.6
EV/EBDITA (x)	17.5	11.5	10.1	8.5
P/B (x)	6.1	4.8	3.8	3.2
EV/Sales	1.4	1.3	1.2	1.0
ROCE	13%	17%	18%	17%
ROE	18%	27%	24%	22%
Dividend Yield	1.0%	0.5%	0.6%	0.6%
Gross asset turn	2.8	2.4	2.4	2.1
<b>Days outstanding</b>				
Inventory	47	47	47	48
Debtors	36	36	32	30
Creditors	92	92	92	93

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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