

Replacement demand to pick-up; Subdued in the short run

**CMP: INR 180**

**Rating: Accumulate**

**Target Price: INR 208**

**Stock Info**

BSE	500477
NSE	ASHOKLEY
Bloomberg	AL:IN
Reuters	ASOK.NS
Sector	Auto-LCVS & HCVS
Face Value (INR)	1
Equity Capital (INR mn)	2,936
Mkt Cap (INR Mn)	5,36,724
52w H/L (INR)	191.4/133.1
Avg Yearly Vol (in 000')	12,461

**Shareholding Pattern %**

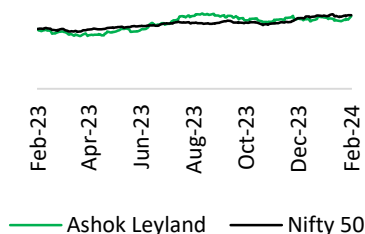
(As on Dec, 2023)

Promoters	51.53
Public	20.48
Shares Underlying DRs	14.73
Non Promoter- Non Public	13.26

**Stock Performance (%)**

	1m	3m	12m
Ashok Leyland	3.2	8.8	20.3
Nifty	1.2	12.	22.5

**Ashok Leyland Vs Nifty**



Abhishek Jain  
abhishek.jain@arihantcapital.com  
022 67114851

Jyoti Singh  
jyoti.singh@arihantcapital.com  
022 67114834

Ashok Leyland Ltd (AL) has reported a stellar set of numbers. Standalone revenue from operations grew by 14.9%YoY/ 24.3% QoQ stood at INR 55,036 Mn in Q3FY22 against our estimate of INR 55,840 Mn. Standalone revenue stood at INR 92,311 Mn, above our estimate of INR 91,340 Mn registering a growth of 2.7% YoY/ down by 3.8% QoQ. The company commenced delivery of its first Electric 55T Tractor - Trailer, and its first 14T Boss Electric Truck. In Q3FY24, the company received orders for >3800 buses from State Transport Undertakings. EBITDA stood at INR 11,139 Mn, above our estimate of INR 10,018 Mn, Registering a growth of 39.7%YoY/ 3.2%QoQ. On the margins front, EBITDA margin expansion by 318bps YoY/81 bps QoQ to 12%, above with our estimate of 11% led by higher than the expected gross margin (increase by 403 bps YoY/130 bps QoQ to 27.8% in Q3FY24). 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 60.7%YoY/ -0.6% QoQ to INR 5,806 Mn above with our estimate of INR 5,260 Mn. The synergy of robust volumes, enhanced price realization, and heightened cost savings is fueling improved profitability, while other segments such as After-market, Power Solutions, and Defence continue to be strong contributors to our top line and margins.

**Accelerating Electric Vehicle Innovation; Milestones in CV:** The company is set to roll out its first batch of electric LCVs in the coming months and recently delivered its inaugural commercially sold electric truck at the Bharat Mobility Global Expo Delhi, a 14-ton GVW model named Boss powered by a 200-kw battery pack. Nearing market trials for a fully electric 55-ton Aptar tractor trailer for long-haul transport.

**Outlook and valuation**

There are a lot of actions that are kind of happening on scragpage. Tiller segment activity is to benefit from construction and mining activity. Expect LCV to grow further owing to demand from last-mile transportation (e-commerce), Agriculture and allied sectors. Continue to grow exports, defence, PSB, LCV and part along with its core M&HCV business. we foresee a growth of 13% in revenue, 14% in EBITDA, and a 14.8% increase in PAT. The company anticipates a slight Q4 volume decrease from a high base, coupled with a soft Q1FY25 due to general elections, with demand poised to rebound post 2QFY25. **Value AL at a PE multiple of 18x for the parent automaker for its FY26E EPS of INR 11 (Include INR ~9 for HLF). We revised our rating to Accumulate and value it with SOTP valuation for a target price of INR 208. (Earlier target price of INR 214 per share)**

YE March (INR Mn)	Net Sales	EBITDA	PATEPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)	
FY23	361,441	29,307	12,955	4.7	8.1%	17.5%	38.3
FY24E	385,603	43,557	24,703	8.4	11.3%	26.0%	21.4
FY25E	437,691	48,202	27,504	9.4	11.0%	23.3%	19.2
FY26E	494,004	56,771	32,571	11.1	11.5%	22.5%	16.2

<b>Exhibit 2: Quarterly Results</b>					
<b>Standalone (INRm)</b>	<b>Q3FY24</b>	<b>Q2FY24</b>	<b>Q3FY23</b>	<b>YoY%</b>	<b>QoQ%</b>
Revenue	92,311	95,916	89,850	2.7%	-3.8%
Other operating income	420	464	447	-6.2%	-9.6%
Net Sales	92,730	96,380	90,297	2.7%	-3.8%
Cost of material consumed	65,554	69,923	72,033	-9.0%	-6.2%
Purchases of stock-in-trade	3,685	3,552	2,925	26.0%	3.8%
Changes in inventories	(2,261)	(2,609)	(6,100)	-62.9%	-13.3%
Raw Material	66,977	70,866	68,859	-2.7%	-5.5%
Staff Cost	5,695	5,728	5,495	3.6%	-0.6%
Other expenditure	8,919	8,989	7,970	11.9%	-0.8%
Total Expenditure	81,591	85,583	82,323	-0.9%	-4.7%
EBITDA	11,139	10,798	7,973	39.7%	3.2%
Depreciation	1,785	1,803	1,890	-5.5%	-1.0%
EBIT	9,355	8,995	6,084	53.8%	4.0%
Interest	616	587	804	-23.3%	5.0%
Other Income	300	475	316	-4.9%	-36.7%
PBT	9,039	8,883	5,665	59.5%	1.8%
Current Tax	2,847	3,022	2,213	28.6%	-5.8%
Deferred tax	385	22	(162)	-	-
Tax	3,232	3,044	2,052	57.5%	6.2%
Adjusted PAT	5,806	5,839	3,613	60.7%	-0.6%
Extraordinary	(5.9)	(228.8)	-	-	-97.4%
Reported PAT	5,800.3	5,610.1	3,613.4	60.5%	3.4%
EPS	1.99	1.91	1.23	61.8%	4.2%
Total Volumes (Nos)	47,241	49,846	47,562.00	-0.7%	-5.2%
Net Realisation (INR)	1,962,916	1,933,563	1,898,505	3.4%	1.5%
EBITDA / Vehicle (INR)	235,797	216,625	167,642	40.7%	8.9%
<b>Margins</b>	<b>Q3FY24</b>	<b>Q2FY24</b>	<b>Q3FY23</b>	<b>YoY (Bps)</b>	<b>QoQ (Bps)</b>
Gross margins	27.8%	26.5%	23.7%	403Bps	130Bps
EBITDA	12.0%	11.2%	8.8%	318Bps	81Bps
Adjusted PAT	6.3%	6.1%	4%	226Bps	20Bps
Effective Tax Rate	35.8%	34.3%	36.2%	-46Bps	150Bps
<b>Cost Analysis</b>					
RM/Net Sales	72.23%	73.53%	76.26%	-403Bps	-130Bps
Other Exp/Net Sales	9.62%	9.33%	8.83%	79Bps	29Bps
Staff cost/Net sales	6.14%	5.94%	6.09%	6Bps	20Bps
<b>Volume (In Units)</b>	<b>Q3FY24</b>	<b>Q2FY24</b>	<b>Q3FY23</b>	<b>YoY%</b>	<b>QoQ%</b>
MHCV	27250	29947	28273	-3.6%	-9.0%
LCV	16,863	16,998	16,353	3.1%	-0.8%
Total Sales	44,113	46,945	44,626	-1.1%	-6.0%
EXPORT	60,976	63,943	60,979	0.0%	-4.6%
M&HCV	2,235	2,139	2,517	-11.2%	4.5%
LCV	893	762	419	113.1%	17.2%
Total Exports	3,128	2,901	2,936	6.5%	7.8%
Total Volume	47,241	49,846	47,562	-0.7%	-5.2%

Source: Arihant Research, Company Filings

## Ashok Leyland Q3FY24 Earnings Conference Call

### **Margin**

Guidance for double-digit EBITDA at the start of the year, is progressing towards achieving its medium-term goal of mid-teen EBITDA margins.

### **Switch-emobility**

Ashok Leyland has invested of INR 12000 Mn in Optair, which is a holding company for Switch UK and Switch India. During Q3 AL has invested INR 6620 Mn in the equity capital of Optair PLC. Company shall be inducting the balance equity in more than one tranche over the next few months.

### **Capex**

9MFY24 is at INR 2900 Mn

### **Employee cost**

Employee cost adjustments remain marginal and are expected to stay that way, as operating leverage has contributed to a decline in the employee cost percentage from elevated levels. The ongoing growth in the industry and Leyland indicates a trend of sustained or decreased employee cost percentages in the foreseeable future.

### **Election Impact**

H1 growth at 10%, Q3 growth at 7%, impacted by elections in large states. Q4 may see subdued pattern due to high base effect and impact of union elections.

### **Budget**

Higher allocations in recent interim budget for core sectors to drive economic activity

### **Demand**

Positive outlook for bus demand, approaching previous high in FY12. Replacement of existing bus fleets, public transport demand, and increasing school and staff transportation to drive bus demand. Consumer demand expected to slow down in the next 2-3 months due to code of conduct or election effects

### **MS**

The company's focus on profitable growth without sacrificing margins for MS.

### **Price**

Price discipline, intense focus on better realization, and differentiation of products and services. Increase in cost or price absorbed, demand not currently affected by prices.

### **Increase of distribution channel**

The company plans to expand service centers and dealers for MSCB and LCV, cutting costs through alternative suppliers and consolidating buyers; government policies for supply chain cost reduction may boost industry investments.

The company strategically enhances products, adopts a dynamic pricing approach, and maintains operational efficiency, avoiding a significant price cycle disruption while prioritizing margins over market share.

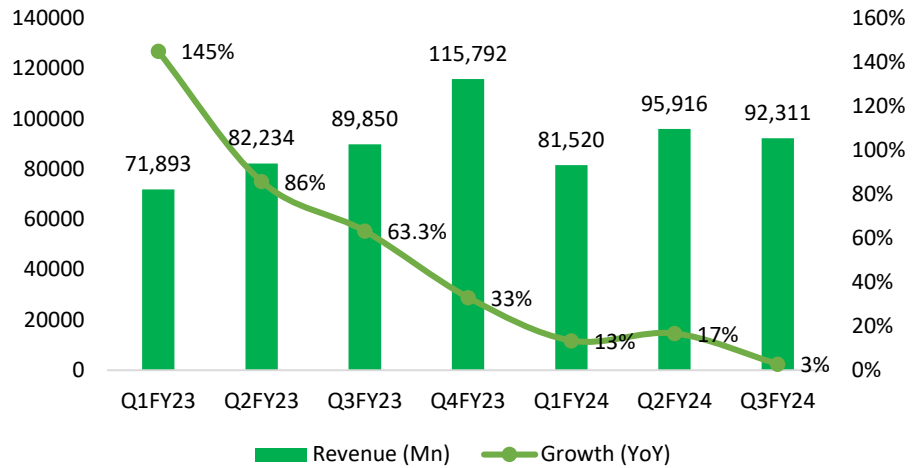
### **New launch**

AL introduced new models, including the e-comat 1915 CNG, and is approaching market trials for its fully electric 55-ton Aptar tractor trailer; with ongoing investments in electric buses and a commitment to differentiation, the company emphasizes a long-term strategy over short-term tactics, planning additional investments, launching a light commercial vehicle, forming an e-mobility service company, and exploring electric and hydrogen-powered vehicles while prioritizing technology maturity, product efficiency, and reduced total cost of ownership.

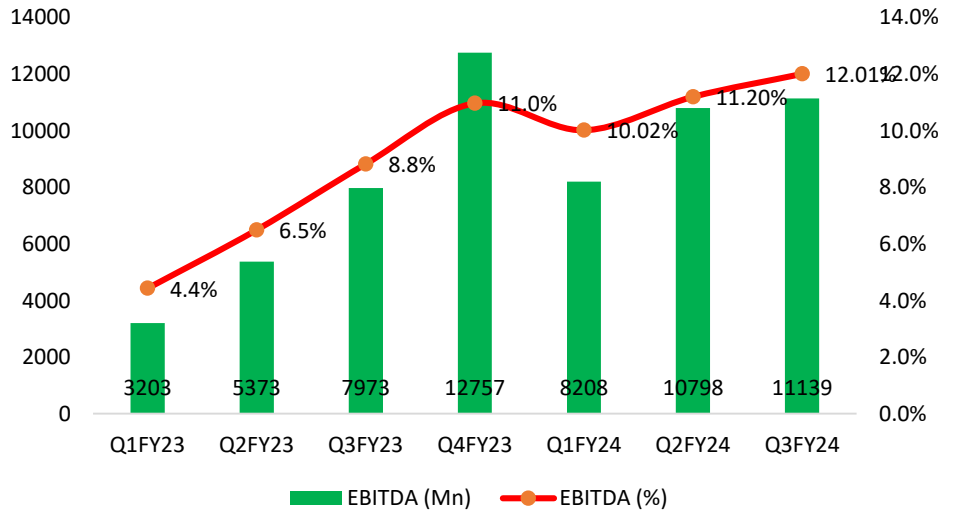
### **Industry Overview**

- Overall positive economic activity
- CV industry closely tied to overall economic activity and GDP growth
- Domestic MHCV industry grew by 9% in the first three quarters of the current financial year
- MHCV industry still below its FY18 peak, indicating room for further growth
- Favorable industry factors in the medium and long term
- Strong macroeconomic environment, healthy replacement demand, traction on infrastructure projects, and improving freight demand.
- Industry shifting towards better product mix, higher tonnage, and more tractor trailers.
- Expectation of good demand situation going forward due to robust economic growth and increased infrastructure spending.

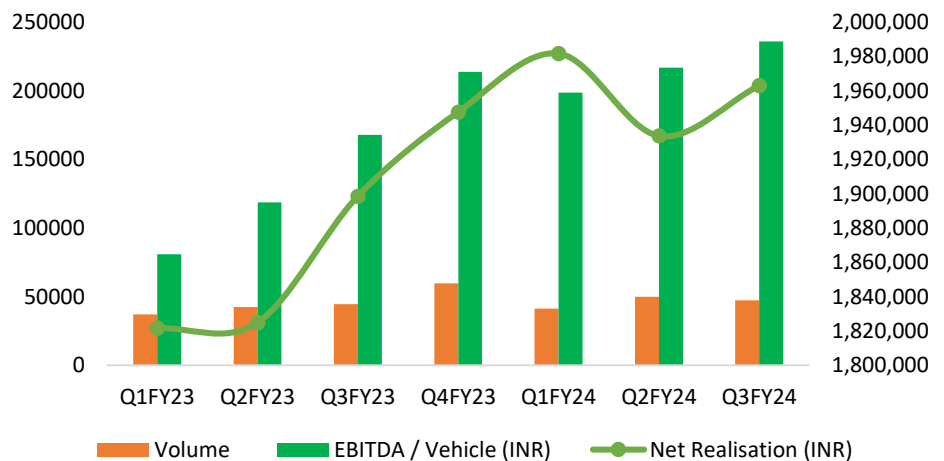
**Exhibit 3: Decent top line performance in Q3FY24 due to high base in Q2FY24**



**Exhibit 4: Margin expansion continued**



**Exhibit 5: The company commenced delivery of its first Electric 55T Tractor - Trailer, and its first 14T Boss Electric Truck. In Q3FY24, the company received orders for >3800 buses from State Transport Undertakings.**



P&L (INR mn) Standalone	FY23	FY24E	FY25E	FY26E
Net sales	361,441	385,603	437,691	494,004
YoY (%)	66.7	6.7	13.5	12.9
Raw material cost	278,492	278,406	316,450	355,683
Employee Cost	21,139	24,309	27,956	32,149
Admin Expenses	32,504	39,332	45,082	49,400
Total expenses	332,134	342,046	389,488	437,232
EBIDTA	29,307	43,557	48,202	56,771
(%)	8.1%	11.3%	11.0%	11.5%
Depreciation	7,320	7,261	7,611	8,642
EBIT	21,987	36,296	40,592	48,130
Interest	2,891	3,481	3,910	4,348
Other income	1,161	1,278	1,303	1,329
PBT	20,258	34,093	37,985	45,111
Exchange gain / (loss) on swap contracts				
(-) Tax	7,303	9,390	10,481	12,540
Tax/ PBT	36.0	27.5	27.6	27.8
<b>PAT</b>	<b>12,955</b>	<b>24,703</b>	<b>27,504</b>	<b>32,571</b>
YoY (%)	4079.0	90.7	11.3	18.4
PAT(%)	3.6%	6.4%	6.3%	6.6%
Extraordinary	846.10	-	-	-
<b>Reported Profit</b>	<b>13,801</b>	<b>24,703</b>	<b>27,504</b>	<b>32,571</b>

Cash Flow Standalone	FY23	FY24E	FY25E	FY26E
Net profit	13,801	24,703	27,504	32,571
Depreciation	7,320	7,261	7,611	8,642
Deferred tax	(497)	(497)	(497)	(497)
	(26,855)		(23,369)	
Change in W/C		(28,213)		(2,388)
Operating cash flow	(6,231)	3,253	11,249	38,328
Capex	(3,384)	(4,000)	(6,000)	(7,000)
Investments	660	445	(401)	(401)
Investing cash flow	(2,723)	(3,555)	(6,401)	(7,401)
<b>FCF</b>	<b>(9,615)</b>	<b>(747)</b>	<b>5,249</b>	<b>31,328</b>
Dividend	(5,984)	(2,978)	(3,316)	(3,927)
Equity	3,072	-	-	-
Debt	6,410	6,538	6,669	6,802
Financing cash flow	3,498	3,560	3,353	2,876
Net change in cash	(5,457)	3,259	8,201	33,803
Opening cash	10,470	5,013	8,271	16,473
Closing cash	5,013	8,271	16,473	50,276

B/Sheet (INR mn) Standalone	FY23	FY24E	FY25E	FY26E
Equity capital	2,936	2,936	2,936	2,936
Reserves	81,322	103,047	127,235	155,880
Net worth	84,258	105,983	130,171	158,816
Total Loans	50,283	56,822	63,491	70,293
Deferred Tax	5,035	-	-	-
<b>Total Liabilities</b>	<b>139,576</b>	<b>162,805</b>	<b>193,662</b>	<b>229,109</b>
Gross block	101,722	105,722	111,722	118,722
Less: Acc. Dep	38,064	45,325	52,935	61,577
Net block	63,658	60,397	58,787	57,145
Work in progress	1,325	1,325	1,325	1,325
Investments	42,195	42,595	42,995	43,395
Inventories	36,154	35,849	40,748	46,775
Debtors	40,621	38,032	38,373	40,603
Cash	5,013	8,271	16,473	50,276
Loans and advances	52,198	97,588	106,443	116,016
Current assets	133,986	179,741	202,037	253,669
Current liabilities	78,110	107,287	95,628	108,532
Provisions	23,477	13,967	15,854	17,893
Net current assets	32,399	58,487	90,555	127,244
<b>Total Assets</b>	<b>139,576</b>	<b>162,805</b>	<b>193,662</b>	<b>229,109</b>

Key Ratios	FY23	FY24E	FY25E	FY26E
EPS	4.7	8.4	9.4	11.1
Cash EPS	7.2	10.9	12.0	14.0
Book value	29	36	44	54
P/E (x)	38.3	21.4	19.2	16.2
EV/EBDITA (x)	18.1	12.3	11.0	8.9
P/B (x)	6.3	5.0	4.1	3.3
EV/Sales	1.5	1.4	1.2	1.0
ROCE	13%	17%	18%	17%
ROE	18%	26%	23%	23%
Dividend Yield	0.9%	0.5%	0.5%	0.6%
Gross asset turn	2.8	2.3	2.5	2.2

**Days outstanding**

Inventory	47	47	47	48
Debtors	36	36	32	30
Creditors	92	92	92	93

Source: Arianth Research, Company Filings

**Arihant Research Desk**Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> 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	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:research@arihantcapital.com">research@arihantcapital.com</a>

**Disclaimer:** This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

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