

CMP: INR 146

Rating: Accumulate

Target Price: INR 170

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)	440,153
52w H/L (INR)	169 /128
Avg Yearly Vol (in 000')	13,865

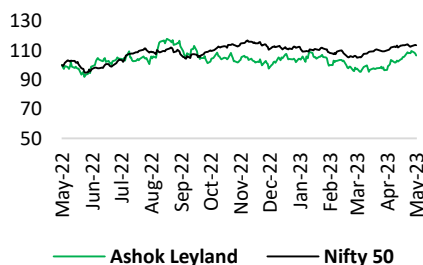
Shareholding Pattern %

(As on March, 2023)

Promoters	51.53
FII	19.04
DII	22.06
Others	11.56

Stock Performance (%)	1m	3m	12m
Ashok Leyland	-0.14	1.2	3.8
Nifty	3.05	4.6	13.4

Ashok Leyland Vs Nifty



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Ashok Leyland Ltd (AL) revenue is in-line with our estimates driven by better volume: Standalone revenue stood at INR 115,792 Mn, against our estimate of INR 117,429 Mn registering a growth of 33% YoY/ +29% QoQ. The CV industry is buoyant due to favourable macroeconomic factors and healthy demand from the end-user industries. This trend is expected to continue alongside growth in core sectors such as construction & mining, agriculture, the increased capital outlay for infrastructure projects, and pent-up replacement demand.

Margin expansion led by higher gross margin and softening of commodity: EBITDA stood at INR 12,757 Mn, against our estimate of INR 13,000 Mn, Registering a growth of 64.4%YoY/ 60%QoQ. On the margins front, EBITDA margin expansion by 210bps YoY/ 214bpsQoQ to 11%, against our estimate of 11.1% led by higher than the expected gross margin (increase by 265 bps YoY/66 bps QoQ to 24.4% in Q4FY23). The softening of commodity prices has also been positive.

Strong PAT driven by benefiting from higher demand for its vehicles including trucks and buses: Standalone PAT saw an increase of 108%QoQ/+74.3 to INR 7,514 Mn against our estimate of INR 7,825 Mn led by benefiting from higher demand for its vehicles including trucks and buses as well as easing prices of raw materials.

Ashok Leyland (AL) is prioritizing the recovery of its MS in the M&HCV: The M&HCV segment globally generally does not adopt a modular strategy, unlike the PV segment. This is primarily due to the large number of different product variations (SKUs) and the significant changes required in traditional business practices. However, implementing a modular strategy could be a crucial factor in Ashok Leyland (AL) gaining market share. It would enhance AL's response time and better cater to customer needs. Additionally, by expanding into the LCV segment and offering a diverse range of products from LCV to M&HCV, AL would not only increase its market size in India (by 2x in the LCV segment) but also globally.

Outlook and valuation

AL's market share has been increasing due to the success of its AVTR range in MHCVs and Dost/Bada Dost in the LCV range. Additionally, the company has been expanding its presence in the North and East regions. This positive momentum is expected to continue as AL addresses product gaps and benefits from further network expansion. The company is experiencing higher growth in the buses segment and is well-positioned in the rapidly growing commercial truck market, which should give it an advantage over its competitors. **We Value AL at a PE multiple of 18x for the parent automaker for its FY25E EPS of INR 9.1 and with the 7% stake in Hinduja Leyland Finance INR 7 per share intrinsic value. We maintain our rating to Accumulate and value it with SOTP valuation for a target price of INR 170. (Earlier target price of INR 172 per share)**

Exhibit 1: Financial Highlights

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY22	216,883	9,945	310	1.8	4.6%	7.6%	78.8
FY23	361,441	29,307	12,955	4.7	8.1%	17.5%	31.0
FY24E	408,605	41,067	22,936	7.8	10.1%	24.3%	18.6
FY25E	445,856	46,948	26,588	9.1	10.5%	22.9%	16.1

Source: Arihant Research, Company Filings

Exhibit 2: Quarterly performance Q4FY23

Quarterly Results					
Standalone (INRm)	Q4FY23	Q3FY23	Q4FY22	YoY%	QoQ%
Revenue	115,792	89,850	87,033	33.0%	28.9%
Other operating income	465	447	410	13.4%	3.9%
Net Sales	116,257	90,297	87,443	33.0%	28.7%
Cost of material consumed	80,802	72,033	64,299	25.7%	12.2%
Purchases of stock-in-trade	3,354	2,925	2,676	25.3%	14.6%
Changes in inventories	3,731	(6,100)	1,447		
Raw Material	87,887	68,859	68,422	28.4%	27.6%
Staff Cost	5,919	5,495	4,376	35.3%	7.7%
Other expenditure	9,693	7,970	6,885	40.8%	21.6%
Total Expenditure	103,499	82,323	79,683	29.9%	25.7%
EBITDA	12,757	7,973	7,760	64.4%	60.0%
Depreciation	1,838	1,890	1,954	-5.9%	-2.7%
EBIT	10,919	6,084	5,807	88.0%	79.5%
Interest	628	804	765	-17.9%	-21.9%
Other Income	389	316	242	61.1%	23.2%
PBT	11,245	5,665	5,284	112.8%	98.5%
Current Tax	4,004	2,213	101		
Deferred tax	(273)	(162)	872		
Tax	3,731	2,052	973	283.5%	81.8%
Adjusted PAT	7,514	3,613	4,311	74.3%	108.0%
Extraordinary	-	-	4,702.6		
Reported PAT	7,514.1	3,613.4	9,013.7	-16.6%	108.0%
EPS	2.56	1.23	3.07	-16.6%	108.1%
Total Volumes (Nos)	59,697.00	47,562.00	48,719.00	22.5%	25.5%
Net Realisation (INR)	1,947,446	1,898,505	1,794,842	8.5%	2.6%
EBITDA / Vehicle (INR)	213,703	167,642	159,289	34.2%	27.5%
Margins					
	Q4FY23	Q3FY23	Q4FY22	Change in bps	Change in bps
Gross margins	24.4%	23.7%	21.8%	265Bps	66Bps
EBITDA	11.0%	8.8%	8.9%	210Bps	214Bps
Adjusted PAT	6%	4%	5%	153Bps	246Bps
Effective Tax Rate	33.2%	36.2%	18.4%	1477Bps	-304Bps
Cost Analysis					
RM/Net Sales	75.60%	76.26%	78.25%	-265Bps	-66Bps
Other Exp/Net Sales	8.34%	8.83%	7.87%	46Bps	-49Bps
Staff cost/Net sales	5.09%	6.09%	5.00%	9Bps	-99Bps
Volume (In Units)					
	Q4FY23	Q3FY23	Q4FY22	YoY%	QoQ%
MHCV	33830	28273	28575	18.4%	19.7%
LCV	3,981	16,353	15,971	-75.1%	-75.1%
Total Sales	37,811	44,626	44,546	-15.1%	-15.3%
EXPORT					
M&HCV	6,661	2,517	3,441	93.6%	164.6%
LCV	15,225	419	732	1979.9%	1979.9%
Total Exports	21,886	2,936	4,173	424.5%	645.4%
Total Volume	59,697	47,562	48,719	22.5%	22.5%

Source: Arihant Research, Company Filings

Key commentary from Management

- The CV industry is expected to grow at a double-digit rate in FY2024 on account of revival in replacement demand, strong traction in the bus segment, and increased infra spending.
- Ashok leyland aims for double-digit EBITDA margin in the medium term on account of RM cost tailwind and lower discounting trend.
- Export volumes are expected to improve in FY2024 because of recovery in a few of its export markets

Ashok Leyland Q4FY23 Earnings Conference Call

- **Guidance:** - In FY24, CV demand momentum continues to be strong and surpassed FY19 numbers. Overall CV Industry is expected to grow at 10%, led by 10-12% growth in the Truck industry, 25-30% in Bus segment while LCV segment to grow in the range of 5- 6%. Ashok Leyland to outperform industry growth and focus on increasing market share. In north & East market share jumped 4-5% to 25 in FY23 led by network expansion. Tipper, tractor trailer, ICVs and buses demand are strong. Expect demand of replacement and first time buyers will improve in FY24. In the LCV segment, both Dost and Bada Dost continues to perform very well but lost volume due to supply side issues. With momentum gradually picking up in electric vehicles, Switch Mobility is well poised to tap the growth opportunity. Q1 performance may be affected by pre-buying in last months due to RD norms transition.
- **Market share:** In M&HCV, truck segment gained market share to 31.8% at the end of FY23. The Company has also gained market share in ICV due to new launches in CNG segment. Ashok Leyland's M&HCV truck market share has improved to 32.7% in Q4FY23 Vs 30.6% in Q4FY22 (33 % in Q3FY23) led by network expansion, strong demand of AVTR range (modular truck) and increasing economic activities. Bus market share for Q4FY23 has improved to 27.1 % as against 26.4 % in Q4FY22.
- **Mid-teen EBITDA margin in near term:** The company targets of staying in double digit margin led by commodity tailwinds and increase in ASP. Expect steel prices to come down in 2Q/3Q on back of lower demand from China and excess supply in Australia. Company has taken a price hike of 2% in april-23 to compensate R&D related cost. Moduler trucks adoption is robust especially in higher tonnage segment. New model has been accepted very well in tractor-trailer segment, which helps in achieving better price realizations. Company expects there is more headroom for realization growth going ahead.
- **Traction in EV:** With momentum gradually picking up in electric vehicles, Switch Mobility is well poised to complement the developments at Ashok Leyland across a spectrum of alternate propulsion systems. Switch mobility' is winning many new businesses in India and UK. Expect faster acceleration in EVs business. Business model in EV in India is evolving differently than other parts of the world. Low floor 9 meter bus will be launched
- **Export:** The export volumes improved by 2 % and stood at 11289 vs 11,014 in FY22. Expect exports to grow in the coming year.
- **Capex and Debt:** The company became cash positive at INR. 2.43bn vs INR. 7.20bn of debt in FY22. Long term debt stood INR 29bn while Short term cash INR 31.50bn. Capex in FY23 was INR. 5.02bn vs INR. 4bn last year. For FY24, capex is to be in the range of INR 6-6.5bn largely towards product development. 12bn of Capex is to be incurred for SWITCH over a period of 5-6 years, this would be provided in the form of a loan.
- **AVTR range:** The AVTR range continues to be successful and the launch of the CNG range in ICVs is driving demand. The AVTR platform has been delivering best-in-class total cost of ownership across segments. Going forward, last-mile connectivity demand propelled by-commerce is likely to support LCV truck volumes.
- **Fleet:** Mix of large fleet operators has been more than first time users (which could increase because of interest costs). Meanwhile replacement mix is expected to kick in by FY26 because of scrappage policy.

Exhibit 3: Revenue beat our estimates driven by better volume.

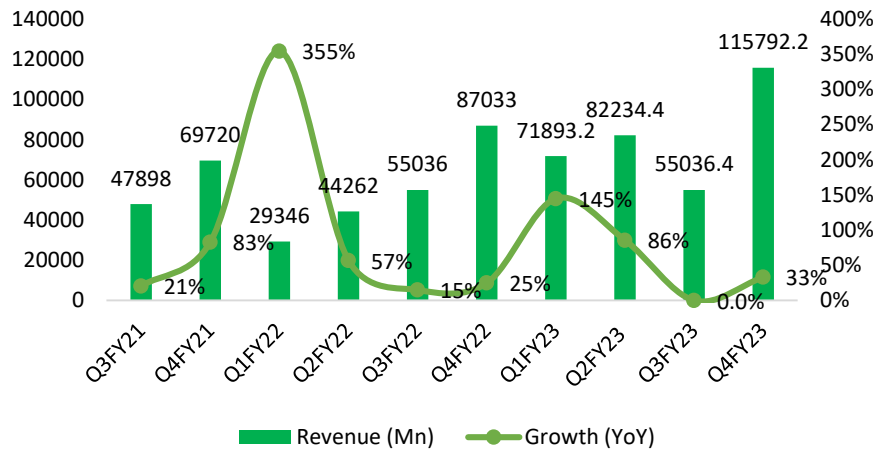


Exhibit 4: The company EBITDA showing expansion in Q4FY23 QoQ due to softening in raw material cost.

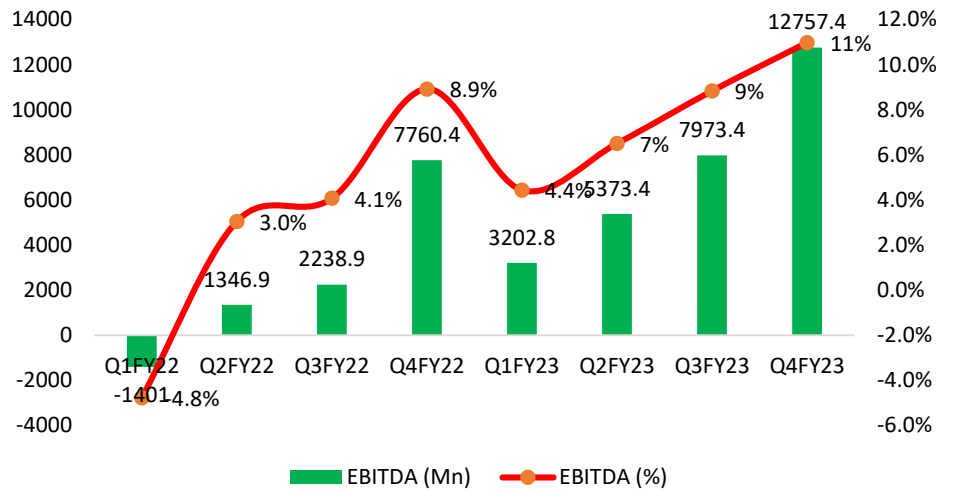
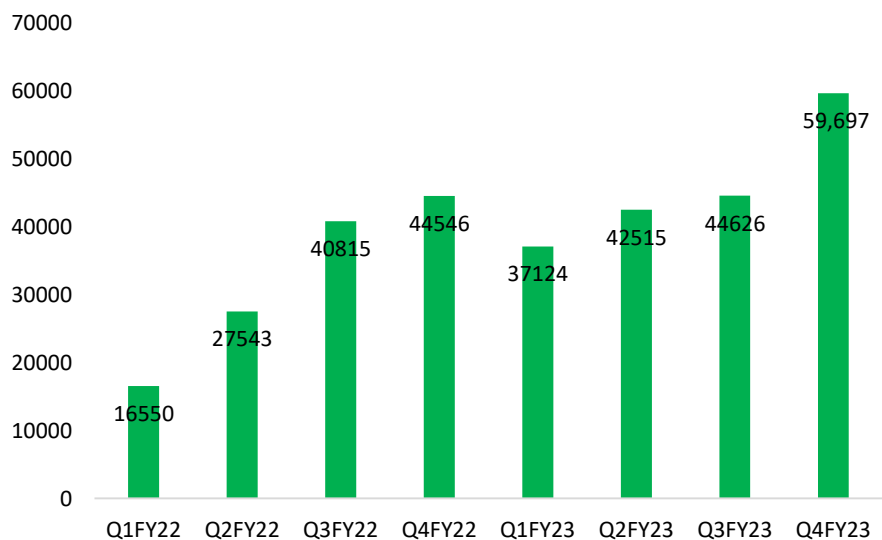


Exhibit 5: Volume and Market Share gains as all the new products were doing well



Source: Arihant Research, Company Filings,

P&L (INR mn) Standalone	FY22	FY23	FY24E	FY25E
Net sales	216,883	361,441	408,605	445,856
YoY (%)	41.7	66.7	13.0	9.1
Raw material cost	167,611	278,492	298,282	321,908
Employee Cost	16,946	21,139	24,309	27,956
Admin Expenses	22,381	32,504	44,947	49,044
Total expenses	206,938	332,134	367,538	398,908
EBIDTA (%)	9,945	29,307	41,067	46,948
	4.6%	8.1%	10.1%	10.5%
Depreciation	7,528	7,320	7,261	7,646
EBIT	2,418	21,987	33,807	39,303
Interest	3,011	2,891	3,481	3,910
Other income	761	1,161	1,278	1,303
PBT	168	20,258	31,604	36,695
Exchange gain / (loss) on swap contracts				
(-) Tax	(142)	7,303	8,668	10,108
Tax/ PBT	(84.7)	36.0	27.4	27.5
PAT	310	12,955	22,936	26,588
YoY (%)	(110.3)	4079.0	77.0	15.9
PAT(%)	0.1%	3.6%	5.6%	6.0%
Extraordinary	5108		-	-
	846.10			
Reported Profit	5,418	13,801	22,936	26,588

Cash Flow Standalone	FY22	FY23	FY24E	FY25E
Net profit	5,418	13,801	22,936	26,588
Depreciation	7,528	7,320	7,261	7,646
Deferred tax	(243)	(497)	(497)	(497)
Change in W/C	(3,426)	(26,855)	(28,895)	(28,413)
Operating cash flow	9,277	(6,231)	804	5,323
Capex	(2,224)	(3,384)	(4,001)	(7,000)
Investments	(9,401)	660	445	(401)
Investing cash flow	(11,626)	(2,723)	(3,556)	(7,401)
FCF	7,053	(9,615)	(3,197)	(1,677)
Dividend	(2,349)	(5,984)	(2,765)	(3,205)
Equity	528	3,072	-	-
Debt	6,410	6,410	6,538	6,669
Financing cash flow	4,589	3,498	3,773	3,464
Net change in cash	2,240	(5,457)	1,022	1,386
Opening cash	8,229	10,470	5,013	6,035
Closing cash	10,470	5,013	6,035	7,421

B/Sheet (INR mn) Standalone	FY22	FY23	FY24E	FY25E
Equity capital	2,936	2,936	2,936	2,936
Reserves	70,434	81,322	101,493	124,875
Net worth	73,369	84,258	104,429	127,811
Total Loans	43,873	50,283	56,822	63,491
Deferred Tax	1,444	5,035	-	-
Total Liabilities	118,686	139,576	161,250	191,302
Gross block	97,721	101,722	105,723	112,723
Less: Acc. Dep	30,744	38,064	45,325	52,970
Net block	66,976	63,658	60,398	59,753
Work in progress	1,943	1,325	1,325	1,325
Investments	38,594	42,195	42,595	42,995
Inventories	20,752	36,154	38,409	41,451
Debtors	31,111	40,621	40,301	43,975
Cash	10,470	5,013	6,035	7,421
Loans and advances	38,733	52,198	101,498	107,831
Current assets	101,066	133,986	186,242	200,678
Current liabilities	75,332	78,110	114,510	97,299
Provisions	14,560	23,477	14,800	16,149
Net current assets	11,173	32,399	56,932	87,229
Total Assets	118,686	139,576	161,250	191,302

Key Ratios	FY22	FY23	FY24E	FY25E
EPS	1.8	4.7	7.8	9.1
Cash EPS	4.4	7.2	10.3	11.7
Book value	25	29	36	44
P/E (x)	78.8	31.0	18.6	16.1
EV/EBDITA (x)	42.4	14.7	10.6	9.4
P/B (x)	5.8	5.1	4.1	3.3
EV/Sales	1.9	1.2	1.1	1.0
ROCE	7%	13%	16%	17%
ROE	8%	18%	24%	23%
Dividend Yield	0.5%	1.2%	0.5%	0.6%
Gross asset turn	1.9	2.8	2.5	2.5

Days outstanding	FY22	FY23	FY24E	FY25E
Inventory	45	47	47	47
Debtors	50	36	36	36
Creditors	131	92	92	92

Source: Arihant 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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