

BUY

TP: Rs 199 | ▲ 19%

ASHOK LEYLAND

| Automobiles

| 30 June 2023

Analyst meet takeaways: Pursuing market share gains

- Targeting ~35% MHCV market share in FY24 by growing to 50% of the southern market (vs. 40%) and holding at 35% in North/Central India
- Aims to garner 25% share in LCVs from 20% currently despite a late entry, and to retain leadership in buses
- Our TP stands revised to Rs 199 (vs. Rs 184) as we raise FY24/FY25 EPS 4%/10%; maintain BUY

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Targeting larger MHCV footprint: AL is targeting MHCV market share of ~35% in FY24 from 32% currently by raising ICV truck share from 25% to 35%, ICV buses from 15% to 30%, and MDV trucks from 35% to 40%. The strategy is to focus on northern/eastern states (25%/24% market share) via launches and 66 dealership additions in FY24. Region-wise, the company aims for ~35% market share in North/Central India and is looking to consolidate its position in the southern region to ~50% (from 40%).

LCV growth strategy: Despite its late entry, AL has captured 20% of the 2-3.5t LCV segment, which forms 59% of industry volumes. Management aims to augment this share to 25% by increasing the northern and eastern network and launching alternative fuel products in FY24. Moreover, it intends to enter the 0-2t segment (35% of industry volumes) and improve 3.5-7.5t market share from 5% to 25% this year.

Global EV bus market exhibiting strong tailwinds: AL sees strong demand potential for subsidiary Switch Mobility in both domestic and global markets. It has charted a roadmap for volume growth over the next decade to FY32, which includes a domestic e-bus CAGR of 37% to 33k units and e-LCV CAGR of 73% to 314k units.

International expansion on the cards: AL's exports grew 2% in FY23 even as the industry contracted sharply. Sales were extended from 21 countries in FY21 to 38 in FY23, aiding the industry beat. Management is targeting expansion into 50 countries in FY24 with a total market size of 250k units.

Margin expansion guided to continue: EBITDA margin has risen to 8.1% in FY23 from 4.6% in FY22. Management is targeting a 10% margin in FY24 and a mid-teen print in the medium term, aided by expansion plans.

Maintain BUY: We expect AL's EBITDA margin to expand 180bps over FY23-FY25 to ~10% factoring in the revival in the CV market, continued leadership in the bus segment, launches and entry into EVs. Export recovery will add comfort. We thus raise our FY24/ FY25 EPS estimates by 4%/10% for a revised SOTP-based TP of Rs 199 (vs. Rs 184), ascribing an unchanged 20x FY25E P/E to the standalone business. BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	AL IN/Rs 167
Market cap	US\$ 6.0bn
Free float	49%
3M ADV	US\$ 17.9mn
52wk high/low	Rs 171/Rs 133
Promoter/FPI/DII	52%/17%/15%

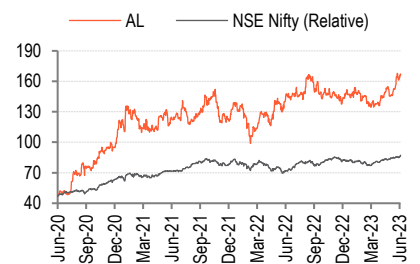
Source: NSE | Price as of 30 Jun 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	3,61,441	4,20,824	4,99,400
EBITDA (Rs mn)	29,307	38,497	48,728
Adj. net profit (Rs mn)	12,955	21,368	27,696
Adj. EPS (Rs)	4.7	7.3	9.4
Consensus EPS (Rs)	4.7	7.1	9.1
Adj. ROAE (%)	15.4	20.5	21.3
Adj. P/E (x)	35.6	23.0	17.7
EV/EBITDA (x)	17.7	13.2	10.1
Adj. EPS growth (%)	4079.2	64.9	29.6

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Other key takeaways

- **Robust growth visibility across verticals:** Medium & heavy commercial (MHCV) bus/truck revenue grew 225%/40% YoY in FY23, light commercial (LCV) buses/trucks 122%/23%, power solutions 9%, aftermarket 31%, and foundry 39%, with total revenue rising 67%. Management expects strong domestic and international tailwinds to support continued growth.
- **Extensive launch pipeline:** AL's domestic launch lineup over the next couple of years includes four alternative fuel MHCV trucks and one alternative fuel MHCV bus. For the export market, the company plans to introduce two LCVs, one MHCV truck, and three MHCV buses.
- **Global EV bus markets exhibiting strong tailwinds:** AL sees strong demand potential for subsidiary Switch Mobility in both domestic and global markets. AL has charted a roadmap for volume growth over the next decade to FY32, comprising a domestic e-bus CAGR of 37% to 33k units and e-LCV CAGR of 73% to 314k units, a UK market CAGR of 14% to 2,500 units and Europe CAGR of 19% to 19k units.
- **Aging domestic MHCVs:** The average MHCV age in India has increased to 10 years, with MHCVs older than 15 years accounting for 21% of the total vehicle population. This coupled with just 0.5 CVs per 1000 population, the government's desire to reduce supply chain cost by 40% to <10% of GDP, and increasing public capex should accelerate demand for MHCVs over the medium run.
- **Dynamic and essential product transformation:** AL plans to transform all traditional (internal combustion engine or ICE) product lines into CNG, LNG, and hydrogen-powered products. Further, all motor-propelled engines will be converted to battery EVs (BEV) and hydrogen ICE products to facilitate lower operational costs for customers, thereby attracting greater volumes, particularly in lower income regions such as the northeast.
- **Margin expansion likely to continue:** The company's EBITDA margin has risen from 3% in Q2FY22 to 11% in Q4FY23, with the FY23 margin swelling to 8.1% from 4.6% in FY22. Management is targeting a 10% margin in FY24 and a mid-teen print in the medium term, aided by expansion plans. This is expected to be facilitated by a recent increase in MHCV truck/bus/LCV realisations by 7%/5%/5%, localisation of body supply, halving of intermediate CV (ICV) bus production costs, and continuation of part count reduction (slashed 20% in FY23).
- **Power generation business changing:** Demand in AL's power solutions business has switched from retail (55% in FY14 to 41% in FY23) and other segments (11% to 1%) to industrial and agricultural (34% to 58%).
- **Aftermarket business and resale e-marketplace platforms:** AL's aftermarket business posted strong growth in FY23, driven by ready availability of most products. Further, it was able to attain a service market share of 71%. The company's robust reputation in this segment is likely to aid volume growth as vehicle usage is expected to rise extensively due to macroeconomic factors. Management expects the resale platform to enable it to tap into a 100,000-strong buyer base, further increasing revenues.

Valuation methodology

AL's medium-to-long-term strategy of building its MHCV footprint in non-core domestic regions and capturing substantial market share is ambitious, but its recent track record suggests these targets are achievable. A focus on the bus segment via Switch Mobility and an expanding international network should aid above-industry export growth, in our view. The company is also aggressively plugging the gap in its LCV lineup which bodes well for growth.

Though a reversal of commodity softening trends may impact margins in the short term, we expect AL's EBITDA margin to expand 180bps over FY23-FY25 to ~10% as we factor in healthy revival in the CV market, continued leadership in the bus segment, new launches and entry into EVs. Export recovery will add further comfort.

We, therefore, raise our FY24/ FY25 EPS estimates by 4%/10%. Our EBITDA margin assumptions hover at 9-10% in FY24-FY25 against management's guidance of reaching 10% in FY24 itself to bake in uncertainties in supply chain management and commodity pricing.

Following estimate revision, we have a revised SOTP-based TP of Rs 199 (vs. Rs 184) which includes Rs 187/sh for the standalone business based on an unchanged 20x FY25E P/E and Rs 12/sh for Hinduja Leyland Finance. Maintain BUY.

Fig 1 – Key assumptions

	FY24E	FY25E
M&HCV volumes (nos)	1,34,975	1,55,221
LCV volumes (nos)	74,906	84,269
Total volume sold (Nos)	2,09,880	2,39,490
Revenue per vehicle (Rs)	20,05,064	20,85,267
RMC per vehicle (Rs)	15,03,798	15,53,524
As a % of revenue	75.0%	74.5%
Gross margin per vehicle (Rs)	5,01,266	5,31,743
As a % of revenue	25.0%	25.5%
Staff cost per vehicle (Rs)	1,12,803	1,10,720
As a % of revenue	5.6%	5.3%
Other expense per vehicle (Rs)	2,04,517	2,17,910
As a % of revenue	10.2%	10.5%
EBITDA per vehicle (Rs)	1,83,946	2,03,113
As a % of revenue	9.2%	9.7%
Other Income (Rs mn)	1,477	1,251
Depreciation (Rs mn)	7,939	8,956
Interest (Rs mn)	3,159	3,342
PAT per vehicle (Rs)	1,01,808	1,15,646
As a % of revenue	5.1%	5.5%

Source: Company, BOBCAPS Research

Fig 2 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	4,20,824	4,99,400	3,68,421	4,43,948	14.2	12.5
EBITDA	38,497	48,728	36,031	43,347	6.8	12.4
Adj PAT	21,368	27,696	20,515	25,286	4.2	9.5
EPS (Rs)	7.3	9.4	7.0	8.6	4.2	9.5

Source: BOBCAPS Research

Fig 3 – Valuation summary

Business	FY25E EPS (Rs)	Target P/E (x)	Value (Rs)
Standalone Business	9.4	20	187
Leyland Finance	-	-	12
Total	-	-	199

Source: BOBCAPS Research

Fig 4 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY24E	FY25E	FY24E	FY25E
Ashok Leyland	AL IN	BUY	199	7.3	9.4	22.7	23.6
Mahindra & Mahindra	MM IN	BUY	1,496	69.3	75.9	17.3	16.3
Tata Motors	TTMT IN	NOT RATED	-	34.8	44.3	24.6	25.3

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- sustained commodity price inflation,
- slower economic revival that may dent growth in the MHCV and bus segments, and
- delays in EV launches.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	6.0	167	199	BUY
Bajaj Auto	BJAUT IN	16.5	4,692	4,188	HOLD
Eicher Motors	EIM IN	11.9	3,580	3,761	HOLD
Escorts	ESCORTS IN	3.6	2,248	1,749	SELL
Hero MotoCorp	HMCL IN	7.1	2,910	2,871	HOLD
Mahindra & Mahindra	MM IN	22.1	1,454	1,665	BUY
Maruti Suzuki	MSIL IN	36.0	9,789	9,858	HOLD
TVS Motor	TVSL IN	7.7	1,326	1,252	HOLD
VST Tillers Tractors	VSTT IN	0.3	2,844	3,218	BUY

Source: BOBCAPS Research, NSE | Price as of 30 Jun 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	1,55,984	2,16,883	3,61,441	4,20,824	4,99,400
EBITDA	5,351	9,945	29,307	38,497	48,728
Depreciation	7,477	7,528	7,320	7,939	8,956
EBIT	(931)	3,179	23,149	32,034	41,024
Net interest inc./(exp.)	(3,068)	(3,011)	(2,891)	(3,159)	(3,342)
Other inc./(exp.)	1,195	761	1,161	1,477	1,251
Exceptional items	(121)	5,108	846	0	0
EBT	(4,119)	5,276	21,104	28,875	37,682
Income taxes	(983)	(142)	7,303	7,508	9,986
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	(3,136)	5,418	13,802	21,368	27,696
Adjustments	121	(5,108)	(846)	0	0
Adjusted net profit	(3,016)	310	12,955	21,368	27,696

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	51,647	70,342	83,723	1,04,192	1,21,524
Other current liabilities	14,860	16,408	10,266	(17,550)	(18,742)
Provisions	6,545	6,705	10,386	7,603	8,363
Debt funds	37,163	35,071	32,248	29,398	31,368
Other liabilities	2,805	0	0	0	0
Equity capital	2,936	2,936	2,936	2,936	2,936
Reserves & surplus	66,837	70,433	81,322	1,01,410	1,27,067
Shareholders' fund	69,772	73,369	84,258	1,04,346	1,30,003
Total liab. and equities	1,82,792	2,01,894	2,20,881	2,27,989	2,72,516
Cash and cash eq.	8,230	10,470	5,013	9,508	14,717
Accounts receivables	28,160	31,111	40,627	53,035	60,886
Inventories	21,423	20,752	27,745	36,894	42,415
Other current assets	16,603	24,858	18,256	27,671	35,574
Investments	30,687	48,196	66,636	35,216	48,216
Net fixed assets	70,504	62,342	63,133	67,701	70,745
CWIP	3,719	1,111	4,507	3,000	5,000
Intangible assets	0	4,499	0	0	0
Deferred tax assets, net	(1,708)	(1,444)	(5,035)	(5,035)	(5,035)
Other assets	5,174	0	0	0	0
Total assets	1,82,792	2,01,895	2,20,882	2,27,989	2,72,516

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	6,443	28,126	23,020	(12,503)	31,516
Capital expenditures	(7,722)	(1,257)	(7,008)	(11,000)	(14,000)
Change in investments	(3,491)	(17,509)	(18,440)	31,420	(13,000)
Other investing cash flows	1,195	761	1,161	1,477	1,251
Cash flow from investing	(10,018)	(18,005)	(24,286)	21,897	(25,749)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	4,349	(2,092)	(2,823)	(2,850)	1,970
Interest expenses	(3,068)	(3,011)	(2,891)	(3,159)	(3,342)
Dividends paid	(1,761)	(2,936)	(7,632)	(5,871)	(5,871)
Other financing cash flows	(940)	157	2,528	662	0
Cash flow from financing	(1,421)	(7,881)	(10,818)	(11,218)	(7,243)
Chg in cash & cash eq.	(4,995)	2,240	(12,084)	(1,824)	(1,475)
Closing cash & cash eq.	8,230	10,470	5,013	9,508	14,717

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	(1.0)	0.1	4.4	7.3	9.4
Adjusted EPS	(1.1)	1.8	4.7	7.3	9.4
Dividend per share	0.6	1.0	2.6	2.0	2.0
Book value per share	23.8	25.0	28.7	35.5	44.3

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	3.2	2.4	1.4	1.2	1.0
EV/EBITDA	93.0	51.9	17.7	13.2	10.1
Adjusted P/E	(156.7)	90.7	35.6	23.0	17.7
P/BV	7.0	6.7	5.8	4.7	3.8

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	73.2	5.9	61.4	74.0	73.5
Interest burden (PBT/EBIT)	442.6	166.0	91.2	90.1	91.9
EBIT margin (EBIT/Revenue)	(0.6)	1.5	6.4	7.6	8.2
Asset turnover (Rev./Avg TA)	142.8	198.8	321.4	336.3	338.4
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.4	1.3	1.3
Adjusted ROAE	(4.2)	0.4	16.4	22.7	23.6

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	(12.8)	39.0	66.7	16.4	18.7
EBITDA	(54.4)	85.8	194.7	31.4	26.6
Adjusted EPS			4079.2	64.9	29.6
Profitability & Return ratios (%)					
EBITDA margin	3.4	4.6	8.1	9.1	9.8
EBIT margin	(0.6)	1.5	6.4	7.6	8.2
Adjusted profit margin	(1.9)	0.1	3.6	5.1	5.5
Adjusted ROAE	(4.3)	0.4	15.4	20.5	21.3
ROCE	(0.6)	3.0	13.5	18.9	20.4
Working capital days (days)					
Receivables	47	50	36	41	42
Inventory	40	35	24	28	29
Payables	125	133	101	109	111
Ratios (x)					
Gross asset turnover	0.7	0.5	0.3	0.3	0.3
Current ratio	1.0	0.9	0.9	1.3	1.4
Net interest coverage ratio	0.3	(1.1)	(8.0)	(10.1)	(12.3)
Adjusted debt/equity	0.5	0.5	0.4	0.3	0.2

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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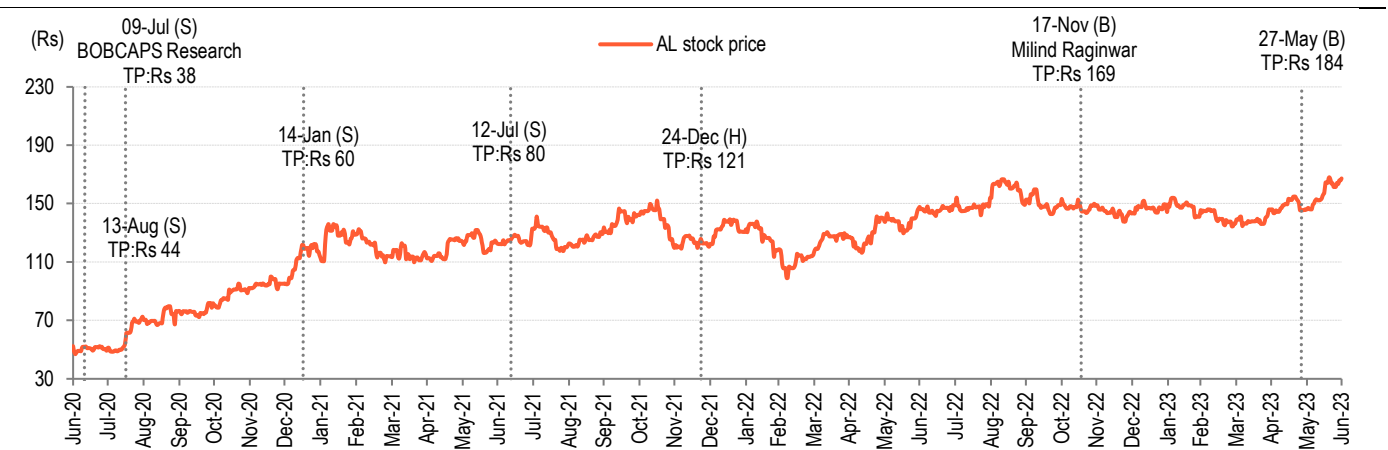
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- BUY** – Expected return >+15%
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Note: Recommendation structure changed with effect from 21 June 2021

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Ratings and Target Price (3-year history): ASHOK LEYLAND (AL IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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