

BUY

TP: Rs 226 | ▲ 26%

ASHOK LEYLAND

| Automobiles

| 06 February 2024

Margins continue to improve, maintain BUY

- Q3 revenue grew 3% YoY to Rs 92.7bn in a challenging quarter, aided by 3% higher realisation
- EBITDA margin continues to expand, rising 320bps YoY to 12% on lower commodity costs and operating efficiencies
- Maintain BUY with revised TP of Rs 226 (vs. Rs 210) on rollover

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Topline gains in a challenging quarter: AL's Q3FY24 revenue grew 3% YoY (-4% QoQ) to Rs 92.7bn aided by realisations gains, whereas volumes remained muted. Net realisation per vehicle increased 3% YoY (+2% QoQ) to Rs 1,963k supported by price hikes across segments. Volumes were flat YoY (-5% QoQ) at 47.2k units due to elections in several states, with domestic MHCV volumes falling 7% YoY (vs. 7% industry growth) to 23.4k units.

Margins continue to improve: Raw material cost (adjusted for inventory) improved to 72.2% of net sales from 76.3% in Q3FY23 (73.5% in Q2FY24), aiding gross margin expansion by 400bps/130bps YoY/QoQ to 27.8%. Cost reduction initiatives, softening commodity costs and a better product mix saw EBITDA rise 40%/3% YoY/QoQ to Rs 11.1bn, with a 12% margin (+320bps/80bps YoY/QoQ). Adj. PAT increased to Rs 5.8bn from Rs 3.5bn in the year-ago quarter.

EV expansion on the cards: Notable launches during the quarter include *E-Comet 1915CNG* and *E-Comet Star 1815* in the truck segment, *LynxMac Bus Chatty* and *Viking 222 Inter-city* in the bus segment, and a tipper (Avtr 3525 RMC). AL has invested Rs 6.6bn in Optare PLC for its EV segment during the quarter, out of an approved investment plan of ~Rs 12bn, and the first batch of electric LCVs is expected to be delivered by Switch Mobility within the next few months. AL is also targeting ~Rs 9bn in revenue from the defence business.

Long-term growth trajectory intact...: We broadly maintain earnings for FY24/FY25 and introduce FY26 forecasts, with AL projected to log an EBITDA/PAT CAGR of 25%/35% for FY23-FY26. Despite the weak Q3 volumes, we believe AL will remain ahead of industry growth in CVs, maintain leadership in buses and deliver on launches. LCV recovery adds comfort and inroads into EVs will add flavour to the portfolio.

...maintain BUY: We roll valuations over to FY26E and reiterate our BUY rating for a revised SOTP-based TP of Rs 226 (v. Rs 210). We continue to assign a 20x P/E multiple to the standalone business – in line with the 5Y average multiple – and value the vehicle finance arm at Rs 12/sh.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	AL IN/Rs 180
Market cap	US\$ 6.4bn
Free float	49%
3M ADV	US\$ 32.8mn
52wk high/low	Rs 192/Rs 133
Promoter/FPI/DII	52%/17%/15%

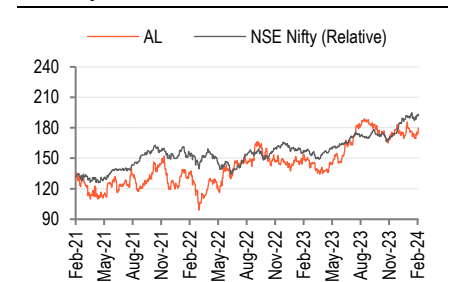
Source: NSE | Price as of 6 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	3,61,441	3,78,105	4,39,385
EBITDA (Rs mn)	29,307	41,925	50,461
Adj. net profit (Rs mn)	12,955	22,597	28,876
Adj. EPS (Rs)	4.7	7.7	9.8
Consensus EPS (Rs)	4.7	7.4	9.4
Adj. ROAE (%)	15.4	21.9	22.4
Adj. P/E (x)	38.3	23.4	18.3
EV/EBITDA (x)	18.9	13.0	10.4
Adj. EPS growth (%)	4079.0	74.4	27.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q3FY24	Q2FY24	Our view
Industry growth	<p>The domestic MHCV industry grew only 7% YoY in Q3FY24 (9% YoY in FY24 YTD), affected by elections in several states. AL expects subdued growth in Q4FY24 as well due to a higher base last year and upcoming general elections.</p> <p>The LCV industry fell 3% YoY in FY24 YTD. Bus industry volumes grew 38% YoY in Q3FY24, and AL grew 65% YoY in the segment.</p>	<p>The domestic MHCV industry grew 10% YoY in H1FY24 (truck/tractor/tipper industries grew 15%/50%/20% YoY), backed by a favourable macroeconomic environment and healthy replacement demand. Management retains FY24 guidance of 8-10% industry growth.</p> <p>The LCV industry grew 3% YoY in H1FY24 against management's estimate of 4-5%. Bus industry volumes grew 46% YoY in Q2FY24, and AL grew 95% in the segment.</p>	Notwithstanding a likely slowdown over the medium term, we expect AL to beat industry growth.
Market share	AL has 30% market share in MHCVs and its share in LCVs has improved by 100bps as of Q3FY24.	AL has 31.9% market share in MHCVs (31.2% in Q1) and ~20% in LCVs as of Q2FY24. Market share in buses totals 37.8%, up from 28.3% in Q2FY23.	AL continues to beat industry growth by tapping newer domestic and international regions.
Exports	The company sold 3,128 units in international markets (vs. 2,936 in Q3FY23), whereas most of its peers have registered a sharp decline in export volumes as per management.	The company sold 2,901 units in international markets (vs. 2,780 units in Q2FY23), while most of its peers have registered a sharp decline in export volumes as per management.	AL's focus on grabbing new markets continues in Q3.
Margins	Operating margin improved driven by softening commodity prices in Q3FY24 (management expects them to soften further in Q4), profitable growth and cost reduction initiatives taken by AL. Management indicated that AL has taken price hikes in Q1/Q2/Q3FY24 as well as in Jan'24 across its segments.	Operating margin improved due to commodity cost softening, cost reduction programmes and operating leverage. Commodity prices have reduced after a slight increase at the start of FY24. Management expects industry pricing to improve by 1.5-2% per quarter and believes AL can hold margins at current levels in FY24-FY25.	AL is looking to at aggressive margin expansion, but we remain conservative, projecting an EBITDA margin of ~11% for FY24.
Launch pipeline	<p>AL has launched various models and variants in Q3FY24. Notable among these are two trucks (E-Comet 1915CNG, E-Comet star 1815), two buses (LynxMac Bus Chatty, Viking 222 inter-city) and a tipper (Avtr 3525 RMC).</p> <p>AL will deliver its first batch of E-LCVs within the next few months. Market trials for the Electric 55T Avtr tractor trailer (for long haul transport) are nearing completion.</p>	<p>During Q2FY24, the company launched two trucks (E-Comet 1915 and 1922 CNG), a bus (2820 G45 FES), and a tipper (N2825).</p> <p>Development of an electric bus designed for the European market is in progress.</p>	A strong launch pipeline will improve the product mix and protect or add to margins.
Other key points	<p>Out of the ~Rs 12bn board approved investment plan, AL has invested Rs 6.6bn in Optare PLC during Q3FY24 and shall infuse the balance equity in tranches over the next few months. Management also expressed optimism about external investors buying into AL's EV business.</p> <p>Subsidiary Hinduja Leyland Finance (HLF) has a loan book of ~Rs 450bn as on Q3FY24.</p> <p>AL is targeting ~Rs 9bn in revenue from the defence business.</p>	<p>AL has approved investments of ~Rs 12bn in Optare (holding company of Switch UK and Switch India) to support its electrification business under the <i>Switch</i> brand. The investment will be made in one or more tranches over the next 3-6 months.</p> <p>HLF has a loan book of ~Rs 420bn, and management expects HLF's listing to take place in Q4FY24.</p> <p>The order pipeline for the defence business as on Q2FY24 is ~Rs 8bn (~Rs 3bn revenue booked in H1FY24). AL is targeting ~Rs 10bn in revenue from this business in FY24.</p>	The EV business remains a focus area in the portfolio.

Source: Company, BOBCAPS Research | ICV: Intermediate Commercial Vehicles; MHCV: Medium & Heavy Commercial Vehicles; LCV: Light Commercial Vehicles

Fig 2 – Quarterly performance (Standalone)

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Volume	47,241	47,562	(0.7)	49,846	(5.2)	138,416	132,229	4.7
Avg. Realisation per Vehicle	1,962,916	1,898,505	3.4	1,933,563	1.5	1,957,891	1,854,243	5.6
Net Revenues	92,730	90,297	2.7	96,380	(3.8)	271,003	245,185	10.5
Total Income (A)	92,730	90,297	2.7	96,380	(3.8)	271,003	245,185	10.5
Operating Expenses:								
Raw materials consumed	66,977	68,859	(2.7)	70,866	(5.5)	198,124	190,605	3.9
Employee Expenses	5,695	5,495	3.6	5,728	(0.6)	16,799	15,219	10.4
Other Expenses	8,919	7,970	11.9	8,989	(0.8)	25,846	22,811	13.3
Total Expenditure (B)	81,591	82,323	(0.9)	85,583	(4.7)	240,769	228,635	5.3
EBITDA (A-B)	11,139	7,973	39.7	10,798	3.2	30,235	16,550	82.7
Other Income	300	316	(4.9)	475	(36.7)	1,287	771	66.8
Depreciation	1,785	1,890	(5.5)	1,803	(1.0)	5,381	5,481	(1.8)
EBIT	9,655	6,400	50.9	9,470	2.0	26,140	11,840	120.8
Finance Costs	616	804	(23.3)	587	5.0	1,902	2,263	(16.0)
PBT before excep items	9,039	5,596	61.5	8,882	1.8	24,238	9,576	153.1
Exceptional items	(6)	69	-	(229)	-	(241)	282	NA
PBT after excep items	9,033	5,665	59.4	8,654	4.4	23,998	9,858	143.4
Tax expense	3,232	2,052	57.5	3,044	6.2	6,733	3,572	88.5
Reported PAT	5,800	3,613	60.5	5,610	3.4	17,265	6,286	174.6
Adjusted PAT	5,806	3,544	63.8	5,839	(0.6)	15,785	6,004	162.9
EPS (Rs)	2.0	1.2	63.8	2.0	(0.6)	5.4	2.0	162.8
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	27.8	23.7	403	26.5	130	26.9	22.3	463
EBITDA Margin	12.0	8.8	318	11.2	81	11.2	6.7	441
EBIT Margin	10.4	7.1	332	9.8	59	9.6	4.8	482
PBT Margin	9.7	6.2	355	9.2	53	8.9	3.9	504
Tax Rate	35.8	36.2	(43)	35.2	61	28.1	36.2	(818)
Adj PAT Margin	6.3	3.9	234	6.1	20	5.8	2.4	338

Source: Company, BOBCAPS Research

Valuation methodology

We broadly maintain earnings estimates for FY24/FY25 and introduce FY26 forecasts, with AL projected to log an EBITDA/PAT CAGR of 25%/35% for FY23-FY26. Despite the weak Q3 volumes, we believe AL will remain ahead of industry growth in CVs, maintain leadership in buses and deliver on launches. LCV recovery adds comfort and inroads into EVs will add flavour to the portfolio.

We roll valuations over to FY26E and reiterate our BUY rating for a revised SOTP-based TP of Rs 226 (v. Rs 210). We continue to assign a 20x P/E multiple to the standalone business – in line with the five-year average multiple – and value the vehicle finance arm at Rs 12/sh.

Fig 3 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	378,105	439,385	496,092	431,673	513,036	NA	(12.4)	(14.4)	NA
EBITDA	41,925	50,461	56,812	40,155	49,472	NA	4.4	2.0	NA
Adj PAT	22,597	28,876	31,912	22,281	28,551	NA	1.4	1.1	NA
Adj EPS (Rs)	7.7	9.8	10.9	7.6	9.7	NA	1.3	1.0	NA

Source: BOBCAPS Research

Fig 4 – Key assumptions

Parameter	FY24E	FY25E	FY26E
M&HCV volumes (nos)	142,405	159,493	172,252
LCV volumes (nos)	50,925	52,452	53,501
Total volumes sold (Nos)	193,329	211,945	225,754
M&HCV volume share (%)	73.7	75.3	76.3
LCV volume share (%)	26.3	24.7	23.7
Revenue per vehicle (Rs)	1,955,761	2,073,106	2,197,493
Raw material cost per vehicle (Rs)	1,427,705	1,508,185	1,601,972
As a % of revenue	73.0	72.8	72.9
Gross margin per vehicle (Rs)	528,055	564,921	5,95,521
As a % of revenue	27.0	27.3	27.1
Staff cost per vehicle (Rs)	116,994	117,389	121,230
As a % of revenue	6.0	5.7	5.5
Other expense per vehicle (Rs)	199,488	214,567	227,440
As a % of revenue	10.2	10.4	10.4
EBITDA per vehicle (Rs)	211,574	232,966	246,850
As a % of revenue	10.8	11.2	11.2
Other Income (Rs mn)	1,658	2,697	2,832
Depreciation (Rs mn)	7,834	8,226	9,335
Interest (Rs mn)	3,001	3,083	3,380
PAT per vehicle (Rs)	116,882	136,241	141,356
As a % of revenue	6.0	6.6	6.4

Source: Company, BOBCAPS Research

Fig 5 – Valuation summary

Business	FY26E EPS (Rs)	Target P/E (x)	Value (Rs)
Standalone Business	10.9	20	214
Hinduja Leyland Finance	-	-	12
Total	-	-	226

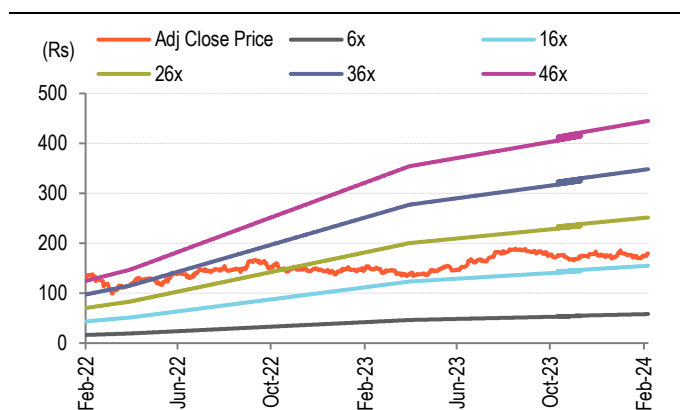
Source: BOBCAPS Research

Fig 6 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY24E	FY25E	FY24E	FY25E
Ashok Leyland	AL IN	BUY	226	7.7	9.8	21.9	22.4
Mahindra & Mahindra	MM IN	BUY	1,824	78.2	92.1	19.4	19.0
Tata Motors	TTMT IN	NOT RATED	-	51.3	63.3	33.8	29.5

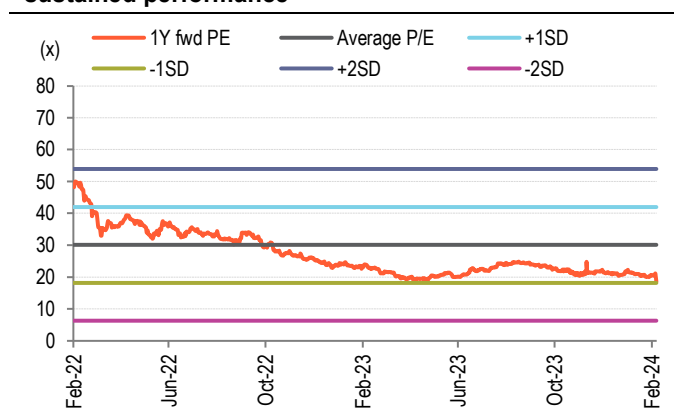
Source: BOBCAPS Research

Fig 7 – P/E band: We value AL at 20x FY26E P/E



Source: Bloomberg, BOBCAPS Research

Fig 8 – P/E 1Y fwd: Valuation likely to gain pace following sustained performance



Source: Bloomberg, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- slower revival in economic growth than expected,
- delays in planned launches in the M&HCV and bus segments, and
- fierce competition and hence pressure on margins.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	6.4	180	226	BUY
Bajaj Auto	BJAUT IN	27.2	7,720	6,272	SELL
Escorts	ESCORTS IN	4.7	2,948	2,343	SELL
Mahindra & Mahindra	MM IN	26.3	1,728	1,849	BUY
Maruti Suzuki	MSIL IN	39.9	10,845	12,234	BUY
TVS Motor	TVSL IN	11.8	2,048	2,242	BUY
VST Tillers Tractors	VSTT IN	0.3	3,026	3,213	HOLD

Source: BOBCAPS Research, NSE | Price as of 6 Feb 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	2,16,883	3,61,441	3,78,105	4,39,385	4,96,092
EBITDA	9,945	29,307	41,925	50,461	56,812
Depreciation	7,528	7,320	7,834	8,226	9,335
EBIT	3,179	23,149	35,750	44,932	50,309
Net interest inc./(exp.)	(3,011)	(2,891)	(3,001)	(3,083)	(3,380)
Other inc./(exp.)	761	1,161	1,658	2,697	2,832
Exceptional items	5,108	846	0	0	0
EBT	5,276	21,104	32,749	41,849	46,929
Income taxes	(142)	7,303	10,152	12,973	15,017
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	5,418	13,801	22,597	28,876	31,912
Adjustments	(5,108)	(846)	0	0	0
Adjusted net profit	310	12,955	22,597	28,876	31,912

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	70,342	72,441	97,050	1,04,890	1,20,942
Other current liabilities	16,408	21,996	(6,643)	(1,828)	(3,007)
Provisions	6,705	10,377	11,216	12,338	13,572
Debt funds	35,071	31,801	33,084	35,422	37,664
Other liabilities	0	0	0	0	0
Equity capital	2,936	2,936	2,936	2,936	2,936
Reserves & surplus	70,433	81,322	1,00,386	1,26,025	1,54,539
Shareholders' fund	73,369	84,257	1,03,322	1,28,961	1,57,474
Total liab. and equities	2,01,894	2,20,873	2,38,028	2,79,783	3,26,645
Cash and cash eq.	10,470	5,013	11,454	12,912	19,889
Accounts receivables	31,111	40,627	47,652	53,569	59,803
Inventories	20,752	27,745	33,149	37,318	40,775
Other current assets	24,858	21,529	24,862	31,299	36,697
Investments	48,196	66,627	60,913	73,913	87,913
Net fixed assets	62,342	59,378	62,034	68,808	78,604
CWIP	1,111	490	3,000	7,000	8,000
Intangible assets	4,499	4,499	0	0	0
Deferred tax assets, net	(1,444)	(5,035)	(5,035)	(5,035)	(5,035)
Other assets	0	0	0	0	0
Total assets	2,01,895	2,20,872	2,38,028	2,79,783	3,26,645

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	28,126	18,994	9,607	31,212	38,524
Capital expenditures	(1,257)	(3,735)	(8,501)	(19,000)	(20,131)
Change in investments	(17,509)	(18,431)	5,714	(13,000)	(14,000)
Other investing cash flows	761	1,161	1,658	2,697	2,832
Cash flow from investing	(18,005)	(21,004)	(1,129)	(29,303)	(31,299)
Equities issued/Others	0	50	(50)	0	0
Debt raised/repaid	(2,092)	(3,270)	1,283	2,338	2,242
Interest expenses	(3,011)	(2,891)	(3,001)	(3,083)	(3,380)
Dividends paid	(2,936)	(7,632)	(5,871)	(5,871)	(5,871)
Other financing cash flows	157	3,669	(401)	0	0
Cash flow from financing	(7,881)	(10,075)	(8,039)	(6,615)	(7,009)
Chg in cash & cash eq.	2,240	(12,085)	439	(4,707)	216
Closing cash & cash eq.	10,470	5,013	11,454	12,912	19,889

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	0.1	4.4	7.7	9.8	10.9
Adjusted EPS	1.8	4.7	7.7	9.8	10.9
Dividend per share	1.0	2.6	2.0	2.0	2.0
Book value per share	25.0	28.7	35.2	43.9	53.6

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	2.5	1.5	1.4	1.2	1.0
EV/EBITDA	55.6	18.9	13.0	10.4	9.1
Adjusted P/E	97.5	38.3	23.4	18.3	16.6
P/BV	7.2	6.3	5.1	4.1	3.4

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	5.9	61.4	69.0	69.0	68.0
Interest burden (PBT/EBIT)	166.0	91.2	91.6	93.1	93.3
EBIT margin (EBIT/Revenue)	1.5	6.4	9.5	10.2	10.1
Asset turnover (Rev./Avg TA)	198.8	322.0	299.5	292.2	276.0
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.3	1.3	1.3
Adjusted ROAE	0.4	16.4	24.1	24.9	22.3

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	39.0	66.7	4.6	16.2	12.9
EBITDA	85.8	194.7	43.1	20.4	12.6
Adjusted EPS		4079.0	74.4	27.8	10.5
Profitability & Return ratios (%)					
EBITDA margin	4.6	8.1	11.1	11.5	11.5
EBIT margin	1.5	6.4	9.5	10.2	10.1
Adjusted profit margin	0.1	3.6	6.0	6.6	6.4
Adjusted ROAE	0.4	15.4	21.9	22.4	20.3
ROCE	3.0	13.5	19.5	20.6	19.0
Working capital days (days)					
Receivables	50	36	43	42	42
Inventory	35	24	29	29	29
Payables	133	94	112	116	114
Ratios (x)					
Gross asset turnover	0.5	0.3	0.3	0.3	0.3
Current ratio	0.9	0.9	1.2	1.2	1.2
Net interest coverage ratio	(1.1)	(8.0)	(11.9)	(14.6)	(14.9)
Adjusted debt/equity	0.5	0.4	0.3	0.3	0.2

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

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BUY – Expected return >+15%

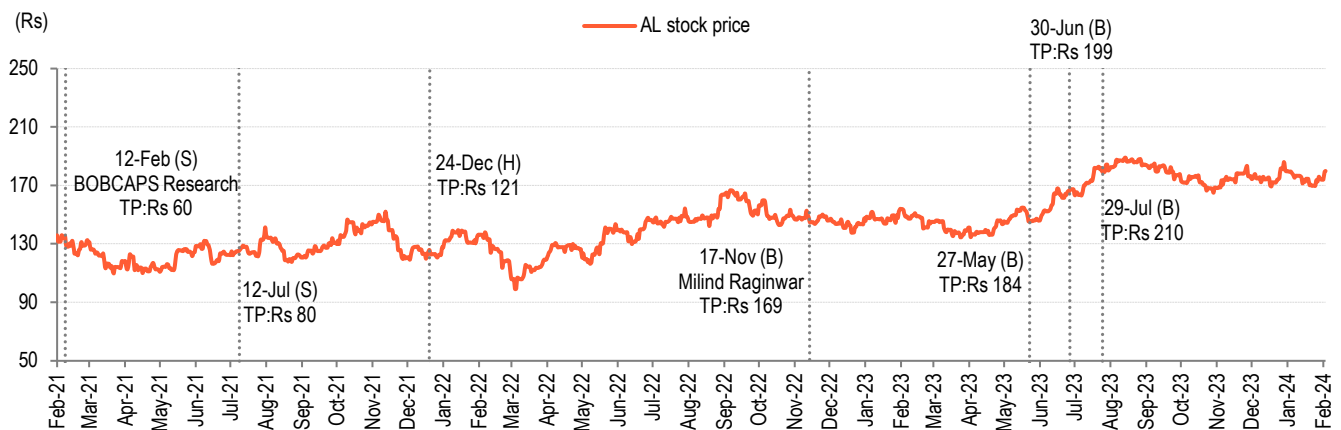
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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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