

**BUY**

TP: Rs 184 | ▲ 27%

**ASHOK LEYLAND**

| Automobiles

| 27 May 2023

### Healthy performance continues

- Q4 volumes grew 23% YoY with realisations up 9%, aiding 33% topline growth to Rs 116bn
- Gross margin at 24.4% expanded 265bps YoY aided by a combination of price hikes and softer raw material prices
- On rollover, we have a new TP of Rs 184 (vs. Rs 169), set at a revised P/E of 20x (vs. 22x) on FY25E; retain BUY

**Healthy topline growth:** AL's Q4FY23 net sales stood at Rs 116.3bn, contributed by volume growth of 23%/26% YoY/QoQ to 59.7k units. Net realisation per vehicle (NRPV) grew 9%/3% YoY/QoQ to Rs 1,947k on the back of price hikes and a rich product mix. The company raised prices by 2% in April which will further bolster realisations in Q1FY24.

**Strong margin improvement:** Raw material cost increased at a slower pace as compared to 9MFY23, rising by 28% YoY/QoQ but improving to 75.6% of net sales vs. 78.2% in Q4FY22 (76.3% in Q3FY23). Gross margin at 24.4% expanded 265bps/65bps YoY/QoQ. Other expenses rose 41%/22% YoY/QoQ to Rs 9.7bn. EBITDA grew 64%/60% YoY/QoQ to Rs 12.7bn with an 11% margin from 8.9% in Q4FY22 due to better operating leverage. Margins to improve further from Q2FY24 on the back of softer steel costs. Adj. PAT increased 61%/96% YoY/QoQ to Rs 6.9bn.

**Market share gains:** FY23 market share in MHCVs stood at 31.8%, up 470bps over FY22, with the AVTR range being a differentiator for AL in the segment. The company gained nearly 500bps market share in ICV trucks. LCV share was marginally down by 70bps vs. FY22 due to the chip shortage in H1FY23.

**Capex and investment plans:** Capex incurred for FY23 totaled Rs 5bn. For FY24, management expects to incur Rs 6bn-7.5bn, largely towards product development as AL has enough capacity for the next 1-2 years. The company invested Rs 2bn in Switch Mobility with a further Rs 12bn to be invested in tranches over 12 months.

**Maintain BUY:** Though a reversal of commodity softening trends may impact margins in the short term, we expect AL's EBITDA margin to expand 290bps over FY23-FY25 to 10% as we factor in the revival in the CV market, continued leadership in the bus segment, new launches and entry into EVs. Export recovery and sustained healthy growth will add comfort. We roll valuations forward to FY25E and revise our target P/E to 20x (vs. 22x) for a new TP of Rs 184 (vs. Rs 169). BUY.

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### Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	AL IN/Rs 146
Market cap	US\$ 5.2bn
Free float	49%
3M ADV	US\$ 14.6mn
52wk high/low	Rs 169/Rs 128
Promoter/FPI/DII	52%/17%/15%

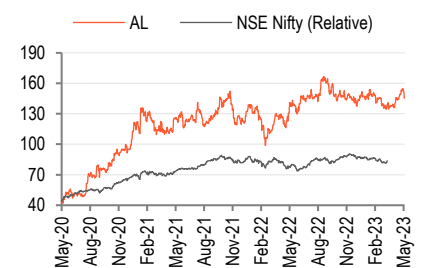
Source: NSE | Price as of 26 May 2023

### Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	3,61,441	3,68,421	4,43,948
EBITDA (Rs mn)	29,307	36,031	43,347
Adj. net profit (Rs mn)	12,955	20,515	25,286
Adj. EPS (Rs)	4.7	7.0	8.6
Consensus EPS (Rs)	4.7	7.1	9.1
Adj. ROAE (%)	15.4	19.8	20.0
Adj. P/E (x)	30.9	20.8	16.9
EV/EBITDA (x)	15.5	12.3	9.8
Adj. EPS growth (%)	4079.0	58.4	23.3

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

### Stock performance



Source: NSE



**Fig 1 – Earnings call highlights**

Parameter	Q4FY23	Q3FY23	Our view
Industry growth	<p>Management expects FY24 CV demand to surpass the previous peak of FY19, enabling the industry to grow 8-10% in FY24, with AL guided to beat industry growth.</p> <p>Management expects 5-6% industry growth for LCVs and 30% in buses.</p>	<p>Industry volumes are inching towards the previous peak registered in FY19.</p> <p>Management expects FY23 industry volumes to grow at a healthy rate, supported by steady freight demand, economic recovery, and the government's infrastructure focus.</p>	<p>Bus segment growth is likely to be stronger on a lower base, while LCV segment challenges are likely to continue.</p>
Market share	<p>FY23 market share in MHCVs stood at 31.8%, up 470bps over FY22.</p> <p>AL's focus is to expand market share in the northern and eastern regions to 30% in the first stage and to the mid-30s over the next few years.</p>	<p>In Q3FY23, AL's MHCV truck volumes grew more than 1.3 times over the industry, resulting in market share improving to 32.6% as compared to 25.3% in Q3FY22.</p>	<p>Regional diversification would help AL gain further market share in the MHCV segment.</p>
Exports	<p>AL's international market volumes grew by 2.5% in FY23, whereas other large players witnessed declines of 30-40%.</p> <p>The Middle East and Africa contributed in FY23, whereas the SAARC market was down but expected to recover this year.</p>	<p>Exports were affected due to weak international markets, though AL has been growing in the Middle East.</p> <p>Switch Mobility UK is waiting for the European markets to recover.</p>	<p>Export revival in FY23 was a positive surprise; a sustained beat over the industry will be the key.</p>
Margins	<p>AL undertook price hikes of 2% in Apr'23 (to cover costs and improve margins). Retention of price hikes is 80-90%.</p> <p>Management expects steel prices to soften from Q2FY24 and expects a double-digit EBITDA margin in FY24 with a mid-teen target for the medium term.</p>	<p>Margin expansion in Q3FY23 was driven by price hikes totalling 4-4.5%, a rich product mix and softening steel prices. management expects this to be at Q3 level or at exit level for Q4FY23</p>	<p>Steel price softening and price hikes have aided margin expansion. However, reversal of commodity price inflation may impact prices.</p>
Launch pipeline	<p>The launch pipeline includes: (i) low-floor 12metre bus and low-floor 9mtr bus for the Indian market; (ii) two new LCVs, electric <i>Dost</i> and electric <i>Bada Dost</i>; (iii) 12mtr E1 bus for Europe in Jan'24.</p>	<p><i>Bada Dost</i> EV is to be launched around Jun'23. Switch Mobility UK is also poised to launch the E1 bus at the end of CY23 or beginning of CY24.</p>	<p>New launches are focused in the bus segment. We expect demand revival to be helped by launches in LCVs.</p>
Other key points	<p>Long-term debt is at Rs 29bn.</p> <p>Switch Mobility has an order book of 2,500 units.</p>	<p>Leyland Finance had a qualified institute placement of Rs 9.1bn.</p>	<p>AL is making sustained investments in Switch Mobility which offers easier access to export markets.</p>

Source: Company, BOBCAPS Research

**Fig 2 – Quarterly performance**

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Volume	59,697	48,719	22.5	47,562	25.5	192,205	128,326	49.8
Avg. Realisation per Vehicle	1,947,446	1,794,842	8.5	1,898,505	2.6	1,880,499	1,690,093	11.3
Net Revenues	116,257	87,443	33.0	90,297	28.7	361,441	216,883	66.7
<b>Total Income (A)</b>	<b>116,257</b>	<b>87,443</b>	<b>33.0</b>	<b>90,297</b>	<b>28.7</b>	<b>361,441</b>	<b>216,883</b>	<b>66.7</b>
<b>Operating Expenses:</b>								
Raw materials consumed	87,887	68,422	28.4	68,859	27.6	278,492	167,611	66.2
Employee Expenses	5,919	4,376	35.3	5,495	7.7	21,139	16,946	24.7
Other Expenses	9,693	6,885	40.8	7,970	21.6	32,504	22,381	45.2
<b>Total Expenditure (B)</b>	<b>103,499</b>	<b>79,683</b>	<b>29.9</b>	<b>82,323</b>	<b>25.7</b>	<b>332,134</b>	<b>206,938</b>	<b>60.5</b>
<b>EBITDA (A-B)</b>	<b>12,757</b>	<b>7,760</b>	<b>64.4</b>	<b>7,973</b>	<b>60.0</b>	<b>29,307</b>	<b>9,945</b>	<b>194.7</b>
Other Income	389	242	61.1	316	23.2	1,161	761	52.4
Depreciation	1,838	1,954	(5.9)	1,890	(2.7)	7,320	7,528	(2.8)
EBIT	11,308	6,048	87.0	6,400	76.7	23,148	3,179	628.2
Finance Costs	628	765	(17.9)	804	(21.9)	2,891	3,011	(4.0)
PBT before exceptional items	10,681	5,284	102.1	5,596	90.9	20,257	168	11,964.9
Exceptional items	(564)	(4,703)		(69)		846	5,108	
PBT after exceptional items	11,245	9,987	12.6	5,665	98.5	21,103	5,276	300.0
Tax expense	3,731	973	283.5	2,052	81.8	7,303	(142)	(5,235.7)
Reported PAT	7,514	9,014	(16.6)	3,613	108.0	13,800	5,418	154.7
<b>Adjusted PAT</b>	<b>6,950</b>	<b>4,311</b>	<b>61.2</b>	<b>3,544</b>	<b>96.1</b>	<b>12,954</b>	<b>310</b>	<b>4,077.4</b>
Adj EPS (Rs)	2.4	1.5	61.2	1.2	96.1	4.4	0.1	4,076.5
<b>Key ratios (%)</b>			<b>(bps)</b>		<b>(bps)</b>			<b>(bps)</b>
Gross Margin (%)	24.4	21.8	265	23.7	66	22.9	22.7	23
EBITDA Margin (%)	11.0	8.9	210	8.8	214	8.1	4.6	352
EBIT Margin (%)	9.7	6.9	281	7.1	264	6.4	1.5	494
PBT Margin (%)	9.2	6.0	314	6.2	299	5.6	0.1	553
Tax Rate (%)	33.2	9.7	2,344	36.2	(304)	34.6	(2.7)	3,730
Adj PAT Margin (%)	6.0	4.9	105	3.9	205	3.6	0.1	344

Source: Company, BOBCAPS Research

## Valuation methodology

Though a reversal of commodity softening trends may impact margins in the short term, we expect AL's EBITDA margin to expand 290bps 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 and sustained healthy growth will add further comfort.

We roll valuations forward to FY25E and revise our target P/E for the core business to 20x (vs. 22x) to factor in systemic, geo-political and business uncertainties. This gives us a new SOTP-based TP of Rs 184 (vs. Rs 169) which includes Rs 172/sh for the core business and Rs 12/sh for Hinduja Leyland Finance. Maintain BUY

**Fig 3 – Key assumptions**

Parameter	FY23	FY24E	FY25E
M&HCV volumes (nos)	1,24,109	122,293	138,266
LCV volumes (nos)	68,096	85,096	96,083
<b>Total volume sold (Nos)</b>	<b>1,92,205</b>	<b>207,389</b>	<b>234,350</b>
M&HCV (%)	65	59	59
LCV (%)	35	41	41
Revenue per vehicle (Rs)	1,880,499	2,019,489	2,140,659
RMC per vehicle (Rs)	1,448,930	1,332,355	1,430,257
As a % of revenue	77.1	75.0	75.5
Gross margin per vehicle (Rs)	431,570	444,118	464,123
As a % of revenue	22.9	25.0	24.5
Staff cost per vehicle (Rs)	109,979	101,089	96,616
As a % of revenue	5.8	5.7	5.1
Other expense per vehicle (Rs)	169,113	168,765	183,755
As a % of revenue	9.0	9.5	9.7
EBITDA per vehicle (Rs)	152,478	174,264	183,752
As a % of revenue	8.1	9.8	9.7
Other Income (Rs mn)	1,161	1,065	1,251
Depreciation (Rs mn)	7,320	7,905	8,887
Interest (Rs mn)	2,891	2,864	3,016
PAT per vehicle (Rs)	67,397	98,920	107,898
As a % of revenue	3.6	5.6	5.7

Source: Company, BOBCAPS Research

**Fig 4 – Valuation summary**

Business	FY25E EPS (Rs)	Target P/E (x)	Value (Rs)
Standalone Business	8.6	20	172
Leyland Finance	-	-	12
<b>Total</b>	<b>-</b>	<b>-</b>	<b>184</b>

Source: BOBCAPS Research

**Fig 5 – Peer comparison**

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY24E	FY25E	FY24E	FY25E
Ashok Leyland	AL IN	BUY	184	7.0	8.6	22.7	22.9
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 sustains,
- slower economic revival that may dent growth in the MHCV and the bus segments, and
- delay in new EV launches.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	5.2	146	184	BUY
Bajaj Auto	BJAUT IN	16.3	4,616	4,188	HOLD
Eicher Motors	EIM IN	12.3	3,690	3,761	HOLD
Escorts	ESCORTS IN	3.3	2,075	1,749	SELL
Hero MotoCorp	HMCL IN	6.7	2,745	2,712	HOLD
Mahindra & Mahindra	MM IN	19.5	1,282	1,496	BUY
Maruti Suzuki	MSIL IN	34.5	9,400	9,858	HOLD
TVS Motor	TVSL IN	7.5	1,293	1,252	HOLD
VST Tillers Tractors	VSTT IN	0.3	2,658	3,218	BUY

Source: BOBCAPS Research, NSE | Price as of 26 May 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Total revenue</b>	<b>1,55,984</b>	<b>2,16,883</b>	<b>3,61,441</b>	<b>3,68,421</b>	<b>4,43,948</b>
EBITDA	5,351	9,945	29,307	36,031	43,347
Depreciation	7,477	7,528	7,320	7,939	8,956
EBIT	(931)	3,179	23,149	29,568	35,643
Net interest inc./(exp.)	(3,068)	(3,011)	(2,891)	(3,098)	(3,016)
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	26,470	32,627
Income taxes	(983)	(142)	7,303	5,956	7,341
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>(3,136)</b>	<b>5,418</b>	<b>13,801</b>	<b>20,515</b>	<b>25,286</b>
Adjustments	121	(5,108)	(846)	0	0
<b>Adjusted net profit</b>	<b>(3,016)</b>	<b>310</b>	<b>12,955</b>	<b>20,515</b>	<b>25,286</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	51,647	70,342	95,031	97,301	1,08,028
Other current liabilities	14,860	16,408	(1,041)	(22,971)	(17,543)
Provisions	6,545	6,705	10,386	7,603	8,363
Debt funds	37,163	35,071	32,248	28,198	30,368
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	1,00,557	1,23,803
Shareholders' fund	69,772	73,369	84,257	1,03,492	1,26,739
<b>Total liab. and equities</b>	<b>1,82,792</b>	<b>2,01,894</b>	<b>2,20,881</b>	<b>2,13,623</b>	<b>2,55,956</b>
Cash and cash eq.	8,230	10,470	5,013	9,785	13,576
Accounts receivables	28,160	31,111	40,627	46,431	54,125
Inventories	21,423	20,752	27,745	32,300	37,705
Other current assets	16,603	24,858	18,256	24,225	31,624
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
<b>Total assets</b>	<b>1,82,792</b>	<b>2,01,895</b>	<b>2,20,882</b>	<b>2,13,623</b>	<b>2,55,956</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Cash flow from operations</b>	<b>6,443</b>	<b>26,951</b>	<b>17,236</b>	<b>(14,892)</b>	<b>26,392</b>
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
<b>Cash flow from investing</b>	<b>(10,018)</b>	<b>(18,005)</b>	<b>(24,286)</b>	<b>21,897</b>	<b>(25,749)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	4,349	(2,092)	(2,823)	(4,050)	2,170
Interest expenses	(3,068)	(3,011)	(2,891)	(3,098)	(3,016)
Dividends paid	(1,761)	(1,761)	(1,849)	(1,942)	(2,039)
Other financing cash flows	(940)	157	2,528	662	0
<b>Cash flow from financing</b>	<b>(1,421)</b>	<b>(6,707)</b>	<b>(5,035)</b>	<b>(8,427)</b>	<b>(2,885)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(4,995)</b>	<b>2,239</b>	<b>(12,084)</b>	<b>(1,423)</b>	<b>(2,241)</b>
<b>Closing cash &amp; cash eq.</b>	<b>8,230</b>	<b>10,470</b>	<b>5,013</b>	<b>9,785</b>	<b>13,576</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	(1.0)	0.1	4.4	7.0	8.6
Adjusted EPS	(1.1)	1.8	4.7	7.0	8.6
Dividend per share	0.6	0.6	0.6	0.7	0.7
Book value per share	23.8	25.0	28.7	35.3	43.2

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	2.8	2.1	1.3	1.2	1.0
EV/EBITDA	81.0	45.4	15.5	12.3	9.8
Adjusted P/E	(136.2)	78.8	30.9	20.8	16.9
P/BV	6.1	5.8	5.1	4.1	3.4

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	73.2	5.9	61.4	77.5	77.5
Interest burden (PBT/EBIT)	442.6	166.0	91.2	89.5	91.5
EBIT margin (EBIT/Revenue)	(0.6)	1.5	6.4	8.0	8.0
Asset turnover (Rev./Avg TA)	142.8	198.8	321.4	296.9	307.4
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.4	1.3	1.3
Adjusted ROAE	(4.2)	0.4	16.4	21.9	22.0

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	(12.8)	39.0	66.7	1.9	20.5
EBITDA	(54.4)	85.8	194.7	22.9	20.3
Adjusted EPS			4079.0	58.4	23.3
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	3.4	4.6	8.1	9.8	9.8
EBIT margin	(0.6)	1.5	6.4	8.0	8.0
Adjusted profit margin	(1.9)	0.1	3.6	5.6	5.7
Adjusted ROAE	(4.3)	0.4	15.4	19.8	20.0
ROCE	(0.6)	3.0	13.5	18.5	19.1
<b>Working capital days (days)</b>					
Receivables	47	50	36	43	41
Inventory	40	35	24	30	29
Payables	125	133	108	127	112
<b>Ratios (x)</b>					
Gross asset turnover	0.7	0.5	0.3	0.3	0.3
Current ratio	1.0	0.9	0.9	1.4	1.4
Net interest coverage ratio	0.3	(1.1)	(8.0)	(9.5)	(11.8)
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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**BUY** – Expected return >+15%

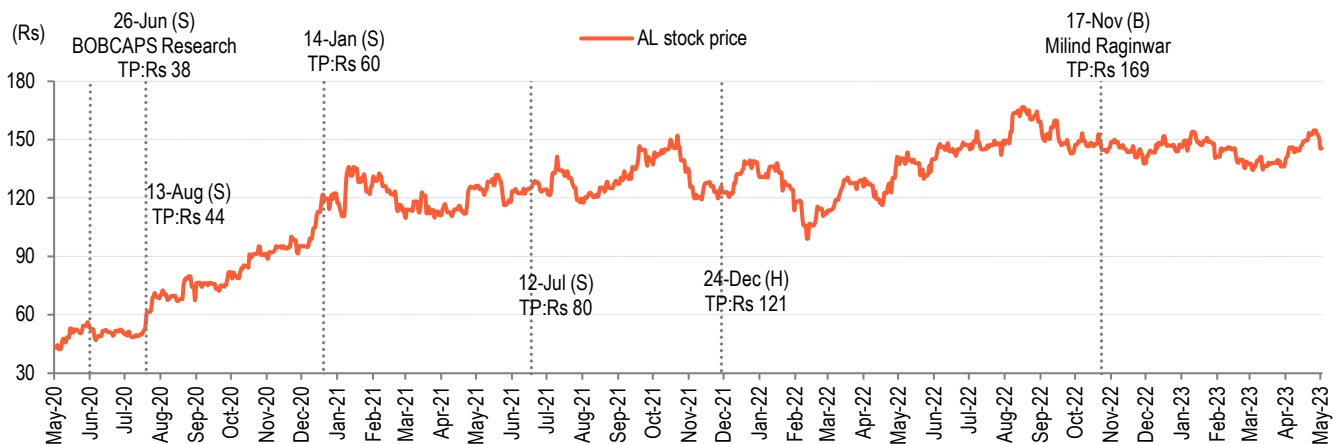
**HOLD** – Expected return from -6% to +15%

**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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