

BUY
 TP: Rs 283 | ▲ 15%

ASHOK LEYLAND

| Automobiles

| 27 July 2024

Good show in a challenging quarter; retain BUY

- Q1FY25 revenue grew 5% YoY to Rs 85.9bn, despite a challenging quarter, aided by 6% volume growth
- EBITDA margin grew by only 46bps YoY to 10.6% despite healthy gross margin, owing to higher other expenses
- We raise our earnings for FY25E/FY26E by 2%/3% and retain our BUY rating for a revised 1-year forward SOTP-based TP of Rs 283

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Topline shows ~5% growth despite challenging Q1: AL's Q1FY25 revenue increased 5% YoY to Rs 85.9bn as there was an uptick of 6% YoY (-22% QoQ) in volume growth from the domestic and exports sides as realisations stayed muted (-1% YoY). Volume from the bus segment grew 49% YoY to 6.8k units and LCV too showed signs of growth. Other business continued its healthy contribution to revenue.

Lower commodity cost aided margins gain: Raw material cost (adjusted for inventory) improved marginally to 72.4% in Q1FY25, down 140bps YoY (+40bps QoQ) of net sales to Rs 66.2bn, which aided gross margin expansion of 150bps/-30bps YoY/QoQ. However, other expenses grew 18% YoY to ~Rs 9.3bn on account of non-recurring expenses incurred for higher battery pack software charge and EV-related expenses especially in the bus segment. This restricted EBITDA growth to only 10% YoY to Rs 9.1bn and EBITDA margin rose only 46bps YoY. Adj. PAT rose to Rs 5.2bn from Rs 4.1bn in the year-ago quarter.

EV expansion on track: In the Electric segment, AL started delivery of its first eLCV, the LeV4, in Q1FY25 and launched LeV2 in the eLCV space recently. AL's subsidiary Switch Mobility too has a healthy order book. AL's e-Mass subsidiary OHM Global Mobility too has started managing electric bus operations.

Revise estimates: We raise our FY25E/FY26E earnings by 2%/3%, factoring in healthy growth momentum, better product mix and cost efficiencies. We forecast EBITDA/ PAT CAGR of 10%/13% for FY24-FY27 and introduce FY27 estimates of Rs 61.9 bn/Rs38 bn. We believe AL will deliver on new launches, beat industry growth in CVs, maintain its leadership in buses and improve on the MHCV space. LCV recovery and inroads into EVs add comfort and new dimensions to the portfolio.

Valuation outlook: We reiterate our BUY rating for a revised 1-year forward SOTP-based TP of Rs 283 (from Rs 247). We now assign 22x P/E (vs 20x) to the standalone business factoring in strong structural health and value the vehicle finance arm at Rs 12/sh.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	AL IN/Rs 246
Market cap	US\$ 8.6bn
Free float	49%
3M ADV	US\$ 47.2mn
52wk high/low	Rs 249/Rs 158
Promoter/FPI/DII	52%/17%/15%

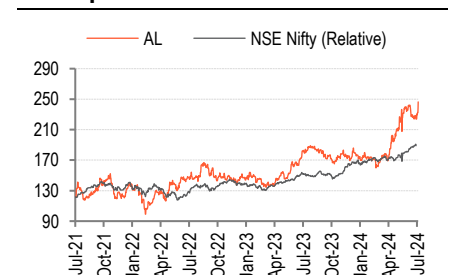
Source: NSE | Price as of 26 Jul 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	3,83,670	4,20,141	4,65,981
EBITDA (Rs mn)	46,066	51,638	56,918
Adj. net profit (Rs mn)	27,116	30,953	34,645
Adj. EPS (Rs)	8.9	10.5	11.8
Consensus EPS (Rs)	8.9	10.2	11.2
Adj. ROAE (%)	30.8	32.5	32.8
Adj. P/E (x)	27.6	23.4	20.9
EV/EBITDA (x)	16.0	13.5	12.3
Adj. EPS growth (%)	109.3	14.1	11.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q1FY25	Q4FY24	Our view
Industry growth	<p>AL's MHCV volume grew 7% in Q1FY25 which was in line with industry growth, and which helped the company retain its market share of ~31%.</p> <p>AL's subsidiary Switch Mobility had an order book of 560 buses for Delhi up to 31 March 2024, ~300 for Bengaluru and 100 for Uttar Pradesh. After Apr, the company had another order for 400 buses in Delhi.</p>	<p>The domestic MHCV industry grew 4-5% in FY24, however growth was 8-9% YoY in 9MFY24, and impacted by general elections in India growth was subdued in Q4FY24. Further, growth was impacted by a higher base in Q4FY23 due to OBD norms.</p> <p>AL's bus segment market leadership continues and is further consolidated. The order book for the E-bus segment is ~1.5k buses with major supply to Delhi followed by Bengaluru.</p>	AL will continue to beat industry growth by focusing on recovering loss of market share in the MHCV segment and further consolidating its market share in the bus segment.
Market share	<p>The bus market share was significantly up at 33.3% and the company expects to retain market share leadership.</p> <p>AL targets 35% market share in the medium term in the MHCV segment and currently has 50% of the addressable market in the LCV segment and targets ~80% by new launches.</p>	<p>The bus segment market share swelled by 5% to ~38% and AL expects to retain market share leadership.</p> <p>AL targets 35% market share in the medium term in the MHCV segment and currently occupies 50% of the addressable market in the LCV segment.</p>	The revival in the LCV segment and healthy order book of e-buses from various states only help to add market share.
Exports	Exports volume grew 5% in Q1FY25 to 2,324 units from 2,222 units in Q1FY24 due to early signs of recovery in some export markets which remained subdued over the last two years.	Exports posted 5% growth despite very challenging circumstances in the international market and all major players in India posting degrowth.	Expanding regions both domestically and globally has helped AL improve its space.
Margins	Gross margin expanded by 150bps YoY (-30bps QoQ). However, other expenses grew 18% YoY to ~Rs 9.3bn on account of non-recurring expenses incurred for higher battery pack software charge and EV-related expenses especially in the bus segment. This restricted EBITDA growth to only 10% YoY to Rs 9.1bn and EBITDA margin rose only 46bps YoY. Adj. PAT rose to Rs 5.2bn from Rs 4.1bn YoY.	<p>AL aspires to retain its mid-teen EBITDA margin and expects to maintain EBITDA margin level going forward because of cost initiatives, productivity improvement, efficiencies, etc. Commodity prices are likely to be favourable going forward.</p> <p>The Defence, Power Solutions, Spare Parts businesses remain higher-margin businesses for the company.</p>	AL is looking at aggressive margin expansion, but we remain conservative, projecting an EBITDA margin of ~12% for FY25E/FY26E.
Launch pipeline	AL launched LeV2 in the e-LCV space very recently. The company plans to launch six LCVs in Q1FY25. In the Bus segment too, the company expects launches of new products in FY25.	<p>AL plans to launch 16 new models in the MHCV segment, though details were not shared. This will provide a major boost to market share in FY25.</p> <p>This is beyond the e-LCV launch expected shortly.</p>	Launch pipeline continues to be strong, this will help AL to improve its product mix and aid margins.
Other key points	<p>AL's e-Mass subsidiary OHM Global Mobility has started managing electric bus operations in Bengaluru and Ahmedabad, and Bihar and Chandigarh.</p> <p>The overall AUM of Hinduja Leyland Finance is Rs 400bn and of Hinduja Housing finance ~ Rs 115bn, with a cumulative AUM of Rs 515bn. Revenue from this stood at Rs 13.7bn with 10% of profit totalling Rs 1.3bn.</p> <p>In Q1FY25, the defence business almost doubled YoY and AL expects 30-40% growth in FY25 due to strong order visibility. The company intends to double revenue from the defence segment in the next two to three years. Revenue from the spare parts business rose significantly by ~12-12.5% YoY.</p>	<p>AL invested a total of Rs 15bn in FY24 in Optare and OHM. AL indicated that the balance sheet credence is strong enough to support funds requirements of both in Switch Mobility and OHM.</p> <p>The overall AUM of Hinduja Leyland Finance is Rs 380bn and of Hinduja Housing Finance ~ Rs 110bn, with a cumulative AUM of Rs 500bn. The GNPA is about 4.5% and NNPA ~2.25% to 2.3%.</p> <p>In FY24, Defence business growth was 2x with healthy margins; Power Solution business growth was ~40% with healthy margins; and the Spare Parts business grew 32% in FY24.</p>	Profitability of non-core businesses has kept AL's overall margin profile healthy.

Source: Company, BOBCAPS Research | eLCV: Electric Light Commercial Vehicle, OBD: On-board diagnostics, MHCV: Medium and heavy commercial vehicles, LCV: Light Commercial Vehicle, AUM: Assets under management

Fig 2 – Quarterly performance (Standalone)

(Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Volume	43,893	41,329	6.2	56,269	(22.0)
Avg. Realisation per Vehicle	19,58,975	19,81,488	(1.1)	20,02,291	(2.2)
Net Revenues	85,985	81,893	5.0	1,12,667	(23.7)
Total Income (A)	85,985	81,893	5.0	1,12,667	(23.7)
Operating Expenses:					
Raw materials consumed	62,046	60,282	2.9	80,906	(23.3)
Employee Expenses	5,498	5,376	2.3	5,535	(0.7)
Other Expenses	9,333	7,938	17.6	10,305	(9.4)
Total Expenditure (B)	76,877	73,595	4.5	96,746	(20.5)
EBITDA (A-B)	9,109	8,298	9.8	15,921	(42.8)
Other Income	223	512	(56.4)	1,179	(81.1)
Depreciation	1,727	1,794	(3.7)	1,797	(3.9)
EBIT	7,605	7,016	8.4	15,303	(50.3)
Finance Costs	591	699	(15.5)	592	(0.3)
PBT before excep items	7,014	6,317	11.0	14,711	(52.3)
Exceptional items	-	6		697	
PBT after excep items	7,014	6,311	11.1	14,014	(49.9)
Tax expense	1,759	457	284.9	5,010	(64.9)
Reported PAT	5,256	5,854	(10.2)	9,004	(41.6)
Adjusted PAT	5,256	5,860	(10.3)	9,701	(45.8)
EPS (Rs)	1.8	2.0	(10.3)	3.3	(45.8)
Key Ratios (%)			(bps)		(bps)
Gross Margin	27.8	26.4	145	28.2	(35)
EBITDA Margin	10.6	10.1	46	14.1	(354)
EBIT Margin	8.8	8.6	28	13.6	(474)
PBT Margin	8.2	7.7	44	13.1	(490)
Tax Rate	25.1	7.2	1,783	35.8	(1068)
Adj PAT Margin	6.1	7.2	(104)	8.6	(250)

Source: Company, BOBCAPS Research

Valuation methodology

We revise our earnings for FY25E/FY26E by 2%/3%, factoring in healthy growth momentum, better product mix and cost efficiencies, and estimate EBITDA/PAT CAGR of 10%/13% for FY24-FY27. We introduce FY27 EBITDA/PAT estimates of Rs 61.9bn/Rs 38bn.

We reiterate our BUY rating for a revised 1-year forward (Q1FY27) SOTP-based TP of Rs 283 (from Rs 247). We now assign 22x P/E (vs 20x) to the standalone business, factoring in strong structural health (Rs 271) and value the vehicle finance arm at Rs 12/sh. We believe AL will deliver on new launches, beat industry growth in commercial vehicles and thereby maintain leadership in buses and improve the MHCV space. LCV recovery and inroads into EVs add comfort and new dimensions to the portfolio.

Fig 3 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	4,20,141	4,65,981	5,09,795	4,39,385	4,96,092	NA	(4.4)	(6.1)	NA
EBITDA	51,638	56,918	61,964	52,207	59,316	NA	(1.1)	(4.0)	NA
Adj PAT	30,953	34,645	38,057	30,306	33,707	NA	2.1	2.8	NA
Adj EPS (Rs)	10.5	11.8	13.0	10.3	11.5	NA	2.4	2.6	NA

Source: BOBCAPS Research

Fig 4 – Key assumptions

Parameter	FY25E	FY26E	FY27E
M&HCV volumes (nos)	1,33,627	1,43,649	1,52,986
LCV volumes (nos)	75,384	81,415	86,300
Total volumes sold (nos)	2,09,011	2,25,064	2,39,286
M&HCV volume share (%)	63.9	63.8	63.9
LCV volume share (%)	36.1	36.2	36.1
Revenue per vehicle (Rs)	20,10,138	20,70,442	21,30,485
Raw material cost per vehicle (Rs)	14,61,370	15,06,247	15,48,863
As a % of revenue	72.7	72.8	72.7
Gross margin per vehicle (Rs)	5,48,768	5,64,195	5,81,622
As a % of revenue	27.3	27.3	27.3
Staff cost per vehicle (Rs)	1,15,937	1,13,805	1,13,196
As a % of revenue	5.8	5.5	5.3
Other expense per vehicle (Rs)	1,90,963	2,01,868	2,14,114
As a % of revenue	9.5	9.8	10.1
EBITDA per vehicle (Rs)	2,41,867	2,48,522	2,54,313
As a % of revenue	12.0	12.0	11.9
Other Income (Rs mn)	2,565	2,874	3,124
Depreciation (Rs mn)	7,307	7,480	7,703
Interest (Rs mn)	2,199	2,284	2,431
PAT per vehicle (Rs)	1,48,091	1,53,934	1,59,042
As a % of revenue	7.4	7.4	7.5

Source: Company, BOBCAPS Research

Fig 5 – Valuation summary

Business	1-year forward EPS (Rs)	Target P/E (x)	Value (Rs)
Standalone Business	11.8	22	271
Hinduja Leyland Finance	-	-	12
Total	-	-	283

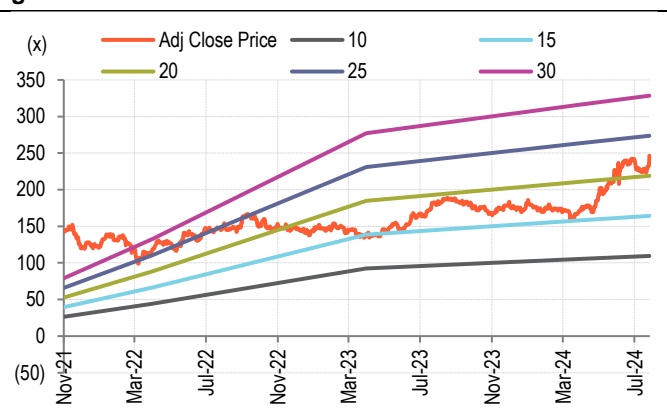
Source: BOBCAPS Research | Note: Valuation is 1-year forward based on 1QFY27; EPS includes partial FY27 estimates

Fig 6 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY25E	FY26E	FY25E	FY26E
Ashok Leyland	AL IN	BUY	283	10.5	11.8	32.5	32.8
Mahindra & Mahindra	MM IN	HOLD	3,210	95.7	118.7	19.6	19.9
Tata Motors*	TTMT IN	NOT RATED	-	64.5	78.6	30.9	28.9

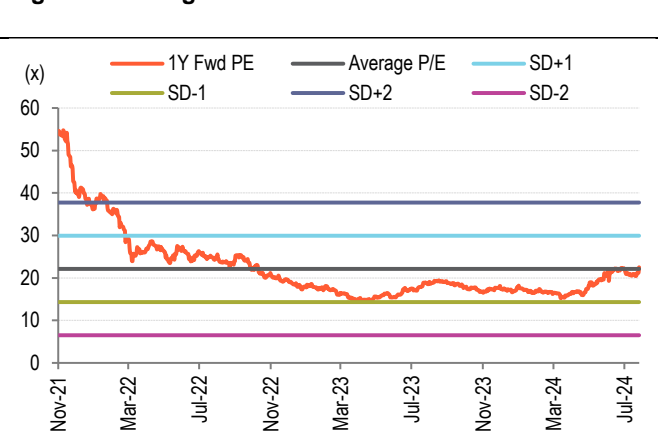
Source: BOBCAPS Research *Bloomberg Estimates

Fig 7 – PE Valuations moving in tandem with earnings growth



Source: Company, Bloomberg, BOBCAPS Research

Fig 8 – We assign mean valuations for AL



Source: Company, Bloomberg, BOBCAPS Research

Key downside risks to our estimates are:

- fierce competition and, hence, pressure on margins,
- delays in planned launches in the M&HCV and bus segments, and
- faster reversal in the commodity cycle unfavourably hitting costs.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	3,61,441	3,83,670	4,20,141	4,65,981	5,09,795
EBITDA	29,307	46,066	51,638	56,918	61,964
Depreciation	7,320	7,178	7,307	7,480	7,703
EBIT	23,149	41,353	46,896	52,313	57,386
Net interest inc./(exp.)	(2,891)	(2,494)	(2,199)	(2,284)	(2,431)
Other inc./(exp.)	1,161	2,466	2,565	2,874	3,124
Exceptional items	846	(937)	0	0	0
EBT	21,104	37,922	44,697	50,029	54,955
Income taxes	7,303	11,743	13,744	15,384	16,899
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	13,801	26,179	30,953	34,645	38,057
Adjustments	(846)	937	0	0	0
Adjusted net profit	12,955	27,116	30,953	34,645	38,057

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	72,441	63,727	75,932	86,236	95,952
Other current liabilities	21,996	42,431	18,826	20,596	21,398
Provisions	10,377	13,748	14,600	15,621	16,717
Debt funds	31,801	22,545	26,332	27,416	28,144
Other liabilities	0	0	0	0	0
Equity capital	2,936	2,936	2,936	2,936	2,936
Reserves & surplus	81,322	85,168	92,347	1,02,550	1,14,944
Shareholders' fund	84,257	88,103	95,282	1,05,486	1,17,880
Total liab. and equities	2,20,873	2,30,554	2,30,972	2,55,354	2,80,090
Cash and cash eq.	5,013	34,382	13,723	8,854	5,997
Accounts receivables	40,627	35,699	41,439	47,236	53,075
Inventories	27,745	31,907	33,957	38,938	43,996
Other current assets	21,529	16,999	21,583	25,533	27,934
Investments	66,627	55,598	65,107	75,107	85,107
Net fixed assets	59,378	56,079	55,728	59,248	63,545
CWIP	490	955	5,000	6,000	6,000
Intangible assets	4,499	4,499	0	0	0
Deferred tax assets, net	(5,035)	(5,563)	(5,563)	(5,563)	(5,563)
Other assets	0	0	0	0	0
Total assets	2,20,872	2,30,554	2,30,972	2,55,354	2,80,090

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	18,994	41,973	1,974	25,568	27,536
Capital expenditures	(3,735)	(4,345)	(6,501)	(12,000)	(12,000)
Change in investments	(18,431)	11,029	(9,509)	(10,000)	(10,000)
Other investing cash flows	1,161	2,466	2,565	2,874	3,124
Cash flow from investing	(21,004)	9,150	(13,445)	(19,126)	(18,876)
Equities issued/Others	50	17	(66)	0	0
Debt raised/repaid	(3,270)	(9,256)	3,787	1,083	728
Interest expenses	(2,891)	(2,494)	(2,199)	(2,284)	(2,431)
Dividends paid	(7,632)	(14,531)	(14,678)	(14,678)	(14,678)
Other financing cash flows	3,669	459	(431)	0	0
Cash flow from financing	(10,075)	(25,806)	(13,587)	(15,879)	(16,380)
Chg in cash & cash eq.	(12,085)	25,318	(25,058)	(9,436)	(7,720)
Closing cash & cash eq.	5,013	34,382	13,723	8,854	5,997

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	4.4	9.2	10.5	11.8	13.0
Adjusted EPS	4.7	8.9	10.5	11.8	13.0
Dividend per share	2.6	5.0	5.0	5.0	5.0
Book value per share	28.7	30.0	32.5	35.9	40.2

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	2.1	1.9	1.7	1.5	1.4
EV/EBITDA	25.6	16.0	13.5	12.3	11.8
Adjusted P/E	52.4	27.6	23.4	20.9	19.0
P/BV	8.6	8.2	7.6	6.9	6.1

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	61.4	71.5	69.3	69.3	69.3
Interest burden (PBT/EBIT)	91.2	91.7	95.3	95.6	95.8
EBIT margin (EBIT/Revenue)	6.4	10.8	11.2	11.2	11.3
Asset turnover (Rev./Avg TA)	322.0	338.5	361.8	366.2	365.5
Leverage (Avg TA/Avg Equity)	1.4	1.3	1.3	1.3	1.2
Adjusted ROAE	16.4	31.5	33.8	34.5	34.1

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	66.7	6.2	9.5	10.9	9.4
EBITDA	194.7	57.2	12.1	10.2	8.9
Adjusted EPS	4079.0	109.3	14.1	11.9	9.8
Profitability & Return ratios (%)					
EBITDA margin	8.1	12.0	12.3	12.2	12.2
EBIT margin	6.4	10.8	11.2	11.2	11.3
Adjusted profit margin	3.6	7.1	7.4	7.4	7.5
Adjusted ROAE	15.4	30.8	32.5	32.8	32.3
ROCE	13.5	25.2	28.0	28.5	28.5
Working capital days (days)					
Receivables	36	36	34	35	36
Inventory	24	28	29	29	30
Payables	94	89	84	88	90
Ratios (x)					
Gross asset turnover	0.3	0.3	0.3	0.3	0.3
Current ratio	0.9	1.0	1.0	1.0	1.0
Net interest coverage ratio	(8.0)	(16.6)	(21.3)	(22.9)	(23.6)
Adjusted debt/equity	0.4	0.3	0.3	0.3	0.2

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

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

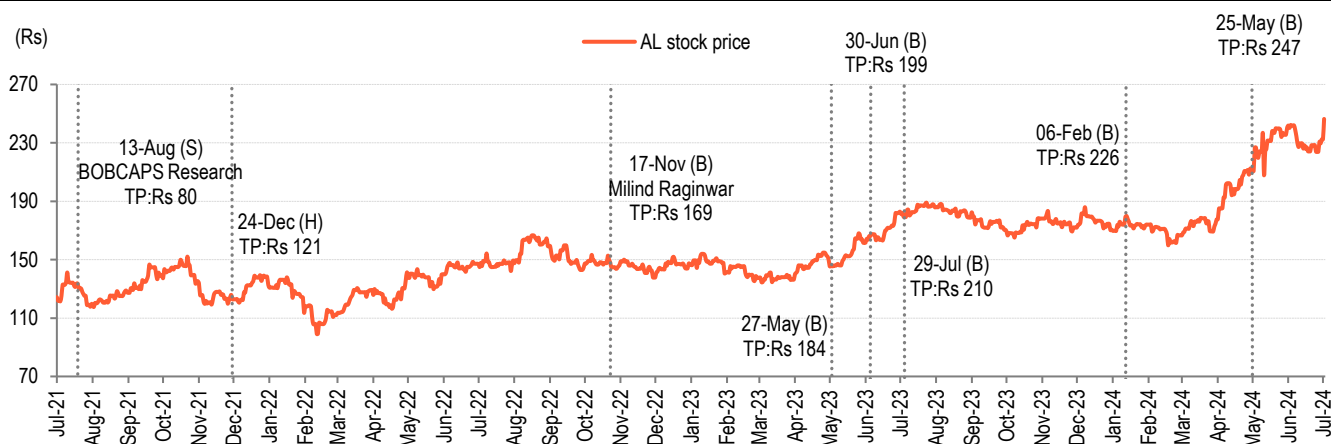
HOLD – Expected return from -6% to +15%

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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