

**BUY**  
 TP: Rs 279 | ▲ 26%

**ASHOK LEYLAND**

| Automobiles

| 09 November 2024

**Cost respite aids steady show; recovery in sight. Retain BUY**

- Q2FY25 revenue grew 9% YoY to Rs 87.6bn (up 2% QoQ), helped by flat realisations YoY while volume fell by 9%
- EBITDA margin rose to 11.6% compared to 10.6% in Q1FY25 and 11.2% in Q2FY24 largely driven by commodity cost savings measures
- We cut our earnings for FY25E/FY26E/FY27E by 7%/4%/1%, retain BUY rating for a revised 1-year forward SOTP-based TP of Rs 279 (vs Rs 283)

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**Revenue slips as volume weakens:** Q2FY25 revenue fell 9% YoY to Rs 87.6bn (up by 2% QoQ) dragged by ~9% YoY volume decline to 45.6k units, while the net realisation per vehicle (NRPV) stayed flat YoY (-2% QoQ) at ~Rs 1,921k. Despite heavy monsoon particularly in the eastern and southern regions of India and overall limited revival in MHCV volume, QoQ grew by 4% (helped by discounts). AL's domestic MHCV volume fell by 14% (market share retained at ~31%) while the Bus segment market share was at ~33.3%. AL's domestic LCV volume was 16.6k units, flat over Q2FY24. The export volume in Q2FY25 was 14% higher YoY.

**Lower commodity cost aided margins gain:** Raw material cost (adjusted for inventory) improved to 71.2% in Q2FY25, down 230bps/100bps YoY/QoQ of net sales, to Rs 61.8bn, which aided gross margin expansion to 28.8% from 26.5% YoY (100bps QoQ). Other expenses were checked at a 1.4% rise YoY to ~Rs 9.1bn and offset the jump in employee expenses of 5% YoY. EBITDA margin rose 40bps/100bps YoY/QoQ. APAT rose 12% YoY to Rs 5.2bn (Rs 4.1bn in Q2FY24).

**EV expansion on track:** In the EV segment, AL delivered its first eLCV, the LeV4, in Q1FY25 and launched LeV2 in the eLCV space recently. Next year AL will launch a 15-metre front-engine bus competing in the high end intracity movement segment. It will also launch 12-metre ultra-low floor buses in Delhi and Bangalore.

**Revise estimates:** We cut FY25E/FY26E/FY27E earnings by 7%/4%/1%, to factor in mixed momentum, late recovery in the MHCV segment and limited overall growth. We forecast EBITDA/PAT CAGR of 9%/13% for FY24-FY27. We think AL will deliver on new launches, beat industry growth in CVs, maintain its leadership in buses and improve on the MHCV space. We believe LCV recovery and inroads into EVs will broaden its portfolio. Optimal fleet utilisation rates/cost control offer further comfort.

**Valuation outlook:** We reiterate our BUY rating for a revised 1-year forward SOTP-based TP of Rs 279 (from Rs 283). We continue to assign 22x P/E 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 222
Market cap	US\$ 7.7bn
Free float	49%
3M ADV	US\$ 24.5mn
52wk high/low	Rs 265/Rs 158
Promoter/FPI/DII	52%/17%/15%

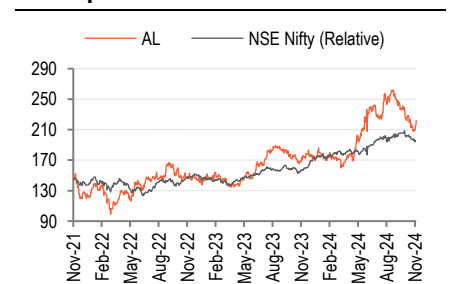
Source: NSE | Price as of 8 Nov 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	3,83,670	3,91,675	4,36,979
EBITDA (Rs mn)	46,066	46,571	52,935
Adj. net profit (Rs mn)	27,116	28,633	33,268
Adj. EPS (Rs)	8.9	9.8	11.3
Consensus EPS (Rs)	8.9	9.6	10.8
Adj. ROAE (%)	30.8	30.8	32.7
Adj. P/E (x)	24.9	22.7	19.6
EV/EBITDA (x)	14.5	13.4	11.9
Adj. EPS growth (%)	109.3	5.6	16.2

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Earnings call highlights**

Parameter	Q2FY25	Q1FY25	Our view
Industry growth	<p>Due to extreme weather conditions, rainfall and slowdown in government capex, the MHCV industry experienced a 12% drop in volume in Q2. MHCV domestic sales volume dropped by 14% YoY in Q2FY25 to 25.6k units and LCV volumes fell by 2.17% to 16.6k units YoY. Overall, AL's CV volumes dropped 8% YoY but grew 4% QoQ in Q2FY25.</p> <p>AL's subsidiary OHM Global Mobility was awarded an order of 500 buses by Chennai's Metropolitan Transport Corporation and AL's subsidiary Switch Mobility is fulfilling an order of 1,200 buses and has an order book for 2,000 buses to be fulfilled in the next 15 months.</p>	<p>AL's MHCV volume grew 7% in Q1FY25, in line with industry growth. This 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 April, the company had another order for 400 buses in Delhi.</p>	<p>Though its volume dropped, AL performed better than the industry during the quarter. It will focus on recovering lost market share in the MHCV segment and further consolidate its market share in the Bus segment.</p>
Market share	<p>AL's domestic MHCV market share continues to be over 31% and AL maintained market leadership in the Bus segment. AL targets 35% market share in the medium term and currently has 50% of the addressable market in the LCV segment and targets to expand it to ~80% with new launches.</p>	<p>The bus market share was up significantly 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% with the help of new launches.</p>	<p>The revival in the LCV segment and healthy order book of e-buses from various states only helps to add market share.</p>
Exports	<p>Despite global challenges, export volumes grew 14%/42% YoY/QoQ to 3.3k units. AL is currently intensifying its expansion in the SAARC and MENA markets. AL's long-term target is to export 50k units.</p>	<p>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.</p>	<p>Expanding domestically and globally has helped AL improve its space and its beat to the industry pace.</p>
Margins	<p>EBITDA margin for Q2FY25 was 11.6% vs 10.6%/11.2% in Q1FY25/Q2FY24. Reported PAT grew 37% YoY to Rs 7.70bn. Margin expansion was on account of steel prices softening, leading to material cost savings. AL expects Switch India to be EBITDA positive by Q1/Q2 of FY26. Mandatory AC cabin norms will affect about 80% of new vehicles sold, however its additional delta cost will be only 0.5%.</p>	<p>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>	<p>AL is looking at aggressive margin expansion, but we remain conservative and project EBITDA margin of ~12% for FY25E/ FY26E/ FY27E.</p>
Launch pipeline	<p>Next year AL will launch a 15-metre front-engine bus competing in the high-end intracity movement segment.</p>	<p>AL launched LeV2 in the e-LCV space very recently. AL plans to launch six LCVs in Q1FY25. In the Bus segment too, the company expects to launch new products in FY25.</p>	<p>The launch pipeline continues to be strong. This will help AL to improve its product mix and aid margins.</p>

Parameter	Q2FY25	Q1FY25	Our view
Other key points	<p>Capex for Q2FY25 was Rs 1.53bn and its target is Rs 3.07bn for FY25.</p> <p>The overall AUM of Hinduja Leyland Finance is Rs 420bn and of Hinduja Housing Finance ~Rs 125bn, with a cumulative AUM of Rs 545bn. Revenue from this stood at Rs 30bn with profit totalling Rs 2bn-2.5bn. Going forward, AL may infuse equity worth Rs 2bn-2.5bn.</p> <p>In H1FY25, AL almost doubled its YoY defence revenue. Engine volumes grew 17% YoY. Spare Parts revenue grew 13% YoY.</p>	<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>Profitability of AL's non-core businesses has kept AL's overall margin profile healthy.</p>

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, SAARC: South Asian Association for Regional Cooperation

**Fig 2 – Quarterly performance (Standalone)**

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	2QFY25E
Volume	45,624	49,846	(8.5)	43,893	3.9	45,624
Avg. Realisation per Vehicle	19,21,977	19,33,563	(0.6)	19,58,975	(1.9)	19,39,385
Net Revenues	87,688	96,380	(9.0)	85,985	2.0	88,483
<b>Total Income (A)</b>	<b>87,688</b>	<b>96,380</b>	<b>(9.0)</b>	<b>85,985</b>	<b>2.0</b>	<b>88,483</b>
<b>Operating Expenses</b>						
Raw materials consumed	62,410	70,866	(11.9)	62,046	0.6	64,492
Employee Expenses	5,987	5,728	4.5	5,498	8.9	5,530
Other Expenses	9,118	8,989	1.4	9,333	(2.3)	9,291
<b>Total Expenditure (B)</b>	<b>77,515</b>	<b>85,583</b>	<b>(9.4)</b>	<b>76,877</b>	<b>0.8</b>	<b>79,313</b>
<b>EBITDA (A-B)</b>	<b>10,173</b>	<b>10,798</b>	<b>(5.8)</b>	<b>9,109</b>	<b>11.7</b>	<b>9,170</b>
Other Income	973	475	105.0	223	335.4	315
Depreciation	1,754	1,803	(2.7)	1,727	1.6	1,751
EBIT	9,391	9,470	(0.8)	7,605	23.5	7,734
Finance Costs	607	587	3.4	591	2.8	611
PBT after excep items	7,611	8,654	(12.1)	7,014	8.5	7,123
Tax expense	2,257	3,044	(25.8)	1,759	28.4	1,852
<b>Reported PAT</b>	<b>7,701</b>	<b>5,610</b>	<b>37.3</b>	<b>5,256</b>	<b>46.5</b>	<b>5,271</b>
<b>Adjusted PAT</b>	<b>6,527</b>	<b>5,839</b>	<b>11.8</b>	<b>5,256</b>	<b>24.2</b>	<b>5,271</b>
EPS (Rs)	2.2	2.0	11.8	1.8	24.2	1.8
<b>Key Ratios (%)</b>			<b>(bps)</b>		<b>(bps)</b>	
Gross Margin	28.8	26.5	235	27.8	99	27.1
EBITDA Margin	11.6	11.2	40	10.6	101	10.4
EBIT Margin	10.7	9.8	88	8.8	187	8.7
PBT Margin	10.0	9.2	80	8.2	186	8.0
Tax Rate	29.7	35.2	(551)	25.1	459	26.0
Adj PAT Margin	7.4	6.1	139	6.1	133	6.0

Source: Company, BOBCAPS Research

## Valuation methodology

We cut FY25E/FY26E/FY27E earnings by 7%/4%/1%, to factor in the mixed momentum, late recovery in the MHCV segment and limited overall growth. We forecast EBITDA/PAT CAGR of 9%/13% for FY24-FY27. 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 only broaden its portfolio. Optimal fleet utilisation rates/cost controls offer further comfort.

We reiterate our BUY rating for a revised 1-year forward SOTP-based TP of Rs 279 (from Rs 283). We continue to assign 22x P/E to the standalone business factoring in strong structural health and value the vehicle finance arm at Rs 12/sh.

**Fig 3 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	3,91,675	4,36,979	4,83,026	4,20,141	4,65,981	5,09,795	(6.8)	(6.2)	(5.3)
EBITDA	46,571	52,935	59,520	51,638	56,918	61,964	(9.8)	(7.0)	(3.9)
Adj PAT	28,633	33,268	37,939	30,953	34,645	38,057	(7.5)	(4.0)	(0.3)
Adj EPS (Rs)	9.8	11.3	12.9	10.5	11.8	13.0	(7.1)	(4.0)	(0.6)

Source: BOBCAPS Research

**Fig 4 – Key assumptions**

	FY25E	FY26E	FY27E
M&HCV volumes (nos)	1,24,885	1,35,500	1,45,663
LCV volumes (nos)	71,894	77,646	83,081
<b>Total volumes sold (nos)</b>	<b>1,96,779</b>	<b>2,13,146</b>	<b>2,28,743</b>
M&HCV volume share (%)	63.5	63.6	63.7
LCV volume share (%)	36.5	36.4	36.3
Revenue per vehicle (Rs)	19,90,431	20,50,144	21,11,648
Raw material cost per vehicle (Rs)	14,47,043	14,86,354	15,25,666
As a % of revenue	72.7	72.5	72.3
Gross margin per vehicle (Rs)	5,43,388	5,63,789	5,85,982
As a % of revenue	27.3	27.5	27.8
Staff cost per vehicle (Rs)	1,23,144	1,20,169	1,18,413
As a % of revenue	6.2	5.9	5.6
Other expense per vehicle (Rs)	1,89,091	1,99,889	2,12,221
As a % of revenue	9.5	9.8	10.1
EBITDA per vehicle (Rs)	2,31,153	2,43,732	2,55,349
As a % of revenue	11.6	11.9	12.1
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)	1,45,507	1,56,081	1,65,860
As a % of revenue	7.3	7.6	7.9

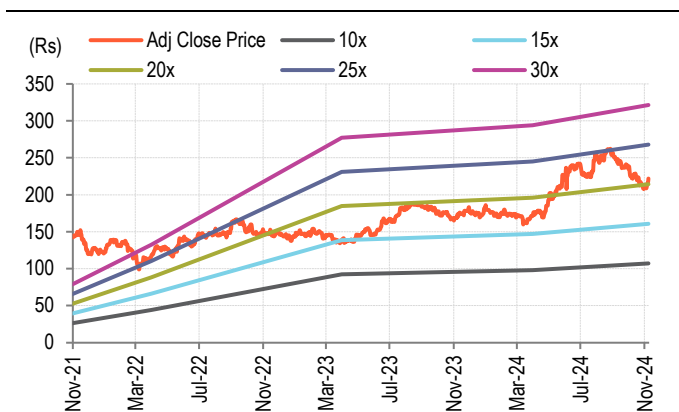
Source: BOBCAPS Research

**Fig 5 – Valuation summary**

Business	1-year forward EPS (Rs)	Target P/E (x)	Value (Rs)
Standalone Business	12.1	22	267
Hinduja Leyland Finance	-	-	12
<b>Total</b>	<b>-</b>	<b>-</b>	<b>279</b>

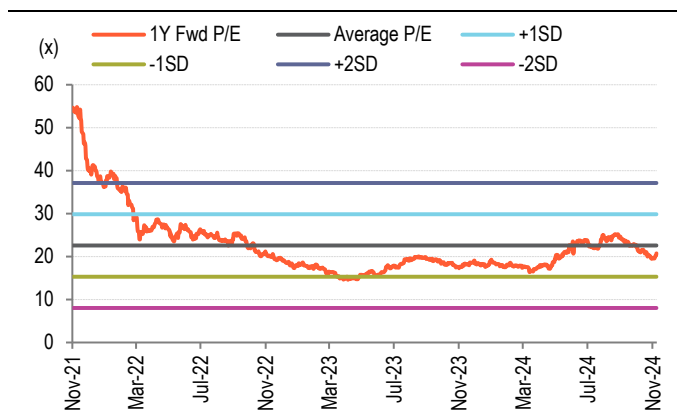
Source: BOBCAPS Research | Note: Valuation is 1-year forward based on 1HFY27; EPS includes partial FY27 estimates

**Fig 6 – P/E band: We value AL at 22x 1-year forward core business EPS**



Source: Bloomberg, Company, BOBCAPS Research

**Fig 7 – P/E 1Y fwd: AL will align to the mean in the medium term**



Source: Bloomberg, Company, BOBCAPS Research

**Fig 8 – Peer comparison**

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY26E	FY27E	FY26E	FY27E
Ashok Leyland	AL IN	BUY	283	11.3	12.9	34.2	35.2
Mahindra & Mahindra	MM IN	HOLD	3,210	118.8	129.7	21.1	19.4
TTMT IN*	NOT RATED	-	-	65.8	79.3	30.9	28.9

Source: BOBCAPS Research \*Bloomberg Estimates

### Key risks

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
<b>Total revenue</b>	<b>3,61,441</b>	<b>3,83,670</b>	<b>3,91,675</b>	<b>4,36,979</b>	<b>4,83,026</b>
EBITDA	29,307	46,066	46,571	52,935	59,520
Depreciation	7,320	7,178	7,307	7,480	7,703
EBIT	23,149	41,353	41,829	48,330	54,942
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	39,630	46,046	52,511
Income taxes	7,303	11,743	10,997	12,778	14,572
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>13,801</b>	<b>26,179</b>	<b>28,633</b>	<b>33,268</b>	<b>37,939</b>
Adjustments	(846)	937	0	0	0
<b>Adjusted net profit</b>	<b>12,955</b>	<b>27,116</b>	<b>28,633</b>	<b>33,268</b>	<b>37,939</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	72,441	63,727	73,239	80,479	90,009
Other current liabilities	21,996	42,431	14,595	18,881	20,077
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	90,027	98,854	1,11,130
Shareholders' fund	84,257	88,103	92,962	1,01,789	1,14,066
<b>Total liab. and equities</b>	<b>2,20,873</b>	<b>2,30,554</b>	<b>2,21,729</b>	<b>2,44,186</b>	<b>2,69,012</b>
Cash and cash eq.	5,013	34,382	11,050	4,639	1,482
Accounts receivables	40,627	35,699	38,631	44,297	50,288
Inventories	27,745	31,907	31,656	36,515	41,686
Other current assets	21,529	16,999	20,120	23,944	26,467
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
<b>Total assets</b>	<b>2,20,872</b>	<b>2,30,554</b>	<b>2,21,729</b>	<b>2,44,186</b>	<b>2,69,012</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>18,994</b>	<b>41,973</b>	<b>(699)</b>	<b>24,025</b>	<b>27,238</b>
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
<b>Cash flow from investing</b>	<b>(21,004)</b>	<b>9,150</b>	<b>(13,445)</b>	<b>(19,126)</b>	<b>(18,876)</b>
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
<b>Cash flow from financing</b>	<b>(10,075)</b>	<b>(25,806)</b>	<b>(13,587)</b>	<b>(15,879)</b>	<b>(16,380)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(12,085)</b>	<b>25,318</b>	<b>(27,731)</b>	<b>(10,979)</b>	<b>(8,018)</b>
<b>Closing cash &amp; cash eq.</b>	<b>5,013</b>	<b>34,382</b>	<b>11,050</b>	<b>4,639</b>	<b>1,482</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	4.4	9.2	9.8	11.3	12.9
Adjusted EPS	4.7	8.9	9.8	11.3	12.9
Dividend per share	2.6	5.0	5.0	5.0	5.0
Book value per share	28.7	30.0	31.7	34.7	38.9

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	1.9	1.7	1.6	1.4	1.4
EV/EBITDA	23.1	14.5	13.4	11.9	11.1
Adjusted P/E	47.2	24.9	22.7	19.6	17.2
P/BV	7.7	7.4	7.0	6.4	5.7

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	61.4	71.5	72.3	72.3	72.3
Interest burden (PBT/EBIT)	91.2	91.7	94.7	95.3	95.6
EBIT margin (EBIT/Revenue)	6.4	10.8	10.7	11.1	11.4
Asset turnover (Rev./Avg TA)	322.0	338.5	340.7	351.7	355.9
Leverage (Avg TA/Avg Equity)	1.4	1.3	1.3	1.3	1.3
<b>Adjusted ROAE</b>	<b>16.4</b>	<b>31.5</b>	<b>31.6</b>	<b>34.2</b>	<b>35.2</b>

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	66.7	6.2	2.1	11.6	10.5
EBITDA	194.7	57.2	1.1	13.7	12.4
Adjusted EPS	4079.0	109.3	5.6	16.2	14.0
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	8.1	12.0	11.9	12.1	12.3
EBIT margin	6.4	10.8	10.7	11.1	11.4
Adjusted profit margin	3.6	7.1	7.3	7.6	7.9
Adjusted ROAE	15.4	30.8	30.8	32.7	33.3
ROCE	13.5	25.2	26.3	28.1	29.3
<b>Working capital days (days)</b>					
Receivables	36	36	35	35	36
Inventory	24	28	30	28	30
Payables	94	89	88	89	89
<b>Ratios (x)</b>					
Gross asset turnover	0.3	0.3	0.3	0.3	0.3
Current ratio	0.9	1.0	1.0	1.0	0.9
Net interest coverage ratio	(8.0)	(16.6)	(19.0)	(21.2)	(22.6)
<b>Adjusted debt/equity</b>	<b>0.4</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.2</b>

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

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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

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

**BUY** – Expected return >+15%

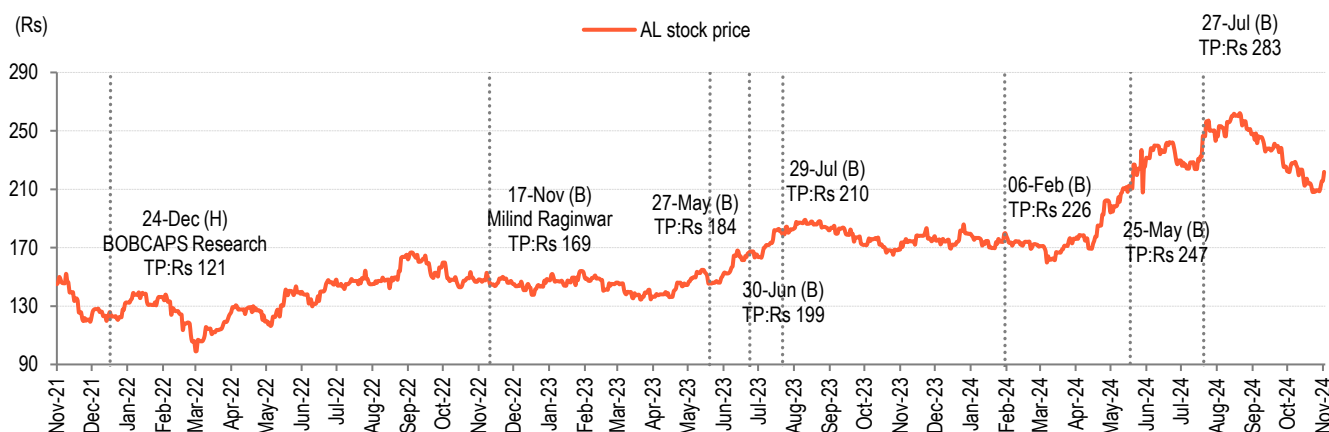
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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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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