BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 247 | ⮝ 17%

ASHOK LEYLAND | Automobiles | 25 May 2024

Healthy show, all set to continue momentum; retain BUY

- **Healthy base keeps revenue growth listless in Q4, strong growth of 22% QoQ; volume grew a sturdy ~20% YoY/QoQ**
- **EBITDA margin continues to expand, rising 310bps YoY to ~14% on benign commodity costs and improving operating efficiencies**
- **Maintain BUY with a revised TP of Rs 247 (previously Rs 226), following upward revision in earnings for FY25E/FY26E by 5%/6%**

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Volume growth solid at ~20%, strong base leads revenue growth decline: AL's Q4FY24 revenue fell by 3% YoY to Rs 112.7bn despite strong volume growth of 20% owing to a very healthy base effect due to on board diagnostic (OBD) norms. The performance was strong QoQ with 22% growth backed by 19% volume and 2% realisation per vehicle gains. Volumes at 56.2k units were robust aided by strong traction in the bus segment where the market share rose by 5% to 38% and the LCV segment too showed healthy signs of revival.

Margins improvement continues: Raw material cost (adjusted for inventory) improved to 71.8% of net sales from 75.6% in Q4FY23 (72.2% in Q3FY24), aiding gross margin expansion by 380bps/40bps YoY/QoQ to 28.2%. Cost reduction initiatives, softening commodity costs and a better product mix saw EBITDA rise 25%/43% YoY/QoQ to Rs 15.9bn, with a 14.1% margin (+310bps/200bps YoY/QoQ). Adj. PAT rose to Rs 9.7bn from Rs 7.0bn in the year-ago quarter.

EV expansion on the cards: AL unveiled its first 14T Boss Electric Truck in 4QFY24. The company showcased an impressive lineup of future-ready vehicles, including the 9m Hydrogen Fuel Cell Bus, AVTR LNG 6×4 Tractor, 55T EV Tractor, and Switch IeV4 Electric LCV in Q4FY24. AL plans to launch 16 new models in the MHCV segment beyond the e-LCV launch shortly. AL has invested a total of Rs 15bn in FY24 in Optare PLC and OHM Global Mobility (OHM).

On the growth path in the long term: We revise our earnings for FY25E/FY26E by 5%/6% factoring in strong growth momentum, cost efficiencies and benign commodity cost estimating an EBITDA/PAT CAGR of 27%/38% for FY23-FY26. We believe AL will beat 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.

Retain BUY: We reiterate our BUY rating for a revised SOTP-based TP of Rs 247 (from Rs 226). We continue to assign 20x P/E 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 211
Market cap	US$ 7.5bn
Free float	49%
3M ADV	US$ 37.4mn
52wk high/low	Rs 219/Rs 144
Promoter/FPI/DII	52%/17%/15%

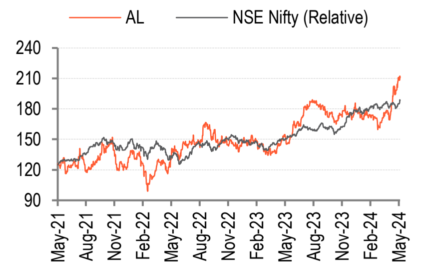
Source: NSE | Price as of 24 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	3,83,670	4,39,385	4,96,092
EBITDA (Rs mn)	46,066	52,207	59,316
Adj. net profit (Rs mn)	27,116	30,306	33,707
Adj. EPS (Rs)	8.9	10.3	11.5
Consensus EPS (Rs)	8.9	10.2	11.2
Adj. ROAE (%)	30.8	22.6	20.5
Adj. P/E (x)	23.6	20.4	18.3
EV/EBITDA (x)	13.8	11.3	9.8
Adj. EPS growth (%)	109.3	11.8	11.2

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

Stock performance



Source: NSE

Fig 1 – Earnings call highlights

Parameter	Q4FY24	Q3FY24	Our view
Industry growth	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 higher base of Q4FY23 due to OBD norms. 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 Bangalore.	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. 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.	AL will beat industry growth, by focusing on recovering current loss of market share in the MHCV segment and further consolidating the market share in the bus segment.
Market share	The bus segment market share swelled by 5% to ~38% and AL expects to retain market share leadership. 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.	AL has 30% market share in MHCVs and its share in LCVs improved by 100bps as of Q3FY24.	The revival in the LCV segment and healthy order book of 1.5k e-buses only helps to add market share.
Exports	Exports posted 5% growth despite very challenging circumstances in the international market and all major players in India posting degrowth.	The company sold 3,128 units in international markets (2,936 in Q3FY23), whereas most of its peers have registered sharp declines in export volumes as per management.	AL's focus on grabbing new regions has helped stay ahead in the export markets.
Margins	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. Defence, Power Solutions, Spare Parts businesses remain higher-margin businesses for the company.	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 and in Jan'24 across its segments.	AL is looking at aggressive margin expansion, but we remain conservative, projecting an EBITDA margin of ~12% for FY25E/FY26E.
Launch pipeline	AL plans to launch 16 new models in the MHCV segment, though details were not shared. This will provide major boost to the market share in FY25. This is beyond the e-LCV launch expected shortly.	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). 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.	A strong launch pipeline will improve the product mix and protect or add to margins.
Other key points	AL invested a total of Rs 15bn in FY24 in Optare PLC and OHM. AL indicated that the balance sheet credence is strong enough to support funds requirements of both in Switch Mobility and OHM. The overall AUM of Hinduja Leyland Finance is Rs 380bn and of the Hinduja Housing Finance is ~ Rs 110bn, cumulatively having an AUM of Rs 500bn. The GNPA is about 4.5% and the NNPA is at ~2.25% to 2.3%. 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.	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. Subsidiary Hinduja Leyland Finance (HLF) has a loan book of ~Rs 450bn as on Q3FY24. AL is targeting ~Rs 9bn in revenue from the Defence business.	Profitability of non-core business has kept the overall margin profile healthy.

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

Fig 2 – Quarterly performance (Standalone)

(Rs mn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)
Volume	56,269	46,824	20.2	47,241	19.1
Avg. Realisation per Vehicle	20,02,291	24,82,844	(19.4)	19,62,916	2.0
Net Revenues	1,12,667	1,16,257	(3.1)	92,730	21.5
Total Income (A)	**1,12,667**	**1,16,257**	**(3.1)**	**92,730**	**21.5**
Operating Expenses:					
Raw materials consumed	80,906	87,887	(7.9)	66,977	20.8
Employee Expenses	5,535	5,919	(6.5)	5,695	(2.8)
Other Expenses	10,305	9,693	6.3	8,919	15.5
Total Expenditure (B)	**96,746**	**1,03,499**	**(6.5)**	**81,591**	**18.6**
EBITDA (A-B)	15,921	12,757	24.8	11,139	42.9
Other Income	1,179	389	202.9	300	292.6
Depreciation	1,797	1,838	(2.2)	1,785	0.7
EBIT	15,303	11,308	35.3	9,655	58.5
Finance Costs	592	628	(5.6)	616	(3.9)
PBT before excep items	14,711	10,681	37.7	9,039	62.8
Exceptional items	697	(564)	-	6	-
PBT after excep items	15,408	11,245	37.0	9,033	70.6
Tax expense	5,010	3,731	34.3	3,232	55.0
Reported PAT	**9,004**	**7,514**	**19.8**	**5,800**	**55.2**
Adjusted PAT	**9,701**	**6,950**	**39.6**	**5,806**	**67.1**
EPS (Rs)	3.3	2.4	39.6	2.0	67.1
Key Ratios (%)			**(bps)**		**(bps)**
Gross Margin	28.2	24.4	379	27.8	42
EBITDA Margin	14.1	11.0	316	12.0	212
EBIT Margin	13.6	9.7	386	10.4	317
PBT Margin	13.1	9.2	387	9.7	331
Tax Rate	32.5	33.2	(66)	35.8	(327)
Adj PAT Margin	8.6	6.0	263	6.3	235

Source: Company, BOBCAPS Research

Valuation methodology

We revise our earnings estimates for FY25/FY26 by 5%/6% factoring in strong growth momentum, cost efficiencies and benign commodity cost estimating an EBITDA/PAT CAGR of 27%/38% for FY23-FY26. We believe AL will beat 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 reiterate our BUY rating for a revised SOTP-based TP of Rs 247 (from Rs 226). We continue to assign 20x P/E to the standalone business – in line with the 5Y average multiple – and value the vehicle finance arm at Rs 12/sh.

Fig 3 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	4,39,385	4,96,092	439,385	496,092	0.0	0.0
EBITDA	52,207	59,316	50,461	56,812	3.5	4.4
Adj PAT	30,306	33,707	28,876	31,912	5.0	5.6
Adj EPS (Rs)	10.3	11.5	9.8	10.9	5.3	5.3

Source: BOBCAPS Research

Fig 4 – Key assumptions

Parameter	FY24P	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)	19,55,761	20,73,106	21,97,493
Raw material cost per vehicle (Rs)	14,27,705	15,07,148	15,98,676
As a % of revenue	73.0	72.7	72.8
Gross margin per vehicle (Rs)	5,28,055	5,65,958	5,98,817
As a % of revenue	27.0	27.3	27.3
Staff cost per vehicle (Rs)	1,15,522	1,14,332	1,16,731
As a % of revenue	5.9	5.5	5.3
Other expense per vehicle (Rs)	1,99,488	2,10,420	2,24,144
As a % of revenue	10.2	10.2	10.2
EBITDA per vehicle (Rs)	2,13,046	2,41,206	2,57,941
As a % of revenue	10.9	11.6	11.7
Other Income (Rs mn)	1,589	2,434	2,559
Depreciation (Rs mn)	7,834	8,091	8,926
Interest (Rs mn)	2,534	2,629	3,380
PAT per vehicle (Rs)	1,40,257	1,42,990	1,49,309
As a % of revenue	7.2	6.9	6.8

Source: Company, BOBCAPS Research

Fig 5 – Valuation summary

Business	FY26E EPS (Rs)	Target P/E (x)	Value (Rs)
Standalone Business	11.5	20	235
Hinduja Leyland Finance	-	-	12
Total	**-**	**-**	**247**

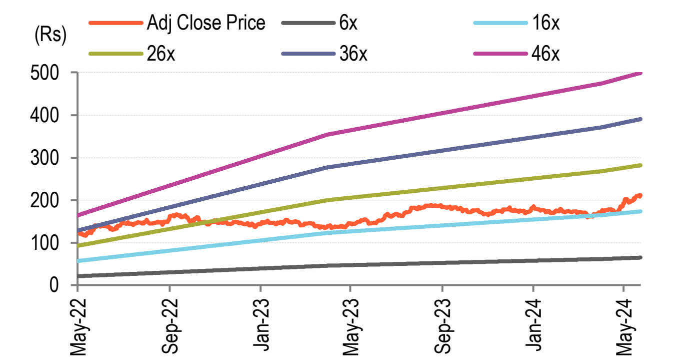
Source: BOBCAPS Research

Fig 6 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY25E	FY26E	FY25E	FY26E
Ashok Leyland	AL IN	BUY	247	10.3	11.5	27.3	22.6
Mahindra & Mahindra	MM IN	HOLD	2,572	96.0	112.6	19.6	19.0
Tata Motors	TTMT IN	NOT RATED	-	64.5	78.6	30.9	28.9

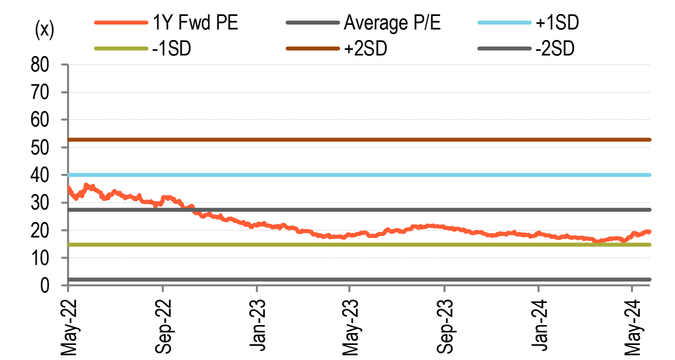
Source: BOBCAPS Research

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:

- 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 the cost.

Sector recommendation snapshot

Company	Ticker	Market Cap (US$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	7.5	211	247	BUY
Bajaj Auto	BJAUT IN	31.5	8,948	6,823	SELL
Eicher Motors	EIM IN	16.2	4,881	4,633	HOLD
Escorts	ESCORTS IN	6.1	3,813	2,530	SELL
Hero MotoCorp	HMCL IN	12.4	5,118	4,776	HOLD
Mahindra & Mahindra	MM IN	39.3	2,580	2,572	HOLD
Maruti Suzuki	MSIL IN	47.8	13,001	12,965	HOLD
TVS Motor	TVSL IN	12.9	2,239	2,382	BUY
VST Tillers Tractors	VSTT IN	0.4	3,364	3,167	HOLD

Source: BOBCAPS Research, NSE | Price as of 24 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	**2,16,883**	**3,61,441**	**3,83,670**	**4,39,385**	**4,96,092**
EBITDA	9,945	29,307	46,066	52,207	59,316
Depreciation	7,528	7,320	7,178	8,091	8,926
EBIT	3,179	23,149	41,353	46,551	52,949
Net interest inc./(exp.)	(3,011)	(2,891)	(2,494)	(2,629)	(3,380)
Other inc./(exp.)	761	1,161	2,466	2,434	2,559
Exceptional items	5,108	846	(937)	0	0
EBT	5,276	21,104	37,922	43,922	49,569
Income taxes	(142)	7,303	11,743	13,616	15,862
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**5,418**	**13,801**	**26,179**	**30,306**	**33,707**
Adjustments	(5,108)	(846)	937	0	0
Adjusted net profit	**310**	**12,955**	**27,116**	**30,306**	**33,707**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	70,342	72,441	97,773	1,05,580	1,20,770
Other current liabilities	16,408	21,996	7,850	(3,035)	(3,583)
Provisions	6,705	10,377	13,747	12,338	13,572
Debt funds	35,071	31,801	22,994	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	85,167	1,31,038	1,61,347
Shareholders' fund	73,369	84,257	88,103	1,33,973	1,64,282
Total liab. and equities	**2,01,894**	**2,20,873**	**2,30,468**	**2,84,279**	**3,32,705**
Cash and cash eq.	10,470	5,013	34,295	29,107	37,238
Accounts receivables	31,111	40,627	35,699	53,569	59,803
Inventories	20,752	27,745	31,907	37,318	40,775
Other current assets	24,858	21,529	16,999	31,299	36,697
Investments	48,196	66,627	55,598	66,107	80,107
Net fixed assets	62,342	59,378	62,690	65,443	75,648
CWIP	1,111	490	(1,156)	7,000	8,000
Intangible assets	4,499	4,499	0	0	0
Deferred tax assets, net	(1,444)	(5,035)	(5,563)	(5,563)	(5,563)
Other assets	0	0	0	0	0
Total assets	**2,01,895**	**2,20,872**	**2,30,468**	**2,84,279**	**3,32,705**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	**28,126**	**18,994**	**60,635**	**2,707**	**48,758**
Capital expenditures	(1,257)	(3,735)	(4,345)	(19,000)	(20,131)
Change in investments	(17,509)	(18,431)	11,029	(10,509)	(14,000)
Other investing cash flows	761	1,161	2,466	2,434	2,559
Cash flow from investing	**(18,005)**	**(21,004)**	**9,150**	**(27,075)**	**(31,572)**
Equities issued/Others	0	50	(50)	0	0
Debt raised/repaid	(2,092)	(3,270)	(8,807)	12,428	2,242
Interest expenses	(3,011)	(2,891)	(2,494)	(2,629)	(3,380)
Dividends paid	(2,936)	(7,632)	(14,531)	(14,678)	(14,678)
Other financing cash flows	157	3,669	(18,673)	18,801	0
Cash flow from financing	**(7,881)**	**(10,075)**	**(44,555)**	**13,923**	**(15,816)**
Chg in cash & cash eq.	**2,240**	**(12,085)**	**25,230**	**(10,445)**	**1,370**
Closing cash & cash eq.	**10,470**	**5,013**	**34,295**	**29,107**	**37,238**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	0.1	4.4	9.2	10.3	11.5
Adjusted EPS	1.8	4.7	8.9	10.3	11.5
Dividend per share	1.0	2.6	5.0	5.0	5.0
Book value per share	25.0	28.7	30.0	45.6	56.0

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	3.0	1.8	1.7	1.3	1.2
EV/EBITDA	64.6	22.0	13.8	11.3	9.8
Adjusted P/E	114.2	44.8	23.6	20.4	18.3
P/BV	8.4	7.3	7.0	4.6	3.8

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	5.9	61.4	71.5	69.0	68.0
Interest burden (PBT/EBIT)	166.0	91.2	91.7	94.4	93.6
EBIT margin (EBIT/Revenue)	1.5	6.4	10.8	10.6	10.7
Asset turnover (Rev./Avg TA)	198.8	322.0	337.8	313.3	267.2
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.3	1.3	1.2
Adjusted ROAE	0.4	16.4	31.5	27.3	22.6

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	39.0	66.7	6.2	14.5	12.9
EBITDA	85.8	194.7	57.2	13.3	13.6
Adjusted EPS		4079.0	109.3	11.8	11.2
Profitability & Return ratios (%)					
EBITDA margin	4.6	8.1	12.0	11.9	12.0
EBIT margin	1.5	6.4	10.8	10.6	10.7
Adjusted profit margin	0.1	3.6	7.1	6.9	6.8
Adjusted ROAE	0.4	15.4	30.8	22.6	20.5
ROCE	3.0	13.5	25.1	22.9	19.4
Working capital days (days)					
Receivables	50	36	36	37	42
Inventory	35	24	28	29	29
Payables	133	94	111	117	115
Ratios (x)					
Gross asset turnover	0.5	0.3	0.3	0.3	0.3
Current ratio	0.9	0.9	1.0	1.3	1.3
Net interest coverage ratio	(1.1)	(8.0)	(16.6)	(17.7)	(15.7)
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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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

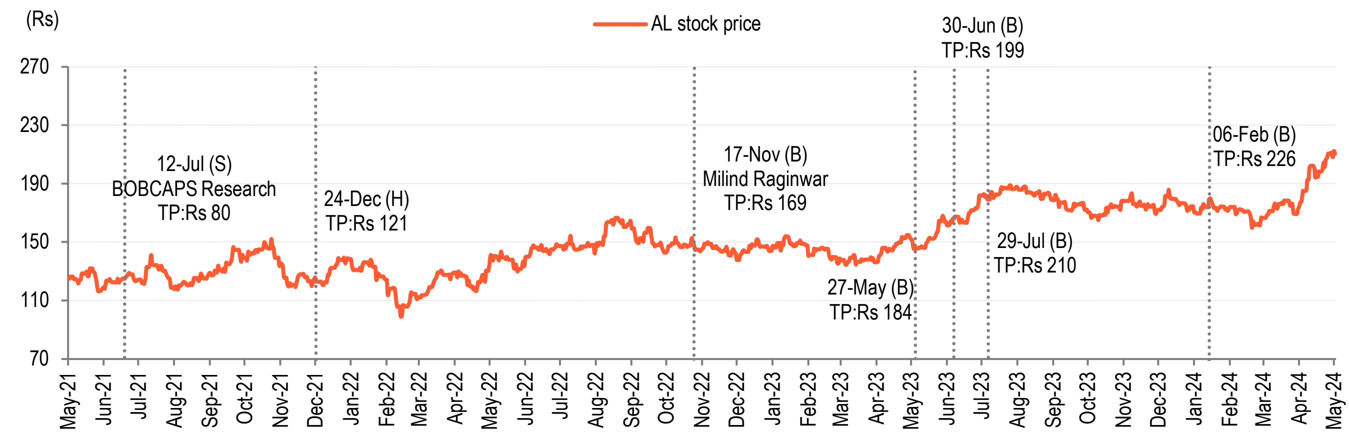
HOLD – Expected return from -6% to +15%

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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