

**RESEARCH****Ashok Leyland | Target: Rs 184 | +27% | BUY**

Healthy performance continues

**SUMMARY****Ashok Leyland**

- 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

[Click here for the full report.](#)**Daily macro indicators**

Ticker	24-May	25-May	Chg (%)
US 10Y yield (%)	3.74	3.82	8bps
India 10Y yield (%)	6.99	7.01	2bps
USD/INR	82.67	82.74	(0.1)
Brent Crude (US\$/bbl)	78.4	76.3	(2.7)
Dow	32,800	32,765	(0.1)
Hang Seng	19,116	18,747	(1.9)
Sensex	61,774	61,873	0.2
India FII (US\$ mn)	23-May	24-May	Chg (\$ mn)
FII-D	15.5	34.5	19.0
FII-E	38.6	181.1	142.5

Source: Bank of Baroda Economics Research



**BUY**

TP: Rs 184 | ▲ 27%

**ASHOK LEYLAND**

| Automobiles

| 27 May 2023

### Healthy performance continues

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**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%

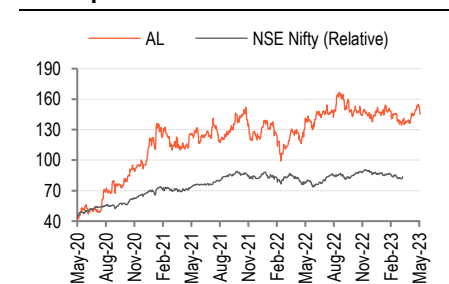
Source: NSE | Price as of 26 May 2023

### 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



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**BUY** – Expected return >+15%

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

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