

Stepping up play in EV domain, double digit margins and healthy Bus order wins also bode well...

About the stock: Ashok Leyland (ALL) is a pure-play CV manufacturer domestically, with FY23 market share pegged at 18.8% (up 240 bps YoY). It is present in M&HCV trucks and buses as well as LCV goods segments. It also has formidable presence in e-mobility (Electric buses) domain through Switch Mobility

- FY23 product mix – LCV goods 38%, trucks 54%, buses 8%

Q3FY24 Results: Margins continue to surprise on the positive side in Q3FY24 Standalone revenues for Q3FY24 came in at ₹ 9,273 crore, up 2.7% YoY amid 1% de-growth in volumes at 47,241 units. EBITDA came in at ₹ 1,114 crore with margins at 12%, up 80 bps QoQ. Consequent PAT in Q3FY24 came in at ₹ 580 crore (up 61% YoY, 3% QoQ). Gross margins expanded 130 bps QoQ.

Investment Rationale

- CV industry to consolidate, greater BUS & EV play to cushion growth

Led by cyclical recovery in the CV space amidst robust infrastructure spend by the government coupled with revival in private capex cycle, domestic CV industry witnessed handsome volume recovery with FY21-23 growth pegged at 30% CAGR. FY23 domestic sales volumes at 9.6 lakh units however is still short of its previous peak in FY19 at 10.1 lakh units. Going forward with single digit volume growth in 9MFY24 and high base of Q4FY23 & impending union election in Q1'25, the volumes for the industry are expected to moderate in near term. However structural drivers in terms of healthy replacement demand, scrappage policy, capex led demand revival and EV transition remains intact. Moreover, ALL in the recent past has won impressive orders at its Bus segment for both ICE & EV buses. ALL also guided for soft launch of EV truck and near-term launch of EV-LCV which structurally bodes well for the company. We have built in ~4% volume growth CAGR over FY23-26E.

- B/S, return ratios turn best in class, valuations too turn favourable

With healthy volume growth in the past and consistent double digit margin profile, net debt at ALL is now down to ~₹1,750 crore as of 9MFY24 with company expected to be net debt free in FY25E. RoCE profile at ALL is also on up-move with RoCE in FY24E pegged at ~27% and it now trades at reasonable valuation of ~9x EV/EBITDA on FY26E basis, making it a compelling case for portfolio addition.

Rating and Target Price

- We assign BUY tracking industry wide pricing discipline aiding double digit margin trajectory and ALL's midterm target of mid teen levels coupled with its step-up play in the EV domain (Buses, Trucks and LCV's)
- Incorporating FY26E, we now value ALL at SOTP based target price of ₹225 (10x core FY26E EV/EBITDA, 2x P/B for investments)



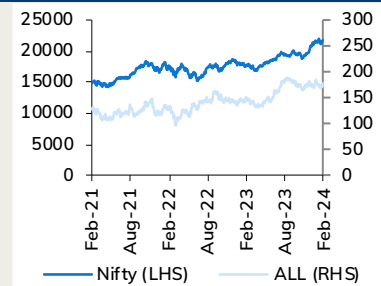
Particulars

Particular	₹ crore
Market Capitalization	52,688
Total Debt (FY23)	3,180
Cash & Inv. (FY23)	3,273
EV (₹ Crore)	52,595
52 week H/L (₹)	192 / 133
Equity capital (₹ crore)	293.6
Face value (₹)	1.0

Shareholding pattern

	Mar-23	Jun-23	Sep-23	Dec-23
Promoter	51.5	51.5	51.5	51.5
FII	14.9	16.6	20.2	20.5
DII	22.2	20.8	16.5	14.7
Other	11.5	11.1	11.8	13.3

Price Chart



Recent event & key risks

- Reports healthy Q3FY24. EBITDA margins came in at 12%
- Key Risk: (i) elongated delay in volume recovery post Union elections 2025 (ii) moderation in margin profile due to higher competitive intensity

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	FY23	5 year CAGR (FY18-23)	FY24E	FY25E	FY26E	3 year CAGR (FY23-26E)
Net Sales	29,055	17,467	15,301	21,688	36,144	6.5%	38,671	40,666	44,209	6.9%
EBITDA	3,136	1,174	535	995	2,931	-0.2%	4,452	4,874	5,389	22.5%
EBITDA Margins (%)	10.8	6.7	3.5	4.6	8.1		11.5	12.0	12.2	
Net Profit	1,983	239	(314)	542	1,380	-4.3%	2,491	2,838	3,257	33.1%
EPS (₹)	6.8	0.8	(1.1)	1.8	4.7		8.5	9.7	11.1	
P/E	26.6	220.6	NM	97.5	38.3		21.2	18.6	16.2	
RoNW (%)	24.3	4.7	(4.4)	0.2	15.7		26.1	26.1	26.3	
RoCE (%)	25.7	4.5	(1.9)	2.1	17.0		27.3	30.6	32.9	

Key takeaways of recent quarter & conference call highlights

Q3FY24 Results: Margins continue to surprise on the positive

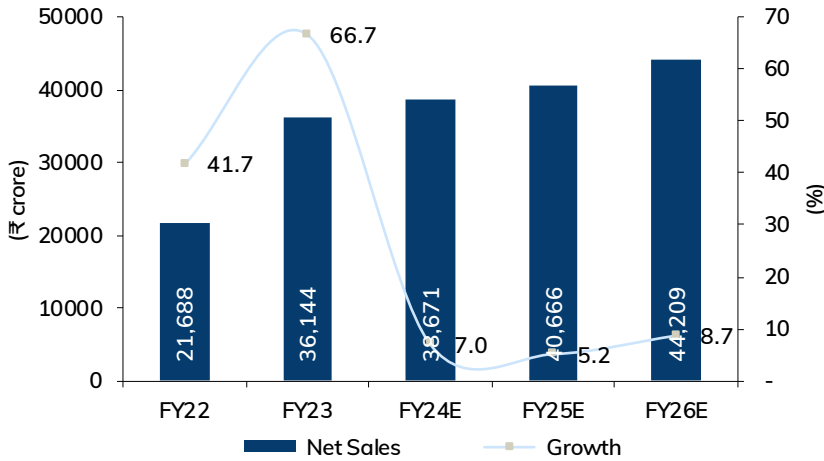
- Standalone operating income for Q3FY24 came in at ₹ 9,273 crore, up 2.7% YoY amid 1% de-growth in volumes to 47,241 units and share of M&HCV in total volume mix at 62.4% vs. 64.4% in Q2FY24.
- EBITDA came in at ₹ 1114 crore with margins at 12%, up 80 bps QoQ. Consequent PAT in Q3FY24 came in at ₹ 580 crore (up 61% YoY, 3% QoQ). Gross margins expanded 130 bps on QoQ basis, the gains however limited by higher other overhead expenses.
- Net realisation for the quarter came in higher than anticipated at ₹19.6 lakh/unit (up 1.5% QoQ). The company in the recent past has won impressive orders on the Bus segment for both ICE & EV buses.

Q3FY24 Earnings Conference Call highlights

- The domestic MHCV industry has grown by 9% YoY in 9MFY24. However, the management expects this industry to be subdued in Q4FY24 due to a high base effect and impending election season. It expects the MHCV volume for FY24E to likely be short of its peak achieved in FY19. Further, the management expects bus demand to be healthy driven by replacement of existing fleets & increase in demand for school and staff transportation.
- In 9MFY24, the company reported its volume growth of 7% YoY in MHCV segment. The bus segment at ALL has grown by 65%YoY, outperforming its industry growth of 38%, thereby gaining the market share in this segment. The volume for LCV segment stands at 48,682, reporting 2% YoY growth thereby outperforming industry which has reported a degrowth of 3%, resulting in company's market share improving in the same period.
- The company will deliver its 1st Batch of Electric LCV in next few months. It has commenced delivery for a 14T Electric Truck with a 200-kilowatt battery pack at the recent Bharat Mobility Global Expo 2024. It's in a market trial for an electric 55 tonne tractor trailer for long haul transport. It will also launch Hydrogen Powered Vehicle in some time.
- Currently, the company has orderbook of 1000 buses and plans to participate in new tenders next month. It has also signed the MOUs with various customers for ~12000 to 13000 units in the LCV segment.
- The company has raised price across its business, including trucks and LCV segment in this financial year. Its larger focus is on profitable growth and market share gains by differentiated products.
- Over a medium-term outlook, the company aims for 35% market share in MHCV segment. It remains optimistic on this segment given the freight and replacement demand continue to be positive.
- Gross margin expansion in Q3 FY24 driven by cost reduction initiatives and the softening of raw material prices. The management expects steel prices to remain soft in next few months.
- ALL targets ₹ 900-1,000 crore sales in defense segment in FY24
- ALL has added 44 and 17 dealers for MHCV and LCV segment respectively in 9MFY24. It has a total 399 authorized service centres and 491 dealers and aims for 1000 dealers at its M&HCV domain. It has also tied up with the TVS group to launch new outlets in North India going forward.
- The company have made an equity investment of ₹ 662 crores in Optare in Q3FY24, which is the holding company of Switch UK and Switch India. The balance equity will be infused in tranches in next few months.
- Net Debt as of 31st Dec'23 stands at ₹ 1747 crores (up by ₹ 608 crore QoQ). Capex for Q3FY24 was at ₹ 90 crores. The cumulative capex for 9MFY24 stands at ₹ 290 crores.

Financial story in charts

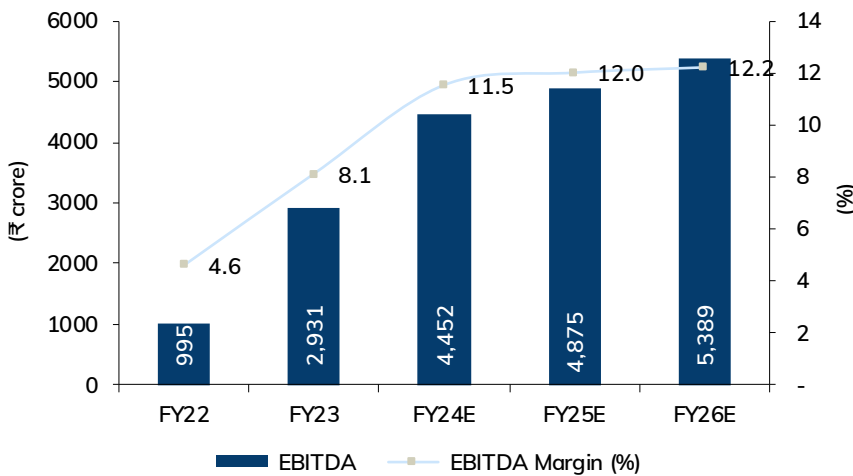
Exhibit 1: Topline trend



Source: Company, ICICI Direct Research

On a high base, we expect sales at ALL to grow at a CAGR of 6.9% over FY23-26E backed by 4.1% volume CAGR in the aforesaid period, led by M&HCV segment

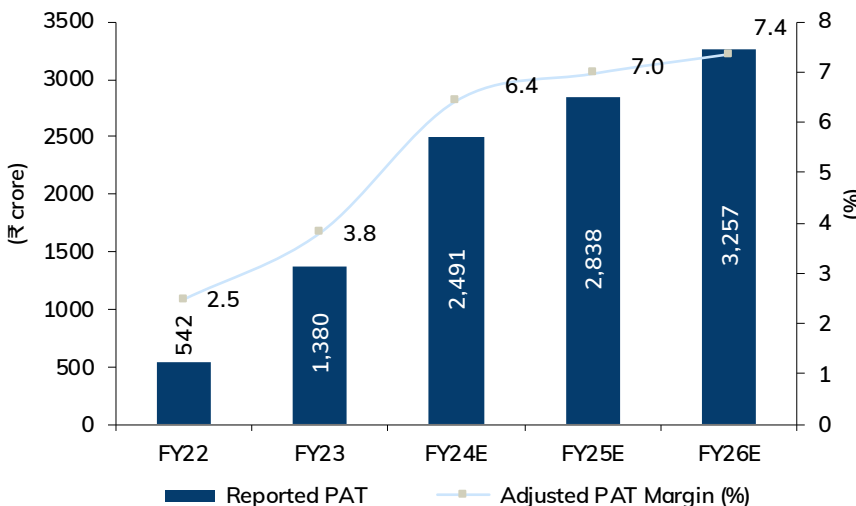
Exhibit 2: Trend in margins



Source: Company, ICICI Direct Research

The company has on a consistent basis surprised us on the positive side on the margins front. With profitable growth in sight amidst industry wide pricing discipline, we expect ALL margins to be at 12.2% by FY26E

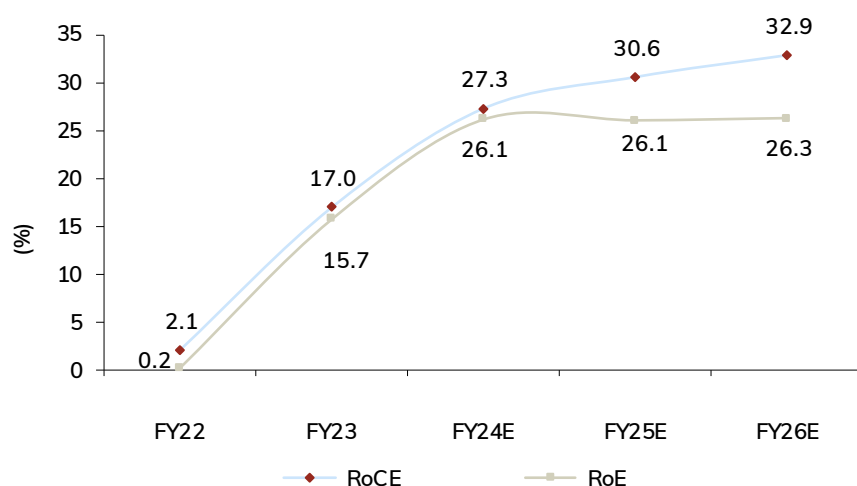
Exhibit 3: Trend in profitability



Source: Company, ICICI Direct Research

PAT is expected to grow at a CAGR of 33% over FY23-26E to ₹ 3,257 crore in FY26E. PAT margins are slated to improve to 7.4% in the aforesaid timeframe

Exhibit 4: Trend in return ratios



The company is well positioned to post healthy double digit return ratios of >25% starting FY24E

Source: Company, ICICI Direct Research

Exhibit 5: Volume Assumptions

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
M&HCV Passenger volumes	19,871	23,323	5,629	7,799	18,150	23,544	27,075	29,036
M&HCV Goods volumes	1,22,987	55,231	46,178	66,086	1,05,959	1,02,430	1,04,656	1,12,165
Total M&HCV Sales Volume	1,42,858	78,554	51,807	73,885	1,24,109	1,25,974	1,31,732	1,41,201
LCV volumes	54,508	46,646	48,908	54,441	68,096	68,966	71,928	75,692
Total Sales Volume	1,97,366	1,25,200	1,00,715	1,28,326	1,92,205	1,94,940	2,03,660	2,16,893
YoY Growth (%)		-37%	-20%	27%	50%	1%	4%	6%
ASPs (₹ lakh/unit)	14.4	12.8	15.2	16.9	18.7	19.8	20.0	20.4

Source: ICICI Direct Research

Exhibit 6: SOTP-based valuation

SOTP	
Target EV/EBITDA (x)	10.0
EBITDA (₹ crore; FY26E)	5,389
Enterprise Value (₹ Crore)	53,887
Net Debt (₹ crore; FY25E)	(2,973)
Target Market cap Core business (₹crore)	56,860
Value/Share (A)	195
Strategic long term investments FY26E (₹ crore)	5,492
P/BV(x)	2.0
Total Value/Share post applying 20% Holdco. Discount (B)	30
Price target (₹, A+B)	225

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement					₹ crore
(Year-end March)	FY23	FY24E	FY25E	FY26E	
Total operating Income	36,144.1	38,670.8	40,665.7	44,209.1	
Growth (%)	66.7	7.0	5.2	8.7	
Raw Material Expenses	27,849.2	28,218.7	29,513.1	32,084.7	
Employee Expenses	2,113.9	2,316.2	2,455.6	2,580.0	
Other Expenses	3,250.4	3,683.8	3,822.6	4,155.7	
Total Operating Expenditure	33,213.4	34,218.7	35,791.3	38,820.4	
EBITDA	2930.7	4452.1	4874.5	5388.7	
Growth (%)	194.7	51.9	9.5	10.5	
Depreciation	732.0	734.7	772.6	817.9	
Interest	289.1	256.2	173.7	61.2	
Other Income	116.1	144.0	126.0	142.6	
PBT	2025.8	3605.2	4054.2	4652.3	
Exceptional chages	-84.6	24.1	0.0	0.0	
Total Tax	730.3	1,089.9	1,216.3	1,395.7	
PAT	1380.1	2491.2	2837.9	3256.6	
Growth (%)	154.7	80.5	13.9	14.8	
EPS (₹)	4.7	8.5	9.7	11.1	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement					₹ crore
(Year-end March)	FY23	FY24E	FY25E	FY26E	
Profit after Tax	1,380.1	2,491.2	2,837.9	3,256.6	
Add: Depreciation	732.0	734.7	772.6	817.9	
(Inc)/dec in Current Assets	-1,254.1	-1,220.9	-720.7	-903.8	
Inc/(dec) in CL and Provisions	768.1	964.1	1,145.4	1,025.4	
CF from operating activities	1915.2	3225.2	4208.9	4257.3	
(Inc)/dec in Investments	-1,844.0	-400.0	-200.0	-750.0	
(Inc)/dec in Fixed Assets	-381.3	-600.0	-600.0	-500.0	
Others	671.8	-131.8	-130.4	-134.5	
CF from investing activities	-1553.6	-1131.8	-930.4	-1384.5	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-327.0	-500.0	-1,500.0	-1,000.0	
Dividend paid & dividend tax	-763.2	-1,321.0	-1,541.1	-1,761.3	
Others	182.9	-256.2	-173.7	-61.2	
CF from financing activities	-907.3	-2077.1	-3214.8	-2822.5	
Net Cash flow	-545.7	16.3	63.7	50.3	
Opening Cash	1,046.9	501.3	517.6	581.3	
Closing Cash	501.3	517.6	581.3	631.5	

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet					₹ crore
(Year-end March)	FY23	FY24E	FY25E	FY26E	
Liabilities					
Equity Capital	293.6	293.6	293.6	293.6	
Reserve and Surplus	8,132.2	9,302.4	10,599.2	12,094.5	
Total Shareholders funds	8425.8	9596.0	10892.8	12388.1	
Total Debt	3,180.1	2,680.1	1,180.1	180.1	
Deferred Tax Liability	503.5	503.5	503.5	503.5	
Other non-current liabilities	304.1	304.1	304.1	304.1	
Total Liabilities	12932.7	13602.9	13399.7	13895.0	
Assets					
Gross Block	9,577.1	10,259.6	10,859.6	11,359.6	
Less: Acc Depreciation	4,592.2	5,327.0	6,099.6	6,917.5	
Net Block	4984.8	4932.6	4760.0	4442.1	
Capital WIP	132.5	50.0	50.0	50.0	
Total Fixed Assets	5,117.4	4,982.6	4,810.0	4,492.1	
Investments	3,892.2	5,092.2	5,292.2	5,492.2	
Inventory	2,774.5	3,708.2	3,565.2	3,875.9	
Debtors	4,062.1	4,237.9	5,013.6	5,450.4	
Loans and Advances	0.0	0.0	0.0	0.0	
Other current assets	1594.4	1705.8	1793.8	1950.1	
Cash	501.3	517.6	581.3	631.5	
Total Current Assets	8,932.2	10,169.4	10,953.9	11,907.9	
Creditors	7,175.1	7,946.1	8,913.0	9,689.7	
Provisions	519.3	575.1	645.1	701.3	
Other current Liabilities	1,964.5	2,101.8	2,210.2	2,402.8	
Total Current Liabilities	9,658.9	10,623.0	11,768.4	12,793.8	
Net Current Assets	-726.8	-453.6	-814.5	-885.9	
Application of Funds	12932.7	13602.9	13399.7	13895.0	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY23	FY24E	FY25E	FY26E
Per share data (₹)				
EPS	4.7	8.5	9.7	11.1
Cash EPS	7.2	11.0	12.3	13.9
BV	28.7	32.7	37.1	42.2
DPS	2.6	4.5	5.3	6.0
Cash Per Share	1.7	1.8	2.0	2.2
Operating Ratios (%)				
EBITDA Margin	8.1	11.5	12.0	12.2
PBT / Net sales	5.6	9.3	10.0	10.5
PAT Margin	3.8	6.4	7.0	6.7
Inventory days	28.0	35.0	32.0	32.0
Debtor days	41.0	40.0	45.0	45.0
Creditor days	72.5	75.0	80.0	80.0
Return Ratios (%)				
RoE	15.7	26.1	26.1	26.3
RoCE	17.0	27.3	30.6	32.9
RoC	23.1	33.6	38.0	42.8
Valuation Ratios (x)				
P/E	38.3	21.2	18.6	16.2
EV / EBITDA	17.9	11.9	10.5	9.2
EV / Net Sales	1.5	1.4	1.3	1.1
Market Cap / Sales	1.5	1.4	1.3	1.2
Price to Book Value	6.3	5.5	4.9	4.3
Solvency Ratios				
Debt/Equity	0.4	0.3	0.1	0.0
Current Ratio	1.0	1.0	1.0	1.0
Quick Ratio	0.7	0.6	0.6	0.6

Source: Company, ICICI Direct Research

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