

Ashok Leyland

BSE SENSEX 62,918 S&P CNX 18,688

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ASHOK LEYLAND

Stock Info

Bloomberg	AL IN
Equity Shares (m)	2936
M.Cap.(INRb)/(USDb)	462 / 5.6
52-Week Range (INR)	169 / 128
1, 6, 12 Rel. Per (%)	1/8/-2
12M Avg Val (INR M)	1712
Free float (%)	48.9

Financials & Valuations (INR b)

Y/E March	2023	2024E	2025E
Sales	361.4	408.4	447.0
EBITDA	29.3	41.0	47.0
EBITDA (%)	8.1	10.0	10.5
Adj. PAT	13.2	22.2	26.6
Adj. EPS (INR)	4.5	7.6	9.1
EPS Gr. (%)	7,586.2	67.6	20.0
BV/Sh. (INR)	28.7	34.3	41.3

Ratios

Net D:E (x)	0.0	-0.1	-0.2
RoE (%)	16.8	24.0	24.0
ROCE (%)	13.1	19.0	20.1
Payout (%)	57.6	26.4	22.0

Valuations

P/E (x)	34.9	20.8	17.3
P/BV (x)	5.5	4.6	3.8
EV/EBITDA (x)	15.7	11.1	9.3
Div. Yield (%)	1.7	1.3	1.3
FCF Yield (%)	3.6	3.7	6.1

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	51.1	51.1	51.1
DII	22.1	21.1	21.8
FII	15.5	16.0	14.2
Others	11.3	11.8	12.9

FII Includes depository receipts

CMP: INR157

TP: INR180 (+14%)

Buy

CV uptrend likely to continue beyond FY24

Targeting market share gains in MHCV/LCV and margin expansion

At its 2023 Investor Meet, Ashok Leyland (AL) highlighted its aspiration to grow profitably in domestic M&HCV, expand non-M&HCV revenue at a faster pace, and the inflection point for Switch Mobility (EVs) as it prepares to launch six platforms over the next two years. The management expects the ongoing uptrend in M&CHV to continue, with AL focusing on increasing its market share by 3pp to 35%. It aims to expand its play in LCV to increase its market share substantially. It has guided for double-digit EBITDA margin in FY24 and mid-teens EBITDA margin in the medium term.

Outlook: M&HCV/LCV industry volumes to grow over 10%/5% in FY24

- AL expects FY24 industry volumes to grow over ~10% for M&HCV and 5% for LCV. While 1QFY24 is weak due to pre-buying ahead of BS-6 Phase-2 norms, AL expects a strong recovery in volumes from Jul'23. This is based on strong feedback from its customers, who have a good order pipeline. AL expects the ongoing healthy CV cycle to extend, considering favorable underlying macros and a positive outlook for the key end industries.
- The average age of M&HCVs has increased to 10 years (normal average of 7.5-8 years), which should augur well for replacement demand. AL is starting to see some recovery in replacement demand.
- In the total M&HCV population of 5.2m units, over 1.1m vehicles are more than 15 years old. While currently there are no major benefits of voluntary scrappage policy (w.e.f Apr'23), strict enforcement by the government would be key for the success of this policy. Moreover, infrastructure for scrapping is currently poor and needs to be developed to support large-scale scrapping.

M&HCV: targeting market share of 35%

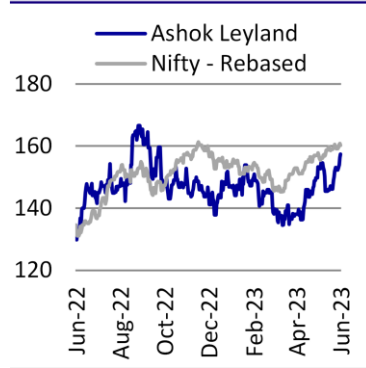
- AL aims to increase its market share in the domestic M&HCV segment to 35% (vs. 32% in FY23) by a) gaining market share in weak markets like North (25% now) and East (24% now), and b) increasing share in ICV trucks to 35% from 25% and ICV buses to 30% from 15%.
- To strengthen its presence in North and East, AL will continue to expand its network in these regions as well as in key mining pockets. It added 79 outlets in FY23 (to 803) and plans to add 66 outlets in FY24, predominantly in North and East India.
- Similarly, it would be plugging gaps in its product portfolio with more product launches in FY24. It launched 23 products in FY23.
- Lastly, a strong recovery in buses and demand improvement in long-haul trucks augur well for AL as it has a strong presence in these segments.

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Stock Performance (1-year)**LCVs: focusing on becoming a full-range player**

- AL targets to increase its market share in the LCV segment by a) launching products in the <2-ton segment (not present) and 3.5-7.5-ton segment (5% market share), and b) increasing the market share in 2-3.5-ton segment to 25% from 20%.
- Its market share growth in the 2-3.5-ton segment would be driven by ramping up in North and East (6% share). It plans to launch many variants for these regions, along with the expansion of its distribution network by 83/80 in FY24/FY25 to 270/350.
- Currently, AL's portfolio covers only ~50% of the industry and it plans to expand coverage to over 60% in FY25 through product launches. The launch of a <2-ton product will help AL expand its coverage to over 80% after FY25.
- It will also launch an e-LCV in 2HFY24.

Exports: plans to double volumes in two years

- AL plans to double its exports in the next two years (from 11.3k units in FY23) by expanding its product portfolio and entering more markets.
- AL has expanded addressable segments materially over the last two years, and it will further expand coverage of the addressable segment over the next few years through more product launches.
- Similarly, it has added 17 countries to its export markets in the last two years (total 38 countries currently). It now sells in SAARC, GCC, East Africa and the Rest of Africa (Govt projects) and added West/Southern Africa (retail) in the last two years. Going forward, it plans to enter South Africa, North Africa (new countries), ASEAN and CIS, taking total market coverage to 50 countries in the next two years. This will result in addressable market size of 250k units p.a.
- It currently has nine assembly units in international markets, giving it a competitive advantage as it lowers customs duty. It plans to add three more local assemblies.

Non-vehicle revenues: important driver of growth and margins

- In aftermarket (spares), it sees scope to double revenue in the medium term after doubling in the last five years. On the one hand, it is moving aggressively in the annual maintenance contract business. On the other hand, it is leveraging digitalization to make its parts accessible.
- In Power solutions, in the medium term, it targets an 11% CAGR in the power gen segment (vs. 8% CAGR for the industry) and a 16% CAGR in the industrial segment (vs. 11% CAGR for the industry). It caters to segments like power generation (5-650 kVA), Industrial (76-450HP), Marine (56-220HP) and Agri (76-220HP).
- **Defence:** It has built the capabilities, but is awaiting orders. For land mobility, it has won 80% of the tenders it bid for. In the last five years, it has executed more than INR20b of orders, and expects to execute ~INR35b of orders in the next three years.

EBITDA margins: Targeting double-digit margins in FY24 and mid-teens in medium term

- It expects underlying EBITDA margins for the industry to improve consistently, as there is a need to invest in future technologies. AL is focusing on margins through product launches, mix improvement, cost cutting, etc.

- It targets double-digit margins in FY24 (vs. 8.1% in FY23) and aspires for mid-teen margins in the medium term, assuming there is reasonable growth in industry volumes and there is no hyper-inflation in RM costs.
- The drivers for mid-teen EBITDA margins include: a) revenue enhancements driven by market share gains, pricing, mix and strong growth in non-M&HCV revenues; b) reduction in RM costs through internal measures; c) modularity and manufacturing efficiency; and d) operating leverage.
- On RM costs, it targets a significant reduction in the next three years with focus on improving efficiency through smart manufacturing. It intends to return to pre BS4 levels of RM costs (70%-71% of sales vs. 77% currently).

EVs: Switch Mobility plans to launch six new platforms

- Switch Mobility plans to launch six new platforms (4 in buses and 2 in LCVs) over FY24 and FY25.
- E1 e-bus, to be launched later in the year, would address 70% of the EU bus segment. This product will also be relevant for other global markets, like GCC.
- Hence, capex for Switch Mobility will be significant at INR12b as it will launch several new products. While it continues to look for the right set of investors for Switch Mobility, AL would fund the capex if required.
- Switch Mobility (including Ohm) has over 650 e-buses on the road (400 buses in India and 250 in London) with over 97% uptime and has clocked over 70m kms on green vehicles globally and 28m kms in India. It has over 2,000 e-buses in the global order pipeline.
- Ohm (mobility as a service) is a capital intensive business, but revenue visibility is very high. Hence, AL will be judicious in this business and not aggressive. In future, it can look at raising funds in this business as it may be attractive to several global investors due to the annuity-type return profile.

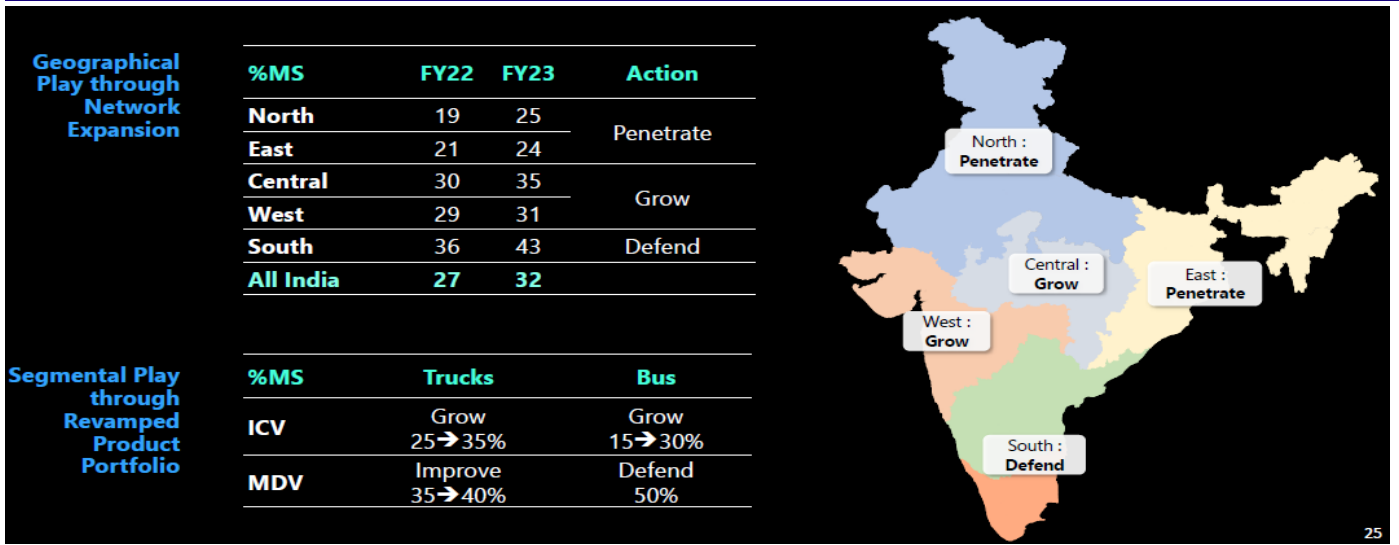
Other takeaways

- It plans a capex of INR6-7.5b for FY24 on a standalone basis.
- Standalone net cash is INR2.4b, whereas consolidated net debt (ex NBFC) is at INR11.4b.
- **HLFL (captive NBFC)** is growing well. As of FY23, it had AUM of ~INR302b and PAT of ~INR2.8b. Its portfolio is diversified, with CVs making up ~35% of the book.

Valuation and view

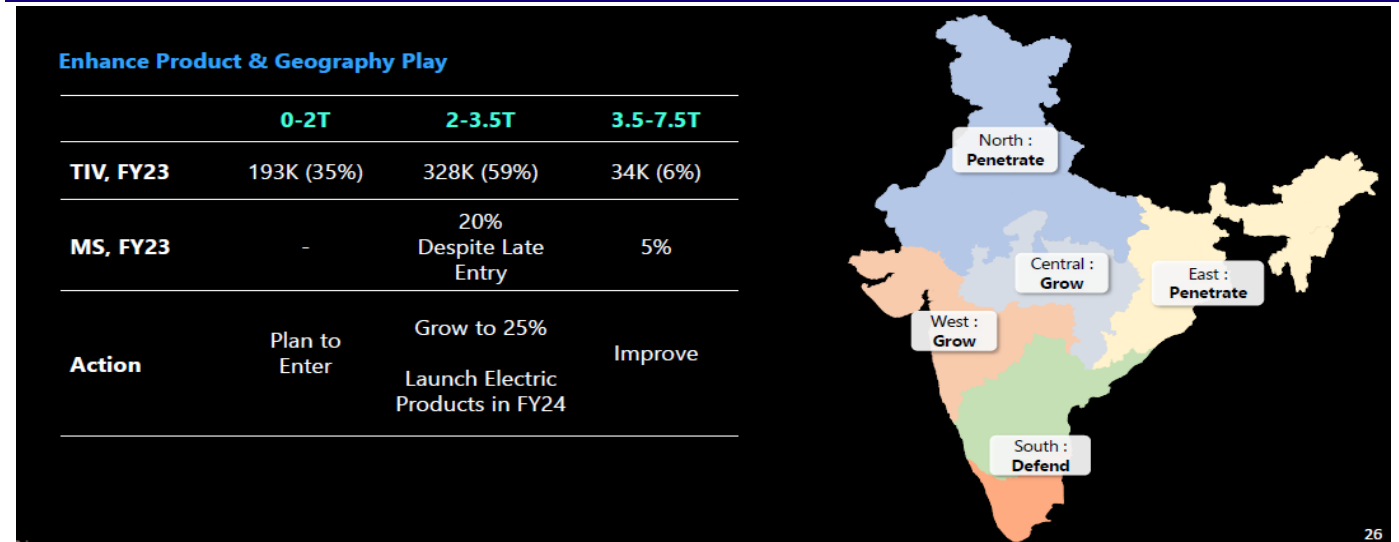
- The demand environment is expected to remain stable, supported by improving pricing power and steady RM prices, which will drive strong earnings. AL is the best investment choice in the CV growth cycle, as it has positioned itself to expand revenue/profit pools. While valuations at 17.3x FY25E P/E and 9.3x EV/EBITDA are reflecting the mid-cycle recovery, they do not fully reflect AL's focus on the diversification of new revenue streams and increasing profit pools.
- We reiterate our BUY rating with a TP of INR180 (based on 10x Mar'25E EV/EBITDA + ~INR11/share of NBFC).

Exhibit 1: MHCV business:- market share rising to more than 35%



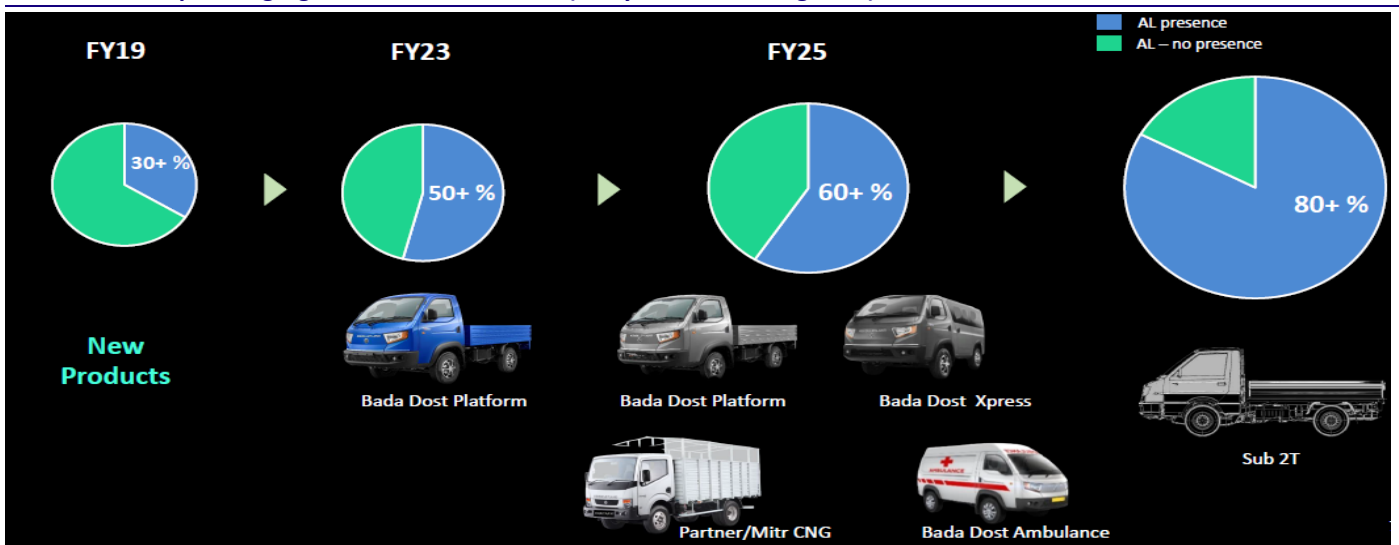
Source: Company

Exhibit 2: LCV business:- aims to become a full-range player



Source: Company

Exhibit 3: LCV:- planning significant increase in TIV (entry into sub-2T segment)



Source: Company

Financials and valuations

Income Statement							(INR M)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Volumes ('000 units)	175	197	125	101	128	192	211	227
Growth (%)	20.5	12.9	-36.5	-19.6	27.4	49.8	9.9	7.4
Net Sales	2,63,564	2,90,550	1,74,675	1,53,015	2,16,883	3,61,441	4,08,425	4,46,981
Change (%)	30.9	10.2	-39.9	-12.4	41.7	66.7	13.0	9.4
EBITDA	29,635	31,357	11,737	5,351	9,945	29,307	40,968	46,997
Change (%)	34.6	5.8	-62.6	-54.4	85.8	194.7	39.8	14.7
EBITDA Margins (%)	11.2	10.8	6.7	3.5	4.6	8.1	10.0	10.5
Depreciation	5,985	6,210	6,698	7,477	7,528	7,320	7,583	7,991
EBIT	23,650	25,147	5,039	-2,126	2,418	21,987	33,385	39,005
Interest & Fin. Charges	1,473	704	1,095	3,068	3,011	2,891	2,665	1,952
Other Income	1,966	1,099	1,233	1,195	761	1,161	1,790	1,960
PBT	23,858	24,968	3,619	-4,119	5,276	21,104	32,510	39,013
Tax	6,681	5,136	1,224	(982)	(142)	7,303	10,309	12,379
Effective Rate (%)	28.0	20.6	33.8	23.8	-2.7	34.6	31.7	31.7
Rep. PAT	17,177	19,832	2,395	-3,137	5,418	13,801	22,202	26,634
Change (%)	40.4	15.5	-87.9	-231.0	-272.7	154.7	60.9	20.0
% of Net Sales	6.5	6.8	1.4	-2.0	2.5	154.7	60.9	20.0
Adjusted PAT	17,359	20,268	3,426	-3,045	172	13,248	22,202	26,634
Change (%)	12.3	16.8	-83.1	-188.9	-105.7	7,587.8	67.6	20.0

Balance Sheet							(INR M)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Sources of Funds								
Share Capital	2,927	2,936	2,936	2,936	2,936	2,936	2,936	2,936
Reserves	69,528	80,389	69,704	66,837	70,434	81,322	97,651	1,18,413
Net Worth	72,455	83,324	72,640	69,772	73,369	84,258	1,00,587	1,21,349
Loans	12,263	6,324	30,648	37,163	35,071	31,801	24,301	16,801
Deferred Tax Liability	2,986	2,497	2,648	1,708	1,444	5,035	6,661	8,611
Capital Employed	87,704	92,145	1,05,936	1,08,642	1,09,884	1,21,094	1,31,549	1,46,761
Application of Funds								
Gross Fixed Assets	64,798	71,437	91,913	1,01,269	1,03,773	1,07,488	1,12,314	1,19,314
Less: Depreciation	13,817	19,791	28,376	35,264	41,626	48,946	56,529	64,520
Net Fixed Assets	50,981	51,646	63,537	66,005	62,146	58,543	55,785	54,793
Capital WIP	4,226	6,576	5,941	3,719	1,943	1,325	3,000	3,000
Goodwill	4,499	4,499	4,499	4,499	4,499	4,499	4,499	4,499
Investments	56,067	26,365	27,196	30,687	48,196	66,636	69,136	71,636
Curr.Assets, L & Adv.	57,591	93,158	62,723	79,590	86,554	94,914	1,24,454	1,49,989
Inventory	17,583	26,847	12,380	21,423	20,752	27,745	35,807	42,861
Sundry Debtors	9,448	25,055	11,804	28,163	31,111	40,627	44,759	48,984
Cash & Bank Balances	10,422	13,736	13,225	8,230	10,470	5,013	3,627	14,081
Loans & Advances	20,138	27,520	25,314	21,774	24,221	21,529	40,262	44,062
Current Liab. & Prov.	85,660	90,099	57,960	75,857	93,454	1,04,822	1,25,325	1,37,156
Sundry Creditors	48,879	50,189	26,239	51,647	68,752	71,751	78,328	85,722
Other Liabilities	26,146	29,386	23,666	17,665	17,997	22,686	33,569	36,738
Provisions	10,635	10,524	8,055	6,545	6,705	10,385	13,428	14,695
Application of Funds	87,704	92,145	1,05,936	1,08,642	1,09,884	1,21,094	1,31,549	1,46,761

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	5.9	6.9	1.2	-1.0	0.1	4.5	7.6	9.1
EPS Fully Diluted	5.9	6.9	1.2	-1.0	0.1	4.5	7.6	9.1
EPS Growth (%)	9.2	16.4	-83.1	-188.9	-105.7	7,586.2	67.6	20.0
Cash EPS	8.0	9.0	3.4	1.5	2.6	7.0	10.1	11.8
Book Value per Share	24.8	28.4	24.7	23.8	25.0	28.7	34.3	41.3
DPS	2.4	3.4	0.5	0.6	1.0	2.6	2.0	2.0
Div. Payout (%)	49.3	59.4	51.5	-57.8	1,703.5	57.6	26.4	22.0
Valuation (x)								
P/E	26.5	22.8	134.8	-151.7	2,680.4	34.9	20.8	17.3
Cash P/E	19.7	17.4	45.6	104.2	60.0	22.5	15.5	13.3
EV/EBITDA	14.5	14.5	40.8	91.7	47.6	15.7	11.1	9.3
EV/Sales	1.6	1.6	2.7	3.2	2.2	1.3	1.1	1.0
Price to Book Value	6.4	5.5	6.4	6.6	6.3	5.5	4.6	3.8
Dividend Yield (%)	1.5	2.2	0.3	0.4	0.6	1.7	1.3	1.3
Profitability Ratios (%)								
ROE	26.0	26.0	4.4	-4.3	0.2	16.8	24.0	24.0
RoCE	21.5	23.2	4.2	-0.7	3.0	13.1	19.0	20.1
RoIC	55.8	64.0	6.3	-2.6	4.3	29.5	43.9	46.8
Turnover Ratios								
Debtors (Days)	13	31	25	67	52	41	40	40
Inventory (Days)	24	34	26	51	35	28	32	35
Creditors (Days)	68	63	55	123	116	72	70	70
Working Capital (Days)	-30	2	-4	-5	-28	-3	2	5
Fixed-Asset Turnover (x)	5.2	5.6	2.7	2.3	3.5	6.2	7.3	8.2
Leverage Ratio								
Net Debt/Equity (x)	-0.4	-0.1	0.2	0.4	0.2	0.0	-0.1	-0.2

Cash flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
(INR M)								
OP/(Loss) before Tax	23,858	24,968	3,619	-4,119	5,276	21,104	33,385	39,005
Int/Div Received	552	-413	-756	-945	-220	-404	1,790	1,960
Depreciation	5,546	6,210	6,698	7,477	7,528	7,320	7,583	7,991
Direct Taxes Paid	-4,149	-5,603	-941	779	714	-4,002	-8,683	-10,429
(Inc)/Dec in Work Cap.	35,987	-29,638	-1,756	-6,058	15,696	-4,265	-10,424	-3,249
Other Items	-5,596	853	4,105	3,198	-7,633	762	0	0
CF from Oper. Activity	56,198	-3,624	10,969	332	21,361	20,514	23,651	35,279
Extra-ordinary Items	-253	-549	-1,558	-120	5,108	846	0	0
CF after EO Items	55,945	-4,172	9,411	211	26,469	21,360	23,651	35,279
(Inc)/Dec in FA+CWIP	-5,321	-7,315	-12,923	-6,166	-3,933	-4,884	-6,500	-7,000
Free Cash Flow	50,624	-11,487	-3,512	-5,954	22,536	16,477	17,151	28,279
CF from Inv. Activity	-33,321	23,115	-21,775	-9,752	-14,589	-17,345	-9,000	-9,500
Inc/(Dec) in Debt	-12,700	-6,621	25,655	4,780	-2,721	-3,918	-7,500	-7,500
Interest Rec./(Paid)	-1,464	-1,029	-1,463	-2,720	-2,755	-2,598	-2,665	-1,952
Dividends Paid	-5,495	-8,598	-12,702	0	-1,761	-2,936	-5,872	-5,872
CF from Fin. Activity	-19,613	-16,162	11,490	2,060	-7,238	-9,402	-16,037	-15,325
Inc/(Dec) in Cash	3,011	2,781	-874	-7,481	4,643	-5,387	-1,386	10,454
Add: Beginning Balance	10,412	13,423	16,205	15,330	7,850	12,492	7,105	5,719
Closing Balance	13,423	16,205	15,330	7,850	12,492	7,105	5,719	16,173

E: MOFSL Estimates

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
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