

Ashok Leyland Ltd.



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Volume growth continues, margins expected to improve

CMP INR 149	Target INR 168	Potential Upside 13.3%	Market Cap (INR Mn) INR 4,35,926 Mn	Recommendation ACCUMULATE	Sector Automobile
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Result highlights

- For Q1FY23, Ashok Leyland reported revenue of INR 72,229 Mn, an increase of 144.8% YoY while declining by 17.4% QoQ.
- Total volumes for the quarter were at 39,651 units, a growth of 120.4% YoY and a decline of 18.6% QoQ.
- EBITDA was INR 3,203 Mn, which improved by 328.6% YoY while declining by 58.7% QoQ. EBITDA margins were at 4.4% in Q1FY23 vs -4.7% in Q1FY22. EBITDA margins declined by 444 bps QoQ.
- Adj. PAT was at INR 550 Mn, an improvement of 119.6% YoY over a loss of 2,806 Mn in Q1FY22. Adj. PAT declined 87.2% QoQ. Adj. PAT Margin was 0.8%, an improvement from -9.5% in Q1FY22 but a decline from 4.9% in Q4FY22.

MARKET DATA

Shares outs (Mn)	2,936
Mkt Cap (INR Mn)	4,35,926
52 Wk H/L (INR)	158/93
Volume Avg (3m K)	15,579
Face Value (INR)	1
Bloomberg Code	AL : IN

KEY FINANCIALS

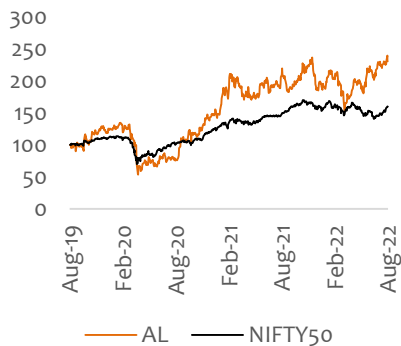
Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue from operation	1,74,675	1,53,015	2,16,883	3,17,231	3,80,355
EBITDA	11,737	5,351	9,945	22,206	38,416
PAT	2,395	-3,137	5,418	8,793	20,575
EPS	13.5	-10.7	18.5	30.0	70.1
EBITDA Margin	6.7%	3.5%	4.6%	7.0%	10.1%
NPM	1.4%	-2.1%	2.5%	2.8%	5.4%

Source: Company, KRChoksey Research

Strong YoY growth on a low base, LCV volumes impacted by semiconductor shortage: For Q1FY23, Ashok Leyland reported revenue of INR 72,229 Mn, an increase of 144.8% YoY while declining by 17.4% QoQ. Total volumes for the quarter were at 39,651 units, a growth of 120.4% YoY and a decline of 18.6% QoQ. M&HCV volumes were 24,987 units, which is a growth of 176.1% YoY while declining by 22.0% QoQ due to seasonality. LCV volumes were 14,664 units, which grew by 64.1% YoY while declining by 12.2% QoQ. LCV sales were impacted due to semiconductor shortage. Q1FY23 performance was aided by strong domestic truck sales. Domestic M&HCV industry sales grew by 160.0% YoY during the quarter.

Margins under pressure in Q1FY23, improvement expected in coming quarters: EBITDA was INR 3,203 Mn, which improved by 328.6% YoY while declining by 58.7% QoQ. EBITDA margins were at 4.4% in Q1FY23 vs -4.7% in Q1FY22. EBITDA margins declined by 444 bps QoQ. AL has continued to raise prices due to commodity cost inflation, especially in steel. As per Management, steel prices rising by INR 4 to 5 per kg impacted gross margins. Steel prices have softened QoQ in Q2FY23E and should be a benefit going forward. The increase in price realization has been in the range of 1.7% to 2.0% in Q1FY23. Apart from the reduction of cost pressures, AL has other levers that will aid in gradual margin improvement going forward. As volumes improve, operating leverage will kick in leading to lower costs as % of sales. Management believes AL can sustain and improve market share without hurting profitability due to the demand pull created by their products. Price increases will be a further lever to increase the margins. Products built on the modular platform have helped AL to significantly reduce the costs at back-end, which will aid the margins as volumes increase. The confluence of all these factors augur well for future profitability.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	58,351
NIFTY	17,388

SHARE HOLDING PATTERN (%)

Particulars	Jun-22	Mar-22	Dec-21
Promoters	51.5	51.5	51.5
FIIIs	15.0	13.5	15.1
DIIIs	21.7	21.9	20.7
Others	11.7	13.1	12.8
Total	100	100	100

32.4%

Revenue CAGR between FY22 and FY24E

96.5%

EBITDA CAGR between FY22 and FY24E

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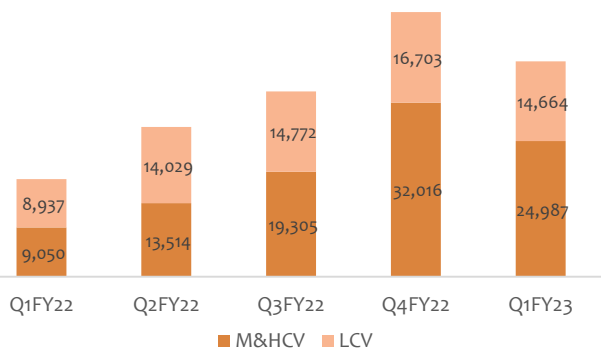
Key Concall Highlights:

(1) MHCV truck volumes for AL have grown by 46.0% higher than industry growth. As a result, AL has gained market share which stood at 31.1% in Q1FY23 vs 26.2% in Q1FY22 and 30.6% in Q4FY22. (2) The market share gain, despite taking price increases, was aided by tippers and multi-axle vehicles doing well, increased distribution network in North and East territories, and demand shifting toward diesel and away from CNG, ICV. (3) LCV volumes were impacted to the tune of 500 to 1,000 units due to semiconductor shortages. Over next few quarters, as the situation improves, the LCV performance should further improve. (4) AL launched 2 new models in tractors and expanded the range in AvTR 2620 and Ecomet 1815. The launches will help to sustain the market share gains. (5) Aftermarket, power solutions and international businesses continued to perform well. (6) As per ICRA, domestic M&HCV volumes will grow by 15% to 20% in FY23 aided by pick up in economic activity. (6) Passenger segment growth for FY23 is expected around 30% to 35%, aided by opening of educational institutes and offices. (7) LCV is expected to grow by 8% to 10% supported by demand from agriculture and allied sectors, and e-commerce. (8) Fleet utilization levels are improving, resulting in reducing cash flow pressure for operators. (9) With further demand growth, pricing is expected to become more rational. (10) The movement of commodity prices should impact the margins positively in coming quarters. (11) AL is working on making all products available in CNG fuel over next 8 to 9 months. (12) Working capital increased by INR 14,000 Mn due to higher finished vehicles and production inventory. As a result, net debt increased by INR 15,600 Mn in the quarter. (13) Capex for the quarter was at INR 1,150 Mn. Capex for FY23 is estimated to be INR 7,500 Mn. (14) Other expenses increased QoQ as Q4FY22 had some benefits of settlement of provisions done for the year, and also higher inflation effect in Q1FY23. (15) Other expenses as % of sales should be on a downward trajectory going forward. (16) The modular platform has allowed AL to reduce costs at back-end. (17) Gross margins should improve going forward as AL can increase the price of its products due to demand pull, coupled with softening of commodity costs. (18) The discounts remain high but net realizations are improving for AL. (19) AL is in discussions with investors for raising capital for Switch mobility, UK and Ohm Global Mobility, India for e-mobility as a service. Management believes the fundraise for Switch mobility is in final stages of discussions.

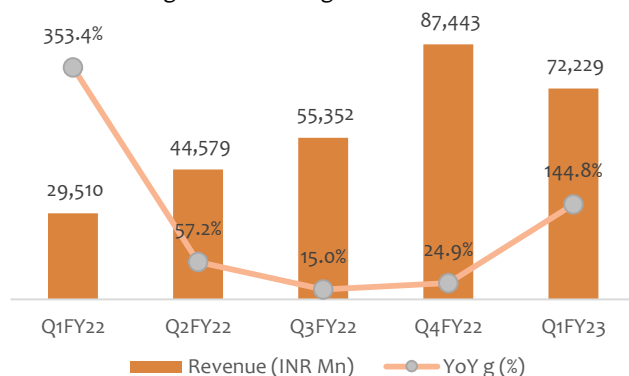
Valuation and view

The CV industry is on a robust growth trajectory aided by a low base, uptick in economic activity, improving fleet utilization levels, demand from agriculture and e-commerce industries. AL is gaining market share in a competitive industry despite taking price increases. New product launches are seeing good traction. As commodity costs soften, we expect AL's profitability to improve aided by higher gross margins as well as higher volumes and operating leverage. **We expect a Revenue/ EBITDA CAGR of 32.4%/ 96.5% respectively over FY22 to FY24E, on a covid impacted base of FY22. We have assigned a P/E multiple of 24x on FY24E EPS of INR 7.0 to arrive at a revised target price of INR 168/share (earlier target INR 145/share). The target price implies a potential upside of 13.3% from the CMP. Accordingly, we maintain our "ACCUMULATE" rating on the shares of Ashok Leyland Ltd.**

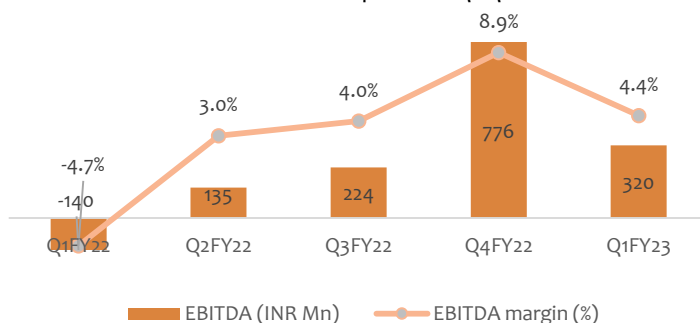
Segment volume break-up (units)



Strong YoY Revenue growth on a low base



EBITDA under pressure QoQ



Source: Company, KRChoksey Research

Ashok Leyland Ltd.

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Particulars (Mn)	Q1FY23	Q4FY22	Q1FY22	QoQ	YoY
No. Of. Vehicles Sold	39,651	48,719	17,987	-18.6%	120.4%
Revenues (INR)	72,229	87,443	29,510	-17.4%	144.8%
Total Expenditure	69,026	79,683	30,911	-13.4%	123.3%
Cost of material consumed	61,314	64,299	22,334	-4.6%	174.5%
Purchases of stock in trade	2,590	2,676	2,117	-3.2%	22.3%
Change in inventories	-6,623	1,447	-2,579	-557.7%	156.8%
Employee benefits expense	4,454	4,376	4,243	1.8%	5.0%
Other expenses	7,291	6,885	4,795	5.9%	52.0%
EBITDA	3,203	7,760	-1,401	-58.7%	328.6%
EBITDA Margin (%)	4.4%	8.9%	-4.7%	-444 bps	918 bps
Depreciation	1,824	1,954	1,835	-6.6%	-0.6%
EBIT	1,379	5,807	-3,236	-76.3%	142.6%
EBIT Margin (%)	1.9%	6.6%	-11.0%	-473 bps	1,287 bps
Finance cost	689	765	707	-9.9%	-2.6%
Other income	256	242	134	6.1%	91.3%
Exceptional items	130	4,703	-17	-97.2%	874.4%
PBT	1,077	9,986	-3,826	-89.2%	128.1%
Tax	396	973	-1,003	-59.3%	139.5%
PAT	681	9,014	-2,823	-92.5%	124.1%
PAT Margin (%)	0.9%	10.3%	-9.6%	-937 bps	1,051 bps
Adj. PAT	550	4,311	-2,806	-87.2%	119.6%
Adj. PAT Margin (%)	0.8%	4.9%	-9.5%	-417 bps	1,027 bps
EPS	2.3	3.1	-9.6	-24.5%	124.1%
Adj. EPS	1.9	14.7	-9.6	-87.2%	119.6%

Profit & Loss Statement

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Sales	1,74,675	1,52,292	2,15,678	3,15,468	3,78,241
Other operating revenue	0	722	1,205	1,763	2,114
Revenue from operations	1,74,675	1,53,015	2,16,883	3,17,231	3,80,355
Cost of sales	1,23,692	1,14,033	1,67,611	2,45,854	2,85,266
Gross profit	50,983	38,981	49,272	71,377	95,089
Employee benefit expense	16,151	15,839	16,946	19,034	21,680
Other expenses	23,096	17,791	22,381	30,137	34,993
Total expenses	1,62,938	1,47,663	2,06,938	2,95,025	3,41,939
EBITDA	11,737	5,351	9,945	22,206	38,416
Depreciation	6,698	7,477	7,528	8,197	8,644
EBIT	5,039	-2,126	2,418	14,009	29,772
Finance cost	1,095	3,068	3,011	3,367	3,600
PBT before exp	5,178	-3,999	168	11,755	27,507
Exceptional items	-1,558	-121	5,108	0	0
PBT	3,619	-4,119	5,276	11,755	27,507
Income tax expense	1,224	-982	-142	2,962	6,932
Net profit	2,395	-3,137	5,418	8,793	20,575
EPS (INR)	13.5	-10.7	18.5	30.0	70.1
Adj. Net profit	3,954	-3,016	310	8,793	20,575
Adj. EPS	13.5	-10.3	1.1	30.0	70.1

Source: Company, KRChoksey Research

Ashok Leyland Ltd.

Balance Sheet

INR Million	FY20	FY21	FY22	FY23E	FY24E
PPE	54,431	55,992	52,737	52,040	48,396
Capital WIP	4,210	2,288	1,111	1,210	1,276
Investments	28,220	31,266	35,902	44,412	60,857
Intangible assets	15,336	15,943	14,104	14,104	14,104
Other non current assets	7,464	4,496	4,266	4,266	4,266
Total non current assets	1,09,661	1,09,984	1,08,120	1,16,031	1,28,898
Inventories	12,380	21,423	20,752	30,844	36,982
Trade receivables	11,884	28,160	31,110	43,347	51,972
Cash and cash equivalents	12,790	5,301	9,943	10,152	15,910
Other bank balances	434	2,928	527	527	527
Loans	9261.7	8294.3	9955.8	9955.8	9955.8
Other current assets	7,485	8,409	22,294	22,294	22,294
Total current assets	54,235	74,515	94,582	1,17,120	1,37,641
Assets classified as held for sale	0	0	636	0	0
Total Assets	1,63,896	1,84,499	2,03,338	2,33,151	2,66,538
Equity share capital	2,936	2,936	2,936	2,936	2,936
Other equity	69,704	66,837	70,434	76,291	92,470
Total Equity	72,640	69,772	73,369	79,227	95,405
Secured and unsecured loans	13,814	25,801	28,850	30,850	32,850
Deferred tax liabilities	2648.2	1707.9	1443.6	1443.6	1443.6
Other non current liabilities	4,805	4,480	4,202	4,202	4,202
Total non current liabilities	21,267	31,989	34,496	36,496	38,496
Trade payables	36,485	56,441	72,914	94,870	1,10,079
Other financial liabilities	17,239	11,787	6,689	6,689	6,689
Other current liabilities	10,017	9,861	11,168	11,168	11,168
Provisions	6,249	4,650	4,703	4,703	4,703
Total current liabilities	69,989	82,738	95,473	1,17,429	1,32,637
Total liabilities	91,256	1,14,727	1,29,969	1,53,925	1,71,133
Total Equity and liabilities	1,63,896	1,84,499	2,03,338	2,33,151	2,66,538

Free Cash Flow Analysis

INR Crores	FY20	FY21	FY22	FY23E	FY24E
Net Cash Generated From Operations	9,411	211	26,469	19,985	33,265
Net Cash Flow from/(used in) Investing Activities	-21,775	-9,752	-14,589	-15,472	-21,510
Net Cash Flow from Financing Activities	11,490	2,060	-7,238	-4,302	-5,997
Net Inc/Dec in cash equivalents	-874	-7,481	4,643	210	5,758
Opening Balance Cash and Cash Equivalents	13,650	12,790	5,301	9,942	10,152
Closing Balance Cash and Cash Equivalents	12,790	5,301	9,942	10,152	15,910

Ratio Analysis

Key Ratio	FY20	FY21	FY22	FY23E	FY24E
EBITDA Margin (%)	6.7%	3.5%	4.6%	7.0%	10.1%
Tax rate (%)	33.8%	23.8%	-2.7%	25.2%	25.2%
Net Profit Margin (%)	1.4%	-2.1%	2.5%	2.8%	5.4%
RoE (%)	3.1%	-4.4%	7.6%	11.5%	23.6%
RoCE (%)	2.6%	-3.1%	5.0%	7.6%	15.4%
Current Ratio (x)	0.9x	1.0x	1.1x	1.1x	1.1x
EPS (INR per share)	1.3	-1.1	1.8	3.0	7.0
PE	110.4x	NA	80.6x	49.6x	21.2x

Source: Company, KRChoksey Research

Ashok Leyland Ltd.

Ashok Leyland Ltd				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
04-Aug 2022	149	168	ACCUMULATE		
				Buy	More than 15%
				Accumulate	5% – 15%
				Hold	0 – 5%
				Reduce	-5% – 0
				Sell	Less than – 5%

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