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Ashok Leyland (AL) reported solid topline growth of 9% qoq while posting a growth of 63% yoy on a low base. The base quarter last year was low on chip shortage issue. Volumes during the quarter slightly moved down by 3% qoq, while grew by 29% yoy. Realizations grew handsomely by 27% yoy and 13% qoq which contributed strongly to the qoq topline growth. This growth came on the back of robust product mix and price hikes taken during the quarter. The company gained significant market share yoy at 32.6% from 25.3% and 30 bps from 32.3% qoq. EBITDA margins expanded to 8.8% up by 230 bps sequentially and 480 bps yoy. This was due to decreased commodity costs (76.3% of sales v/s 78% qoq and 77.9% yoy) and lower other expenses (8.8% v/s 9.1% of sales qoq) led by lower marketing costs and reduction in discounts. Other income was up qoq at ₹316 mn, while tax rate was at 36.7% as the company is still going with the old tax regime. PAT adjusted for one time gain of ₹69.4 mn came in at ₹3.54 bn up from ₹1.91 bn qoq.

New launches and strength in the underlying sectors to drive volumes in FY24 as well

We are witnessing a superb performance by the CV sector, especially on its heavier side due to economic recovery, absence of pandemic and underlying drivers such as infrastructure & mining, construction and demand from big fleet operators. As the market has completely opened up, we see the truck numbers moving up further. We saw demand for tractor trailers, tippers, haulage and MAVs moving up strongly. The demand for buses is also high with a growth of 132% yoy with opening of schools, colleges and offices and EV versions of buses getting an encouraging response. This along with various partnerships and opening of dealerships across India has led to higher market share which rose both yoy and qoq at 32.6%. The deeper penetration has led to higher sales in North, East and Central parts of the country as well where AL is traditionally less present. AL has also launched various model variants in most of its segments across HPs. The company recently launched the e-Comet Star ICV CNG range to address the gap in its portfolio (CNG mix in ICV segment had reached ~40% in FY2022 from 13% in FY2019). The company launched two tractor trailers (4225 and 4825 models) couple of quarters ago, All these models are fetching a very strong demand especially the Avatar range of trucks.

Key Financials	FY 21	FY 22	FY 23E	FY 24E	FY 25E
Revenues (₹ bn)	154.82	216.88	332.55	418.71	497.16
EBITDA (%)	4.6%	4.6%	7.0%	7.7%	8.5%
PAT (%)	-0.9%	2.5%	2.8%	3.6%	4.3%
Adj EPS (₹)	-0.41	0.11	3.18	5.07	7.23
P/E (x)	-	-	47.9	30.0	21.0
P/B (x)	6.4	6.1	5.6	4.9	4.2
EV/EBITDA (x)	66.8	47.4	20.2	14.6	11.1
ROCE (%)	-0.3%	2.2%	13.6%	19.1%	23.3%
ROE (%)	-1.9%	7.4%	11.7%	16.5%	20.2%

Rating	BUY
Current Market Price (₹)	152
12 M Price Target (₹)	186
Potential upside (%)	22

Stock Data

FV (₹) :	1
Total Market Cap (₹ bn) :	447
Free Float Market Cap (₹ bn) :	212
52-Week High / Low (₹) :	170 / 93
2-Year High / Low (₹) :	170 / 93
1 Yr Avg. Dly Traded Volume (in lakh)	148
BSE Code / NSE Symbol	500477 / ASHOKLEY
Bloomberg :	AL IN

Shareholding Pattern

(%)	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	51.53	51.54	51.54	51.54
FPIs	15.28	17.57	15.03	13.45
MFs	13.56	12.78	14.93	15.43
Insurance	6.03	5.76	5.34	4.97
Others	13.60	12.35	13.16	14.61

Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
Ashok Leyland	2.4%	1.8%	2.4%	13.5%
Nifty 50	-3.2%	-2.6%	1.5%	-1.0%

* To date / current date : January 2, 2023

Ashok Leyland vs Nifty 50



AL has currently a strong order book for EV buses under its SWITCH India business arm pertaining to electrification of its vehicles. SWITCH has received a huge order of 2,100 EV buses from Telangana State Transport Department and 500 buses from another state transport body. Though we have seen a very strong YTD growth for AL, we may still see a good growth in FY 24 though slight moderation can be observed on a high base of FY 23. Apart from the high base effect we do not envisage any hindrance for the CV sector to not report good growth next year as well. Overall, we expect AL's market share to reach ~35% in FY2024E with easing of chip shortage issue. With robust bus segment growth and truck growth remaining intact, we expect AL to outperform the industry. There is still some uncertainty regarding the implementation of the OBD2 norms linked with BSVI emission standards, which may result in some pre-buying before the prices move up. However, the timeline is not yet announced.

LCV sales continue to grow on the success of the Dost family

LCVs had been facing some supply issues owing to chip shortage. With this issue getting resolved, LCVs are almost back on track. In Q3, LCV sales grew by 5%. The company has a LCV portfolio of products such as Dost and its variants Bada Dost, Guru, Mitra and Partner models. Among these models, Dost and Bada Dost are finding great response. LCVs being a high margin business are expected to add operating synergies and provide cost benefits to the company as volumes grow. Management mentioned that LCV volumes are driven by increased demand for last-mile connectivity, especially from the e-commerce (which was slightly weak in Q3, but is expected to revive soon), pharma and consumer durable sectors. Going forward with new launches in the segment (CNG and upcoming launch of Bada Dost EV variant in June 23), we foresee decent growth in the coming years.

Margins to jump on multiple levers

Q3 witnessed a surge in EBITDA margins at 8.8% from 6.5% qoq, as input costs including steel and aluminium came down. Also discounts did not rise, while marketing costs normalized. There were price hikes of 4-4.5% taken during the quarter and the realizations went up on better product mix as well. Going forward, management expects input costs to further soften as the rest of high cost inventory is liquidated. Also management has indicated incurring multiple price hikes as demand moves up and discounting goes down. The company is also into stringent cost cutting initiatives, adding value added products to their portfolio, while improving demand for higher tonnage trucks, haulage, ICVs & LCVs will augur well for margins as product mix improves. Operating leverage shall further come into play as volumes further expand.

Quarterly Financial Snapshot

YE Mar (₹ mn)	Q3 FY23	Q2 FY23	% qoq	Q3 FY22	% yoy
Total income	90,297	82,660	9.2%	55,352	63.1%
Raw Material Cost	68,858	64,466	6.8%	43,131	59.6%
Staff Cost	5,495	5,271	4.3%	4,324	27.1%
Other Expenses	7,970	7,550	5.6%	5,658	40.9%
Total Expenses	82,323	77,286	6.5%	53,113	55.0%
EBITDA	7,974	5,373	48.4%	2,239	256.1%
EBITDA margin (%)	8.8%	6.5%	230 bps	4.0%	480 bps
Other Income	316	200	58.0%	176	79.1%
Depreciation	1,890	1,768	6.9%	1,897	-0.4%
Interest	804	771	4.3%	668	20.3%
PBT	5,596	3,035	84.4%	(149)	N/A
Total tax	2,052	1,124	82.5%	213	862.8%
Adjusted PAT	3,544	1,911	85.5%	(363)	N/A
Exceptional items	69	82	-15.7%	420	-83.5%
Reported PAT	3,614	1,993	81.3%	58	6173.6%

Source: Company, LKP Research

Outlook and valuation

AL posted healthy set of numbers and a scintillating market share growth in Q3 when compared both yoy and qoq. As Covid seems to be a past now, the CV demand is firming up well, supported by higher influx of infra projects, which may drive demand further and also due to good monsoons. New launches and focus on geographic mix seen in Q3 should help AL to further improve sales and fill in the gaps within the portfolio. LCV demand has been strong throughout the pandemic and is expected to strengthen as last mile transportation is a flourishing business, mainly driven by e-com success and new EV launch of its most successful model Bada Dost. Also, we expect AL to gain more market share given its new launches in tractor trailer and tipper segments. Bus demand is also going strong with the pandemic fading off and markets completely opening up. Both bus and LCV demand shall get a further fillip with ongoing strong demand for their EV variants with AL's EV arm SWITCH Mobility getting good orders and credit worth ₹2bn from the parent AL. On the margin front, Modular programs, cost cutting initiatives, lower discounting, price hikes, superior product mix along with softening input costs shall aid margin growth. To sum it up, we believe the ongoing CV upcycle shall continue for next 1.5-2 years, which would result in high earnings growth and higher valuations supported by low commodity cost benefits aiding margins. Divestment in Switch Mobility to act an additional trigger as and when it happens. We maintain BUY with a target of ₹186.

Per unit parameters	Q3 FY23	Q2 FY23	Q1 FY23	Q4 FY22	Q3 FY22	Q2 FY22	Q1 FY22	Q4 FY21
Avg Price Realisation (net)	20,61,333	18,24,914	18,21,606	17,94,842	16,24,310	16,17,918	16,40,629	15,88,856
Material cost / unit (₹)	15,71,928	14,23,243	14,44,619	14,04,403	12,65,695	12,40,714	12,16,017	12,21,832
Staff cost / unit (₹)	1,25,435	1,16,359	1,12,333	89,817	1,26,892	1,45,284	2,35,898	91,148
Other Expn / unit (₹)	1,81,945	1,66,681	1,83,882	1,41,321	1,66,021	1,83,036	2,66,598	1,54,639
Total Expn / unit (₹)	18,79,308	17,06,283	17,40,833	16,35,541	15,58,608	15,69,034	17,18,513	14,67,619
EBITDA per unit	1,82,025	1,18,631	80,773	1,59,301	65,701	48,884	-77,884	1,21,237
APAT per unit	80,909	42,186	13,879	88,501	-10,641	-30,211	-1,56,007	46,255

Income Statement

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E	FY 25E
Total Revenues	1,54,822	2,16,883	3,32,554	4,18,706	4,97,162
Raw Material Cost	1,14,033	1,67,611	2,57,729	3,22,404	3,80,329
Employee Cost	15,839	16,946	20,286	25,541	29,830
Other Exp	17,791	22,381	31,260	38,521	44,745
EBITDA	7,159	9,945	23,279	32,240	42,259
EBITDA Margin(%)	4.6%	4.6%	7.0%	7.7%	8.5%
Other income	1195	761	1200	1300	1400
Depreciation	7,477	7,528	6,914	6,526	6,532
Interest	3068	3011	2993	3768	3977
PBT	(2,191)	168	14,572	23,246	33,149
PBT Margin(%)	-1.4%	0.1%	4.4%	5.6%	6.7%
Tax	(982)	(142)	5,246	8,368	11,934
Adj PAT	(1,209)	310	9,326	14,877	21,215
Adj PAT Margins (%)	-0.8%	0.1%	2.8%	3.6%	4.3%
Exceptional items	-120.5	5108.3	0.0	0.0	0.0
PAT	(1,329)	5,419	9,326	14,877	21,215
PAT Margin (%)	-0.9%	2.5%	2.8%	3.6%	4.3%

Key Ratios

YE Mar	FY 21	FY 22	FY 23E	FY 24E	FY 25E
Per Share Data (₹)					
Adj. EPS	-0.41	0.11	3.18	5.07	7.23
CEPS	2.1	2.7	5.5	7.3	9.5
BVPS	23.8	25.0	27.2	30.8	35.8
DPS	0.0	0.6	1.0	1.5	2.2
Growth Ratios(%)					
Total revenues	-11.4%	40.1%	53.3%	25.9%	18.7%
EBITDA	-39.0%	38.9%	134.1%	38.5%	31.1%
Adj. PAT	N/A	N/A	2905.4%	59.5%	42.6%
EPS	N/A	N/A	2905.4%	59.5%	42.6%
Valuation Ratios (x)					
PE	-369.2	1438.2	47.9	30.0	21.0
P/CEPS	71.2	56.9	27.5	20.9	16.1
P/BV	6.4	6.1	5.6	4.9	4.2
EV/Sales	3.1	2.2	1.4	1.1	0.9
EV/EBITDA	66.8	47.4	20.2	14.6	11.1
Operating Ratios (Days)					
Inventory days	50.5	34.9	45.0	52.0	57.0
Receivable Days	66.4	52.4	55.0	59.0	62.0
Payables day	139.1	126.5	106.0	102.0	98.0
Profitability Ratios (%)					
ROCE	-0.3%	2.2%	13.6%	19.1%	23.3%
ROE	-1.9%	7.4%	11.7%	16.5%	20.2%
Dividend payout	0.0%	32.5%	30.0%	30.0%	30.0%
Net Debt/Equity (x)	0.46	0.34	0.29	0.25	0.21

Balance Sheet

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E	FY 25E
EQUITY AND LIABILITIES					
Shareholder's funds					
Share capital	2,936	2,936	2,936	2,936	2,936
Reserves and surplus	66,837	70,434	76,962	87,376	1,02,226
Total networkth	69,772	73,369	79,897	90,311	1,05,162
Non current liabilities					
Long term borrowings & provs	27,476	30,508	36,508	40,508	44,508
Deferred tax liabilities	1707.9	1443.6	1443.6	1443.6	1443.6
Current liabilities					
Short term borrowings	11707	6565	5565	6065	6565
Current liabilities & provisions	63,644	79,854	1,01,227	1,21,658	1,38,134
Other current liabilities	7,387	9,054	9,054	9,054	9,054
Total equity and liabilities	1,84,499	2,03,338	2,36,239	2,71,584	3,07,411
ASSETS					
Net block	53,097	49,771	52,857	56,331	59,798
Capital work in progress	2,288	1,111	2,311	3,311	4,311
Intangible assets	18,838	17,069	17,069	17,069	17,069
Non current investments					
Long term loans and advances	370	0	0	0	0
Long term investments	35,391	40,168	45,168	54,168	64,168
Total non current assets	1,09,984	1,08,120	1,17,406	1,30,879	1,45,347
Current assets					
Inventories	21,423	20,752	31,775	45,931	59,394
Trade receivables	28,160	31,110	50,111	52,611	55,111
Cash and cash bank	5,301	9,942	16,516	21,731	27,128
Short term loans and advances	208	0	0	0	0
Other current assets	16,495	19,906	19,906	19,906	19,906
Total current assets	74,515	95,218	1,18,834	1,40,706	1,62,066
Total Assets	1,84,499	2,03,338	2,36,239	2,71,584	3,07,411

Cash Flow

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E	FY 25E
PBT	-3,137	5,418	9,326	14,877	21,215
Depreciation	7,286	7,367	6,914	6,526	6,532
Interest	3,068	3,011	2,993	3,768	3,977
Chng in working capital	6,651	-4,653	13,579	-9,650	4,274
Tax paid	779	714	-5,246	-8,368	-11,934
Other operating cash flows	-14,435	14,612	-17,984	22,293	8,673
Cash flow from operations (a)	211	26,469	9,583	29,446	32,739
Capital expenditure	-6,561	-4,000	-11,200	-11,000	-11,000
Chng in investments	-3,677	-165	-5,000	-9,000	-10,000
Other investing activities	488	-10,425	12,981	-	-
Cash flow from investing (b)	-9,751	-14,590	-3,220	-20,000	-21,000
Inc/dec in borrowings	4,901	-2,567	6,000	4,000	4,000
Dividend paid (incl. tax)	0	-1,761	-2,798	-4,463	-6,365
Other financing activities	-2,841	-2,908	-2,993	-3,768	-3,977
Cash flow from financing (c)	2,061	-7,236	209	-4,232	-6,342
Net chng in cash (a+b+c)	-7,479	4,643	6,572	5,215	5,397
Closing cash & cash equivalents	5,302	9,944	16,516	21,731	27,128

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