

February 2, 2023

Q3FY23 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	200		200	
Sales (Rs. m)	3,95,452	4,35,069	3,72,337	4,20,577
% Chng.	6.2	3.4		
EBITDA (Rs. m)	35,986	44,377	35,744	43,740
% Chng.	0.7	1.5		
EPS (Rs.)	7.3	9.5	7.2	9.2
% Chng.	1.4	2.4		

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. bn)	217	347	395	435
EBITDA (Rs. bn)	10	26	36	44
Margin (%)	4.6	7.5	9.1	10.2
PAT (Rs. bn)	0	12	21	28
EPS (Rs.)	0.1	3.9	7.3	9.5
Gr. (%)	(105.7)	6,606.3	84.4	30.2
DPS (Rs.)	0.0	2.3	4.4	5.7
Yield (%)	0.0	1.5	2.9	3.7
RoE (%)	0.2	15.3	25.9	30.2
RoCE (%)	2.2	17.2	25.4	31.3
EV/Sales (x)	2.1	1.3	1.1	1.0
EV/EBITDA (x)	46.1	17.6	12.4	9.9
PE (x)	2,590.2	38.6	20.9	16.1
P/BV (x)	6.1	5.7	5.2	4.6

Key Data

ASOK.BO | AL IN

52-W High / Low	Rs.169 / Rs.93
Sensex / Nifty	59,932 / 17,610
Market Cap	Rs.446bn/ \$ 5,432m
Shares Outstanding	2,936m
3M Avg. Daily Value	Rs.1601.58m

Shareholding Pattern (%)

Promoter's	51.54
Foreign	13.45
Domestic Institution	21.94
Public & Others	13.07
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.3	2.3	13.4
Relative	4.4	(0.8)	12.7

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Ashok Leyland (AL IN)

Rating: BUY | CMP: Rs152 | TP: Rs200

Confident on demand and margin

Quick Pointers:

- AL's domestic MHCV market share improved to ~32% vs 27% of FY22 end.
- EBITDA margin improvement (+230bps QoQ) led by higher realisations and commodity costs coming off.

We marginally increase our EPS estimates and reduce our target multiple to 13x (14x earlier), in line with long-term average (excl. COVID-19 period), as we enter the mid CV upcycle. Ashok Leyland's (AL) 3QFY23 EBITDA margin at 8.8% (+230bps QoQ) beat street estimates on the back of (1) higher realization led by price hikes (4-4.5% FYTD23), (2) commodity prices softening (gross margin +170bps QoQ) (some of it might get reversed due to de-inventorization), (3) better product mix (sold higher ASP products) and (4) operating leverage.

Going ahead, demand outlook remains robust as MHCV segment should continue to outperform led by strong fundamentals and AL, in our view, is well placed to sustain its market share gains (c32% vs 27% in FY22) led by CV upcycle, bus segment revival, network expansion, new products. LCVs will benefit from strong end market demand and filling of white spaces. Additionally, price retention due to strong demand, lower input prices and operating leverage will lead to margin expansion (EBITDA margin expansion of 275bps over FY23-25E). Maintain 'BUY' at target price of Rs 200 on Dec-24E EV/EBITDA (includes ~Rs 10 for HLF).

Revenue at Rs 90.2bn (+9% QoQ) beat expectation: AL's volumes for the quarter grew by 5% QoQ to 47.5k units. However, revenue growth at 9% was higher led by better-than-expected ASPs (~Rs 1.9mn, +4% QoQ).

EBITDA margin at 8.8% expanded by 230bps QoQ: Margin expansion was driven by (1) improvement in realization due to price hikes (4-4.5% YTD), (2) commodity prices softening (gross margin +170bps QoQ) & operating leverage, (3) better product mix (sold higher ASP products) and (4) increase in volumes led by economic recovery. AL reported a PAT of Rs 3.6bn vs Rs 2bn last quarter.

Key takeaways: (1) Demand outlook remains robust: Management expects demand momentum to remain strong in FY24 on the back of strong demand in MHCV segment (especially multi-axle vehicle, tractor trailers, tippers and high tonnage vehicles) and E-com/LMD driving volumes for LCVs. The industry is witnessing demand pull, rather than demand push which was the case earlier. Management expects replacement demand also to come back. **(2) Market share gain through product and network expansion:** AL's domestic MHCV market share has inched upwards to ~32% in Dec-22 FYTD vs ~27% in FY22. This is driven by multiple product launches over the past one year, success of AVTR range and network expansion (particularly in north and east). **(3) Better realisation aiding margins:** AL has taken ~4-4.5% price increase YTD (also in Jan-23) and has been able to retain more of these hikes. Higher ASPs are supported by superior product mix - high tonnage products (40 & 49 tons) and high margin AVTR products. AL noted, it will pass on costs related to the transitions to BSVI phase-II. **(4) SWITCH mobility:** AL highlighted that order pipeline remains robust – received 2,100 e-Bus order from CESL and 500 from Telangana state.

Exhibit 1: Q3FY23 Result Overview (Rs m)

Y/e Mar (Rs mn)	3QFY23	3QFY22	YoY gr. (%)	2QFY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Net Revenues	90,297	55,352	63.1	82,660	9.2	245,185	129,440	89.4
Raw Materials	68,859	43,131	59.6	64,466	6.8	190,605	99,189	92.2
<i>% of Net Sales</i>	<i>76.3%</i>	<i>77.9%</i>		<i>78.0%</i>		<i>77.7%</i>	<i>76.6%</i>	
Personnel	5,495	4,324	27.1	5,271	4.3	15,219	12,570	21.1
<i>% of Net Sales</i>	<i>6.1%</i>	<i>7.8%</i>		<i>6.4%</i>		<i>6.2%</i>	<i>9.7%</i>	
Manufacturing & Other Exp	7,970	5,658	40.9	7,550	5.6	22,811	15,496	47.2
<i>% of Net Sales</i>	<i>8.8%</i>	<i>10.2%</i>		<i>9.1%</i>		<i>9.3%</i>	<i>12.0%</i>	
Total Expenditure	82,323	53,113	55.0	77,286	6.5	228,635	127,255	79.7
EBITDA	7,973	2,239	256.1	5,373	48.4	16,550	2,185	657.5
<i>Margin (%)</i>	<i>8.8%</i>	<i>4.0%</i>		<i>6.5%</i>		<i>6.7%</i>	<i>1.7%</i>	
Depreciation	1,890	1,897	(0.4)	1,768	6.9	5,481	5,574	(1.7)
EBIT	6,084	342	NA	3,605	68.7	11,068	(3,389)	NA
Interest Expenses	804	668	20.3	771	4.3	2,263	2,247	0.7
Non-operating income	316	176	79.1	200	58.0	772	520	48.6
Extraordinary items	69	420		82		282	406	
PBT	5,665	271	NA	3,117	81.7	9,859	(4,710)	NA
Tax	2,052	213	NA	1,124	82.5	3,572	(1,115)	NA
<i>Effective tax rate (%)</i>	<i>36.2%</i>	<i>78.7%</i>		<i>36.1%</i>		<i>36.2%</i>	<i>23.7%</i>	
Reported PAT	3,613	58	NA	1,993	81.3	6,287	(3,595)	NA
Adj. PAT	3,561	(257)	NA	1,931	84.4	6,076	(3,900)	NA
PAT Margin	3.9%	-0.5%		2.3%		2.5%	-3.0%	

Source: Company, PL

Exhibit 2: Operating Metrics – Higher ASPs led by superior product mix and price hikes

Y/e Mar (Rs)	3QFY23	3QFY22	YoY gr. (%)	2QFY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Sales Volume (nos)	47,562	34,077	39.6	45,295	5.0	132,508	79,607	66.5
Net Realisation/Vehicle	1,898,505	1,624,310	16.9	1,824,914	4.0	1,850,339	1,625,988	13.8
Material cost / vehicle	1,447,763	1,265,695	14.4	1,423,243	1.7	1,438,440	1,245,983	15.4
Gross Profit / vehicle	450,742	358,614	25.7	401,671	12.2	411,899	380,004	8.4
Employee cost /vehicle	115,527	126,892	(9.0)	116,359	(0.7)	114,856	157,903	(27.3)
Other expenses / vehicle	167,573	166,021	0.9	166,681	0.5	172,148	194,656	(11.6)
EBITDA/vehicle	167,642	65,701	155.2	118,631	41.3	124,895	27,445	355.1
Net Profit/vehicle	75,972	1,696	NA	44,003	72.7	47,446	(45,162)	NA

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	2,16,883	3,46,523	3,95,452	4,35,069
YoY gr. (%)	41.7	59.8	14.1	10.0
Cost of Goods Sold	1,67,611	2,68,209	2,99,357	3,24,996
Gross Profit	49,272	78,314	96,095	1,10,072
Margin (%)	22.7	22.6	24.3	25.3
Employee Cost	16,946	20,965	24,518	26,974
Other Expenses	22,381	31,534	35,591	38,721
EBITDA	9,945	25,816	35,986	44,377
YoY gr. (%)	85.8	159.6	39.4	23.3
Margin (%)	4.6	7.5	9.1	10.2
Depreciation and Amortization	7,528	7,319	8,832	9,729
EBIT	2,418	18,497	27,155	34,648
Margin (%)	1.1	5.3	6.9	8.0
Net Interest	3,011	2,719	1,990	1,493
Other Income	761	1,217	1,477	1,535
Profit Before Tax	5,276	17,277	26,641	34,690
Margin (%)	2.4	5.0	6.7	8.0
Total Tax	(142)	5,529	5,328	6,938
Effective tax rate (%)	(2.7)	32.0	20.0	20.0
Profit after tax	5,418	11,748	21,313	27,752
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	172	11,556	21,313	27,752
YoY gr. (%)	-	-	-	-
Margin (%)	0.1	3.3	5.4	6.4
Extra Ord. Income / (Exp)	5,246	192	-	-
Reported PAT	5,418	11,748	21,313	27,752
YoY gr. (%)	(272.7)	116.8	81.4	30.2
Margin (%)	2.5	3.4	5.4	6.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Equity Shares O/s (m)	2,936	2,936	2,936	2,936
EPS (Rs)	0.1	3.9	7.3	9.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	1,10,853	1,21,495	1,34,495	1,47,495
Tangibles	1,10,853	1,21,495	1,34,495	1,47,495
Intangibles	-	-	-	-
Acc: Dep / Amortization	49,343	56,662	65,493	75,222
Tangibles	49,343	56,662	65,493	75,222
Intangibles	-	-	-	-
Net fixed assets	61,510	64,833	69,001	72,273
Tangibles	61,510	64,833	69,001	72,273
Intangibles	-	-	-	-
Capital Work In Progress	1,943	1,301	1,301	1,301
Goodwill	4,499	4,499	4,499	4,499
Non-Current Investments	35,216	36,716	38,216	39,716
Net Deferred tax assets	(1,444)	(1,444)	(1,444)	(1,444)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	12,981	13,110	13,241	13,374
Inventories	20,752	25,633	29,253	32,183
Trade receivables	31,111	18,988	18,418	20,263
Cash & Bank Balance	10,470	6,622	8,237	11,633
Other Current Assets	24,858	27,343	30,078	33,086
Total Assets	2,03,338	1,99,045	2,12,244	2,28,327
Equity				
Equity Share Capital	2,936	2,936	2,936	2,936
Other Equity	70,434	75,020	83,545	94,646
Total Networth	73,369	77,956	86,481	97,582
Non-Current Liabilities				
Long Term borrowings	28,850	23,080	17,310	12,983
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	6,689	5,351	4,013	3,010
Trade payables	68,752	64,558	73,673	81,054
Other current liabilities	24,234	26,658	29,323	32,256
Total Equity & Liabilities	2,03,338	1,99,045	2,12,244	2,28,327

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	5,276	17,277	26,641	34,690
Add. Depreciation	7,528	7,319	8,832	9,729
Add. Interest	3,011	2,719	1,990	1,493
Less Financial Other Income	761	1,217	1,477	1,535
Add. Other	(761)	(1,217)	(1,477)	(1,535)
Op. profit before WC changes	15,054	26,098	35,986	44,377
Net Changes-WC	12,070	2,985	5,997	2,529
Direct tax	(122)	(5,529)	(5,328)	(6,938)
Net cash from Op. activities	27,002	23,554	36,655	39,968
Capital expenditures	(1,257)	(10,000)	(13,000)	(13,000)
Interest / Dividend Income	-	-	-	-
Others	(3,767)	(283)	(23)	35
Net Cash from Invst. activities	(5,024)	(10,283)	(13,023)	(12,965)
Issue of share cap. / premium	(1,713)	(282)	-	(8,845)
Debt changes	(1,924)	(7,108)	(7,108)	(5,331)
Dividend paid	(109)	(6,880)	(12,788)	(7,807)
Interest paid	(3,011)	(2,719)	(1,990)	(1,493)
Others	-	-	-	-
Net cash from Fin. activities	(6,757)	(16,988)	(21,886)	(23,475)
Net change in cash	15,221	(3,718)	1,746	3,528
Free Cash Flow	25,745	13,554	23,655	26,968

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	87,443	72,229	82,660	90,297
YoY gr. (%)	24.9	144.8	85.4	63.1
Raw Material Expenses	68,422	57,281	64,466	68,859
Gross Profit	19,021	14,948	18,194	21,438
Margin (%)	21.8	20.7	22.0	23.7
EBITDA	7,760	3,203	5,373	7,973
YoY gr. (%)	45.3	(328.6)	298.9	256.1
Margin (%)	8.9	4.4	6.5	8.8
Depreciation / Depletion	1,954	1,824	1,768	1,890
EBIT	5,807	1,379	3,605	6,084
Margin (%)	6.6	1.9	4.4	6.7
Net Interest	765	689	771	804
Other Income	242	256	200	316
Profit before Tax	9,986	1,077	3,117	5,665
Margin (%)	11.4	1.5	3.8	6.3
Total Tax	973	396	1,124	2,052
Effective tax rate (%)	9.7	36.8	36.1	36.2
Profit after Tax	9,014	681	1,993	3,613
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	4,769	598	1,940	3,569
YoY gr. (%)	124.5	(121.3)	(333.3)	(11,289.3)
Margin (%)	5.5	0.8	2.3	4.0
Extra Ord. Income / (Exp)	4,703	130	82	69
Reported PAT	9,014	681	1,993	3,613
YoY gr. (%)	273.7	(124.1)	(340.1)	6,151.6
Margin (%)	10.3	0.9	2.4	4.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Avg. Shares O/s (m)	2,936	2,936	2,936	2,936
EPS (Rs)	1.6	0.2	0.7	1.2

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	0.1	3.9	7.3	9.5
CEPS	2.6	6.4	10.3	12.8
BVPS	25.0	26.6	29.5	33.2
FCF	8.8	4.6	8.1	9.2
DPS	0.0	2.3	4.4	5.7
Return Ratio(%)				
RoCE	2.2	17.2	25.4	31.3
ROIC	2.9	14.3	25.4	32.4
RoE	0.2	15.3	25.9	30.2
Balance Sheet				
Net Debt : Equity (x)	0.2	0.1	-	(0.1)
Net Working Capital (Days)	(58)	(41)	(44)	(44)
Valuation(x)				
PER	2,590.2	38.6	20.9	16.1
P/B	6.1	5.7	5.2	4.6
P/CEPS	58.0	23.6	14.8	11.9
EV/EBITDA	46.1	17.6	12.4	9.9
EV/Sales	2.1	1.3	1.1	1.0
Dividend Yield (%)	0.0	1.5	2.9	3.7

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
MHCV volumes (in units)	73,885	1,20,502	1,38,572	1,52,816
LCV volumes (in units)	54,441	67,632	76,186	83,085
Total volumes (in units)	1,28,326	1,88,134	2,14,758	2,35,901
Average realisation (Rs/unit)	16,90,093	18,41,891	18,41,384	18,44,286

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jan-23	BUY	200	146
2	14-Nov-22	BUY	200	148
3	06-Oct-22	BUY	200	156
4	02-Aug-22	BUY	177	154
5	08-Jul-22	BUY	170	148
6	23-May-22	BUY	170	130
7	11-Apr-22	BUY	170	131
8	15-Feb-22	BUY	175	124

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Auto	Hold	4,040	3,717
2	CEAT	Accumulate	1,825	1,585
3	Maruti Suzuki	BUY	10,600	8,699
4	Tata Motors	BUY	520	419
5	TVS Motors	BUY	1,240	984

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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