

Ashok Leyland Ltd.



Ashok Leyland Ltd.

Strong margin improvement continues along with market share gains

CMP INR 145	Target INR 194	Potential Upside 33.5%	Market Cap (INR Mn) 4,28,821	Recommendation BUY	Sector Automobile
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Result highlights

- For Q4FY23, AL reported revenue of INR 1,16,257 mn (+33.0% YoY/ +28.7% QoQ). For FY23, revenue was INR 3,61,441 mn (+66.7% YoY). The underlying volume growth for the quarter was 22.5% YoY/ 25.5% QoQ, while for FY23, the no. of vehicles sold were higher by 49.8% YoY.
- EBITDA for the quarter was INR 12,757 mn, which is a growth of 64.4% YoY/ 60.0% QoQ. EBITDA margin expanded by 210 bps YoY/ 214 bps QoQ to 11.0%. For FY23, EBITDA grew by 194.7% YoY to INR 29,307 mn while EBITDA margin expanded by 352 bps YoY to 8.1%.
- Adj. PAT for the quarter was at INR 6,950 mn (+61.2% YoY/ +96.1% QoQ). Adj. PAT for FY23 grew to INR 12,955 mn from INR 310 mn in FY22.

MARKET DATA

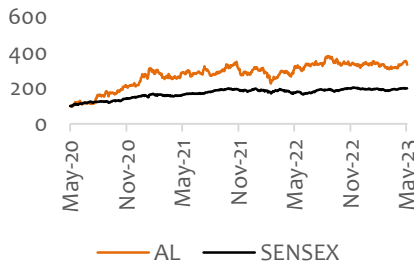
Shares outs (Mn)	2,936
Mkt Cap (INR Mn)	4,28,821
52 Wk H/L (INR)	169/128
Volume Avg (3m K)	8,182
Face Value (INR)	1
Bloomberg Code	AL : IN

KEY FINANCIALS

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue from operation	1,53,015	2,16,883	3,61,441	4,25,312	4,76,920
EBITDA	5,351	9,945	29,307	42,159	48,942
Adj. PAT	-3,016	310	12,955	22,571	27,281
Adj. EPS	-1.0	0.1	4.4	7.7	9.3
EBITDA Margin	3.5%	4.6%	8.1%	9.9%	10.3%
NPM	-2.0%	0.1%	3.6%	5.3%	5.7%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Strong volume growth and improved realizations: For Q4FY23, Ashok Leyland reported revenue of INR 1,16,257 mn (+33.0% YoY/ +28.7% QoQ). For FY23, revenue was INR 3,61,441 mn (+66.7% YoY). The underlying volume growth for the quarter was 22.5% YoY/ 25.5% QoQ, while for FY23, the no. of vehicles sold were higher by 49.8% YoY. ASP for Q4FY23 grew by 8.6% YoY/ 2.7% QoQ, while for FY23 it grew by 11.4% YoY. AL's growth for FY23 was across product segments, except LCV which has been slow. AL improved its market share in M&HCV as well as ICV segments while the share in LCVs declined marginally in FY23 by 0.7% vs. FY22. AL's volume growth in the international markets was 2.5% YoY for FY23, which is much better compared to ~30.0% to 40.0% YoY decline in volumes for peers.

Margins jump to double-digits for the first time after FY19: Gross margins expanded by 265 bps YoY/ 66 bps QoQ for Q4FY23 while expanding by 23 bps YoY for FY23. EBITDA for the quarter was INR 12,757 mn, which is a growth of 64.4% YoY/ 60.0% QoQ. EBITDA margin expanded by 210 bps YoY/ 214 bps QoQ to 11.0%. AL has seen a consistent sequential improvement in margins throughout FY23, where it delivered 4.4%/ 6.5%/ 8.8%/ 11.0% EBITDA margins respectively for the consecutive four quarters of FY23. For FY23, EBITDA grew by 194.7% YoY to INR 29,307 mn while EBITDA margin expanded by 352 bps YoY to 8.1%. Improvement in realizations, operating leverage, cost rationalization, and commodity cost softening have contributed to the margin gains.

Outlook: In FY24E, the CV industry demand is likely to surpass the peak of FY19. The industry is estimated to grow at 8.0% to 12.0% YoY, supported by strong infrastructure spending by the Government, replacement demand, and traction in core industries like steel, cement, and mining. LCV growth is expected to be lower at 5.0% to 6.0%. On the other hand, buses should continue their higher growth at ~30.0% levels. The CV cycle generally lasts for 3-4 years and there has been only 1 good year so far, so industry growth should continue beyond FY24E. Softening commodity prices and improving realizations should lead to further margin improvement for the industry in FY24E. AL is confident of delivering a double-digit EBITDA margin in FY24E and aims to go up to mid-teen EBITDA margins in the medium term.

MARKET INFO

SENSEX	61,873
NIFTY	18,321

SHARE HOLDING PATTERN (%)

Particulars	Mar-23	Dec-22	Sep-22
Promoters	51.5	51.5	51.5
FIIIs	14.9	15.3	17.6
DIIIs	22.2	21.2	19.5
Others	11.5	12.0	11.4
Total	100	100	100

14.9%

Revenue CAGR between FY23 and FY25E

29.2%

EBITDA CAGR between FY23 and FY25E

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Key Concall Highlights:

Comments on FY23 performance: (1) At the start of FY23, AL had set out to improve market share across India, launch new products, strengthen the distribution network, grow the non-M&HCV business, rationalize cost and improve efficiency, and improve return and cash flow performance along with subsidiary performance improvement. AL managed to deliver on all these fronts and plans to continue doing so. (2) In April 2023, AL took a 2.0% price hike. The price hike was general in nature to combat rising costs and to increase margins. The impact of OBD2 norms was not big. (3) AL has been able to maintain administrative expenses at FY15-16 levels without inflation impact. (4) AL's traditional exports market of SAARC crashed in FY23, despite that AL was able to grow due to expansion in the Middle East and Africa. SAARC market should also come back in FY24E, which will aid the growth of the international business. (5) Some prebuying before regulatory changes happened in March, which can have some impact in April/May 2023 volumes. The growth should bounce back post that.

Market share: (1) AL's M&HCV market share improved by 4.7% during the year to 31.8% in FY23, aided by the AVTR range. Market share in the ICV segment also improved by almost 5.0%. (2) AL plans to increase its market share in the North and East regions of India and scale up to a 30.0% share in these regions in the first stage. This will help the overall market share of AL pan-India to increase to mid-30.0% levels.

Industry-related comments: (1) Approximately 88,000 M&HCVs and 67,000 LCVs are expected to be replaced in FY24E. The bus segment is expected to grow at a stronger pace due to a lower base, increase in mobility, urbanization, enforcement of scrappage policy, and replacement of Jawaharlal Nehru National Urban Renovation Mission (JNNURM) buses bought in FY10-13. (2) The industry has seen primary demand coming back in FY23 after 2-3 years. The first-time buyers are yet to come back in terms of demand as interest rates were high and they were waiting for the end-user demand to keep up. (3) The industry has realized that it will have to invest for the changes that will come up over the next few years, so the EBITDA margin has to increase for the industry. Pricing retention has been higher and commodity prices are coming down, so the industry's base margins should ideally go up. (4) Steel prices should decline this year as China demand has cooled again and countries like Australia are waiting to export due to a domestic glut.

EV: (1) EV trend will see a faster acceleration and AL will continue to invest in it as it is confident of tapping the EV potential. (2) AL will invest INR 12 bn in Switch mobility in tranches over the next 12 months. While it is still looking for investors, AL wants to ensure that the business is on track. Most of the funding is for the completion of programs for new products. (3) The EV market is still evolving, so Switch will not be EBITDA positive immediately but will turn profitable as volumes increase in the medium term.

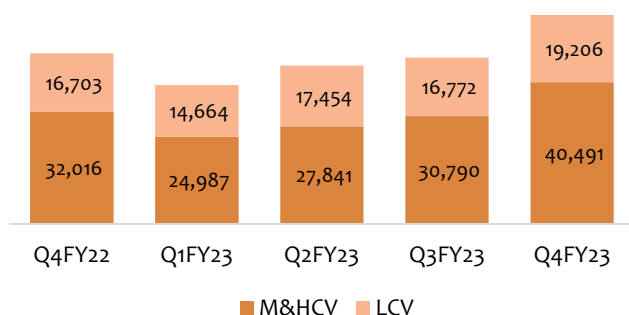
Others: (1) AL incurred capex of INR 5,020 mn in FY23 vs. INR 4,000 mn in FY22. FY24E capex will be a bit higher in the range of INR 6,000 to INR 7,500 mn most of which will be for product development and some for de-bottlenecking. (2) As of 31st March 2023, AL had a net cash position of INR 2,430 mn vs. a net debt of INR 7,240 mn at the end of FY22.

Valuation and view

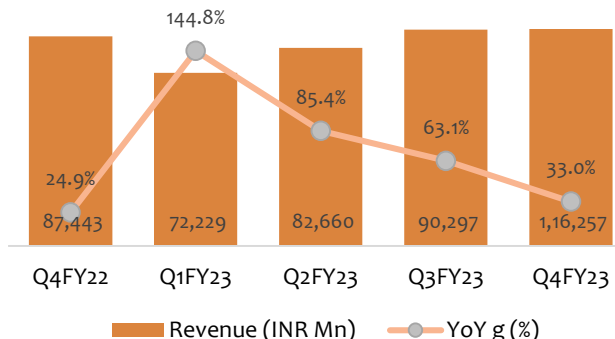
AL has continued to benefit from the strong industry tailwinds and the benefit is expected to continue driven by infrastructure spending, replacement demand and an improving macro environment. The government has started implementing the scrappage policy, initially for Government vehicles, which will be extended in phases and benefit the industry over the next few years. Additionally, AL is expected to continue on its journey of market share gains on the back of product launches, network expansion, and closing the network gap in North and East India. AL's EBITDA margin trajectory over the last 4 quarters has been impressive and there are more levers in place for further improvement. The industry itself is likely to move towards a higher margin base due to lower discounting. Input cost softening, cost rationalization, and operating leverage will also aid margins. For AL specifically, the AVTR modularity has helped to rationalize the supply chains and costs, giving a boost to the margins. We remain positive on the prospects of the overall CV industry and on AL's performance improvement trajectory. We have revised our revenue estimates by +4.7%/ +4.1% and EBITDA estimates by +8.8%/ +6.3% for FY24E/FY25E, respectively. However, we increase our effective tax rate assumption taking into consideration that there is no indication yet of reverting to a lower rate. Accordingly, our EPS estimate for FY24E/ FY25E is revised by +3.0%/ +0.4%, respectively. **We expect a Revenue/ EBITDA CAGR of 14.9%/ 29.2% respectively over FY23 to FY25E. We have assigned a P/E multiple of 21x (unchanged) on FY25E EPS of INR 9.3 (unchanged) to arrive at a target price of INR 194/share (unchanged). The target price implies a potential upside of 33.5% from the CMP. Accordingly, we maintain our "BUY" rating on the shares of Ashok Leyland Ltd.**

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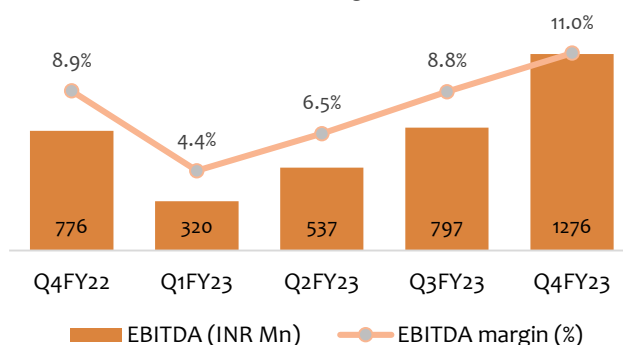
Segment volume break-up (units)



Revenue growth continues to be strong, rate decelerates due to base catching up



EBITDA margins see continued traction, now in double digits



Source: Company, KRChoksey Research

KEY FINANCIALS

Particulars (Mn)	Q4FY23	Q3FY23	Q4FY22	QoQ	YoY	FY23	FY22	YoY
No. of vehicles sold	59,697	47,562	48,719	25.5%	22.5%	1,92,205	1,28,326	49.8%
Sales	1,16,257	90,297	87,443	28.7%	33.0%	3,61,441	2,16,883	66.7%
Total Expenditure	1,03,499	82,323	79,683	25.7%	29.9%	3,32,134	2,06,938	60.5%
Cost of Raw Materials	80,802	72,033	64,299	12.2%	25.7%	2,72,470	1,59,132	71.2%
Purchase of Stock	3,354	2,925	2,676	14.6%	25.3%	11,607	8,969	29.4%
Changes in Inventories	3,731	-6,100	1,447	161.2%	157.9%	-5,585	-490	1040.0%
Employee Cost	5,919	5,495	4,376	7.7%	35.3%	21,139	16,946	24.7%
Other Expenses	9,693	7,970	6,885	21.6%	40.8%	32,504	22,381	45.2%
EBITDA	12,757	7,973	7,760	60.0%	64.4%	29,307	9,945	194.7%
EBITDA Margin (%)	11.0%	8.8%	8.9%	214 bps	210 bps	8.1%	4.6%	352 bps
Depreciation	1,838	1,890	1,954	-2.7%	-5.9%	7,320	7,528	-2.8%
EBIT	10,919	6,084	5,807	79.5%	88.0%	21,987	2,418	809.5%
EBIT Margin (%)	9.4%	6.7%	6.6%	265 bps	275 bps	6.1%	1.1%	497 bps
Interest Expense	628	804	765	-21.9%	-17.9%	2,891	3,011	-4.0%
Other income	389	316	242	23.2%	61.1%	1,161	761	52.6%
PBT	10,681	5,596	5,284	90.9%	102.1%	20,258	168	11972.6%
Exceptional items	564	69	4,703	713.1%	-88.0%	846	5,108	-83.4%
Tax	3,731	2,052	973	81.8%	283.5%	7,303	-142	5235.7%
PAT	7,514	3,613	9,014	108.0%	-16.6%	13,801	5,418	154.7%
PAT Margin (%)	6.5%	4.0%	10.3%	246 bps	-384 bps	3.8%	2.5%	132 bps
Adj. PAT	6,950	3,544	4,311	96.1%	61.2%	12,955	310	4079.0%
Adj. PAT Margin (%)	6.0%	3.9%	4.9%	205 bps	105 bps	3.6%	0.1%	344 bps
EPS	2.6	1.2	3.1	108.0%	-16.7%	4.7	1.8	154.7%
Adj. EPS	2.4	1.2	1.5	96.1%	61.2%	4.4	0.1	4078.2%

Source: Company, KRChoksey Research

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KEY FINANCIALS

Profit & Loss Statement

INR Mn	FY21	FY22	FY23	FY24E	FY25E
Sales	1,52,292	2,15,678	3,59,769	4,23,196	4,74,547
Other operating revenue	722	1,205	1,672	2,116	2,373
Revenue from operations	1,53,015	2,16,883	3,61,441	4,25,312	4,76,920
Cost of sales	1,14,033	1,67,611	2,78,492	3,20,469	3,57,690
Gross profit	38,981	49,272	82,950	1,04,842	1,19,230
Employee benefit expense	15,839	16,946	21,139	25,165	28,115
Other expenses	17,791	22,381	32,504	37,518	42,173
Total expenses	1,47,663	2,06,938	3,32,134	3,83,153	4,27,978
EBITDA	5,351	9,945	29,307	42,159	48,942
Depreciation	7,477	7,528	7,320	7,939	8,431
EBIT	-2,126	2,418	21,987	34,219	40,510
Finance cost	3,068	3,011	2,891	2,013	1,453
PBT before exp	-3,999	168	20,258	33,688	40,718
Exceptional items	-121	5,108	846	0	0
PBT	-4,119	5,276	21,104	33,688	40,718
Income tax expense	-982	-142	7,303	11,117	13,437
Net profit	-3,137	5,418	13,801	22,571	27,281
EPS (INR)	-1.1	1.8	4.7	7.7	9.3
Adj. Net profit	-3,016	310	12,955	22,571	27,281
Adj. EPS	-1.0	0.1	4.4	7.7	9.3

Ratio Analysis

Key Ratio	FY21	FY22	FY23	FY24E	FY25E
EBITDA Margin (%)	3.5%	4.6%	8.1%	9.9%	10.3%
Tax rate (%)	23.8%	-2.7%	34.6%	33.0%	33.0%
Net Profit Margin (%)	-2.1%	2.5%	3.8%	5.3%	5.7%
RoE (%)	-4.4%	7.6%	17.5%	24.6%	25.5%
RoCE (%)	-3.1%	5.0%	12.0%	18.0%	19.6%
Current Ratio (x)	1.0x	1.1x	1.2x	1.1x	1.1x
Adj. EPS (INR per share)	-1.0	0.1	4.4	7.7	9.3
PE	NA	NA	33.0x	18.9x	15.7x

Source: Company, KRChoksey Research

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Balance Sheet

INR Million	FY21	FY22	FY23	FY24E	FY25E
PPE	55,992	52,737	49,848	49,409	46,977
Capital WIP	2,288	1,111	490	531	563
Investments	31,266	35,902	39,901	51,901	58,199
Intangible assets	15,943	14,104	14,029	14,029	14,029
Other non current assets	4,496	4,412	4,612	4,612	4,612
Total non current assets	1,09,984	1,08,266	1,08,880	1,20,482	1,24,381
Inventories	21,423	20,752	27,745	28,533	34,066
Trade receivables	28,160	30,964	40,621	42,117	47,228
Cash and cash equivalents	5,301	9,943	4,541	11,256	24,620
Other bank balances	2,928	527	472	472	472
Loans	8294.3	9955.8	5814.4	5814.4	5814.4
Other current assets	8,409	22,294	37,124	37,124	37,124
Total current assets	74,515	94,435	1,16,317	1,25,317	1,49,323
Assets classified as held for sale	0	636	719	0	0
Total Assets	1,84,499	2,03,338	2,25,916	2,45,799	2,73,704
Equity share capital	2,936	2,936	2,936	2,936	2,936
Other equity	66,837	70,434	81,322	96,260	1,12,256
Total Equity	69,772	73,369	84,258	99,196	1,15,192
Secured and unsecured loans	25,801	28,850	17,973	12,973	14,973
Deferred tax liabilities	1707.9	1443.6	5035.1	5035.1	5035.1
Other non current liabilities	4,480	4,202	7,923	7,923	7,923
Total non current liabilities	31,989	34,496	30,930	25,930	27,930
Trade payables	56,441	72,914	75,380	85,323	95,233
Other financial liabilities	11,787	6,689	14,276	14,276	14,276
Other current liabilities	9,861	11,168	15,880	15,880	15,880
Provisions	4,650	4,703	5,193	5,193	5,193
Total current liabilities	82,738	95,473	1,10,728	1,20,672	1,30,582
Total liabilities	1,14,727	1,29,969	1,41,658	1,46,602	1,58,512
Total Equity and liabilities	1,84,499	2,03,338	2,25,916	2,45,799	2,73,704

Free Cash Flow Analysis

INR Mn	FY21	FY22	FY23	FY24E	FY25E
Net Cash Generated From Operations	211	26,469	21,360	40,182	36,433
Net Cash Flow from/(used in) Investing Activities	-9,752	-14,589	-17,345	-18,822	-12,331
Net Cash Flow from Financing Activities	2,060	-7,238	-9,402	-14,645	-10,738
Net Inc/Dec in cash equivalents	-7,481	4,643	-5,387	6,715	13,364
Opening Balance Cash and Cash Equivalents	12,790	5,301	9,942	4,541	11,256
Closing Balance Cash and Cash Equivalents	5,301	9,942	4,541	11,256	24,620

Source: Company, KRChoksey Research

Ashok Leyland Ltd.

Ashok Leyland India Ltd				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
25-May-2023	145	194	BUY	Buy	More than 15%
07-Feb-2023	150	194	BUY		
14-Nov 2022	148	194	BUY	Accumulate	5% – 15%
05-Sep-2022	165	194	BUY		
03-Aug 2022	149	168	ACCUMULATE	Hold	0 – 5%
				Reduce	-5% – 0
				Sell	Less than – 5%

ANALYST CERTIFICATION:

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