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Ashok Leyland Limited

Annual Report Round Up

7th July 2023

Executive Summary (1/2)

- The Commercial vehicle market (MHCV and LCV) in India grew by 34.3% YoY in total industry volumes (TIV) to 962,468 units from 716,566 units. This growth was led by 49.2% YoY growth in the M&HCV segment while the LCV segment grew by 26.8% YoY.
- In Q1FY23, CV Demand was higher compared to Q1FY22 driven by both MHCVs & LCVs. CNG prices saw a huge revision in Apr-23 and with Diesel prices being unchanged, the cost differential between them dropped and that started a decline in the CNG TIV which continued all of FY23.
- In Q2FY23, urban consumption was lifted by discretionary spending ahead of the festival season and rural demand gradually improved. Demand for MHCVs and LCVs continued to increase compared to Q1FY23.
- In Q3FY23, economic activity exhibited resilience supported by good progress on the north-east monsoon and above-average reservoir levels. Overall demand for MHCVs continued to rise while & LCVs lagged.
- Economic activity remained resilient in Q4. With BS VI – OBD II norms coming into effect in Apr'23 and OEMs indicating their intention to increase prices on account of OBD II and commodity impact, sales of MHCVs was boosted by pre-buying. Both MHCV & LCV TIVs were close to previous highs seen in FY19 with LCV growth lagging MHCV growth.
- FY23 has been a remarkable year for Ashok Leyland (AL) as the Company could significantly increase its market share, with an acute focus on profitability and cash generation.
- In FY23, AL delivered an all-time high revenue of INR 3,59,769 mn, with a 66.8% YoY growth along with nearly 3 times growth in EBITDA – from INR 9,945 mn in FY22 to INR 29,307 mn in FY23.
- AL grew its market share in all major markets and also in all major product segments.
- AL's consistent focus on expanding its network both in MHCV and LCV businesses immensely helped in increasing its market penetration.
- AL was able to more than neutralize the elevated inflation seen during the year through better price realization. This was backed by excellent response to AL's new product platforms – specifically AVTR in MHCV and Bada Dost in LCV segment.

- FY23 has been a record year in efficiency improvements. Many of the initiatives started last year covering value engineering, waste reduction, digitization of manual processes, other overhead reduction etc., have yielded good results and are continued in FY24E with even greater rigour.
- During FY23, AL incurred INR 4,880 mn towards capital expenditure predominantly towards:
  - a) Improving manufacturing capacity and capability covering Frame side member, LCV and MHCV Engines and cab paint
  - b) Meeting OBD II norms for MHCV and LCV as per regulation
  - c) New products covering Bada Dost, Project Vayu (CNG), and other alternate fuel vehicles (H2 IC Engine, Fuel Cell, BEV), Multi Axle Coach, Partner 9T to 11T, etc.
  - d) Design, software upgradation, 33KV substation, and advanced engineering equipment
  - e) Unit replacement & maintenance capex for sustenance.
- During Feb-23, the amount owed by Switch Mobility Automotive India Ltd (SMAL) towards the Business Transfer Agreement consideration with accrued interest and working capital adjustments for INR 3,010 mn was converted into 8.5% Non-Cumulative, Non-Convertible redeemable preference shares of 30.1 mn shares of nominal and issue price of INR. 100 each
- Switch is very strategic to AL and the Company is committed to developing Switch as a global electric vehicle company. The Company has established a name and a platform as a credible EV manufacturer. The sales order pipeline is robust. Switch is in the process of finalizing its plans to utilize growth opportunities fully by placing high-quality cost-effective products across various customer segments. Switch is also expected to launch electric versions of Dost and Bada Dost vehicles within FY24E.
- Going forward, AL continues to remain optimistic about CV Demand as well as its ability to beat the industry growth.
- FY24E CV demand is likely to surpass the previous peak of FY19, and the CV industry in FY24 is likely to grow by 8-10% YoY, supported by government infrastructure spending, strong replacement demand and healthy traction from core industries like steel, cement and mining.

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- Ashok Leyland (AL) is the flagship company of the Hinduja group and the 2nd largest manufacturer of commercial vehicles in India. The company has a footprint across 50 countries and has a product range from 1T GVW (Gross Vehicle Weight) to 55T GTW (Gross Trailer Weight) in trucks.
- AL is benefitting from the industry tailwinds in the domestic CV market owing to government infrastructure spending, strong replacement demand and healthy traction from core industries like steel, cement and mining. Further growth is possible with the enforcement of the scrappage policy as well as increasing urbanization and replacement of Jawaharlal Nehru National Urban Renewal Mission (JNNURM) buses bought in FY 10-13.
- AL has managed to gain a market share of 4.7% in FY23 in the M&HCV Bus and Truck segment, reaching a share of 31.8%. The market share gain has been achieved despite AL raising prices, backed by better acceptance of its AVTR product platform. AL's consistent focus on expanding its network both in MHCV and LCV businesses immensely helped in increasing its market penetration.
- AL is putting greater efforts into reducing costs – both product costs as well as overheads. FY23 has been a record year in efficiency improvements. Many of the initiatives started last year covering value engineering, waste reduction, digitization of manual processes, other overhead reduction etc., have yielded good results and are continued in FY'24E.

Key Information

Sector	Automobile
M-Cap (INR Mn)	4,79,470
52-week H/L (INR)	174/ 133
Volume Avg (3m K)	9,706
CMP (INR)	**163**
Target Price (INR)	**194**
Upside (%)	**19.4%**
Recommendation	**BUY**

Source: NSE, KRChoksey Research

Shareholding Pattern (%)

Particulars	Mar-22	Mar-23
Promoters	51.5	51.5
FIIs	13.5	14.9
DIIs	21.9	22.2
Others	13.1	11.5
Total	100.0	100.0

Source: BSE

AL delivers all-time high revenue, aided by strong volume growth and realisation improvement

	FY22	FY23
Revenue (INR Mn)	**2,16,883**	**3,61,441**
YoY Growth (%)	41.7%	66.7%

- In FY23, AL delivered an all-time high revenue of INR 3,61,441 mn, with a 66.7% YoY growth along with nearly 3 times growth in EBITDA – from INR 9,945 mn in FY22 to INR 29,307 mn in FY23.
- Revenue growth was backed by volume growth of 49.8% YoY.
- AL was able to take price actions to mitigate the impact of input cost inflation. In FY23, AL managed to recover ~ 7.0% (point to point) in domestic MHCV trucks, ~ 5.0% (point to point) in domestic MHCV buses, ~ 5.0% in LCVs.
- AL sold 114,247 M&HCVs in the domestic market (10,767 M&HCV Buses and 103,480 M&HCV Trucks including Defence vehicles), registering a growth of 75.5% YoY.
- AL's sales in the M&HCV Trucks segment (excluding Defence vehicles) in India grew by 68.6% to 102,753 units in FY23. AL's sales in the M&HCV Bus segment (excluding Defence vehicles) in India grew by 256.7% to 10,764 units in FY23.
- LCV with sales of 66,669 vehicles grew by 27.7% YoY, AL's highest-ever sales in the segment since inception.
- AL sold 11,289 units in International markets, an increase of 2.5% YoY.
- Domestic spare parts revenue (including service products) grew by 24% YoY from INR 18,690 mn in FY22 to INR 23,110 mn in FY23.
- AL achieved a growth of 9.0% in Power Solutions Business.
- The Aftermarket business grew by 31.0% over last year and added to the overall profitability.
- For the year FY23 the Foundry division achieved the production of 98,117 MT (an increase of 30.4% over last year) and sales of 94,972 MT (an increase of 39.1% over last year).

Industry tailwinds and market share gains

Industry tailwinds

- In FY23, the Commercial Vehicle market (M&HCV & LCV) in India further grew by 34.3% YoY in total industry volumes (TIV) after increasing by 26.0% in FY22.
- Industry sales of commercial vehicles saw steep growth in FY23 on the back of economic activity supported by Government interventions and infrastructure growth.
- M&HCV industry growth was 49.2% YoY while LCV segment growth was at 26.8% YoY. The growth this year was led by the M&HCV segment which grew faster than LCV. On the other hand, the exports declined by 14.8% YoY.
- Industry sales of the M&HCV Bus segment witnessed a multifold growth of 225.4% in FY23 compared to FY22, augmented by the reopening of schools and colleges along with the replenishment of fleets by State Transport Undertakings. The M&HCV trucks segment saw an industry volume growth of 40.1% YoY.
- AL's M&HCV volume growth in the domestic market was 75.5% YoY while LCV volumes in the domestic market grew by 27.7% YoY.

AL sees strong growth and market share gains in the M&HCV segment

- Within M&HCV, AL's Trucks segment (excluding Defence vehicles) in India grew by 68.6% YoY while the M&HCV Bus segment (excluding Defence vehicles) in India grew significantly by 256.7% YoY to 10,764 units in FY23, from 3,018 units in FY22 consequent to revival in bus demand. In both these segments, AL beat the industry growth rates.
- AL's market share in the M&HCV segment increased by 4.7% over the previous year, closing at 31.8%.
- AL has gained share in every region and in almost all the product subsegments, attributable to the superior performance of AVTR models, focused network development and additional thrust given on customer centricity.
- AL enhanced its product portfolio in the ICV trucks segment with the Partner Super platform to cater to the boost in demand for e-commerce and last-mile delivery applications. Further, product variants for RMC applications and mining tippers helped your Company strengthen its presence in the Construction and Mining industry
- AL added 80 new M&HCV new outlets during the year, bringing the total count to 809 AL M&HCV touch-points with a continued focus on the Northern and Eastern regions of India.

Highest-ever LCV sales, exports steady even in the face of challenges

Highest-ever sales in LCV

- AL achieved highest ever sales in LCV of 66,617 vehicles registering a growth of 27.6% YoY, aided by launches of two new products under the Bada Dost platform - Bada Dost i1 (2.5T) & Bada Dost i2 (2.8T).
- AL's Bada Dost range posted its highest-ever sales volume since its introduction and was awarded 'Pick up of the Year' and a special edition model was awarded the 'Marketing Campaign of the Year' by ET Now and World Leadership Congress.
- FY23 saw the launch of several new initiatives like micro dealerships, rural marketing focus and support for used vehicles, all of which are aimed at further increasing market penetration.
- 73 new LCV touchpoints were added taking the network coverage to a total of 620 outlets.
- AL's market share in the SCV category stood healthy and strong at 19.6% despite economic challenges and semiconductor shortages.
- AL is on track to launch three new products in FY24E for the domestic market.

International operations steady despite the tough macroeconomic scenario

- Last year saw industry MHCV exports from India dropping more than 30.0% over FY22. Total CV industry exports declined by 14.8% YoY.
- SAARC, which contributes to 56% of AL's sales, saw a 51% drop in Total Industry Volumes (TIV). Most African countries too faced severe headwinds in terms of currency depreciation and forex availability leading to severe cuts in the import of CVs. On the other hand, GCC was the market that grew by 55% in TIV, boosted by increased infra spending backed by elevated crude oil prices and post-covid pent-up demand for school buses
- Despite the difficult market situation in target countries which faced issues of currency depreciation and forex availability, AL's International Operations could achieve volume growth of 2.5% YoY to 11,289 units in FY23.
- AL expanded its reach by adding distributors in 12 countries and launched 5 new products and their variants.
- AL continued to strengthen its market leadership position in the bus segment in SAARC and GCC. LCV products, both in RHD and LHD, launched in African and GCC markets have helped AL make very good inroads in the Goods segment.

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Improved profitability due to volume, pricing, efficiencies

Other businesses also see growth

- Domestic spare parts revenue (including service products) grew by 24% from INR 18.7 bn in FY22 to INR 23.1 bn in FY23.
- AL achieved a growth of 9.0% YoY in Power Solutions Business. Aggressive rural and industry development coupled with ongoing infrastructure expansion activities has favoured Powergen and Industrial business segments. A positive trend backed by the good monsoon in the Agricultural segment has fueled the demand.
- In the defence segment in FY23, AL supplied 782 completely built-up units (CBUs) & was able to reduce dependency on VFJ Kits. Your Company is proud to execute 360 water bowsers in record time to Indian Army, expanded into DGBR (Directorate General Border Roads) with BAGH variants & Indian Navy with HMV 4x4 (RIV – Rapid Intervention Vehicle). AL also launched Jeet 4x4 in the Light vehicles segment during the Defence expo.
- The Aftermarket business grew by 31.0% YoY and added to the overall profitability of the Company. Targeted engagement with suppliers and logistics partners ensured that the margins of the Spare Parts Business were sustained, despite the commodity price increase.
- For the year FY23 the Foundry division achieved the production of 98,117 MT (an increase of 30.4% over last year) and sales of 94,972 MT (an increase of 39.1% over last year).
- Switch Mobility, through which AL is positioning the electric vehicles, has gained considerable momentum in FY23 and has already made a mark in the industry. The electric LCV is slated for introduction later this year.

Improved volumes, pricing and operating efficiencies leading to improved profitability.

- Domestic MHCV volumes started improving gradually quarter on quarter in FY23, leading to a better scale of operations.
- Commodity costs primarily steel prices which went up in Q1 started receding in subsequent quarters. Further, AL could improve the price recovery on domestic M&HCV and LCV quarter on quarter consequent to concerted price increases every quarter.
- The Operations team kept pace with the highest-ever LCV production and the highest monthly overall vehicle production along with the highest-ever material cost savings.
- FY23 has been a record year in efficiency improvements as AL is putting greater efforts into reducing costs – both product costs as well as overheads.
- All the above actions, enabled AL to post consistent improvement in operating profit (EBITDA) quarter on quarter.

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Opportunities and threats

- The Indian commercial vehicle industry is optimistic about growth prospects for FY24E, driven by pick-up in construction and mining, and steady macro-economic growth. This growth comes from a higher base (strong rebound in the last 2 fiscals) and possibly crosses the previous peak TIV seen in FY19.
- The healthy allocation for capital spending in the Union Budget 2023-24 is expected to lead to infrastructure development in segments like roads, metros, railways etc. which would in turn drive volumes for the CV industry.
- Furthermore, the increased focus on the replacement of old vehicles and on green mobility also augurs well for the sector.
- In ICVs growth is expected to be by the e-commerce sector with a progressive shift to more CNG-powered vehicles.
- In MHCVs the growth is primarily driven by the movement of bulk goods & construction materials; which in turn will fuel growth in Tippers & Tractor trailers.
- Also, migration from MAVs to higher GVW Tractors will happen in industries like cement, coal, iron ore etc.
- Growth for MHCV Buses is expected to be driven by the opening up of offices, educational institutes and post-Covid revival in intercity & mofussil segments.
- Further, the scrappage of older government vehicles is expected to drive replacement demand from State Transport Undertakings STUs.
- Downside risks for FY24E growth could emerge from rising interest rates on the back of persisting inflation, commodity costs rising on the back of escalating geopolitical tensions and volatile financial market conditions.

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Key Performance Drivers – New Launches

- At the Auto Expo held in Delhi in January 2023, a wide range of alternate fuel-driven products were displayed across AL's LCV, ICV and MDV platforms. This covered CNG, LNG, Hydrogen, Fuel Cell and Battery Electric options.

Category	New Product Launch
M&HCV trucks	Ecomet Star 1815HE
	2620 6X2 LA
	Partner Super, 42T & 44T Tractors
MHCV – Bus	13.5M Intercity coach
	Oyster ZX
	Viking CNG
	LS< CNG
LCV	Bada Dost i1 (2.5T)
	Bada Dost i2 (2.8T)

Source: Company, KRChoksey Research

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Strong growth across the topline, operating profit and net profit

- Revenue from operations grew by 66.7% YoY to INR 3,61,441 mn.
- Domestic M&HCV volumes started improving gradually quarter on quarter in FY23. AL could improve the price recovery on domestic M&HCV and LCV quarter on quarter consequent to concerted price increases every quarter.
- Prices of commodities covering flat, proprietary & spring steel, forging, casting and aluminium went up in Q1FY23 only to end up with a substantial reduction in Q2, Q3 & Q4 of FY23. Tyre prices went up by 2.5% in Q2 and 2.0% in Q3 resulting in a 4.5% increase for the full year. There was no major movement in precious metal prices during the year.
- Staff costs went up primarily due to the long-term incentives, increments and promotions sanctioned to the executives and the higher quantum of bonuses provided in FY23. AL also entered into a settlement of wages for associates across Hosur and Ennore plants during FY22, the full-year impact of which is in FY 23.
- Other expenses increased YoY reflecting the increase in volume and activity levels.
- AL posted a consistent improvement in operating profit (EBITDA) quarter on quarter. For FY23, EBITDA grew by 194.7% YoY to INR 2,93,070 mn. EBITDA margin improved by 352 bps YoY to 8.1%.
- Finance Cost was marginally lower by about 4.0% primarily due to better management of cash and working capital during the year.
- PAT grew by 154.7% YoY to INR 13,801 mn. PAT margin improved by 132 bps YoY to 3.8% in FY23 from 2.5% in FY22.

	FY22	FY23
Revenue (INR Mn)	**2,16,883**	**3,61,441**
YoY Growth (%)	41.7%	66.7%
EBITDA (INR Mn)	**99,452**	**2,93,070**
YoY Growth (%)	85.8%	194.7%
EBITDA Margin	4.6%	8.1%
PAT (INR Mn)	**5,418**	**13,801**
YoY Growth (%)	272.7%	154.7%
PAT Margin	**2.5%**	**3.8%**

Source: Company, KRChoksey Research

Particulars (INR Mn)	FY19	FY20	FY21	FY22	FY23
Net Operating income	**2,90,550**	**1,74,675**	**1,53,015**	**2,16,883**	**3,61,441**
A) Sale of product	2,82,647	1,69,602	1,48,774	2,10,202	3,54,671
Commercial Vehicles	2,53,940	1,43,264	1,22,796	1,80,031	3,16,461
Engines & gensets	4,680	4,714	5,373	5,146	6,338
Ferrous castings and patterns	5,222	3,965	3,576	4,690	6,093
Spare parts & others	18,805	17,660	17,030	20,335	25,779
B) Sale of services	7,383	7,242	6,487	8,554	11,069
C) Other operating revenue	4,409	2,003	722	1,205	1,672
Rebates and discounts	-3,889	-4,172	-2,970	-3,079	-5,971
Growth YoY%					
Net Operating income	**9.1%**	**-39.9%**	**-12.4%**	**41.7%**	**66.7%**
A) Sale of product	7.7%	-40.0%	-12.3%	41.3%	68.7%
Commercial Vehicles	8.7%	-43.6%	-14.3%	46.6%	75.8%
Engines & gensets	8.3%	0.7%	14.0%	-4.2%	23.2%
Ferrous castings and patterns	4.8%	-24.1%	-9.8%	31.2%	29.9%
Spare parts & others	15.1%	-6.1%	-3.6%	19.4%	26.8%
B) Sale of services	87.9%	-1.9%	-10.4%	31.9%	29.4%
C) Other operating revenue	12.9%	-54.6%	-63.9%	66.9%	38.7%
Rebates and discounts	-3.3%	7.3%	-28.8%	3.7%	93.9%
Segment Revenue Share (%)					
A) Sale of product	97.3%	97.1%	97.2%	96.9%	98.1%
Commercial Vehicles	87.4%	82.0%	80.3%	83.0%	87.6%
Engines & gensets	1.6%	2.7%	3.5%	2.4%	1.8%
Ferrous castings and patterns	1.8%	2.3%	2.3%	2.2%	1.7%
Spare parts & others	6.5%	10.1%	11.1%	9.4%	7.1%
B) Sale of services	2.5%	4.1%	4.2%	3.9%	3.1%
C) Other operating revenue	1.5%	1.1%	0.5%	0.6%	0.5%
Rebates and discounts	-1.3%	-2.4%	-1.9%	-1.4%	-1.7%

Source: Company, KRChoksey Research

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Cost & Margin Analysis

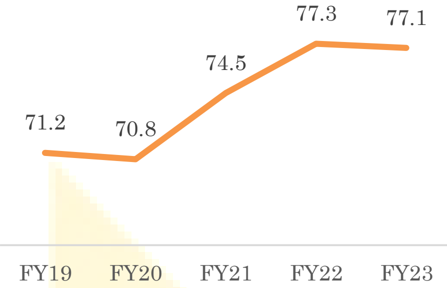
- AL's cost of goods sold as % of revenue moderated slightly to 77.1% in FY23 from 77.3% in FY22. Through various internal initiatives covering price negotiation, value engineering, turnover discounts and business share optimization, AL managed to secure a reduction of about 0.6% in commodity prices during the year.

- Employee costs as % of revenue reduced to 5.8% in FY23 from 7.8% in FY22.

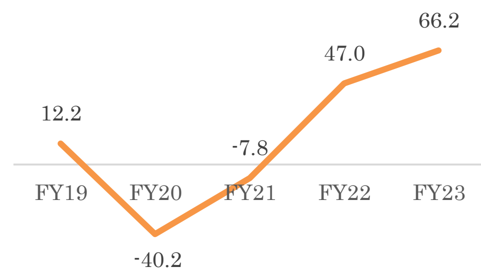
- Other expenses as % of revenue declined to 9.0% in FY23 from 10.3% in FY22.

- **Outlook:** Moving on, it is reasonably expected that in FY24E, the demand is expected to exceed pre-COVID levels of FY19. Government infrastructure spending, strong replacement demand and healthy traction from core industries like steel, cement and mining are expected to drive growth. AL is fully prepared to take advantage of the anticipated opportunities without compromising on market share and profitability targets. Overall, globally and domestically commodity costs are expected to be stable for FY24E. Going into 2023, automakers are more optimistic about the end of the chip shortage. However, some industry insiders have suggested that the semiconductor shortage could stretch into 2024E but not with the same intensity as earlier.

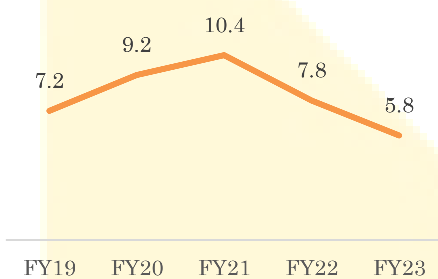
Cost of Goods Sold (As % of sales)



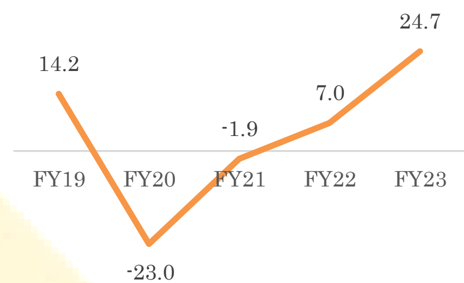
Cost of Goods Sold Growth Trends (%)



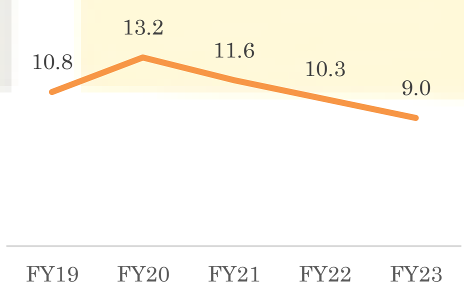
Employee Cost (As % of sales)



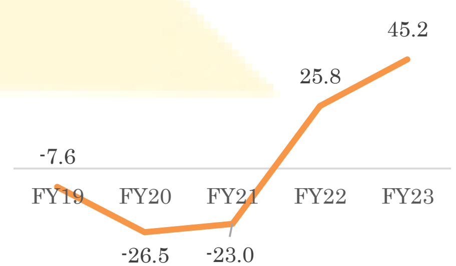
Employee Cost Growth Trends (%)



Other Expenses (As % of sales)



Other Expenses Growth Trends (%)



Source: Company, KRChoksey Research

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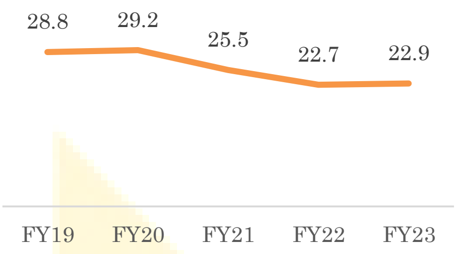
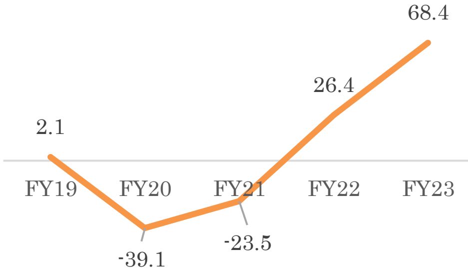
Cost & Margin Analysis

- Absolute gross profit grew by 68.4% YoY to INR 82,950 mn. Gross margin improved by 23 bps YoY to 22.9% in FY23 from 22.7% in FY22.
- EBITDA for FY23 grew by 194.7% YoY to INR 29,307 mn. EBITDA margin improved by 352 bps YoY to 8.1%.
- PAT grew by 154.7% YoY to INR 13,801 mn. PAT margin expanded by 132 bps YoY to 3.8% in FY23 from 2.5% in FY22. Adj. PAT, excluding exceptional items, grew by 4,079.0% YoY to INR 12,955 mn.
- EPS for FY23 was INR 4.7, which is a growth of 154.7% YoY.

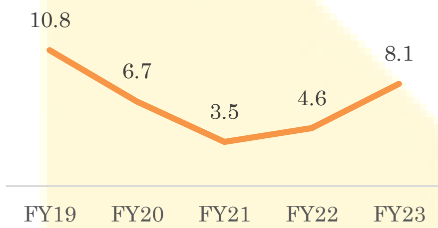
Gross Profit Trends (As % of sales)



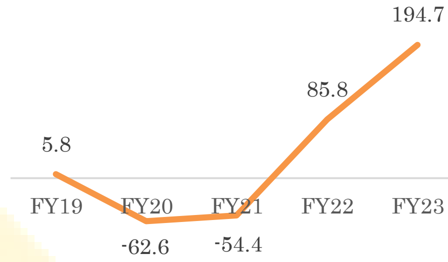
Gross Profit Growth Trends (%)



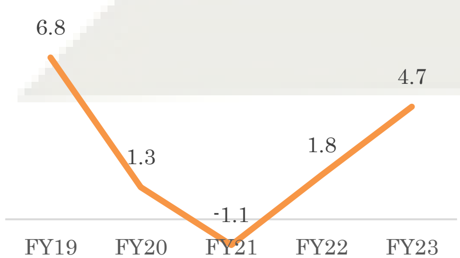
EBITDA Margin Trends (As % of sales)



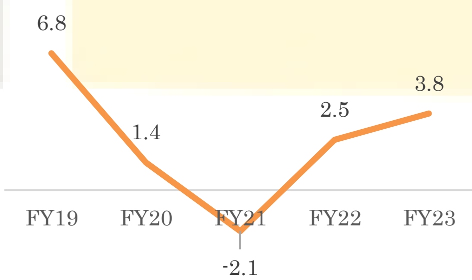
EBITDA Growth Trends (%)



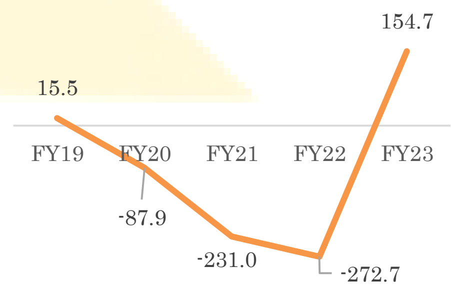
EPS (INR)



PAT Margin Trends (As % of sales)



PAT Growth Trends (%)



Source: Company, KRChoksey Research

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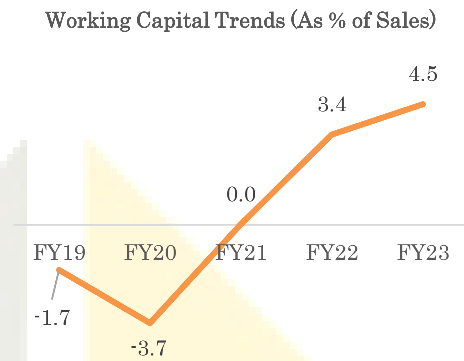
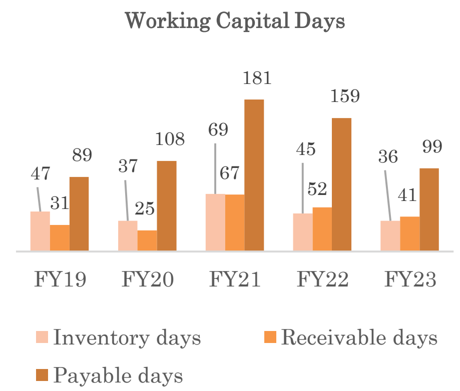
- **Working capital**: AL's working capital as % of sales increase to 4.5% in FY23 from 3.4% in FY22.

- **Dividend**: In FY23, AL has recommended a final dividend of INR 2.6 per equity share, a growth of 160.0% from FY22 where the dividend per share was INR 1.0.





Particulars	FY22	FY23
Special Dividend	0.0	0.0
Interim Dividend	0.0	0.0
Final Dividend	1.0	2.6
Dividend per share	1.0	2.6
YoY Growth	66.7%	160.0%
Total (INR Mn)	2,936	7,633
YoY Growth	66.7%	160.0%

Source: Company, KRChoksey Research

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Environment, Social, Governance Initiatives

- As part of a holistic approach to sustainability, AL has developed an ESG vision: "To create and lead sustainable practices, across Environment, Social and Governance initiatives, delivering outstanding stakeholder value." This vision has been further operationalized into 10 Focus areas deep diving individually in E, S, and G areas.
- Moving forward, AL is also preparing for some major commitments around becoming carbon-neutral in its operations in the medium term and becoming Net Zero in the long term.
- AL's plants have won 13 CII-Environment, Health, and Safety Excellence Awards.
- The use of renewable solar power is at the top of the agenda. Renewable energy now constitutes 57% of AL's total requirement.
- Further it is proposed during FY24E, to increase the renewable energy share by expanding the solar park (+12.4 MWp) and enhancing the rooftop solar capacity (+18.25 MWp) by which AL will stand at 84% of renewable energy in Tamil Nadu and 73% throughout India.
- AL's Green Energy initiative realized significant operating cost savings to the tune of INR 365.4 mn and a reduction in emissions by 1,30,186 t CO_2 e.
- During the year, about 12.60 mn electrical Units have been saved leading to significant savings in energy cost by about ` INR 107 mn. This was achieved through a high degree of awareness, Energy audits, Power quality audits and brainstorming. This is part of AL's Mission Gemba initiative.
- AL is a 'Water Positive' Company certified by M/s DNV GL.
- Under CSR, AL's Road To School programme (RTS) is making strides and the coverage has increased from 98,000 to over 150,000 children.
- The Road to Livelihood programme, which was introduced this year for Classes 9-12 has been well received by parents and the community.

Valuation

- 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 expect a Revenue/ EBITDA/ Adj. PAT CAGR of 14.9%/ 29.2%/ 45.1% respectively over FY23 to FY25E.

- The shares are trading at 21.1x/ 17.5x its FY24E/FY25E EPS estimates, respectively.

- 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 19.4% from the CMP. Accordingly, we maintain our "BUY" rating on the shares of Ashok Leyland Ltd.

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Exhibits: Quarterly Income Statement

Particulars (INR Mn)	Q4FY23	Q3FY23	Q4FY22	QoQ	YoY	FY23	FY22	YoY
Revenue from Operations	**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 Margins (%)	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 Margins (%)	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 item	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%
Share of associates/ Minorities/ discontinued operations	-	-	-	NA	NA	-	-	NA
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
EPS	**2.6**	**1.2**	**3.1**	**108.0%**	-16.7%	**4.7**	**1.8**	154.7%
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
Adj. EPS	**2.4**	**1.2**	**1.5**	**96.1%**	61.2%	**4.4**	**0.1**	4078.2%

Source: Company, KRChoksey Research

Exhibits: Income Statement

INR Mn	FY21	FY22	FY23	FY24E	FY25E
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**

Source: Company, KRChoksey Research

Exhibits: Income Statement (Other Expenses)

Other Expenses (INR Mn)	FY19	FY20	FY21	FY22	FY23
Consumption of stores and tools	1,321	566	550	680	1,064
Power and fuel	2,498	1,732	1,619	1,795	2,539
Rent	255	92	48	73	49
Repairs and maintenance	2,517	2,023	1,572	2,025	2,338
Insurance	166	223	195	306	281
Rates and taxes, excluding taxes on income	229	335	119	129	86
Research and development (includes materials consumed and testing charges)	2,170	3,303	1,376	1,345	1,356
Service and product warranties	5,392	4,359	2,747	3,887	7,668
Packing and forwarding charges	7,387	5,790	4,236	5,454	7,952
Selling and administration expenses (net) (includes hire charges, travel expenditure, advertisement expenditure, consultancy charges, etc)	9,775	5,776	4,314	5,301	7,683
Annual maintenance contracts	1,886	2,083	1,688	2,160	2,464
Impairment loss allowance / write off on trade receivable (net)	223	309	654	-120	17
Impairment loss allowance / write off on other receivable (net)	-330	89	-16	67	82
Expenses capitalised	-2,079	-3,582	-1,311	-723	-1,073
Total other expenses	**31,409**	**23,096**	**17,791**	**22,381**	**32,504**

Source: Company, KRChoksey Research

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Exhibits: Balance Sheet

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INR Mn	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	8,294	9,956	5,814	5,814	5,814
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**

Source: Company, KRChoksey Research

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Exhibits: Balance Sheet

INR Mn	FY21	FY22	FY23	FY24E	FY25E
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	1,708	1,444	5,035	5,035	5,035
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**

Source: Company, KRChoksey Research

Exhibits: Cash Flow Statement & Key Ratios

Cash Flow Statement 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	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**

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%	19.1%
Adj. EPS (INR)	-1.0	0.1	4.4	7.7	9.3

Source: Company, KRChoksey Research

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