

25 July 2023

India | Equity Research | Q1FY24 result review

## Ashok Leyland

Automotives

### Seasonality defies profitability; valuation captures the positives

Ashok Leyland's (AL) Q1FY24 EBITDA margin at 10% (up 560bps YoY) was ~100bps ahead of consensus estimate, despite it being a seasonally weak quarter. Margin expansion was led primarily by gross margin improvement through favourable mix (higher mix of spares and gensets), controlled discounting and cost-saving initiatives. AL expects further margin improvement in the coming quarters led by falling commodity prices, better operating leverage and pricing discipline. Capex in Q1FY24 was ~INR 950mn, and the targeted investment for Switch Mobility remains at INR 12bn for FY24. AL's M&HCV market share during Q1FY24 was at ~32%, up 100bps YoY, and the company expects to increase it further by enhancing its share in the northern and eastern states, where it is currently sub-30%.

We estimate AL's M&HCV volume CAGR at ~5% in FY23-FY25E, with its market share at ~33% (AL expects M&HCV industry growth of 6-8% in FY24). Post ~30% rally in last 3 months and no change in estimates, we downgrade AL to HOLD (from Add) with a revised DCF-based target price of INR 185 (earlier: INR 176), implying 11x FY25E EV/EBITDA.

### Key takeaways from conference call, and our views

- As against flat M&HCV volume YoY, LCV volume was up 3%, spares revenue was up ~33% YoY and power genset volume grew ~2x YoY. This, along with the cumulative effect of price hikes across the past few quarters, disciplined discounting and continued focus on cost-saving, resulted in ~550bps YoY and ~190bps QoQ gross margin expansion. With operating leverage set to improve, AL is confident of expanding the margin further in remainder of the fiscal, with falling input commodity prices only set to aid. We are already building-in ~12% EBITDAM in FY24E for AL, implying EBITDA/unit at INR 240k/unit, ~50% higher than FY19 highs. We thus believe it would be tough to sustain such a level of per-unit profitability across FY24E/FY25E, with volume growth set to come down to low single-digit in FY25E.

### Financial summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	2,16,883	3,61,441	4,24,285	4,42,831
EBITDA	9,945	29,307	50,847	48,725
EBITDA %	4.6	8.1	12.0	11.0
Net Profit	310	12,955	31,104	29,772
EPS (Rs)	0.1	4.4	10.6	10.1
EPS % Chg YoY	(110.3)	4,079.0	140.1	(4.3)
P/E (x)	1,727.7	41.3	17.2	18.0
EV/EBITDA (x)	56.3	19.2	10.8	10.8
RoCE (%)	4.1	12.1	25.0	20.5
RoE (%)	0.5	17.5	32.3	26.0

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#### Market Data

Market Cap (INR)	536bn
Market Cap (USD)	6,549mn
Bloomberg Code	AL IN
Reuters Code	ASOK.BO
52-week Range (INR)	186 /133
Free Float (%)	49.0
ADTV-3M (mn) (USD)	24

Price Performance (%)	3m	6m	12m
Absolute	35.8	26.0	25.9
Relative to Sensex	11.3	9.8	19.9

ESG Disclosure	2021	2022	Change
ESG score	63.8	69.9	6.1
Environment	64.1	74.1	10.1
Social	42.4	50.6	8.3
Governance	84.9	84.9	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	2.5	0.3
EBITDA	7.0	0.3
EPS	8.7	0.3

#### Previous Reports

16-06-2023: [Company Update](#)

25-05-2023: [Q4FY23 results review](#)

- AL is expecting 6-8% industry growth for M&HCVs in FY24 and continues to exercise tight control on discounts to deliver >10% sustainable EBITDAM, and reduce the volume breakeven levels subsequently in times of CV downcycle. We believe, it would get tough for all the key competitors in the goods M&HCV space to keep a tight leash on discounts in times of lower CV demand. This is because these vehicles are used for commercial purposes and the end-users would also like to see their own payback/profitability remain intact or get impacted the least, in times of lower freight demand. We are building-in ~12% / ~11% EBITDAM in FY24E / FY25E. AL's investment plan of INR 12bn into Switch Mobility remains intact for FY24. In Q1, net debt increased by ~INR 17bn QoQ purely due to adverse movement in working capital. AL is planning to enter the sub-2T LCV segment in FY24 itself along with the launch of an LCV under Switch set to happen in H2FY24. We are building-in 5% volume CAGR in FY23-FY25E for the company's M&HCV portfolio, with FY25E being a year of no growth.

**Exhibit 1: Q1FY24 result review (standalone)**

Standalone (INR mn)	Q1FY24	Q1FY23	YoY	Q4FY23	QoQ
<b>Total Operating Income</b>	<b>81,893</b>	<b>72,229</b>	<b>13%</b>	<b>1,16,257</b>	<b>-30%</b>
Cost of Materials	60,372	57,281	5%	87,887	-31%
As % of sales	73.7%	79.3%	-558 bps	75.6%	-188 bps
<b>Gross profit</b>	<b>21,521</b>	<b>14,948</b>	<b>44%</b>	<b>28,370</b>	<b>-24%</b>
<b>Gross margin</b>	<b>26.3%</b>	<b>20.7%</b>	<b>558 bps</b>	<b>24.4%</b>	<b>188 bps</b>
Employee Expenses	5,376	4,454	21%	5,919	-9%
As % of sales	6.6%	6.2%	40 bps	5.1%	147 bps
Other Expenses	7,938	7,291	9%	9,693	-18%
As % of sales	9.7%	10.1%	-40 bps	8.3%	136 bps
<b>EBITDA</b>	<b>8,207</b>	<b>3,203</b>	<b>156%</b>	<b>12,757</b>	<b>-36%</b>
<b>EBITDA margin</b>	<b>10.0%</b>	<b>4.4%</b>	<b>559 bps</b>	<b>11.0%</b>	<b>-95 bps</b>
Depreciation	1,794	1,824	-2%	1,838	-2%
EBIT	6,414	1,379	365%	10,919	-41%
<b>EBIT Margin</b>	<b>7.8%</b>	<b>1.9%</b>	<b>592 bps</b>	<b>9.4%</b>	<b>-156 bps</b>
Interest	699	689	1%	628	11%
Other Income	512	256.4	100%	389.2	32%
PBT	6,227	946	558%	10,681	-42%
<b>PBT Margin</b>	<b>7.6%</b>	<b>1.3%</b>	<b>629 bps</b>	<b>9.2%</b>	<b>-158 bps</b>
Tax expenses	457	237	93%	3,731	-88%
Effective Tax Rate	7.3%	25.0%	(1,766)	34.9%	(2,759)
<b>Adjusted PAT</b>	<b>5,770</b>	<b>710</b>	<b>713%</b>	<b>6,950</b>	<b>-17%</b>
<b>Adjusted PAT Margin</b>	<b>7.0%</b>	<b>1.0%</b>	<b>606 bps</b>	<b>6.0%</b>	<b>107 bps</b>
Exceptional expenses/ (income)	6	29	-80%	(564)	N.M.
Reported PAT	5,764	681	747%	7,514	-23%
EPS (INR)	2.0	0.2	713%	2.4	-17%

Source: I-Sec research, Company data

**Exhibit 2: Q1FY24 volume breakup**

Volume breakup (units)	Q1FY24	Q1FY23	YoY	Q4FY23	QoQ
Domestic Goods M&HCVs	21,209	21,147	0%	33,830	-37%
Domestic Passenger M&HCVs	3,077	1,593	93%	3,981	-23%
Domestic LCVs	14,821	14,384	3%	18,840	-21%
Total exports	2,222	2,527	-12%	3,046	-27%
<b>Total</b>	<b>41,329</b>	<b>39,651</b>	<b>4%</b>	<b>59,697</b>	<b>-31%</b>

Volume breakup (mix)	Q1FY24	Q1FY23	YoY (bps)	Q4FY23	QoQ (bps)
Domestic Goods M&HCVs	51%	53%	-202 bps	57%	-535 bps
Domestic Passenger M&HCVs	7%	4%	343 bps	7%	78 bps
Domestic LCVs	36%	36%	-42 bps	32%	430 bps
Total exports	5%	6%	-100 bps	5%	27 bps

Source: I-Sec research, Company data

**Exhibit 3: Q1FY24 per vehicle matrix**

Per vehicle matrix	Q1FY24	Q1FY23	YoY	Q4FY23	QoQ
Total (Domestic+ Exports) units	41,329	39,651	4%	59,697	-31%
Net realisation/unit (INR)	19,81,488	18,21,606	9%	19,47,446	2%
Raw material per vehicle (INR)	14,60,754	14,44,617	1%	14,72,213	-1%
EBITDA per vehicle (INR)	1,98,589	80,775	146%	2,13,703	-7%

Source: I-Sec research, Company data

**Exhibit 4: Volume assumptions**

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
M&HCV Goods (units)	1,15,613	53,227	43,210	61,301	1,03,480	1,14,259	1,10,797
M&HCV Passenger (units)	16,323	18,141	2,795	3,789	10,767	13,997	16,097
LCV (units)	51,640	43,467	46,588	52,037	67,648	71,031	71,031
Exports (units)	12,301	8,920	8,001	11,014	11,289	12,982	14,930
Total Volume (units)	1,95,877	1,23,755	1,00,594	1,28,141	1,93,184	2,12,269	2,12,854
ASP (INR mn)	1.61	1.36	1.52	1.79	2.06	2.14	2.10
EBITDA Margin (%)	10.8	6.7	3.5	4.6	8.1	12.0	11.0
Capex (INR mn)	8,989	17,954	7,722	1,257	3,735	7,637	7,971

Source: I-Sec research, Company data

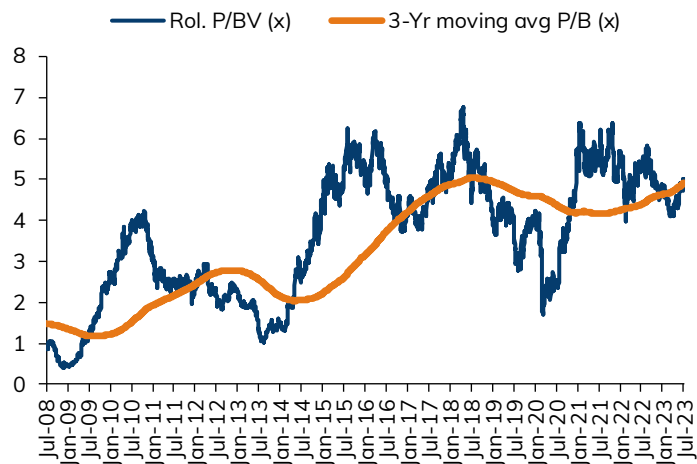
**Downside risks**

- Earlier than expected peaking out of the domestic CV cycle.
- AL unable to hold on to >32% market share in goods MHCV market.
- Further investments in Switch Mobility beyond FY24 with no visibility on EBITDA generation in the near term other than raising funds by selling partial stake in it.
- Sub-optimal volume growth, which can adversely impact operating leverage and in turn EBITDA margin.

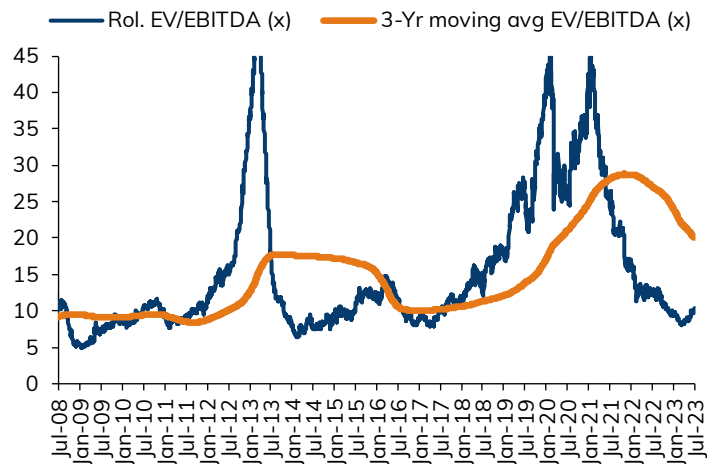
**Exhibit 5: Earnings revision**

	FY24E			FY25E		
	Old	Revised	% change	Old	Revised	% change
Volume (units)	2,08,269	2,12,269	1.9%	2,12,235	2,12,854	0.3%
Revenue (INR mn)	4,13,913	4,24,285	2.5%	4,41,721	4,42,831	0.3%
EBITDA (INR mn)	47,534	50,847	7.0%	48,603	48,725	0.3%
EBITDA margin (%)	11.0%	12.0%	98 bps	11.0%	11.0%	0 bps
PAT (INR mn)	28,624	31,104	8.7%	29,691	29,772	0.3%
EPS (INR)	9.8	10.6	8.7%	10.1	10.1	0.3%

Source: I-Sec research, Company data

**Exhibit 6: 3-year moving P/B**

Source: Company data, I-Sec research, Bloomberg

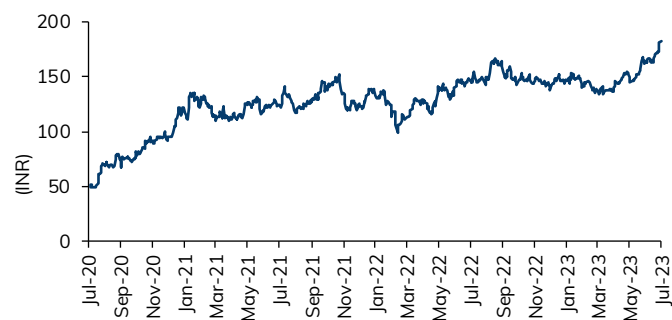
**Exhibit 7: 3-year moving EV/EBITDA**

Source: Company data, I-Sec research, Bloomberg

**Exhibit 8: Shareholding pattern**

%	Dec'22	Mar'23	Jun'23
Promoters	51.5	51.5	51.5
Institutional investors	37.2	37.0	37.4
MFs and others	13.6	14.5	13.2
FIs/Banks	1.3	1.6	0.1
Insurance	6.0	5.8	5.6
FIIIs	15.5	15.1	18.5
Others	11.3	11.5	11.1

Source: Bloomberg, I-Sec research

**Exhibit 9: Price chart**

Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Net Sales</b>	<b>2,16,883</b>	<b>3,61,441</b>	<b>4,24,285</b>	<b>4,42,831</b>
Operating Expenses	39,327	53,643	61,589	66,411
<b>EBITDA</b>	<b>9,945</b>	<b>29,307</b>	<b>50,847</b>	<b>48,725</b>
EBITDA Margin (%)	4.6	8.1	12.0	11.0
Depreciation & Amortization	7,528	7,320	8,097	8,643
EBIT	2,418	21,987	42,750	40,082
Interest expenditure	3,011	2,891	2,278	1,635
Other Non-operating Income	761	1,161	1,000	1,250
<b>Recurring PBT</b>	<b>168</b>	<b>20,258</b>	<b>41,472</b>	<b>39,697</b>
Profit / Loss from Associates	-	-	-	-
Less: Taxes	(142)	7,303	10,368	9,924
PAT	310	12,955	31,104	29,772
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	5,108	846	-	-
<b>Net Income (Reported)</b>	<b>5,418</b>	<b>13,801</b>	<b>31,104</b>	<b>29,772</b>
<b>Net Income (Adjusted)</b>	<b>310</b>	<b>12,955</b>	<b>31,104</b>	<b>29,772</b>

Source Company data, I-Sec research

### Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	1,00,170	1,22,628	1,46,991	1,68,989
of which cash & cash eqv.	10,470	5,013	7,500	29,467
Total Current Liabilities & Provisions	93,454	1,04,823	1,31,429	1,39,724
<b>Net Current Assets</b>	<b>6,716</b>	<b>17,804</b>	<b>15,562</b>	<b>29,265</b>
Investments	35,216	38,922	53,922	58,922
Net Fixed Assets	66,009	63,042	62,582	61,909
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,943	1,325	1,325	1,325
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>1,09,884</b>	<b>1,21,092</b>	<b>1,33,390</b>	<b>1,51,421</b>
Liabilities				
Borrowings	35,071	31,801	21,801	21,801
Deferred Tax Liability	1,444	5,034	5,035	5,035
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	2,936	2,936	2,936	2,936
Reserves & Surplus	70,434	81,322	1,03,619	1,21,650
<b>Total Net Worth</b>	<b>73,369</b>	<b>84,257</b>	<b>1,06,555</b>	<b>1,24,585</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>1,09,884</b>	<b>1,21,093</b>	<b>1,33,390</b>	<b>1,51,421</b>

Source Company data, I-Sec research

### Exhibit 12: 5-stage Du-Pont

(INR mn, year ending March)

	FY22	FY23	FY24E	FY25E
Tax Burden (Adjusted PAT/PBT)	-2.2	1.8	3.0	3.0
Interest Burden (PBT/EBIT)	0.1	0.9	1.0	1.0
EBIT Margin (EBIT/Sales)	1.1	6.1	10.1	9.1
Asset Turnover (Sales/Total Assets)	2.0	3.0	3.2	2.9
Financial Leverage (Total Assets/Equity)	1.5	1.4	1.3	1.2
ROE	0.5	17.5	32.3	26.0

Source Company data, I-Sec research

### Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Operating Cashflow</b>	<b>8,667</b>	<b>5,514</b>	<b>45,034</b>	<b>45,380</b>
Working Capital Changes	(1,917)	(21,243)	3,555	5,329
Capital Commitments	(1,257)	(3,735)	(7,637)	(7,971)
<b>Free Cashflow</b>	<b>7,410</b>	<b>1,779</b>	<b>37,397</b>	<b>37,409</b>
Other investing cashflow	(4,529)	(3,706)	(15,000)	(5,000)
<b>Cashflow from Investing Activities</b>	<b>(5,786)</b>	<b>(7,441)</b>	<b>(22,637)</b>	<b>(12,971)</b>
Issue of Share Capital	-	4,720	-	0
Interest Cost	(3,011)	(2,891)	(2,278)	(1,635)
Inc (Dec) in Borrowings	(2,092)	(3,270)	(10,000)	-
Dividend paid	(1,761)	(2,936)	(7,632)	(8,807)
Others	6,223	847	-	-
<b>Cash flow from Financing Activities</b>	<b>(641)</b>	<b>(3,530)</b>	<b>(19,910)</b>	<b>(10,442)</b>
Chg. in Cash & Bank balance	2,240	(5,456)	2,487	21,967
Closing cash & balance	10,470	5,013	7,500	29,467

Source Company data, I-Sec research

### Exhibit 14: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Per Share Data (INR)</b>				
Reported EPS	0.1	4.4	10.6	10.1
Adjusted EPS (Diluted)	0.1	4.4	10.6	10.1
Cash EPS	2.7	6.9	13.4	13.1
Dividend per share (DPS)	1.0	2.6	3.0	4.0
Book Value per share (BV)	25.0	28.7	36.3	42.4
Dividend Payout (%)	54.2	55.3	28.3	39.4
<b>Growth (%)</b>				
Net Sales	41.7	66.7	17.4	4.4
EBITDA	85.8	194.7	73.5	(4.2)
EPS (INR)	(110.3)	4,079.0	140.1	(4.3)
<b>Valuation Ratios (x)</b>				
P/E	1,727.7	41.3	17.2	18.0
P/CEPS	68.3	26.4	13.7	13.9
P/BV	7.3	6.4	5.0	4.3
EV / EBITDA	56.3	19.2	10.8	10.8
EV / Sales	2.6	1.6	1.3	1.2
<b>Profitability Ratios</b>				
Gross Profit Margins (%)	22.7	22.9	26.5	26.0
EBITDA Margins (%)	4.6	8.1	12.0	11.0
EBIT Margins (%)	1.1	6.1	10.1	9.1
Net Profit Margins (%)	0.1	3.6	7.3	6.7
RoCE (%)	4.1	12.1	25.0	20.5
RoE (%)	0.5	17.5	32.3	26.0
Dividend Yield (%)	0.5	1.4	1.6	2.2
<b>Operating Ratios</b>				
Fixed Asset Turnover (x)	3.2	5.6	6.6	7.0
Inventory Turnover Days	8	12	10	9
Receivables Days	50	36	36	37
Payables Days	127	86	85	93
Effective Tax Rate (%)	(84.7)	36.0	25.0	25.0
Net Debt / Equity (x)	0.3	0.3	0.1	(0.1)
Net Debt / EBITDA (x)	2.5	0.9	0.3	(0.2)

Source Company data, I-Sec research

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