

July 25, 2023

## Q1FY24 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	225		215	
Sales (Rs. m)	4,04,639	4,34,912	4,08,420	4,48,271
% Chng.	(0.9)	(3.0)		
EBITDA (Rs. m)	43,701	48,275	40,025	46,620
% Chng.	9.2	3.5		
EPS (Rs.)	8.4	9.5	7.5	9.0
% Chng.	11.6	5.1		

### Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	2,16,883	3,61,441	4,04,639	4,34,912
EBITDA (Rs. m)	9,945	29,307	43,701	48,275
Margin (%)	4.6	8.1	10.8	11.1
PAT (Rs. m)	172	13,248	24,669	27,838
EPS (Rs.)	0.1	4.5	8.4	9.5
Gr. (%)	(105.7)	7,586.2	86.2	12.8
DPS (Rs.)	0.0	2.6	5.0	5.7
Yield (%)	0.0	1.5	2.8	3.1
RoE (%)	0.2	16.8	27.7	27.9
RoCE (%)	2.2	19.5	29.5	30.1
EV/Sales (x)	2.5	1.5	1.3	1.2
EV/EBITDA (x)	55.1	18.3	12.4	11.1
PE (x)	3,108.0	40.4	21.7	19.2
P/BV (x)	7.3	6.4	5.7	5.1

### Key Data

### ASOK.BO | AL IN

52-W High / Low	Rs.186 / Rs.133
Sensex / Nifty	66,385 / 19,672
Market Cap	Rs.536bn/ \$ 6,547m
Shares Outstanding	2,936m
3M Avg. Daily Value	Rs.1985.55m

### Shareholding Pattern (%)

Promoter's	51.53
Foreign	14.85
Domestic Institution	22.16
Public & Others	11.46
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	12.9	24.1	23.9
Relative	7.1	14.0	4.7

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## Strong 1Q provides confidence on annual targets

### Quick pointers

- Aims to maintain double-digit margins throughout FY24.
- Volumes should see sequential improvement; to aid margins

**We increase our FY24/FY25 EPS estimates by 12%/5% to factor in 1QFY24 results and management commentary on volumes and margin sustainability. Ashok Leyland's (AL) 1QFY24 EBITDA margin at 10% (-c100bps QoQ) beat PL estimates on the back of cost reduction efforts, lower discounting, higher non-CV mix and inventorisation. AL aims for double digit EBITDA margin in FY24 (has started on a strong note to achieve it), which gives us confidence in its medium term targets of reaching mid-teen. Further 1QFY24 volume performance was impacted from pre-buying in 4QFY23, but demand should improve from 2QFY24 given MHCV segment is benefiting from strong infrastructure development and growth in other end-user industries.**

**We believe AL is well placed to sustain its FY23 market share gains led by 1) strong demand for modular AVTR trucks, 2) network expansion and 3) new product launches. LCVs will benefit from filling of white space, growth in end markets and network growth. Also, price hike, benign commodity price, cost control and operating leverage will lead to margin expansion (EBITDA margin +c300bps over FY23-25E). Maintain 'BUY' at target price of Rs 225 (previous TP Rs. 215) on Mar-25E EV/EBITDA of 13x (includes ~Rs 12 for HLF).**

- **EBITDA margin at 10% expanded by c560bps YoY:** Revenue at Rs 81.9bn (+13.4% YoY) was ahead of our and BBG consensus estimates (BBGe) by c3%. EBITDA margin at 10% down c100bps QoQ was higher than BBGe (9.1%) and PLe (7.3%). Margin contraction QoQ was driven by (1) inferior product mix and (2) operating de-leverage. AL reported an adj. PAT of Rs 4.0bn vs Rs 0.6bn YoY, above PLe (Rs. 2.5bn) and BBGe (Rs. 3.5bn).
- **Key takeaways:** (1) AL expects demand momentum to increase QoQ for remaining quarters in FY24 and has maintained its volume guidance of 8-10% M&HCV and 5-6% LCV growth in FY24. (2) AL's domestic MHCV market share has inched upwards with Trucks market share improving from 31.1% to 31.7% YoY, driven by strong demand for AVTR range, network expansion particularly in the North and East. AL sees further scope for network expansion, which should help market share in these regions. (3) Non-CV revenue has shown strong growth during 1QFY24 outperforming CV segment with parts business growing beyond 30% YoY and other business like defense, power solution also showing healthy growth. (4) AL sees scope for further margin expansion led by benign commodity prices, cost control efforts, price increase (8-10% over last 4-5 quarters), operating leverage and lower discounting (10-12% lower per unit YoY). AL will focus more on cost reduction rather than price increase to improve margins; has taken a price increase of c2%. (5) More info on Sub-2-ton LCV product will be provided in FY24. (6) AL will invest Rs. 12bn in Switch Mobility in FY24. (7) AL has reduced inventory in 1Q; however, working capital has increased due to seasonality.

**Exhibit 1: 1QFY24 Result Overview (Rs m) – EBITDA margin expansion ahead of estimates**

Y/e Mar (Rs.mn)	1QFY24	1QFY23	YoY gr. (%)	4QFY23	QoQ gr. (%)	FY24E	FY23	YoY gr. (%)
<b>Net Revenues</b>	<b>81,893</b>	<b>72,229</b>	<b>13.4</b>	<b>1,16,257</b>	<b>(29.6)</b>	<b>4,04,639</b>	<b>3,61,441</b>	<b>12.0</b>
Raw Materials	60,372	57,281	5.4	87,887	(31.3)	3,00,242	2,78,492	7.8
<i>% of Net Sales</i>	<i>73.7%</i>	<i>79.3%</i>		<i>75.6%</i>		<i>74.2%</i>	<i>77.1%</i>	
Personnel	5,376	4,454	20.7	5,919	(9.2)	24,278	21,139	14.9
<i>% of Net Sales</i>	<i>6.6%</i>	<i>6.2%</i>		<i>5.1%</i>		<i>6.0%</i>	<i>5.8%</i>	
Manufacturing & Other Exp	7,938	7,291	8.9	9,693	(18.1)	36,418	32,504	12.0
<i>% of Net Sales</i>	<i>9.7%</i>	<i>10.1%</i>		<i>8.3%</i>		<i>9.0%</i>	<i>9.0%</i>	
Total Expenditure	73,685	69,026	6.8	1,03,499	(28.8)	3,60,938	3,32,134	8.7
<b>EBITDA</b>	<b>8,207</b>	<b>3,203</b>	<b>156.3</b>	<b>12,757</b>	<b>(35.7)</b>	<b>43,701</b>	<b>29,307</b>	<b>49.1</b>
<i>EBITDA Margin (%)</i>	<i>10.0%</i>	<i>4.4%</i>		<i>11.0%</i>		<i>10.8%</i>	<i>8.1%</i>	
Depreciation	1,794	1,824	(1.7)	1,838	(2.4)	7,898	7,320	7.9
<b>EBIT</b>	<b>6,414</b>	<b>1,379</b>	<b>365.2</b>	<b>10,919</b>	<b>(41.3)</b>	<b>35,803</b>	<b>21,987</b>	<b>62.8</b>
Interest Expenses	699	689	1.4	628	11.3	2,741	2,891	(5.2)
Non-operating income	512	256	99.6	389	31.5	1,200	1,161	3.3
Extraordinary items	(6)	130		564		(6)	846	
<b>PBT</b>	<b>6,221</b>	<b>1,077</b>	<b>477.9</b>	<b>11,245</b>	<b>(44.7)</b>	<b>34,256</b>	<b>21,104</b>	<b>62.3</b>
Tax-Total	457	396	15.4	3,731	(87.8)	7,842	7,303	7.4
<i>Tax Rate (%) - Total</i>	<i>7.3%</i>	<i>36.8%</i>	<i>(80.0)</i>	<i>33.2%</i>		<i>22.9%</i>	<i>34.6%</i>	<i>(33.8)</i>
<b>Reported PAT</b>	<b>5,764</b>	<b>681</b>	<b>747.1</b>	<b>7,514</b>	<b>(23.3)</b>	<b>26,414</b>	<b>13,801</b>	<b>91.4</b>
<b>Adj. PAT</b>	<b>5,769</b>	<b>583</b>	<b>889.6</b>	<b>7,091</b>	<b>(18.6)</b>	<b>26,419</b>	<b>13,167</b>	<b>100.7</b>
<i>PAT Margin (%)</i>	<i>7.0%</i>	<i>0.8%</i>		<i>6.1%</i>		<i>6.5%</i>	<i>3.6%</i>	

Source: Company, PL

**Exhibit 2: Operating Metrics – Realisation grew by 1.7% QoQ despite lower M&HCV contribution**

Y/e Mar (Rs)	1QFY24	1QFY23	YoY gr. (%)	4QFY23	QoQ gr. (%)	FY24E	FY23	YoY gr. (%)
<b>Sales Volume (nos)</b>	<b>41,329</b>	<b>39,651</b>	<b>4.2</b>	<b>59,697</b>	<b>(30.8)</b>	<b>2,08,658</b>	<b>1,92,205</b>	<b>8.6</b>
Net Realisation/Vehicle	19,81,488	18,21,606	8.8	19,47,446	1.7	19,39,244	18,80,499	3.1
Material cost / vehicle	14,60,754	14,44,617	1.1	14,72,213	(0.8)	14,38,919	14,48,930	(0.7)
Gross Profit / vehicle	5,20,734	3,76,989	38.1	4,75,233	9.6	5,00,325	4,31,570	15.9
Employee cost /vehicle	1,30,068	1,12,333	15.8	99,156	31.2	1,16,355	1,09,979	5.8
Other expenses / vehicle	1,92,076	1,83,882	4.5	1,62,375	18.3	1,74,532	1,69,113	3.2
EBITDA/vehicle	1,98,589	80,775	145.9	2,13,703	(7.1)	2,09,438	1,52,478	37.4
Net Profit/vehicle	1,39,471	17,162	712.7	1,25,871	10.8	1,26,591	71,804	76.3

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Net Revenues</b>	<b>2,16,883</b>	<b>3,61,441</b>	<b>4,04,639</b>	<b>4,34,912</b>
YoY gr. (%)	41.7	66.7	12.0	7.5
Cost of Goods Sold	1,67,611	2,78,492	3,00,242	3,22,270
Gross Profit	49,272	82,950	1,04,397	1,12,642
Margin (%)	22.7	22.9	25.8	25.9
Employee Cost	16,946	21,139	24,278	25,660
Other Expenses	22,381	32,504	36,418	38,707
<b>EBITDA</b>	<b>9,945</b>	<b>29,307</b>	<b>43,701</b>	<b>48,275</b>
YoY gr. (%)	85.8	194.7	49.1	10.5
Margin (%)	4.6	8.1	10.8	11.1
Depreciation and Amortization	7,528	7,320	7,898	8,567
<b>EBIT</b>	<b>2,418</b>	<b>21,987</b>	<b>35,803</b>	<b>39,708</b>
Margin (%)	1.1	6.1	8.8	9.1
Net Interest	3,011	2,891	2,741	2,773
Other Income	761	1,161	1,200	1,200
<b>Profit Before Tax</b>	<b>5,276</b>	<b>21,104</b>	<b>34,256</b>	<b>38,135</b>
Margin (%)	2.4	5.8	8.5	8.8
Total Tax	(142)	7,303	9,592	10,296
Effective tax rate (%)	(2.7)	34.6	28.0	27.0
<b>Profit after tax</b>	<b>5,418</b>	<b>13,801</b>	<b>24,664</b>	<b>27,838</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>172</b>	<b>13,248</b>	<b>24,669</b>	<b>27,838</b>
YoY gr. (%)	-	-	-	-
Margin (%)	0.1	3.7	6.1	6.4
Extra Ord. Income / (Exp)	5,246	553	(4)	-
<b>Reported PAT</b>	<b>5,418</b>	<b>13,801</b>	<b>24,664</b>	<b>27,838</b>
YoY gr. (%)	(272.7)	154.7	78.7	12.9
Margin (%)	2.5	3.8	6.1	6.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
<b>Equity Shares O/s (m)</b>	<b>2,936</b>	<b>2,936</b>	<b>2,936</b>	<b>2,936</b>
<b>EPS (Rs)</b>	<b>0.1</b>	<b>4.5</b>	<b>8.4</b>	<b>9.5</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>1,03,136</b>	<b>1,07,488</b>	<b>1,14,988</b>	<b>1,22,988</b>
Tangibles	1,03,136	1,07,488	1,14,988	1,22,988
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>41,626</b>	<b>48,946</b>	<b>56,844</b>	<b>65,411</b>
Tangibles	41,626	48,946	56,844	65,411
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>61,510</b>	<b>58,543</b>	<b>58,145</b>	<b>57,577</b>
Tangibles	61,510	58,543	58,145	57,577
Intangibles	-	-	-	-
Capital Work In Progress	1,943	1,325	1,325	1,325
Goodwill	4,499	4,499	4,499	4,499
Non-Current Investments	35,216	38,922	51,000	53,500
Net Deferred tax assets	(1,444)	(5,035)	(5,035)	(5,035)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	12,981	27,714	15,000	18,000
Inventories	20,752	27,745	35,475	38,129
Trade receivables	31,111	40,627	49,887	53,619
Cash & Bank Balance	10,470	5,013	12,358	13,420
Other Current Assets	24,858	21,529	24,758	28,472
<b>Total Assets</b>	<b>2,03,338</b>	<b>2,25,916</b>	<b>2,52,447</b>	<b>2,68,542</b>
<b>Equity</b>				
Equity Share Capital	2,936	2,936	2,936	2,936
Other Equity	70,434	81,322	91,190	1,02,325
<b>Total Networth</b>	<b>73,369</b>	<b>84,258</b>	<b>94,126</b>	<b>1,05,261</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	28,850	17,973	17,973	17,973
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	6,689	14,276	14,276	14,276
Trade payables	68,752	71,751	86,471	89,365
Other current liabilities	24,234	32,624	34,566	36,631
<b>Total Equity &amp; Liabilities</b>	<b>2,03,338</b>	<b>2,25,916</b>	<b>2,52,447</b>	<b>2,68,542</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	5,276	21,104	34,256	38,135
Add. Depreciation	7,528	7,320	7,898	8,567
Add. Interest	3,011	2,891	2,741	2,773
Less Financial Other Income	761	1,161	1,200	1,200
Add. Other	(761)	(1,161)	(1,200)	(1,200)
Op. profit before WC changes	15,054	30,153	43,695	48,275
Net Changes-WC	12,070	(1,792)	(3,557)	(5,141)
Direct tax	(122)	(3,711)	(9,592)	(10,296)
<b>Net cash from Op. activities</b>	<b>27,002</b>	<b>24,650</b>	<b>30,546</b>	<b>32,838</b>
Capital expenditures	(1,257)	(3,735)	(7,500)	(8,000)
Interest / Dividend Income	-	-	-	-
Others	(3,767)	(2,545)	(10,878)	(1,300)
<b>Net Cash from Inv. activities</b>	<b>(5,024)</b>	<b>(6,279)</b>	<b>(18,378)</b>	<b>(9,300)</b>
Issue of share cap. / premium	(1,713)	4,861	6	-
Debt changes	(1,924)	(3,291)	-	-
Dividend paid	(109)	(7,773)	(14,802)	(16,703)
Interest paid	(3,011)	(2,891)	(2,741)	(2,773)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(6,757)</b>	<b>(9,094)</b>	<b>(17,537)</b>	<b>(19,476)</b>
<b>Net change in cash</b>	<b>15,221</b>	<b>9,277</b>	<b>(5,369)</b>	<b>4,062</b>
Free Cash Flow	25,745	20,915	23,046	24,838

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	0.1	4.5	8.4	9.5
CEPS	2.6	7.0	11.1	12.4
BVPS	25.0	28.7	32.1	35.9
FCF	8.8	7.1	7.8	8.5
DPS	0.0	2.6	5.0	5.7
<b>Return Ratio(%)</b>				
RoCE	2.2	19.5	29.5	30.1
ROIC	2.9	18.0	27.4	28.8
RoE	0.2	16.8	27.7	27.9
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.2	0.0	0.1	0.0
Net Working Capital (Days)	(58)	(26)	(22)	(19)
<b>Valuation(x)</b>				
PER	3,108.0	40.4	21.7	19.2
P/B	7.3	6.4	5.7	5.1
P/CEPS	69.6	26.0	16.4	14.7
EV/EBITDA	55.1	18.3	12.4	11.1
EV/Sales	2.5	1.5	1.3	1.2
Dividend Yield (%)	0.0	1.5	2.8	3.1

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

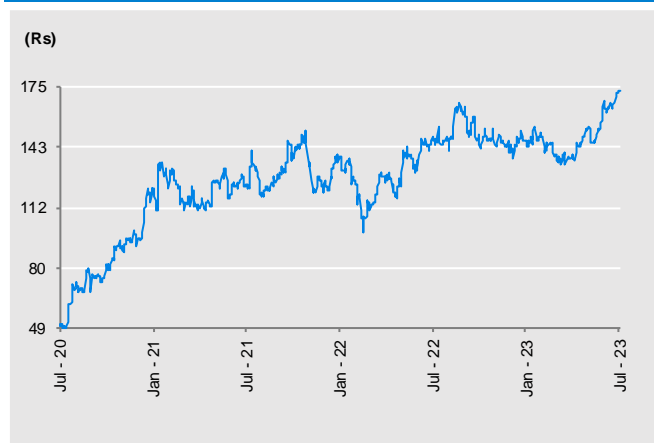
Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
<b>Net Revenue</b>	<b>72,229</b>	<b>82,660</b>	<b>90,297</b>	<b>1,16,257</b>
YoY gr. (%)	144.8	85.4	63.1	33.0
Raw Material Expenses	57,281	64,466	68,859	87,887
Gross Profit	14,948	18,194	21,438	28,370
Margin (%)	20.7	22.0	23.7	24.4
<b>EBITDA</b>	<b>3,203</b>	<b>5,373</b>	<b>7,973</b>	<b>12,757</b>
YoY gr. (%)	(328.6)	298.9	256.1	64.4
Margin (%)	4.4	6.5	8.8	11.0
Depreciation / Depletion	1,824	1,768	1,890	1,838
<b>EBIT</b>	<b>1,379</b>	<b>3,605</b>	<b>6,084</b>	<b>10,919</b>
Margin (%)	1.9	4.4	6.7	9.4
Net Interest	689	771	804	628
Other Income	256	200	316	389
<b>Profit before Tax</b>	<b>1,077</b>	<b>3,117</b>	<b>5,665</b>	<b>11,245</b>
Margin (%)	1.5	3.8	6.3	9.7
Total Tax	396	1,124	2,052	3,731
Effective tax rate (%)	36.8	36.1	36.2	33.2
<b>Profit after Tax</b>	<b>681</b>	<b>1,993</b>	<b>3,613</b>	<b>7,514</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>598</b>	<b>1,940</b>	<b>3,569</b>	<b>7,137</b>
YoY gr. (%)	(121.3)	(333.3)	(11,289.3)	49.6
Margin (%)	0.8	2.3	4.0	6.1
Extra Ord. Income / (Exp)	130	82	69	564
<b>Reported PAT</b>	<b>681</b>	<b>1,993</b>	<b>3,613</b>	<b>7,514</b>
YoY gr. (%)	(124.1)	(340.1)	6,151.6	(16.6)
Margin (%)	0.9	2.4	4.0	6.5
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Avg. Shares O/s (m)	2,936	2,936	2,936	2,936
<b>EPS (Rs)</b>	<b>0.2</b>	<b>0.7</b>	<b>1.2</b>	<b>2.4</b>

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY22	FY23	FY24E	FY25E
MHCV volumes (in units)	73,885	1,24,109	1,36,817	1,44,832
LCV volumes (in units)	54,441	68,096	71,841	75,433
Total volumes (in units)	1,28,326	1,92,205	2,08,658	2,20,265
Average realisation (Rs/unit)	16,90,093	18,80,499	19,39,244	19,74,489

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-23	BUY	215	165
2	16-Jun-23	BUY	215	157
3	25-May-23	BUY	215	150
4	12-Apr-23	BUY	200	138
5	02-Feb-23	BUY	200	152
6	05-Jan-23	BUY	200	146
7	14-Nov-22	BUY	200	148
8	06-Oct-22	BUY	200	156
9	02-Aug-22	BUY	177	154

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	215	165
2	Bajaj Auto	Reduce	4,450	4,918
3	Bharat Forge	BUY	955	855
4	CEAT	Hold	2,330	2,485
5	Eicher Motors	Accumulate	3,460	3,222
6	Endurance Technologies	Accumulate	1,745	1,654
7	Exide Industries	UR	-	185
8	Hero Motocorp	Accumulate	3,460	3,172
9	Mahindra & Mahindra	BUY	1,685	1,549
10	Maruti Suzuki	BUY	11,100	9,859
11	Tata Motors	BUY	675	601
12	TVS Motor Company	Accumulate	1,380	1,314

**PL's Recommendation Nomenclature (Absolute Performance)**

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

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