

Retail Equity Research

Ashok Leyland Ltd.

Automobile-Commercial

BSE CODE : 500477

NSE CODE: ASHOKLEY

BLOOMBERG CODE: AL:IN

SENSEX : 66,707

12 Months Investment Period

Rating as per Large Cap

CMP Rs.181

TARGET Rs.210

RETURN 16% 

(Closing: 26-07-2023)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Strong pick up in the truck volume..

Ashok Leyland Ltd. (AL) is the second-largest Commercial Vehicle (CV) manufacturer in India. It has a strong presence in the truck segment, with a market share of 29% as of FY22.

- Margin for the quarter came at 10% (above our estimate) owing to price hikes, easing metal prices, and lower vehicle discount.
- Despite a weak quarter due to pre buying in March, volume grew by 5%, outperforming the industry growth of -5%. As a result, revenue grew by 13%YoY.
- AL achieved a market share of 31% vs. 30% in Q1FY23 for the trucks segment. This is due to a strong presence in the higher tonnage category, with healthy double digit growth.
- Despite normal volume growth, we expect earnings to grow by 41% CAGR over FY23-25E, factoring in margin expansion, superior product mix, and elevated government capital expenditure.
- On a 1yr. fwd. basis, AL is trading at 12x (lower its historical avg. at 14.5x). We value AL at 13x FY25E EV/EBITDA and maintain our Buy rating with a target price of Rs.210/-.

Both heavy and light truck volume to gain attraction...

Q1FY24 revenue grew by 13% YoY (above our estimate), primarily driven by strong growth in the heavy truck & bus segments, supported by price hikes. The domestic volume for the quarter grew by 5% over the same period last year, outperforming the industry growth of -5%. As a result, AL achieved an overall market share of 31% vs. 30% compared to the same quarter last year. For Q1FY24, the Medium & Heavy truck segment (M&HCV) and LCV (Light commercial vehicle) volume grew by 7% and 3% YoY, respectively. However, Export volume declined by -16% for the same period. EBITDA margin expanded by 156bps YoY due to softening steel prices, cost control initiatives, and a lower discount due to optimal inventory at channel level. We expect the demand to improve going forward owing to a pick-up in construction activity, an improvement in retail sales, and e-commerce activity.

Medium to long term triggers to remain

The CV industry may experience normal growth for the fiscal year, and we expect the industry to grow by 10-12% in FY24 due to a revival in the bus segment, a recovery in replacement demand, and continued momentum in the MHCV segment driven by increasing infrastructure expenditure. The growth momentum is anticipated to accelerate in H2FY24 owing to positive economic indicators and easing inflationary pressure. As its products are well-received on the market with the Avtar range, the segment's recovery will fuel its performance in FY24. In addition, the company seeks to outperform the market by increasing market share in its weak territories (North and East markets), expanding its dealer network, and launching new products frequently. On account of the anticipated resurgence of a few of its export markets, it is projected that export volumes will pick up during the fiscal year 2024. Capital expenditures: Rs. 600-750cr. for FY24.

Expansion in the LCV & EV business

The company has been successful in gaining market share in the LCV segment with its modular platform strategy to reduce the number of parts per vehicle, which has resulted in better economies of scale, better production planning, and improved supply chain management to reduce the cost of the vehicle. AL is also optimistic about the growth prospects in the EV space and has lined up multiple products to launch in the EV space in the coming period. In the coming year, AL intends to invest Rs. 1,200cr. in Switch Mobility.

Valuations

To offset the inflated steel price, AL has taken a continuous price hike and is not expecting any further decline in the margin owing to a softening commodity price and inventory correction. Volume numbers are currently near pre-Covid levels and are gradually improving as core economic indicators improve. Given strong earnings growth, we value AL at 13x EV/EBITDA and have a target price of Rs.210, and continue our buy rating at CMP.

Company Data

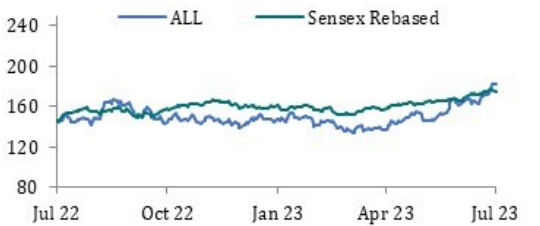
Market Cap (Rs.cr)	53,570
Enterprise Value (Rs.cr)	53,389
Outstanding Shares (cr)	293.6
Free Float	49%
Dividend Yield	1.4%
52 week high Rs.	187
52 week low Rs.	133
6m average volume (cr)	1.11
Beta	1.0
Face value Rs.	1

Shareholding (%)	Q3FY23	Q4FY23	Q1FY24
Promoters	51.5	51.5	51.5
FII's	15.3	14.9	14.9
MFs/Insti	21.1	22.1	22.1
Public	12.1	11.3	11.3

Total	100.0	100.0	100.0
Promotors pledge	19.0	19.0	19.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	30.2%	24.7%	23.9%
Absolute Sensex	10.4%	10.3%	18.4%
Relative Return*	19.8%	14.4%	5.6%

*over or under performance to benchmark index



Standalone (cr)	FY23A	FY24E	FY25E
Sales	36,144	41,207	45,384
Growth (%)	66.7	14.0	10.1
EBITDA	2,931	4,244	4,765
EBITDA Margin (%)	8.1	10.3	10.5
Adj. PAT	1,284	2,219	2,544
Growth (%)	-	72.9	14.6
Adj. EPS	4.4	7.6	8.7
Growth (%)	-	72.9	14.6
P/E	41.6	24.1	21.0
P/B	4.8	3.4	2.6
EV/EBITDA	19.2	13.0	11.3
ROE (%)	16.3	23.7	22.2
D/E	0.1	0.1	0.1

Saji John
Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

(Rs cr.)	Q1FY24	Q1FY23	YoY Growth (%)	Q4FY23	QoQ Growth (%)
Sales	8,189	7,223	13.4	11,626	-29.6
EBITDA	821	320	156.3	1276	-35.7
EBITDA margins (%)	10.0	4.4	559bps	11.0	-95bps
Depreciation	179	182	-1.7	184	-2.4
EBIT	641	138	365.2	1092	-
Interest	70	69	1.4	63	11.3
Other Income	51	26	99.6	39	31.5
Exceptional Items	-1	13	0.0	56	0.0
PBT	622	108	477.9	1125	-
Tax	46	40	15.4	1125	-95.9
Share of profit from associates	0	0	0.0	0	0.0
Minority interest	0	0	0.0	0	0.0
Reported PAT	576	68	747.1	751	-23.3
Adjustments	1	-13	0.0	-56	0.0
Adj PAT	577	55	948.3	695	-17.0
No. of Shares	294	294	0.0	294	0.0
Adj EPS (Rs)	2.0	0.2	948.3	2.4	-17.0

Change in Estimates

	Old estimates		New estimates		Change (%)	
Year / Rs cr	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	40,188	45,063	41,207	45,384	2.5	0.7
EBITDA	3,697	4,236	4,244	4,765	14.8	12.5
Margins (%)	9.2	9.4	10.3	10.5	110bps	110bps
Adj. PAT	1,792	2,170	2,219	2,544	23.8	17.2
EPS	6.1	7.4	7.6	8.7	23.9	17.1

Standalone Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
Revenue	17,467	15,301	21,688	36,144	41,207	45,384
% change	-39.9	-12.4	41.7	66.7	14.0	10.1
EBITDA	1,174	535	995	2,931	4,244	4,765
% change	-62.6	-54.4	85.8	194.7	44.8	12.3
Depreciation	671	822	764	744	802	824
EBIT	502	-287	231	2,187	3,443	3,941
Interest	109	307	301	289	286	266
Other Income	123	120	76	116	247	227
PBT	393	-594	-70	1,898	3,156	3,675
% change	-85.6	-235.0	-206.2	306.0	62.2	14.7
Tax	122	-98	-14	730	1,184	1,358
Tax Rate (%)	34.0	20.2	-2.8	34.8	34.8	34.8
Reported PAT	238	-388	531	1,368	2,219	2,544
Adj*	155.8	12.1	-510.8	-84.6	0.6	0.0
Adj PAT	394	-376	20	1,284	2,219	2,544
% change	-80.7	-195.6	-105.4	-	72.9	14.6
No. of shares (cr)	294	294	294	294	294	294
Adj EPS (Rs.)	1.3	-1.3	0.1	4.4	7.6	8.7
% change	-81	-196	-105	-	73	15
DPS (Rs.)	3.1	3.1	4.1	4.1	4.1	4.1
CEPS (Rs.)	4	2	3	7	10	11

CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
Net inc. + Depn.	1,032	336	1,280	2,842	4,205	4,726
Non-cash adj.	15	(94)	(25)	359	(82)	(94)
Changes in W.C	(931)	(201)	1,497	(249)	(16)	995
C.F. Operation	(6)	139	2,766	2,223	2,923	4,269
Capital exp.	(1,521)	(1,456)	(217)	(405)	(588)	(600)
Change in inv.	(83)	(375)	(1,725)	(1,844)	(1,100)	(1,700)
Other invest.CF	-	-	-	-	-	-
C.F - Investment	(1,604)	(1,831)	(1,942)	(2,249)	(1,688)	(2,300)
Issue of equity	-	-	-	1	-	-
Issue/repay debt	2,666	651	(209)	(327)	-	(450)
Dividends paid	(1,205)	-	(207)	(268)	(276)	(276)
Other finance.CF	-	-	-	-	-	-
C.F - Finance	1,461	756	(416)	(595)	(276)	(726)
Chg. in cash	(149)	(937)	408	(621)	960	1,244
Closing cash	1,472	535	944	323	1,282	2,526

BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	1,472	535	944	323	1,282	2,526
Accounts Receivable	1,180	2,816	3,111	4,159	5,080	5,222
Inventories	1,238	2,142	2,075	2,774	2,908	2,760
Other Cur. Assets	1,503	1,290	1,425	1,449	1,693	1,865
Investments	3,791	4,270	5,884	7,342	8,328	10,085
Gross Fixed Assets	8,349	10,028	10,358	10,817	11,496	12,116
Net Fixed Assets	5,443	5,599	5,274	4,985	4,885	4,709
CWIP	594	372	194	133	113	93
Intangible Assets	724	1,424	1,316	1,319	1,297	1,269
Def. Tax (Net)	(265)	(171)	(144)	(504)	(422)	(328)
Other Assets	0	0	0	0	0	0
Total Assets	15,681	18,279	20,142	22,053	25,165	28,201
Current Liabilities	1,926	1,766	1,788	2,258	2,391	2,624
Provisions	806	655	670	1,039	1,355	1,492
Debt Funds	3,065	3,716	3,507	3,180	3,180	2,730
Other Liabilities	2,624	5,165	6,875	7,175	7,894	8,741
Equity Capital	294	294	294	294	294	294
Reserves & Surplus	6,968	6,684	7,008	8,108	10,051	12,320
Shareholder's Fund	7,261	6,977	7,302	8,402	10,345	12,613
Total Liabilities	15,681	18,279	20,142	22,053	25,165	28,201
BVPS (Rs.)	40	37	40	48	63	80

RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
Profitab. & Return						
EBITDA margin (%)	6.7	3.5	4.6	8.1	10.3	10.5
EBIT margin (%)	2.9	-1.9	1.1	6.1	8.4	8.7
Net profit mgn.(%)	2.3	-2.5	0.1	3.6	5.4	5.6
ROE (%)	6.7	-7.3	0.4	16.3	23.7	22.2
ROCE (%)	2.7	-0.3	1.4	6.4	9.3	9.5
W.C & Liquidity						
Receivables (days)	38.5	47.7	49.9	36.7	40.9	41.4
Inventory (days)	57.9	54.1	45.9	31.8	34.2	30.8
Payables (days)	75.2	59.1	38.7	26.5	28.0	27.3
Current ratio (x)	2.4	3.3	3.5	2.8	3.1	3.2
Quick ratio (x)	1.4	1.9	2.3	2.0	2.7	3.0
Turnover & Leverage						
Gross asset T.O (x)	2.5	1.9	2.5	4.0	4.4	4.6
Total asset T.O (x)	1.0	0.9	1.1	1.7	1.7	1.7
Int. coverage ratio (x)	4.6	-0.9	0.8	7.6	12.0	14.8
Adj. debt/equity (x)	0.2	0.2	0.2	0.1	0.1	0.1
Valuation						
EV/Sales (x)	3.1	3.6	2.5	1.6	1.3	1.2
EV/EBITDA (x)	45.5	102.7	54.7	19.2	13.0	11.3
P/E (x)	135.6	-141.9	-	41.6	24.1	21.0
P/BV (x)	5.2	6.8	6.1	4.8	3.4	2.6



Recommendation summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
02 January 2020	Accumulate	90
19 March 2020	Accumulate	72
10 July 2020	Buy	59
10 November 2020	Accumulate	95
23 February 2021	Buy	138
29 June 2021	Buy	145
27 September 2021	Buy	147
06 December 2021	Buy	137
17 March 2022	Accumulate	127
02 Jun 2022	Buy	162
15 November 2022	Buy	176
30 May 2023	Buy	168
26 July 2023	Buy	210

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

Definition:
Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.
Accumulate: Partial buying or to accumulate as CMP dips in the future.
Hold: Hold the stock with the expected target mentioned in the note.
Reduce: Reduce your exposure to the stock due to limited upside.
Sell: Exit from the stock.
Not rated/Neutral : The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute ‘Accumulate’ as Buy and ‘Reduce’ as Sell.
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