

November 11, 2023

Q2FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		BUY	
Target Price	210		220	
Sales (Rs.m)	4,06,037	4,34,708	4,08,057	4,37,519
% Chng.	(0.5)	(0.6)		
EBITDA (Rs.m)	45,882	51,296	44,070	48,565
% Chng.	4.1	5.6		
EPS (Rs.)	8.8	10.6	8.6	9.7
% Chng.	2.1	9.6		

Key Financials - Standalone

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	3,61,441	4,06,037	4,34,708	4,17,354
EBITDA (Rs. m)	29,307	45,882	51,296	50,082
Margin (%)	8.1	11.3	11.8	12.0
PAT (Rs. m)	13,248	25,818	31,049	30,899
EPS (Rs.)	4.5	8.8	10.6	10.5
Gr. (%)	7,586.2	94.9	20.3	(0.5)
DPS (Rs.)	2.4	4.9	5.8	5.8
Yield (%)	1.4	2.8	3.3	3.3
RoE (%)	16.8	28.6	30.1	26.4
RoCE (%)	19.5	31.5	31.6	27.5
EV/Sales (x)	1.4	1.2	1.1	1.2
EV/EBITDA (x)	17.4	11.0	9.6	9.6
PE (x)	38.5	19.8	16.4	16.5
P/BV (x)	6.1	5.3	4.6	4.1

Key Data

ASOK.BO | AL IN

52-W High / Low	Rs.192 / Rs.133
Sensex / Nifty	64,905 / 19,425
Market Cap	Rs.510bn/ \$ 6,123m
Shares Outstanding	2,936m
3M Avg. Daily Value	Rs.2444.59m

Shareholding Pattern (%)

Promoter's	51.53
Foreign	16.51
Domestic Institution	20.21
Public & Others	11.73
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.1	16.8	18.6
Relative	1.9	11.4	10.7

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Volume growth & margin expansion to continue

Quick Pointers:

- Margin levers present for further margin expansion
- AL expects growth for the industry to continue in FY25 as well

We increase our FY24/FY25/FY26 EPS estimates by 2%/10%/4% to factor in 2QFY24 results and management commentary on volume and margin sustainability. Ashok Leyland's (AL) 2QFY24 EBITDA margin at 11.2% beat PLe (10.4%) on the back of lower COGS and employee expenses. AL aims to further build on the margins achieved in 1HFY24 and post higher margins in 2HFY24 thus giving us confidence in its medium term target of reaching mid-teen. Further, 2HFY24 volume should be better due to seasonality and draw further operating leverage given strong demand for the MHCV segment.

We believe AL is well placed to sustain its recent market share gains led by 1) strong demand for modular AVTR trucks, 2) network growth and 3) product launches. LCVs will benefit from filling of white space, growth in end markets and network growth. Price hike, benign input cost, operating leverage and cost control will lead to margin expansion (EBITDA margin +c390bps over FY23-26E). Maintain 'BUY' at TP of Rs 210 on Sep-25E EV/EBITDA of 11x (previous TP Rs. 220 at EV/EBITDA of 12x) (includes ~Rs 12 for HLF) we reduce the multiple to factor in entry into mid-cycle for the CV industry.

- Revenue inline; beat on EBITDA margins:** Revenue grew by 16.6% YoY, helped by volume growth of 10% and came largely in line of PLe and ~3% below Bloomberg consensus estimates (BBGe). EBITDA margins at 11.2% were above our (10.4%) and BBGe (10.9%) helped by improvement in COGS and staff costs. Other operating expenses were largely in line. Lower than expected depreciation and interest expenses and higher other income while partially offset by higher taxes, helped beat PAT vs PLe, but missed BBGe.
- Key takeaways: (1)** AL expects demand momentum to increase sequentially in 2HFY24 and has maintained its volume guidance of 8-10% for M&HCV and 4-5% for LCV. It noted continued growth trends for the industry in FY25 as well, however, will provide more precise numbers post 3QFY24. **(2)** AL's domestic MHCV market share has increased by 70bps QoQ to 31.9%, driven by continued network expansions and higher demand for tractor, trailer and tippers (driven by core sectors performance) wherein AL has higher market share and new launches which AL expects to continue. **(3)** Industry has seen improved profitability driven by lower steel prices, higher price realizations and operating leverage. Benign commodity prices, revenue mix and cost control efforts, further helped by ~1% ASP increase QoQ on an average should further increase margins. **(4)** AL noted that, inventory has increased to cater to festive season demands, it is not a major concern. **(5)** AL maintained it will invest Rs. 12bn in Optair (holdings co. of Switch UK and India) in tranches over next 3-6 months. Switch Mobility has an orderbook of 1.1k e-buses and LOIs for 10k+ e-LCVs (deliveries expected to start by 4QFY24). **(6)** Aftermarket sales grew by 35% YoY to Rs. 6.55bn. and Power Solutions business grew by 15% YoY. AL aims to scale up non-auto revenues like defense and others in the coming quarters.

Exhibit 1: 2QFY24 Result Overview (Rs m)

Y/e March	2QFY24	2QFY23	YoY gr. (%)	1QFY24	QoQ gr. (%)	1HFY24	1HFY23	YoY gr. (%)
Net Revenues	96,380	82,660	16.6	81,893	17.7	1,78,273	1,54,888	15.1
Raw Materials	70,866	64,466	9.9	60,372	17.4	1,31,237	1,21,746	7.8
<i>% of Net Sales</i>	<i>73.5</i>	<i>78.0</i>		<i>73.7</i>		<i>73.6</i>	<i>78.6</i>	
Personnel	5,728	5,271	8.7	5,376	6.6	11,104	9,725	14.2
<i>% of Net Sales</i>	<i>5.9</i>	<i>6.4</i>		<i>6.6</i>		<i>6.2</i>	<i>6.3</i>	
Manufacturing & Other Exp	8,989	7,550	19.1	7,938	13.2	16,927	14,841	14.1
<i>% of Net Sales</i>	<i>9.3</i>	<i>9.1</i>		<i>9.7</i>		<i>9.5</i>	<i>9.6</i>	
Total Expenditure	85,583	77,286	10.7	73,685	16.1	1,59,268	1,46,312	8.9
EBITDA	10,798	5,373	101.0	8,207	31.6	19,005	8,576	121.6
<i>EBITDA Margin (%)</i>	<i>11.2</i>	<i>6.5</i>		<i>10.0</i>		<i>10.7</i>	<i>5.5</i>	
Depreciation	1,803	1,768	2.0	1,794	0.5	3,597	3,592	0.1
EBIT	8,995	3,605	149.5	6,414	40.2	15,409	4,984	209.1
Interest Expenses	587	771	(23.8)	699	(16.0)	1,286	1,459	(11.9)
Non-operating income	475	200	137.4	512	(7.3)	986	456	116.2
Extraordinary items	(229)	82		1,744		1,515	212	
PBT	8,654	3,117	177.6	7,971	8.6	16,625	4,194	296.4
Tax-Total	3,044	1,124	170.8	2,207	37.9	5,251	1,520	245.4
<i>Tax Rate (%) - Total</i>	<i>35.2</i>	<i>36.1</i>	<i>(2.5)</i>	<i>27.7</i>		<i>31.6</i>	<i>36.2</i>	<i>(12.9)</i>
Reported PAT	5,610	1,993	181.5	5,764	(2.7)	11,374	2,674	325.4
Adj. PAT	5,782	1,931	199.4	4,456	29.7	10,238	2,514	307.2
<i>PAT Margin (%)</i>	<i>6.0</i>	<i>2.3</i>		<i>5.4</i>		<i>5.7</i>	<i>1.6</i>	

Source: Company, PL

Exhibit 2: Operating Metrics – Realisation grew by 6% YoY

Y/e March	2QFY24	2QFY23	YoY gr. (%)	1QFY24	QoQ gr. (%)	1HFY24	1HFY23	YoY gr. (%)
Sales Volume (nos)	49,846	45,295	10.0	41,329	20.6	91,175	84,946	7.3
Net Realisation/Vehicle	19,33,563	18,24,914	6.0	19,81,488	(2.4)	19,55,287	18,23,370	7.2
Material cost / vehicle	14,21,689	14,23,243	(0.1)	14,60,754	(2.7)	14,39,397	14,33,220	0.4
Gross Profit / vehicle	5,11,875	4,01,671	27.4	5,20,734	(1.7)	5,15,890	3,90,150	32.2
Employee cost /vehicle	1,14,920	1,16,359	(1.2)	1,30,068	(11.6)	1,21,787	1,14,480	6.4
Other expenses / vehicle	1,80,329	1,66,681	8.2	1,92,076	(6.1)	1,85,654	1,74,710	6.3
EBITDA/vehicle	2,16,625	1,18,631	82.6	1,98,589	9.1	2,08,450	1,00,961	106.5
Net Profit/vehicle	1,12,549	44,003	155.8	1,39,471	(19.3)	1,24,752	31,474	296.4

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	3,61,441	4,06,037	4,34,708	4,17,354
YoY gr. (%)	66.7	12.3	7.1	(4.0)
Cost of Goods Sold	2,78,492	3,00,061	3,19,945	3,06,338
Gross Profit	82,950	1,05,976	1,14,763	1,11,016
Margin (%)	22.9	26.1	26.4	26.6
Employee Cost	21,139	23,550	24,778	23,789
Other Expenses	32,504	36,543	38,689	37,144
EBITDA	29,307	45,882	51,296	50,082
YoY gr. (%)	194.7	56.6	11.8	(2.4)
Margin (%)	8.1	11.3	11.8	12.0
Depreciation and Amortization	7,320	7,342	8,567	9,016
EBIT	21,987	38,540	42,728	41,066
Margin (%)	6.1	9.5	9.8	9.8
Net Interest	2,891	2,483	2,483	2,483
Other Income	1,161	1,910	2,287	2,710
Profit Before Tax	21,104	36,452	42,533	41,293
Margin (%)	5.8	9.0	9.8	9.9
Total Tax	7,303	11,665	11,484	10,393
Effective tax rate (%)	34.6	32.0	27.0	25.2
Profit after tax	13,801	24,787	31,049	30,899
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	13,248	25,818	31,049	30,899
YoY gr. (%)	-	-	-	-
Margin (%)	3.7	6.4	7.1	7.4
Extra Ord. Income / (Exp)	553	(1,030)	-	-
Reported PAT	13,801	24,787	31,049	30,899
YoY gr. (%)	154.7	79.6	25.3	(0.5)
Margin (%)	3.8	6.1	7.1	7.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Equity Shares O/s (m)	2,936	2,936	2,936	2,936
EPS (Rs)	4.5	8.8	10.6	10.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	1,07,488	1,14,988	1,22,988	1,30,988
Tangibles	1,07,488	1,14,988	1,22,988	1,30,988
Intangibles	-	-	-	-
Acc: Dep / Amortization	48,946	56,288	64,855	73,871
Tangibles	48,946	56,288	64,855	73,871
Intangibles	-	-	-	-
Net fixed assets	58,543	58,701	58,134	57,117
Tangibles	58,543	58,701	58,134	57,117
Intangibles	-	-	-	-
Capital Work In Progress	1,325	1,325	1,325	1,325
Goodwill	4,499	4,499	4,499	4,499
Non-Current Investments	38,922	41,000	43,500	45,000
Net Deferred tax assets	(5,035)	(5,035)	(5,035)	(5,035)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	27,714	25,000	25,000	25,000
Inventories	27,745	33,373	35,729	34,303
Trade receivables	40,627	47,835	51,212	49,168
Cash & Bank Balance	5,013	14,886	25,433	36,683
Other Current Assets	21,529	24,758	28,472	32,743
Total Assets	2,25,916	2,51,376	2,73,304	2,85,838
Equity				
Equity Share Capital	2,936	2,936	2,936	2,936
Other Equity	81,322	93,158	1,07,130	1,21,035
Total Network	84,258	96,094	1,10,066	1,23,971
Non-Current Liabilities				
Long Term borrowings	17,973	17,973	17,973	17,973
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	14,276	14,276	14,276	14,276
Trade payables	71,751	83,432	89,324	85,758
Other current liabilities	32,624	34,566	36,631	38,826
Total Equity & Liabilities	2,25,916	2,51,376	2,73,304	2,85,838

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	21,104	36,452	42,533	41,293
Add. Depreciation	7,320	7,342	8,567	9,016
Add. Interest	2,891	2,483	2,483	2,483
Less Financial Other Income	1,161	1,910	2,287	2,710
Add. Other	(1,161)	(1,910)	(2,287)	(2,710)
Op. profit before WC changes	30,153	44,367	51,296	50,082
Net Changes-WC	(1,792)	(2,441)	(1,492)	(2,171)
Direct tax	(3,711)	(11,665)	(11,484)	(10,393)
Net cash from Op. activities	24,650	30,261	38,320	37,518
Capital expenditures	(3,735)	(7,500)	(8,000)	(8,000)
Interest / Dividend Income	-	-	-	-
Others	(2,545)	(168)	(213)	1,210
Net Cash from Invt. activities	(6,279)	(7,668)	(8,213)	(6,790)
Issue of share cap. / premium	4,233	1,515	-	-
Debt changes	(3,291)	-	-	-
Dividend paid	(7,145)	(14,466)	(17,077)	(16,995)
Interest paid	(2,891)	(2,483)	(2,483)	(2,483)
Others	-	-	-	-
Net cash from Fin. activities	(9,094)	(15,434)	(19,560)	(19,478)
Net change in cash	9,277	7,159	10,547	11,250
Free Cash Flow	20,915	22,761	30,320	29,518

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	90,297	1,16,257	81,893	96,380
YoY gr. (%)	63.1	33.0	13.4	16.6
Raw Material Expenses	68,859	87,887	60,372	70,866
Gross Profit	21,438	28,370	21,521	25,515
Margin (%)	23.7	24.4	26.3	26.5
EBITDA	7,973	12,757	8,207	10,798
YoY gr. (%)	256.1	64.4	156.3	101.0
Margin (%)	8.8	11.0	10.0	11.2
Depreciation / Depletion	1,890	1,838	1,794	1,803
EBIT	6,084	10,919	6,414	8,995
Margin (%)	6.7	9.4	7.8	9.3
Net Interest	804	628	699	587
Other Income	316	389	512	475
Profit before Tax	5,665	11,245	7,971	8,654
Margin (%)	6.3	9.7	9.7	9.0
Total Tax	2,052	3,731	2,207	3,044
Effective tax rate (%)	36.2	33.2	27.7	35.2
Profit after Tax	3,613	7,514	5,764	5,610
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,569	7,137	4,503	5,758
YoY gr. (%)	(11,289.3)	49.6	652.7	196.8
Margin (%)	4.0	6.1	5.5	6.0
Extra Ord. Income / (Exp)	69	564	1,744	(229)
Reported PAT	3,613	7,514	5,764	5,610
YoY gr. (%)	6,151.6	(16.6)	747.1	181.5
Margin (%)	4.0	6.5	7.0	5.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Avg. Shares O/s (m)	2,936	2,936	2,936	2,936
EPS (Rs)	1.2	2.4	1.5	2.0

Source: Company Data, PL Research

Key Financial Metrics

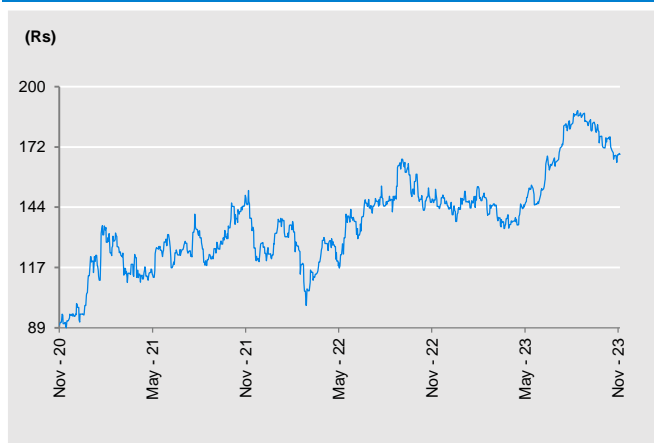
Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	4.5	8.8	10.6	10.5
CEPS	7.0	11.3	13.5	13.6
BVPS	28.7	32.7	37.5	42.2
FCF	7.1	7.8	10.3	10.1
DPS	2.4	4.9	5.8	5.8
Return Ratio(%)				
RoCE	19.5	31.5	31.6	27.5
ROIC	18.0	31.8	36.7	35.1
RoE	16.8	28.6	30.1	26.4
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.1)	(0.2)	(0.2)
Net Working Capital (Days)	(26)	(23)	(23)	(25)
Valuation(x)				
PER	38.5	19.8	16.4	16.5
P/B	6.1	5.3	4.6	4.1
P/CEPS	24.8	15.4	12.9	12.8
EV/EBITDA	17.4	11.0	9.6	9.6
EV/Sales	1.4	1.2	1.1	1.2
Dividend Yield (%)	1.4	2.8	3.3	3.3

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
MHCV volumes (in units)	1,24,109	1,35,489	1,42,901	1,32,115
LCV volumes (in units)	68,096	71,160	74,007	70,306
Total volumes (in units)	1,92,205	2,06,649	2,16,907	2,02,421
Average realisation (Rs/unit)	18,80,499	19,64,862	20,04,120	20,61,806

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Oct-23	BUY	220	172
2	25-Jul-23	BUY	225	182
3	07-Jul-23	BUY	215	165
4	16-Jun-23	BUY	215	157
5	25-May-23	BUY	215	150
6	12-Apr-23	BUY	200	138
7	02-Feb-23	BUY	200	152
8	05-Jan-23	BUY	200	146
9	14-Nov-22	BUY	200	148

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	220	172
2	Bajaj Auto	Reduce	4,800	5,144
3	Bharat Forge	BUY	1,170	1,076
4	CEAT	Accumulate	2,515	2,195
5	Eicher Motors	Accumulate	3,730	3,450
6	Endurance Technologies	Accumulate	1,755	1,624
7	Exide Industries	Accumulate	295	266
8	Hero Motocorp	Accumulate	3,575	3,052
9	Mahindra & Mahindra	BUY	1,740	1,524
10	Maruti Suzuki	BUY	12,485	10,561
11	Tata Motors	BUY	785	636
12	TVS Motor Company	Accumulate	1,650	1,609

PL's Recommendation Nomenclature (Absolute Performance)

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



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