

HOLD Ashok Leyland**Mixed Q2; growth outlook moderating**

Auto & Auto Ancillaries ▶ Result Update ▶ November 12, 2023

TARGET PRICE (Rs): 180

AL's Q2 revenues were below estimates, with margins in-line (up by 118bps QoQ to 11.2%, on operating leverage benefits). We continue to believe that while the domestic CV industry would scale a fresh peak in FY24E, the best of the current upcycle may be behind (with trucking system capacity up 40-50% now vs. FY19, similar to increases seen in the past two upcycles). Further, while AL's relative outperformance is likely to endure (better growth in higher-tonnage categories, buses, new products, etc), current valuations (~1SD above LTA on P/B basis) leave risk-reward balanced. We raise FY25E/FY26E EPS by ~7% each (on shift to 25% tax rate) and retain our HOLD rating with a revised down TP of Rs180/share (9x FY26E core EV/EBITDA, rolled over + 20% discount on 1x FY23 P/B for subsidiary Hinduja Leyland Finance).

Ashok Leyland: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	2,16,883	3,61,441	4,07,519	4,39,404	4,61,936
EBITDA	9,945	29,307	48,120	52,290	55,420
Adj. PAT	310	12,955	27,531	32,344	34,377
Adj. EPS (Rs)	0.1	4.4	9.4	11.0	11.7
EBITDA margin (%)	4.6	8.1	11.8	11.9	12.0
EBITDA growth (%)	85.8	194.7	64.2	8.7	6.0
Adj. EPS growth (%)	0.0	157.5	97.3	17.5	6.3
RoE (%)	0.4	16.4	30.7	31.8	29.9
RoIC (%)	7.5	27.8	55.1	62.1	68.3
P/E (x)	1,645.8	39.4	18.5	15.8	14.8
EV/EBITDA (x)	52.9	17.4	10.7	9.7	9.0
P/B (x)	7.0	6.1	5.4	4.7	4.2
FCFF yield (%)	4.5	3.4	2.9	6.8	7.4

Source: Company, Emkay Research

Revenues below estimates; margins in-line

Revenues grew ~17% YoY (up 18% QoQ) to Rs96bn (below estimates), despite volume growth of 20% sequentially to 49,846 units, amid realization de-growth of ~2% QoQ to ~Rs1,933K/unit. EBITDA grew 32% QoQ to Rs10.8bn; EBITDA margin expanded by 118bps QoQ to 11.2% (in-line). Margins were higher sequentially, largely driven by operating leverage. Overall, adjusted profit stood at Rs5.8bn (Emkay est.: Rs6.1bn; Consensus est.: Rs6.2bn), slightly below estimates mainly due to miss on revenues.

Earnings call KTAs

1) Expects the domestic M&HCV industry to remain strong for the rest of the year and next year, driven by healthy replacement demand and favorable macros; retains M&HCV industry growth guidance of 8-10% (grew ~10% YTD); no guidance for FY25E; LCV industry seen growing ~4-5% (vs. ~3% growth YTD). 2) Seeing softening of steel prices (major contributor to the RM basket); this, along with focus on cost controls (e.g., saved ~Rs6bn in costs during FY23; targeting similar quantum going ahead), to help improve margins further. 3) AL has approved equity infusion of Rs12bn in Switch (EV arm) over the coming 3-6 months; Switch has an order-book of over 1,100 e-buses, and has received letters of intent for over 10K e-LCVs; would introduce e-LCV in Q4. 4) Lower discounts have aided improved price realization across M&HCVs and LCVs; expects the trend to continue; could raise prices by ~1-1.5% in Q3FY24. 5) Would move to 25% tax rate from FY25E onwards; AL had an adjustment to the tune of Rs1.75bn, in deferred tax. 6) H1 capex stood at Rs2bn; full-year capex would be up to Rs6bn. 7) Defence business can clock ~Rs8-10bn revenues in FY24 (vs. ~Rs3bn domestic revenues in H1); the vertical has a strong pipeline with strong growth outlook for the next year as well. 8) Subsidiary Hinduja Leyland Finance may possibly get listed in Q4; currently has an order-book size of Rs420bn.

Target Price – 12M	Sep-24
Change in TP (%)	(4.5)
Current Reco.	HOLD
Previous Reco.	HOLD
Upside/(Downside) (%)	3.3
CMP (10-Nov-23) (Rs)	173.8

Stock Data	Ticker
52-week High (Rs)	192
52-week Low (Rs)	133
Shares outstanding (mn)	2,936.1
Market-cap (Rs bn)	510
Market-cap (USD mn)	6,123
Net-debt, FY24E (Rs mn)	6,400
ADTV-3M (mn shares)	13
ADTV-3M (Rs mn)	2,444.6
ADTV-3M (USD mn)	29.3
Free float (%)	48.5
Nifty-50	19,425
INR/USD	83.3
Shareholding, Sep-23	
Promoters (%)	51.1
FPIs/MFs (%)	20.1/16.4

Price Performance

(%)	1M	3M	12M
Absolute	0.1	(6.7)	18.6
Rel. to Nifty	1.5	(6.1)	10.0

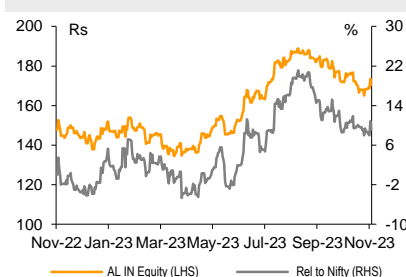
1-Year share price trend (Rs)**Chirag Jain**chirag.jain@emkayglobal.com
+91 22 6624 2428**Jaimin Desai**jaimin.desai@emkayglobal.com
+91 22 6612 1334**Vijay Naraharisetty**vijay.naraharisetty@emkayglobal.com
+91 22 6612 1306

Exhibit 1: Q2FY24 snapshot – Revenues up ~16% YoY; margins up 118bps QoQ driven by operating leverage

(Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Revenue	72,229	82,660	90,297	1,16,257	81,893	96,380	16.6	17.7
Expenditure	69,026	77,286	82,323	1,03,499	73,685	85,583	10.7	16.1
as % of sales	95.6	93.5	91.2	89.0	90.0	88.8		
Consumption of RM	57,281	64,466	68,859	87,887	60,372	70,866	9.9	17.4
as % of sales	79.3	78.0	76.3	75.6	73.7	73.5		
Employee Cost	4,454	5,271	5,495	5,919	5,376	5,728	8.7	6.6
as % of sales	6.2	6.4	6.1	5.1	6.6	5.9		
Other expenditure	7,291	7,550	7,970	9,693	7,938	8,989	19.1	13.2
as % of sales	10.1	9.1	8.8	8.3	9.7	9.3		
EBITDA	3,203	5,373	7,973	12,757	8,208	10,798	101.0	31.6
EBITDA margin (%)	4.4	6.5	8.8	11.0	10.0	11.2		
Depreciation	1,824	1,768	1,890	1,838	1,794	1,803	2.0	0.5
EBIT	1,379	3,605	6,084	10,919	6,414	8,995	149.5	40.2
Other Income	256	200	316	389	512	475	137.4	(7.3)
Interest	689	771	804	628	699	587	(23.8)	(16.0)
PBT	946	3,035	5,596	10,681	6,227	8,883	192.7	42.6
Total Tax	396	1,124	2,052	3,731	457	3,044	170.8	566.1
Adjusted PAT	550	1,911	3,544	6,950	5,770	5,839	205.6	1.2
Extra ordinary items Loss/(Gain)	130	82	69	564	(6)	(229)	(378.0)	3,778.0
Reported PAT	681	1,993	3,613	7,514	5,764	5,610	181.5	(2.7)
Adjusted EPS (Rs)	0.2	0.7	1.2	2.4	2.0	2.0		
(%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (bps)	QoQ (bps)
EBITDA margin	4.4	6.5	8.8	11.0	10.0	11.2	470	118
EBIT margin	1.9	4.4	6.7	9.4	7.8	9.3	497	150
EBT margin	1.3	3.7	6.2	9.2	7.6	9.2	554	161
PAT margin	0.8	2.3	3.9	6.0	7.0	6.1	375	(99)
Effective Tax rate	41.8	37.0	36.7	34.9	7.3	34.3	(277)	2,693

Source: Company, Emkay Research

Exhibit 2: Actual vs. estimates

(Rs mn)	Actual	Emkay Est	Variance	Consensus	% Variance
Net sales	96,380	1,02,135	(5.6)	99,294	(2.9)
EBITDA	10,798	11,439	(5.6)	10,827	(0.3)
EBITDA margin (%)	11.2	11.2	0 bps	10.9	30 bps
Adj net income	5,839	6,094	(4.2)	6,193	(5.7)
FDEPS (Rs)	2.0	2.1	(4.2)	2.1	(5.7)

Source: Company, Bloomberg, Emkay Research

Exhibit 3: We build-in 9% revenue/38% PAT CAGR over FY23-26E

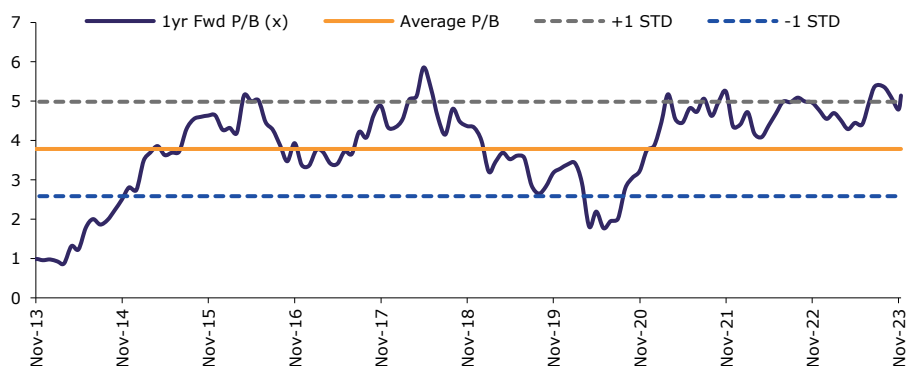
(Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Volumes (units)	1,25,240	1,00,677	1,28,326	1,92,205	2,06,100	2,19,559	2,28,045
Growth (%)	(36.5)	(19.6)	27.5	49.8	7.2	6.5	3.9
ASP (Rs/unit)	13,94,720	15,19,856	16,90,093	18,80,499	19,77,283	20,01,301	20,25,632
Growth (%)	(5.3)	9.0	11.2	11.3	5.1	1.2	1.2
Revenues	1,74,675	1,53,015	2,16,883	3,61,441	4,07,519	4,39,404	4,61,936
Growth (%)	(39.9)	(12.4)	41.7	66.7	12.7	7.8	5.1
EBITDA	11,737	5,351	9,945	29,307	48,120	52,290	55,420
EBITDA margin (%)	6.7	3.5	4.6	8.1	11.8	11.9	12.0
EBITDA growth (%)	(62.6)	(54.4)	85.8	194.7	64.2	8.7	6.0
EBITDA/unit (Rs)	93,712	53,154	77,499	1,52,478	2,33,479	2,38,157	2,43,023
EBIT	5,348	(1,945)	2,826	22,444	40,639	44,222	46,748
EBIT margin (%)	3.1	(1.3)	1.3	6.2	10.0	10.1	10.1
PBT	5,177	(3,999)	168	20,258	39,290	43,095	45,706
Tax	1,452	(982)	(142)	7,303	11,787	12,928	13,712
Tax rate (%)	38	24	(3)	34	30	30	30
PAT	3,726	(3,016)	310	12,955	27,503	30,166	31,994
EPS (Rs)	1.3	(1.0)	0.1	4.4	9.4	10.3	10.9

Source: Company, Emkay Research

Exhibit 4: We raise FY25E/FY26E EPS by ~7% each, driven by shift to 25% tax rate

(Rs mn)	FY24E				FY25E				FY26E			
	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY
Volume	2,06,100	2,06,100	0.0	7.2	2,19,559	2,19,559	-	6.5	2,28,045	2,28,045	-	3.9
Revenue	4,07,519	4,07,519	(0.0)	12.7	4,39,404	4,39,404	-	7.8	4,61,936	4,61,936	-	5.1
EBITDA	48,120	48,120	-	64.2	52,290	52,290	-	8.7	55,420	55,420	-	6.0
EBITDA margin (%)	11.8	11.8	0 bps	370 bps	11.9	11.9	0 bps	9 bps	12.0	12.0	0 bps	10 bps
Adj PAT	27,503	27,531	0.1	112.5	30,166	32,344	7.2	17.5	31,994	34,377	7.4	6.3
EPS (Rs)	9.4	9.4	0.1	112.5	10.3	11.0	7.2	17.5	10.9	11.7	7.4	6.3

Source: Company, Emkay Research

Exhibit 5: AL trades near the 1SD above LTA on 1Y forward P/B basis

Source: Company, Emkay Research

Ashok Leyland: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	2,16,883	3,61,441	4,07,519	4,39,404	4,61,936
Revenue growth (%)	41.7	66.7	12.7	7.8	5.1
EBITDA	9,945	29,307	48,120	52,290	55,420
EBITDA growth (%)	85.8	194.7	64.2	8.7	6.0
Depreciation & Amortization	7,528	7,320	7,852	8,291	8,753
EBIT	2,418	21,987	40,268	43,998	46,668
EBIT growth (%)	0.0	809.5	83.1	9.3	6.1
Other operating income	0	0	0	0	0
Other income	761	1,161	1,729	1,754	1,786
Financial expense	3,011	2,891	2,667	2,511	2,495
PBT	168	20,258	39,330	43,241	45,959
Extraordinary items	0	0	0	0	0
Taxes	(142)	7,303	11,799	10,897	11,582
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	5,418	13,953	27,531	32,344	34,377
PAT growth (%)	0.0	157.5	97.3	17.5	6.3
Adjusted PAT	310	12,955	27,531	32,344	34,377
Diluted EPS (Rs)	0.1	4.4	9.4	11.0	11.7
Diluted EPS growth (%)	0.0	157.5	97.3	17.5	6.3
DPS (Rs)	1.0	2.6	5.6	6.6	7.0
Dividend payout (%)	54.2	54.7	60.0	60.0	60.0
EBITDA margin (%)	4.6	8.1	11.8	11.9	12.0
EBIT margin (%)	1.1	6.1	9.9	10.0	10.1
Effective tax rate (%)	(84.7)	36.0	30.0	25.2	25.2
NOPLAT (pre-IndAS)	4,466	14,061	28,188	32,911	34,907
Shares outstanding (mn)	2,935.5	2,936.1	2,936.1	2,936.1	2,936.1

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	168	20,258	39,330	43,241	45,959
Others (non-cash items)	13,012	2,263	3,155	8,982	10,798
Taxes paid	714	(4,002)	(11,838)	(10,940)	(11,628)
Change in NWC	7,467	1,995	(9,671)	(539)	(1,662)
Operating cash flow	26,469	21,360	20,975	40,745	43,468
Capital expenditure	(2,957)	(4,257)	(6,000)	(6,500)	(6,875)
Acquisition of business	(11,974)	(13,537)	0	(5,000)	(5,000)
Interest & dividend income	342	448	0	0	0
Investing cash flow	(14,589)	(17,345)	(6,000)	(11,500)	(11,875)
Equity raised/(repaid)	0	1	0	0	0
Debt raised/(repaid)	1,555	(7,167)	124	(1,081)	676
Payment of lease liabilities	(153)	(177)	0	0	0
Interest paid	(3,011)	(2,891)	(2,667)	(2,511)	(2,495)
Dividend paid (incl tax)	(2,936)	(7,634)	(16,519)	(19,407)	(20,626)
Others	(5,095)	8,396	8,885	2,888	1,220
Financing cash flow	(9,640)	(9,472)	(10,176)	(20,111)	(21,225)
Net chg in Cash	2,240	(5,457)	4,798	9,134	10,367
OCF	26,469	21,360	20,975	40,745	43,468
Adj. OCF (w/o NWC chg.)	19,002	19,365	30,646	41,283	45,129
FCFF	23,512	17,104	14,975	34,245	36,593
FCFE	20,843	14,660	12,308	31,734	34,098
OCF/EBITDA (%)	266.2	72.9	43.6	77.9	78.4
FCFE/PAT (%)	384.7	105.1	44.7	98.1	99.2
FCFF/NOPLAT (%)	526.4	121.6	53.1	104.1	104.8

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	2,936	2,936	2,936	2,936	2,936
Reserves & Surplus	70,434	81,322	92,334	1,05,272	1,19,023
Net worth	73,369	84,258	95,270	1,08,208	1,21,959
Minority interests	0	0	0	0	0
Deferred tax liability (net)	1,444	5,035	4,996	4,953	4,907
Total debt	38,968	31,801	31,925	30,844	31,520
Total liabilities & equity	1,13,780	1,21,094	1,32,192	1,44,005	1,58,386
Net tangible fixed assets	49,771	47,479	45,452	43,536	41,283
Net intangible assets	8,773	8,694	8,694	8,694	8,694
Net ROU assets	2,966	2,370	2,370	2,370	2,370
Capital WIP	1,943	1,325	1,500	1,625	2,000
Goodwill	4,499	4,499	4,499	4,499	4,499
Investments [JV/Associates]	35,216	38,922	50,922	55,922	60,922
Cash & equivalents	23,450	32,727	25,526	34,660	45,027
Current assets (ex-cash)	76,084	89,182	1,10,549	1,19,198	1,25,311
Current Liab. & Prov.	88,921	1,04,103	1,17,319	1,26,499	1,31,720
NWC (ex-cash)	(12,837)	(14,922)	(6,771)	(7,300)	(6,409)
Total assets	1,13,780	1,21,094	1,32,192	1,44,005	1,58,386
Net debt	15,518	(926)	6,400	(3,815)	(13,507)
Capital employed	1,13,780	1,21,094	1,32,192	1,44,005	1,58,386
Invested capital	53,172	48,120	54,244	51,799	50,437
BVPS (Rs)	25.0	28.7	32.4	36.9	41.5
Net Debt/Equity (x)	0.2	0.0	0.1	0.0	(0.1)
Net Debt/EBITDA (x)	1.6	0.0	0.1	(0.1)	(0.2)
Interest coverage (x)	0.9	0.1	0.1	0.1	0.1
RoCE (%)	2.1	14.8	24.9	24.8	24.0

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	1,645.8	39.4	18.5	15.8	14.8
P/CE(x)	65.1	25.2	14.4	12.6	11.8
P/B (x)	7.0	6.1	5.4	4.7	4.2
EV/Sales (x)	2.4	1.4	1.3	1.2	1.1
EV/EBITDA (x)	52.9	17.4	10.7	9.7	9.0
EV/EBIT(x)	217.5	23.2	12.8	11.5	10.6
EV/IC (x)	9.9	10.6	9.5	9.8	9.8
FCFF yield (%)	4.5	3.4	2.9	6.8	7.4
FCFE yield (%)	4.1	2.9	2.4	6.2	6.7
Dividend yield (%)	0.6	1.5	3.2	3.8	4.0
DuPont-RoE split					
Net profit margin (%)	0.1	3.6	6.8	7.4	7.4
Total asset turnover (x)	1.9	3.1	3.2	3.2	3.1
Assets/Equity (x)	1.6	1.5	1.4	1.4	1.3
RoE (%)	0.4	16.4	30.7	31.8	29.9
DuPont-RoIC					
NOPLAT margin (%)	2.1	3.9	6.9	7.5	7.6
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	7.5	27.8	55.1	62.1	68.3
Operating metrics					
Core NWC days	(21.6)	(15.1)	(6.1)	(6.1)	(5.1)
Total NWC days	(21.6)	(15.1)	(6.1)	(6.1)	(5.1)
Fixed asset turnover	2.0	3.3	3.6	3.6	3.6
Opex-to-revenue (%)	18.1	14.8	14.6	14.5	14.5

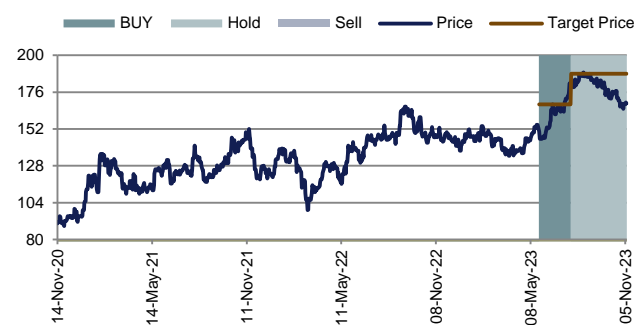
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
24-Jul-23	182	188	Hold	Chirag Jain
16-Jun-23	164	168	Buy	Chirag Jain
24-May-23	150	168	Buy	Chirag Jain

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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