SELL (Downgrade from HOLD)

CMP: **INR 176** Target Price: **INR 140 (INR 177)** ▲ -20%

ICICI Securities

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17 April 2024

India | Equity Research | Company Update

Ashok Leyland

Automotives

Demand consolidation phase currently prior to downcycle

Post recovering ~120% in volume terms from the lows of FY21, domestic goods M&HCV market is currently up ~20-25% above its tonnage-adjusted incremental supply level in the previous peak of FY19. We are building in flat volume for domestic goods M&HCV industry in FY25E, followed by a year of ~10% decline in FY26E. In line with industry decline, we are building in goods M&HCV volume decline of 10% for AL in FY26E, post remaining flat in FY24-25E. We are building in EBITDAM for AL in FY26E at 8% vs 10.5% in FY25E, on the back of adverse operating leverage and potential pressure on pricing. We downgrade AL to **SELL** from *Hold*, with a revised DCF-based TP of INR 140 (earlier INR 177), implying 12x FY26E EV/EBITDA. Change in TP is primarily due to valuation rollover to a weaker FY26.

Rationale for our rating downgrade

- With tonnage adjusted goods M&HCV volume for the industry being 20-25% higher in FY25E vs previous peak of FY19, we are building in industry volume decline of ~10% in FY26E. Additionally, historical data suggests, even with mid-single digit growth rates in key segments like mining, manufacturing and construction segments of economy, CV cycle characteristics remain unperturbed, as the system is catered by ~15-18yrs of CV population and not just one year of new truck sales.
- Keeping market share unchanged from current levels, we expect AL goods M&HCV volume to fall in sync with industry in FY26 and correspondingly impact its operating leverage. Lower demand impacting pricing power of OEMs would also impact EBITDAM during downcycle period. Historically, EBITDAM for AL across the cycle has ranged between 5-7% on the lower side (barring outliers) and ~11-12% on the higher side. Thus, we believe, there is scope of 400-500bps of margin erosion from present peak, spread across FY25-27E. Thus, volume decline and margin erosion would result in EBITDA declining by ~30% over FY24-26E.
- As per DCF methodology, the TP has been reduced to INR 140 (from INR 177), implying FY26E EV/EBITDA of ~12x. Going by the historical valuation band of AL, it trades at 9-10x on the lower side to 11-12x on the higher side at steady state. Thus, with limited scope for further re-rating, we downgrade AL to **SELL** from *Hold*, mainly due to valuation rolling over to weaker FY26.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	3,61,441	3,81,999	4,04,385	3,95,687
EBITDA	29,307	45,015	42,473	31,655
EBITDA %	8.1	11.8	10.5	8.0
Net Profit	12,955	26,828	25,353	17,252
EPS (INR)	4.4	9.1	8.6	5.9
EPS % Chg YoY	4,079.0	107.1	(5.5)	(32.0)
P/E (x)	39.9	19.3	20.4	30.1
EV/EBITDA (x)	18.8	12.0	12.5	16.3
RoCE (%)	12.1	22.6	18.3	11.5
RoE (%)	17.5	29.1	23.3	14.4

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Market Data

Market Cap (INR)	517bn
Market Cap (USD)	6,188mn
Bloomberg Code	AL IN
Reuters Code	ASOK.BO
52-week Range (INR)	192 /136
Free Float (%)	49.0
ADTV-3M (mn) (USD)	34.8

Price Performance (%)	3m	6m	12m
Absolute	0.5	(0.1)	27.7
Relative to Sensex	0.7	(10.3)	7.0

Previous Reports

12-11-2023: Q2FY24 results review

25-07-2023: Q1FY24 results review

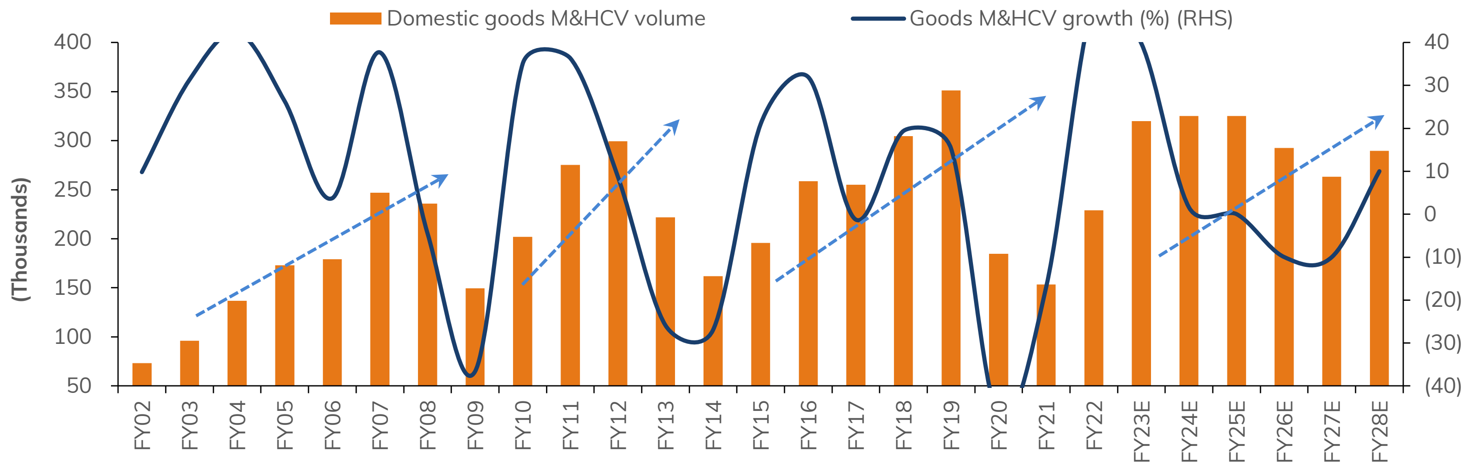
Expecting CV down cycle to kickstart from FY26

Industry undergoing consolidation in FY24-25 prior to down cycle

Goods M&HCVs on tonnage adjusted basis already ~20-25% higher vs FY19 peak

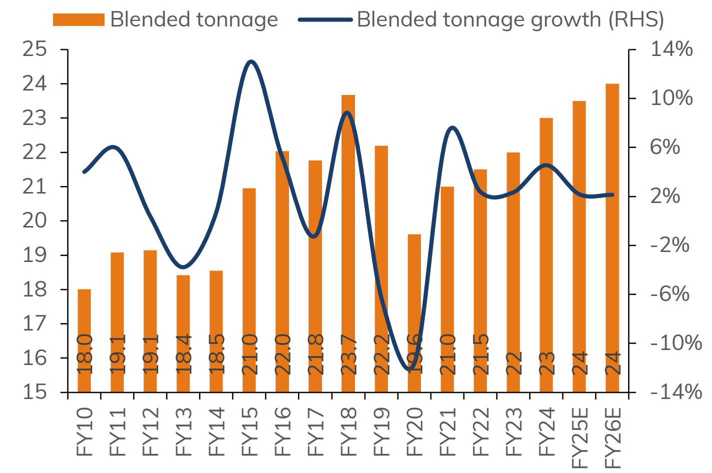
We believe domestic CV cycle has already peaked out in FY24 and would undergo correction in FY26-27E as already on a tonnage adjusted basis new truck supply is ~20-25% higher than the previous cycle peak in FY19. In FY24, industry stayed flat on the back of H2FY24 getting impacted by central and state elections other than elevated base due to BS-6 phase 2 transition in FY23 end and we expect this to remain flat in FY25E. As per our interactions with fleet owners, purchase of new trucks has been subdued since Oct'23 with incremental demand, if any, being met through the purchase of 3-4 years used trucks. Freight rates, too, are sticky in nature now and fleet owners are finding it tough to pass on the cost inflation drivers with ease in the system. Historical CV cycle data analysis suggests tonnage adjusted cycle to cycle peak being ~20% higher is spread across a period of 5-6 years. Thus, from FY19 peak levels, we expect incremental supply to peak in FY25E, with supply being ~20-25% higher vs FY19 levels. We are subsequently building in ~10% industry level decline in FY26E.

Exhibit 1: On tonnage adjusted basis, domestic goods M&HCV market would be ~20-25% higher vs FY19 peak



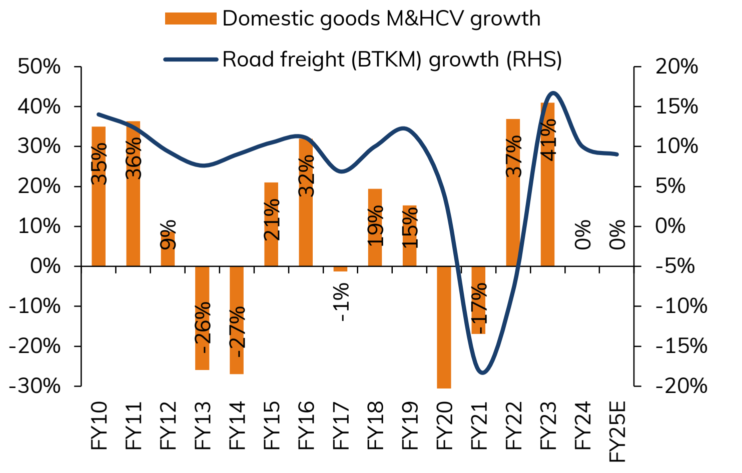
Source: I-Sec research, SIAM

Exhibit 2: Blended GVW of new trucks sold up ~20% in FY19-24



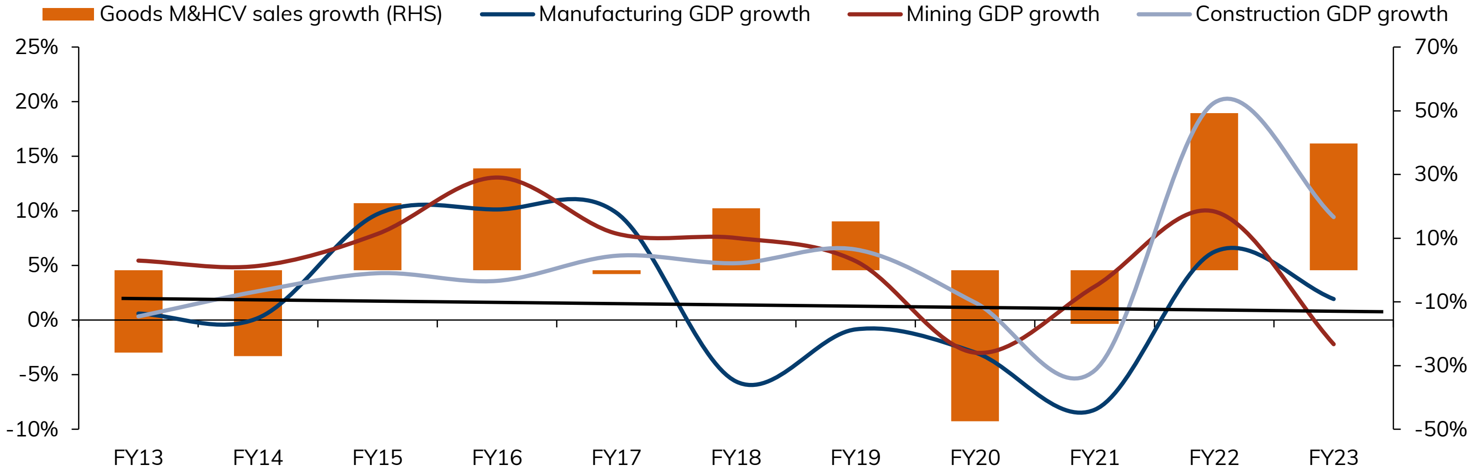
Source: I-Sec research, SIAM

Exhibit 3: Road freight growth trend much more stable vs new trucks sold annually



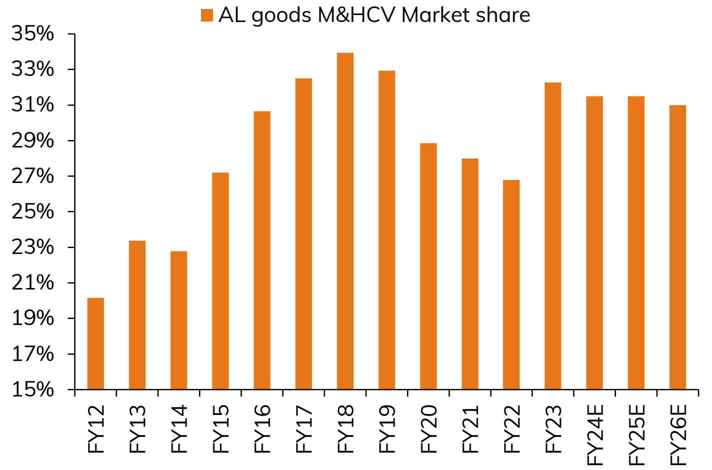
Source: I-Sec research, SIAM, MORTH

Exhibit 4: Core sectors driving truck demand like manufacturing, mining and construction growth are coming down from elevated levels in FY22 and normalising down towards mid to high single digit growth levels currently



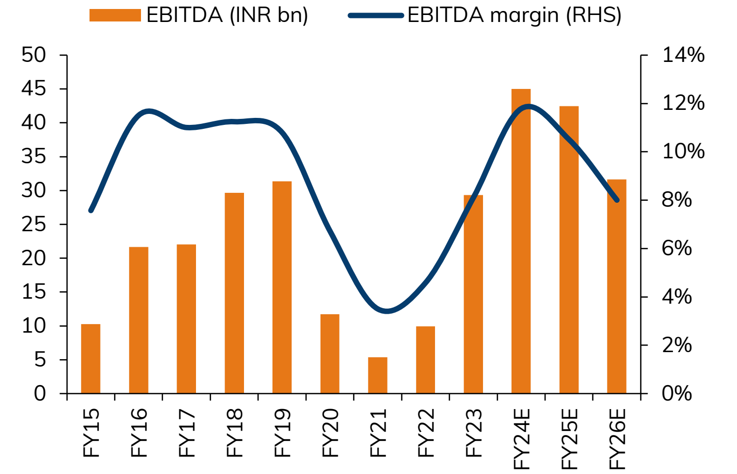
Source: I-Sec research, MOSPI

Exhibit 5: We expect market share to remain steady for AL in goods M&HCVs over FY24-26E



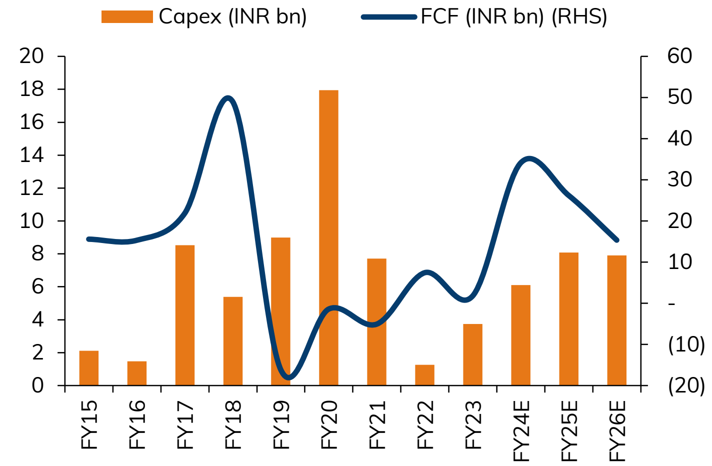
Source: I-Sec research, Company data

Exhibit 6: We expect AL's EBITDAM to succumb to adverse operating leverage in FY26E vs present 11-12% levels



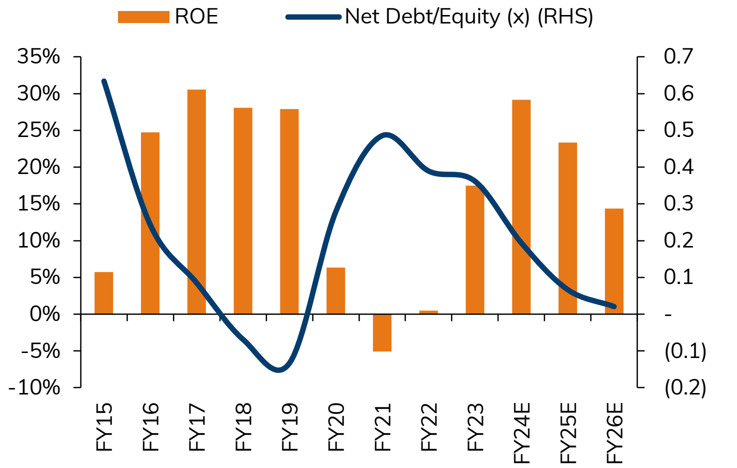
Source: I-Sec research, Company data

Exhibit 7: Steady capex and declining OCF driven by lower volume to impact FCF in FY26E



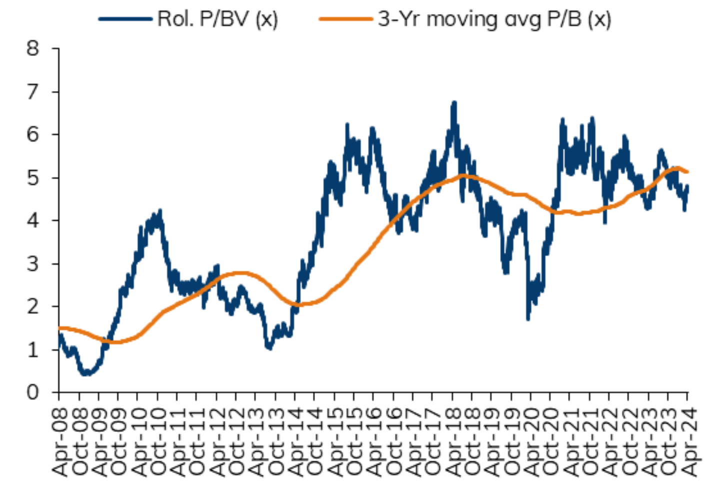
Source: I-Sec research, Company data

Exhibit 8: Healthy balance sheet to help AL manage down cycle with mid –teen RoE and nil net-debt/equity



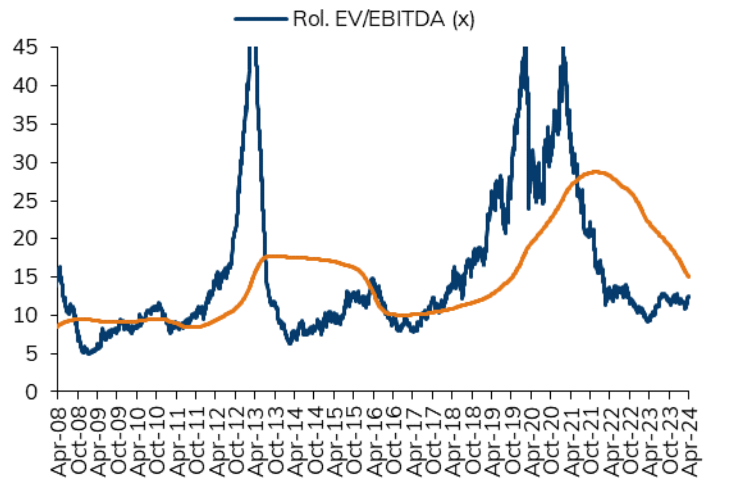
Source: I-Sec research, Company data

Exhibit 9: Three-year moving P/B



Source: I-Sec research, Company data

Exhibit 10: Three-year moving EV/EBITDA



Source: I-Sec research, Company data

Exhibit 11: Estimates revision

-	FY25E			FY26E
	Old	Revised	% change	Introducing
Volume (units)	2,21,377	1,91,206	-13.6%	1,76,508
Revenue (INR mn)	4,47,640	4,04,385	-9.7%	3,95,687
EBITDA (INR mn)	49,254	42,473	-13.8%	31,655
EBITDA margin (%)	11.0%	10.5%	-50 bps	8.0%
PAT (INR mn)	30,361	25,353	-16.5%	17,252
EPS (INR)	10.3	8.6	-16.5%	5.9

Source: I-Sec research

Upside risks

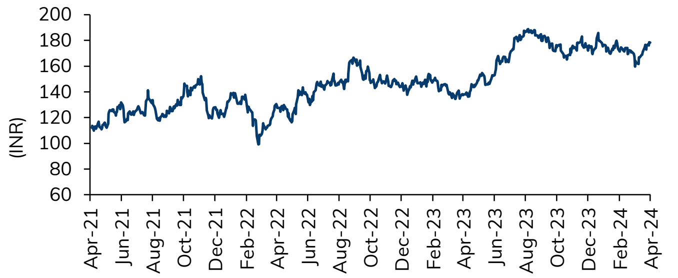
- Growth in domestic goods MHCVs in FY25 and FY26 driven by enhanced focus on capex cycle by the government post elections
- AL executing its target mid-teen margin ahead from current ~11-12% levels
- AL being able to sell stake in Switch Mobility down the line, thus helping it get back the INR 16bn paid from its standalone cashflow.

Exhibit 12: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	51.5	51.5	51.5
Institutional investors	36.7	35.2	32.2
MFs and others	10.1	9.8	7.8
FIs/Banks	0.0	0.0	0.3
Insurance	4.7	4.5	4.6
FIIs	21.9	20.9	21.5
Others	11.8	13.3	14.3

Source: Bloomberg, I-Sec research

Exhibit 13: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	**3,61,441**	**3,81,999**	**4,04,385**	**3,95,687**
Operating Expenses	53,643	57,361	62,667	71,224
EBITDA	**29,307**	**45,015**	**42,473**	**31,655**
EBITDA Margin (%)	8.1	11.8	10.5	8.0
Depreciation & Amortization	7,320	7,699	8,175	8,711
EBIT	21,987	37,316	34,298	22,944
Interest expenditure	2,891	2,546	1,744	1,744
Other Non-operating Income	1,161	1,000	1,250	1,500
Recurring PBT	**20,258**	**35,770**	**33,804**	**22,700**
Profit / Loss from Associates	-	-	-	-
Less: Taxes	7,303	8,943	8,451	5,448
PAT	12,955	26,828	25,353	17,252
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	846	-	-	-
Net Income (Reported)	**13,801**	**26,828**	**25,353**	**17,252**
Net Income (Adjusted)	**12,955**	**26,828**	**25,353**	**17,252**

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	1,22,628	1,31,621	1,49,724	1,51,588
of which cash & cash eqv.	5,013	3,939	14,560	19,331
Total Current Liabilities & Provisions	1,04,823	1,19,208	1,25,678	1,15,364
Net Current Assets	**17,804**	**12,413**	**24,046**	**36,224**
Investments	38,922	53,922	58,922	58,922
Net Fixed Assets	63,042	61,454	61,368	60,571
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,325	1,325	1,325	1,325
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	**1,21,093**	**1,29,114**	**1,45,661**	**1,57,042**
Liabilities				
Borrowings	31,801	21,801	21,801	21,801
Deferred Tax Liability	5,034	5,035	5,035	5,035
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	2,936	2,936	2,936	2,936
Reserves & Surplus	81,322	99,343	1,15,890	1,27,271
Total Net Worth	**84,257**	**1,02,278**	**1,18,825**	**1,30,206**
Minority Interest	-	-	-	-
Total Liabilities	**1,21,093**	**1,29,114**	**1,45,661**	**1,57,042**

Source Company data, I-Sec research

Exhibit 16: Quarterly trend

(INR mn, year ending March)

	Mar-23	Jun-23	Sep-23	Dec-23
Net sales	1,16,257	81,893	96,380	92,730
% growth (YoY)	33%	13%	17%	3%
EBITDA	12,757	8,207	10,798	11,139
Margin	11.0%	10.0%	11.2%	12.0%
Other income	389	512	475	300
Net profit	6,950	5,770	5,839	5,800

Source Company data, I-Sec research

Exhibit 17: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	**5,514**	**40,216**	**34,259**	**23,235**
Working Capital Changes	(21,243)	3,144	(1,013)	(4,471)
Capital Commitments	(3,735)	(6,112)	(8,088)	(7,914)
Free Cashflow	**1,779**	**34,104**	**26,171**	**15,322**
Other investing cashflow	(3,706)	(15,000)	(5,000)	-
Cashflow from Investing Activities	**(7,441)**	**(21,112)**	**(13,088)**	**(7,914)**
Issue of Share Capital	4,720	0	0	-
Interest Cost	(2,891)	(2,546)	(1,744)	(1,744)
Inc (Dec) in Borrowings	(3,270)	(10,000)	-	-
Dividend paid	(2,936)	(7,632)	(8,807)	(8,807)
Others	847	-	-	-
Cash flow from Financing Activities	**(3,530)**	**(20,178)**	**(10,551)**	**(10,551)**
Chg. in Cash & Bank balance	(5,456)	(1,074)	10,621	4,771
Closing cash & balance	5,013	3,939	14,560	19,331

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	4.4	9.1	8.6	5.9
Adjusted EPS (Diluted)	4.4	9.1	8.6	5.9
Cash EPS	6.9	11.8	11.4	8.8
Dividend per share (DPS)	2.6	3.0	3.0	2.0
Book Value per share (BV)	28.7	34.8	40.5	40.9
Dividend Payout (%)	55.3	32.8	34.7	34.0
Growth (%)				
Net Sales	66.7	5.7	5.9	(2.2)
EBITDA	194.7	53.6	(5.6)	(25.5)
EPS (INR)	4,079.0	107.1	(5.5)	(32.0)
Valuation Ratios (x)				
P/E	39.9	19.3	20.4	30.1
P/CEPS	25.5	15.0	15.4	20.0
P/BV	6.1	5.1	4.4	4.3
EV / EBITDA	18.8	12.0	12.5	16.3
EV / Sales	1.5	1.4	1.3	1.3
Profitability Ratios				
Gross Profit Margins (%)	22.9	26.8	26.0	26.0
EBITDA Margins (%)	8.1	11.8	10.5	8.0
EBIT Margins (%)	6.1	9.8	8.5	5.79
Net Profit Margins (%)	3.6	7.0	6.3	4.4
RoCE (%)	12.1	22.6	18.3	11.5
RoE (%)	17.5	29.1	23.3	14.4
Dividend Yield (%)	1.5	1.7	1.7	1.1
Operating Ratios				
Fixed Asset Turnover (x)	5.6	6.1	6.5	6.4
Inventory Turnover Days	12	9	9	8
Receivables Days	36	39	39	40
Payables Days	86	89	92	94
Effective Tax Rate (%)	36.0	25.0	25.0	24
Net Debt / Equity (x)	0.3	0.2	0.1	0.0
Net Debt / EBITDA (x)	0.9	0.4	0.2	0.0

Source Company data, I-Sec research

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