

November 11, 2024

Q2FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	240		257	
Sales (Rs. m)	4,22,466	4,52,556	4,50,496	4,80,498
% Chng.	(6.2)	(5.8)		
EBITDA (Rs. m)	52,386	56,569	59,916	63,906
% Chng.	(12.6)	(11.5)		
EPS (Rs.)	11.5	12.6	13.3	14.0
% Chng.	(13.7)	(10.4)		

Key Financials - Standalone

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	3,83,670	3,92,849	4,22,466	4,52,556
EBITDA (Rs. m)	46,066	46,749	52,386	56,569
Margin (%)	12.0	11.9	12.4	12.5
PAT (Rs. m)	26,826	29,808	33,665	36,877
EPS (Rs.)	9.1	10.2	11.5	12.6
Gr. (%)	102.5	11.1	12.9	9.5
DPS (Rs.)	5.1	5.6	6.3	6.9
Yield (%)	2.3	2.5	2.8	3.1
RoE (%)	31.1	31.4	30.8	29.5
RoCE (%)	34.2	34.0	34.7	34.2
EV/Sales (x)	1.7	1.6	1.5	1.4
EV/EBITDA (x)	13.8	13.6	11.9	10.9
PE (x)	24.3	21.9	19.4	17.7
P/BV (x)	7.4	6.4	5.6	4.9

Key Data

ASOK.BO | AL IN

52-W High / Low	Rs.265 / Rs.158
Sensex / Nifty	79,486 / 24,148
Market Cap	Rs.652bn / \$ 7,722m
Shares Outstanding	2,936m
3M Avg. Daily Value	Rs.2126.08m

Shareholding Pattern (%)

Promoter's	51.52
Foreign	22.03
Domestic Institution	14.19
Public & Others	12.26
Promoter Pledge (Rs bn)	22.10

Stock Performance (%)

	1M	6M	12M
Absolute	(0.3)	11.9	27.9
Relative	2.4	3.4	4.5

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Steady operational execution amidst seasonality

Quick Pointers:

- Maintains its EBITDA margin guidance of mid-teens in the near term
- Strong growth outlook in defense business in upcoming years

Ashok Leyland's Q2FY25 standalone revenue increased by 2% QoQ, 2%/3% lower than PLe/consensus estimates. Higher mix of LCVs in the volume led its ASP to decline by 1.9% QoQ. Gross profit increased by 5.6% QoQ while margin expanded by 99bps QoQ/235bps YoY to 28.8%, as a result of favorable input prices and cost cutting initiatives. EBITDA increased by 11.7% QoQ while margin expanded by 101bps QoQ/40bps YoY to 11.6%. PAT increased by 46.5% QoQ/37.3% YoY, boosted by high other income and exceptional gain on investment in subsidiary. Adjusting the exceptional item, PAT grew by 29.3% QoQ/17.5% YoY.

We cut our estimates by 7-14% over the forecasted period, largely on the account FY25 being affected by slowdown in overall infrastructure spending and fleet operating levels, impacting its volume growth and further its operational performance. The management expects H2FY25 volume growth to be healthy on the account of favorable base of last year. Despite pickup in H2FY25, we anticipate its volume to de-grow by 1.2% over last year. Pickup in infrastructure activities, capex from government and replacement demand could start a new upcycle in demand from FY26. Factoring this, we estimate its revenue/EBITDA/PAT to grow at a CAGR of 6%/7%/11% over FY24-27E and retain our "Accumulate" rating with a TP of Rs240 (previous Rs257), valuing its core business at 11.5x on Sept'26E EV/EBITDA and HLF at Rs16.

- **Miss on revenue estimates due higher LCV penetration:** Revenue came in at Rs87.7bn (PLe: Rs89.5bn; BBGe: Rs90.4bn), down by 9% YoY due to 8.5% decline in its volume. Higher mix of LCVs (38.2% vs 35.6% in Q2FY24) led its ASP to decline by 0.6% YoY to Rs 1.93mn (PLe: Rs1.96mn; BBGe: Rs 1.98mn). Other income increased by 2x while investment income from subsidiaries lifted its PAT higher by 37.3% YoY to Rs 7.7bn. APAT was at Rs 6.8bn, against PLe: Rs 6.5bn; BBGe: Rs 5.9bn.
- **Healthy expansion in material margin:** Gross profit came in at Rs 25.3bn (PLe: Rs 24.9bn), while margin expanded by 235bps YoY/90bps QoQ to 28.8% as a result of favorable steel prices and cost cutting initiatives. EBITDA came in at Rs 10.2bn (PLe: Rs 10.7bn; BBGe: Rs 10bn), and margin expanded by 40bps YoY/101bps QoQ to 11.6% (PLe: 12%; BBGe: 11.1%) as a consequence of better gross margin. Going ahead the management remains optimistic on delivering mid-teens margin which shall be driven by combination of product mix, discipline on discounts and cost cutting measures.

Exhibit 1: Q2FY25 Result Overview (Rs mn)

Y/e March	Q2FY25	Q2FY24	YoY gr. (%)	Q2FY25E	Var (%)	Q1FY25	QoQ gr. (%)	H1FY25	H1FY24	YoY gr. (%)
Net Revenues	87,688	96,380	(9.0)	89,540	(2.1)	85,985	2.0	1,73,674	1,78,273	(2.6)
Raw Materials	62,410	70,866	(11.9)	64,648	(3.5)	62,046	0.6	1,24,457	1,31,237	(5.2)
% of Net Sales	71.2%	73.5%	-235 bps	72.2%	-103 bps	72.2%	-99 bps	71.7%	73.6%	-195 bps
Personnel	5,987	5,728	4.5	5,372	11.4	5,498	8.9	11,484	11,104	3.4
% of Net Sales	6.8%	5.9%	88 bps	6.0%	83 bps	6.4%	43 bps	6.6%	6.2%	38 bps
Manufacturing & Other Exp	9,118	8,989	1.4	8,820	3.4	9,333	(2.3)	18,451	16,927	9.0
% of Net Sales	10.4%	9.3%	107 bps	9.9%	55 bps	10.9%	-46 bps	10.6%	9.5%	113 bps
Total Expenditure	77,515	85,583	(9.4)	78,840	(1.7)	76,877	0.8	1,54,392	1,59,268	(3.1)
EBITDA	10,173	10,798	(5.8)	10,700	(4.9)	9,109	11.7	19,282	19,005	1.5
EBITDA Margin (%)	11.6%	11.2%	40 bps	12.0%	-35 bps	10.6%	101 bps	11.1%	10.7%	44 bps
Depreciation	1,754	1,803	(2.7)	1,701	3.1	1,727	1.6	3,482	3,597	(3.2)
EBIT	8,419	8,995	(6.4)	8,999	(6.4)	7,382	14.0	15,800	15,409	2.5
Interest Expenses	607	587	3.4	587	3.4	591	2.8	1,197	1,286	(6.9)
Non-operating income	973	475	105.0	380	156.2	223	335.4	1,196	986	21.3
Extraordinary items	1,174	(229)	-	-	-	-	-	1,174	1,515	(22.5)
PBT	9,958	8,654	15.1	8,791	13.3	7,014	42.0	16,973	16,625	2.1
Tax-Total	2,257	3,044	(25.8)	2,286	(1.2)	1,759	28.4	4,016	5,251	(23.5)
Tax Rate (%) - Total	22.7%	35.2%	(35.6)	26.0%		25.1%	-240 bps	23.7%	31.6%	(25.1)
Reported PAT	7,701	5,610	37.3	6,506	18.4	5,256	46.5	12,957	11,374	13.9
Adj. PAT	6,793	5,782	17.5	6,506	4.4	5,256	29.3	12,049	10,261	17.4
PAT Margin	7.7%	6.0%	175 bps	7.3%	48 bps	6.1%	163 bps	6.9%	5.8%	118 bps

Source: Company, PL

Exhibit 2: Operating Metrics – Higher penetration of LCVs impact realization expansion

Y/e March	Q2FY25	Q2FY24	YoY gr. (%)	Q2FY25E	Var (%)	Q1FY25	QoQ gr. (%)	H1FY25	H1FY24	YoY gr. (%)
Sales Volume (nos)	45,624	49,846	(8.5)	45,624	-	43,893	3.9	89,517	91,175	(1.8)
Net Realisation/Vehicle	19,21,977	19,33,563	(0.6)	19,62,567	(2.1)	19,58,975	(1.9)	19,40,119	19,55,287	(0.8)
Material cost / vehicle	13,67,929	14,21,689	(3.8)	14,16,973	(3.5)	14,13,583	(3.2)	13,90,315	14,39,397	(3.4)
Gross Profit / vehicle	5,54,048	5,11,875	8.2	5,45,594	1.5	5,45,392	1.6	5,49,804	5,15,890	6.6
Employee cost /vehicle	1,31,220	1,14,920	14.2	1,17,754	11.4	1,25,248	4.8	1,28,292	1,21,787	5.3
Other expenses / vehicle	1,99,853	1,80,329	10.8	1,93,313	3.4	2,12,624	(6.0)	2,06,115	1,85,654	11.0
EBITDA/vehicle	2,22,975	2,16,625	2.9	2,34,527	(4.9)	2,07,521	7.4	2,15,397	2,08,450	3.3
Net Profit/vehicle	1,68,793	1,12,549	50.0	1,42,592	18.4	1,19,741	41.0	1,44,741	1,24,752	16.0

Source: Company, PL

Conference Call Highlights:

- Capex for Q2FY25 stood at Rs 1.5bn and Rs 3.1bn for H1FY25.
- It achieved 35% market share in the bus segment, remains committed on achieving 36% market share in the medium term.
- AL will look to invest in its subsidiaries in H2FY25, to fuel their growth in the upcoming years.
- Its defense business revenue expanded by 2x in H1FY25. With healthy orders, the management foresee defense business to deliver strong growth in FY25 and upcoming years.
- After market segment grew by ~14% YoY in H1FY25. The company will continue to focus on expanding the revenue from the segment as it is a margin accretive business.
- Switch Mobility has an orderbook of ~2,000 units which it aims to deliver in the next 15-18 months.
- As Switch Mobility is gaining healthy traction, the management aims to build it as an independent business in the next 3-4 years.
- Fleet utilization rate during H1FY25 dropped to 65% owing to erratic weather impacting construction and transportation activities. The management expects improvement in utilization rate which shall aid in demand revival in H2FY25.
- AL will be investing ~Rs 2-2.5bn in HLF in H2FY25 as equity infusion.
- AUM size of HLF was RS 54.5bn.

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	3,83,670	3,92,849	4,22,466	4,52,556
YoY gr. (%)	6.2	2.4	7.5	7.1
Cost of Goods Sold	2,79,120	2,81,673	3,03,330	3,25,388
Gross Profit	1,04,550	1,11,176	1,19,135	1,27,168
Margin (%)	27.3	28.3	28.2	28.1
Employee Cost	22,334	24,357	26,193	27,153
Other Expenses	36,151	40,071	40,557	43,445
EBITDA	46,066	46,749	52,386	56,569
YoY gr. (%)	57.2	1.5	12.1	8.0
Margin (%)	12.0	11.9	12.4	12.5
Depreciation and Amortization	7,178	7,080	7,749	7,884
EBIT	38,888	39,670	44,636	48,685
Margin (%)	10.1	10.1	10.6	10.8
Net Interest	2,494	1,682	1,416	1,328
Other Income	2,466	2,293	2,273	2,477
Profit Before Tax	37,922	39,107	45,493	49,834
Margin (%)	9.9	10.0	10.8	11.0
Total Tax	11,743	10,168	11,828	12,957
Effective tax rate (%)	31.0	26.0	26.0	26.0
Profit after tax	26,179	28,939	33,665	36,877
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	26,826	29,808	33,665	36,877
YoY gr. (%)	-	-	-	-
Margin (%)	7.0	7.6	8.0	8.1
Extra Ord. Income / (Exp)	(647)	(869)	-	-
Reported PAT	26,179	28,939	33,665	36,877
YoY gr. (%)	89.7	10.5	16.3	9.5
Margin (%)	6.8	7.4	8.0	8.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Equity Shares O/s (m)	2,936	2,936	2,936	2,936
EPS (Rs)	9.1	10.2	11.5	12.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	1,09,936	1,18,436	1,26,936	1,35,436
Tangibles	1,09,936	1,18,436	1,26,936	1,35,436
Intangibles	-	-	-	-
Acc: Dep / Amortization	54,917	61,996	69,746	77,630
Tangibles	54,917	61,996	69,746	77,630
Intangibles	-	-	-	-
Net fixed assets	55,019	56,439	57,190	57,806
Tangibles	55,019	56,439	57,190	57,806
Intangibles	-	-	-	-
Capital Work In Progress	2,015	2,015	2,015	2,015
Goodwill	4,499	4,499	4,499	4,499
Non-Current Investments	53,107	55,607	58,107	61,607
Net Deferred tax assets	(5,563)	(5,563)	(5,563)	(5,563)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	2,491	15,000	22,000	22,000
Inventories	31,907	33,365	37,038	39,676
Trade receivables	35,699	36,594	39,353	42,156
Cash & Bank Balance	35,343	22,920	22,634	28,963
Other Current Assets	16,038	18,444	20,288	23,331
Total Assets	2,36,118	2,44,884	2,63,125	2,82,054
Equity				
Equity Share Capital	2,936	2,936	2,936	2,936
Other Equity	85,167	98,718	1,13,867	1,30,462
Total Networth	88,104	1,01,655	1,16,804	1,33,398
Non-Current Liabilities				
Long Term borrowings	11,610	10,110	8,610	7,110
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	11,384	10,584	9,784	8,984
Trade payables	63,052	62,425	67,132	69,433
Other current liabilities	56,405	54,547	55,233	57,565
Total Equity & Liabilities	2,36,118	2,44,884	2,63,125	2,82,054

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	37,922	39,107	45,493	49,834
Add. Depreciation	7,178	7,080	7,749	7,884
Add. Interest	2,494	1,682	1,416	1,328
Less Financial Other Income	2,466	2,293	2,273	2,477
Add. Other	(2,466)	(2,293)	(2,273)	(2,477)
Op. profit before WC changes	45,129	45,575	52,386	56,569
Net Changes-WC	21,339	(7,244)	(2,884)	(3,850)
Direct tax	(11,215)	(10,168)	(11,828)	(12,957)
Net cash from Op. activities	55,252	28,164	37,674	39,763
Capital expenditures	(4,345)	(8,500)	(8,500)	(8,500)
Interest / Dividend Income	-	-	-	-
Others	(11,720)	(207)	(227)	(1,023)
Net Cash from Invt. activities	(16,064)	(8,707)	(8,727)	(9,523)
Issue of share cap. / premium	(7,419)	1,174	-	-
Debt changes	(9,254)	(2,300)	(2,300)	(2,300)
Dividend paid	(14,914)	(16,562)	(18,516)	(20,282)
Interest paid	(2,494)	(1,682)	(1,416)	(1,328)
Others	-	-	-	-
Net cash from Fin. activities	(34,082)	(19,370)	(22,232)	(23,910)
Net change in cash	5,106	87	6,714	6,329
Free Cash Flow	50,907	19,664	29,174	31,263

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Net Revenue	92,730	1,12,667	85,985	87,688
YoY gr. (%)	2.7	(3.1)	5.0	(9.0)
Raw Material Expenses	66,977	80,906	62,046	62,410
Gross Profit	25,753	31,761	23,939	25,278
Margin (%)	27.8	28.2	27.8	28.8
EBITDA	11,139	15,921	9,109	10,173
YoY gr. (%)	39.7	24.8	11.0	(5.8)
Margin (%)	12.0	14.1	10.6	11.6
Depreciation / Depletion	1,785	1,797	1,727	1,754
EBIT	9,355	14,124	7,382	8,419
Margin (%)	10.1	12.5	8.6	9.6
Net Interest	616	592	591	607
Other Income	300	1,179	223	973
Profit before Tax	9,033	14,014	7,014	9,958
Margin (%)	9.7	12.4	8.2	11.4
Total Tax	3,232	5,010	1,759	2,257
Effective tax rate (%)	35.8	35.8	25.1	22.7
Profit after Tax	5,800	9,004	5,256	7,701
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	5,804	9,452	5,256	6,793
YoY gr. (%)	62.6	32.4	16.7	18.0
Margin (%)	6.3	8.4	6.1	7.7
Extra Ord. Income / (Exp)	(6)	(697)	-	1,174
Reported PAT	5,800	9,004	5,256	7,701
YoY gr. (%)	60.5	19.8	(8.8)	37.3
Margin (%)	6.3	8.0	6.1	8.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Avg. Shares O/s (m)	2,936	2,936	2,936	2,936
EPS (Rs)	2.0	3.2	1.8	2.3

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	9.1	10.2	11.5	12.6
CEPS	11.6	12.6	14.1	15.2
BVPS	30.0	34.6	39.8	45.4
FCF	17.3	6.7	9.9	10.6
DPS	5.1	5.6	6.3	6.9
Return Ratio(%)				
RoCE	34.2	34.0	34.7	34.2
ROIC	35.3	37.3	39.3	39.4
RoE	31.1	31.4	30.8	29.5
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	(36)	(31)	(27)	(25)
Valuation(x)				
PER	24.3	21.9	19.4	17.7
P/B	7.4	6.4	5.6	4.9
P/CEPS	19.2	17.7	15.7	14.6
EV/EBITDA	13.8	13.6	11.9	10.9
EV/Sales	1.7	1.6	1.5	1.4
Dividend Yield (%)	2.3	2.5	2.8	3.1

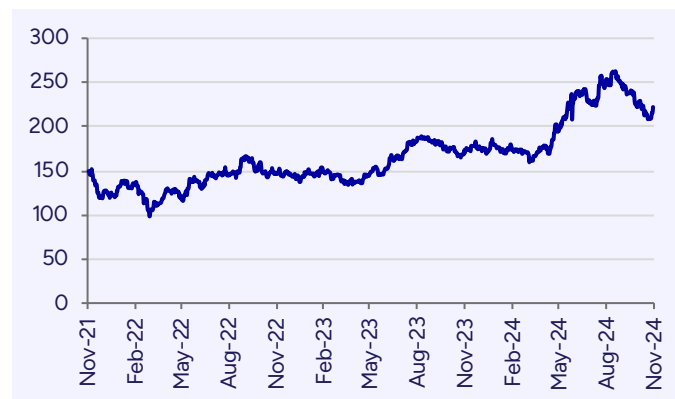
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
MHCV volumes (in units)	1,24,885	1,26,031	1,34,037	1,41,114
LCV volumes (in units)	69,800	66,310	69,626	73,107
Total volumes (in units)	1,94,685	1,92,341	2,03,663	2,14,221
Average realisation (Rs/unit)	19,38,170	20,08,721	20,40,074	20,77,668

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-24	Accumulate	257	222
2	28-Jul-24	Accumulate	261	246
3	08-Jul-24	Accumulate	249	230
4	26-May-24	BUY	239	211
5	08-Apr-24	BUY	210	176
6	07-Feb-24	BUY	210	180
7	08-Jan-24	BUY	210	179

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Reduce	411	474
2	Ashok Leyland	Accumulate	257	222
3	Bajaj Auto	Hold	11,859	11,617
4	Bharat Forge	Accumulate	1,369	1,437
5	Bharat Petroleum Corporation	Hold	316	310
6	Bharti Airtel	Accumulate	1,782	1,637
7	CEAT	Hold	3,063	2,973
8	Clean Science and Technology	Hold	1,526	1,484
9	Deepak Nitrite	Reduce	2,582	3,000
10	Divgi Torqtransfer Systems	Hold	633	591
11	Eicher Motors	BUY	5,416	4,668
12	Endurance Technologies	BUY	2,835	2,437
13	Exide Industries	Hold	520	481
14	Fine Organic Industries	BUY	5,852	5,000
15	GAIL (India)	Hold	204	209
16	Gujarat Fluorochemicals	Reduce	3,770	4,158
17	Gujarat Gas	Hold	565	541
18	Gujarat State Petronet	Hold	380	390
19	Hero Motocorp	Accumulate	5,906	5,495
20	Hindustan Petroleum Corporation	Accumulate	412	372
21	Indian Oil Corporation	Hold	156	147
22	Indraprastha Gas	Hold	402	417
23	Jubilant Ingrevia	Hold	695	682
24	Laxmi Organic Industries	Reduce	240	270
25	Mahanagar Gas	Accumulate	1,627	1,497
26	Mahindra & Mahindra	BUY	3,456	2,891
27	Mangalore Refinery & Petrochemicals	Sell	128	173
28	Maruti Suzuki	BUY	14,586	11,046
29	Navin Fluorine International	Accumulate	3,523	3,307

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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