India I Equities

Auto

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

13 February 2025

Ashok Leyland

Healthy operating performance; retaining a Buy

Rating: **Buy**
Target Price: Rs.260
Share Price: Rs.204

Surpassing our Rs11.3bn estimate on more-than-expected revenue and less-than-anticipated other expenses, Ashok Leyland's Q3 EBITDA grew 9% y/y to Rs12.1bn. We expect India's M&H CV sector to turn positive with 6% growth in Q4, and a 5% CAGR over FY25-27, led by robust bus demand (an 8% CAGR), continuing replacement demand (refer fig 8), infra/economic activity and a favorable base. Exports would record a healthy 12% CAGR, led by recovery in Africa/Asia. The EBITDA margin would increase due to a greater focus on profit (similar to those of peers) and tonnage/non-CV mix. Valuations are reasonable at 12x/10x FY26e/27e EV/EBITDA. We retain a Buy with a lower TP of Rs260 (earlier Rs290), 12x FY27e EV/EBITDA (13x FY27e) and Hinduja Leyland Finance at Rs11/sh.

EBITDA above estimates. Standalone Q3 revenue grew 2% y/y to Rs94.8bn, above our estimated Rs92.3bn. Volumes dropped 2% to 46,404 units, while realisation grew 4% to Rs2.04m/unit. Domestic M&H CV/LCV realisations grew 8%/6% q/q. Exports/spares/engines grew 14%/12%/14% y/y, while Defence fell 56%. EBITDA grew 9% y/y to Rs12.1bn, more than our estimated Rs11.3bn on higher-than-expected revenue and less-than-anticipated other expenses. The EBITDA margin expanded 80bps y/y, 120bps q/q to 12.8%. The gross margin rose 80bps y/y, but contracted 30bps q/q to 28.5%. Other expenses fell 1% y/y, 3% q/q to Rs8.87bn on overhead reductions. The tax rate was lower at 23.3% vs. 35.8% in Q3 FY24. Accordingly, adj. PAT grew 31% y/y to Rs7.6bn, above estimates, due to higher operating profit and a lower tax rate.

Valuation. We expect 9%/13% revenue/EBITDA CAGRs over FY25-27. We slightly raise our FY25e EPS on better Q3 margins but lower our FY26e/27e EPS up to ~3%, mainly due to lower M&H CV volumes. We retain our Buy rating, with a lower TP of Rs260 (earlier Rs290), 12x FY27e EV/EBITDA (13x FY27e) and Hinduja Leyland Finance at Rs11/sh. The applied multiple is lowered due to near-term uncertainty over M&H CV outlook. **Key risks:** Less-than-anticipated growth in underlying segments; keener competition, adverse commodity movements.

Key financials (YE Mar)	FY23	FY24	FY25e	FY26e	FY27e
Sales (Rs m)	3,61,441	3,83,670	3,91,119	4,21,850	4,67,690
Net profit (Rs m)	12,955	27,116	30,219	35,149	40,863
EPS (Rs)	4.4	9.2	10.3	12.0	13.9
P/E (x)	49.6	23.7	21.3	18.3	15.7
EV / EBITDA (x)	21.9	13.6	13.1	11.6	10.0
P/BV (x)	7.6	7.3	6.3	5.6	4.9
RoE (%)	16.4	31.5	31.9	32.4	33.1
RoCE (%)	14.8	26.1	27.1	28.7	29.9
Dividend yield (%)	1.2	2.3	2.8	3.3	3.8
Net debt / equity (x)	-0.0	-0.2	-0.2	-0.2	-0.2

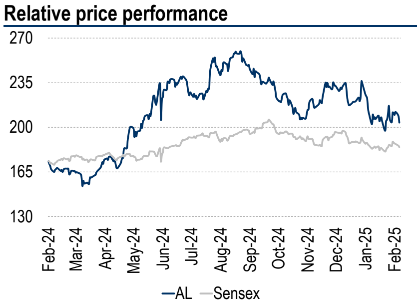
Source: Company, Anand Rathi Research

Key data	AL IN / ASOK.BO
52-week high / low	Rs265 / 158
Sensex / Nifty	76171 / 23045
3-m average volume	$18.5m
Market cap	Rs.644bn / $7413.1m
Shares outstanding	2937m

Shareholding pattern (%)	Jun'24	Sept'24	Dec'24
Promoters	51.5	51.5	51.5
- *of which, Pledged*	22	27	30
Free float	48.5	48.5	48.5
- Foreign institutions	22.0	24.4	24.1
- Domestic institutions	14.1	12.4	13.0
- Public	12.3	11.7	11.4

Estimates revision (%)	FY25e	FY26e	FY27e
Sales	1.3	-1.5	-1.3
EBITDA	2.0	-2.4	-2.3
PAT	2.3	-2.7	-3.1

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations (standalone)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Net revenues	3,61,441	3,83,670	3,91,119	4,21,850	4,67,690
Growth (%)	66.7	6.2	1.9	7.9	10.9
Raw material	2,78,492	2,79,120	2,81,019	3,01,412	3,33,229
Operating expenses	53,643	58,484	62,383	67,094	73,379
EBITDA	**29,307**	**46,066**	**47,717**	**53,345**	**61,082**
EBITDA margins (%)	8.1	12.0	12.2	12.6	13.1
- Depreciation	7,320	7,178	7,341	7,968	8,696
Other income	1,161	2,466	2,220	2,809	3,310
Interest expenses	2,891	2,494	2,212	1,215	1,089
PBT	20,258	38,859	40,383	46,971	54,607
Effective tax rates (%)	34.6	31.0	25.2	25.2	25.2
Adjusted income	**12,955**	**27,116**	**30,219**	**35,149**	**40,863**
Extraordinary items	-846	937	-1,174	-	-
Net income	**13,801**	**26,179**	**31,393**	**35,149**	**40,863**
WANS	2,936	2,936	2,936	2,936	2,936
FDEPS (Rs)	4.4	9.2	10.3	12.0	13.9

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	2,936	2,936	2,936	2,936	2,936
Net worth	84,258	88,104	1,01,365	1,15,424	1,31,770
Debt	31,801	22,545	12,852	11,444	10,327
Minority interest	-	-	-	-	-
DTL / (Assets)	5,035	5,563	5,523	5,476	5,421
Capital employed	**1,21,094**	**1,16,212**	**1,19,740**	**1,32,344**	**1,47,518**
Net tangible assets	58,543	55,019	52,789	52,264	51,789
Net intangible assets	-	-	-	-	-
Goodwill	4,499	4,499	4,499	4,499	4,499
CWIP (tang. & intang.)	1,325	2,015	3,904	4,461	4,740
Investments (strategic)	38,922	53,107	60,107	68,107	77,107
Investments (financial)	27,714	2,491	20,491	26,491	31,491
Current assets (excl. cash)	89,901	84,605	86,234	92,958	1,02,988
Cash	5,013	34,382	11,806	9,623	9,536
Current liabilities	1,04,822	1,19,905	1,20,090	1,26,059	1,34,631
Working capital	-14,922	-35,301	-33,856	-33,100	-31,644
Capital deployed	**1,21,094**	**1,16,212**	**1,19,740**	**1,32,344**	**1,47,518**

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
PBT	6,498	14,436	41,557	46,971	54,607
+ Non-cash items	9,815	9,092	9,554	9,182	9,785
Oper. prof. before WC	16,313	23,528	51,111	56,154	64,392
- Incr. / (decr.) in WC	4,265	15,229	1,445	755	1,457
Others incl. taxes	-9,313	-16,732	13,802	14,827	17,228
Operating cash-flow	**21,360**	**25,031**	**35,864**	**40,571**	**45,707**
- Capex (tang. + intang.)	4,257	4,815	7,000	8,000	8,500
Free cash-flow	**17,104**	**20,217**	**28,864**	**32,571**	**37,207**
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	2,936	7,634	14,535	18,131	21,089
+ Equity raised	50	17	-	-	-
+ Debt raised	-3,742	-8,896	-9,693	-1,408	-1,117
- Fin investments	13,537	-12,404	25,000	14,000	14,000
- Misc. (CFI + CFF)	2,397	(13,261)	2,212	1,215	1,089
Net cash-flow	-5,457	29,369	-22,576	-2,183	-87

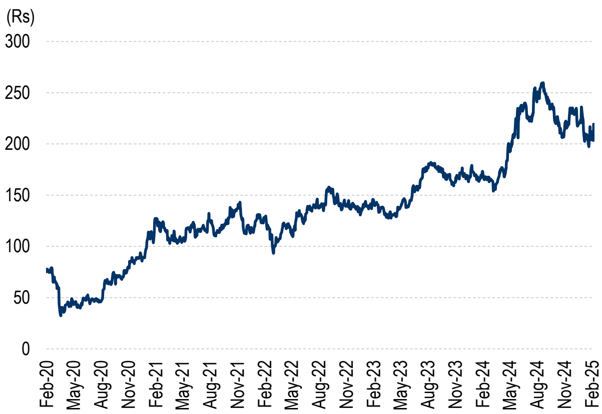
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
P/E (x)	49.6	23.7	21.3	18.3	15.7
EV / EBITDA (x)	21.9	13.6	13.1	11.6	10.0
EV / Sales (x)	1.8	1.6	1.6	1.5	1.3
P/B (x)	7.6	7.3	6.3	5.6	4.9
RoE (%)	16.4	31.5	31.9	32.4	33.1
RoCE (%) - after tax	14.8	26.1	27.1	28.7	29.9
RoIC (%) - after tax	32.2	78.1	114.2	123.9	137.9
DPS (Rs / sh)	2.6	5.0	6.2	7.2	8.3
Dividend yield (%)	1.2	2.3	2.8	3.3	3.8
Dividend payout (%)	58.9	53.6	60.0	60.0	60.0
Net debt / equity (x)	-0.0	-0.2	-0.2	-0.2	-0.2
Receivables (days)	41	34	34	34	34
Inventory (days)	28	30	30	30	30
Payables (days)	72	60	58	55	51
CFO:PAT (%)	165	92	119	115	112

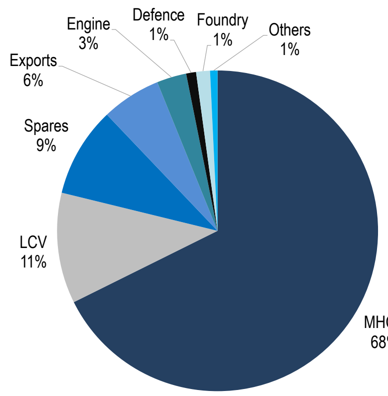
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Revenue break-up (Q3 FY25)



Source: Company

Result highlights

Fig 7 – Quarterly performance (Standalone)

(Rs m)	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Y/Y (%)	Q/Q (%)	YTD FY25	YTD FY24	Y/Y (%)
Revenue	**92,730**	**1,12,667**	**85,985**	**87,688**	**94,787**	**2.2**	**8.1**	**2,68,460**	**2,71,003**	**(0.9)**
Expenditure	**81,591**	**96,746**	**76,877**	**77,515**	**82,672**	**1.3**	**6.7**	**2,37,064**	**2,40,859**	**(1.6)**
as % of sales	88.0	85.9	89.4	88.4	87.2			88.3	88.9	
Consumption of RM	66,977	80,906	62,046	62,410	67,743	1.1	8.5	1,92,200	1,98,214	(3.0)
as % of sales	72.2	71.8	72.2	71.2	71.5			71.6	73.1	
Employee cost	5,695	5,535	5,498	5,987	6,064	6.5	1.3	17,548	16,799	4.5
as % of sales	6.1	4.9	6.4	6.8	6.4			6.5	6.2	
Other expenditure	8,919	10,305	9,333	9,118	8,866	(0.6)	(2.8)	27,317	25,846	5.7
as % of sales	9.6	9.1	10.9	10.4	9.4			10.2	9.5	
EBITDA	**11,139**	**15,921**	**9,109**	**10,173**	**12,114**	**8.8**	**19.1**	**31,396**	**30,145**	**4.2**
EBITDA margins (%)	**12.0**	**14.1**	**10.6**	**11.6**	**12.8**			**11.7**	**11.1**	
Depreciation	1,785	1,797	1,727	1,754	1,923	7.8	9.6	5,405	5,381	0.4
EBIT	**9,355**	**14,124**	**7,382**	**8,419**	**10,191**	**8.9**	**21.1**	**25,991**	**24,764**	**5.0**
Other income	300	1,179	223	973	247	(17.7)	(74.6)	1,443	1,287	12.2
Interest	616	592	591	607	501	(18.8)	(17.5)	1,698	1,902	(10.7)
PBT	**9,039**	**14,711**	**7,014**	**8,785**	**9,937**	**9.9**	**13.1**	**25,736**	**24,148**	**6.6**
Total tax	3,232	5,010	1,759	2,257	2,320	(28.2)	2.8	6,336	6,733	(5.9)
Adj. PAT	**5,806**	**9,701**	**5,256**	**6,527**	**7,617**	**31.2**	**16.7**	**19,400**	**17,415**	**11.4**
Extra ordinary items (loss) / gain	(6)	(697)	-	1,174	-			1,174	(241)	NM
Reported PAT	**5,800**	**9,004**	**5,256**	**7,701**	**7,617**	**31.3**	**(1.1)**	**20,574**	**17,175**	**19.8**
Adj. EPS (Rs)	**2.0**	**3.3**	**1.8**	**2.2**	**2.6**	**31.2**	**16.7**	**6.6**	**5.9**	**11.4**
Margins (%)						**(bps)**	**(bps)**			**(bps)**
Gross	27.8	28.2	27.8	28.8	28.5	76	(30)	28.4	26.9	155
EBITDA	12.0	14.1	10.6	11.6	12.8	77	118	11.7	11.1	57
EBIT	10.1	12.5	8.6	9.6	10.8	66	115	9.7	9.1	54
PAT	6.3	8.6	6.1	7.4	8.0	177	59	7.2	6.4	80
Effective tax rates	35.8	34.1	25.1	25.7	23.3	(1,242)	(235)	24.6	27.9	(326)

Source: Company

Earnings call highlights

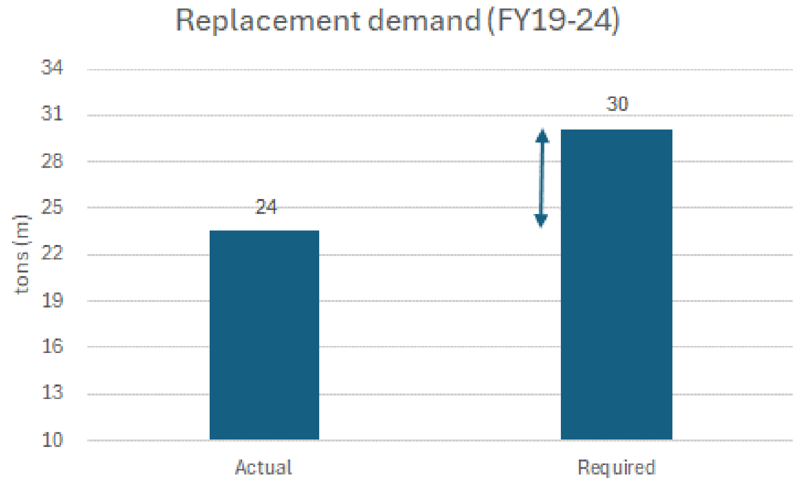
- **Demand.** The company expects growth in HCV, ICV and LCV in FY26. It expects Q4 to be positive. Q3 M&H CV industry volumes improved q/q, led by the festival season and higher government capex. Bus volumes would continue to do well, supported by an order for 4,000 buses for STUs for the next 6-8 months. No issues are seen around financing for M&H CVs and LCVs. Transporter utilization and freight remain healthy.
- **LCV** market share is expected to improve from 18.5% to over 20% in the short term and 25% in the medium term, supported by a new entry-level product, Saathi (2.2 tonnes GVW), which will increase market coverage to 50%. More products are expected in entry level and >3.5 tonnes.
- **Dealer network.** Touchpoints at over 1,000 for M&H CV and 800 for LCV.
- **Exports.** Growth was led by focus on export-specific products and local manufacturing/assembly presence in GCC, SAARC and African markets. Target is ~15,000 units for FY25, 25,000 for the medium term and 50,000 for the long term.
- **Non-CV.** Engine volumes up 3.5% y/y. Spares grew 14% y/y. Defence sales was ~Rs1bn in Q3 vs. ~Rs1.5bn in Q2. The Defence sales outlook remains strong over the medium term, with the Ministry looking to procure 10,000-12,000 trucks ahead.
- Q3 **realizations** improved q/q on a better mix of multi-axle/tipper products and higher realizations in buses.
- **Auto expo.** New products displayed were electric port terminal tractor, 15M bus with air suspension/front engine/42-sleeper beds and an EV truck of 7.5 tonne GVW; commercialised production is expected in 12 months.
- **Margins.** Net pricing remained unchanged q/q and some price hike was announced in Jan'25. Other expenses were lower q/q due to cost-reduction efforts in production/selling/admin and delivery charges. Cost-reduction savings at Rs6.5bn per year.
- **Hinduja Leyland Finance.** Reverse merger is expected to be completed by Q1 FY26. Hinduja Leyland Finance AUM grew 26% y/y to Rs444bn and Hinduja Housing Finance AUM, 43% y/y to Rs134bn.
- **Switch.** Orderbook at 1,800 EV buses, incl. exports of 100 buses to Mauritius. EV LCV monthly run-rate now at 100 units. OHM subsidiary is operating >600 buses with fleet availability of >98%. In Europe, the first few units of E1 EV bus were delivered in Spain and the company is looking at opportunities in GCC countries. Switch India to be EBITDA-positive from H1 FY26. Switch UK is making losses as the EV bus market has been subdued (down 30%); however, the company expects some rationalization of losses.
- **Capex.** Q3 at Rs1.79bn and 9M FY25 at Rs4.86bn.
- The company turned **net cash** at Rs9.58bn as of Dec'24 vs. net debt of Rs5bn as of Sep'24, mainly led by change in working capital.
- **Investments.** The Board approved investment of Rs5bn in Optare (to lower debt) and Rs2bn in Hinduja Leyland Finance.

Valuation

Less competition to aid margins. We expect the EBITDA margin to increase from 12.2% in FY25 to 13.1% in FY27, driven by a sharper focus on profitability and a better mix (tonnage and non-CV sales). We expect post-tax RoE/RoCE to be robust, at >25%, with over Rs30bn net cash by FY27.

Valuations. We expect 13%/16% EBITDA/PAT CAGRs over FY25-27. We recommend a Buy with a TP of Rs260, 12x FY27e EV/EBITDA and Hinduja Leyland Finance at Rs11/sh.

Fig 8 – *Actual* replacement demand absorbed over past five years, less than re*quired* replacement demand, implying that replacement demand would continue



*Source: SIAM, Anand Rathi Research. Note: **Actual** is the sum of FY20-24 tonnage with assumed 70% replacement share. **Required** is the sum of FY14-18 tonnage which opt for replacement in FY20-24. * Assumed a five-year replacement cycle*

Fig 9 – Change in estimates

	Old			Revised			Change (%)		
(Rs m)	FY25e	FY26e	FY27e	FY25e	FY26e	FY27e	FY25	FY26	FY27
MHCV (units)	127,210	136,574	146,140	125,869	130,874	139,930	-1.1	-4.2	-4.2
LCV (units)	70,867	74,770	78,715	69,263	73,738	78,326	-2.3	-1.4	-0.5
Revenue	386,214	428,228	474,087	391,119	421,850	467,690	1.3	-1.5	-1.3
EBITDA	46,776	54,658	62,530	47,717	53,345	61,082	2.0	-2.4	-2.3
%	12.1	12.8	13.2	12.2	12.6	13.1			
Adj. PAT	29,553	36,113	42,173	30,219	35,149	40,863	2.3	-2.7	-3.1
EPS (Rs)	10.1	12.3	14.4	10.3	12.0	13.9	2.3	-2.7	-3.1

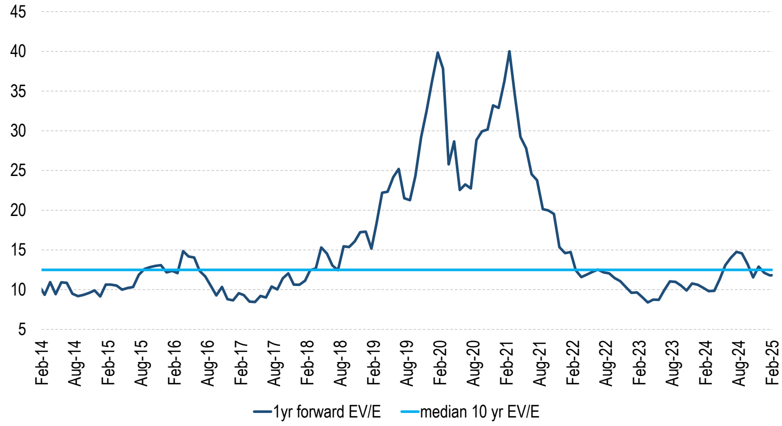
Source: Anand Rathi Research

Fig 10 – Key assumptions

	FY20	FY21	FY22	FY23	FY24	FY25e	FY26e	FY27e	CAGR % FY25-27e
Volume (units)									
Domestic M&H CVs	**71,408**	**46,005**	**65,090**	**114,247**	**116,189**	**115,098**	**118,487**	**126,305**	**5**
Y/Y %	(45.9)	(35.6)	41.5	75.5	1.7	(0.9)	2.9	6.6	
Domestic LCVs	**44,912**	**46,671**	**52,222**	**66,669**	**66,633**	**65,716**	**69,659**	**73,838**	**6**
Y/Y %	(15.5)	3.9	11.9	27.7	(0.1)	(1.4)	6.0	6.0	
Exports (M&H CVs + LCVs)	**8,920**	**8,001**	**11,014**	**11,289**	**11,853**	**14,318**	**16,466**	**18,112**	**12**
Y/Y %	(27.5)	(10.3)	37.7	2.5	5.0	20.8	15.0	10.0	
Total volumes	**125,240**	**100,677**	**128,326**	**192,205**	**194,675**	**195,132**	**204,612**	**218,256**	**6**
Y/Y %	(36.5)	(19.6)	27.5	49.8	1.3	0.2	4.9	6.7	
Realisation (Rs / unit)	**1,394,720**	**1,519,856**	**1,690,093**	**1,880,499**	**1,970,825**	**2,004,385**	**2,061,709**	**2,142,855**	**3**
44 Y/Y %	(5.3)	9.0	11.2	11.3	4.8	1.7	2.9	3.9	
Revenue (Rs m)	**174,675**	**153,015**	**216,883**	**361,441**	**383,670**	**391,119**	**421,850**	**467,690**	**9**
Y/Y %	(39.9)	(12.4)	41.7	66.7	6.2	1.9	7.9	10.9	

Source: Anand Rathi Research

Fig 11 – One-year-forward EV/EBITDA (median 13x)



Source: Company, Anand Rathi research

Downside risks

- Less-than-expected growth in underlying segments.
- Keener competition.
- Adverse commodity movements.

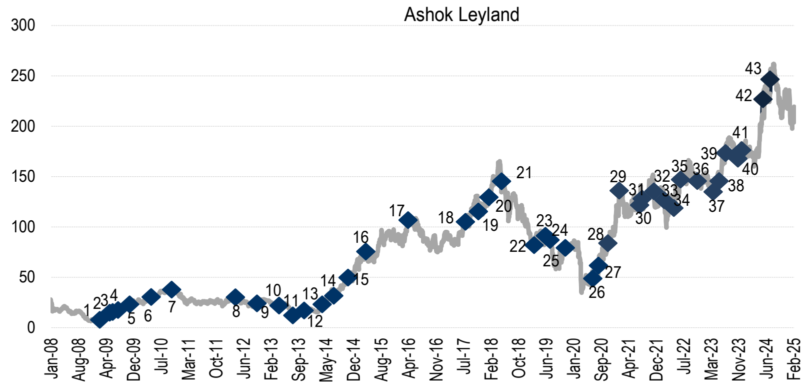
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 13 February 2025)



	Date	Rating	TP (Rs)	Share Price (Rs)
30	25-Jun-21	Buy	153	124
31	13-Aug-21	Buy	155	129
32	15-Nov-21	Buy	190	145
33	14-Feb-22	Buy	157	133
34	20-May-22	Buy	200	130
35	01-Aug-22	Buy	202	154
36	11-Nov-22	Buy	185	148
37	02-Feb-23	Buy	175	148
38	24-May-23	Buy	178	151
39	22-Jul-23	Buy	215	182
40	11-Nov-23	Buy	225	174
41	07-Feb-24	Hold	185	180
42	27-May-24	Hold	240	211
43	27-Jul-24	Buy	290	246

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps, Mid Caps & Small Caps as described in the Ratings Table below:

Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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