ASHOK LEYLAND LIMITED

Strong set of numbers in Q3, CV demand to revive well in FY 26

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Revenues grew 2.2% yoy (+8% qoq) at ~₹94.8b as ASP grew by 3.1% yoy/6% qoq at ~₹2.03m/unit, while volumes declined by just 1% yoy (+2% qoq) at 46.6k units in line with the industry. AL's Q3 FY25 operating performance was robust as EBITDA margins came in at 12.8% (+80bp/+120bp yoy/qoq). This was led by better than expected gross margins as RM continues to be benign and good cost control initiatives. We believe, along with the volume trajectory expected to be positive, margins would likely expand led by, 1) benign RM, 2) stable net pricing & favorable mix and 3) cost controls initiatives. Performance of non-auto business continued to be healthy in Q3 FY25 led by Aftermarket (+14% yoy), Engines +4% YoY and exports growth (33% yoy) despite macro challenges in key markets.

Volume growth to see an uptick in FY26

AL maintained its MHCV market share at 30%+ in Q3, which it aims to increase to ~35% in the medium term. Although Q3 sales de-grew by 1% yoy, sequentially the industry demand has gone up by 10% post a slowdown in Q2 and January as per management has shown good momentum. We believe market share gains shall continue, led by product expansion and new product launches. The management sounded positive on demand momentum to buildup in Q4 FY25 led by healthy fleet utilization rates, ability to increase freight rates and improvement in infra activities. We are building in ~4% MHCV volume CAGR over FY24-27E with decline of ~1% in FY25E better than our earlier expectations of 3% decline. However, we believe AL's de-risking strategy to help as it reduces domestic MHCV exposure by adding new revenue pools such as LCVs and non vehicle revenues.

Replacement cycle for MHCV has got considerably stretched in this up-cycle largely because of improved vehicle quality and better service support. Average commercial fleet age stands at ~10-12 years now while average replacement cycle used to be 6-7 years earlier. We however, believe replacement demand will come back in the next 12-18 months with ageing fleet population and improving fleet utilization. Further, we believe LCV volumes (down 9% yoy in Q3) and market share will also recover on the back of a pickup in consumption and recent launch of new sub 2T product 'SAATHI'. More new launches in the LCV segment over the next 3-4 years shall further assist AL. Quick commerce proliferation shall augur well for the LCV business of AL going forward.

Key Financials	FY 23	FY 24	FY 25E	FY 26E	FY 27E
Revenues (₹ bn)	361.44	383.67	415.09	462.80	521.60
EBITDA (%)	8.1%	12.0%	11.9%	12.2%	12.5%
PAT (%)	3.8%	6.8%	8.0%	8.1%	8.3%
Adj EPS (₹)	4.41	9.24	10.89	12.70	14.78
EPS growth (%)	4076.0%	109.3%	17.9%	16.6%	16.4%
P/E (x)	49.6	23.7	20.1	17.2	14.8
P/B (x)	7.6	7.3	5.7	4.6	3.7
EV/EBITDA (x)	22.9	14.0	12.8	11.1	9.5
ROCE (%)	19.1%	33.6%	30.6%	29.7%	28.9%
ROE (%)	16.4%	29.7%	29.3%	26.5%	25.0%

BUY	
Current Market Price (₹)	219
12M Price Target (₹)	266
Potential upside (%)	21

Stock Data	
Sector :	Autos
FV (₹) :	1
Total Market Cap (₹ bn) :	645
Free Float Market Cap (₹ bn) :	314
52-Week High / Low (₹) :	265 / 158
BSE Code / NSE Symbol :	500477 / ASHOKLEY
Bloomberg :	AL IN

Shareholding Pattern

(%)	Dec-24	Sep-24	Jun-24	Mar-24
Promoter	51.52	51.52	51.52	51.52
FPIs	24.09	24.40	22.03	21.45
MFs	6.25	5.38	6.80	5.84
Insurance	6.17	6.37	6.02	4.62
Others	11.97	12.33	13.63	16.57

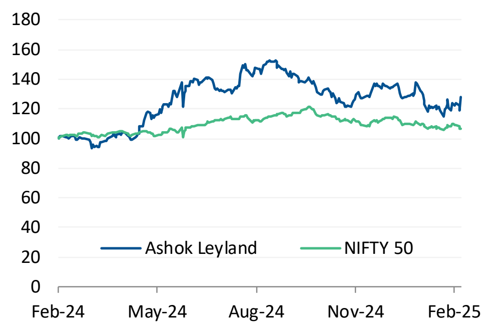
Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
Ashok Leyland	4.3%	-0.7%	-12.9%	28.2%
Nifty 50	-1.6%	-3.5%	-5.3%	6.6%

** To date / current date : February 12, 2025*

Ashok Leyland vs Nifty 50



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Multiple levers to provide fillip to the margins

Q3 witnessed a yoy growth of 80 bps in margins. We saw a decline in input costs as RM to sales came down to 71.5% from 72.2% yoy. Going forward, management expects input costs to remain benign. The CV industry has been oligopolistic in nature. We have seen the industry maintaining healthy pricing discipline despite the slowdown in H1 FY25. Even the company is guiding for stable pricing environment and not chasing market share at the cost of margins. The management has guided to achieve medium term margins in the current range of 12.8-13% given the superior product mix tilting towards non MHCV side and cost cutting initiatives (>₹6.5 bn savings each year). We however, conservatively build in >50 bps margin expansion over FY25E-FY27E.

Outlook and Valuation

We believe volume growth in MHCVs to recover well in the short term, while grow strongly in FY26. Buses shall grow within the segment at a stronger pace mainly on EV demand and strong order book from STUs and private players GoI's continuous thrust on capex and strong Infrastructure outlay shall ensure MHCV to lead a strong performance in the ensuing quarters. LCV demand shall come back soon with new product launches and grow at mid to higher single digit in FY26. Rising export demand, Spare parts business resilience, higher orders coming from defense sector should boost the numbers of AL further. External funding for EV business (Switch) and trend in replacement volumes are key catalyst. Also on the back of improving margin profile, we maintain **BUY** with a target price of ₹269 (valuing at 18x times rolled over earnings of FY27E).

Quarterly Standalone

YE Mar (₹ mn)	Q3 FY25	Q2 FY25	*% qoq*	Q3 FY24	*% yoy*
Total income	94,787	87,688	*8.1%*	92,730	*2.2%*
Raw Material Cost	67,743	62,410	*8.5%*	66,977	*1.1%*
Staff Cost	6,064	5,987	*1.3%*	5,695	*6.5%*
Other Expenses	8,866	9,118	*-2.8%*	8,919	*-0.6%*
Total Expenses	82,672	77,515	*6.7%*	81,591	*1.3%*
EBITDA	12,114	10,173	*19.1%*	11,139	*8.8%*
EBITDA margin (%)	*12.8%*	*11.6%*	*120 bps*	*12.0%*	*80 bps*
Other Income	247	973	*-74.6%*	300	*-17.7%*
Depreciation	1,923	1,754	*9.6%*	1,785	*7.8%*
Interest	501	607	*-17.5%*	616	*-18.8%*
PBT	9,938	8,785	*13.1%*	9,039	*9.9%*
Total tax	2,320	2,257	*2.8%*	3,232	*-28.2%*
Adjusted PAT	7,617	6,527	*16.7%*	5,806	*31.2%*
Exceptional items	-	1,174	*N/A*	(6)	*N/A*
Reported PAT	7,617	7,701	*-1.1%*	5,800	*31.3%*

Source: Company, LKP Research

Per unit parameters	Q3 FY25	Q2 FY25	Q1 FY25	Q4 FY24	Q3 FY24	Q2 FY24	Q1 FY24	Q4 FY23
Avg Price Realisation (net)	20,31,434	19,21,977	19,58,975	20,02,291	19,70,423	19,33,563	19,81,488	19,47,446
Material cost / unit (₹)	14,51,839	13,67,929	14,13,583	14,37,838	14,23,204	14,21,689	14,60,754	14,72,213
Staff cost / unit (₹)	1,29,951	1,31,220	1,25,248	98,372	1,21,005	1,14,920	1,30,068	99,156
Other Expn / unit (₹)	1,90,015	1,99,853	2,12,624	1,83,135	1,89,516	1,80,329	1,92,076	1,62,375
Total Expn / unit (₹)	17,71,805	16,99,003	17,51,455	17,19,345	17,33,724	17,16,938	17,82,898	17,33,744
EBITDA per unit (₹)	2,59,629	2,22,975	2,07,521	2,82,946	2,36,699	2,16,625	1,98,589	2,13,703
APAT per unit (₹)	1,63,253	1,43,065	1,19,741	1,72,399	1,23,376	1,17,139	1,39,614	1,16,418

Source: Company, LKP Research

Key Con-Call Highlights

- Management shared a positive outlook for the industry going forward, pointing to better fleet utilization rates, favorable macroeconomic conditions, growing private capital expenditures, expected increases in government spending and continuation of interest rate reductions.
- EBITDA margin guidance at 12.8-13% provided the product mix continues to be in favour of the high margin non MHCV business.
- The long-term goal is to achieve a MHCV market share of 35% from current 30% in the domestic markets.
- AL wishes to cross 15K exports in FY25, 25K in the medium term and 50 K in the long term as the company has a robust order book in exports.
- The company has confirmed an order book of 4K buses to be supplied over the next 6-8 months.
- Switch India has an order book of >1800 EV buses including an export order of 100 buses from Mauritius. These orders are expected to be fulfilled in the next 12-18 months.
- In the defense sector, there is expected to be a demand of 10k-12k trucks in the next 3-4 years.
- Company aims to increase LCV market share to 20% in short term and 25% in medium term with the launch of SAATHI. AL with this launch is targeting its LCV market coverage from 50%-80%.
- Capex for the quarter was ₹1.79 bn and cumulative for the year is ₹4.86 bn.
- Further investment of ₹2 bn in Hinduja Leyland Finance is planned along with ₹5.36 bn in Optare.
- Switch India's electric light commercial vehicles business is gaining momentum with monthly run rate of 100 units. AL expects this company to turn EBITDA positive in Q1 or Q2 of FY26.

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Income Statement

(₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Total Revenues	3,61,445	3,83,669	4,15,087	4,62,795	5,21,597
Raw Material Cost	2,78,492	2,79,120	2,97,617	3,33,213	3,76,593
Employee Cost	21,139	22,334	26,566	28,693	31,296
Other Exp	32,504	36,151	41,509	44,428	48,509
EBITDA	**29,310**	**46,065**	**49,395**	**56,461**	**65,200**
EBITDA Margin(%)	*8.1%*	*12.0%*	*11.9%*	*12.2%*	*12.5%*
Other income	1161	2466	1900	2100	2200
Depreciation	7,320	7,178	7,054	7,411	8,311
Interest	2891	2494	2170	2100	2000
PBT	**20,261**	**38,858**	**42,071**	**49,050**	**57,088**
PBT Margin(%)	*5.6%*	*10.1%*	*10.1%*	*10.6%*	*10.9%*
Tax	7,303	11,743	10,097	11,772	13,701
Adj PAT	**12,958**	**27,115**	**31,974**	**37,278**	**43,387**
Adj PAT Margins (%)	*3.6%*	*7.1%*	*7.7%*	*8.1%*	*8.3%*
Exceptional items	846.1	-937.2	1173.8	0.0	0.0
PAT	**13,804**	**26,178**	**33,148**	**37,278**	**43,387**
PAT Margin (%)	*3.8%*	*6.8%*	*8.0%*	*8.1%*	*8.3%*

Key Ratios

YE Mar	FY23	FY24	FY25E	FY26E	FY27E
Per Share Data (₹)					
Adj. EPS	4.41	9.24	10.89	12.70	14.78
CEPS	6.9	11.7	13.3	15.2	17.6
BVPS	28.7	30.0	38.5	48.0	59.1
DPS	1.0	2.6	2.8	3.2	3.7
Growth Ratios(%)					
Total revenues	66.7%	6.1%	8.2%	11.5%	12.7%
EBITDA	194.7%	57.2%	7.2%	14.3%	15.5%
Adj. PAT	4076.0%	109.3%	17.9%	16.6%	16.4%
EPS	4076.0%	109.3%	17.9%	16.6%	16.4%
Valuation Ratios (x)					
PE	49.6	23.7	20.1	17.2	14.8
P/CEPS	31.7	18.7	16.5	14.4	12.4
P/BV	7.6	7.3	5.7	4.6	3.7
EV/Sales	1.9	1.7	1.5	1.4	1.2
EV/EBITDA	22.9	14.0	12.8	11.1	9.5
Operating Ratios (Days)					
Inventory days	28.0	30.4	34.0	37.0	40.0
Recievable Days	41.0	34.0	30.0	30.0	30.0
Payables day	72.5	60.0	58.0	55.0	53.0
Profitability Ratios (%)					
ROCE	19.1%	33.6%	30.6%	29.7%	28.9%
ROE	16.4%	29.7%	29.3%	26.5%	25.0%
Dividend payout	21.3%	29.2%	25.0%	25.0%	25.0%

Balance Sheet

(₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
EQUITY AND LIABILITIES					
Share capital	2,936	2,936	2,936	2,936	2,936
Reserves and surplus	81,322	85,167	1,10,028	1,37,987	1,70,527
Total networth	84,257	88,104	1,12,965	1,40,923	1,73,463
Non current liabilities					
Long term borrows & provs	22,855	18,557	16,557	15,557	14,557
Deferred tax liabilities	5035.1	5563.1	5563.1	5563.1	5563.1
Current liabilities					
Short term borrowings	14139	11229	9729	8229	6729
Current liabilities & provs	76,944	69,559	72,466	76,243	82,246
Other current liabilities	19,645	39,764	39,764	39,764	39,764
Total equity and liabilities	**2,25,916**	**2,36,118**	**2,60,386**	**2,89,621**	**3,25,664**
ASSETS					
Net block	47,479	45,022	47,968	55,557	62,246
Capital work in progress	490	955	1,555	2,155	2,755
Intangible assets	16,399	15,556	15,556	15,556	15,556
Non current investments					
Long term loans & advs	0	0	0	0	0
Long term investments	44,513	57,953	70,953	80,953	90,953
Total non current assets	1,08,880	1,19,486	1,36,033	1,54,221	1,71,510
Current assets					
Inventories	27,745	31,907	27,723	33,778	41,270
Trade receivables	40,621	35,697	38,197	40,697	43,197
Cash and cash bank	4,541	19,419	28,825	31,317	40,078
Short term loans & advs	0	950	950	950	950
Other current assets	15,944	11,205	11,205	11,205	11,205
Total current assets	1,17,036	1,16,631	1,24,353	1,35,400	1,54,154
Total Assets	**2,25,916**	**2,36,118**	**2,60,386**	**2,89,621**	**3,25,664**

Cash Flow

(₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	13,801	26,179	33,148	37,278	43,387
Depreciation	7,147	6,997	7,054	7,411	8,311
Interest	2,891	2,494	2,170	2,100	2,000
Chng in working capital	13,579	(10,387)	(5,233)	3,091	(6,277)
Tax paid	(4,002)	(6,245)	(10,097)	(11,772)	(13,701)
Other operating cash flows	(12,056)	5,993	18,421	2,404	14,488
Cash flow from operations	**21,360**	**25,031**	**45,463**	**40,512**	**48,208**
Capital expenditure	(5,021)	(4,955)	(10,600)	(15,600)	(15,600)
Chng in investments	(198)	(15,670)	(13,000)	(10,000)	(10,000)
Other investing activities	(12,126)	29,647	0	0	0
Cash flow from investing (b)	**(17,345)**	**9,021**	**(23,600)**	**(25,600)**	**(25,600)**
Inc/dec in borrowings	(3,692)	(8,880)	(2,000)	(1,000)	(1,000)
Dividend paid (incl. tax)	(2,936)	(7,634)	(8,287)	(9,319)	(10,847)
Other financing activities	(2,775)	(2,661)	(2,170)	(2,100)	(2,000)
Cash flow from financing (c)	**(9,402)**	**(19,175)**	**(12,457)**	**(12,419)**	**(13,847)**
Net chng in cash (a+b+c)	**(5,386)**	**14,878**	**9,406**	**2,492**	**8,761**
Closing cash & cash eq	**4,542**	**19,419**	**28,825**	**31,317**	**40,078**

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