

CMP: INR 222

Rating: Buy

Target Price: INR 277

Stock Info

BSE	500477
NSE	ASHOKLEY
Bloomberg	AL:IN
Reuters	ASOK.NS
Sector	Auto-LCVS & HCVS
Face Value (INR)	1
Equity Capital (INR mn)	2,936
Mkt Cap (INR Mn)	637,410
52w H/L (INR)	265/158

Shareholding Pattern %

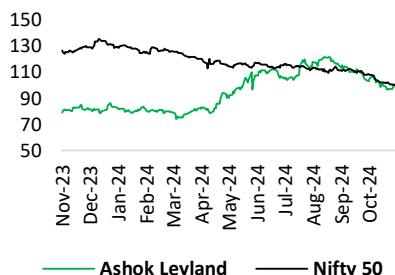
(As on Sept, 2024)

Promoters	51.52
Public	24.39
DII	12.25
Others	11.84

Stock Performance (%)

	1m	3m	12m
Ashok Leyland	-0.26	-9.91	27.85
Nifty	-0.59	0.18	24.2

Ashok Leyland Vs Nifty



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Ashok Leyland Ltd (AL) has reported good numbers and one time gain in PAT; Management remain optimistic about industry prospects for H2FY25 on back of strong macroeconomic fundamentals, supported by resumption of Government spending in Capex and good monsoons. On track to achieve mid-teen EBITDA in the medium term. Standalone revenue stood at INR 87,285 Mn, slightly below estimate our estimate of INR 88,030 Mn registering a growth of down 9% YoY/ up by 2.0% QoQ. EBITDA stood at INR 10,173 Mn, above our estimate of INR 9,510 Mn, up by 11.7%QoQ/ down 5.8% YoY. On the margins front, EBITDA margin is up by 101 bps QoQ/+40bps YoY to 11.6%, above our estimate of 10.8 % led by better than the expected gross margin (up by 99bps QoQ to 28.8% in Q2FY25). Standalone PAT up by 37.3%YoY/ up by 46.5% QoQ to INR 7,701 Mn below our estimate of INR 5,760 Mn due to onetime gain INR 1173.8 Mn. EPS stood at INR 2.62 in Q2FY25 against INR 1.79 in Q1FY25.

Strong traction from Switch led by robust order book: The company currently has an order book of 2,000 electric buses, which it aims to complete in about 15 months, with efforts to finish earlier if possible. The goal is to achieve breakeven at current volumes, with a "PAT-level breakeven" expected as volumes increase. Over the next 2-3 years, the company plans to make Switch India self-sufficient, reducing reliance on external investments. Additionally, the company is focused on product development for Switch buses, with positive feedback on the quality and design, particularly the double-decker buses in Mumbai.

Strong growth potential in LCV & Targeting to Increase MS: The company sees significant growth potential in the LCV segment, plans to launch more products in this category. Despite being a relatively new player, having entered the market just 11-12 years ago, the company is now the second-largest in the 2 to 3.5-ton LCV segment, with a 20% MS. However, the company's presence is currently skewed toward the southern regions, where MS can reach 35-40%, while northern, eastern, and central regions still have single-digit MS. The company is focused on expanding geographically and enhancing its product portfolio to capture a larger share of this growing market, particularly driven by last-mile delivery and rural penetration.

Strong Growth in Defense and International Markets: Defense business has seen strong growth, nearly doubling its top line in both FY23 and H1FY25, with a strong order pipeline for the future. While Power Solutions volumes declined slightly in H1, the outlook for H2FY25 is strong.

Outlook and valuation

We believe AL is well-placed to achieve MS gains and volume growth, driven by new launches and demand for higher-tonnage CVs. The company plans several new launches in the LCV segment in FY25 to fill white spaces. Focused on achieving mid-teen EBITDA through efficient products and network expansion. Strong contributions are anticipated from defense and international business. The company expects the industry to exceed expectations, leading to operating leverage in H2FY25. Also indicating huge replacement demand potential in the next 2-3 years.

Value AL at a PE multiple of 20x for the parent automaker for its FY27E EPS of INR 13.2 (Include INR ~14 for HLF). We upgrade our rating to Buy from Accumulate and value it with SOTP valuation for a target price of INR 277. (Earlier target price of INR 288 per share)

Quarterly Results					
Standalone (INRm)	Q2FY25	Q1FY25	Q2FY24	QoQ%	YoY%
Revenue	87,285	85,607	95,916	2.0%	-9.0%
Other operating income	404	378	464	6.8%	-13.0%
Net Sales	87,688	85,985	96,380	2.0%	-9.0%
Cost of material consumed	57,735	61,988	69,923	-6.9%	-17.4%
Purchases of stock-in-trade	4,070	4,167	3,552	-2.3%	14.6%
Changes in inventories	605	(4,109)	(2,609)	-114.7%	-123.2%
Raw Material	62,410	62,046	70,866	0.6%	-11.9%
Staff Cost	5,987	5,498	5,728	8.9%	4.5%
Other expenditure	9,118	9,333	8,989	-2.3%	1.4%
Total Expenditure	77,515	76,877	85,583	0.8%	-9.4%
EBITDA	10,173	9,109	10,798	11.7%	-5.8%
Depreciation	1,754	1,727	1,803	1.6%	-2.7%
EBIT	8,419	7,382	8,995	14.0%	-6.4%
Interest	607	591	587	2.8%	3.4%
Other Income	973	223	475	335.4%	105.0%
PBT	8,785	7,014	8,883	25.2%	-1.1%
Current Tax	3,086	2,497	3,022	23.6%	2.1%
Deferred tax	(828)	(738)	22	12.2%	
Tax	2,257	1,759	3,044	28.4%	-25.8%
Adjusted PAT	6,527	5,256	5,839	24.2%	11.8%
Extraordinary	1,173.8	-	(228.8)		
Reported PAT	7,701.0	5,255.8	5,610.1	46.5%	37.3%
EPS	2.62	1.79	1.91	46.4%	37.2%
Total Volumes (Nos)	45,624	43,893	49,846	3.9%	-8.5%
Net Realisation (INR)	1921977	1958975	1,933,563	-1.9%	-0.6%
EBITDA / Vehicle (INR)	222,975	207,521	216,625	7.4%	2.9%
Margins	Q2FY25	Q1FY25	Q2FY24	QoQ (Bps)	YoY (Bps)
Gross margins	28.8%	27.8%	26.5%	99Bps	235Bps
EBITDA	11.6%	10.6%	11.2%	101Bps	40Bps
Adjusted PAT	7.4%	6.1%	6.1%	133Bps	139Bps
Effective Tax Rate	25.7%	25.1%	34.3%	63Bps	-857Bps
<i>Cost Analysis</i>					
RM/Net Sales	71.17%	72.16%	73.53%	-99Bps	-235Bps
Other Exp/Net Sales	10.40%	10.85%	9.33%	-46Bps	107Bps
Staff cost/Net sales	6.83%	6.39%	5.94%	43Bps	88Bps
Volume (In Units)	Q2FY25	Q1FY25	Q2FY24	QoQ%	YoY%
MHCV	25685	26214	29947	-2.0%	-14.2%
LCV	16629	15345	16,998	8.4%	-2.2%
Total Sales	42,314	41,559	46,945	1.8%	-9.9%
EXPORT	58,943	56,904	63,943	3.6%	-7.8%
M&HCV	2,495	1,671	2,139	49.3%	16.6%
LCV	815	663	762	22.9%	7.0%
Total Exports	3,310	2,334	2,901	41.8%	14.1%
Total Volume	45,624	43,893	49,846	3.9%	-8.5%

Source: Arianth Research, Company Filings

Ashok Leyland – Q2FY25 Concall KTAs

Ashok Leyland has an order book of 2,000 electric buses, with plans to complete the order within 15 months. The company is ramping up production to meet this target. The company also has a strong order pipeline, with significant future visibility, particularly in the defense sector.

The company expects government spending to pick up in H2FY25 and is hopeful for interest rate cuts in the near term. It has set an "aspirational target" for its Power Solutions Business (PSB) and is optimistic about achieving it. The company also aims to maintain its market share in larger buses while increasing its share in the smaller bus segment. Its goal is to reach breakeven at current volumes and eventually achieve "pat-level breakeven" with higher volumes.

Carbon Neutral: The company is on track to achieve carbon-neutral operations by 2030 and net-zero emissions by 2048. It was ranked second among automotive companies and 34th among India's most sustainable firms.

Capex for Q2FY25 was INR 1,530 Mn, with a cumulative total of INR 3,070 Mn for the year. The company aims for a full-year capex of INR 7500-8000 Mn and may invest INR 1000-2500 Mn in Hinduja Leyland Finance.

Reverse Merger: The reverse merger of Hinduja Leyland Finance with Next Digital is progressing, with completion expected by Q1FY26, pending RBI approval. This is expected to enhance Ashok Leyland's market valuation.

Macro: Key macro factors are favorable, including rising private capex, expected government spending in H2, and anticipated interest rate cuts. Replacement demand in the vehicle market is expected to pick up, with strong pent-up demand in the bus segment.

No discount: The company is focused on profitable growth and will not discount its products to gain market share. It looks at net sales realization after discounts, prioritizing higher-margin products with advanced features.

Margin: The EBITDA margin for Q2 stood at 11.6%, an improvement from 10.6% in Q1 and 11.2% in Q2 of the previous year. This growth was driven by strong performance in spare parts, power solutions, and international operations. However, a 0.5% margin reduction was noted due to softer steel prices, which declined by INR 2.5 per kilogram. On a positive note, cost reduction initiatives led to a 0.5% improvement in margins, with a 1% reduction in metal costs.

New launches: The company continues to focus on selling higher-margin products, especially with new launches or variants that feature advanced technologies or customer-valued features. It has set a pricing floor and will not compromise on margins to gain volume, as it aims to protect profitability.

Material costs as a percentage of revenue decreased to 71.2% in Q2, compared to 73.5% in Q2 last year and 72.2% in Q1 this year. This reduction was driven by favorable steel prices and the company has cost optimization efforts. A 1% reduction in metal costs was achieved through a combination of 0.5% savings from lower steel prices and an additional 0.5% from cost-saving initiatives.

Focus on reduce discount to improve ASP: The company's strategy is clear it will not use discounts to gain MS, instead focusing on profitable growth. It has been working to reduce discounts every month to increase its ASP or net sales realization. Pricing is dynamically adjusted based on factors such as market conditions, commodity prices, and business needs. The company has a pricing floor and will not compromise margins for volume, as it believes sacrificing margin for market share is unsustainable. MS gains are often temporary and can be easily lost if prices are not maintained.

LCV: AL has launched several new products, including the Bada Dost i5, the third new LCV of the year, which has been well received. The company also introduced the Oyster Zi AC bus, designed for school and staff transport, filling a gap in the intercity bus (ICB) segment. The focus on innovation is evident in the company's efforts to create high-margin products, particularly in the LCV segment, where there will be several new launches in the coming years. A 15-meter front-engine bus is also set to be launched next year, marking a first in India.

AL is advancing its efforts in alternate fuel vehicles, including electric trucks, and is establishing new centers of excellence for EVs. A newly developed low-floor electric bus with modern design and features is also in the works. The company is heavily investing in product development, with a new 12-meter ultra-low-floor bus set to be delivered to Delhi and Bangalore soon.

Aftermarkets: The aftermarket business grew by 14%, and international sales, especially in the GCC, Africa, and Southeast Asia, are performing well, with FY24 set to be the company's best year for international business.

Exhibit 3: Revenue trend and expecting better growth led by upcoming launches

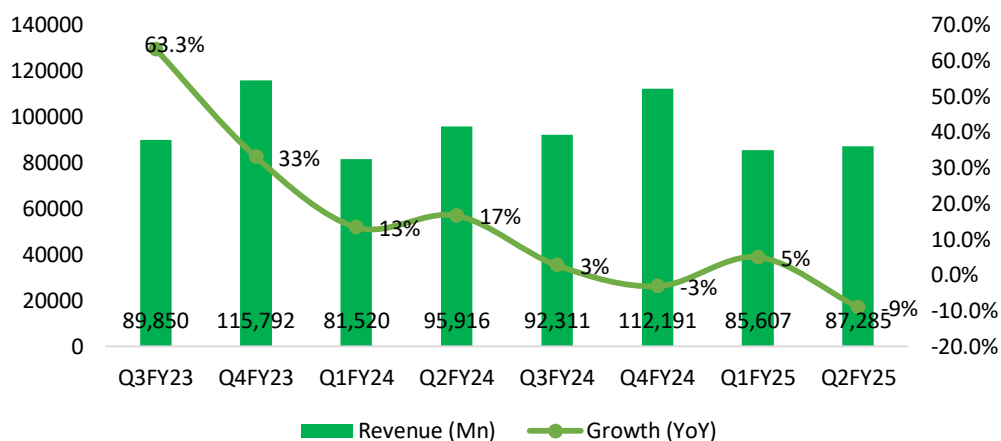


Exhibit 4 : EBITDA margin trend

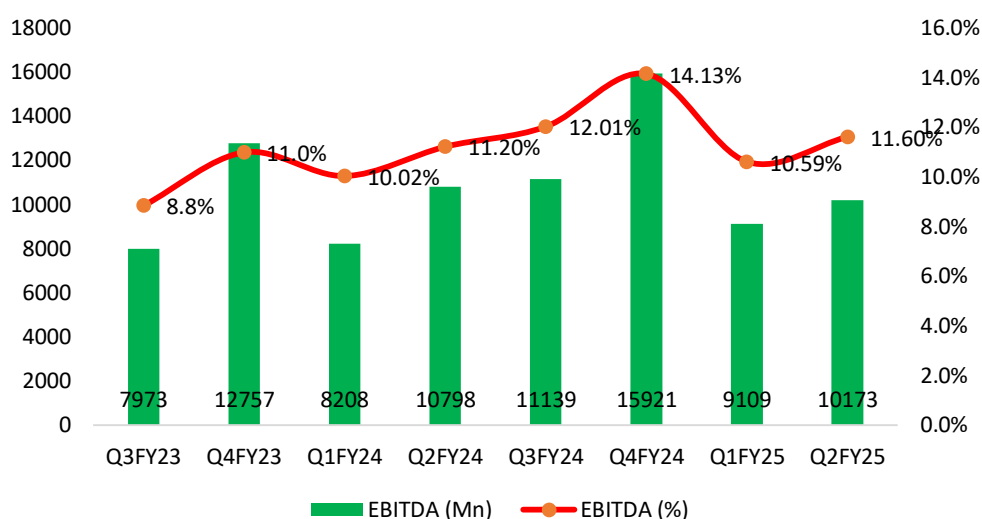
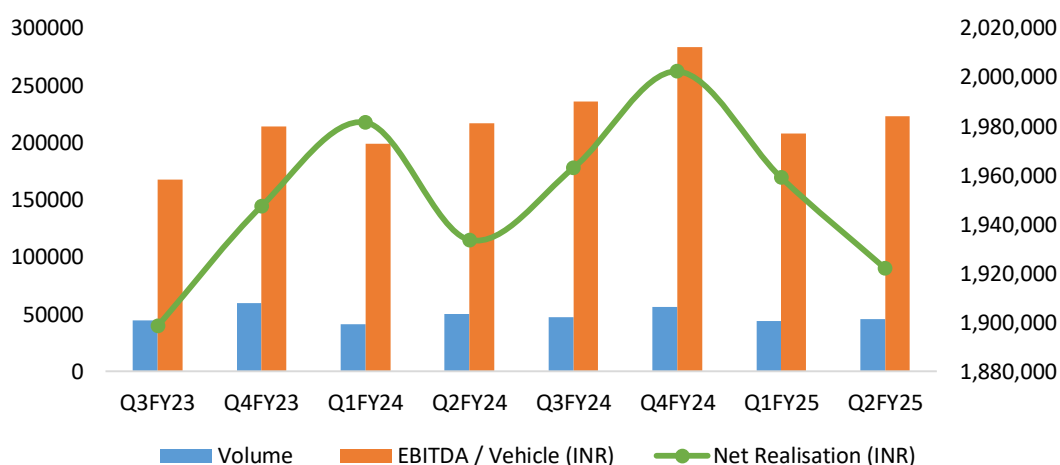


Exhibit 5: Volume expected to increase in the coming quarters



P&L (INR mn) Standalone	FY24	FY25E	FY26E	FY27E
Net sales	383,670	422,107	464,914	515,010
YoY (%)	6.2	10.0	10.1	10.8
Raw material cost	279,120	305,183	334,738	370,807
Employee Cost	22,334	25,684	29,536	33,967
Admin Expenses	36,151	40,100	44,167	47,896
Total expenses	337,605	370,967	408,441	452,670
EBIDTA	46,066	51,140	56,473	62,340
(%)	12.0%	12.1%	12.1%	12.1%
Depreciation	7,178	7,751	9,054	9,804
EBIT	38,888	43,389	47,418	52,536
Interest	2,494	3,977	4,566	5,167
Other income	2,466	2,515	2,565	2,617
PBT	38,859	41,927	45,418	49,986
Exchange gain / (loss) on swap contracts				
(-) Tax	11,743	11,006	12,014	13,335
Tax/ PBT	30.2	26.2	26.5	26.7
PAT	27,116	30,922	33,403	36,651
YoY (%)	109.3	14.0	8.0	9.7
PAT(%)	7.1%	7.3%	7.2%	7.1%
Extraordinary	(937.20)	-	-	-
Reported Profit	26,179	30,922	33,403	36,651

Cash Flow Standalone	FY23	FY24	FY25E	FY26E	FY27E
Net profit	13,801	26,179	30,922	33,403	36,651
Depreciation	7,320	7,178	7,751	9,054	9,804
Deferred tax	(497)	(1,111)	(1,111)	(1,111)	(1,111)
	(26,85)		(35,92)		
Change in W/C	5)	25,317	1)	(22,945)	(2,055)
Operating cash flow	(6,231)	57,563	1,640	18,402	43,289
			(10,00)		
Capex	(3,384)	(4,690)	0)	(10,000)	(10,000)
Investments	660	(12,821)	2,353	(401)	(401)
Investing cash flow	(2,723)	(17,511)	(7,647)	(10,401)	(10,401)
FCF	(9,615)	52,873	(8,360)	8,402	33,289
			(13,40)		
Dividend	(5,984)	(11,350)	7)	(14,483)	(15,965)
Equity	3,072	(10,983)	--	-	-
Debt	6,410	6,410	8,974	9,154	9,337
Financing cash flow	3,498	(15,923)	(4,433)	(5,329)	(6,629)
			(10,44)		
Net change in cash	(5,457)	24,129	0)	2,671	26,260
Opening cash	10,470	5,013	34,382	19,930	23,216
Closing cash	5,013	34,382	19,930	23,216	50,090

B/Sheet (INR mn) Standalone	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	2,936	2,936	2,936	2,936	2,936
Reserves	81,322	85,167	102,682	121,603	142,289
Net worth	84,258	88,104	105,618	124,539	145,225
Total Loans	50,283	56,693	65,668	74,821	84,158
Deferred Tax	5,035	5,563	10	-	-
Total Liabilities	139,576	150,360	171,286	199,360	229,383
Gross block	101,722	105,722	115,722	125,722	135,722
Less: Acc. Dep	38,064	45,242	52,993	62,047	71,851
Net block	63,658	60,480	62,729	63,675	63,871
Work in progress	1,325	2,015	2,015	2,015	2,015
Investments	42,195	56,798	53,507	53,907	54,307
Inventories	36,154	36,236	37,625	41,269	45,716
Debtors	40,621	35,697	34,694	38,212	42,330
Cash	5,013	34,382	19,930	23,216	50,090
Loans and advances	52,198	49,791	66,625	93,296	99,808
Current assets	133,986	156,106	158,874	195,992	237,943
Current liabilities	78,110	70,860	90,551	99,390	110,099
Provisions	23,477	54,179	15,289	16,840	18,654
Net current assets	32,399	31,067	53,034	79,763	109,190
Total Assets	139,576	150,360	171,286	199,360	229,383

Key Ratios	FY24	FY25E	FY26E	FY27E
EPS	8.9	10.5	11.4	12.5
Cash EPS	11.4	13.2	14.5	15.8
Book value	30	36	42	49
P/E (x)	27.6	23.4	21.7	19.7
EV/EBDITA (x)	15.0	14.0	12.8	11.3
P/B (x)	8.2	6.8	5.8	5.0
EV/Sales	1.8	1.7	1.6	1.4
ROCE	18%	22%	20%	20%
ROE	30%	32%	29%	27%
Dividend Yield	1.3%	1.5%	1.7%	1.8%
Gross asset turn	2.5	2.6	2.5	2.4
Days outstanding				
Inventory	47	45	45	45
Debtors	36	30	30	30
Creditors	88	90	90	90

Source: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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