

**CMP: INR 219**

**Rating: Buy**

**Target Price: INR 272**

**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)	6,44,861
52w H/L (INR)	265/158

**Shareholding Pattern %**

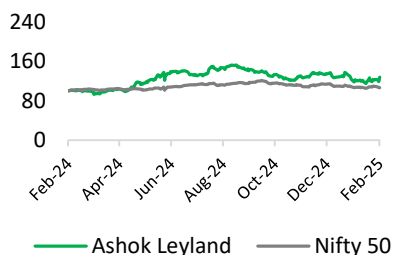
(As on Dec, 2024)

Promoters	51.52
Public	24.09
DII	13.04
Others	11.35

**Stock Performance (%)**

	1m	3m	12m
Ashok Leyland	8.1	-0.9	27.8
Nifty	-0.1	-3.5	6.6

**Ashok Leyland Vs Nifty**



Abhishek Jain  
abhishek.jain@arihantcapital.com  
022 67114851

Jyoti Singh  
jyoti.singh@arihantcapital.com  
022 67114834

Ashok Leyland Ltd (AL) has reported beat our expectations across the board. Standalone revenue stood at INR 94,362 Mn, above our estimate of INR 90,530 Mn registering a growth of up by 2.2% YoY/ up by 8.1% QoQ. EBITDA stood at INR 12,114 Mn, above our estimate of INR 10,545 Mn, up by 19.1%QoQ/ 8.8% YoY. On the margins front, EBITDA margin is up by 118 bps QoQ/+77bps YoY to 12.8%, above our estimate of 11.6 %.Standalone PAT up by 31.1%YoY/ down by 1.1% QoQ to INR 7,617 Mn above our estimate of INR 6,310 Mn .EPS stood at INR 2.59 in Q3FY25 against INR 2.62 in Q2FY25. Achieved export volume of 4,151 units in Q3FY25 against 3,128 units in the same period last year, registering a growth of 33%.

**EV Initiatives: Focus on Switch Mobility:** The company has secured an order book of over 1,800 buses, including 100 units for Mauritius. Its electric LCVs are gaining momentum, with monthly sales surpassing 100 units. The company is also planning to launch a 7.5-ton electric truck, marking a first for India. Switch India is expected to become EBITDA positive by Q1 or Q2FY26, while AL focuses on expanding its product range and volumes over the next 2-3 years.

**Strategy for Expanding LCV MS and Product Portfolio:** LCV domestic volume in Q3FY25 stood at 15,415 units, reflecting a 9% YoY decline in the 2-4 ton market, with a MS of 18.5%. Aims to increase its LCV MS to 20% in the short term and 25% in the medium term, and it recently launched its first entry-level mini truck, "Saathi." Currently covering 50% of the LCV market, Company plans to expand to 80% by launching products in the 3.5-7.5 ton segments. With growth in quick commerce, the company sees significant potential in last-mile and medium-mile delivery, driving future expansion in the ICV and LCV segments.

**Strong traction from Defence led strong order:** Revenue for Q3FY25 was ~1000 Mn, down from 1500 Mn QoQ. However, the company expects positive growth in the defence segment over the next 3-4 quarters, with a strong order pipeline. The sector is driven by replacement demand, as the Indian Army's fleet of 70,000 AL trucks is aging. The company anticipates 10,000-12,000 new trucks for the defence forces in the next 3-4 years. With some orders already in place, company is confident about future growth. This cycle of replacement is expected to continue as trucks age.

**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 Q4FY25 and FY26. Also indicating huge replacement demand potential in the next 2-3 years. We anticipate a ~9%/11%/~12 CAGR in revenue/EBITDA/PAT growth from FY24 to FY27E. **Value AL at a PE multiple of 19x for the parent automaker for its FY27E EPS of INR 12.9 (Include INR ~27 for HLF). We maintain our rating to Buy and value it with SOTP valuation for a target price of INR 272.**

Quarterly Results					
Standalone (INRm)	Q3FY25	Q2FY25	Q3FY24	QoQ%	YoY%
Revenue	94,362	87,285	92,311	8.1%	2.2%
Other operating income	425	404	420	5.3%	1.3%
Net Sales	94,787	87,688	92,730	8.1%	2.2%
Cost of material consumed	63,674	57,735	65,554	10.3%	-2.9%
Purchases of stock-in-trade	3,934	4,070	3,685	-3.3%	6.8%
Changes in inventories	135	605	(2,261)	-77.7%	-106.0%
Raw Material	67,743	62,410	66,977	8.5%	1.1%
Staff Cost	6,064	5,987	5,695	1.3%	6.5%
Other expenditure	8,866	9,118	8,919	-2.8%	-0.6%
Total Expenditure	82,672	77,515	81,591	6.7%	1.3%
EBITDA	12,114	10,173	11,139	19.1%	8.8%
Depreciation	1,923	1,754	1,785	9.6%	7.8%
EBIT	10,191	8,419	9,355	21.1%	8.9%
Interest	501	607	616	-17.5%	-18.8%
Other Income	247	973	300	-74.6%	-17.7%
PBT	9,938	8,785	9,039	13.1%	9.9%
Current Tax	3,546	3,086	2,847	14.9%	24.5%
Deferred tax	(1,226)	(828)	385	48.0%	
Tax	2,320	2,257	3,232	2.8%	-28.2%
Adjusted PAT	7,617	6,527	5,806	16.7%	31.2%
Extraordinary	-	1,173.8	(5.9)		
Reported PAT	7,617.4	7,701.0	5,800.3	-1.1%	31.3%
EPS	2.59	2.62	1.99	-1.1%	30.2%
Total Volumes (Nos)	46,404	45,624	47,241	1.7%	-1.8%
Net Realisation (INR)	2042641	1921977	19,62,916	6.3%	4.1%
EBITDA / Vehicle (INR)	2,61,062	2,22,975	2,35,797	17.1%	10.7%
Margins	Q3FY25	Q2FY25	Q3FY24	QoQ (Bps)	YoY (Bps)
Gross margins	28.5%	28.8%	27.8%	-30Bps	76Bps
EBITDA	12.8%	11.6%	12.0%	118Bps	77Bps
Adjusted PAT	8.0%	7.4%	6.3%	59Bps	177Bps
Effective Tax Rate	23.3%	25.7%	35.8%	-235Bps	-1242Bps
Cost Analysis					
RM/Net Sales	71.47%	71.17%	72.23%	30Bps	-76Bps
Other Exp/Net Sales	9.35%	10.40%	9.62%	-104Bps	-26Bps
Staff cost/Net sales	6.40%	6.83%	6.14%	-43Bps	26Bps
Volume (In Units)	Q3FY25	Q2FY25	Q3FY24	QoQ%	YoY%
MHCV	24,025	25,685	27,250	-6.5%	-11.8%
LCV	15,415	16,629	16,863	-7.3%	-8.6%
Total Sales	39,440	42,314	44,113	-6.8%	-10.6%
EXPORT	54,855	58,943	60,976	-6.9%	-10.0%
M&HCV	6,033	2,495	2,235	141.8%	169.9%
LCV	931	815	893	14.2%	4.3%
Total Exports	6,964	3,310	3,128	110.4%	122.6%
Total Volume	45,624	45,624	47,241	0.0%	-3.4%

Source: Arianth Research, Company Filings

**Ashok Leyland –Concall Highlights**

Expects positive industry growth in Q4FY25 and H1FY26 led by both defence and CV. Management expects 13% EBITDA margins to remain sustainable, driven by a favorable product mix and ongoing cost-cutting efforts. We believes that the further growth is on card led by improvement in ASP and new product launches.

**LCV**

LCV portfolio with plans to increase MS from 18.5% to 20% in the short term and 25% in the medium term in the 2-4 ton segment, LCV segment, aims to increase market coverage from 50% to 80% over 3-4 years with new product launches.

Saathi, AL's first entry-level mini truck, is a key launch in its strategy to expand LCV market coverage from 48-49% to 80% over the next 3-4 years, addressing both below and above their current 2-3.5 ton range.

The company has cut its monthly breakeven volume by 50%+ in the last few years, boosting sustainability during down cycles.

Exports grew 33% YoY in Q3, with a medium-term target of 25,000 units annually

**MHCV**

Maintains over 30% MS in the domestic MHCV market. Target 35% MHCV market share in the medium term.

**Defence**

Pipeline is strong, with expectations of 10-12,000 new truck orders in the next 3-4 years.

The company is optimistic about FY26, with good visibility and growth in both the domestic and export markets.

Price discipline and a favorable product mix are driving margins

**Switch Mobility**

Has an order book of over 1,800 buses. Switch India is expected to be EBITDA positive in Q1 or Q2 FY26 while Switch UK faces challenges due to subdued market conditions.

Switch Mobility unveiled a new electric bus model for the Indian market.

The company is evaluating options for Switch UK due to subdued EV market conditions there.

Switch India is expected to be EBITDA positive by Q1 or Q2 FY26.

Investing INR 5000 Mn in Optare (Switch's holding company) to reduce debt and support capex needs.

Future plans include new product launches, with a focus on both entry-level and higher-end segments, and continued investment in EV technologies.

**CV**

CV industry showed recovery in Q3 after a slowdown in Q2, with domestic MHCV volumes up 10% sequentially. AL maintains over 30% MS in the domestic MHCV segment.

Management expects FY26 to witness growth across all CV segments.

**Replacement**

Demand for trucks gradually improving, with fleet aging up by 2-2.5 years on average.

Tipper segment volumes are expected to grow after addressing product gaps.

Replacement demand is gradually picking up, though loan tenures have increased slightly due to higher vehicle costs.

**HLFL**

Approved further investments of INR 2000 Mn in Hinduja Leyland Finance and INR 5000 Mn in Optare (Switch Mobility's holding company).

Capex for Q3FY25 is 1790 Mn.

Reverse merger of Hinduja Leyland Finance with NDL Ventures is on track to conclude by end of Q1 FY26.

**Cash**

Cash positive at 958 crore rupees compared to net debt of INR 17470 Mn at the end of Q3 last year.

**RM**

Material cost as a percentage of revenue improved to 71.5% from 72.2% in Q3 last year.

Volume: Has reduced its breakeven volumes by over 50% in the last couple of years to improve sustainability through cycles.

Non-vehicle revenue (spares, engines, exports, defence) accounts for about 20% of total revenue. Domestic trucks excluding LCV and buses account for 55-60% of revenue.

**ASP**

Bus segment contributed to strong revenue, driving an overall improvement in ASP, while higher volumes in multi-axle vehicles and the tipper segment further boosted ASP in Q3FY25, with the increase attributed to a favorable product mix in both trucks and buses.

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

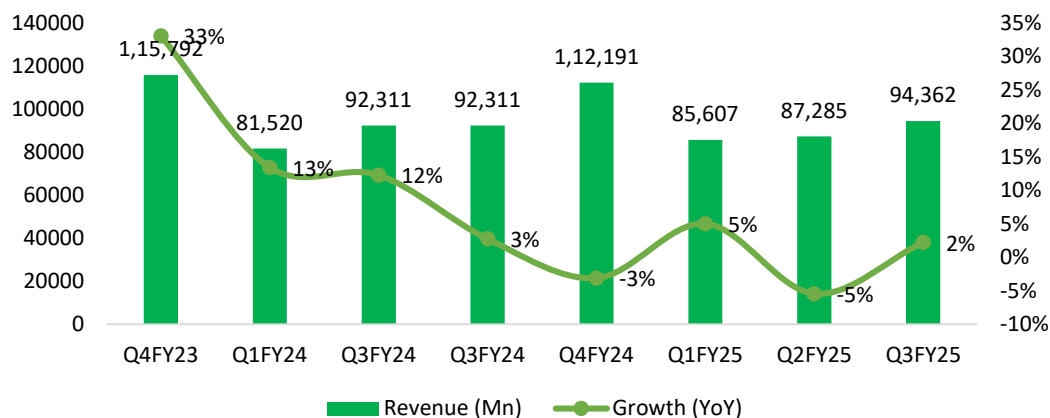


Exhibit 4 : EBITDA margin trend

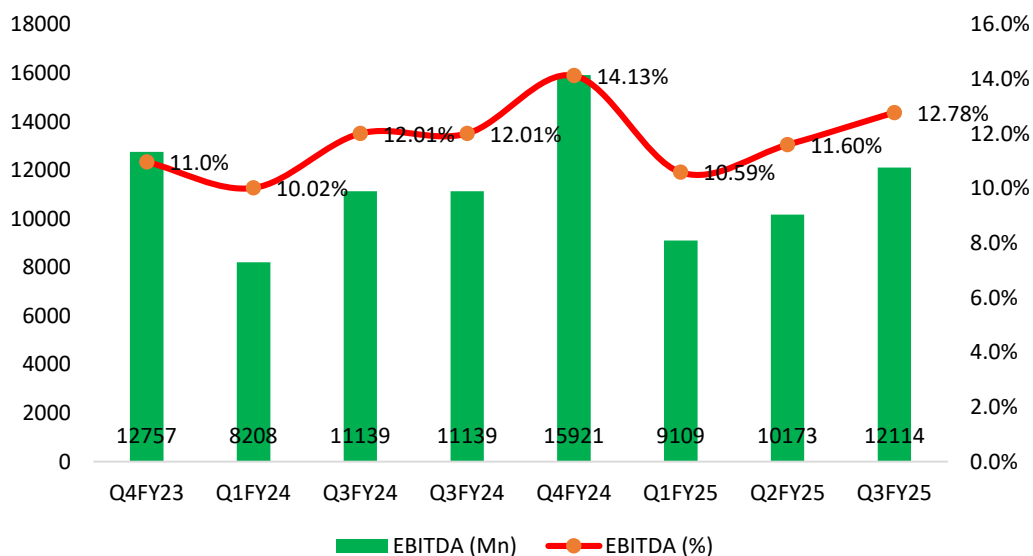
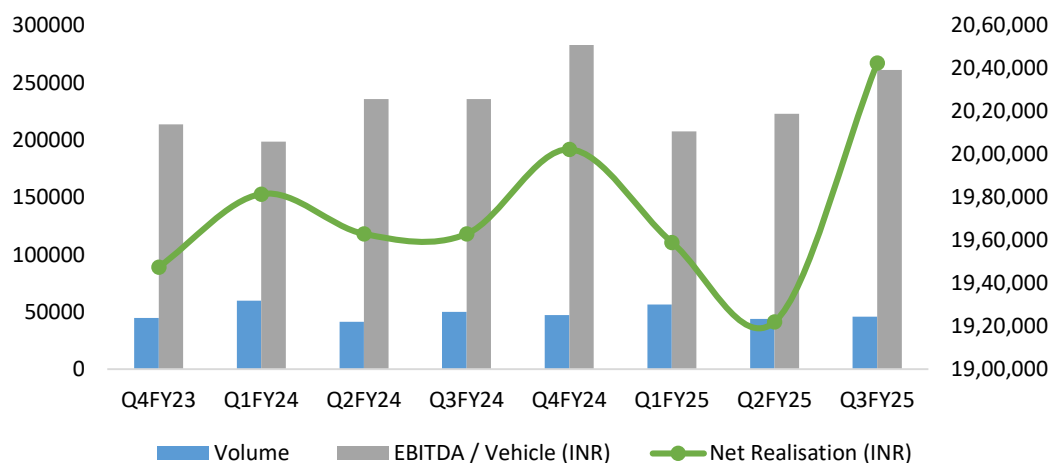


Exhibit 5: Volume expected to increase in the coming quarters



Source: Arihant Research, Company Filings

<b>P&amp;L (INR mn) Standalone</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>
Net sales	3,83,670	3,98,750	4,47,070	4,95,439
YoY (%)	6.2	3.9	12.1	10.8
Raw material cost	2,79,120	2,85,505	3,19,208	3,52,257
Employee Cost	22,334	25,684	29,536	33,967
Admin Expenses	36,151	37,881	42,472	46,076
Total expenses	3,37,605	3,49,070	3,91,216	4,32,300
EBIDTA	46,066	49,680	55,854	63,139
(%)	12.0%	12.5%	12.5%	12.7%
Depreciation	7,178	7,709	8,042	8,887
EBIT	38,888	41,971	47,812	54,252
Interest	2,494	3,977	4,566	5,167
Other income	2,466	2,515	2,565	2,617
PBT	38,859	40,509	45,811	51,702
Exchange gain / (loss) on swap contracts				
(-) Tax	11,743	10,596	12,128	13,831
Tax/ PBT	30.2	26.2	26.5	26.8
<b>PAT</b>	<b>27,116</b>	<b>29,913</b>	<b>33,683</b>	<b>37,871</b>
YoY (%)	109.3	10.3	12.6	12.4
PAT(%)	7.1%	7.5%	7.5%	7.6%
Extraordinary	(937.20)-	-	-	-
<b>Reported Profit</b>	<b>26,179</b>	<b>29,913</b>	<b>33,683</b>	<b>37,871</b>

<b>B/Sheet (INR mn)Standalone</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>
Equity capital	2,936	2,936	2,936	2,936
Reserves	85,167	1,02,111	1,21,190	1,42,565
Net worth	88,104	1,05,047	1,24,127	1,45,501
Total Loans	56,693	65,668	74,821	84,158
Deferred Tax	5,563.10	-	-	-
<b>Total Liabilities</b>	<b>1,50,360</b>	<b>1,70,715</b>	<b>1,98,948</b>	<b>2,29,659</b>
Gross block	1,05,722	1,17,722	1,29,722	1,43,722
Less: Acc. Dep	45,242	52,951	60,993	69,880
Net block	60,480	64,771	68,729	73,842
Work in progress	2,015	2,015	2,015	2,015
Investments	56,798	53,507	53,907	54,307
Inventories	36,236	35,199	39,354	43,429
Debtors	35,697	32,774	36,745	40,721
Cash	34,382	16,987	18,328	40,842
Loans and advances	49,791	64,757	90,976	97,264
Current assets	1,56,106	1,49,717	1,85,403	2,22,256
Current liabilities	70,860	84,852	94,914	1,04,816
Provisions	54,179	14,443	16,193	17,945
Net current assets	31,067	50,422	74,296	99,495
<b>Total Assets</b>	<b>1,50,360</b>	<b>1,70,715</b>	<b>1,98,948</b>	<b>2,29,659</b>

<b>Cash Flow Standalone</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>
Net profit	26,179	29,913	33,683	37,871
Depreciation	7,178	7,709	8,042	8,887
Deferred tax	-1,111	-1,111	-1,111	-1,111
Change in W/C	25,317	-36,252	-22,036	-2,186
Operating cash flow	57,563	259	18,578	43,461
Capex	-4,690	-12,000	-12,000	-14,000
Investments	-12,821	2,353	-401	-401
Investing cash flow	-17,511	-9,647	-12,401	-14,401
<b>FCF</b>	<b>52,873</b>	<b>-11,741</b>	<b>6,578</b>	<b>29,461</b>
Dividend	-11,350	-12,970	-14,604	-16,497
Equity	(10,983)	-	-	-
Debt	6,410	8,974	9,154	9,337
Financing cash flow	-15,923	-3,995	-5,450	-7,160
Net change in cash	24,129	-13,383	727	21,900
Opening cash	5,013	34,382	16,987	18,328
Closing cash	34,382	16,987	18,328	40,842

<b>Key Ratios</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>
EPS	8.9	10.2	11.5	12.9
Cash EPS	11.4	12.8	14.2	15.9
Book value	30	36	42	50
P/E (x)	24.6	21.5	19.1	17.0
EV/EBDITA (x)	13.2	12.8	11.6	10.0
P/B (x)	7.3	6.1	5.2	4.4
EV/Sales	1.6	1.6	1.4	1.3
ROCE	18%	21%	21%	20%
ROE	30%	31%	29%	28%
Dividend Yield	1.5%	1.7%	1.9%	2.1%
Gross asset turn	2.5	2.5	2.4	2.3
<b>Days outstanding</b>				
Inventory	47	45	45	45
Debtors	36	30	30	30
Creditors	88	90	90	90

Source: Arianth Research, Company Filings

**Arihant Research Desk**Email: [instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	6 Lad Colony, Y.N. Road, Indore Indore - 452003, (M.P.) Tel: (91-731) 4217100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:research@arihantcapital.com">research@arihantcapital.com</a>

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Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880