

26 July 2024

India | Equity Research | Q1FY25 results review

Ashok Leyland

Automotives

Weak profitability as per seasonality; maintain SELL with limited volume growth outlook

Ashok Leyland's (AL) EBITDAM, at 10.6% (down 350bps QoQ), missed consensus estimate by 60bps, due to weaker operating leverage, with Q1 being a seasonally weak quarter and one-off costs driven by battery pack/module, EDU and software development costs. Revenue was up 5% YoY at INR 86bn (in line with estimates) with domestic goods M&HCV volume down 3%, as buses, spares, defence and power solution segments drove overall growth. We are building in flat volume for domestic goods M&HCVs in FY25E and 10% dip in FY26E, thus, building in revenue CAGR of 2% over FY24-26E, with buses/LCV pricing driving growth. We maintain EBITDAM at 11%/8% for FY25/26E; maintain SELL with DCF-based revised TP at INR 146 (earlier: INR 140), implying 13x FY26E EV/EBITDA.

Conference call takeaways, and our views

- AL's domestic M&HCV volume was up 8% YoY at ~26k units, while goods M&HCV volume declined 3% YoY; overall growth was driven by bus volume. AL expects M&HCV growth momentum to continue and expects flattish to low single digit growth in FY25. We build in negative 3% volume CAGR over FY24-26E for AL's M&HCV portfolio, with 2% growth in FY25E and 9% dip in FY26E vs 6% negative CAGR of goods M&HCVs, as we expect growth in bus demand to cushion the decline partly. Revenue was up 5% YoY at INR 86bn despite domestic goods M&HCV volume down 3%, as buses, spares, defence and power solutions segments grew strongly. Defence volume stood at >1k units in Q1 and value was up 200% YoY; AL expects defence segment revenue to double from FY24 levels by FY26. DFC is close to getting commissioned in FY25, however, AL does not see any major impact from this over the next 2 years.
- With Q1 being a seasonally weak quarter, AL's EBITDAM declined 350bps QoQ to 10.6% due to weaker operating leverage and select one-offs. AL did not take any price hike in Q1 and Jul'24. Additionally, annual salary hikes would be effective from Jul'24, potentially impacting Q2FY25 margins partly. AL plans to profitably grow market share, focusing on product improvement/differentiation and incrementally better cost management. The company maintains its medium-term target of mid-teen EBITDA margin and is confident of not increasing discounts to gain market share. AL plans to complete the reverse merger needs and list its NBFC arm by FY25 end.

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Market Data

Market Cap (INR)	723bn
Market Cap (USD)	8,647mn
Bloomberg Code	AL IN
Reuters Code	ASOK.BO
52-week Range (INR)	249 /158
Free Float (%)	49.0
ADTV-3M (mn) (USD)	49.9

Price Performance (%)	3m	6m	12m
Absolute	33.2	45.1	36.0
Relative to Sensex	22.9	30.1	14.1

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	3,61,441	3,83,670	4,08,252	4,02,312
EBITDA	29,307	46,066	44,920	32,185
EBITDA %	8.1	12.0	11.0	8.0
Net Profit	12,955	27,116	26,365	16,924
EPS (INR)	4.4	9.2	9.0	5.8
EPS % Chg YoY	4,079.0	109.3	(2.8)	(35.8)
P/E (x)	55.8	26.7	27.4	42.7
EV/EBITDA (x)	25.6	15.4	16.2	22.8
RoCE (%)	12.1	24.5	21.4	12.9
RoE (%)	17.5	34.8	28.5	16.8

Previous Reports

25-05-2024: [Q4FY24 results review](#)

17-04-2024: [Company Update](#)

Exhibit 1: Q1FY25 result review (standalone)

Standalone (INR mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Total Operating Income	85,985	81,893	5.0%	1,12,667	-24%
Cost of Materials	62,046	60,372	3%	80,906	-23%
As % of sales	72.2%	73.7%	-156 bps	71.8%	35 bps
Gross profit	23,939	21,521	11%	31,761	-25%
Gross margin	27.8%	26.3%	156 bps	28.2%	-35 bps
Employee Expenses	5,498	5,376	2%	5,535	-1%
As % of sales	6.4%	6.6%	-17 bps	4.9%	148 bps
Other Expenses	9,333	7,938	18%	10,305	-9%
As % of sales	10.9%	9.7%	116 bps	9.1%	171 bps
EBITDA	9,109	8,207	11%	15,921	-43%
EBITDA margin	10.6%	10.0%	57 bps	14.1%	-354 bps
Depreciation	1,727	1,794	-4%	1,797	-4%
EBIT	7,382	6,414	15%	14,124	-48%
EBIT Margin	8.6%	7.8%	75 bps	12.5%	-395 bps
Interest	591	699	-15%	592	0%
Other Income	223	511.8	-56%	1179	-81%
PBT	7,014	6,227	13%	14,711	-52%
PBT Margin	8.2%	7.6%	55 bps	13.1%	-490 bps
Tax expenses	1,759	457	285%	5,010	-65%
Effective Tax Rate	25.1%	7.3%	1,773	34.1%	(899)
Adjusted PAT	5,256	5,770	-9%	9,701	-46%
Adjusted PAT Margin	6.1%	7.0%	-93 bps	8.6%	-250 bps
Exceptional expenses/ (income)	-	6	-100%	697	-100%
Reported PAT	5,256	5,764	-9%	9,004	-42%
EPS (INR)	1.8	2.0	-9%	3.3	-46%

Source: I-Sec research, Company data

Exhibit 2: Q1FY25 volume break up

Volume break-up (units)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Domestic Goods M&HCVs	20,602	21,209	-3%	27,846	-26%
Domestic Passenger M&HCVs	5,612	3,077	82%	6,870	-18%
Domestic LCVs	15,345	14,821	4%	17,951	-15%
Total exports	2,334	2,222	5%	3,602	-35%
Total	43,893	41,329	6%	56,269	-22%
Volume break-up (mix)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Domestic Goods M&HCVs	47%	51%	-438 bps	49%	-255 bps
Domestic Passenger M&HCVs	13%	7%	534 bps	12%	58 bps
Domestic LCVs	35%	36%	-90 bps	32%	306 bps
Total exports	5%	5%	-6 bps	6%	-108 bps

Source: I-Sec research, Company data

Exhibit 3: Q1FY25 per vehicle matrix

Per vehicle matrix	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Total (Domestic+ Exports) units	43,893	41,329	6%	56,269	-22%
Net realisation/unit (INR)	19,58,975	19,81,488	-1%	20,02,291	-2%
Raw material per vehicle (INR)	14,13,583	14,60,754	-3%	14,37,838	-2%
EBITDA per vehicle (INR)	2,07,521	1,98,589	4%	2,82,946	-27%

Source: I-Sec research, Company data

Exhibit 4: Volume assumptions

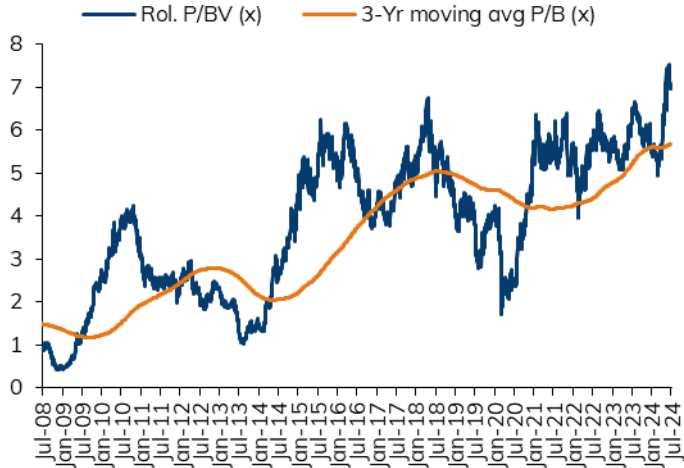
	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
M&HCV Goods (units)	53,227	43,210	61,301	1,03,480	1,01,997	1,01,997	90,340
M&HCV Passenger (units)	18,141	2,795	3,789	10,767	12,059	13,868	14,977
LCV (units)	43,467	46,588	52,037	67,648	69,500	66,025	62,724
Exports (units)	8,920	8,001	11,014	11,289	10,160	10,668	11,202
Total Volume (units)	1,23,755	1,00,594	1,28,141	1,93,184	1,93,716	1,92,558	1,79,242
ASP (INR mn)	1.36	1.52	1.79	2.06	2.10	2.15	2.19
EBITDA Margin (%)	6.7	3.5	4.6	8.1	12.0	11.0	8.0
Capex (INR mn)	17,954	7,722	1,257	3,735	4,345	8,165	8,046

Source: I-Sec research, Company data

Upside risks

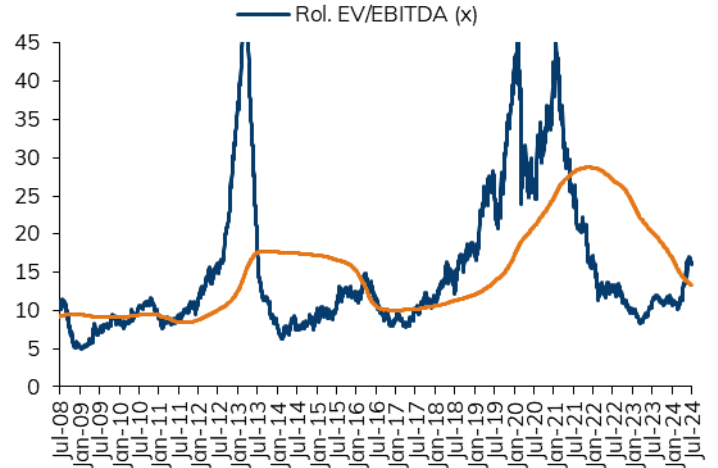
- Continued double-digit growth in domestic M&HCVs in FY25.
- AL executing its target of mid-teen margin ahead.
- AL being able to sell stake in Switch Mobility in the future.

Exhibit 5: Three-year moving P/B



Source: Bloomberg, I-Sec research

Exhibit 6: Three-year moving EV/EBITDA



Source: Bloomberg, I-Sec research

Exhibit 7: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	51.5	51.5	51.5
Institutional investors	35.2	33.7	35.0
MFs and others	9.8	5.8	6.8
FIs/Banks	0.0	0.2	0.2
Insurance	4.5	4.6	6.0
FIIIs	20.9	23.0	22.0
Others	13.3	14.8	13.5

Source: Bloomberg, I-Sec research

Exhibit 8: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 9: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	3,61,441	3,83,670	4,08,252	4,02,312
Operating Expenses	53,643	58,484	65,308	72,416
EBITDA	29,307	46,066	44,920	32,185
EBITDA Margin (%)	8.1	12.0	11.0	8.0
Depreciation & Amortization	7,320	7,178	7,773	8,300
EBIT	21,987	38,888	37,147	23,885
Interest expenditure	2,891	2,494	2,029	2,029
Other Non-operating Income	1,161	2,466	1,500	1,650
Recurring PBT	20,258	38,859	36,618	23,506
Profit / Loss from Associates	-	-	-	-
Less: Taxes	7,303	11,743	10,253	6,582
PAT	12,955	27,116	26,365	16,924
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	846	(937)	-	-
Net Income (Reported)	13,801	26,179	26,365	16,924
Net Income (Adjusted)	12,955	27,116	26,365	16,924

Source Company data, I-Sec research

Exhibit 10: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	1,22,628	1,21,477	1,43,431	1,34,302
of which cash & cash eqv.	5,013	34,382	18,159	10,853
Total Current Liabilities & Provisions	1,04,823	1,19,906	1,32,632	1,20,135
Net Current Assets	17,804	1,571	10,799	14,168
Investments	38,922	53,107	58,107	63,107
Net Fixed Assets	63,042	59,518	59,910	59,656
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,325	2,015	2,015	2,015
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	1,21,093	1,16,211	1,30,832	1,38,947
Liabilities				
Borrowings	31,801	22,545	22,545	22,545
Deferred Tax Liability	5,034	5,563	5,563	5,563
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	2,936	2,936	2,936	2,936
Reserves & Surplus	81,322	85,167	99,787	1,07,902
Total Net Worth	84,257	88,104	1,02,723	1,10,838
Minority Interest	-	-	-	-
Total Liabilities	1,21,093	1,16,211	1,30,832	1,38,947

Source Company data, I-Sec research

Exhibit 11: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net sales	96,380	92,730	1,12,667	85,985
% growth (YoY)	17%	3%	-3%	5%
EBITDA	10,798	11,139	15,921	9,109
Margin	11.2%	12.0%	14.1%	10.6%
Other income	475	300	1,179	223
Net profit	5,839	5,800	9,701	5,256

Source Company data, I-Sec research

Exhibit 12: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	5,514	76,017	13,506	19,515
Working Capital Changes	(21,243)	38,700	(22,662)	(7,738)
Capital Commitments	(3,735)	(4,345)	(8,165)	(8,046)
Free Cashflow	1,779	71,672	5,341	11,469
Other investing cashflow	(3,706)	(14,185)	(5,000)	(5,000)
Cashflow from Investing Activities	(7,441)	(18,530)	(13,165)	(13,046)
Issue of Share Capital	4,720	(7,798)	0	0
Interest Cost	(2,891)	(2,494)	(2,029)	(2,029)
Inc (Dec) in Borrowings	(3,270)	(9,256)	-	-
Dividend paid	(2,936)	(7,632)	(14,535)	(11,745)
Others	847	(938)	-	-
Cash flow from Financing Activities	(3,530)	(28,118)	(16,564)	(13,774)
Chg. in Cash & Bank balance	(5,456)	29,369	(16,223)	(7,305)
Closing cash & balance	5,013	34,382	18,159	10,853

Source Company data, I-Sec research

Exhibit 13: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	4.4	9.2	9.0	5.8
Adjusted EPS (Diluted)	4.4	9.2	9.0	5.8
Cash EPS	6.9	11.7	11.6	8.6
Dividend per share (DPS)	2.6	4.9	4.0	3.0
Book Value per share (BV)	28.7	30.0	35.0	37.7
Dividend Payout (%)	55.3	55.5	44.5	52.0
Growth (%)				
Net Sales	66.7	6.2	6.4	(1.5)
EBITDA	194.7	57.2	(2.5)	(28.4)
EPS (INR)	4,079.0	109.3	(2.8)	(35.8)
Valuation Ratios (x)				
P/E	55.8	26.7	27.4	42.7
P/CEPS	35.7	21.1	21.2	28.7
P/BV	8.6	8.2	7.0	6.5
EV / EBITDA	25.6	15.4	16.2	22.8
EV / Sales	2.1	1.9	1.8	1.8
Profitability Ratios				
Gross Profit Margins (%)	22.9	27.3	27.0	26.0
EBITDA Margins (%)	8.1	12.0	11.0	8.0
EBIT Margins (%)	6.1	10.1	9.1	5.9
Net Profit Margins (%)	3.6	7.1	6.5	4.2
RoCE (%)	12.1	24.5	21.4	12.9
RoE (%)	17.5	34.8	28.5	16.8
Dividend Yield (%)	1.1	2.0	1.6	1.2
Operating Ratios				
Fixed Asset Turnover (x)	5.6	6.2	6.6	6.5
Inventory Turnover Days	12	9	9	8
Receivables Days	36	36	36	40
Payables Days	86	85	88	93
Effective Tax Rate (%)	36.0	30.2	28.0	28.0
Net Debt / Equity (x)	0.3	(0.1)	0.0	0.1
Net Debt / EBITDA (x)	0.9	(0.3)	0.1	0.4

Source Company data, I-Sec research

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