

Ashok Leyland

Good show, priced-in

Ashok Leyland's Q2 PAT at INR 6.5bn and margin at 11.6% were both higher than our estimates. MHCV started on a good growth in Q1, with momentum being impacted in Q2 by seasonal factors like extreme weather, uneven distribution of rainfall, and slow takeoff in government CapEx spending resulting in 12% drop in MHCV industry volume. Management believes these are temporary factors and remains positive about demand prospects in H2 and in the medium term. With continued focus on cost saving, efficient sourcing, and better realization, AL aspires to have mid-teen EBITDA margin in the medium term. AL highlighted its other medium-term goals as well: M&HCV market share of 35%, growth in non-CV businesses, leadership in alternate fuel vehicles, and value unlocking from subsidiaries. We are of the view that the best of the CV industry is now behind us, after two years of very strong growth. Reiterate SELL with a TP of INR 178, based on 20x Sep-26 EPS.

- Q2 earnings ahead of our estimates:** Ashok Leyland's Q2 APAT at INR 6.5bn was higher than our estimate of INR 5.5bn due to higher non-operating income and lower-than-expected tax expense. Notwithstanding lower volumes, gross margins expanded 230bps YoY led by lower commodity prices and cost reduction initiatives. EBITDA declined 6% YoY to INR 10.1bn, while margin at 11.6% was higher than our estimate of 11%. There was an exceptional gain on fair value of investment in subsidiary of INR 1.2bn.
- Call takeaways:** (1) Management has maintained its aspiration of mid-teen EBITDA margin in the medium term. Notwithstanding higher competition, AL aims to achieve mid-teen margins without offering significant discounts. (2) Material costs at 71.2% was lower 230bps YoY, aided by benign steel prices and cost savings benefits. (3) Notwithstanding the industry slowdown, AL domestic M&HCV market share expanded sequentially from 30.6% to 31.2% in Q2. AL aspires to have a 35% market share in the domestic M&HCV market in the medium term. (4) Despite global challenges, export volumes reported a growth of 14% YoY. AL is intensifying its expansion strategy in focus markets of SAARC, Middle East, Africa and Asia. (5) Margin improvement supported by growth in spare parts (+13% YoY), and international business operations. (6) Net debt stood at INR 5bn vs INR 12bn at the end of Q1. (7) CapEx for Q2 stood at INR 1,530mn, and for H1 stood at INR 3,070mn. AL has not made any investment in any subsidiary and associate companies in Q2. However, management highlighted investments may be required in H2. (8) AL has received an order for 180 electric buses in 19 and 55T categories in Q2. (9) Switch Mobility is actively fulfilling its order of 1200 buses, supplies of which would start in latter part of the year. Switch India is expected to achieve EBITDA breakeven in FY25.

Quarterly/annual financial summary

| YE Mar (INR mn) | 2Q FY25 | 2Q FY24 | YoY (%) | 1Q FY25 | QoQ (%) | FY24 | FY25E | FY26E | FY27E |
|-------------------|------------|------------|------------|------------|------------|---------|---------|---------|---------|
| Net Sales | 87,688 | 96,380 | (9.0) | 85,985 | 2.0 | 383,670 | 406,875 | 431,810 | 458,467 |
| EBITDA | 10,173 | 10,798 | (5.8) | 9,109 | 11.7 | 46,066 | 42,722 | 45,340 | 47,681 |
| APAT | 6,527 | 5,839 | 11.8 | 5,256 | 24.2 | 27,116 | 23,462 | 25,041 | 26,541 |
| Diluted EPS (INR) | 2.2 | 2.0 | 11.8 | 1.8 | 24.2 | 9.2 | 8.0 | 8.5 | 9.0 |
| P/E (x) | | | | | | 24.0 | 27.8 | 26.0 | 24.6 |
| EV / EBITDA (x) | | | | | | 13.9 | 14.7 | 13.7 | 12.1 |
| RoCE (%) | | | | | | 31.5 | 25.2 | 24.1 | 21.5 |

Source: Company, HSIE Research

SELL

| | |
|------------------------|---------|
| CMP (as on 8 Nov 2024) | INR 222 |
| Target Price | INR 178 |
| NIFTY | 24,148 |

| KEY CHANGES | OLD | NEW |
|--------------|---------|---------|
| Rating | SELL | SELL |
| Price Target | INR 178 | INR 178 |
| EPS % | FY25E | FY26E |
| | -1.0 | -1.0 |

KEY STOCK DATA

| | |
|------------------------------|-------------|
| Bloomberg code | AL IN |
| No. of Shares (mn) | 2,936 |
| MCap (INR bn) / (\$ mn) | 652/7,722 |
| 6m avg traded value (INR mn) | 3,059 |
| 52 Week high / low | INR 265/158 |

STOCK PERFORMANCE (%)

| | 3M | 6M | 12M |
|--------------|--------|------|------|
| Absolute (%) | (9.9) | 11.9 | 27.9 |
| Relative (%) | (10.7) | 3.7 | 5.5 |

SHAREHOLDING PATTERN (%)

| | Jun-24 | Sep-24 |
|-----------------|--------|--------|
| Promoters | 51.52 | 51.52 |
| FIs & Local MFs | 14.12 | 12.35 |
| FPIs | 22.03 | 24.40 |
| Public & Others | 12.33 | 11.73 |

Source : BSE

Pledged shares as % of total shares

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