

09 November 2024

India | Equity Research | Q2FY25 results review

Ashok Leyland

Automotives

Margin beat; limited volume growth outlook – maintain SELL

Ashok Leyland's (AL) EBITDAM, at 11.6% (up 100bps QoQ), beat consensus estimate by 50bps, due to lower input costs, cost efficiencies and higher share of spares, power solutions segment and exports. Revenue was down 9% YoY at INR 88bn (vs. INR 90bn estimates); domestic goods M&HCV volume down 18%, offset by growth in buses, spares, defence and power solution segments. We build in 6% volume decline for domestic goods M&HCVs in FY25E and FY26E; thus, envision a revenue CAGR of 3% over FY24–26E with buses/LCV pricing driving growth. We increase our FY25E/FY26E EBITDAM by 50bps/150bps to 11.5%/9.5%. Maintain **SELL** with a DCF-based revised TP of INR 160 (earlier INR 146), implying 12x FY26E EV/EBITDA.

Conference call takeaways

- AL's domestic M&HCV volume was down 14% YoY at ~26k units; goods M&HCV volume declined 18% YoY and bus volumes increased 8% YoY. AL expects M&HCV growth momentum to pick-up in H2 and envisages flattish to low single-digit growth in FY25. We build in a negative 3% volume CAGR over FY24–26E for AL's M&HCV portfolio, with negative 6% CAGR growth in goods M&HCVs, and 20% growth in bus demand to cushion the decline partly. Revenue was down 9% YoY at INR 88bn and weakness in domestic goods M&HCV volume was partially offset by growth in exports, buses, spares, defence and power solutions segments. Defence revenues nearly doubled YoY in H1; AL expects its defence segment's revenue growth to continue with strong pipeline of orders and for revenue to double from FY24's levels by FY26. In exports, although the SAARC market has been sluggish, AL has seen growth in Africa markets and entered Southeast Asia, which has supported exports growth. AL has set a long-term target of 50k units of exports.
- AL's EBITDAM increased by 100bps QoQ to 11.6% led by lower input costs, operational efficiencies and higher share of non-CV businesses. 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 expects Switch India to achieve EBITDA breakeven in FY25 and plans to complete the reverse merger needs and list its NBFC arm by Q1FY26-end.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	3,61,441	3,83,670	3,93,294	4,06,044
EBITDA	29,307	46,066	45,241	38,574
EBITDA %	8.1	12.0	11.5	9.5
Net Profit	12,955	27,116	26,603	21,536
EPS (INR)	4.4	9.2	9.1	7.3
EPS % Chg YoY	4,079.0	109.3	(1.9)	(19.0)
P/E (x)	50.3	24.0	24.5	30.3
EV/EBITDA (x)	23.1	13.9	14.5	17.1
RoCE (%)	12.1	24.5	21.5	15.8
RoE (%)	17.5	34.8	28.7	20.4

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Market Data

Market Cap (INR)	652bn
Market Cap (USD)	7,722mn
Bloomberg Code	AL IN
Reuters Code	ASOK.BO
52-week Range (INR)	265/158
Free Float (%)	49.0
ADTV-3M (mn) (USD)	25.2

Price Performance (%)	3m	6m	12m
Absolute	(9.9)	11.9	27.9
Relative to Sensex	(10.7)	3.7	5.5

ESG Score	2022	2023	Change
ESG score	55.0	68.7	13.7
Environment	40.4	56.1	15.7
Social	43.2	67.3	24.1
Governance	70.9	76.8	5.9

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Previous Reports

26-07-2024: [Q1FY25 results review](#)

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

Exhibit 1: Q2FY25 result review (standalone)

Standalone (INR mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Total Operating Income	87,688	96,380	-9.0%	85,985	2%
Cost of Materials	62,410	70,866	-12%	62,046	1%
As % of sales	71.2%	73.5%	-235 bps	72.2%	-99 bps
Gross profit	25,278	25,515	-1%	23,939	6%
Gross margin	28.8%	26.5%	235 bps	27.8%	99 bps
Employee Expenses	5,987	5,728	5%	5,498	9%
As % of sales	6.8%	5.9%	88 bps	6.4%	43 bps
Other Expenses	9,118	8,989	1%	9,333	-2%
As % of sales	10.4%	9.3%	107 bps	10.9%	-46 bps
EBITDA	10,173	10,798	-6%	9,109	12%
EBITDA margin	11.6%	11.2%	40 bps	10.6%	101 bps
Depreciation	1,754	1,803	-3%	1,727	2%
EBIT	8,419	8,995	-6%	7,382	14%
EBIT Margin	9.6%	9.3%	27 bps	8.6%	102 bps
Interest	607	587	3%	591	3%
Other Income	973	474.6	105%	223.4	335%
PBT	8,785	8,882	-1%	7,014	25%
PBT Margin	10.0%	9.2%	80 bps	8.2%	186 bps
Tax expenses	2,257	3,044	-26%	1,759	28%
Effective Tax Rate	25.7%	34.3%	(857)	25.1%	63
Adjusted PAT	6,527	5,839	12%	5,256	24%
Adjusted PAT Margin	7.4%	6.1%	139 bps	6.1%	133 bps
Exceptional expenses/ (income)	(1,174)	229	N.M.	-	N.M.
Reported PAT	7,701	5,610	37%	5,256	47%
EPS (INR)	2.2	2.0	12%	1.8	24%

Source: I-Sec research, Company data

Exhibit 2: Q2FY25 volume break up

Volume break-up (units)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Domestic Goods M&HCVs	21,053	25,652	-18%	20,602	2%
Domestic Passenger M&HCVs	4,632	4,295	8%	5,612	-17%
Domestic LCVs	16,629	16,998	-2%	15,345	8%
Total exports	3,310	2,901	14%	2,334	42%
Total	45,624	49,846	-8%	43,893	4%
Volume break-up (mix)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Domestic Goods M&HCVs	46%	51%	-532 bps	47%	-79 bps
Domestic Passenger M&HCVs	10%	9%	154 bps	13%	-263 bps
Domestic LCVs	36%	34%	235 bps	35%	149 bps
Total exports	7%	6%	144 bps	5%	194 bps

Source: I-Sec research, Company data

Exhibit 3: Q2FY25 per vehicle metrics

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Total (Domestic+ Exports) units	45,624	49,846	-8%	43,893	4%
Net realisation/unit (INR)	19,21,977	19,33,563	-1%	19,58,975	-2%
Raw material per vehicle (INR)	13,67,929	14,21,689	-4%	14,13,583	-3%
EBITDA per vehicle (INR)	2,22,975	2,16,625	3%	2,07,521	7%

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	95,877	90,124
M&HCV Passenger (units)	18,141	2,795	3,789	10,767	12,059	15,074	17,335
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	1,87,644	1,81,384
ASP (INR mn)	1.36	1.52	1.79	2.06	2.10	2.11	2.19
EBITDA Margin (%)	6.7	3.5	4.6	8.1	12.0	11.5	9.5
Capex (INR mn)	17,954	7,722	1,257	3,735	4,345	7,866	8,121

Source: I-Sec research, Company data

Exhibit 5: Estimates revision

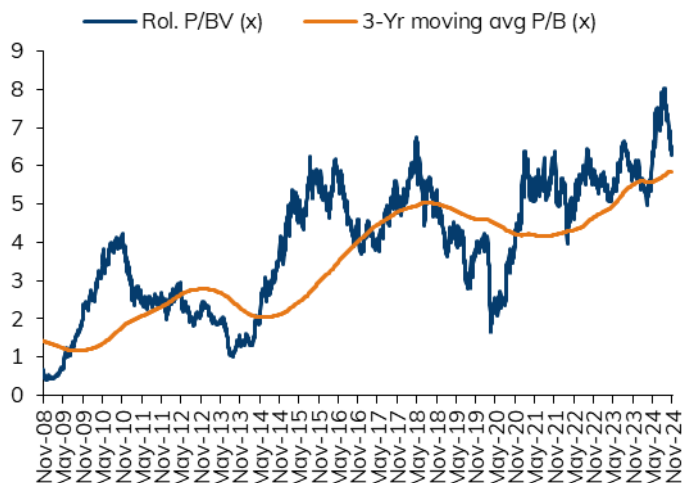
	FY25E			FY26E		
	Old	Revised	% change	Old	Revised	% change
Volume (units)	1,92,558	1,87,644	-2.6%	1,79,242	1,81,384	1.2%
Revenue (INR mn)	4,08,252	3,93,294	-3.7%	4,02,312	4,06,044	0.9%
EBITDA (INR mn)	44,920	45,241	0.7%	32,185	38,574	19.9%
EBITDA margin (%)	11.0%	11.5%	50 bps	8.0%	9.5%	150 bps
PAT (INR mn)	26,365	26,603	0.9%	16,924	21,536	27.3%
EPS (INR)	9.0	9.1	0.9%	5.8	7.3	27.3%

Source: I-Sec research

Upside risks

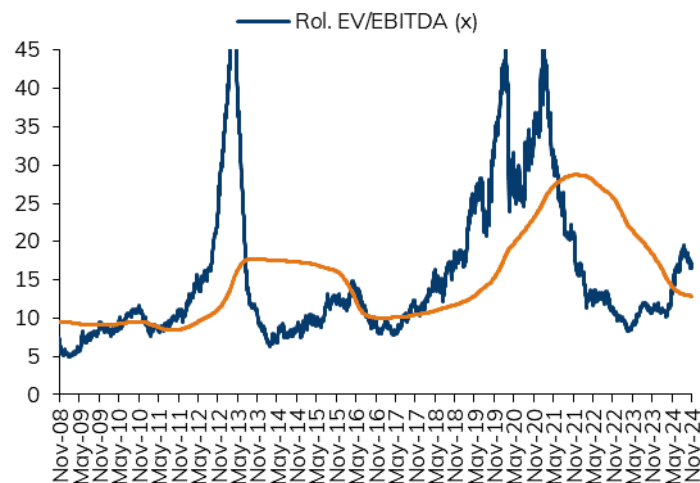
- Continued double-digit growth in domestic M&HCVs in FY25.
- AL executing its target of mid-teen margin ahead.
- AL being able to sell stake in Switch Mobility in the future.

Exhibit 6: Three-year moving P/B



Source: Bloomberg, I-Sec research

Exhibit 7: Three-year moving EV/EBITDA



Source: Bloomberg, I-Sec research

Exhibit 8: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	51.5	51.5	51.5
Institutional investors	35.2	33.7	36.3
MFs and others	9.8	5.8	5.4
FIs/Banks	0.0	0.2	0.2
Insurance	4.5	4.6	6.4
FIIIs	20.9	23.0	24.4
Others	13.3	14.8	12.2

Source: Bloomberg, I-Sec research

Exhibit 9: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	3,61,441	3,83,670	3,93,294	4,06,044
Operating Expenses	53,643	58,484	60,948	71,058
EBITDA	29,307	46,066	45,241	38,574
EBITDA Margin (%)	8.1	12.0	11.5	9.5
Depreciation & Amortization	7,320	7,178	7,764	8,283
EBIT	21,987	38,888	37,477	30,291
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	36,948	29,912
Profit / Loss from Associates	-	-	-	-
Less: Taxes	7,303	11,743	10,345	8,375
PAT	12,955	27,116	26,603	21,536
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	846	(937)	-	-
Net Income (Reported)	13,801	26,179	26,603	21,536
Net Income (Adjusted)	12,955	27,116	26,603	21,536

Source Company data, I-Sec research

Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	1,22,628	1,21,477	1,39,529	1,40,383
of which cash & cash eqv.	5,013	34,382	18,847	15,789
Total Current Liabilities & Provisions	1,04,823	1,19,906	1,28,203	1,21,167
Net Current Assets	17,804	1,571	11,326	19,216
Investments	38,922	53,107	58,107	63,107
Net Fixed Assets	63,042	59,518	59,620	59,458
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,325	2,015	2,015	2,015
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	1,21,092	1,16,211	1,31,069	1,43,796
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	1,00,025	1,12,752
Total Net Worth	84,257	88,104	1,02,961	1,15,689
Minority Interest	-	-	-	-
Total Liabilities	1,21,093	1,16,211	1,31,070	1,43,797

Source Company data, I-Sec research

Exhibit 12: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net sales	92,730	1,12,667	85,985	87,688
% growth (YoY)	3%	-3%	5%	(9)%
EBITDA	11,139	15,921	9,109	10,173
Margin	12.0%	14.1%	10.6%	11.6%
Other income	300	1,179	223	973
Net profit	5,800	9,701	5,256	6,527

Source Company data, I-Sec research

Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	5,514	76,017	13,895	23,837
Working Capital Changes	(21,243)	38,700	(22,501)	(8,011)
Capital Commitments	(3,735)	(4,345)	(7,866)	(8,121)
Free Cashflow	1,779	71,672	6,029	15,717
Other investing cashflow	(3,706)	(14,185)	(5,000)	(5,000)
Cashflow from Investing Activities	(7,441)	(18,530)	(12,866)	(13,121)
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	(15,535)	(3,058)
Closing cash & balance	5,013	34,382	18,847	15,789

Source Company data, I-Sec research

Exhibit 14: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	4.4	9.2	9.1	7.3
Adjusted EPS (Diluted)	4.4	9.2	9.1	7.3
Cash EPS	6.9	11.7	11.7	10.2
Dividend per share (DPS)	2.6	4.9	4.0	3.0
Book Value per share (BV)	28.7	30.0	35.1	39.4
Dividend Payout (%)	55.3	55.5	44.2	40.9
Growth (%)				
Net Sales	66.7	6.2	2.5	3.2
EBITDA	194.7	57.2	(1.8)	(14.7)
EPS (INR)	4,079.0	109.3	(1.9)	(19.0)
Valuation Ratios (x)				
P/E	50.3	24.0	24.5	30.3
P/CEPS	32.1	19.0	19.0	21.8
P/BV	7.7	7.4	6.3	5.6
EV / EBITDA	23.1	13.9	14.5	17.1
EV / Sales	1.9	1.7	1.7	1.6
Profitability Ratios				
Gross Profit Margins (%)	22.9	27.3	27.0	27.0
EBITDA Margins (%)	8.1	12.0	11.5	9.5
EBIT Margins (%)	6.1	10.1	9.5	7.5
Net Profit Margins (%)	3.6	7.1	6.8	5.3
RoCE (%)	12.1	24.5	21.5	15.8
RoE (%)	17.5	34.8	28.7	20.4
Dividend Yield (%)	1.2	2.2	1.8	1.4
Operating Ratios				
Fixed Asset Turnover (x)	5.6	6.2	6.4	6.6
Inventory Turnover Days	12	9	9	8
Receivables Days	36	36	37	39
Payables Days	86	85	90	91
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	0.2

Source Company data, I-Sec research

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