

Robust Margins. Expect Improvement in CV Industry Volumes in H2FY25
Est. Vs. Actual for Q2FY25: Revenue – **INLINE**; EBITDA – **INLINE** ; PAT – **Beat**.

Change in Estimates post Q2FY25
FY25E/FY26E: Revenue: -4%/-3%; EBITDA: -6%/-3%; PAT: -4%/-4%

Recommendation Rationale

- CV Industry Outlook:** The domestic CV industry growth outlook in long-term appears moderately favorable, backed by i) A strong macroeconomic environment, ii) Healthy fleet utilization levels, iii) Govt capex on infrastructure projects, iv) The vehicle scrappage policy and v) Stable freight demand.
- EV Business:** The company has a strong order book of 2,000 electric buses which the company expects to deliver in next 15 to 18 months. The management stated that Switch India will achieve EBITDA breakeven by FY25 end, while Switch UK/Europe may require additional investment due to weaker demand. Ohm is also gaining traction, with recent order wins such as an order for 500 buses from Chennai MTC.
- Target of mid-teens EBITDA Margins:** For Q2 FY25, the company reported an EBITDA margin of 11.6% vs 11.2% in Q2FY24 (10.6% in Q1FY25); and the management is confident of achieving mid-teen EBITDA margins target over the medium term. We estimates 13% EBITDA margins approximately on account of i) Expected stability in commodity prices, ii) Improving net sales realisations on pricing discipline, iii) Cost reduction efforts and iv) Growth in International business, Defence, Power Solutions, and Aftermarket which are higher-margin businesses.

Sector Outlook: Cautiously Positive
Company Outlook & Guidance: AL is focused on gaining market share by improving its India presence, and meeting customers' requirements by investing in product development-diverse powertrain technologies. Further, optimizing operational efficiencies, material cost reduction efforts and pricing discipline are expected to generate strong positive cash flows.

Current Valuation: 18x P/E on FY27E EPS and Rs 21/share for stake in HLF Ltd.(earlier 17x PE on FY26E EPS)

Current TP: Rs 250/share (earlier Rs 230/share)

Recommendation: We upgrade our rating from HOLD to BUY on the stock from a long term perspective.

Financial Performance: In Q2FY25, Ashok Leyland reported Revenue/EBITDA inline with our estimates while Adj PAT were a Beat. Revenue degrew by 9% YoY (up by 2% QoQ) due to 9% volume decline and flattish ASP. EBITDA degrew by 6% YoY (up 12% QoQ) to Rs 1,017 Cr. EBITDA margin stood at 11.6%, up 40 bps YoY (101bps QoQ) better than our estimate of 11.2%. Adj. PAT Beat our estimates by 16% on account of one time extraordinary income.

Key Financials (Standalone)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	8,769	2.0%	-9.0%	8,954	-2.1%
EBITDA	1,017	11.7%	-5.8%	1,002	1.6%
EBITDA Margin	11.6%	101 bps	40 bps	11.2%	42 bps
Adj Net Profit	688	30.9%	19.2%	590	16.6%
Adj EPS (Rs)	2.34	30.9%	19.2%	2.01	16.6%

Source: Company, Axis Securities Research

 (CMP as of 8th November 2024)

CMP (Rs)	222
Upside /Downside (%)	13%
High/Low (Rs)	264/158
Market cap (Cr)	65,188
Avg. daily vol. (6m)Shrs.	1,33,73,144
No. of shares (Cr)	293.64

Shareholding (%)

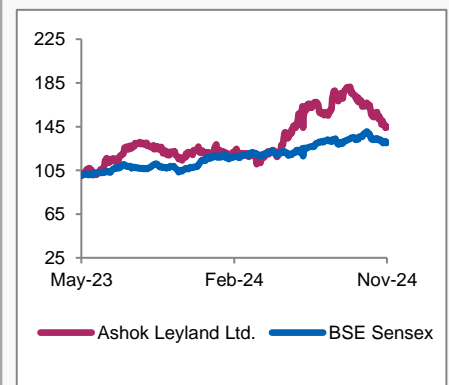
	Mar-24	Jun-24	Sep-24
Promoter	51.5	51.5	51.5
FII	21.5	22.0	24.4
Mutual Funds / UT	5.8	6.8	5.4
Others	0.2	0.1	0.1
Total	100.0	100.0	100.0

Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	39,398	41,697	44,047
EBITDA	4,812	5,240	5,401
Adj. Net Profit	2,930	3,333	3,481
EPS (Rs.)	10.0	11.3	11.8
PER (x)	22.3	19.6	18.7
EV/EBITDA (x)	13.2	11.4	10.5
P/BV (x)	5.7	4.5	3.7
ROE (%)	28.4	25.2	21.3

Change in Estimates (%)

Y/E Mar	FY25E	FY26E	FY27E
Sales	-4.1%	-2.7%	-1.6%
EBITDA	-6.2%	-2.8%	1.0%
PAT	-3.9%	-4.0%	1.1%

Relative performance


Source: Ace Equity, Axis Securities

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Outlook

- We remain positive on the long-term prospects of AL; factoring recovery in industry momentum post H1FY25 muted demand, we therefore arrive at a conservative volume guidance of 4% CAGR volume growth over FY24-27E. We estimate AL to post Revenue/EBITDA/PAT growth of 5%/7%/12% CAGR over FY24-27E.

Valuation & Recommendation

- **We upgrade from HOLD to BUY rating on the stock with the TP at Rs 250/share (earlier Rs 230/share); valuing the stock at 18x P/E on FY27E EPS (earlier 17x P/E on FY26E EPS) and assign Rs 21/share for stake in Hinduja Leyland Finance Ltd.**

Key Highlights

- **Volume Performance and Market Share:** Overall Q2 CV volumes for the company declined by 8.5% YoY, aligning with the broader market, but grew by 4% on a QoQ basis. The MHCV domestic market share improved to 31.2% (up from 30.6% in Q1). In the bus segment, Ashok Leyland retained its market leadership with approximately 35% share, while LCV market share increased to 19.8%.
- **Commodity Outlook:** As per the management, commodity prices like steel are expected to remain largely stable in the near term and no provisions is required in H2FY25.
- **Engines, Power Solutions, and Aftermarket Business:** For Q2FY25; the engine volumes increased by 17% year-over-year, while revenue from spare parts saw a 13% growth over the same period. Power solutions expect a recovery in H2 after a slight decline in H1. The aftermarket business saw steady growth of 14% YoY in H1, supporting high-margin growth potential.
- **Exports:** Exports grew 14% YoY in Q2 and 42% sequentially, driven by focused expansion in SAARC, GCC, Africa, and new markets in Southeast Asia. FY25 is expected to be a record year for international sales, supported by strategic investments in local operations.
- **Capex:** The management expects it to remain around Rs. 750-800 cr for FY25 for FY25/FY26.
- **Debt:** Net debt as on Sep' 24 stood Rs. 501 cr with a debt-equity ratio of 0.05. The credit rating agencies ICRA and CARE have upgraded from AA to AA+ with a stable outlook.
- **Hinduja Leyland Finance Ltd (HLFL):** The AUM for the finance arm stands at approximately Rs. 54,500 cr(Rs. 42,000 Cr with HLF and Rs. 12,500 Cr with the housing finance side of business). According to the management, investments in this business may be required in H2, potentially upto Rs. 200-250cr. Key Risks to our Estimates and TP

Change in Estimates

	Revised			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	39,398	41,882	44,342	41,093	43,039	45,077	-4.1%	-2.7%	-1.6%
EBITDA	4,812	5,275	5,613	5,132	5,425	5,556	-6.2%	-2.8%	1.0%
PAT	2,930	3,358	3,638	3,049	3,499	3,597	-3.9%	-4.0%	1.1%

Source: Company, Axis Securities Research

Q2FY25 Results Review

YE March (Rs Crs)	Q2FY24	Q1FY25	Axis Sec Estimates	Q2FY25	YoY (%)	QoQ (%)	Axis Sec Var (%)
M&HCV	29,947	26,214	25,685	25,685	-14.2%	-2.0%	
LCV	16,998	15,345	16,629	16,629	-2.2%	8.4%	
Total Domestic	46,945	41,559	42,314	42,314	-9.9%	1.8%	
M&HCV	2,517	2,139	2,495	2,495	-0.9%	16.6%	
LCV	419	762	815	815	94.5%	7.0%	
Total Exports	2,901	2,334	3,310	3,310	14.1%	41.8%	
Total Volume (units)	49,846	43,893	45,624	45,624	-8.5%	3.9%	0.0%
	Q2FY24	Q1FY25	Axis Sec Estimates	Q2FY25	YoY (%)	QoQ (%)	Axis Sec Var (%)
Net Sales	9,638	8,599	8,954	8,769	-9.0%	2.0%	-2.1%
ASP (Rs/vehicle)	19,33,563	19,58,975	19,62,567	19,21,977	-0.6%	-1.9%	-2.1%
Less:							
Net Raw Material consumed	7,087	6,205	6,465	6,241	-11.9%	0.6%	-3.5%
Other Manufacturing & Sales Exp.	899	933	851	912	1.4%	-2.3%	7.2%
Personnel	573	550	637	599	4.5%	8.9%	-6.0%
Total Expenditure	8,558	7,688	7,952	7,752	-9.4%	0.8%	-2.5%
EBITDA	1,080	911	1,002	1,017	-5.8%	11.7%	1.6%
Less: Depreciation	180	173	176	175	-2.7%	1.6%	-0.4%
EBIT	899	738	825	842	-6.4%	14.0%	2.0%
Less: Interest	59	59	51	61	3.4%	2.8%	19.4%
Add: Other income	47	22	23	97	105.0%	335.4%	329.7%
Profit Before Extraordinary Items and Tax	888	701	797	878	-1.1%	25.2%	10.2%
Less: Extraordinary Expense/(Income)	23	-	-	(117)	NA	NA	NA
Profit Before Tax	865	701	797	996	15.1%	42.0%	24.9%
Less: Total Tax	304	176	207	226	-25.8%	28.4%	8.9%
Profit After Tax	561	526	590	770	37.3%	46.5%	30.5%
Adj. PAT	577	526	590	688	19.2%	30.9%	16.6%
Shares Outstanding (cr)	294	294	294	294	0.0%	0.0%	0.0%
Reported EPS (Rs.)	1.9	1.8	2.0	2.6	37.3%	46.5%	30.5%
Adj. EPS (Rs.)	2.0	1.8	2.0	2.3	19.2%	30.9%	16.6%
Margin Analysis	Q2FY24	Q1FY25	Axis Sec Estimates	Q2FY25	Change in bps	Change in bps	Change in bps
Gross Margins	26.5%	27.8%	27.8%	28.8%	235 bps	99 bps	103 bps
EBITDA Margin	11.2%	10.6%	11.2%	11.6%	40 bps	101 bps	42 bps
Adj. NPM	6.0%	6.1%	6.6%	7.8%	186 bps	173 bps	126 bps
Effective Tax Rate	34.3%	25.1%	26.0%	22.7%	-1160 bps	-240 bps	-333 bps
Cost Analysis							
RM/Net Sales	73.5%	72.2%	72.2%	71.2%	-235 bps	-99 bps	-103 bps
Other Mfg & Sales Exp/Net Sales	9.3%	10.9%	9.7%	10.4%	107 bps	-46 bps	70 bps
Personnel/Net Sales	5.9%	6.39%	6.9%	6.8%	88 bps	43 bps	-8 bps

Source: Company, Axis Securities Research.

Financials (Standalone)
Profit & Loss

(Rs Cr)

Y/E March (Rs Cr)	FY24	FY25E	FY26E	FY27E
Net revenues	38,367	39,398	41,882	44,342
Operating expenses	33,760	34,586	36,607	38,729
EBIDTA	4,607	4,812	5,275	5,613
EBIDTA margin (%)	12.0	12.2	12.6	12.7
Other income	247	233	234	234
Interest	249	217	132	132
Depreciation	718	757	798	798
Profit Before Tax	3,792	4,188	4,579	4,917
Tax	1,174	1,174	1,180	1,278
Reported Net ProfitP	2,618	3,014	3,399	3,638
Net Margin (%)	6.8	7.7	8.1	8.2
Adjusted Net Profit	2,618	2,930	3,358	3,638

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March (Rs cr)	FY24	FY25E	FY26E	FY27E
Equity capital	294	294	294	294
Reserves & surplus*	8,517	11,238	14,343	17,687
Shareholders funds	8,810	11,531	14,636	17,981
Total Loans	2,255	1,955	1,655	1,355
Deferred tax liability	556	556	556	556
Total Liabilities and Equity	11,621	14,042	16,847	19,892
Gross block	10,972	11,423	11,923	12,423
Depreciation	4,469	5,226	6,024	6,822
Net block	6,502	6,197	5,899	5,601
Capital WIP	202	250	250	250
Investments	5,560	5,760	5,960	6,160
Inventory	3,191	3,016	2,866	3,037
Debtors	3,570	4,102	4,016	4,252
Cash & Bank Bal	3,438	3,421	7,256	10,016
Loans & Advances	1,149	2,553	3,046	3,583
Current Assets	11,348	13,093	17,184	20,888
Sundry Creditors	6,305	6,459	7,522	7,958
Other Current Liability	5,685	4,798	4,924	5,049
Current Liability & Provisions	11,991	11,257	12,446	13,007
Net current assets	(642)	1,835	4,738	7,881
Total Assets	11,621	14,042	16,847	19,892

Source: Company, Axis Securities Research.

Cash Flow

(Rs Cr)

Y/E March (Rs Cr)	FY24	FY25E	FY26E	FY27E
EBIT	3,889	4,056	4,477	4,815
Other Income	247	233	234	234
Depreciation & Amortisation	718	757	798	798
Interest paid(-)	-249	-217	-132	-132
Tax paid(-)	-1,174	-1,174	-1,180	-1,278
Extra Ord Income	-94	117	0	0
Operating Cash Flow	3,336	3,771	4,197	4,436
Change in Working Capital	1,958	-2,494	932	-383
Cash flow from Operations	5,294	1,277	5,128	4,054
Capex	-354	-500	-500	-500
Investment	1,104	-200	-200	-200
Cash flow from Investing	749	-700	-700	-700
Change in borrowing	-926	-300	-300	-300
Others	-1,887	0	0	0
Dividends paid(-)	-294	-294	-294	-294
Cashflow from Financial Activities	-3,106	-594	-594	-594
Change in Cash	2,937	-17	3,835	2,760
Opening cash	501	3,438	3,421	7,256
Closing cash	3,438	3,421	7,256	10,016

Source: Company, Axis Securities Research

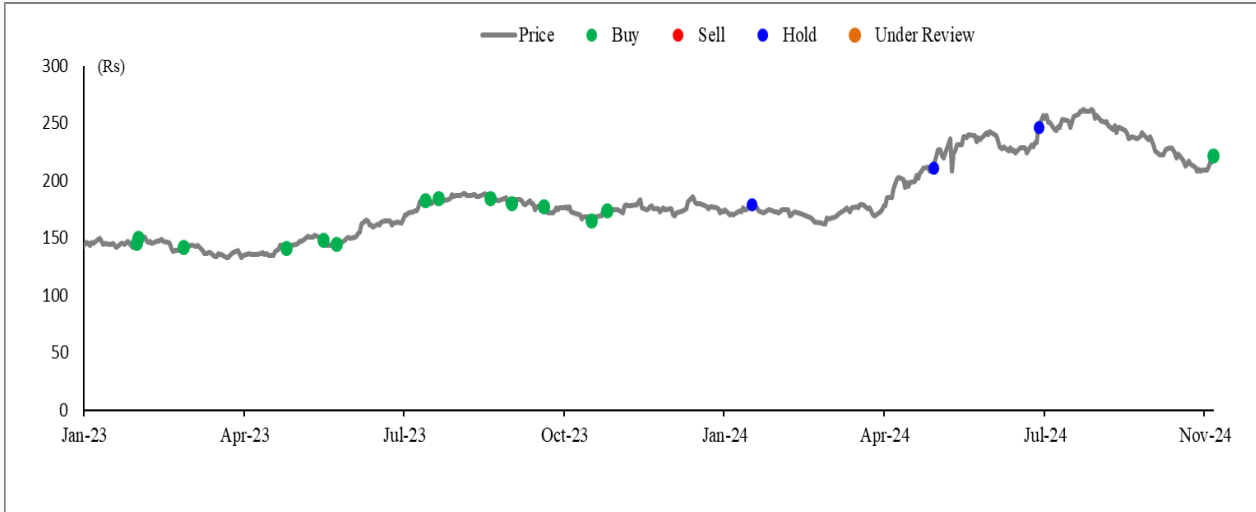
Ratio Analysis

(%)

Y/E March	FY24	FY25E	FY26E	FY27E
Revenue Growth	6.2	2.7	6.3	5.9
EBITDA Margin	12.0	12.2	12.6	12.7
Net Profit Margin	6.8	7.4	8.0	8.2
ROCE (%)	22.6	23.2	21.7	19.8
ROE (%)	29.9	28.4	25.4	22.1
EPS	8.9	10.0	11.4	12.4
P/E (x)	19.2	22.3	19.4	17.9
P/ BV (x)	5.7	5.7	4.5	3.6
EV/ EBITDA (x)	10.6	13.2	11.3	10.1
Fixed Assets Turnover Ratio (x)	7.6	8.3	9.4	10.7
Debt / Equity (x)	0.3	0.2	0.1	0.1
EV/ Sales (x)	1.3	1.6	1.4	1.3

Source: Company, Axis Securities Research

Ashok Leyland Price Chart and Recommendation History



Date	Reco	TP	Research
01-Jan-23	BUY	175	Top Picks
02-Feb-23	BUY	175	Top Picks
03-Feb-23	BUY	175	Result Update
01-Mar-23	BUY	175	Top Picks
01-Apr-23	BUY	175	Top Picks
01-May-23	BUY	175	Top Picks
24-May-23	BUY	175	Result Update
01-Jun-23	BUY	175	Top Picks
01-Jul-23	BUY	190	Top Picks
25-Jul-23	BUY	210	Result Update
01-Aug-23	BUY	210	Top Picks
01-Sep-23	BUY	210	Top Picks
15-Sep-23	BUY	210	Company Update
03-Oct-23	BUY	210	Top Picks
01-Nov-23	BUY	210	Top Picks
10-Nov-23	BUY	205	Result Update
06-Feb-24	HOLD	185	Result Update
27-May-24	HOLD	222	Result Update
29-Jul-24	HOLD	230	Result Update
11-Nov-24	BUY	250	Result Update

Source: Axis Securities Research

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NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.