

### The best seems to be behind- Recommend Reduce

- Ashok Leyland (AL) exhibited a stellar performance in 4Q. EBITDA margin expanded 214 bps QoQ to 10.97% led by softening commodity price and better product mix along with benefit of operating leverage.
- Despite a high base, AL's expect the CV Industry to grow at 10% in FY24. We maintain our positive view on long industry growth prospects, but are mindful of rising interest rates and sharp price hikes of vehicles, which may affect near to medium term demand. We expect growth and margin would be constrained in 1HFY24 because of the high base, strong pre-buying in past two quarters due to RD norms transition, price increase, lower discounts, and the ripple effect of high-interest rates in many sectors.
- Switch mobility - Expect faster acceleration in EVs business. The company has launched double decker EVs bus and are planning to launch E-LCV (electric version of Dost and Bada dost). The company to incur capex of Rs 12bn for a period of 5-6 years.
- While we remain positive on AL's improving fundamentals, we believe that valuations at 23/19x for FY24/25E EPS appear punchy at the almost top of CV cycle. We recommend Reduce with TP Rs 155 (based on 20x FY25E EPS).

### Single digit growth in CVs segment for FY24

AL's expect that CV Industry to grow at 10% in FY24 led by 25-30% growth in bus segment and 10-12% growth in Truck industry while LCV segment to grow in the range of 5-6%. Demand for Multi axle, trailers and Tipper demand are strong. Bus volume (where Ashok Leyland is the clear leader) is also showing strong recovery led by STUs demand and pick-up in intercity transportation. In M&HCV truck segment AL's gained market share (31.8% at the end of FY23).

We expect H1FY24 performance would be affected by pre-buying in past months due to RD norms transition and slowdown in LCV segment. Further discount rate will also increase due to increase in competitive intensity.

### Q4FY23 Result (Rs Mn)

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Revenue	116,257	87,443	33.0	90,297	28.7
Total Expense	103,499	79,682	29.9	82,323	25.7
EBITDA	12,757	7,760	64.4	7,973	60.0
Depreciation	1,838	1,954	(5.9)	1,890	(2.7)
EBIT	10,919	5,807	88.0	6,084	79.5
Other Income	389	242	61.1	316	23.2
Interest	628	765	(17.9)	805	(22.0)
EBT	11,245	9,987	12.6	5,665	98.5
Tax	3,731	973	283.5	2,052	81.8
RPAT	7,514	9,014	(16.6)	3,613	108.0
APAT	6,950	4,311	61.2	3,543	96.1
			(bps)		(bps)
Gross Margin (%)	24.4	21.8	265	23.7	66
EBITDA Margin (%)	11.0	8.9	210	8.8	214
NPM (%)	6.5	10.3	(384)	4.0	246
Tax Rate (%)	33.2	9.7	2344	36.2	(304)
EBIT Margin (%)	9.4	6.6	275	6.7	265

CMP	Rs 150
Target / Upside	Rs 155 / 3%
NIFTY	18,285

### Scrip Details

Equity / FV	Rs 2,936mn / Rs 1		
Market Cap	Rs 440bn		
	USD 5.4bn		
52-week High/Low	Rs 169/ 128		
Avg. Volume (no)	8,182,500		
Bloom Code	AL IN		
Price Performance	1M	3M	12M
Absolute (%)	10	6	7
Rel to NIFTY (%)	7	2	(8)

### Shareholding Pattern

	Sep'22	Dec'22	Mar'23
Promoters	51.1	51.1	51.1
MF/Banks/FIs	19.8	21.5	21.5
FIs	18.7	16.4	16.4
Public / Others	10.4	11.0	11.0

### Valuation (x)

	FY23A	FY24E	FY25E
P/E	34.0	22.5	19.4
EV/EBITDA	15.0	12.0	10.4
ROE (%)	16.4	21.9	22.8
RoACE (%)	13.9	18.6	19.7

### Estimates (Rs bn)

	FY23A	FY24E	FY25E
Revenue	361.4	407.9	442.0
EBITDA	29.3	35.9	40.3
PAT	13.0	19.5	22.7
EPS (Rs.)	4.4	6.7	7.8

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### Tough to maintain double digit margin

Management expect steel prices to come down in 2Q/3Q on back of lower demand from China and excess supply in Australia. Company has taken a price hike of 2% in April-23 to compensate RD related cost.

Commodity tailwinds and cost control measure to support operating margin. However, expect rising interest rate and increase in price could dampen CVs demand followed by offering high discounts. Further increasing EV penetration would constraint Bus business margin.

### Focused on Expansion of EVs business

**EV Arm** - Ashok Leyland's EV arm 'Switch mobility' will cater to EV division and looking to raise capital and manage capex by themselves. Company is in discussion with various investors to raise capital. The company continues to win Electric Vehicle orders from State Transport Undertakings under GCC contract. The company is also participating in overseas tenders. Recently, the company has launched double decker EV bus which is receiving strong response in domestic market. The company is planning to launch E-LCV as there is a very strong trend and customer willingness to move towards E-LCV.

### Exhibit 1: Actual vs estimated performance

Particulars (Rs.mn)	Actual	Estimated	% Variance
Revenue	116,257	116,735	0
EBITDA	12,757	12,491	2
EBITDA margin (%)	10.97	10.70	27 bps
PAT	6,950	6,958	0

Source: Company, DART

### Exhibit 2: Summary for quarterly performance

Particulars	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	FY24E
Net sales (Rs mn)	48,135	70,005	29,510	44,579	55,352	87,443	72,229	82,660	90,297	116,257	407,901
% QoQ	70	45	(58)	51	24	58	(17)	14	9	29	
% YoY	19.9	82.4	353.4	57.2	15.0	24.9	144.8	85.4	63.1	33.0	12.9
Materials	35,824	53,834	21,873	34,185	43,131	68,422	57,281	64,466	68,859	87,887	312,044
% sales	74	77	74	77	78	78	79	78	76	76	76.5
Employee cost	4,545	4,016	4,243	4,003	4,324	4,376	4,454	5,271	5,495	5,919	23,252
% sales	9.4	5.7	14.4	9.0	7.8	5.0	6.2	6.4	6.1	5.1	5.7
Other op cost	5,228	6,813	4,795	5,043	5,658	6,885	7,291	7,550	7,970	9,693	36,711
% sales	10.9	9.7	16.2	11.3	10.2	7.9	10.1	9.1	8.8	8.3	9.0
EBITDA (Rs mn)	2,538	5,342	(1,401)	1,347	2,239	7,760	3,203	5,373	7,973	12,757	35,893
% QoQ	216	110	(126)	(196)	66	247	(59)	68	48	60	
% YoY	12.7	192.0	(58.0)	67.5	(11.8)	45.3	(328.6)	298.9	256.1	64.4	22.5
Margin (%)	5.3	7.6	(4.7)	3.0	4.0	8.9	4.4	6.5	8.8	11.0	8.8

Source: Company, DART

### Exhibit 3: Change in Estimates

Particulars (Rs Mn)	FY24E			FY25E		
	New	Previous	% Cng	New	Previous	% Cng
Net sales	407,901	406,427	0.4	442,042	475,791	(7.1)
EBITDA	35,893	34,206	4.9	40,287	41,245	(2.3)
EBITDA margin(%)	8.8	8.4	38 bps	9.1	8.7	45 bps
APAT	19,548	18,413	6.2	22,715	23,602	(3.8)
EPS	6.68	6.3	6.2	7.76	8.1	(3.8)

Source: Company, DART

### Exhibit 4: Assumption Table

Segment (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Domestic M&HCV	71,407	46,043	65,090	114,299	126,317	133,082
% YoY	(45.9)	(35.5)	41.4	75.6	10.5	5.4
LCV	44,912	46,671	52,222	66,669	70,002	78,403
% YoY	(15.5)	3.9	11.9	27.7	5.0	12.0
Domestic volumes	116,319	92,714	117,312	180,968	196,319	211,484
% YoY	(37.1)	(20.3)	26.5	54.3	8.5	7.7
Exports	8,920	8,001	11,014	11,289	12,982	14,865
% YoY	(27.5)	(10.3)	37.7	2.5	15.0	14.5
Total sales	125,239	100,715	128,326	192,257	209,302	226,349
% YoY	(36.5)	(19.6)	27.4	49.8	8.9	8.1

Source: Company, DART

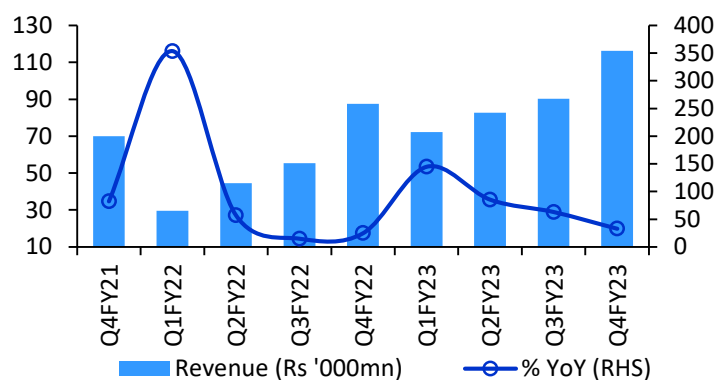
### Earnings call KTAs

- Business outlook-** In FY24, CV demand momentum continues to be strong and surpassed FY19 numbers. Overall CV Industry is expected to grow at 10%, led by 10-12% growth in the Truck industry, 25-30% in Bus segment while LCV segment to grow in the range of 5-6%. Ashok Leyland to outperform industry growth and focus on increasing market share. In north & East market share jumped 4-5% to 25 in FY23 led by network expansion. Tipper, tractor trailer, ICVs and buses demand are strong. Expect demand of replacement and first time buyers will improve in FY24. In the LCV segment, both Dost and Bada Dost continues to perform very well but lost volume due to supply side issues. With momentum gradually picking up in electric vehicles, Switch Mobility is well poised to tap the growth opportunity. Q1 performance may be affected by pre-buying in last months due to RD norms transition.
- Operating margin/price hike-**company targets of staying in double digit margin led by commodity tailwinds and increase in ASP. Expect steel prices to come down in 2Q/3Q on back of lower demand from China and excess supply in Australia. Company has taken a price hike of 2% in april-23 to compensate R&D related cost. Modular trucks adoption is robust especially in higher tonnage segment. New model has been accepted very well in tractor-trailer segment, which helps in achieving better price realizations. Company expects there is more headroom for realisation growth going ahead.
- Market share-** In M&HCV, truck segment gained market share to 31.8% at the end of FY23. The Company has also gained market share in ICV due to new launches in CNG segment. Ashok Leyland's M&HCV truck market share has improved to 32.7% in Q4FY23 Vs 30.6% in Q4FY22 (33 % in Q3FY23) led by network expansion, strong demand of AVTR range (modular truck) and increasing economic activities. Bus market share for Q4 FY23 has improved to 27.1 % as against 26.4 % in Q4FY22.
- EV business-**With momentum gradually picking up in electric vehicles, Switch Mobility is well poised to complement the developments at Ashok Leyland across a spectrum of alternate propulsion systems. Switch mobility' is winning many new businesses in India and UK. Expect faster acceleration in EVs business. Business model in EV in India is evolving differently than other parts of the world. Low floor 9 meter bus will be launched

for Indian market while the 12 meter bus will be launched for European markets. 2 LCVs will also be launched in EVs segment.

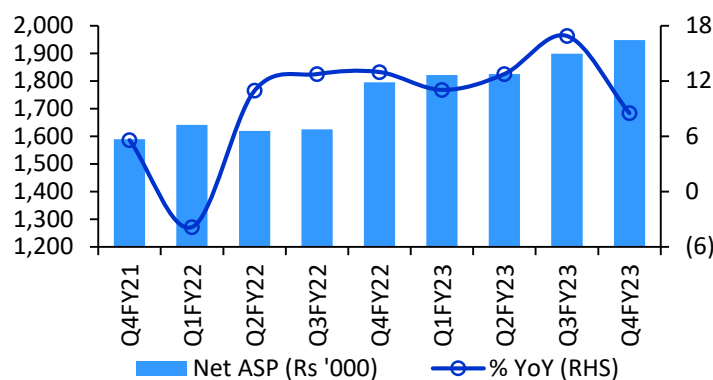
- **Capex and Debt-** At the end of the year, company became cash positive at Rs. 2.43bn vs Rs. 7.20bn of debt in FY22. Long term debt stood Rs. 29bn while Short term cash Rs 31.50bn. Capex in FY23 was Rs. 5.02bn vs Rs. 4bn last year. For FY24, capex is to be in the range of Rs 6-6.5bn largely towards product development. 12bn of Capex is to be incurred for SWITCH over a period of 5-6 years, this would be provided in the form of a loan.
- Mix of large fleet operators has been more than first time users (which could increase because of interest costs). Meanwhile replacement mix is expected to kick in by FY26 because of scrappage policy.
- **Export-** The export volumes improved by 2 % and stood at 11289 vs 11,014 in FY22. Expect exports to grow in the coming year.
- **Hinduja Leyland Finance-** Leyland finance is adequately funded as QIP placement helped to raise Rs9.50bn.
- **Dividend-** The Board of Directors have recommended a dividend of Rs.2.60 per equity share of Re.1/.
- **Cash Position-** Cash generated in Q4 was Rs. 22.87 bn and net cash surplus was 2.43 bn as against a net debt of Rs. 7.20 bn in Q4FY22.
- **Outlets-** The Company has also extended its widespread network by opening 152 new outlets across the country.
- **AVTR range-** The AVTR range continues to be successful and the launch of the CNG range in ICVs is driving demand. The AVTR platform has been delivering best-in-class total cost of ownership across segments. Going forward, last-mile connectivity demand propelled by-commerce is likely to support LCV truck volumes.

**Exhibit 5: Revenue grew QoQ/YoY**

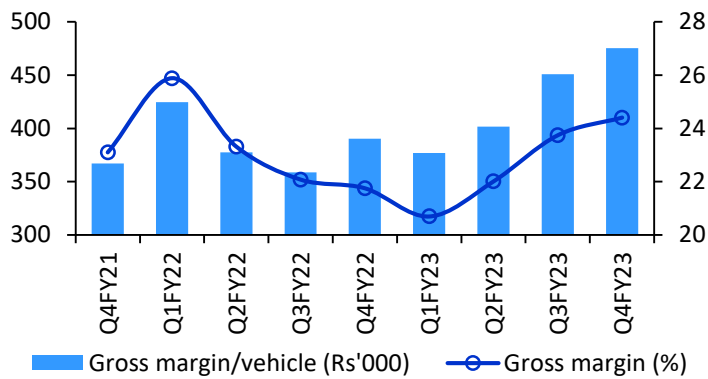


Source: Company, DART

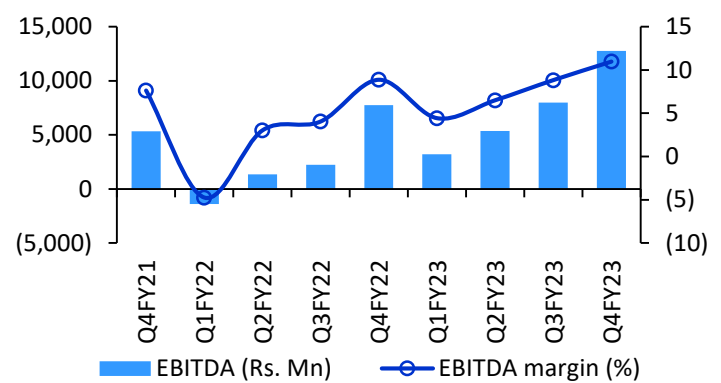
**Exhibit 6: Net ASP increased QoQ/YoY**



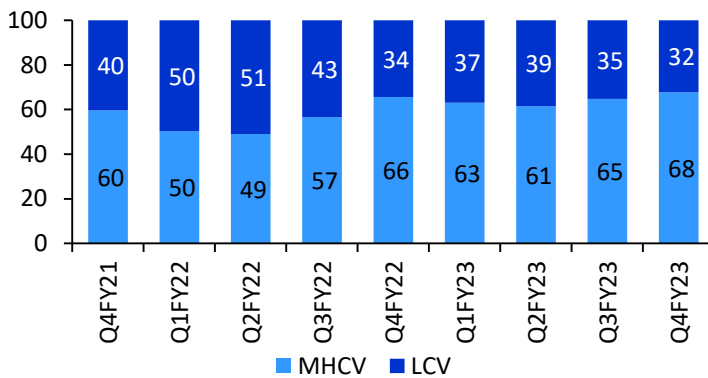
Source: Company, DART

**Exhibit 7: Gross Margin per vehicle expanded QoQ/YoY**


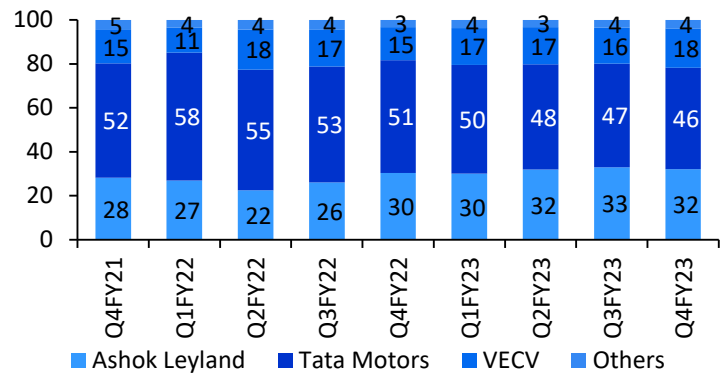
Source: Company, DART

**Exhibit 8: EBITDA margin expanded QoQ/YoY**


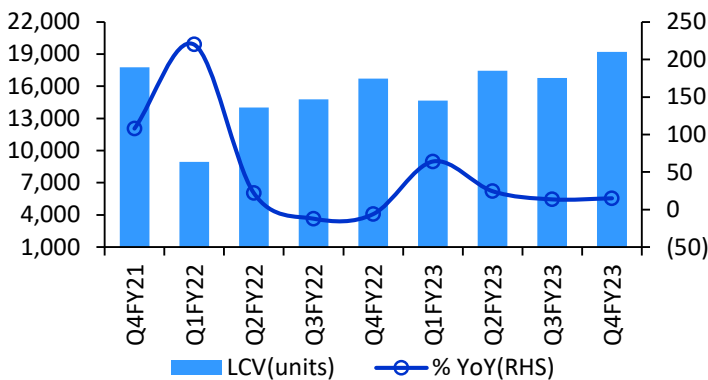
Source: Company, DART

**Exhibit 9: M&HCV LCV Mix (%)**


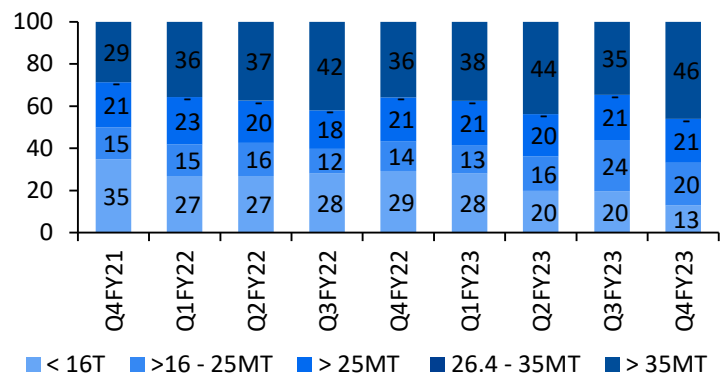
Source: Company, DART

**Exhibit 10: AL's share in M&HCV segment**


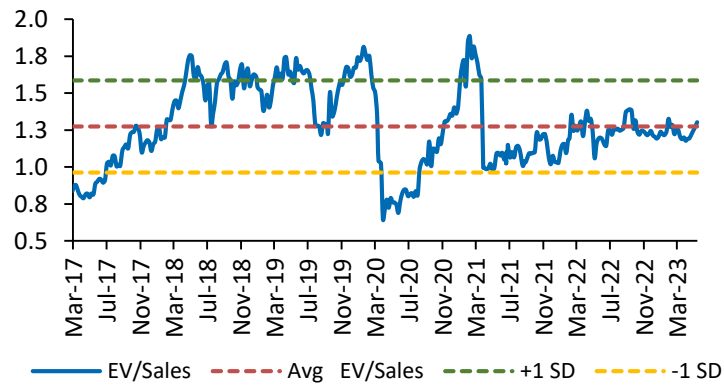
Source: Company, DART

**Exhibit 11: LCV volume trend**


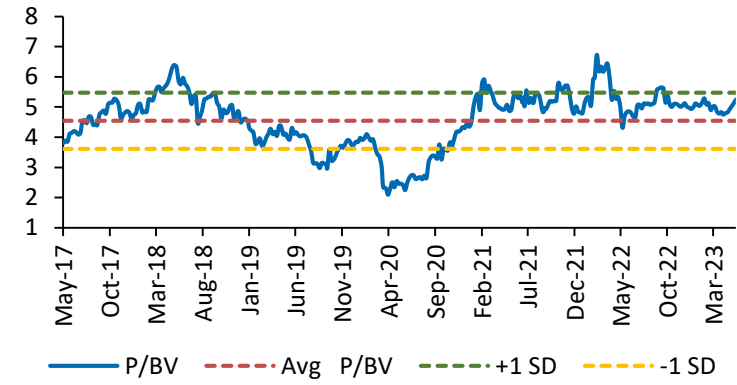
Source: Company, DART

**Exhibit 12: AL Tonnage mix (%)**


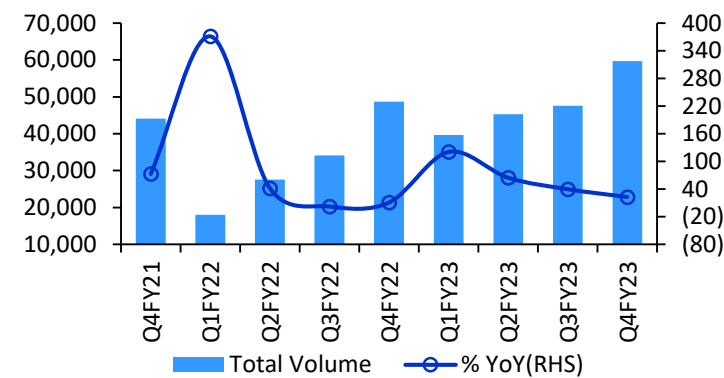
Source: Company, DART

**Exhibit 13: EV/Sales**


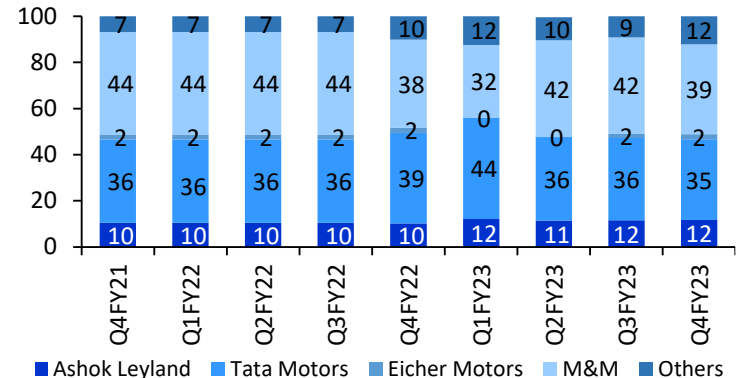
Source: Company, DART

**Exhibit 14: P/BV Trend**


Source: Company, DART

**Exhibit 15: Total volume trend**


Source: Company, DART

**Exhibit 16: AL's share in LCV segment**


Source: Company, DART



## Financial Performance

### Profit and Loss Account

(Rs Mn)	FY22A	FY23A	FY24E	FY25E
<b>Revenue</b>	<b>216,883</b>	<b>361,441</b>	<b>407,901</b>	<b>442,042</b>
<b>Total Expense</b>	<b>206,938</b>	<b>332,134</b>	<b>372,008</b>	<b>401,755</b>
COGS	167,611	278,492	312,044	337,278
Employees Cost	16,946	21,139	23,252	25,578
Other expenses	22,381	32,504	36,711	38,900
<b>EBIDTA</b>	<b>9,945</b>	<b>29,307</b>	<b>35,893</b>	<b>40,287</b>
Depreciation	7,528	7,320	7,745	8,165
<b>EBIT</b>	<b>2,418</b>	<b>21,987</b>	<b>28,148</b>	<b>32,121</b>
Interest	3,011	2,891	2,975	2,755
Other Income	761	1,161	1,243	1,330
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>168</b>	<b>20,258</b>	<b>26,416</b>	<b>30,696</b>
Tax	(142)	7,303	6,868	7,981
RPAT	310	12,955	19,548	22,715
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>5,418</b>	<b>12,955</b>	<b>19,548</b>	<b>22,715</b>

### Balance Sheet

(Rs Mn)	FY22A	FY23A	FY24E	FY25E
<b>Sources of Funds</b>				
Equity Capital	2,936	2,936	2,936	2,936
Minority Interest	0	0	0	0
Reserves & Surplus	70,434	81,322	91,096	102,453
<b>Net Worth</b>	<b>73,369</b>	<b>84,258</b>	<b>94,032</b>	<b>105,389</b>
Total Debt	35,539	32,248	29,748	27,548
Net Deferred Tax Liability	1,444	947	947	947
<b>Total Capital Employed</b>	<b>110,352</b>	<b>117,453</b>	<b>124,727</b>	<b>133,884</b>

### Applications of Funds

Net Block	61,511	58,543	56,797	54,632
CWIP	1,943	1,325	2,273	2,393
Investments	39,715	43,421	47,421	50,921
<b>Current Assets, Loans &amp; Advances</b>	<b>100,170</b>	<b>123,574</b>	<b>138,462</b>	<b>154,258</b>
Inventories	20,752	27,745	31,291	33,910
Receivables	31,110	40,621	45,842	49,679
Cash and Bank Balances	23,450	32,758	39,877	50,218
Loans and Advances	24,858	22,451	21,451	20,451
Other Current Assets	0	0	0	0
<b>Less: Current Liabilities &amp; Provisions</b>	<b>92,986</b>	<b>109,410</b>	<b>120,226</b>	<b>128,319</b>
Payables	68,752	71,751	81,217	87,785
Other Current Liabilities	24,234	37,659	39,009	40,535
<i>sub total</i>				
Net Current Assets	7,184	14,164	18,236	25,939
<b>Total Assets</b>	<b>110,352</b>	<b>117,453</b>	<b>124,727</b>	<b>133,884</b>

E – Estimates

### Important Ratios

Particulars	FY22A	FY23A	FY24E	FY25E
<b>(A) Margins (%)</b>				
Gross Profit Margin	22.7	22.9	23.5	23.7
EBIDTA Margin	4.6	8.1	8.8	9.1
EBIT Margin	1.1	6.1	6.9	7.3
Tax rate	(84.7)	36.0	26.0	26.0
Net Profit Margin	0.1	3.6	4.8	5.1
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	77.3	77.1	76.5	76.3
Employee	7.8	5.8	5.7	5.8
Other	10.3	9.0	9.0	8.8
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.5	0.4	0.3	0.3
Interest Coverage	0.8	7.6	9.5	11.7
Inventory days	35	28	28	28
Debtors days	52	41	41	41
Average Cost of Debt	8.2	8.5	9.6	9.6
Payable days	116	72	73	72
Working Capital days	12	14	16	21
FA T/O	3.5	6.2	7.2	8.1
<b>(D) Measures of Investment</b>				
AEPS (Rs)	1.9	4.4	6.7	7.8
CEPS (Rs)	4.4	6.9	9.3	10.5
DPS (Rs)	1.1	2.9	3.3	3.9
Dividend Payout (%)	61.1	65.1	50.0	50.0
BVPS (Rs)	25.1	28.8	32.1	36.0
RoANW (%)	0.4	16.4	21.9	22.8
RoACE (%)	3.0	13.9	18.6	19.7
RoAIC (%)	2.6	25.6	33.2	38.1
<b>(E) Valuation Ratios</b>				
CMP (Rs)	150	150	150	150
P/E	81.2	34.0	22.5	19.4
Mcap (Rs Mn)	440,236	440,236	440,236	440,236
MCap/ Sales	2.0	1.2	1.1	1.0
EV	452,325	439,726	430,107	417,567
EV/Sales	2.1	1.2	1.1	0.9
EV/EBITDA	45.5	15.0	12.0	10.4
P/BV	6.0	5.2	4.7	4.2
Dividend Yield (%)	0.8	1.9	2.2	2.6
<b>(F) Growth Rate (%)</b>				
Revenue	41.7	66.7	12.9	8.4
EBITDA	85.8	194.7	22.5	12.2
EBIT	(213.7)	809.5	28.0	14.1
PBT	(104.1)	11972.6	30.4	16.2
APAT	(279.6)	139.1	50.9	16.2
EPS	(279.6)	139.1	50.9	16.2

E – Estimates



## Cash Flow

Particulars	FY22A	FY23A	FY24E	FY25E
<b>Profit before tax</b>	<b>168</b>	<b>20,258</b>	<b>26,416</b>	<b>30,696</b>
Depreciation & w.o.	7,528	7,320	7,745	8,165
Net Interest Exp	3,011	2,891	2,975	2,755
Direct taxes paid	142	(7,303)	(6,868)	(7,981)
Change in Working Capital	12,223	2,332	3,052	2,641
Non Cash	5,108	846	3,122	3,082
<b>(A) CF from Operating Activities</b>	<b>28,180</b>	<b>26,344</b>	<b>36,442</b>	<b>39,359</b>
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(445)	(3,734)	(6,948)	(6,120)
<b>Free Cash Flow</b>	<b>27,735</b>	<b>22,610</b>	<b>29,494</b>	<b>33,239</b>
(Inc.)/ Dec. in Investments	(4,529)	(3,706)	(4,000)	(3,500)
Other	(43,115)	(5,863)	(9,774)	(11,357)
<b>(B) CF from Investing Activities</b>	<b>(48,089)</b>	<b>(13,303)</b>	<b>(20,722)</b>	<b>(20,977)</b>
Issue of Equity/ Preference	(19,088)	1	0	0
Inc./(Dec.) in Debt	(2,073)	(3,291)	(2,500)	(2,200)
Interest exp net	(3,011)	(2,891)	(2,975)	(2,755)
Dividend Paid (Incl. Tax)	(3,848)	(8,435)	(9,774)	(11,357)
Other	(16,748)	10,883	6,647	8,272
<b>(C) CF from Financing</b>	<b>(44,767)</b>	<b>(3,733)</b>	<b>(8,602)</b>	<b>(8,040)</b>
Net Change in Cash	(64,676)	9,308	7,119	10,341
<b>Opening Cash balances</b>	<b>88,126</b>	<b>23,450</b>	<b>32,758</b>	<b>39,877</b>
<b>Closing Cash balances</b>	<b>23,450</b>	<b>32,758</b>	<b>39,877</b>	<b>50,218</b>

E – Estimates

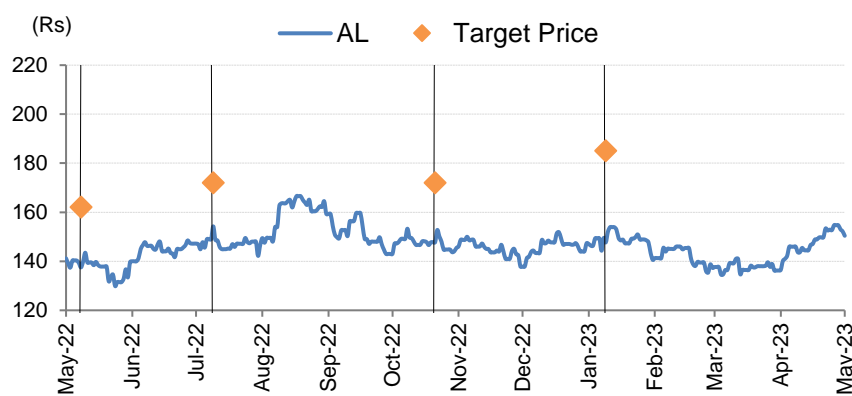
## Notes

## DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

## Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
May-22	BUY	162	138
Aug-22	Accumulate	172	154
Nov-22	BUY	172	148
Feb-23	BUY	185	148

\*Price as on recommendation date

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