

Alpha α Idea

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For Private Clients

Key Data

Recommendation	BUY
Recommended price (Rs.)	162.7
Target (Rs.)	185, 190
Upside (%)	14% - 17%
Market Cap (bn)	Rs.483.9 / US\$ 5.9
Share in issue (mn)	2936.13
Diluted share (mn)	2936.13
3-mon avg. daily val (mn)	Rs.1524.2 / US\$ 18.6
52 week range	Rs.170.55 / 133.1
Sensex/Nifty	62900 / 18670
Rs./US\$	82.02
Bloomberg	AL IN

Relative Price Performance



Source: Bloomberg, JMFS Research

Ashok Leyland Ltd.

During FY23, AL gained market share by c.500bps to 31.8% in domestic MHCV segment. This was led by 1) new product launches (23 new products in FY23), 2) dealer network addition (from 730 to 809) and 3) strong customer response to AVTR range of trucks. Growth during FY23 was across segments and markets (within India). Going ahead, AL is targeting MHCV market share of 35% led by 1) penetrating deeper in North and East India (AL's market share is 25%/24% in these markets) and 2) new product launches to cover white spaces. The company also indicated that within MHCV segment, demand is shifting towards long haulage and multi-axle trucks which is expected to benefit AL given its strong presence in these sub-segments. Demand for MHCV trucks remains strong owing to higher than average fleet age (c.10yrs) and expected government spends on Infra over next 12-15 months (owing to election). Similarly, deeper penetration (in North and East India) and addressing product gaps is expected to be the growth driver for Bus segment. Overall, the company expects MHCV industry to grow by c.10% in FY24.

Ashok Leyland is currently addressing only 50%+ of the overall LCV market size (not present in sub-2T segment). By FY25, the company plans to increase its addressable market to 60%+ by addressing product gaps in its portfolio. Further, in the 2T-3.5T segment, AL's market share currently stands at c.20%. The company is targeting ~25% market share in this segment by 1) network expansion in North and East India and 2) addressing gaps in product portfolio by launching new products (Dost and Bada Dost CNG and EV launch planned in FY24). Overall, LCV industry is expected to grow by c.5% during FY24.

Financial Summary

	(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Sales	1,52,385	2,16,883	3,61,441	4,04,603	4,34,589
Sales Growth	-12.8%	42.3%	66.7%	11.9%	7.4%
EBITDA	4,722	9,946	29,307	40,992	46,855
EBITDA Margin	3.1%	4.6%	8.1%	10.1%	10.8%
Adjusted Net Profit	-3,645	310	12,955	22,038	26,261
Diluted EPS (INR)	-1.2	0.1	4.4	7.5	8.9
Diluted EPS Growth	0.0%	0.0%	4,073.0%	70.1%	19.2%
ROIC	-3.5%	7.5%	29.6%	53.1%	66.6%
ROE	-5.1%	0.4%	16.4%	24.1%	24.5%
P/E (x)	-126.4	1,484.8	35.6	20.9	17.6
P/B (x)	6.6	6.3	5.5	4.7	4.0
EV/EBITDA (x)	100.8	47.4	16.2	11.4	9.8
Dividend Yield	0.4%	1.0%	0.6%	1.7%	1.9%

Source: Company data, JM Financial. Note: Valuations as of 15/Jun/2023

Story in charts

Currently, Ashok Leyland is among top 10 / 5 players in MHCV / Bus segment globally. However, in terms of overall CV industry, it stands at 25th position. The company's focus is on growing LCV business, both in domestic and international market. Over the last two years, AL expanded into West and South Africa and is now present in SAARC and Middle- East along with Africa with addressable market size of 80k units p.a. During FY23, the company launched 6 new platforms in international markets and further plans to introduce 7 new platforms over the next 2 years. It also plans to expand geographically to cover ASEAN region. This is expected to help AL increase addressable market to 140k units over next 2 years. The company has 9 assembly plants in international markets and plans to add 3 more plants to get competitive edge in these markets against Chinese and Japanese CV players.

Hinduja Leyland Finance (HLFL) – AL invested INR 16bn till now in HLFL and its AUM currently stands at INR 302bn. Book remains well diversified with CV exposure at ~35%. Its fully owned subsidiary Hinduja Housing Finance has a book size of INR 66bn. Listing of HLFL is expected in 2HFY24. Hinduja Tech is a product engineering service company focused on EV segment with customer including – Daimler, Ford, Hyundai, Renault etc. Its FY23 revenue stood at INR 3.9bn and the company is expected to grow 2x over the next 2 years. AL indicated that Hinduja Tech is self-reliant and the investment needs are insignificant. Switch and OHM – Switch buses have been received well (650+ buses on road in India and UK) and has a strong order pipeline of 2000+ buses. Currently, Switch has 4 bus and 2 LCV platforms and future launch pipeline remains robust. Capex for Switch is expected to be INR 12bn (largely towards new product development) and AL is expected to continue its investment in Switch to nurture the growth.

Valuations: Stock trades comfortably at roughly 18x its FY25 earnings.

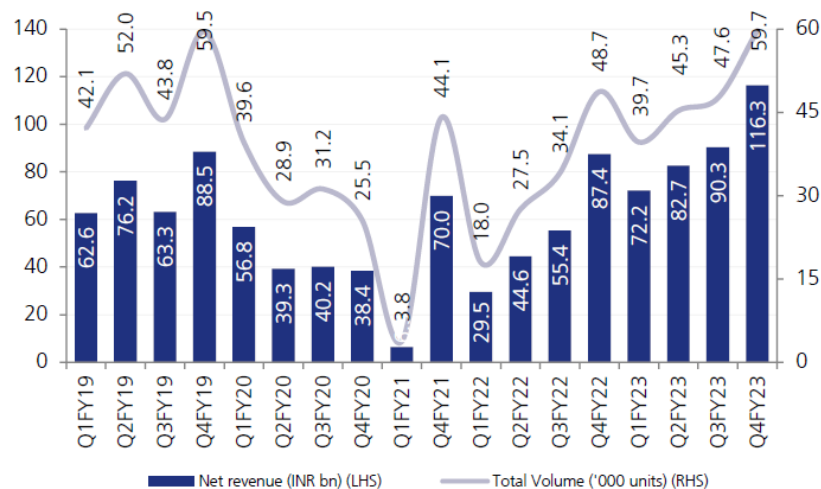
Story in charts

Standalone quarterly performance

(INR mn)	Q4FY23	Q4FY22	% YoY	Q3FY23	% QoQ	Q4FY23E	% A/E
MHCV (Units)	40,491	32,016	26.5	30,790	31.5	40,491	0
LCV (Units)	19,206	16,703	15	16,772	14.5	19,206	0
Total Volumes (Units)	59,697	48,719	22.5	47,562	25.5	59,697	0
Average Realisation (Net, INR)	19,47,446	17,94,842	8.5	18,98,505	2.6	19,55,815	-0.4
Sales	1,16,257	87,443	33	90,297	28.7	1,16,756	-0.4
RM	87,887	68,422	28.4	68,859	27.6	88,735	-1
As a % of sales	75.6	78.2	-270bps	76.3	-70bps	76	-40bps
Employee Exp	5,919	4,376	35.3	5,495	8	6,422	-7.8
As a % of sales	5.1	5	10bps	6.1	-100bps	5.5	-40bps
Other Costs	9,693	6,885	40.8	7,970	21.6	9,457	2.5
As a % of sales	8.3	7.9	50bps	8.8	-50bps	8.1	20bps
Expenditure	1,03,499	79,683	29.9	82,323	25.7	1,04,614	-1.1
EBITDA	12,757	7,760	64	7,973	60	12,143	5.1
EBITDA Margin	11	8.9	210bps	8.8	210bps	10.4	60bps
PAT (Adjusted)	6,950	4,311	61.2	3,544	96	6,474	7.3
PAT Margin (Adjusted)	6	4.9	100bps	3.9	210bps	5.5	40bps
EPS (Rs)	2.37	1.47	61.2	1.21	96.1	2.21	7.3

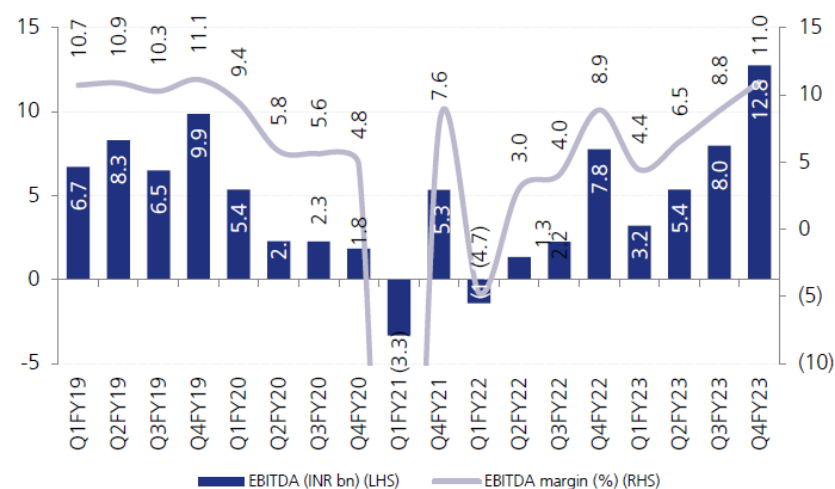
Source: Company, JM Financial

Revenue and volume trend



Source: Company, JMFS Research

EBITDA and Margin trend



Source: Company, JMFS Research

Financial snapshot – Income Statement and Balance Sheet

Income Statement (INR mn)					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Sales	1,52,385	2,16,883	3,61,441	4,04,603	4,34,589
Sales Growth	-12.8%	42.3%	66.7%	11.9%	7.4%
Other Operating Income	0	0	0	0	0
Total Revenue	1,52,385	2,16,883	3,61,441	4,04,603	4,34,589
Cost of Goods Sold/Op. Exp	1,14,033	1,67,611	2,78,492	3,05,688	3,25,580
Personnel Cost	15,839	16,946	21,139	22,318	24,344
Other Expenses	17,791	22,381	32,504	35,605	37,809
EBITDA	4,722	9,946	29,307	40,992	46,855
EBITDA Margin	3.1%	4.6%	8.1%	10.1%	10.8%
EBITDA Growth	-59.8%	110.6%	194.7%	39.9%	14.3%
Depn. & Amort.	7,477	7,528	7,320	8,078	8,603
EBIT	-2,755	2,418	21,987	32,914	38,252
Other Income	1,195	761	1,161	1,301	1,457
Finance Cost	3,068	3,011	2,891	2,732	2,192
PBT before Excep. & Forex	-4,628	168	20,258	31,482	37,516
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	-4,628	168	20,258	31,482	37,516
Taxes	-982	-142	7,303	9,445	11,255
Extraordinary Inc./Loss(-)	-121	5,108	846	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	-3,766	5,418	13,801	22,038	26,261
Adjusted Net Profit	-3,645	310	12,955	22,038	26,261
Net Margin	-2.4%	0.1%	3.6%	5.4%	6.0%
Diluted Share Cap. (mn)	2,935.5	2,935.5	2,936.1	2,936.1	2,936.1
Diluted EPS (INR)	-1.2	0.1	4.4	7.5	8.9
Diluted EPS Growth	0.0%	0.0%	4,073.0%	70.1%	19.2%
Total Dividend + Tax	1,761	4,403	2,936	7,634	8,808
Dividend Per Share (INR)	0.6	1.5	1.0	2.6	3.0

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Shareholders' Fund	69,772	73,369	84,258	98,662	1,16,115
Share Capital	2,936	2,936	2,936	2,936	2,936
Reserves & Surplus	66,837	70,434	81,322	95,726	1,13,179
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	37,463	35,539	32,248	26,248	20,248
Def. Tax Liab. / Assets (-)	1,708	1,444	5,035	5,035	5,035
Total - Equity & Liab.	1,08,943	1,10,351	1,21,541	1,29,945	1,41,398
Net Fixed Assets	74,222	67,952	64,367	63,789	62,686
Gross Fixed Assets	1,04,267	1,07,300	1,11,652	1,19,152	1,26,653
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	33,764	41,291	48,611	56,689	65,292
Capital WIP	3,719	1,943	1,325	1,325	1,325
Investments	30,687	48,196	66,636	79,136	91,636
Current Assets	79,590	87,190	94,914	98,519	1,07,366
Inventories	21,423	20,752	27,745	33,255	35,720
Sundry Debtors	28,163	31,111	40,627	38,798	41,673
Cash & Bank Balances	8,230	10,470	5,013	3,861	6,238
Loans & Advances	21,774	24,858	21,529	22,605	23,736
Other Current Assets	0	0	0	0	0
Current Liab. & Prov.	75,556	92,986	1,04,375	1,11,498	1,20,289
Current Liabilities	51,647	68,752	71,751	75,375	80,280
Provisions & Others	23,909	24,234	32,624	36,123	40,009
Net Current Assets	4,033	-5,797	-9,461	-12,980	-12,924
Total - Assets	1,08,943	1,10,351	1,21,541	1,29,945	1,41,398

Source: Company, JM Financial

Financial snapshot – Cash Flow Statement, Dupont Analysis & Key Ratios

Cash Flow Statement					(INR mn)
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Profit before Tax	-4,628	168	20,258	31,482	37,516
Depn. & Amort.	7,477	7,528	7,320	8,078	8,603
Net Interest Exp. / Inc. (-)	3,068	3,011	2,891	2,732	2,192
Inc (-) / Dec in WCap.	-10,078	12,070	-1,792	2,366	2,321
Others	0	0	0	0	0
Taxes Paid	982	142	-7,303	-9,445	-11,255
Operating Cash Flow	-3,178	22,919	21,374	35,214	39,378
Capex	-7,722	-1,257	-3,735	-7,500	-7,500
Free Cash Flow	-10,901	21,662	17,639	27,714	31,878
Inc (-) / Dec in Investments	2,726	-17,509	-18,440	-12,500	-12,500
Others	-3,068	-3,011	-2,891	-2,732	-2,192
Investing Cash Flow	-8,064	-21,777	-25,065	-22,733	-22,193
Inc / Dec (-) in Capital	0	0	1	0	0
Dividend + Tax thereon	-1,761	-4,403	-2,936	-7,634	-8,808
Inc / Dec (-) in Loans	6,410	-1,924	-3,291	-6,000	-6,000
Others	1,598	7,426	4,461	0	0
Financing Cash Flow	6,248	1,098	-1,765	-13,634	-14,808
Inc / Dec (-) in Cash	-4,995	2,240	-5,457	-1,152	2,377
Opening Cash Balance	13,224	8,230	10,470	5,013	3,861
Closing Cash Balance	8,230	10,470	5,013	3,861	6,238

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Margin	-2.4%	0.1%	3.6%	5.4%	6.0%
Asset Turnover (x)	1.4	2.0	3.2	3.4	3.3
Leverage Factor (x)	1.5	1.5	1.4	1.3	1.2
RoE	-5.1%	0.4%	16.4%	24.1%	24.5%

Key Ratios					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
BV/Share (INR)	23.8	25.0	28.7	33.6	39.5
ROIC	-3.5%	7.5%	29.6%	53.1%	66.6%
ROE	-5.1%	0.4%	16.4%	24.1%	24.5%
Net Debt/Equity (x)	0.4	0.3	0.3	0.2	0.1
P/E (x)	-126.4	1,484.8	35.6	20.9	17.6
P/B (x)	6.6	6.3	5.5	4.7	4.0
EV/EBITDA (x)	100.8	47.4	16.2	11.4	9.8
EV/Sales (x)	3.1	2.2	1.3	1.2	1.1
Debtor days	67	52	41	35	35
Inventory days	51	35	28	30	30
Creditor days	128	121	79	76	76

Source: Company, JM Financial

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Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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