

# ASHOK LEYLAND LIMITED | Autos

## Seasonally weak quarter, outlook remains buoyant

# LKP

Ashok Leyland (AL) reported topline decline of 17% qoq at ₹72.2 bn and a growth of 145% yoy. The qoq decline was driven by 19% qoq volume fall, while the yoy growth in topline was driven by 120% volume growth. However, the base quarter of last year being too low, we need to analyze based on Q4 numbers only. The realizations were up qoq on price hikes taken during the quarter and better product mix. (1) Higher mix of the M&HCV segment as well as higher mix of tractor trailer and >25T segment within the truck segment, (2) lower discounts and (3) price hikes led to growth in ASPs. EBITDA margins came in at 4.4% down by 450 bps sequentially. This was due to increased commodity costs and higher other expenses led by marketing costs associated with new launches in Q1. All other cost items below operating levels remained more or less flattish, PAT adjusted for one-time gain of ₹130 mn came in at ₹530 mn down from ₹4.3 bn qoq.

### Demand outlook in MHCVs to remain robust

We are witnessing a superlative performance by the CV sector, especially on its heavier side due to economic recovery, pandemic losing its severity and underlying parameters such as infrastructure and mining activities and construction activities falling in place. As the market has completely opened up, we see the truck numbers moving up further. We saw demand for tippers and MAVs moving up strongly followed by haulage vehicles and tractor trailers. The demand for buses is also expected to recover with opening of schools, colleges and offices. Following factors should drive the demand further -(1) increased government spends on infrastructure development and (2) strong replacement segment demand aided by higher fleet utilization levels. (3) New launches. The company recently launched the e-Comet Star ICV CNG range to address the gap in its portfolio (CNG mix in ICV segment has reached ~40% in FY2022 from 13% in FY2019). As a result, the company has improved its market share to ~32% in Q1 FY23 (from 26.1% in Q3 FY22). The company launched two tractor trailers (4225 and 4825 models) during the quarter. AL has currently an order book of 600 EV buses under its SWITCH India business strategy pertaining to electrification of its vehicles. Overall, we expect AL's market share to reach ~35% in FY2023E with easing of chip shortage issue. Management expects MHCV truck segment to grow at 15-20% and the Bus segment to grow at 30-35% in FY23E.

Key Financials	FY 21	FY 22	FY 23E	FY 24E
Revenues (₹ bn)	154.82	216.88	268.84	332.62
EBITDA (%)	4.6%	4.6%	7.5%	10.5%
PAT (%)	-0.9%	2.5%	3.5%	6.2%
Adj EPS (₹)	-0.41	0.11	3.20	7.01
P/E (x)	-	-	48.1	22.0
P/B(x)	6.5	6.2	5.7	4.8
EV/EBITDA (x)	67.6	48.0	23.3	13.1
ROCE(%)	-0.3%	2.2%	11.9%	22.3%
ROE(%)	-1.9%	7.4%	11.7%	21.8%

Rating	BUY
Current Market Price (₹)	154
12 M Price Target (₹)	175
Potential upside (%)	14

### Stock Data

FV (₹) :	1
Total Market Cap (₹ bn) :	452
Free Float Market Cap (₹ bn) :	222
52-Week High / Low (₹) :	158 / 93
2-Year High / Low (₹) :	158 / 49
1 Yr Avg. Dly Traded Volume (in lakh)	175
BSE Code / NSE Symbol	500477 / ASHOKLEY
Bloomberg :	AL IN

### Shareholding Pattern

(%)	Jun-22	Mar-22	Dec-21	Sep-21
Promoter	51.54	51.54	51.54	51.54
FPIs	15.03	13.45	15.05	16.33
MFs	14.93	15.43	14.08	13.63
Insurance	5.34	4.97	5.16	4.53
Others	13.16	14.61	14.17	13.97

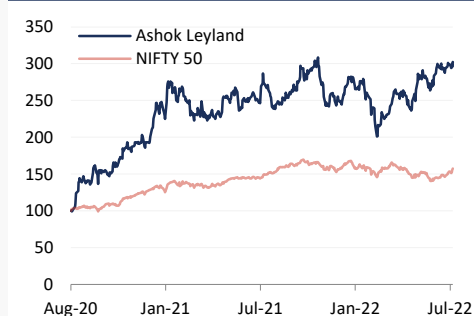
Source: BSE

### Price Performance

(%)	1M	3M	6M	1YR
Ashok Leyland	5.5%	21.4%	18.2%	16.2%
Nifty 50	10.1%	1.4%	-1.3%	10.0%

\* To date / current date : August 1, 2022

### Ashok Leyland vs Nifty 50



**LCV sales to bounce back strongly as chip shortage issue revives**

LCVs are currently facing some issues due to chip shortage. However, as this issue resolves, LCV are expected to be back on track quickly, which we expect to happen by Q3 FY23. The company has a LCV portfolio of products such as Dost and its variant Bada Dost, Guru, Mitra and Partner models. As the trend for online shopping increases, LCVs are finding demand for last mile transportation. LCVs being a high margin business are expected to add operating synergies and provide cost benefits to the company. Management mentioned that LCV volumes are driven by increased demand for last-mile connectivity, especially from the e-commerce, pharma and consumer durable sectors. Going forward with new launches in the segment (CNG and EV variants), we foresee a strong growth in the coming years. Management expects this segment to grow at 8-10% in FY 23E.

**Margins to recover further as input costs are expected to soften whilst demand surges**

Q1 witnessed EBITDA margins dropping down to 4.4%, down 450 bps qoq, as input costs including steel prices spiralled northwards and marketing costs moving up on the launch of increased spends associated with new launches. Going forward, management expects input costs to soften in FY 23. Also management has indicated towards multiple price hikes in FY23 as demand moves up and discounting goes down. The company is also into stringent cost cutting initiatives, adding value added products to their portfolio, while improving demand for higher tonnage trucks, haulage, ICVs & LCVs will augur well for margins. We expect 7.5%/10.5% margins in FY 23E/24E respectively.

**Quarterly Financial Snapshot**

YE Mar (₹ mn)	Q1 FY23	Q4 FY22	% qoq	Q1 FY22	% yoy
Total income	72,229	87,443	-17.4%	29,510	144.8%
Raw Material Cost	57,281	68,421	-16.3%	21,873	161.9%
Staff Cost	4,454	4,376	1.8%	4,243	5.0%
Other Expenses	7,291	6,885	5.9%	4,795	52.0%
Total Expenses	69,026	79,682	-13.4%	30,911	123.3%
EBITDA	3,203	7,761	-58.7%	(1,401)	-
EBITDA margin (%)	4.4%	8.9%	(450 bps)	-4.7%	910 bps
Other Income	256	242	6.1%	134	91.3%
Depreciation	1,824	1,954	-6.6%	1,835	-0.6%
Interest	689	765	-9.9%	707	-2.6%
PBT	946	5,284	-	(3,809)	-
Total tax	396	973	-59.3%	(1,003)	-
Adjusted PAT	550	4,312	-	(2,806)	-
Exceptional items	130	4,703	-97.2%	(17)	-
Reported PAT	680	9,014	-	(2,823)	-

Source: Company, LKP Research

### Outlook and Valuation

The company posted expectedly weak set of numbers in the seasonally weak Q1 when compared sequentially. As covid seems to be a past now, the CV demand is firming up well, supported by higher influx of infra projects, which may drive demand further. New launches also should help AL to further improve sales and fill in the gaps within the portfolio. LCV demand has been strong throughout the pandemic and is expected to strengthen as last mile transportation is a flourishing business, mainly driven by e-com success. Also, we expect AL to gain market share given its new launches in CNG, tractor trailer and tipper segments. Buses demand is also expected to revive with pandemic fading off and markets completely opened up. On the margin front, modular programs, cost cutting initiatives, price hikes, superior product mix along with softening input costs should help margin growth. The near-term demand recovery may come under pressure due to higher interest costs and fuel cost hikes; however, we remain optimistic over the medium term led by pickup in the replacement segment given higher fleet utilization levels and strong fleet operators' profitability. We maintain BUY with a higher target of ₹175.

Per unit parameters	Q1 FY23	Q4 FY22	Q3 FY22	Q2 FY22	Q1 FY22	Q4 FY21	Q3 FY21	Q2 FY21
Avg Price Realisation (net)	18,21,606	17,94,842	16,24,310	16,17,918	16,40,629	15,88,856	13,68,213	13,45,014
Material cost / unit (₹)	14,44,619	14,04,403	12,65,695	12,40,714	12,16,017	12,21,832	10,18,280	9,57,874
Staff cost / unit (₹)	1,12,333	89,817	1,26,892	1,45,284	2,35,898	91,148	1,29,183	1,77,163
Other Expn / unit (₹)	1,83,882	1,41,321	1,66,021	1,83,036	2,66,598	1,54,639	1,48,611	1,71,876
Total Expn / unit (₹)	17,40,833	16,35,541	15,58,608	15,69,034	17,18,513	14,67,619	12,96,075	13,06,914
EBITDA per unit (₹)	80,773	1,59,301	65,701	48,884	-77,884	1,21,237	72,138	38,100
APAT per unit (₹)	13,879	88,501	-10,641	-30,211	-1,56,007	46,255	7,575	-68,780

**Income Statement**

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E
<b>Total Revenues</b>	<b>1,54,822</b>	<b>2,16,883</b>	<b>2,68,835</b>	<b>3,32,624</b>
Raw Material Cost	1,14,033	1,67,611	2,01,626	2,42,816
Employee Cost	15,839	16,946	18,818	22,286
Other Exp	17,791	22,381	28,228	32,597
<b>EBITDA</b>	<b>7,159</b>	<b>9,945</b>	<b>20,163</b>	<b>34,926</b>
EBITDA Margin(%)	4.6%	4.6%	7.5%	10.5%
Other income	1195	761	1200	1700
Depreciation	7,477	7,528	7,013	7,544
Interest	3068	3011	2151	1996
<b>PBT</b>	<b>(2,191)</b>	<b>168</b>	<b>12,199</b>	<b>27,086</b>
PBT Margin(%)	-1.4%	0.1%	4.5%	8.1%
Tax	(982)	(142)	2,806	6,501
<b>Adj PAT</b>	<b>(1,209)</b>	<b>310</b>	<b>9,393</b>	<b>20,585</b>
Adj PAT Margins (%)	-0.8%	0.1%	3.5%	6.2%
Exceptional items	-120.5	5108.3	0.0	0.0
<b>PAT</b>	<b>(1,329)</b>	<b>5,419</b>	<b>9,393</b>	<b>20,585</b>
PAT Margin (%)	-0.9%	2.5%	3.5%	6.2%

**Key Ratios**

YE Mar	FY 21	FY 22	FY 23E	FY 24E
<b>Per Share Data (₹)</b>				
Adj. EPS	-0.41	0.11	3.20	7.01
CEPS	2.1	2.7	5.6	9.6
BVPS	23.8	25.0	27.2	32.1
DPS	0.0	0.6	1.0	2.1
<b>Growth Ratios(%)</b>				
Total revenues	-11.4%	40.1%	24.0%	23.7%
EBITDA	-39.0%	38.9%	102.7%	73.2%
PAT	-	-	-	119.2%
EPS Growth	-	-	2927.1%	119.2%
<b>Valuation Ratios (x)</b>				
PE	-	-	48.1	22.0
P/CEPS	72.1	57.7	27.6	16.1
P/BV	6.5	6.2	5.7	4.8
EV/Sales	3.1	2.2	1.7	1.4
EV/EBITDA	67.6	48.0	23.3	13.1
<b>Operating Ratios (Days)</b>				
Inventory days	50.5	34.9	45.0	50.0
Receivable Days	66.4	52.4	55.0	59.0
Payables day	139.1	126.5	110.0	105.0
<b>Profitability Ratios (%)</b>				
ROCE	-0.3%	2.2%	11.9%	22.3%
ROE	-1.9%	7.4%	11.7%	21.8%
Dividend payout	0.0%	32.5%	30.0%	30.0%

**Balance Sheet**

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E
<b>EQUITY AND LIABILITIES</b>				
<b>Shareholder's funds</b>				
Share capital	2,936	2,936	2,936	2,936
Reserves and surplus	66,837	70,434	77,009	91,418
<b>Total networth</b>	<b>69,772</b>	<b>73,369</b>	<b>79,944</b>	<b>94,354</b>
<b>Non current liabilities</b>				
Long term borrowings & provs	27,476	30,508	26,508	24,508
Deferred tax liabilities	1707.9	1443.6	1443.6	1443.6
<b>Current liabilities</b>				
Short term borrowings	11707	6565	4565	2065
Current liabilities & provisions	63,644	79,854	85,668	1,00,336
Other current liabilities	7,387	9,054	7,387	7,387
<b>Total equity and liabilities</b>	<b>1,84,499</b>	<b>2,03,338</b>	<b>2,08,060</b>	<b>2,32,638</b>
<b>ASSETS</b>				
Net block	53,097	49,771	48,758	51,214
Capital work in progress	2,288	1,111	911	711
Intangible assets	18,838	17,069	17,069	17,069
<b>Non current investments</b>				
Long term loans and advances	370	0	0	0
Long term investments	35,391	40,168	43,168	49,168
Total non current assets	1,09,984	1,08,120	1,09,907	1,18,163
<b>Current assets</b>				
Inventories	21,423	20,752	24,858	33,262
Trade receivables	28,160	31,110	40,509	43,009
Cash and cash bank	5,301	9,942	12,354	17,771
Short term loans and advances	208	0	0	0
Other current assets	16,495	19,906	19,906	19,906
Total current assets	74,515	95,218	98,155	1,14,476
<b>Total Assets</b>	<b>1,84,499</b>	<b>2,03,338</b>	<b>2,08,060</b>	<b>2,32,638</b>

**Cash Flow**

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E
PBT	-3,137	5,418	9,393	20,585
Depreciation	7,286	7,367	7,013	7,544
Interest	3,068	3,011	2,151	1,996
Chng in working capital	6,651	-4,653	13,579	-11,358
Tax paid	779	714	-2,806	-6,501
Other operating cash flows	-14,435	14,612	-22,132	19,122
<b>Cash flow from operations (a)</b>	<b>211</b>	<b>26,469</b>	<b>7,199</b>	<b>31,388</b>
Capital expenditure	-6,561	-4,000	-5,800	-9,800
Chng in investments	-3,677	-165	-3,000	-6,000
Other investing activities	488	-10,425	12,981	0
<b>Cash flow from investing (b)</b>	<b>-9,751</b>	<b>-14,590</b>	<b>4,181</b>	<b>-15,800</b>
Inc/dec in borrowings	4,901	-2,567	-4,000	-2,000
Dividend paid (incl. tax)	0	-1,761	-2,818	-6,176
Other financing activities	-2,841	-2,908	-2,151	-1,996
<b>Cash flow from financing (c)</b>	<b>2,061</b>	<b>-7,236</b>	<b>-8,969</b>	<b>-10,171</b>
<b>Net chng in cash (a+b+c)</b>	<b>-7,479</b>	<b>4,643</b>	<b>2,411</b>	<b>5,417</b>
<b>Closing cash &amp; cash equivalents</b>	<b>5,302</b>	<b>9,944</b>	<b>12,354</b>	<b>17,771</b>

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