Stock Update

Company Update

MIRAE ASSET Sharekhan

Ashok Leyland Ltd

Focus on margins continue

Automobiles	Sharekhan code: ASHOKLEY

Reco/View: **Buy** ⇔ | CMP: **Rs. 235** | Price Target: **Rs. 268** ⇔

↑ Upgrade ⇔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		⇔	
RQ		⇔	
RV		⇔	

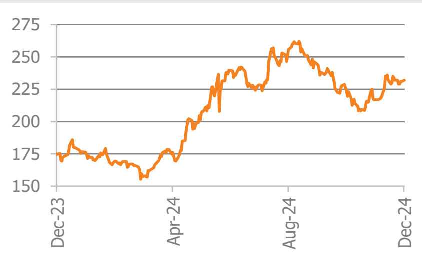
Company details

Market cap:	Rs. 68,985 cr
52-week high/low:	Rs. 264/157
NSE volume: (No of shares)	135.9 lakh
BSE code:	500477
NSE code:	ASHOKLEY
Free float: (No of shares)	142.29 cr

Shareholding (%)

Promoters	51.5
FII	23.7
DII	12.4
Others	12.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.1	-5.7	0.2	32.6
Relative to Sensex	0.1	-4.6	-6.7	15.2

Mirae Asset Sharekhan Research, Bloomberg

Summary

- ALL has announced for a price hike of up to 3% to inflationary pressure, effective January 2025.
- The company's bus segment has been witnessing healthy order inflow.
- We retain BUY with a revised PT of Rs. 268 in expectation of sustainable double-digit EBITDA margin and its profit-focused volume growth strategy.
- The stock trades at a P/E multiple of 21.0x/19.2x and EV/EBITDA multiple of 11.6x/10.3x its FY2026E/FY2027E.

We reiterate our BUY rating on Ashok Leyland (ALL) on (1) its focus on profitability over plain vanilla volume growth strategy, (2) sustaining EBITDA margin over the 10% mark, (3) passing on cost inflation to customers to save profitability, (4) its plans to expand its non-vehicle business, and (5) healthy order inflow in the bus segment. Strategically, the company does not believe in offering high discounts to acquire market share for short-term gain at the cost of loss of operating profitability. Following this, the company has been successfully sustaining its EBITDA margin above the 10% mark for the last seven quarters. While the discounting has been an industry phenomenon, the company continues to explore opportunities to raise prices, supported by strong product demand and improving market conditions. In tandem with this and in line with the industry's trend, ALL has announced for a price hike of up to 3%, effective from January 2025. While the truck segment has been observing demand moderation, the rise in order execution in the bus segment would cushion the fall in overall volume growth.

- **Price hike:** ALL has announced for a price hike of up to 3% on its entire range of commercial vehicles due to inflation and increased input costs, effective January 2025. The price hike announcement from the beginning of the new calendar year appears to be an industry trend as leading commercial vehicle (CV) player in the domestic market, Tata Motors, has also indicated for a ~2 % price hike across its CV portfolio. Given that demand has been moderating in the CV segment, need-based customers are looking for an attractive discount; this industry-wide price hike announcements may trigger for advancement of purchase decision in December in some cases and, hence, trigger the retailing of CVs. Further, the industry-wide price hike announcement indicates that leading players are in favour of maintaining pricing discipline in the CV industry, given that CV players have been focused on sustaining double-digit EBITDA margins.
- **New orders in Q3FY2025:** Recently, ALL has received an order to supply 1,475 Bus Chassis (BSVI diesel) from Tamil Nadu State Transport Corporation. The value of this order is ~Rs. 345.58 crore and is expected to be executed between December 2024 and May 2025. Similarly, its subsidiary, OHM Global Mobility, has also bagged an order for 500 units of 12-m ultra-low floor electric buses from the Metropolitan Transport Corporation (MTC), Chennai. While 400 of these buses will be non-AC, 100 buses will be equipped with air conditioning. Given that demand trends in the truck industry have been moderating, we believe the increase in order inflow from the bus segment would support its volume growth in the near term.
- **Aiming to attain strategic goals:** While the discounting has been an industry-wide phenomenon, ALL has been strategically going away from offering high discount to gain market share in the short term. Albeit it explores an opportunity in the intermediate period on account of a strong product profile and relative market conditions. The company continues to focus on its key medium-term goals - mid-teen EBITDA, MHCV market share of 35%, growth in non-CV businesses, leadership in alternate fuel vehicles, and value unlocking from subsidiaries. ALL's non-commercial vehicle segments have been gradually improving. The defense business continues to be on a winning streak. ALL is expanding its presence in both new and existing international markets, with a long-term goal of achieving 50,000-unit sales annually in exports. ALL is intensifying its expansion strategy on its focused markets of SAARC, Middle East, Africa, and Asia aimed at posting the best performance ever in exports during FY2025.

Our Call

Valuation- Maintain BUY with an unchanged PT of Rs. 268: Inline with the industry trend, ALL has announced for a price hike effective from January 2025, which in our view would help it in sustaining its high EBITDA margin trajectory. The company has successfully reduced its breakeven point and aims to maintain mid-teen EBITDA margins over the medium term. The long-term outlook for the bus segment remains strong, with continued demand expected. ALL is expanding its presence in both new and existing international markets, with a long-term goal of achieving 50,000-unit sales annually in exports. The company continues to focus on its key medium-term goals - mid-teen EBITDA, MHCV market share of 35%, growth in non-CV businesses, leadership in alternate fuel vehicles, and value unlocking from subsidiaries. ALL has been making itself ready with multiple fuel products across the segment via modularity. ALL has been developing and designing products via its technology and expertise. Backed by its technological expertise, ALL has been successfully able to launch futuristic products ahead of the competition in the market. In its bus segment, ALL has been gaining healthy traction. ALL continues to receive new orders from state transportation units. The average age of MHCVs has increased to 10 years in FY2023 compared to around 8.5 years during FY2014 to FY2019. As the average age of MHCVs increases, replacement demand will continue to rise in the future. We retain our BUY view with an unchanged PT of Rs. 268 in expectation of sustainable double-digit EBITDA margin and its profit-focused volume growth strategy.

Key Risks

Pricing pressures to defend domestic market share would affect margins and adverse macroeconomic trend. A sharp decline in MHCV industry may impact its overall performance.

Valuation (Standalone) Rs cr

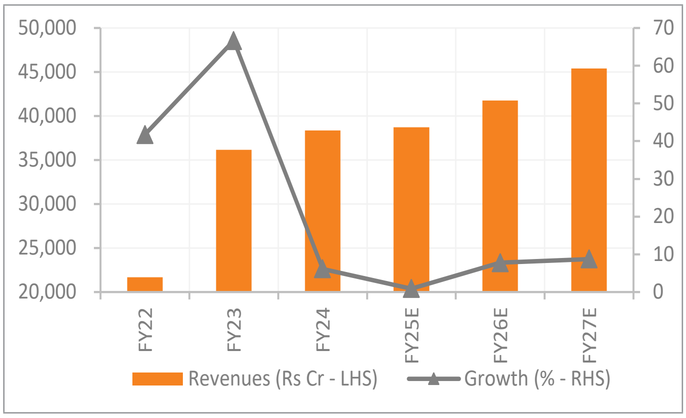
Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	36,144	38,367	38,721	41,742	45,393
Growth (%)	66.7	6.2	0.9	7.8	8.7
EBIDTA	2,931	4,607	4,763	5,218	5,674
OPM (%)	8.1	12.0	12.3	12.5	12.5
Recurring PAT	1,296	2,712	2,979	3,292	3,602
Growth (%)	4079.0	109.3	9.9	10.5	9.4
EPS (Rs)	4.4	9.2	10.1	11.2	12.3
PE (x)	53.3	25.4	23.2	21.0	19.2
P/BV (x)	8.2	7.8	6.6	5.6	4.4
EV/EBIDTA (x)	22.2	13.5	12.9	11.6	10.3
RoNW (%)	15.4	30.8	28.5	26.9	22.7
RoCE (%)	13.0	25.8	24.9	23.9	20.9

Source: Company; Mirae Asset Sharekhan estimates

- ALL expects demand to remain stable or slightly improve in the second half of FY2025, driven by the resumption of both government and private sector capital expenditure. Fleet utilisation surpassed 90% in October 2024, indicating strong demand for new trucks and a favourable environment for improving freight rates. A reduction in interest rates would further benefit demand dynamics.
- The company aims to capture a 35% market share in the medium and heavy commercial vehicle (MHCV) segment over the medium term, demonstrating its focus on expanding leadership in this core market.
- ALL currently caters to 50% of the LCV market and has set an ambitious target to increase its addressable market to 80% in the coming years, supported by multiple new product launches. The LCV segment would outperform the MHCV sector, given its high-growth potential and long-term prospects.
- The long-term outlook for the bus segment remains strong, with continued demand expected. ALL plans to maintain its leadership position in larger buses while expanding its market share in the smaller bus segment. The company is also working on revamping its entire product portfolio within the intermediate commercial vehicle (ICV) bus category. With a 35% market share, the company maintains its market leadership position in the bus segment.
- ALL is expanding its presence in both new and existing international markets, with a long-term goal of achieving 50,000-unit sales annually in exports.
- ALL is intensifying its expansion strategy on its focused markets of SAARC, Middle East, Africa, and Asia aimed at posting the best performance ever during FY2025.
- ALL's non-commercial vehicle segments registered healthy growth. The defense business continues to be on a winning streak, while the power solutions business experienced a decline in the first half, owing to a high base due to pre-buying ahead of the emission norm changes.
- No plan to offer high discounts and gain market share for short-term gain at the cost of loss of operating profitability.
- The company continues to explore opportunities to raise prices, supported by strong product demand and improving market conditions.
- The company continues to focus on its key medium-term goals - mid-teen EBITDA, MHCV market share of 35%, growth in non-CV businesses, leadership in alternate fuel vehicles, and value unlocking from subsidiaries.

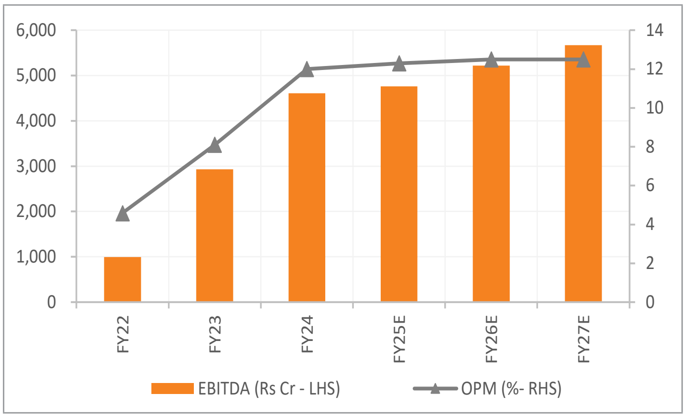
Financials in charts

Revenue and Growth Trend



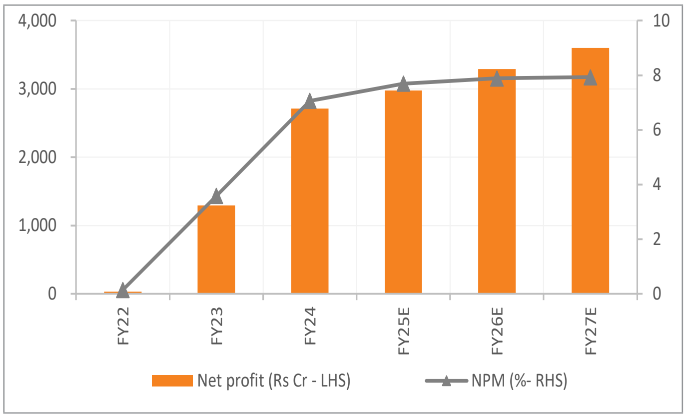
Source: Company; Mirae Asset Sharekhan Research

EBITDA and OPM Trend



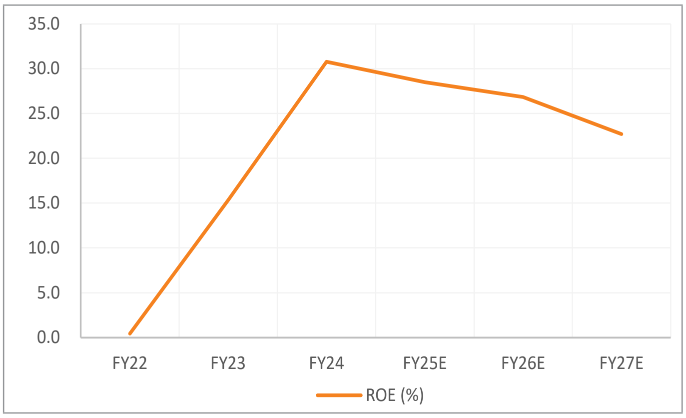
Source: Company; Mirae Asset Sharekhan Research

Net Profit and NPM Trend



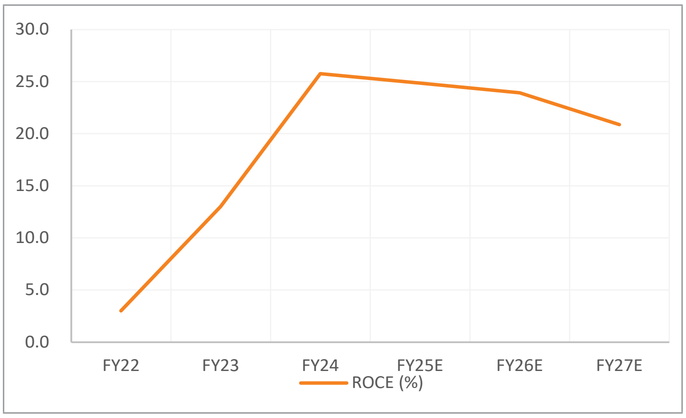
Source: Company; Mirae Asset Sharekhan Research

ROE Trend



Source: Company; Mirae Asset Sharekhan Research

ROCE Trend



Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Expect a steady recovery in CV sales

While the CV segment may witness a moderation in growth in FY2025 due to a high base, we believe the CV industry would grow in high single digits or at a low double-digit rate in FY2024, largely driven by recovery in replacement demand and rise in demand for the bus segment. However, the traction would be visible more from Q2FY2024 and the industry would follow the trend in infra spending and macro activities.

■ Company Outlook – Growth strategies in place to drive growth in the medium term

ALL is likely to be the key beneficiary of the expected traction in the domestic CV industry, driven by traction in the macro economy. Further, ALL has been looking for improved EBITDA margin, led by focusing on profit-driven market share expansion strategy. ALL will benefit from replacement demand, which is likely to arise due to aging of vehicle population and requirement of cost-effective transportation solutions. The company is well placed to benefit from growth in exports, defence, power solutions, LCV, and parts business even as it expands the reach and products of the core MHCV business.

■ Valuation – Maintain BUY with an unchanged PT of Rs. 268

In line with the industry trend, ALL has announced for a price hike effective from January 2025, which in our view would help it in sustaining its high EBITDA margin trajectory. The company has successfully reduced its breakeven point and aims to maintain mid-teen EBITDA margins over the medium term. The long-term outlook for the bus segment remains strong, with continued demand expected. ALL is expanding its presence in both new and existing international markets, with a long-term goal of achieving 50,000-unit sales annually in exports. The company continues to focus on its key medium-term goals - mid-teen EBITDA, MHCV market share of 35%, growth in non-CV businesses, leadership in alternate fuel vehicles, and value unlocking from subsidiaries. ALL has been making itself ready with multiple fuel products across the segment via modularity. ALL has been developing and designing products via its technology and expertise. Backed by its technological expertise, ALL has been successfully able to launch futuristic products ahead of the competition in the market. In its bus segment, ALL has been gaining healthy traction. ALL continues to receive new orders from state transportation units. The average age of MHCVs has increased to 10 years in FY2023 compared to around 8.5 years during FY2014 to FY2019. As the average age of MHCVs increases, replacement demand will continue to rise in the future. We retain our BUY view with an unchanged PT of Rs. 268 in expectation of sustainable double-digit EBITDA margin and its profit-focused volume growth strategy.

Change in estimates

Particulars	Old			New			% change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	38,721	41,742	45,393	38,721	41,742	45,393	0.0%	0.0%	0.0%
EBITDA	4,763	5,218	5,674	4,763	5,218	5,674	0.0%	0.0%	0.0%
EBITDA margin	12.3%	12.5%	12.5%	12.3%	12.5%	12.5%			
PAT	2,979	3,292	3,602	2,979	3,292	3,602	0.0%	0.0%	0.0%
EPS (Rs.)	10.1	11.2	12.3	10.1	11.2	12.3	0.0%	0.0%	0.0%

Source: Company; Mirae Asset Sharekhan Research

About the company

ALL is the flagship company of Hinduja Group and is the second-largest domestic manufacturer of MHCVs. ALL derives 70% of its volumes from the MHCV segment, while LCVs form the balance 30%. ALL is the market leader for MHCV buses, with a market share of 41%, while it is the second-largest player in MHCV trucks, having a market share of 33%. Domestic revenue contributes 87%, while exports contribute to the balance 13%.

Investment theme

We believe the CV industry is poised for a steady upturn in the market due to a faster-than-expected recovery in economic activities. ALL is the second largest MHCV cargo player in the domestic market and enjoys healthy market share in the domestic MHCV passenger carrier market. The company's market share in the MHCV cargo segment stood at 32.3% and that in the MHCV passenger carrier stood at 28.03% in FY2023. We are positive on ALL due to the faster-than-expected recovery in economic activities, especially in infrastructure development, road construction, and mining, which would likely spur demand for new trucks. Demand for CVs is expected to arise from replacement and new demand. Moreover, ALL is focusing on enhancing CV exports (by introducing new products and network expansion) and increasing revenue from replacement (driven by increased digitisation and network enhancement) and defence segment (through the government's Atmanirbhar Bharat push). An incentive-based scrappage scheme (providing incentives on new truck purchases in lieu of scrapping old trucks) would significantly boost demand and would be positive for the company. Hence, we retain our BUY rating on the stock.

Key Risks

Pricing pressures to defend domestic market share would affect margins. Moreover, if commodity prices continue to rise going forward, it can affect the company's profitability.

Additional Data

Key management personnel

Dhiraj Hinduja	Chairman
Shenu Agarwal	MD & CEO
Gopal Mahadevan	Executive Director
K M Balaji	Chief Financial Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Hinduja Automotive Ltd	34.72
2	HINDUJA BANK SWITZERLAND	4.93
3	Life Insurance Corp of India	2.67
4	Vanguard Group Inc/The	1.98
5	Norges Bank	1.92
6	Blackrock Inc	1.92
7	Republic of Singapore	1.86
8	SBI Funds Management Ltd	1.68
9	HDFC Life Insurance Co Ltd	1.31
10	SBI Life Insurance Co Ltd	1.13

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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