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Margin strength continues, upside capped...

About the stock: Ashok Leyland (ALL) is a pure-play CV manufacturer domestically, with FY25 market share pegged at 18.8% (flat YoY). It is present in M&HCV trucks and buses as well as LCV goods segments. It also has formidable presence in e-mobility (Electric buses) domain though Switch Mobility.

- FY25 product mix – LCV goods 35%, trucks 50%, buses 15%

Q2FY26 Results: Company reported healthy operational performance in Q2'26. Standalone revenues for Q2FY26 came in at ₹ 9,588 crore, up 9.3% YoY amidst 8% growth in volumes to 49k units. EBITDA for the quarter came in at ₹ 1,162 crore with margins at 12.1%, up 100 bps QoQ. Consequent PAT in Q2FY26 came in at ₹ 771 crore flat YoY (PBT excluding exceptional items up healthy 23% YoY).

Investment Rationale

- GST rationalization - A structural positive:** Government has announced GST 2.0 reforms thereby reducing GST rates for the automobile sector across the segments. Rate reduction from 28% to 18% brought down the cost of owning new trucks & buses. This is structurally positive for domestic CV space amidst aging fleet. This coupled with GST rate reduction in several other categories of goods is expected to increase the overall freight demand, acting as demand boost for CV space, long term positive for ALL.
- Steady Industry outlook with Market Share Gains:** In H1 Ashok Leyland's domestic MHCV market share was at 31% with a gain of 50 basis points over H1FY25. ALL is capitalizing on pent-up demand in buses & rising replacement needs. The LCV domestic volume for Q2 was at 17,697 units, higher by 6.4% on YoY basis. LCV Vahan market share at the end of H1FY26 stood at 13.2%, higher by 0.9% on YoY basis. Also, with 46% export growth in Q2, it is successfully expanding its international footprint. Going forward with GST 2.0, increased fleet utilization levels, pick up in government capex, and interest rate-cut transmission, ALL expects margins to improve in H2FY26 and reach mid-teen levels in medium term.
- Diversified Growth Engines and Strengthened Balance Sheet Support:** The company's increasing revenue diversification through buses, LCVs, aftermarket, Switch Mobility among others significantly reduces cyclicality and enhances earnings stability. Strong cash generation has turned the balance sheet into a net-cash position, providing ample headroom for capex, product development and selective investments without stressing leverage. B/S too has improved with company having a net cash position of ~₹ 1000 crores Q2FY26 end. With sustained double digit margin profile and lean B/S, its return ratios have turned very healthy at ~25-30%.

Rating and Target Price

- ALL strong positioning in MHCVs, export momentum & progress in EVs support its long-term growth narrative, however lack of clarity for volume recovery in the near term will keep stock price gains under check. We maintain **HOLD** rating on the stock & value ALL at SOTP based TP of **₹165** (13x on avg. of FY27-28E EV/EBITDA, 2.5x P/B for long term investments).

Key Financial Summary

Key Financials	FY21	FY22	FY23	FY24	FY25	5 year CAGR (FY20-25)	FY26E	FY27E	FY28E	3 year CAGR (FY25-28E)
Net Sales	15,301	21,688	36,144	38,367	38,753	17.3%	41,832	45,117	48,502	7.8%
EBITDA	535	995	2,931	4,607	4,931	33.3%	5,321	5,873	6,440	9.3%
EBITDA Margins (%)	3.5	4.6	8.1	12.0	12.7		12.7	13.0	13.3	
Net Profit	(314)	542	1,380	2,618	3,303	69.0%	3,445	3,851	4,311	9.3%
EPS (₹)	(0.5)	0.9	2.4	4.5	5.6		5.9	6.6	7.3	
P/E	NM	NM	63.0	33.2	26.3		25.2	22.6	20.2	
RoNW (%)	(4.4)	0.2	15.7	30.4	28.0		26.6	26.1	25.8	
RoCE (%)	(1.9)	2.1	17.0	30.7	28.8		28.8	29.1	29.3	

Source: Company, ICICI Direct Research



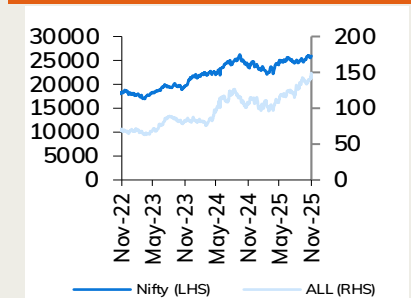
Particulars

Particular	₹ crore
Market Capitalization	86,920
Total Debt (FY25)	1,435
Cash & Inv. (FY25)	5,725
EV (₹ Crore)	82,631
52 week H/L (₹)	153 / 95
Equity capital (₹ crore)	587.3
Face value (₹)	1.0

Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	51.5	51.5	51.5	51.5
FII	20.5	21.5	22.0	24.4
DII	14.7	12.2	14.1	12.3
Other	13.3	14.8	12.3	11.8

Price Chart



Recent Event & Key risks

- We built in ~6.7% volume CAGR over FY25-28E with margins seen approaching closer to mid-teens
- Key Risk: (i) Higher than expected recovery in CV volumes (ii) moderation in margin profile due to higher commodity prices

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Key takeaways of Recent Quarter

Q2FY26 Earnings Conference Call highlights

Volumes & revenue mix: Ashok Leyland domestic MHCV truck volume for Q2 was at 21,647 units and MHCV bus volume at 4,660 units. In H1 Ashok Leyland's domestic MHCV market share was at 31% with a gain of 50 basis points over H1 of last year. This is without defence and EDS. The LCV domestic volume for Q2 was at 17,697 units, higher by 6.4% on YoY basis. LCV Vahan market share at the end of H1 stood at 13.2%, higher by 0.9% on YoY basis.

Costs, pricing & margins: Material cost was ~71.2% of revenue in Q2 (broadly similar to the level a year earlier). Q2 EBITDA was a record ₹1,162 crore (EBITDA margin 12.1%, +50bps YoY) and Q2 PBT was a record ~₹1,043 crore (PAT ₹771 crore). Management highlighted continued cost-savings, commodity tailwinds likely in Q3 vs Q2, and mix benefits from higher-margin after-market / export businesses.

Product & Capacity pipeline: LCV capacity today is ~80k units; the company can expand to ~110–120k units via process/efficiency changes (6–9 months) without major brownfield expansion. Bus bodybuilding capacity is being ramped (new Lucknow bus plant + other ramps) — targeted bus capacity rises from ~12k today to 20k+ p.a. after full ramp. R&D throughput is being improved to shorten time-to-market for multiple launches (higher-hp truck engines, bus variants).

Capital Allocation: Q2 Capex was ₹417 crore; H1 Capex ₹658 crore. FY26 Capex guidance reiterated in the ~₹800–1,000 crore band (includes centre-of-excellence, higher-hp engine development, corporate land purchase). Management said they could invest up to ~₹500 crore in group associates / subsidiaries if required (primarily for HLF / Switch / OM needs). Net cash position was positive (~₹1,000 crore at end-Q2) versus net debt ~₹500 crore a year earlier.

Future Outlook: Management is constructive for H2: GST-2.0 (truck price reduction ~10%) and improving freight demand are seen as demand stimulants. October industry reads showed MHCV +7% and LCV +15% YoY; ALL expects H2 volumes and margins to improve (commodity tailwinds in Q3 and product premiumization to help margins). Export target for FY26 is ~18k units, with a mid-term target of ~25k units.

Network & touchpoints: Network expansion continued: +27 MHCV points and +26 LCV touchpoints in the quarter; total touchpoints approaching ~2,000 (MHCV ~1,100; LCV ~876). For aftersales ALL has scaled technician programs (2,300+ trained third-party technicians) and is rolling out Project Dhruv — a service excellence/digitalization initiative to improve turnaround, first-time-right and workshop experience over the next 12–18 months.

International Business: Exports grew strongly (Q2 +45% YoY) with good traction in GCC, Africa and SARC. Management attributes growth to long-standing market presence, local production/supply-chain investments and market-tuned products (including an R&D node in RAK). FY26 export target ~18k; management's three-year ambition is ~25k units (targeting ~20% CAGR). Exports are margin-accretive and are expected to remain an important margin lever.

Switch Mobility & EV Business: Switch India (Switch) is scaling: H1 Switch sold ~600 buses and ~600 ELCVs; Switch H1 was EBITDA & PAT positive and had an order book of ~1,650 buses at H1 end. Switch aims to be free-cash-flow positive by FY27. OHM operating fleet metrics look strong (operating 1,100+ electric buses with >98% availability; OHM added ~250 buses in the quarter and targeting 2,500+ buses in 12 months).

Exhibit 1: Quarterly Variance Analysis

	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)
Total Operating Income	9,588	8,769	9.3	8,725	9.9
Raw Material Expenses	6,824	6,241	9.3	6,163	10.7
Employee Expenses	648	599	8.2	612	5.8
Other expenses	955	912	4.7	980	-2.6
EBITDA	1,162	1,017	14.2	970	19.9
EBITDA Margin (%)	12.1	11.6	52 bps	11.1	101 bps
Other Income	135	97	38.6	53	155.0
Depreciation	172	175	-1.8	183	-5.7
Interest	42	61	-30.8	42	0.3
Tax	272	226	20.3	204	33.1
Reported PAT	771	770	0.1	594	29.9
EPS	1.3	1.3	0.1	0.5	29.9
Key Metrics					
ASPs (₹ lakh/unit)	19.5	19.2	1.6	19.7	-1.0

Source: Company, ICICI Direct Research

Exhibit 2: Volume Assumptions

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
M&HCV Passenger volumes	19,871	23,323	5,629	7,799	18,150	24,663	29,169	33,798	36,259	38,430
M&HCV Goods volumes	1,22,987	55,231	46,178	66,086	1,05,959	1,00,222	96,862	1,01,271	1,07,418	1,12,827
Total M&HCV Sales Volume	1,42,858	78,554	51,807	73,885	1,24,109	1,24,885	1,26,031	1,35,068	1,43,677	1,51,257
LCV volumes	54,508	46,646	48,908	54,441	68,096	69,800	69,066	74,306	80,534	85,645
Total Sales Volume	1,97,366	1,25,200	1,00,715	1,28,326	1,92,205	1,94,685	1,95,097	2,09,374	2,24,211	2,36,902
YoY Growth (%)		-37%	-20%	27%	50%	1%	0%	7%	7%	6%
ASPs (₹ lakh/unit)	14.4	12.8	15.2	16.9	18.8	19.7	19.9	20.1	20.1	20.5

Source: Company, ICICI Direct Research

Exhibit 3: SOTP-based valuations

SOTP	
Target EV/EBITDA (x)	13.0
EBITDA (₹ crore; FY27-28E Average)	6,156
Enterprise Value (₹ Crore)	80,034
Net Debt (₹ crore; FY27-28E Average)	(6,014)
Target Market cap Core business (₹crore)	86,048
Value/Share (A)	145
Strategic long term Investments (₹ crore; FY27-28E Average)	6,529
P/BV(x)	2.5
Total Value/Share post applying 20% Holdco. Discount (B)	20
Price target (₹, A+B)	165

Source: ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement

₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Total operating Income	38,753	41,832	45,117	48,502
Growth (%)	1.0	7.9	7.9	7.5
Raw Material Expenses	27,623	29,725	32,024	34,337
Employee Expenses	2,406	2,566	2,709	2,874
Other Expenses	3,793	4,221	4,512	4,850
Total Operating Expenditure	33,822	36,511	39,245	42,061
EBITDA	4,931	5,321	5,873	6,440
Growth (%)	7.0	7.9	10.4	9.7
Depreciation	719	732	790	825
Interest	217	166	127	97
Other Income	250	268	248	307
PBT	4,245	4,691	5,204	5,826
Exceptional chages	-104	0	40	0
Total Tax	1,045	1,206	1,353	1,515
PAT	3,303	3,445	3,851	4,311
Growth (%)	26.2	4.3	11.8	11.9
EPS (₹)	5.6	5.9	6.6	7.3

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement

₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Profit after Tax	3,303	3,445	3,851	4,311
Add: Depreciation	719	732	790	825
(Inc)/dec in Current Assets	1,368	(863)	(834)	(623)
Inc/(dec) in CL and Provisions	(35)	(257)	836	861
CF from operating activities	5,573	3,223	4,770	5,471
(Inc)/dec in Investments	(3,113)	500	(1,000)	(1,750)
(Inc)/dec in Fixed Assets	(887)	(1,000)	(800)	(800)
Others	(674)	(136)	(139)	(140)
CF from investing activities	(4,674)	(636)	(1,939)	(2,690)
Issue/(Buy back) of Equity	-	-	-	-
Inc/(dec) in loan funds	(819)	(250)	(250)	(250)
Dividend paid & dividend tax	(1,835)	(1,909)	(2,144)	(2,379)
Others	1,023	(166)	(127)	(97)
CF from financing activities	(1,631)	(2,324)	(2,521)	(2,726)
Net Cash flow	(732)	262	310	55
Opening Cash	3,438	2,706	2,968	3,278
Closing Cash	2,706	2,968	3,278	3,333

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet

₹crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Liabilities				
Equity Capital	294	587	587	587
Reserve and Surplus	11,225	12,467	14,175	16,107
Total Shareholders funds	11,519	13,055	14,762	16,695
Total Debt	1,435	1,185	935	685
Deferred Tax Liability	548	548	548	548
Other non-current liabilities	417	442	467	492
Total Liabilities	14,628	15,949	17,442	19,159
Assets				
Gross Block	10,711	11,886	12,686	13,486
Less: Acc Depreciation	6,029	6,761	7,551	8,376
Net Block	4,682	5,125	5,135	5,111
Capital WIP	425	250	250	250
Total Fixed Assets	5,107	5,375	5,385	5,361
Investments	5,654	6,154	6,404	6,654
Inventory	2,957	3,438	3,708	3,986
Debtors	2,887	3,209	3,708	3,986
Loans and Advances	-	-	-	-
Other current assets	763	824	888	955
Cash	2,706	2,968	3,278	3,333
Total Current Assets	9,314	10,439	11,583	12,261
Creditors	7,305	6,877	7,417	7,973
Provisions	825	777	838	901
Other current Liabilities	2,768	2,988	3,222	3,464
Total Current Liabilities	10,898	10,641	11,477	12,337
Net Current Assets	(1,584)	(202)	107	(77)
Application of Funds	14,628	15,949	17,442	19,159

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios

(Year-end March)	FY25	FY26E	FY27E	FY28E
Per share data (₹)				
EPS	5.6	5.9	6.6	7.3
Cash EPS	6.9	7.1	7.9	8.7
BV	19.6	22.2	25.1	28.4
DPS	3.1	3.3	3.7	4.1
Cash Per Share	4.6	5.1	5.6	5.7
Operating Ratios (%)				
EBITDA Margin	12.7	12.7	13.0	13.3
PBT / Net sales	11.0	11.2	11.5	12.0
PAT Margin	8.5	6.8	8.0	8.0
Inventory days	27.9	30.0	30.0	30.0
Debtor days	27.2	28.0	30.0	30.0
Creditor days	68.8	60.0	60.0	60.0
Return Ratios (%)				
RoE	28.0	26.6	26.1	25.8
RoCE	28.8	28.8	29.1	29.3
RoIC	49.7	42.8	45.6	49.7
Valuation Ratios (x)				
P/E	26.3	25.2	22.6	20.2
EV / EBITDA	16.8	15.6	13.9	12.4
EV / Net Sales	2.1	2.0	1.8	1.6
Market Cap / Sales	2.2	2.1	1.9	1.8
Price to Book Value	7.5	6.7	5.9	5.2
Solvency Ratios				
Debt/Equity	0.1	0.1	0.1	0.0
Current Ratio	0.7	0.8	0.8	0.8
Quick Ratio	0.4	0.4	0.5	0.5

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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