

India

ADD (no change)

Consensus ratings*: Buy 36 Hold 4 Sell 4

Current price:	Rs240
Target price:	Rs275 ▲
Previous target:	Rs265
Up/downside:	14.6%
InCred Research / Consensus:	8.7%
Reuters:	ASOK.NS
Bloomberg:	AL IN
Market cap:	US\$8,257m Rs703,621m
Average daily turnover:	US\$19.6m Rs1669.4m
Current shares o/s:	2,936.5m
Free float:	48.5%

*Source: Bloomberg

Key changes in this note

- FY26F-27F sales volume cut by 3-4%.
- EBITDA margin raised by 30-60bp.
- FY26F-27F EPS upgrade by ~2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.9	7.7	12.8
Relative (%)	0.7	(1.7)	4.1

Major shareholders	% held
Hinduja Family	51.5
SBI Mutual Fund	2.0
HDFC LIFE INSURANCE	1.4

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Ashok Leyland

EBITDA margin scales historic peak

- 4Q EBITDA margin scaling its historic peak of 15% helped overcome ASP weakness and provided EPS growth of 30% yoy to Rs4.3.
- While volume recovery will be gradual from short-term geopolitical tensions, EBITDA margin upgrade of 30-60bp leads to 2% EPS upgrade for FY26F-27F.
- Maintain ADD rating on the stock, rolling forward our SOTP-based target price to Rs275, as the EV/EBITDA valuation remains below the mean level.

EBITDA margin scales historic high of 15% in 4QFY25

Ashok Leyland's 4QFY25 EBITDA rose by 13% yoy and 48% qoq to Rs17.9bn, which is a beat of 10% vs. our estimate and 5% to the Bloomberg (BB) consensus estimate. Improvement in the gross margin (+90bp qoq & 124bp yoy) led to historic-high EBITDA margin of 15% (+225bp qoq & 90bp yoy). The dip in interest and depreciation expenses qoq and higher other income led to a 30% yoy rise in PAT to Rs12.6bn, a big beat vs. our estimate (16%) and the BB consensus estimate (13%). The final dividend per share (DPS) of Rs4.25 and bonus share plan of 1:1 comes as a surprise. Net core working capital of -14 days of sales is impressive.

Management conference-call highlights

Management gave guidance of single-digit growth for the domestic commercial vehicle or CV sector, driven by tipper and bus segments. Exports to continue their double-digit growth. Management gave guidance that current capex of Rs10bn per annum will sustain in the coming years. Switch Mobility, the EV bus subsidiary, achieved 12% EBITDA margin in 4Q and plans PAT breakeven in the coming quarters. Lower vehicle inventory as of end-Mar 2025 helped in achieving net cash position of Rs42.4bn at the end of Mar 2025.

Maintain EBITDA estimates but marginally raise FY26F-27F EPS

Considering the recent geopolitical tensions and tariff wars impacting the pace of economic recovery in the short term and its effect on the CV sector's volume, we have cut Ashok Leyland's FY26F-27F sales volume by 3-4%. While the 4Q EBITDA margin is impressive, considering the AC cabin regulation impact on gross margin in the short term, we have capped the EBITDA margin upgrade to 30bp for FY26F and to 60bp for FY27F, thereby helping maintain our EBITDA estimates. With the net cash position easing interest cost pressure, we have increased EPS estimates by ~2% for FY26F-27F.

Demand recovery in 4Q provides hope; maintain ADD rating

The domestic large truck segment returning to the growth path (+3% yoy) in the Mar 2025 quarter, despite a high base, provides hope of sustaining it aided by easing crude oil and rubber prices benefitting transporters. Ashok Leyland, with its forward EV/EBITDA valuation below the mean level, provides comfort as it achieves turnaround in the EV arm and drives EV truck penetration. We raise our SOTP-based target price to Rs275 (Rs265 earlier), rolling forward the DCF valuation of core CV business. Key downside risk is a slow economic recovery leading to disappointing CV sales.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue (Rsm)	383,670	387,527	442,082	505,758	558,584
Operating EBITDA (Rsm)	46,065	49,306	55,096	65,606	73,807
Net Profit (Rsm)	26,178	33,033	36,973	44,742	50,804
Core EPS (Rs)	9.2	10.9	12.6	15.2	17.3
Core EPS Growth	109.3%	18.0%	15.6%	21.0%	13.5%
FD Core P/E (x)	25.95	21.99	19.03	15.73	13.85
DPS (Rs)	4.9	6.3	7.0	8.5	9.5
Dividend Yield	2.07%	2.61%	2.92%	3.55%	3.96%
EV/EBITDA (x)	14.09	12.25	10.94	9.01	7.87
P/FCFE (x)	16.02	63.79	59.65	24.56	23.42
Net Gearing	1.0%	(11.0%)	(3.8%)	(7.0%)	(8.5%)
P/BV (x)	7.99	6.11	5.35	4.65	4.04
ROE	31.5%	31.5%	30.0%	31.6%	31.2%
% Change In Core EPS Estimates			2.34%	1.94%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

EBITDA margin scales historic peak

Management conference-call highlights ►

- **Industry outlook:** In FY26F, management expects single-digit volume growth across CV sub-segments (LCV, ICV, MHCV goods, and passenger). Key drivers include stable fleet utilization, freight rates, operator profitability, moderating inflation, above-average monsoon prediction, and strong government infrastructure spending. The tipper and bus segments are expected to lead the growth, followed by tractor trailers, driven by core sector activities like mining and construction.
- **Commodity and regulatory challenges:** Safeguard duties on steel are expected to increase costs by Rs3-5/kg in 1Q-2QFY26F, but the impact is likely to be neutralized within five months. The AC cabin norm, effective Oct 2025, may raise prices by 0.5-2%. Other commodities like rubber are trending favourably, mitigating the overall cost pressure.
- **Capex and investments:** FY26F capex is planned at Rs10bn, focusing on alternate fuel technologies and critical electric vehicle or EV components like batteries and motors. Investments in subsidiaries like Switch India (Rs1-2bn) and OHM (Rs3-4bn) total Rs5-7bn, supported by the company's cash position.
- **Cost efficiency:** Raw material costs, as a percentage of revenue, declined to 70.6% in 4QFY25, the lowest in eight quarters, and to 71.3% in FY25 vs. 72.8% in FY24. This was driven by cost-saving initiatives and favourable commodity prices in the first three quarters of FY25, despite anticipated headwinds from steel safeguard duties.
- **Domestic MHCV market:** The domestic medium and heavy commercial vehicle (MHCV) industry's volume was flat yoy in FY25, but in 4Q it was up 27% qoq and 4% yoy. Ashok Leyland's domestic MHCV volume in 4Q was up 4% yoy. In FY25, it was down 1% yoy. The company maintained its market share of 30.9%. The target is to achieve 35% in the medium term.
- **LCV segment:** Domestic light commercial vehicle (LCV) volume in 4Q was down 2% yoy. In FY25, the market share in LCVs was 18.6%, down from 19.3% in FY24. New product launches, such as the sub-2-t Saathi, are expected to drive market share to 20% in the short term and to 25% in the medium term.
- **Export growth:** Exports surged 52% yoy in 4Q and in FY25 it was up 29% yoy. The company is expanding its international presence in regions like GCC, SAARC, Africa, and ASEAN, with plans for local assembly facilities and partnerships in Malaysia, Philippines, Indonesia, and Thailand.
- **Non-CV businesses:** In 4Q, engine volume grew by 9% yoy, and domestic spare parts revenue increased 15%. In FY25, engine volume was up 2%, and spare parts revenue rose by 4%. The defence segment business revenue remained flat, with a healthy order book for FY26F, targeting doubling of the topline in two-to-three years. Non-MHCV businesses now contribute ~50% to revenue.
- **Product innovation:** Ashok Leyland launched six new products in FY25, including Saathi and Leo in the LCV segment, IVAC (Intelligent Vehicle Acceleration Control) for MHCV trucks, and Oyster CNG and Oyster VMAX buses. Also introduced 55-t and 19-t battery electric vehicle (EV) trucks and showcased an EV terminal tractor and a 15-metre long bus at Auto Expo 2025, set for commercial production in FY26F.
- **Network expansion:** The company added 108 MHCV and 106 LCV touchpoints in FY25, primarily in North and East India, bringing the total network to 1,889 touchpoints pan-India.
- **EV and alternate fuels:** Switch India achieved EBITDA of 12% in 4Q and 6% in FY25, with an order book for 1,800 units. OHM subsidiary operates over 650 buses with 98%+ fleet availability and aims to add 1,700 buses in FY26F.

- Hinduja Leyland Finance (HLFL):** The listing of Hinduja Leyland Finance (HLF) has been delayed due to pending approvals, but it is expected in one-to-two quarters post-approval. HLFL’s assets under management (AUM) grew by 25% yoy to Rs617bn, with Hinduja Housing Finance’s AUM at Rs140bn (up 31%).
- Balance sheet:** The company transitioned from a net debt of Rs890m in FY24 to a cash-positive position of Rs42.42bn at the end of FY25, driven by improved working capital management and operational efficiency. Capex in FY25 stood at Rs9.54bn, with investments in group companies at Rs2bn, lower than the combined Rs20.6bn in FY24.

Figure 1: Quarterly results comparison

Y/E Mar (Rs m)	4QFY25	4QFY24	yoy % chg	3QFY25	qoq % chg	FY25	FY24	yoy % chg	Comments
Revenue	1,19,067	1,12,667	5.7	94,787	25.6	3,87,527	3,83,670	1.0	2% below our estimate.
Operating costs	84,028	80,906	3.9	67,743	24.0	2,76,228	2,79,120	(1.0)	
RM costs as a % of revenue	70.6	71.8	(124)	71	(90)	71.3	72.8	(147)	143bp below our estimate.
EBITDA	17,909.6	15,921.1	12	12,114	48	49,305.8	46,065.2	na	10% above our estimate.
EBITDA margin (%)	15.0	14.1	91.0	12.8	226	12.7	12.0	71.7	164bp above our estimate.
Depreciation & amortization	1,789	1,797	(0.5)	1,923	(7.0)	7,193	7,178	0.2	
EBIT	16,121	14,124	14.1	10,191	58.2	42,112	38,887	8	
Interest expenses	471	592	(20.4)	501	(5.9)	2,169	2,494	(13.0)	18% below our estimate.
Other income	1,059	1,179	(10.2)	247	328.7	2,503	2,466	1.5	32% above our estimate.
Pre-tax profit	16,709	14,711	13.6	9,938	68.1	42,446	38,858	9.2	
Tax	4,114	5,010	(17.9)	2,320	77.3	10,450	11,743	(11.0)	
Tax rate (%)	24.6	34.1	(943.7)	23.3	127	24.6	30.2	(560)	38bp below our estimate.
Normalized net profit	12,595	9,701	29.8	7,617	65	31,996	27,115	18	16% above our estimate.
Extraordinary Income/expenses	(137)	(697)	(80.4)	-	na	1,037	(937)	na	-
Reported net profit	12,459	9,004	38.4	7,617	63.6	33,033	26,178	26	
Normalized EPS (Rs)	4.3	3.3	29.8	2.6	65.3	10.9	9.2	18	
Volume (nos)	59,176	56,437	38.4	46,404	63.6	1,95,097	1,94,553	0.3	
Net realization (Rs)	20,12,084	19,96,330	4.9	20,42,641	(1.5)	19,86,331	19,72,058	0.7	2% below our estimate.
EBITDA/vehicle	3,02,650	2,82,104	0.8	2,61,062	15.9	2,52,725	2,36,775	6.7	

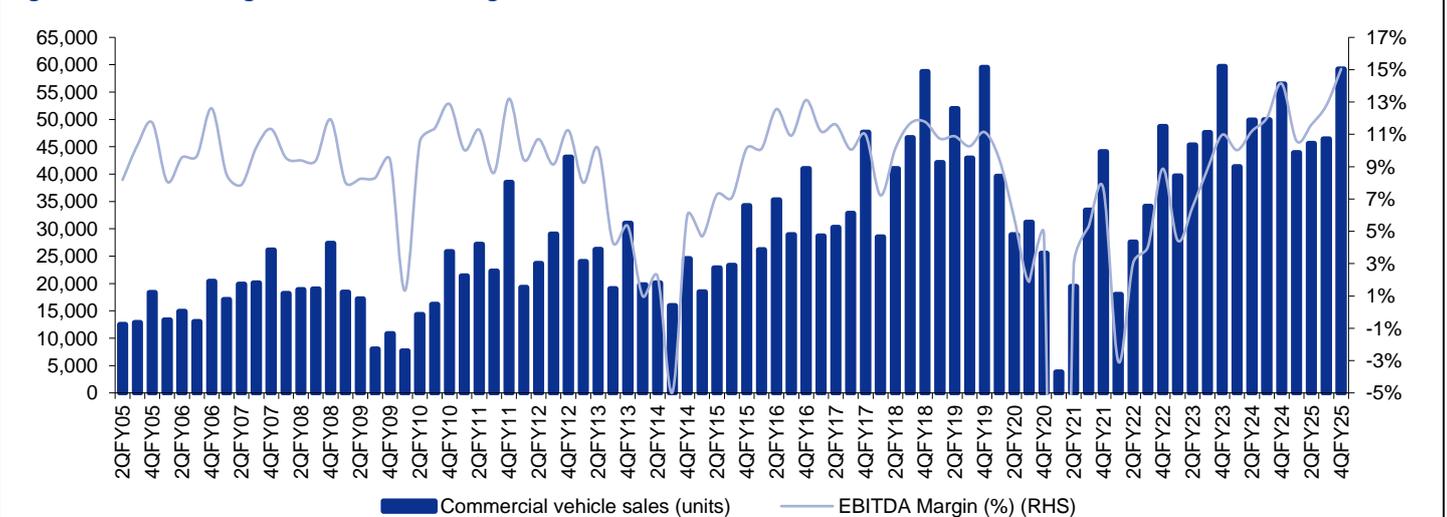
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Ashok Leyland’s total sales volume break-up

Segment (Domestic)	4QFY25	4QFY24	yoy %	3QFY25	qoq %	FY24	FY25	yoy %
Passenger carrier M&HCVs	6,967	6,744	3%	4,042	72.4%	17,956	21,253	18.4%
Goods carrier M&HCVs	29,089	28,012	4%	22,796	27.6%	98,113	93,540	-4.7%
Passenger carrier LCVs	456	460	-1%	159	186.8%	955	1,225	28.3%
Goods carrier LCVs	17,204	17,491	-2%	15,256	12.8%	65,678	63,824	-2.8%
Total exports	5,460	3,602	52%	4,151	31.5%	11,853	15,255	28.7%
Total sales volume	59,176	56,309	5%	46,404	27.5%	1,94,555	1,95,097	0.3%

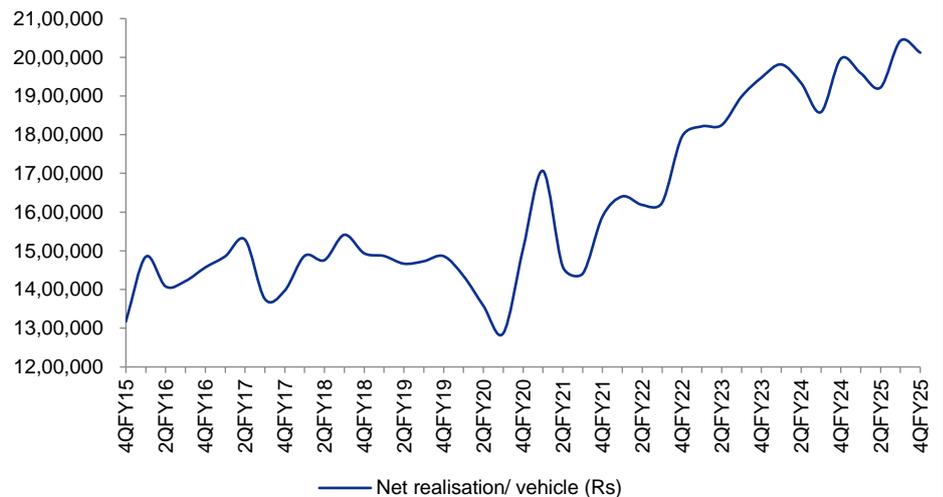
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: EBITDA margin touches historic high



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: The sequential decline in ASP disappoints



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: EPS revision summary

	FY26F		FY27F	
	Old	New	Old	New
Sales volume (nos)	2,23,317	2,15,778	2,56,683	2,45,838
Change (%)		-3.4%		-4.2%
Net sales (Rsm)	4,56,164	4,42,082	5,31,739	5,05,758
Change (%)		-3.1%		-4.9%
EBITDA (Rsm)	55,526	55,096	65,897	65,606
Change (%)		-0.8%		-0.4%
EBITDA margin %	12.2%	12.5%	12.4%	13.0%
bp change		29.0		57.9
Normalized PAT (Rsm)	36,114	36,973	43,878	44,742
Change (%)		2.4%		2.0%
Normalized EPS (Rs.)	12.30	12.59	14.94	15.24
Change (%)		2.4%		2.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Key assumptions

Sales Volume (nos)	FY23A	FY24A	FY25A	FY26F	FY27F	FY28F
Domestic M&HCV trucks	1,03,480	98,111	93,540	1,00,088	1,11,097	1,16,652
Growth (%)	68.8	(5.2)	(4.7)	7.0	11.0	5.0
Domestic M&HCV buses	10,767	17,956	21,253	24,441	27,374	29,564
Growth (%)	184.2	66.8	18.4	15.0	12.0	8.0
Light commercial vehicles	65,654	66,633	65,049	72,855	85,969	98,864
Growth (%)	25.7	1.5	(2.4)	12.0	18.0	15.0
Total domestic sales volume	1,79,901	1,82,700	1,79,842	1,97,384	2,24,440	2,45,080
Growth (%)	53.3	1.6	(1.6)	9.8	13.7	9.2
Total export sales	10,991	11,853	15,255	18,394	21,398	23,871
Growth (%)	(0.3)	7.8	28.7	20.6	16.3	11.6
Grand total sales volume	1,90,892	1,94,553	1,95,097	2,15,778	2,45,838	2,68,951
Growth (%)	48.7	1.9	0.3	10.6	13.9	9.4
Per vehicle assumptions (Rs.)						
ASP	18,93,435	19,72,058	19,86,331	20,48,783	20,57,279	20,76,900
Growth (%)	12.0	4.2	0.7	3.1	0.4	1.0
Contribution	4,34,539	5,37,384	5,70,483	5,77,167	5,92,925	5,97,642
Growth (%)	13.2	23.7	6.2	1.2	2.7	0.8
EBITDA/ vehicle	1,53,527	2,36,775	2,52,725	2,55,338	2,66,866	2,74,425
Growth (%)	88.5	54.2	6.7	1.0	4.5	2.8
Net profit /vehicle	67,866	1,39,372	1,63,999	1,71,347	1,81,998	1,88,895
Growth (%)	966.9	105.4	17.7	4.5	6.2	3.8

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Discounted cash flow or DCF-based target price valuation summary

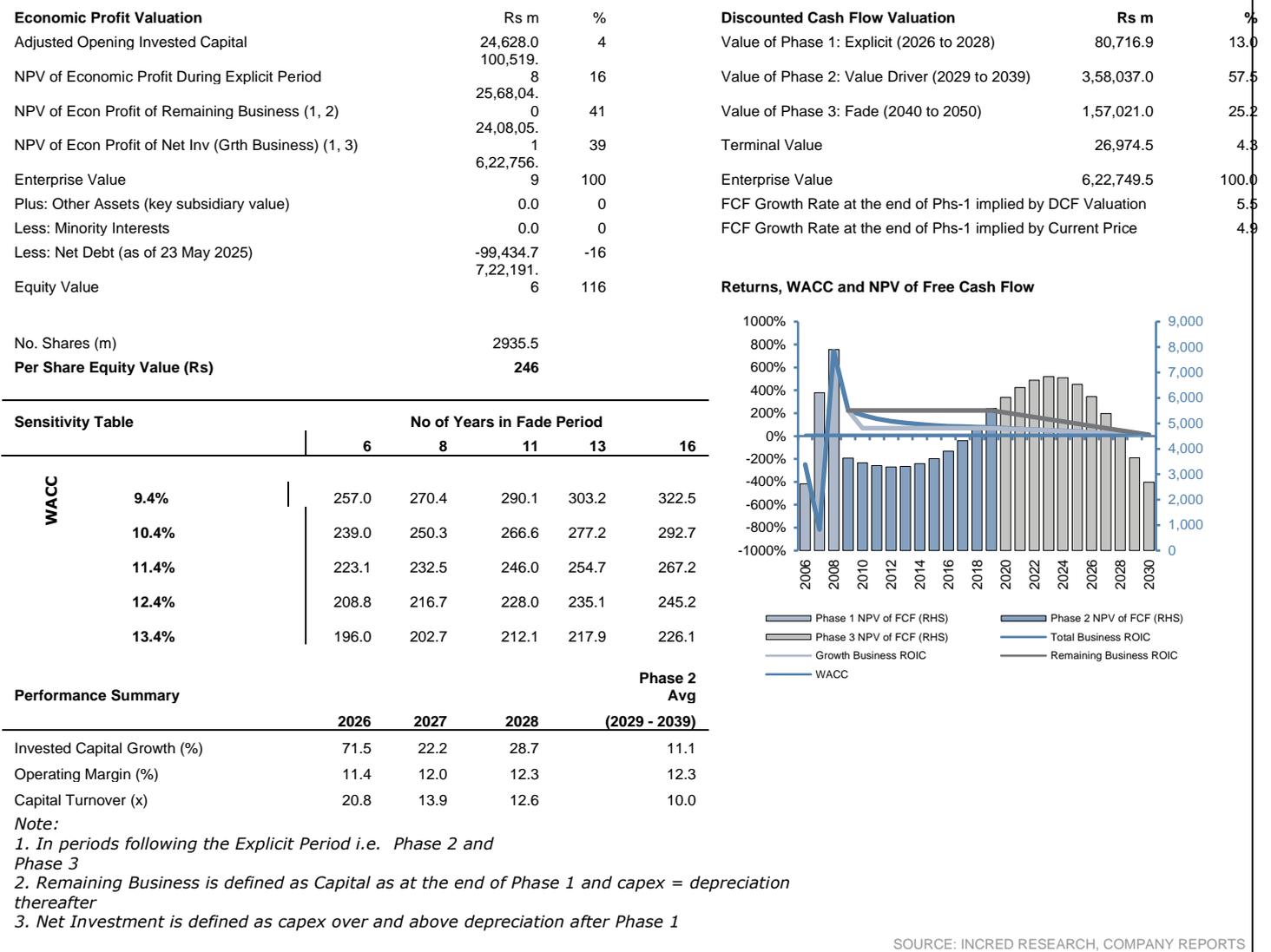


Figure 8: Sum-of-the-parts or SOTP-based target price

	Methodology	Value per share (Rs)
CV business	DCF-based valuation	246
Hinduja Leyland Finance	1.8x FY24 book value	29
SOTP value of Ashok Leyland		275

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: One-year forward P/BV eases to the +1SD level



Figure 10: One-year forward P/E is close to the -1SD level

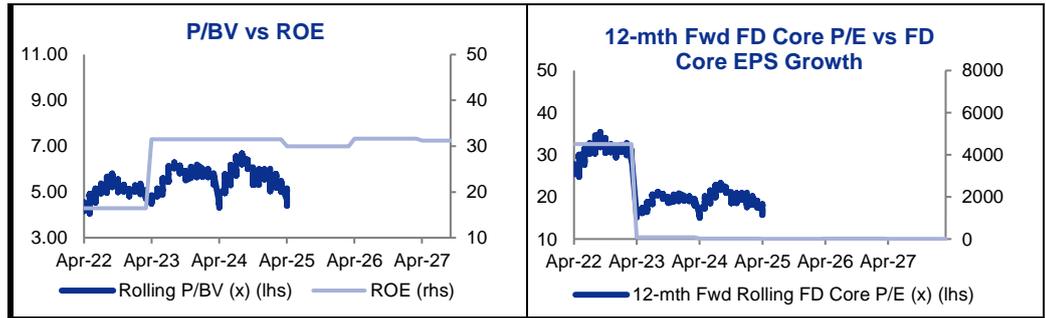


Figure 11:

Figure 11: Forward EV/EBITDA is still below the 20-year mean level



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Net Revenues	383,670	387,527	442,082	505,758	558,584
Gross Profit	104,550	111,300	124,540	145,764	160,736
Operating EBITDA	46,065	49,306	55,096	65,606	73,807
Depreciation And Amortisation	(7,178)	(7,193)	(7,366)	(8,023)	(8,653)
Operating EBIT	38,887	42,112	47,730	57,583	65,154
Financial Income/(Expense)	(2,494)	(2,169)	(1,136)	(927)	(746)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,466	2,503	2,703	3,000	3,330
Profit Before Tax (pre-EI)	38,858	42,446	49,297	59,656	67,738
Exceptional Items					
Pre-tax Profit	38,858	42,446	49,297	59,656	67,738
Taxation	(11,743)	(10,450)	(12,324)	(14,914)	(16,935)
Exceptional Income - post-tax	(937)	1,037			
Profit After Tax	26,178	33,033	36,973	44,742	50,804
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	26,178	33,033	36,973	44,742	50,804
Recurring Net Profit	27,115	31,996	36,973	44,742	50,804
Fully Diluted Recurring Net Profit	27,115	31,996	36,973	44,742	50,804

Cash Flow

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
EBITDA	46,065	49,306	55,096	65,606	73,807
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(7,933)	19,355	(2,689)	359	(1,758)
(Incr)/Decr in Total Provisions	15,636	(884)	(3,488)	1,550	(1,000)
Other Non-Cash (Income)/Expense	528	(84)			(4)
Other Operating Cashflow	(937)	1,037			
Net Interest (Paid)/Received	(29)	333	1,567	2,073	2,584
Tax Paid	(12,854)	(14,974)	(15,775)	(19,090)	(21,676)
Cashflow From Operations	40,476	54,089	34,711	50,498	51,953
Capex	(4,394)	(7,937)	(16,366)	(18,023)	(18,653)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	4,352	(14,204)	(5,549)	(1,824)	(1,258)
Cash Flow From Investing	(43)	(22,141)	(21,915)	(19,847)	(19,912)
Debt Raised/(repaid)	3,470	(20,917)	(1,000)	(2,000)	(2,000)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(14,535)	(18,353)	(20,556)	(24,960)	(27,897)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(11,064)	(39,270)	(21,556)	(26,960)	(29,897)
Total Cash Generated	29,369	(7,322)	(8,760)	3,691	2,144
Free Cashflow To Equity	43,903	11,031	11,796	28,651	30,041
Free Cashflow To Firm	42,927	34,117	13,932	31,577	32,787

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Cash And Equivalents	34,382	27,060	18,300	21,991	24,135
Total Debtors	35,699	28,673	36,335	44,340	53,563
Inventories	31,907	29,573	36,335	44,340	50,502
Total Other Current Assets	16,339	20,084	21,084	22,084	23,084
Total Current Assets	118,326	105,389	112,054	132,755	151,283
Fixed Assets	62,194	62,937	71,937	81,937	91,937
Total Investments	55,598	86,730	95,730	101,730	107,730
Intangible Assets					
Total Other Non-Current Assets					
Total Non-current Assets	117,791	149,667	167,667	183,667	199,667
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	63,052	73,047	84,783	101,152	114,778
Other Current Liabilities	30,380	31,647	30,000	31,500	31,500
Total Current Liabilities	93,432	104,694	114,783	132,652	146,278
Total Long-term Debt	35,271	14,354	13,354	11,354	9,354
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	35,271	14,354	13,354	11,354	9,354
Total Provisions	19,311	20,820	19,979	21,028	21,024
Total Liabilities	148,014	139,868	148,116	165,035	176,656
Shareholders Equity	88,104	115,188	131,605	151,387	174,294
Minority Interests					
Total Equity	88,104	115,188	131,605	151,387	174,294

Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue Growth	6.1%	1.0%	14.1%	14.4%	10.4%
Operating EBITDA Growth	57.2%	7.0%	11.7%	19.1%	12.5%
Operating EBITDA Margin	12.0%	12.7%	12.5%	13.0%	13.2%
Net Cash Per Share (Rs)	(0.30)	4.33	1.68	3.62	5.03
BVPS (Rs)	30.01	39.23	44.82	51.55	59.35
Gross Interest Cover	15.59	19.41	42.01	62.15	87.39
Effective Tax Rate	30.2%	24.6%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	53.6%	57.4%	55.6%	55.8%	54.9%
Accounts Receivables Days	36.31	30.32	26.84	29.11	31.99
Inventory Days	39.00	40.62	37.88	40.90	43.51
Accounts Payables Days	88.14	89.92	90.71	94.26	99.05
ROIC (%)	43.5%	53.5%	87.4%	75.8%	72.7%
ROCE (%)	31.1%	31.9%	33.4%	36.1%	36.5%
Return On Average Assets	12.5%	13.6%	14.1%	15.2%	15.4%

Key Drivers

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
ASP (% chg, main prod./serv.)	4.2%	0.7%	3.1%	0.4%	1.0%
Unit sales grth (% , main prod./serv.)	1.9%	0.3%	10.6%	13.9%	9.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.