India
April 03, 2025 - 1:47 PM

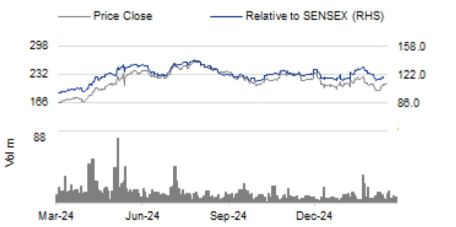
ADD *(no change)*

Consensus ratings*:	Buy 36 Hold 4 Sell 4
Current price:	Rs209
Target price:	Rs265
Previous target:	Rs265
Up/downside:	26.8%
InCred Research / Consensus:	5.0%
Reuters:	ASOK.NS
Bloomberg:	AL IN
Market cap:	US$7,169m
	Rs613,059m
Average daily turnover:	US$22.3m
	Rs1905.6m
Current shares o/s:	2,935.5m
Free float:	48.5%

*Source: Bloomberg

Key financial forecast

	Mar-25F	Mar-26F	Mar-27F
Net Profit (Rsm)	31,040	36,114	43,878
Core EPS (Rs)	10.17	12.30	14.95
Core EPS Growth	10.1%	20.9%	21.5%
FD Core P/E	20.52	16.97	13.97
Recurring ROE	31.3%	32.4%	33.6%
P/BV (x)	5.95	5.11	4.35
DPS (Rs)	5.50	6.50	7.80
Dividend Yield	2.64%	3.11%	3.74%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	(0.1)	(10.8)	19.8
Relative (%)	(4.7)	(7.8)	15.5

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

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Ashok Leyland

Management NDR highlights

- ALL's management is hopeful of the low base benefit in 1HFY25 providing double-digit MHCV industry growth and leading to a 6% growth in FY26F.
- Revenue diversification towards exports, LCVs and spare parts should help it to ease EBITDA fluctuation in case of truck demand variation.
- With signs of demand recovery, we maintain our ADD rating on the stock.

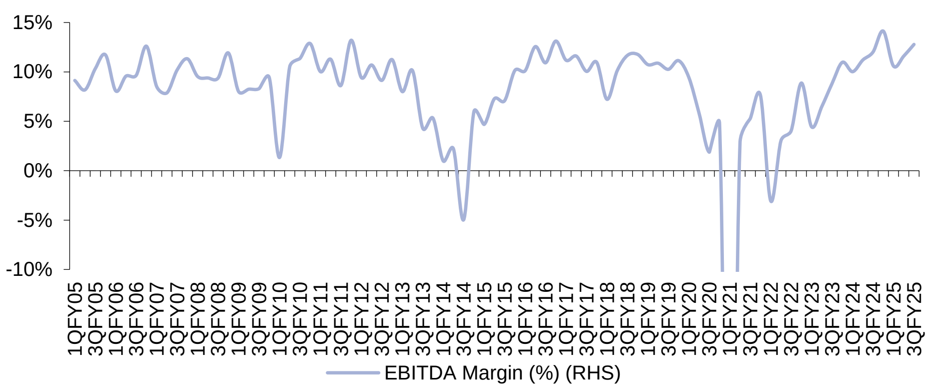
Management outlook

- Ashok Leyland or ALL's management expects the M&HCV segment's volume to grow in double digits in 1HFY26F on a low base (due to general elections in India in the previous year) and by 6-7% in FY26F. The truck cabin air-conditioning norm will increase vehicle prices by just 1% and may not impact demand. Regulatory headwinds for the commercial vehicle sector in the next five years to be substantially lower than in the past, as BS-VII emission norms may come only by 2031F.
- The company expects its sales revenue growth to outperform industry growth via new product initiatives, LCV portfolio expansion, customer acquisition initiatives, double-digit spare parts growth, doubling of exports, and the defence equipment business.
- **Defence equipment business:** The order inflow was strong at Rs7bn in FY25, leading to an order book worth Rs17bn vs. Rs10bn in sales in FY25F. With around 8,000 defence trucks and buses expected to enter the replacement cycle and new product opportunities, the company plans to double its sales in the next few years.
- **Export business:** ALL's truck export business is primarily driven by the Middle East (40%), Bangladesh (40%), and African nations (15-20%). The international business is expected to touch Rs38bn in FY25F. Management expects the volume to scale from 15,000 units currently to 25,000 units in the medium term.
- **Input cost reduction program:** Over the past three years, ALL achieved cost savings of Rs20bn by optimizing vehicle manufacturing expenses, with an additional Rs5.5bn likely to be saved over the next two years. A dedicated team of 250 members focuses exclusively on cost reduction by minimizing raw material usage in vehicle manufacturing.
- **EBITDA margin resilience:** The cost reduction program aided in cutting the break-even point by two-thirds to just 2,000 units per annum. Revenue diversification helped in limiting the dependence on the domestic large truck segment to just 60%, thus capping EBITDA sensitivity for a 5-10% truck volume dip to just 20bp on the EBITDA margin.
- **Capex:** ALL stated that in the coming years it will incur capex for creating a centre of excellence in electric vehicle (EV) parts & making EV products, like its Lucknow plant.

Signs of demand recovery & valuation comfort; maintain ADD rating

- Truck demand recovery, aided by the recovery in government spending in 2HFY25F & also in goods movement for personal consumption in FY26F, gives hope of cyclical CV demand recovery benefit for a few quarters. The promoter share pledge issue, we feel, is factored in at the current valuation of below the mean level one-year forward EV/EBITDA. We maintain our ADD rating on the stock.

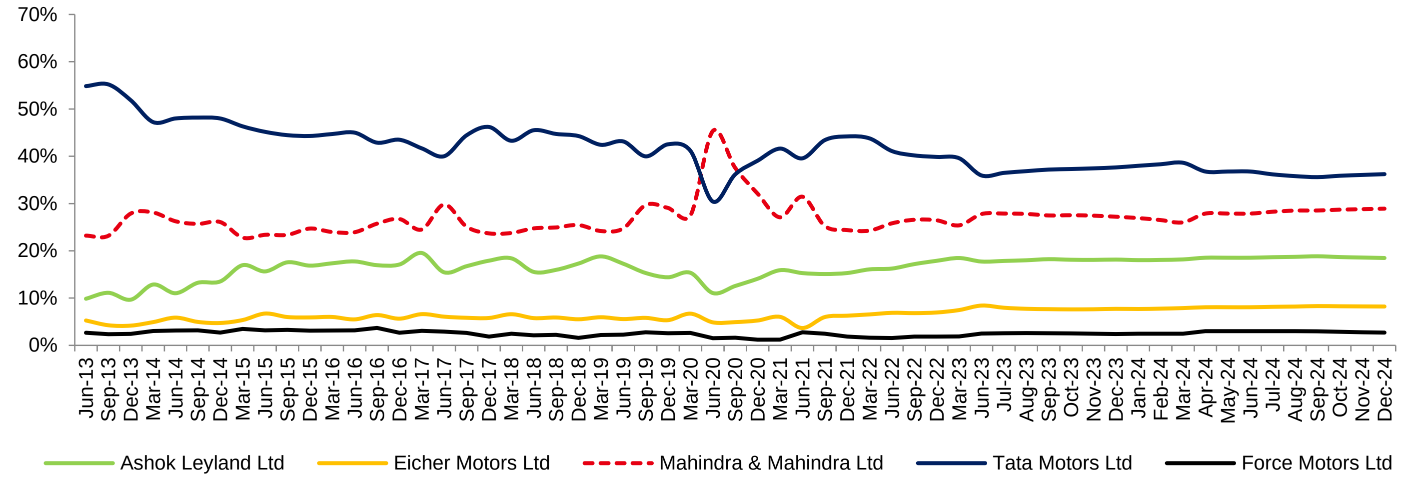
Figure 1: Ashok Leyland's long-term EBITDA margin trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

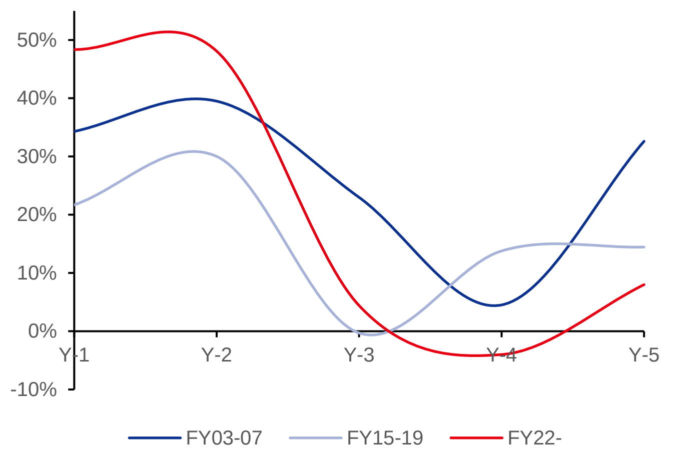
Management NDR highlights

Figure 2: Long-term domestic CV sector market share trend



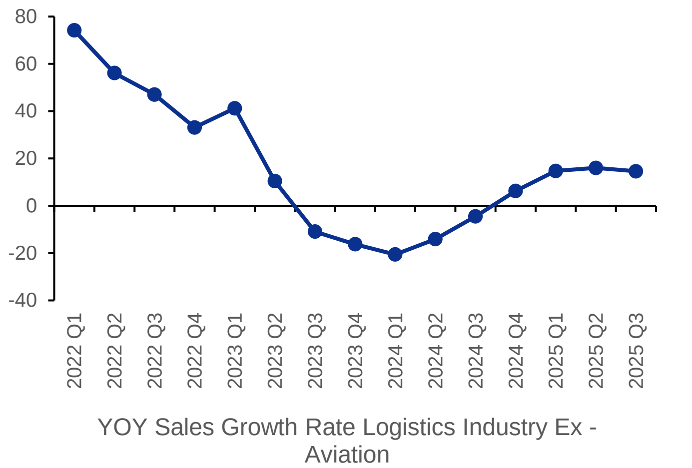
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: The MHCV segment is in a mid-cycle year consolidation phase



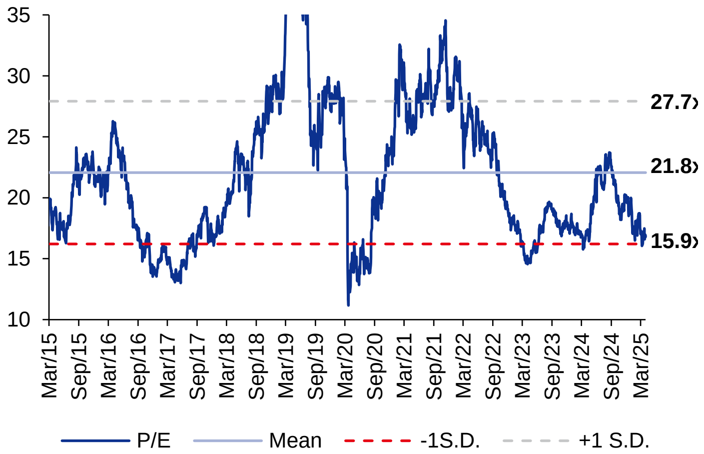
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Logistics industry's sales growth trajectory



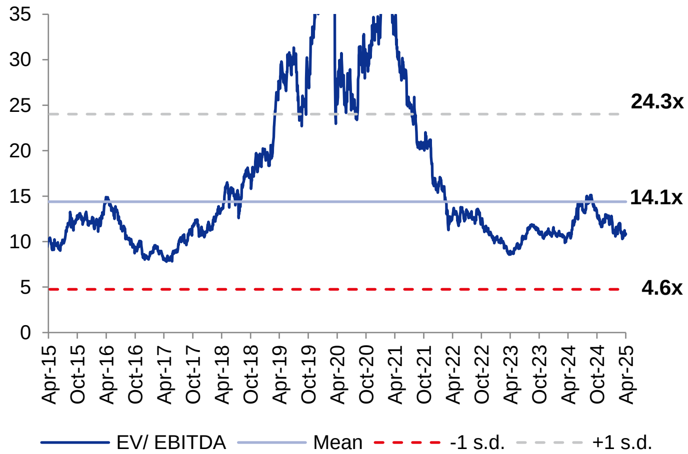
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 5: One-year forward P/E is close to the -1SD level



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: One-year forward EV/EBITDA is below the 10-year mean level



SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

InCred Equities

Profit & Loss

(Rs mn)	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	**383,670**	**391,129**	**456,164**	**531,739**
Gross Profit	**104,550**	**110,053**	**125,892**	**146,248**
Operating EBITDA	**46,065**	**47,149**	**55,526**	**65,897**
Depreciation And Amortisation	(7,178)	(7,636)	(8,166)	(8,830)
Operating EBIT	**38,887**	**39,513**	**47,360**	**57,067**
Financial Income/(Expense)	(2,494)	(2,330)	(2,058)	(1,727)
Pretax Income/(Loss) from Assoc.				
Non-Operating Income/(Expense)	2,466	2,638	2,849	3,163
Profit Before Tax (pre-EI)	**38,859**	**39,821**	**48,151**	**58,504**
Exceptional Items				
Pre-tax Profit	**38,859**	**39,821**	**48,151**	**58,504**
Taxation	(11,743)	(9,955)	(12,038)	(14,626)
Exceptional Income - post-tax	(937)	1,174		
Profit After Tax	**26,178**	**31,040**	**36,114**	**43,878**
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**26,178**	**31,040**	**36,114**	**43,878**
Recurring Net Profit	27,116	29,866	36,114	43,878
Fully Diluted Recurring Net Profit	**27,116**	**29,866**	**36,114**	**43,878**

Balance Sheet

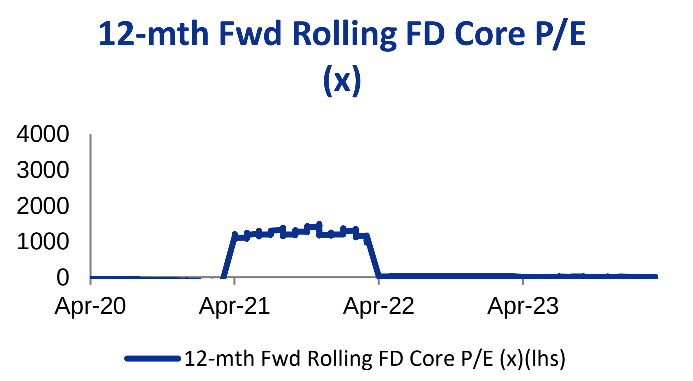
(Rs mn)	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	34,382	35,375	35,721	29,954
Total Debtors	35,699	36,434	49,991	64,100
Inventories	31,907	34,291	41,242	50,989
Total Other Current Assets	16,339	17,339	18,339	19,339
Total Current Assets	**118,326**	**123,438**	**145,293**	**164,382**
Fixed Assets	74,885	72,447	81,446	91,446
Total Investments	55,598	62,598	71,598	77,598
Intangible Assets				
Total Other Non-Current Assets				
Total Non-current Assets	**130,483**	**135,044**	**153,044**	**169,044**
Short-term Debt				
Current Portion of Long-Term Debt				
Total Creditors	63,052	77,154	99,981	116,546
Other Current Liabilities	30,380	28,000	30,000	31,500
Total Current Liabilities	**93,432**	**105,154**	**129,981**	**148,046**
Total Long-term Debt	35,271	32,271	28,271	23,271
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities				
Total Non-current Liabilities	**35,271**	**32,271**	**28,271**	**23,271**
Total Provisions	19,311	18,063	20,063	21,113
Total Liabilities	**148,014**	**155,489**	**178,315**	**192,430**
Shareholders Equity	88,104	102,994	120,022	140,996
Minority Interests				
Total Equity	**88,104**	**102,994**	**120,022**	**140,996**

Cash Flow

(Rs mn)	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	46,065	47,149	55,526	65,897
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(7,933)	10,984	2,319	(7,292)
(Incr)/Decr in Total Provisions	15,636	(4,628)	3,000	1,550
Other Non-Cash (Income)/Expense	528			
Other Operating Cashflow	(937)	1,174		
Net Interest (Paid)/Received	(29)	308	791	1,436
Tax Paid	(12,854)	(13,340)	(15,408)	(18,721)
Cashflow From Operations	**40,476**	**41,647**	**46,227**	**42,870**
Capex	(4,394)	(17,889)	(17,166)	(18,830)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	4,351	(3,615)	(5,629)	(1,905)
Cash Flow From Investing	**(43)**	**(21,504)**	**(22,795)**	**(20,734)**
Debt Raised/(repaid)	3,470	(3,000)	(4,000)	(5,000)
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(14,535)	(16,150)	(19,086)	(22,903)
Preferred Dividends				
Other Financing Cashflow				
Cash Flow From Financing	**(11,064)**	**(19,150)**	**(23,086)**	**(27,903)**
Total Cash Generated	29,369	993	346	(5,767)
Free Cashflow To Equity	**43,903**	**17,143**	**19,432**	**17,136**
Free Cashflow To Firm	**42,927**	**22,473**	**25,491**	**23,863**

Key Ratios

	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	6.1%	1.9%	16.6%	16.6%
Operating EBITDA Growth	57.2%	2.4%	17.8%	18.7%
Operating EBITDA Margin	12.0%	12.1%	12.2%	12.4%
Net Cash Per Share (Rs)	(0.30)	1.06	2.54	2.28
BVPS (Rs)	30.01	35.09	40.89	48.03
Gross Interest Cover	15.59	16.96	23.01	33.05
Effective Tax Rate	30.2%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	53.6%	54.1%	52.8%	52.2%
Accounts Receivables Days	36.31	33.66	34.58	39.16
Inventory Days	39.00	42.98	41.74	43.66
Accounts Payables Days	88.14	91.03	97.88	102.51
ROIC (%)	38.6%	40.5%	57.3%	62.6%
ROCE (%)	31.1%	29.3%	32.1%	35.3%
Return On Average Assets	11.9%	12.4%	13.5%	14.3%



Key Drivers

	Mar-24A	Mar-25F	Mar-26F	Mar-27F
ASP (% chg, main prod./serv.)	4.1%	1.1%	2.5%	1.4%
Unit sales grth (%, main prod./serv.)	2.0%	0.8%	13.7%	14.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Stock Ratings	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.