

Channel Check Suggests MHCV Demand Holding Up

Key Takeaways From the Channel Checks

We interacted with the Pan India dealers of Ashok Leyland, and the overall dealer network is positive on the CV cycle, with the MHCV demand outlook still holding up while the slowdown in the LCV segment persists. AL's growth strategy is to penetrate the traditionally weak North and East regions, grow in the Central region and defend its market leadership in the Southern region. AL had a lower market share of ~25% in North and Eastern regions and 30%+ in the Central region against the Southern region where it enjoyed 43% MS in FY23. Despite the seasonally weak monsoon period, the dealer feedback was positive on the MHCV sales outlook and the demand momentum is likely to increase in H2FY24. It will be led by increased government spending on road construction and infrastructure activities.

CV Cycle Holding Up Well: The festive season usually doesn't have a significant impact on sales uptick for the CV cycle and it's also visible in our channel check, as inventory levels across regions are normal. However, dealers in the Eastern and Western regions pointed towards sales uptick ahead of the Vishwakarma and Ganesh festival from mid-Sep'23 onwards; before the inauspicious period between the last week of Sep'23 and 3rd week of Oct'23.

Northern and Eastern Regions: Sales were weak in the Northern and Eastern markets during Apr-Aug'23 due to poor monsoon and the impact of price increase due to OBD-phase II. However, the overall feedback from the dealers was positive towards the sales outlook for H2FY24 on account of increased infrastructure spending by the government, superior performance from the AVTR range products, and network expansion (particularly in the North and East – network expansion target of 875 MHCV outlets from 809 in FY23).

Central, Western, and Southern Regions: Demand is steady across these regions with all dealers pointing towards infrastructure growth as the demand driver in H2FY24. A probable price hike in Oct'23 is leading to higher inquiries. Dealers from Maharashtra pointed towards a probable cut in CNG prices moving ahead, which is leading to higher inquiries for CNG vehicles. Stock levels are stable across regions. In the Southern region, competitive intensity is increasing as Bharat Benz is selling vehicles with aggressive pricing.

Product Positioning: Overall feedback from dealers was positive on AVTR range models post the BS-6 and OBD-II norms on account of vehicle platform modularity, increased mileage and lower maintenance cost led by interoperability of spare parts.

LCV Ready with EV Powertrain: AL is working on groundbreaking technologies – EV vehicles from Switch Mobility, the Hydrogen Fuel Cell Electric Bus (recently developed for NTPC), and the Hydrogen IC engine (H₂ ICE) Truck developed with Reliance, enabling it to be future ready. Switch mobility launched IeV3 and 4 electric SCV (1.2 to 1.7 Tonnes) upto 300km range, the first electric LCV in India and has secured 13K units pre-bookings (as per media reports) from various customers including e-commerce players such as Amazon, Flipkart, Transworld, and other major logistics firms like TVS Logistics.

Outlook: AL remains well-positioned to benefit from a longish CV upcycle. We remain positive on the long-term growth trajectory of the company with better margins led by operational efficiencies, material cost reduction program, softening of commodity costs, and pricing discipline, and expect 8% CAGR volume growth over FY23-26E. We forecast the company to post Revenue/ EBITDA/PAT growth of 11%/22%/34% CAGR over FY23-26E.

Valuation & Recommendation: We maintain our BUY rating on the stock with the TP of Rs 210/share, valuing the stock at 19x Jun'25E EPS (unchanged), implying an upside of 17% from the CMP.

Key Financials (Standalone)

(Rs Cr)	FY23A	FY24E	FY24E	FY26E
Net Sales	36,144	41,193	47,151	49,902
EBITDA	2,931	4,420	5,164	5,336
Net Profit	1,325	2,756	3,172	3,314
EPS (Rs)	4.5	9.4	10.8	11.3
RoE (%)	16.5	28.1	25.4	21.5
RoCE (%)	12.6	21.8	21.0	18.5
PER (x)	33.3	19.8	17.2	16.5
P/BV (x)	5.2	5.0	4.0	3.3
EV/ EBITDA	15.9	12.4	10.1	9.2

Source: Company, Axis Research

(CMP as of 14th Sept, 2023)

CMP (Rs)	180
Upside/Downside (%)	17%
High/Low (Rs)	191/133
Market cap (Cr)	52,806
Avg. daily vol. (6m) Shrs.	1,35,04,278
No. of shares (Cr)	293

Shareholding (%)

	Dec-22	Mar-23	Jun-23
Promoter	51.12	51.11	51.11
FIIIs	17.45	15.17	15.17
MFs / UTI	12.68	13.45	13.45
Banks / FIs	18.75	20.27	20.27
Others	100	100	100

Financial & Valuations

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
Net Sales	41,193	47,151	49,902
EBITDA	4,420	5,164	5,336
Adj. Net Profit	2,756	3,172	3,314
EPS (Rs)	9.4	10.8	11.3
PER (x)	19.4	16.9	16.1
EV/EBITDA (x)	12.2	9.9	9.0
P/BV (x)	4.9	3.9	3.2
ROE (%)	28.1	25.4	21.5

Change in Estimates (%)

Y/E Mar	FY23	FY24E	FY25E
Sales	0.0%	0.0%	0.0%
EBITDA	0.0%	0.0%	0.0%
PAT	0.0%	0.0%	0.0%

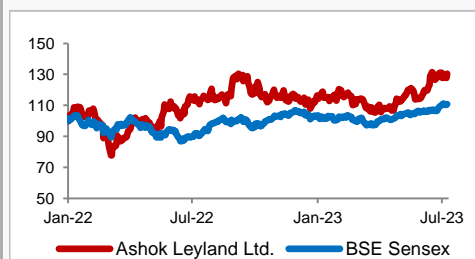
ESG Disclosure Score**

Environmental Disclosure	64.09
Social Disclosure Score	42.35
Governance Disclosure Score	84.86
Total ESG Disclosure Score	63.79
Sector Average	45.56

Source: Bloomberg, Scale 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2021 disclosures

Relative performance



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Key Takeaways From Channel Checks: Region wise AL Dealership Checks



Northern India

- ❖ The dealers expect steady demand in the upcoming festive season (high base in FY23). Demand exists across all segments with higher growth witnessed in MHCV as compared to LCV.
- ❖ With the introduction of the AVTR product range, overall maintenance costs have come down for customers, along with increased vehicle mileage.
- ❖ The dealers maintain lean inventory as the lead time for vehicle delivery is less than a week. Inventory is being maintained in the normal range.
- ❖ Diesel Vehicle is the most preferred engine type due to the vast network of fuel pumps. Sales of CNG (EV not started in MHCV) are negligible in the sales mix.

Eastern India

- ❖ The dealers witnessed poor sales volume in the Apr-Aug'23 months mainly due to poor monsoons. With the beginning of the festival period starting with Vishwakarma Puja, demand is expected to pick up from mid-Sep'23 onwards. The increased infrastructure spending by the government is expected to boost demand over the next few years, specifically in the Tipper and Haulage segment followed by buses.
- ❖ The dealers reiterated their confidence in AL products on account of the platform modularity provided to the customers. Post implementation of BS-VI norms, the engines are more refined and provide higher mileage; thereby leading to increased enquiries for their products.
- ❖ Inventory levels for the MHCV segment are maintained at 20-25 units per month and spares are maintained for 3 months.
- ❖ Diesel Vehicle is the most preferred engine type due to the vast network of fuel pumps. Sales of CNG vehicles are negligible due to the poor network of CNG pump stations. Demand for EVs is from STUs.
- ❖ The presence of the LCV segment is lower in the region. The company is opening up stores to promote this segment.

Central India



- ❖ Post OBD-II norms in Apr'23, a slowdown was witnessed in volumes till Jul'23. Some improvement in the MHCV segment is seen in Aug'23 and volume pickup is expected in H2FY24. The dealers expect government spending on road infrastructure and the development of smart city projects will lead to a long CV cycle.
- ❖ Average inventory levels are being maintained with no increased stocking for this quarter. Demand for Haulage and Tipper is higher in the region owing to Government spending on Infrastructure Activities.
- ❖ Retail demand is yet to recover post-Covid. Currently, high interest rates are acting as a deterrent, leading to a longer average useful life of existing Commercial vehicles.
- ❖ Diesel Vehicle is the most preferred engine type due to the vast network of fuel pumps. Sales to STUs have been done for EV vehicles and demand for buses is expected to increase over the next few years. Sales of CNG are negligible due to the poor network of CNG pump stations.

Western India



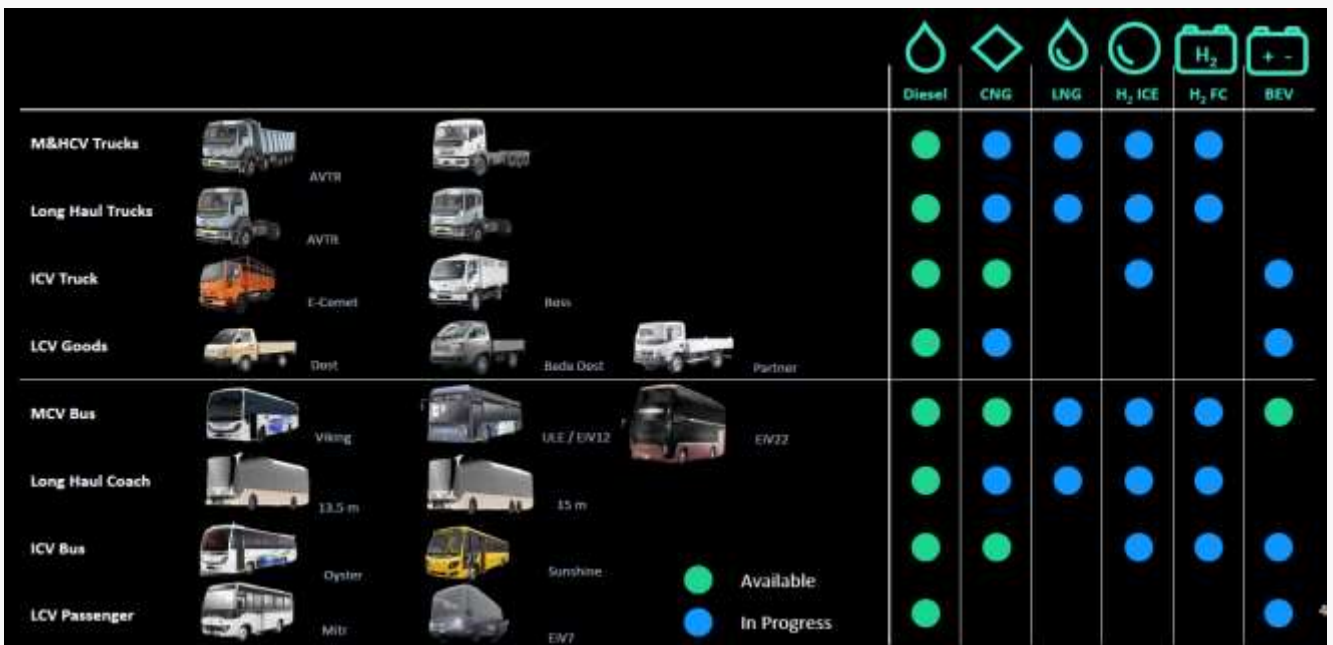
- ❖ The dealers are confident in the product portfolio of Ashok Leyland. Higher customer traction can be witnessed on account of vehicle platform modularity, increased mileage post-BS-VI regulations and lower maintenance cost on account of interoperability of spare parts.
- ❖ Diesel fuel is mostly opted as a powertrain by end consumers. Trials are being conducted for the successful deployment of EV and CNG vehicles.
- ❖ Demand is expected to remain in line with prior years on account of the high base. Lower sales volumes in H1FY24 due to pre-buying in Q4FY23 on account of OBD II norms are expected to be compensated with higher volumes in H2FY24.
- ❖ The inventory levels are lean with short delivery times from OEM. Hence inventory is maintained at normal levels with no channel stuffing from OEMs.
- ❖ Higher demand for MHCV segment vehicles like RMC, and Tipper followed by passenger vehicles is likely to sustain going forward. Demand for e-comet in the ICV segment is picking up.

Southern India



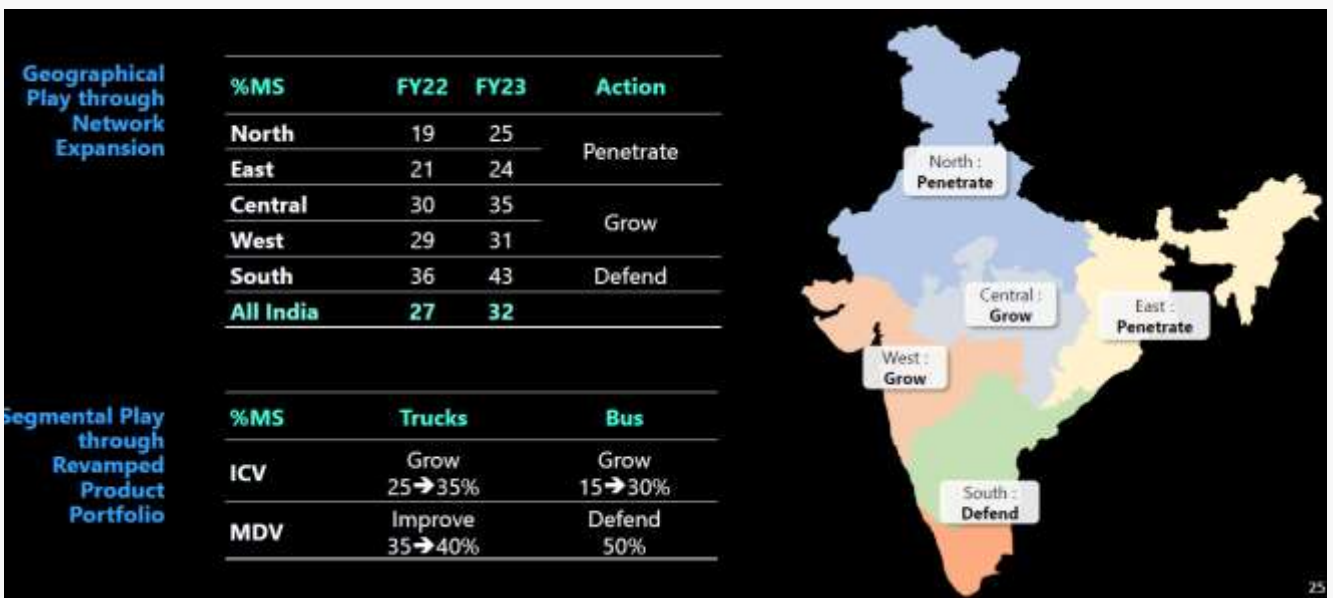
- ❖ The dealers stated that AL is the market leader in the heavy CV segment with almost 50% market share. The LCV segment is witnessing demand due to brand loyalty and the availability of platform modularity options to end consumers. Bada Dost is getting good responses and is steadily gaining market share from its competitors.
- ❖ However, competition is high in the LCV segment with dealers required to offer discounts of upto Rs 1.5 Lc to attract customers.
- ❖ Diesel is the preferred powertrain choice for consumers. However, e-commerce companies and last-mile delivery agents have shown greater interest in the recently launched LCV vehicles with EV powertrains.
- ❖ Lean inventory management style is being maintained by the dealerships, with delivery lead time lower than one week.

Exhibit 1: Ashok Leyland - New Energy Portfolio - Will be ready in the next 2 years, across fuel types, across segments



Source: Company

Exhibit 2: Growth Strategy - MHCV Business –Moving towards 35%+ MS



Source: Company

Financials (Standalone)
Profit & Loss

(Rs Cr)

Y/E March (Rs. Cr)	FY23A	FY24E	FY25E	FY26E
Net revenues	36,144	41,193	47,151	49,902
Operating expenses	33,213	36,773	41,987	44,566
EBIDTA	2,931	4,420	5,164	5,336
EBITDA margin (%)	8.1	10.7	11.0	10.7
Other income	116	163	153	158
Interest	289	286	258	182
Depreciation	732	769	830	892
Profit Before Tax	2,110	3,527	4,229	4,419
Tax	730	772	1,057	1,105
Reported Net Profit	1,380	2,755	3,172	3,314
Net Margin (%)	3.8	6.7	6.7	6.6
Adjusted Net Profit	1,325	2,756	3,172	3,314

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March (Rs. Cr)	FY23A	FY24E	FY25E	FY26E
Equity capital	294	294	294	294
Reserves & Surplus	8,132	10,594	13,472	16,493
Shareholders' funds	8,426	10,888	13,766	16,786
Total Loans	3,180	2,880	2,580	2,280
Deferred tax liability	504	504	504	504
Total Liabilities and Equity	12,109	14,271	16,849	19,570
Gross block	10,919	11,401	12,126	12,876
Depreciation	3,984	4,753	5,583	6,476
Net block	6,935	6,648	6,543	6,400
Capital WIP	133	350	375	375
Investments	6,664	6,864	7,064	7,264
Inventory	2,774	3,157	3,617	3,418
Debtors	4,063	4,289	4,909	4,785
Cash & Bank Bal	501	2,605	4,972	7,719
Loans & Advances	1,522	2,478	2,916	3,379
Current Assets	8,861	12,529	16,414	19,301
Sundry Creditors	7,175	7,944	9,070	9,157
Other Current Liability	3,307	4,175	4,475	4,612
Current Liability & Provisions	10,482	12,119	13,545	13,770
Net current assets	(1,621)	410	2,868	5,531
Total Assets	12,109	14,271	16,849	19,570

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March (Rs Cr)	FY23	FY24E	FY25E	FY26E
EBIT	2,199	3,651	4,334	4,444
Other Income	116	163	153	158
Depreciation & Amortization	732	769	830	892
Interest paid(-)	(289)	(286)	(258)	(182)
Tax paid(-)	(730)	(772)	(1,057)	(1,105)
Extra Ord Income	85	(1)	-	-
Operating Cash Flow	2,112	3,525	4,002	4,206
Change in Working Capital	(110)	73	(92)	85
Cash flow from Operations	2,002	3,598	3,910	4,291
Capex	(445)	(700)	(750)	(750)
Investment	(1,844)	(200)	(200)	(200)
Cash flow from Investing	(2,289)	(900)	(950)	(950)
Change in borrowing	(327)	(300)	(300)	(300)
Others	361	-	-	-
Dividends paid(-)	(294)	(294)	(294)	(294)
Cash Flow from Financial Activities	(259)	(594)	(594)	(594)
Change in Cash	(546)	2,104	2,366	2,748
Opening cash	1,047	501	2,605	4,972
Closing cash	501	2,605	4,972	7,719

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY23	FY24E	FY25E	FY26E
Revenue Growth	66.7	14.0	14.5	5.8
EBITDA Margin	8.1	10.7	11.0	10.7
Net Profit Margin	3.7	6.7	6.7	6.6
ROCE (%)	12.6	21.8	21.0	18.5
ROE (%)	16.5	28.1	25.4	21.5
EPS(Rs)	4.5	9.4	10.8	11.3
P/E (x)	33.3	19.4	16.9	16.1
P/ BV (x)	5.2	4.9	3.9	3.2
EV/ EBITDA (x)	15.9	12.2	9.9	9.0
Fixed Assets Turnover Ratio (x)	7.0	8.0	9.4	10.2
Debt / Equity (x)	0.4	0.3	0.2	0.1
EV/ Sales (x)	1.3	1.3	1.1	1.0

Source: Company, Axis Securities

Ashok Leyland Price Chart and Recommendation History



Source: Axis Securities

Date	Reco	TP	Research
03-Jan-22	BUY	175	Top Picks
03-Feb-22	BUY	175	Top Picks
14-Feb-22	BUY	160	Result Update
02-Mar-22	BUY	160	Top Picks
04-Apr-22	BUY	160	Top Picks
02-May-22	BUY	160	Top Picks
20-May-22	BUY	160	Result Update
01-Jun-22	BUY	160	Top Picks
01-Jul-22	BUY	164	Top Picks
01-Sep-22	BUY	175	Top Picks
01-Oct-22	BUY	175	Top Picks
01-Nov-22	BUY	175	Top Picks
14-Nov-22	BUY	175	Result Update
02-Feb-23	BUY	175	Top Picks
03-Feb-23	BUY	175	Result Update
01-Mar-23	BUY	175	Top Picks
01-Apr-23	BUY	175	Top Picks
01-May-23	BUY	175	Top Picks
24-May-23	BUY	175	Result Update
01-Jun-23	BUY	175	Top Picks
01-Jul-23	BUY	190	Top Picks
25-Jul-23	BUY	210	Result Update
15-Sept-23	BUY	210	Channel Check

Source: Axis Securities

About the analyst

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