Ashok Leyland slips 1% post Q3, despite brokerages being upbeat

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Shares of Ashok Leyland slipped 0.98 per cent to close at ₹217.07 on the NSE after moving in a narrow range of ₹225.26 and ₹216.37, despite posting better-than-expected results for Q3.

The truck and bus manufacturer recorded a 31 per cent year-on-year increase in net profit at ₹762 crore in the December 2024 quarter, compared to ₹580 crore in the same period last year. The profit boost was largely attributed to deferred tax credits, alongside improved operating margins, despite a modest rise in revenue. The company continues to operate under the old tax regime with a 35 per cent tax rate, leveraging its Minimum Alternate Tax credit benefits.

Most brokerages have lifted target prices on Ashok Leyland, acknowledging its healthy operating performance and that the margin growth was led by higher realisations and continued cost reduction initiatives.

However, a few have flagged concerns of subdued medium and heavy commercial vehicle (MHCV) outlook.

HDFC Securities maintained Buy at a target price of ₹281, the highest so far. Analysts at JM Financial maintained Buy rating at an increased target price of ₹250 from ₹235.

THUMBS UP

ICICI Securities expects the EBIDTA margin to rise 12.5/13.5 per cent in FY26/FY27, considering the management's focus on cost reduction, pricing discipline and better mix. The brokerage upgraded the rating from Sell to Add, and hiked the target price from ₹160 to ₹250.

Macquarie, however, maintained a Neutral call at a target price of ₹226, quoting that the margin-led EBITDA had beat estimates. Other global brokerages Goldman Sachs and Citi maintained Buy calls at target prices of ₹280 and ₹270 respectively. BofA has a Buy rating at an increased target price of ₹260 from ₹250.

However, Nuvama Institutional Equities retained 'Reduce' rating with a target price of ₹211. It observed that the Q3-FY25 revenue growth was slightly above estimates on better share of tippers and multi axle vehicles. For MHCVs, Nuvama forecasts a subdued volume performance ahead at a 1 per cent CAGR over FY25-27, owing to a slowdown in government road construction spends/EXIM trade and increasing competition from Railways.

Elara Capital flagged concern about the cyclicality of the MHCV industry. "Even if the down cycle is not as sharp as historical down cycles, risk-reward seems unfavourable at current levels," it said. The brokerage reiterated Reduce rating at a target price of ₹230.