Ashok Leyland aims for 8-10% growth for MHCVs

Company's growth soars with market share gains and global expansion

ASHOK LEYLAND reported a Q1FY24 Ebitda margin of 10%, surpassing the estimates of Nomura (8.7%) and the consensus (8.4%). The average selling price (ASP) reached ₹1.98 million, showing a quarterly increase of about 2% (Nomura projected ₹1.92 million). Additionally, the company managed to reduce its raw material/sales ratio by 190 bps to 73.7% (Nomura estimated 74.5%). Moreover, the staff cost was lower at 6.6% (Nomura projected 7.6%), but this reduction was partly offset by higher other expenses at 9.7% (Nomura estimated 9.2%).

AL expects the medium and heavy commercial vehicle (MHCV) industry to grow by 8-10% in FY24F. The company has been gaining market share through network expansion and the success of its automated visionary transport (AVTR) platform, particularly evident in Q1FY24. AL is also intensifying its efforts in international markets. Margins have been supported by strong growth in power solutions and spares, contributing to the overall growth. AL remains focused on sustaining double-digit margins. Additionally, in line with the global trend towards electric vehicles, Switch Mobility, a subsidiary of Ashok Leyland, is gearing up for EV bus launches in FY24.

Furthermore, AL is planning to transition to a lower tax regime in the following fiscal, which will likely have a positive impact on its financials.

We estimate the MHCV industry to grow +10%/5%/5% y-o-y in FY24/25F/26F. Our demand framework suggests CV cycle will continue as long as GDP growth remains at >6% over FY24-26F and capex push by the government continues. While Q1 demand for the industry was weak due to the impact of pre-buy in Q4FY23, our demand trackers remain positive. Margins will continue to move up through the upcycle as both Tata Motors and AL are focussed on improving margins. Our MHCV volume estimates remain unchanged. We raise FY24-25F Ebitda margin to 11%/11.3%, leading to 9%-6% higher Ebitda for FY24-25F. We expect 11.4% Ebitda margins in FY26F.

NOMURA

FINANCIALS

Year end March 31, Currency (₹)	FY23 Actual	FY24F Old	FY24F New
Revenue (mn)	361,441	406,534	404,846
Reported net profit (mn)	13,801	24,235	26,547
Normalised net profit (mn)	12,955	24,235	26,547
FD normalised EPS	4.43	8.28	9.07
FD norm. EPS growth (%)	4,079.0	87.1	104.9
FD normalised P/E (x)	41.1	-	20.1
EV/Ebitda (x)	18.2	-	12.0
Price/book (x)	6.3	-	5.5
Dividend yield (%)	1.2	-	2.3
RoE (%)	17.5	27.0	29.4
Net debt/equity (%)	net cash		2.7

Source: Company data, Nomura estimates