

**RESEARCH**
**ASHOK LEYLAND | TARGET: Rs 169 | +16% | BUY**

Healthy performance all round

**BOB ECONOMICS RESEARCH | CORPORATE RESULTS**

How have companies fared in Q2FY23?

**SUMMARY**
**ASHOK LEYLAND**

- Q2 topline healthy at Rs 83bn backed by volume growth of 15% QoQ to 45.3k vehicles (+65% YoY on a weak base)
- Gross margins improved 130bps QoQ to 22% as easing commodity inflation offset higher inventory cost
- We assume coverage with BUY, valuing AL at 22x FY24E EPS of Rs7 (+Rs12/sh HLF) for a TP of Rs 169

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**INDIA ECONOMICS: CORPORATE RESULTS**

Our analysis of the financial performance of an aggregate sample of 1,917 companies shows that net sales continue to increase, despite witnessing slight moderation. Higher expenditure costs have implied gross profits have slowed while net profits have declined. Interest costs are inching up but their impact has not yet been felt. Amongst key sectors, iron & steel, construction materials, hospitality have seen significant decline in profits.

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**Daily macro indicators**

Indicator	15-Nov	16-Nov	Chg (%)
US 10Y yield (%)	3.77	3.69	(8bps)
India 10Y yield (%)	7.26	7.27	1bps
USD/INR	81.10	81.31	(0.3)
Brent Crude (US\$/bbl)	93.9	92.9	(1.1)
Dow	33,593	33,554	(0.1)
Hang Seng	18,343	18,256	(0.5)
Sensex	61,873	61,981	0.2
India FII (US\$ mn)	14-Nov	15-Nov	Chg (\$ mn)
FII-D	10.3	53.8	43.6
FII-E	368.5	(15.5)	(384.0)

Source: Bank of Baroda Economics Research

**BOBCAPS Research**

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**BUY**  
 TP: Rs 169 | ▲ 16%

**ASHOK LEYLAND**

| Automobiles

| 17 November 2022

**Healthy performance all round**

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**Healthy quarter:** AL's Q2FY23 net sales at Rs 82.6bn were driven by volume growth of 15% QoQ to 45.3k vehicles (+65% YoY on a weak base). Net realisation per vehicle (NRPV) stood at Rs 1,824k (flat QoQ, +13% YoY). Raw material cost spiked 13% QoQ but appears to have peaked at 78% of sales. Gross margin expanded 130bps QoQ to 22%. With other expenditure reined in (+4% QoQ), EBITDA jumped 68% QoQ to Rs 5.4bn and EBITDA margin swelled to 6.5% from 4% in Q1FY23. PAT nearly quadrupled QoQ to Rs 1.9bn despite higher interest cost.

**Price hikes and easing cost to boost margins:** AL took price hikes of 1.8-1.9% in Q1FY23 followed by a 1% increase in Q2 and 1.5% in Q3 thus far. Despite the frequent hikes, customer retention remains high and the company has managed to gain market share across geographies. We expect lower costs and improved pricing to aid margin improvement in the medium term.

**Market share addition:** AL's domestic market share in medium & heavy commercial vehicles (MHCV) has risen 10ppt YoY to ~32% (27% end-FY22). Though the uptick in the CV cycle has been a contributing factor, the company's advanced vehicle transformation (AVTR) range of products has also supported gradual market share gains. In the bus segment, AL retains its leadership and is looking to expand volumes. Its network expansion strategy has also supported growth

**New launches in LCVs and EVs:** Volume growth in the 'Dost' and 'Bada Dost' light commercial vehicles (LCV) has been healthy in Q2 but would have been stronger if not for the semiconductor shortage. These products carry export potential for AL. In the EV segment, the company plans to launch the electric version of Dost and Bada Dost by mid-2023, which should lend a boost to volumes and margins.

**BUY, TP Rs 169:** We expect AL's EBITDA margin to expand 290bps over FY23-FY25 to 10% basking in softer raw material cost, revival in the key CV market, leadership in the bus segment, new launches and entry into EVs. Revival in exports will add further comfort. We assume coverage with BUY and a TP of Rs 169, valuing AL at Rs 157/sh (22x FY24E EPS) plus Rs 12/sh for Hinduja Leyland Finance.

**Key changes**

Target	Rating
▲	▲

Ticker/Price	AL IN/Rs 145
Market cap	US\$ 5.2bn
Free float	49%
3M ADV	US\$ 25.1mn
52wk high/low	Rs 169/Rs 93
Promoter/FPI/DII	52%/17%/15%

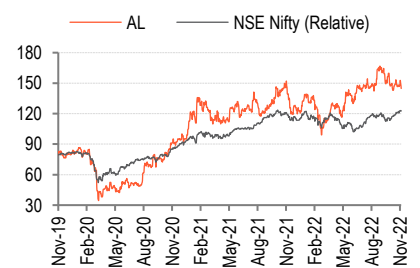
Source: NSE | Price as of 17 Nov 2022

**Key financials**

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	216,883	315,621	368,421
EBITDA (Rs mn)	9,945	21,788	36,031
Adj. net profit (Rs mn)	310	9,460	20,403
Adj. EPS (Rs)	1.8	3.2	7.0
Consensus EPS (Rs)	1.8	5.9	7.1
Adj. ROAE (%)	0.4	11.7	20.6
Adj. P/E (x)	78.4	44.9	20.8
EV/EBITDA (x)	45.2	20.7	12.2
Adj. EPS growth (%)		2951.5	115.7

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



## CORPORATE RESULTS

16 November 2022

**How have companies fared in Q2FY23?**

Our analysis of the financial performance of an aggregate sample of 1,917 companies shows that net sales continue to increase, despite witnessing slight moderation. Higher expenditure costs have implied gross profits have slowed while net profits have declined. Interest costs are inching up but their impact has not yet been felt. Amongst key sectors, iron & steel, construction materials, hospitality have seen significant decline in profits.

Sonal Badhan  
Economist

Key takeaways from financial results of an aggregate 1,917 companies:

1. Quarterly financial performance shows that net sales rose by 24% in Q2FY23 against 27.4% in Q2FY22.
2. In absolute terms, net sales were up at Rs 25.6 lakh crore in Q2FY23 as against Rs 20.6 lakh crore in Q2FY22.
3. Profitability on the other hand has weakened on account of expenditure increasing at a faster rate than sales. This has resulted in 2.4% increase in gross profits compared with 9.4% increase in Q2FY22.
4. However, both PAT and PBT have registered negative growth, with PAT declining by 5.4% and PBT by 1.3% in Q2FY23, compared with 58.7% and 51.3% increase, respectively, in Q2FY22.

**Table 1: Performance of companies on aggregate basis**

All companies	Sep-20	Sep-21	Sep-22
<b>Net Sales</b>			
Absolute, Rs crore	16,21,454	20,64,923	25,61,453
YoY Growth, %	(3.7)	27.4	24.0
<b>Total Expenditure</b>			
Absolute, Rs crore	11,79,594	15,81,604	20,66,368
YoY Growth, %	(6.4)	34.1	30.7
<b>Gross Profit</b>			
Absolute, Rs crore	4,41,860	4,83,320	4,95,085
YoY Growth, %	4.4	9.4	2.4
<b>PBT</b>			
Absolute, Rs crore	1,93,360	2,92,644	2,88,897
YoY Growth, %	111.4	51.3	(1.3)
<b>PAT</b>			
Absolute, Rs crore	1,45,736	2,31,345	2,18,841
YoY Growth, %	174.5	58.7	(5.4)

Source: Ace Equity, Bank of Baroda Research



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**BUY** – Expected return >+15%

**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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