Ashok Leyland (ASHLEY)

CMP: ₹172 | Target ₹ 185 (7%) | Target Period: 12 months

HOLD

Result Update

ICICI Securities – Retail Equity Research

August 17, 2026

Steady demand prospects, near-term margin pressure...

About the stock: Ashok Leyland (ALL) is a pure-play CV manufacturer domestically, with FY26 market share pegged at 18.7% (flattish YoY). It is present in M&HCV trucks and buses as well as LCV goods segments. It also has formidable presence in e-mobility (Electric buses) domain though Switch Mobility.

- FY26 product mix – LCV goods 35%, trucks 50%, buses 15%

Q1FY27 performance: Ashok Leyland reported stable performance. Standalone operating income for Q1FY27 came in at ₹ 9,634 crore, up ~10% YoY amidst 10% growth in volumes to ~49k units. Share of M&HCV in total volume mix for the quarter stood at 60% down ~660 bps QoQ. EBITDA for the quarter came in at ₹ 970 crore with margins at 10.1%, down ~450 bps QoQ. Consequent PAT in Q1FY27 came in at ₹ 609 crore up 3% YoY.

Investment Rationale:

- **Steady Industry outlook with Market Share Gains:** Domestic commercial vehicle industry has seen a steady performance with ~18% growth in Q1FY27 amidst GST-led price rationalization and consumption demand driving new vehicle purchases by fleet operators. Supported by this, ALL appears well positioned to benefit from a multi-year commercial vehicle replacement cycle, improving freight demand, and aging fleet replacement. The replacement opportunity remains significant given the ageing fleet and improving economics of replacing older BS2/BS3/BS4 vehicles with BS6 trucks. Importantly, Ashok Leyland is entering this cycle with strong competitive positioning, having grown MHCV volumes 15% YoY versus 13% industry growth and increased LCV volumes 21% YoY, while gaining 30 bps of LCV market share. MHCV industry growth accelerated to 20%+ in June and July after a weak May, while it expects high-single-digit MHCV growth in FY27E even after factoring in a high base from October'26.
- **Diversification and Balance-Sheet Strength Can Improve Earnings Quality:** The company is scaling higher-margin and structurally attractive businesses such as defence, Power Solutions, aftermarket, LCVs, EVs and financial services, with Q1 showing 64% YoY growth in defence, 51% in Power Solutions and 12.7% in aftermarket. The most important indicator of this transformation is the reduction in the company's estimated MHCV fixed-cost break-even requirement from 6,000–7,000 units per month to only 1,000–1,500 units, significantly improving resilience during a downcycle. At the same time, the company has a strong ₹2,252 crore net cash position. This stronger balance sheet gives management the ability to sustain a higher Capex cycle and invest in EVs, alternative powertrains, new products and international expansion.

Rating and Target Price

- ALL strong positioning in MHCVs, export momentum & progress in EVs support its long-term growth narrative. However near-term uncertainties around commodity inflation and valuations turning full, will limit the stock price gains in our view. We therefore maintain **HOLD** rating & value ALL at SOTP based TP of **₹185** (12.5x on FY28E EV/EBITDA, 2x P/B for long term investments)

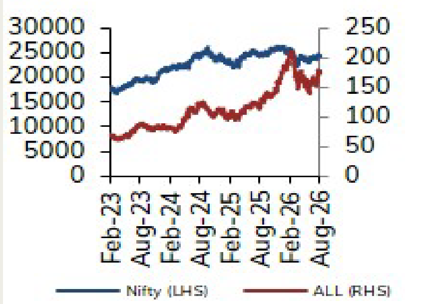
Particulars

Particular	₹ crore
Market Capitalization	1,01,031
Total Debt (FY26)	1,152
Cash & Inv. (FY26)	7,097
EV (₹ Crore)	95,086
52-week H/L (₹)	215 / 125
Equity capital (₹ crore)	587.4
Face value (₹)	1.0

Shareholding pattern

	Sep-25	Dec-25	Mar-26	Jun-26
Promoter	51.5	51.5	51.5	51.5
FII	24.3	24.4	24.6	20.7
DII	13.6	13.7	13.1	15.8
Other	10.6	10.4	10.9	12.1

Price Chart



Recent event & key risks

- We built in ~9% volume CAGR over FY26-28E with EBITDA margins seen in the ~12-12.5% band
- Key Risk: (i) lower than built in volume growth amidst moderation in demand on a high base in H2FY27 (ii) higher than built in margin profile due to stability in commodity prices.

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Key Financial Summary

Key Financials (₹ crore)	FY23	FY24	FY25	FY26	4-year CAGR (FY22-26)	FY27E	FY28E	2-year CAGR (FY26-28E)
Net Sales	36,144	38,367	38,753	44,007	19.4%	50,393	55,228	12.0%
EBITDA	2,931	4,607	4,931	5,732	54.9%	5,937	6,903	9.7%
EBITDA Margins (%)	8.1	12.0	12.7	13.0		11.8	12.5	
Net Profit	1,380	2,618	3,303	3,566	60.2%	3,978	4,702	14.8%
EPS (₹)	2.4	4.5	5.6	6.1		6.8	8.0	
P/E	73.2	38.6	30.6	28.3		25.4	21.5	
RoNW (%)	15.7	30.4	28.0	29.2		26.7	27.7	
RoCE (%)	17.0	30.7	28.8	31.6		29.7	31.6	

Source: Company, ICICI Direct Research

Q1FY27 Earnings Conference Call Highlights

- **Strong Volume Growth and Improving Demand Environment:** Ashok Leyland delivered a strong Q1 FY27 operational performance despite geopolitical and supply-chain disruptions. Domestic MHCV industry volumes grew 13% YoY, while the company's MHCV truck volumes grew faster at 15% YoY to 22,998 units, maintaining a 29% market share. LCV volumes were particularly strong, increasing 21% YoY to 18,874 units, with LCV market share improving 30 bps YoY to 13.2%. Management highlighted a sharp recovery in industry demand after a weak May, with MHCV industry growth exceeding 20% in both June and July, and August sentiment remaining positive. The recovery is being supported by replacement demand, ageing fleets, better vehicle economics following GST optimization, financing availability and infrastructure activity.
- **Margin Pressure to Persist in Q2, But Multiple Mitigation Levers in Place:** Q1 EBITDA margin declined 100 bps YoY to 10.1%, primarily due to commodity and supply-chain inflation. Q1 margins also benefited from lower-cost opening inventory, with inventory increasing from around 6,000 to 8,000 vehicles, meaning some of the current commodity inflation has yet to fully flow through the P&L. Management expects Q2 to remain challenging, with commodity costs potentially higher than Q1, but sees Q2 as the likely peak, followed by some softening in Q3 and a better environment in Q4. The company is offsetting the pressure through cumulative price hikes of approximately 2.25% in MHCV and over 3.5% in LCV since the beginning of FY27, along with the Achieve 2K cost-saving program, product mix improvement and discount optimization.
- **Product Premiumization and Market-Share Opportunity:** Management continues to focus on premiumization through products such as HIPPO, TAURUS and the new air-suspension multi-axle trucks, which offer higher payload and improved customer TCO. The air-suspension product was developed over 2.5–3 years and is positioned as a differentiated engineering solution rather than a short-term competitive response. In LCVs, Ashok Leyland is expanding its addressable market beyond the traditional 2–3.5 tonne segment, with new products in the pipeline. This provides an opportunity for the company to gain share while improving product mix and margins.
- **Exports and Subsidiaries Provide Additional Growth Optionality:** Exports declined 18% YoY in Q1 due to temporary disruption at the UAE facility, but management expects GCC volumes to recover as production normalizes. SAARC and Africa already delivered strong 40–60% YoY growth, while the Saudi plant is being accelerated to capture sustained GCC demand. In financial services, Hinduja Leyland Finance AUM grew 20% YoY to ₹60,310 crore, with PPOP up 56% and PAT up 37%, while consolidated net NPAs remained at a healthy 2.1% for HLF and HHF.
- **Industry Growth Outlook Remains Positive:** Management remains constructive on the CV cycle. It expects the strong industry momentum to continue through roughly September–October, although it remains somewhat conservative beyond October because of a high base from the previous year. Even on a conservative basis, management expects high-single-digit MHCV industry growth in FY27, while LCV growth is expected to be somewhat better. This suggests that management does not currently see the strong June–July recovery as merely a temporary bounce, but rather as the beginning of a broader replacement-led cycle.
- EV ecosystem is scaling: Switch Mobility India continues to build its EV platform. It recently won an order for 650 electric buses, taking its e-bus order book to approximately 2,100 buses. During Q1, Switch delivered 225 electric buses and nearly 300 electric LCVs. Meanwhile, Ohm Global Mobility expanded its operational fleet to more than 1,900 e-buses, adding over 500 buses during the quarter, and management expects the business to approach PAT breakeven soon.

Key tables & Charts

Exhibit 1: Quarterly Valuation

	Q1FY27	Q1FY26	YoY (%)	Q4FY26	QoQ (%)
Total Operating Income	9,634	8,725	10.4	14,160	-32.0
Raw Material Expenses	6,892	6,163	11.8	10,105	-31.8
Employee Expenses	693	612	13.2	722	-4.0
Other expenses	1,080	980	10.2	1,268	-14.9
EBITDA	970	970	0.0	2,066	-53.1
EBITDA Margin (%)	10.1	11.1	-105 bps	14.6	-452 bps
Other Income	85	53	61.0	68	24.6
Depreciation	183	183	0.1	183	0.2
Interest	42	42	-0.8	42	-1.3
Tax	221	204	8.4	504	-56.2
Reported PAT	609	594	2.6	1,405	-56.6
EPS	1.0	0.5	2.6	1.2	-56.6
Key Metrics					
ASPs (₹ lakh/unit)	19.8	19.7	0.2	20.4	-3.1
Sales Volume	48,763	44,238	10.2	69,458	-29.8
M&HCV Share	60	63	-311 bps	67	-660 bps

Source: Company, ICICI Direct Research

Exhibit 2: Assumptions

	FY21	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E
M&HCV Passenger volumes	5,629	7,799	18,150	24,663	29,169	32,681	32,107	34,715
M&HCV Goods volumes	46,178	66,086	1,05,959	1,00,222	96,862	1,09,977	1,23,131	1,30,687
Total M&HCV Sales Volume	51,807	73,885	1,24,109	1,24,885	1,26,031	1,42,658	1,55,238	1,65,402
LCV volumes	48,908	54,441	68,096	69,800	69,066	77,779	87,890	96,876
Total Sales Volume	1,00,715	1,28,326	1,92,205	1,94,685	1,95,097	2,20,437	2,43,128	2,62,278
YoY Growth (%)	-20%	27%	50%	1%	0%	13%	10%	8%
ASPs (₹ lakh/unit)	15.2	16.9	18.8	**19.7**	**19.9**	**20.0**	**20.7**	**21.1**

Source: Company, ICICI Direct Research

Exhibit 3: SOTP based valuation

SOTP	
Target EV/EBITDA (x)	12.5
EBITDA (₹ crore; FY28E)	6,903
Enterprise Value (₹ Crore)	86,285
Net Debt (₹ crore; FY28E)	(8,840)
Target Market cap Core business (₹crore)	95,125
Value/Share (A)	**164**
Strategic long term Investments (₹ crore; FY28E)	7,309
P/BV(x)	2.0
Total Value/Share post applying 20% Holdco. Discount (B)	**21**
Price target (₹, A+B)	**185**

Source: ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Total operating Income	38,753	44,007	50,393	55,228
Growth (%)	1.0	13.6	14.5	9.6
Raw Material Expenses	27,623	31,417	36,677	40,060
Employee Expenses	2,406	2,607	2,913	3,175
Other Expenses	3,793	4,251	4,866	5,090
Total Operating Expenditure	33,822	38,275	44,456	48,325
EBITDA	4,931	5,732	5,937	6,903
Growth (%)	7.0	16.3	3.6	16.3
Depreciation	719	715	756	801
Interest	217	170	142	101
Other Income	250	315	343	353
PBT	4,245	5,163	5,382	6,354
Exceptional chages	-104	0	40	308
Total Tax	1,045	1,248	1,405	1,652
PAT	3,303	3,566	3,978	4,702
Growth (%)	26.2	7.9	11.6	18.2
EPS (₹)	5.6	6.1	6.8	8.0

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Profit after Tax	3,303	3,566	3,978	4,702
Add: Depreciation	719	715	756	801
(Inc)/dec in Current Assets	1,368	(958)	(1,597)	(1,333)
Inc/(dec) in CL and Provisions	(35)	1,795	1,989	1,409
CF from operating activities	5,573	5,288	5,267	5,679
(Inc)/dec in Investments	(3,113)	(2,006)	(1,500)	(1,450)
(Inc)/dec in Fixed Assets	(887)	(1,423)	(1,000)	(1,000)
Others	(674)	836	(109)	(104)
CF from investing activities	(4,674)	(2,593)	(2,609)	(2,554)
Issue/(Buy back) of Equity	-	-	-	-
Inc/(dec) in loan funds	(819)	(284)	(250)	(250)
Dividend paid & dividend tax	(1,835)	(2,056)	(2,203)	(2,643)
Others	1,023	(85)	(142)	(101)
CF from financing activities	(1,631)	(2,424)	(2,594)	(2,994)
Net Cash flow	(732)	271	64	131
Opening Cash	3,438	2,706	2,977	3,041
Closing Cash	2,706	2,977	3,041	3,172

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Liabilities				
Equity Capital	294	587	587	587
Reserve and Surplus	11,225	12,526	14,301	16,360
Total Shareholders funds	11,519	13,113	14,888	16,947
Total Debt	1,435	1,152	902	652
Deferred Tax Liability	548	536	536	536
Other non-current liabilities	417	465	490	515
Total Liabilities	14,628	15,901	17,461	19,305
Assets				
Gross Block	10,711	12,080	13,309	14,309
Less: Acc Depreciation	6,029	6,745	7,501	8,301
Net Block	4,682	5,335	5,809	6,008
Capital WIP	425	479	250	250
Total Fixed Assets	5,107	5,814	6,059	6,258
Investments	5,654	6,559	7,059	7,309
Inventory	2,957	3,486	4,142	4,539
Debtors	2,887	2,950	3,728	4,539
Loans and Advances	-	-	-	-
Other current assets	763	1,129	1,293	1,417
Cash	2,706	2,977	3,041	3,172
Total Current Assets	9,314	10,542	12,204	13,668
Creditors	7,305	8,329	9,664	10,592
Provisions	825	1,350	1,567	1,717
Other current Liabilities	2,768	3,013	3,450	3,782
Total Current Liabilities	10,898	12,693	14,682	16,090
Net Current Assets	(1,584)	(2,151)	(2,478)	(2,423)
Application of Funds	14,628	15,901	17,461	19,305

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios

(Year-end March)	FY25	FY26	FY27E	FY28E
Per share data (₹)				
EPS	5.6	6.1	6.8	8.0
Cash EPS	6.9	7.3	8.1	9.4
BV	19.6	22.3	25.3	28.9
DPS	3.1	3.5	3.8	4.5
Cash Per Share	4.6	5.1	5.2	5.4
Operating Ratios (%)				
EBITDA Margin	12.7	13.0	11.8	12.5
PBT / Net sales	11.0	11.7	10.7	11.5
PAT Margin	8.5	6.8	8.0	6.9
Inventory days	27.9	28.9	30.0	30.0
Debtor days	27.2	24.5	27.0	30.0
Creditor days	68.8	69.1	70.0	70.0
Return Ratios (%)				
RoE	28.0	29.2	26.7	27.7
RoCE	28.8	31.6	29.7	31.6
RoIC	49.7	60.3	57.2	63.8
Valuation Ratios (x)				
P/E	30.6	28.3	25.4	21.5
EV / EBITDA	19.6	16.6	15.8	13.4
EV / Net Sales	2.5	2.2	1.9	1.7
Market Cap / Sales	2.6	2.3	2.0	1.8
Price to Book Value	8.8	7.7	6.8	6.0
Solvency Ratios				
Debt/Equity	0.1	0.1	0.1	0.0
Current Ratio	0.7	0.7	0.7	0.7
Quick Ratio	0.4	0.4	0.4	0.4

Source: Company, ICICI Direct Research

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