October 12, 2023

Ashok Leyland Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term – Commercial paper	2,000.00	2,000.00	[ICRA]A1+; reaffirmed
Long-term – Non-convertible debenture	650.00	-	[ICRA]AA (Stable); reaffirmed and withdrawn
Long-term – Non-convertible debenture	200.00	200.00	[ICRA]AA (Stable); reaffirmed
Long term/Short term – Fund based limits	2,000.00	2,000.00	[ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed
Long term/Short term – Non-fund based limits	1,200.00	1,200.00	[ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed
Long-term – Term loans	1,318.75	1,111.25	[ICRA]AA (Stable); reaffirmed
Long term/Short term – Unallocated	200.00	350.00	[ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed
Total	**7,568.75**	**6,861.25**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings outstanding on the non-convertible debentures (NCD), bank lines and commercial paper (CP) programme of Ashok Leyland Limited (ALL/the company) factors in ICRA's expectation that the company's credit profile will remain stable in the coming fiscals, after a strong FY2023, supported by ALL's established market presence in the domestic commercial vehicle (CV) industry. ALL remains the second largest player in the domestic medium and heavy commercial vehicle (M&HCV) segment, with an M&HCV trucks market share of 31.7% in Q1 FY2024. Its light commercial vehicle (LCV) sales also improved in the last few years aided by a confluence of factors and ALL's LCV trucks market share was 11.7% in Q1 FY2024 (vis-à-vis 9.1% in FY2019). The healthy market share, along with growth in the CV industry in FY2023 and Q1 FY2024, have resulted in ALL's revenues[1] growing 65% YoY to Rs. 38,177.8 crore in FY2023, and the growth sustained in Q1 FY2024 as well. The cost-optimisation measures undertaken during the Covid-19 period and benefits from operating leverage have translated into 380 bps improvement in operating margins[2] to 7.1% in FY2023 and it further improved in Q1 FY2024. ICRA expects the favourable demand outlook and specific measures undertaken to strengthen its product portfolio and market position to augur well for the company in FY2024.

The company has planned significant investments over the medium term for its electric vehicle (EV) vertical, including e-Vehicles Mobility as a Service (e-MaaS), apart from planned annual capex and investments of Rs. 750-1,000 crore in the existing businesses. The capex is expected to be funded by a mix of debt and equity. Also, being in its initial years of operation, the cashflow contribution from the EV vertical could remain minimal over the next 1-2 years. While ICRA expects the capital structure to remain comfortable, the impact of the EV business' accruals and debt on the margins and coverage metrics of ALL (consolidated excluding non-banking finance company (NBFC)) over the medium term remains a monitorable. Also, akin to other CV players, ALL's earnings are vulnerable to stiff competition and inherent cyclicality in the domestic CV industry, with earnings and return indicators moderating during periods of downturns and improving thereafter as industry volumes revive.

[1] Consolidated revenues (excluding NBFC subsidiary)

[2] Consolidated operating margins (excluding NBFC subsidiary)

Nevertheless, improving presence in the LCV segment, wherein the troughs are flatter, is likely to mitigate the cyclicality risk to an extent.

The [ICRA]AA (Stable) rating outstanding on the company's Rs. 650.00 crore NCD has been withdrawn based on confirmation from ALL and debenture trustees (in the case of NCDs which were placed and redeemed), that there is no amount outstanding against the rated instruments. This has been carried out at the request of the company and is in accordance with ICRA's policy on withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Established market presence in the domestic CV industry – ALL is the second largest player in the domestic M&HCV industry with healthy market share over the past several years (M&HCV trucks market share 31.7% in Q1 FY2024), aided by its long operational track record, strong brand, and well diversified distribution and service network. Over the last decade, ALL has transformed itself from a south-centric to a pan India player and holds a strong market share in most of the regions that it operates in. The company witnessed healthy improvement in M&HCV trucks volume in FY2023 and Q1 FY2024 aided industry uptick and company-specific factors like enhanced product range, better product acceptance and revamping of dealership network. Its LCV sales also improved over the last few years because of increase in addressable market, increased demand for last mile connectivity with growth in the e-commerce segment; demand from agriculture and allied sectors; and healthy performance of 'Dost' and 'Bada Dost' category of vehicles by ALL. ALL's market share in LCV trucks segments was 11.7% in Q1 FY2024 (vis-à-vis 9.1% in FY2019). Bus volumes also witnessed healthy traction in the recent quarters with the reopening of schools, colleges and offices, and higher orders from State Road Transport Undertakings (SRTUs), and the momentum is expected to sustain going forward.

Comfortable capitalisation metrics and adequate liquidity – The healthy market share, along with growth in the CV industry in FY2023 and Q1 FY2024, have resulted in ALL's revenues growing in FY2023 and Q1 FY2024 as well. The benefits from operating leverage have translated into margin improvement in FY2023 and Q1 FY2024, although the subdued performance of key subsidiaries/group entities has moderated the profitability at the consolidated level vis-à-vis the standalone performance. ALL's capitalisation indicators remain comfortable with net gearing of -0.02 times (standalone) and 0.2 times (consolidated excluding NBFC subsidiary) as on March 31, 2023, despite net losses in FY2021 and FY2022, and debt-funded capex and investments in group entities. ALL's net worth remains strong, and its liquidity position is adequate, supported by cash and liquid investments of over Rs. 1,000.0 crore and undrawn bank lines of over Rs. 2,000 crore as of June 30, 2023. This apart, the anticipated improvement in accruals from volume scale-up and exceptional financial flexibility with lenders also support its financial profile.

Favourable demand outlook – The Indian CV industry registered a healthy growth of 34% on a YoY basis in wholesale dispatches in FY2023, supported by replacement demand, improvement in the macroeconomic environment and healthy traction in the underlying industries. ICRA expects the domestic CV industry volumes to grow, albeit at a moderate pace, in FY2024. The industry growth is likely to translate into volume uptick for ALL, given its market position. However, the sharp rise in interest rates, elevated fuel prices and its impact on the viability of fleet operators could be key headwinds.

Credit challenges

Significant capex expected for EV segment over the medium – The company has planned significant investments over the medium term for its EV vertical, including e-MaaS, apart from planned annual capex and investments of Rs. 750-1,000 crore in the existing businesses. The capex is expected to be funded by a mix of debt and equity. Also, being in its initial years of operation, the cashflow contribution from the EV vertical could remain minimal over the next 1-2 years. While ICRA expects the capital structure to remain comfortable, the impact of the EV business' accruals and debt on the margins and coverage metrics over the medium term remains a monitorable.

Subdued performance of key investee entities impacting the overall profitability – Over the years, ALL has written off / closed loss-making ventures and remains open to further pruning of investments, if required. While some of these investments were aimed at strengthening technological capabilities and achieving business and geographical diversification, the performance of key investee entities remains subdued, dragging down the overall profitability of the company. Also, being in its initial years of operation, the cashflow contribution from the EV vertical is likely to be minimal in the next 1-2 years. While ALL's investments towards the investee entities (except the EV business) remained high in the past, it has moderated in the last year and ICRA expects the same to continue going forward. ICRA would continue to monitor the ability of the investee entities to achieve self-sustenance and support the consolidated cash flows going forward.

Vulnerability to inherent cyclicality and competition in the CV industry – Over 90% of ALL's (consolidated excluding NBFC business) revenues were derived from its standalone operations in FY2023. CV sales, which constituted to over 80% of ALL's standalone revenues in FY2023, remains inherently cyclical in nature, with industry volumes strongly correlated to the level of economic activity, industrial growth and infrastructure investments. Other factors like regulatory changes (emission norms, scrappage policy, etc.) and stiff competition leading to aggressive discounting practices, also impact the earnings profile of industry players. While CV demand improved in FY2022 and FY2023, it was sluggish in the last few years prior to that, affected by revision in axle load norms, subdued economic growth, tight financing environment, and pandemic-induced lockdowns/ interstate restrictions. Sharp fluctuation in raw material prices can also impact the earnings profile of industry players.

Liquidity position: Adequate

ALL's liquidity position is adequate with cash and liquid investments of over Rs. 1,000.0 crore and undrawn bank lines of over Rs. 2,000.0 crore as of June 2023. The healthy improvement in accruals, from volume scale-up, would also support the company's liquidity. As against these sources of cash, the company has debt repayment obligations of Rs. 466.8 crore from July 2023 to March 2024, Rs. 1,101.0 crore in FY2025 and Rs. 443.8 crore in FY2026 on existing loans. The company has planned significant investments over the medium term for its EV vertical, including e-MaaS, apart from planned annual capex and investments of Rs. 750-1,000 crore in the existing businesses. The capex is expected to be funded by a mix of debt and equity. Overall, ICRA expects ALL to be able to meet its medium-term commitments through internal as well as external sources of cash and yet be left with sufficient cash surpluses.

Environmental and Social Risks

Environmental considerations - Automotive manufacturers like ALL remain exposed to climate transition risks arising from a likelihood of tightening emission control requirements across its key operating markets, given the increasing focus on reducing the adverse impact of automobile emission. The company's initiatives on increasing its EV penetration is a positive step in this direction. ALL could be required to invest to develop products to cater to the regulatory thresholds or expected transition to other alternative fuel vehicles going forward apart from what is being done already. This could have a moderating impact on return and credit metrics temporarily.

Social considerations - ALL, akin to other automotive OEMs, has a healthy dependence on human capital. Retaining human capital, maintaining healthy employee and supplier relationships remain essential for disruption-free operations. ALL also faces risks of product safety and quality, wherein instances of product recalls may not only lead to financial implications but could also harm the reputation and create a more long-lasting adverse impact on demand. Nevertheless, its history of limited warranty expenses augurs well for the company. Akin to other automotive OEMs, ALL is also exposed to any shift in customer preferences/demographics, which is a key driver for demand, and accordingly may need to make investments to realign its product portfolio. Product innovations, including the AVTR range and phoenix platform vehicles, and healthy market acceptance of the same provide comfort on this front.

Rating sensitivities

Positive factors - Strengthening of the company's business and financial profile, through significant rise in market share in the CV business and scale-up in EV business, and sustained and material improvement in profit margins, RoCE and debt metrics, could be a trigger for improvement in the long-term rating.

Negative factors - Downward pressure on the ratings could arise with sustained deterioration in ALL's financial profile affected by market slowdown or loss of market share and consequent impact on volumes, high debt funded capital expenditure, investments in group companies or dividend pay-outs. Specific triggers for downgrade would be net debt/OPBDITA above 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology for Commercial Vehicle Manufacturers Policy on withdrawal of credit ratings
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ALL, excluding its NBFC-subsidiary - Hinduja Leyland Finance Limited (HLFL). However, the analysis considers the ordinary and extraordinary funding support likely to be extended by ALL to HLFL.

About the company

Ashok Leyland Limited (ALL / the company), the flagship entity of Hinduja Group, is the 2nd largest manufacturer in the medium and heavy commercial vehicles segment in India. Globally, it is the 4th largest manufacturer of buses, and the 19th largest manufacturer of trucks. ALL's key products include buses, trucks, defence and special application vehicles like fire-fighters and diesel engines for industrial, genset and marine applications. Headquartered in Chennai, it has nine manufacturing plants as on date. Of these, seven are in India (Ennore, Sriperumbudur, Hosur, Bhandara, Alwar, Pantnagar and Vijayawada), while two facilities are overseas including a bus manufacturing facility in Ras Al Khaimah (the UAE) and Leeds (the UK). The company has presence in the EV segment through Switch Mobility Limited. Switch Mobility Limited manufactures EVs, and provides E-Mobility as a service solutions through Ohm Global Mobility Private Limited in India, a subsidiary of ALL.

Key financial indicators (audited)

	Standalone		Consolidated#	
	FY2022	FY2023	FY2022	FY2023
Operating income	21,688.3	36,144.1	26,237.2	41,672.6
PAT	541.8	1,380.1	-293.0	1,350.9
OPBDIT/OI	4.6%	8.1%	10.5%	12.2%
PAT/OI	2.5%	3.8%	-1.1%	3.2%
Total outside liabilities/Tangible net worth (times)	1.8	1.7	4.1	4.1
Total debt/OPBDIT (times)	3.6	1.1	8.7	6.1
Interest coverage (times)	3.3	10.1	1.5	2.4

Source: Company; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

#Consolidated includes NBFC and hence profit margins and debt metrics in the table above are not comparable with numbers mentioned in the body of the rationale. For analysis purpose, NBFC related figures are excluded although ordinary and extraordinary funding support likely to be extended by ALL to HLFL has been factored.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 25, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Oct 12, 2023	Oct 31, 2022	Jan 28, 2022	Oct 25, 2021	December 04, 2020
1	**Commercial paper**	Short-term	2,000.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	**Non-convertible Debenture**	Long-term	600.0	-	[ICRA]AA (Stable); withdrawn	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)
3	**Non-convertible Debenture**	Long-term	200.00	200.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)
4	**Non-convertible Debenture**	Long-term	50.0	-	[ICRA]AA (Stable); withdrawn	[ICRA]AA (Stable)	[ICRA]AA (Negative)	-	-
5	**Fund based limits**	Long-term / Short-term	2,000.00	-	[ICRA]AA (Stable)/[ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Negative)/ [ICRA]A1+	[ICRA]AA (Negative)/ [ICRA]A1+	[ICRA]AA (Negative)/ [ICRA]A1+
6	**Term loans**	Long-term	1,111.25	1,111.25	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)
7	**Non-fund based limits**	Long-term / Short-term	1,200.00	-	[ICRA]AA (Stable)/[ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Negative)/ [ICRA]A1+	[ICRA]AA (Negative)/ [ICRA]A1+	[ICRA]AA (Negative)/ [ICRA]A1+
8	**Unallocated**	Long-term / Short-term	350.00	-	[ICRA]AA (Stable)/[ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Negative)/ [ICRA]A1+	[ICRA]AA (Negative)/ [ICRA]A1+	[ICRA]AA (Negative)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper	Very Simple
Non-convertible Debenture	Very Simple
Long-Term/Short-Term Fund-based limits	Simple
Long-Term/Short-Term Non-fund-based limits	Very Simple
Long-Term Term loans	Simple
Long-Term/Short-Term Unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA**	Commercial Paper	NA	NA	NA	2,000.00	[ICRA]A1+
INE208A07406	Non-convertible Debenture	17-Mar-22	7.30%	17-Mar-27	200.00	[ICRA]AA (Stable)
INE208A07380	NCD	19-May-20	8.00%	19-May-23	400.00	[ICRA]AA (Stable); withdrawn
INE208A07398	NCD	25-Jun-20	7.65%	23-Jun-23	200.00	[ICRA]AA (Stable); withdrawn
NA*	NCD	NA	NA	NA	50.00	[ICRA]AA (Stable); withdrawn
NA	Long term/Short term fund-based limits	NA	NA	NA	2,000.00	[ICRA]AA (Stable)/[ICRA]A1+
NA	Long-term/Short-term non-fund-based limits	NA	NA	NA	1,200.00	[ICRA]AA (Stable)/[ICRA]A1+
NA	Long-term Term loan	FY2020	~8.05%	FY2029	1,111.25	[ICRA]AA (Stable)
NA	Long-term/Short-term Unallocated	NA	NA	NA	350.0	[ICRA]AA (Stable)/[ICRA]A1+

*Source: Company; **Yet to be placed; * Not placed*

[Please click here to view details of lender-wise facilities rated by ICRA]

Annexure II: List of entities considered for consolidated analysis

Company Name	ALL Ownership	Consolidation Approach
Subsidiaries		
Global TVS Bus Body Builders Limited	66.67%	Full Consolidation
Gulf Ashley Motor Limited	93.15%	Full Consolidation
Optare Plc and its subsidiaries	91.63%	Full Consolidation
Ashok Leyland (Nigeria) Limited	100.00%	Full Consolidation
Ashok Leyland (Chile) SA	100.00%	Full Consolidation
HLF Services Limited	81.73%	Full Consolidation
Albonair (India) Private Limited	100.00%	Full Consolidation
Albonair GmbH and its subsidiary	100.00%	Full Consolidation
Ashok Leyland (UAE) LLC and its subsidiaries	100.00%	Full Consolidation
Ashley Aviation Limited	100.00%	Full Consolidation
Hinduja Tech Limited	73.83%	Full Consolidation
Vishwa Bus and Coaches Limited	100.00%	Full Consolidation
Gro Digital Platforms Limited	80.21%	Full Consolidation
Joint ventures		
Ashley Alteams India Limited	50.00%	Equity method
Associates		
Ashok Leyland Defence Systems Limited	48.49%	Equity method
Mangalam Retail Services Limited	37.48%	Equity method
Lanka Ashok Leyland Plc	27.85%	Equity method

Source: ALL's Annual report FY2023

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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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