September 13, 2024

Ashok Leyland Limited: Long-term rating upgraded to [ICRA]AA+(Stable); Short-term rating reaffirmed; Rated amount enhanced

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	2,000.00	2,000.00	[ICRA]A1+; reaffirmed
Non-Convertible Debenture	200.00	200.00	[ICRA]AA+ (Stable); upgraded from [ICRA]AA (stable)
Long term/Short term: Fund based limits	2,000.00	2,000.00	[ICRA]AA+ (Stable)/[ICRA]A1+; LT rating upgraded from [ICRA]AA (Stable) and ST rating reaffirmed
Long term/Short term: Non-fund based limits	1,200.00	1,200.00	[ICRA]AA+ (Stable)/[ICRA]A1+; LT rating upgraded from [ICRA]AA (Stable) and ST rating reaffirmed
Long-term – Fund based - Term loans	1,111.25	1,457.50	[ICRA]AA+ (Stable); Upgraded from [ICRA]AA (Stable)/assigned for enhanced limits
Long term/Short term: Unallocated	350.00	650.00	[ICRA]AA+ (Stable)/[ICRA]A1+; LT rating upgraded from [ICRA]AA (Stable) and ST rating reaffirmed /assigned for enhanced limits
Total	**6861.25**	**7507.50**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action on the non-convertible debentures (NCD), bank facilities and commercial paper (CP) programme of Ashok Leyland Limited (ALL/the company) factors the sustained improvement in its credit profile in the last few years led by improvement in operating performance, cost structure and debt metrics, and ICRA's expectation that it will remain healthy going forward as well. ALL remains the second largest player in the domestic medium and heavy commercial vehicle truck (M&HCV) segment, with an M&HCV trucks market share of ~30% in Q1 FY2025. Its light commercial vehicle (LCV) sales also improved in the last few years aided by a confluence of factors and its LCV trucks market share was ~12% in Q1 FY2025 (vis-à-vis ~9% in FY2019). Supported by stable economic activities, better product realisations and healthy market share, ALL's revenues[1] grew by 65% in FY2023, ~8% YoY in FY2024 and by 5% YoY (standalone) in Q1 FY2025. The cost-optimisation measures undertaken over the last few years, lower discounts prevalent in the industry, favourable product mix (including healthy growth in non-CV business) and benefits from operating leverage have translated into steady improvement in margins in the last few years. For FY2024 and Q1 FY2025, the company reported a ~400 bps YoY improvement in operating margins[2]. The measures undertaken by the company aimed at strengthening its product portfolio including that in the non-CV business, market position and reducing break-even levels, would support the company's earnings going forward.

The company's planned investments towards its electric vehicle (EV) vertical continues, including e-Vehicles Mobility as a Service (e-MaaS), apart from planned annual capex and investments of Rs. 1,000-1,500 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 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. Nevertheless,

[1] Consolidated revenues (excluding NBFC subsidiary)

[2] Consolidated operating margins (excluding NBFC subsidiary)

improving presence in the LCV segment and higher revenues from the non-CV businesses like power solutions, aftermarket spares etc, wherein the troughs are flatter, is likely to mitigate the cyclicality risk to an extent.

The stable outlook on the long-term rating reflects that the company will be able to sustain its credit profile supported by its cash accruals, strong liquidity position and established business position, despite investments and gestational losses from the EV business and modest industry growth expectations for FY2025.

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 at ~30% in Q1 FY2025), 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. Factors like enhanced product range, better product acceptance and revamping of dealership network are expected to benefit volume growth and market presence going forward. The LCV sales also witnessed growth in FY2024 and Q1 FY2025, post healthy two years of volume sales in the market. The expected increase in addressable market, demand from agriculture and allied sectors is expected to support volume growth in FY2025. ALL's market share in LCV trucks segments was 12% in Q1 FY2025 (vis-à-vis 9% in FY2019). Bus volumes also witnessed healthy traction in the recent quarters with the improving replacement demand for old buses and higher orders from State Road Transport Undertakings (SRTUs) and private players, and the momentum is expected to sustain going forward. Its market share in M&HCV bus was healthy at 33.4% in Q1 FY2025.

Significant improvement in profit margins in the last few years and expected sustenance of the same going forward - ALL's operating margins have improved over the last few years, aided by cost optimisation measures undertaken by the company, lower discounts prevalent in the industry, favourable product mix and benefits from operating leverage. The company undertook various sustainable measures such as automation, overhead cost reduction measures through price negotiations and efficiency improvement among others. The proportion of revenues from the margin-accretive non-CV and LCV businesses have also improved, and this along with volume improvement has aided the company in reporting elevated margins of ~11% in FY2024[3] and ~10.6% in Q1 FY2025 (standalone). While the margins are expected to sustain at the improved levels in the near-term, despite losses anticipated in the EV business for the near-term, it remains vulnerable to any sharp volatility in raw material prices.

Comfortable capitalisation metrics and strong liquidity - ALL's healthy market share, along with sustained growth in the CV industry in FY2023, FY2024 and Q1 FY2025, have resulted in ALL's revenues growing during the period. The healthy accruals and networth have contributed to comfortable debt metrics with net gearing of 0.01 times (standalone) and 0.3 times (consolidated excluding NBFC subsidiary) as on March 31, 2024, despite investments and gestational losses in the EV business. ALL's liquidity position is strong, supported by cash and liquid investments of over Rs. 2,000.0 crore (standalone) and undrawn bank lines of over Rs. 2,000 crore as on June 30, 2024. The capitalisation is expected to remain comfortable going forward as well. This apart, the exceptional financial flexibility with lenders also supports its financial profile.

Credit challenges

Moderate capex expected for EV segment over the medium – The company has moderate investments planned over the medium term for its EV vertical, including e-MaaS, apart from planned annual capex and investments of Rs. 1,000-1,500 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

[3] Consolidated operating margins (excluding NBFC subsidiary)

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 key 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. Subsidiaries such as Optare PLC reported a consolidated net loss of Rs. 457.0 crore in FY2024 (Rs. 582.8 crore in FY2023). 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 few years 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, although revenues from non-CV business mitigate risk to an extent – Over 90% of ALL's (consolidated excluding NBFC business) revenues were derived from its standalone operations in FY2024. CV sales, which constituted to ~85% of ALL's standalone revenues in FY2024, remains inherently cyclical in nature, with industry volumes strongly correlated to the level of economic activity, industrial growth and infrastructure investments. ICRA expects a modest growth of 0-3% for the CV industry in FY2025. Other factors like regulatory changes (emission norms, scrappage policy, etc.) and stiff competition leading to aggressive discounting practices, and sharp fluctuation in raw material prices also impact the earnings profile of industry players. Nevertheless, improving presence in the LCV segment and higher revenues from the non-CV businesses (CAGR of 12% over the last 5 years), wherein the troughs are flatter, is likely to mitigate the cyclicality risk to an extent.

Liquidity position: Strong

ALL's liquidity position is strong with cash and liquid investments of over Rs. 2,000.0 crore (standalone) and undrawn bank lines of over Rs. 2,000.0 crore as of June 2024. 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. 639.0 crore in FY2025, Rs. 399.0 crore in FY2026 and Rs. 531.7 crore in FY2027 on existing loans. The company has planned moderate investments over the medium term for its EV vertical, including e-MaaS, apart from planned annual capex and investments of over Rs. 1,000-1,500 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.

Rating sensitivities

Positive factors – Strengthening of the company's business and financial profile, through revenue diversification, sustained rise in market share in the CV business, scale-up in EV business, 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 a sharp market slowdown or material contraction in market share, higher-than-estimated debt funded capital expenditure and/or investments in group companies or dividend pay-outs. Specific triggers for downgrade would be net debt/OPBDITA above 2.5 times on a sustained basis

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.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Commercial Vehicles
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, while E-Mobility as a service solution is being catered through Ohm Global Mobility Private Limited in India, a subsidiary of ALL.

Key financial indicators (Audited)

	Standalone		Consolidated#	
	FY2023	FY2024	FY2023	FY2024
Operating income	36,144.1	38,367.0	41,672.6	45,790.6
PAT	1,380.1	2,617.9	1,348.1	2,680.0
OPBDIT/OI	8.1%	12.0%	12.2%	17.3%
PAT/OI	3.8%	6.8%	3.2%	5.9%
Total outside liabilities/Tangible net worth (times)	1.7	1.7	4.1	4.7
Total debt/OPBDIT (times)	1.1	0.5	6.1	5.1
Interest coverage (times)	10.1	18.5	2.4	2.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore;

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

 # 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 (FY2025)		Chronology of rating history for the past 3 years							
	Type	Amount rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Commercial paper	Short-term	2,000.00	13-Sep-2024	[ICRA]A1+	12-Oct-2023	[ICRA]A1+	31-Oct-2022	[ICRA]A1+	28-Jan-2022	[ICRA]A1+
									25-Oct-2021	[ICRA]A1+
Non-convertible Debenture	Long-term	600.0	-	-	12-Oct-2023	[ICRA]AA (Stable); withdrawn	31-Oct-2022	[ICRA]AA (Stable)	28-Jan-2022	[ICRA]AA (Negative)
									25-Oct-2021	[ICRA]AA (Negative)
Non-convertible Debenture	Long-term	50.0	-	-	12-Oct-2023	[ICRA]AA (Stable); withdrawn	31-Oct-2022	[ICRA]AA (Stable)	28-Jan-2022	[ICRA]AA (Negative)
Non-convertible Debenture	Long-term	200.00	13-Sep-2024	[ICRA]AA+ (Stable)	12-Oct-2023	[ICRA]AA (Stable)	31-Oct-2022	[ICRA]AA (Stable)	28-Jan-2022	[ICRA]AA (Negative)
									25-Oct-2021	[ICRA]AA (Negative)
Fund based limits	Long-term / Short-term	2,000.00	13-Sep-2024	[ICRA]AA+ (Stable)/ [ICRA]A1+	12-Oct-2023	[ICRA]AA (Stable)/ [ICRA]A1+	31-Oct-2022	[ICRA]AA (Stable)/ [ICRA]A1+	28-Jan-2022	[ICRA]AA (Negative)/ [ICRA]A1+
									25-Oct-2021	[ICRA]AA (Negative)/ [ICRA]A1+
Term loans	Long-term	1,457.50	13-Sep-2024	[ICRA]AA+ (Stable)	12-Oct-2023	[ICRA]AA (Stable)	31-Oct-2022	[ICRA]AA (Stable)	28-Jan-2022	[ICRA]AA (Negative)
									25-Oct-2021	[ICRA]AA (Negative)
Non-fund based limits	Long-term / Short-term	1,200.00	13-Sep-2024	[ICRA]AA+ (Stable)/ [ICRA]A1+	12-Oct-2023	[ICRA]AA (Stable)/ [ICRA]A1+	31-Oct-2022	[ICRA]AA (Stable)/ [ICRA]A1+	28-Jan-2022	[ICRA]AA (Negative)/ [ICRA]A1+
									25-Oct-2021	[ICRA]AA (Negative)/ [ICRA]A1+
Unallocated	Long-term / Short-term	650.00	13-Sep-2024	[ICRA]AA+ (Stable)/ [ICRA]A1+	12-Oct-2023	[ICRA]AA (Stable)/ [ICRA]A1+	31-Oct-2022	[ICRA]AA (Stable)/ [ICRA]A1+	28-Jan-2022	[ICRA]AA (Negative)/ [ICRA]A1+
									25-Oct-2021	[ICRA]AA (Negative)/ [ICRA]A1+

Complexity level of the rated instrument

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 – Fund based - 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	-	-	-	2,000.00	[ICRA]A1+
INE208A07406	Non-convertible Debenture	17-Mar-2022	7.30%	17-Mar-2027	200.00	[ICRA]AA+ (Stable)
NA	Fund based limits	-	-	-	2,000.00	[ICRA]AA+ (Stable) /[ICRA]A1+
NA	Term loans	FY2020	~8-9%	FY2029	1,457.50	[ICRA]AA+ (Stable)
NA	Non-fund based limits	-	-	-	1,200.00	[ICRA]AA+ (Stable) /[ICRA]A1+
NA	Unallocated	-	-	-	650.00	[ICRA]AA+ (Stable) /[ICRA]A1+

*Source: Company; * Yet to be 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	92.59%	Full Consolidation
Ashok Leyland (Nigeria) Limited	100.00%	Full Consolidation
Ashok Leyland (Chile) SA	100.00%	Full Consolidation
HLF Services Limited	81.72%	Full Consolidation
Albonair (India) Private Limited	100.00%	Full Consolidation
Albonair GmbH	100.00%	Full Consolidation
Ashok Leyland (UAE) LLC	100.00%	Full Consolidation
Ashley Aviation Limited	100.00%	Full Consolidation
Hinduja Tech Limited	73.22%	Full Consolidation
Vishwa Buses and Coaches Limited	100.00%	Full Consolidation
Gro Digital Platforms Limited	80.20%	Full Consolidation
OHM Global Mobility Private Limited	100.00%	Full Consolidation
Joint Ventures		
Ashley Alteams India Limited	50.00%	Equity method
Zebeyond Limited, United Kingdom	50.00%	Equity method
Ashok Leyland John Deere Construction Equipment Company Private Limited	50.00%	Equity method
TVS Trucks and Buses Private Limited	49.90%	Equity method
Associates		
Ashok Leyland Defence Systems Limited	48.49%	Equity method

Company Name	ALL Ownership	Consolidation Approach
Mangalam Retail Services Limited	37.48%	Equity method
Lanka Ashok Leyland PLC	27.85%	Equity method

Source: ALL's Annual report FY2024

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Srikumar K
+91 44 4596 4318
ksrikumar@icraindia.com

Vinutaa S
+91 44 4596 4305
Vinutaa.s@icraindia.com

Sriraman Mohan
+91 44 4596 4316
ssriraman.mohan@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches