Ashok Leyland Limited

September 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	300.00 (Reduced from 400.00)	CARE AA+; Stable	Upgraded from CARE AA; Stable
Long-term/Short-term bank facilities	3,700.00	CARE AA+; Stable / CARE A1+	LT rating upgraded from CARE AA; Stable and ST rating reaffirmed
Short-term bank facilities	300.00	CARE A1+	Assigned
Non-convertible debentures	200.00 (Reduced from 600.00)	CARE AA+; Stable	Upgraded from CARE AA; Stable
Commercial paper	2,000.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings assigned to bank facilities and instruments of Ashok Leyland Limited (ALL) factors in improved business and financial risk profile over the last few years. There has been improved share of non-medium and heavy commercial vehicle (M&HCV) segments in its total income marked by diversification to LCV (light commercial vehicle), higher share of exports, and spare parts among others leading to ALL being less prone to cyclical downturn in CV industry. Along-side maintaining its market share, ALL's total operating income (TOI) from its auto business improved from ₹16,496 crore in FY21 to ₹41,209 crore in FY24, whereas operating profitability of its auto business has shown marked improvement from ~3% in FY21 to 11.05% in FY24. With improved profitability and cash accruals, there is significant rationalisation of its debt level leading to improved capital structure and debt coverage indicators along-with strong liquidity.

Ratings continue to draw strength from the company being part of the Hinduja Group, ALL's long track record of operations with an established presence, a strong brand image, and a wide distribution network with a pan-India presence, its presence in all sub-segments of CV industry with a strong and improving market share in the domestic M&HCV segment, considering new launches and also improving market share in LCV segment.

However, ratings continue to be tempered by moderate diversification of revenue stream, with M&HCV segment accounting for a significant portion of income, capital intensive business, inherent risk associated with cyclical and highly competitive CV industry, and operating margins susceptible to volatility in commodity prices.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantially improving operating margins, supported by significantly improving market share across business segments and revenue diversification, resulting in a net auto debt-free status on a sustained basis.

Negative factors

- Debt-funded capex/acquisition leading to deteriorating adjusted net debt (excluding HLFL debt)/ profit before interest, lease rentals, depreciation, and taxation (PBILDT) to above 1.2x on a sustained basis.
- Weaker operating performance, leading to significant loss of market share and declining operating profit margin at below 8% on sustained basis.

Analytical approach:

CARE Ratings Limited (CARE Ratings) has considered ALL's consolidated financials, excluding the non-banking financial company (NBFC) subsidiary – HLFL. However, the analysis considers ongoing and future funding support likely to be extended by ALL to HLFL. The list of subsidiaries consolidated is presented in **Annexure-6** below.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Outlook: Stable

The ‘Stable’ outlook reflects that ALL’s market share is expected to improve in MHCV and LCV segments over the medium term and healthy revenue growth, driven by increasing volume and operating margins sustained above 10-11%. The financial risk profile is expected to remain robust in the near-to-medium term.

Detailed description of key rating drivers:

Key strengths

Flagship company of Hinduja group, which has a diversified presence across industries

ALL is a part of the Hinduja group, founded by Parmanand Deepchand Hinduja over 100 years ago. Hinduja group is a conglomerate having presence inter alia in banking and finance, transport and energy, technology, media, and renewables industries, with the group’s operations spanning across 70 countries. Hinduja group acquired controlling stake in ALL in 1987; and since then, ALL has grown to become one of the flagship companies of the Hinduja group.

Strong market position in MHCV segment and increasing presence in LCV segment, which provides diversification

ALL has a long track record of operations of over 75 years. Over the years, it has built a strong brand image with a diversified product profile consisting of buses, trucks, light vehicles, defence vehicles, engines, and gensets, among others with a vehicle weight ranging from 2.5 tonne to 55 tonne, catering LCV-GC, M&HCV-GC, LCV-PC and M&HCV-PC segments. ALL is one of the leading players in the domestic M&HCV segment with a strong market position through a variety of product offerings. Sales volumes of M&HCV GC segment are improving in congruence with a revival in economic activities. ALL had a market share of 31.1% in M&HCV segment in FY24.

For the past many decades, ALL had been generating majority sales volume and revenue from M&HCV segment. To exploit emerging trends in industry in the recent years, ALL took initiatives and launched products in LCV segment (Bada Dost) to increase its presence in the addressable LCV segment. As share of LCV in overall CV volume improved, it had become inevitable for ALL to have a presence in the domestic LCV market to secure its long-term growth prospects. In FY24, total industry volume (domestic) in LCV segment marginally de-grew by 1.5%, it grew by 0.1% in Q1FY25. However, ALL reported a volume de-growth (domestic) of 0.1% and growth of 3.5% on a y-o-y basis in this period. ALL had a market share of 11.2% (PY: 11.0%) in LCV segment in FY24.

Sustained improvement in operating performance, expected to continue

ALL’s auto business grew at a compound annual growth rate (CAGR) of 35.7% from FY21 to FY24 and y-o-y growth of 7.9% in FY24 due to improvement in volumes and better realisations. CV industry faced challenges, leading to muted volume growth in FY24. However, ALL reported volume growth of 1.7% and 7.9% year-over-year in the MHCV segment (domestic) in FY24 and Q1FY25, respectively. MHCV truck segment (domestic) volumes declined by 5.2% and 2.9% year-over-year in FY24 and Q1 FY25, respectively, compared to industry growth of 0.2% and 2.6%. MHCV bus segment (domestic) volumes improved significantly by 68.0% and 82.4% year-over-year in FY24 and Q1FY25, respectively, driven by fleet replacements by state transport undertakings. LCV segment saw a marginal decline of 1.5% in FY24 but grew by 0.1% in Q1FY25.

Driven by sustainable measures like automation and efficiency improvements through cost optimisation, reduced discounts, a favourable product mix, and operating leverage has led to improvement in operating margins for its auto business from 7.11% in FY23 to 11.05% in FY24, while retaining it strong market share of 31.1% in MHCV in FY24 and improving share in LCV to 11.2% (PY: 11.0%). Revenue share from higher-margin non-CV and LCV businesses has increased, and volume growth, has helped the company achieve improved margins which is expected to sustain over the near-to-medium term.

Improvement in the financial risk profile in FY24

Overall gearing of auto business, as on March 31, 2024, improved to 1.14x (PY: 1.37x) with lower debt levels due to scheduled repayment of debt obligations. Its auto debt level, as on March 31, 2024, reduced to ₹4,347 crore (PY: ₹5,496 crore). The debt coverage indicators also improved considering improvement in operating performance of auto business due to price hikes, favourable operating leverage, and easing input prices.

As on March 31, 2024, its net auto debt/PBILDT improved significantly to 0.39x from 3.48x as on March 31, 2022, considering higher operating profitability in FY23 and FY24. Going forward, CARE Ratings expects the company’s capital structure to remain comfortable, as capex requirements are primarily expected to be met through internal accruals and available liquidity.

Liquidity: Strong

ALL’s auto business has strong liquidity, with cash and liquid investments of ₹2,594 crore as on March 31, 2024, and expected strong cash accruals of over ₹3,000 crore in FY25. As against this, auto business has debt repayments of ₹646 crore in FY25.

Further on a standalone basis, ALL has unutilised fund-based working capital limits of ~₹2,000 crore as on June 30, 2024. Also, the company enjoys significant financial flexibility and refinancing ability by being a part of the Hinduja group.

Key weaknesses

Inherent cyclical automotive industry

Automotive industry is cyclical, influenced by government and individual spending. After strong growth in FY18 and FY19, the domestic CV industry declined by 29% in FY20 and 21% in FY21 due to revised axle load norms, NBFC crisis, BS-VI transition, economic slowdown, and COVID-19. It rebounded with 34% and 26% growth in FY22 and FY23, driven by pent-up demand post-pandemic. In FY24, industry faced challenges, resulting in muted 0.7% volume growth due to fading domestic demand, sluggish overseas demand, and higher vehicle costs from BS VI norms. In Q1FY25, domestic CV volumes grew by 3.5% year-over-year. Second half of FY25 is expected to see recovery due to post-election stability and the end of monsoon season. MHCVs are expected to improve in H2FY25 due to infrastructure development, while LCVs may face constraints from rising vehicle prices, high interest rates, and inflationary pressures.

Susceptibility of margins to raw material price volatility

Key raw materials required for CV OEMs are steel, iron, aluminium, copper, rubber, and glass. Prices of these raw materials have shown significant volatility in the past few years. Most OEMs have undertaken increase in prices post Covid to mitigate the impact of higher input costs. However, passing on the increase in prices entirely to the end-consumer is challenging, especially in the areas where there is intense competition and lower demand. Thus, margins of OEMs are subject to variations in the raw material prices. Prices started to cool off from April 2022 onwards, however, they are still higher than pre-COVID levels.

High capital-intensity of its businesses

Automobile industry is highly capital-intensive and requires huge investments for continuously upgrading technology and launching new products. Transition to EVs also entails huge research and product development expenses. ALL also has large capex plans in the medium term across its business segments. The company is expected to incur capex of ₹1,000 crore in FY25 and invest an additional ₹1,000 crore in group companies mainly for EV related capex plans in Switch Mobility Automotive Limited and OHM Global Mobility Private Limited. Switch Mobility Automotive Limited (Domestic OEM manufacturing electric buses and electric LCVs) turned earnings before interest, taxation, depreciation, and amortisation (EBITDA) positive in FY24 and expected to remain EBITDA positive going forward. ALL's ability to generate healthy free cashflows and maintain its comfortable financial risk profile in an industry downturn can be severely tested, considering its huge capex requirements on a continuous basis for keeping itself abreast of evolving technologies, meeting regulatory norms on emission reduction, and ongoing electrification drive.

Environment, social, and governance (ESG) risks

Environmental:

- ALL has committed not only on a standalone basis but also on behalf of its subsidiaries ESG commitments of Carbon neutral operations by 2030 and Net Zero by 2048.
- ALL has developed multiple technologies to transition towards complete array of alternate fuel products such as Battery Electric, Hydrogen ICE, Fuel Cell, LNG and CNG.
- ALL showcased an impressive array of future-ready vehicles such as 9m Hydrogen Fuel Cell Bus, AVTR LNG 6×4 Tractor, 55T EV Tractor, Switch IeV4 Electric LCV, 14T Boss Electric Truck in the Bharat Mobility Expo held in February 2024 at New Delhi, India.
- On the sustainable manufacturing front, ALL has focused on sustainable water management initiative towards reducing the water intensity, conducting energy audit, and improving energy productivity, augmenting roof top and solar park capacity, objective assessment of carbon sequestration through afforestation and progressing on zero waste to landfill status. ALL plans to extend the same to the upstream and downstream processes to the suppliers and dealers in FY25.
- ALL has finalised the tie-up with Registered Vehicle Scrapping Facility (RVSF) placing ALL in a strategic position on its road to circularity and reducing its environmental footprint.

Social:

Under CSR, ALL's Road to School programme (RTS) is making strides and the coverage has transformed lives of 1,91,858 students from 1,719 schools across seven states.

Governance:

The company has been practicing principles of fair, ethical, and transparent governance over the years and lays strong emphasis on transparency, accountability, honesty, integrity, and ethical behaviour. Notably, over 60% of its board comprises independent directors including one woman director.

Applicable criteria

[Consolidation](#)
[Definition of Default](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Rating Watch](#)
[Commercial Vehicles](#)
[Manufacturing Companies](#)
[Financial Ratios – Non financial Sector](#)
[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Agricultural, commercial and construction vehicles	Commercial vehicles

ALL, the flagship company of the Hinduja group, is one of the largest CV manufacturers in India. Hinduja group holds 51.10% stake in ALL as on June 30, 2024. ALL is one of the largest manufacturers of M&HCV in India and also has significant presence in LCV segment. ALL's product profile includes buses, trucks, engines, and defence vehicles. ALL has eight manufacturing plants across six different locations, with the oldest plant at Ennore (Chennai, Tamil Nadu), three plants at Hosur (Tamil Nadu), foundry at Sriperumbudur (Tamil Nadu), gearbox manufacturing and vehicle assembly plant at Bhandara (Maharashtra), assembly plant at Alwar (Rajasthan), and a fully integrated unit at Pant Nagar (Uttarakhand).

Brief Financials (₹ crore) Auto Business*	FY23	FY24
Total operating income	38,201.88	41,208.91
PBILDT	2,716.99	4,551.53
PAT	868.82	2,060.34
Gross cash accruals	1,688.94	2,872.36
Overall gearing (times)	1.37	1.14
Net debt/ PBILDT (times)	0.68	0.39
Interest coverage (times)	7.52	10.96

Note: these are latest available financial results
*ALL (Consolidated) minus HLFL (Consolidated)

Brief Standalone Financials (₹ crore)	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	36,143.70	38,367.03	8,598.53
PBILDT	2,930.26	4,606.58	910.87
PAT	1,380.11	2,617,87	525.58
Overall gearing (times)	0.44	0.30	NA
Interest coverage (times)	10.14	18.47	15.43

A: Audited UA: Unaudited NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Commercial Paper*	-	-	-	7 – 364 days	2,000.00	CARE A1+
Debentures-Non Convertible Debentures*	-	-	-	-	200.00	CARE AA+; Stable
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	2000.00	CARE AA+; Stable / CARE A1+
Fund-based - ST-Working Capital Limits	-	-	-	-	300.00	CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	200.00	CARE AA+; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	1500.00	CARE AA+; Stable / CARE A1+
Term Loan-Long Term	-	-	-	09-09-2026	300.00	CARE AA+; Stable

*proposed, no outstanding

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT/ ST-Working Capital Limits	LT/ST	2000.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (04-Oct-23)	1)CARE AA; Stable / CARE A1+ (07-Nov-22)	1)CARE AA; Negative / CARE A1+ (07-Jan-22) 2)CARE AA; Negative / CARE A1+ (08-Apr-21)
2	Commercial Paper-Commercial Paper (Standalone)	ST	2000.00	CARE A1+	-	1)CARE A1+ (04-Oct-23)	1)CARE A1+ (07-Nov-22)	1)CARE A1+ (07-Jan-22)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
								2)CARE A1+ (08-Apr-21)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST	1500.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (04-Oct-23)	1)CARE AA; Stable / CARE A1+ (07-Nov-22)	1)CARE AA; Negative / CARE A1+ (07-Jan-22) 2)CARE AA; Negative / CARE A1+ (08-Apr-21)
4	Fund-based/Non-fund-based-LT/ST	LT/ST	200.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (04-Oct-23)	1)CARE AA; Stable / CARE A1+ (07-Nov-22)	1)CARE AA; Negative / CARE A1+ (07-Jan-22) 2)CARE AA; Negative / CARE A1+ (08-Apr-21)
5	Term Loan-Long Term	LT	300.00	CARE AA+; Stable	-	1)CARE AA; Stable (04-Oct-23)	1)CARE AA; Stable (07-Nov-22)	1)CARE AA; Negative (07-Jan-22) 2)CARE AA; Negative (08-Apr-21)
6	Debentures-Non Convertible Debentures	LT	200.00	CARE AA+; Stable	-	1)CARE AA; Stable (04-Oct-23)	1)CARE AA; Stable (07-Nov-22)	1)CARE AA; Negative (07-Jan-22) 2)CARE AA; Negative (08-Apr-21)
7	Fund-based - ST-Working Capital Limits	ST	300.00	CARE A1+				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not available

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Non Convertible Debentures	Simple
3	Fund-based - LT/ ST-Working Capital Limits	Simple
4	Fund-based - ST-Working Capital Limits	Simple
5	Fund-based/Non-fund-based-LT/ST	Simple
6	Non-fund-based - LT/ ST-BG/LC	Simple
7	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Albonair GmbH, Germany	Full	Wholly owned subsidiaries with strong linkages
2	Albonair (Taicang) Automotive Technology Co., Ltd, China		
3	Albonair (India) Private Limited		
4	Ashok Leyland (Nigeria) Limited		
5	Ashok Leyland (Chile), S.A.		
6	OHM Global Mobility Private Limited		
7	Ashley Aviation Limited		
8	Ashok Leyland (UAE) LLC (including shareholding held in beneficial position)		
9	LLC Ashok Leyland Russia		
10	Ashok Leyland West Africa SA		
11	Vishwa Buses and Coaches Limited		
12	Gulf Ashley Motor Limited	Full	Subsidiaries with strong linkages
13	Optare Plc., U. K		
14	Optare UK Limited		
15	Switch Mobility Limited, UK (formerly Optare Group Limited)		
16	Switch Mobility Automotive Limited		
17	Switch Mobility Europe S.l., Spain		
18	HLF Services Limited		
19	Gro Digital Platforms Limited		
20	Hinduja Tech Limited		
21	Hinduja Tech GmbH, Germany		
22	Hinduja Tech Inc., USA		
23	Hinduja Tech (Shanghai) Co., Limited		
24	Hinduja Tech Canada Inc., Canada		
25	Drive System Design Limited, UK		
26	Drive System Design Inc., USA		
27	Drive System Design s.r.o., Czech		
28	Hinduja Tech Limited, U. K		
29	OHM International Mobility Limited		
30	Global TVS Bus Body Builders Limited		
31	Ashley Alteams India Limited	Proportionate	Joint ventures with strong linkages
32	TVS Trucks and Buses Private Limited		
33	ZeBeyond Limited, U.K.		
34	Ashok Leyland John Deere Construction Equipment Company Private Limited (Under liquidation process)		
35	Ashok Leyland Defence Systems Limited	Proportionate	Associates with strong linkages
36	Mangalam Retail Services Limited		
37	Lanka Ashok Leyland PLC		

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
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