

FIRST LIGHT

RESEARCH

ASHOK LEYLAND | TARGET: Rs 199 | +19% | BUY

Analyst meet takeaways – Pursuing market share gains

DIVERSIFIED FINANCIALS

Expert call – AIFs riding high on India's startup boom

SUMMARY

ASHOK LEYLAND

- Targeting ~35% MHCV market share in FY24 by growing to 50% of the southern market (vs. 40%) and holding at 35% in North/Central India
- Aims to garner 25% share in LCVs from 20% currently despite a late entry, and to retain leadership in buses
- Our TP stands revised to Rs 199 (vs. Rs 184) as we raise FY24/FY25 EPS 4%/10%; maintain BUY

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- India's startup industry looks poised to triple to US\$ 1.5tn by 2025-26 as foreign investors flock to the space
- Category 1 angel funds are seeing high AUM growth and strong returns; regulatory changes serve as an added tailwind
- As against AUM-based payout for mutual funds, AIF distributor payout depends on capital commitment

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Daily macro indicators

Ticker	28-Jun	29-Jun	Chg (%)
US 10Y yield (%)	3.71	3.84	13bps
India 10Y yield (%)	7.06	7.06	0bps
USD/INR	82.03	82.06	0.0
Brent Crude (US\$/bbl)	74.0	74.3	0.4
Dow	33,853	34,122	0.8
Hang Seng	19,172	18,934	(1.2)
Sensex	63,416	63,915	0.8
India FII (US\$ mn)	26-Jun	27-Jun	Chg (\$ mn)
FII-D	(96.9)	(226.4)	(129.4)
FII-E	(42.6)	223.4	266.0

Source: Bank of Baroda Economics Research



BUY

TP: Rs 199 | ▲ 19%

ASHOK LEYLAND

| Automobiles

| 30 June 2023

Analyst meet takeaways: Pursuing market share gains

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Targeting larger MHCV footprint: AL is targeting MHCV market share of ~35% in FY24 from 32% currently by raising ICV truck share from 25% to 35%, ICV buses from 15% to 30%, and MDV trucks from 35% to 40%. The strategy is to focus on northern/eastern states (25%/24% market share) via launches and 66 dealership additions in FY24. Region-wise, the company aims for ~35% market share in North/Central India and is looking to consolidate its position in the southern region to ~50% (from 40%).

LCV growth strategy: Despite its late entry, AL has captured 20% of the 2-3.5t LCV segment, which forms 59% of industry volumes. Management aims to augment this share to 25% by increasing the northern and eastern network and launching alternative fuel products in FY24. Moreover, it intends to enter the 0-2t segment (35% of industry volumes) and improve 3.5-7.5t market share from 5% to 25% this year.

Global EV bus market exhibiting strong tailwinds: AL sees strong demand potential for subsidiary Switch Mobility in both domestic and global markets. It has charted a roadmap for volume growth over the next decade to FY32, which includes a domestic e-bus CAGR of 37% to 33k units and e-LCV CAGR of 73% to 314k units.

International expansion on the cards: AL's exports grew 2% in FY23 even as the industry contracted sharply. Sales were extended from 21 countries in FY21 to 38 in FY23, aiding the industry beat. Management is targeting expansion into 50 countries in FY24 with a total market size of 250k units.

Margin expansion guided to continue: EBITDA margin has risen to 8.1% in FY23 from 4.6% in FY22. Management is targeting a 10% margin in FY24 and a mid-teen print in the medium term, aided by expansion plans.

Maintain BUY: We expect AL's EBITDA margin to expand 180bps over FY23-FY25 to ~10% factoring in the revival in the CV market, continued leadership in the bus segment, launches and entry into EVs. Export recovery will add comfort. We thus raise our FY24/ FY25 EPS estimates by 4%/10% for a revised SOTP-based TP of Rs 199 (vs. Rs 184), ascribing an unchanged 20x FY25E P/E to the standalone business. BUY.

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Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	AL IN/Rs 167
Market cap	US\$ 6.0bn
Free float	49%
3M ADV	US\$ 17.9mn
52wk high/low	Rs 171/Rs 133
Promoter/FPI/DII	52%/17%/15%

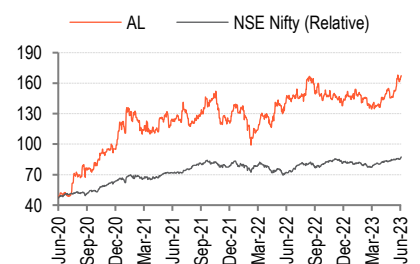
Source: NSE | Price as of 30 Jun 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	3,61,441	4,20,824	4,99,400
EBITDA (Rs mn)	29,307	38,497	48,728
Adj. net profit (Rs mn)	12,955	21,368	27,696
Adj. EPS (Rs)	4.7	7.3	9.4
Consensus EPS (Rs)	4.7	7.1	9.1
Adj. ROAE (%)	15.4	20.5	21.3
Adj. P/E (x)	35.6	23.0	17.7
EV/EBITDA (x)	17.7	13.2	10.1
Adj. EPS growth (%)	4079.2	64.9	29.6

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



 **DIVERSIFIED FINANCIALS**

30 June 2023

Expert call: AIFs riding high on India's startup boom

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We hosted a call with Apoorva Vora, co-founder and CEO of Finolutions (also co-founder of startup vertical Finvolve Ventures), and Parthiv Parikh, VP – Business Development. Finolutions is a B2B wealth management consultancy for alternative investment funds (AIF). Key call takeaways:

Startup ecosystem booming: India's startup ecosystem is thriving thanks in part to its cheap internet plans. The country had ~100,000 registered startups as of May'23, the third highest in the world, of which 10-12% are funded. About 65 US-based unicorns have Indian promoters. While not all startups are successful, Finolutions believes that investments in startups work well on an 80:20 formula, if diversified well. Also, Indian startups are expected to track stock market growth as foreign investors have flocked to them early on and currently cover 74% of funding. It is estimated that India's startup industry would triple from US\$ 500bn in 2022-23 to US\$ 1.5tn in 2025-26.

AIFs poised to grow exponentially...: AIF present a niche opportunity for investors. In CY22, India saw its highest number of registered Category 1 angel funds (that invest in startups and early-stage ventures) and Finolutions believes this trend is likely to continue in CY23. Category 2 AIFs (that invest in private equity funds and debt funds) also grew in CY22 and are expected to do well in CY23. SEBI's recent rule permitting AIFs struggling with illiquid assets to float a new liquidation scheme is a welcome move.

...backed by a strong performance: AIFs, being private placement products, are not permitted to disclose performance details, but available data for Category 1 AIFs that invest in angel stage companies shows returns at 37% compounded annually post expenses, pre-tax and pre-carry for the eight years between CY14 and CY21, which rises to 48% for the last five years starting CY17.

AIF and MF distributor payouts differ: Whereas the expense ratio for mutual funds (MF) is determined by assets under management (AUM), in the case of AIFs, management fee is charged based on the capital committed and not on net asset value (NAV). Moreover, most AIFs, excluding some Category 3 listed equity funds, do have the option to earn carry income based on the outperformance of funds.



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Note: Recommendation structure changed with effect from 21 June 2021

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