

**HOLD**

TP: Rs 3,601 | ▼ 1%

**EICHER MOTORS**

| Automobiles

| 13 November 2023

**Solid quarter; striving to fend off competition**

- Q2 revenue grew 16% YoY backed by double-digit volume uptick (+11%) and 5% higher realisations
- Softening input costs and inventory adjustment of Rs 2.5bn led to 530bps YoY gross margin accretion
- Maintain HOLD with TP of Rs 3,601 (unchanged), based on 25x FY25E EPS

**Healthy double-digit revenue uptick:** EIM's Q2FY24 revenue grew 16% YoY (flat QoQ) to Rs 39.3bn as volumes increased 11% (flat QoQ) and net realisation per vehicle grew 5% (flat QoQ) to Rs 171k/unit. The company benefited from price hikes taken last quarter along with a favourable product mix.

**Material cost reduces; better product mix enhances margins:** Gross margin expanded by a strong 530bps YoY (+350bps QoQ) to 46.8% owing to lower raw material cost at 53.2% of sales (-350bps YoY, -350bps QoQ) and a better mix. However, margins also benefitted from a Rs 2.5bn inventory adjustment which may not continue into H2. EBITDA grew 37% YoY (+8% QoQ) to Rs 11bn with a 28% margin.

**CV segment revival continues:** CV volumes climbed 20% YoY (flat QoQ) and the segment's contribution to EIM's total sales improved to ~8% from 7.3% in the year-ago quarter. The CV revival was largely contributed by the bus segment, apart from LCVs and MHCVs, owing to government initiatives to address the financial troubles of state transport corporations and replace their fleets.

**New launches to counter competition:** In the Royal Enfield business, EIM launched the *Bullet 350* during the quarter, while the upgraded *Himalayan* powered by a 452cc Sherpa engine was unveiled early November at EICMA (Milan Motorcycle Shows) and will be launched in the domestic market shortly. Competitors have introduced a flurry of higher-end motorcycle models and EIM indicated that it will be bringing out new products to maintain its leadership

**Maintain HOLD:** We expect EIM to fend off competition via launches and continue to model for a revenue/EBITDA/PAT CAGR of 12%/16%/20% over FY23-FY25, with EBITDA margins of 27-28%. Our estimates factor in the introduction of high-end variants, a better product mix and easing costs. We value EIM at an unchanged P/E multiple of 25x on FY25E EPS, applying a marginal 5% discount to its LT average to factor in the rising competition in the high-end bike segment (pricing pressure) denting margins. We continue to assign Rs 150/sh to VECV. Our SOTP-based TP remains at Rs 3,601 and carries 1% downside to the current price, Retain HOLD.

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**Key changes**

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	EIM IN/Rs 3,645
Market cap	US\$ 12.1bn
Free float	51%
3M ADV	US\$ 21.1mn
52wk high/low	Rs 3,748/Rs 2,836
Promoter/FPI/DII	49%/30%/9%

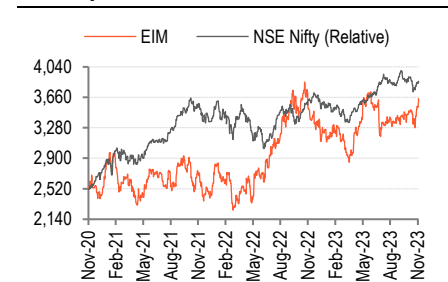
Source: NSE | Price as of 13 Nov 2023

**Key financials**

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,40,666	1,57,097	1,75,538
EBITDA (Rs mn)	33,935	39,771	45,735
Adj. net profit (Rs mn)	26,388	32,880	37,858
Adj. EPS (Rs)	96.1	119.9	138.1
Consensus EPS (Rs)	96.1	118.8	137.7
Adj. ROAE (%)	20.5	21.2	20.4
Adj. P/E (x)	37.9	30.4	26.4
EV/EBITDA (x)	28.1	25.2	21.8
Adj. EPS growth (%)	65.3	24.7	15.2

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q2FY24	Q1FY24	Our View
Royal Enfield volumes	<p>EIM's domestic sales volume grew 15% YoY to 209.7k units in Q2FY24.</p> <p>The company launched <i>Bullet 350</i> during Q2 and has transitioned all its high-volume models from UCE to the J Series platform.</p> <p>RE is a leading middleweight brand in the UK and remains ranked among the top 3 in Europe with a market share of ~9%. Market share is ~7% in America and ~9% in the Asia Pacific region.</p>	<p>EIM's domestic sales stood at 207k units, rising 31% YoY, but exports fell 31% YoY to 20.5k units in Q1FY24. Overall sales reached 227.7k units, rising 21% YoY, with the <i>Hunter 350</i> crossing 200k in sales in the 11 months since launch.</p> <p>EIM expects the US and UK markets to see stronger recovery in 5-6 months. The Asia Pacific is not seeing much volume growth, but the company's market share is rising.</p>	EIM leads the domestic high-end motorcycle market by a wide margin, but competition is intensifying.
VECV market share	EIM's market share in heavy duty trucks as on H1FY24 stood at 8.7%, in light and medium duty trucks at 33.8% and in buses at 21.8%.	Market share in heavy duty trucks for Q1FY24 was at 9.4%, in light and medium duty trucks at 36.9% and in buses at 25.1%.	Single-digit volume share in the heavy-duty segment leaves enough room for growth.
VECV volumes	The CV segment saw its highest quarterly sales of ~19.5k units in Q2FY24. Heavy-duty truck sales totalled ~5.3k units, light & medium duty trucks ~9.6k units and buses sold ~3.2k units. Powertrain unit sales grew 12% YoY to ~14.8k units. Parts segment revenue grew 29% YoY to ~Rs 5.2bn.	Total CV sales grew to 19.5k units (+12% YoY) in Q1FY24. Heavy duty truck sales were at 5.2k units (+29% YoY), light and medium duty trucks at 8.3k units (+11%), and bus sales at 4.9k units (+16%). VE power train engines sold 14.8k units (+21% YoY). Parts revenue grew 25% YoY to Rs 4.8bn.	Further revival in the CV segment will boost revenues.
Margins	EBITDA grew 37%/8% YoY/QoQ to ~Rs 11bn in Q2FY24 and EBITDA margin expanded 425bps/195bps to 28%. Gross margin jumped to 46.8% (43% in Q1FY24) due to material cost savings, a favourable product mix and price hikes taken in Q1.	EIM registered its highest ever quarterly EBITDA at Rs 10.1bn (+28.5% YoY/+7% QoQ), with an EBITDA margin of 26% (+170bps/+130bps) as a result of price hikes taken in May and savings in contribution cost (at ~0.8%).	Margins in Q2 benefited from inventory adjustment besides softening raw material cost.
Capacity	Aggregate production capacity of the company's two plants (Oragadam, Chennai, and Vallam, Tamil Nadu) is ~1.2mn units per annum.	NA	Management proffered no commentary on the expansion of facilities.
Other key points	<p>VECV has been ranked the #1 CV manufacturer in India for the third successive year while RE emerged as the first runner-up in the 2W OEM category in an online dealer satisfaction survey by FADA.</p> <p>In the accessories segment, EIM has ~587 accessories and indicated that 89-90% of its motorcycle customers purchase accessories.</p>	EIM's accessories segment grew 25% YoY in Q1FY24. The company is adding more SKUs to expand the segment.	EIM accessories are preferred by clients that own its products.

Source: Company, BOBCAPS Research | 2W: Two-wheeler; FADA: Federation Of Automobile Dealers Associations; RE: Royal Enfield; VECV: VE Commercial Vehicles

**Fig 2 – Quarterly performance**

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Volume	229,280	207,564	10.5	227,706	0.7	456,986	394,769	15.8
Avg. Realisation per Vehicle	171,437	163,670	4.7	171,325	0.1	171,381	168,330	1.8
Net Revenues	39,307	33,972	15.7	39,012	0.8	78,319	66,451	17.9
<b>Total Income (A)</b>	<b>39,307</b>	<b>33,972</b>	<b>15.7</b>	<b>39,012</b>	<b>0.8</b>	<b>78,319</b>	<b>66,451</b>	<b>17.9</b>
<b>Operating Expenses:</b>								
Raw materials consumed	20,913	19,874	5.2	22,110	(5.4)	43,023	38,488	11.8
Employee Expenses	2,832	2,277	24.4	2,710	4.5	5,541	4,600	20.5
Other Expenses	4,588	3,786	21.2	4,065	12.9	8,653	7,446	16.2
<b>Total Expenditure (B)</b>	<b>28,333</b>	<b>25,936</b>	<b>9.2</b>	<b>28,885</b>	<b>(1.9)</b>	<b>57,218</b>	<b>50,534</b>	<b>13.2</b>
<b>EBITDA (A-B)</b>	<b>10,974</b>	<b>8,036</b>	<b>36.6</b>	<b>10,127</b>	<b>8.4</b>	<b>21,101</b>	<b>15,918</b>	<b>32.6</b>
Other Income	2,760	1,534	79.9	3,352	(17.7)	6,111	2,462	148.2
Depreciation	1,311	1,251	4.8	1,352	(3.1)	2,663	2,393	11.3
EBIT	12,424	8,319	49.3	12,126	2.5	24,550	15,987	53.6
Finance Costs	48	34	39.7	34	39.7	82	59	38.4
PBT after excep items	12,376	8,285	49.4	12,092	2.3	24,468	15,928	53.6
Tax expense	2,991	2,137	39.9	2,953	1.3	5,944	3,978	49.4
<b>Reported PAT</b>	<b>9,385</b>	<b>6,148</b>	<b>52.7</b>	<b>9,139</b>	<b>2.7</b>	<b>18,524</b>	<b>11,949</b>	<b>55.0</b>
<b>Adjusted PAT</b>	<b>9,385</b>	<b>6,148</b>	<b>52.7</b>	<b>9,139</b>	<b>2.7</b>	<b>18,524</b>	<b>11,949</b>	<b>55.0</b>
Adj EPS (Rs)	34.3	22.5	52.4	33.4	2.7	67.7	43.7	54.8
<b>Key Ratios (%)</b>			<b>(bps)</b>		<b>(bps)</b>			<b>(bps)</b>
Gross Margin	46.8	41.5	530	43.3	347	45.1	42.1	299
EBITDA Margin	27.9	23.7	427	26.0	196	26.9	24.0	299
EBIT Margin	31.6	24.5	712	31.1	52	31.3	24.1	729
PBT Margin	31.5	24.4	710	31.0	49	31.2	24.0	727
Tax Rate	24.2	25.8	(163)	24.4	(26)	24.3	25.0	(68)
Adj PAT Margin	23.9	18.1	578	23.4	45	23.7	18.0	567

Source: Company, BOBCAPS Research

### Valuation methodology

We expect EIM to fend off competition via launches and continue to model for a revenue/EBITDA/PAT CAGR of 12%/16%/20% over FY23-FY25, with EBITDA margins of 27-28%. Our estimates factor in the introduction of high-end variants, a better product mix and easing costs.

We value EIM at an unchanged P/E multiple of 25x on FY25E EPS, applying a marginal 5% discount to its LT average to factor in the rising competition in the high-end bike segment that may add pricing pressure (under cutting for penetration) dent margins. We continue to assign Rs 150/sh to VECV. Our SOTP-based TP remains at Rs 3,601 and carries 1% downside to the current price, leading us to retain our HOLD rating.

**Fig 3 – Key assumptions**

Parameter	FY22	FY23	FY24E	FY25E
Volumes	602,268	834,695	912,000	960,000
Revenue (Rs mn)	101,229	140,666	157,097	175,538
Realisation per vehicle (Rs)	168,080	168,524	172,255	182,852
EBITDA (Rs mn)	21,136	33,934	39,941	46,177
EBITDA margin (%)	20.9	24.1	25.3	26.1
Adj. PAT (Rs mn)	15,772	26,225	32,728	37,893
EPS (Rs)	58.1	96.0	120.0	138.9

Source: Company, BOBCAPS Research

**Fig 4 – Valuation summary**

Business (Rs)	FY25E EPS (Rs)	Target P/E (x)	Value (Rs)
Standalone Business	138.9	25.0	3,451
VECV Business	-	-	150
<b>Total</b>	-	-	<b>3,601</b>

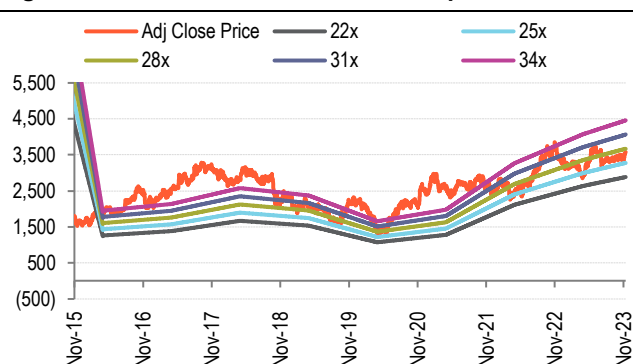
Source: BOBCAPS Research

**Fig 5 – Peer comparison**

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY24E	FY25E	FY24E	FY25E
Eicher Motors	EIM IN	HOLD	3,601	119.9	138.1	23.0	22.1
TVS Motor	TVSL IN	HOLD	1,531	40.8	56.7	28.1	30.0
Bajaj Auto	BJAUT IN	HOLD	5,130	247.7	294.7	25.8	26.5

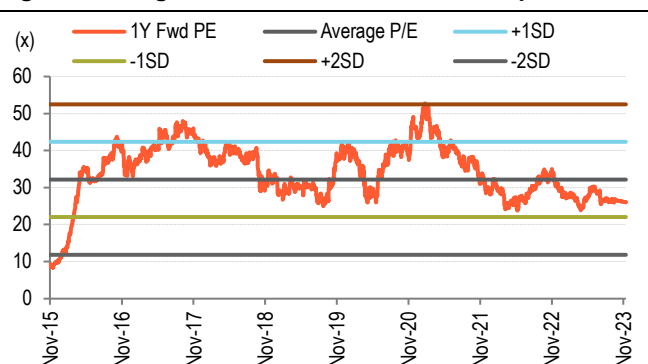
Source: BOBCAPS Research

**Fig 6 – Little headroom for valuation expansion**



Source: Bloomberg, BOBCAPS Research

**Fig 7 – Trading below mean due to fierce competition**



Source: Bloomberg, BOBCAPS Research

## Key risks

- A strong response to launches in the high-end segment fostered by faster revival in rural demand than expected and healthy export revenue are key upside risks to our estimates.
- Higher margin pressure than anticipated due to growing competitive intensity, alongside slower revival in the export markets, are key downside risks.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	6.2	174	210	BUY
Bajaj Auto	BJAUT IN	19.1	5,425	5,139	HOLD
Eicher Motors	EIM IN	12.1	3,645	3,601	HOLD
Escorts	ESCORTS IN	5.0	3,138	2,343	SELL
Hero MotoCorp	HMCL IN	7.6	3,119	3,009	HOLD
Mahindra & Mahindra	MM IN	23.5	1,540	1,849	BUY
Maruti Suzuki	MSIL IN	38.2	10,398	11,562	HOLD
TVS Motor	TVSL IN	9.5	1,648	1,531	HOLD
VST Tillers Tractors	VSTT IN	0.4	3,733	3,858	HOLD

Source: BOBCAPS Research, NSE | Price as of 13 Nov 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Total revenue</b>	<b>86,190</b>	<b>1,01,229</b>	<b>1,40,666</b>	<b>1,57,097</b>	<b>1,75,538</b>
EBITDA	17,865	21,136	33,935	39,771	45,735
Depreciation	4,460	4,455	5,121	5,138	5,678
EBIT	17,925	21,223	35,212	43,452	50,011
Net interest inc./(exp.)	(92)	(103)	(130)	(139)	(129)
Other inc./(exp.)	4,520	4,543	6,398	8,819	9,954
Exceptional items	0	0	0	0	0
EBT	17,833	21,121	35,082	43,313	49,882
Income taxes	4,536	5,259	8,857	10,612	12,221
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	311	(91)	163	0	0
<b>Reported net profit</b>	<b>13,608</b>	<b>15,772</b>	<b>26,388</b>	<b>32,880</b>	<b>37,858</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>13,608</b>	<b>15,772</b>	<b>26,388</b>	<b>32,880</b>	<b>37,858</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	15,174	19,498	19,484	22,386	25,014
Other current liabilities	8,216	8,911	13,823	10,082	11,537
Provisions	1,123	4,202	2,557	4,756	4,986
Debt funds	0	60	988	998	1,018
Other liabilities	2,475	0	0	0	0
Equity capital	273	273	273	273	273
Reserves & surplus	96,777	1,07,673	1,28,595	1,54,486	1,85,327
Shareholders' fund	97,050	1,07,945	1,28,867	1,54,759	1,85,600
<b>Total liab. and equities</b>	<b>1,24,038</b>	<b>1,40,618</b>	<b>1,65,721</b>	<b>1,92,982</b>	<b>2,28,155</b>
Cash and cash eq.	57,988	26,986	7,959	7,610	14,286
Accounts receivables	2,562	4,929	7,020	7,855	8,777
Inventories	7,691	8,984	9,109	9,819	10,532
Other current assets	8,474	13,400	11,183	12,568	14,043
Investments	20,448	59,500	1,02,796	1,24,796	1,49,796
Net fixed assets	24,234	27,716	29,946	30,808	31,129
CWIP	3,102	1,334	742	2,750	2,975
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(2,210)	(2,229)	(3,034)	(3,223)	(3,384)
Other assets	1,750	0	0	0	0
<b>Total assets</b>	<b>1,24,038</b>	<b>1,40,618</b>	<b>1,65,721</b>	<b>1,92,982</b>	<b>2,28,155</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Cash flow from operations</b>	<b>10,102</b>	<b>14,551</b>	<b>28,173</b>	<b>27,492</b>	<b>34,654</b>
Capital expenditures	(4,987)	(6,169)	(6,759)	(8,008)	(6,225)
Change in investments	18,808	(39,052)	(43,296)	(22,000)	(25,000)
Other investing cash flows	4,520	4,543	6,398	8,819	9,954
<b>Cash flow from investing</b>	<b>18,342</b>	<b>(40,678)</b>	<b>(43,658)</b>	<b>(21,189)</b>	<b>(21,271)</b>
Equities issued/Others	660	161	166	(166)	0
Debt raised/repaid	0	60	928	10	20
Interest expenses	(92)	(103)	(130)	(139)	(129)
Dividends paid	0	(4,647)	(5,742)	(6,820)	(6,820)
Other financing cash flows	(310)	18	805	189	161
<b>Cash flow from financing</b>	<b>258</b>	<b>(4,511)</b>	<b>(3,972)</b>	<b>(6,926)</b>	<b>(6,768)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>28,702</b>	<b>(30,638)</b>	<b>(19,457)</b>	<b>(624)</b>	<b>6,615</b>
<b>Closing cash &amp; cash eq.</b>	<b>57,988</b>	<b>26,986</b>	<b>7,959</b>	<b>7,610</b>	<b>14,286</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	48.7	58.1	96.1	119.9	138.1
Adjusted EPS	48.7	58.1	96.1	119.9	138.1
Dividend per share	0.0	17.0	21.0	25.0	25.0
Book value per share	355.8	395.7	472.4	567.3	680.4

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	11.1	9.3	6.8	6.4	5.7
EV/EBITDA	53.6	44.4	28.1	25.2	21.8
Adjusted P/E	74.8	62.7	37.9	30.4	26.4
P/BV	10.2	9.2	7.7	6.4	5.4

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	74.6	75.1	74.8	75.5	75.5
Interest burden (PBT/EBIT)	99.5	99.5	99.6	99.7	99.7
EBIT margin (EBIT/Revenue)	20.8	21.0	25.0	27.7	28.5
Asset turnover (Rev./Avg TA)	93.7	97.6	118.3	110.0	102.5
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
<b>Adjusted ROAE</b>	<b>14.8</b>	<b>15.5</b>	<b>22.1</b>	<b>23.1</b>	<b>22.1</b>

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	(5.1)	17.4	39.0	11.7	11.7
EBITDA	(18.9)	18.3	60.6	17.2	15.0
Adjusted EPS	(30.2)	19.3	65.3	24.7	15.2
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	20.7	20.9	24.1	25.3	26.1
EBIT margin	20.8	21.0	25.0	27.7	28.5
Adjusted profit margin	15.8	15.6	18.8	20.9	21.6
Adjusted ROAE	14.0	14.6	20.5	21.2	20.4
ROCE	14.5	15.4	22.1	23.0	22.1
<b>Working capital days (days)</b>					
Receivables	8	14	16	17	17
Inventory	27	30	23	22	21
Payables	91	106	88	84	86
<b>Ratios (x)</b>					
Gross asset turnover	0.5	0.5	0.4	0.4	0.4
Current ratio	3.1	1.7	1.0	1.0	1.1
Net interest coverage ratio	194.8	207.1	271.5	312.6	387.7
<b>Adjusted debt/equity</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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**Recommendation scale: Recommendations and Absolute returns (%) over 12 months**

**BUY** – Expected return >+15%

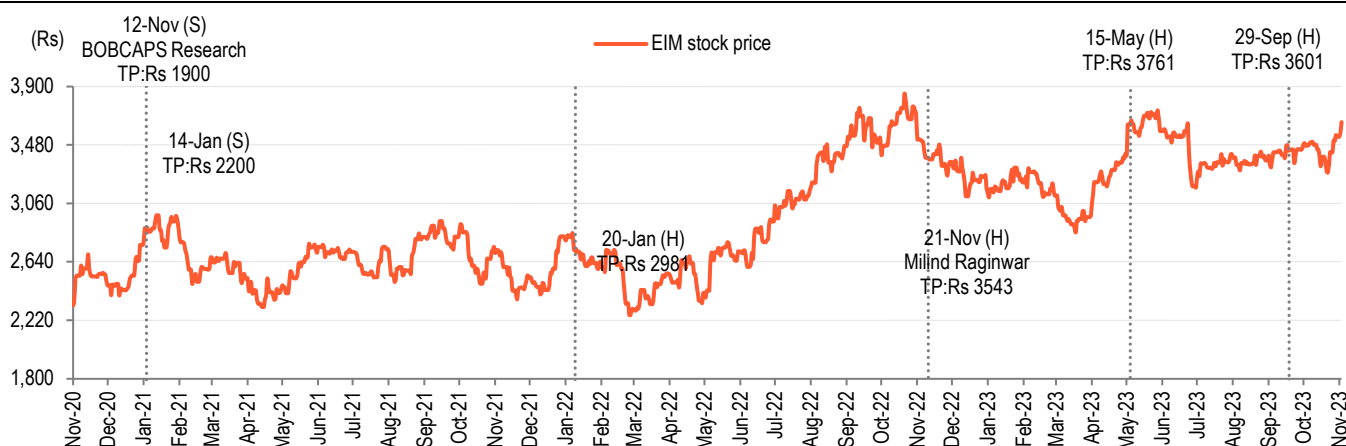
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

## Ratings and Target Price (3-year history): EICHER MOTORS (EIM IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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