

HOLD
 TP: Rs 4,045 | ▲ 5%

EICHER MOTORS

| Automobiles

| 13 February 2024

Launch momentum continues

- Q3 revenue grew 13% YoY driven by 10% higher realisations from a better product mix; volume growth muted
- Launched high-end motorcycles Himalayan 450 in India (Q3) and Shotgun 650 in UK and Europe (Jan) to counter competition
- FY24/FY25 EPS raised 6%/3%; our SOTP-based TP increases to Rs 4,045 (from Rs 3,601) on rollover – maintain HOLD

Higher realisations lift revenue: EIM’s Q3FY24 standalone revenue grew 13%/3% YoY/QoQ to Rs 40.5bn backed by realisation gains of 10%/4% YoY/QoQ to Rs 177.8k per motorcycle, as newly launched products enhanced the pricing mix. Volume growth was muted at 3% YoY (flat QoQ) to ~228k units.

Lower input cost and better mix enhance margins: Gross margin expanded by 445bps YoY (-65bps QoQ) to 46.1% owing to lower inventory-adjusted raw material cost at 53.9% of sales (-445bps/+67bps YoY/QoQ) and a better mix. Other expenses increased 18%/3% YoY/QoQ to Rs 4.7bn due to launch marketing spend. EBITDA grew 30%/2% YoY/QoQ to Rs 11.1bn, accompanied by 365bps YoY margin expansion to 27.5% (-42bps QoQ).

CV segment continues to revive: EIM has gained market share across its commercial vehicle sub-segments. During Q3, it launched the HD Non-Stop Pro 6000 series (Tipper – Pro 6019XPT, Haulage truck – Pro 6048XP, Tractor trucks – Pro 6055XP and Pro 6055XP 4x2), commenced delivery of an electric 5.5T truck, and unveiled EIM’s entry into the small commercial vehicle (SCV) range at the Bharat Mobility Global Expo held in January.

New launches to counter competition: In the Royal Enfield business, EIM launched *Himalayan 450* in India during the quarter (~6.5k unit sales YTD) and *Shotgun 650* in the UK and European markets in January (March launch in India) – both high-end motorcycle models to tackle the fierce competition.

Maintain HOLD: We increase our FY24/FY25 EBITDA estimates by 7%/3% and PAT by 6%/3% to factor in the introduction of high-end variants, a better product mix and easing costs. Introducing our FY26 forecasts, we pencil in a revenue/EBITDA/PAT CAGR of 11%/15%/18% for the company over FY23-FY26. We value EIM at an unchanged 25x P/E multiple – a 5% discount to the long-term average – and roll valuations over to FY26E for a revised SOTP-based TP of Rs 4,045 (vs. Rs 3,601) that includes Rs 150/sh for VECV. Our new TP carries only 5% upside to the current price and hence we retain HOLD.

Milind Raginwar | Shree Kirloskar
 research@bobcaps.in

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	EIM IN/Rs 3,854
Market cap	US\$ 12.8bn
Free float	51%
3M ADV	US\$ 31.6mn
52wk high/low	Rs 4,200/Rs 2,836
Promoter/FPI/DII	49%/30%/9%

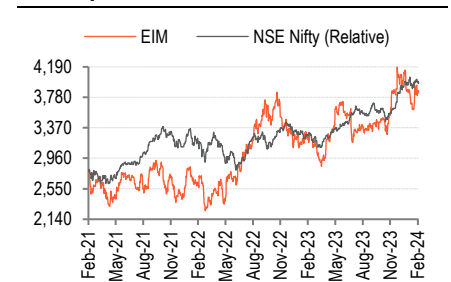
Source: NSE | Price as of 13 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,40,666	1,58,246	1,73,561
EBITDA (Rs mn)	33,935	42,518	47,176
Adj. net profit (Rs mn)	26,388	34,924	39,012
Adj. EPS (Rs)	96.1	127.4	142.3
Consensus EPS (Rs)	96.1	130.0	143.0
Adj. ROAE (%)	20.5	22.3	20.7
Adj. P/E (x)	40.1	30.3	27.1
EV/EBITDA (x)	29.8	25.0	22.3
Adj. EPS growth (%)	65.3	32.5	11.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q3FY24	Q2FY24	Our view
Royal Enfield (RE) volumes	<p>EIM's domestic sales volume grew 6% YoY to ~213.4k units in Q3FY24.</p> <p>The company launched <i>Himalayan 450</i> in India in Q3 and <i>Shotgun 650</i> in the UK and European markets in Jan'24.</p> <p>RE's market share in Europe was ~9% as on 9MFY24, ~8% in America and ~9% in the Asia Pacific.</p>	<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% as on H1FY24. Market share is ~7% in America and ~9% in the Asia Pacific region.</p>	EIM leads the domestic high-end motorcycle market by a wide margin despite intense competition.
VECV market share	As of 9MFY24, EIM's market share in heavy-duty trucks stood at 9.6% and in light- and medium-duty trucks at 34.5%.	As of H1FY24, EIM's market share in heavy-duty trucks stood at 8.7% and in light- and medium-duty trucks at 33.8%.	We see headroom for growth following single-digit volume share in the heavy-duty segment.
VECV volumes	The CV segment sold ~20.7k units in Q3FY24. Heavy-duty truck sales totalled ~6.2k units, light- & medium-duty trucks ~9.8k units and buses ~3.4k units. Powertrain unit sales grew 8% YoY to ~13.6k units. Parts segment revenue grew 22% YoY to Rs 5.6bn.	The CV segment sold ~19.5k units in Q2FY24. Heavy-duty truck sales totalled ~5.3k units, light- & medium-duty trucks ~9.6k units and buses ~3.2k units. Powertrain unit sales grew 12% YoY to ~14.8k units. Parts segment revenue grew 29% YoY to Rs 5.2bn.	Further revival in the CV segment will boost revenue.
Margins	Realisations grew 10% YoY as newly launched products altered the realisation mix. Steel prices have remained consistent for FY24 YTD, aluminum has also been range-bound and marginal benefits were gained from a softening of precious metal prices, though they form a smaller share of the raw material basket.	Operating margin expanded in Q2FY24 due to raw material cost savings, a favourable product mix and price hikes taken in Q1.	Pricing gains and soft costs are fuelling margin expansion.
Capacity	Aggregate production capacity of the company's two plants (Oragadam, Chennai, and Vallam, Tamil Nadu) is ~1.2mn units per annum.	Aggregate production capacity of the company's two plants is ~1.2mn units per annum.	EIM's commentary did not throw much light on capacity expansion.
Other key points	<p>Other expenses grew 18% YoY to Rs 4.7bn in Q3FY24 because of marketing expenses for new launches.</p> <p>Management indicated that Red Sea disruptions have resulted in a 25-30% increase in shipment charges and a ~30-day increase in shipment duration.</p>	<p>VECV has been ranked the #1 CV manufacturer in India for the third successive year and RE has 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 ~90% of its motorcycle customers purchase the same.</p>	EIM accessories are preferred by owners of 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 (standalone)

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Volume	228,073	221,401	3.0	229,280	(0.5)	685,059	616,170	11.2
Avg. Realisation per Vehicle	177,758	162,156	9.6	171,437	3.7	173,504	166,111	4.5
Net Revenues	40,542	35,902	12.9	39,307	3.1	118,861	102,353	16.1
Total Income (A)	40,542	35,902	12.9	39,307	3.1	118,861	102,353	16.1
Operating Expenses:								
Raw materials consumed	21,841	20,932	4.3	20,913	4.4	64,865	59,419	9.2
Employee Expenses	2,851	2,414	18.1	2,832	0.7	8,392	7,014	19.6
Other Expenses	4,702	3,987	17.9	4,588	2.5	13,355	11,433	16.8
Total Expenditure (B)	29,394	27,333	7.5	28,333	3.7	86,612	77,867	11.2
EBITDA (A-B)	11,148	8,569	30.1	10,974	1.6	32,249	24,486	31.7
Other Income	2,496	1,911	30.6	2,760	(9.6)	8,607	4,373	96.8
Depreciation	1,381	1,305	5.8	1,311	5.4	4,043	3,698	9.3
EBIT	12,263	9,174	33.7	12,424	(1.3)	36,813	25,161	46.3
Finance Costs	51	36	43.3	48	7.1	134	95	40.2
PBT after excep items	12,211	9,138	33.6	12,376	(1.3)	36,679	25,066	46.3
Tax expense	3,074	2,331	31.9	2,991	2.8	9,018	6,310	42.9
Reported PAT	9,137	6,807	34.2	9,385	(2.6)	27,661	18,756	47.5
Adjusted PAT	9,137	6,807	34.2	9,385	(2.6)	27,661	18,756	47.5
Adj EPS (Rs)	33.4	24.9	34.0	34.3	(2.6)	101.0	68.6	47.2
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	46.1	41.7	443	46.8	(67)	45.4	41.9	348
EBITDA Margin	27.5	23.9	363	27.9	(42)	27.1	23.9	321
EBIT Margin	30.2	25.6	469	31.6	(136)	31.0	24.6	639
PBT Margin	30.1	25.5	467	31.5	(136)	30.9	24.5	637
Tax Rate	25.2	25.5	(34)	24.2	101	24.6	25.2	(59)
Adj PAT Margin	22.5	19.0	358	23.9	(134)	23.3	18.3	495

Source: Company, BOBCAPS Research

Valuation methodology

We increase our FY24/FY25 EBITDA estimates by 7%/3% and PAT forecasts by 6%/3% to factor in the introduction of high-end variants, a better product mix and easing costs. Introducing our FY26 forecasts, we pencil in a three-year revenue/ EBITDA/PAT CAGR of 11%/15%/18% and EBITDA margin trajectory of 26-27% over our forecast period.

We value the stock at an unchanged 25x P/E multiple – a 5% discount to the long-term average to factor in pricing pressure on account of fierce competition from entrants looking to gain share in the high-end segment. On rolling valuations over to FY26E, we have a revised SOTP-based TP of Rs 4,045 (vs. Rs 3,601) that includes Rs 150/sh for VECV. Our new TP carries only 5% upside to the current price and hence we retain our HOLD rating.

Fig 3 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	158,246	173,561	189,690	157,097	175,538	NA	0.7	(1.1)	NA
EBITDA	42,518	47,176	51,688	39,771	45,735	NA	6.9	3.2	NA
Adj PAT	34,924	39,012	43,570	32,880	37,858	NA	6.2	3.0	NA
Adj EPS (Rs)	127.4	142.3	158.9	119.9	138.1	NA	6.3	3.0	NA

Source: BOBCAPS Research

Fig 4 – Key assumptions

Parameter	FY23	FY24E	FY25E	FY26E
Volumes	8,88,000	9,12,000	9,42,000	9,69,600
Revenue (Rs mn)	1,40,666	1,58,246	1,73,561	1,89,690
Realisation per vehicle (Rs)	1,42,793	1,51,193	1,59,070	1,67,141
EBITDA (Rs mn)	33,935	42,518	47,176	51,688
EBITDA margin (%)	24.1	26.9	27.2	27.2
Adj. PAT (Rs mn)	26,225	34,745	38,815	43,354
EPS (Rs)	96.1	127.4	142.3	158.9

Source: Company, BOBCAPS Research

Fig 5 – Valuation summary

Business (Rs)	FY26E EPS (Rs)	Target P/E (x)	Value (Rs)
Standalone Business	159	25.0	3,895
VECV Business	-	-	150
Total	-	-	4,045

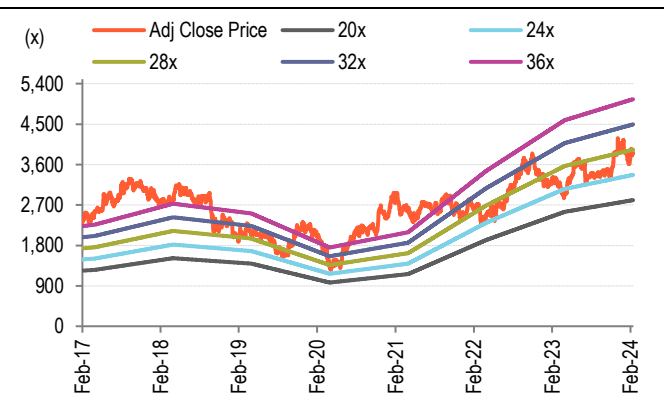
Source: BOBCAPS Research

Fig 6 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY24E	FY25E	FY24E	FY25E
Eicher Motors	EIM IN	HOLD	4,045	127.4	142.3	22.3	20.7
TVS Motor	TVSL IN	BUY	2,242	43.0	60.7	26.1	27.6
Bajaj Auto	BJAUT IN	SELL	6,272	258.5	292.8	24.9	24.6

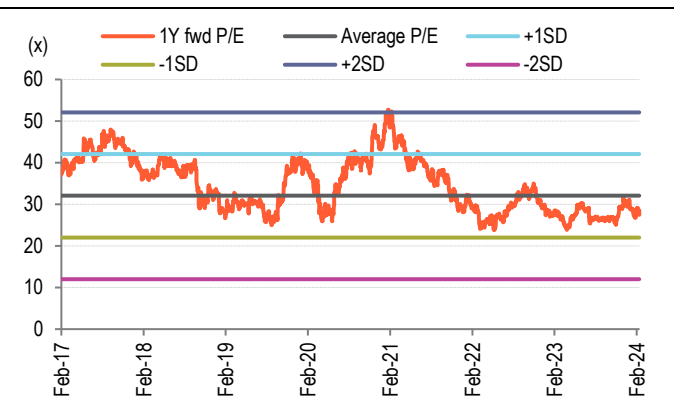
Source: BOBCAPS Research

Fig 7 – P/E band: Limited scope for valuation expansion



Source: Bloomberg, BOBCAPS Research

Fig 8 – P/E 1Y fwd: Fierce competition explains our valuation discount



Source: Bloomberg, BOBCAPS Research

Key risks

- A strong response to high-end launches, 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 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	173	226	BUY
Bajaj Auto	BJAUT IN	27.9	7,917	6,272	SELL
Eicher Motors	EIM IN	12.8	3,854	4,045	HOLD
Escorts	ESCORTS IN	4.5	2,787	2,389	SELL
Hero MotoCorp	HMCL IN	11.5	4,745	4,671	HOLD
Mahindra & Mahindra	MM IN	25.1	1,647	1,849	BUY
Maruti Suzuki	MSIL IN	39.7	10,795	12,234	BUY
TVS Motor	TVSL IN	11.8	2,044	2,242	BUY
VST Tillers Tractors	VSTT IN	0.3	3,163	3,213	HOLD

Source: BOBCAPS Research, NSE | Price as of 13 Feb 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	1,01,229	1,40,666	1,58,246	1,73,561	1,89,690
EBITDA	21,136	33,935	42,518	47,176	51,688
Depreciation	4,455	5,121	5,138	5,701	6,308
EBIT	21,223	35,212	46,199	51,610	57,653
Net interest inc./(exp.)	(103)	(130)	(179)	(199)	(231)
Other inc./(exp.)	4,543	6,398	8,819	10,135	12,274
Exceptional items	0	0	0	0	0
EBT	21,121	35,082	46,020	51,411	57,422
Income taxes	5,259	8,857	11,275	12,596	14,068
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(91)	163	0	0	0
Reported net profit	15,772	26,388	34,924	39,012	43,570
Adjustments	0	0	0	0	0
Adjusted net profit	15,772	26,388	34,924	39,012	43,570

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	19,498	19,484	21,957	24,212	26,835
Other current liabilities	8,911	13,823	10,000	11,246	12,090
Provisions	4,202	2,557	4,756	4,986	5,235
Debt funds	60	988	998	1,018	1,038
Other liabilities	0	0	0	0	0
Equity capital	273	273	273	273	273
Reserves & surplus	1,07,673	1,28,595	1,56,530	1,88,526	2,25,060
Shareholders' fund	1,07,945	1,28,867	1,56,803	1,88,799	2,25,332
Total liab. and equities	1,40,617	1,65,719	1,94,514	2,30,260	2,70,531
Cash and cash eq.	26,986	7,959	8,921	7,818	12,329
Accounts receivables	4,929	7,020	7,912	8,678	9,864
Inventories	8,984	9,109	9,890	10,414	11,856
Other current assets	13,400	11,183	12,660	17,356	20,866
Investments	59,500	1,02,796	1,24,796	1,54,796	1,83,796
Net fixed assets	27,716	29,946	30,808	31,607	32,298
CWIP	1,334	742	2,750	2,975	3,075
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(2,229)	(3,034)	(3,223)	(3,384)	(3,553)
Other assets	0	0	0	0	0
Total assets	1,40,618	1,65,721	1,94,514	2,30,260	2,70,531

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	14,551	28,173	28,763	32,124	34,954
Capital expenditures	(6,169)	(6,759)	(8,008)	(6,725)	(7,100)
Change in investments	(39,052)	(43,296)	(22,000)	(30,000)	(29,000)
Other investing cash flows	4,543	6,398	8,819	10,135	12,274
Cash flow from investing	(40,678)	(43,658)	(21,189)	(26,590)	(23,826)
Equities issued/Others	161	166	(166)	0	0
Debt raised/repaid	60	928	10	20	20
Interest expenses	(103)	(130)	(179)	(199)	(231)
Dividends paid	(4,647)	(5,742)	(6,820)	(6,820)	(6,820)
Other financing cash flows	18	805	189	161	169
Cash flow from financing	(4,511)	(3,972)	(6,966)	(6,838)	(6,862)
Chg in cash & cash eq.	(30,638)	(19,457)	607	(1,304)	4,266
Closing cash & cash eq.	26,986	7,959	8,921	7,818	12,329

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	58.1	96.1	127.4	142.3	158.9
Adjusted EPS	58.1	96.1	127.4	142.3	158.9
Dividend per share	17.0	21.0	25.0	25.0	25.0
Book value per share	395.7	472.4	574.8	692.1	826.0

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	9.8	7.2	6.7	6.1	5.5
EV/EBITDA	47.1	29.8	25.0	22.3	20.2
Adjusted P/E	66.3	40.1	30.3	27.1	24.3
P/BV	9.7	8.2	6.7	5.6	4.7

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	75.1	74.8	75.5	75.5	75.5
Interest burden (PBT/EBIT)	99.5	99.6	99.6	99.6	99.6
EBIT margin (EBIT/Revenue)	21.0	25.0	29.2	29.7	30.4
Asset turnover (Rev./Avg TA)	97.6	118.3	110.0	99.9	91.2
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	15.5	22.1	24.3	22.5	20.9

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	17.4	39.0	12.5	9.7	9.3
EBITDA	18.3	60.6	25.3	11.0	9.6
Adjusted EPS	19.3	65.3	32.5	11.7	11.7
Profitability & Return ratios (%)					
EBITDA margin	20.9	24.1	26.9	27.2	27.2
EBIT margin	21.0	25.0	29.2	29.7	30.4
Adjusted profit margin	15.6	18.8	22.1	22.5	23.0
Adjusted ROAE	14.6	20.5	22.3	20.7	19.3
ROCE	15.4	22.1	24.3	22.4	20.9
Working capital days (days)					
Receivables	14	16	17	17	18
Inventory	30	23	22	21	21
Payables	106	88	85	87	87
Ratios (x)					
Gross asset turnover	0.5	0.4	0.4	0.4	0.4
Current ratio	1.7	1.0	1.1	1.1	1.2
Net interest coverage ratio	207.1	271.5	258.1	259.3	249.6
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

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

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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

BUY – Expected return >+15%

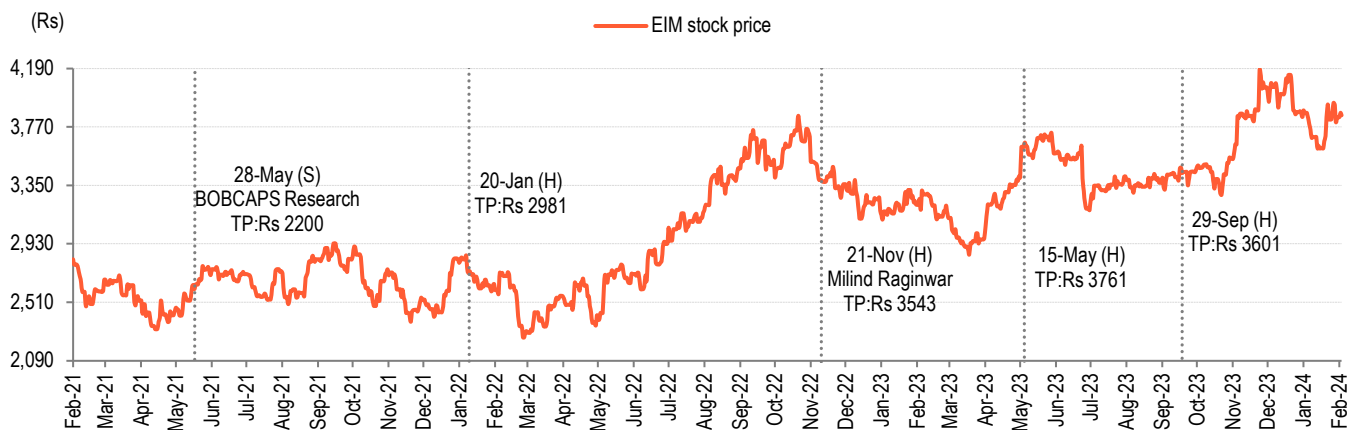
HOLD – Expected return from -6% to +15%

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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