

HOLD

TP: Rs 3,761 | ▲ 3%

EICHER MOTORS

| Automobiles

| 15 May 2023

Overall healthy performance

- Launches aided Q4 volume growth of 18% YoY and healthy revenue gains; both *Hunter* and *Bullet* pushed up realisations
- EBITDA margin up 100bps YoY to 24.7% as cost inflation eased and exports moved up
- On rollover, we have a revised TP of Rs 3,761 (vs. Rs 3,543) set at 26x (vs. 28x) FY25E EPS; maintain HOLD

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Revenue up 20% YoY: EIM's Q4FY23 revenue grew 20% YoY (+7% QoQ) to Rs 38.3bn as volumes increased 18% (-1% QoQ) and net realisation per vehicle grew 2% YoY (+8% QoQ) to Rs 175k/unit on the back of price hikes for *Hunter* and *Bullet*.

Operating margin continues to improve: Gross margin expanded 20bps YoY (+120bps QoQ) to 42.9% owing to lower raw material cost at 57.1% of sales (58.3% in Q3FY23) and price hikes. Other expenses at Rs 4.6bn rose 17% YoY and QoQ. EBITDA grew 25% YoY (+10% QoQ) to Rs 9.4bn and the margin expanded 100bps YoY (+80bps QoQ) to 24.7%, further contributed by better international volumes. Adj. PAT increased 35% YoY (+10% QoQ) to Rs 7.5bn.

CV segment revives: Heavy-duty truck volumes reached 247,000 in FY23, below the earlier peak (295,000), whereas light and medium duty trucks did well. In buses, management expects strong growth as the state transporter is replacing the old fleet. EIM anticipates double-digit volume growth for the domestic MHCV industry and strong replacement demand in FYxx, but noted that the global commercial vehicle (CV) market remains weak.

Large capex plans: The board has approved capex of Rs 10bn for the Royal Enfield business in FY24, largely toward product development for both the electric and traditional portfolio and for EV manufacturing. In EVs, the focus is on creating a disruptive product and developing a supply ecosystem.

Revise earnings, maintain HOLD: We cut our FY24/FY25 revenue estimates by 5%/6%, toning down our earlier volume assumptions and baking in slower price gains and stiffer competition. Our FY22-FY25 revenue/EBITDA/PAT CAGR reduces to 20%/30%/33%, albeit with healthy EBITDA margins of 25-26% over our forecast period to factor in the introduction of high-end variants and operating efficiencies. Based on our revised estimates, we value EIM at 26x EPS (vs. 28x). On rolling valuations over to FY25E and assigning Rs 150/sh to VECV (peaking business), we arrive at a revised TP of Rs 3,761 (vs. Rs 3,543), carrying just 3% upside – retain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	EIM IN/Rs 3,659
Market cap	US\$ 12.2bn
Free float	51%
3M ADV	US\$ 25.0mn
52wk high/low	Rs 3,890/Rs 2,495
Promoter/FPI/DII	49%/30%/9%

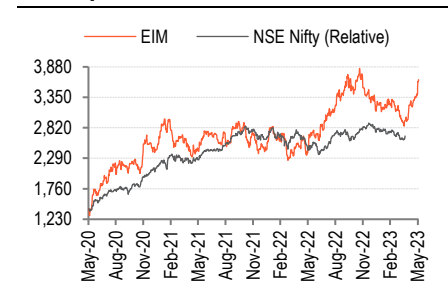
Source: NSE | Price as of 15 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	1,40,666	1,57,097	1,75,538
EBITDA (Rs mn)	33,935	39,941	46,177
Adj. net profit (Rs mn)	26,226	32,728	37,893
Adj. EPS (Rs)	96.1	120.0	138.9
Consensus EPS (Rs)	96.1	118.8	137.7
Adj. ROAE (%)	20.4	21.3	20.5
Adj. P/E (x)	38.1	30.5	26.3
EV/EBITDA (x)	28.2	25.2	21.8
Adj. EPS growth (%)	65.3	24.8	15.8

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

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q4FY23	Q3FY23	Our view
Domestic market share	Domestic market share in the 125cc-and-above segment grew to 33.5% in Q4FY23 vs. 32.9% in Q4FY22. For FY23, EIM's market share gain was 7.2% for the motorcycle segment.	EIM registered market share of 8.1% in all motorcycles sold and nearly 33% in the above-125cc category.	Market share gains were contributed by new launches and a wider export reach.
Exports	<p>Retail growth in various international markets ranged between 27% and 45% in FY23. Market share in the middle-weight segment climbed in the Americas to 8%, APAC to 8.9%, and EMEA to 8.8%.</p> <p>EIM crossed its highest export volume of 0.1mn units. It plans to launch CKD facilities in Bangladesh and Nepal.</p>	<p>International retail sales for the nine months of FY23 grew 37-48% across various regions.</p> <p>EIM inaugurated a new CKD facility in Brazil.</p>	Steady gains in export markets have also been aided by non-motorcycle revenues.
VECV	<p>In FY23, EIM registered market share of 31.5% in light and medium duty trucks (5-18t) against 30.2% in FY22, 24.8% in buses against 21.9%, and 8.3% in heavy duty trucks against 7.3%.</p> <p>Heavy duty trucks had monthly sales of 1,000-2,000 units (3,000 units in a few months).</p>	<p>Volumes grew 13% YoY to 18,162 units in 3QFY23.</p> <p>EIM and Volvo's market share in heavy duty trucks is more than ~8%.</p>	CV segment performance is encouraging but nearing a peak.
Margins	<p>Realisations grew on account of a higher share of international volumes and price increases of <i>Bullet</i> and <i>Hunter</i>, coupled with raw material cost savings of 0.9% QoQ.</p> <p>Steel prices have increased; EIM thus took a price hike of 1-1.5% on 1 May.</p>	<p>Margins improved led by commodity price improvement (0.5%). Commodity softening was partially reflected in Q3FY23 and will also flow through in Q4.</p>	Margins were aided by commodity price softening, but this trend could reverse in the medium term.
Capacity	Management indicated that there are no capacity constraints to ramping up production of <i>Hunter</i> and <i>Super Meteor 650</i> .	Installed capacity covers requirements in the near future; an incremental investment may be made toward debottlenecking. Management sees no constraints with respect to the supply chain as of now.	EIM is focused on the EV segment, earmarking capex of Rs 10bn towards establishing manufacturing facilities. EIM has put in place a competitive team and is investing in allied areas.
Other key points	EIM's non-motorcycle segment grew 32% YoY in FY23 led by strong accessories business revenue at Rs 20.4bn and export revenue at Rs 20.8bn	Profitability of the spare parts business grew by 20% YoY at Rs 2.95bn.	Overseas market contribution in the non-motorcycle segment remains healthy.

Source: Company, BOBCAPS Research | CKD: Completely Knocked Down

Fig 2 – Quarterly performance

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Volume	218,525	185,675	17.7	221,401	(1.3)	834,695	602,268	38.6
Avg. Realisation per Vehicle	175,328	172,058	1.9	162,156	8.1	168,524	168,079	0.3
Net Revenues	38,314	31,947	19.9	35,902	6.7	140,666	101,229	39.0
Total Income (A)	38,314	31,947	19.9	35,902	6.7	140,666	101,229	39.0
Operating Expenses:								
Raw materials consumed	21,876	18,315	19.4	20,932	4.5	81,296	59,619	36.4
Employee Expenses	2,337	2,110	10.7	2,414	(3.2)	9,351	7,768	20.4
Other Expenses	4,653	3,973	17.1	3,987	16.7	16,086	12,706	26.6
Total Expenditure (B)	28,866	24,397	18.3	27,333	5.6	106,732	80,093	33.3
EBITDA (A-B)	9,448	7,550	25.1	8,569	10.3	33,934	21,136	60.6
Other Income	2,026	1,133	78.8	1,911	6.0	6,398	4,543	40.8
Depreciation	1,423	1,174	21.2	1,305	9.0	5,121	4,455	14.9
EBIT	10,051	7,509	33.9	9,174	9.6	35,212	21,223	65.9
Finance Costs	35	19	81.6	36	(3.6)	130	103	26.5
PBT after excep items	10,016	7,490	33.7	9,138	9.6	35,082	21,121	66.1
Tax expense	2,548	1,956	30.3	2,331	9.3	8,857	5,259	68.4
Reported PAT	7,469	5,534	35.0	6,807	9.7	26,225	15,862	65.3
Adjusted PAT	7,469	5,534	35.0	6,807	9.7	26,225	15,862	65.3
Adj EPS (Rs)	27.3	20.2	35.0	24.9	9.7	96.0	58.0	65.3
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin (%)	42.9	42.7	23.0	41.7	120.5	42.2	41.1	110.2
EBITDA Margin (%)	24.7	23.6	102.8	23.9	79.3	24.1	20.9	324.5
EBIT Margin (%)	26.2	23.5	272.9	25.6	68.0	25.0	21.0	406.7
PBT Margin (%)	26.1	23.4	269.9	25.5	68.9	24.9	20.9	407.6
Tax Rate (%)	25.4	26.1	(67.9)	25.5	(7.6)	25.2	24.9	35.0
Adj PAT Margin (%)	19.5	17.3	217.2	19.0	53.3	18.6	15.7	297.4

Source: Company, BOBCAPS Research

Valuation methodology

We cut our FY24/FY25 revenue estimates by 5%/6%, toning down our earlier volume assumptions and baking in slower price gains and stiffer competition. Our FY22-FY25 revenue/EBITDA/PAT CAGR reduces to 20%/30%/33%, albeit with healthy EBITDA margins of 25-26% over our forecast period to factor in the introduction of high-end variants and operating efficiencies.

We now value EIM at 26x EPS (vs. 28x) considering our revised growth estimates and roll valuations over to FY25E. We thus arrive at a new TP of Rs 3,761 (vs. Rs 3,543) that includes Rs 150/sh for VECV (peaking business) and carries just 3% upside – retain HOLD.

Fig 3 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	157,097	175,538	165,600	186,678	(5.1)	(6.0)
EBITDA	39,941	46,177	42,641	49,770	(6.3)	(7.2)
Adj PAT	32,728	37,893	32,709	38,662	0.1	(2.0)
Adj EPS (Rs)	120.0	138.9	120.3	142.2	(0.2)	(2.3)

Source: BOBCAPS Research

Fig 4 – Key assumptions

Parameter	FY22	FY23	FY24E	FY25E
Volume	602,268	834,695	912,000	960,000
Revenue (Rs)	101,229	140,666	157,097	175,538
Realisation per vehicle (Rs)	168,080	168,524	172,255	182,852
EBITDA (Rs)	21,136	33,934	39,941	46,177
EBITDA margin (%)	20.9	24.1	25	26
Adj. PAT (Rs)	15,772	26,225	32,728	37,893
EPS (Rs)	58.1	96.0	120.0	138.9

Source: Company, BOBCAPS Research

Fig 5 – Valuation summary

Business (Rs)	FY25E EPS (Rs)	Target P/E (x)	Value (Rs)
Standalone Business	138.9	26.0	3,611
VECV Business	-	-	150
Total	-	-	3,761

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	3,761	120.0	138.9	23.2	22.4
TVS Motor	TVSL IN	HOLD	1,252	41.4	48.8	29.9	28.5
Bajaj Auto	BJAUT IN	HOLD	4,188	212.1	243.5	20.9	21.8

Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- stronger response than anticipated to model launches aided by faster revival in the rural segment, and
- healthy export revenue aiding average selling price.

Key downside risks:

- inflationary raw material trends, and
- lingering supply chain issues in the high-end segment.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	5.5	153	169	BUY
Bajaj Auto	BJAUT IN	16.1	4,565	4,188	HOLD
Eicher Motors	EIM IN	12.2	3,659	3,761	HOLD
Escorts	ESCORTS IN	3.3	2,080	1,749	SELL
Hero MotoCorp	HMCL IN	6.5	2,692	2,712	HOLD
Mahindra & Mahindra	MM IN	19.6	1,286	1,496	BUY
Maruti Suzuki	MSIL IN	33.8	9,207	9,858	HOLD
TVS Motor	TVSL IN	7.1	1,235	1,252	HOLD
VST Tillers Tractors	VSTT IN	0.3	2,783	2,802	BUY

Source: BOBCAPS Research, NSE | Price as of 15 May 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	86,190	1,01,229	1,40,666	1,57,097	1,75,538
EBITDA	17,865	21,136	33,935	39,941	46,177
Depreciation	4,460	4,455	5,121	5,273	5,813
EBIT	17,925	21,223	35,213	43,488	50,318
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	35,083	43,349	50,189
Income taxes	4,536	5,259	8,857	10,620	12,296
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	311	(91)	0	0	0
Reported net profit	13,608	15,772	26,226	32,728	37,893
Adjustments	0	0	0	0	0
Adjusted net profit	13,608	15,772	26,226	32,728	37,893

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	15,174	19,498	24,070	24,625	27,516
Other current liabilities	8,216	8,911	8,822	8,109	8,894
Provisions	1,123	4,202	2,557	4,756	4,986
Debt funds	0	60	1,403	508	528
Other liabilities	2,475	0	273	273	273
Equity capital	273	273	273	273	273
Reserves & surplus	96,777	1,07,673	1,28,323	1,53,215	1,84,288
Shareholders' fund	97,050	1,07,945	1,28,596	1,53,488	1,84,561
Total liab. and equities	1,24,038	1,40,617	1,65,721	1,91,759	2,26,757
Cash and cash eq.	57,988	26,986	7,959	2,503	8,331
Accounts receivables	2,562	4,929	7,020	5,891	6,583
Inventories	7,691	8,984	9,109	11,782	13,165
Other current assets	8,474	13,400	11,182	15,710	17,554
Investments	20,448	59,500	1,02,796	1,24,796	1,49,796
Net fixed assets	24,234	27,715	30,815	31,542	31,730
CWIP	3,102	1,334	(127)	2,750	2,975
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(2,210)	(2,229)	(3,034)	(3,216)	(3,377)
Other assets	1,750	0	0	0	0
Total assets	1,24,038	1,40,618	1,65,721	1,91,759	2,26,757

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	10,102	14,551	27,929	25,013	33,609
Capital expenditures	(4,987)	(6,169)	(6,759)	(8,877)	(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
Cash flow from investing	18,342	(40,678)	(43,657)	(22,058)	(21,271)
Equities issued/Others	660	161	(161)	0	0
Debt raised/repaid	0	60	1,344	(895)	20
Interest expenses	(92)	(103)	(130)	(139)	(129)
Dividends paid	0	(4,647)	(6,820)	(6,820)	(6,820)
Other financing cash flows	(310)	18	805	182	161
Cash flow from financing	258	(4,511)	(4,961)	(7,672)	(6,768)
Chg in cash & cash eq.	28,702	(30,638)	(20,689)	(4,718)	5,570
Closing cash & cash eq.	57,988	26,986	7,959	2,503	8,331

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	48.7	58.1	96.1	120.0	138.9
Adjusted EPS	48.7	58.1	96.1	120.0	138.9
Dividend per share	0.0	17.0	25.0	25.0	25.0
Book value per share	355.8	395.7	471.4	562.6	676.5

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	11.2	9.3	6.8	6.4	5.7
EV/EBITDA	53.8	44.6	28.2	25.2	21.8
Adjusted P/E	75.1	62.9	38.1	30.5	26.3
P/BV	10.3	9.2	7.8	6.5	5.4

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	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	28.7
Asset turnover (Rev./Avg TA)	93.7	97.6	118.1	110.4	103.4
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	14.8	15.5	22.2	23.2	22.4

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	(5.1)	17.4	39.0	11.7	11.7
EBITDA	(18.9)	18.3	60.6	17.7	15.6
Adjusted EPS	(30.2)	19.3	65.3	24.8	15.8
Profitability & Return ratios (%)					
EBITDA margin	20.7	20.9	24.1	25.4	26.3
EBIT margin	20.8	21.0	25.0	27.7	28.7
Adjusted profit margin	15.8	15.6	18.6	20.8	21.6
Adjusted ROAE	14.0	14.6	20.4	21.3	20.5
ROCE	14.5	15.4	22.1	23.1	22.4
Working capital days (days)					
Receivables	8	14	16	15	13
Inventory	27	30	23	24	26
Payables	91	106	98	99	95
Ratios (x)					
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	312.9	390.1
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

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

Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**

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BUY – Expected return >+15%

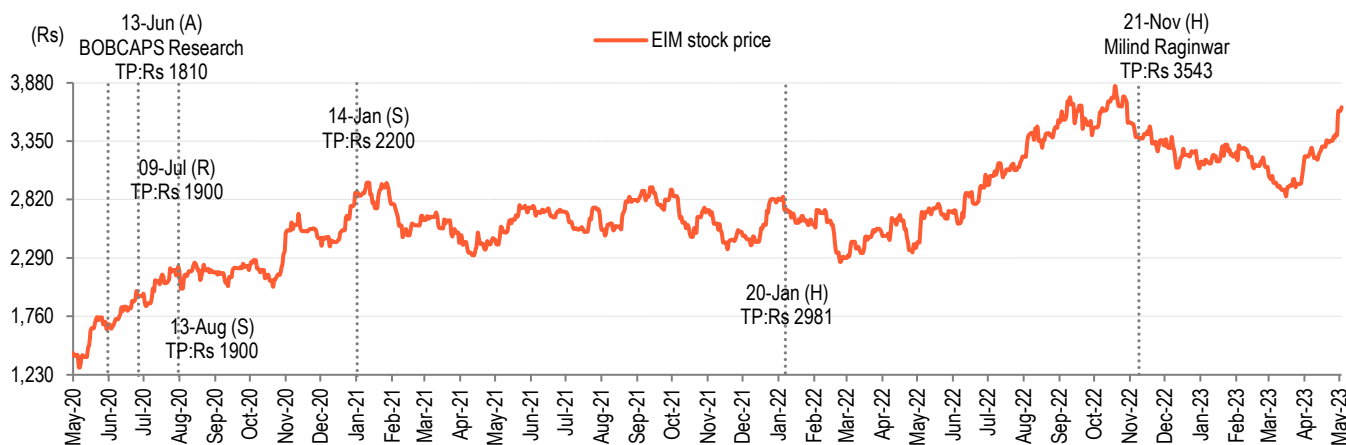
HOLD – Expected return from -6% to +15%

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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