

SELL

TP: Rs 2,200 | ▼ 19%

EICHER MOTORS

| Auto Components

| 12 August 2021

Dull quarter as volumes trend down; maintain SELL

- Q1 revenue declined 35% QoQ on weak volumes (-40%). Lower operating efficiency further pulled down profitability
- Monthly sales run-rate at ~42k vs. ~70k required to meet our FY22 volume estimate
- Maintain Mar'22 TP of Rs 2,200 based on 24x FY23E EPS; reiterate SELL

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Weak quarter: EIM's standalone Q1FY22 revenue was in line with our projections, with a 35% QoQ decline to Rs 19.1bn on the back of a 40% QoQ drop in quarterly volumes and a 4% increase in ASP stemming from pricing action. Gross margin improved 30bps QoQ but lower volumes impacted operating efficiencies. EBITDA thus fell 48% QoQ to Rs 3.3bn and margins shrank 450bps to 17.5% (21.1% est.). Adj. PAT was down 43% QoQ to Rs 2.7bn.

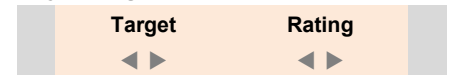
Near-term volume and cost headwinds: During H2FY21, EIM clocked a quarterly sales run-rate of ~200k units (~66k monthly rate) and reported a 23% EBITDA margin. In contrast, it posted total sales of ~168k vehicles (~42k monthly rate) over the past four months, including exports. Here on, the company will have to achieve a monthly run-rate of ~70k vehicles to achieve our projections for FY22. Though we pencil in a healthy 14% volume CAGR for Royal Enfield over FY21-FY24 supported by launches and pent-up demand, we believe higher raw material costs, an erratic supply chain and inability to take further price hikes will exact a toll on earnings.

Leadership change: EIM in its press release mentioned that Vinod Dasari, CEO of Royal Enfield and whole-time director of the company, has resigned. The board has approved appointment of current Royal Enfield COO B Govindrajan, an industry veteran with 32 years of experience, as executive director.

Maintain SELL: We expect EIM to clock a revenue, EBITDA and PAT CAGR of 17%, 21% and 27% respectively over FY21-FY24. Our FY22/FY23 revenue forecasts are ~10% below consensus due to lower volume assumptions and our EBITDA margins are 200bps below at ~22%. We are ~29% short on EPS. We believe consensus revenue and margin assumptions could be at risk considering the huge ask on volumes as well as rising raw material costs.

We continue to value the stock at 24x FY23E EPS (in line with its long-term average) and also assign Rs 150/sh (consensus value) to its VECV business. Retain SELL with an unchanged Mar'22 TP of Rs 2,200.

Key changes



Ticker/Price	EIM IN/Rs 2,718
Market cap	US\$ 10.0bn
Free float	51%
3M ADV	US\$ 24.4mm
52wk high/low	Rs 3,037/Rs 2,007
Promoter/FPI/DII	49%/32%/17%

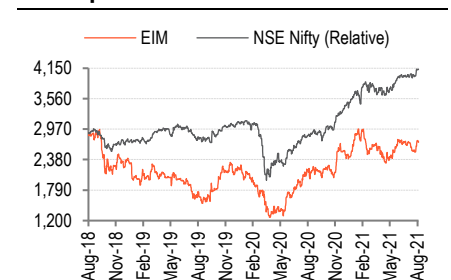
Source: NSE | Price as of 11 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	86,190	105,998	125,493
EBITDA (Rs mn)	17,865	22,320	27,846
Adj. net profit (Rs mn)	13,608	18,382	24,107
Adj. EPS (Rs)	48.7	66.1	87.0
Consensus EPS (Rs)	48.7	84.0	107.5
Adj. ROAE (%)	14.0	16.8	19.1
Adj. P/E (x)	55.8	41.1	31.2
EV/EBITDA (x)	39.4	30.7	25.2
Adj. EPS growth (%)	(30.2)	35.7	31.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Volume	123,640	57,269	115.9	204,604	(39.6)	612,060	695,839	(12.0)
Avg. Realisation per Vehicle (Rs)	148,547	134,315	10.6	142,834	4.0	140,820	130,454	7.9
Net Revenues	19,078	7,692	148.0	29,224	(34.7)	86,190	90,775	(5.1)
Total Income (A)	19,078	7,692	148.0	29,224	(34.7)	86,190	90,775	(5.1)
Operating Expenses:								
Raw materials consumed	11,333	4,759	138.1	17,446	(35.0)	51,024	49,858	2.3
Employee Expenses	2,124	1,693	25.5	2,142	(0.9)	8,039	7,651	5.1
Other Expenses	2,276	1,228	85.3	3,201	(28.9)	9,262	11,228	(17.5)
Total Expenditure (B)	15,733	7,680	104.9	22,789	(31.0)	68,325	68,737	(0.6)
EBITDA (A-B)	3,345	12	27317.2	6,435	(48.0)	17,865	22,038	(18.9)
Other Income	1,340	1,153	16.2	1,129	18.7	4,520	6,153	(26.5)
Depreciation	1,105	971	13.8	1,234	(10.5)	4,460	3,779	18.0
EBIT	3,580	194	1748.1	6,330	(43.4)	17,925	24,412	(26.6)
Finance Costs	19	30	(37.0)	22	(14.9)	92	109	(15.3)
PBT	3,561	164	2075.2	6,307	(43.5)	17,833	24,303	(26.6)
Tax expense	889	40	2099.8	1,627	(45.4)	4,536	5,265	(13.8)
Reported PAT	2,672	123	2067.2	4,681	(42.9)	13,297	19,038	(30.2)
Adjusted PAT	2,672	123	2067.2	4,681	(42.9)	13,297	19,038	(30.2)
Adj EPS (Rs)	9.8	0.5	2067.2	17.1	(42.9)	48.6	70.1	(30.6)

Source: Company, BOBCAPS Research

Fig 2 – key parameters

(%)	Q1FY22	Q1FY21	YoY (bps)	Q4FY21	QoQ (bps)	FY21	FY20	YoY (bps)
Gross margin	40.6	38.1	247	40.3	29	40.8	45.1	(427)
EBITDA margin	17.5	0.2	1,737	22.0	(449)	20.7	24.3	(355)
EBIT margin	18.8	2.5	1,625	21.7	(290)	20.8	26.9	(610)
PBT margin	18.7	2.1	1,654	21.6	(292)	20.7	26.8	(608)
Tax rate	25.0	24.7	28	25.8	(83)	25.4	21.7	377
Adj PAT margin	14.0	1.6	1,240	16.0	(201)	15.4	21.0	(555)

Source: Company, BOBCAPS Research

Valuation methodology

We have introduced FY24 forecasts and expect EIM to clock a revenue, EBITDA and PAT CAGR of 17%, 21% and 27% respectively over FY21-FY24. Our FY22/FY23 revenue forecasts are ~10% below consensus due to lower volume assumptions and our EBITDA margins are 200bps below at ~22%. We are ~20% short on EPS. We believe consensus revenue and margin assumptions could be at risk considering the huge ask on volumes as well as rising raw material costs.

We continue to value the stock at 24x FY23E EPS (in line with its long-term average) and also assign Rs 150/sh (consensus value) to its VECV business. Retain SELL with an unchanged Mar'22 TP of Rs 2,200.

Fig 3 – Key assumptions

(Rs mn)	FY21	FY22E	FY23E	FY24E
Volume	611,969	717,600	840,000	895,200
Revenues	86,190	105,998	125,493	136,793
EBITDA	17,865	22,320	27,846	31,270
OPM (%)	21.0	21.1	22.2	23.0
Adj. PAT	13,297	18,040	23,731	27,240
EPS (Rs)	49	66	87	100

Source: Company, BOBCAPS Research

Fig 4 – Valuation summary

Business	Value (Rs/sh)	Comments
Standalone Business	2,050	24x FY23E EPS
VECV Business	150	Consensus value
Total	2,200	

Source: BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
					FY22E	FY23E	FY22E	FY23E	
Bajaj Auto	BJAUT IN	SELL	3,200	15.7	174.7	190.1	20.0	21.4	17
TVS Motors	TVSL IN	SELL	480	12.5	12.9	16.9	14.1	14.4	24
Hero Motocorp	HMCL IN	HOLD	2,900	12.3	170.2	192.1	20.0	19.9	15
Eicher Motors	EIM IN	SELL	2,200	20.7	66.1	87.0	16.8	19.1	24

Source: BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- better-than-expected demand, and
- easier availability of financing which could reduce the initial cost burden and help shore up sales.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Tyres	APTY IN	1.6	214	140	SELL
Balkrishna Industries	BIL IN	5.9	2,290	1,550	SELL
Ceat	CEAT IN	0.7	1,287	840	SELL
Eicher Motors	EIM IN	10.0	2,718	2,200	SELL
Escorts	ESC IN	2.1	1,262	1,350	BUY
GNA Axles	GNA IN	0.1	672	540	HOLD
JK Tyre & Industries	JKI IN	0.5	145	90	SELL
Minda Corporation	MDA IN	0.4	132	140	BUY
MRF	MRF IN	4.4	77,603	67,000	SELL
Swaraj Engines	SWE IN	0.3	1,792	1,600	SELL
TVS Srichakra	SRTY IN	0.2	2,155	1,200	SELL

Source: BOBCAPS Research, NSE | Price as of 11 Aug 2021

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	90,775	86,190	105,998	125,493	136,793
EBITDA	22,038	17,865	22,320	27,846	31,270
Depreciation	3,779	4,460	4,940	5,839	6,651
EBIT	24,412	17,925	24,197	31,816	36,508
Net interest inc./(exp.)	(109)	(92)	(80)	(90)	(90)
Other inc./(exp.)	6,153	4,520	6,817	9,808	11,888
Exceptional items	0	0	0	0	0
EBT	24,303	17,833	24,117	31,726	36,418
Income taxes	5,265	4,536	6,078	7,995	9,177
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	317	311	342	377	0
Reported net profit	19,356	13,608	18,382	24,107	27,655
Adjustments	0	0	0	0	0
Adjusted net profit	19,356	13,608	18,382	24,107	27,655

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	10,208	15,174	18,444	19,446	20,984
Other current liabilities	7,641	8,216	8,170	10,801	11,783
Provisions	974	1,123	1,000	1,000	1,000
Debt funds	0	0	0	0	0
Other liabilities	1,693	2,475	2,475	2,475	2,475
Equity capital	273	273	273	273	273
Reserves & surplus	82,481	96,777	109,361	126,271	146,692
Shareholders' fund	82,753	97,050	109,633	126,544	146,965
Total liab. and equities	103,270	124,038	139,722	160,266	183,207
Cash and cash eq.	29,264	57,988	27,067	34,630	34,651
Accounts receivables	1,340	2,562	3,180	3,137	3,420
Inventories	5,181	7,691	8,480	8,785	9,576
Other current assets	2,457	8,474	2,914	3,772	4,269
Investments	39,256	20,448	70,448	80,448	102,448
Net fixed assets	23,687	24,234	25,294	27,455	26,804
CWIP	3,122	3,102	2,800	2,500	2,500
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(2,520)	(2,210)	(2,210)	(2,210)	(2,210)
Other assets	1,484	1,750	1,750	1,750	1,750
Total assets	103,269	124,038	139,722	160,266	183,207

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	18,781	10,102	23,839	22,561	23,277
Capital expenditures	(7,383)	(4,987)	(5,698)	(7,700)	(6,000)
Change in investments	(8,791)	18,808	(50,000)	(10,000)	(22,000)
Other investing cash flows	6,153	4,520	6,817	9,808	11,888
Cash flow from investing	(10,020)	18,342	(48,881)	(7,892)	(16,112)
Equities issued/Others	439	660	0	0	0
Debt raised/repaid	(764)	0	0	0	0
Interest expenses	(109)	(92)	(80)	(90)	(90)
Dividends paid	(8,087)	0	(5,456)	(6,820)	(6,820)
Other financing cash flows	(245)	(310)	0	0	0
Cash flow from financing	(8,766)	258	(5,536)	(6,910)	(6,910)
Chg in cash & cash eq.	(4)	28,702	(30,578)	7,760	255
Closing cash & cash eq.	29,264	57,988	27,067	34,630	34,630

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	69.8	48.7	66.1	87.0	99.9
Adjusted EPS	69.8	48.7	66.1	87.0	99.9
Dividend per share	25.0	0.0	20.0	25.0	25.0
Book value per share	303.3	355.8	401.9	463.9	538.7

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	7.8	8.2	6.5	5.6	5.3
EV/EBITDA	32.0	39.4	30.7	25.2	23.1
Adjusted P/E	38.9	55.8	41.1	31.2	27.2
P/BV	9.0	7.6	6.8	5.9	5.0

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	78.3	74.6	74.8	74.8	74.8
Interest burden (PBT/EBIT)	99.6	99.5	99.7	99.7	99.8
EBIT margin (EBIT/Revenue)	26.9	20.8	22.8	25.4	26.7
Asset turnover (Rev./Avg TA)	115.3	93.7	100.2	104.1	98.2
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	24.7	14.8	17.5	20.1	19.9

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	(7.3)	(5.1)	23.0	18.4	9.0
EBITDA	(24.7)	(18.9)	24.9	24.8	12.3
Adjusted EPS	(8.0)	(30.2)	35.7	31.5	14.8
Profitability & Return ratios (%)					
EBITDA margin	24.3	20.7	21.1	22.2	22.9
EBIT margin	26.9	20.8	22.8	25.4	26.7
Adjusted profit margin	21.3	15.8	17.3	19.2	20.2
Adjusted ROAE	23.4	14.0	16.8	19.1	18.8
ROCE	24.3	14.5	17.1	19.7	19.6
Working capital days (days)					
Receivables	5	8	10	9	9
Inventory	23	27	28	25	24
Payables	81	91	96	92	91
Ratios (x)					
Gross asset turnover	0.4	0.5	0.4	0.4	0.4
Current ratio	2.0	3.1	1.5	1.6	1.5
Net interest coverage ratio	224.0	194.8	302.5	353.5	405.6
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

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

Disclaimer

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

BUY – Expected return >+15%

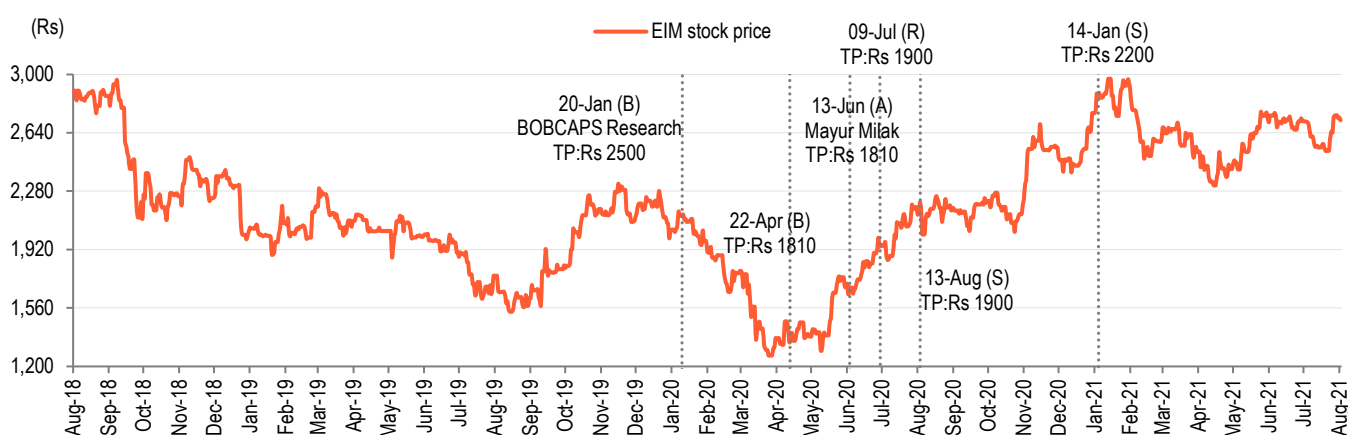
HOLD – Expected return from -6% to +15%

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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