

**HOLD**  
 TP: Rs 4,885 | ▲ 6%

**EICHER MOTORS**

| Automobiles

| 14 November 2024

**Steady show; launch pipeline healthy; key growth driver**

- Q2 revenue increased ~7% YoY (flat QoQ) to Rs 42.1bn, driven by realisation gain of 8% YoY to Rs 184.5k/motorcycle (small dip QoQ)
- Motorcycle segment’s gross margin stayed at 45.7%, dipping marginally QoQ, as the focus shifted to growth
- FY25E/FY26E earnings unchanged, marginal uptick in FY27E earnings. We revise our SOTP-based TP to Rs 4,855 (from Rs 4,724). Retain HOLD

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**Realisation gains drive revenue growth:** EIM’s Q2FY25 revenue grew 7% YoY (0.6% QoQ) to Rs 42.1bn, backed by realisation gain of ~8% YoY (-1 % QoQ) to Rs 184.5k per motorcycle, as newly launched products improved the product mix and exports volume gained. Volume growth was flat YoY/QoQ with ~228k units. This helped gross margin stay range bound ~45% (-1% QoQ).

**Product mix-driven realisation gain; cost inflates marginally:** Gross margin stayed range bound YoY with marginal dip QoQ due to product mix attributable to higher share of 350cc volumes YoY/QoQ. Other expenses increased 4% YoY (fell 4% QoQ) to Rs 5.0bn as launch-related marketing expense continued to rise. Hence, EBITDA was flat YoY at Rs 11bn (-6% QoQ). EBITDA margin fell 160bps each YoY/QoQ to 27.9%. Adj PAT jumped 7% YoY to Rs 10.0bn. (-7% QoQ).

**Strong push on launches:** In the 2W business, EIM launched the Guerrilla 450 and New Classic 350, and at the EICMA 2024 (Nov’24) Bear 650 and the Classic 650, belonging to the 650cc segment, were launched with the focus on the UK and Europe markets (will be available in India from Jan’25). EIM will launch EVs under the Flying Flea brand and has two models, FFC6 and FFS6, in the pipeline (launch in early 2026). It entered into an MoU for sale of 500 Eicher Pro 6055 LNG trucks.

**CV segment gaining traction:** The VE Commercial Vehicles (VECV) segment sold ~20.7k units in Q2FY25, growing 6.2% YoY. Heavy-duty truck sales were ~5.1k units (+8.21% YoY), light- and medium-duty trucks ~9.5k units (flat YoY) and buses ~3.9k units (+24% YoY).

**Maintain HOLD:** We maintain our FY25/FY26 EBITDA estimates due to better high-end variant sales, a healthy product mix and improving exports. We raise FY27 estimates to factor in growing momentum with revenue/EBITDA/PAT CAGR at 12/11%/19% over FY24-FY27E. We continue to value EIM at 27x P/E to factor in better growth prospects in the Royal Enfield (RE) and VECV segments. We arrive at a higher SOTP-based TP of Rs 4,885 (vs. Rs 4,724) that includes Rs 150/sh for VECV. Maintain HOLD with a positive bias.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	EIM IN/Rs 4,589
Market cap	US\$ 14.9bn
Free float	51%
3M ADV	US\$ 29.3mn
52wk high/low	Rs 5,105/Rs 3,562
Promoter/FPI/DII	49%/30%/9%

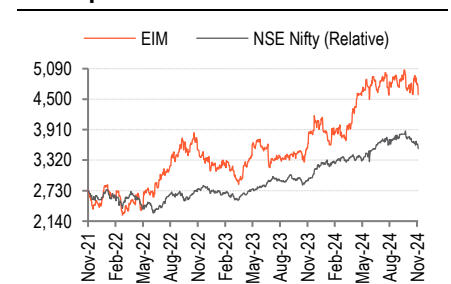
Source: NSE | Price as of 13 Nov 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	1,60,782	1,79,447	1,98,668
EBITDA (Rs mn)	43,802	49,550	55,834
Adj. net profit (Rs mn)	37,494	39,417	45,006
Adj. EPS (Rs)	137.4	144.5	165.0
Consensus EPS (Rs)	137.4	153.0	172.0
Adj. ROAE (%)	23.9	21.3	20.6
Adj. P/E (x)	33.4	31.8	27.8
EV/EBITDA (x)	28.8	25.3	22.0
Adj. EPS growth (%)	43.0	5.1	14.2

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Earnings call highlights**

Parameter	Q2FY25	Q1FY25	Our view
Royal Enfield (RE) volumes	<p>Royal Enfield sold about 225k motorcycles in Q2FY25 compared to 229k motorcycles in Q2FY24. Volumes in India were 206k units and international volumes 19k units. Exports retail market grew 12% YoY.</p> <p>In the festive month of Oct'24, EIM recorded its best ever monthly volumes of 100k units in a single month. Management has indicated that post festive volumes will be better than pre festive volumes.</p>	<p>In Q1FY25, Royal Enfield recorded sales of 227k units of motorcycles compared to 225k units of motorcycles in Q1FY24. RE's volume in the international market was 77k units, where its market share in Europe was ~9%, ~8% in America and ~9% in Asia Pacific in FY24.</p> <p>Himalayan 450 continued to garner volumes of ~6K units/month and the Guerilla 450 gathered ~2.0k units/month taking the cumulative count of the Sherpa (K) platform to ~8.0K units/month.</p>	<p>Timely product intervention has helped volumes gain and this will gain further traction with strong product launches.</p>
VECV market share	<p>In Q2FY25, EIM's market share in Volvo Trucks India (market share in high-end premium segment) was at 97.3%, buses at 20.6%, light &amp; medium trucks at 35.3% and heavy-duty trucks at 9.7%.</p>	<p>In Q1FY25, EIM's market share in Volvo Trucks India (market share in high-end premium segment) was at 95.3%, buses at 20.3%, light &amp; medium trucks at 34% and heavy-duty trucks at 9%.</p>	<p>We observe continued healthy revival in demand for the commercial vehicle heavy-duty (CV HD) segment. This may strengthen once demand picks up meaningfully. This is despite the weaker industry trends.</p>
VECV volumes	<p>The VE Commercial Vehicles (VECV) segment sold ~20.7k units in Q2FY25, growing 6.2% YoY. Heavy-duty truck sales were ~5.1k units, (+8.21% YoY), light- &amp; medium-duty trucks ~9.5k units (-0.06% YoY) and buses ~3.9k units (+24% YoY). Exports in Q2FY25 grew 12.2% YoY to 1.13k units.</p>	<p>The VECV segment sold ~19.7k units in Q1FY25, growing 0.7% YoY. Heavy-duty truck sales were ~4.7k units (+0.6% YoY), light- &amp; medium-duty trucks ~7.8k units (-5.6% YoY) and buses ~5.2k units, (+8.1% YoY). Exports in Q1FY25 grew 57.5% YoY to 1.19k units vs. 0.75k in Q1FY24.</p>	<p>With budget allocations gathering pace we expect the commercial vehicle revival to be on a firm track.</p>
Margins	<p>Realisations reduced QoQ due to product mix attributable to higher share of 350cc volumes. No major pressure from commodity pricing. Further, EIM has not raised prices. EIM is pivoting from margin to growth. The company is focusing on EBITDA value in absolute terms rather than margins.</p>	<p>Realisation increased by 9.3% driven by product mix and the exports market due to EIM's focus on the 350cc+ segment. Average selling prices were higher even though there were no price hikes. EIM saw a 60bps benefit from softening commodity prices – most of EIM's launches had a lower impact due to materials.</p>	<p>Focus is on gaining traction in growth and on absolute earnings growth, even if there is some weakness in margins.</p>
Capacity	<p>There are no major challenges in capacity to cater to demand, however EIM can enhance capacity on short notice with investments to cater to demand.</p> <p>A new CKD has been established in Bangladesh and the second CKD facility in Brazil will start in Jan'25.</p>	<p>The aggregate production capacity at EIM's two plants (Oragadam, and Vallam in Tamil Nadu) is ~1.2mn units/year in the 2W segment. There are no major challenges in capacity to cater to demand.</p>	<p>EIM's CV and 2W capacities have limited headroom to cater to incremental demand. EIM will focus on adding capacities.</p>
Other key points	<p>Other expenses increased 6.25%/9.35% QoQ/YoY to Rs 5bn. The increase was due to marketing expense and a one-time warehouse expense of Rs 0.12bn to facilitate inventory build-up for the festive month of Oct'24.</p>	<p>Other expenses increased 11%/4% YoY/QoQ to Rs 4.8bn as marketing spend on launches continued.</p>	<p>Other expenses are likely to stay elevated with EIM planning strong launches. However, this will help gather volume momentum.</p>

Source: Company, BOBCAPS Research | CKD: Completely knocked down

**Fig 2 – Quarterly performance (standalone)**

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	1QFY25	QoQ (%)	Q2FY25E	Deviation (%)
Volume	2,27,872	2,29,280	(0.6)	2,26,021	0.8	2,27,872	0.0
Avg. Realisation per Vehicle	1,84,553	1,71,437	7.7	1,87,207	(1.4)	1,79,719	2.7
Net Revenues	42,054	39,307	7.0	42,313	(0.6)	40,953	2.7
<b>Total Income (A)</b>	<b>42,054</b>	<b>39,307</b>	<b>7.0</b>	<b>42,313</b>	<b>(0.6)</b>	<b>40,953</b>	<b>2.7</b>
<b>Operating Expenses</b>							
Raw materials consumed	22,832	20,913	9.2	22,513	1.4	21,869	4.4
Employee Expenses	3,157	2,832	11.5	3,291	(4.1)	3,271	(3.5)
Other Expenses	5,017	4,588	9.4	4,722	6.2	4,505	11.4
<b>Total Expenditure (B)</b>	<b>31,006</b>	<b>28,333</b>	<b>9.4</b>	<b>30,527</b>	<b>1.6</b>	<b>29,645</b>	<b>4.6</b>
<b>EBITDA (A-B)</b>	<b>11,049</b>	<b>10,974</b>	<b>0.7</b>	<b>11,786</b>	<b>(6.3)</b>	<b>11,308</b>	<b>(2.3)</b>
Other Income	3,375	2,760	22.3	4,173	(19.1)	3,104	8.7
Depreciation	1,692	1,311	29.1	1,583	6.9	1,612	4.9
EBIT	12,732	12,424	2.5	14,376	(11.4)	12,800	(0.5)
Finance Costs	53	48	11.5	45	18.7	55	(2.9)
PBT after excep items	12,679	12,376	2.4	14,331	(11.5)	12,745	(0.5)
Tax expense	2,580	2,991	(13.7)	3,451	(25.2)	3,091	(16.5)
<b>Reported PAT</b>	<b>10,099</b>	<b>9,385</b>	<b>7.6</b>	<b>10,880</b>	<b>(7.2)</b>	<b>9,654</b>	<b>4.6</b>
<b>Adjusted PAT</b>	<b>10,099</b>	<b>9,385</b>	<b>7.6</b>	<b>10,880</b>	<b>(7.2)</b>	<b>9,654</b>	<b>4.6</b>
EPS (Rs)	37.0	34.3	7.6	39.8	(7.2)	35.3	4.6
<b>Key Ratios (%)</b>			<b>(bps)</b>		<b>(bps)</b>		<b>(bps)</b>
Gross Margin	45.7	46.8	(109)	46.8	(108)	46.6	(89)
EBITDA Margin	26.3	27.9	(165)	27.9	(158)	27.6	(134)
EBIT Margin	30.3	31.6	(133)	34.0	(370)	31.3	(98)
PBT Margin	30.1	31.5	(134)	33.9	(372)	31.1	(97)
Tax Rate	20.3	24.2	(382)	24.1	(373)	24.3	(390)
Adj PAT Margin	24.0	23.9	14	25.7	(170)	23.6	44

Source: Company, BOBCAPS Research

## Valuation methodology

We maintain our FY25/FY26 EBITDA estimates due to better high-end variant sales, a healthy product mix and improving exports. We raise FY27 estimates to factor in growing momentum with revenue/EBITDA/PAT CAGR at 12%/11%/19% over FY24-FY27E.

We continue to value EIM at 27x P/E 1-year forward to factor in better growth prospects in the RE and VECV segments. The revival in the domestic and exports markets in the motorcycles and VECV businesses helps us to maintain the P/E multiple. Additionally, electric vehicle initiatives will cater to growth only in the near/medium term. Effectively, we arrive at a higher SOTP-based TP of Rs 4,885 (vs. Rs 4,724) that includes Rs 150/sh for VECV. Maintain HOLD with a positive bias.

**Fig 3 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	1,79,447	1,98,668	2,18,060	1,79,447	1,98,668	2,13,639	(0.0)	(0.0)	2.1
EBITDA	49,550	55,834	61,602	49,550	55,834	60,088	(0.0)	0.0	2.5
Adj PAT	39,417	45,006	50,339	39,625	45,234	49,447	(0.5)	(0.5)	1.8
Adj EPS (Rs)	144	165	185	144	165	180	0.3	(0.0)	2.5

Source: BOBCAPS Research

**Fig 4 – Key assumptions**

Parameter	FY24	FY25E	FY26E	FY27E
Volumes (nos)	9,12,000	9,42,000	9,69,600	10,23,600
Revenues (Rs mn)	1,60,782	1,79,447	1,98,668	2,18,060
Realisation per vehicle (Rs)	1,51,193	1,62,100	1,72,758	1,78,936
EBITDA (Rs mn)	43,802	49,550	55,834	61,602
EBITDA margin (%)	27.2	27.6	28.1	28.3
Adj. PAT (Rs mn)	37,683	39,417	45,006	50,339
EPS (Rs)	137	144	165	185

Source: Company, BOBCAPS Research

**Fig 5 – Valuation summary**

Business (Rs)	1-year forward EPS (Rs)	Target P/E (x)	Value (Rs)
Standalone Business	175	27.0	4,735
VECV Business	-	-	150
<b>Total</b>	<b>-</b>	<b>-</b>	<b>4,885</b>

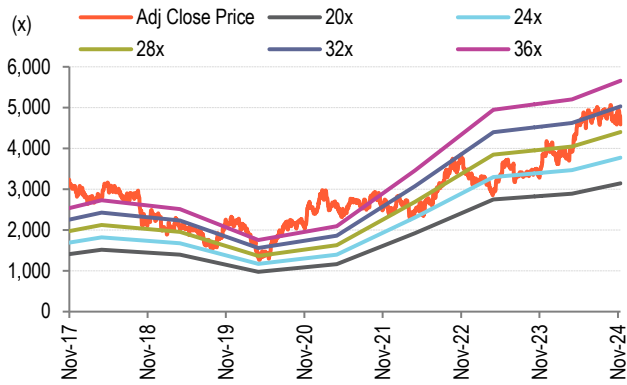
Source: BOBCAPS Research

**Fig 6 – Peer comparison**

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY26E	FY27E	FY26E	FY27E
Eicher Motors	EIM IN	HOLD	4,885	165	185	22.3	21.1
TVS Motor Company	TVSL IN	HOLD	2,441	74.1	84.2	29.7	26.2
Bajaj Auto	BJAUT IN	HOLD	11,088	389.5	449.2	28.6	28.0

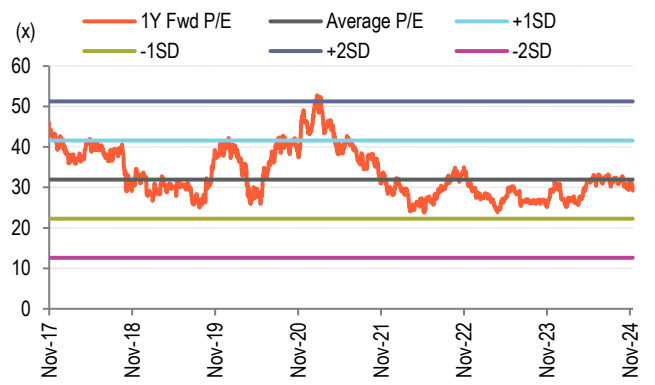
Source: BOBCAPS Research

**Fig 7 – P/E band: There is some scope for valuation expansion**



Source: Bloomberg, BOBCAPS Research

**Fig 8 – P/E 1Y fwd: We believe EIM's valuation has some upside**



Source: Bloomberg, BOBCAPS Research

### Key risks

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

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>1,40,666</b>	<b>1,60,782</b>	<b>1,79,447</b>	<b>1,98,668</b>	<b>2,18,060</b>
EBITDA	33,935	43,802	49,550	55,834	61,602
Depreciation	5,121	5,591	6,065	6,692	7,323
EBIT	35,212	49,892	52,407	59,841	66,936
Net interest inc./(exp.)	(130)	(192)	(199)	(231)	(261)
Other inc./(exp.)	6,398	11,681	8,922	10,699	12,656
Exceptional items	0	0	0	0	0
EBT	35,082	49,700	52,208	59,610	66,675
Income taxes	8,857	12,206	12,791	14,604	16,335
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	163	0	0	0	0
<b>Reported net profit</b>	<b>26,388</b>	<b>37,683</b>	<b>39,625</b>	<b>45,234</b>	<b>50,590</b>
Adjustments	163	189	207	228	251
<b>Adjusted net profit</b>	<b>26,225</b>	<b>37,494</b>	<b>39,417</b>	<b>45,006</b>	<b>50,339</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	19,484	22,918	24,988	27,930	30,712
Other current liabilities	13,823	15,625	11,661	12,676	14,254
Provisions	2,557	2,722	4,986	5,235	5,235
Debt funds	988	1,723	1,743	1,763	1,783
Other liabilities	0	0	0	0	0
Equity capital	273	273	273	273	273
Reserves & surplus	1,28,595	1,56,662	1,84,545	2,18,638	2,58,066
Shareholders' fund	1,28,867	1,56,934	1,84,817	2,18,911	2,58,338
<b>Total liab. and equities</b>	<b>1,65,719</b>	<b>1,99,922</b>	<b>2,28,195</b>	<b>2,66,515</b>	<b>3,10,322</b>
Cash and cash eq.	7,959	12,631	25,679	26,886	38,610
Accounts receivables	7,020	5,727	8,972	10,331	11,448
Inventories	9,109	10,686	11,664	13,410	14,937
Other current assets	11,183	29,340	18,151	22,080	25,326
Investments	1,02,796	1,13,069	1,33,069	1,62,069	1,87,069
Net fixed assets	29,946	31,174	31,609	31,917	32,095
CWIP	742	2,100	4,096	5,120	6,400
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(3,034)	(4,805)	(5,045)	(5,297)	(5,562)
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>1,65,721</b>	<b>1,99,923</b>	<b>2,28,195</b>	<b>2,66,515</b>	<b>3,10,322</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>28,010</b>	<b>17,933</b>	<b>43,697</b>	<b>37,941</b>	<b>43,214</b>
Capital expenditures	(6,759)	(8,178)	(8,495)	(8,024)	(8,780)
Change in investments	(43,296)	(10,273)	(20,000)	(29,000)	(25,000)
Other investing cash flows	6,398	11,681	8,922	10,699	12,656
<b>Cash flow from investing</b>	<b>(43,658)</b>	<b>(6,769)</b>	<b>(19,573)</b>	<b>(26,325)</b>	<b>(21,124)</b>
Equities issued/Others	166	619	(619)	0	0
Debt raised/repaid	928	735	20	20	20
Interest expenses	(130)	(192)	(199)	(231)	(261)
Dividends paid	(5,742)	(10,129)	(10,912)	(10,912)	(10,912)
Other financing cash flows	805	1,771	240	252	265
<b>Cash flow from financing</b>	<b>(3,972)</b>	<b>(7,196)</b>	<b>(11,470)</b>	<b>(10,871)</b>	<b>(10,888)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(19,620)</b>	<b>3,968</b>	<b>12,654</b>	<b>745</b>	<b>11,202</b>
<b>Closing cash &amp; cash eq.</b>	<b>7,959</b>	<b>12,631</b>	<b>25,679</b>	<b>26,886</b>	<b>38,610</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	96.1	137.4	144.5	165.0	184.5
Adjusted EPS	96.1	137.4	144.5	165.0	184.5
Dividend per share	21.0	37.1	40.0	40.0	40.0
Book value per share	472.4	575.3	677.5	802.5	947.0

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	8.6	7.8	7.0	6.2	5.6
EV/EBITDA	35.7	28.8	25.3	22.0	19.8
Adjusted P/E	47.7	33.4	31.8	27.8	24.9
P/BV	9.7	8.0	6.8	5.7	4.8

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.8	75.4	75.5	75.5	75.5
Interest burden (PBT/EBIT)	99.6	99.6	99.6	99.6	99.6
EBIT margin (EBIT/Revenue)	25.0	31.0	29.2	30.1	30.7
Asset turnover (Rev./Avg TA)	118.3	111.5	104.0	97.6	90.7
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
<b>Adjusted ROAE</b>	<b>22.1</b>	<b>26.2</b>	<b>23.1</b>	<b>22.3</b>	<b>21.1</b>

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	39.0	14.3	11.6	10.7	9.8
EBITDA	60.6	29.1	13.1	12.7	10.3
Adjusted EPS	65.3	43.0	5.1	14.2	11.9
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	24.1	27.2	27.6	28.1	28.3
EBIT margin	25.0	31.0	29.2	30.1	30.7
Adjusted profit margin	18.6	23.3	22.0	22.7	23.1
Adjusted ROAE	20.4	23.9	21.3	20.6	19.5
ROCE	22.1	26.1	22.9	22.2	21.0
<b>Working capital days (days)</b>					
Receivables	16	14	15	18	18
Inventory	23	22	23	23	24
Payables	88	89	88	87	88
<b>Ratios (x)</b>					
Gross asset turnover	0.4	0.4	0.4	0.4	0.4
Current ratio	1.0	1.4	1.5	1.6	1.8
Net interest coverage ratio	271.5	259.9	263.4	259.1	256.5
<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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## Disclaimer

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

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

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



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

**BUY** – Expected return >+15%

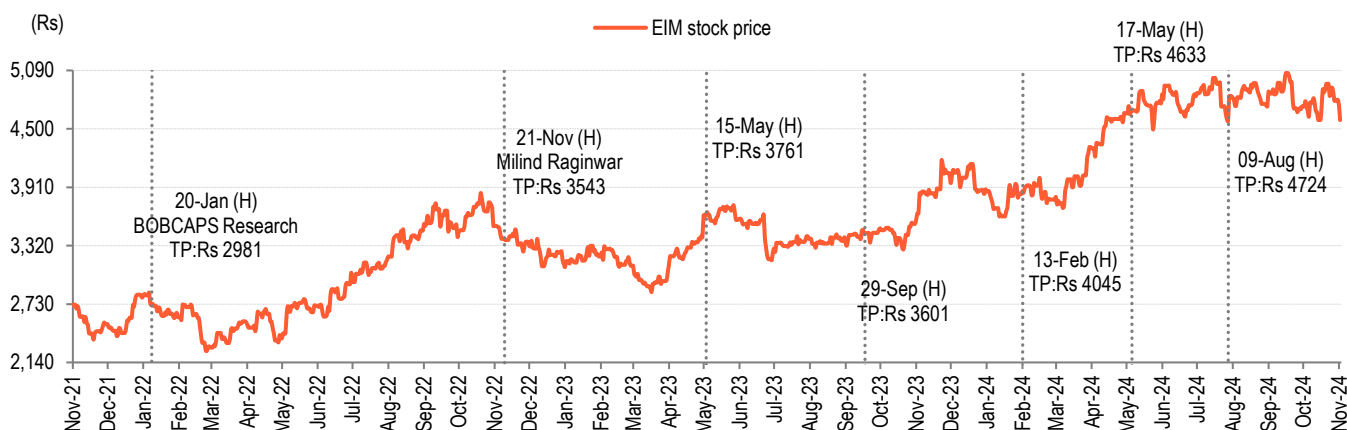
**HOLD** – Expected return from -6% to +15%

**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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