

SELL

TP: Rs 2,200 | ▼ 24%

EICHER MOTORS

Auto Components

10 February 2021

In-line quarter; maintain SELL

Eicher Motors (EIM) reported in-line Q3FY21 revenue and a slight beat on EBITDA margins (23.5% vs. 21.4% estimated), led by better operating efficiencies. Recent rollout of the 'Meteor' 350cc and an aggressive launch pipeline should aid a 12% volume CAGR at Royal Enfield over FY21-FY23, though near-term headwinds from rising RM cost persist. We continue to expect a 16%/32% revenue/PAT CAGR for EIM and maintain our Mar'22 SOTP-based TP at Rs 2,200, valuing RE at 24x EPS and VECV at Rs 160/sh.

Mayur Milak | Nishant Chowhan, CFA

research@bobcaps.in

Q3 in line: EIM's standalone topline grew in line with our projections at 19% YoY on the back of a 9% rise in quarterly volumes and an 9% increase in ASP stemming from a better product mix and pricing action. EBITDA at Rs 6.6bn grew 11% YoY but margins came in 200bps ahead of expectations at 23.5% primarily due to below-expected other expenses (as a percentage of sales). Gross margin contracted 140bps QoQ. Adj. PAT was flattish YoY at Rs 4.9bn.

Ticker/Price	EIM IN/Rs 2,901
Market cap	US\$ 10.9bn
Shares o/s	273mn
3M ADV	US\$ 64.9mn
52wk high/low	Rs 3,037/Rs 1,245
Promoter/FPI/DII	49%/32%/7%

Source: NSE

Near-term margin headwinds persist: Higher raw material costs shaved 80-100bps off Q3 EBITDA margins. EIM took price increases of >3% during the last two months and management anticipates further hikes coupled with cost savings to fully offset the impact of higher input costs. On the volume front, given the positive response to the Meteor 350 and upcoming launches, we bake in a healthy volume CAGR of 12% over FY21-FY23.

STOCK PERFORMANCE

Source: NSE

Valuations lofty; maintain SELL: We expect EIM to clock a revenue/EBITDA/PAT CAGR of 16%/20%/32% over FY21-FY23. Our Mar'22 SOTP-based TP of Rs 2,200 remains unchanged and is based on our ascribed value of Rs 2,040 for RE (24x Mar'23E P/E) and Rs 160 for VECV. Maintain SELL given expensive valuations at 41x FY22E/34x FY23E EPS.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	97,945	90,775	85,818	104,988	114,841
EBITDA (Rs mn)	29,269	22,038	17,740	22,302	25,392
Adj. net profit (Rs mn)	20,544	19,356	13,573	19,833	23,605
Adj. EPS (Rs)	75.8	69.8	48.5	71.3	85.0
Adj. EPS growth (%)	20.7	(8.0)	(30.5)	47.1	19.2
Adj. ROAE (%)	28.8	23.4	14.5	18.1	18.3
Adj. P/E (x)	38.3	41.6	59.9	40.7	34.1
EV/EBITDA (x)	26.6	34.3	42.5	34.3	30.2

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE

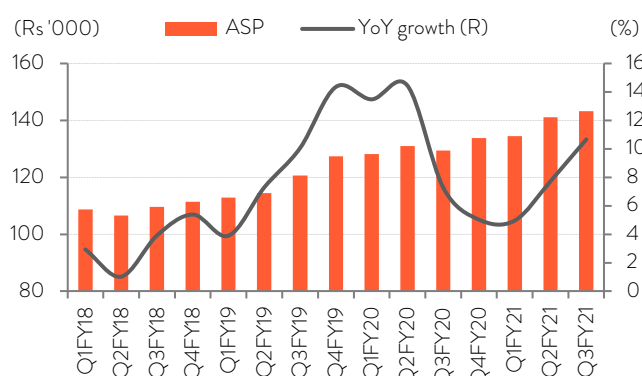
(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Volume	199,668	182,791	9.2	150,519	32.7	407,456	532,969	(23.5)
Avg. Realisation per Vehicle (Rs)	140,439	129,302	8.6	141,063	1.5	139,809	129,425	8.0
Net Revenues	28,041	23,635	18.6	21,233	32.1	56,966	68,980	(17.4)
Total Income (A)	28,041	23,635	18.6	21,233	32.1	56,966	68,980	(17.4)
Operating Expenses:								
Raw materials consumed	16,569	12,926	28.2	12,250	35.2	33,578	37,548	(10.6)
Employee Expenses	2,229	1,776	25.5	1,976	12.8	5,897	5,600	5.3
Other Expenses	2,664	2,981	(10.7)	2,169	22.8	6,061	8,327	(27.2)
Total Expenditure (B)	21,461	17,683	21.4	16,395	30.9	45,536	51,474	(11.5)
EBITDA (A-B)	6,580	5,952	10.6	4,838	36.0	11,430	17,505	(34.7)
Other Income	1,241	1,358	(8.7)	998	24.3	3,392	4,692	(27.7)
Depreciation	1,219	942	29.3	1,036	17.6	3,226	2,700	19.5
EBIT	6,602	6,368	3.7	4,800	37.6	11,596	19,497	(40.5)
Finance Costs	22	27	(19.5)	18	22.3	70	84	(16.8)
PBT	6,580	6,341	3.8	4,782	37.6	11,526	19,413	(40.6)
Tax expense	1,696	1,452	16.8	1,173	44.5	2,910	3,836	(24.2)
Reported PAT	4,885	4,889	(0.1)	3,609	35.4	8,617	15,576	(44.7)
Adjusted PAT	4,885	4,889	(0.1)	3,609	35.4	8,617	15,576	(44.7)
Adj EPS (Rs)	17.9	18.0	(0.7)	13.2	35.4	31.5	57.4	(45.0)

Source: Company, BOBCAPS Research

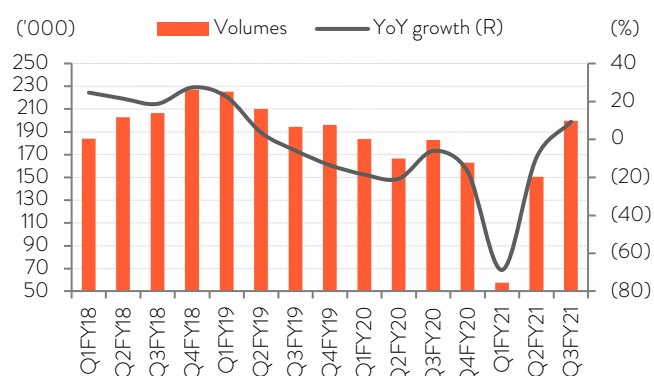
FIG 2 – KEY PARAMETERS

(%)	Q3FY21	Q3FY20	YoY (bps)	Q2FY21	QoQ (bps)	9MFY21	9MFY20	YoY (bps)
Gross margin	40.9	45.3	(440)	42.3	(139)	41.1	45.6	(451)
EBITDA margin	23.5	25.2	(172)	22.8	68	20.1	25.4	(531)
EBIT margin	23.5	26.9	(340)	22.6	94	20.4	28.3	(791)
PBT margin	23.5	26.8	(336)	22.5	95	20.2	28.1	(791)
Tax rate	25.8	22.9	288	24.5	123	25.2	19.8	548
Adj PAT margin	17.4	20.7	(327)	17.0	42	15.1	22.6	(746)

Source: Company, BOBCAPS Research

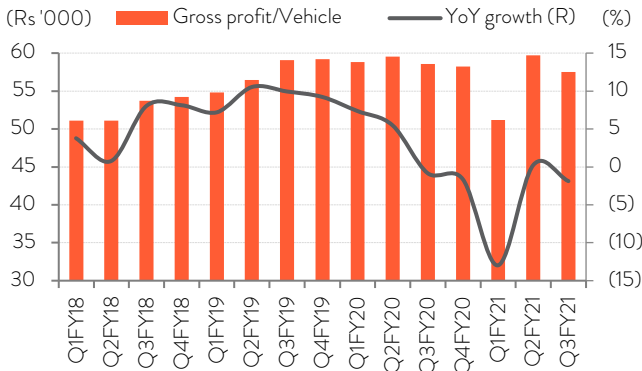
FIG 3 – AVERAGE SELLING PRICE (ASP) – RE

Source: Company, BOBCAPS Research

FIG 4 – VOLUME GROWTH TREND – RE

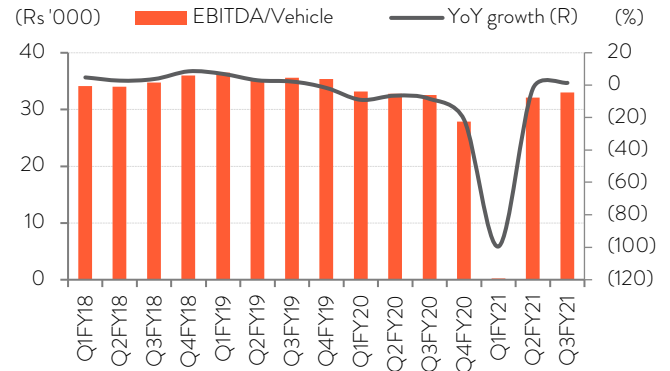
Source: Company, BOBCAPS Research

FIG 5 – GROSS PROFIT/VEHICLE – RE



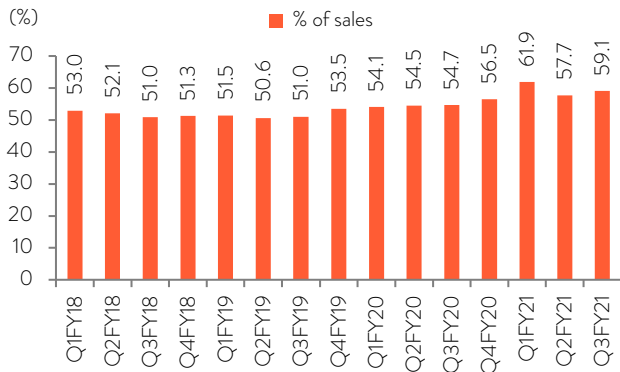
Source: Company, BOBCAPS Research

FIG 6 – EBITDA/VEHICLE – RE



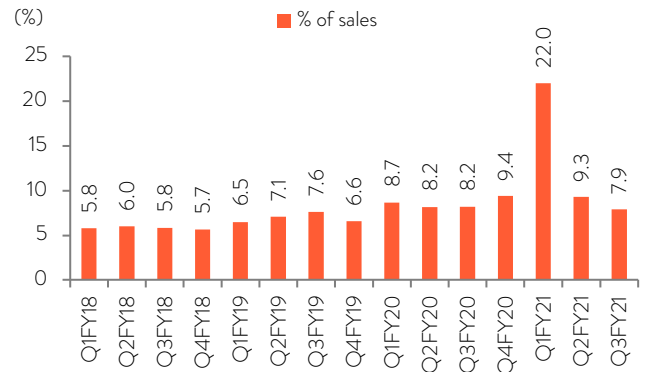
Source: Company, BOBCAPS Research

FIG 7 – RM COST/SALES TREND – RE



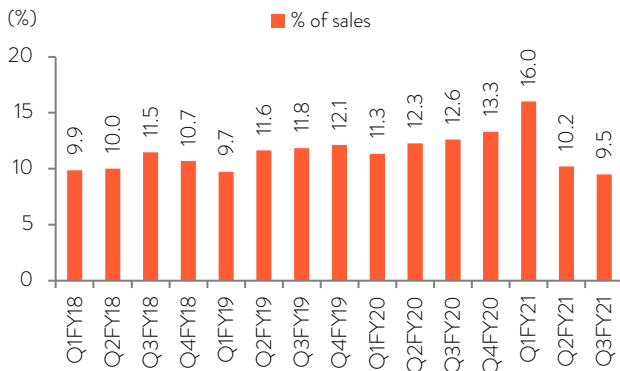
Source: Company, BOBCAPS Research

FIG 8 – EMPLOYEE COST/SALES TREND – RE



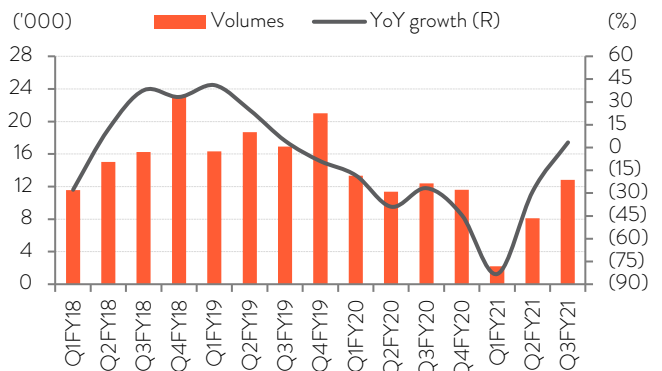
Source: Company, BOBCAPS Research

FIG 9 – OTHER EXPENSES/SALES TREND – RE



Source: Company, BOBCAPS Research

FIG 10 – VOLUME GROWTH TREND – VECV



Source: Company, BOBCAPS Research

Earnings call highlights

- Bookings per day at dealers have returned to pre-Covid levels and EIM is confident that the demand is sustainable. Alongside better traction in smaller cities, matured markets are also showing good demand.
- Online enquiries and bookings have surged 3-5x over pre-Covid levels.
- Due to the pandemic, model launches were postponed by 3-6 months. The company aims to launch a new variant/model every quarter from now on.
- Truck demand is also picking up with MHCV sales rebounding to pre-pandemic levels.
- RE has improved market share in the >125cc bike segment to 27% from 25%.
- Depreciation expenses were higher in Q3FY21 due to a charge on the new 'Meteor' production line.

Valuation methodology

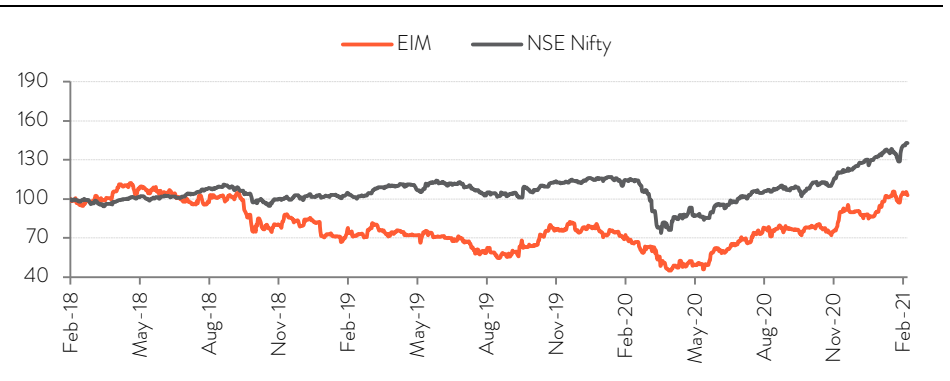
We expect EIM to clock a revenue/EBITDA/ PAT CAGR of 16%/20%/32% over FY21-FY23. Our Mar'22 SOTP-based target price remains at Rs 2,200, comprising values of Rs 2,040 for RE (24x Mar'23E P/E) and Rs 160 for VECV. Maintain SELL given expensive valuations at 41x FY22E/34x FY23E EPS.

FIG 11 – SOTP VALUATION

Business	Fair value (Rs/Share)	Comments
RE – Standalone	2,040	24x Mar'23E EPS
VECV	160	-
Target price	2,200	

Source: BOBCAPS Research

FIG 12 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Better-than-expected demand could pose upside risks to our estimates.
- Higher and easier availability of financing could reduce the initial cost burden and help sales inch up.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	97,945	90,775	85,818	104,988	114,841
EBITDA	29,269	22,038	17,740	22,302	25,392
Depreciation	2,989	3,779	4,386	4,724	5,457
EBIT	31,360	24,412	17,779	26,091	31,074
Net interest income/(expenses)	(30)	(109)	(100)	(90)	(80)
Other income/(expenses)	5,080	6,153	4,426	8,513	11,138
Exceptional items	141	0	0	0	0
EBT	31,471	24,303	17,679	26,001	30,994
Income taxes	10,785	5,265	4,455	6,552	7,810
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	2,584	317	349	384	422
Reported net profit	23,269	19,356	13,573	19,833	23,605
Adjustments	(141)	0	0	0	0
Adjusted net profit	20,544	19,356	13,573	19,833	23,605

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	11,807	10,208	12,701	13,627	14,780
Other current liabilities	5,222	7,641	6,042	6,871	7,477
Provisions	1,991	974	1,000	1,000	1,000
Debt funds	764	0	0	0	0
Other liabilities	961	1,693	1,693	1,693	1,693
Equity capital	273	273	273	273	273
Reserves & surplus	70,992	82,481	93,522	109,425	129,062
Shareholders' fund	71,265	82,753	93,795	109,698	129,335
Total liabilities and equities	92,009	103,270	115,231	132,889	154,285
Cash and cash eq.	29,401	29,264	26,951	26,598	25,407
Accounts receivables	1,127	1,340	1,287	1,260	1,378
Inventories	6,053	5,181	6,865	6,299	6,890
Other current assets	2,525	2,457	2,807	3,135	3,569
Investments	30,465	39,256	49,256	64,256	84,256
Net fixed assets	18,708	23,687	25,301	29,577	31,621
CWIP	4,497	3,122	3,800	2,800	2,200
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(2,765)	(2,520)	(2,520)	(2,520)	(2,520)
Other assets	1,998	1,484	1,484	1,484	1,484
Total assets	92,009	103,269	115,231	132,889	154,285

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	23,534	23,135	17,959	24,557	29,062
Interest expenses	30	109	100	90	(80)
Non-cash adjustments	(5,080)	(6,153)	(4,426)	(8,513)	(11,138)
Changes in working capital	(4,763)	1,777	(1,063)	2,021	616
Other operating cash flows	(632)	(86)	0	0	0
Cash flow from operations	13,088	18,781	12,571	18,154	18,459
Capital expenditures	(7,890)	(7,383)	(6,678)	(8,000)	(6,900)
Change in investments	8,195	(8,791)	(10,000)	(15,000)	(20,000)
Other investing cash flows	5,080	6,153	4,426	8,513	11,138
Cash flow from investing	5,385	(10,020)	(12,253)	(14,487)	(15,762)
Equities issued/Others	548	439	0	0	0
Debt raised/repaid	(96)	(764)	0	0	0
Interest expenses	(30)	(109)	(100)	(90)	(80)
Dividends paid	(2,999)	(8,087)	(2,182)	(3,546)	(3,546)
Other financing cash flows	1,335	(245)	0	0	0
Cash flow from financing	(1,242)	(8,766)	(2,282)	(3,636)	(3,626)
Changes in cash and cash eq.	17,231	(4)	(1,964)	31	(929)
Closing cash and cash eq.	29,401	29,264	26,951	26,598	25,407

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	75.8	69.8	48.5	71.3	85.0
Adjusted EPS	75.8	69.8	48.5	71.3	85.0
Dividend per share	11.0	25.0	8.0	13.0	13.0
Book value per share	261.2	303.3	343.8	402.1	474.1

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	8.0	8.3	8.8	7.3	6.7
EV/EBITDA	26.6	34.3	42.5	34.3	30.2
Adjusted P/E	38.3	41.6	59.9	40.7	34.1
P/BV	11.1	9.6	8.4	7.2	6.1

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	65.7	78.3	74.8	74.8	74.8
Interest burden (PBT/EBIT)	100.4	99.6	99.4	99.7	99.7
EBIT margin (EBIT/Revenue)	32.0	26.9	20.7	24.9	27.1
Asset turnover (Revenue/Avg TA)	152.5	115.3	95.4	101.5	94.7
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	33.1	24.7	15.0	19.1	19.4

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	9.3	(7.3)	(5.5)	22.3	9.4
EBITDA	2.6	(24.7)	(19.5)	25.7	13.9
Adjusted EPS	20.7	(8.0)	(30.5)	47.1	19.2
Profitability & Return ratios (%)					
EBITDA margin	29.9	24.3	20.7	21.2	22.1
EBIT margin	32.0	26.9	20.7	24.9	27.1
Adjusted profit margin	21.0	21.3	15.8	18.9	20.6
Adjusted ROAE	28.8	23.4	14.5	18.1	18.3
ROCE	32.1	24.3	14.8	18.9	19.2
Working capital days (days)					
Receivables	4	5	6	4	4
Inventory	18	23	26	23	21
Payables	83	81	82	78	77
Ratios (x)					
Gross asset turnover	0.3	0.4	0.5	0.5	0.5
Current ratio	2.1	2.0	1.9	1.7	1.6
Net interest coverage ratio	1,048.8	224.0	177.8	289.9	388.4
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

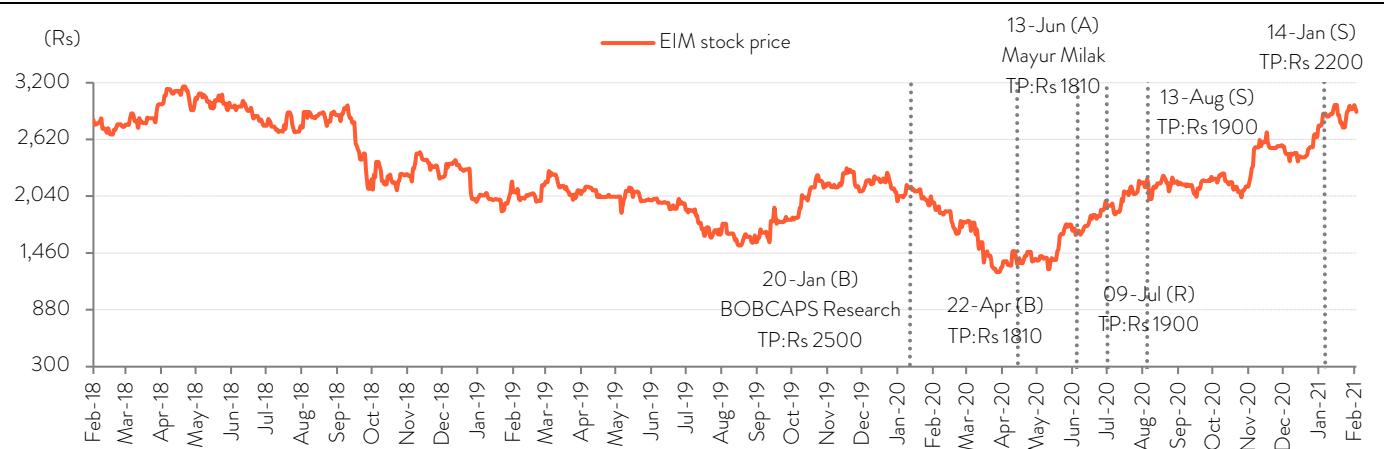
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): EICHER MOTORS (EIM IN)



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

Rating distribution

As of 31 January 2021, out of 88 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 41 have BUY ratings, 13 have ADD ratings, 6 are rated REDUCE and 28 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations

expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.