

SELL

TP: Rs 2,200 | ▼ 16%

EICHER MOTORS

| Auto Components

| 28 May 2021

In-line quarter; maintain SELL

Eicher Motors (EIM) reported in-line Q4FY21 standalone revenue of Rs 29bn, a 22% EBITDA margin and adj. PAT of Rs 4.7bn. We continue to expect the company to clock a brisk volume CAGR of 17% over FY21-FY23 but believe the impact of higher RM costs and an erratic supply chain would take a toll on profits – our FY22/FY23 operating margin forecast of 22% is 200bps below consensus. We maintain our Mar'22 TP of Rs 2,200, valuing EIM's standalone business at 24x FY23E EPS, a 50% premium to peers in line with the long-term average. SELL.

Mayur Milak | Nishant Chowhan, CFA

researchreport@bobcaps.in

Q4 in line: EIM's standalone topline grew in line with our projections at 4% QoQ to Rs 29.2bn on the back of a 2% QoQ rise in quarterly volumes and a 2% increase in ASP stemming from pricing action. Gross margin slipped 60bps QoQ and other expenses increased due to a one-off Rs 250mn provision made against advances and currency fluctuations. EBITDA dipped 2% QoQ to Rs 6.4bn and margins shrank 150bps to 22%, in line with projections. Adj. PAT was down 4% QoQ to Rs 4.7bn.

Near-term headwinds: During H2FY21, EIM clocked a quarterly sales run-rate of ~200k units and reported a 23% EBITDA margin. Though we pencil in a healthy 17% volume CAGR for Royal Enfield over FY21-FY23 supported by new launches and pent-up demand, we believe the impact of higher RM costs, an erratic supply chain and inability to take further price hikes would exact a toll on earnings.

Maintain SELL: Our FY22/FY23 revenue forecasts are ~10% below consensus due to lower volume assumptions and we are 200bps below on EBITDA margins at ~22%. We believe consensus margin assumptions could be at risk considering renewed Covid lockdowns and rising RM cost. Our EPS estimates are ~29% lower than the street. Retain SELL with an unchanged Mar'22 TP of Rs 2,200.

Ticker/Price	EIM IN/Rs 2,604
Market cap	US\$ 9.8bn
Shares o/s	273mn
3M ADV	US\$ 32.0mn
52wk high/low	Rs 3,037/Rs 1,505
Promoter/FPI/DII	49%/32%/17%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	97,945	90,775	86,190	105,998	125,493
EBITDA (Rs mn)	29,269	22,038	17,865	22,320	27,846
Adj. net profit (Rs mn)	20,544	19,356	13,608	18,340	24,065
Adj. EPS (Rs)	75.8	69.8	48.7	66.0	86.8
Adj. EPS growth (%)	20.7	(8.0)	(30.2)	35.4	31.6
Adj. ROAE (%)	28.8	23.4	14.0	16.7	19.0
Adj. P/E (x)	34.3	37.3	53.4	39.5	30.0
EV/EBITDA (x)	23.8	30.6	37.7	29.4	24.1

Source: Company, BOBCAPS Research | P – Provisional

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Volume	204,604	162,870	25.6	199,668	2.5	612,060	695,839	(12.0)
Avg. Realisation per Vehicle (Rs)	142,834	133,818	6.7	140,439	1.7	140,820	130,454	7.9
Net Revenues	29,224	21,795	34.1	28,041	4.2	86,190	90,775	(5.1)
Total Income (A)	29,224	21,795	34.1	28,041	4.2	86,190	90,775	(5.1)
Operating Expenses:								
Raw materials consumed	17,446	12,310	41.7	16,569	5.3	51,024	49,858	2.3
Employee Expenses	2,142	2,051	4.4	2,229	(3.9)	8,039	7,651	5.1
Other Expenses	3,201	2,902	10.3	2,664	20.2	9,262	11,228	(17.5)
Total Expenditure (B)	22,789	17,263	32.0	21,461	6.2	68,325	68,737	(0.6)
EBITDA (A-B)	6,435	4,533	42.0	6,580	(2.2)	17,865	22,038	(18.9)
Other Income	1,129	1,462	(22.8)	1,241	(9.0)	4,520	6,153	(26.5)
Depreciation	1,234	1,079	14.4	1,219	1.3	4,460	3,779	18.0
EBIT	6,330	4,915	28.8	6,602	(4.1)	17,925	24,412	(26.6)
Finance Costs	22	25	(10.1)	22	1.4	92	109	(15.3)
PBT	6,307	4,891	29.0	6,580	(4.1)	17,833	24,303	(26.6)
Tax expense	1,627	1,429	13.8	1,696	(4.1)	4,536	5,265	(13.8)
Reported PAT	4,681	3,462	35.2	4,885	(4.2)	13,297	19,038	(30.2)
Adjusted PAT	4,681	3,462	35.2	4,885	(4.2)	13,297	19,038	(30.2)
Adj EPS (Rs)	17.1	12.7	34.4	17.9	(4.2)	48.6	70.1	(30.6)

Source: Company, BOBCAPS Research

FIG 2 – KEY PARAMETERS

(%)	Q4FY21	Q4FY20	YoY (bps)	Q3FY21	QoQ (bps)	FY21	FY20	YoY (bps)
Gross margin	40.3	43.5	(322)	40.9	(61)	40.8	45.1	(427)
EBITDA margin	21.7	20.8	122	23.5	(145)	20.7	24.3	(355)
EBIT margin	21.7	22.6	(89)	23.5	(189)	20.8	26.9	(610)
PBT margin	21.6	22.4	(86)	23.5	(188)	20.7	26.8	(608)
Tax rate	25.8	29.2	(343)	25.8	2	25.4	21.7	377
Adj PAT margin	16.0	15.9	13	17.4	(140)	15.4	21.0	(555)

Source: Company, BOBCAPS Research

Valuation methodology

We expect EIM to clock a revenue/EBITDA/PAT CAGR of 21%/25%/34% over FY21-FY23. Our FY22/FY23 revenue forecasts are ~10% below consensus due to lower volume assumptions and our EBITDA margins are 200bps below at ~22%. We believe consensus margin assumptions could be at risk considering renewed Covid lockdowns, rising raw material costs and EIM's inability to fully pass on the higher cost burden. Our EPS estimates are thus ~29% lower than the street.

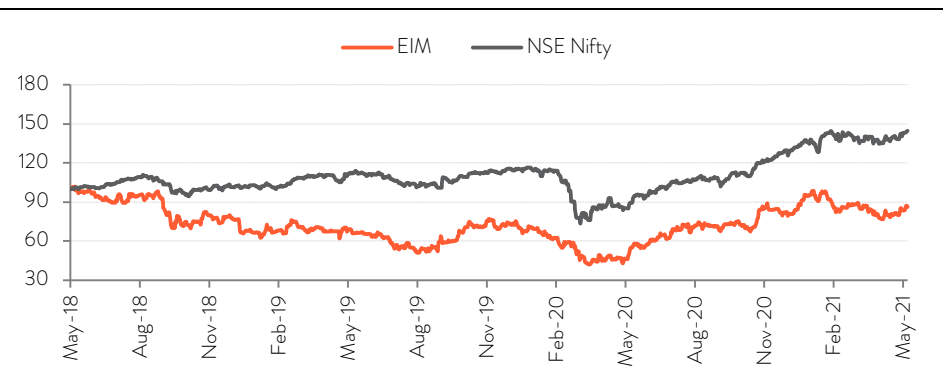
We retain our Mar'22 SOTP-based target price of Rs 2,200, which includes a value of Rs 2,040 for Royal Enfield (set at 24x FY23E P/E, a 50% premium to peers in keeping with the long-term average) and Rs 160 for VECV. Maintain SELL.

FIG 3 – SOTP VALUATION

Business	Fair value (Rs/sh)	Comments
RE – Standalone	2,040	24x FY23E EPS
VECV	160	-
Target price	2,200	

Source: BOBCAPS Research

FIG 4 – 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	FY21P	FY22E	FY23E
Total revenue	97,945	90,775	86,190	105,998	125,493
EBITDA	29,269	22,038	17,865	22,320	27,846
Depreciation	2,989	3,779	4,460	4,996	5,895
EBIT	31,360	24,412	17,925	24,142	31,759
Net interest income/(expenses)	(30)	(109)	(92)	(80)	(90)
Other income/(expenses)	5,080	6,153	4,520	6,817	9,808
Exceptional items	141	0	0	0	0
EBT	31,471	24,303	17,833	24,062	31,669
Income taxes	10,785	5,265	4,536	6,064	7,981
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	2,584	317	311	342	377
Reported net profit	23,269	19,356	13,608	18,340	24,065
Adjustments	(141)	0	0	0	0
Adjusted net profit	20,544	19,356	13,608	18,340	24,065

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	11,807	10,208	15,174	18,444	19,446
Other current liabilities	5,222	7,641	8,216	8,170	10,801
Provisions	1,991	974	1,123	1,000	1,000
Debt funds	764	0	0	0	0
Other liabilities	961	1,693	2,475	2,475	2,475
Equity capital	273	273	273	273	273
Reserves & surplus	70,992	82,481	96,776	109,318	126,187
Shareholders' fund	71,265	82,753	97,049	109,591	126,459
Total liabilities and equities	92,009	103,270	124,037	139,680	160,182
Cash and cash eq.	29,401	29,264	57,988	27,082	34,659
Accounts receivables	1,127	1,340	2,562	3,180	3,137
Inventories	6,053	5,181	7,691	8,480	8,785
Other current assets	2,525	2,457	8,740	3,180	4,038
Investments	30,465	39,256	20,448	70,448	80,448
Net fixed assets	18,708	23,687	24,234	25,238	27,343
CWIP	4,497	3,122	3,102	2,800	2,500
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(2,765)	(2,520)	(2,211)	(2,211)	(2,211)
Other assets	1,998	1,484	1,484	1,484	1,484
Total assets	92,009	103,269	124,037	139,680	160,182

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net income + Depreciation	23,534	23,135	18,069	23,336	29,960
Interest expenses	30	109	92	80	(90)
Non-cash adjustments	(5,080)	(6,153)	(4,520)	(6,817)	(9,808)
Changes in working capital	(4,763)	1,777	(3,544)	7,254	2,513
Other operating cash flows	(632)	(86)	0	0	0
Cash flow from operations	13,088	18,781	10,096	23,853	22,576
Capital expenditures	(7,890)	(7,383)	(4,987)	(5,698)	(7,700)
Change in investments	8,195	(8,791)	18,808	(50,000)	(10,000)
Other investing cash flows	5,080	6,153	4,520	6,817	9,808
Cash flow from investing	5,385	(10,020)	18,342	(48,881)	(7,892)
Equities issued/Others	548	439	0	0	0
Debt raised/repaid	(96)	(764)	0	0	0
Interest expenses	(30)	(109)	(92)	(80)	(90)
Dividends paid	(2,999)	(8,087)	(4,910)	(5,456)	(6,820)
Other financing cash flows	1,335	(245)	(309)	0	0
Cash flow from financing	(1,242)	(8,766)	(5,312)	(5,536)	(6,910)
Changes in cash and cash eq.	17,231	(4)	23,126	(30,564)	7,774
Closing cash and cash eq.	29,401	29,264	57,988	27,082	34,659

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	75.8	69.8	48.7	66.0	86.8
Adjusted EPS	75.8	69.8	48.7	66.0	86.8
Dividend per share	11.0	25.0	18.0	20.0	25.0
Book value per share	261.2	303.3	355.8	401.7	463.6

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	7.1	7.4	7.8	6.2	5.4
EV/EBITDA	23.8	30.6	37.7	29.4	24.1
Adjusted P/E	34.3	37.3	53.4	39.5	30.0
P/BV	10.0	8.6	7.3	6.5	5.6

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	65.7	78.3	74.6	74.8	74.8
Interest burden (PBT/EBIT)	100.4	99.6	99.5	99.7	99.7
EBIT margin (EBIT/Revenue)	32.0	26.9	20.8	22.8	25.3
Asset turnover (Revenue/Avg TA)	152.5	115.3	93.7	100.2	104.1
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	33.1	24.7	14.8	17.4	20.1

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Revenue	9.3	(7.3)	(5.1)	23.0	18.4
EBITDA	2.6	(24.7)	(18.9)	24.9	24.8
Adjusted EPS	20.7	(8.0)	(30.2)	35.4	31.6
Profitability & Return ratios (%)					
EBITDA margin	29.9	24.3	20.7	21.1	22.2
EBIT margin	32.0	26.9	20.8	22.8	25.3
Adjusted profit margin	21.0	21.3	15.8	17.3	19.2
Adjusted ROAE	28.8	23.4	14.0	16.7	19.0
ROCE	32.1	24.3	14.5	17.1	19.7
Working capital days (days)					
Receivables	4	5	8	10	9
Inventory	18	23	27	28	25
Payables	83	81	91	96	92
Ratios (x)					
Gross asset turnover	0.3	0.4	0.5	0.4	0.4
Current ratio	2.1	2.0	3.1	1.5	1.6
Net interest coverage ratio	1,048.8	224.0	194.8	301.8	352.9
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research

Disclaimer

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

BUY – Expected return >+15%

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

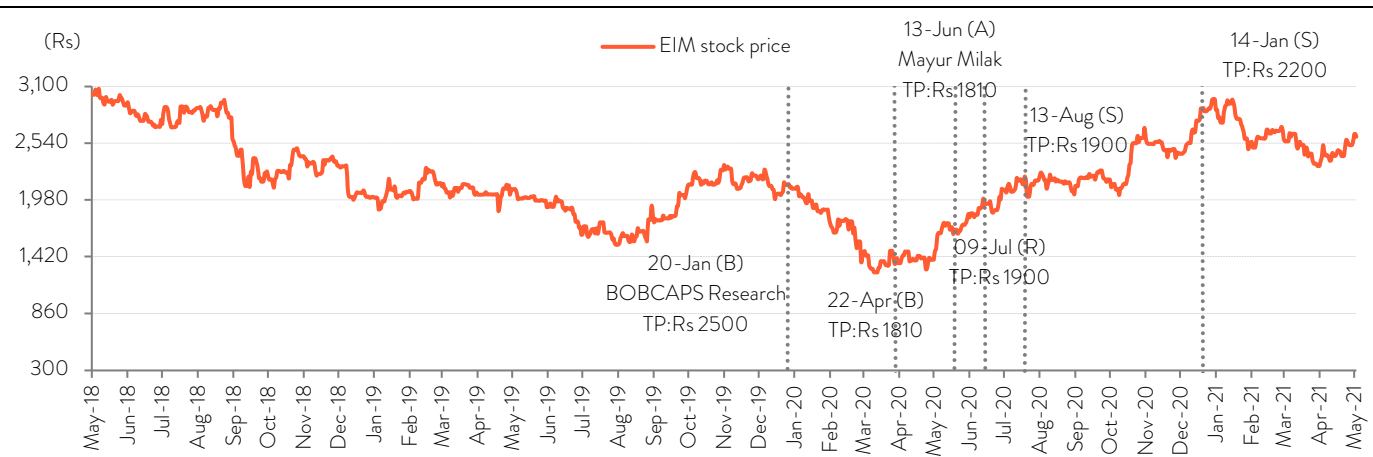
REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

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

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, A – Add, R – Reduce, S – Sell

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