

**HOLD**

TP: Rs 4,633 | ▼ 1%

**EICHER MOTORS**

| Automobiles

| 17 May 2024

## Powering growth momentum with new launches

- Q4 revenue grew ~9% YoY driven by realisations higher by 5% due to better product mix, and 4% volume growth
- Motorcycle segment gross margin rose a healthy 325 bps YoY (steady QoQ) to 46.3%, supported by lower cost and better pricing
- FY25E/FY26E EPS raised 2%/5%; our SOTP-based TP is Rs 4,633 (vs Rs 4,045) valuing the core business at 27x FY26E earnings. Retain HOLD

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**Revenue gains backed by volume and realisation gains:** EIM's Q4FY24 standalone revenue grew 9%/3% YoY/QoQ to Rs 41.9bn backed by realisation gains of 5%/4% YoY/QoQ to Rs 184.1k per motorcycle, as newly launched products enhanced the product mix and aided realisation gains despite the Royal Enfield (RE) segment not hiking prices in 4Q. Volume growth was muted at 4% YoY (flat QoQ) with ~228k units.

**Well controlled input cost and better product mix enhance margins:** Gross margin expanded by 325bps YoY (13bps QoQ) to 46.3% owing to lower inventory-adjusted raw material cost at 53.7% of sales (-380bps/-20bps YoY/QoQ) and better mix product. Other expenses increased 11%/4% YoY/QoQ to Rs 4.8bn as launch marketing spend continued. EBITDA grew by a healthy 22%/4% YoY/QoQ to Rs 11.6bn, accompanied by 300bps/10bps YoY/QoQ margin expansion of 27.5%.

**CV segment revival encouraging:** EIM has gained market share across its commercial vehicle sub-segments with the aggregate market share at 18% in Q4? It gained market share in all the segments with HD Trucks at 8.9%, combined EIM + Volvo at 9.6%, and Light & Medium vehicles market share at ~36%. The market share gains helped VECV offset muted volume gains in the quarter. EIM entered the small commercial vehicle (SCV) range at the Bharat Mobility Global Expo.

**New launches to counter competition:** In the Royal Enfield business, the newly launched Himalayan 450 in India by EIM had encouraging sales of 200 vehicles/day in Q4. It retains its 85% market share in the Himalayan bike segment. Exports reached a volume of 77k units in Q4. Overall volume reached pre-Covid levels.

**Maintain HOLD:** We raise our FY25/FY26 EBITDA estimates by 5%/8% and PAT by 2%/4% to factor in better high-end variant sales, a healthy product mix and easing costs. Our revenue/EBITDA/PAT CAGR is 12%/18%/20% for EIM over FY23-FY26. We value EIM at 27x P/E (vs 25x) to factor in better growth prospects in the RE and VECV segments. We arrive at a higher SOTP-based TP of Rs 4,633 (vs Rs 4,045) that includes Rs 150/sh for VECV. Maintain HOLD for right valuations.

## Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	EIM IN/Rs 4,682
Market cap	US\$ 15.6bn
Free float	51%
3M ADV	US\$ 41.2mn
52wk high/low	Rs 4,743/Rs 3,160
Promoter/FPI/DII	49%/30%/9%

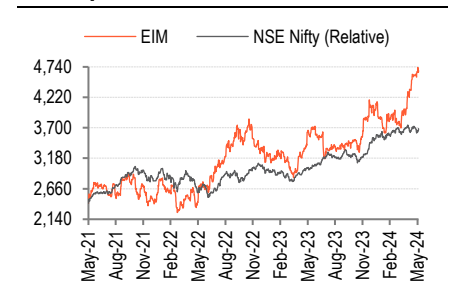
Source: NSE | Price as of 16 May 2024

## Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	1,60,782	1,79,447	1,98,668
EBITDA (Rs mn)	43,801	49,550	55,834
Adj. net profit (Rs mn)	37,218	39,889	45,512
Adj. EPS (Rs)	135.8	145.5	166.0
Consensus EPS (Rs)	135.8	149.4	167.9
Adj. ROAE (%)	23.7	20.8	19.7
Adj. P/E (x)	34.5	32.2	28.2
EV/EBITDA (x)	29.4	26.0	22.9
Adj. EPS growth (%)	41.2	7.2	14.1

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

## Stock performance



Source: NSE



**Fig 1 – Earnings call highlights**

Parameter	Q4FY24	Q3FY24	Our view
Royal Enfield (RE) volumes	<p>EIM's domestic sales volume grew 6% YoY to ~204.5k units in Q4FY24.</p> <p>The newly launched Himalayan 450 in India received an encouraging response with 200 vehicles sold per day.</p> <p>RE's market share in Europe was ~9% in FY24, ~8% in America and ~9% in the Asia Pacific.</p>	<p>EIM's domestic sales volume grew 6% YoY to ~213.4k units in Q3FY24.</p> <p>The company launched Himalayan 450 in India in Q3 and Shotgun 650 in the UK and European markets in Jan'24.</p> <p>RE's market share in Europe was ~9% as on 9MFY24, ~8% in America and ~9% in Asia Pacific.</p>	Intense competition has little impact on EIM as it continues to hold onto its dominant position in the high-end motorcycle segment.
VECV market share	In 4Q/FY24, EIM's market share in heavy-duty trucks stood at 8.9%/8.3% and in light- and medium-duty trucks at 35.8%/34.6%.	As of 9MFY24, EIM's market share in heavy-duty trucks stood at 9.6% and in light- and medium-duty trucks at 34.5%.	We see a healthy revival in demand for the commercial vehicle heavy-duty (CV HD) segment.
VECV volumes	<p>The commercial vehicle (CV) segment sold ~25.7k units in Q4FY24. Heavy-duty truck sales totalled ~6.4k units, light- &amp; medium-duty trucks ~11k units and buses ~5.9k units.</p> <p>Powertrain unit sales grew flat YoY to ~15.7k units. Parts segment revenue grew 24% YoY to Rs 5.7bn.</p>	<p>The CV segment sold ~20.7k units in Q3FY24. Heavy-duty truck sales totalled ~6.2k units, light- &amp; medium-duty trucks ~9.8k units and buses ~3.4k units.</p> <p>Powertrain unit sales grew 8% YoY to ~13.6k units. Parts segment revenue grew 22% YoY to Rs 5.6bn.</p>	Further revival in the CV segment will boost revenue.
Margins	Realisations grew 5% YoY backed by 4% volume gains in the motorcycle segment and aided by newly launched products. Additionally, it helped alter the realisation mix without major price hikes. The commodity basket neither offers respite nor is a challenge as indicated by management.	Realisations grew 10% YoY as newly launched products altered the realisation mix. Steel prices have remained consistent for FY24 YTD, aluminum has been range-bound and marginal benefits were gained from a softening of precious metal prices, though they form a smaller share of the raw material basket.	Better mix rescues margins despite no price hikes. Commodity cost softness only adds to comfort.
Capacity	Aggregate production capacity of the company's two plants (Oragadam, Chennai, and Vallam, Tamil Nadu) is ~1.2mn units per annum in the 2W segment.	Aggregate production capacity of the company's two plants (Oragadam, Chennai, and Vallam, Tamil Nadu) is ~1.2mn units per annum.	Capacity expansion in VECV and motorcycle to cater to demand.
Other key points	Other expenses normalised after higher spending in the previous quarters for brand spends aiding EBITDA margins.	<p>Other expenses grew 18% YoY to Rs 4.7bn in Q3FY24 because of marketing expenses for new launches.</p> <p>Management indicated that Red Sea crisis disruptions have resulted in a 25-30% increase in shipment charges and ~30-day increase in shipment duration.</p>	Other expenses and geo-political in 4Q (versus Q3) and unlikely to see change in the medium term.

Source: Company, BOBCAPS Research | 2W: Two-wheeler; FADA: Federation of Automobile Dealers Associations; RE: Royal Enfield; VECV: VE Commercial Vehicles

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

(Rs mn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)
Volume	2,27,673	2,18,525	4.2	2,28,073	(0.2)
Avg. Realisation per Vehicle	1,84,127	1,75,328	5.0	1,77,758	3.6
Net Revenues	41,921	38,314	9.4	40,542	3.4
<b>Total Income (A)</b>	<b>41,921</b>	<b>38,314</b>	<b>9.4</b>	<b>40,542</b>	<b>3.4</b>
<b>Operating Expenses:</b>					
Raw materials consumed	22,529	21,876	3.0	21,841	3.2
Employee Expenses	3,077	2,337	31.7	2,851	7.9
Other Expenses	4,761	4,653	2.3	4,702	1.3
<b>Total Expenditure (B)</b>	<b>30,368</b>	<b>28,866</b>	<b>5.2</b>	<b>29,394</b>	<b>3.3</b>
<b>EBITDA (A-B)</b>	<b>11,553</b>	<b>9,448</b>	<b>22.3</b>	<b>11,148</b>	<b>3.6</b>
Other Income	3,075	2,026	51.8	2,496	23.2
Depreciation	1,548	1,423	8.8	1,381	12.1
EBIT	13,080	10,051	30.1	12,263	6.7
Finance Costs	59	35	69.6	51	14.0
PBT after excep items	13,021	10,016	30.0	12,211	6.6
Tax expense	3,188	2,548	25.1	3,074	3.7
<b>Reported PAT</b>	<b>9,833</b>	<b>7,469</b>	<b>31.7</b>	<b>9,137</b>	<b>7.6</b>
<b>Adjusted PAT</b>	<b>9,833</b>	<b>7,469</b>	<b>31.7</b>	<b>9,137</b>	<b>7.6</b>
Adj EPS (Rs)	36.0	27.3	31.7	33.4	7.6
<b>Key Ratios (%)</b>			<b>(bps)</b>		<b>(bps)</b>
Gross Margin	46.3	42.9	335.5	46.1	13.1
EBITDA Margin	27.6	24.7	289.9	27.5	6.2
EBIT Margin	31.2	26.2	496.8	30.2	95.4
PBT Margin	31.1	26.1	491.8	30.1	94.1
Tax Rate	24.5	25.4	(95.2)	25.2	(68.9)
Adj PAT Margin	23.5	19.5	396.3	22.5	91.8

Source: Company, BOBCAPS Research

## Valuation methodology

We raise our FY25/FY26 EBITDA estimates by 5%/8% and PAT by 2%/4% to factor in better high-end variants sales, a healthy product mix and easing costs. Our revenue/EBITDA/PAT CAGR is at 12%/18%/20% for EIM over FY23-FY26.

We value EIM at 27x P/E (vs 25x) to factor in better growth prospects in the RE and VECV segments. The revival in the domestic and exports markets in both the motorcycle and the VECV businesses helps us to increase the P/E multiple. Further, electric vehicle initiatives will cater to growth only in the near/medium term. We arrive at a revised SOTP-based TP of Rs 4,633 (previously Rs 4,045) that includes Rs 150/sh for VECV. Maintain HOLD as currently the stock seems to have limited headwinds or tailwinds.

**Fig 3 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	1,79,447	1,98,668	1,73,561	1,89,690	3.4	4.7
EBITDA	49,550	55,834	47,176	51,688	5.0	8.0
Adj PAT	39,889	45,512	39,012	43,570	1.7	4.0
Adj EPS (Rs)	146	166	142	159	2.2	4.5

Source: BOBCAPS Research

**Fig 4 – Key assumptions**

Parameter	FY23	FY24P	FY25E	FY26E
Volumes (nos)	8,88,000	9,12,000	9,42,000	9,69,600
Revenue (Rs mn)	1,40,666	1,60,782	1,79,447	1,98,668
Realisation per vehicle (Rs)	1,42,793	1,51,193	1,62,100	1,72,758
EBITDA (Rs mn)	33,935	43,801	49,550	55,834
EBITDA margin (%)	24.1	27.2	27.6	28.1
Adj. PAT (Rs mn)	26,225	37,039	39,889	45,512
EPS (Rs)	96	136	146	166

Source: Company, BOBCAPS Research

**Fig 5 – Valuation summary**

Business (Rs)	FY26E EPS (Rs)	Target P/E (x)	Value (Rs)
Standalone Business	166	27.0	4,483
VECV Business	-	-	150
<b>Total</b>	-	-	<b>4,633</b>

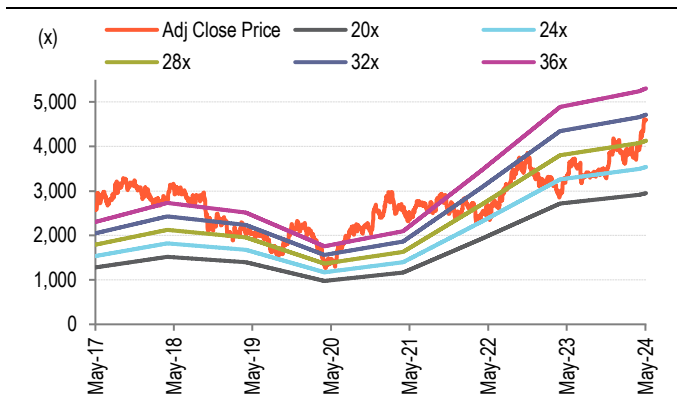
Source: BOBCAPS Research

**Fig 6 – Peer comparison**

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY25E	FY26E	FY25E	FY26E
Eicher Motors	EIM IN	HOLD	4,633	146	166	22.8	21.4
TVS Motor	TVSL IN	BUY	2,382	60.8	77.6	31.7	30.3
Bajaj Auto	BJAUT IN	SELL	6,823	299.8	359.1	28.5	27.4

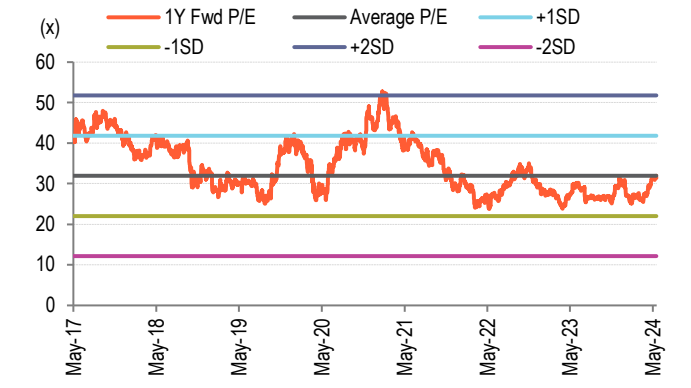
Source: BOBCAPS Research

**Fig 7 – P/E band: Limited scope for valuation expansion**



Source: Bloomberg, BOBCAPS Research

**Fig 8 – P/E 1Y fwd: Fierce competition explains our valuation discount**



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.

### Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	7.4	207	226	BUY
Bajaj Auto	BJAUT IN	31.2	8,872	6,823	SELL
Eicher Motors	EIM IN	15.6	4,682	4,633	HOLD
Escorts	ESCORTS IN	6.0	3,749	2,530	SELL
Hero MotoCorp	HMCL IN	12.5	5,141	4,776	HOLD
Maruti Suzuki	MSIL IN	45.9	12,498	12,965	HOLD
TVS Motor	TVSL IN	12.3	2,128	2,382	BUY
VST Tillers Tractors	VSTT IN	0.4	3,392	3,167	HOLD

Source: BOBCAPS Research, NSE | Price as of 16 May 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
<b>Total revenue</b>	<b>1,01,229</b>	<b>1,40,666</b>	<b>1,60,782</b>	<b>1,79,447</b>	<b>1,98,668</b>
EBITDA	21,136	33,935	43,801	49,550	55,834
Depreciation	4,455	5,121	5,591	5,701	6,308
EBIT	21,223	35,212	49,437	52,771	60,225
Net interest inc./(exp.)	(103)	(130)	(192)	(199)	(231)
Other inc./(exp.)	4,543	6,398	11,227	8,922	10,699
Exceptional items	0	0	0	0	0
EBT	21,121	35,082	49,245	52,572	59,994
Income taxes	5,259	8,857	12,206	12,880	14,698
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(91)	163	0	0	0
<b>Reported net profit</b>	<b>15,772</b>	<b>26,388</b>	<b>37,218</b>	<b>39,889</b>	<b>45,512</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>15,772</b>	<b>26,388</b>	<b>37,218</b>	<b>39,889</b>	<b>45,512</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	19,498	19,484	21,957	24,988	27,930
Other current liabilities	8,911	13,823	16,586	11,661	12,676
Provisions	4,202	2,557	2,722	4,986	5,235
Debt funds	60	988	1,723	1,018	1,038
Other liabilities	0	0	0	0	0
Equity capital	273	273	273	273	273
Reserves & surplus	1,07,673	1,28,595	1,56,662	1,91,697	2,30,172
Shareholders' fund	1,07,945	1,28,867	1,56,934	1,91,970	2,30,445
<b>Total liab. and equities</b>	<b>1,40,617</b>	<b>1,65,719</b>	<b>1,99,922</b>	<b>2,34,622</b>	<b>2,77,324</b>
Cash and cash eq.	26,986	7,959	930	2,665	5,741
Accounts receivables	4,929	7,020	5,727	8,972	10,331
Inventories	8,984	9,109	10,686	11,215	12,913
Other current assets	13,400	11,183	41,041	49,164	56,194
Investments	59,500	1,02,796	1,13,069	1,33,069	1,62,069
Net fixed assets	27,716	29,946	30,808	31,607	32,298
CWIP	1,334	742	2,467	2,975	3,075
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(2,229)	(3,034)	(4,805)	(5,045)	(5,297)
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>1,40,618</b>	<b>1,65,721</b>	<b>1,99,922</b>	<b>2,34,622</b>	<b>2,77,324</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
<b>Cash flow from operations</b>	<b>14,551</b>	<b>28,173</b>	<b>6,650</b>	<b>24,940</b>	<b>35,010</b>
Capital expenditures	(6,169)	(6,759)	(8,178)	(7,008)	(7,100)
Change in investments	(39,052)	(43,296)	(10,273)	(20,000)	(29,000)
Other investing cash flows	4,543	6,398	11,227	8,922	10,699
<b>Cash flow from investing</b>	<b>(40,678)</b>	<b>(43,658)</b>	<b>(7,224)</b>	<b>(18,086)</b>	<b>(25,401)</b>
Equities issued/Others	161	166	(166)	0	0
Debt raised/repaid	60	928	735	(705)	20
Interest expenses	(103)	(130)	(192)	(199)	(231)
Dividends paid	(4,647)	(5,742)	(6,820)	(6,820)	(6,820)
Other financing cash flows	18	805	1,771	240	252
<b>Cash flow from financing</b>	<b>(4,511)</b>	<b>(3,972)</b>	<b>(4,672)</b>	<b>(7,484)</b>	<b>(6,779)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(30,638)</b>	<b>(19,457)</b>	<b>(5,246)</b>	<b>(629)</b>	<b>2,830</b>
<b>Closing cash &amp; cash eq.</b>	<b>26,986</b>	<b>7,959</b>	<b>930</b>	<b>2,665</b>	<b>5,741</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	58.1	96.1	135.8	145.5	166.0
Adjusted EPS	58.1	96.1	135.8	145.5	166.0
Dividend per share	17.0	21.0	25.0	25.0	25.0
Book value per share	395.7	472.4	575.3	703.7	844.7

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	12.1	8.8	8.0	7.2	6.4
EV/EBITDA	57.8	36.5	29.4	26.0	22.9
Adjusted P/E	80.5	48.7	34.5	32.2	28.2
P/BV	11.8	9.9	8.1	6.7	5.5

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	75.1	74.8	75.2	75.5	75.5
Interest burden (PBT/EBIT)	99.5	99.6	99.6	99.6	99.6
EBIT margin (EBIT/Revenue)	21.0	25.0	30.7	29.4	30.3
Asset turnover (Rev./Avg TA)	97.6	118.3	111.5	102.1	93.6
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
<b>Adjusted ROAE</b>	<b>15.5</b>	<b>22.1</b>	<b>25.9</b>	<b>22.8</b>	<b>21.4</b>

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	17.4	39.0	14.3	11.6	10.7
EBITDA	18.3	60.6	29.1	13.1	12.7
Adjusted EPS	19.3	65.3	41.2	7.2	14.1
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	20.9	24.1	27.2	27.6	28.1
EBIT margin	21.0	25.0	30.7	29.4	30.3
Adjusted profit margin	15.6	18.8	23.1	22.2	22.9
Adjusted ROAE	14.6	20.5	23.7	20.8	19.7
ROCE	15.4	22.1	25.8	22.7	21.4
<b>Working capital days (days)</b>					
Receivables	14	16	14	15	18
Inventory	30	23	22	22	22
Payables	106	88	87	86	87
<b>Ratios (x)</b>					
Gross asset turnover	0.5	0.4	0.4	0.4	0.4
Current ratio	1.7	1.0	1.4	1.7	1.9
Net interest coverage ratio	207.1	271.5	257.5	265.2	260.7
<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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**BUY** – Expected return >+15%

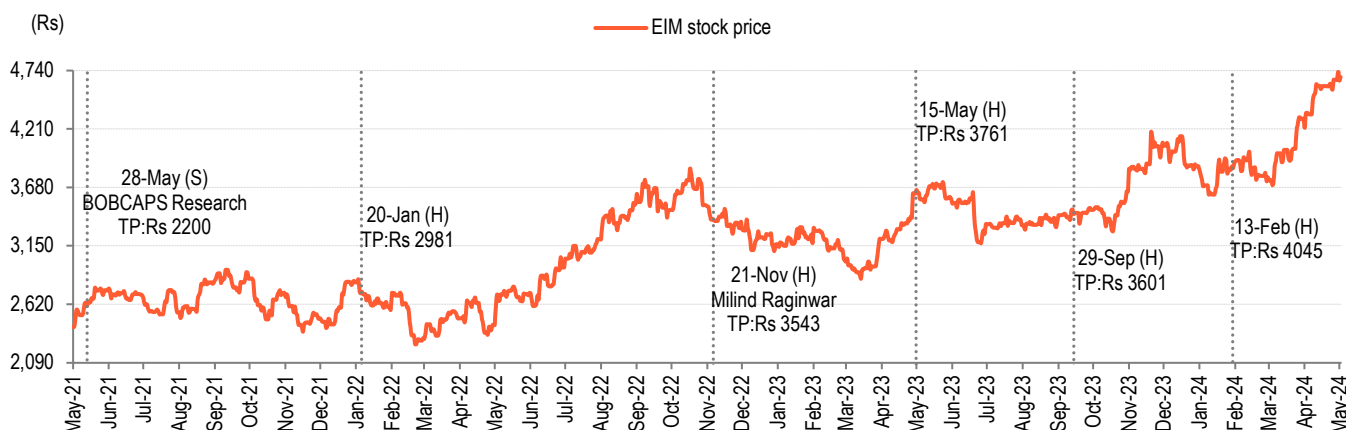
**HOLD** – Expected return from -6% to +15%

**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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