

RESEARCH**BOB ECONOMICS RESEARCH | RBI MONETARY POLICY**

Status quo with hawkish undertones

EICHER MOTORS | TARGET: Rs 4,724 | +3% | HOLD

Steady performance; new launches to drive growth momentum

SUMMARY**INDIA ECONOMICS: RBI MONETARY POLICY**

The RBI delivered no major surprise in the latest monetary policy. Both the repo rate and stance were kept unchanged by a 4-2 vote. However, the statement by the RBI Governor had a marginal hawkish tilt as he underlined the risks that prolonged and elevated food inflation could have on headline inflation. The cautionary tone by the Governor at a time when food inflation continues to register double digit growth coupled with upward revisions to the inflation projections for the next 2 quarters suggest that the possibility of a rate cut now seems most likely only in Dec'24 or even later.

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- Q1 revenue increased ~9% YoY to Rs 42.3bn, driven by realisation gains of 9.3% YoY to Rs 187.2k per motorcycle
- Motorcycle segment gross margin rose 347bps YoY (54bps QoQ) to 46.8%, supported by better pricing
- FY25E/FY26E earnings unchanged, introduce FY27E earnings. We revise our SOTP-based TP to Rs 4,724 (from Rs 4,633). Retain HOLD

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RBI MONETARY POLICY

08 August 2024

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Aditi Gupta
Economist

Key rates: With a 4-2 vote, the MPC decided to keep policy rate and stance unchanged. Voting pattern of the MPC signals a growing divergence between members on monetary policy. This is the second straight meeting in which 2 MPC members (Dr. Ashima Goyal and Prof. Jayanth R. Varma) have voted for a rate cut and change in stance. Notably, Prof. Varma has been in favour of a rate cut since Feb'24. This suggests that there are growing calls within the MPC to pivot towards monetary easing. On the other hand, the RBI Governor's statement appeared fairly hawkish with a strong emphasis on elevated food inflation and its impact on headline inflation.

Growth projections: The RBI remained positive on the growth outlook and kept its projection for GDP growth unchanged at 7.2% for FY25. However, growth forecast for Q1 FY25 was revised lower by 20bps to 7.1%. This was on account of lower corporate profitability, muted government capex and lower core output. In fact, our analysis shows that there has been a substantial moderation in corporate profitability in the last few quarters. In fact, corporate profit growth has moderated significantly to 0.6% in Q1 FY25 (sample of 1,454 companies) compared with an increase of 47.9% in Q1 FY24, and may see further moderation going ahead. Even so, we continue to believe that the GDP growth in FY25 will be higher than RBI estimates. Positive impulse for the growth trajectory will come from pickup in private expenditure, normal monsoon and continued uptick in services activity. On consumption, urban consumption is strong, with companies signalling a continued demand in the premium segment. Further, while rural demand is picking up gradually, elevated inflation particularly in food inflation, can derail the recovery.



HOLD
 TP: Rs 4,724 | ▲ 3%

EICHER MOTORS

| Automobiles

| 09 August 2024

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Revenue growth driven by realisation gains: EIM's Q1FY25 revenue grew 9% YoY (0.9% QoQ) to Rs 42.3bn, backed by realisation gains of 9.3%/2% YoY/QoQ to Rs 187.2k per motorcycle, as newly launched products improved the product mix and exports volume. Volume growth was flat YoY/QoQ with ~226k units. This helped gross margin improve to ~47% vs. 43% YoY (flat QoQ).

Product-mix driven realisation gains and cost control drive margins: Gross margin rose 347bps/54bps YoY/QoQ aided by lower inventory-adjusted raw material cost at 53.2% of sales (-350bps/-54bps YoY/QoQ). Other expenses increased 11%/4% YoY/QoQ to Rs 4.8bn as launch-related marketing spend continued. EBITDA grew by 16.4%/2.0% YoY/QoQ to Rs 11.8bn. EBITDA margin grew 190bps/30bps YoY/QoQ to 27.9%. Adj PAT jumped 19.1%/10.6% YoY/QoQ to Rs 10.8bn.

Strong push on launches: In the 2W business, EIM launched the Guerrilla 450 on the Sherpa (K) platform and is ready to launch the 2024 Classic in the near term. The Himalayan 450 has also been launched across APAC, EU, UK and Mexico. EIM launched the Super Meteor in Brazil, Bullet 350 in Thailand/South Korea and Shotgun in Australia/Malaysia, keeping the launch push strong across regions.

CV segment revival on cards: EIM gained market share across its commercial vehicle sub-segments with the aggregate market share at ~17% in Q1. It gained Light & Medium vehicles market share of ~37% from 34% in Q1FY24. It consolidated its volume in the Heavy & Medium segment at 8.5%. H1FY25 is likely to be weak, but pick up is expected in 2H following budgetary allocations and replacement demand that will help lower discounts.

Maintain HOLD: We keep our FY25/FY26 EBITDA estimates unchanged, factoring in better high-end variant sales, a healthy product mix and easing costs. We introduce FY27 estimates with revenue/EBITDA/PAT CAGR at 10-11% over FY24-FY27E. We continue to value EIM at 27x P/E to factor in better growth prospects in the RE and VECV segments. We arrive at a higher SOTP-based TP of Rs 4,724 (vs. Rs 4,633) that includes Rs 150/sh for VECV. Maintain HOLD for right valuations.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	EIM IN/Rs 4,577
Market cap	US\$ 14.9bn
Free float	51%
3M ADV	US\$ 37.9mn
52wk high/low	Rs 5,059/Rs 3,275
Promoter/FPI/DII	49%/30%/9%

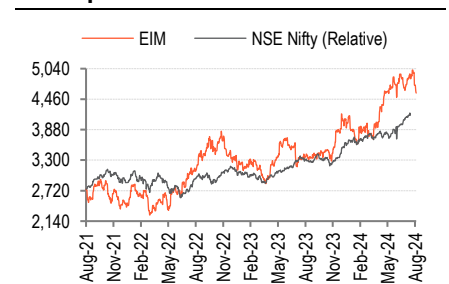
Source: NSE | Price as of 8 Aug 2024

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)	37,683	39,625	45,234
Adj. EPS (Rs)	137.4	144.5	165.0
Consensus EPS (Rs)	137.4	150.1	169.7
Adj. ROAE (%)	24.0	21.4	20.7
Adj. P/E (x)	33.3	31.7	27.7
EV/EBITDA (x)	28.7	25.2	21.9
Adj. EPS growth (%)	43.0	5.1	14.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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