

Eicher Motors (EIM)

RE in-line, VECV PAT boost led by tax credits

Valuation and View – New RE launches yet to boost volumes

Eicher Motors (EIM) 1QFY25 consolidated results were in-line as both standalone (S/A) and VECV performance were steady. EBITDA margins of S/A expanded 190bp (+30bp QoQ) at 27.9% (est 27.5%) led by record ASP at Rs186.5k/unit due to favorable product mix as price hikes were not taken during 1QFY25. VECV operating performance though were in-line with margins were at 7.6% (flat QoQ, est 7.5%), PAT boosted by tax credits. RE's margins expansion ahead will be guided by stable RM (positive impact of 60bp YoY), higher share of non-motorcycle revenues, platform related VAVE and exports. The demand outlook is positive for domestic as middle weight motorcycles segment growth guided at high single digit in FY25E while exports to see gradual volume improvement. The management sounded confident to improve RE's volume trajectory backed by healthy response to new launches (Himalayan 450 and Guerilla 450). Further, it has re-iterated slew of launches such as Classic and initiatives such as branding for Hunter and Bullet, which should help expand overall mid-size market. We expect RE's overall volumes to grow at ~9% CAGR over FY24-26E, despite competitive launches. Recent launches could be an inflection point for RE as a completely new and improved platform should drive efficiencies. However, we remain watchful of domestic average monthly run-rate as exports recovery to be only gradual. On the other hand, VECV is approaching a cyclical decline in volumes, in turn restricting consolidated revenue/EBITDA/Adj.PAT CAGR to 10%/12%/9% over FY24-26E. We cut FY25/FY26 EPS by 1.5% each as we cut RE volumes by ~0.5% each for FY25/26. Stock trades at 28x/26.3x FY25E/FY26E consol EPS. We maintain BUY with SoTP based revised TP of Rs5,307 (vs Rs5,383 earlier). We value S/A at 30x P/E and VECV at 11x EV/EBITDA.

Result Highlights – Overall performance steady

- Consol revenues grew 10.2% YoY (+3.2% QoQ) at Rs43.9b (est ~Rs41.8b). RE's volume de-grew 0.4% YoY/-0.3% QoQ at 226.9k while RE ASPs came in better at Rs186.5k/unit (est Rs185.4k/unit, +8.8% YoY, +1.3% QoQ), led by product mix.
- Consol gross margins expanded 220bp YoY (-10bp QoQ) at 46.4% (est 46.5%) while RE's gross margins expanded 350bp YoY (+50bp QoQ) at 46.8% (est 46.5%). Consol EBITDA grew 14.2% YoY (+3.3% QoQ) at Rs11.7b (est ~Rs11b) with margins at 26.5% (+90bp YoY/ flat QoQ, est 26.3%). S/A margins expanded 190bp YoY (+30bp QoQ) at 27.9% (est 27.5%), leading to highest EBITDA/vehicle at Rs51.9k/unit which grew by ~17% YoY (+2.4% QoQ). Adj.PAT came in-line at ~Rs11b (+20% YoY/ +2.9% QoQ, est Rs10.6b).
- VECV performance operationally in-line while PAT was a beat - Revenues grew 2% YoY at Rs50.7b (est Rs49.5b), EBITDA declined ~1% to Rs3.8b (est Rs3.7b) with margins at 7.6% (est 7.5%). PAT grew 77% YoY at Rs3.2b (est Rs1.8b).

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	43,931	41,780	43,073	5.1	2.0	Steady performance overall
EBITDA	11,654	10,975	11,267	6.2	3.4	
EBITDA margins %	26.5	26.3	26.2	20bp	40bp	
Adj PAT	11,015	10,560	10,164	4.3	8.4	

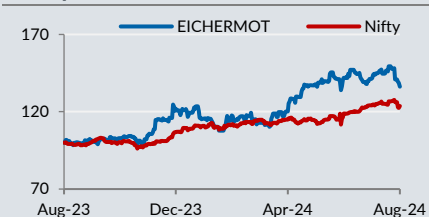
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 4,578
Target Price	: Rs 5,307
Potential Return	: +16%

Stock data (as on Aug 08, 2024)

Nifty	24,117
52 Week h/l (Rs)	5,059 / 3,275
Market cap (Rs/USD mn)	12,75,218 / 15,192
Outstanding Shares (mn)	274
6m Avg t/o (Rs mn):	2,975
Div yield (%):	1.0
Bloomberg code:	EIM IN
NSE code:	EICHERMOT

Stock performance



	1M	3M	1Y
Absolute return	-3.9%	-0.7%	+35.5%

Shareholding pattern (As of June'24)

Promoter	49.1%
FII+DII	40.8%
Others	10.1%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	5,307	5,383

Δ in earnings estimates

	FY25E	FY26E
EPS (New)	162.5	174.0
EPS (Old)	164.0	176.7
% change	-1.5%	-1.5%

Financial Summary

Y/E Mar (Rs b)	FY24	FY25E	FY26E
Net Income	165.4	182.0	200.0
EBITDA	43.3	48.9	54.4
Adj. PAT	40.0	44.5	47.6
Adj. EPS (INR)	146.1	162.5	174.0
EPS Gr. (%)	37.2	11.2	7.1
BV/Sh. (INR)	659.1	776.6	905.6
RoE (%)	24.2	22.6	20.7
RoCE (%)	23.9	22.3	20.9
P/E (x)	31.3	28.2	26.3
P/BV (x)	6.9	5.9	5.1
EV/EBITDA (x)	21.3	18.4	16.7
Div. Yield (%)	1.1	1.0	1.0

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Exhibit 2: Quarterly snapshot

Y/e Mar (Rs mn)	Q1FY25	Q1FY24	YoY chg	Q4FY24	QoQ chg	FY24	FY23	YoY chg
Net Revenues	43,931	39,864	10.2	42,560	3.2	1,65,358	1,44,422	14.5
Raw Materials	23,562	22,273	5.8	22,754	3.5	89,807	82,119	9.4
% of Net Sales	53.6%	55.9%		53.5%		54.3%	56.9%	
Personnel	3,536	2,927	20.8	3,276	7.9	12,357	10,019	23.3
% of Net Sales	8.0%	7.3%		7.7%		7.5%	6.9%	
Manufacturing & Other Exp	5,178	4,456	16.2	5,244	(1.2)	19,925	17,848	11.6
% of Net Sales	11.8%	11.2%		12.3%		12.0%	12.4%	
Total Expenditure	32,276	29,655	8.8	31,274	3.2	1,22,089	1,09,986	11.0
EBITDA	11,654	10,208	14.2	11,286	3.3	43,269	34,436	25.7
EBITDA Margin (%)	26.5%	25.6%		26.5%		26.2%	23.8%	
Depreciation	1,686	1,423	18.5	1,653	2.0	5,976	5,262	13.6
EBIT	9,968	8,786	13.5	9,634	3.5	37,293	29,174	27.8
Interest Expenses	123	104	17.6	153	(20.0)	509	280	81.6
Non-operating income	2,820	2,432	15.9	3,052	(7.6)	10,759	5,951	80.8
PBT	12,665	11,114	14.0	12,532	1.1	47,543	34,845	36.4
Tax-Total	3,396	2,935	15.7	3,146	8.0	12,010	8,857	35.6
Tax Rate (%) - Total	26.8%	26.4%		25.1%		25.3%	25.4%	
PAT	9,269	8,179	13.3	9,386	(1.3)	35,533	25,988	36.7
Minority interest / Share in profit	1,746	1,004	73.8	1,318	32.4	4,477	3,152	42.1
Profit after MI / Share of profit	11,015	9,183	19.9	10,705	2.9	40,010	29,139	37.3
Adj. PAT	11,015	9,183	19.9	10,705	2.9	40,010	29,139	37.3
PAT Margin	18.8%	25.5%		25.2%		24.2%	20.2%	

Source- Company, YES Sec

Exhibit 3: SOTP Valuation

INR Mn	FY25E	FY26E
Royal Enfield	30	30
PAT	39,590	43,666
Equity Value (at 26x PE)	11,87,689	13,09,975
VECV (@ 54.4% Economic interest)	12	12
EBITDA	10,205	9,014
EV (at 12x EV/EBITDA)	1,22,457	1,08,172
Net Debt	-8,959	-15,337
Equity Value	1,31,416	1,23,509
Total Equity Value	13,19,104	14,33,484
Target Price (INR/Sh)	4,818	5,236

Source- Company, YES Sec

KEY CON-CALL HIGHLIGHTS

Royal Enfield

Domestic

- **Demand outlook – Expect the premium 2W category to grow in FY25E**
 - Currently commuter segment is seeing a catch-up but still below pre-covid levels. Middle weight category on the other hand, despite catch-up the segment grew ~4.5% YoY in 1QFY25. The growth is low despite new launches and network expansion.
 - The muted growth was led by postponement of purchase. RE retail grew low single digit in 1QFY25 while wholesale could have been more a but RE have moved to replenishment model taking care of inventory.
 - Expect the segment to grow in FY25E led by new launches, brand building exercise for Hunter and other products.
- **K platform (450cc single cylinder liquid cooled platform) production run-rate is ramped up to ~8.5k units per month** (and Guerrilla ramp-up is yet to happen both in India and exports) just within 6-8 months of its launch. This includes Himalayan 450 and Guerrilla 450.
 - Capacity can be modularly increased between brands.
- **New product launch pipeline continues to be healthy and expect to launch Classic 2024**
 - Model hasn't change since launch of Classic reborn from J platform in 2021.
 - Brand studies indicate, Classic is strong in across pockets in India. Classic will have ~3 upgrades etc. with the launch.
- **Hunter** – created a foothold in 1st time buyers. The market was bit muted and looking for marketing activities and brand building exercise to get in young and first-time buyers.
- **Bullet** – At the launch had a good response. Saw some impact in bastion markets which will be addressed through required product interventions before festive.

Exports

- **Outlook** – Sentiments are still not as positive as expected. Had taken an inventory correction which is largely behind. Retail sales grew YoY in 1QFY25 as seeing green shoots.
 - **Regional flavor** – LATAM is doing well with CKD, Europe sings of growth coming back, APAC – still firming up. Able to see retail growth YoY across regions. Will launch Meteor 650 in high volume markets like Brazil which should drive volume.
- **Distribution reach** in key markets exclusive stores/ MBO – Americas 104/220 (vs flat QoQ, 100/216 3Q and 98/214 in 2Q), UK,MEA, Europe – 80/508 (vs 75/515 in 4Q, 66/510 in 3Q, 69/512 in 2Q) and APAC – 56/116 (vs flat QoQ, 55/112 in 3Q and 50/110 in 2Q).
 - **Overall 1085+ global touchpoints in as of 1QFY25** (vs flat QoQ and 1,050+ in 3Q) with 235 exclusive stores (vs 221 in 3Q and 217 in 2Q) and 851 MBOs (v/s 838 in 3Q and 836 in 2Q).

VECV

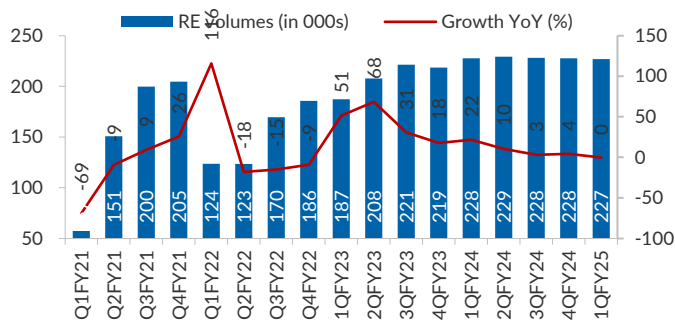
- **Outlook** – Expect 1HFY25 to be bit muted led by monsoon even in Aug'24 for MHCV. Expect rebound in volumes in 2HFY25E led by macro factors and healthy replacement demand. Overall expect positive volumes for FY25E where VECV likely to continue outpace the industry across segments.
- **PAT boost was led by** write back of deferred tax due to change in tax regime to 25%.

Financial comments

- RE ASP increase was led by product/geography mix, haven't taken any price hikes in 1QFY25 while share of spares and accessories is trending at ~15% of revenues.
- Favorable RM impact of ~60bp helped gross margins expansion.

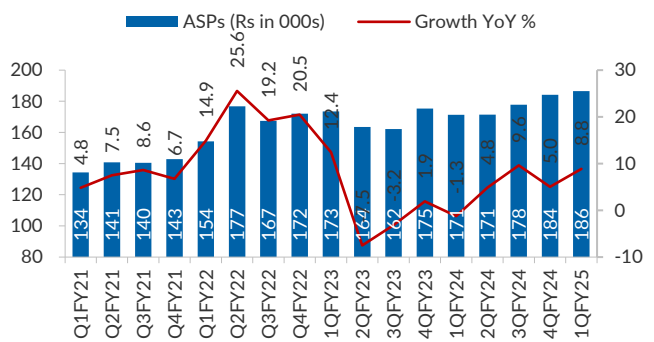
CHARTS

Exhibit 1: RE volume remained flat QoQ; ramp-up ahead



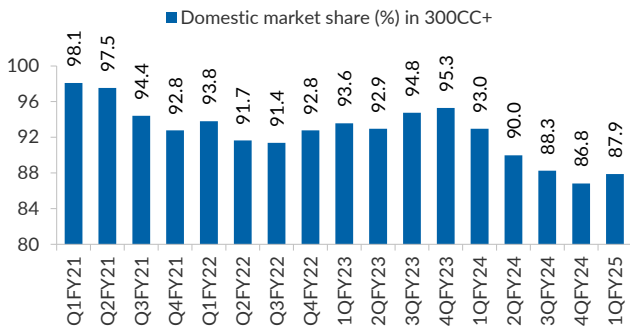
Source: Company, YES Sec

Exhibit 2: RE ASP grew ~1.3% QoQ to Rs186.5k



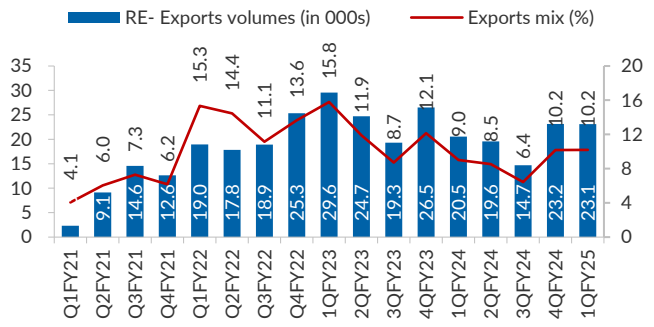
Source: Company, YES Sec

Exhibit 3: RE - Domestic market share trend



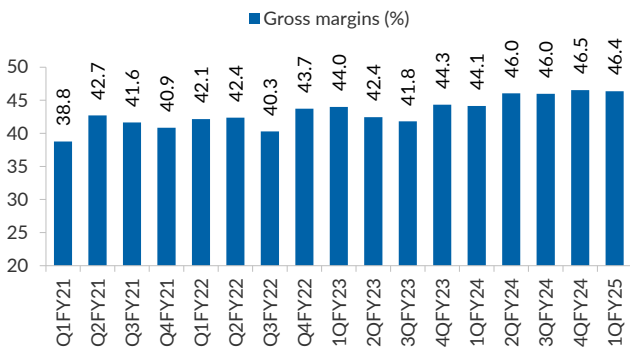
Source: SIAM, YES Sec

Exhibit 4: RE exports expected to trend up ahead



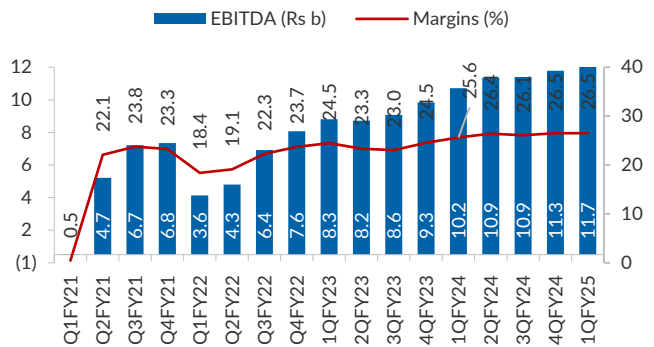
Source: Company, YES Sec

Exhibit 5: Gross margins were flat QoQ at 46.4%...



Source: Company, YES Sec

Exhibit 6: ...EBITDAM too were flat QoQ at 26.5%



Source: Company, YES Sec

FINANCIALS

Exhibit 7: Balance Sheet

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Share Capital	273	273	273	274	274	274	274
Net Worth	99,809	1,14,381	1,26,080	1,49,903	1,80,455	2,12,630	2,47,957
Minority Interest	-	-	-	-	-	(5,406)	(9,888)
Deferred Tax	2,522	2,215	2,201	2,913	4,611	4,611	4,611
Loans	2,490	2,193	1,077	2,884	4,194	2,098	2,098
Capital Employed	1,04,821	1,18,788	1,29,358	1,55,700	1,89,261	2,13,932	2,44,777
Application of Funds							
Gross Fixed Assets	36,518	40,489	44,054	51,210	56,868	64,379	74,557
Less: Depreciation	12,743	16,156	19,811	24,310	27,724	33,713	39,975
Net Fixed Assets	23,775	24,333	24,243	26,900	29,144	30,666	34,582
Capital WIP	3,122	3,143	5,048	4,719	5,551	5,535	5,535
- of which Goodwill	223	223	223	223	223	223	223
Investments	57,488	39,021	77,206	1,23,207	1,35,270	1,41,037	1,45,954
Curr.Assets, L & Adv.	40,113	79,733	56,003	36,285	61,405	73,874	99,591
Inventory	5,724	8,746	11,324	12,784	14,096	14,458	15,888
Sundry Debtors	868	1,582	3,020	3,689	3,738	4,985	5,479
Cash & Bank Balances	29,506	58,304	27,225	8,571	1,463	37,068	59,145
Loans & Advances	1	4,592	6,768	5,889	4,769	5,397	5,931
Others	4,014	6,510	7,666	5,350	37,339	11,965	13,148
Current Liab. & Prov.	19,676	27,442	33,142	35,410	42,109	37,179	40,884
Sundry Creditors	10,078	15,132	17,881	18,104	20,901	19,942	21,914
Other Liabilities	8,650	10,392	12,532	12,894	18,205	14,956	16,436
Provisions	949	1,918	2,729	4,412	3,003	2,282	2,534
Net Current Assets	20,436	52,291	22,861	875	19,296	36,694	58,707
Application of Funds	1,04,821	1,18,788	1,29,357	1,55,700	1,89,261	2,13,932	2,44,777

Source: Company, YES Sec

Exhibit 8: Income statement

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Gross Op. Income	91,536	87,204	1,02,978	1,44,422	1,65,358	1,81,967	1,99,966
Change (%)	(6.6)	(4.7)	18.1	40.2	14.5	10.0	9.9
EBITDA	21,804	17,813	21,723	34,436	43,269	48,948	54,440
EBITDA Margin (%)	24.0	20.6	21.4	24.3	26.7	27.3	27.7
Depreciation	3,815	4,507	4,519	5,262	5,976	5,989	6,262
EBIT	17,989	13,305	17,203	29,174	37,293	42,959	48,178
Interest cost	189	165	188	280	509	222	222
Other Income	5,433	4,532	4,408	5,951	10,759	9,200	9,380
PBT	23,232	17,673	21,424	34,845	47,543	51,937	57,336
Tax	5,275	4,515	5,259	8,857	12,010	12,847	14,170
Effective Rate (%)	22.7	25.5	24.5	25.4	25.3	24.7	24.7
PAT	17,958	13,158	16,165	25,988	35,533	39,090	43,166
Change (%)	(8.5)	(26.7)	22.9	60.8	36.7	10.0	10.4
Less: Minority Interest	(317)	(311)	(602)	(3,152)	(4,477)	(5,406)	(4,482)
Adj. PAT	18,275	13,469	16,766	29,139	40,010	44,496	47,648
Change (%)	(17.7)	(26.3)	24.5	73.8	37.3	11.2	7.1

Source: Company, YES Sec

Exhibit 9: Cash Flow Statement

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Profit before Tax	23,549	17,984	22,025	37,996	52,020	51,937	57,336
Depreciation & Amort.	3,815	4,507	4,519	5,262	5,976	5,989	6,262
Direct Taxes Paid	(6,283)	(4,566)	(5,136)	(7,703)	(10,678)	(12,847)	(14,170)
(Inc)/Dec in Working Capital	(1,616)	1,318	(1,268)	(1,906)	1,436	(2,569)	49
Interest/Div. Received	(2,207)	(3,103)	(2,440)	(1,765)	(2,037)	9,200	9,380
Other Items	(317)	770	(2,429)	(3,411)	(9,480)	11,798	(9,143)
CF from Oper. Activity	16,941	16,910	15,270	28,475	37,237	63,508	49,714
(Inc)/Dec in FA+CWIP	(5,445)	(5,149)	(6,387)	(6,737)	(8,144)	(7,495)	(10,178)
Free Cash Flow	11,496	11,760	8,883	21,738	29,094	56,013	39,536
(Pur)/Sale of Invest.	(9,639)	(11,104)	(3,446)	(17,479)	(20,376)	(5,768)	(4,916)
CF from Inv. Activity	(15,084)	(16,253)	(9,833)	(24,216)	(28,520)	(13,263)	(15,094)
Issue of Shares	289	384	65	112	466	-	-
Inc/(Dec) in Debt	(618)	(373)	(1,164)	1,638	1,754	(2,097)	-
Interest Paid	(167)	(158)	(187)	(182)	(354)	(222)	(222)
Dividends Paid	(8,087)	-	(4,647)	(5,742)	(10,129)	(12,321)	(12,321)
CF from Fin. Activity	(8,583)	(148)	(5,934)	(4,174)	(8,263)	(14,640)	(12,543)
Inc/(Dec) in Cash	(6,725)	509	(496)	84	454	35,605	22,077
Add: Beginning Balance	7,158	432	941	446	530	1,463	37,068
Closing Balance	432	941	445	530	984	37,068	59,145

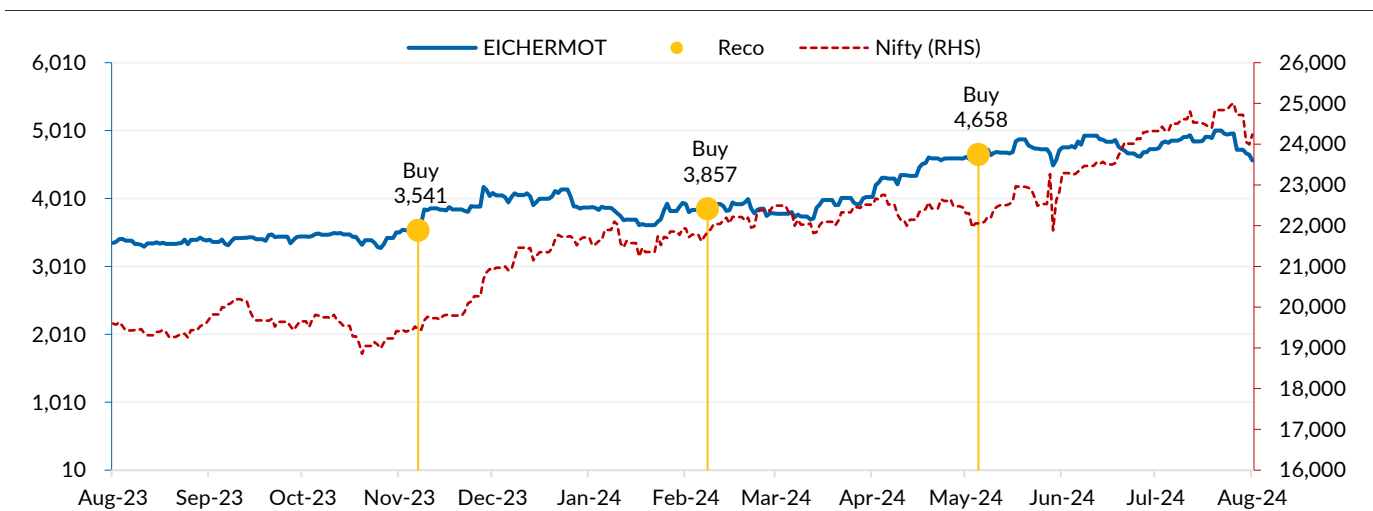
Source- Company, YES Sec

Exhibit 10: Growth and Ratio matrix

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)							
EPS	67.0	49.3	61.3	106.5	146.1	162.5	174.0
EPS Growth (%)	(17.7)	(26.4)	24.4	73.7	37.2	11.2	7.1
Cash EPS	81.0	65.8	77.9	125.8	168.0	184.4	196.9
Book Value per Share	365.9	418.5	461.2	548.1	659.1	776.6	905.6
DPS	12.5	17.0	21.0	37.0	51.0	45.0	45.0
Payout (Incl. Div. Tax) %	21.7	34.5	34.2	34.7	34.9	27.7	25.9
Valuation (x)							
P/E	68.3	92.9	74.7	43.0	31.3	28.2	26.3
Cash P/E	56.5	69.6	58.8	36.4	27.3	24.8	23.3
EV/EBITDA	49.6	55.9	46.5	27.3	21.3	18.4	16.7
EV/Sales	8.8	8.8	6.8	4.6	4.0	3.5	3.3
Price to Book Value	12.5	10.9	9.9	8.4	6.9	5.9	5.1
Dividend Yield (%)	0.3	0.4	0.5	0.8	1.1	1.0	1.0
Profitability Ratios (%)							
RoE	19.3	12.6	13.9	21.1	24.2	22.6	20.7
RoCE	18.6	12.4	13.8	21.0	23.9	22.3	20.9
RoIC	112.6	61.4	70.3	123.4	94.3	94.2	123.1
Turnover Ratios							
Debtors (Days)	3.5	6.6	10.7	9.3	8.3	10.0	10.0
Inventory (Days)	22.8	36.6	40.1	32.3	31.1	29.0	29.0
Creditors (Days)	40.2	63.3	63.4	45.8	46.1	40.0	40.0
Working Capital (Days)	(13.9)	(20.1)	(12.5)	(4.1)	(6.8)	(1.0)	(1.0)
Asset Turnover (x)	0.9	0.7	0.8	0.9	0.9	0.8	0.8
Leverage Ratio							
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source- Company, YES Sec

Recommendation Tracker



Source - YES Sec

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