

February 13, 2024

RESULT REPORT Q3 FY24 | Sector: Automobile

Eicher Motors (EIM)

In-line performance

Valuation and View

Eicher Motors (EIM) 3QFY24 consolidated results were in-line as both standalone (S/A) and VECV performance were steady. EBITDA margins of S/A expanded 360bp (-40bp) at 27.5% (in-line), despite Rs200m one-off impact (~50bp) due to product launch and Motoverse event expenses. VECV margins were at 8% (+140bp, +10bp QoQ, est 7%), led by operating leverage. Margins expansion ahead will be gradual ahead as normalization of cost would be partially offset by stable RM and price hike already part of P&L. While demand outlook is positive/weak for domestic/exports, the management sounded confident to improve volume trajectory backed by healthy response to new launches. Further, it has re-iterated slew of launches (rather will be spaced out), which should help expand overall mid-size market.

We expect RE's overall volumes to grow at ~8% CAGR over FY24-26E (vs -7% CAGR over FY20-22), despite competitive launches. Recent launches could be an inflection point for RE as a completely new and improved platform should drive efficiencies. On the other hand, VECV is approaching a cyclical decline in volumes and profit, in turn restricting consolidated PAT CAGR to 4% over FY24-26E. We cut FY25/FY26 EPS by 3.5%/4.3% to factor in for decline in CV volumes. Stock trades at 24.5x/23x FY25E/FY26E consol EPS. We maintain BUY with SoTP based revised TP of Rs4,631 (v/s Rs4,864). We value S/A business at 28x P/E and VECV at 11x EV/EBITDA.

Result Highlights – RE ASP surprised positively led by favorable mix

- Consol revenues grew 12.3% YoY (+1.6% QoQ) at Rs41.1b (in-line). RE's volume grew 3% YoY/-0.5% QoQ at 228k while RE ASPs came in better than expected which grew 9.6% YoY (+3.7% QoQ) at Rs177.8k/unit (est Rs171k/unit).
- Consol gross margins were flat QoQ (+420bp QoQ) at 46% (est 46.4%).
- Consol EBITDA grew 27.2% YoY (+0.3% QoQ) at Rs10.6b (est Rs10.6b) with margins at 26.1% (+310bp YoY/-30bp QoQ, in-line). S/A margins expanded 360bp YoY (-40 bp QoQ) at 27.5% (in-line). Leading to EBITDA/vehicle grew by 23.5% YoY (+0.8% QoQ) at Rs47.8k/unit.
- Led by steady operating performance, Adj.PAT came in at Rs9.96b (+34.3% YoY/-2% QoQ, in-line).
- VECV 3QFY24 performance in-line** - Revenues grew 19.1% YoY (+7% QoQ) at Rs54.8b (in-line), EBITDA at Rs4.4b (est Rs3.8b) with margins at 8% (est 7%, +140bp YoY/ +10bp QoQ), Adj.PAT at Rs2.1b (est Rs1.9b, +61.8% YoY/+13.6% QoQ).
- 9MFY24 consol performance – Revenue/EBITDA/PAT grew 15.4%/27.4%/46%.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	41,788	40,435	40,614	3.3	2.9	RE ASP surprised positively. Overall results in-line.
EBITDA	10,903	10,557	10,501	3.3	3.8	
EBITDA margins %	26.1	26.1	25.9	0bp	20bp	
Adj PAT	9,960	9,915	9,667	0.4	3.0	

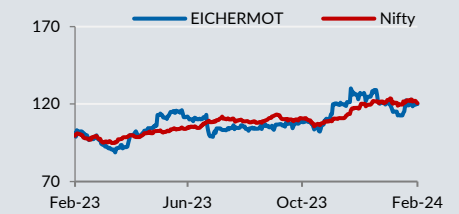
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 3,857
Target Price	: Rs 4,631
Potential Return	: +20%

Stock data (as on Feb 13, 2024)

Nifty	21,743
52 Week h/l (Rs)	4,200 / 2,836
Market cap (Rs/USD mn)	10,60,018 / 12,753
Outstanding Shares (mn)	274
6m Avg t/o (Rs mn):	2,409
Div yield (%):	1.0
Bloomberg code:	EIM IN
NSE code:	EICHERMOT

Stock performance



	1M	3M	1Y
Absolute return	(0.4%)	5.7%	18.5%

Shareholding pattern (As of Dec'23)

Promoter	49.2%
FII+DII	40.1%
Others	10.8%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	4,631	4,864

Δ in earnings estimates

	FY25E	FY26E
EPS (New)	157.1	167.6
EPS (Old)	162.8	175.1
% change	(3.5%)	(4.3%)

Financial Summary

Y/E Mar (Rs b)	FY24E	FY25E	FY26E
Net Income	159.4	177.6	195.2
EBITDA	42.5	48.2	53.6
Adj. PAT	42.1	43.0	45.8
Adj. EPS (INR)	154.0	157.1	167.6
EPS Gr. (%)	44.6	2.0	6.6
BV/Sh. (INR)	662.1	774.2	896.8
RoE (%)	25.5	21.9	20.1
RoCE (%)	25.3	22.6	21.3
P/E (x)	25.0	24.5	23.0
P/BV (x)	5.8	5.0	4.3
EV/EBITDA (x)	17.2	15.1	13.6
Div. Yield (%)	1.0	1.2	1.2

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Exhibit 2: Quarterly snapshot

Y/e Mar (Rs mn)	Q3FY24	Q3FY23	YoY chg	Q2FY24	QoQ chg	9MFY24	9MFY23	YoY chg
Net Revenues	41,788	37,210	12.3	41,145	1.6	122,797	106,379	15.4
Raw Materials	22,579	21,655	4.3	22,201	1.7	67,052	60,941	10.0
% of Net Sales	54.0%	58.2%		54.0%		54.6%	57.3%	
Personnel	3,093	2,594	19.3	3,061	1.1	9,081	7,498	21.1
% of Net Sales	7.4%	7.0%		7.4%		7.4%	7.0%	
Manufacturing & Other Exp	5,214	4,389	18.8	5,012	4.0	14,682	12,841	14.3
% of Net Sales	12.5%	11.8%		12.2%		12.0%	12.1%	
Total Expenditure	30,886	28,638	7.8	30,274	2.0	90,815	81,279	11.7
EBITDA	10,903	8,572	27.2	10,872	0.3	31,983	25,099	27.4
EBITDA Margin (%)	26.1%	23.0%		26.4%		26.0%	23.6%	
Depreciation	1,475	1,348	9.4	1,425	3.5	4,324	3,782	14.3
EBIT	9,427	7,224	30.5	9,446	(0.2)	27,659	21,318	29.7
Interest Expenses	124	76	64.0	127	(2.0)	355	199	79.0
Non-operating income	2,537	1,923	31.9	2,738	(7.3)	7,707	3,896	97.8
PBT	11,840	9,071	30.5	12,057	(1.8)	35,011	25,015	40.0
Tax-Total	3,019	2,302	31.2	2,911	3.7	8,865	6,349	39.6
Tax Rate (%) - Total	25.5%	25.4%		24.1%		25.3%	25.4%	
PAT	8,821	6,770	30.3	9,146	(3.6)	26,147	18,666	40.1
Minority interest / Share in profit	1,139	639	78.2	1,016	12.0	3,159	1,418	122.8
Profit after MI / Share of profit	9,960	7,408	34.4	10,163	(2.0)	29,306	20,084	45.9
Adj. PAT	9,960	7,408	34.4	10,163	(2.0)	29,306	20,084	45.9
PAT Margin	23.8%	19.9%		24.7%		23.9%	18.9%	
Key operating metrics (S/A business)								
Sales Volume (nos)	228,073	221,401	3.0	229,280	(0.5)	685,059	616,370	11.1
Net Realisation/Vehicle	183,224	168,066	9.0	179,454	2.1	179,251	172,589	3.9
Material cost / vehicle	98,999	97,809	1.2	96,828	2.2	97,878	98,870	(1.0)
Gross Profit / vehicle	84,225	70,257	19.9	82,626	1.9	81,373	73,719	10.4
Employee cost /vehicle	13,563	11,715	15.8	13,351	1.6	13,256	12,165	9.0
Other expenses / vehicle	22,859	19,823	15.3	21,859	4.6	21,431	20,833	2.9
EBITDA/vehicle	47,804	38,718	23.5	47,416	0.8	46,686	40,721	14.6
Net Profit/vehicle	43,669	33,461	30.5	44,324	(1.5)	42,778	32,584	31.3

Source- Company, YES Sec

Exhibit 3: SOTP Valuation

INR Mn	FY25E	FY26E
Royal Enfield	28	28
PAT	36,938	40,281
Equity Value (at 26x PE)	1,034,264	1,127,856
VECV (@ 54.4% Economic interest)	11	11
EBITDA	11,229	10,702
EV (at 12x EV/EBITDA)	123,516	117,721
Net Debt	(14,033)	(20,925)
Equity Value	137,550	138,647
Total Equity Value	1,171,813	1,266,503
Target Price (INR/Sh)	4,285	4,631

Source- Company, YES Sec

KEY CON-CALL HIGHLIGHTS

Royal Enfield

Domestic

- **Demand** - RE inquiries grew 15-16% YoY while booking grew +11% YoY in 3QFY24.
- **Domestic network expansion is steady and gradual** – have added ~2 dealership main stores (v/s 4 in 2Q) taking total dealership large size count to 1,096 in 3QFY24 (v/s 1094 stores in 2QFY24 and 1090 in 1QFY24). Whereas studio stores count has come down to 911 stores in 3Q (v/s 923 stores in 2Q and 969 stores in 1QFY24).
- Have launched 2 programs for RE 2 in 3QFY24 assured buy back and “re-owned” programs (pre owned motorcycles).
- **Launch plan** – The recent launch of Himalayan 450 has been well received by the customers leading to healthy bookings. Will launch new products even ahead. Have sold 6.5k units in domestic markets while preparing for dispatches in exports too soon.
- **ASP increased QoQ** – led by favorable mix (new launches).
- **Other expense** – Product launch and Motoverse event expense impact of Rs200m which would not be part of 4QFY24. Shipment charges for specific routes have gone up by 30-40% and lead time too have increased by 30 days.
- **Steel and Aluminum is stable while precious metal is declining (overall low proportion though).**
- **Hunter** – Growth from the rural catchments is better than that of urban.
- **EV** – team size increased to 140 (v/s 120 in 2Q) largely on software and detailed design.
- Order back log is ~3-4 weeks, depending on brands.

Exports

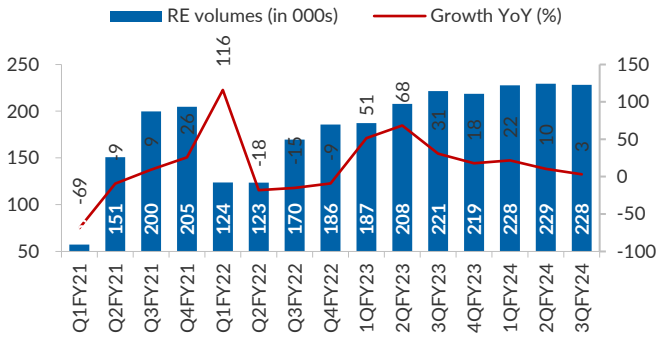
- **Demand** - Have seen single digit growth in retails against ~26% decline in wholesales in 9MFY24 YoY.
 - Sentiments in most of the markets such as Europe, Australia etc. are not good currently.
 - However, seeing some opening up from Thailand...overall volume recovery will take 2-3 quarter for exports.
- **Distribution reach** in key markets exclusive stores/ MBO – Americas 100/216 (v/s 98/214 in 2Q), UK,MEA, Europe – 66/510 (v/s 69/512 in 2Q) and APAC – 55/112 (v/s 50/110 in 2Q). **Added ~27 stores during 2QFY24 (v/s 20 stores during 1QFY24).** Overall 1,050+ global touchpoints with 221 Exclusive stores (v/s 217 in 2Q) and 838 MBOs (v/s 836 in 2Q).
- **Market share in key global markets** - 8-9% in UK and Europe, ~8% Americas, ~9% APAC and holding market share in a region which is not growing.
- **Don't think J Series is a highway motorcycle with speeding capacity of 120-130 kmph for exports markets and hence Sherpa platform (recently launched Himalayan 450 and Shotgun) comes in.**

VECV

- **E bus tenders** – Have filled tenders and participating as the issue of payment security mechanisms has now been resolved. Will participate only if profitability is there.
- **Powertrain** - Highest ever 3QFY24 sales of 13,596 units +8% YoY.
- Inaugurated international parts distribution and branch office (IPDC) in Dubai to enhance presence in Middle East market.

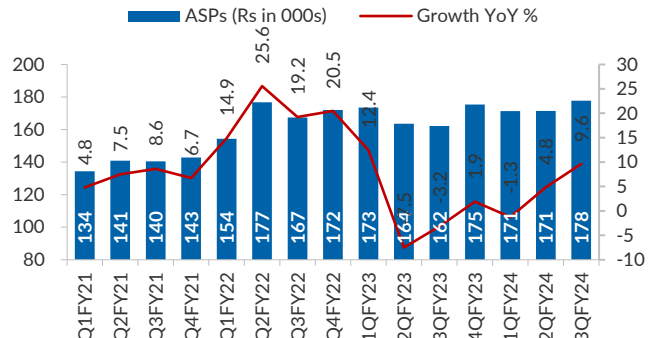
CHARTS

Exhibit 1: 3QFY24 RE volume declined -0.5% QoQ



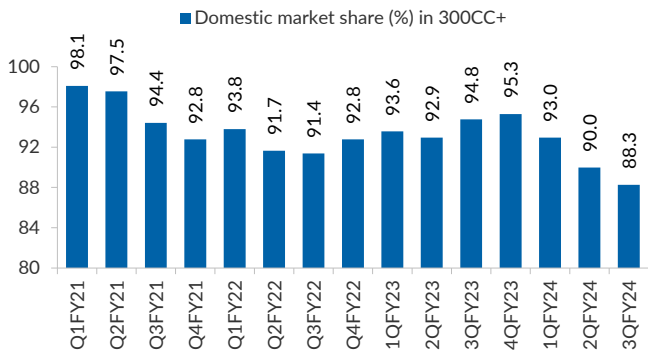
Source: Company, YES Sec

Exhibit 2: 3QFY24 RE ASP grew ~4% QoQ to Rs177.8k



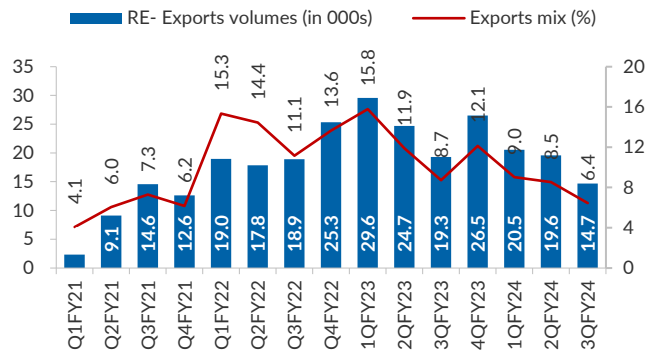
Source: Company, YES Sec

Exhibit 3: RE-Domestic market share trend



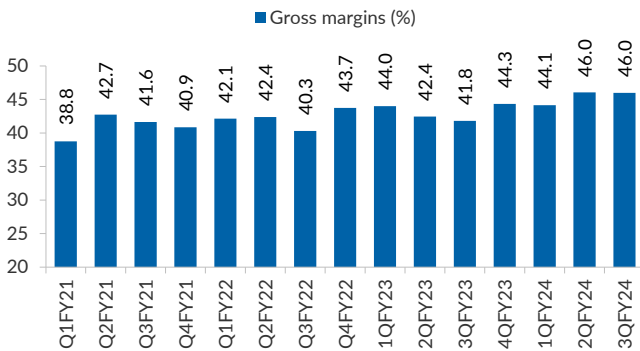
Source: SIAM, YES Sec

Exhibit 4: RE exports dispatches trend



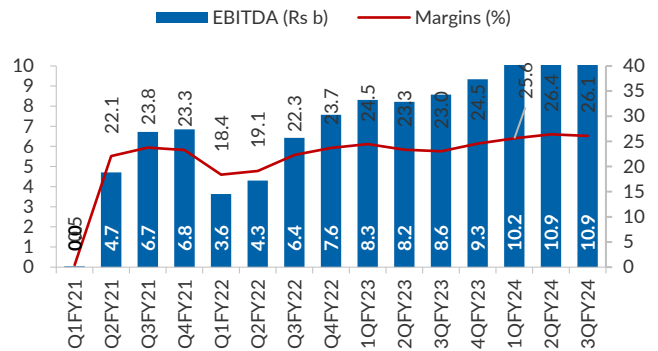
Source: Company, YES Sec

Exhibit 5: Gross margins remained flat QoQ at 46%



Source: Company, YES Sec

Exhibit 6: EBITDAM contracted 30bp QoQ at 26.1%



Source: Company, YES Sec

FINANCIALS

Exhibit 7: Balance Sheet

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	273	273	273	274	274	274	274
Net Worth	99,809	114,381	126,080	149,903	181,087	211,756	245,282
Minority Interest	-	-	-	-	(6,166)	(12,704)	(18,758)
Deferred Tax	2,522	2,215	2,201	2,913	2,913	2,913	2,913
Loans	2,490	2,193	1,077	2,884	1,128	1,128	1,128
Capital Employed	104,821	118,788	129,358	155,700	178,962	203,092	230,565
Application of Funds							
Gross Fixed Assets	36,518	40,489	44,054	51,210	59,410	69,670	80,930
Less: Depreciation	12,743	16,156	19,811	24,310	29,688	36,152	43,692
Net Fixed Assets	23,775	24,333	24,243	26,900	29,722	33,518	37,238
Capital WIP	3,122	3,143	5,048	4,719	4,685	4,685	4,685
- of which Goodwill	223	223	223	223	223	223	223
Investments	57,488	39,021	77,206	123,207	129,812	136,878	143,565
Curr.Assets, L & Adv.	40,113	79,733	56,003	36,285	51,238	64,313	84,992
Inventory	5,724	8,746	11,324	12,784	10,043	14,113	15,507
Sundry Debtors	868	1,582	3,020	3,689	6,113	4,867	5,347
Cash & Bank Balances	29,506	58,304	27,225	8,571	17,930	26,216	43,132
Loans & Advances	1	4,592	6,768	5,889	6,673	7,437	8,172
Others	4,014	6,510	7,666	5,350	10,480	11,680	12,834
Current Liab. & Prov.	19,676	27,442	33,142	35,410	36,496	36,302	39,914
Sundry Creditors	10,078	15,132	17,881	18,104	19,650	19,467	21,389
Other Liabilities	8,650	10,392	12,532	12,894	14,846	14,600	16,042
Provisions	949	1,918	2,729	4,412	2,000	2,235	2,483
Net Current Assets	20,436	52,291	22,861	875	14,742	28,011	45,077
Application of Funds	104,821	118,788	129,357	155,700	178,962	203,092	230,565

Source: Company, YES Sec

Exhibit 8: Income statement

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Gross Op. Income	91,536	87,204	102,978	144,422	159,379	177,635	195,179
Change (%)	(6.6)	(4.7)	18.1	40.2	10.4	11.5	9.9
EBITDA	21,804	17,813	21,723	34,436	42,525	48,218	53,587
EBITDA Margin (%)	24.0	20.6	21.4	24.3	27.1	27.4	27.8
Depreciation	3,815	4,507	4,519	5,262	5,378	6,464	7,540
EBIT	17,989	13,305	17,203	29,174	37,147	41,754	46,047
Interest cost	189	165	188	280	230	230	230
Other Income	5,433	4,532	4,408	5,951	11,000	6,900	7,034
PBT	23,232	17,673	21,424	34,845	47,917	48,424	52,852
Tax	5,275	4,515	5,259	8,857	11,959	11,987	13,071
Effective Rate (%)	22.7	25.5	24.5	25.4	25.0	24.8	24.7
PAT	17,958	13,158	16,165	25,988	35,958	36,438	39,781
Change (%)	(8.5)	(26.7)	22.9	60.8	38.4	1.3	9.2
Less: Minority Interest	(317)	(311)	(602)	(3,152)	(6,166)	(6,538)	(6,053)
Adj. PAT	18,275	13,469	16,766	29,139	42,124	42,976	45,834
Change (%)	(17.7)	(26.3)	24.5	73.8	44.6	2.0	6.6

Source: Company, YES Sec

Exhibit 9: Cash Flow Statement

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before Tax	23,549	17,984	22,025	37,996	47,917	48,424	52,852
Depreciation & Amort.	3,815	4,507	4,519	5,262	5,378	6,464	7,540
Direct Taxes Paid	(6,283)	(4,566)	(5,136)	(7,703)	(11,959)	(11,987)	(13,071)
(Inc)/Dec in Working Capital	(1,616)	1,318	(1,268)	(1,906)	1,862	(3,007)	48
Interest/Div. Received	(2,207)	(3,103)	(2,440)	(1,765)	11,000	6,900	7,034
Other Items	(317)	770	(2,429)	(3,411)	(17,142)	(8,646)	(7,003)
CF from Oper. Activity	16,941	16,910	15,270	28,475	37,057	38,149	47,400
(Inc)/Dec in FA+CWIP	(5,445)	(5,149)	(6,387)	(6,737)	(8,166)	(10,260)	(11,260)
Free Cash Flow	11,496	11,760	8,883	21,738	28,890	27,889	36,140
(Pur)/Sale of Invest.	(9,639)	(11,104)	(3,446)	(17,479)	(6,606)	(7,066)	(6,687)
CF from Inv. Activity	(15,084)	(16,253)	(9,833)	(24,216)	(14,772)	(17,326)	(17,947)
Issue of Shares	289	384	65	112	-	0	-
Inc/(Dec) in Debt	(618)	(373)	(1,164)	1,638	(1,757)	-	-
Interest Paid	(167)	(158)	(187)	(182)	(230)	(230)	(230)
Dividends Paid	(8,087)	-	(4,647)	(5,742)	(10,940)	(12,308)	(12,308)
CF from Fin. Activity	(8,583)	(148)	(5,934)	(4,174)	(12,926)	(12,537)	(12,537)
Inc/(Dec) in Cash	(6,725)	509	(496)	84	9,358	8,286	16,916
Add: Beginning Balance	7,158	432	941	446	8,571	17,930	26,216
Closing Balance	432	941	445	530	17,930	26,216	43,132

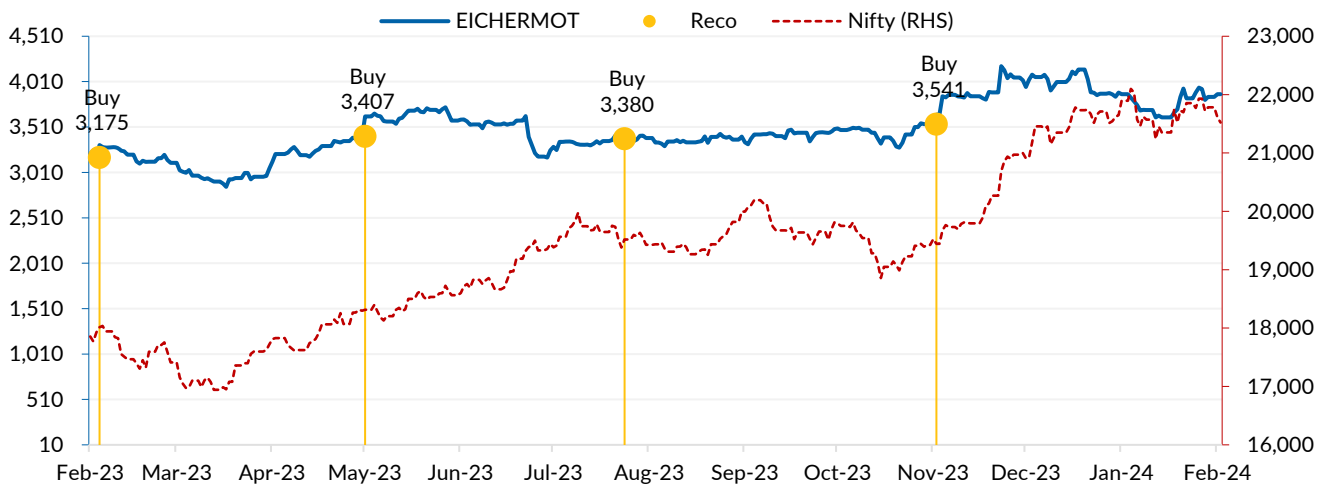
Source- Company, YES Sec

Exhibit 10: Growth and Ratio matrix

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)							
EPS	67.0	49.3	61.3	106.5	154.0	157.1	167.6
EPS Growth (%)	(17.7)	(26.4)	24.4	73.7	44.6	2.0	6.6
Cash EPS	81.0	65.8	77.9	125.8	173.7	180.8	195.2
Book Value per Share	365.9	418.5	461.2	548.1	662.1	774.2	896.8
DPS	12.5	17.0	21.0	37.0	40.0	45.0	45.0
Payout (Incl. Div. Tax) %	21.7	34.5	34.2	34.7	26.0	28.6	26.9
Valuation (x)							
P/E	57.6	78.3	62.9	36.2	25.0	24.5	23.0
Cash P/E	47.6	58.6	49.5	30.7	22.2	21.3	19.8
EV/EBITDA	41.4	46.6	38.6	22.6	17.2	15.1	13.6
EV/Sales	7.3	7.4	5.7	3.8	3.3	2.9	2.7
Price to Book Value	10.5	9.2	8.4	7.0	5.8	5.0	4.3
Dividend Yield (%)	0.3	0.4	0.5	1.0	1.0	1.2	1.2
Profitability Ratios (%)							
RoE	19.3	12.6	13.9	21.1	25.5	21.9	20.1
RoCE	18.6	12.4	13.8	21.0	25.3	22.6	21.3
RoIC	112.6	61.4	70.3	123.4	142.1	117.5	105.3
Turnover Ratios							
Debtors (Days)	3.5	6.6	10.7	9.3	14.0	10.0	10.0
Inventory (Days)	22.8	36.6	40.1	32.3	23.0	29.0	29.0
Creditors (Days)	40.2	63.3	63.4	45.8	45.0	40.0	40.0
Working Capital (Days)	(13.9)	(20.1)	(12.5)	(4.1)	(8.0)	(1.0)	(1.0)
Asset Turnover (x)	0.9	0.7	0.8	0.9	0.9	0.9	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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