

BUY Eicher Motors

Stepping into strong product upcycle

Auto & Auto Ancillaries ▶ Result Update ▶ November 13, 2023

TARGET PRICE (Rs): 4,440

EIM reported a healthy Q2, highlighted by the sequential uptick in ASPs and margins (up 81bps to 26.4%, above estimates), with double-digit beat at the PAT level on higher-than-expected EBITDA and other income. Amid improved underlying demand trends (~14% YoY growth in the ongoing festive season despite reasonable base post-Hunter) and expected multi-year upturn ahead in 2Ws post several years of struggle, we continue to consider EIM as one of the top picks in autos (focused play on premium 2Ws, expanding its presence in the performance-oriented sub-segment with attractive valuations at ~19x its FY26E PER; refer [Entering product upcycle; risk-reward favourable](#)). Our earnings estimates are largely intact (built in a ~21% FY23-26E consol. EPS CAGR); we retain BUY with an unchanged SoTP-based TP of Rs4,440.

Eicher Motors: Financial Snapshot (Consolidated)

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,02,978	1,44,422	1,69,282	2,00,601	2,25,864
EBITDA	21,723	34,436	44,266	52,921	59,892
Adj. PAT	16,766	29,139	38,442	45,894	52,117
Adj. EPS (Rs)	61.3	106.7	140.8	168.1	190.9
EBITDA margin (%)	21.1	23.8	26.1	26.4	26.5
EBITDA growth (%)	22.0	58.5	28.5	19.6	13.2
Adj. EPS growth (%)	24.4	74.0	31.9	19.4	13.6
RoE (%)	13.9	21.1	23.6	24.1	23.4
RoIC (%)	70.0	115.5	161.0	224.3	331.5
P/E (x)	59.5	34.3	26.0	21.7	19.2
EV/EBITDA (x)	42.1	25.9	19.6	15.7	13.2
P/B (x)	7.9	6.7	5.7	4.9	4.2
FCFF yield (%)	1.0	2.4	4.1	6.0	6.8

Source: Company, Emkay Research

Strong margin performance in Q2

EIM's revenue grew ~17% YoY to Rs41.1bn (in line); Royal Enfield's (RE) volumes grew 10% YoY (flat QoQ) to 229K units, while ASPs grew 2.5% QoQ to Rs179K/unit. EBITDA increased 32.3% to Rs10.9bn, with EBITDA margin expanding 81bps QoQ to 26.4% because of gross margin expansion of 190bps. Management attributed better margins to material cost savings, better mix and full benefit of earlier-taken price hike. PAT stood at ~Rs10.2bn (above estimates), with the beat being driven by higher-than-expected EBITDA and other income. The share of profit from associates stood at Rs1bn for Q2.

Earning call KTAs

1) RE posted 13-14% YoY retail growth during the ongoing festive period despite the higher base of last year (with *Hunter* having been introduced just before last festive season); 2) Management highlighted RE has always faced competition, yet it has held its own courtesy the strength of its brands, community and distribution; while RE may experience slight market share loss (given robust ~90% share currently) due to recent launches by competitors, these could expand the market; EIM remains confident of its long-term prospects; 3) The company recently unveiled *Himalayan* on the all-new 450cc platform, which has been received very well; while core platforms are now in place (350cc, 450cc, 650cc), the company would continue to introduce new models/products to provide differentiated riding experiences to buyers; 4) RE's export retail market share has remained intact, with dispatches lower amid cautiousness in building inventories due to prevailing macro instability; the company expects the situation to normalize in a few months, aided by product introduction; 5) Electrification remains some way away in the middleweight motorcycle category; while the company has not finalized technical specifications of its EV offerings yet, it would retain its premium positioning within EVs as well; 6) ~90% of RE customers also buy accessories, and this business continues to grow well; 7) Capex and product development spends are expected to remain in the typical range of 2-3% of sales.

Target Price – 12M	Sep-24
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	21.8
CMP (13-Nov-23) (Rs)	3,645.4

Stock Data	Ticker
52-week High (Rs)	3,748
52-week Low (Rs)	2,836
Shares outstanding (mn)	273.7
Market-cap (Rs bn)	998
Market-cap (USD mn)	11,975
Net-debt, FY24E (Rs mn)	-1,32,038
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	1,763.6
ADTV-3M (USD mn)	21.2
Free float (%)	50.8
Nifty-50	19,444
INR/USD	83.3
Shareholding, Sep-23	
Promoters (%)	49.2
FPIs/MFs (%)	28.9/10.6

Price Performance

(%)	1M	3M	12M
Absolute	4.9	7.6	3.6
Rel. to Nifty	6.5	7.5	(2.3)

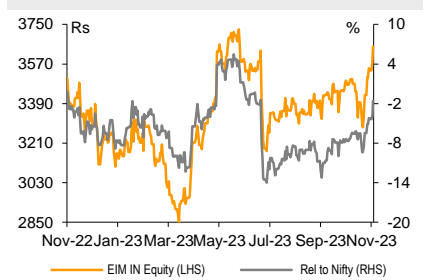
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Exhibit 1: Volumes were flat QoQ, while realizations grew ~2.5%

Year to March	Q2FY24	Q2FY23	Change (%)	Q1FY24	Change (%)
RE vols. (units)	2,29,280	2,07,764	10.4	2,27,706	0.7
ASPs (Rs/unit)	1,79,454	1,69,394	5.9	1,75,067	2.5

Source: Company, Emkay Research

Exhibit 2: Actual vs. Estimates

(Rs mn)	Actual	Estimated	% Variance	Consensus	% Variance
Net sales	41,145	40,741	1.0	40,304	2.1
EBITDA	10,872	10,593	2.6	10,286	5.7
EBITDA margin (%)	26.4	26.0	42 bps	25.5	90 bps
Adj. net income	10,163	8,866	14.6	9,084	11.9
FDEPS (Rs)	37.1	32.4	14.6	33.2	11.9

Source: Company, Bloomberg, Emkay Research

Exhibit 3: Consol. Q2 snapshot: Revenue up ~10% YoY with gross margins driving 81bps EBITDA expansion QoQ

(Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Volume	2,07,764	2,21,401	2,18,525	2,27,706	2,29,280	10.4	0.7
Revenue	35,194	37,210	38,043	39,864	41,145	16.9	3.2
Expenditure	26,978	28,638	28,707	29,655	30,274	12.2	2.1
As a % of sales	76.7	77.0	75.5	74.4	73.6		
Consumption of RM	20,256	21,655	21,178	22,273	22,201	9.6	(0.3)
As a % of sales	57.6	58.2	55.7	55.9	54.0		
Employee Cost	2,435	2,594	2,521	2,927	3,061	25.7	4.6
As a % of sales	6.9	7.0	6.6	7.3	7.4		
Other expenditure	4,287	4,389	5,007	4,456	5,012	16.9	12.5
As a % of sales	12.2	11.8	13.2	11.2	12.2		
EBITDA	8,216	8,572	9,337	10,208	10,872	32.3	6.5
EBITDA margin (%)	23.3	23.0	24.5	25.6	26.4		
Depreciation	1,271	1,348	1,480	1,423	1,425	12.1	0.2
EBIT	6,945	7,224	7,856	8,786	9,446	36.0	7.5
Other Income	1,486	1,923	2,055	2,432	2,738	84.2	12.6
Interest	71	76	82	104	127	79.6	21.6
PBT	8,361	9,071	9,830	11,114	12,057	44.2	8.5
Minority interest	(441)	(639)	(1,734)	(1,004)	(1,016)		
Total Tax	2,233	2,302	2,508	2,935	2,911	30.4	(0.8)
Adjusted PAT	6,569	7,408	9,056	9,183	10,163	54.7	10.7
Extraordinary items	-	-	-	-	-		
Reported PAT	6,569	7,408	9,056	9,183	10,163	54.7	10.7
Adjusted EPS (Rs)	24.0	27.1	33.1	33.5	37.1	54.7	10.7

Margins (%)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (bps)	QoQ (bps)
EBIDTA	23.3	23.0	24.5	25.6	26.4	308	81
EBIT	19.7	19.4	20.7	22.0	23.0	322	92
EBT	23.8	24.4	25.8	27.9	29.3	555	143
PAT	18.7	19.9	23.8	23.0	24.7	604	166
Effective Tax Rate	26.7	25.4	25.5	26.4	24.1	(257)	(226)

Source: Company, Emkay Research

Exhibit 4: VECV Quarterly Snapshot: Flat revenue and margin on a QoQ basis

Rs mn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Volume	17,616	18,162	26,376	19,571	19,551	11.0	(0.1)
Revenue	42,150	46,039	62,000	49,910	51,290	21.7	2.8
EBITDA	2,490	3,150	6,190	3,870	4,040	62.2	4.4
PAT	810	1,163	3,190	1,810	1,850	128.4	2.2

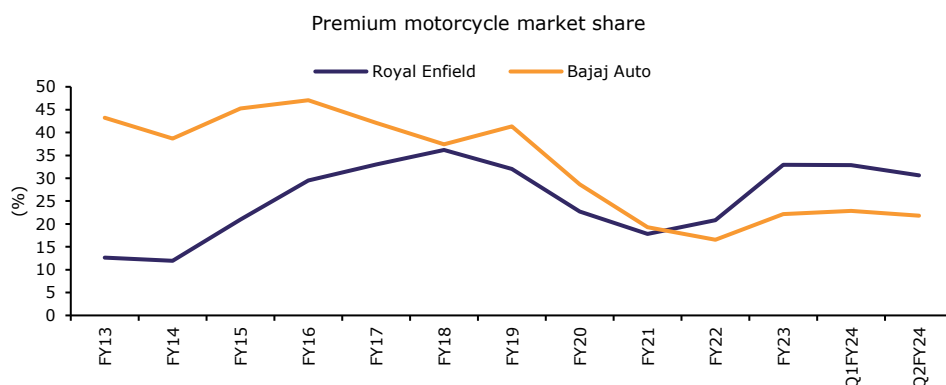
Margins (%)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (bps)	QoQ (bps)
EBITDA	5.9	6.8	10.0	7.8	7.9	197	12
PAT	1.9	2.5	5.1	3.6	3.6	169	(2)

Source: Company, Emkay Research

Exhibit 5: EIM has an aggressive launch pipeline for widening its appeal in various sub-segments of the fast-growing premium motorcycles

Products	Expected Timeline	Expected Pricing (ex-showroom)
On an all-new 450cc engine platform		
Himalayan 450	Nov-23	Rs 3 lakhs
Himalayan 450 Rally	2024-end	Rs 3.5 lakhs
Scram 450	Early-CY24	Rs 2.5 lakhs
Scram 450 Scrambler	2024	Rs 3 lakhs
Scram 450 Café Racer	2024	Rs 3 lakhs
On 650cc platform		
Super Meteor 650 (launched)	Jan-23	Rs 3.49 lakhs
Shotgun 650	Mid-2024	Rs 3.25 lakhs
Classic 650	2024	Rs 3.1 lakhs
Bullet 650	Mid-2024	Rs 3 lakhs
Scrambler 650	End-2025	Rs 3.5 lakhs
Himalayan 650	Mid-2025	Rs 3.8 lakhs

Source: Company, Emkay Research, Media Articles

Exhibit 6: EIM is the largest player in the largest premium motorcycle category; market share normalized in Q2FY24 amid improvement in supplies at HMSI

Source: Company, Emkay Research

Exhibit 7: Revenue model: Expect a 21% EPS CAGR over FY23-26E

Revenue Model	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Domestic Volumes (units)	6,58,394	5,70,781	5,21,246	7,34,840	8,64,651	9,94,535	10,79,065
Growth (%)	-18.2	-13.3	-8.7	41.0	17.7	15.0	8.5
Export Volumes (units)	39,188	38,622	81,022	1,00,055	80,000	96,000	1,03,680
Growth (%)	88.2	-1.4	109.8	23.5	-20.0	20.0	8.0
Volumes (units)	6,97,582	6,09,403	6,02,268	8,34,895	9,44,651	10,90,535	11,82,745
Growth (%)	-15.6	-12.6	-1.2	38.6	13.1	15.4	8.5
ASP (Rs/unit)	1,30,128	1,41,434	1,68,079	1,68,484	1,72,849	1,78,445	1,85,893
Growth (%)	9.8	8.7	18.8	0.2	2.6	3.2	4.2
Revenues	91,536	87,204	1,02,978	1,44,422	1,69,282	2,00,601	2,25,864
Growth (%)	-6.6	-4.7	18.1	40.2	17.2	18.5	12.6
EBITDA	21,804	17,813	21,723	34,436	44,266	52,921	59,892
EBITDA margin (%)	23.8	20.4	21.1	23.8	26.1	26.4	26.5
EBITDA growth (%)	-24.9	-18.3	22.0	58.5	28.5	19.6	13.2
EBITDA/unit (Rs)	31,256	29,229	36,068	41,246	46,860	48,528	50,638
EBIT	23,421	17,837	21,611	35,125	44,923	52,846	60,259
EBIT margin (%)	25.6	20.5	21.0	24.3	26.5	26.3	26.7
S/A PAT (Rs)	19,038	13,297	15,862	26,226	33,701	39,882	44,511
Share of profits from JV/overseas subs	317	311	602	3,152	5,105	6,626	7,298
Consol. PAT	18,274	13,469	16,766	29,139	38,442	45,894	52,117
Consol. EPS (Rs)	67	49	61	107	141	168	191

Source: Company, Emkay Research

Exhibit 8: Change in estimates

Consolidated	FY24E				FY25E				FY26E			
	Earlier	Revised	Change (%)	YoY (%)	Earlier	Revised	Change (%)	YoY (%)	Earlier	Revised	Change (%)	YoY (%)
Royal Enfield (Units)	9,48,123	9,44,651	(0.4)	13.1	10,93,536	10,90,535	(0.3)	15.4	11,81,019	11,82,745	0.1	8.5
Revenue	1,70,376	1,69,282	(0.6)	17.2	2,01,923	2,00,601	(0.7)	18.5	2,26,560	2,25,864	(0.3)	12.6
EBITDA	44,300	44,266	(0.1)	28.5	53,161	52,921	(0.5)	19.6	59,911	59,892	(0.0)	13.2
Margin (%)	26.0%	26.1%	15 bps	231 bps	26.3%	26.4%	5 bps	23 bps	26.4%	26.5%	7 bps	14 bps
APAT	38,467	38,442	(0.1)	31.9	46,073	45,894	(0.4)	19.4	52,131	52,117	(0.0)	13.6
EPS (Rs)	140.5	140.4	(0.1)	31.9	168.3	167.6	(0.4)	19.4	190.4	190.3	(0.0)	13.6

Source: Company, Emkay Research

Eicher Motors: Consolidated Financials and Valuations

Profit and Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,02,978	1,44,422	1,69,282	2,00,601	2,25,864
Revenue growth (%)	18.1	40.2	17.2	18.5	12.6
EBITDA	21,723	34,436	44,266	52,921	59,892
EBITDA growth (%)	22.0	58.5	28.5	19.6	13.2
Depreciation & Amortization	4,519	5,262	5,854	7,025	8,285
EBIT	17,203	29,174	38,412	45,897	51,607
EBIT growth (%)	29.3	69.6	31.7	19.5	12.4
Other operating income	0	0	0	0	0
Other income	4,408	5,951	6,511	6,949	8,651
Financial expense	188	280	356	348	340
PBT	21,424	34,845	44,567	52,498	59,918
Extraordinary items	0	0	0	0	0
Taxes	5,259	8,857	11,231	13,229	15,099
Minority interest	(602)	(3,152)	(5,105)	(6,626)	(7,298)
Income from JV/Associates	0	0	0	0	0
Reported PAT	16,766	29,139	38,442	45,894	52,117
PAT growth (%)	24.5	73.8	31.9	19.4	13.6
Adjusted PAT	16,766	29,139	38,442	45,894	52,117
Diluted EPS (Rs)	61.3	106.7	140.8	168.1	190.9
Diluted EPS growth (%)	24.4	74.0	31.9	19.4	13.6
DPS (Rs)	21.0	36.9	48.0	56.8	63.4
Dividend payout (%)	34.2	34.6	34.1	33.8	33.2
EBITDA margin (%)	21.1	23.8	26.1	26.4	26.5
EBIT margin (%)	16.7	20.2	22.7	22.9	22.8
Effective tax rate (%)	24.5	25.4	25.2	25.2	25.2
NOPLAT (pre-IndAS)	12,980	21,758	28,732	34,331	38,602
Shares outstanding (mn)	273.4	273.0	273.0	273.0	273.0

Source: Company, Emkay Research

Cash Flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	21,424	34,845	44,567	52,498	59,918
Others (non-cash items)	776	(3,153)	8,331	11,640	14,178
Taxes paid	(5,136)	(7,703)	(11,276)	(13,282)	(15,159)
Change in NWC	(1,793)	4,486	3,354	6,205	2,267
Operating cash flow	15,270	28,475	44,977	57,061	61,204
Capital expenditure	(6,387)	(6,737)	(10,005)	(7,500)	(7,500)
Acquisition of business	(7,702)	(19,932)	(20,000)	(10,000)	(10,000)
Interest & dividend income	4,256	2,453	0	0	0
Investing cash flow	(9,833)	(24,216)	(30,005)	(17,500)	(17,500)
Equity raised/(repaid)	65	0	0	0	0
Debt raised/(repaid)	(1,046)	1,369	(341)	80	64
Payment of lease liabilities	(170)	(189)	0	0	0
Interest paid	(142)	(280)	(356)	(348)	(340)
Dividend paid (incl tax)	(4,647)	(10,115)	(13,143)	(15,554)	(17,359)
Others	(30,578)	(13,697)	3,028	2,411	1,805
Financing cash flow	(36,517)	(22,912)	(10,812)	(13,411)	(15,830)
Net chg in Cash	(31,079)	(18,654)	4,160	26,149	27,874
OCF	15,270	28,475	44,977	57,061	61,204
Adj. OCF (w/o NWC chg.)	17,064	23,989	41,623	50,856	58,937
FCFF	8,883	21,738	34,972	49,561	53,704
FCFE	12,952	23,910	34,616	49,213	53,364
OCF/EBITDA (%)	70.3	82.7	101.6	107.8	102.2
FCFE/PAT (%)	77.3	82.1	90.0	107.2	102.4
FCFF/NOPLAT (%)	68.4	99.9	121.7	144.4	139.1

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	273	274	274	274	274
Reserves & Surplus	1,25,807	1,49,629	1,74,928	2,05,268	2,40,025
Net worth	1,26,080	1,49,903	1,75,201	2,05,541	2,40,299
Minority interests	0	0	0	0	0
Deferred tax liability (net)	2,201	2,913	2,869	2,816	2,756
Total debt	588	1,957	1,616	1,696	1,760
Total liabilities & equity	1,28,869	1,54,773	1,79,686	2,10,053	2,44,815
Net tangible fixed assets	19,108	21,765	24,295	26,346	25,561
Net intangible assets	3,298	3,298	3,298	3,298	3,298
Net ROU assets	1,837	1,837	1,837	1,837	1,837
Capital WIP	5,048	4,721	6,341	4,766	4,766
Goodwill	0	0	0	0	0
Investments [JV/Associates]	19,671	22,284	22,284	22,284	22,284
Cash & equivalents	84,759	1,09,494	1,33,654	1,69,804	2,07,677
Current assets (ex-cash)	27,677	28,578	33,497	39,695	45,312
Current Liab. & Prov.	32,529	37,204	45,521	57,976	65,921
NWC (ex-cash)	(4,852)	(8,626)	(12,024)	(18,281)	(20,608)
Total assets	1,28,869	1,54,773	1,79,686	2,10,053	2,44,815
Net debt	(84,171)	(1,07,537)	(1,32,038)	(1,68,108)	(2,05,917)
Capital employed	1,28,869	1,54,773	1,79,686	2,10,053	2,44,815
Invested capital	19,391	18,274	17,407	13,200	10,088
BVPS (Rs)	460.5	547.5	639.9	750.7	877.6
Net Debt/Equity (x)	(0.7)	(0.7)	(0.8)	(0.8)	(0.9)
Net Debt/EBITDA (x)	(3.9)	(3.1)	(3.0)	(3.2)	(3.4)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	13.1	18.6	20.1	20.3	19.9

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	59.5	34.3	26.0	21.7	19.2
P/CE(x)	46.9	29.0	22.5	18.9	16.5
P/B (x)	7.9	6.7	5.7	4.9	4.2
EV/Sales (x)	8.9	6.2	5.1	4.1	3.5
EV/EBITDA (x)	42.1	25.9	19.6	15.7	13.2
EV/EBIT(x)	53.0	30.4	22.5	18.0	15.3
EV/IC (x)	47.1	48.6	49.6	62.7	78.3
FCFF yield (%)	1.0	2.4	4.1	6.0	6.8
FCFE yield (%)	1.3	2.4	3.5	4.9	5.4
Dividend yield (%)	0.6	1.0	1.3	1.6	1.7
DuPont-RoE split					
Net profit margin (%)	16.3	20.2	22.7	22.9	23.1
Total asset turnover (x)	0.8	1.0	1.0	1.0	1.0
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	13.9	21.1	23.6	24.1	23.4
DuPont-RoIC					
NOPLAT margin (%)	12.6	15.1	17.0	17.1	17.1
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	70.0	115.5	161.0	224.3	331.5
Operating metrics					
Core NWC days	(17.2)	(21.8)	(25.9)	(33.3)	(33.3)
Total NWC days	(17.2)	(21.8)	(25.9)	(33.3)	(33.3)
Fixed asset turnover	2.4	3.0	3.1	3.1	3.1
Opex-to-revenue (%)	21.1	19.3	18.7	18.4	18.3

Source: Company, Emkay Research

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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
18-Oct-23	3,496	4,440	Buy	Chirag Jain
03-Aug-23	3,380	4,000	Buy	Chirag Jain
12-May-23	3,626	4,000	Buy	Chirag Jain
04-Apr-23	3,004	3,590	Buy	Chirag Jain

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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