

November 10, 2023

RESULT REPORT Q2 FY24 | Sector: Automobile

Eicher Motors (EIM)

Margins surprise led by price hikes, cost savings

Valuation and View

Eicher Motors (EIM) 2QFY24 consolidated results were better with ~13%/6% beat to our/street EBITDA leading to margins expanding by 3110bp YoY/+80bp QoQ at 26.4% (FY19 levels). This was largely due to positive impact of RM declined (~100bp) and balance due to price hike, cost savings, higher spares sales offsetting lower exports which declined 20.8% YoY (-4.5% QoQ). However, margins expansion ahead will be gradual ahead as stable RM and price hike (+1.5% in 2Q in domestic) would be partially offset by launch expense related to new launches. While demand outlook is mixed/weak for domestic/exports, the management sounded confident to navigate increased competitive intensity by playing on RE's strength developed over period of past decade. Further, it has hinted slew of disruptive launches (rather will be spaced out), which should help expand overall mid-size market.

We expect RE's overall volumes to grow at ~11% CAGR over FY22-25E (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. VECV would continue to see a cyclical recovery in volume and profit, in turn boosting consolidated PAT CAGR to 24.7% over FY23-25E. We have raised FY24/FY25 EPS by 12.6%/2.4% to factor in for better gross margins wh. Stock trades at 22.6x/21.4x FY24E/FY25E consol EPS. We maintain BUY with SoTP based revised TP of Rs4,116 (v/s Rs4,008). We value S/A business at 25x (~15% discount to 10yr LPA).

Result Highlights – S/A better than estimates while VECV in-line

- Consol revenues grew 16.9% YoY (+3.2% QoQ) at Rs41.1b (est Rs38.9b). RE's volume grew 10.4% YoY/ +0.7% QoQ while RE ASPs grew 4.8% YoY (flat QoQ) at Rs171.4k/unit (est Rs170k/unit) largely led by price hikes. The management indicated price hike of ~1.5% in domestic as well as for few SKUs/markets in exports too in 2QFY24.
- Consol gross margins expanded 360bp YoY (+190bp QoQ) at 46% (est 43.1%). This was led by soft RM (~1% impact) and balance due to price hikes and product mix impact. Consol EBITDA grew 32.3% YoY (+6.5% QoQ) at Rs10.9b (est Rs9.5b) with margins at 26.4% (+310bp YoY/ +80bp QoQ, est 24.6%). S/A margins expanded 420bp YoY (+190bp QoQ) at 27.9% (est 26%, at 4QFY19 levels). Led by healthy op performance and higher other income at Rs2.7b (+13% QoQ, est Rs2.5b), Adj.PAT came in at Rs10.1b (+54.7% YoY/ +10.77% QoQ, est Rs9b).
- VECV 2QFY24 performance in-line - Revenues grew ~21.6% YoY (+2.7% QoQ) at Rs51.3b (in-line), EBITDA at Rs4b (in-line) with margins at 7.9% (in-line, +200bp YoY/ +10bp QoQ), Adj.PAT at Rs1.86b (est Rs2b, +1.3x YoY/ +3% QoQ).

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	41,145	38,889	39,784	5.8	3.4	Better gross margins drive profitability.
EBITDA	10,872	9,577	10,260	13.5	6.0	
EBITDA margins %	26.4	24.6	25.8	180bp	60bp	
Adj PAT	10,163	8,961	8,121	13.4	25.1	

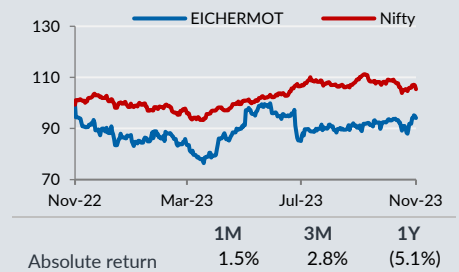
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 3,541
Target Price	: Rs 4,116
Potential Return	: +16%

Stock data (as on Nov 10, 2023)

Nifty	19,425
52 Week h/l (Rs)	3792 / 2836
Market cap (Rs/USD mn)	969593 / 11643
Outstanding Shares (mn)	274
6m Avg t/o (Rs mn):	2,308
Div yield (%):	1.1
Bloomberg code:	EIM IN
NSE code:	EICHERMOT

Stock performance



Shareholding pattern (As of Sep'23)

Promoter	49.2%
FII+DII	39.5%
Others	11.4%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	4,116	4,008

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	156.7	165.8
EPS (Old)	139.2	162.0
% change	12.6%	2.4%

Financial Summary

Y/E Mar (Rs b)	2023	2024E	2025E
Net Income	144.4	160.6	183.5
EBITDA	34.4	43.2	50.7
Adj. PAT	29.1	42.8	45.3
Adj. EPS (INR)	106.5	156.7	165.8
EPS Gr. (%)	73.7	47.0	5.8
BV/Sh. (INR)	548.1	664.8	785.6
RoE (%)	21.1	25.8	22.9
RoCE (%)	21.0	25.7	23.6
P/E (x)	33.2	22.6	21.4
P/BV (x)	6.5	5.3	4.5
EV/EBITDA (x)	20.5	15.4	12.8
Div. Yield (%)	1.0	1.1	1.3

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Exhibit 2: Quarterly snapshot

Y/e Mar (Rs mn)	Q2FY24	Q2FY23	YoY chg	Q1FY24	H1FY24	H2FY24	YoY chg
Net Revenues	41,145	35,194	16.9	39,864	81,009	69,169	17.1
Raw Materials	22,201	20,256	9.6	22,273	44,473	39,286	13.2
% of Net Sales	54.0%	57.6%		55.9%	54.9%	56.8%	
Personnel	3,061	2,435	25.7	2,927	5,988	4,904	22.1
% of Net Sales	7.4%	6.9%		7.3%	7.4%	7.1%	
Manufacturing & Other Exp	5,012	4,287	16.9	4,456	9,468	8,452	12.0
% of Net Sales	12.2%	12.2%		11.2%	11.7%	12.2%	
Total Expenditure	30,274	26,978	12.2	29,655	59,929	52,642	13.8
EBITDA	10,872	8,216	32.3	10,208	21,080	16,527	27.5
EBITDA Margin (%)	26.4%	23.3%		25.6%	26.0%	23.9%	
Depreciation	1,425	1,271	12.1	1,423	2,848	2,433	17.0
EBIT	9,446	6,945	36.0	8,786	18,232	14,094	29.4
Interest Expenses	127	71	79.6	104	231	123	88.2
Non-operating income	2,738	1,486	84.2	2,432	5,170	1,973	162.1
PBT	12,057	8,361	44.2	11,114	23,171	15,944	45.3
Tax-Total	2,911	2,233	30.4	2,935	5,845	4,047	44.4
Tax Rate (%) - Total	24.1%	26.7%		26.4%	25.2%	25.4%	
PAT	9,146	6,127	49.3	8,179	17,325	11,896	45.6
Minority interest / Share in profit	1,016	441	130.3	1,004	2,021	779	159.4
Profit after MI / Share of profit	10,163	6,569	54.7	9,183	19,346	12,675	52.6
Adj. PAT	10,163	6,569	54.7	9,183	19,346	12,675	52.6
PAT Margin	24.7%	18.7%		25.5%	23.9%	18.3%	
Key operating metrics							
Sales Volume (nos)	229,280	207,764	10.4	227,706	456,986	394,969	15.7
Net Realisation/Vehicle	179,454	169,394	5.9	180,695	177,268	175,124	1.2
Material cost / vehicle	96,828	97,496	(0.7)	97,498	97,319	99,465	(2.2)
Gross Profit / vehicle	82,626	71,898	14.9	77,254	79,949	75,659	5.7
Employee cost /vehicle	13,351	11,718	13.9	13,443	13,102	12,416	5.5
Other expenses / vehicle	21,859	20,635	5.9	22,010	20,718	21,399	(3.2)
EBITDA/vehicle	47,416	39,545	19.9	47,744	46,128	41,844	10.2
Net Profit/vehicle	44,324	31,616	40.2	44,630	42,334	32,092	31.9

Source- Company, YES Sec

Exhibit 3: SOTP Valuation

INR Mn	FY24E	FY25E
Royal Enfield	25	25
PAT	37,293	38,622
Equity Value (at 26x PE)	932,314	965,538
VECV (@ 54.4% Economic interest)	12	12
EBITDA	10,461	12,130
EV (at 12x EV/EBITDA)	125,526	145,562
Net Debt	-7,124	-14,544
Equity Value	132,651	160,105
Total Equity Value	1,064,965	1,125,644
Target Price (INR/Sh)	3,894	4,116

Source- Company, YES Sec

KEY CON-CALL HIGHLIGHTS

Royal Enfield

Domestic

- **Demand** – Seeing good demand during festive (+13-13.5% festive to festive) and momentum is continuing.
- **RE's market share in >125cc segment at 32% in 2QFY24 (v/s 32.9% in 1QFY24)** and domestic motorcycle market at 7.4% in 2QFY24 (v/s 8.2% in 1QFY24 and 7.8% in FY23).
- **Domestic network expansion is steady and gradual** – have added ~4 dealership main stores taking total dealership large size count to 1094 stores (v/s 1090 in 1QFY24). Where as studio stores count have come down to 923 stores (v/s 969 stores in 1QFY24).
- **Himalayan 450** – Power 50%, Torque 25-30%.

Exports

- The demand in few markets is challenging led by macro challenges impacting dispatches...however retails are holding up. Have launched Super Meteor couple of months back in US.
- **Market share in key global markets is stable such as Americas 8%, APAC 9% and EMEA 9%.**
- **Distribution reach** in key markets exclusive stores/ MBO – Americas 98/214, UK,MEA, Europe – 69/512, APAC – 50/110. **Added ~27 stores during 2QFY24 (v/s 20 stores during 1QFY24).** Overall 1,050+ global touchpoints with 217 Exclusive stores and 836 MBOs.

VECV

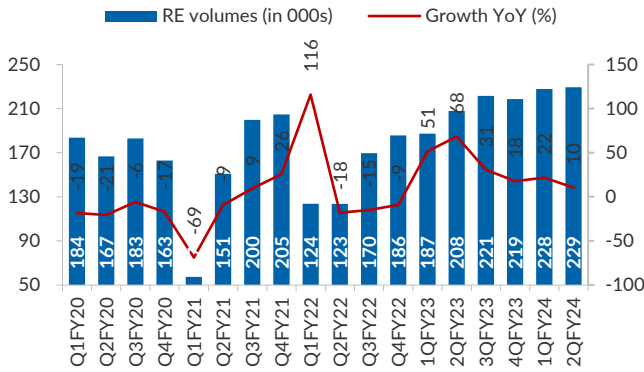
- **Highest ever quarterly parts business** (combined both Eicher and Volvo) at Rs5.21b registering more than 29% growth YoY.
- Highest even powertrain volumes at 14,834 units (+12% YoY).
- Financials performance - Revenue Rs51.26b, Rs4.04b, EBITDA margins at 7.8%, PAT at Rs1.86b.
- Have gained market share across categories.

Financials

- **Gross margins expansion** - 1% benefit due to RM and balance due to mix and price impact which taken in May'23.

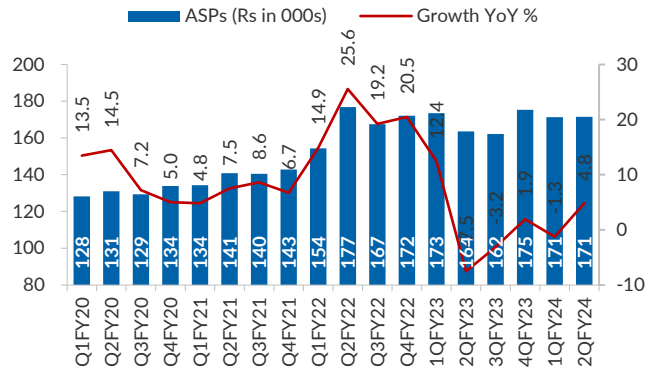
CHARTS

Exhibit 1: 2QFY24 RE volume grew ~0.7% QoQ



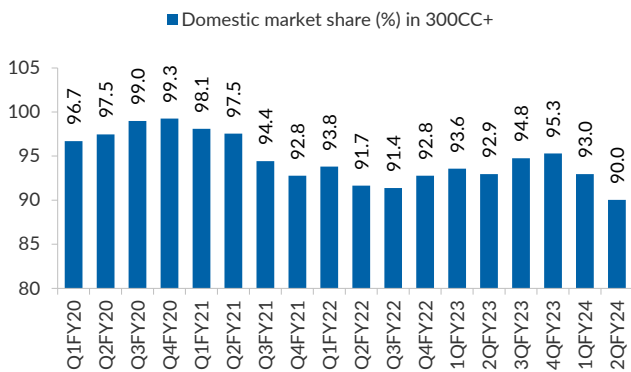
Source: Company, YES Sec

Exhibit 2: 2QFY24 RE ASP were flat QoQ to Rs171.4k



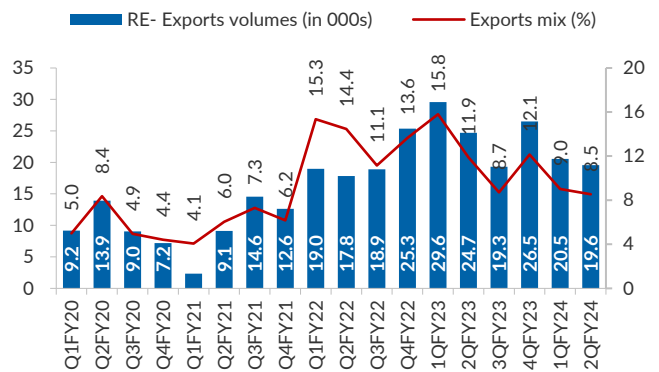
Source: Company, YES Sec

Exhibit 3: RE-Domestic market share trend



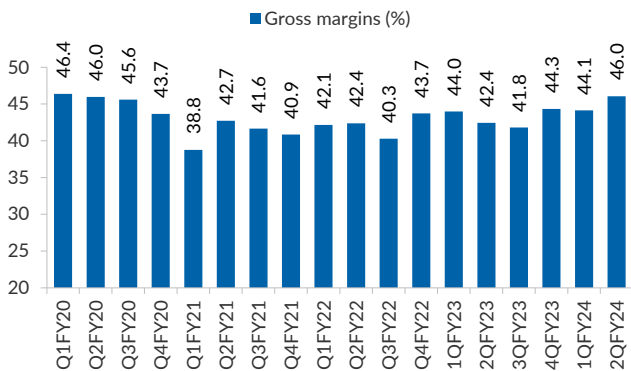
Source: SIAM, YES Sec

Exhibit 4: RE exports dispatches trend



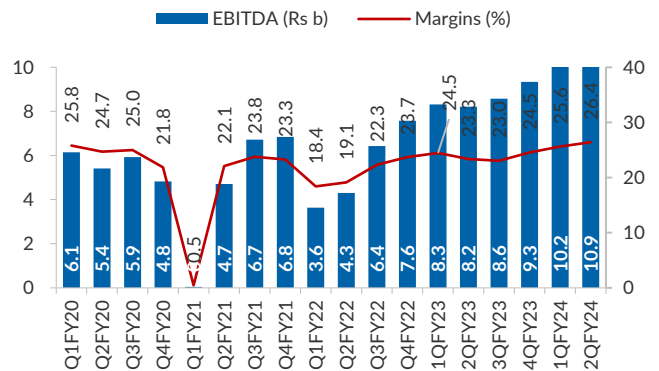
Source: Company, YES Sec

Exhibit 5: Gross margins expanded 190bp QoQ



Source: Company, YES Sec

Exhibit 6: EBITDAM expanded 80bp QoQ at 26.4%



Source: Company, YES Sec

FINANCIALS

Exhibit 7: Balance Sheet

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	273	273	273	274	274	274
Net Worth	99,809	114,381	126,080	149,903	181,812	214,849
Minority Interest	-	-	-	-	(6,056)	(13,279)
Deferred Tax	2,522	2,215	2,201	2,913	2,913	2,913
Loans	2,490	2,193	1,077	2,884	1,128	1,128
Capital Employed	104,821	118,788	129,358	155,700	179,796	205,610
Application of Funds						
Gross Fixed Assets	36,518	40,489	44,054	51,210	59,410	69,670
Less: Depreciation	12,743	16,156	19,811	24,310	29,907	36,371
Net Fixed Assets	23,775	24,333	24,243	26,900	29,503	33,299
Capital WIP	3,122	3,143	5,048	4,719	4,685	4,685
- of which Goodwill	223	223	223	223	223	223
Investments	57,488	39,021	77,206	123,207	129,703	137,453
Curr.Assets, L & Adv.	40,113	79,733	56,003	36,285	52,664	67,618
Inventory	5,724	8,746	11,324	12,784	10,119	14,576
Sundry Debtors	868	1,582	3,020	3,689	6,159	5,026
Cash & Bank Balances	29,506	58,304	27,225	8,571	19,104	28,272
Loans & Advances	1	4,592	6,768	5,889	6,723	7,681
Others	4,014	6,510	7,666	5,350	10,559	12,063
Current Liab. & Prov.	19,676	27,442	33,142	35,410	36,758	37,445
Sundry Creditors	10,078	15,132	17,881	18,104	19,798	20,105
Other Liabilities	8,650	10,392	12,532	12,894	14,958	15,078
Provisions	949	1,918	2,729	4,412	2,002	2,262
Net Current Assets	20,436	52,291	22,861	875	15,906	30,173
Application of Funds	104,821	118,788	129,357	155,700	179,796	205,610

Source: Company, YES Sec

Exhibit 8: Income statement

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E
Gross Op. Income	91,536	87,204	102,978	144,422	160,580	183,455
Change (%)	(6.6)	(4.7)	18.1	40.2	11.2	14.2
EBITDA	21,804	17,813	21,723	34,436	43,231	50,719
EBITDA Margin (%)	24.0	20.6	21.4	24.3	27.3	28.0
Depreciation	3,815	4,507	4,519	5,262	5,598	6,464
EBIT	17,989	13,305	17,203	29,174	37,633	44,255
Interest cost	189	165	188	280	160	160
Other Income	5,433	4,532	4,408	5,951	11,750	6,900
PBT	23,232	17,673	21,424	34,845	49,223	50,995
Tax	5,275	4,515	5,259	8,857	12,431	12,874
Effective Rate (%)	22.7	25.5	24.5	25.4	25.3	25.2
PAT	17,958	13,158	16,165	25,988	36,793	38,122
Change (%)	(8.5)	(26.7)	22.9	60.8	41.6	3.6
Less: Minority Interest	(317)	(311)	(602)	(3,152)	(6,056)	(7,223)
Adj. PAT	18,275	13,469	16,766	29,139	42,849	45,345
Change (%)	(17.7)	(26.3)	24.5	73.8	47.0	5.8

Source: Company, YES Sec

Exhibit 9: Cash Flow Statement

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E
Profit before Tax	23,549	17,984	22,025	37,996	49,223	50,995
Depreciation & Amort.	3,815	4,507	4,519	5,262	5,598	6,464
Direct Taxes Paid	(6,283)	(4,566)	(5,136)	(7,703)	(12,431)	(12,874)
(Inc)/Dec in Working Capital	(1,616)	1,318	(1,268)	(1,906)	1,889	(3,017)
Interest/Div. Received	(2,207)	(3,103)	(2,440)	(1,765)	11,750	6,900
Other Items	(317)	770	(2,429)	(3,411)	(17,978)	(8,822)
CF from Oper. Activity	16,941	16,910	15,270	28,475	38,051	39,647
(Inc)/Dec in FA+CWIP	(5,445)	(5,149)	(6,387)	(6,737)	(8,167)	(10,260)
Free Cash Flow	11,496	11,760	8,883	21,738	29,885	29,387
(Pur)/Sale of Invest.	(9,639)	(11,104)	(3,446)	(17,479)	(6,496)	(7,751)
CF from Inv. Activity	(15,084)	(16,253)	(9,833)	(24,216)	(14,662)	(18,011)
Issue of Shares	289	384	65	112	-	-
Inc/(Dec) in Debt	(618)	(373)	(1,164)	1,638	(1,757)	-
Interest Paid	(167)	(158)	(187)	(182)	(160)	(160)
Dividends Paid	(8,087)	-	(4,647)	(5,742)	(10,940)	(12,308)
CF from Fin. Activity	(8,583)	(148)	(5,934)	(4,174)	(12,856)	(12,467)
Inc/(Dec) in Cash	(6,725)	509	(496)	84	10,533	9,169
Add: Beginning Balance	7,158	432	941	446	8,571	19,104
Closing Balance	432	941	445	530	19,104	28,272

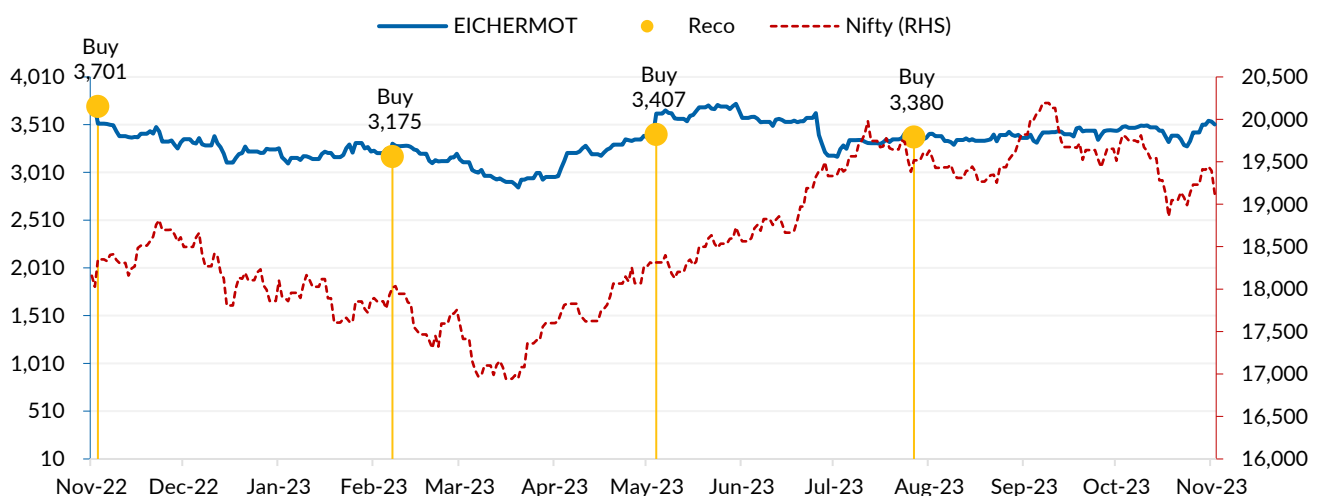
Source- Company, YES Sec

Exhibit 10: Growth and Ratio matrix

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)						
EPS	67.0	49.3	61.3	106.5	156.7	165.8
EPS Growth (%)	(17.7)	(26.4)	24.4	73.7	47.0	5.8
Cash EPS	81.0	65.8	77.9	125.8	177.1	189.4
Book Value per Share	365.9	418.5	461.2	548.1	664.8	785.6
DPS	12.5	17.0	21.0	37.0	40.0	45.0
Payout (Incl. Div. Tax) %	21.7	34.5	34.2	34.7	25.5	27.1
Valuation (x)						
P/E	52.9	71.9	57.7	33.2	22.6	21.4
Cash P/E	43.7	53.8	45.5	28.2	20.0	18.7
EV/EBITDA	37.9	42.5	35.2	20.5	15.4	12.8
EV/Sales	6.7	6.7	5.2	3.5	3.0	2.6
Price to Book Value	9.7	8.5	7.7	6.5	5.3	4.5
Dividend Yield (%)	0.4	0.5	0.6	1.0	1.1	1.3
Profitability Ratios (%)						
RoE	19.3	12.6	13.9	21.1	25.8	22.9
RoCE	18.6	12.4	13.8	21.0	25.7	23.6
RoIC	112.6	61.4	70.3	123.4	143.5	125.1
Turnover Ratios						
Debtors (Days)	3.5	6.6	10.7	9.3	14.0	10.0
Inventory (Days)	22.8	36.6	40.1	32.3	23.0	29.0
Creditors (Days)	40.2	63.3	63.4	45.8	45.0	40.0
Working Capital (Days)	(13.9)	(20.1)	(12.5)	(4.1)	(8.0)	(1.0)
Asset Turnover (x)	0.9	0.7	0.8	0.9	0.9	0.9
Leverage Ratio						
Debt/Equity (x)	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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