

February 10, 2025

RESULT REPORT Q3 FY25 | Sector: Automobile

# Eicher Motors (EIM)

## Downgrade to ADD on recent outperformance

### Valuation and View – Focus on volumes over margins start to reflect

Eicher Motors (EIM) 3QFY25 consolidated results were operational weak with EBITA/margins miss of 10-14%/2-3% to our/street. This was led by lower-than-expected margins in standalone (led by lower ASP and inflated other expense partly due to one off related to EV brand launch expense (~40bp impact), new ICE launches and heightened market activation spends (to continue). RE's margins expansion ahead will be guided by stable RM, higher share of non-motorcycle revenues, platform related VAVE and exports. The demand outlook is positive as domestic volumes are expected to see full benefits of new launches, undergoing market activation projects, conversion of pent-up demand in few states and upcoming marriage season. Exports on the other hand should continue to see gradual volume build-up.

The management sounded confident to improve RE's volume trajectory backed by healthy response to new launches. Further, it has re-iterated slew of launches (in exports) and wider branding/market activation projects, which should help expand overall mid-size market. We expect RE's overall volumes to grow at ~7% CAGR over FY24-27E. 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 volumes can be volatile. On the other hand, VECV likely to maintain the momentum, in turn leading to consolidated revenue/EBITDA/Adj.PAT CAGR to 9.6%/10.7%/12.3% over FY24-27E. We cut FY26 EPS by ~4% to reflect upon lower RE ASP and higher other expenses while maintain FY27 EPS. With recent outperformance, the stock trades at 28.2x/25.8x FY26E/FY27E consol EPS make risk reward slightly unfavourable. Hence we downgrade the stock to ADD (vs BUY) with SoTP based TP of Rs5,837 (vs Rs5,667 earlier). We value S/A at 28x P/E and VECV at 12x EV/EBITDA.

### Result Highlights – Weak RE ASP; higher other expenses dent margins

- Consol revenues grew 19% YoY (+16.7% QoQ) at Rs49.7b (est Rs51b). RE's volume grew 19.4% YoY/+19.5% QoQ at ~272k and ASPs came in at Rs180.2k/unit (est Rs187.3k/unit, +1.4% YoY/-2.3% QoQ), led by product mix.
- Consol gross margins contracted 90bp YoY (-140bp QoQ) at 45.1% (est 46.5%) while RE's gross margins contracted 170bp YoY/-120bp QoQ at 44.5% (est 46.2%). Consol EBITDA grew 10.2% YoY (+10.4% QoQ) at Rs12b (est ~Rs14.1b) with margins at 24.2% (-190bp YoY/-140bp QoQ, est 24.2%). S/A margins contracted 260bp YoY (-130bp QoQ) at 24.9% (est 28%), leading to EBITDA/vehicle at Rs44.9k/unit which de-grew by 8.1% YoY (-7.3% QoQ).
- VECV performance - Revenues grew 5.8% YoY at Rs58b (est ~Rs56.7b), EBITDA grew 16.1% to ~Rs5.1b (est ~Rs4.3b) with margins at 8.8% (est 7.5%). PAT grew 42.6% YoY at Rs3b (est ~Rs2.2b).

### Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	49,731	51,007	50,822	-2.5	-2.1	Operating miss led by weak RE ASP and higher other expenses.
EBITDA	12,012	14,062	13,415	-14.6	-10.5	
EBITDA margins %	24.2	27.6	26.4	-340bp	-220bp	
Adj PAT	11,705	12,924	11,972	-9.4	-2.2	

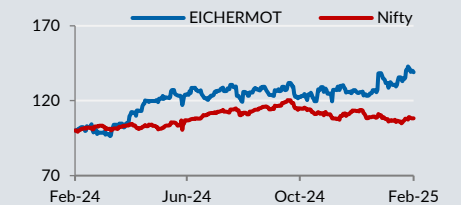
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 5,329
Target Price	: Rs 5,837
Potential Return	: +9.5%

### Stock data (as on Feb 10, 2025)

Nifty	23,382
52 Week h/l (Rs)	5,576 / 3,672
Market cap (Rs/USD mn)	14,72,790 / 16,844
Outstanding Shares (mn)	274
6m Avg t/o (Rs mn):	2,742
Div yield (%):	1.0
Bloomberg code:	EIM IN
NSE code:	EICHERMOT

### Stock performance



	1M	3M	1Y
Absolute return	+5.5%	+11.5%	+38.9%

### Shareholding pattern (As of Dec'24)

Promoter	49.1%
FII+DII	41.4%
Others	9.5%

### Δ in stance

(1-Yr) Rating	New	Old
Rating	ADD	BUY
Target Price	5,837	5,667

### Δ in earnings estimates

	FY26E	FY27E
EPS (New)	189.6	206.8
EPS (Old)	194.4	207.0
% change	(3.9%)	(0.1%)

### Financial Summary

Y/E Mar (Rs b)	FY25E	FY26E	FY27E
Net Income	180.8	198.2	217.4
EBITDA	46.9	52.4	58.6
Adj. PAT	48.2	51.2	56.6
Adj. EPS (INR)	176.0	186.9	206.8
EPS Gr. (%)	20.5	6.2	10.7
BV/Sh. (INR)	790.1	932.0	1,093.8
RoE (%)	24.3	21.7	20.4
RoCE (%)	24.0	22.0	21.1
P/E (x)	30.3	28.5	25.8
P/BV (x)	6.7	5.7	4.9
EV/EBITDA (x)	22.3	20.4	18.0
Div. Yield (%)	0.8	0.8	0.8

### DEEP SHAH

Lead Analyst

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MEGHNA GUNDU, Associate

## Exhibit 2: Quarterly snapshot

Y/e Mar (Rs mn)	Q3FY25	Q3FY24	YoY chg	Q2FY25	QoQ chg	9MFY25	9MFY24	YoY chg
Net Revenues	49,731	41,788	19.0	42,631	16.7	136,292	122,797	11.0
Raw Materials	27,317	22,579	21.0	22,824	19.7	73,702	67,052	9.9
% of Net Sales	54.9%	54.0%		53.5%		54.1%	54.6%	
Personnel	3,420	3,093	10.6	3,464	(1.3)	10,420	9,081	14.7
% of Net Sales	6.9%	7.4%		8.1%		7.6%	7.4%	
Manufacturing & Other Exp	6,983	5,214	33.9	5,466	27.7	17,627	14,682	20.1
% of Net Sales	14.0%	12.5%		12.8%		12.9%	12.0%	
Total Expenditure	37,719	30,886	22.1	31,754	18.8	101,749	90,815	12.0
<b>EBITDA</b>	<b>12,012</b>	<b>10,903</b>	<b>10.2</b>	<b>10,877</b>	<b>10.4</b>	<b>34,543</b>	<b>31,983</b>	<b>8.0</b>
<b>EBITDA Margin (%)</b>	<b>24.2%</b>	<b>26.1%</b>		<b>25.5%</b>		<b>25.3%</b>	<b>26.0%</b>	
Depreciation	1,793	1,475	21.5	1,801	(0.4)	5,280	4,324	22.1
<b>EBIT</b>	<b>10,219</b>	<b>9,427</b>	<b>8.4</b>	<b>9,077</b>	<b>12.6</b>	<b>29,264</b>	<b>27,659</b>	<b>5.8</b>
Interest Expenses	134	124	7.7	131	1.9	388	355	9.2
Non-operating income	2,888	2,537	13.8	3,538	(18.4)	9,245	7,707	20.0
<b>PBT</b>	<b>12,973</b>	<b>11,840</b>	<b>9.6</b>	<b>12,483</b>	<b>3.9</b>	<b>38,121</b>	<b>35,011</b>	<b>8.9</b>
Tax-Total	2,903	3,019	(3.8)	2,617	10.9	8,916	8,865	0.6
Tax Rate (%) - Total	22.4%	25.5%		21.0%		23.4%	25.3%	
<b>PAT</b>	<b>10,070</b>	<b>8,821</b>	<b>14.2</b>	<b>9,866</b>	<b>2.1</b>	<b>29,205</b>	<b>26,147</b>	<b>11.7</b>
Minority interest / Share in profit	1,635	1,139	43.6	1,138	43.7	4,518	3,159	43.0
Profit after MI / Share of profit	11,705	9,960	17.5	11,003	6.4	33,723	29,306	15.1
<b>Adj. PAT</b>	<b>11,705</b>	<b>9,960</b>	<b>17.5</b>	<b>11,003</b>	<b>6.4</b>	<b>33,723</b>	<b>29,306</b>	<b>15.1</b>
<b>PAT Margin</b>	<b>23.5%</b>	<b>23.8%</b>		<b>25.8%</b>		<b>24.7%</b>	<b>23.9%</b>	

Source- Company, YES Sec

## Exhibit 3: SOTP Valuation

INR Mn	FY26E	FY27E
Royal Enfield	28	28
PAT	46,764	51,965
Equity Value (at 26x PE)	1,309,400	1,455,027
<b>VECV (@ 54.4% Economic interest)</b>		
EBITDA	9,575	9,976
EV (at 12x EV/EBITDA)	114,898	119,708
Net Debt	-16,409	-23,387
Equity Value	131,307	143,094
<b>Total Equity Value</b>	<b>1,440,707</b>	<b>1,598,122</b>
<b>Target Price (INR/Sh)</b>	<b>5,262</b>	<b>5,837</b>

Source- Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

### Royal Enfield

- **Domestic**
  - Witnessed strong growth in domestic market. Have launched couple of products such as Goan Classic and Scram 440 (upgraded). **3Q retail grew ~19% YoY led by launch of new Classic 350, Bullet Battalion black and elevated marketing spends especially on new launches. Saw strong momentum continued in Jan'25.**
  - Hinted towards more market activation spends for brands such as Guerrilla.
  - Have launched exclusive apparel brand stores in Pune and Gurgaon
  - **RE Own (pre-owned motorcycles)** - expanded to ~236 cities. Working on upgrading customers.
- **Channel inventory** – back to regular inventory levels of 2-3 weeks as stock out in few SKUs experience during festive.
- No price hikes undertaken in 3QFY25.
- **Exports** – Retail growth at 8-9% YoY in 3QFY25 and cautiously optimistic on growth ahead
  - **Maintained MS across key regions** such as UK where RE is leading, Europe in top 3 with 8.5% share, America at 8%, APAC at 9%.
  - **CKD plant in Thailand** – operating in one shift which can manufacture 5k-7k units. Working on exports opportunities out of Thailand to take FTA advantage. Initial focus in local market, then ASEAN markets and then exports.
  - **Brazil** – have operationalized second CKD.
  - Against distribution model, looking at direct entry into some of the global markets though subsidiary.
  - Current import duty on RE in Europe is 5%.
- OBD 2B – expect some amount of cost increase but dint quantify.
- **EV motorcycles** – debut of Flying Free and progress is on track. Expect launch by 1QCY26. Initial capacity will be 150k per annum and scalable if required.

### VECV

- **Outlook** – optimistic on the growth backed by government capex recovery.
- **MS gains continued** across business segments.
- **Network** – Added ~75 stores in 9MFY25 with overall touch points at 1,008 (vs 972 as of 2QFY25).
- **Spares revenues** (both Eicher and Volvo) at ~Rs7.8b in 3QFY25 which grew ~25.6% YoY

### Financials

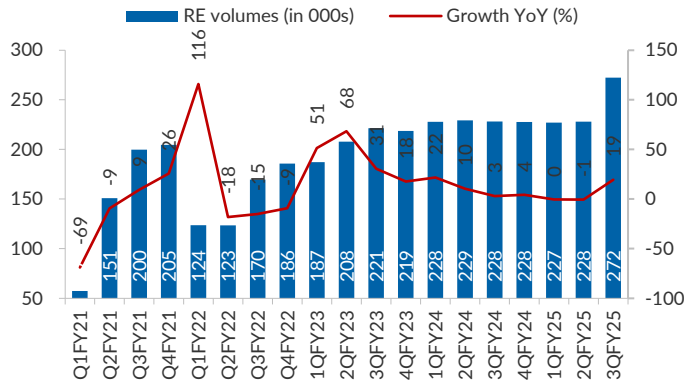
- **Royal Enfield - Other expense had impact of Rs700m or 1.5% (part of the costs are one-offs)**
  - Multiple new product launches on ICE,
  - EV brand launch related expense (~Rs200m impact),
  - Regional branding activities in Europe,
  - ~0.9% YoY impact due to on ground market activation strategy during festive.

# Eicher Motors Ltd (EIM)

- Some of the above expenses are one-offs.
- RM basket largely remain stable in 3QFY25. However, seeing some inflation off-late.
- Capex - Rs10b for VECV

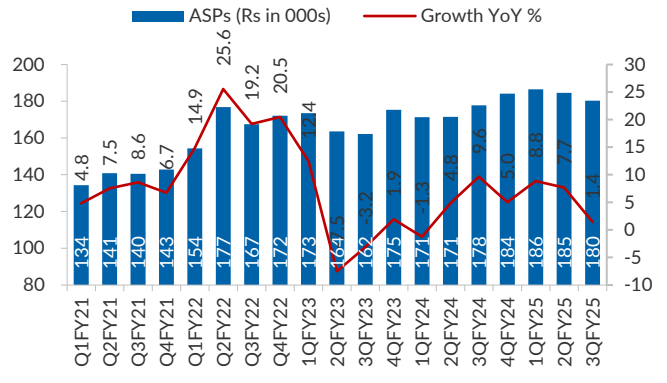
## CHARTS

**Exhibit 1: RE volume grew 19.5% QoQ; to sustain**



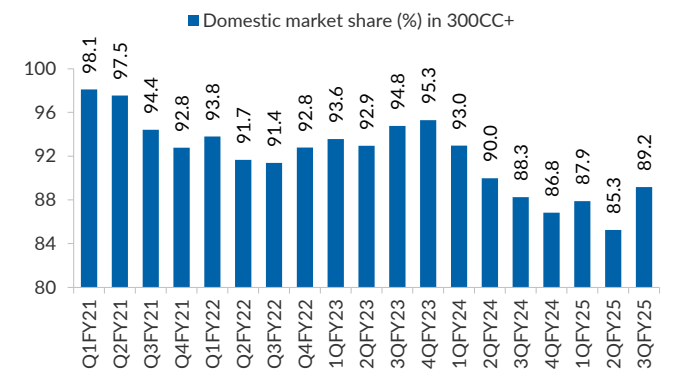
Source: Company, YES Sec

**Exhibit 2: RE ASP de-grew by 2.3% QoQ to ~Rs180.3k**



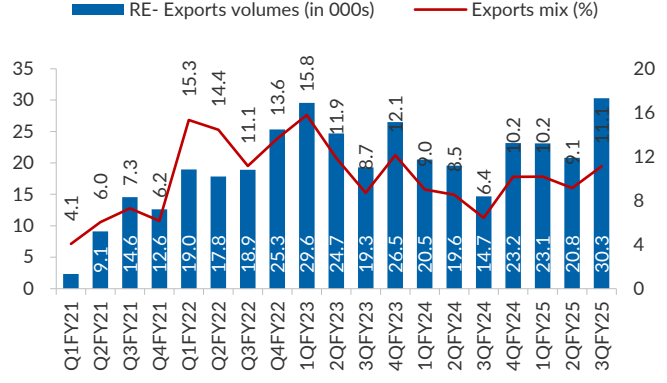
Source: Company, YES Sec

**Exhibit 3: RE - Domestic market share trend**



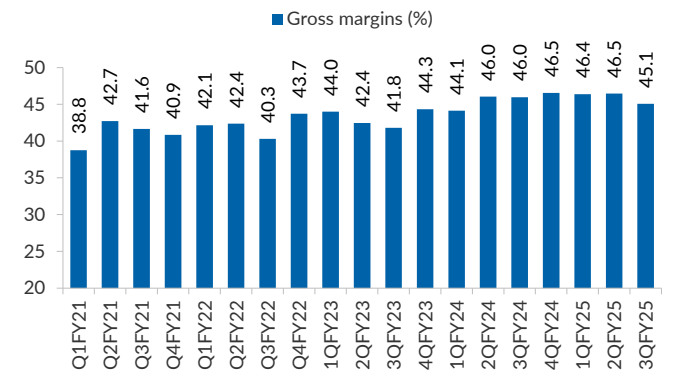
Source: SIAM, YES Sec

**Exhibit 4: RE exports expected to trend up**



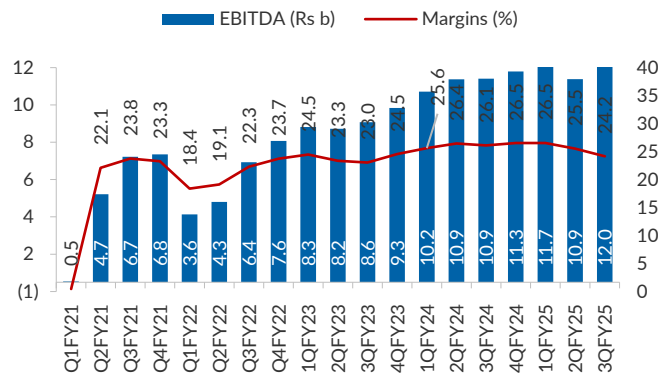
Source: Company, YES Sec

**Exhibit 5: Gross margin contracted 140bp QoQ at 45.1%**



Source: Company, YES Sec

**Exhibit 6: EBITDAM contracted 140bp QoQ at 24.2%**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 7: Balance Sheet

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	273	274	274	274	274	274
<b>Net Worth</b>	<b>126,080</b>	<b>149,903</b>	<b>180,455</b>	<b>216,331</b>	<b>255,174</b>	<b>299,476</b>
Minority Interest	-	-	-	(6,156)	(11,056)	(16,279)
Deferred Tax	2,201	2,913	4,611	4,611	4,611	4,611
Loans	1,077	2,884	4,194	2,098	2,098	2,098
<b>Capital Employed</b>	<b>129,358</b>	<b>155,700</b>	<b>189,261</b>	<b>216,883</b>	<b>250,826</b>	<b>289,905</b>
<b>Application of Funds</b>						
Gross Fixed Assets	44,054	51,210	56,868	64,379	74,557	85,735
Less: Depreciation	19,811	24,310	27,724	34,371	41,327	48,470
<b>Net Fixed Assets</b>	<b>24,243</b>	<b>26,900</b>	<b>29,144</b>	<b>30,008</b>	<b>33,229</b>	<b>37,264</b>
Capital WIP	5,048	4,719	5,551	5,535	5,535	5,535
- of which Goodwill	223	223	223	223	223	223
<b>Investments</b>	<b>77,206</b>	<b>123,207</b>	<b>135,270</b>	<b>141,788</b>	<b>147,122</b>	<b>152,866</b>
<b>Curr.Assets, L &amp; Adv.</b>	<b>56,003</b>	<b>36,285</b>	<b>61,405</b>	<b>74,520</b>	<b>103,257</b>	<b>136,268</b>
Inventory	11,324	12,784	14,096	17,337	19,001	20,847
Sundry Debtors	3,020	3,689	3,738	4,953	5,429	5,956
Cash & Bank Balances	27,225	8,571	1,463	32,007	56,662	85,148
Loans & Advances	6,768	5,889	4,769	5,363	5,877	6,448
Others	7,666	5,350	37,339	14,860	16,287	17,869
<b>Current Liab. &amp; Prov.</b>	<b>33,142</b>	<b>35,410</b>	<b>42,109</b>	<b>34,968</b>	<b>38,317</b>	<b>42,029</b>
Sundry Creditors	17,881	18,104	20,901	17,832	19,544	21,443
Other Liabilities	12,532	12,894	18,205	14,860	16,287	17,869
Provisions	2,729	4,412	3,003	2,275	2,486	2,717
<b>Net Current Assets</b>	<b>22,861</b>	<b>875</b>	<b>19,296</b>	<b>39,552</b>	<b>64,940</b>	<b>94,240</b>
<b>Application of Funds</b>	<b>129,357</b>	<b>155,700</b>	<b>189,261</b>	<b>216,883</b>	<b>250,826</b>	<b>289,905</b>

Source: Company, YES Sec

## Exhibit 8: Income statement

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Gross Op. Income	102,978	144,422	165,358	180,800	198,156	217,403
Change (%)	18.1	40.2	14.5	9.3	9.6	9.7
EBITDA	21,723	34,436	43,269	46,898	52,418	58,627
EBITDA Margin (%)	21.4	24.3	26.7	26.4	26.9	27.4
Depreciation	4,519	5,262	5,976	6,647	6,957	7,143
EBIT	17,203	29,174	37,293	40,251	45,461	51,484
Interest cost	188	280	509	222	222	222
Other Income	4,408	5,951	10,759	14,150	16,200	17,000
PBT	21,424	34,845	47,543	54,179	61,439	68,262
Tax	5,259	8,857	12,010	12,139	15,175	16,863
Effective Rate (%)	24.5	25.4	25.3	22.4	24.7	24.7
PAT	16,165	25,988	35,533	42,040	46,264	51,399
Change (%)	22.9	60.8	36.7	18.3	10.0	11.1
Less: Minority Interest	(602)	(3,152)	(4,477)	(6,156)	(4,900)	(5,223)
Adj. PAT	16,766	29,139	40,010	48,197	51,164	56,622
Change (%)	24.5	73.8	37.3	20.5	6.2	10.7

Source: Company, YES Sec

## Exhibit 9: Cash Flow Statement

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Profit before Tax	22,025	37,996	52,020	54,179	61,439	68,262
Depreciation & Amort.	4,519	5,262	5,976	6,647	6,957	7,143
Direct Taxes Paid	(5,136)	(7,703)	(10,678)	(12,139)	(15,175)	(16,863)
(Inc)/Dec in Working Capital	(1,268)	(1,906)	1,436	(7,525)	(428)	(475)
Interest/Div. Received	(2,440)	(1,765)	(2,037)	14,150	16,200	17,000
Other Items	(2,429)	(3,411)	(9,480)	3,885	(16,282)	(17,117)
<b>CF from Oper. Activity</b>	<b>15,270</b>	<b>28,475</b>	<b>37,237</b>	<b>59,197</b>	<b>52,711</b>	<b>57,950</b>
(Inc)/Dec in FA+CWIP	(6,387)	(6,737)	(8,144)	(7,495)	(10,178)	(11,178)
<b>Free Cash Flow</b>	<b>8,883</b>	<b>21,738</b>	<b>29,094</b>	<b>51,702</b>	<b>42,533</b>	<b>46,772</b>
(Pur)/Sale of Invest.	(3,446)	(17,479)	(20,376)	(6,518)	(5,334)	(5,744)
<b>CF from Inv. Activity</b>	<b>(9,833)</b>	<b>(24,216)</b>	<b>(28,520)</b>	<b>(14,013)</b>	<b>(15,512)</b>	<b>(16,922)</b>
Issue of Shares	65	112	466	0	-	-
Inc/(Dec) in Debt	(1,164)	1,638	1,754	(2,097)	-	-
Interest Paid	(187)	(182)	(354)	(222)	(222)	(222)
Dividends Paid	(4,647)	(5,742)	(10,129)	(12,321)	(12,321)	(12,321)
<b>CF from Fin. Activity</b>	<b>(5,934)</b>	<b>(4,174)</b>	<b>(8,263)</b>	<b>(14,640)</b>	<b>(12,543)</b>	<b>(12,543)</b>
<b>Inc/(Dec) in Cash</b>	<b>(496)</b>	<b>84</b>	<b>454</b>	<b>30,544</b>	<b>24,656</b>	<b>28,486</b>
Add: Beginning Balance	941	446	530	1,463	32,007	56,662
<b>Closing Balance</b>	<b>445</b>	<b>530</b>	<b>984</b>	<b>32,007</b>	<b>56,662</b>	<b>85,148</b>

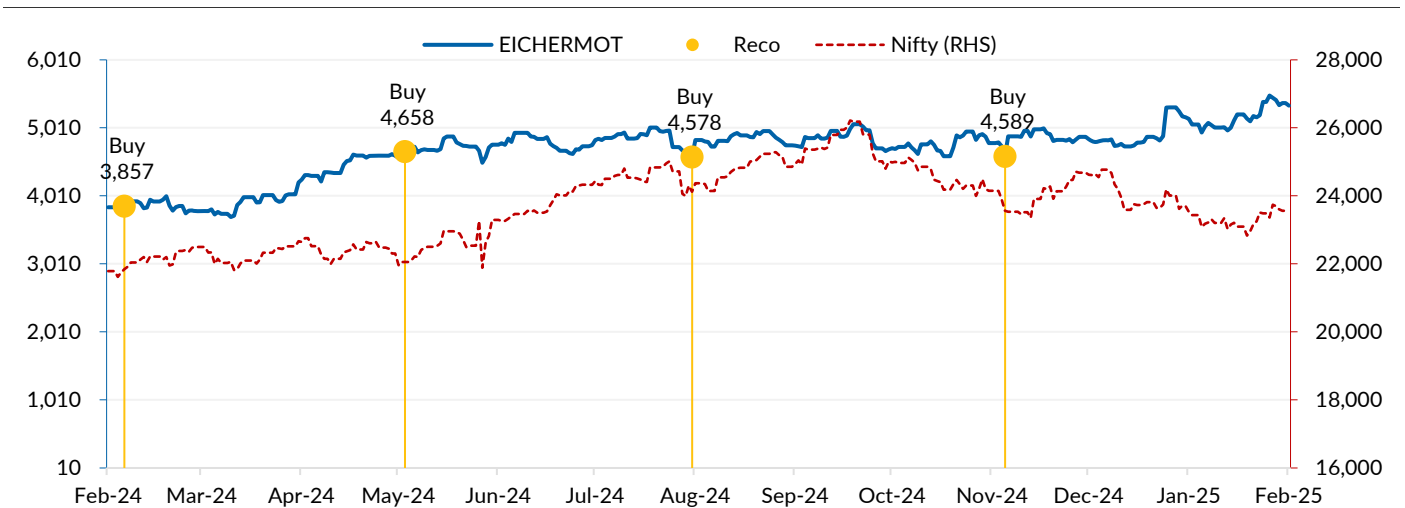
Source- Company, YES Sec

**Exhibit 10: Growth and Ratio matrix**

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Basic (INR)</b>						
EPS	61.3	106.5	146.1	176.0	186.9	206.8
EPS Growth (%)	24.4	73.7	37.2	20.5	6.2	10.7
Cash EPS	77.9	125.8	168.0	200.3	212.3	232.9
Book Value per Share	461.2	548.1	659.1	790.1	932.0	1,093.8
DPS	21.0	37.0	51.0	45.0	45.0	45.0
Payout (Incl. Div. Tax) %	34.2	34.7	34.9	25.6	24.1	21.8
<b>Valuation (x)</b>						
P/E	86.9	50.0	36.5	30.3	28.5	25.8
Cash P/E	68.5	42.4	31.7	26.6	25.1	22.9
EV/EBITDA	54.7	32.3	25.2	22.3	20.4	18.0
EV/Sales	8.0	5.5	4.8	4.1	3.9	3.5
Price to Book Value	11.6	9.7	8.1	6.7	5.7	4.9
Dividend Yield (%)	0.4	0.7	1.0	0.8	0.8	0.8
<b>Profitability Ratios (%)</b>						
RoE	13.9	21.1	24.2	24.3	21.7	20.4
RoCE	13.8	21.0	23.9	24.0	22.0	21.1
RoIC	70.3	123.4	94.3	85.2	95.9	97.2
<b>Turnover Ratios</b>						
Debtors (Days)	10.7	9.3	8.3	10.0	10.0	10.0
Inventory (Days)	40.1	32.3	31.1	35.0	35.0	35.0
Creditors (Days)	63.4	45.8	46.1	36.0	36.0	36.0
Working Capital (Days)	(12.5)	(4.1)	(6.8)	9.0	9.0	9.0
Asset Turnover (x)	0.8	0.9	0.9	0.8	0.8	0.7
<b>Leverage Ratio</b>						
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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Analyst signature

Analyst signature

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