

**Healthy expansion in realization despite subdued volume growth**

Q3FY24 Result Update | Sector: Auto | February 14, 2024

**BUY**

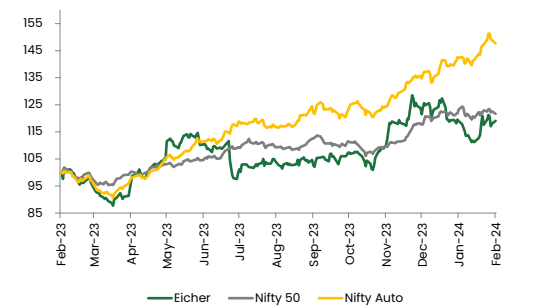
<b>CMP (Rs)</b>	<b>3,854</b>
<b>Target Price (Rs)</b>	<b>4,661</b>
<b>Potential Upside</b>	<b>20.9%</b>
<b>Sensex</b>	71,555
<b>Nifty</b>	21,743

**Key Stock data**

<b>BSE Code</b>	505200
<b>NSE Code</b>	EICHERMOT
<b>Bloomberg</b>	EIM:IN
<b>Shares o/s, Cr (FV 1)</b>	27.3
<b>Market Cap (Rs Cr)</b>	106,736
<b>3M Avg Volume</b>	643,684
<b>52 week H/L</b>	4,200/2,836

**Shareholding Pattern**

(%)	Jun-23	Sep-23	Dec-23
<b>Promoter</b>	49.2	49.2	49.2
<b>FII</b>	30.3	30.3	30.3
<b>DII</b>	10.1	10.1	9.8
<b>Others</b>	10.4	10.4	10.8

**1 year relative price performance**

**1 year P/E Forward (x)**

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**Decent revenue growth:** Eicher Motors revenue from operations grew by 12.3% YoY/1.6% QoQ to Rs 4,179 Cr, led by price hikes and premiumization trend amid subdued volume growth of 3.8% YoY to 248,779 units. Its other income was up by 31.9% YoY and share of profits from JV was up by 78.2% YoY which led the profit to improve by 34.4% YoY to Rs 996 Cr, however, it declined by 2% sequentially.

**Mixed margin performance:** It continues to benefit from benign commodity prices as its gross profit grew by 23.5% YoY/1.4% QoQ to Rs 1,921 Cr with margin of 46% which expanded by 417bps YoY and remained flat sequentially. EBITDA came in at Rs 1,090 Cr, up by 27.2% YoY with a margin of 26.1% which improved by 305bps YoY, however, witnessed slight contraction of 33bps due to higher overhead expenses on the account of promotional events and ad spends towards new launches.

**Healthy growth in realizations:** Its volume witnessed moderation due to the high base of last year as well as increased competition from peers leading its RE volume to grow by 3% YoY to 228,073 units. Despite subdued volume growth, its Avg realization grew by 9.6% YoY/3.7% QoQ to Rs 177,758/unit led by price hikes as well as premiumization trend across its portfolio. Given the favorable commodity prices, premium product mix as well as new launches shall continue to aid in the expansion of realization and factoring this, we estimate its realization to grow at a CAGR of 4.8% over FY23-FY26E.

**Strong VECV performance:** It was a robust quarter for VECV (Volvo Eicher Commercial Vehicle) as its revenue was up by 19.1% YoY/6.9% QoQ to Rs 5,483 Cr, driven by healthy volume across segment which was up by 14% YoY/5.9% QoQ to 20,706 units. Consequently, Avg realization was up by 4.5% YoY/0.9% QoQ to Rs 26.5 Lakh/unit while EBITDA grew by 43.6% YoY/8.4% QoQ to Rs 438 Cr with a margin of 8%. PAT was up by 81.4% YoY/14.1% QoQ to Rs 211 Cr.

**Concall & Other key highlights:** 1) Parts business revenue for Volvo and Eicher combined was up by 22.3% YoY to Rs 560 Cr. 2) New launches; Himalayan 450 and Shotgun 650 are witnessing good response from customers with healthy bookings. 3) Consistent RE Hunter volume with ~265k since its launch in 2022. 4) The management expects the export market to remain under pressure for the upcoming 2-3 quarters. 5) Heavy Duty Truck and Light Medium Duty Trucks market share stood at 9.6% and 34.5% respectively. 6) VE powertrain sales were up by 8% YoY to 13,596 units. 7) The company aims to launch the new "Sherpa Engine" in the international market which shall aid in volume expansion. 8) The new launches in the upcoming quarters could keep the overhead expenses in the similar range.

**Outlook & Valuation:** Despite the recent competitive pressure, EML continues to lead the 300+cc segment and has been posting volume growth consistently. The increased buying sentiments in 125cc+ category and new launches in the upcoming quarters is expected to aid the company in terms of volume growth. Further, the rise in government expenditure on electrification of buses and rise in private capex shall aid in volume and revenue expansion in its JV VECV. Factoring this, we estimate its revenue/EBITDA/PAT to grow at a CAGR of 16.3%/19.9%/22.1% over FY23-FY26E and maintain our **Buy** rating with a revised (upwards) target price of **Rs 4,661** valuing it at a PE of 24x on its FY26E EPS.

**Financial Summary - consolidated**

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Net revenue	14,442	16,693	20,444	22,716
EBITDA	3,444	4,265	5,285	5,940
EBITDAM (%)	23.8	25.6	25.9	26.2
APAT	2,914	3,745	4,653	5,310
APATM (%)	20.2	22.4	22.8	23.4
EPS (Rs)	106.6	137.0	170.2	194.2
PE (x)	36.4	28.3	22.8	20.0
RoE (%)	21.1	24.2	26.4	25.1

Source : RBL Research

Revenue up by 12.3% YoY/1.6% QoQ despite subdued volume growth

Benign commodity prices aided in gross profit and margin expansion

High overhead expenses result in slight dip in EBITDA margin sequentially

High other income led to strong rise in profit

Promotional spends towards new launches resulted in high overhead expenses

#### P&L Account Quarterly – consolidated

Particulars, Rs cr	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
Total Volumes (units)	248,779	239,573	3.8	248,831	(0.0)
<b>Net Sales</b>	<b>4,179</b>	<b>3,721</b>	<b>12.3</b>	<b>4,115</b>	<b>1.6</b>
Material costs	2,258	2,166	4.3	2,220	1.7
<b>Gross Profit</b>	<b>1,921</b>	<b>1,555</b>	<b>23.5</b>	<b>1,894</b>	<b>1.4</b>
<b>Gross Margin (%)</b>	<b>46.0</b>	<b>41.8</b>	<b>417 bps</b>	<b>46.0</b>	<b>-7 bps</b>
Employee cost	309	259	19.3	306	1.1
Other overheads	521	439	18.8	501	4.0
<b>EBITDA</b>	<b>1,090</b>	<b>857</b>	<b>27.2</b>	<b>1,087</b>	<b>0.3</b>
<b>EBITDA Margin (%)</b>	<b>26.1</b>	<b>23.0</b>	<b>305 bps</b>	<b>26.4</b>	<b>-33 bps</b>
Depreciation	148	135	9.4	143	3.5
Interest	12	8	64.0	13	(2.0)
Other income	254	192	31.9	274	(7.3)
Share of profit / (loss) from JV	114	64	78.2	102	12.0
<b>PBT</b>	<b>1,298</b>	<b>971</b>	<b>33.7</b>	<b>1,307</b>	<b>(0.7)</b>
Tax	302	230	31.2	291	3.7
<b>Effective tax rate (%)</b>	<b>23.3</b>	<b>23.7</b>	<b>-44 bps</b>	<b>22.3</b>	<b>100 bps</b>
<b>Adjusted PAT</b>	<b>996</b>	<b>741</b>	<b>34.4</b>	<b>1,016</b>	<b>(2.0)</b>
<b>Adj. PAT margin (%)</b>	<b>23.8</b>	<b>19.9</b>	<b>392 bps</b>	<b>24.7</b>	<b>-87 bps</b>

Source : RBL Research

#### Cost analysis

As a % of net sales	Q3FY24	Q3FY23	Y-o-Y (bps)	Q2FY24	Q-o-Q (bps)
Material costs	54.0	58.2	(417)	54.0	7
Employee cost	7.4	7.0	43	7.4	(4)
Other overheads	12.5	11.8	68	12.2	30
<b>Total Costs</b>	<b>73.9</b>	<b>77.0</b>	<b>(305)</b>	<b>73.6</b>	<b>33</b>

Source : RBL Research

*Subdued volume growth amid healthy competition*

*Strong overall performance driven by robust volume in domestic markets*

#### Royal Enfield Metrics

Particulars (in Units)	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
Domestic	213,386	202,119	5.6	209,716	1.7
Exports	14,687	19,292	(23.9)	19,564	(24.9)
<b>Total Volumes</b>	<b>228,073</b>	<b>221,411</b>	<b>3.0</b>	<b>229,280</b>	<b>(0.5)</b>
Avg Realization (Rs/Unit)	177,758	162,149	9.6	171,437	3.7

Source : RBL Research

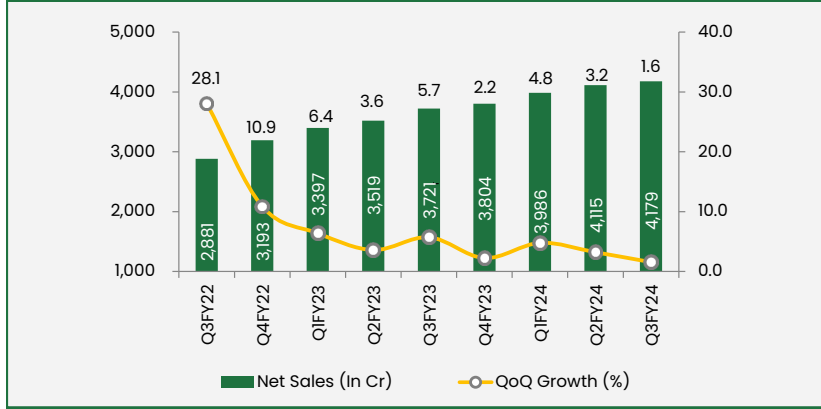
#### VECV Metrics

Particulars	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
Domestic Volume	19,231	16,709	15.1	17,933	7.2
Export Volumes	825	925	(10.8)	1,007	(18.1)
Volvo Trucks & Buses	650	528	23.1	611	6.4
<b>Total Volumes (In Units)</b>	<b>20,706</b>	<b>18,162</b>	<b>14.0</b>	<b>19,551</b>	<b>5.9</b>
Revenue (In Cr)	5,483	4,604	19.1	5,129	6.9
EBITDA (In Cr)	438	305	43.6	404	8.4
PAT (In Cr)	211	116	81.4	185	14.1
Avg Realization (Rs/Unit)	2,648,025	2,534,908	4.5	2,623,395	0.9

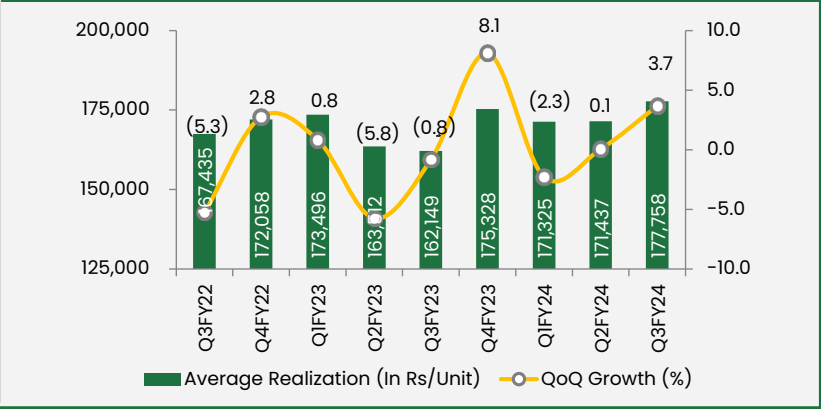
Source : RBL Research

Story in charts

Strong volume aided in record revenue

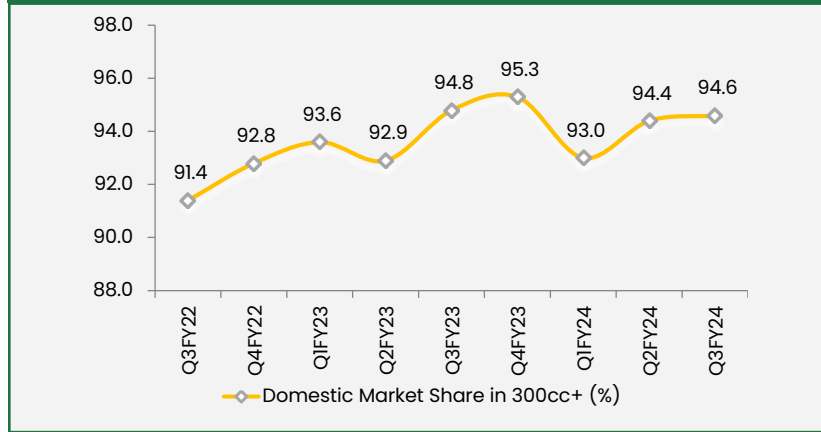


Price hike and premiumization trend aid in realizations growth

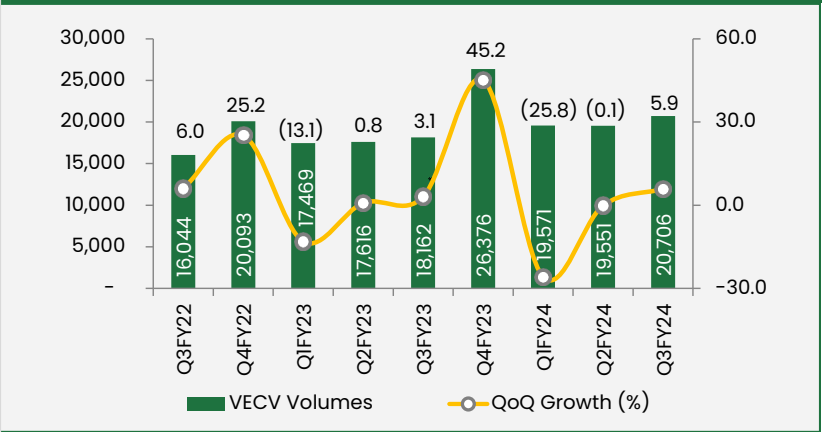


Source : RBL Research

Marginal improvement in market share

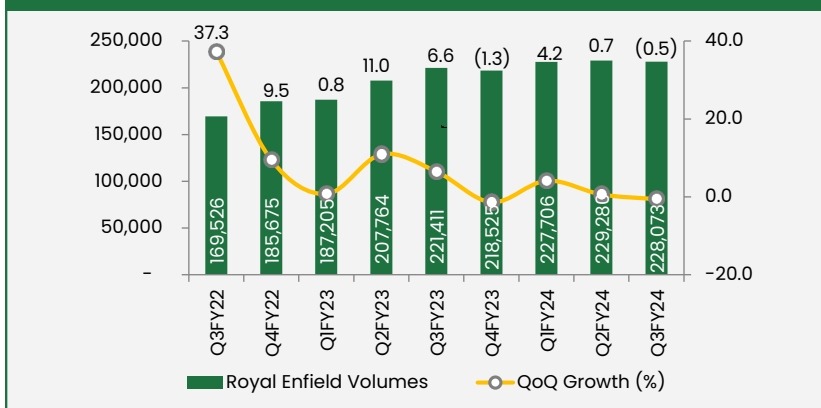


Domestic market driving the volume growth

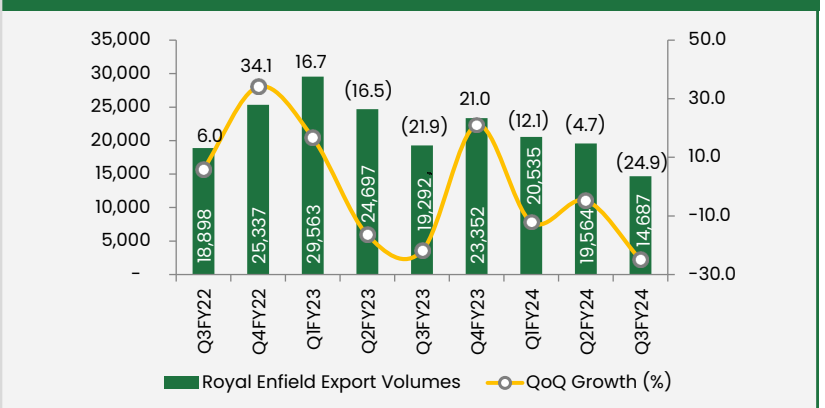


Source : RBL Research

Stable volume amid high competition from peers

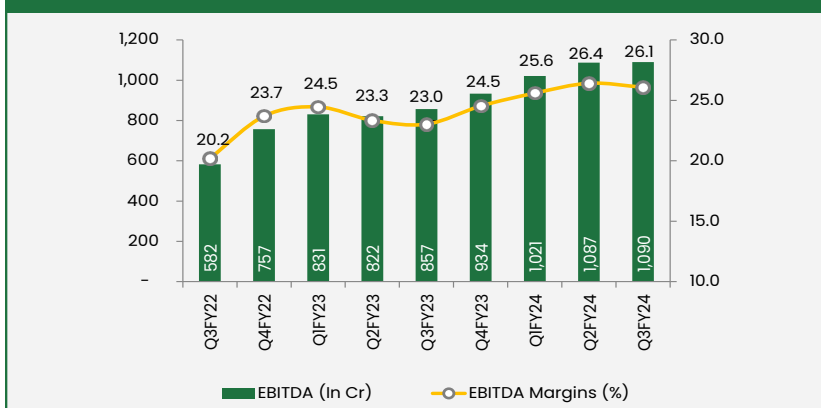


Exports decline due to geopolitical headwinds

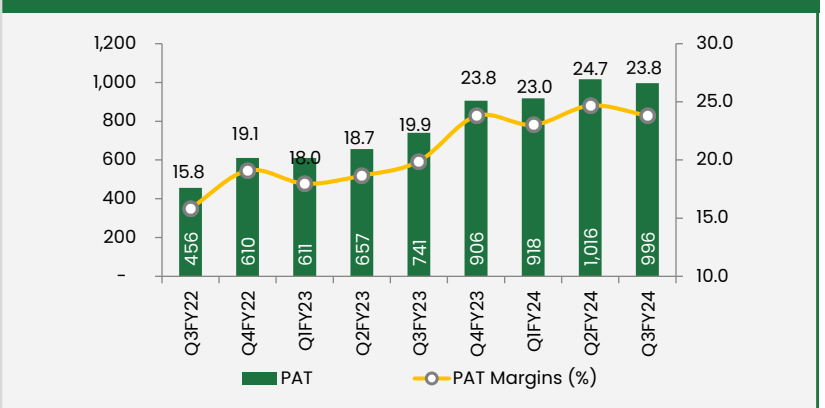


Source : RBL Research

High overhead expenses led to slight contraction of margin sequentially



Profit up by 24.4% YoY due to rise in other income & profits from JV



Source : RBL Research

## P&amp;L Account – consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
<b>Net Sales</b>	<b>14,442</b>	<b>16,693</b>	<b>20,444</b>	<b>22,716</b>
<b>Expenditure</b>				
Total Raw material cost	8,212	9,306	11,367	12,698
Employee cost	1,002	1,202	1,482	1,590
Other expenses	1,785	1,920	2,310	2,487
<b>Total Expenditure</b>	<b>10,999</b>	<b>12,428</b>	<b>15,159</b>	<b>16,776</b>
<b>EBITDA</b>	<b>3,444</b>	<b>4,265</b>	<b>5,285</b>	<b>5,940</b>
<b>EBITDAM (%)</b>	<b>23.8</b>	<b>25.6</b>	<b>25.9</b>	<b>26.2</b>
Other income	595	893	1,071	1,232
Depreciation	526	589	678	752
<b>PBIT</b>	<b>3,512</b>	<b>4,568</b>	<b>5,678</b>	<b>6,420</b>
Interest expense	28	25	33	43
Share of profit from associates	315	450	600	750
<b>PBT</b>	<b>3,800</b>	<b>4,993</b>	<b>6,246</b>	<b>7,127</b>
Tax	886	1,248	1,593	1,817
<b>PAT</b>	<b>2,914</b>	<b>3,745</b>	<b>4,653</b>	<b>5,310</b>
<b>PATM (%)</b>	<b>20.2</b>	<b>22.4</b>	<b>22.8</b>	<b>23.4</b>

Source : RBL Research

## Balance Sheet – consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Share Capital	27.3	27.3	27.3	27.3
Reserves & Surplus	14,963	15,904	19,244	23,077
<b>Total Shareholder's Fund</b>	<b>14,990</b>	<b>15,931</b>	<b>19,271</b>	<b>23,105</b>
<b>Non-Current Liabilities</b>				
Total Borrowings	196	269	380	415
Other long term liabilities	516	634	571	712
Deferred tax liabilities	291	373	493	534
Long term provision	102	116	175	194
<b>Current Liabilities</b>				
Trade payables	1,810	2,298	2,505	2,777
Short term provisions	155	191	215	194
Other current liabilities	1,136	1,251	1,682	1,255
<b>Total Liabilities</b>	<b>19,197</b>	<b>21,062</b>	<b>25,293</b>	<b>29,186</b>
Fixed Assets	2,000	2,177	2,285	2,617
Current work in process	472	467	587	707
Intangible assets	464	636	636	636
Non current investment	12,101	12,490	15,359	17,769
Other non-current assets	478	1,073	1,134	1,164
<b>Current Assets</b>				
Current investments	220	476	368	505
Inventories	1,278	1,571	1,758	2,127
Trade receivables	369	288	532	647
Cash & Cash equivalents	857	997	1,131	1,191
Other current assets	959	889	1,504	1,823
<b>Total Assets</b>	<b>19,197</b>	<b>21,062</b>	<b>25,293</b>	<b>29,186</b>

Source : RBL Research

## Cashflow – consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Reported PBT	3,484	4,543	5,646	6,377
Depreciation	526	589	678	752
Tax paid	(886)	(1,248)	(1,593)	(1,817)
Working capital Change	318	240	(276)	(1,115)
<b>Operating Cash Flow (a)</b>	<b>3,443</b>	<b>4,125</b>	<b>4,455</b>	<b>4,197</b>
Capex	(717)	(932)	(906)	(1,204)
<b>Free Cash Flow</b>	<b>2,726</b>	<b>3,192</b>	<b>3,548</b>	<b>2,992</b>
Investments	(4,703)	(984)	(2,930)	(2,441)
<b>Investing Cash Flow (b)</b>	<b>(5,420)</b>	<b>(1,917)</b>	<b>(3,836)</b>	<b>(3,646)</b>
Debt Issuance/ (Repaid)	137	73	111	35
Dividend Paid	(1,012)	(1,148)	(1,312)	(1,476)
Others	1,066	(992)	716	950
<b>Financing Cash Flow (c)</b>	<b>192</b>	<b>(2,067)</b>	<b>(485)</b>	<b>(491)</b>
<b>Net Cash Flow (a + b + c)</b>	<b>(1,785)</b>	<b>140</b>	<b>134</b>	<b>60</b>
Closing Cash	857	997	1,131	1,191

Source : RBL Research

## Key ratios – consolidated

Particulars	FY23	FY24E	FY25E	FY26E
<b>Per Share Ratios (Rs)</b>				
Dividend per share	37	42	48	54
EPS	107	137	170	194
CEPS	126	159	195	222
Book value per share	548	583	705	845
<b>Profitability Ratios (%)</b>				
EBITDA Margin	23.8	25.6	25.9	26.2
PBT Margin	26.3	29.9	30.5	31.4
Net Profit Margin	20.2	22.4	22.8	23.4
RoCE	24.8	28.5	30.9	29.0
RoE	21.1	24.2	26.4	25.1
Dividend Payout	34.7	30.7	28.2	27.8
<b>Efficiency</b>				
Fixed Asset Turnover (x)	5.9	6.5	7.4	7.3
Debtors Velocity (Days)	9	6	9	10
Inventory (Days)	32	34	31	34
Payable (Days)	46	50	45	45
Interest Cover Ratio (x)	125.4	181.2	173.2	150.6
Current ratio (x)	0.8	1.9	1.2	1.0
<b>Valuation Ratios (x)</b>				
P/E	36.4	28.3	22.8	20.0
P/B	7.1	6.7	5.5	4.6
EV/EBITDA	30.6	24.7	19.9	17.7

Source : RBL Research

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S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? <b>[If answer is yes, nature of Interest is given below this table]</b>		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

**Nature of Interest ( if answer to F (a) above is Yes :**

.....

**Name(s) with Signature(s) of RA(s).**

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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