

Eicher Motors Ltd

Strategic steps to support volumes; business looks fairly valued

Eicher Motors performance was broadly in-line with our estimates. RE plans to introduce series of new models every quarter. Studio stores in semi-urban areas is one of the finest strategic steps taken by the company. Urban sentiments are reviving and supply chain issue is the thing of the past. Hence, a combination of a new model cycle, improvement in urban sentiments, volumes support from studio stores and easing of supply chain constraints can bring back the glorious days of RE. Dual strategy of network expansion and the new model cycle is the answer to the competition. We are very positive on the long-term prospects of the company, however, believe the valuations looks full at the moment. Hence, recommend 'Hold' for a target price of 2,370 per share, valuing RE & VECV separately.

Series of model launches to bring in more footfalls

- RE's new model cycle would attract more customers towards showrooms as it plans to launch new model/refreshers/variant every quarter for the next few years. Customers need differentiated or something new products and would aid in outperforming the competition.
- All products are lined-up, there is neither any pause in development nor any change in the launch timelines. The target market remains between 250-750cc segment. 'Meteor' is the huge success.

Improvement in urban sentiments and easing of the supply chain situation

- The strategy of introducing studio stores in Tier II cities resulted in a boon for the Royal Enfield maker, as that has supported volumes in the past few months. The plan is to keep expanding small studio stores following Maruti's footsteps and has plans to expand further into International geographies.
- Now, post easing of the pandemic spread and opening up of Metros & Tier I cities, the urban sentiment is reviving faster specially during festival season.
- During lockdown, the supply chain issue was the major hurdle for volume growth, however, now that's being eased out and RE can produce 70K+ units in a month.

Operating leverage & right efforts to bring back its peak margins

- The company is witnessing healthy pickup in demand and bookings are higher than pre-Covid levels. Hence, the volumes would be much better in the coming quarters and that would aid bring in operating leverage for the Classic maker. MiY could aid in increasing ticket size as well.
- Apart from operating leverage benefits, the margin would gradually back to its glory years as it has almost passed-on the BS6 costs, intensified efforts in curtailing expenses and doing value engineering.

VECV

- The CV industry has been witnessing signs of a revival due to a pickup in economic activities, VECV gained market share in the H1FY21 and the management has given better outlook for H2FY21.

Long term positive view, but fairly valued

- We have incorporated positives of demand recovery in RE's volumes and have a long-term positive view, as it is taking right strategic steps for domestic & International markets.
- We believe the valuations are full and the business looks fairly valued. **We have valued RE's Sept 2022 EPS at 25x and assigned 9x to Sept 2022 EBITDA of VECV (54.4% Eicher's share) to arrive at a target price of 2,370.**

Consolidated (Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Q2 FY21e	Var. (%)
Volumes (No)	1,49,120	1,63,390	(8.7)	58,383	155.4	1,49,120	-
Core Realisation (Rs)	1,41,630	1,32,905	6.6	1,38,595	2.2	1,39,235	1.7
Total Income	21,336	21,925	(2.7)	8,182	160.8	21,158	0.8
Op. cost	16,626	16,510	0.7	8,144	104.2	-	-
EBITDA	4,711	5,414	(13.0)	38	12,328.8	4,614	2.1
EBITDA margin (%)	22.1	24.7	(262) bps	0.5	2,161 bps	21.8	27 bps
Other income	1,000	1,450	(31.1)	1,142	(12.5)	-	-
PBT	4,585	6,005	(23.6)	(507)	NA	-	-
Taxes paid	1,152	278	314.1	45	2,454.1	-	-
Effective tax rate (%)	24.9	4.7	2,021 bps	30.6	(571) bps	-	-
Reported PAT	3,433	5,727	(40.0)	-552	(722.2)	3,588	(4.3)
PAT margin (%)	16.1	26.1	(1,003) bps	(6.7)	2,284 bps	17.0	(87) bps

Source: Company, EISEC Research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY19	97,971	9.3%	29,031	29.6%	22,027	12.4%	81	27.6	24.2	30.8	21.4
FY20	91,536	-6.6%	21,804	23.8%	18,274	-17.0%	67	19.3	18.8	28.3	20.8
FY21e	85,537	-6.6%	19,340	22.6%	14,420	-21.1%	53	13.7	14.5	44.6	29.6
FY22e	1,06,836	24.9%	27,245	25.5%	22,910	58.9%	84	19.1	17.7	28.0	20.3
FY23e	1,23,549	15.6%	32,564	26.4%	27,995	22.2%	103	20.0	18.0	23.0	16.4

Source: Company, EISEC Research Estimates



East India Securities Ltd
Excellent | Investment | Solutions

Rating: **Hold** Upside/(Downside): **0.7%**
Current Price: **2,354** Target Price: **2,370**

| Earlier recommendation

Previous Rating:	Hold
Previous Target Price:	2,132

| Market data

Bloomberg:	EIM IN
52-week H/L (Rs):	2,389/1,246
Mcap (Rs bn/USD bn):	643/8.6
Shares outstanding (mn):	27.3
Free float:	49.0%
Daily vol. (3M Avg.):	1.5mn
Face Value (Rs):	1
Group:	Nifty 50

Source: Bloomberg, EISEC Research

| Shareholding pattern (%)

	Sep-20	Jun-20	Mar-20	Dec-19
Promoter	49.3%	49.3%	49.3%	49.3%
FIIIs	28.2%	27.0%	27.7%	31.2%
DIIIs	9.9%	11.9%	11.3%	8.3%
Public/others	12.6%	11.8%	11.7%	11.2%

Source: BSE

| Price performance (%)*

	1M	3M	12M	36M
Nifty 50	6.4	12.2	6.5	22.9
EIM	4.9	8.6	62.9	-23.6

*as on 12th Nov 2020; Source: AceEquity, EISEC Research

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Q2FY21 Analysts call highlights

Demand outlook

- ✓ Royal Enfield has been witnessing healthy demand uptick MoM due to opening up on Metros, Tier I & II cities. Also, the increased penetration through small store formats yielded in positive results for RE. Now the pandemic impact is getting slower, hence urban sentiments improved as well.
- ✓ The bookings are higher than pre-Covid levels and have a robust order book. The management expects to keep improving monthly volume run-rate and atleast will be able to produce about 70K+ units per month.

Meteor 350 and new launches ahead

- ✓ Within six days of launch, Meteor received 8,000 bookings and the response has been encouraging. Make it Yours (MiY) is a unique initiative in the 2W industry, which allows buyers to personalise the bike via an app. The upselling as well as ticket size opportunity is higher through MiY.
- ✓ The personalisation thing is a game changer for the company and customers have the option to choose from a variety of things starting with colours, seats, accessories, graphics, wheels, etc.
- ✓ Presently, 90% of the bookings happened via MiY app. The potential opportunity is great in domestic as well as International markets. The overall bookings are at 25,000 and out of that 8,000 is only for Meteor.
- ✓ Customers who are not thinking about taking an RE bike, can pull towards Meteor. There is a different customer profile for the Meteor and Classic 350.
- ✓ RE plans to launch one new model/refreshers/variant in every quarter for the next few years. All products are lined-up and there is no change in the development plans. The target market is 250-750cc segment and price range can go higher or lower.

Reach expanded further

- ✓ RE added 25 new stores and 133 studio stores across India along with six new exclusive stores in International countries. RE has now 1,717 total stores – a growth of about 13% from FY20.
- ✓ It has 946 large format stores & 771 studio stores and have plans to keep adding new stores in domestic and International markets.

Supply chain

- ✓ The supply chain constraints are largely being resolved. The company produced about 72,000 units in October 2020 and this number has been improving every month.

Margin

- ✓ The margin in Q2FY21 was lower by 262bps YoY to 22.1% was mainly due to operating deleverage and BS6 transition.
- ✓ Going forward, with an uptick in the volumes, the company will be able to get the benefits from operating leverage along with value engineering & cost rationalisation benefits. Hence, the margin is expected to improve, in our opinion.

VECV

- ✓ The highlight for the quarter was its margin performance, which was at 6.9% in Q2FY21 vs. 5.4% in Q2FY20, despite a drop in topline by about 13% YoY in Q2FY21. This was majorly due to stringent cost rationalisation measures undertaken by the company.
- ✓ VECV volumes in Q2FY21 dropped by 28% vis-à-vis industry decline of 46%, hence it gained market share. (from 13.6% in H1FY20 to 20.6% in H1FY21). The company has added 38 touch points since April and plans to add 100 touch points. Also, will expand into five new markets (already present in 35).
- ✓ The CV industry has been witnessing signs of a revival due to pickup in economic activities. There is a good demand in construction, mining, agriculture, e-commerce, etc. The important point to note is that the management is optimistic about the revival in the replacement demand, which is muted since last 2 years. Hence, a positive outlook given for the CV industry for H2FY21.

Other highlights

- ✓ The realisation increase was on due to a combination of better mix, price increase taken during the quarter and higher spare parts sales.
- ✓ The company incurred Rs 2bn capex so far and plans to remain the range of Rs 4-5bn for a full year.

Valuation and Recommendations

Eicher Motors performance was broadly in-line with our estimates. RE plans to introduce serious of new models every quarter, studio stores in semi-urban areas is one of the finest strategic steps taken by the company, urban sentiments are reviving and supply chain issue is the thing of the past.

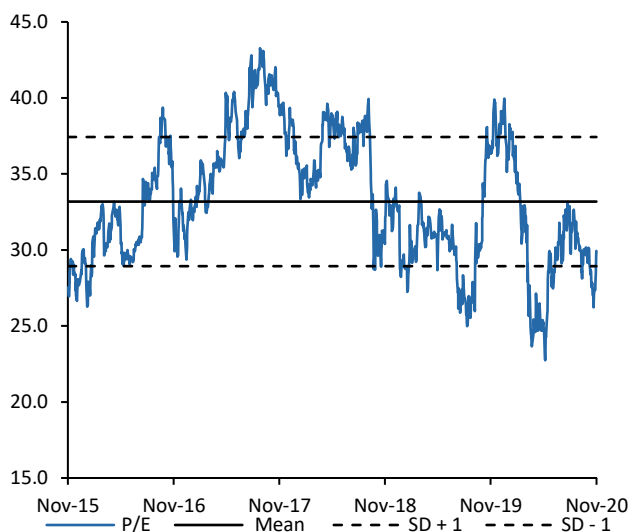
Hence, a combination of a new model cycle, improvement in urban sentiments, volumes support from studio stores and easing of supply chain constraints can bring back the glory days of RE. Dual strategy of network expansion and the new model cycle is the answer to the competition.

We are very positive on the long-term prospects of the company, however, believe the valuations looks full at the moment.

We have incorporated positives of demand recovery in RE's volumes and have a long-term positive view, as it is taking right strategic steps for domestic & International markets.

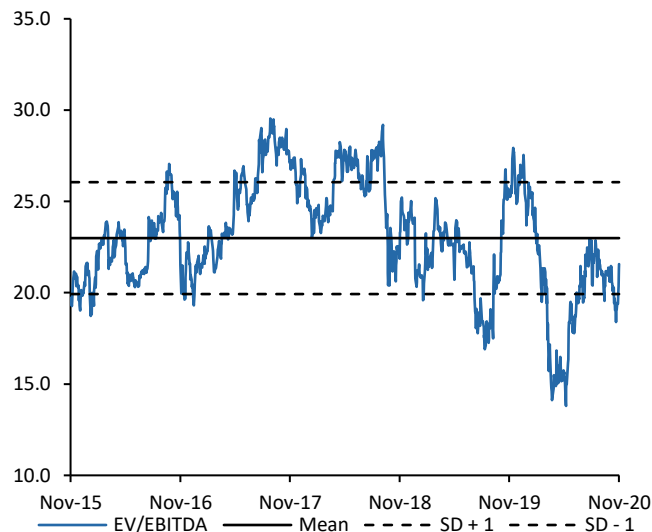
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Fig 1: 1-year forward P/E



Source: AceEquity, EISEC Research

Fig 2: 1-year forward EV/EBITDA



Source: AceEquity, EISEC Research

Quarterly financials, operating metrics and key performance indicators

Fig 3: Quarterly Financials

Y/E March (Rs mn)	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Sales	23,411	25,001	23,819	21,925	23,710	22,082	8,182	21,336
Raw Materials	11,915	13,352	12,772	11,849	12,900	12,439	5,011	12,221
Employee Costs	1,849	1,707	2,116	1,860	1,846	2,136	1,769	2,075
Other Expenditure	2,851	3,096	2,787	2,802	3,042	3,185	1,364	2,329
EBITDA	6,795	6,847	6,145	5,414	5,923	4,322	38	4,711
Depreciation	768	811	876	898	952	1,089	982	1,048
Interest	19	21	47	44	43	55	51	38
Other Income	1,471	1,427	1,204	1,450	1,347	1,431	1,142	1,000
Share of profit of JV	415	755	209	83	166	-140	-654	-39
PBT	7,894	8,196	6,635	6,005	6,441	4,468	-507	4,585
Tax	2,565	2,748	2,117	278	1,454	1,426	45	1,152
Tax rate (%)	34.3%	36.9%	32.9%	4.7%	23.2%	30.9%	30.6%	24.9%
Reported PAT	5,330	5,448	4,518	5,727	4,987	3,043	-552	3,433
YoY Growth (%)								
Revenue	3.2	-1.1	-6.5	-9.0	1.3	-11.7	-65.7	-2.7
EBITDA	-3.9	-14.1	-24.1	-25.8	-12.8	-36.9	-99.4	-13.0
PAT	2.4	-16.0	-21.6	1.1	-6.4	-44.2	NA	-40.0
QoQ Growth (%)								
Revenue	(2.8)	6.8	(4.7)	(8.0)	8.1	(6.9)	(62.9)	160.8
EBITDA	(6.8)	0.8	(10.3)	(11.9)	9.4	(27.0)	(99.1)	NA
Adj. PAT	(5.9)	2.2	(17.1)	26.8	(12.9)	(39.0)	NA	NA
Margin (%)								
EBITDA	29.0	27.4	25.8	24.7	25.0	19.6	0.5	22.1
PAT	22.8	21.8	19.0	26.1	21.0	13.8	(6.7)	16.1

Source: Company, EISEC Research

Fig 4: Key Assumptions

Key Assumptions (Units)						
Royal Enfield	FY18	FY19	FY20	FY21e	FY22e	FY23e
- Domestic	8,01,229	8,02,975	6,58,882	5,74,487	6,89,384	7,65,217
YoY Growth (%)	23.1%	0.2%	-17.9%	-12.8%	20.0%	11.0%
- Exports	19,264	19,749	38,700	29,094	35,495	40,819
YoY Growth (%)	25.2%	2.5%	96.0%	-24.8%	22.0%	15.0%
Total RE volumes	8,20,493	8,22,724	6,97,582	6,03,581	7,24,879	8,06,036
YoY Growth (%)	23.1%	0.3%	-15.2%	-13.5%	20.1%	11.2%
Net sales from products (Rs mn)						
Net sales from products (Rs mn)	89,209	97,174	90,736	84,789	1,05,902	1,22,469
YoY Growth (%)	27.4%	8.9%	-6.6%	-6.6%	24.9%	15.6%
RE - Realization (Rs)	1,08,726	1,18,113	1,30,071	1,40,477	1,46,096	1,51,940
YoY Growth (%)	3.5%	8.6%	10.1%	8.0%	4.0%	4.0%
VECV						
MHCVs	45,694	50,962	32,461	19,974	26,967	29,619
YoY Growth (%)	13.3%	11.5%	-36.3%	-38.5%	35.0%	9.8%
LCVs	19,179	20,861	15,073	11,685	14,423	15,847
YoY Growth (%)	12.0%	8.8%	-27.7%	-22.5%	23.4%	9.9%
Volvo trucks	1,055	1,146	1,187	772	1,003	1,083
YoY Growth (%)	-9.3%	8.6%	3.6%	-35.0%	30.0%	8.0%
Total VECV volumes	65,928	72,969	48,721	32,431	42,394	46,549
YoY Growth (%)	12.5%	10.7%	-33.2%	-33.4%	30.7%	9.8%
VECV revenues (Rs mn)						
VECV revenues (Rs mn)	1,00,494	1,15,999	85,244	67,524	92,680	1,05,834
YoY Growth (%)	17.5%	15.4%	-26.5%	-20.8%	37.3%	14.2%
VECV - Realization (Rs)	15,24,293	15,89,708	17,49,642	20,82,074	21,86,177	22,73,625
YoY Growth (%)	4.4%	4.3%	10.1%	19.0%	5.0%	4.0%

Source: Company, SIAM, EISEC Research Estimates

Consolidated Financial Statements

Income Statement					
YE March (Rs mn)	FY19	FY20	FY21e	FY22e	FY23e
Revenues	97,971	91,536	85,537	1,06,836	1,23,549
% Growth	9.3	(6.6)	(6.6)	24.9	15.6
Raw Materials	50,574	49,959	47,113	59,379	69,285
% of sales	51.6	54.6	55.1	55.6	56.1
Personnel	7,024	7,958	7,958	8,442	8,957
% of sales	7.2	8.7	9.3	7.9	7.2
Other Expenses	11,341	11,815	11,126	11,770	12,743
% of sales	11.6	12.9	13.0	11.0	10.3
EBITDA	29,031	21,804	19,340	27,245	32,564
EBITDA Margin (%)	29.6	23.8	22.6	25.5	26.4
Depreciation & Amortization	3,003	3,815	3,923	4,483	5,044
EBIT	26,028	17,988	15,418	22,762	27,521
Finance cost	73	189	176	220	255
PBT From Operations	25,955	17,799	15,241	22,542	27,266
Other Income	4,434	5,433	5,217	5,972	6,565
Share of profit of JV (VECV)	2,584	317	-889	1,573	2,679
PBT	32,973	23,549	19,570	30,087	36,510
Tax	10,770	5,275	5,149	7,177	8,515
Tax Rate (%)	35.4	22.7	25.2	25.2	25.2
PAT from continuing operations	22,203	18,274	14,420	22,910	27,995
Share of loss of Joint venture	(175)	-	-	-	-
Net Profit after tax	22,027	18,274	14,420	22,910	27,995
PAT Margin	22.5	20.0	16.9	21.4	22.7

Source: Company, EISEC Research Estimates

Key Ratios					
YE March	FY19	FY20	FY21e	FY22e	FY23e
Growth Ratios (%)					
Net Sales	9.3	(6.6)	(6.6)	24.9	15.6
EBITDA	3.4	(24.9)	(11.3)	40.9	19.5
Adjusted Net Profit	12.4	(17.0)	(21.1)	58.9	22.2
Margin Ratio (%)					
EBITDA Margin	29.6	23.8	22.6	25.5	26.4
EBIT Margin	26.6	19.7	18.0	21.3	22.3
PBT margins	33.7	25.7	22.9	28.2	29.6
Adj. PAT Margin	22.5	20.0	16.9	21.4	22.7
Return Ratios					
ROE	27.6	19.3	13.7	19.1	20.0
ROCE	24.2	18.8	14.5	17.7	18.0
ROIC	58.7	39.7	29.9	40.6	48.0
Turnover Ratios (days)					
Gross Block Turnover (x)	3.7	2.8	2.2	2.4	2.5
Inventory	46	42	35	32	30
Debtors	3	3	3	3	3
Creditors	89	75	75	75	75
Cash Conversion Cycle	(40)	(30)	(37)	(40)	(42)
Solvency ratio (x)					
Debt-equity	0.0	0.0	0.0	0.0	0.0
Net Debt-Equity	(0.6)	(0.7)	(0.6)	(0.7)	(0.7)
Gross Debt/EBITDA	0.1	0.1	0.1	0.1	0.1
Current ratio	2.3	3.4	4.7	4.7	5.1
Interest coverage ratio	355	95	87	103	108
Dividend					
DPS (Rs.)	11	12	12	17	23
Dividend Yield (%)	0.5	0.5	0.5	0.7	1.0
Dividend Payout (%)	13.6	18.6	23.0	20.0	22.0
Per share (Rs.)					
Basic EPS (reported)	81	67	53	84	103
CEPS	92	81	67	100	121
BV	327	366	406	473	553
Valuation					
P/E	30.8	28.3	44.6	28.0	23.0
P/BV	5.4	4.8	4.3	3.7	3.2
EV/EBITDA	21.4	20.8	29.6	20.3	16.4
EV/Sales	6.4	4.9	6.7	5.2	4.3

Source: Company, EISEC Research Estimates

Balance Sheet					
YE March (Rs mn)	FY19	FY20	FY21e	FY22e	FY23e
Sources of funds					
Capital	273	273	273	273	273
Reserves & Surplus	88,914	99,536	1,10,640	1,28,968	1,50,804
Shareholders' Funds	89,187	99,809	1,10,913	1,29,241	1,51,077
Total Loan Funds	1,868	1,444	1,350	1,686	1,949
Deffered tax liabilities	2,739	2,522	2,462	3,431	4,071
Other non-current liabilities	963	1,921	1,299	1,389	1,463
Total Liabilities	94,756	1,05,696	1,16,023	1,35,747	1,58,560
Application of funds					
Gross Block	29,348	36,727	40,980	46,298	51,615
Accumulated Dep.	8,861	12,006	15,925	20,405	25,444
Net Block	20,487	24,720	25,055	25,893	26,171
Capital WIP	2,721	268	274	287	294
Net Assets	23,208	24,988	25,329	26,180	26,465
Investments	44,572	32,394	33,400	38,603	43,340
Other non current assets	1,935	3,369	3,362	3,635	3,816
Inventories	6,334	5,724	4,518	5,206	5,695
Sundry Debtors	843	868	811	1,013	1,171
Cash & Bank Balances	29,653	29,506	33,059	45,839	62,175
Loans and Advances	13	1	1	1	1
Other current Assets	7,311	27,648	29,995	33,346	36,846
Total Current Assets	44,153	63,746	68,383	85,405	1,05,888
Sundry Creditors	12,341	10,277	9,691	12,214	14,252
Other Current Liabilities	6,195	7,763	3,998	5,054	5,839
Provisions	577	762	762	809	858
Total Current Liabilities	19,112	18,801	14,451	18,076	20,949
Net Current Assets	25,041	44,945	53,932	67,328	84,939
Total Assets	94,756	1,05,696	1,16,023	1,35,747	1,58,560

Source: Company, EISEC Research Estimates

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Cash Flow					
YE March (Rs mn)	FY19	FY20	FY21e	FY22e	FY23e
Operating profit before WC changes	29,409	22,362	19,717	28,711	33,752
Net chg in working capital	(4,569)	862	607	1,965	1,658
Income taxes paid (net)	(9,085)	(6,283)	(5,149)	(7,177)	(8,515)
Cash flow from operating activities (a)	15,755	16,941	15,174	23,499	26,895
Capital expenditure	(7,899)	(5,445)	(4,264)	(5,334)	(5,328)
Free Cash Flow	7,855	11,497	10,910	18,165	21,566
Cash flow from investing activities (b)	(6,599)	(15,084)	(7,779)	(5,981)	(4,122)
Cash flow from financing activities (c)	(2,923)	(8,583)	(3,843)	(4,737)	(6,437)
Net chg in cash (a+b+c)	6,233	(6,725)	3,553	12,781	16,335

Source: Company, EISEC Research Estimates

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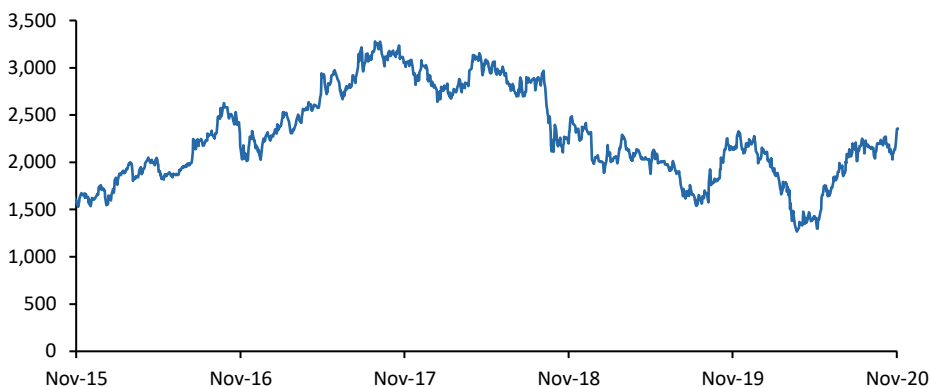
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Eicher Motors Ltd.



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Analyst holding in stock: **NO**

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