

## Healthy performance; stronger ramp up awaited...

Eicher Motors' (EML) Q2FY21 performance was healthy. Consolidated revenues for Q2FY21 were at ₹ 2,134 crore (down 2.7% YoY), tracking 9.6% YoY decline in Royal Enfield (RE) volumes to 1.5 lakh units while ASPs were at ₹ 1.40 lakh/unit (up 4.9% QoQ). EBITDA margins were at 22.1% (down 262 bps YoY). Hence, consolidated PAT was down 40% YoY to ₹ 343 crore. Company's share of loss from VECV JV was at ₹ 3.9 crore vs. profit of ₹ 8.3 crore in Q2FY20. EBITDA margins at the VE-CV segment encouragingly were at 6.9%, up 150 bps YoY despite ~28% volume decline for quarter YoY.

### RE, VECV volume improvements likely, going forward

EML underperformed domestic 2-W industry volumes in August-October as supply side issues continued to weigh on pace of production ramp up. Management commentary indicates the issues are related to vendor supplies and are model specific in some cases, albeit improving now – with present production levels at ~70,000 units/month. Healthy bookings backlog (~1.25 lakh units) along with launch of the new Meteor should help EML return to a higher growth trajectory once bottlenecks are removed (capacity of ~1 lakh units/month). EML remains committed to introducing a new model each quarter, which adds to further confidence in sustained medium-term segment dominance. VECV continues to outperform domestic CV pack and is expected to benefit from the approaching cyclical bottom of the industry (ex-buses). Higher operating leverage at RE, VECV is seen driving incremental margin, PAT improvement in FY20-23E.

### Q2FY21 earnings conference call – key highlights

EML said (1) it has reached production levels of ~72,000 units in October. Present bookings are at ~1.25 lakh units including ~8,000 units for the new Meteor, (2) 90% of Meteor bookings are via the new Make It Yours (MIY) app and two-third of enquiries are now online, (3) will continue to introduce one new model each quarter, (4) it added 25 stores and 123 studio stores (studio store count 1,717). It also added six exclusive stores outside India (Cambodia, Costa Rica, Mexico, UK, Thailand), (5) RE ASPs were helped by favourable product mix and price hikes (₹ 3,000 in Bullet, ₹ 2,000 in others) (6) FY21E capex will be at usual ~<= ₹ 450 crore run rate, (7) core Meteor target customer is 100-150 cc user of other brands.

### Valuation & Outlook

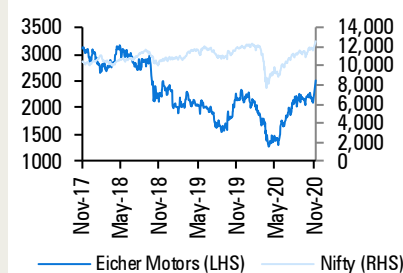
For EML, we factor in 9%, 10% sales, PAT CAGR, respectively, in FY20-23E. The company continues to innovate (studio stores, MIY) to bolster its leadership position. Financials remain healthy as well (cash surplus B/S, double digit return ratios). Pace of RE ramp up and recovery in export volumes are key monitorables going forward. We maintain our constructive stance but await firmly positive rebound in volumes. Downgrading EML to **HOLD**, we value it at ₹ 2,600 on SOTP basis (33 P/E to RE; 20 P/E to VECV on FY22E & FY23E average PAT numbers).



#### Particulars

Particular	₹ crore
Market Capitalization	68,150
Total Debt (FY20)	144
Cash & Investments (FY20)	6,807
EV (FY20P) (₹ crore)	61,487
52 week H/L (₹)	2,389 / 1,246
Equity capital	₹ 27.3 Crore
Face value	₹ 1

#### Price chart



#### Key Highlights

- Q2FY21 sales decline was at 2.7% YoY amid 9.6% drop in 2-W volumes and ~5% QoQ ASP increase
- Margins declined 262 bps YoY to 22.1% on gross margin contraction
- Two-wheeler production ramp up continues to be hurt by supply side issues, although these are getting resolved. New product introduction a positive. VECV continues to outperform CV peers
- Downgrade from BUY to HOLD revised target price of ₹ 2,600

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#### Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	9,797.1	9,153.6	8,281.6	10,196.9	11,919.7	9.2%
EBITDA	2,903.1	2,180.3	1,745.7	2,391.1	2,977.3	10.9%
EBITDA Margins (%)	29.6	23.8	21.1	23.4	25.0	
Net Profit	2,202.8	1,827.5	1,269.1	1,914.6	2,458.1	10.4%
EPS (₹)	80.8	67.0	46.6	70.2	90.2	
P/E	30.9	37.3	53.7	35.6	27.7	
RoNW (%)	24.8	18.3	11.6	15.3	17.1	
RoCE(%)	27.8	17.3	11.8	15.2	16.9	

Source: ICICI Direct Research, Company

**Exhibit 1: Variance Analysis**

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Total Operating Income	2134	2073	2192	-2.7	818	160.8	Total operating income came in ahead of estimates tracking the beat on ASPs
Raw Material Expenses	1153	1171	1122	2.7	475	142.5	
Purchase of traded goods	70	51	63	10.4	26	169.9	
Employee Expenses	208	185	186	11.5	177	17.3	Employee costs came in higher at 9.7% of sales
Other expenses	233	251	280	-16.9	136	70.7	Other expenses came in lower at ~11% of sales
EBITDA	471	414	541	-13.0	4	12,328.8	
EBITDA Margin (%)	22.1	20.0	24.7	-262 bps	0.5	2161 bps	EBITDA margins came in ahead of estimates tracking savings realised in raw material costs, other expenses partially mitigated by higher
Other Income	100	131	145	-31.1	114	-12.5	
Depreciation	105	103	90	16.7	98	6.8	Depreciation came in on expected lines
Interest	4	3	4	-13.6	5	-25.0	
Total Tax	115	111	28	314.1	5	2,454.3	Tax rate for the quarter stood at ~25%
PAT	343	302	573	-40.0	-55	-722.2	PAT came in ahead of estimates tracking beat on ASP's and margins amid lower than anticipated
<b>Key Metrics</b>							
Royal Enfield ASP(₹)	139,810	136,601	129,885	7.6	133,269	4.9	ASP's for RE in Q2FY21 at ₹ 1.4 lakh/unit up 5% QoQ; ahead of our estimates
VECV ASP (₹ lakhs)	20.9	20.2	17.6	18.5	30.1	-30.7	ASP's for VECV in Q2FY21 at ₹ 20.9 lakh/unit, broader on expected lines

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY21E			FY22E			FY23E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	8,562	8,282	-3.3	10,677	10,197	-4.5	11,920	Marginally tweak topline estimates for FY21E-22E. Introduce FY23E estimates. We expect Eicher Motors to clock sales CAGR of 9.2% over FY20-23E
EBITDA	1,713	1,746	1.9	2,417	2,391	-1.1	2,977	
EBITDA Margin (%)	20.0	21.1	107 bps	22.6	23.4	82 bps	25.0	Robust margin reported in Q2FY21 leads us to upgrade our estimates for FY21E-22E amid increasing operating leverage benefits. Introduce EBITDA margins at 25% for FY23E
PAT	1,270	1,269	0.0	1,943	1,915	-1.4	2,458	
EPS (₹)	47	47	0.0	71	70	-1.4	90	Broadly maintain PAT estimates for FY21E-22E. Introduce FY23E numbers. PAT expected to grow at CAGR of 10.4% over FY20-23E

Source: ICICI Direct Research

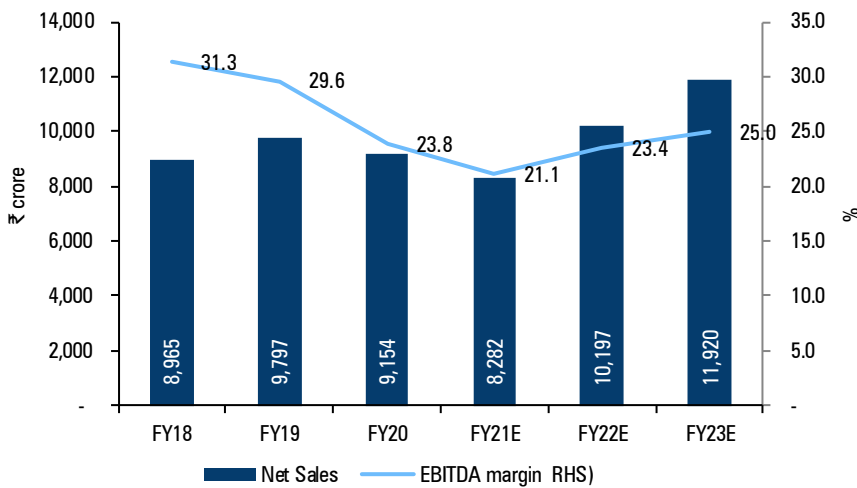
**Exhibit 3: Assumptions**

	FY18	FY19	FY20	Current			Earlier		Comments
				FY21E	FY22E	FY23E	FY21E	FY22E	
Royal Enfield volumes	8,20,121	8,26,098	6,95,839	5,88,015	7,05,702	8,00,762	5,91,276	7,09,538	Volumes at RE brand of motorcycles expected to grow at CAGR of 4.7% over FY20-23E. It involves decline in volume to the tune of ~15% in present fiscal year followed by ~20% YoY volume growth in FY22E and 13.5% YoY growth in FY23E
Royal Enfield ASP/unit (₹)	1,11,785	1,17,603	1,29,465	1,38,690	1,43,347	1,47,673	1,42,829	1,49,289	ASP's at RE expected to inch up amid increasing focus on exports following the past year launch of interceptor series (650 cc segment)
VECV volumes	66,233	72,860	48,786	36,214	48,707	58,448	39,470	49,253	Volumes at VECV expected to grow at CAGR of 6.1% over FY20-23E

Source: Company, ICICI Direct Research

## Financial story in charts

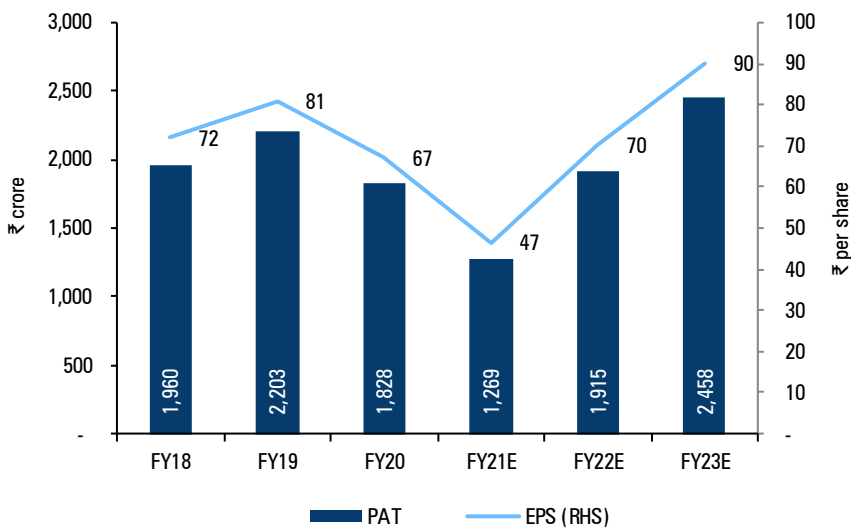
Exhibit 4: Topline and EBITDA margins trend



We expect sales to grow at a CAGR of 9.2% over FY20-23E on the back of 4.7% CAGR volume growth during this period and increase in ASPs primarily on account of BS-VI transition and improving product mix

Source: Company, ICICI Direct Research

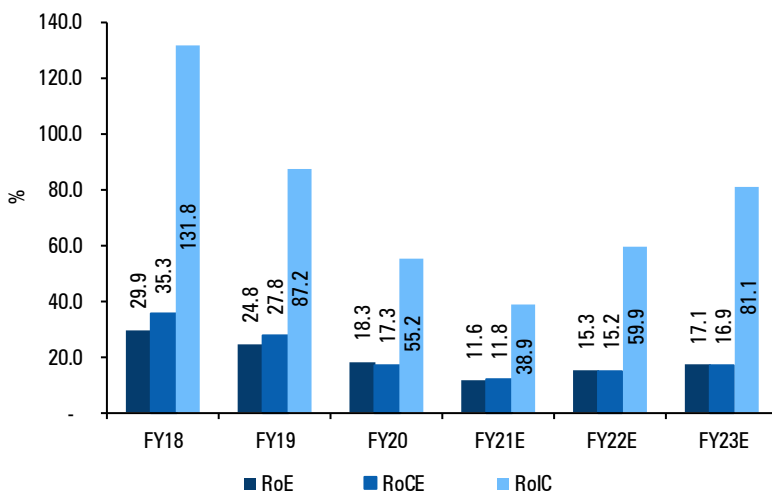
Exhibit 5: PAT & EPS trend



PAT is expected to grow at a CAGR of 10.4% over FY20-23E to ₹ 2,458 crore in FY23E

Source: Company, ICICI Direct Research

Exhibit 6: Return ratio profile



Eicher Motors expected to continue to clock healthy return ratios; with RoE-RoCE inching towards ~18% mark by FY23E. RoI is expected to be >50% by that time period courtesy high cash & cash equivalents in the B/S as a % of networth

Source: Company, ICICI Direct Research

**Exhibit 11: SOTP valuation**

	Amount	Remarks
<b>Two-wheeler business-Royal Enfield</b>		
FY22 & FY23E average EPS (₹)	76	
Target PE multiple(x)	33.0	Valued RE business at 33x P/E
Per share value (₹)	2,515	
Target market cap (₹ crore)	68,557	
<b>CV business-VECV</b>		
FY22 & FY23E average PAT (₹ crore)	204	
Target PE multiple(x)	20.0	Valued VECV business at 20x P/E
Target market cap (₹ crore)	4,077	
Contribution towards EML	0.54	EML has 54.4% stake in VECV
Target market cap towards EML (₹ crore)	2,218	
Per share value-VECV Eicher (₹)	85	
Total target market cap (₹ crore)	70,775	
<b>Per share value (₹)</b>	<b>2,600</b>	

Source: ICICI Direct Research

**Exhibit 12: Valuation Summary**

	Net Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	8,965.0	27.5	71.9	17.3	34.8	22.5	29.9	35.3
FY19	9,797.1	9.28	80.8	12.4	30.9	21.5	24.8	27.8
FY20	9,153.6	(6.6)	67.0	(17.0)	37.3	28.2	18.3	17.3
FY21E	8,281.6	(9.5)	46.6	(30.6)	53.7	34.7	11.6	11.8
FY22E	10,196.9	23.1	70.2	50.9	35.6	24.6	15.3	15.2
FY23E	11,919.7	16.9	90.2	28.4	27.7	19.1	17.1	16.9

Source: Bloomberg, ICICI Direct Research

**Exhibit 13: Shareholding pattern**

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	49.3	49.3	49.3	49.3	49.3
FII	31.9	31.2	27.7	27.0	28.2
DII	7.2	8.2	11.1	11.9	9.9
Others	11.6	11.3	11.9	11.8	12.6

Source: Bloomberg, ICICI Direct Research

## Financial Summary

Exhibit 14: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Total operating Income</b>	<b>9,153.6</b>	<b>8,281.6</b>	<b>10,196.9</b>	<b>11,919.7</b>
Growth (%)	-6.6	-9.5	23.1	16.9
Raw Material Expenses	4,770.9	4,598.0	5,639.7	6,527.8
Employee Expenses	795.8	785.8	830.6	912.1
Other Expenses	1,181.5	951.0	1,133.2	1,265.9
Total Operating Expenditure	6,973.3	6,535.9	7,805.9	8,942.3
<b>EBITDA</b>	<b>2180.3</b>	<b>1745.7</b>	<b>2391.1</b>	<b>2977.3</b>
Growth (%)	-24.9	-19.9	37.0	24.5
Depreciation	381.5	416.4	438.5	488.7
Interest	18.9	14.4	10.8	11.3
Other Income	543.3	433.1	507.9	622.2
PBT	2,323.2	1,748.1	2,449.8	3,099.5
Others	0.0	0.0	0.0	0.0
Total Tax	527.4	440.0	617.3	781.1
<b>PAT</b>	<b>1827.5</b>	<b>1269.1</b>	<b>1914.6</b>	<b>2458.1</b>
Growth (%)	-17.0	-30.6	50.9	28.4
<b>EPS (₹)</b>	<b>67.0</b>	<b>46.6</b>	<b>70.2</b>	<b>90.2</b>

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Profit after Tax</b>	<b>1,827.5</b>	<b>1,269.1</b>	<b>1,914.6</b>	<b>2,458.1</b>
Add: Depreciation	381.5	416.4	438.5	488.7
(Inc)/dec in Current Assets	64.7	70.5	-194.5	-174.9
Inc/(dec) in CL and Provisions	-48.8	-80.8	406.4	365.5
<b>CF from operating activities</b>	<b>1681.7</b>	<b>1242.1</b>	<b>2057.0</b>	<b>2515.1</b>
(Inc)/dec in Investments	-878.1	-800.0	-1,500.0	-2,000.0
(Inc)/dec in Fixed Assets	-746.9	-450.0	-450.0	-450.0
Others	736.3	354.2	521.6	629.5
<b>CF from investing activities</b>	<b>-888.7</b>	<b>-895.8</b>	<b>-1428.4</b>	<b>-1820.5</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-42.3	-50.0	-50.0	-10.0
Dividend paid & dividend tax	-410.3	-272.6	-408.9	-545.2
Others	-355.1	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-807.7</b>	<b>-322.6</b>	<b>-458.9</b>	<b>-555.2</b>
Net Cash flow	-14.7	23.7	169.7	139.4
Opening Cash	2,965.2	2,950.5	2,974.2	3,143.9
<b>Closing Cash</b>	<b>2950.5</b>	<b>2974.2</b>	<b>3143.9</b>	<b>3283.3</b>

Source: Company, ICICI Direct Research

Exhibit 16: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	27.3	27.3	27.3	27.3
Reserve and Surplus	9,953.6	10,950.1	12,455.8	14,368.7
<b>Total Shareholders funds</b>	<b>9980.9</b>	<b>10977.4</b>	<b>12483.0</b>	<b>14395.9</b>
Total Debt	144.4	94.4	44.4	34.4
Deferred Tax Liability	252.2	228.1	280.9	328.3
Others	234.4	227.1	243.0	257.4
<b>Total Liabilities</b>	<b>10611.8</b>	<b>11527.0</b>	<b>13051.4</b>	<b>15016.1</b>
<b>Assets</b>				
Gross Block	3,669.7	4,181.8	4,631.8	5,081.8
Less: Acc Depreciation	1,292.2	1,706.2	2,144.7	2,633.4
<b>Net Block</b>	<b>2377.5</b>	<b>2475.6</b>	<b>2487.1</b>	<b>2448.4</b>
Capital WIP	312.2	250.0	250.0	250.0
Total Fixed Assets	2,689.7	2,725.6	2,737.1	2,698.4
Investments	5,748.8	6,598.8	8,148.8	10,198.8
Inventory	572.4	499.2	614.6	718.4
Debtors	86.8	113.4	139.7	163.3
Others	252.4	228.4	281.2	328.7
<b>Cash</b>	<b>2950.5</b>	<b>2974.2</b>	<b>3143.9</b>	<b>3283.3</b>
Total Current Assets	3,862.0	3,815.1	4,179.3	4,493.7
Creditors	1,027.7	1,021.0	1,257.2	1,469.5
Provisions	33.9	33.7	41.5	48.5
Others	776.3	702.3	864.8	1010.9
Total Current Liabilities	1,837.9	1,757.1	2,163.4	2,528.9
<b>Net Current Assets</b>	<b>2024.1</b>	<b>2058.1</b>	<b>2015.9</b>	<b>1964.7</b>
Other Non current asset	149.2	146.9	151.9	156.4
<b>Application of Funds</b>	<b>10611.8</b>	<b>11527.0</b>	<b>13051.4</b>	<b>15016.1</b>

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	67.0	46.6	70.2	90.2
Cash EPS	81.0	61.8	86.3	108.1
BV	366.1	402.7	457.9	528.1
DPS	12.5	10.0	15.0	20.0
Cash Per Share	249.7	279.9	341.2	419.7
<b>Operating Ratios (%)</b>				
EBITDA Margin	23.8	21.1	23.4	25.0
PBT / Net sales	19.7	16.1	19.1	20.9
PAT Margin	20.0	15.3	18.8	20.6
Inventory days	22.8	22.0	22.0	22.0
Debtor days	3.5	5.0	5.0	5.0
Creditor days	41.0	45.0	45.0	45.0
<b>Return Ratios (%)</b>				
RoE	18.3	11.6	15.3	17.1
RoCE	17.3	11.8	15.2	16.9
RoIC	55.2	38.9	59.9	81.1
<b>Valuation Ratios (x)</b>				
P/E	37.3	53.7	35.6	27.7
EV / EBITDA	28.2	34.7	24.6	19.1
EV / Net Sales	6.7	7.3	5.8	4.8
Market Cap / Sales	7.4	8.2	6.7	5.7
Price to Book Value	6.8	6.2	5.5	4.7
<b>Solvency Ratios</b>				
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	0.7	0.6	0.6	0.6
<b>Quick Ratio</b>	<b>0.2</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>

Source: Company, ICICI Direct Research

**Exhibit 18: ICICI Direct Research universe (Auto & Auto Ancillary)**

Sector / Company	CMP	TP	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)			FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Apollo Tyre (APOTYR)	165	175	Buy	9,439	8.3	6.4	11.6	19.8	25.8	14.2	8.1	6.3	5.6	4.5	5.0	7.0	4.8	3.3	6.3
Ashok Leyland (ASHLEY)	91	100	Buy	26,637	0.8	-0.6	2.4	111.5	-143.3	37.3	24.4	43.0	15.4	4.5	0.0	9.5	4.7	-2.6	9.5
Bajaj Auto (BAAUTO)	3,000	3,570	Buy	86,811	176.2	142.5	180.2	17.0	21.0	16.6	13.6	15.1	11.0	23.9	24.1	27.3	25.6	18.5	20.7
Balkrishna Ind. (BALIND)	1,585	1,700	Buy	30,641	48.9	48.1	58.6	32.4	33.0	27.0	24.9	19.7	16.3	14.4	17.6	19.7	18.8	16.7	18.2
Bharat Forge (BHAFOR)	480	490	Hold	22,347	7.5	0.8	10.5	64.0	NM	45.6	22.5	40.2	19.9	5.6	0.3	5.9	7.8	0.8	8.8
<b>Eicher Motors (EICMOT)</b>	<b>2,500</b>	<b>2,600</b>	<b>Hold</b>	<b>68,150</b>	<b>67.0</b>	<b>46.6</b>	<b>70.2</b>	<b>37.3</b>	<b>53.7</b>	<b>35.6</b>	<b>28.2</b>	<b>34.7</b>	<b>24.6</b>	<b>17.3</b>	<b>11.8</b>	<b>15.2</b>	<b>18.3</b>	<b>11.6</b>	<b>15.3</b>
Escorts (ESCORT)	1,390	1,460	Buy	17,039	39.6	59.5	71.0	35.1	23.4	19.6	23.8	15.6	13.2	16.2	15.3	15.3	14.2	14.0	14.5
Exide Industries (EXIIND)	168	180	Buy	14,280	9.7	6.3	8.9	11.8	18.0	12.9	10.3	12.8	9.9	15.7	10.3	13.5	13.4	8.2	10.7
Hero Moto (HERHON)	3,130	3,450	Buy	62,506	181.9	123.6	161.8	17.2	25.3	19.4	14.2	16.3	12.2	21.3	16.6	20.6	22.7	16.0	19.0
M&M (MAHMAH)	640	760	Buy	79,565	11.2	22.8	40.1	57.4	28.0	16.0	13.1	12.7	10.1	8.8	8.4	10.5	6.4	9.5	11.9
Maruti Suzuki (MARUTI)	6,800	6,335	Reduce	2,05,414	187.1	132.1	191.8	36.4	51.5	35.5	23.2	33.2	21.5	7.4	3.6	7.6	11.7	7.8	10.6
Minda Industries (MININD)	365	410	Buy	9,925	5.9	6.7	10.8	61.8	54.6	33.7	17.6	17.4	12.7	9.1	7.9	12.3	10.3	9.4	14.2
Tata Motors (TATMOT)	150	165	Buy	53,966	-33.3	-16.6	6.1	NM	NM	24.6	5.4	5.0	3.6	1.3	2.8	6.4	-18.7	-10.6	3.7

Source: Bloomberg, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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