

Healthy valuations to limit the upside, retain HOLD...

Eicher Motors (EML) posted decent Q3FY21 results. Consolidated revenues were at ₹ 2,828 crore (up 19.3% YoY), tracking Royal Enfield (RE) volume of ~2 lakh units and flat ASPs QoQ at ₹ 1.4 lakh/unit. EBITDA margins at 23.8% were up 168 bps QoQ on the back of operating leverage benefits, with gross margins down ~110 bps QoQ. Consequent consolidated PAT was at ₹ 533 crore (up 6.8% YoY), with share of profit from VECV JV at ₹ 31.4 crore.

2-W, CV demand scenario improves, margin squeeze up ahead

RE volume run rate has improved to ~70,000 units/month in December 2020-January 2021 but supply concerns are yet to abate convincingly (channel inventory low at less than two weeks). In the medium to longer term, new product launches (one each quarter), ongoing footprint expansion (~1,900 India touchpoints, ~100 exclusive stores outside India) and thrust on digitisation of reach (new launches to feature Make It Yours app functionality) are identified as growth avenues. We believe as the > 250 cc motorcycle market leader, EML will continue to benefit from aspirational discretionary buying courtesy its undiminished brand pull. We build 19% volume CAGR in FY21E-23E, factoring in an element of pent-up demand that would get served on eased supply constraints. Moreover, with domestic CV cycle having bottomed out, in our view, VECV also possesses strong demand visibility in coming quarters (we build 30% FY21E-23E volume CAGR). Margin performance is set to be more subdued, however, courtesy sharp input commodity price inflation. They are seen at 24% by FY23E.

Q3FY21 earnings conference call – key highlights

EML said (1) present production run rate of 75,000 units/month is pretty much sustainable, (2) demand is returning from mature markets like Tamil Nadu and Maharashtra (share of top 10, 20 cities has come back to 25% vs. ~27%, 30%, respectively, pre Covid), (3) RE waiting periods is coming down with higher production levels but supply concerns and commodity spike costs remain, (4) it took 2-3% price hikes in January-February while more are likely in the offing to counteract cost pressures, (5) it added 43 new large format stores and 129 studio stores in Q3FY21 along with 13 exclusive stores outside India, (6) Meteor booking rate is much ahead of Thunderbird that it replaced (with accessories revenues at ~1.6x of Thunderbird), (7) online enquiries, bookings are at 3x, 5x, respectively, of pre Covid levels, (8) overall bookings are at more than one month, (9) impact of commodity cost pressures on gross margins was 80-100 bps in Q3FY21.

Valuation & Outlook

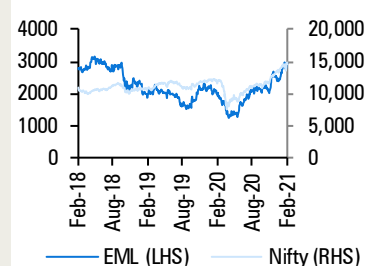
For EML, we factor in 22%, 39% sales, PAT CAGR, respectively, in FY21E-23E. At the CMP it is trading near its long term forward valuation multiples and captures the positives adequately, leaving limited room for upside. We maintain **HOLD** rating and value EML at ₹ 3,050 on SOTP basis (33x FY23E EPS to RE; 25x FY23E EPS to VECV; previous target price of ₹ 2,650).



Particulars

Particular	₹ crore
Market Capitalization	74,965
Total Debt (FY20)	144
Cash & Investments (FY20)	6,807
EV (FY20P) (₹ crore)	68,302
52 week H/L (₹)	3035 / 1,246
Equity capital	₹ 27.3 Crore
Face value	₹ 1

Price Performance



Key Highlights

- Q3FY21 revenues up 19% YoY with ASPs flat QoQ and margins up 168 bps QoQ on operating leverage benefits
- Demand outlook improving for 2-W as well as CV but margins to stay under pressure amid commodity cost increase

Risks to our call

- Higher than anticipated production ramp up on account of robust market demand
- More than anticipated cost increases with consequent impact on margins

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Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21E-23E)
Net Sales	9,797.1	9,153.6	8,585.0	10,977.9	12,672.8	21.5%
EBITDA	2,903.1	2,180.3	1,779.0	2,495.1	3,047.0	30.9%
EBITDA Margins (%)	29.6	23.8	20.7	22.7	24.0	
Net Profit	2,202.8	1,827.5	1,326.3	1,998.9	2,568.6	39.2%
EPS (₹)	80.8	67.0	48.7	73.3	94.2	
P/E	34.0	41.0	56.5	37.5	29.2	
RoNW (%)	24.8	18.3	12.0	15.8	17.5	
RoCE(%)	27.8	17.3	11.7	15.3	16.7	

Source: ICICI Direct Research, Company

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Total Operating Income	2828	2828	2371	19.3	2134	32.6	Topline came in line with our estimates
Raw Material Expenses	1565	1630	1242	26.0	1153	35.8	RM costs came in lower tracking lagged pass through of rise in commodity prices. RM to sales for the quarter at 58.4%, up 110 bps QoQ
Purchase of traded goods	85	65	48	77.2	70	22.6	
Employee Expenses	234	210	185	26.5	208	12.5	Employee costs came in ahead of estimates at 8.3% of sales vs. our expectation of 7.4% of sales
Other expenses	272	320	304	-10.5	233	16.9	Savings were realised in other expenses which for the quarter were at 9.6% of sales vs. our estimates of 11.3% of sales
EBITDA	672	603	592	13.5	471	42.7	
EBITDA Margin (%)	23.8	21.3	25.0	-122 bps	22.1	168 bps	EBITDA margins came n higher tracking lesser than anticipated decline in gross margins and operating leverage benefits (lower other expenses)
Other Income	125	108	135	-7.2	100	25.1	
Depreciation	123	108	95	29.1	105	17.2	Depreciation came in higher than anticipated
Interest	4	3	4	-15.5	4	-5.8	
Total Tax	169	151	145	16.5	115	47.0	
PAT	533	471	499	6.8	343	55.1	PAT came in higher than our estimates tracking beat on operating margins
Key Metrics							
Royal Enfield ASP(₹)	139,588	140,509	128,318	8.8	139,810	-0.2	ASPs came in a tad lower at ₹ 1.4 lakh/unit
VECV ASP (₹ lakhs)	20.9	21.0	17.1	22.1	20.9	0.4	VECV ASP's were broadly on expected lines

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	Old	New	% Change	
Revenue	8,282	8,585	3.7	10,197	10,978	7.7	11,920	12,673	6.3	Revise upward our sales estimates tracking management optimism on new product launches at regular intervals as well as aggressive foray in international markets. Going forward, we expect sales to grow at a CAGR of 21.5% over FY21-23E
EBITDA	1,746	1,779	1.9	2,391	2,495	4.4	2,977	3,047	2.3	
EBITDA Margin (%)	21.1	20.7	-36 bps	23.4	22.7	-72 bps	25.0	24.0	-93 bps	Downward revise our margin estimates (40-90 bps) tracking substantial rise in commodity prices and calibrated price hikes undertaken the by company
PAT	1,269	1,326	4.5	1,915	1,999	4.4	2,458	2,569	4.5	
EPS (₹)	47	49	4.5	70	73	4.4	90	94	4.5	EPS estimates undergo marginal change. We expect earnings (PAT) to grow at a CAGR of 39.2% over FY21-23E

Source: ICICI Direct Research

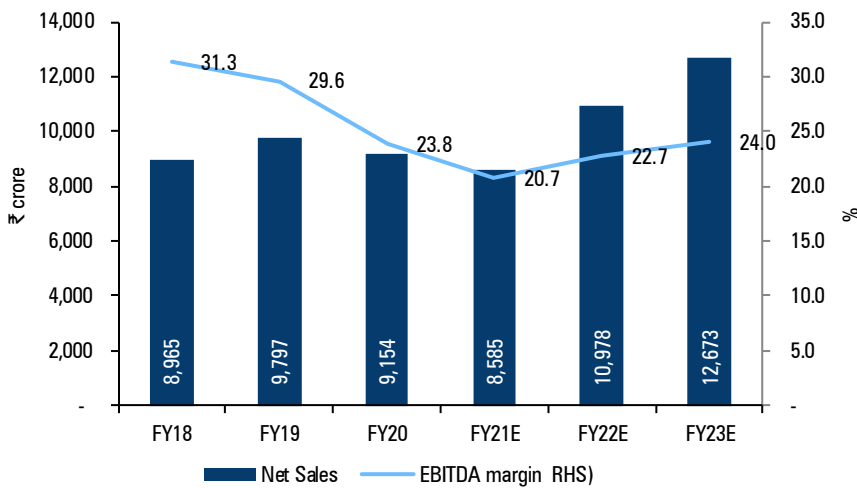
Exhibit 3: Assumptions

	FY21E			Current			Earlier			Comments
	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	
Royal Enfield volumes	820,121	826,098	695,839	602,900	753,486	852,641	588,015	705,702	800,762	Post Covid impacted FY21E, we expect RE volumes to grow ahead of industry at 25% YoY in FY22E and, thereafter, 13.2% YoY in FY23E (8.5 lakh units)
Royal Enfield ASP/unit (₹)	111,785	117,603	129,465	139,948	144,538	147,451	138,690	143,347	147,673	Marginally tweak ASP estimates for RE with broader range expect at ~₹ 1.4-1.5 lakh/unit
VECV volumes	66,233	72,860	48,786	37,041	51,852	62,222	36,214	48,707	58,448	With CV cycle on cusp of cyclical recovery, we expect CV volumes at VECV to grow at a CAGR of ~30% over FY21-23E

Source: Company, ICICI Direct Research

Financial story in charts

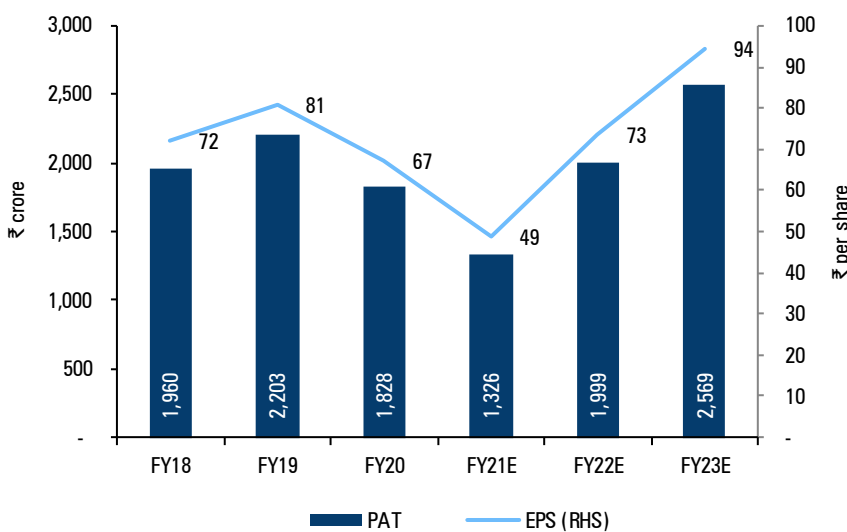
Exhibit 4: Topline and EBITDA margins trend



We expect sales to grow at a CAGR of 21.5% over FY21-23E on the back of 19% CAGR RE volume growth during this period. EBITDA margins are seen improving to 24% by FY23E

Source: Company, ICICI Direct Research

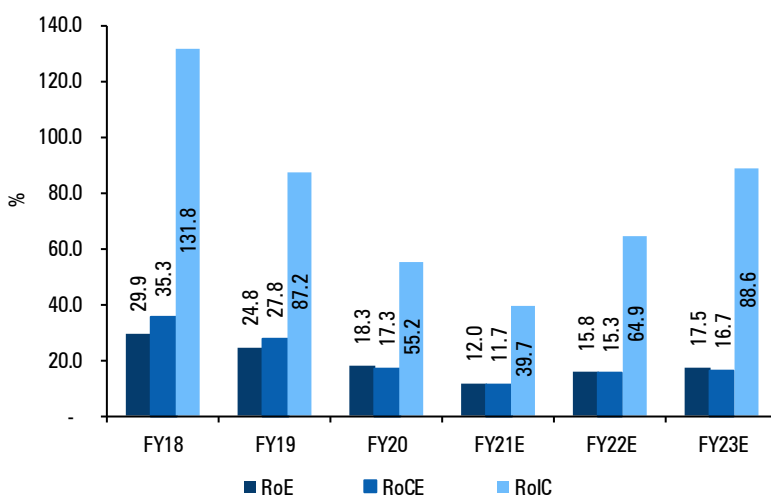
Exhibit 5: PAT & EPS trend



PAT is expected to grow at a CAGR of 39.2% over FY21-23E to ₹2,569 crore in FY23E, building in 330 bps improvement in margins in the aforesaid period

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 ~17% 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 network

Source: Company, ICICI Direct Research

Exhibit 11: SOTP valuation

	Amount	Remarks
Two-wheeler business-Royal Enfield		
FY23E EPS (₹)	86	
Target PE multiple(x)	33.0	Valued RE business at 33x P/E
Per share value (₹)	2,850	
Target market cap (₹ crore)	77,683	
CV business-VECV		
FY23E PAT (₹ crore)	396	
Target PE multiple(x)	25.0	Valued VECV business at 25x P/E
Target market cap (₹ crore)	9,896	
Contribution towards EML	0.54	EML has 54.4% stake in VECV
Target market cap towards EML (₹ crore)	5,383	
Per share value-VECV Eicher (₹)	200	
Total target market cap (₹ crore)	83,066	
Per share value (₹)	3,050	

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	38.3	25.0	29.9	35.3
FY19	9,797.1	9.28	80.8	12.4	34.0	23.8	24.8	27.8
FY20	9,153.6	(6.6)	67.0	(17.0)	41.0	31.3	18.3	17.3
FY21E	8,585.0	(6.2)	48.7	(27.4)	56.5	37.8	12.0	11.7
FY22E	10,977.9	27.9	73.3	50.7	37.5	26.2	15.8	15.3
FY23E	12,672.8	15.4	94.2	28.5	29.2	20.7	17.5	16.7

Source: Bloomberg, ICICI Direct Research

Exhibit 13: Shareholding pattern

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoters	49.3	49.3	49.3	49.3	49.2
FII	31.2	27.7	27.0	28.2	28.9
DII	8.2	11.1	11.9	9.9	9.4
Others	11.3	11.9	11.8	12.6	12.5

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 14: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating Income	9,153.6	8,585.0	10,977.9	12,672.8
Growth (%)	-6.6	-6.2	27.9	15.4
Raw Material Expenses	4,770.9	4,809.3	6,278.5	7,176.2
Employee Expenses	795.8	840.5	897.3	940.9
Other Expenses	1,181.5	919.9	1,089.1	1,257.2
Total Operating Expenditure	6,973.3	6,806.0	8,482.7	9,625.8
EBITDA	2180.3	1779.0	2495.1	3047.0
Growth (%)	-24.9	-18.4	40.3	22.1
Depreciation	381.5	449.8	505.0	538.6
Interest	18.9	15.1	10.1	10.6
Other Income	543.3	455.4	522.6	648.1
PBT	2,323.2	1,769.5	2,502.7	3,146.0
Others	0.0	0.0	0.0	0.0
Total Tax	527.4	445.8	630.7	792.8
PAT	1827.5	1326.3	1998.9	2568.6
Growth (%)	-17.0	-27.4	50.7	28.5
EPS (₹)	67.0	48.7	73.3	94.2

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	1,827.5	1,326.3	1,998.9	2,568.6
Add: Depreciation	381.5	449.8	505.0	538.6
(Inc)/dec in Current Assets	64.7	39.7	-243.0	-172.1
Inc/(dec) in CL and Provisions	-48.8	-16.4	507.7	359.6
CF from operating activities	1681.7	1344.0	2246.0	2646.5
(Inc)/dec in Investments	-878.1	-800.0	-1,800.0	-2,200.0
(Inc)/dec in Fixed Assets	-746.9	-450.0	-450.0	-450.0
Others	736.3	386.5	552.1	654.5
CF from investing activities	-888.7	-863.5	-1697.9	-1995.5
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
CF from financing activities	-807.7	-322.6	-458.9	-555.2
Net Cash flow	-14.7	157.9	89.3	95.8
Opening Cash	2,965.2	2,950.5	3,108.4	3,197.7
Closing Cash	2950.5	3108.4	3197.7	3293.4

Source: Company, ICICI Direct Research

Exhibit 16: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	27.3	27.3	27.3	27.3
Reserve and Surplus	9,953.6	11,007.3	12,597.4	14,620.7
Total Shareholders funds	9980.9	11034.6	12624.6	14648.0
Total Debt	144.4	94.4	44.4	34.4
Deferred Tax Liability	252.2	236.5	302.4	349.1
Others	234.4	229.6	249.5	263.7
Total Liabilities	10611.8	11595.1	13221.0	15295.2
Assets				
Gross Block	3,669.7	4,181.8	4,631.8	5,081.8
Less: Acc Depreciation	1,292.2	1,738.6	2,243.6	2,782.1
Net Block	2377.5	2443.2	2388.3	2299.7
Capital WIP	312.2	250.0	250.0	250.0
Total Fixed Assets	2,689.7	2,693.2	2,638.3	2,549.7
Investments	5,748.8	6,598.8	8,448.8	10,698.8
Inventory	572.4	517.5	661.7	763.8
Debtors	86.8	117.6	150.4	173.6
Others	252.4	236.7	302.7	349.4
Cash	2950.5	3108.4	3197.7	3293.4
Total Current Assets	3,862.0	3,980.2	4,312.4	4,580.3
Creditors	1,027.7	1,058.4	1,353.4	1,562.4
Provisions	33.9	34.9	44.7	51.6
Others	776.3	728.1	931.0	1074.7
Total Current Liabilities	1,837.9	1,821.4	2,329.1	2,688.7
Net Current Assets	2024.1	2158.7	1983.3	1891.6
Other Non current asset	149.2	147.7	154.0	158.4
Application of Funds	10611.8	11595.1	13221.0	15295.2

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	67.0	48.7	73.3	94.2
Cash EPS	81.0	65.2	91.9	114.0
BV	366.1	404.8	463.1	537.3
DPS	12.5	10.0	15.0	20.0
Cash Per Share	249.7	284.9	354.2	438.4
Operating Ratios (%)				
EBITDA Margin	23.8	20.7	22.7	24.0
PBT / Net sales	19.7	15.5	18.1	19.8
PAT Margin	20.0	15.4	18.2	20.3
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
Return Ratios (%)				
RoE	18.3	12.0	15.8	17.5
RoCE	17.3	11.7	15.3	16.7
RoIC	55.2	39.7	64.9	88.6
Valuation Ratios (x)				
P/E	41.0	56.5	37.5	29.2
EV / EBITDA	31.3	37.8	26.2	20.7
EV / Net Sales	7.5	7.8	6.0	5.0
Market Cap / Sales	8.2	8.7	6.8	5.9
Price to Book Value	7.5	6.8	5.9	5.1
Solvency Ratios				
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	0.7	0.6	0.6	0.6
Quick Ratio	0.2	0.3	0.3	0.3

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	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Apollo Tyre (APOTYR)	250	300	Buy	15,876	8.3	3.5	13.7	20.6	30.0	71.7	18.3	12.1	11.4	8.0	6.9	5.1	4.5	7.1	8.0	11.3	4.8	5.4	7.4	10.2
Ashok Leyland (ASHLEY)	132	120	Buy	38,638	0.8	-0.6	2.4	4.7	161.8	-207.9	54.1	28.3	34.6	60.4	21.8	14.6	4.5	0.0	9.5	15.8	4.7	-2.6	9.5	16.2
Bajaj Auto (BAAUTO)	4,150	4,500	Buy	1,20,089	176.2	154.1	184.5	219.6	23.5	26.9	22.5	18.9	20.2	21.1	16.8	13.5	23.9	25.3	26.6	27.5	25.6	19.7	20.6	21.3
Balkrishna Ind. (BALIND)	1,650	2,100	Buy	31,897	48.9	55.6	65.6	77.6	33.8	29.7	25.1	21.3	25.9	18.6	15.5	13.1	14.4	19.4	21.3	22.7	18.8	18.6	19.1	19.5
Bharat Forge (BHAFOR)	650	510	Hold	30,262	7.5	0.3	9.4	17.0	86.7	NM	68.8	38.3	29.6	53.2	26.4	18.8	5.6	0.3	6.0	9.9	7.8	0.8	8.8	14.0
Eicher Motors (EICMOT)	2,750	3,050	Hold	74,965	67.0	48.7	73.3	94.2	41.0	56.5	37.5	29.2	31.3	37.8	26.2	20.7	17.3	11.7	15.3	16.7	18.3	12.0	15.8	17.5
Escorts (ESCORT)	1,440	1,500	Hold	17,652	39.6	62.8	65.7	77.8	36.4	22.9	21.9	18.5	24.7	15.1	14.6	12.0	16.2	16.8	14.6	14.9	14.2	14.7	13.5	13.9
Exide Industries (EXIIND)	215	225	Buy	18,275	9.7	8.0	9.9	10.9	17.1	21.0	17.1	15.5	13.3	13.8	11.2	9.9	15.7	12.9	14.7	15.0	13.4	10.2	11.6	11.8
Hero Moto (HERHON)	3,540	4,000	Buy	70,694	181.9	139.1	169.9	200.3	19.5	25.4	20.8	17.7	16.2	17.0	13.8	11.3	21.3	18.8	21.2	22.9	22.7	17.9	19.7	20.9
M&M (MAHMAH)	910	1,000	Buy	1,13,131	11.2	10.8	36.0	44.8	81.6	84.1	25.3	20.3	18.9	17.5	15.8	12.9	8.8	9.6	9.6	11.4	6.4	7.7	11.1	12.5
Maruti Suzuki (MARUTI)	7,600	7,000	Reduce	2,29,581	187.1	144.5	198.8	233.4	40.6	52.6	38.2	32.6	26.5	37.1	23.8	19.8	7.4	3.9	7.8	9.1	11.7	8.5	10.9	11.8
Minda Industries (MININD)	580	625	Buy	15,771	5.9	5.8	11.6	17.9	98.2	99.6	49.8	32.5	27.0	24.3	16.9	13.2	9.1	8.7	14.2	19.1	10.3	8.7	15.9	19.5
Motherson (MOTSUM)	175	165	Hold	55,264	3.7	0.3	5.1	6.3	47.2	NM	34.5	27.7	11.9	16.5	9.0	7.6	9.0	2.8	13.1	16.0	10.4	0.9	13.2	14.9
Tata Motors (TATMOT)	330	301	Buy	1,18,724	-33.3	-14.7	9.0	21.7	NM	NM	36.8	15.2	8.1	6.6	4.7	3.7	1.3	3.7	7.9	11.1	-18.7	-9.3	5.3	11.5

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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