

Await firm volume growth before turning positive...

About the stock: Eicher Motors (EML) is the market leader in the >250 cc premium motorcycle segment (FY21 market share at 93.5%) through its aspirational models under the Royal Enfield (RE) brand, such as Bullet, Classic, Interceptor among others.

- Via its JV with Volvo i.e., VECV (EML has 54.4% stake), the company also has a presence in the CV space (6.4% FY21 market share)
- Strong net cash positive b/s with healthy return ratios metrics

Q3FY22 Results: Eicher reported a muted operational performance in Q3FY22.

- Consolidated revenues were at ₹ 2,881 crore, up 28.1% QoQ
- Reported EBITDA margins came in at 20.2%, down 67 bps QoQ
- Consequent consolidated PAT was at ₹ 456 crore, up 22.2% QoQ

What should investors do? EML's stock price has grown at ~1% CAGR from ~₹ 2,500 levels in February 2017, underperforming the Nifty Auto index.

- We retain **HOLD** amid lack of volume growth visibility in core RE portfolio

Target Price and Valuation: We value EML at ₹ 2,790 on SOTP basis; assigning 28x PE to RE business & 25x PE to VECV business on average of FY23-24E numbers.

Key triggers for future price performance:

- We expect 11% (FY21-24E) RE volume CAGR aided by low base, abating of supply constraints, new products introduction (strong launch pipeline over next 12-18 months), network expansion benefits and higher exports
- Continued VECV outperformance in CVs to lead to market share gains; we build 27% (FY21-24E) volume CAGR as cyclical recovery gathers pace
- Overall FY21-24E consolidated net sales CAGR expected at 19.6%, with margins seen rising to 23.8% by FY24E riding on operating leverage gains
- Healthy return ratios profile with RoCE seen at ~18% levels by FY24E

Alternate Stock Idea: In our auto OEM coverage, we like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with a target price of ₹ 1,125



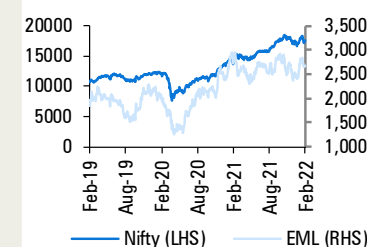
Particulars

Particular	₹ crore
Market Capitalization	68,872
Total Debt (FY21)	157
Cash & Investments (FY21)	7,806
EV (FY21) (₹ crore)	61,223
52 week H/L (₹)	2995 / 2034
Equity capital	₹ 27.3 Crore
Face value	₹ 1

Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	49.2	49.2	49.2	49.2
FII	29.1	28.8	30.3	29.5
DII	9.1	9.5	8.7	9.8
Other	12.6	12.5	11.9	11.5

Price Chart



Recent event & key risks

- Reported muted Q3FY22 results
- **Key Risk:** (i) Adoption of EVs in the premium motorcycle segment thereby hampering the growth at RE, (ii) elevated RM prices impacting gross margins

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Key Financial Summary

Key Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Sales	9,797.1	9,153.6	8,720.4	-11.1%	10,488.7	13,355.3	14,932.2	19.6%
EBITDA	2,903.1	2,180.3	1,781.3	-6.2%	2,160.2	2,984.7	3,550.4	25.8%
EBITDA Margins (%)	29.6	23.8	20.4		20.6	22.3	23.8	
Net Profit	2,202.8	1,827.5	1,346.9	1.1%	1,666.7	2,414.8	2,943.1	29.8%
EPS (₹)	80.8	67.0	49.3		61.0	88.4	107.7	
P/E	31.2	37.6	51.1		41.3	28.5	23.4	
RoNW (%)	24.8	18.3	11.8		13.2	16.9	18.1	
RoCE(%)	27.8	17.3	11.3		13.3	17.2	18.2	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q3FY22 Results:

- Consolidated revenues for Q3FY22 were at ₹ 2,881 crore up 28.1% QoQ. ASPs for Royal Enfield (RE), declined 5.7% QoQ to ~₹ 1.65 lakh/unit. RE sales volumes were at ~1.69 lakh units, up 37.3% QoQ
- EBITDA for the quarter was at ₹ 582 crore with margins at 20.2%, down 70 bps QoQ. The company reported ~210 bps gross margin contraction vs. our estimates of ~120 bps
- Consolidated PAT was at ₹ 456 crore, up 22.2% QoQ. Eicher's share of profit from VECV JV was at ₹ 35.9 crore vs. our estimate of ₹ 18.5 crore

Q3FY22 Earnings Conference Call highlights

- The company commissioned a CKD assembly plant in one of its important export markets of Thailand during the quarter. With this it has now three CKD assembly plants outside India at Argentina, Columbia & Thailand
- The management opined that it has now become a truly global brand with market share pegged at 7.1%, 5% in EU, US, respectively, in the mid-size category as of 9MFY22
- In the domestic market, it has added 12 large format stores during the quarter with total store count at 2118, which includes 1065 in dealership format and 1053 as studio stores. It intends to add studio format stores in a gradual manner with much of the store addition behind us
- In the international market it has opened ~7 exclusive stores and is now available at additional ~11 multi brand outlets with a total presence at ~150 exclusive stores and ~660 multi brand outlets
- Non-motorcycle revenues (spares, merchandise etc.) constituted ~15% of sales and is on a healthy growth trajectory
- It has already dispatched ~1 lakh units of new classic 350
- QoQ decline in ASPs at RE is on account of adverse product mix including lower share of exports
- In Q3FY22, the company undertook no pricing action on the RE front
- In January 2022 it undertook a blended price hike of 1.5%, which should largely cover all raw material price increase
- On demand side, RE franchise is witnessing a gradual increase in bookings supported by new Classic 350. The management expected a strong new product pipeline with exciting launches scheduled over next 12-18 months
- It is ramping up production MoM with supply side constraints easing out. It has on-boarded an alternate supplier on the semi-conductor front

On the electric vehicle front, it has maintained its earlier stance of working in the background in this domain with no product launch (electric vehicle) in the near term

Management anticipated a very high discounting in the marketplace in the CV domain with its intent to maximise volumes and maintain healthy profitability. It believes that its USP in the CV domain is the industry best uptime of commercial vehicle

Peer comparison

Exhibit 1: ICICI Direct coverage universe (2-W)

Company	CMP	TP	Rating	Mcap	2-W Lakh volumes			EBITDA margin (%)			RoCE (%)			P/E		
	₹	₹			₹ crore	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E
Bajaj Auto (BAAUTO)	3,486	3,460	Hold	1,00,871	39.7	44.9	48.9	17.8	15.4	15.4	18.2	19.0	20.8	22.1	21.1	19.2
Hero Moto (HERHON)	2,644	3,000	Hold	54,518	58.0	51.0	57.0	13.0	12.0	13.3	20.8	16.9	21.4	17.8	20.6	15.2
Eicher Motors (EICMOT)	2,520	2,790	Hold	68,872	6.1	6.2	7.8	20.4	22.1	24.3	11.3	13.3	17.2	51.1	41.3	28.5

Source: Company, ICICI Direct Research; Note – Bajaj Auto volumes above are for its 2-W business

Currently, we ascribe HOLD to all incumbent 2-W auto OEMs in our coverage and await firm volume growth (monthly numbers) as well as more meaningful action from them on EV front before turning decisively positive.

Exhibit 2: Variance Analysis

	Q3FY22	Q3FY22E	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Total Operating Income	2881	2932	2828	1.9	2250	28.1	Topline came in lower tracking lower than anticipated ASPs at Royal Enfield (RE)
Raw Material Expenses	1637	1654	1565	4.6	1215	34.8	
Purchase of traded goods	83	70	85	-3.0	82	1.2	RM costs came in higher at 59.7% of sales, up 210 bps QoQ vs. our expectations of ~120 bps hike
Employee Expenses	202	213	234	-13.6	174	16.1	
Other expenses	377	319	272	38.3	310	21.7	Other expenses came in higher at 13.1%, down just 70 bps QoQ. It included one-time marketing costs amounting to ~₹ 60 crore in Q3FY22
EBITDA	582	676	672	-13.3	470	23.9	
EBITDA Margin (%)	20.2	23.1	23.8	-355 bps	20.9	-67 bps	EBITDA margins came in lower than anticipated due to pressure on gross margins as well as limited operating leverage benefits
Other Income	92	119	125	-26.3	109	-15.2	
Depreciation	111	116	123	-9.3	109	1.8	Depreciation came in on expected lines
Interest	6	3	4	68.6	3	93.3	
Total Tax	137	171	169	-19.2	103	33.4	Tax arte came in on usual lines at ~25%
PAT	456	525	533	-14.4	373	22.2	PAT was lower tracking low EBITDA margin profile
Key Metrics							
Royal Enfield ASP(₹)	164,731	171,250	139,588	18.0	174,745	-5.7	RE ASPs were down 5.7% QoQ at ₹ 1.65 lakh/unit
VECV ASP (₹ lakhs)	22.6	21.3	20.9	8.0	20.8	8.5	ASPs were up a healthy 8.5% QoQ in CV domain (VECV front) at ₹ 22.6 lakh/unit

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY22E			FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	Old	New	% Change	
Revenue	10,794	10,489	-2.8	14,086	13,355	-5.2	14,932			Marginally tweak estimates. Introduce FY24E numbers. We expect sales to grow at a CAGR of 19.6% over FY21-24E
EBITDA	2,383	2,160	-9.3	3,418	2,985	-12.7	3,550			
EBITDA Margin (%)	22.1	20.6	-150 bps	24.3	22.3	-192 bps	23.8			Lower margin estimates tracking 9MFY22 performance. Introduce FY24E margins at 23.8%
PAT	1,827	1,667	-8.8	2,750	2,415	-12.2	2,943			
EPS (₹)	67	61	-8.8	101	88	-12.2	108			Downward revision in sales as well as margin estimates leads to decline in earnings estimates. We expect earnings to grow at a CAGR of 29.8% over FY21-24E

Source: ICICI Direct Research

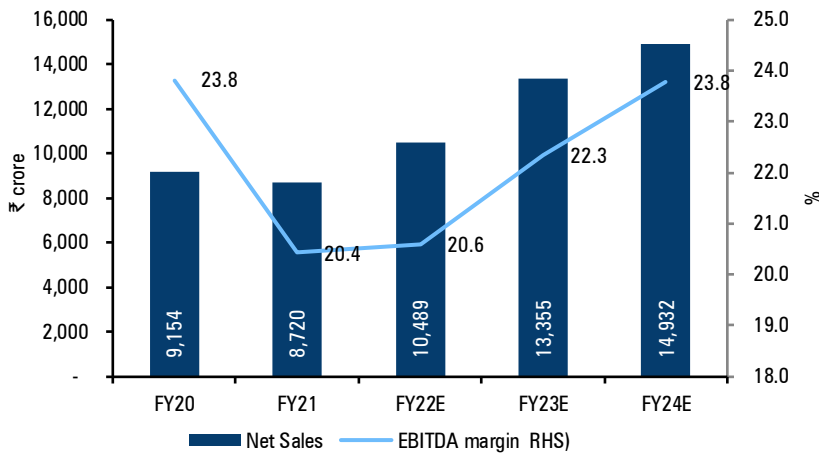
Exhibit 4: Assumptions

	FY22E			Current			Earlier			Comments
	FY19	FY20	FY21	FY22E	FY23E	FY24	FY22E	FY23E		
Royal Enfield volumes	826,098	695,839	612,060	616,593	771,748	833,488	621,389	776,653	Marginally tweak estimates. We expect RE sales volume to grow at a CAGR of ~11% over FY21-24E	
Royal Enfield ASP/unit (₹)	117,603	129,465	140,044	165,085	171,001	177,029	169,744	179,570		
VECV volumes	72,860	48,786	41,265	55,151	74,481	85,653	54,469	70,811	Sales volume at VECV arm expected to grow at CAGR of ~27% over FY21-24E amid cyclical upswing in the domestic CV space	

Source: ICICI Direct Research

Financial story in charts

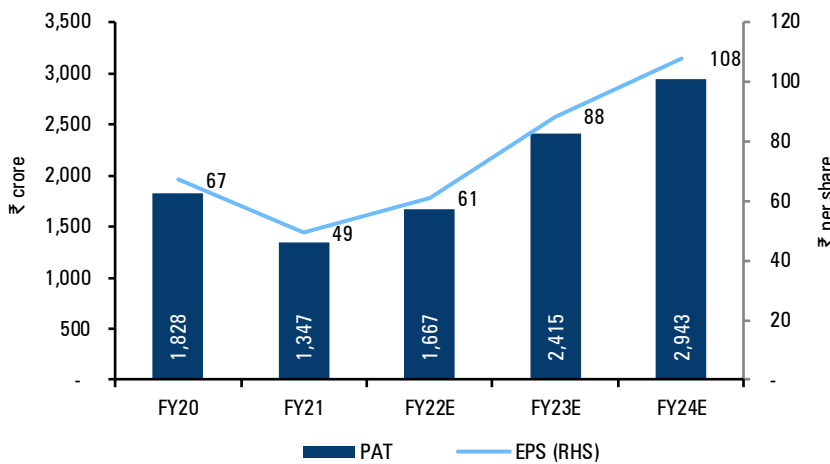
Exhibit 5: Topline and EBITDA margin trend



Source: Company, ICICI Direct Research

We expect sales to grow at 19.6% CAGR in FY21-24E amid 11% RE sales volume CAGR. EBITDA margins are seen at 23.8% in that time frame

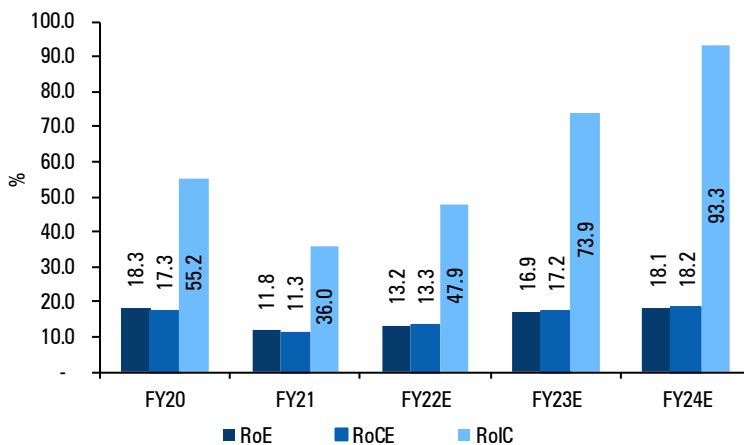
Exhibit 6: PAT and EPS trend



Source: Company, ICICI Direct Research

PAT at Eicher Motors is seen growing at 29.8% CAGR over FY21-24E

Exhibit 7: Return ratios trend



Source: Company, ICICI Direct Research

RoCE profile at Eicher Motors is seen improving to ~18% levels gradually by FY24E. RoIC at Eicher Motors are seen comfortable placed over 50% for FY23-24E on account of high share of cash & cash equivalents as a percentage of networth

Exhibit 8: Valuation Summary

	Net Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	9,797.1	9.28	80.8	12.4	31.2	21.7	24.8	27.8
FY20	9,153.6	(6.6)	67.0	(17.0)	37.6	28.5	18.3	17.3
FY21	8,720.4	(4.7)	49.3	(26.5)	51.1	34.4	11.8	11.3
FY22E	10,488.7	20.3	61.0	23.7	41.3	27.7	13.2	13.3
FY23E	13,355.3	27.3	88.4	44.9	28.5	19.4	16.9	17.2
FY24E	14,932.2	11.8	107.7	21.9	23.4	15.7	18.1	18.2

Source: Company, ICICI Direct Research

Exhibit 9: SOTP valuation

	Amount	Remarks
Two-wheeler business-Royal Enfield		
FY23E-24E Average EPS (₹)	93	
Target PE multiple(x)	28.0	Valued RE business at 28x P/E
Per share value (₹)	2,615	
Target market cap (₹ crore)	71,273	
CV business-VECV		
FY23E-24E PAT (₹ crore)	352	
Target PE multiple(x)	25.0	Valued VECV business at 25x P/E
Target market cap (₹ crore)	8,791	
Contribution towards EML	0.54	EML has 54.4% stake in VECV
Target market cap towards EML (₹ crore)	4,782	
Per share value-VECV Eicher (₹)	175	
Total target market cap (₹ crore)	76,055	
Per share value (₹)	2,790	

Source: ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Total operating Income	8,720.4	10,488.7	13,355.3	14,932.2
Growth (%)	-4.7	20.3	27.3	11.8
Raw Material Expenses	4,846.7	5,888.4	7,672.8	8,461.4
Employee Expenses	843.3	809.5	863.4	943.2
Other Expenses	983.1	1,317.0	1,517.7	1,623.1
Total Operating Expenditure	6,939.1	8,328.5	10,370.6	11,381.8
EBITDA	1781.3	2160.2	2984.7	3550.4
Growth (%)	-18.3	21.3	38.2	19.0
Depreciation	450.7	440.5	480.8	522.6
Interest	16.5	21.7	19.5	17.6
Other Income	453.2	434.7	525.5	631.6
PBT	1,767.3	2,132.7	3,009.9	3,641.7
Others	0.0	0.0	0.0	0.0
Total Tax	451.5	517.0	758.5	917.7
PAT	1346.9	1666.7	2414.8	2943.1
Growth (%)	-26.3	23.7	44.9	21.9
EPS (₹)	49.3	61.0	88.4	107.7

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	1,346.9	1,666.7	2,414.8	2,943.1
Add: Depreciation	450.7	440.5	480.8	522.6
(Inc)/dec in Current Assets	-990.5	165.4	-474.6	-261.1
Inc/(dec) in CL and Provisions	597.2	66.6	693.7	381.6
CF from operating activities	951.1	1904.5	2589.1	2954.7
(Inc)/dec in Investments	1,880.8	-1,300.0	-1,750.0	-2,150.0
(Inc)/dec in Fixed Assets	-508.7	-450.0	-450.0	-450.0
Others	433.2	384.7	475.4	581.5
CF from investing activities	1805.3	-1365.3	-1724.6	-2018.5
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	13.0	-50.0	-10.0	-10.0
Dividend paid & dividend tax	-464.6	-519.3	-737.9	-901.9
Others	574.9	0.0	0.0	0.0
CF from financing activities	123.3	-569.3	-747.9	-911.9
Net Cash flow	2,879.7	-30.1	116.6	24.3
Opening Cash	2,950.5	5,830.2	5,800.1	5,916.7
Closing Cash	5830.2	5800.1	5916.7	5941.0

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	27.3	27.3	27.3	27.3
Reserve and Surplus	11,410.8	12,558.2	14,235.2	16,276.4
Total Shareholders funds	11438.1	12585.6	14262.5	16303.7
Total Debt	157.4	107.4	97.4	87.4
Deferred Tax Liability	221.5	221.5	221.5	221.5
Others	270.2	274.8	282.2	286.3
Total Liabilities	12087.2	13189.3	14863.6	16898.9
Assets				
Gross Block	4,176.2	4,690.5	5,140.5	5,590.5
Less: Acc Depreciation	1,742.9	2,183.4	2,664.2	3,186.8
Net Block	2433.3	2507.1	2476.3	2403.7
Capital WIP	314.3	250.0	250.0	250.0
Total Fixed Assets	2,747.6	2,757.1	2,726.3	2,653.7
Investments	3,902.2	5,252.2	7,052.2	9,252.2
Inventory	874.6	862.1	1,097.7	1,227.3
Debtors	158.2	143.7	182.9	204.6
Others	869.3	730.9	930.7	1,040.6
Cash	5830.2	5800.1	5916.7	5941.0
Total Current Assets	7,732.2	7,536.8	8,128.0	8,413.4
Creditors	1,535.8	1,436.8	1,829.5	2,045.5
Provisions	90.2	84.4	107.4	120.1
Others	845.4	1016.8	1294.7	1447.6
Total Current Liabilities	2,471.4	2,538.0	3,231.7	3,613.2
Net Current Assets	5260.8	4998.8	4896.4	4800.2
Other Non current asset	176.5	181.1	188.6	192.8
Application of Funds	12087.2	13189.3	14863.6	16898.9

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	49.3	61.0	88.4	107.7
Cash EPS	65.8	77.1	106.0	126.8
BV	418.5	460.5	521.9	596.6
DPS	17.0	19.0	27.0	33.0
Cash Per Share	285.6	332.1	400.4	479.9
Operating Ratios (%)				
EBITDA Margin	20.4	20.6	22.3	23.8
PBT / Net sales	15.3	16.4	18.7	20.3
PAT Margin	15.4	15.9	18.1	19.7
Inventory days	36.6	30.0	30.0	30.0
Debtor days	6.6	5.0	5.0	5.0
Creditor days	64.3	50.0	50.0	50.0
Return Ratios (%)				
RoE	11.8	13.2	16.9	18.1
RoCE	11.3	13.3	17.2	18.2
RoC	36.0	47.9	73.9	93.3
Valuation Ratios (x)				
P/E	51.1	41.3	28.5	23.4
EV / EBITDA	34.4	27.7	19.4	15.7
EV / Net Sales	7.0	5.7	4.3	3.7
Market Cap / Sales	7.9	6.6	5.2	4.6
Price to Book Value	6.0	5.5	4.8	4.2
Solvency Ratios				
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	1.0	0.9	0.9	0.9
Quick Ratio	0.5	0.5	0.5	0.5

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Apollo Tyre (APOTYR)	209	270	Buy	14,289	5.5	11.0	15.5	37.9	19.0	13.5	6.7	7.0	5.4	7.6	6.4	8.3	6.4	5.9	7.8
Ashok Leyland (ASHLEY)	125	165	Buy	36,589	-1.1	-0.8	1.9	-117.0	-152.7	65.1	73.8	64.8	22.3	-1.9	-1.1	8.4	-4.4	-4.1	8.2
Bajaj Auto (BAAUTO)	3,486	3,460	Hold	1,00,871	157.4	165.0	181.8	22.1	21.1	19.2	16.0	15.1	13.6	18.2	19.0	20.8	18.1	18.6	20.2
Balkrishna Ind. (BALIND)	2,087	2,900	Buy	45,429	59.8	72.3	85.1	34.9	28.9	24.5	25.7	22.3	18.2	19.3	18.8	20.4	19.2	19.9	20.1
Bharat Forge (BHAFOR)	701	910	Buy	33,987	-2.7	23.3	24.4	NM	30.1	28.7	42.3	18.6	15.9	2.2	10.2	11.8	3.3	15.8	15.8
Eicher Motors (EICMOT)	2,520	2,790	Hold	68,872	49.3	61.0	88.4	51.1	41.3	28.5	34.4	27.7	19.4	11.3	13.3	17.2	11.8	13.2	16.9
Escorts (ESCORT)	2,569	2,200	Buy	24,277	71.2	57.3	71.3	36.1	44.8	36.0	18.9	19.6	16.9	18.7	10.7	10.8	16.2	9.5	10.8
Hero Moto (HERHON)	2,644	3,000	Hold	54,518	148.4	128.6	173.8	17.8	20.6	15.2	11.5	13.0	9.6	20.8	16.9	21.4	19.5	15.6	19.1
M&M (MAHMAH)	825	1,125	Buy	1,02,520	2.3	38.7	46.7	366.3	21.3	17.7	15.8	15.1	12.1	9.5	9.4	11.7	2.7	12.9	13.2
Maruti Suzuki (MARUTI)	8,362	8,760	Hold	2,59,789	140.0	114.6	217.6	59.7	72.9	38.4	40.5	40.1	22.6	4.3	4.6	10.5	8.2	6.5	11.3
Minda Industries (MININD)	962	1,115	Hold	29,275	7.6	10.7	17.1	126.6	89.5	56.2	41.5	35.2	26.9	9.1	9.9	13.5	9.2	9.5	13.3
Motherson (MOTSUM)	168	185	Hold	54,316	3.3	3.6	7.9	51.1	46.6	21.2	12.2	10.8	7.1	6.7	8.5	17.0	8.8	8.6	17.0
Tata Motors (TATMOT)	472	625	Buy	1,91,450	-35.0	-29.3	16.8	NM	-16.1	28.1	7.3	9.0	5.6	6.3	3.6	12.2	-23.6	-24.6	12.3

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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