

Steady performance amid fundamental levers to grow

About the stock: Eicher Motors (EML) is the market leader in the >250 cc premium motorcycle segment (market share ~85%+) 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 has a presence in the CV space as well (6.6% FY22 market share)
- Strong net cash positive b/s with healthy return ratios metrics

Q2FY23 Results: Eicher posted a steady performance in Q2FY23.

- Consolidated revenues were at ₹ 3,519 crore, up 3.6% QoQ
- Reported EBITDA margins came in at 23.3%, down 112 bps QoQ
- Consequent consolidated PAT was at ₹ 657 crore, up 7.6% QoQ

What should investors do? EML price has grown ~4% CAGR over the last five years (from ₹ 3,055 in November 2017), in line with the broader Nifty Auto index.

- We retain **BUY** amid broadening of customer base with launch of affordable offering in premium segment; strong new product launch pipeline, gross margin expansion on the anvil (Q3FY23) & CV cyclical recovery underway

Target Price and Valuation: We value EML at ₹ 4,310 on an SOTP basis; assigning 34x PE to RE business & 30x PE to VECV business on FY24E numbers.

Key triggers for future price performance:

- Dominant position in >250 cc segment and likely beneficiary of premiumisation trend amid healthy response to Hunter 350 (lucrative price point offering by RE at ₹ 1.5 lakh/unit, ex-showroom) & increasing global presence, we expect RE volumes to grow at CAGR of 27% over FY22-24E
- With CV cyclical upswing domestically, CV volumes at VECV are expected to grow at 25% CAGR by FY22-24E amid focus on healthy profitability
- Eyeing increasing global market presence (in mid-weight category) with new product launched in >350 cc segment like "Super Meteor 650"
- With levers in place, margins are seen at 26.1% by FY24E

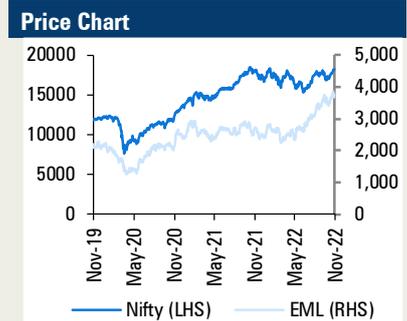
Alternate Stock Idea: In our auto OEM coverage, we also like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with target price of ₹ 1,590



Particulars	
Particular	₹ crore
Market Capitalization	1,01,121
Total Debt (FY22)	59
Cash & Investments (FY22)	8,485
EV (₹ crore)	92,695
52 week H/L (₹)	3890 / 2110
Equity capital	₹ 27.3 Crore
Face value	₹ 1

Shareholding pattern				
	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	49.2	49.2	49.2	49.2
FII	29.5	29.2	29.5	30.3
DII	9.7	10.0	10.1	10.0
Other	11.6	11.6	11.2	10.6



Recent event & key risks

- Reported steady Q2FY23 results
- **Key Risk:** (i) Slower than expected uptick in sales volume amid exciting product launches, (ii) Lower than anticipated margin recovery

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	9,797.1	9,153.6	8,720.4	10,297.8	7.9%	14,331.3	16,215.4	25.5%
EBITDA	2,903.1	2,180.3	1,781.3	2,172.2	0.0%	3,518.6	4,229.8	39.5%
EBITDA Margins (%)	29.6	23.8	20.4	21.1		24.6	26.1	
Net Profit	2,202.8	1,827.5	1,346.9	1,676.6	0.1%	2,771.4	3,406.7	42.5%
EPS (₹)	80.8	67.0	49.3	61.3		101.4	124.6	
P/E	45.8	55.2	75.1	60.3		36.5	29.7	
RoNW (%)	24.8	18.3	11.8	13.3		19.2	20.4	
RoCE(%)	27.8	17.3	11.3	13.3		20.5	21.6	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results:

- Consolidated revenues for Q2FY23 were at ₹ 3,519 crore, up 3.6% QoQ. ASPs at Royal Enfield (RE) were down 5.7% QoQ to ~₹ 1.61 lakh/unit. RE sales volumes were at ~2.08 lakh units, up 11% QoQ
- EBITDA for the quarter was at ₹ 822 crore with margins at 23.3%, down 112 bps QoQ. The company reported ~154 bps gross margin decline (amid adverse product mix) and was partially offset by operating leverage gains (primarily savings realised in employee costs as a percentage of sales, down 40 bps)
- Consolidated PAT was at ₹ 657 crore, up 7.6% QoQ. The company's share of profit from VECV JV was at ₹ 44.1 crore

Q2FY23 Earnings Conference Call highlights

- The company achieved highest ever revenue and EBITDA for a quarter amid healthy festive season and continued on its path to become global affordable brand in mid-range segment
- Eicher continues to dominate >350 cc space with >85% market share and within >125 cc (even though it is not present in 125 cc or 150 cc segments) it increased market share from 26% in H1FY22 to ~30.2% in H1FY23
- The company's recent launch Hunter 350 is witnessing a good response from consumers and is witnessing increasing trend in enquiries. Further the company achieved the milestone of producing 50,000 units of Hunter 350. Further, the company recently unveiled Super Meteor 650 at EICMA 2022 and is already getting queries about bookings
- The company during September-October 2022 witnessed highest ever festive retails for the quarter in both domestic as well as foreign markets
- The management said the company was leading mid weight segment with ~10% global market share and ranking No. 1 in UK and among top three in the European region. It has ~7%, 9%, 10% market share in America, APAC, EMEA regions respectively
- On the domestic CV industry, the management guided that >3.5 ton trucks grew 68% YoY in H1FY23 and in October 2022 grew ~15% (despite higher base). However, sales are still below FY18-19 peak
- VECV bus market share was at ~24-26% in H1FY23, LD trucks market share was at 28-30%. Also, the company was No. 1 in dealer profitability according to study conducted by FADA
- The management said first time buyers were going up post launch of Hunter 350 from 13% earlier to 18.2% now
- The management added that Hunter 350 is bringing in additional volumes and not cannibalising sales of the existing portfolio

The management said its existing product line is ready for OBD phase 2A norms and would require minor modification with minimal cost impact, whereas for Phase 2B norms, which are supposed to come in effect from April 2025 it is working upon the same

The management guided that domestic truck demand would remain healthy amid replacement demand picking up, MoM dip in sales is temporary & seasonal, whereas industry is well positioned for growth over two to three years

The management expects a decline in commodity costs to start benefiting from Q3FY23 onwards

The company took a price hike of ~₹ 3,000 in Hunter 350 model starting November 2022. Also, customers are preferring higher priced variant within Hunter series

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	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Bajaj Auto (BAAUTO)	3,731	3,910	Hold	1,07,958	38.4	38.5	43.1	15.9	17.2	18.0	18.4	24.7	28.0	21.5	18.6	16.1
Hero Moto (HERHON)	2,715	2,910	Hold	54,219	49.4	55.1	59.0	11.5	11.6	13.2	16.3	19.4	23.9	21.9	19.7	15.2
Eicher Motors (EICMOT)	3,700	4,310	Buy	1,01,121	6.0	8.5	9.7	21.1	24.6	26.1	13.3	20.5	21.6	60.3	36.5	29.7

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

We ascribe BUY rating to Eicher Motors amid launch of affordable offering in the premium motorcycle segment and assign HOLD rating to other incumbent 2-W auto OEMs in our coverage. We 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

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Total Operating Income	3519	3375	2250	56.4	3397	3.6	Topline came in ahead of estimates tracking beat on ASP's at Royal Enfield franchise
Raw Material Expenses	1912	1917	1215	57.4	1788	6.9	RM costs as a % of sales stood at 57.6%, up 150 bps QoQ vs. our estimates of 58.3%
Purchase of traded goods	114	50	82	39.6	115	-1.0	
Employee Expenses	243	251	174	40.1	247	-1.4	Employee costs came in lower than our estimate
Other expenses	429	369	310	38.5	416	2.9	Other expenses stood higher at 12.2% of sales
EBITDA	822	788	470	74.9	831	-1.1	
EBITDA Margin (%)	23.3	23.4	20.9	246 bps	24.5	-112 bps	EBITDA margins were broadly inline with our estimates amid better gross margins and limited operating leverage benefits
Other Income	149	77	109	36.8	49	205.4	
Depreciation	127	126	109	16.2	116	9.4	Depreciation came in on expected lines
Interest	7	4	3	124.8	5	35.2	
Total Tax	223	185	103	117.7	181	23.1	
PAT	657	588	373	76.0	611	7.6	PAT came in higher tracking higher than estimates sales amidst broadly inline margin performance
Key Metrics							
Royal Enfield ASP (₹)	1,61,442	1,60,040	1,74,745	-7.6	1,71,165	-5.7	ASP's at Royal Enfield came in tad higher than our estimates at ₹ 1.61 lakh/unit, down 5.7% QoQ
VECV ASP (₹ lakhs)	23.9	22.6	20.8	14.8	22.6	6.0	ASP's at the CV segment stood higher 6% QoQ

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	14,121	14,331	1.5	15,638	16,215	3.7	Marginally tweaked topline estimates. We expect topline at the company to grow at a CAGR of 25.5% over FY22-24E
EBITDA	3,503	3,519	0.4	4,076	4,230	3.8	
EBITDA Margin (%)	24.8	24.6	-26 bps	26.1	26.1	2 bps	Marginally tweaked margin estimates
PAT	2,784	2,771	-0.5	3,337	3,407	2.1	
EPS (₹)	102	101	-0.5	122	125	2.1	Earnings remain broadly unchanged. We expect earnings to grow at a CAGR of 42.5% over FY22-24E

Source: ICICI Direct Research

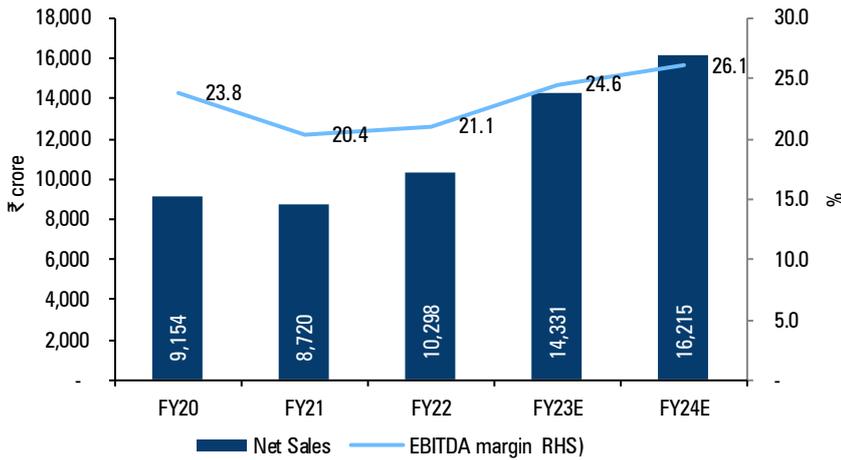
Exhibit 4: Assumptions

	FY19	FY20	FY21	FY22	Current		Earlier		Comments
					FY23E	FY24	FY23E	FY24E	
Royal Enfield volumes	8,26,098	6,95,839	6,12,060	6,02,268	8,47,447	9,74,564	8,19,406	9,42,317	Upgraded our volume estimates at Royal Enfield tracking robust volume prints in Sep-Oct'22. We expect total RE sales volume to grow at a CAGR of 27% over FY22-24E
Royal Enfield ASP/unit (₹)	1,17,603	1,29,465	1,40,044	1,65,758	1,63,590	1,63,927	1,68,047	1,63,502	Lowered ASP's estimates building in greater volumes of more affordable. Hunter 350
VECV volumes	72,860	48,786	41,265	57,077	74,202	89,043	71,333	85,599	Marginally upgraded our sales volumes estimates at VECV. We expect 25% sales volume CAGR over FY22-24E in this space

Source: ICICI Direct Research

Financial story in charts

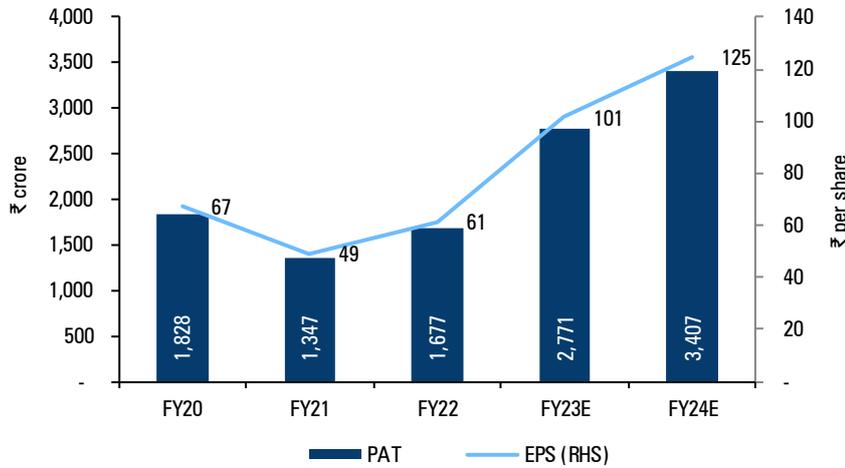
Exhibit 5: Topline and EBITDA margin trend



We expect sales to grow at 25.5% CAGR in FY22-24E amid ~27% RE sales volume CAGR. EBITDA margins are seen at 26.1% in that time frame

Source: Company, ICICI Direct Research

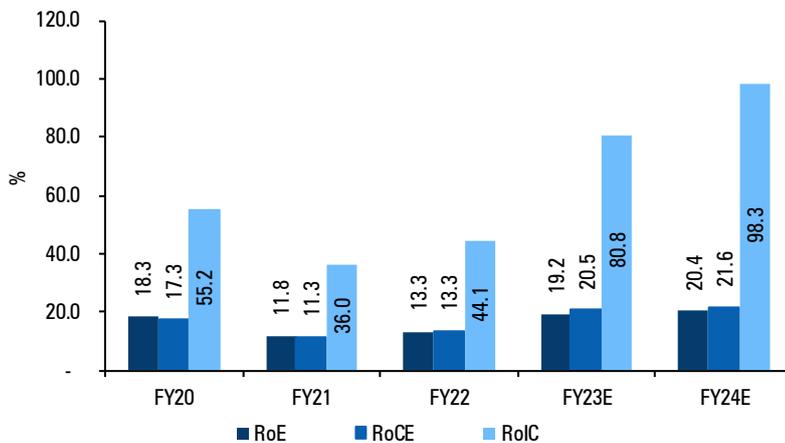
Exhibit 6: PAT and EPS trend



PAT at Eicher Motors is seen growing at 42.5% CAGR over FY22-24E

Source: Company, ICICI Direct Research

Exhibit 7: Return ratios trend



RoCE profile at Eicher Motors is seen improving to ~20% levels gradually by FY24E. RoIC at Eicher Motors are seen comfortable placed over 75% for FY23-24E, given high cash & investments on its books as a percentage of network

Source: Company, ICICI Direct Research

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	45.8	32.8	24.8	27.8
FY20	9,153.6	(6.6)	67.0	(17.0)	55.2	43.3	18.3	17.3
FY21	8,720.4	(4.7)	49.3	(26.5)	75.1	52.5	11.8	11.3
FY22	10,297.8	18.1	61.3	24.4	60.3	42.7	13.3	13.3
FY23E	14,331.3	39.2	101.4	65.3	36.5	25.8	19.2	20.5
FY24E	16,215.4	13.1	124.6	22.9	29.7	20.9	20.4	21.6

Source: Company, ICICI Direct Research

Exhibit 9: SOTP valuation

	Amount	Remarks
Two-wheeler business-Royal Enfield		
FY24E EPS (₹)	119	
Target PE multiple(x)	34.0	Valued RE business at 34x P/E
Per share value (₹)	4,040	
Target market cap (₹ crore)	1,10,137	
CV business-VECV		
FY24E PAT (₹ crore)	447	
Target PE multiple(x)	30.0	Valued VECV business at 30x P/E
Target market cap (₹ crore)	13,410	
Contribution towards EML	0.54	EML has 54.4% stake in VECV
Target market cap towards EML (₹ crore)	7,295	
Per share value-VECV Eicher (₹)	270	
Total target market cap (₹ crore)	1,17,433	
Per share value (₹)	4,310	

Source: ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	8,720.4	10,297.8	14,331.3	16,215.4
Growth (%)	-4.7	18.1	39.2	13.1
Raw Material Expenses	4,846.7	5,616.7	7,803.4	8,907.5
Employee Expenses	843.3	821.0	985.2	1,063.6
Other Expenses	983.1	1,349.4	1,648.7	1,695.0
Total Operating Expenditure	6,939.1	8,125.6	10,812.7	11,985.6
EBITDA	1781.3	2172.2	3518.6	4229.8
Growth (%)	-18.3	21.9	62.0	20.2
Depreciation	450.7	451.9	501.6	567.5
Interest	16.5	18.8	20.7	18.6
Other Income	453.2	440.8	475.5	585.7
PBT	1,767.3	2,142.3	3,471.9	4,229.4
Others	0.0	0.0	0.0	0.0
Total Tax	451.5	525.9	877.9	1,065.8
PAT	1346.9	1676.6	2771.4	3406.7
Growth (%)	-26.3	24.5	65.3	22.9
EPS (₹)	49.3	61.3	101.4	124.6

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	1,346.9	1,676.6	2,771.4	3,406.7
Add: Depreciation	450.7	451.9	501.6	567.5
(Inc)/dec in Current Assets	-990.5	-570.1	-648.6	-410.3
Inc/(dec) in CL and Provisions	597.2	453.1	930.1	506.7
CF from operating activities	951.1	1570.7	3078.9	3485.0
(Inc)/dec in Investments	1,880.8	-3,786.7	-1,700.0	-2,100.0
(Inc)/dec in Fixed Assets	-508.7	-633.5	-500.0	-500.0
Others	433.2	346.8	412.3	529.5
CF from investing activities	1805.3	-4073.4	-1787.7	-2070.5
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	13.0	-98.6	-10.0	-10.0
Dividend paid & dividend tax	-464.6	-574.1	-929.6	-1,148.3
Others	574.9	67.5	0.0	0.0
CF from financing activities	123.3	-605.2	-939.6	-1158.3
Net Cash flow	2,879.7	-3,108.0	351.6	256.3
Opening Cash	2,950.5	5,830.2	2,722.2	3,073.8
Closing Cash	5830.2	2722.2	3073.8	3330.1

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	27.3	27.3	27.3	27.3
Reserve and Surplus	11,410.8	12,580.7	14,422.5	16,681.0
Total Shareholders funds	11438.1	12608.0	14449.8	16708.3
Total Debt	157.4	58.8	48.8	38.8
Deferred Tax Liability	221.5	220.1	220.1	220.1
Others	270.2	389.6	404.9	412.1
Total Liabilities	12087.2	13276.5	15123.6	17379.3
Assets				
Gross Block	4,176.2	4,619.2	5,174.0	5,774.0
Less: Acc Depreciation	1,742.9	2,194.8	2,696.4	3,263.9
Net Block	2433.3	2424.4	2477.6	2510.1
Capital WIP	314.3	504.8	450.0	350.0
Total Fixed Assets	2,747.6	2,929.2	2,927.6	2,860.1
Investments	3,902.2	7,720.6	9,470.6	11,620.6
Inventory	874.6	1,132.4	1,570.6	1,777.0
Debtors	158.2	302.0	392.6	444.3
Others	869.3	1,037.7	1,157.6	1,309.8
Cash	5830.2	2722.2	3073.8	3330.1
Total Current Assets	7,732.2	5,194.4	6,194.6	6,861.2
Creditors	1,535.8	1,788.1	2,355.8	2,665.5
Provisions	90.2	150.7	198.5	224.6
Others	845.4	985.8	1300.3	1471.2
Total Current Liabilities	2,471.4	2,924.5	3,854.6	4,361.3
Net Current Assets	5260.8	2269.9	2340.0	2499.8
Other Non current asset	176.5	356.7	385.3	398.7
Application of Funds	12087.2	13276.5	15123.6	17379.3

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	49.3	61.3	101.4	124.6
Cash EPS	65.8	77.9	119.7	145.4
BV	418.5	461.2	528.5	611.1
DPS	17.0	21.0	34.0	42.0
Cash Per Share	285.6	310.3	385.4	471.6
Operating Ratios (%)				
EBITDA Margin	20.4	21.1	24.6	26.1
PBT / Net sales	15.3	16.7	21.1	22.6
PAT Margin	15.4	16.3	19.3	21.0
Inventory days	36.6	40.1	40.0	40.0
Debtor days	6.6	10.7	10.0	10.0
Creditor days	64.3	63.4	60.0	60.0
Return Ratios (%)				
RoE	11.8	13.3	19.2	20.4
RoCE	11.3	13.3	20.5	21.6
RoIC	36.0	44.1	80.8	98.3
Valuation Ratios (x)				
P/E	75.1	60.3	36.5	29.7
EV / EBITDA	52.5	42.7	25.8	20.9
EV / Net Sales	10.7	9.0	6.3	5.4
Market Cap / Sales	11.6	9.8	7.1	6.2
Price to Book Value	8.8	8.0	7.0	6.1
Solvency Ratios				
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	1.0	1.0	1.0	1.0
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)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Apollo Tyre (APOTYR)	295	335	Buy	18,734	10.1	16.5	25.0	29.3	17.8	11.8	9.1	7.0	5.3	6.3	9.4	13.0	5.4	8.4	11.7
Ashok Leyland (ASHLEY)	147	180	Buy	43,028	1.8	1.7	4.8	79.6	86.0	30.8	44.4	27.1	15.3	2.1	7.6	17.7	0.2	6.5	17.1
Bajaj Auto (BAAUTO)	3,731	3,910	Hold	1,07,958	173.4	200.2	232.2	21.5	18.6	16.1	16.5	13.6	11.6	18.4	24.7	28.0	17.6	22.6	25.4
Balkrishna Ind. (BALIND)	1,888	2,550	Buy	36,498	73.0	65.3	98.3	25.9	28.9	19.2	19.3	20.2	13.3	15.9	13.1	19.7	20.4	16.0	20.4
Bharat Forge (BHAFOR)	880	900	Buy	40,970	23.1	19.8	28.3	38.0	44.5	31.1	21.9	21.3	16.7	9.6	9.2	12.2	15.2	12.7	16.1
Eicher Motors (EICMOT)	3,700	4,310	Buy	1,01,121	61.3	101.4	124.6	60.3	36.5	29.7	42.7	25.8	20.9	13.3	20.5	21.6	13.3	19.2	20.4
Escorts Kubota (ESCORT)	2,023	2,330	Buy	26,686	58.0	47.8	72.5	34.9	42.3	27.9	23.0	26.4	18.9	10.4	7.8	10.0	9.7	8.4	10.4
Hero Moto (HERHON)	2,715	2,910	Hold	54,219	123.8	138.0	178.2	21.9	19.7	15.2	13.6	11.5	9.1	16.3	19.4	23.9	15.7	16.8	20.6
M&M (MAHMAH)	1,296	1,590	Buy	1,61,119	41.4	48.7	60.6	31.3	26.6	21.4	22.2	17.8	14.0	9.3	11.4	13.9	13.1	13.5	14.9
Maruti Suzuki (MARUTI)	9,109	11,200	Buy	2,75,165	124.7	234.9	350.2	73.1	38.8	26.0	40.9	22.0	15.6	5.1	12.5	16.7	7.0	12.0	16.0
Uno Minda (MININD)	550	650	Buy	31,446	6.2	10.4	14.4	88.4	53.1	38.2	36.2	27.5	21.4	10.2	13.5	16.9	10.3	14.9	17.4
Tata Motors (TATMOT)	415	465	Hold	1,58,904	-29.9	-22.3	8.2	-13.9	-18.6	50.6	6.9	7.3	4.8	4.8	4.4	11.9	-23.5	-21.3	7.2

Source: Company, ICICI Direct Research

RATING RATIONALE

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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