

November 11, 2022

Q2FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	4,190		4,225	
Sales (Rs. m)	1,68,922	1,92,180	1,68,879	1,92,215
% Chng.	-	-	-	-
EBITDA (Rs. m)	43,801	51,889	44,297	52,282
% Chng.	(1.1)	(0.8)	-	-
EPS (Rs.)	139.3	170.8	140.8	172.1
% Chng.	(1.1)	(0.8)	-	-

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	1,02,978	1,41,599	1,68,922	1,92,180
EBITDA (Rs. m)	21,723	33,984	43,801	51,889
Margin (%)	21.1	24.0	25.9	27.0
PAT (Rs. m)	16,766	27,526	38,061	46,675
EPS (Rs.)	61.3	100.7	139.3	170.8
Gr. (%)	24.5	64.2	38.3	22.6
DPS (Rs.)	21.0	20.0	25.0	25.0
Yield (%)	0.6	0.5	0.7	0.7
RoE (%)	13.9	20.1	23.2	23.4
RoCE (%)	14.2	21.1	23.6	23.1
EV/Sales (x)	9.0	6.4	5.2	4.4
EV/EBITDA (x)	42.7	26.6	20.0	16.2
PE (x)	60.3	36.7	26.6	21.7
P/BV (x)	8.0	6.8	5.6	4.6

Key Data

[EICH.BO](#) | [EIM IN](#)

52-W High / Low	Rs.3,890 / Rs.2,110
Sensex / Nifty	60,614 / 18,028
Market Cap	Rs.1,012bn / \$ 12,370m
Shares Outstanding	273m
3M Avg. Daily Value	Rs.3071.06m

Shareholding Pattern (%)

Promoter's	49.21
Foreign	30.25
Domestic Institution	10.05
Public & Others	10.48
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.8	53.2	34.7
Relative	0.3	37.4	34.2

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Eicher Motors (EIM IN)

Rating: BUY | CMP: Rs3,701 | TP: Rs4,190

High RM cost and lower ASPs hamper margins

Quick Pointers:

- Standalone EBITDA margin contracted 60bps QoQ due to lower ASPs (-6% QoQ) and higher RM costs (+120bps QoQ).
- ~55k units of Hunter 350 produced till date (~35.3k units sold domestically in Aug-Sep22); encouraging response from new customers and first-time buyers.

Eicher's 2QFY23 consolidated EBITDA margin at 23.3% came below our estimates (PLe: 24.9%) and contracted 110bps QoQ given (1) lower-than-expected ASPs at RE, after adding Hunter to the mix (Rs 163.5k, -6% QoQ) and (2) higher commodity cost (+150bps QoQ). Hunter 350 aided in expansion of both volumes (~55k units produced till date, domestic sales of ~35.3k units in Aug-Sep22) and customers (new customers and first-time buyers), with almost nil cannibalization for old models. Management sighted strong product launch pipeline and remains confident of margin trajectory led by (1) improved volumes, (2) commodity cost softening, (3) new models like Meteor 650 contributing to the mix and (4) increase in exports.

Eicher Motors remains our preferred pick in the 2W space as we anticipate (1) volume growth from new product launches, (2) rising export volumes from channel expansion (~21% export volume CAGR over FY22-25E) and (3) margin expansion (600bps over FY22-25E) led by improved operating leverage, better realization from export markets and reduction in raw material costs. We trim our EBITDA margin estimates by 20/30/20bps for FY23/24/25E to factor in moderation in ASPs. Maintain 'BUY' with a revised SoTP based target price of Rs 4,190 (at 28x Sep-24E standalone EPS and 12x Sep-24E EV/EBITDA for VECV).

2QFY23 financials: (1) Standalone: Revenue at Rs 33.9bn (+4.6% QoQ) came 6% below our estimates largely owing to a 6% QoQ decline in ASPs (Rs 163.5k) due to change in product mix. RE's volumes for the quarter grew by 11% QoQ to 207.7k units. EBITDA margin at 23.7% (PLe: 24.9%) contracted 60bps QoQ owing to 120bps increase in RM costs. Higher tax rate at 25.8% (24.1% QoQ) led to a lower-than-expected PAT of Rs 6.1bn. **(2) Consolidated:** Revenue at Rs 35.1bn (PLe: Rs 36bn) grew 3.6% QoQ. EBITDA margin came in at 23.3% (contracted 110bps QoQ) vs PLe: 4.9% and PAT came in at Rs 6.6bn, +7.6% QoQ.

Key takeaways: Hunter gaining good traction: Newly launched Hunter 350 has received encouraging acceptance from new customers and first-time buyers (~18.2% of sales vs 13% earlier). RE has produced ~55k units of Hunter till date (~35.3k units sold domestically in Aug-Sep22). Management highlighted that cannibalization from Hunter is largely nil. Customer profile for Hunter – 18-25 years: 40%, 26-30 years: 43%. Its Metro variant (Rs 1.63 lakhs) is receiving better response than the Retro one (Rs 1.49 lakhs).

Positive commentary on margins: EBITDA margin contracted 120bps QoQ in 2Q largely led by decline in ASPs after addition of Hunter to the mix. Also, benefit from commodity cost softening has not flowed into 2Q performance and should be visible from 3Q. Going ahead, management expects healthy margin performance led by increase in volumes, new models like Meteor 650 contributing to the mix and increase in exports.

Export market demand to grow: RE's YTD exports are up 48% YoY. 650cc variant of Meteor is recently launched, which will also service export market. Company will start exports for Hunter from Nov-22 in APAC markets. It is now amongst top-3 players in Europe. Market share: 7% in US, 9% in APAC, 10% in EMEA.

VECV: Management's strategy is to maintain market share in LMD (28-30% share) and Bus (24-25% share) segment, along with increasing share in Heavy duty segment (8.2% share).

Exhibit 1: Q1FY23 Result Overview – Standalone (Rs mn)

Y/e March	2QFY23	2QFY22	YoY gr.	1QFY23	QoQ gr.	1HFY23	1HFY22	YoY gr.
Net Revenues	33,972	21,819	55.7%	32,479	4.6%	66,451	40,897	62.5%
Raw Materials	19,873	12,880	54.3%	18,614	6.8%	38,487	24,213	59.0%
% of Net Sales	58.5%	59.0%		57.3%		57.9%	59.2%	
Personnel	2,277	1,629	39.7%	2,323	-2.0%	4,600	3,753	22.6%
% of Net Sales	6.7%	7.5%		7.2%		6.9%	9.2%	
Manufacturing & Other Exp	3,786	2,883	31.3%	3,660	3.5%	7,446	5,159	44.3%
% of Net Sales	11.1%	13.2%		11.3%		11.2%	12.6%	
Total Expenditure	25,936	17,392	49.1%	24,597	5.4%	50,533	33,126	52.5%
EBITDA	8,036	4,427	81.5%	7,882	2.0%	15,919	7,772	104.8%
EBITDA Margin (%)	23.7%	20.3%		24.3%		24.0%	19.0%	
Depreciation	1,251	1,082	15.6%	1,142	9.5%	2,393	2,187	9.4%
EBIT	6,786	3,345	102.9%	6,740	0.7%	13,526	5,585	142.2%
Interest Expenses	34	16	119.9%	25	36.7%	59	35	72.2%
Non-operating income	1,534	1,123	36.6%	928	65.3%	2,462	2,462	0.0%
PBT	8,286	4,452	86.1%	7,643	8.4%	15,929	8,013	98.8%
Tax-Total	2,137	1,018	109.8%	1,841	16.1%	3,978	1,907	108.6%
Tax Rate (%) - Total	25.8%	22.9%		24.1%		25.0%	23.8%	
PAT	6,149	3,434	79.1%	5,802	6.0%	11,950	6,106	95.7%
Adj. PAT	6,149	3,434	79.1%	5,802	6.0%	11,950	6,106	95.7%
PAT Margin	18.1%	15.7%		17.9%		18.0%	14.9%	

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	2QFY23	2QFY22	YoY gr.	1QFY23	QoQ gr.	1HFY23	1HFY22	YoY gr.
Sales Volume (nos)	2,07,764	1,23,427	68.3%	1,87,205	11.0%	3,94,969	2,47,067	59.9%
Material cost / vehicle	1,63,512	1,76,777	-7.5%	1,73,496	-5.8%	1,68,244	1,65,530	1.6%
Gross Profit / vehicle	95,651	1,04,352	-8.3%	99,432	-3.8%	97,443	98,002	-0.6%
Employee cost / vehicle	67,861	72,425	-6.3%	74,065	-8.4%	70,802	67,528	4.8%
Other expenses / vehicle	10,957	13,200	-17.0%	12,410	-11.7%	11,646	15,191	-23.3%
EBITDA/vehicle	18,224	23,360	-22.0%	19,550	-6.8%	18,852	20,882	-9.7%
Net Profit/vehicle	38,680	35,865	7.9%	42,104	-8.1%	40,303	31,455	28.1%
Net Realisation/Vehicle	29,594	27,819	6.4%	30,991	-4.5%	30,256	24,713	22.4%

Source: Company, PL

Exhibit 3: Q1FY23 Result Overview – Consolidated (Rs mn)

Y/e March	2QFY23	2QFY22	YoY gr.	1QFY23	QoQ gr.	1HFY23	1HFY22	YoY gr.
Net Revenues	35,194	22,496	56.4%	33,975	3.6%	69,169	42,238	63.8%
Raw Materials	20,256	12,964	56.3%	19,030	6.4%	39,286	24,381	61.1%
<i>% of Net Sales</i>	<i>57.6%</i>	<i>57.6%</i>		<i>56.0%</i>		<i>56.8%</i>	<i>57.7%</i>	
Personnel	2,435	1,738	40.1%	2,470	-1.4%	4,904	3,972	23.5%
<i>% of Net Sales</i>	<i>6.9%</i>	<i>7.7%</i>		<i>7.3%</i>		<i>7.1%</i>	<i>9.4%</i>	
Manufacturing & Other Exp	4,287	3,095	38.5%	4,165	2.9%	8,452	5,558	52.1%
<i>% of Net Sales</i>	<i>12.2%</i>	<i>13.8%</i>		<i>12.3%</i>		<i>12.2%</i>	<i>13.2%</i>	
Total Expenditure	26,978	17,797	51.6%	25,664	5.1%	52,642	33,910	55.2%
EBITDA	8,216	4,699	74.9%	8,311	-1.1%	16,527	8,328	98.4%
<i>EBITDA Margin (%)</i>	<i>23.3%</i>	<i>20.9%</i>		<i>24.5%</i>		<i>23.9%</i>	<i>19.7%</i>	
Depreciation	1,271	1,094	16.2%	1,162	9.4%	2,433	2,211	10.1%
EBIT	6,945	3,604	92.7%	7,149	-2.9%	14,094	6,118	130.4%
Interest Expenses	71	31	124.8%	52	35.2%	123	96	28.2%
Non-operating income	1,486	1,086	36.8%	487	205.4%	1,973	2,307	-14.5%
PBT	8,361	4,659	79.4%	7,583	10.3%	15,944	8,328	91.4%
Tax-Total	2,233	1,026	117.7%	1,814	23.1%	4,047	1,930	109.8%
<i>Tax Rate (%) - Total</i>	<i>26.7%</i>	<i>22.0%</i>		<i>23.9%</i>		<i>25.4%</i>	<i>23.2%</i>	
PAT	6,127	3,634	68.6%	5,769	6.2%	11,896	6,399	85.9%
Minority interest / Share in profit	441	98	349.3%	338	30.6%	779	(296)	-363.4%
Profit after MI / Share of profit	6,569	3,732	76.0%	6,107	7.6%	12,675	6,103	107.7%
Adj. PAT	6,569	3,732	76.0%	6,107	7.6%	12,675	6,103	107.7%
<i>PAT Margin</i>	<i>18.7%</i>	<i>16.6%</i>		<i>18.0%</i>		<i>18.3%</i>	<i>14.4%</i>	

Source: Company, PL

Exhibit 4: Q1FY23 Result Overview - VECV (Rs mn)

Y/e March	2QFY23	2QFY22	YoY gr.	1QFY23	QoQ gr.	1HFY23	1HFY22	YoY gr.
Volumes (in units)	17,616	15,134	16.4%	17,469	0.8%	35,085	20,940	67.6%
Net ASP (Rs/veh)	23,92,144	20,83,388	14.8%	22,51,989	6.2%	23,22,360	22,88,443	1.5%
Net Sales	42,140	31,530	33.7%	39,340	7.1%	81,480	47,920	70.0%
EBITDA	2,490	1,700	46.5%	2,070	20.3%	4,560	1,880	142.6%
<i>EBITDA margin (%)</i>	<i>5.9%</i>	<i>5.4%</i>		<i>5.3%</i>		<i>5.6%</i>	<i>3.9%</i>	
PAT	810	180	350.0%	620	30.6%	1,430	(540)	-364.8%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	1,02,978	1,41,599	1,68,922	1,92,180
YoY gr. (%)	18.1	37.5	19.3	13.8
Cost of Goods Sold	59,557	81,561	96,792	1,08,005
Gross Profit	43,422	60,038	72,130	84,175
Margin (%)	42.2	42.4	42.7	43.8
Employee Cost	8,210	10,054	11,487	13,068
Other Expenses	13,489	16,001	16,842	19,218
EBITDA	21,723	33,984	43,801	51,889
YoY gr. (%)	22.0	56.4	28.9	18.5
Margin (%)	21.1	24.0	25.9	27.0
Depreciation and Amortization	4,519	4,946	5,088	5,647
EBIT	17,203	29,037	38,713	46,241
Margin (%)	16.7	20.5	22.9	24.1
Net Interest	188	220	200	182
Other Income	4,408	5,082	7,286	9,591
Profit Before Tax	21,424	33,899	45,799	55,651
Margin (%)	20.8	23.9	27.1	29.0
Total Tax	5,259	8,475	10,992	13,356
Effective tax rate (%)	24.5	25.0	24.0	24.0
Profit after tax	16,165	25,425	34,807	42,295
Minority interest	-	-	-	-
Share Profit from Associate	602	2,101	3,253	4,381
Adjusted PAT	16,766	27,526	38,061	46,675
YoY gr. (%)	-	-	-	-
Margin (%)	16.3	19.4	22.5	24.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	16,766	27,526	38,061	46,675
YoY gr. (%)	24.5	64.2	38.3	22.6
Margin (%)	16.3	19.4	22.5	24.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Equity Shares O/s (m)	273	273	273	273
EPS (Rs)	61.3	100.7	139.3	170.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	44,918	50,918	56,918	62,918
Tangibles	44,918	50,918	56,918	62,918
Intangibles	-	-	-	-
Acc: Dep / Amortization	20,675	25,622	30,710	36,357
Tangibles	20,675	25,622	30,710	36,357
Intangibles	-	-	-	-
Net fixed assets	24,243	25,296	26,208	26,561
Tangibles	24,243	25,296	26,208	26,561
Intangibles	-	-	-	-
Capital Work In Progress	5,048	5,348	5,648	5,948
Goodwill	-	-	-	-
Non-Current Investments	19,579	21,621	23,899	26,657
Net Deferred tax assets	(2,201)	(2,223)	(2,245)	(2,267)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	57,626	60,585	63,307	65,549
Inventories	11,324	8,923	10,644	12,110
Trade receivables	3,020	1,940	2,314	2,633
Cash & Bank Balance	27,225	46,338	72,641	1,07,892
Other Current Assets	5,125	5,381	5,650	5,933
Total Assets	1,62,010	1,85,221	2,21,178	2,65,344
Equity				
Equity Share Capital	273	273	273	273
Other Equity	1,25,807	1,47,866	1,79,094	2,18,937
Total Network	1,26,080	1,48,139	1,79,368	2,19,210
Non-Current Liabilities				
Long Term borrowings	588	618	649	681
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	17,881	17,845	21,289	24,220
Other current liabilities	15,260	16,396	17,628	18,965
Total Equity & Liabilities	1,62,010	1,85,221	2,21,178	2,65,344

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	22,025	36,000	49,053	60,031
Add. Depreciation	4,519	4,946	5,088	5,647
Add. Interest	188	220	200	182
Less Financial Other Income	4,408	5,082	7,286	9,591
Add. Other	(4,408)	(5,082)	(7,286)	(9,591)
Op. profit before WC changes	22,324	36,085	47,055	56,269
Net Changes-WC	(1,779)	3,356	1,234	1,006
Direct tax	(5,274)	(8,453)	(10,970)	(13,334)
Net cash from Op. activities	15,272	30,988	37,319	43,942
Capital expenditures	(6,334)	(6,300)	(6,300)	(6,300)
Interest / Dividend Income	-	-	-	-
Others	4,091	3,040	5,009	6,833
Net Cash from Invt. activities	(2,243)	(3,260)	(1,291)	533
Issue of share cap. / premium	672	-	-	-
Debt changes	(986)	29	31	32
Dividend paid	(5,739)	(5,466)	(6,833)	(6,833)
Interest paid	(188)	(220)	(200)	(182)
Others	-	-	-	-
Net cash from Fin. activities	(6,240)	(5,657)	(7,002)	(6,982)
Net change in cash	6,788	22,071	29,026	37,493
Free Cash Flow	8,938	24,688	31,019	37,642

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	28,807	31,933	33,975	35,194
YoY gr. (%)	1.9	8.6	72.1	56.4
Raw Material Expenses	17,200	17,971	19,030	20,256
Gross Profit	11,607	13,962	14,945	14,938
Margin (%)	40.3	43.7	44.0	42.4
EBITDA	5,824	7,571	8,311	8,216
YoY gr. (%)	(13.3)	19.3	129.0	74.9
Margin (%)	20.2	23.7	24.5	23.3
Depreciation / Depletion	1,114	1,194	1,162	1,271
EBIT	4,709	6,376	7,149	6,945
Margin (%)	16.3	20.0	21.0	19.7
Net Interest	61	31	52	71
Other Income	921	1,180	487	1,486
Profit before Tax	5,570	7,525	7,583	8,361
Margin (%)	19.3	23.6	22.3	23.8
Total Tax	1,368	1,962	1,814	2,233
Effective tax rate (%)	24.6	26.1	23.9	26.7
Profit after Tax	4,202	5,564	5,769	6,127
Minority interest	-	-	-	-
Share Profit from Associates	359	538	338	441
Adjusted PAT	4,561	6,101	6,107	6,569
YoY gr. (%)	(14.4)	16.0	157.5	76.0
Margin (%)	15.8	19.1	18.0	18.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,561	6,101	6,107	6,569
YoY gr. (%)	(14.4)	16.0	157.5	76.0
Margin (%)	15.8	19.1	18.0	18.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Avg. Shares O/s (m)	273	273	273	273
EPS (Rs)	16.7	22.4	22.4	24.1

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	61.3	100.7	139.3	170.8
CEPS	77.9	118.8	157.9	191.4
BVPS	461.3	542.0	656.3	802.1
FCF	32.7	90.3	113.5	137.7
DPS	21.0	20.0	25.0	25.0
Return Ratio(%)				
RoCE	14.2	21.1	23.6	23.1
ROIC	35.6	70.7	103.5	132.6
RoE	13.9	20.1	23.2	23.4
Balance Sheet				
Net Debt : Equity (x)	(0.7)	(0.7)	(0.8)	(0.8)
Net Working Capital (Days)	(60)	(55)	(52)	(50)
Valuation(x)				
PER	60.3	36.7	26.6	21.7
P/B	8.0	6.8	5.6	4.6
P/CEPS	47.5	31.1	23.4	19.3
EV/EBITDA	42.7	26.6	20.0	16.2
EV/Sales	9.0	6.4	5.2	4.4
Dividend Yield (%)	0.6	0.5	0.7	0.7

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Royal volumes (in units)	6,02,268	8,28,800	9,42,600	10,23,780
% YoY	(2)	38	14	9
VECV volumes (in units)	57,077	72,936	83,877	92,264
% YoY	38	28	15	10

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	4,225	3,548
2	24-Sep-22	BUY	4,200	3,688
3	10-Aug-22	BUY	3,400	3,155
4	08-Jul-22	BUY	3,150	2,944
5	15-May-22	BUY	2,950	2,433
6	11-Apr-22	BUY	3,071	2,541
7	15-Feb-22	BUY	3,106	2,565
8	12-Jan-22	BUY	3,398	2,480

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	200	156
2	Bajaj Auto	Hold	3,865	3,571
3	Bharat Forge	BUY	875	707
4	CEAT	Accumulate	1,775	1,617
5	Eicher Motors	BUY	4,225	3,548
6	Endurance Technologies	BUY	1,600	1,394
7	Exide Industries	UR	-	157
8	Hero Motocorp	BUY	3,175	2,598
9	InterGlobe Aviation	Accumulate	2,015	1,798
10	Mahindra & Mahindra	BUY	1,500	1,262
11	Maruti Suzuki	BUY	10,230	9,493
12	Tata Motors	BUY	520	433
13	TVS Motors	BUY	1,275	1,114

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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