November 10, 2022

RESULT REPORT Q2 FY23 | Sector: Automobile

Eicher Motors (EIM)

Balance approach for volumes and margins

Valuation and View

Eicher Motors (EIM) 2QFY23 reported consolidated results were in-line at Revenues/PAT while EBITDA was ~5% below our estimates at Rs8.2b (est Rs8.6b) with margins contracting 110bp QoQ at 23.3% (est 24.5%). This was largely due to ~8% miss in EBITDA of S/A performance as 1) ASP came in lower at Rs164k/unit (est Rs170k/unit) an

d 2) S/A gross margins came in lower at 41.5% (est 43.3%) led by product mix and RM inflation. EIM's margins expansion to be gradual as impact of weaker product mix (increasing contribution from Hunter) to partially offset by 1) price hikes of Rs3k/unit for Hunter in Nov'22, 2) + operating leverage due to higher volumes and 3) increased share of exports as Hunter will be launched in exports markets from the current month.

We cut FY23/24 consol EPS by 6%/8% to factor in for weaker mix related gross margins contraction and new product related launches ahead. After witnessing severe headwinds over last 24 months, we expect volumes to grow ~24% CAGR over FY22-24E (v/s -7% CAGR in FY20-22). Recent launches could be an inflection point for RE as a completely new and improved platform could drive a revival. VECV would see a cyclical recovery in volume and profit, in turn boosting consolidated PAT CAGR to 23% over FY23-25E. Stock trades at 35x/27x FY23E/FY24E consol EPS. We maintain Buy with SoTP based revised TP of Rs4,323 as we roll-forward our TP to Mar-25. We value S/A business at 27x (~10% discount to 10yr LPA). EIM is one of our preferred picks from 2W OEM space.

Result Highlights– Consol in-line; S/A EBITDA 8% below est led by lower ASPs and gross margins

- Revenues grew 3.6% QoQ (+56.4% YoY) at Rs35.2b. However, S/A revenues were lower ~4% at Rs34b, led by lower ASPs at Rs163.5/unit (-6% QoQ, est Rs170k/unit).
- Gross margins declined by 160bp QoQ at 42% (est at 43%). This was resulted due to increase in RM Cost by 6.4% QoQ at Rs 20.25b (est at Rs20.2b)
- This resulted EBITDA fall of ~1% QoQ at Rs8.2b (est at Rs8.6b). Consequently, margins reduced ~110bp QoQ at 23.3% (est at 24.5%).
- Higher other income at Rs 1.48b (205% QoQ, est at Rs1b) resulted in Adj. PAT increase at Rs6.5b (7.6% QoQ, est at Rs6.4b).
- VECV - 2QFY23 Revenues at Rs42.15b (v/s Rs31.53b YoY), EBITDA at Rs2.49b with margins of ~6% (vs Rs1.07b) and PAT at Rs810m v/s Rs170m YoY.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	35,194	35,325	35,307	-0.4	-0.3	EIM 2QFY23 results are broadly in-line at consol while miss on margins at S/A.
EBITDA	8,216	8,641	8,425	-4.9	-2.5	
EBITDA margins %	23.3	24.5	23.9	-100bp	-50bp	
Adj PAT	6,569	6,463	6,681	1.6	-1.7	

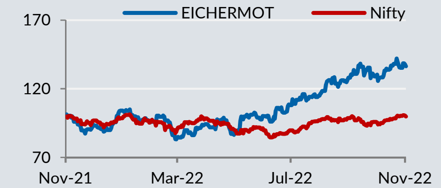
Source: Company, YES Sec

Reco	:	BUY
CMP	:	Rs 3,701
Target Price	:	Rs 4,323
Potential Return	:	+16.8%

Stock data (as on November 10, 2022)

Nifty	18,028
52 Week h/l (Rs)	3,890 / 2,160
Market cap (Rs/USD mn)	10,12,019 / 12,371
Outstanding Shares (mn)	273
6m Avg t/o (Rs mn):	2,576
Div yield (%):	0.6
Bloomberg code:	EIM IN
NSE code:	EICHERMOT

Stock performance



	1M	3M	1Y
Absolute return	4.8%	18.1%	35.6%

Shareholding pattern (As of Sept'22 end)

Promoter	49.2%
FII+DII	39.6%
Others	10.5%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	4,323	4216

Δ in earnings estimates

	FY23e	FY24e
EPS (New)	105.1	136.4
EPS (Old)	112.5	148.2
% change	(6.6%)	(8.0%)

Financial Summary

Y/E Mar (Rs b)	2022	2023E	2024E
Net Income	103.0	138.1	167.6
EBITDA	21.7	33.7	44.3
Adj. PAT	16.8	28.7	37.3
Adj. EPS (INR)	61.3	105.1	136.4
EPS Gr. (%)	24.4	71.3	29.8
BV/Sh. (INR)	461.2	544.2	655.6
RoE (%)	13.9	20.9	22.7
RoCE (%)	14.1	20.9	23.4
P/E (x)	60.4	35.2	27.1
P/BV (x)	8.0	6.8	5.6
EV/EBITDA (x)	37.1	21.9	16.8
Div. Yield (%)	0.6	0.6	0.7

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Exhibit 2: Quarterly snapshot

Y/e Mar (Rs mn)	Q2FY23	Q2FY22	YoY chg	Q1FY23	1HFY23	1HFY22	YoY chg
Net Revenues	35,194	22,496	56.4	33,975	69,169	42,239	63.8
Raw Materials	20,256	12,964	56.3	19,030	39,286	24,386	61.1
% of Net Sales	57.6%	57.6%		56.0%	56.8%	57.7%	
Personnel	2,435	2,138	13.9	2,470	4,904	4,372	12.2
% of Net Sales	6.9%	9.5%		7.3%	7.1%	10.4%	
Manufacturing & Other Exp	4,287	3,095	38.5	4,165	8,452	5,553	52.2
% of Net Sales	12.2%	13.8%		12.3%	12.2%	13.1%	
Total Expenditure	26,978	18,197	48.3	25,664	52,642	34,310	53.4
EBITDA	8,216	4,299	91.1	8,311	16,527	7,928	108.5
EBITDA Margin (%)	23.3%	19.1%		24.5%	23.9%	18.8%	
Depreciation	1,271	1,094	16.2	1,162	2,433	2,211	10.1
EBIT	6,945	3,204	116.7	7,149	14,094	5,718	146.5
Interest Expenses	71	31	124.8	52	123	96	28.2
Non-operating income	1,486	1,086	36.8	487	1,973	2,307	(14.5)
PBT	8,361	4,259	96.3	7,583	15,944	7,929	101.1
Tax-Total	2,233	1,026	117.7	1,814	4,047	1,930	109.8
Tax Rate (%) - Total	26.7%	24.1%		23.9%	25.4%	24.3%	
PAT	6,127	3,234	89.5	5,769	11,896	5,999	98.3
Minority interest / Share in profit	441	98	349.3	338	779	311	150.2
Profit after MI / Share of profit	6,569	3,332	97.1	6,107	12,675	5,703	122.2
Adj. PAT	6,569	3,332	97.1	6,107	12,675	5,703	122.2
PAT Margin	18.7%	14.8%		19.3%	18.3%	13.5%	

Source- Company, Yes Sec

Exhibit 3: SOTP Valuation

INR Mn	FY24E	FY25E
Royal Enfield	27	27
PAT	33,551	38,731
Equity Value (at 26x PE)	905,887	1,045,736
VECV (@ 54.4% Economic interest)	12	12
EBITDA	8,394	10,279
EV (at 12x EV/EBITDA)	100,724	123,351
Net Debt	-7,247	-12,858
Equity Value	107,971	136,209
Total Equity Value	1,013,858	1,181,946
Target Price (INR/Sh)	3,708	4,323

Source- Company, Yes Sec

KEY CON-CALL HIGHLIGHTS

Royal Enfield

Exports

- Showcased new cruiser, the **Super Meteor 650** at EICMA (in Milan) earlier this week. This motorcycle will elevate portfolio in the 650twins segment.
- Super Meteor is authentic cruiser built on platform of 650 twins. Took 3 years to develop the same. Super Meteor customer would be someone who don't like typical cruising but want product which has easy cruising elements.
- **Exports retail have been good**. Have gained market share even in Europe where macro challenges are being witnessed.
    - RE is among top 3 in Europe, Americas MS at 7%, APAC MS at 9% and EMEA MS at 10%.
    - RE is building up for riding season in exports barring one month where due to cold retails will be lower.
    - Hunter will be open to sell in APAC markets in Nov and to EMEA at later dates which will further drive market share.
- **Network** - Added 6 exclusive stores in countries like Philippines, Magnolia and Thailand. Have ~710 multi brand stores in overseas markets with ~165 exclusive RE stores. Expect continues network expansion ahead.

Domestic

- Have registered healthy growth in the festive season (largest retail) and are confident of continuing this trend over the next quarter as well. Have RE recorded >30% MS in >125cc.
- Accelerated growth momentum led by Hunter as inquiries and bookings are going up. >55k units already rolled out. Hunter has brought in new customers from new geographies without significantly cannibalizing existing products.
- **Addressable market for Hunter –**
    - **First time buyer's contribution increased** at 18.2% (v/s 13% earlier) post the launch of Hunter.
    - Expect to continue get new customer with **almost nil cannibalization**.
    - **Age group** – 18-24 accounted for 40% and 26-30 age group account for ~43%.
    - **Variant wise –** Retro % (low priced) is low whereas Metro variant % is higher.
    - Bookings are seeing good response across cities – only covered ~70% footfalls and will cover remaining 30% through studios.
- **Domestic network** – Total 2,130 retail outlets of which 1,083 are main dealership stores and 1,047 are studio stores.
- **OBD** 2A would have minor changes so don't expect much cost inflation to customers while OBD 2B (by 2025) expect content of precious metal will go up. However, optimization time will be there. RE's all products are ready for OBD 2A transition.
- **Production shortages – as of now doing 3100/3200 production per day.** Chips issues is not a significant headwind as of now (though not completely normalized). Have build-up inventory of electronics etc...hence are able to give model mix as per customer requirements currently.
- RE currently have 2 platforms and working on upgradation of current platforms.

VECV

- BS phase 2 will come from Apr-23 - Don't expect cost increase as high as it was in BS4 to BS6 transition.
- **VECV Financials** – 2QFY23 Revenues at Rs42.15b (v/s Rs31.53b YoY), EBITDA at Rs2.49b with margins of ~6% (vs Rs1.07b) and PAT at Rs810m v/s Rs170m YoY.

Outlook –

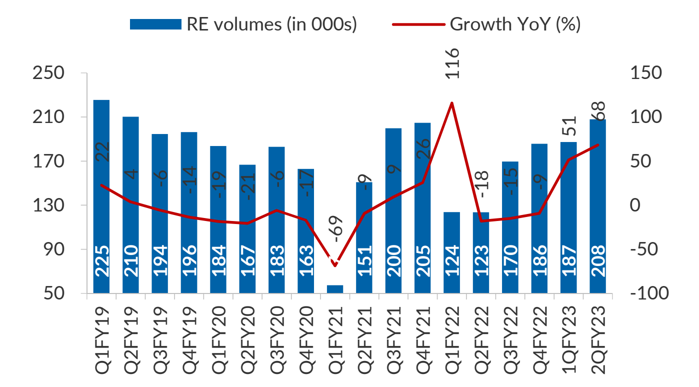
- **Domestic** - 5-15ton will likely see new peak this year.
- **Exports** – seeing volume pressure in markets such as BG, Nepal, SL impacting exports volumes.
- Overall scenario for domestic market and sentiments are still better. Replacement led demand will kick in. Expect pricing also to get better. For sub 5 ton segment, max growth is coming from single truck owners or small fleet operator.
- **VECV market share in segments**
    - HD segment MS at 8.2% in 1HFY23 (Eicher 7.2% and Volvo is 1%). Expect to grow in HD segment even ahead.
    - Buses – MS is 24-25% in 1HFY23.
    - LMD MS at 28-30% and strategy.
- VECV delivered its first large order of 40 Skyline Pro E electric buses to the city of Chandigarh.

Financials

- Gross margins – Expect RM inflation benefit to come through from 3QFY23.
- **Margins levers post Hunter** – RM inflation cooling is helping as well as VAVE. Metro and Retro is on same platform and capacity is fully fungible. Only additional investment of Rs120m is made for Retro to Metro. Super Meteor launch will be slightly pre-preponed so launch expense related to the same will also be there against earlier.
    - Have increased Hunter pricing by Rs3k/per unit from Nov'22.
    - GMV penetration was lower at time of launch of Hunter but now that's also increasing.
    - Opening into international market.

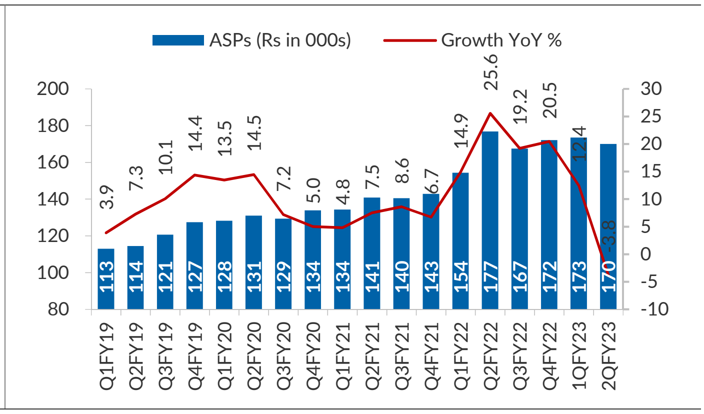
CHARTS

Exhibit 1: 2QFY23 RE volume grew ~11% QoQ



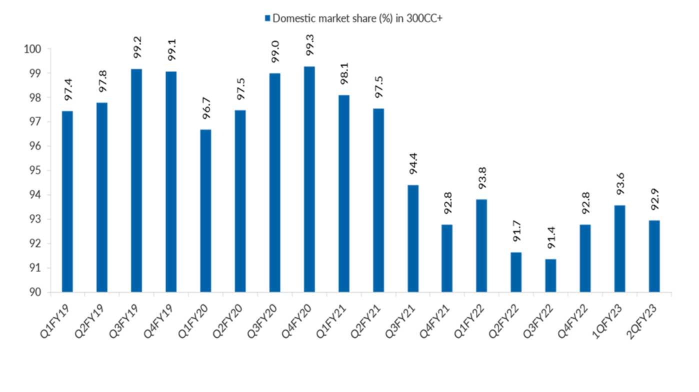
Source: Company, YES Sec

Exhibit 2: 2QFY23 RE ASP de-grew ~2% QoQ



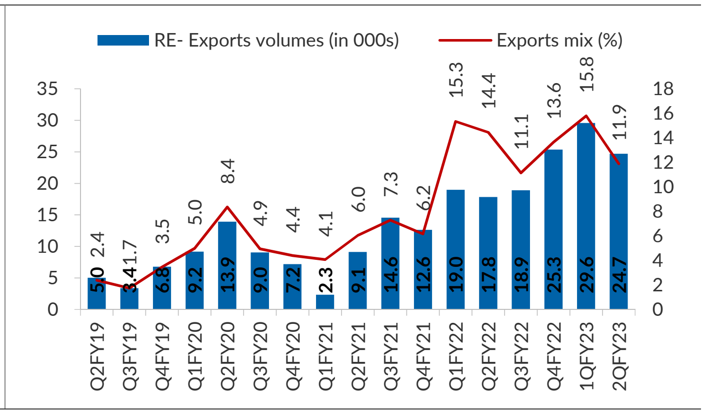
Source: Company, YES Sec

Exhibit 3: RE- Domestic MS reduced ~70bp QoQ in 2Q



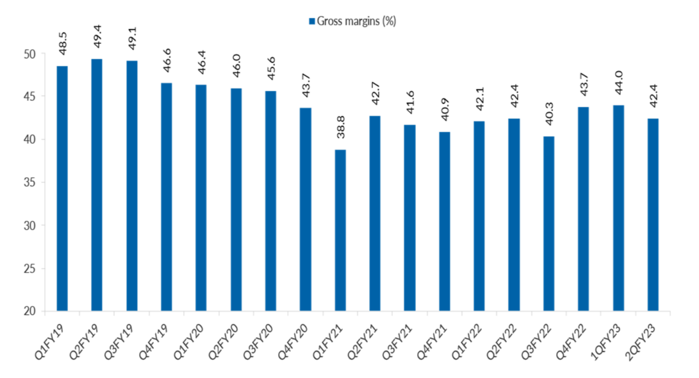
Source: SIAM, YES Sec

Exhibit 4: 2QFY23 RE de-grew by 16%QoQ



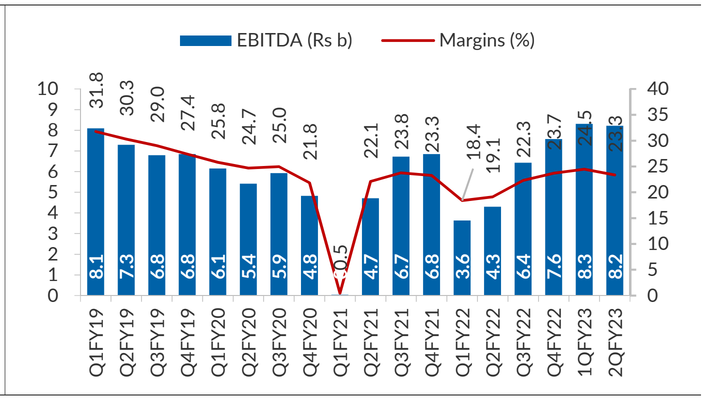
Source: Company, YES Sec

Exhibit 5: Gross margins reduced by 160bp QoQ in 2Q



Source: Company, YES Sec

Exhibit 6: Margins declined by 61bp QoQ



Source: Company, YES Sec

FINANCIALS

Exhibit 7: Balance Sheet

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share Capital	273	273	273	273	273	273
Net Worth	99,809	114,381	126,080	148,791	179,234	215,592
Minority Interest	-	-	-	(3,844)	(8,071)	(13,579)
Deferred Tax	2,522	2,215	2,201	2,201	2,201	2,201
Loans	2,490	2,193	1,077	530	530	530
Capital Employed	104,821	118,788	129,358	147,677	173,894	204,743
Application of Funds						
Gross Fixed Assets	36,518	40,489	44,054	54,676	61,344	68,262
Less: Depreciation	12,743	16,156	19,811	24,741	29,798	36,094
Net Fixed Assets	23,775	24,333	24,243	29,935	31,546	32,168
Capital WIP	3,122	3,143	5,048	500	500	500
- of which Goodwill	223	223	223	223	223	223
Investments	57,488	39,021	77,206	81,899	87,145	93,877
Curr.Assets, L & Adv.	40,113	79,733	56,003	63,496	88,788	117,528
Inventory	5,724	8,746	11,324	13,240	16,070	15,917
Sundry Debtors	868	1,582	3,020	3,783	4,592	5,306
Cash & Bank Balances	29,506	58,304	27,225	37,394	57,106	83,571
Loans & Advances	1	4,592	6,768	-	-	-
Others	4,014	6,510	7,666	9,079	11,020	12,734
Current Liab. & Prov.	19,676	27,442	33,142	28,153	34,086	39,331
Sundry Creditors	10,078	15,132	17,881	15,131	18,366	21,223
Other Liabilities	8,650	10,392	12,532	11,348	13,775	15,917
Provisions	949	1,918	2,729	1,673	1,945	2,190
Net Current Assets	20,436	52,291	22,861	35,343	54,702	78,197
Application of Funds	104,821	118,788	129,357	147,677	173,894	204,743

Source: Company, YES Sec

Exhibit 8: Income statement

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Gross Op. Income	91,536	87,204	102,978	138,071	167,591	193,661
Change (%)	(6.6)	(4.7)	18.1	34.1	21.4	15.6
EBITDA	21,804	17,813	21,723	33,705	44,350	52,345
EBITDA Margin (%)	24.0	20.6	21.4	24.7	26.9	27.5
Depreciation	3,815	4,507	4,519	4,930	5,057	6,296
EBIT	17,989	13,305	17,203	28,775	39,293	46,049
Interest cost	189	165	188	133	133	133
Other Income	5,433	4,532	4,408	4,700	5,075	5,225
PBT	23,232	17,673	21,424	33,342	44,235	51,141
Tax	5,275	4,515	5,259	8,461	11,184	12,910
Effective Rate (%)	22.7	25.5	24.5	25.4	25.3	25.2
PAT	17,958	13,158	16,165	24,882	33,051	38,231
Change (%)	(8.5)	(26.7)	22.9	53.9	32.8	15.7
Less: Minority Interest	(317)	(311)	(602)	(3,844)	(4,227)	(5,508)
Adj. PAT	18,275	13,469	16,766	28,726	37,278	43,739
Change (%)	(17.7)	(26.3)	24.5	71.3	29.8	17.3

Source: Company, YES Sec

Exhibit 9: Cash Flow Statement

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profit before Tax	23,549	17,984	22,025	33,342	44,235	51,141
Depreciation & Amort.	3,815	4,507	4,519	4,930	5,057	6,296
Direct Taxes Paid	(6,283)	(4,566)	(5,136)	(8,461)	(11,184)	(12,910)
(Inc)/Dec in Working Capital	(1,616)	1,318	(1,268)	(5,428)	(404)	2,296
Interest/Div. Received	(2,207)	(3,103)	(2,440)	4,700	5,075	5,225
Other Items	(317)	770	(2,429)	(1,452)	(4,185)	(4,418)
CF from Oper. Activity	16,941	16,910	15,270	27,632	38,593	47,629
(Inc)/Dec in FA+CWIP	(5,445)	(5,149)	(6,387)	(6,074)	(6,668)	(6,918)
Free Cash Flow	11,496	11,760	8,883	21,558	31,925	40,711
(Pur)/Sale of Invest.	(9,639)	(11,104)	(3,446)	(4,693)	(5,246)	(6,731)
CF from Inv. Activity	(15,084)	(16,253)	(9,833)	(10,768)	(11,914)	(13,650)
Issue of Shares	289	384	65	0	(0)	0
Inc/(Dec) in Debt	(618)	(373)	(1,164)	(548)	-	-
Interest Paid	(167)	(158)	(187)	(133)	(133)	(133)
Dividends Paid	(8,087)	-	(4,647)	(6,015)	(6,835)	(7,382)
CF from Fin. Activity	(8,583)	(148)	(5,934)	(6,695)	(6,968)	(7,514)
Inc/(Dec) in Cash	(6,725)	509	(496)	10,169	19,712	26,465

Source- Company, Yes Sec

Exhibit 10: Growth and Ratio matrix

Y/E March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)						
EPS	67.0	49.3	61.3	105.1	136.4	160.0
EPS Growth (%)	(17.7)	(26.4)	24.4	71.3	29.8	17.3
Cash EPS	81.0	65.8	77.9	123.1	154.8	183.0
Book Value per Share	365.9	418.5	461.2	544.2	655.6	788.6
DPS	12.5	17.0	21.0	22.0	25.0	27.0
Payout (Incl. Div. Tax) %	21.7	34.5	34.2	20.9	18.3	16.9
Valuation (x)						
P/E	55.2	75.1	60.4	35.2	27.1	23.1
Cash P/E	45.7	56.3	47.5	30.1	23.9	20.2
EV/EBITDA	39.7	44.5	37.1	21.9	16.8	13.7
EV/Sales	7.0	7.0	5.5	4.1	3.5	2.9
Price to Book Value	10.1	8.8	8.0	6.8	5.6	4.7
Dividend Yield (%)	0.3	0.5	0.6	0.6	0.7	0.7
Profitability Ratios (%)						
RoE	19.3	12.6	13.9	20.9	22.7	22.2
RoCE	18.6	12.3	14.1	20.9	23.4	23.2
RoIC	112.6	61.4	70.3	101.9	114.0	137.8
Turnover Ratios						
Debtors (Days)	3.5	6.6	10.7	10.0	10.0	10.0
Inventory (Days)	22.8	36.6	40.1	35.0	35.0	30.0
Creditors (Days)	40.2	63.3	63.4	40.0	40.0	40.0
Working Capital (Days)	(13.9)	(20.1)	(12.5)	5.0	5.0	-
Asset Turnover (x)	0.9	0.7	0.8	0.9	0.9	0.9
Leverage Ratio						
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0

Source- Company, Yes Sec

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