

Eicher Motors

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Strong quarter; volume outlook intact

For Q3FY23, Revenue increased by 29% YoY to Rs37.2bn (our estimate: Rs36.3bn). EBITDA surged by 47% to Rs8.6bn, broadly in line our estimates. Gross margin was slightly below our estimates, as price increase for the *Hunter* model was not passed on for initial order-bookings. Factoring-in the lower gross-margin assumptions, we reduce our FY24-25E EPS by 3-4%. Going forward, revenue CAGR is expected to be robust, at 15% over FY23-25E, supported by new products. The recently-launched *Hunter 350cc/Meteor 650cc models* have received positive response, and the upcoming product pipeline could include the new-gen *Bullet 350cc, Shotgun 650cc* and *Sherpa 650cc*. We expect EBITDA margin to expand, from 23.7% in FY23E to 25.2% in FY25E, buoyed by higher scale, improved net pricing and cost-reduction efforts. We retain BUY on the stock, with SOTP-based TP of Rs4,060/share (unchanged), based on 28x P/E of the motorcycle business and 20x P/E of the CV business, on FY25 estimates (Dec-24E earlier). Key downside risks: Lower-than-expected demand in key geographies; increased competitive intensity; failure of new products; and adverse commodity prices/currency rates.

Strong Q3: Revenue grew by 29% YoY to Rs37.2bn, broadly in line with estimates. Motorcycle volumes grew by 32% to 221,401 units, whereas realization declined by 2% to Rs168,066/unit owing to increasing share of the *Hunter* model. EBITDA grew by 47% to Rs8.6bn, largely matching our estimates. EBITDA margin expanded by 280bps to 23%, led by gross-margin expansion of 150bps and positive operating leverage. Gross margin was slightly below expectations, as price increases for the *Hunter* model were not passed on for initial order-bookings. Overall, adjusted PAT grew by 62% to Rs7.4bn, mostly meeting our estimates. Share of profit from associate (CV business) grew by 78% to Rs0.6bn. **What we liked:** 1) Market-share gains in both, the motorcycle and CV businesses. **What we did not like:** 1) Gross margin below estimates due to increasing share of the *Hunter* model. We expect margin improvement ahead, on commodity deflation benefits and price hikes.

Earnings-call KTAs: 1) The recently-launched *Meteor 650cc* has received positive reviews, resulting in healthy order-bookings. 2) Domestic distribution network stands at 1,083 normal stores and 1,030 studio stores, across ~1,750 cities. 3) The global network stands at 187 (175 in Q2) exclusive stores and >760 multi-brand outlets. 4) Market share stands at 8% (7% in Q2) in the USA, 9% in APAC, and 10% in EMEA. 5) In Q3, Company took price increases of ~1.5% in the *Hunter* and *Bullet* models. 6) Commodity deflation benefit stood at ~50bps in Q3, with further benefits expected in Q4. 7) Company has picked up 10.35% stake in Stark Future for EUR50mn, which paves the way for a long-term partnership towards collaboration in R&D for electric motorcycles, technology, technical licensing and manufacturing. 8) In the CV business, price hike of 3-5% is expected to meet RDE norms. Targets introducing RDE-compliant vehicles by end-Q4.

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	87,204	102,978	144,933	170,322	190,832
EBITDA	17,813	21,723	34,412	42,371	48,175
EBITDA Margin (%)	20.4	21.1	23.7	24.9	25.2
APAT	13,469	16,766	28,301	36,114	42,037
EPS (Rs)	49.2	61.2	103.4	131.9	153.5
EPS (% chg)	(26.4)	24.4	68.8	27.6	16.4
ROE (%)	12.6	13.9	20.8	22.9	22.7
P/E (x)	64.5	51.9	30.7	24.1	20.7
EV/EBITDA (x)	44.5	36.2	22.2	17.4	14.7
P/BV (x)	7.6	6.9	6.0	5.1	4.4

Source: Company, Emkay Research

CMP	Target Price
Rs 3,176 as of (February 14, 2023)	Rs 4,060 (■) 12 months
Rating	Upside
BUY (■)	27.8 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	(0.4)/(3.2)
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	103.4	131.9
Consensus	102.7	132.4
Mean Consensus TP (12M)	Rs 3,798	

Stock Details

Bloomberg Code	EIM IN
Face Value (Rs)	1
Shares outstanding (mn)	273
52 Week H/L	3,890 / 2,110
M Cap (Rs bn/USD bn)	868 / 10.49
Daily Avg Volume (nos.)	603,912
Daily Avg Turnover (USD mn)	24.0

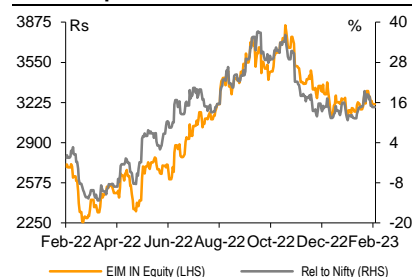
Shareholding Pattern Dec '22

Promoters	49.2%
FIIs	29.9%
DIIIs	10.1%
Public and Others	10.9%

Price Performance

(%)	1M	3M	6M	12M
Absolute	-	(10)	(1)	24
Rel. to Nifty	1	(8)	(2)	16

Relative price trend



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

Raghunandhan N L

raghunandhan.nl@emkayglobal.com
+91 22 6624 2428

Mumuksh Mandlesha

mumuksh.mandlesha@emkayglobal.com
+91 22 6612 1334

Bhargava Perni

bhargava.perni@emkayglobal.com
+91 22 6624 2429

Exhibit 1: Key assumptions – Expect Royal Enfield revenue CAGR at 15% over FY23-25E

Royal Enfield	FY21	FY22	FY23E	FY24E	FY25E	FY23-25E CAGR (%)
Volume (units)						
Domestic	570,781	521,246	740,852	844,572	929,029	12
YoY %	(13.3)	(8.7)	42.1	14.0	10.0	
Exports	38,622	81,022	100,322	112,360	124,720	11
YoY %	(1.4)	109.8	23.8	12.0	11.0	
Total	609,403	602,268	841,174	956,932	1,053,749	12
YoY %	(12.6)	(1.2)	39.7	13.8	10.1	
Realization /unit (Rs)						
	141,434	168,079	165,166	171,717	175,404	3
YoY %	8.7	18.8	(1.7)	4.0	2.1	
Revenue (Rs mn)						
	86,190	101,229	138,933	164,322	184,832	15
YoY %	(5.1)	17.4	37.2	18.3	12.5	
VECV						
FY21						
Domestic MHCV (units)	25,375	37,990	56,346	62,544	68,173	10
YoY %	(12.1)	49.7	48.3	11.0	9.0	
Domestic LCV (units)	9,788	9,408	13,294	14,224	15,362	7
YoY %	(30.9)	(3.9)	41.3	7.0	8.0	
Exports (units)	5,025	8,426	5,300	5,724	6,182	8
YoY %	10.0	67.7	(37.1)	8.0	8.0	
Volume (units)	41,259	57,077	76,693	84,421	91,800	9
YoY %	(15.3)	38.3	34.4	10.1	8.7	
Realization /unit (Rs)	2,102,904	2,229,348	2,413,049	2,480,650	2,525,930	2
YoY %	20.2	6.0	8.2	2.8	1.8	
Revenue (Rs mn)	86,764	127,245	185,065	209,420	231,882	12
YoY %	1.8	46.7	45.4	13.2	10.7	

Source: Company, Emkay Research

Exhibit 2: Changes in estimates

Consolidated	FY23E				FY24E				FY25E			
	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY
Royal Enfield (Units)	841,174	841,174	0.0	39.7	956,932	956,932	0.0	13.8	1,053,749	1,053,749	0.0	10.1
VECV (Units)	76,693	76,693	0.0	34.4	84,421	84,421	0.0	10.1	91,800	91,800	0.0	8.7
Revenue	143,114	144,933	1.3	40.7	168,264	170,322	1.2	17.5	188,523	190,832	1.2	12.0
EBITDA	34,580	34,412	(0.5)	58.4	44,236	42,371	(4.2)	23.1	50,052	48,175	(3.7)	13.7
EBITDA margin	24.2%	23.7%	(42) bps	265 bps	26.3%	24.9%	(141) bps	113 bps	26.5%	25.2%	(130) bps	37 bps
APAT	28,421	28,301	(0.4)	68.8	37,310	36,114	(3.2)	27.6	43,587	42,037	(3.6)	16.4
EPS (Rs)	103.8	103.4	(0.4)	68.8	136.3	131.9	(3.2)	27.6	159.2	153.5	(3.6)	16.4

Source: Company, Emkay Research

Exhibit 3: Actual vs. Estimates (Q3FY23)

(Rs mn)	Actual	Estimate		% Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue	37,210	36,329	37,142	2.4	0.2	Broadly in line with estimates
EBITDA	8,572	8,709	8,929	(1.6)	(4.0)	Broadly in line with estimates
EBITDA margin (%)	23.0	24.0	24.0	(94) bps	(100) bps	
Adj. PAT	7,408	7,346	7,233	0.8	2.4	Broadly in line with estimates

Source: Bloomberg, Company, Emkay Research

Exhibit 4: Quarterly Financial Summary (Consolidated)

(Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ (%)	FY23 YTD	FY22 YTD	YoY (%)
Volume	167,664	182,125	187,205	207,764	221,401	32.1	6.6	616,370	414,819	48.6
Revenue	28,807	31,933	33,975	35,194	37,210	29.2	5.7	106,379	71,045	49.7
Expenditure	22,983	24,363	25,664	26,978	28,638	24.6	6.2	81,279	56,893	42.9
as % of sales	79.8	76.3	75.5	76.7	77.0			76.4	80.1	
Consumption of RM	17,200	17,971	19,030	20,256	21,655	25.9	6.9	60,941	41,586	46.5
as % of sales	59.7	56.3	56.0	57.6	58.2			57.3	58.5	
Employee Cost	2,017	2,221	2,470	2,435	2,594	28.6	6.5	7,498	5,989	25.2
as % of sales	7.0	7.0	7.3	6.9	7.0			7.0	8.4	
Other expenditure	3,766	4,170	4,165	4,287	4,389	16.5	2.4	12,841	9,319	37.8
as % of sales	13.1	13.1	12.3	12.2	11.8			12.1	13.1	
EBITDA	5,824	7,571	8,311	8,216	8,572	47.2	4.3	25,099	14,152	77.4
EBITDA margin (%)	20.2	23.7	24.5	23.3	23.0			23.6	19.9	
Depreciation	1,114	1,194	1,162	1,271	1,348	21.0	6.1	3,782	3,325	13.7
EBIT	4,709	6,376	7,149	6,945	7,224	53.4	4.0	21,318	10,827	96.9
Other Income	921	1,180	487	1,486	1,923	108.7	29.4	3,896	3,228	20.7
Interest	61	31	52	71	76	24.9	7.4	199	157	26.9
PBT	5,570	7,525	7,583	8,361	9,071	62.9	8.5	25,015	13,899	80.0
Minority interest	(359)	(538)	(338)	(441)	(639)			(1,418)	(64)	
Total Tax	1,368	1,962	1,814	2,233	2,302	68.2	3.1	6,349	3,298	92.5
Adjusted PAT	4,561	6,101	6,107	6,569	7,408	62.4	12.8	20,084	10,665	88.3
Extra ordinary items	-	-	-	-	-			-	-	
Reported PAT	4,561	6,101	6,107	6,569	7,408	62.4	12.8	20,084	10,665	88.3
Adjusted EPS (Rs)	16.7	22.3	22.3	24.0	27.1	62.4	12.8	73.3	38.9	88.3

Source: Company, Emkay Research

Exhibit 5: VECV – Financial Performance

(Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ (%)	FY23 YTD	FY22 YTD	YoY (%)
Volume	16,044	20,108	17,469	17,616	18,162	13.2	3.1	53,247	36,969	44.0
Revenue	36,257	43,063	39,340	42,150	46,039	27.0	9.2	127,529	84,177	51.5
EBITDA	2,416	2,864	2,070	2,490	3,150	30.4	26.5	7,710	4,296	79.5
PAT	660	990	620	810	1,163	76.2	43.6	2,593	120	2,060.8
(%)						(bps)	(bps)			(bps)
EBITDA margin	6.7	6.7	5.3	5.9	6.8	18	93	6.0	5.1	94
PAT margin	1.8	2.3	1.6	1.9	2.5	71	60	2.0	0.1	189

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	87,204	102,978	144,933	170,322	190,832
Expenditure	69,391	81,256	110,521	127,950	142,656
EBITDA	17,813	21,723	34,412	42,371	48,175
Depreciation	4,507	4,519	5,131	5,576	6,034
EBIT	13,305	17,203	29,281	36,795	42,142
Other Income	4,532	4,408	5,388	6,206	7,259
Interest expenses	165	188	264	271	278
PBT	17,673	21,424	34,405	42,730	49,123
Tax	4,515	5,259	8,601	10,683	12,281
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	311	602	2,498	4,066	5,195
Reported Net Income	13,469	16,766	28,301	36,114	42,037
Adjusted PAT	13,469	16,766	28,301	36,114	42,037

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	273	273	273	273	273
Reserves & surplus	114,108	125,807	145,171	170,081	199,169
Net worth	114,381	126,080	145,444	170,354	199,442
Minority Interest	0	0	0	0	0
Loan Funds	1,574	588	1,282	1,297	1,309
Net deferred tax liability	2,215	2,201	2,166	2,123	2,074
Total Liabilities	118,170	128,869	148,892	173,775	202,826
Net block	24,333	24,243	28,653	28,977	28,943
Investment	39,021	77,206	102,206	132,206	162,206
Current Assets	79,089	55,514	64,691	67,988	73,924
Cash & bank balance	58,304	27,225	24,876	21,199	21,501
Other Current Assets	4,101	3,610	5,080	5,970	6,689
Current liabilities & Provision	27,416	33,141	47,198	56,036	62,888
Net current assets	51,673	22,373	17,492	11,951	11,036
Misc. exp	0	0	0	0	0
Total Assets	118,170	128,869	148,892	173,775	202,826

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	13,141	17,015	29,017	36,524	41,863
Other Non-Cash items	0	0	0	0	0
Chg in working cap	2,352	(1,793)	2,498	1,821	1,168
Operating Cashflow	12,378	10,862	27,611	35,310	40,513
Capital expenditure	(5,149)	(6,334)	(5,035)	(6,000)	(6,000)
Free Cash Flow	7,228	4,528	22,576	29,310	34,513
Investments	(13,026)	(38,184)	(25,000)	(30,000)	(30,000)
Other Investing Cash Flow	1,923	34,686	0	0	0
Investing Cashflow	(11,721)	(5,424)	(24,647)	(29,794)	(28,741)
Equity Capital Raised	384	0	0	0	0
Loans Taken / (Repaid)	130	(986)	694	15	12
Dividend paid (incl tax)	0	(5,742)	(8,937)	(11,204)	(12,949)
Other Financing Cash Flow	27,718	(29,602)	3,195	2,267	1,745
Financing Cashflow	28,141	(36,517)	(5,312)	(9,193)	(11,470)
Net chg in cash	28,798	(31,079)	(2,348)	(3,677)	302
Opening cash position	29,506	58,304	27,225	24,876	21,199
Closing cash position	58,304	27,225	24,876	21,199	21,501

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	20.4	21.1	23.7	24.9	25.2
EBIT Margin	15.3	16.7	20.2	21.6	22.1
Effective Tax Rate	25.5	24.5	25.0	25.0	25.0
Net Margin	15.1	15.7	17.8	18.8	19.3
ROCE	12.1	13.1	18.7	20.0	19.7
ROE	12.6	13.9	20.8	22.9	22.7
RoIC	63.2	70.0	108.0	134.6	165.4

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	49.2	61.2	103.4	131.9	153.5
CEPS	65.7	77.7	122.1	152.3	175.6
BVPS	418.0	460.5	531.2	622.2	728.4
DPS	17.0	21.0	32.6	40.9	47.3

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	64.5	51.9	30.7	24.1	20.7
P/CEPS	48.3	40.9	26.0	20.9	18.1
P/BV	7.6	6.9	6.0	5.1	4.4
EV / Sales	9.1	7.6	5.3	4.3	3.7
EV / EBITDA	44.5	36.2	22.2	17.4	14.7
Dividend Yield (%)	0.5	0.7	1.0	1.3	1.5

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	(0.7)	(0.7)	(0.7)	(0.8)	(0.8)
Net Debt/EBIDTA	(4.3)	(3.9)	(3.1)	(3.1)	(3.4)
Working Cap Cycle (days)	(27.8)	(17.2)	(18.6)	(19.8)	(20.0)

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	(4.7)	18.1	40.7	17.5	12.0
EBITDA	(18.3)	22.0	58.4	23.1	13.7
EBIT	(26.0)	29.3	70.2	25.7	14.5
PAT	(26.3)	24.5	68.8	27.6	16.4

Quarterly (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Revenue	28,807	31,933	33,975	35,194	37,210
EBITDA	5,824	7,571	8,311	8,216	8,572
EBITDA Margin (%)	20.2	23.7	24.5	23.3	23.0
PAT	4,561	6,101	6,107	6,569	7,408
EPS (Rs)	16.7	22.3	22.4	24.1	27.1

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	49.2	49.2	49.2	49.2	49.2
FIIs	29.5	29.2	29.5	30.3	29.9
DII	9.7	10.0	10.1	10.1	10.1
Public and Others	11.6	11.6	11.2	10.5	10.9

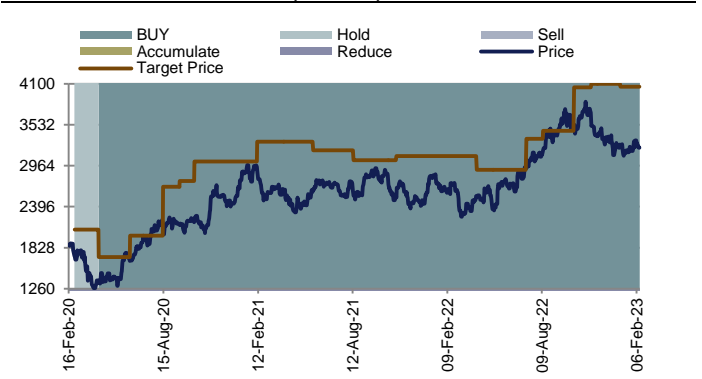
Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
05-Feb-23	3,317	4,060	12m	Buy	Raghunandhan NL
13-Jan-23	3,162	4,060	12m	Buy	Raghunandhan NL
06-Jan-23	3,251	4,060	12m	Buy	Raghunandhan NL
11-Nov-22	3,520	4,100	12m	Buy	Raghunandhan NL
09-Oct-22	3,499	4,050	12m	Buy	Raghunandhan NL
11-Aug-22	3,176	3,450	12m	Buy	Raghunandhan NL
10-Jul-22	2,932	3,340	12m	Buy	Raghunandhan NL
15-May-22	2,433	2,910	12m	Buy	Raghunandhan NL
06-Apr-22	2,531	2,910	12m	Buy	Raghunandhan NL
24-Feb-22	2,617	3,100	12m	Buy	Raghunandhan NL
15-Feb-22	2,724	3,100	12m	Buy	Raghunandhan NL
03-Nov-21	2,522	3,100	12m	Buy	Raghunandhan NL
13-Aug-21	2,547	3,040	12m	Buy	Raghunandhan NL
02-Jul-21	2,661	3,180	12m	Buy	Raghunandhan NL
18-Jun-21	2,708	3,180	12m	Buy	Raghunandhan NL
01-Jun-21	2,666	3,180	12m	Buy	Raghunandhan NL
30-May-21	2,638	3,180	12m	Buy	Raghunandhan NL
28-May-21	2,638	3,180	12m	Buy	Raghunandhan NL
10-Feb-21	2,901	3,300	12m	Buy	Raghunandhan NL
13-Oct-20	2,220	3,025	12m	Buy	Raghunandhan NL
11-Oct-20	2,218	2,754	12m	Buy	Raghunandhan NL
28-Sep-20	2,181	2,754	12m	Buy	Raghunandhan NL
15-Sep-20	2,141	2,754	12m	Buy	Raghunandhan NL
28-Aug-20	2,214	2,673	12m	Buy	Raghunandhan NL
14-Aug-20	2,014	2,673	12m	Buy	Raghunandhan NL
29-Jun-20	1,811	1,995	12m	Buy	Raghunandhan NL
12-Jun-20	1,686	1,995	12m	Buy	Raghunandhan NL
04-May-20	1,375	1,696	12m	Buy	Raghunandhan NL
13-Apr-20	1,340	1,696	12m	Buy	Raghunandhan NL
27-Feb-20	1,705	2,080	12m	Hold	Raghunandhan NL

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)



Source: Bloomberg, Company, Emkay Research

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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