

Eicher Motors (EIM)

In-line; Price pass through benefits to kick in

Valuation and View

Eicher Motors (EIM) 3QFY23 reported consolidated results were in-line at Revenues/PAT while EBITDA was ~4% below our estimates at Rs8.6b (est Rs8.9b) with margins contracting 30bp QoQ at 23% (est 24.2%). This was largely due to ~4% miss in EBITDA of S/A performance as 1) ASP came in lower at Rs162.2k/unit (est Rs166.8k/unit) and 2) S/A gross margins came in lower at 41.7% (est 42.2%) led by product mix and delayed impact of product price hike (price protection for Hunter). 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 ~1.5% for Hunter in Nov'22, 2) + operating leverage due to higher volumes and 3) increased share of exports as Hunter has been launched in exports markets.

We cut FY24/25 consol EPS by 3%/3.7% to factor in for weaker mix related gross margins contraction and lower ASPs. After witnessing severe headwinds over last 24-30 months, we expect volumes to grow ~21% CAGR over FY22-25E (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 21% over FY23-25E. Stock trades at 23.5x/20.2x FY24E/FY25E consol EPS. We maintain BUY with SoTP based revised TP of Rs3,942 (v/s Rs4,094). We value S/A business at 25x (~15% discount to 10yr LPA). EIM is one of our preferred picks from 2W OEM space.

Result Highlights- Consol in-line; while EBITDA were ~4% below est

- Consol revenues grew 29% YoY (5.7% QoQ) at Rs37.2b. RE's volume grew 30.6% YoY/ 6.6% QoQ while ASPs declined 3.2% YoY (-0.8% QoQ) at Rs162.2k/unit.
- Consol gross margins contracted 60bp QoQ (+150bp YoY) at 41.8% (est 42.2%). This was due to delayed impact of price hikes (as there was price protection clause on Hunter for ~1.5% price hike under taken in Nov'22).
- Consol EBITDA grew 33.5% YoY (+4.3% QoQ) at Rs8.6b (in-line) with margins at 23.3% (+70bp YoY/ -30bp QoQ, est 24%). S/A margins expanded 130bp YoY (+20bp QoQ) at 23.9% (in-line).
- Higher other income at Rs 1.92b (+29.4% QoQ, est at Rs1.3b) resulted in Adj. PAT increase at Rs7.4b (+12.8% QoQ, in-line).
- VECV - 3QFY23 Revenues at Rs46b (v/s Rs36.3b YoY), EBITDA at Rs3.05b with margins of ~6.6% (vs Rs2.4b) and PAT at Rs1.1b v/s Rs660m YoY.
- 9MFY23 revenue/EBITDA/Adj.PAT grew 49.7%/74.9%/84.9%.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	37,210	36,926	37,142	0.8	0.2	Price pass through benefits to kick in in 4QFY23
EBITDA	8,572	8,933	8,929	-4.0	-4.0	
EBITDA margins %	23.0	24.2	24.0	-120bp	-100bp	
Adj PAT	7,408	7,420	7,233	-0.2	2.4	

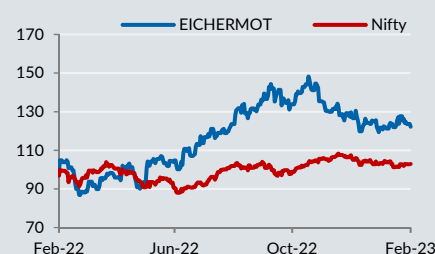
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 3,175
Target Price	: Rs 3,942
Potential Return	: +24%

Stock data (as on Feb 14, 2023)

Nifty	17,929
52 Week h/l (Rs)	3890 / 2160
Market cap (Rs/USD mn)	889,456 / 10779
Outstanding Shares (mn)	273
6m Avg t/o (Rs mn):	2,379
Div yield (%):	0.7
Bloomberg code:	EIM IN
NSE code:	EICHERMOT

Stock performance



	1M	3M	1Y
Absolute return	0.4%	-9.7%	23.5%

Shareholding pattern (As of Dec'22 end)

Promoter	49.2%
FII+DII	39.9%
Others	10.9%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	3,942	4,094

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	117.7	134.8
EPS (Old)	122.0	140.9
% change	(3.6%)	(4.3%)

Financial Summary

Y/E Mar (Rs b)	2023E	2024E	2025E
Net Income	137.5	163.4	187.7
EBITDA	32.4	42.5	49.9
Adj. PAT	29.5	36.9	43.0
Adj. EPS (INR)	107.8	135.0	157.1
EPS Gr. (%)	75.9	25.1	16.4
BV/Sh. (INR)	547.0	657.0	787.1
RoE (%)	21.4	22.4	21.8
RoCE (%)	21.5	23.2	23.1
P/E (x)	29.4	23.5	20.2
P/BV (x)	5.8	4.8	4.0
EV/EBITDA (x)	18.5	14.2	11.6
Div. Yield (%)	0.7	0.8	0.9

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Exhibit 2: Quarterly snapshot

Y/e Mar (Rs mn)	Q3FY23	Q3FY22	YoY chg	Q2FY23	9MFY23	9MFY22	YoY chg
Net Revenues	37,210	28,807	29.2	35,194	106,379	71,045	49.7
Raw Materials	21,655	17,200	25.9	20,256	60,941	41,586	46.5
% of Net Sales	58.2%	59.7%		57.6%	57.3%	58.5%	
Personnel	2,594	2,017	28.6	2,435	7,498	6,389	17.4
% of Net Sales	7.0%	7.0%		6.9%	7.0%	9.0%	
Manufacturing & Other Exp	4,389	3,166	38.6	4,287	12,841	8,719	47.3
% of Net Sales	11.8%	11.0%		12.2%	12.1%	12.3%	
Total Expenditure	28,638	22,383	27.9	26,978	81,279	56,693	43.4
EBITDA	8,572	6,424	33.5	8,216	25,099	14,352	74.9
EBITDA Margin (%)	23.0%	22.3%		23.3%	23.6%	20.2%	
Depreciation	1,348	1,114	21.0	1,271	3,782	3,325	13.7
EBIT	7,224	5,309	36.1	6,945	21,318	11,027	93.3
Interest Expenses	76	61	24.9	71	199	157	26.9
Non-operating income	1,923	921	108.7	1,486	3,896	3,228	20.7
PBT	9,071	6,170	47.0	8,361	25,015	14,099	77.4
Tax-Total	2,302	1,368	68.2	2,233	6,349	3,298	92.5
Tax Rate (%) - Total	25.4%	22.2%		26.7%	25.4%	23.4%	
PAT	6,770	4,802	41.0	6,127	18,666	10,801	72.8
Minority interest / Share in profit	639	359	77.8	441	1,418	64	2,129.4
Profit after MI / Share of profit	7,408	5,161	43.5	6,569	20,084	10,865	84.9
Adj. PAT	7,408	5,161	43.5	6,569	20,084	10,865	84.9
PAT Margin	19.9%	17.9%		18.7%	18.9%	15.3%	

Key operating metrics							
Sales Volume (nos)	221,401	169,526	30.6	207,764	602,055	612,350	(1.7)
Net Realisation/Vehicle	168,066	169,924	(1.1)	169,394	176,692	116,020	52.3
Material cost / vehicle	97,809	101,458	(3.6)	97,496	101,221	67,911	49.0
Gross Profit / vehicle	70,257	68,466	2.6	71,898	75,471	48,109	56.9
Employee cost / vehicle	11,715	11,898	(1.5)	11,718	12,454	10,433	19.4
Other expenses / vehicle	19,823	18,677	6.1	20,635	21,328	14,238	49.8
EBITDA/vehicle	38,718	37,892	2.2	39,545	41,689	23,438	77.9
Net Profit/vehicle	33,461	30,445	9.9	31,616	33,358	17,742	88.0

Source- Company, Yes Sec

Exhibit 3: SOTP Valuation

INR Mn	FY24E	FY25E
Royal Enfield	25	25
PAT	32,170	36,856
Equity Value (at 26x PE)	804,244	921,403
VECV (@ 54.4% Economic interest)	12	12
EBITDA	9,713	11,719
EV (at 12x EV/EBITDA)	116,560	140,634
Net Debt	-8,909	-15,631
Equity Value	125,468	156,264
Total Equity Value	929,713	1,077,668
Target Price (INR/Sh)	3,401	3,942

Source- Company, Yes Sec

KEY CON-CALL HIGHLIGHTS

Royal Enfield

Domestic

- **RE customer base** – under 25 years 21%, 26-35 – 46% and over 35 years – 33%.
- **Domestic network** – Total 2,113 in 3QFY23 (v/s 2,130 in 1H FY23) retail outlets of which 1,083 flat QoQ) are main dealership stores and 1,030 (v/s 1,047 in 1H FY23) are studio stores.
- **RE market share all time high at 8.1%** of overall motorcycle segment and ~33% in >125cc segment.
- **Gross margins** – decline in RM inflation expected to flow through from 4QFY23. There was a price protection for customers and revised pricing was not applicable. **Have taken price hike of ~1.5% in 3QFY23 on Hunters and partial benefits of the same to flow from 4Q.**
- **Hunter production scale up is not a problem and would like to explore more markets for the same. Ready to ramp-up production by 20-30% if need be.**
- **Accessories** – have 587 SKUs available for accessories at RE. Accessories on Hunter is now available as the same had issue when launched.

Exports

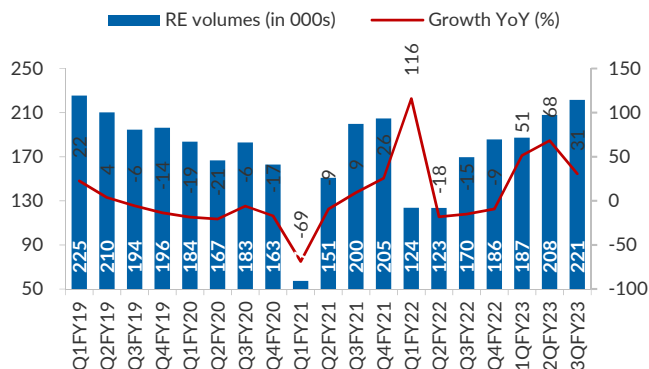
- **Global midsize market share at 8% in America, 9% in APAC and 10% in EMEA.**
- **Network** - Added 6 exclusive stores in countries like Philippines, Magnolia and Thailand. Have 760 (v/s 710 in 2QFY23) multi brand stores in overseas markets with ~187 (v/s 165 in 2QFY23) exclusive RE stores. Expect continues network expansion ahead. Total global touch points at 950+.
- **Looking to setup CKD facility in Nepal and Bangladesh.**
- **Outlook** - Don't expect any major disruption due to macro challenges in global markets.

VECV

- Revenues at Rs4.6039b (+27% YoY), EBITDA at Rs3.0495b with margins 6.8% (flat YoY) and PAT at Rs1.163b.
- **Spares sales record high at Rs2.95b in 3QFY23 (+20% YoY).**
- **OBD2 norms** – will be done in phased manner. Cost increase will not be as high as BS6 and the same can range between 3-5%.

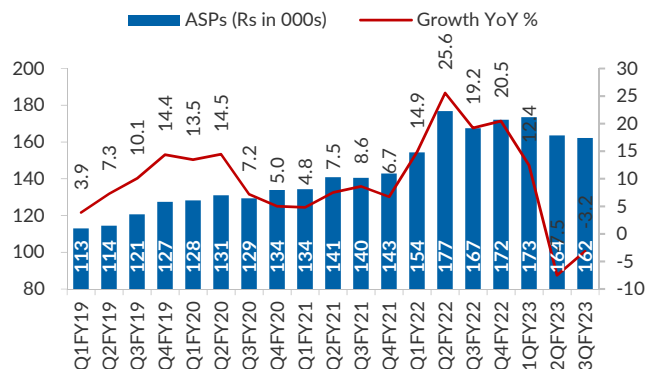
CHARTS

Exhibit 4: 3QFY23 RE volume grew ~7% QoQ



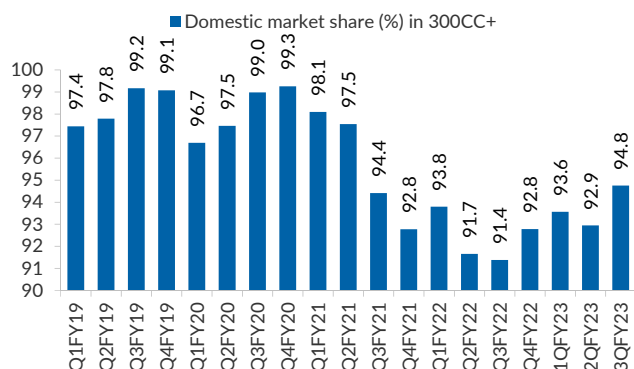
Source: Company, YES Sec

Exhibit 5: 3QFY23 RE ASP de-grew ~1% QoQ



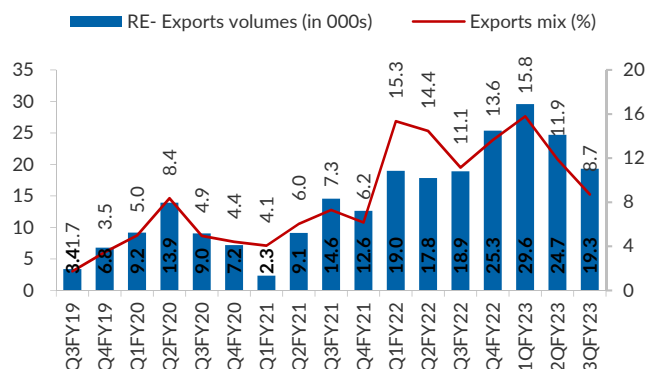
Source: Company, YES Sec

Exhibit 6: RE-Domestic MS increased ~190bp QoQ



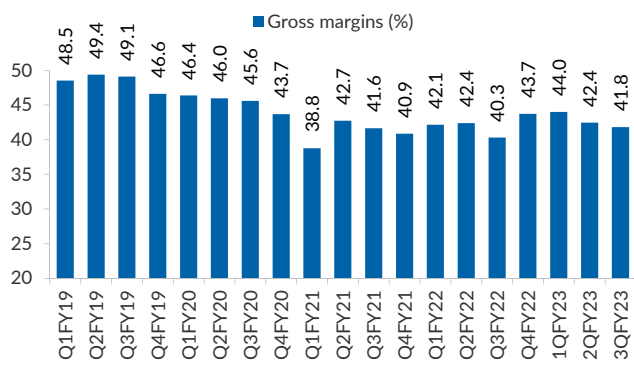
Source: SIAM, YES Sec

Exhibit 7: RE exports de-grew by 22% QoQ



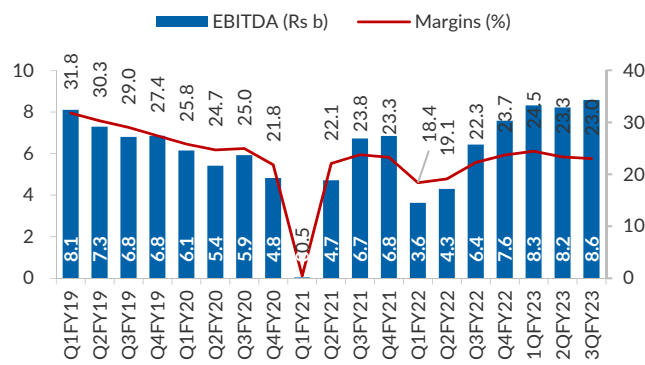
Source: Company, YES Sec

Exhibit 8: Gross margins contracted by 60bp QoQ



Source: Company, YES Sec

Exhibit 9: EBITDA Margins declined by 30bp QoQ



Source: Company, YES Sec

FINANCIALS

Exhibit 10: 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	149,551	179,616	215,193
Minority Interest	-	-	-	(4,717)	(9,947)	(16,550)
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	147,564	172,399	201,374
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	24,889	29,945	36,241
Net Fixed Assets	23,775	24,333	24,243	29,787	31,399	32,021
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	82,772	89,021	96,847
Curr.Assets, L & Adv.	40,113	79,733	56,003	62,571	84,772	110,194
Inventory	5,724	8,746	11,324	13,183	15,668	15,426
Sundry Debtors	868	1,582	3,020	3,766	4,477	5,142
Cash & Bank Balances	29,506	58,304	27,225	36,583	53,884	77,287
Loans & Advances	1	4,592	6,768	-	-	-
Others	4,014	6,510	7,666	9,039	10,744	12,340
Current Liab. & Prov.	19,676	27,442	33,142	28,066	33,293	38,189
Sundry Creditors	10,078	15,132	17,881	15,066	17,906	20,567
Other Liabilities	8,650	10,392	12,532	11,299	13,430	15,426
Provisions	949	1,918	2,729	1,701	1,957	2,196
Net Current Assets	20,436	52,291	22,861	34,505	51,479	72,005
Application of Funds	104,821	118,788	129,357	147,564	172,399	201,374

Source: Company, YES Sec

Eicher Motors Ltd (EIM)

Exhibit 11: Income statement

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Gross Op. Income	91,536	87,204	102,978	137,476	163,394	187,677
Change (%)	(6.6)	(4.7)	18.1	33.5	18.9	14.9
EBITDA	21,804	17,813	21,723	32,368	42,538	49,876
EBITDA Margin (%)	24.0	20.6	21.4	23.8	26.4	27.0
Depreciation	3,815	4,507	4,519	5,077	5,057	6,296
EBIT	17,989	13,305	17,203	27,291	37,481	43,580
Interest cost	189	165	188	163	163	163
Other Income	5,433	4,532	4,408	6,200	5,075	5,225
PBT	23,232	17,673	21,424	33,327	42,393	48,642
Tax	5,275	4,515	5,259	8,558	10,723	12,285
Effective Rate (%)	22.7	25.5	24.5	25.7	25.3	25.3
PAT	17,958	13,158	16,165	24,769	31,670	36,356
Change (%)	(8.5)	(26.7)	22.9	53.2	27.9	14.8
Less: Minority Interest	(317)	(311)	(602)	(4,717)	(5,230)	(6,603)
Adj. PAT	18,275	13,469	16,766	29,486	36,900	42,959
Change (%)	(17.7)	(26.3)	24.5	75.9	25.1	16.4

Source: Company, YES Sec

Exhibit 12: Cash Flow Statement

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profit before Tax	23,549	17,984	22,025	33,327	42,393	48,642
Depreciation & Amort.	3,815	4,507	4,519	5,077	5,057	6,296
Direct Taxes Paid	(6,283)	(4,566)	(5,136)	(8,558)	(10,723)	(12,285)
(Inc)/Dec in Working Capital	(1,616)	1,318	(1,268)	(5,420)	(355)	2,238
Interest/Div. Received	(2,207)	(3,103)	(2,440)	6,200	5,075	5,225
Other Items	(317)	770	(2,429)	(2,903)	(4,230)	(4,423)
CF from Oper. Activity	16,941	16,910	15,270	27,723	37,217	45,692
(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	21,649	30,549	38,774
(Pur)/Sale of Invest.	(9,639)	(11,104)	(3,446)	(5,566)	(6,249)	(7,826)
CF from Inv. Activity	(15,084)	(16,253)	(9,833)	(11,640)	(12,917)	(14,744)
Issue of Shares	289	384	65	-	(0)	0
Inc/(Dec) in Debt	(618)	(373)	(1,164)	(548)	-	-
Interest Paid	(167)	(158)	(187)	(163)	(163)	(163)
Dividends Paid	(8,087)	-	(4,647)	(6,015)	(6,835)	(7,382)
CF from Fin. Activity	(8,583)	(148)	(5,934)	(6,726)	(6,998)	(7,545)
Inc/(Dec) in Cash	(6,725)	509	(496)	9,357	17,301	23,403

Source- Company, Yes Sec

Eicher Motors Ltd (EIM)

Exhibit 13: Growth and Ratio matrix

Y/E March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)						
EPS	67.0	49.3	61.3	107.8	135.0	157.1
EPS Growth (%)	(17.7)	(26.4)	24.4	75.9	25.1	16.4
Cash EPS	81.0	65.8	77.9	126.4	153.5	180.2
Book Value per Share	365.9	418.5	461.2	547.0	657.0	787.1
DPS	12.5	17.0	21.0	22.0	25.0	27.0
Payout (Incl. Div. Tax) %	21.7	34.5	34.2	20.4	18.5	17.2
Valuation (x)						
P/E	47.4	64.4	51.8	29.4	23.5	20.2
Cash P/E	39.2	48.3	40.8	25.1	20.7	17.6
EV/EBITDA	33.7	37.7	31.4	18.5	14.2	11.6
EV/Sales	6.0	6.0	4.6	3.4	2.9	2.4
Price to Book Value	8.7	7.6	6.9	5.8	4.8	4.0
Dividend Yield (%)	0.4	0.5	0.7	0.7	0.8	0.9
Profitability Ratios (%)						
RoE	19.3	12.6	13.9	21.4	22.4	21.8
RoCE	18.6	12.3	14.1	21.5	23.2	23.1
RoIC	112.6	61.4	70.3	100.0	112.5	134.6
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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DISCLOSURE OF INTEREST

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The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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