

BSE SENSEX
57,925

S&P CNX
17,077

CMP: INR2,924 TP: INR3,625 (+24%)

Buy



Bloomberg	EIM IN
Equity Shares (m)	273
M.Cap.(INRb)/(USDb)	799.7 / 9.7
52-Week Range (INR)	3886 / 2311
1, 6, 12 Rel. Per (%)	-7/-19/23
12M Avg Val (INR M)	2338
Free float (%)	50.8

Financials & Valuations (INR b)

Y/E MARCH	FY23E	FY24E	FY25E
Sales	144.6	167.3	194.8
EBITDA	34.2	41.2	49.7
Adj. PAT	28.0	36.8	46.6
Adj EPS (INR)	102.5	134.7	170.4
EPS Gr (%)	67.1	31.4	26.5
BV/Sh (INR)	539	648	794

Ratios

RoE (%)	20.3	22.3	23.1
RoCE (%)	20.3	22.3	23.1
Payout (%)	24.4	18.6	14.7

Valuations

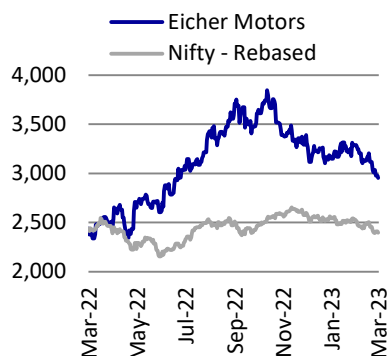
P/E (x)	28.5	21.7	17.2
P/BV (x)	5.4	4.5	3.7
Div. Yield (%)	0.9	0.9	0.9
FCF Yield (%)	3.7	3.2	4.1

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	49.2	49.2	49.2
DII	10.1	10.1	9.8
FII	29.9	30.3	29.5
Others	10.9	10.5	11.5

FII Includes depository receipts

Stock Performance (1-year)



Expanding Hunter beyond tier-1/2 cities

Rollout of Hunter/Super Meteor underway in export markets

We met with the management of Eicher Motors (EIM) to get an update on the Royal Enfield (RE) business. Management sees stable demand in the domestic market and expects the next phase of growth to come from the ramp-up of Hunter in tier-3 and smaller cities. While EIM is witnessing a seasonal decline in export markets, it expects growth to be driven by the ramp-up in the portfolio and its reach in international markets. EIM will continue to launch new products to address demand in international markets and to give upgrade options to RE owners in India. Although the focus remains on profit growth over profitability, we believe there are levers for margin improvement in the near term.

- Domestic demand stable for RE:** Demand remains healthy for RE in the domestic market, with no impact of macro headwinds or IT sector weakness (given relatively high salience). RE continues to gain market share in the 150cc and above motorcycle segment (FY23YTD at 31.8% v/s FY22 at 28.7% vs FY19 at 25%). If the interest rate stabilizes, it could support demand for RE.
- Hunter to expand in tier-3 and smaller cities:** Demand for Hunter has stabilized at 15k-17k per month. However, demand is skewed toward tier-1 & 2 cities. EIM has just started with market activation in tier-3 and smaller cities, as there is still an order backlog from tier-1 & 2 cities. Hence, it expects the next phase of growth for Hunter to come from tier-3 and smaller markets. Demand remains skewed toward premium variants.
- RE sees stable demand for retail exports:** As per the management, most of the markets are doing fine and the moderation witnessed in export volume is due to seasonality as 2/3rd of volumes come from the markets with heavy winters. Although RE is currently present in 64 countries, a large part of volumes come from only 15 countries, where it is in an early phase of ramp-up. Beyond these 15 countries, RE is working to activate the markets and get structures right. Hunter is launched in APAC but awaits a roll-out in other markets. Similarly, Super Meteor will be launched in international markets in 4QFY23.
- New product pipeline remains strong:** EIM will continue to launch new products, with two new models estimated to be launched every year. EIM plans to leverage its 3-4 platforms to extend into adjacencies with different genres of motorcycles. Most of the upcoming product launches will target international markets and address potential upgrades by RE owners in India. The share of existing RE owners in RE volumes is 7-8%.
- Consistent focus on profit growth over profitability:** RE continues to focus on growing profits rather than focusing on volume-driven margin expansion. However, we see many levers for EBITDA margin from the 3QFY23 base: 1) full benefits of low RM costs (just 50bp in 3Q), 2) full benefits of price hikes in Hunter & Bullet (1.5% in Nov'22), 3) stable mix (higher Hunter, lower exports), and 4) operating leverage.

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- Currently, profitability is also hit by the cost of developing an export market as well as a full-scale EV organization. In the medium term, EIM expects to benefit from an increasing share of exports, the spares/accessories/merchandise business, and operating leverage.

Other takeaways

- Apart from tapping existing RE owners for upgrades, RE is also engaging with them regarding services, extended warranties, road-side assistance, accessories and merchandise. For accessories, the focus is on improving supplies and expanding offerings.
- It expects new launches from the competition to help expand the market. Unlike its competitors, RE is just focused on this segment which works to its advantage.
- RE is yet to pass on the cost of OBD phase-2 norms as the cost increase is nominal.

Valuation and view

The Hunter launch has led to a recovery for RE in the India market by expanding the addressable market and bringing in new customers, thereby increasing the market share in the premium motorcycle segment. While EIM is witnessing a seasonal decline in the international business, the opportunity is very large and could be an important driver of volumes and profits for RE. We believe improving supplies, new product launches and the ramp-up in exports will drive the next phase of growth for RE. Besides, stable commodity prices will also support margins and drive earnings growth. The stock trades at 21.7x/17.2x FY24E/FY25E consolidated EPS. We have a BUY rating on the stock with a TP of INR3,625 (Mar'25E SoTP).

Exhibit 1: SoTP valuations – INR3,625 (Mar'25 based)

INR M		FY24E	FY25E
Royal Enfield			
PAT		32,285	40,085
Equity Value	PE @ 20x	6,45,703	8,08,914
VECV (@ 54.4% Economic interest)			
EBITDA		9,902	12,751
EV	@ 12x EV/EBITDA	1,18,820	1,53,013
Net Debt		-21,150	-29,136
Equity Value		1,39,970	1,82,148
Total Equity Value		7,85,673	9,91,063
Target Price (INR/Sh)		2,874	3,625
Upside (%)			24

Source: Company, MOFSL

Exhibit 2: Valuations – P/E and P/B band

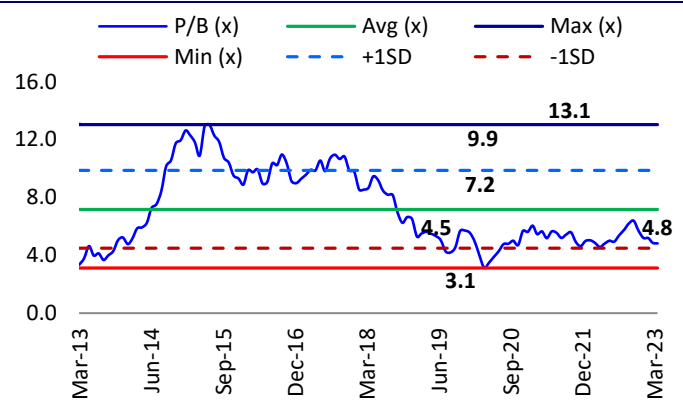
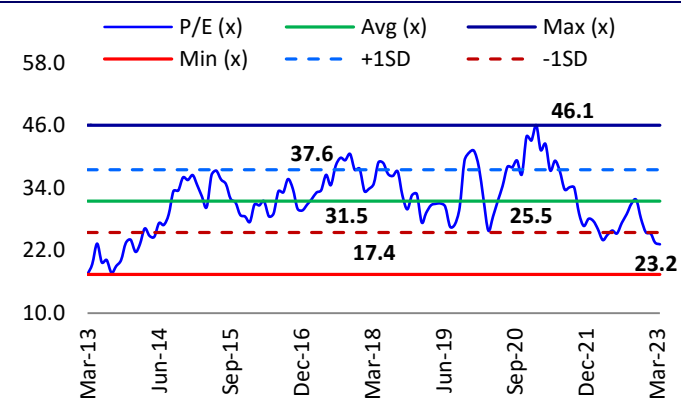
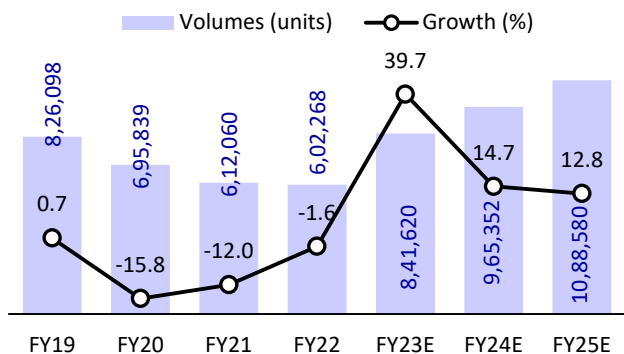


Exhibit 3: Snapshot of Revenue Model

000 units	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
ROYAL ENFIELD (S/A)							
Total 2W (units)	826	696	612	602	842	965	1,089
Growth (%)	0.7	-15.8	-12.0	-1.6	39.7	14.7	12.8
Net realn (INR'000/unit)	118	129	140	166	162	165	170
Growth (%)	8.3	10.1	8.2	18.4	-2.0	1.4	3.2
RE Revenues (INR b)	98	91	86	101	139	161	188
Growth (%)	9.3	-7.3	-5.1	17.4	37.5	15.7	16.5
VECV							
Dom - LMD	48	36	27	36	51	59	65
Growth (%)	11.4	-26.2	-23.3	33.0	39.7	15.0	10.5
% of CV Vols	67.5	75.1	68.3	65.4	68.9	68.5	67.9
Dom - HCV	13	7	8	11	18	21	23
Growth (%)	7.3	-45.2	6.0	41.2	62.0	18.0	12.0
% of CV Vols	18.5	15.3	19.2	19.5	23.8	24.3	24.4
Total Dom.	62	43	35	47	69	79	88
Growth (%)	10.5	-30.3	-18.3	34.8	44.8	15.8	10.9
% of CV Vols	86.0	90.4	87.5	84.9	92.7	92.8	92.3
Exports	10	5	5	8	5	6	7
Growth (%)	11.2	-54.4	10.0	67.7	-36.3	15.0	18.8
% of CV Vols	14.0	9.6	12.5	15.1	7.3	7.2	7.7
Total CV vols	72	48	40	56	74	86	95
Growth (%)	10.6	-33.6	-15.6	38.9	32.6	15.7	11.5
MDEP Vols ('000 Ex captive)	34	31	22	23	24	26	0
Net realn (INR'000/unit)	1,590	1,750	2,102	2,230	2,427	2,452	2,478
Growth (%)	4	10	20	6	9	1	1
VECV Revenues (INR b)	116	85	87	127	184	215	241
Growth (%)	15.4	-26.5	1.8	46.7	44.4	16.8	12.6
Net Consol sales (INR b)	98	92	87	103	145	167	195
Growth (%)	9.3	-6.6	-4.7	18.1	40.4	15.7	16.4

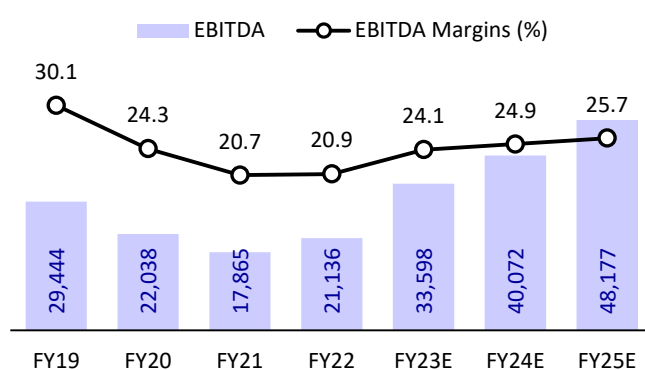
Story in charts

Exhibit 4: Volume and growth trends for RE



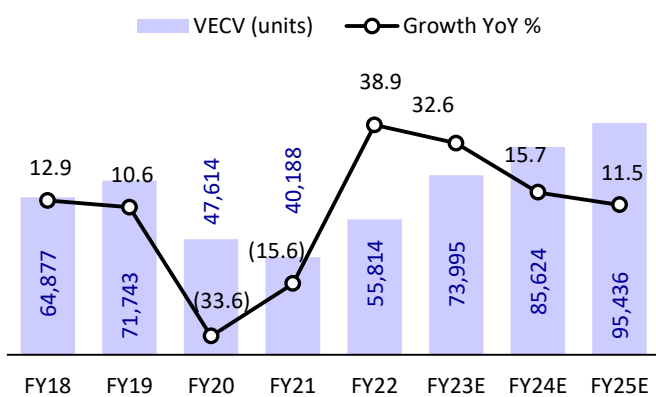
Source: Company, MOFSL

Exhibit 5: EBITDA and EBITDA margin trends for RE



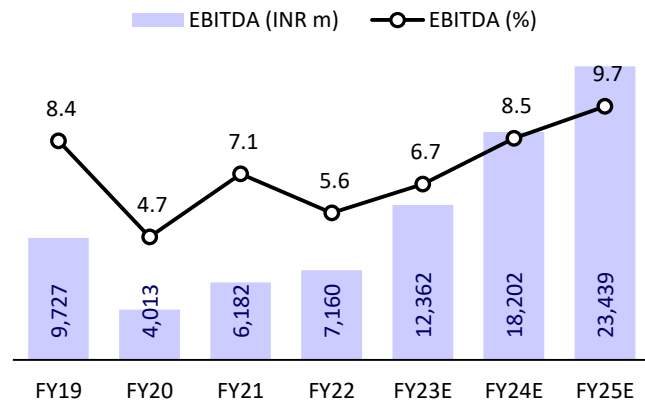
Source: Company, MOFSL

Exhibit 6: Volume growth trajectory for VECV



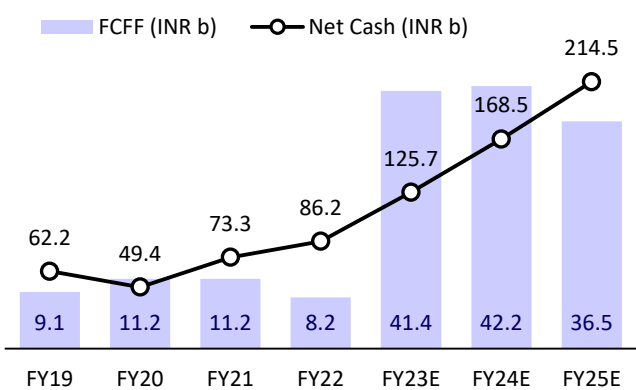
Source: Company, MOFSL

Exhibit 7: EBITDA and EBITDA margin for VECV



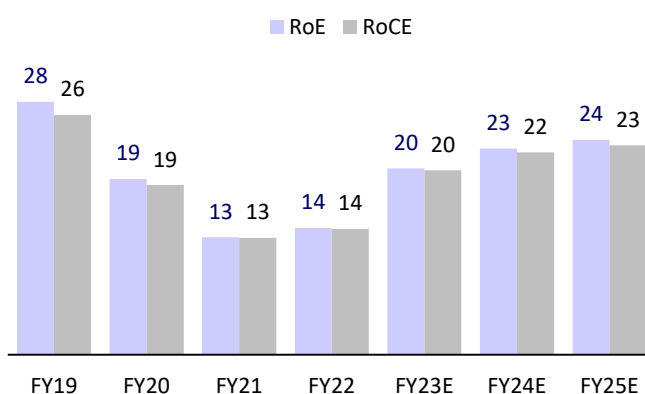
Source: Company, MOFSL

Exhibit 8: Strong FCF generation and liquidity (pro-rata)



Source: Company, MOFSL

Exhibit 9: Return ratios to improve



Source: Company, MOFSL

Financials and valuations

Income Statement (Consolidated)						(INR Million)		
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Op. Income	92,193	97,971	91,536	87,204	1,02,978	1,44,613	1,67,308	1,94,818
Change (%)	16.1	6.3	-6.6	-4.7	18.1	40.4	15.7	16.4
EBITDA	28,076	29,031	21,804	18,313	21,723	34,193	41,176	49,673
EBITDA Margin (%)	31.5	29.9	24.0	21.1	21.4	24.1	24.9	25.8
Depreciation	2,233	3,003	3,815	4,507	4,519	5,156	5,932	6,418
EBIT	25,843	26,028	17,988	13,805	17,203	29,038	35,245	43,255
Interest cost	53	73	189	165	188	275	280	280
Other Income	2,801	4,434	5,433	4,532	4,408	5,250	7,800	9,900
PBT	28,591	30,389	23,232	18,173	21,424	34,013	42,765	52,875
Tax	9,359	10,770	5,275	4,527	5,259	8,655	10,877	13,362
Effective Rate (%)	32.7	35.4	22.7	24.9	24.5	25.4	25.4	25.3
PAT	19,232	19,619	17,957	13,646	16,165	25,357	31,888	39,514
Change (%)	26.2	2.0	-8.5	-24.0	18.5	56.9	25.8	23.9
Less: Minority Interest	-2,566	-2,584	-317	-311	-602	-2,657	-4,925	-7,071
Adj. PAT	21,017	22,203	18,274	13,829	16,766	28,014	36,813	46,585
Change (%)	22.7	5.6	-17.7	-24.3	21.2	67.1	31.4	26.5

Balance Sheet (Consolidated)						(INR Million)		
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Sources of Funds								
Share Capital	273	273	273	273	273	273	273	273
Reserves	70,028	88,914	99,536	1,14,108	1,25,807	1,46,985	1,76,964	2,16,714
Net Worth	70,301	89,187	99,809	1,14,381	1,26,080	1,47,259	1,77,237	2,16,987
Deferred Tax	1,421	2,739	2,522	2,215	2,201	3,574	5,301	7,439
Loans	1,508	1,868	1,444	1,574	588	60	60	60
Capital Employed	73,230	93,794	1,03,775	1,18,170	1,28,869	1,50,893	1,82,598	2,24,486
Application of Funds								
Gross Fixed Assets	21,443	27,673	36,194	40,904	44,234	54,867	61,367	67,867
Less: Depreciation	6,426	8,927	12,419	16,571	19,991	25,147	31,079	37,497
Net Fixed Assets	15,017	18,746	23,775	24,333	24,243	29,720	30,288	30,371
Capital WIP	3,332	4,497	3,122	3,143	5,048	250	250	250
- of which Goodwill	223	223	223	0	0	0	0	0
Investments	55,808	49,225	57,488	39,021	77,206	79,198	82,892	88,196
Curr.Assets, L & Adv.	21,065	41,400	40,113	79,089	55,514	72,042	1,04,200	1,46,445
Inventory	3,946	6,334	5,724	8,746	11,324	6,866	7,941	9,254
Sundry Debtors	680	903	868	1,582	3,020	1,144	1,324	1,542
Cash & Bank Balances	12,120	29,653	29,506	58,304	27,225	57,357	87,214	1,26,652
Loans & Advances	7	13	1	4,592	6,768	0	0	0
Others	4,312	4,497	4,014	5,866	7,177	6,675	7,721	8,997
Current Liab. & Prov.	21,992	20,075	20,722	27,416	33,141	30,317	35,033	40,776
Sundry Creditors	11,719	12,341	10,277	15,358	17,881	17,164	19,854	23,135
Other Liabilities	9,511	6,928	9,472	10,930	13,362	11,443	13,236	15,423
Provisions	763	807	974	1,128	1,898	1,711	1,944	2,217
Net Current Assets	-927	21,325	19,391	51,673	22,373	41,725	69,167	1,05,669
Application of Funds	73,230	93,794	1,03,775	1,18,170	1,28,869	1,50,893	1,82,598	2,24,486

E: MOFSL Estimates

Financials and valuations

Ratios (Consolidated)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)								
EPS	77.1	81.4	66.9	50.7	61.3	102.5	134.7	170.4
EPS Growth (%)	23.5	5.6	-17.8	-24.3	21.1	67.1	31.4	26.5
Book Value per Share	258	327	366	419	461	539	648	794
DPS	11.0	12.5	12.5	17.0	21.0	25.0	25.0	25.0
Payout (Incl. Div. Tax) %	15.6	17.9	21.7	33.6	34.2	24.4	18.6	14.7
Valuation (x)								
P/E	37.9	35.9	43.7	57.7	47.7	28.5	21.7	17.2
EV/EBITDA	22.3	21.2	30.9	34.2	28.5	16.7	12.6	9.6
EV/Sales	5.2	4.6	5.5	5.4	4.2	2.8	2.3	1.8
Price to Book Value	11.3	8.9	8.0	7.0	6.3	5.4	4.5	3.7
Dividend Yield (%)	0.4	0.4	0.4	0.6	0.7	0.9	0.9	0.9
Profitability Ratios (%)								
RoE	34.0	27.8	19.3	12.9	13.9	20.5	22.7	23.6
RoCE	32.6	26.4	18.7	12.9	13.8	20.3	22.3	23.1
RoIC	1,373.6	298.2	117.5	67.6	72.4	141.2	227.5	347.8
Turnover Ratios								
Debtors (Days)	3	3	3	7	11	3	3	3
Inventory (Days)	16	24	23	37	40	17	17	17
Creditors (Days)	48	46	41	64	63	43	43	43
Working Capital (Days)	-29	-19	-15	-21	-13	-23	-23	-23
Asset Turnover (x)	1.2	1.0	0.9	0.7	0.8	0.9	0.9	0.9
Leverage Ratio								
Net Debt/Equity (x)	-0.7	-0.6	-0.7	-0.7	-0.7	-0.8	-0.8	-0.8

Cash Flow Statement (Consolidated)

(INR Million)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profit before Tax	28,956	32,798	23,549	17,984	22,025	36,669	47,690	59,947
Depreciation	2,233	3,003	3,815	4,507	4,519	5,156	5,932	6,418
Direct Taxes Paid	-8,071	-9,085	-6,283	-4,566	-5,136	-7,282	-9,150	-11,224
(Inc)/Dec in Working Capital	4,380	-4,557	862	2,578	-1,503	5,618	1,435	1,750
Interest/Div. Received	-394	-1,304	-2,207	-3,103	-2,440	-4,950	-7,500	-9,600
Other Items	-2,282	-5,126	-2,795	-265	-2,195	188	-6,540	-8,435
CF from Oper. Activity	24,823	15,730	16,941	17,136	15,270	35,399	31,867	38,856
(Inc)/Dec in FA+CWIP	-7,460	-7,874	-5,445	-5,375	-6,387	-5,836	-6,500	-6,500
Free Cash Flow	17,363	7,855	11,497	11,760	8,883	29,563	25,367	32,356
(Pur)/Sale of Invest.	-13,991	1,301	-9,639	-11,104	-3,446	2,958	3,806	4,296
CF from Inv. Activity	-21,450	-6,574	-15,084	-16,479	-9,833	-2,878	-2,694	-2,204
Issue of Shares	195	361	289	384	65	0	0	0
Inc/(Dec) in Debt	390	247	-709	130	-1,046	-529	0	0
Interest Paid	-34	-50	-75	-91	-142	-275	-280	-280
Dividends Paid	-3,171	-3,482	-8,087	0	-4,647	-6,835	-6,835	-6,835
CF from Fin. Activity	-2,620	-2,923	-8,583	-148	-5,934	-7,639	-7,115	-7,115
Inc/(Dec) in Cash	752	6,233	-6,725	509	-496	24,882	22,057	29,537
Add: Beginning Balance	172	925	7,158	432	941	445	25,328	47,385
Closing Balance	924	7,158	432	941	445	25,328	47,385	76,922

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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