Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Eicher Motors Ltd

Eyeing on the global space

Automobiles	Sharekhan code: EICHERMOT
Reco/View: Buy ↔	CMP: Rs. 3,407 / Price Target: Rs. 3,855 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 13.40

Updated Dec 08, 2022

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

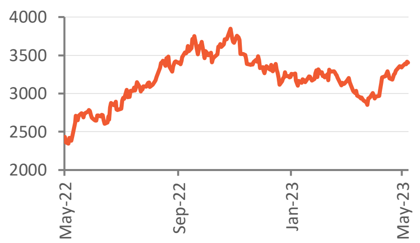
Company details

Market cap:	Rs. 93,157 cr
52-week high/low:	Rs. 3,886 / 2,110
NSE volume: (No of shares)	6.2 lakh
BSE code:	505200
NSE code:	EICHERMOT
Free float: (No of shares)	13.9 cr

Shareholding (%)

Promoters	49.2
FII	28.6
DII	11.3
Others	10.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	15.0	5.9	-11.5	40.0
Relative to Sensex	11.5	2.6	-13.4	28.9

Sharekhan Research, Bloomberg

Summary

- We maintain our Buy rating on Eicher Motors Limited (EML) with a revised PT of Rs. 3,855, led by increasing premiumisation in the domestic market, expectation of healthy traction in exports, and rise in non-auto income.
- EBITDA margin came above estimate on account of higher-than-expected gross margin expansion.
- Management is optimistic on RE's performance and is looking for double-digit growth in the CV industry in FY2024E.
- RE is expected to be the key beneficiary of the rising premiumisation trend in the domestic 2W market. The stock trades at a P/E multiple of 23.4x and EV/ EBIDTA multiple of 17.4x.

In Q4FY2023 Eicher Motors Limited's (EML) EBITDA margin was slightly above our estimate on account of healthy gross margin expansion. Revenue and EBITDA were 1.1% and 3.9% above estimates, respectively, while EBITDA margin was 70 bps above estimates. With a 1.3% q-o-q decline in volumes and a 3.6% q-o-q increase in ASPs, revenue increased by 2.2% q-o-q to Rs. 3,804 crore (vs. our estimate of Rs. 3,764 crore). The improvement in ASPs can be attributed to a better product mix, healthy export mix, and pricing action in the earlier period. Although Royal Enfield (RE) has increased prices by 1-1.5% for Hunter and Bullet in Q3FY2023, the full benefit of increased prices was not reflected in Q3 financials as it was clearing out already booked Hunter at the previous price range. Soft raw-material cost trend has translated into a 250 bps q-o-q expansion in gross margin. Consequently, EBITDA margin expanded by 150 bps q-o-q to 24.5% (vs. our estimate of 23.9%). VE Commercial Vehicles (VECV) registered strong performance in Q4FY2023 and reported a 340bps q-o-q expansion in EBITDA margin to 10.4% and a 219% y-o-y increase in PAT. EML's share in VECV's PAT stood at Rs. 173.4 crore. With healthy operating performance and sharp jump in VEV's performance, EML reported a 22.2% q-o-q increase in APAT to Rs. 906 crore (against our estimate of Rs. 863 crore). EML has announced a dividend of Rs. 37/share for FY2023 (vs. Rs. 21 in FY22). RE is expected to remain a key beneficiary of the rising premiumization trend in the domestic market, as the premium segment is outperforming the entry-level segment and RE has expanded its addressable market via launching Hunter 350cc. Along with the domestic market, RE has been eyeing on a healthy market share in the mid-size motorcycle segment in export markets. We reiterate our Buy rating on the stock with a revised price target (PT) of Rs. 3,855.

Key positives

- Gross margin expanded by 250 bps q-o-q to 44.3% and translated into a 150 bps q-o-q expansion in EBITDA margin to 24.5%.
- VECV registered strong performance in Q4FY2023 as its PAT increased by 219% y-o-y. Hence, Profit from the JV for EML stood at Rs. 173.4 crore in Q4FY2023 (vs. Rs. 63.9 crore in Q3FY2023).
- ASPS has increased by 3.6% q-o-q on account of better product mix and earlier pricing action.

Key negatives

- RE's volumes were down by 1.3% q-o-q as the company undertook an inventory correction before the implementation of BSVI phase-2 norms.
- Other expenses expanded by 140 bps q-o-q to 13.2% in Q4FY2023.

Management Commentary

- Despite high base, the CV industry is expected to grow in double digits in FY2024.
- The company has earmarked Rs. 1,000 crore for capex in FY2024. ELM aims to invest on both EV and IC related product development.
- Management is optimistic about a further increase in RE's penetration in global as well Indian markets.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 3,855: In Q4FY2023, EML's EBIDTA margin came slightly above estimates. The company also reported healthy profitability in the VECV business. Further, management is looking for double-digit growth in the CV industry on account of rise in replacement demand. With regular product intervention and focus on brand penetration, EML is aiming to expand RE's market base – both in the domestic as well as export markets. Along with a strong product pipeline, management is looking to increase its non-auto revenue to support profitability. We assume RE's upcoming launches would further enhance its addressable market, though we still wait to build up expectations for its EV project. We have built in a 16.8% earning CAGR because of an 11.1% volume CAGR and 120 bps EBIDTA margin expansion. We maintain our BUY rating on the stock with a revised PT of Rs. 3,855 on account of rising premiumisation in the domestic market, expectation of healthy traction in export income, and rise in non-auto income. Currently, the stock trades at a P/E multiple of 23.4x and EV/ EBIDTA multiple of 17.4x.

Key Risks

Failure of new launches due to competition may result in RE's market share loss and adversely impact our future projections. Moreover, if chips shortage aggravates against our expectations of easing out gradually, volume and performance estimates may be impacted.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23P	FY24E	FY25E
Net Sales	8,720	10,298	14,442	16,849	19,034
Growth (%)	-4.7	18.1	40.2	16.7	13.0
EBIDTA	1,831	2,192	3,444	4,196	4,759
OPM (%)	21.0	21.3	23.8	24.9	25.0
Adjusted PAT	1384.1	1691.7	2913.9	3467.4	3978.3
Growth (%)	-24.3	22.2	72.3	19.0	14.7
EPS (Rs)	51	62	107	127	145
PE (x)	67.3	55.1	32.0	26.9	23.4
P/BV (x)	8.1	7.4	6.2	5.4	4.7
EV/EBIDTA (x)	46.7	38.7	23.9	19.7	17.4
RoNW (%)	12.1	13.4	19.4	20.1	20.1
RoCE (%)	11.8	13.0	17.3	18.2	17.9

Source: Company; Sharekhan estimates

VECV: Looking for double-digit growth in the CV industry in FY2024

- VECV reported a strong performance in Q4FY2023, led by seasonality and prebuying before the implementation of BSVI phase-2 norms.
- With a 31.3% y-o-y increase in volumes, VECV reported 42% y-o-y growth in the topline. EBITDA margin expanded by 340 bps y-o-y to 10.4% on account of operating leverage and soft RM cost trend. PAT increased by 219% y-o-y to Rs. 315.39 cr. EIM's share in VECV's PAT stood at Rs. 173.4cr.
- Management is optimistic on the growth prospects of the CV segment in India and assumes the uptrend in the CV cycle would continue for the next 2-3 years. Despite high base, management is looking for double-digit growth in the CV industry in FY2024 due to rise in replacement demand, continued investment in the infra segment, and increased demand for buses.

Royal Enfield: Optimistic on 2W demand

- Post the launch of *Hunter 350 CC*, RE has seen a revival in volumes and management is optimistic on the domestic 2W industry's growth prospects.
- Given *Hunter* has developed healthy inroads in urban areas, management is now looking to increase *Hunter's* sales in tier 2-3 cities.
- Management assumes that RE has a large room to play in the domestic market, as it has 7-8% market share in the domestic motorcycle market and premiumisation trend is rising.
- The company observes healthy order bookings for its latest launched product, Meteor – 650 cc.
- RE plans to develop all new models with global standards.
- RE would have an addressable market of 1mn units in export markets and management now assumes it has been enjoying a 7-8% market share in few of the key markets in the mid-size motorcycle segment.
- Beyond the IC segment, the company has started focusing on the development of electric motorcycles.
- The company has planned capex of Rs. 1,000 crore for FY2024, largely for product development in IC as well as EV space.
- In FY2023, export revenue stood at Rs. 2,041 crore and non-motorcycle revenue stands at Rs. 2,080 crore.
- Eicher currently operates CKD plants in four countries – Argentina, Columbia, Thailand, and Brazil. The company is now looking for new locations such as Bangladesh and Nepal for CKD plants.
- Financing penetration for the RE business stands at 55% in FY2023.

Change in earning estimate

	Earlier		New		% change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	16489	18254	16,849	19,034	2.2%	4.3%
EBITDA	4020	4,592	4,196	4,759	4.4%	3.6%
EBITDA margin	24.4%	25.2%	24.9%	25.0%		
PAT	3326	3,758	3,467	3,978	4.3%	5.9%
EPS	122	138	127	145	4.3%	5.9%

Source: Company; Sharekhan Research

Results (Consolidated) Rs cr

Particulars	Q4FY23	Q4FY22	YoY%	Q3FY23	QoQ%
Revenue	3,804	3,193	19.1	3,721	2.2
Total Expenses	2,871	2,436	17.8	2,864	0.2
EBITDA	934	757	23.3	857	8.9
Other income	206	118	74.1	192	6.9
Depreciation	148	119	23.9	135	9.8
Interest	8	3	160.7	8	7.7
PBT	983	753	30.6	907	8.4
Tax	251	196	27.8	230	8.9
Reported PAT	906	610	48.4	741	22.2
Adjusted PAT	906	610	48.4	741	22.2
EPS (Rs.)	33.1	22.3	48.4	27.1	22.2

Source: Company; Sharekhan Research

Key ratios (Consolidated)

Particulars	Q4FY23	Q4FY22	YoY (bps)	Q3FY23	QoQ (bps)
Gross margin (%)	44.3	43.7	60	41.8	250
EBIDTA margin (%)	24.5	23.7	80	23.0	150
Net profit margin (%)	23.8	19.1	470	19.9	390
Effective tax rate (%)	25.5	26.1	(60)	25.4	10

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – 2W demand to recover in support of low base

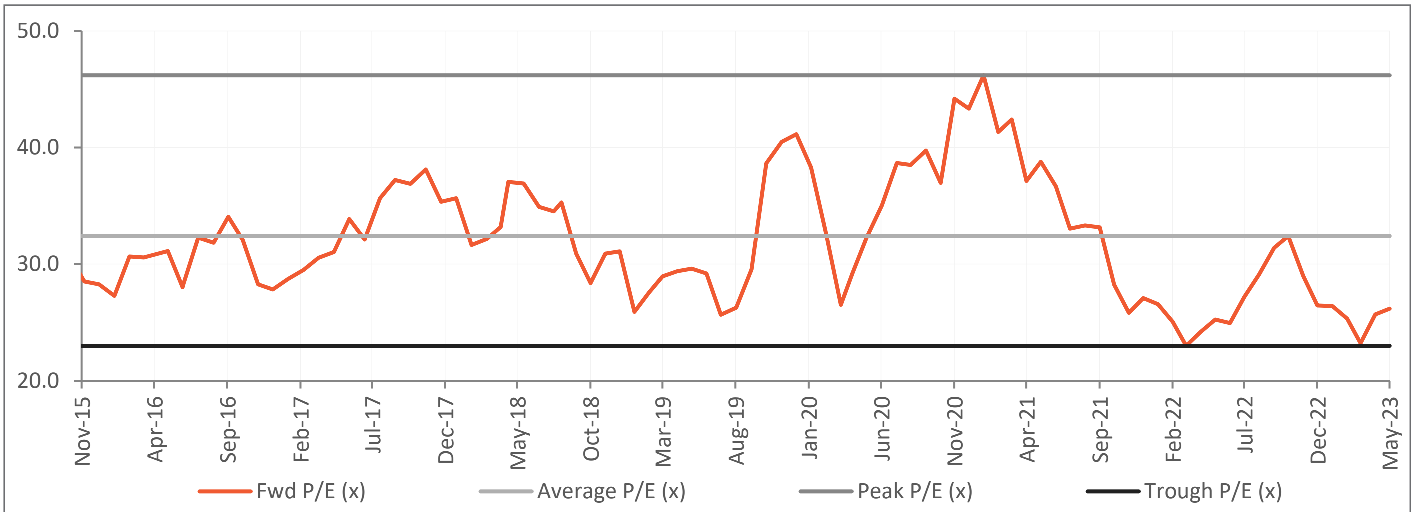
We expect growth momentum to recover in FY2024E, driven by improvement in rural sentiments in the domestic market. The government's expenditure on the infra segment coupled with increased preference for personal transport is expected to improve volumes. With a rise in ownership cost due to price hikes and the implementation of new regulations, the entry-level segment is facing headwinds; however, the premium segment is continuously performing. Export volumes have been muted but are reaching their bottom levels. Export volumes are expected to improve gradually in the coming months. A positive recovery in African markets would augur well for 2W exports from India.

■ Company Outlook – Beneficiary of premiumization in the 2W and multi-year CV cycle

EML is well poised to recover strongly and put performance in top gear, driven by an increase in addressable market size and improvement in operational performance in the company's 2W division. Further, the company's CV business is geared up to significantly improve its contribution to consolidated PBT, led by expected market share gains, rising synergies with the JV partner (Volvo Group), and operating leverage benefits.

■ **Valuation – Maintain Buy with revised PT of Rs 3,855:** In Q4FY2023, EML's EBIDTA margin came slightly above estimates. The company also reported healthy profitability in the VECV business. Further, management is looking for double-digit growth in the CV industry on account of rise in replacement demand. With regular product intervention and focus on brand penetration, EML is aiming to expand RE's market base – both in the domestic as well as export markets. Along with a strong product pipeline, management is looking to increase its non-auto revenue to support profitability. We assume RE's upcoming launches would further enhance its addressable market, though we still wait to build up expectations for its EV project. We have built in a 16.8% earning CAGR because of an 11.1% volume CAGR and 120 bps EBIDTA margin expansion. We maintain our BUY rating on the stock with a revised TP of Rs. 3,855 on account of rising premiumisation in the domestic market, expectation of healthy traction in export income, and rise in non-auto income. Currently, the stock trades at a P/E multiple of 23.4x and EV/ EBIDTA multiple of 17.4x.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	Rs/Share	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Eicher Motors	3,407	55.1	32.0	26.9	38.7	23.9	19.7	13.0	17.3	18.2
Hero MotoCorp	2,599	21.0	17.8	15.4	12.3	10.3	8.5	15.3	17.0	18.2
Bajaj Auto	4,591	26.5	23.2	20.0	20.1	16.4	13.8	17.8	22.0	23.2

Source: Company, Sharekhan estimates

About company

EML is the owner of the Royal Enfield brand and is a leading manufacturer in the premium motorcycle segment. In 2008, the company formed a JV with Volvo Group, VE Commercial Vehicles (VECV). Eicher holds a 54% stake and has transferred its CV businesses to the JV.

Investment theme

EML is a brand-conscious company and invests significant time and money in building up the motorcycling community and promoting its brands through direct engagement with customers. The company is focusing on increasing its addressable market size and improving the operational performance of the company's 2W division through new launches and is working on a profitable growth model. Further, the company's CV business is geared up to significantly improve its contribution to consolidated PBT, led by expected market share gains, increasing synergies with the JV partner (Volvo Group), and operating leverage benefits. The company is also focused on improving its export business through brand recognition and widening the addressable market. We remain positive on EML's growth prospects and recommend a Buy rating on the stock.

Key Risks

- Failure of new launches due to competition may result in RE's market share loss and affect our estimates.
- If semiconductor chip shortage aggravates against expectations of easing out gradually, volume and performance estimates may be impacted.

Additional Data

Key management personnel

Siddhartha Lal	Managing Director & CEO - Eicher Motors
B Govindrajan	CEO - Royal Enfield & Wholetime Director - Eicher Motors
Vidhya Srinivasan	Chief Financial Officer - Eicher Motors

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Simran Siddhar Tara Ben Trst	43.99%
2	FIL Ltd	2.51%
3	BlackRock Inc	2.07%
4	Vanguard Group Inc/The	1.97%
5	SBI Funds Management Ltd	1.89%
6	Amansa Capital Pvt Ltd	1.83%
7	Brinda Lal Trust	1.78%
8	UTI Asset Management Co Ltd	1.53%
9	Norges Bank	1.29%
10	Republic of Singapore	1.28%

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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