

Eicher Motors

Aggressive competition could hurt growth

We downgrade Eicher Motors to REDUCE (from ADD earlier) as a significant increase in competitive intensity has changed the business dynamics unfavourably for RE. Over the last two days, both Harley Davidson (in partnership with Hero MotoCorp) and Triumph (in partnership with Bajaj Auto) have launched cruiser bikes at extremely competitive and similar price points, which are marginally higher than RE's best-selling Classic350cc (Chrome). What leaves us confused is the fact that while pricing is aggressive, both players seem to have very limited capacity to start with. We hence believe that this is likely to be introductory pricing and unlikely to be sustainable in the long run for the features/brands on offer. Nevertheless, RE would be forced to reconsider its pricing/brand strategy very quickly, which will in turn drive margin pressure. Accordingly, we have now lowered our earnings estimates by 16-18% over FY24-25E as we revisit our growth and margin estimates. As a result, our TP is reduced to INR 3,086 per share (from INR 3,715 per share earlier). We expect RE to be in a much better position to fight back once this competitive pricing stabilizes. However, if these competitive price points sustain for a higher-than-expected time, it would lead to further downside risks to our estimates.

- **Significant increase in competition to hurt growth momentum:** Over the last two days, two large brands, viz., Harley Davidson (in partnership with Hero MotoCorp) and Triumph (in partnership with Bajaj Auto) have launched products in the cruiser segment at an extremely aggressive but similar price points, which is marginally higher than RE's Classic 350cc (Chrome). While HD440X pricing took us by surprise, that of the Triumph 400cc came in as a bigger surprise, given that it comes with superior features like a liquid-cooled engine, upside-down forks, ride-by-wire, torque assist clutch, etc. We believe both these prices are likely to be introductory as both these brands try to gain a foothold in the cruiser market in India, which is currently dominated by RE.
- **Competitive pressure likely to drive margin pressure:** In our view, RE would need to revisit its product/pricing strategy as prospective RE customers are likely to consider brands like Harley/Triumph as very formidable alternatives. While we expect RE to recalibrate its strategy based on the impact competition may have on its market share, we believe margins are likely to remain under pressure in the interim.
- **Valuation and view:** Our earnings estimates stand lowered by 16-18% over FY24-25E as we lower our volume growth and margin assumptions. As a result, our TP is reduced to INR 3,086 per share (from INR 3,715 per share earlier). We downgrade the stock to REDUCE from ADD earlier.

Financial Summary

YE Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net Revenues	86,616	1,01,271	1,41,759	1,47,648	1,70,160
EBIDTA	17,813	21,723	34,436	34,242	38,609
EBITDA margins	20.6	21.4	24.3	23.2	22.7
Adj. PAT	13,469	16,766	29,139	29,506	33,365
EPS (Rs)	49.3	61.3	106.6	107.9	122.0
P/E (x)	67.2	54.0	31.1	30.7	27.1
EV / EBITDA (x)	45.4	36.9	22.5	22.2	19.2
RoCE (%)	15.1	16.8	22.7	20.4	20.5

Source: Company, HSIE Research

REDUCE

CMP (as on 05 Jul 23)	INR 3,310
Target Price	INR 3,086
NIFTY	19,399

KEY STOCK DATA

Bloomberg code	EIM IN
No. of Shares (mn)	274
MCap (INR bn) / (\$ mn)	906/11,076
6m avg traded value (INR mn)	2,158
52 Week high / low	INR 3,890/2,790

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	12.8	1.6	18.0
Relative (%)	3.2	(6.8)	(5.2)

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	49.21	49.20
FIs & Local MFs	11.29	10.06
FPIs	28.63	29.85
Public & Others	10.87	10.89

Source : BSE

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Fig1: Earnings revision table

	Revised		Earlier		% change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
RE Volume	8,34,895	9,35,082	9,60,129	10,75,345	-13.0	-13.0
Growth (%)	0	12	15	12		
Revenue INR mn	1,50,631	1,73,530	1,68,619	1,94,281	-10.7	-10.7
EBIDTA INR mn	34,242	38,609	41,649	48,376	-17.8	-20.2
EBIDTA margin (%)	23	22	25	25		
PAT INR mn	29,506	33,365	35,024	40,641	-15.8	-17.9

Source: HSIE Research

Fig2: Comparison of RE Classic 350 peers

	Triumph Speed 400	HD 440X	Classic 350 Chrome
Pricing ex showroom in INR lakhs	2.33 (2.23 introductory)	2.29	2.21
Engine	398cc liquid cooled	oil cooled 440cc	350cc oil cooled engine
Power	40 HP	27 HP	20.21 HP
Torque	37.5 NM @ 6500 rpm	38 Nm @ 4000 rpm	27 Nm @ 4000 rpm
Weight kg	176	190.5	195
Seat height mm	790	805	805
Some Key features			
	USD front fork	USD front fork	-
	Std dual channel ABS	Std dual channel ABS	Std dual channel ABS
	adjustable mono shock suspension	preload adjustable dual rear shocks	
	digi-analogue display	std single pod TFT console	digi-analogue display
	ride by wire throttle	std full Led headlamp with light sensor	Halogen headlamp
	torque assist clutch	Std bluetooth connectivity with call, music and navigation control	
	switchable traction control		
	Std anti-theft immobiliser		
	heated grips		
	alloy wheels		

Source: HSIE Research

Financials

Consolidated Income Statement

Year to March (INR mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Revenues	97,174	90,736	86,616	1,01,271	1,41,759	1,47,648	1,70,160
Growth (%)	8.9	-6.6	-4.5	16.9	40.0	4.2	15.2
Material Expenses	50,574	49,959	51,128	59,557	82,119	85,811	1,00,389
Employee Expenses	7,024	7,958	8,432	8,210	10,019	10,996	12,321
Other Operating Expenses	11,341	11,815	9,831	13,489	17,848	19,582	22,212
Other Operating Income	796	800	588	1,708	2,663	2,982	3,370
EBITDA	29,031	21,804	17,813	21,723	34,436	34,242	38,609
EBITDA Margin (%)	29.6	23.8	20.4	21.1	23.8	22.7	22.2
Depreciation	3,003	3,815	4,507	4,519	5,262	5,835	6,523
EBIT	26,028	17,988	13,305	17,203	29,174	28,407	32,086
Other Income (Including EO Items)	4,259	5,433	4,532	4,408	5,951	6,546	7,201
Interest	73	189	165	188	280	185	185
PBT	30,214	23,232	17,673	21,424	34,845	34,768	39,101
Tax (Incl Deferred)	10,770	5,275	4,515	5,259	8,857	8,866	9,971
Minority Interest	2,584	317	311	602	3,152	3,604	4,234
RPAT	22,027	18,274	13,469	16,766	29,139	29,506	33,365
EO (Loss) / Profit (Net Of Tax)	-175	0	0	0	0	0	0
APAT	22,203	18,274	13,469	16,766	29,139	29,506	33,365
APAT Growth (%)	1.9	-17.7	-26.3	24.5	73.8	1.3	13.1
Adjusted EPS (Rs)	81.4	67.0	49.3	61.3	106.6	107.9	122.0
EPS Growth (%)	1.9	-17.7	-26.3	24.5	73.8	1.3	13.1

Source: Company, HSIE Research

Consolidated Balance Sheet

Year to March (INR mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital - Equity	273	273	273	273	273	273	273
Reserves	88,914	99,536	1,14,108	1,25,807	1,49,629	1,67,141	1,86,876
Total Shareholders' Funds	89,187	99,809	1,14,381	1,26,080	1,49,903	1,67,414	1,87,149
Total Debt	1,868	1,444	1,574	588	1,957	1,327	1,327
Net Deferred Taxes	2,739	2,522	2,215	2,201	2,913	2,913	2,913
Total Liabilities	93,794	1,03,775	1,18,170	1,28,869	1,54,773	1,71,655	1,91,389
Net fixed assets	18,711	23,744	24,333	24,243	26,900	31,065	34,542
Capital work-in-progress	4,497	3,122	3,143	5,048	4,721	4,721	4,721
Investments	49,260	57,519	39,021	77,206	1,23,207	1,38,207	1,53,207
Total Non-current Assets	72,468	84,385	66,497	1,06,496	1,54,827	1,73,992	1,92,469
Cash & Equivalents	29,653	29,506	58,304	27,225	8,571	8,087	10,003
Inventories	6,334	5,724	8,747	11,324	12,784	13,316	15,346
Debtors	903	868	1,582	3,020	3,689	2,023	2,331
Other Current Assets	4,510	4,016	10,458	13,944	12,104	12,629	13,154
Total Current Assets	41,400	40,113	79,090	55,514	37,149	36,055	40,834
Creditors	12,341	10,277	15,358	17,881	18,104	18,608	21,445
Other Current Liabilities & Provns	7,734	10,446	12,059	15,260	19,099	19,784	20,469
Total Current Liabilities	20,075	20,723	27,417	33,141	37,204	38,392	41,914
Net Current Assets	21,325	19,390	51,673	22,373	-54	-2,337	-1,080
Total Assets	93,794	1,03,775	1,18,170	1,28,869	1,54,773	1,71,655	1,91,389

Source: Company, HSIE Research

Consolidated Cash Flow

Year to March (INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	26,028	17,988	13,305	17,203	29,174	28,407	32,086
Interest Expenses	4,434	5,433	4,532	4,408	5,951	6,546	7,201
Depreciation	3,003	3,815	4,507	4,519	5,262	5,835	6,523
Working Capital Change	-4,720	1,788	-3,485	-1,779	3,773	1,799	659
Tax Paid	-9,452	-5,492	-4,822	-5,274	-8,144	-8,866	-9,971
Others	3,553	-3,226	6,048	1,259	7,921	3,604	4,234
OPERATING CASH FLOW (a)	22,670	20,306	20,086	20,338	43,937	37,325	40,731
Capex	-7,862	-7,473	-5,118	-6,334	-7,592	-10,000	-10,000
Free Cash Flow (FCF)	14,808	12,834	14,968	14,004	36,345	27,325	30,731
Investments	6,548	-8,259	18,498	-38,184	-46,001	-15,000	-15,000
INVESTING CASH FLOW (b)	-1,314	-15,732	13,380	-44,518	-53,593	-25,000	-25,000
Debt Issuance/(Repaid)	359	-423	130	-986	1,369	-630	0
Interest Expenses	-73	-189	-165	-188	-280	-185	-185
FCFE	15,094	12,221	14,933	12,830	37,433	26,510	30,546
Share Capital Issuance	0	0	1	0	0	0	0
Dividend	-4,109	-4,109	-4,634	-5,725	-10,086	-11,994	-13,630
FINANCING CASH FLOW (c)	-3,824	-4,722	-4,669	-6,898	-8,998	-12,809	-13,815
NET CASH FLOW (a+b+c)	17,533	-147	28,797	-31,079	-18,654	-484	1,916
EO Items, Others	12,120	29,653	29,506	58,304	27,225	8,571	8,087
Closing Cash & Equivalents	29,653	29,506	58,303	27,225	8,571	8,087	10,003

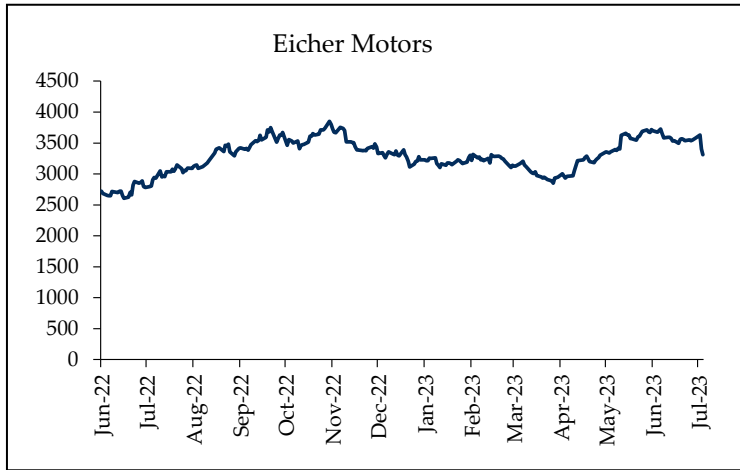
Source: Company, HSIE Research

Key Ratios

Year to March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
PROFITABILITY (%)							
GPM	48.4	45.4	41.4	42.2	43.1	43.0	42.1
EBITDA Margin	29.6	23.8	20.4	21.1	23.8	22.7	22.2
APAT Margin	22.7	20.0	15.4	16.3	20.2	19.6	19.2
RoE	24.9	18.3	11.8	13.3	19.4	17.6	17.8
RoIC (or Core RoCE)	26.7	20.1	14.8	16.1	17.6	13.7	13.9
RoCE	32.5	22.6	15.1	16.8	22.7	20.4	20.5
EFFICIENCY							
Tax Rate (%)	35.6	22.7	25.5	24.5	25.4	25.5	25.5
Fixed Asset Turnover (x)	3.5	2.5	2.1	2.2	2.6	2.3	2.3
Inventory (days)	24	23	37	41	33	33	33
Debtors (days)	3	3	7	11	9	5	5
Payables (days)	46	41	65	64	47	46	46
Cash Conversion Cycle (days)	-31	-41	-28	-17	-22	-26	-24
Debt/EBITDA (x)	0.1	0.1	0.1	0.0	0.1	0.0	0.0
Net D/E (x)	-0.3	-0.3	-0.5	-0.2	0.0	0.0	0.0
Interest Coverage (x)	355	95	81	92	104	154	173
PER SHARE DATA (Rs)							
EPS	81	67	49	61	107	108	122
CEPS	82	80	65	76	114	116	130
Dividend	13	13	17	21	37	44	50
Book Value	327	366	419	461	548	612	685
VALUATION							
P/E (x)	40.6	49.4	67.2	54.0	31.1	30.7	27.1
P/BV (x)	10.1	9.0	7.9	7.2	6.0	5.4	4.8
EV/EBITDA (x)	28.4	37.5	45.4	36.9	22.5	22.2	19.2
EV/Revenues (x)	8.5	9.0	9.3	7.9	5.5	5.1	4.4
OCF/EV (%)	2.7	2.5	2.5	2.5	5.7	4.9	5.5
FCF/EV (%)	1.8	1.6	1.9	1.7	4.7	3.6	4.1
FCFE/Mkt Cap (%)	1.7	1.4	1.7	1.4	4.1	2.9	3.4
Dividend Yield (%)	0.4	0.4	0.5	0.6	1.1	1.3	1.5

Source: Company, HSIE Research

1 Yr Price movement



Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: >10% Downside return potential

Eicher Motors: Company Update

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