Eicher Motors

Competitive pressure to be visible in coming quarters

Eicher's Q1 PAT was ahead of estimates due to higher-than-expected other income at RE and strong performance at VECV even as standalone EBITDA was in line with estimates. Earnings beat at VECV was driven by better-than-expected revenue growth even as margins were in line. Competition has significantly heightened in the 250-500cc segment post the recent launches by both Harley Davidson (in partnership with Hero MotoCorp) and Triumph (in partnership with Bajaj Auto) at extremely competitive and similar price points to RE. While their ambitions are likely to be much higher, even if both these peers together are able to ramp up to 10% of RE volumes over 6-9 months, it would cap RE's future growth potential. Given the competitive aggression, we believe that RE would be forced to reconsider its pricing/brand strategy very quickly, which will in turn drive margin pressure. Even exports momentum is now derailed given the geopolitical challenges at least in the near term. Reiterate REDUCE with a revised price target of INR 3,207 (from INR 3,086) as we roll forward to June 25 earnings.

- **RE Q1 beats estimates on higher other income:** Royal Enfield's Q1 PAT at INR 9.1bn was ahead of our estimate of INR 7.6bn, due to higher-than-expected other income even as EBITDA at INR 10bn was in line with our estimate. Its operational performance was also aided by lower other expenses as there were no launch-related costs and travel spending was curtailed.
- **VECV performance ahead of our estimates:** For Q1, VECV margin improved by 220bps QoQ to 7.8%. Overall PAT improved sharply to INR 1.8bn, from INR 594mn YoY due to higher-than-expected revenue growth. VECV's HD market share now stands at 9.4% in Q1, while LMD share has improved by 570bps YoY to 36.9% and Bus share has improved to 25.1%.
- **Call takeaways:** (1) On rising competition in the segment, management indicated that as a strategy, it does not worry too much about competition nor does it target to react to competitive launches but it would target to focus on their growth aspirations. Over the last 15 years, it has successfully fended off competition and hopes to do so going forward as well. It may lose some share for sure but that seems inevitable, as per them, at such a high market share. (2) On new product launches, management continued to maintain that it has a very healthy launch pipeline in place including the soon-to-be-launched refreshed Buller 350 on the J-series platform. It would target to continue to disrupt the market on the back of its new launches. (3) On domestic demand, the last few months have been better and dealers are hopeful of a good festive season in this fiscal. On exports, while demand continues to be weak, they are hopeful that some of these markets would revive in the next 5-6 months. (4) They have started a 5th CKD facility globally in Nepal and each of their overseas CKD facilities is currently on a single shift basis and can be ramped up to 2 shifts if required.

Quarterly/annual financial summary

YE Mar (INR mn)	Q1 FY24	Q1 FY23	YoY (%)	Q4 FY23	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	39,121	33,258	17.6	37,314	4.8	1,41,759	1,45,501	1,66,040	1,86,182
EBITDA	10,208	8,311	22.8	9,337	9.3	34,436	35,114	37,796	42,226
APAT	9,183	6,107	50.4	9,056	1.4	29,139	30,507	33,365	37,370
Diluted EPS (INR)	33.6	22.3	50.4	33.1	1.4	106.6	111.6	122.0	136.7
P/E (x)						31.7	30.3	27.7	24.7
EV / EBITDA (x)						23.1	22.2	20.1	17.5
RoCE (%)						22.7	20.9	20.3	20.2

Source: Company, HSIE Research

REDUCE

CMP *(as on 03 Aug 2023)*	INR 3,380
Target Price	INR 3,207
NIFTY	19,382

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 3,086	INR 3,207
EPS %	FY24E	FY25E
	3.4%	0.0%

KEY STOCK DATA	
Bloomberg code	EIM IN
No. of Shares (mn)	274
MCap (INR bn) / ($ mn)	925/11,309
6m avg traded value (INR mn)	2,579
52 Week high / low	INR 3,890/2,836

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	0.9	1.9	7.7
Relative (%)	(5.7)	(5.3)	(4.1)

SHAREHOLDING PATTERN (%)	Mar-23	Jun-23
Promoters	49.20	49.17
FIs & Local MFs	10.06	10.12
FPIs	29.85	30.27
Public & Others	10.89	10.44

Source : BSE

Pledged shares as % of total shares

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