Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Eicher Motors Ltd

Maintaining leadership position

Automobiles	Sharekhan code: EICHERMOT
Reco/View: Buy ↔	CMP: Rs. 3,380
	Price Target: Rs. 3,855 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We maintain our Buy rating on Eicher Motors (Eicher) with an unchanged target price of Rs 3,855 on account of its leadership position in premium motorcycle segment, rising premiumization and its focus on balanced growth.
- Reported EBITDA at Rs 1,021 cr close to our expectation of Rs 1,044 cr led by cost savings.
- Management is optimistic on RE's performance in the domestic market, though overseas markets are facing headwinds.
- Stock trades at P/E multiple of 23.2x and EV/ EBIDTA multiple of 17.4x its FY25 estimates.

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 13.33

Updated Jun 08, 2023

Low Risk

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

Source: Morningstar

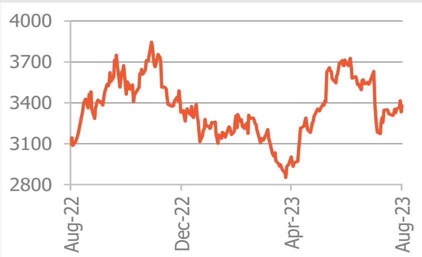
Company details

Market cap:	Rs. 92,419 cr
52-week high/low:	Rs. 3,886 / 2,835
NSE volume: (No of shares)	7.6 lakh
BSE code:	505200
NSE code:	EICHERMOT
Free float: (No of shares)	13.9 cr

Shareholding (%)

Promoters	49.2
FII	30.3
DII	10.1
Others	10.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.6	1.2	5.6	10.6
Relative to Sensex	-0.3	-4.4	-1.5	-6.3

Sharekhan Research, Bloomberg

Eicher has reported Q1FY24 performance in line with estimates as Revenue and EBITDA missed estimates marginally by 2.5% and 2.2% respectively, and EBITDA margin came 10 bps ahead of estimates. Further higher than expected other income offset the q-o-q decline in JV income; hence APAT came 2.4% above estimates. Revenue increased by 4.8% q-o-q to Rs 3,986 cr (against estimate of Rs 4,088 cr) on the back of 4.2% q-o-q increase in volumes and 0.6% q-o-q increase in ASPs. EBITDA increased by 9.3% q-o-q to Rs 1,021 cr (an against estimate of Rs 1,044 cr). With 20 bps contraction in gross margin but saving in other expenses translated into 110 bps q-o-q improvement in EBITDA margin to 25.6% (against estimate of 25.5%). Other expenses decline by 11% q-o-q due to lack of product launches and campaigns related expenses. Than other expenses trend may reverse on increase in brand promotion or product launch expenses. Other income increased by 18.3% q-o-q to Rs 243 cr and income from JV (VECV) has declined by 42.2% Rs 1.001 cr. The decline in income in JVs income was expected as VECV has reported a 25.8% q-o-q decline in volumes. With this, APAT has increased by 1.4% q-o-q to Rs 918 cr (against estimate of Rs 897 cr). Royal Enfield (RE) is expected to remain a key beneficiary of the rising premiumization trend in domestic market as premium segment is outperforming the entry level segment and RE has expanded its addressable market via launching Hunter 350cc. However, overdependence on Hunter brand is a cause of concern, given rising competition may gain some market share in the premium motorcycle segment. While overseas markets are facing headwinds RE has been gaining market share in most of the overseas markets. We maintain our Buy rating on the stock with an unchanged PT of Rs 3,855.

Key positives

- Other income increased by 18.3% q-o-q to Rs 243 cr.
- Other expenses as % of sales contracted by 200 bps q-o-q to 11.2% and supported EBITDA margin expansion on a sequential basis.
- With an 11.0% q-o-q decline in other expenses, the EBITDA / units has increased by 4.9% q-o-q

Key negatives

- Gross margin contracted by 20 bps q-o-q to 44.1%.
- Employee cost as a percentage of sales has expanded by 70 bps q-o-q to 7.3%.
- ASPs increased by mere 0.6% q-o-q to Rs 175,067 against our expectations of Rs 178,443.

Management Commentary

- Overseas markets are facing macro challenges, so Royal Enfield (RE) is focussing on retail sales.
- Expecting strong sales momentum during the festive season.
- New competition would expand the premium motorcycle market and RE may lose some market share due to high base.

Our Call

Valuation – Maintain Buy with unchanged PT of Rs 3,855: Eicher's performance in Q1FY24 was in line, while operating performance was supported by cost savings, the bottom line was supported by higher other income and offset the decline in income from JVs. Going forward the management is looking for healthy growth in CV industry in rest of FY24 and remain optimistic for the performance in premium motorcycle segment in domestic market. The management assumes that its long experience and customer centric approach would help it in countering any new competition in premium segment. While the new competition in the premium segment would expand the market, RE may lose market share due to its high base. Further, the management has been enhancing its focus on the electric two-wheeler project. It has multiple product launch pipelines to cater to customers in premium motorcycle segments. With 16.8% earning CAGR on the back of 11.1% volume CAGR and 120 bps EBIDTA margin expansion in next 2 years, we maintain our Buy rating on the stock with an unchanged target price of Rs 3,855 on account of its leadership position in the premium motorcycle segment, rising premiumization and its focus on balanced growth.

Key Risks

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

Valuation (Consolidated)

Rs cr

Particulars	FY21	FY22	FY23	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)	66.8	54.6	31.7	26.7	23.2
P/BV (x)	8.1	7.3	6.2	5.4	4.7
EV/EBIDTA (x)	46.3	38.3	23.7	19.6	17.2
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

Domestic market: likely to maintain its leadership in premium segment

- The total dealership has expanded into 1750 cities with 1092 large stores and 942 studio stores.
- RE has been working on its EV projects and has been adding human resources to execute its plans.
- With the launch of global products in the domestic market the new competition is coming in the market but RE plans to maintain its strategy despite the rise in competition. It is focusing on its strength and aiming to utilize its long customer experience in maintain its leadership position.
- RE assumes that the new competition would expand the market and hence it may lose some market share due to a high base.
- RE has multiple product launches in pipeline but it has been waiting for an appropriate time to launch a products
- Nonmotorcycle revenue has been continuously growing.
- Has been observing healthy bookings and adjusting to seasonality the retail trend has been satisfactorily.
- RE is looking for healthy sales momentum during festive season.
- It has been aiming to reduce platforms as reduction of platforms reduces many kind of indirect costs and increases overall efficiency.
- RE has increased prices by 1.5% on certain models in certain markets.
- RE Customer Base: over 35 yrs:28%, 26 - 35 yrs: 41%, Under 25yrs: 31%.

Exports: most of the market are facing macro headwinds

- With 210 exclusive stores and 819 multi-brand outlets, RE has now total 1029 touch points in global market
- RE has already set up a CKD plant in Argentina, Colombia, Thailand, Brazil and Nepal and now looking for an opportunity to set up CKD facility in APAC and LATAM regions.
- It has already launched Super Meteor and Hunter 350 in APAC and European markets.
- Most of the overseas markets are facing macro headwinds and hence RE is focussing on retail sales.
- While overseas market has been facing growth challenges, RE is observing gain in market share.
- Royal Enfield enjoys 8% market share in USA, 9% in APAC and 9% in EMEA

Change in earning estimate Rs cr

	Earlier		New		% change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Volumes	930000	1030000	930000	1030000	0.0%	0.0%
Revenue	16,849	19,034	16,849	19,034	0.0%	0.0%
EBITDA	4,196	4,759	4,196	4,759	0.0%	0.0%
EBITDA margin	24.9%	25.0%	24.9%	25.0%		
PAT	3,467	3,978	3,467	3,978	0.0%	0.0%
EPS	127	145	127	145	4.3%	5.9%

Source: Company; Sharekhan Research

Results (Consolidated) Rs cr

Particulars	Q1FY24	Q1FY23	YoY%	Q4FY23	QoQ%
Revenue	3,986	3,397	17.3	3,804	4.8
Total Expenses	2,966	2,566	15.6	2,871	3.3
EBITDA	1,021	831	22.8	934	9.3
Other income	243	49	399.8	206	18.3
Depreciation	142	116	22.4	148	(3.9)
Interest	10	5	99.8	8	27.8
PBT	1,111	758	46.6	983	13.1
Tax	293	181	61.7	251	17.0
Reported PAT	918	611	50.3	906	1.4
Adjusted PAT	918	611	50.3	906	1.4
EPS (Rs)	33.6	22.3	50.3	33.1	1.4

Source: Company; Sharekhan Research

Key ratios (Consolidated)

Particulars	Q1FY24	Q1FY23	YoY (bps)	Q4FY23	QoQ (bps)
Gross margin (%)	44.1	44.0	10	44.3	(20)
EBIDTA margin (%)	25.6	24.5	110	24.5	110
Net profit margin (%)	23.0	18.0	510	23.8	(80)
Effective tax rate (%)	26.4	23.9	250	25.5	90

Source: Company; Sharekhan Research

Volume Analysis (consolidated) Rs. per unit

Particulars	Q1FY24	Q1FY23	YoY (bps)	Q4FY23	QoQ (bps)
Volume	2,27,706	1,87,205	21.6	2,18,525	4.2
Realization	1,75,067	1,81,483	(3.5)	1,74,091	0.6
RMC/Vehicle	97,813	1,01,651	(3.8)	96,915	0.9
EBITDA/Vehicle	44,831	44,395	1.0	42,725	4.9
PAT/Vehicle	40,317	32,620	23.6	41,441	(2.7)

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 improved 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.

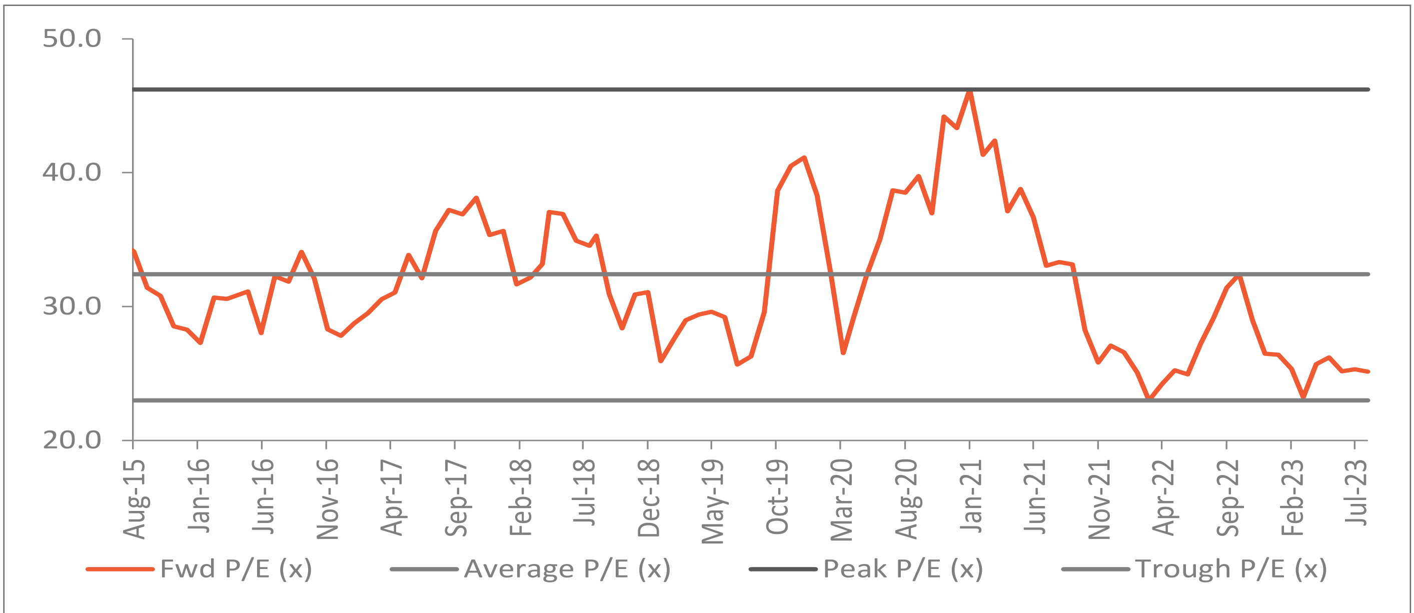
■ Company Outlook – Beneficiary of strong demand in the 2W and multi-year CV cycle

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 unchanged PT of Rs 3,855

Eicher's performance in Q1FY24 was inline, while operating performance was supported by cost saving, the bottom-line was supported by higher other income and offset the decline in income from JVs. Going forward the management is looking for healthy growth in the CV industry in rest of FY24 and remain optimistic for its performance in the premium motorcycle segment in the domestic market. The management assumes that its long experience and customer centric approach would help it in counter any new competition in premium segment. While the new competition in the premium segment would expand the market, RE may lose market share due to its high base. Further, the management has been enhancing its focus on the electric two-wheeler project. It has multiple product launches in the pipeline to cater to a different set of customers in the premium motorcycle segment. With 16.8% earning CAGR on the back of 11.1% volume CAGR and 120 bps EBIDTA margin expansion, we maintain our Buy rating on the stock with an unchanged target price of Rs 3,855 on account of its leadership position in premium motorcycle segment, rising premiumization and its focus on balanced growth.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP Rs/Share	P/E (x)			EV/EBITDA (x)			RoCE (%)		
		FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Eicher Motors	3,380	31.7	26.7	23.2	23.7	19.6	17.2	17.3	18.2	17.9
Hero MotoCorp	2,951	20.2	17.4	15.2	12.1	10.0	8.8	17.0	18.2	19.1
Bajaj Auto	4,828	24.4	21.0	18.2	17.4	14.7	12.5	22.0	23.2	24.2

Source: Company, Sharekhan estimates

About the 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 Royal Enfield'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	44.0
2	FIL Ltd	2.6
3	BlackRock Inc	2.0
4	SBI Funds Management Ltd	1.9
5	Amansa Capital Pvt Ltd	1.8
6	Amansa Holdings Pvt Ltd	1.8
7	Brinda Lal Trust	1.8
8	Vanguard Group Inc/The	1.7
9	Republic of Singapore	1.6
10	UTI Asset Management Co Ltd	1.3

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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