

August 03, 2023

RESULT REPORT Q1 FY24 | Sector: Automobile

Eicher Motors (EIM)

Margins surprise led by price hikes, cost savings

Valuation and View

Eicher Motors (EIM) 1QFY24 consolidated results were better with ~3%/6% beat to our/street EBITDA leading to margins beat by ~100bp/160bp at 25.6% (+110bp YoY/ 110bp QoQ, 12 quarter high). This was largely due to positive impact of price hike (~150bp) and cost savings (~80bp), higher spares sales (RE and VECV at +25% YoY each) offsetting lower exports (-30.5%/-22.5% YoY/QoQ at 9% of vols vs 12% QoQ). However, margins expansion ahead will be gradual ahead as stable RM and price hike (+1.5% in 2Q in domestic) would be partially offset by launch expense related to new Bullet 350 in Aug'23. While demand outlook is mixed/weak for domestic/exports, the management sounded confident to navigate increased competitive intensity by playing on RE's strength developed over period of past decade. Further, it has hinted slew of disruptive launches (rather will be spaced out), which should help expand overall mid-size market.

We expect RE's overall volumes to grow at ~11% CAGR over FY22-25E (vs -7% CAGR over FY20-22), despite new competitive launches. Recent launches could be an inflection point for RE as a completely new and improved platform should drive efficiencies. VECV would continue to see a cyclical recovery in volume and profit, in turn boosting consolidated PAT CAGR to 23.3% over FY23-25E. Stock trades at 24.3x/21x FY24E/FY25E consol EPS. We maintain BUY with SoTP based revised TP of Rs4,008 (v/s Rs3,939). We value S/A business at 25x (~15% discount to 10yr LPA).

Result Highlights - Weak product mix offset by price hike, spares and cost savings

- Consol revenues grew 17.3% YoY (+4.8% QoQ) at Rs39.9b (in-line, cons Rs40.4). RE's volume grew 21.6% YoY/ +4.2% QoQ while RE ASPs came in lower which declined 1.3% YoY (-2.3% QoQ) at Rs171.3k/unit (est Rs175k/unit) largely led by weak product mix. The management indicated price hike of ~1.5% in domestic as well as for few SKUs/markets in exports too in 2QFY24.
- Consol gross margins were flat YoY (-20bp QoQ) at 44.1% (in-line). Consol EBITDA grew 22.8% YoY (+9.3% QoQ) at Rs10.2b (est Rs10b, cons Rs9.6b) with margins at 25.6% (+110bp YoY/ +110bp QoQ, est 24%). S/A margins expanded 170bp YoY (+130bp QoQ) at 26% (est 24.8%, cons 24%). Led by healthy op performance and higher other income at Rs2.4b (+18% QoQ, est Rs1.6b), Adj.PAT came in at Rs9.1b (+50% YoY/ +1.4% QoQ, est Rs8b, cons Rs8.4b).
- VECV 1QFY24 performance in-line - Revenues grew ~27% YoY (-19.5% QoQ) at Rs49.9b (est Rs46.6b), EBITDA at Rs3.9b (est Rs3.7b) with margins at 7.8% (est 8%, +220bp YoY/ -220bp QoQ), Adj.PAT at Rs1.8b (est Rs2b, +1.6x YoY/ -43% QoQ).

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	39,864	40,402	40,223	-1.3	-0.9	Op. leverage and cost controls drive margins beat. Higher income drive PAT beat..
EBITDA	10,208	9,951	9,638	2.6	5.9	
EBITDA margins %	25.6	24.6	24.0	100bp	160bp	
Adj PAT	9,183	8,016	8,461	14.6	8.5	

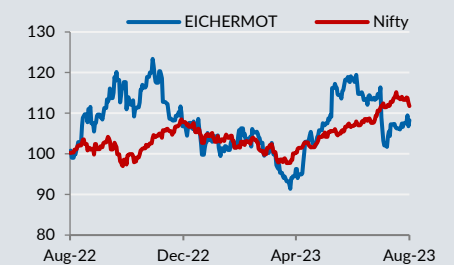
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 3,380
Target Price	: Rs 4,008
Potential Return	: +19%

Stock data (as on August 03, 2023)

Nifty	19,382
52 Week h/l (Rs)	3890 / 2836
Market cap (Rs/USD mn)	912022 / 11021
Outstanding Shares (mn)	274
6m Avg t/o (Rs mn):	2,388
Div yield (%):	1.1
Bloomberg code:	EIM IN
NSE code:	EICHERMOT

Stock performance



	1M	3M	1Y
Absolute return	-6.9%	0.9%	+7.7%

Shareholding pattern (As of June'23)

Promoter	49.2%
FII+DII	40.4%
Others	10.4%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	4,008	3,939

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	139.2	162.0
EPS (Old)	138.4	162.5
% change	0.5%	-0.3%

Financial Summary

Y/E Mar (Rs b)	2023	2024E	2025E
Net Income	144.4	169.4	193.9
EBITDA	34.4	43.3	51.0
Adj. PAT	29.1	37.9	44.5
Adj. EPS (INR)	106.5	138.4	162.5
EPS Gr. (%)	73.7	29.9	17.4
BV/Sh. (INR)	548.1	646.5	764.1
RoE (%)	21.1	23.2	23.0
RoCE (%)	21.1	23.0	23.7
P/E (x)	32.0	24.6	21.0
P/BV (x)	6.2	5.3	4.5
EV/EBITDA (x)	19.9	15.1	12.5
Div. Yield (%)	1.1	1.2	1.3

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Exhibit 2: Quarterly snapshot

Y/e Mar (Rs mn)	Q1FY24	Q1FY23	YoY chg	Q4FY23	FY23	FY22	YoY chg
Net Revenues	39,864	33,975	17.3	38,043	144,422	102,978	40.2
Raw Materials	22,273	19,030	17.0	21,178	82,119	59,557	37.9
% of Net Sales	55.9%	56.0%		55.7%	56.9%	57.8%	
Personnel	2,927	2,470	18.5	2,521	10,019	8,610	16.4
% of Net Sales	7.3%	7.3%		6.6%	6.9%	8.4%	
Manufacturing & Other Exp	4,456	4,165	7.0	5,007	17,848	12,889	38.5
% of Net Sales	11.2%	12.3%		13.2%	12.4%	12.5%	
Total Expenditure	29,655	25,664	15.6	28,707	109,986	81,056	35.7
EBITDA	10,208	8,311	22.8	9,337	34,436	21,923	57.1
EBITDA Margin (%)	25.6%	24.5%		24.5%	23.8%	21.3%	
Depreciation	1,423	1,162	22.4	1,480	5,262	4,519	16.4
EBIT	8,786	7,149	22.9	7,856	29,174	17,403	67.6
Interest Expenses	104	52	99.8	82	280	188	49.2
Non-operating income	2,432	487	399.8	2,055	5,951	4,408	35.0
PBT	11,114	7,583	46.6	9,830	34,845	21,624	61.1
Tax-Total	2,935	1,814	61.7	2,508	8,857	5,259	68.4
Tax Rate (%) - Total	26.4%	23.9%		25.5%	25.4%	24.3%	
PAT	8,179	5,769	41.8	7,322	25,988	16,365	58.8
Minority interest / Share in profit	1,004	338	197.3	1,734	3,152	602	424.0
Profit after MI / Share of profit	9,183	6,107	50.4	9,056	29,139	16,966	71.8
Adj. PAT	9,183	6,107	50.4	9,056	29,139	16,966	71.8
PAT Margin	15.9%	19.3%		23.8%	20.2%	16.5%	

Source- Company, YES Sec

Exhibit 3: SOTP Valuation

INR Mn	FY24E	FY25E
Royal Enfield	25	25
PAT	32,076	37,115
Equity Value (at 26x PE)	801,905	927,871
VECV (@ 54.4% Economic interest)	12	12
EBITDA	11,022	12,739
EV (at 12x EV/EBITDA)	132,265	152,871
Net Debt	-7,521	-15,417
Equity Value	139,786	168,288
Total Equity Value	941,691	1,096,160
Target Price (INR/Sh)	3,443	4,008

Source- Company, YES Sec

KEY CON-CALL HIGHLIGHTS

Royal Enfield

Domestic

- **Demand** – its bit up and down in recent months but retails and bookings have been good. Expect festive to be good led by finance penetration, money coming back and increased discretionary spending. Finance penetration at ~60%.
- **RE's market share in >125cc segment at 32.9% in 1QFY24** (v/s 33.5% QoQ) and domestic motorcycle market at 8.2% in 1QFY24 (v/s 7.8% in FY23).
- **Domestic network expansion is steady and gradual** – have added 10 dealership taking total dealership count to 1090 stores.
- **Hunter** – confident that the brand will keep grow ahead led by new customer addition to RE. Seeing even rural customers are taking up Hunter and hence directionally opportunity is still existed for further ramp-up. Exports also have just started to open in few markets.
- **EV** – have made progress in all EV related plan as have grown engineering team. Also growing commercial side (and not manufacturing) of EV RE as well.
- **Competitive landscape – will continue to build on RE's strength** – competition is inevitable as co have been growing the market size over period of time. Always had competition from MNCs and able to navigate them so-far. Will continue to focus on what RE is doing best to counter the rivals. Expect market to grow to 1.5-2x over period next few years.
- **New product launch pipeline** – Have slew of new products which should give differentiated experience to customers. ~400 people are working in NPD team. Will space new launches. New Bullet 350 launch by end of Aug'23 (will be on J platform and will help cost efficiencies).
- **Classic and above category (>Rs2L segment) coming back?** – Don't think Classic 350 would account for 2/3rd of volumes led by new launches. Looking at more brand led growth.

Exports

- Despite a tough macroeconomic backdrop, RE gained market share across markets at it operates. Expect the same to continue led by new product launches.
- **Have started RE's fifth CKD facility in Nepal** on the sidelines of Classic 350 and Scram 411. Have sold ~1,300 units from the CKD facility in Nepal already.
- **Distribution reach** in key markets exclusive stores/ MBO – Americas 92/214, UK,MEA, Europe – 68/495, APAC – 50/110. **Added ~20 stores during 1QFY24. MBO is ~1k stores.** Will look at different format in the form of stores such as getting a prime space in MBO.

VECV

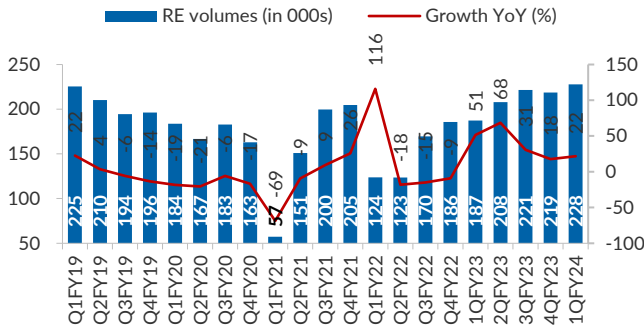
- Market share – HD at 9.4% (5.1k), LMD – 36.9% (8.3k units vs 31.2% MS YoY), Bus – 4.9k (MS 25.1%).
- Exports are continued to declined by 51% YoY to 715 units.
- Spare parts revenues highest (combined both of Eicher and Volvo) at Rs4.78b in 1QFY24 (+25% YoY). VE powertrain volumes at 14,213 (+21% YoY).
- **Have commenced delivery of 9M EV Eicher Skyline E business to Kerala state.**

Financials

- **RE - Divergence in margins YoY/QoQ despite worse mix** was led by price hikes impact of 1.5%, 0.8% cost savings and sourcing.
- **Have taken ~1.5% price hike in 2QFY24 (only domestic) and in exports have taken only for few SKU and for few market.** RM overall is stable going in for 2QFY24.
- **RE - Employee cost was higher led by increase in productions leading to higher employee count and minor impact of gratuity as well.**
- **Other expense lower QoQ** – marketing campaign and launch expense weren't there in 1QFY24.
- **RE - Spares revenues grew by 25% YoY in 1QFY24** - Adding more SKUs for accessories. Looking spares more of consumer satisfaction rather than revenue driver.

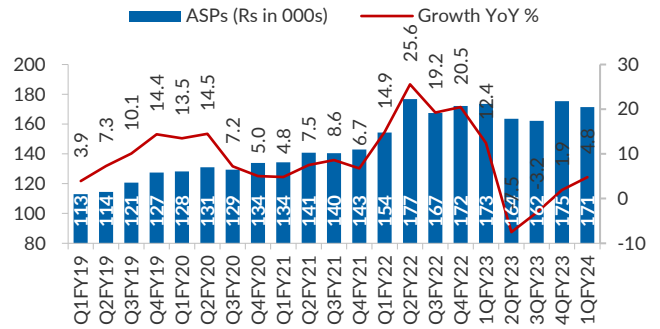
CHARTS

Exhibit 4: 1QFY24 RE volume grew ~4.3% QoQ



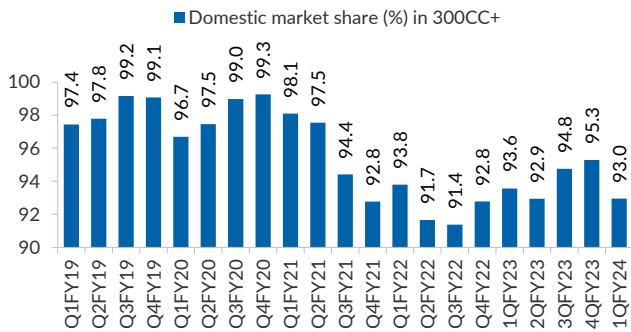
Source: Company, YES Sec

Exhibit 5: 1QFY24 RE ASP fell ~2.3% QoQ to Rs171.3k



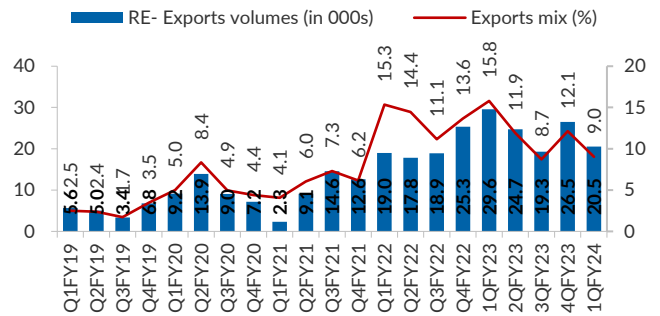
Source: Company, YES Sec

Exhibit 6: RE-Domestic market share trend



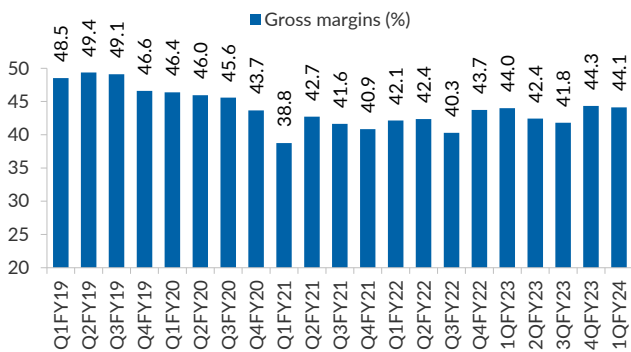
Source: SIAM, YES Sec

Exhibit 7: RE exports dispatches trend



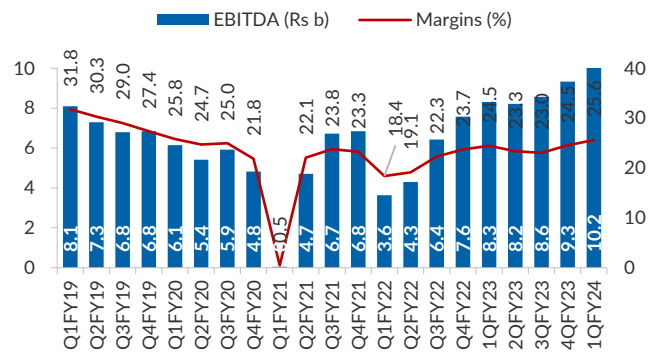
Source: Company, YES Sec

Exhibit 1: Gross margins remained largely flat QoQ



Source: Company, YES Sec

Exhibit 2: EBITDAM expanded 110bp QoQ at 25.6%



Source: Company, YES Sec

FINANCIALS

Exhibit 3: Balance Sheet

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	273	273	273	274	274	274
Net Worth	99,809	114,381	126,080	149,903	177,022	209,015
Minority Interest	-	-	-	-	(6,483)	(14,169)
Deferred Tax	2,522	2,215	2,201	2,913	2,913	2,913
Loans	2,490	2,193	1,077	2,884	1,128	1,128
Capital Employed	104,821	118,788	129,358	155,700	174,580	198,887
Application of Funds						
Gross Fixed Assets	36,518	40,489	44,054	51,210	59,410	69,670
Less: Depreciation	12,743	16,156	19,811	24,310	30,071	36,535
Net Fixed Assets	23,775	24,333	24,243	26,900	29,338	33,134
Capital WIP	3,122	3,143	5,048	4,719	4,685	4,685
- of which Goodwill	223	223	223	223	223	223
Investments	57,488	39,021	77,206	123,207	130,129	138,343
Curr.Assets, L & Adv.	40,113	79,733	56,003	36,285	47,440	60,419
Inventory	5,724	8,746	11,324	12,784	10,205	14,697
Sundry Debtors	868	1,582	3,020	3,689	6,211	5,068
Cash & Bank Balances	29,506	58,304	27,225	8,571	13,596	20,745
Loans & Advances	1	4,592	6,768	5,889	6,780	7,745
Others	4,014	6,510	7,666	5,350	10,648	12,163
Current Liab. & Prov.	19,676	27,442	33,142	35,410	37,013	37,694
Sundry Creditors	10,078	15,132	17,881	18,104	19,965	20,272
Other Liabilities	8,650	10,392	12,532	12,894	15,085	15,204
Provisions	949	1,918	2,729	4,412	1,963	2,218
Net Current Assets	20,436	52,291	22,861	875	10,427	22,725
Application of Funds	104,821	118,788	129,357	155,700	174,580	198,887

Source: Company, YES Sec

Exhibit 4: Income statement

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E
Gross Op. Income	91,536	87,204	102,978	144,422	161,942	184,983
Change (%)	(6.6)	(4.7)	18.1	40.2	12.1	14.2
EBITDA	21,804	17,813	21,723	34,436	41,490	48,710
EBITDA Margin (%)	24.0	20.6	21.4	24.3	25.9	26.7
Depreciation	3,815	4,507	4,519	5,262	5,762	6,464
EBIT	17,989	13,305	17,203	29,174	35,728	42,246
Interest cost	189	165	188	280	160	160
Other Income	5,433	4,532	4,408	5,951	6,700	6,900
PBT	23,232	17,673	21,424	34,845	42,268	48,986
Tax	5,275	4,515	5,259	8,857	10,692	12,372
Effective Rate (%)	22.7	25.5	24.5	25.4	25.3	25.3
PAT	17,958	13,158	16,165	25,988	31,576	36,615
Change (%)	(8.5)	(26.7)	22.9	60.8	21.5	16.0
Less: Minority Interest	(317)	(311)	(602)	(3,152)	(6,483)	(7,686)
Adj. PAT	18,275	13,469	16,766	29,139	38,059	44,301
Change (%)	(17.7)	(26.3)	24.5	73.8	30.6	16.4

Source: Company, YES Sec

Exhibit 5: Cash Flow Statement

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E
Profit before Tax	23,549	17,984	22,025	37,996	42,268	48,986
Depreciation & Amort.	3,815	4,507	4,519	5,262	5,762	6,464
Direct Taxes Paid	(6,283)	(4,566)	(5,136)	(7,703)	(10,692)	(12,372)
(Inc)/Dec in Working Capital	(1,616)	1,318	(1,268)	(1,906)	1,919	(3,043)
Interest/Div. Received	(2,207)	(3,103)	(2,440)	(1,765)	6,700	6,900
Other Items	(317)	770	(2,429)	(3,411)	(12,987)	(8,846)
CF from Oper. Activity	16,941	16,910	15,270	28,475	32,970	38,091
(Inc)/Dec in FA+CWIP	(5,445)	(5,149)	(6,387)	(6,737)	(8,166)	(10,260)
Free Cash Flow	11,496	11,760	8,883	21,738	24,804	27,831
(Pur)/Sale of Invest.	(9,639)	(11,104)	(3,446)	(17,479)	(6,923)	(8,214)
CF from Inv. Activity	(15,084)	(16,253)	(9,833)	(24,216)	(15,089)	(18,474)
Issue of Shares	289	384	65	112	-	-
Inc/(Dec) in Debt	(618)	(373)	(1,164)	1,638	(1,757)	-
Interest Paid	(167)	(158)	(187)	(182)	(160)	(160)
Dividends Paid	(8,087)	-	(4,647)	(5,742)	(10,940)	(12,308)
CF from Fin. Activity	(8,583)	(148)	(5,934)	(4,174)	(12,856)	(12,467)
Inc/(Dec) in Cash	(6,725)	509	(496)	84	5,025	7,150
Add: Beginning Balance	7,158	432	941	446	8,571	13,596
Closing Balance	432	941	445	530	13,596	20,745

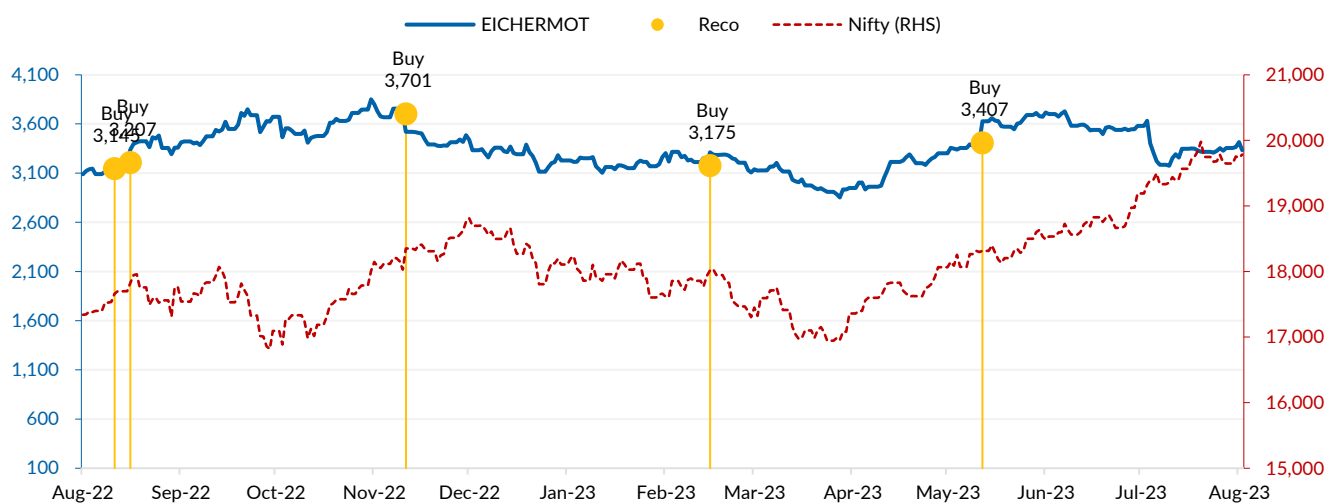
Source- Company, YES Sec

Exhibit 6: Growth and Ratio matrix

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)						
EPS	67.0	49.3	61.3	106.5	139.2	162.0
EPS Growth (%)	(17.7)	(26.4)	24.4	73.7	30.6	16.4
Cash EPS	81.0	65.8	77.9	125.8	160.2	185.6
Book Value per Share	365.9	418.5	461.2	548.1	647.2	764.2
DPS	12.5	17.0	21.0	37.0	40.0	45.0
Payout (Incl. Div. Tax) %	21.7	34.5	34.2	34.7	28.7	27.8
Valuation (x)						
P/E	50.5	68.6	55.1	31.7	24.3	20.9
Cash P/E	41.7	51.4	43.4	26.9	21.1	18.2
EV/EBITDA	36.1	40.4	33.4	19.4	15.0	12.5
EV/Sales	6.4	6.4	4.9	3.3	2.9	2.5
Price to Book Value	9.2	8.1	7.3	6.2	5.2	4.4
Dividend Yield (%)	0.4	0.5	0.6	1.1	1.2	1.3
Profitability Ratios (%)						
RoE	19.3	12.6	13.9	21.1	23.3	23.0
RoCE	18.6	12.4	13.8	21.0	23.2	23.8
RoIC	112.6	61.4	70.3	123.4	139.0	121.8
Turnover Ratios						
Debtors (Days)	3.5	6.6	10.7	9.3	14.0	10.0
Inventory (Days)	22.8	36.6	40.1	32.3	23.0	29.0
Creditors (Days)	40.2	63.3	63.4	45.8	45.0	40.0
Working Capital (Days)	(13.9)	(20.1)	(12.5)	(4.1)	(8.0)	(1.0)
Asset Turnover (x)	0.9	0.7	0.8	0.9	0.9	0.9
Leverage Ratio						
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0

Source- Company, YES Sec

Recommendation Tracker



Source – YES Sec

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