

BUY Eicher Motors

Your success is our success

Entering product upcycle; risk-reward favourable

Auto & Auto Ancillaries ▶ Company Update ▶ October 18, 2023

TARGET PRICE (Rs) : 4,440

We recently held multiple interactions with Royal Enfield (RE) dealers. KTAs: 1) Dealers were impressed by the recent showcase of the all-new 450cc performance-oriented platform (to be launched in Nov-23); 2) Strong start to the festive season (Western region) with assurance on supplies for Diwali; 3) Dealers believe new competition would eventually help expand the market for all participants; RE has a strong product pipeline to respond with; 4) Hunter has helped pull in younger customers, who were earlier considering rival brands. We reiterate BUY (focused play on premium 2Ws while expanding its presence in the performance-oriented sub-segment with favorable risk-reward at 18.3x FY26E PER); we build ~21% FY23-26E EPS CAGR (largely unchanged), with SoTP-based rev. TP of Rs4,440 (roll-fwd. to FY26E; previous TP: Rs4,000).

Eicher Motors: Financial Snapshot (Consolidated)

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,02,978	1,44,422	1,70,376	2,01,923	2,26,560
EBITDA	21,723	34,436	44,300	53,161	59,911
Adj. PAT	16,766	29,139	38,467	46,073	52,131
Adj. EPS (Rs)	61.3	106.7	140.9	168.7	190.9
EBITDA margin (%)	21.1	23.8	26.0	26.3	26.4
EBITDA growth (%)	22.0	58.5	28.6	20.0	12.7
Adj. EPS growth (%)	24.4	74.0	32.0	19.8	13.1
RoE (%)	13.9	21.1	23.7	24.2	23.3
RoIC (%)	70.0	115.5	161.2	225.6	330.6
P/E (x)	57.2	32.9	24.9	20.8	18.4
EV/EBITDA (x)	40.3	24.7	18.7	14.9	12.6
P/B (x)	7.6	6.4	5.5	4.7	4.0
FCFF yield (%)	1.0	2.6	4.3	6.3	7.2

Source: Company, Emkay Research

Detailed KTAs from dealer interactions:

1) Initial impressions of the upcoming 450cc *Himalayan* are positive. The model possesses a refined engine and strong performance characteristics along with advanced software (e.g. TFT screen); however, dealers believe incremental meaningful volume additions from the new 450cc platform will be contributed by subsequent launches in the sports format (similar to Bajaj-Triumph); enquiries for J-series *Bullet 350* have started picking up going into the festive period; 2) Sales during *Ganesh Chaturthi* were higher by 30-40% YoY, though sales were 8-10% below initial expectations – with the slight shortfall attributed to competition; however, *Dussehra-Diwali* is expected to be strong, as indicated by enquiries for that period; 3) Inventory is controlled at less than a month, with assured supplies by the company; 4) Overall volumes are now back to FY18-19 peak levels, having nearly doubled since the last year due to a strong response for *Hunter* – which has received a great response from customers aged below 25 years; bulk of *Hunter* buyers were earlier considering brands from competing manufacturers in this category; 5) Dealers believe that while the launches from competitors could initially impact RE's volumes, eventually the market as a whole is growing, given that RE also has a strong upcoming product pipeline; 6) RE's merchandise and apparel can total up to Rs13K-14K/unit; 7) Dealers believe greater marketing/advertising efforts for *Hunter* (to attract more youngsters) would lead to greater success.

Maintain BUY with a revised TP of Rs4,440 on roll-forward to FY26E

We believe despite recent concerns around aggressive launches by competitors (*refer our note*), RE's robust positioning (impressive legacy combined with modern-day reliability) and strong upcoming product pipeline would help sustain the structural domestic franchise revival story (started last year with *Hunter*). This, along with a ramp-up in exports, a better mix and softer commodities would drive a ~21% FY23-26E EPS CAGR. We build ~21% FY23-26E EPS CAGR (largely unchanged) roll forward valuation to FY26E for a revised TP of Rs4,440 (unchanged ~25x/20x PER multiple for 2Ws/CVs).

Target Price – 12M	Sep-24
Change in TP (%)	11.0
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	26.8
CMP (17-Oct-23) (Rs)	3,500.9

Stock Data	Ticker
52-week High (Rs)	3,890
52-week Low (Rs)	2,836
Shares outstanding (mn)	273.7
Market-cap (Rs bn)	958
Market-cap (USD mn)	11,510
Net-debt, FY24E (Rs mn)	-1,32,097
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	2,181.8
ADTV-3M (USD mn)	26.2
Free float (%)	50.8
Nifty-50	19,812
INR/USD	83.3
Shareholding, Jun-23	
Promoters (%)	49.2
FPIs/MFs (%)	30.3/10.1

Price Performance

(%)	1M	3M	12M
Absolute	2.1	4.5	(0.4)
Rel. to Nifty	4.1	4.0	(13.0)

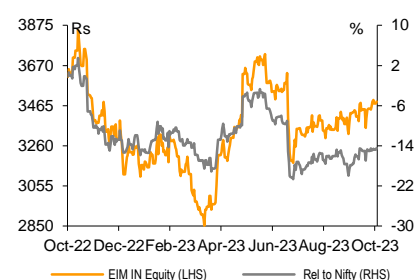
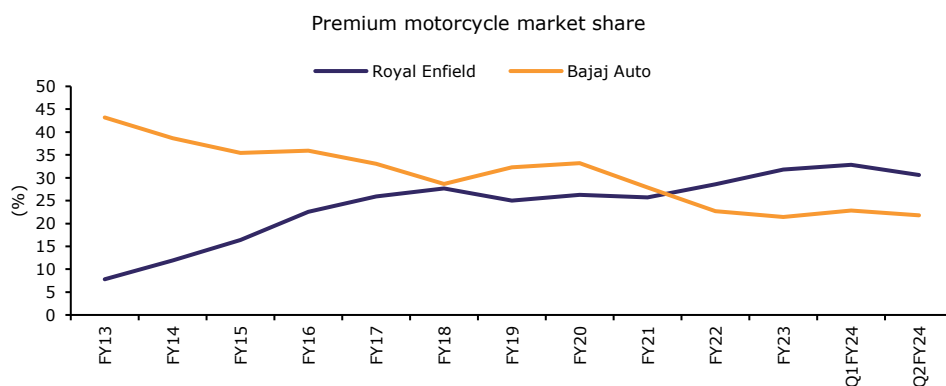
1-Year share price trend (Rs)**Chirag Jain**chirag.jain@emkayglobal.com
+91 22 6624 2428**Jaimin Desai**jaimin.desai@emkayglobal.com
+91 22 6612 1334**Vijay Naraharisetty**vijay.naraharisetty@emkayglobal.com
+91 22 6612 1306

Exhibit 1: Upcoming Himalayan on the all-new 450cc platformSource: Media article ([link](#))**Exhibit 2: Recently launched J-Series Bullet 350**Source: Media article ([link](#))**Exhibit 3: EIM has an aggressive launch pipeline for widening its appeal in various sub-segments of the fast-growing premium motorcycles**

Products	Expected Timeline	Expected Pricing (ex-showroom)
On an all-new 450cc engine platform		
Himalayan 450	Nov-23	Rs 3.0 lakh
Himalayan 450 Rally	2024-end	Rs3.5 lakh
Scram 450	Early-CY24	Rs2.5 lakh
Scram 450 Scrambler	2024	Rs3 lakh
Scram 450 Café Racer	2024	Rs3 lakh
On 650cc platform		
Super Meteor 650 (launched)	Jan-23	Rs3.49 lakh
Continental GT 650 Race Replica	Jul-23	Rs3.4 lakh
Shotgun 650	Oct-23	Rs3.25 lakh
Classic 650	Sep-23	Rs3.1 lakh
Bullet 650	Mid-2024	Rs3 lakh
Scrambler 650	2025-end	Rs3.5 lakh
Himalayan 650	Jul-25	Rs3.8 lakh

Source: Company, Media articles, Emkay Research

Exhibit 4: EIM is the largest premium motorcycle player; market share normalized in Q2FY24 amid improvement in supplies at HMSI

Source: SIAM, Emkay Research; Note – Q2FY24 till Aug-23

Exhibit 5: Revenue model: Expect ~21% EPS CAGR over FY23-26E

Revenue Model	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Domestic Volumes (units)	6,58,394	5,70,781	5,21,246	7,34,840	8,45,066	9,76,051	10,54,135
Growth (%)	-18.2	-13.3	-8.7	41.0	15.0	15.5	8.0
Export Volumes (units)	39,188	38,622	81,022	1,00,055	1,03,057	1,17,485	1,26,883
Growth (%)	88.2	-1.4	109.8	23.5	3.0	14.0	8.0
Volumes (units)	6,97,582	6,09,403	6,02,268	8,34,895	9,48,123	10,93,536	11,81,019
Growth (%)	-15.6	-12.6	-1.2	38.6	13.6	15.3	8.0
ASP (Rs/unit)	1,30,128	1,41,434	1,68,079	1,68,484	1,73,370	1,79,165	1,86,754
Growth (%)	9.8	8.7	18.8	0.2	2.9	3.3	4.2
Revenues	91,536	87,204	1,02,978	1,44,422	1,70,376	2,01,923	2,26,560
Growth (%)	-6.6	-4.7	18.1	40.2	18.0	18.5	12.2
EBITDA	21,804	17,813	21,723	34,436	44,300	53,161	59,911
EBITDA margin (%)	23.8	20.4	21.1	23.8	26.0	26.3	26.4
EBITDA growth (%)	-24.9	-18.3	22.0	58.5	28.6	20.0	12.7
EBITDA/unit (Rs)	31,256	29,229	36,068	41,246	46,724	48,614	50,728
EBIT	23,421	17,837	21,611	35,125	44,957	53,085	60,277
EBIT margin (%)	25.6	20.5	21.0	24.3	26.4	26.3	26.6
S/A PAT (Rs)	19,038	13,297	15,862	26,226	33,613	39,775	44,200
Share of profits from JV	317	311	602	3,152	5,105	6,626	7,298
Consolidated PAT	18,274	13,469	16,766	29,139	38,467	46,073	52,131
Consolidated EPS (Rs)	67	49	61	107	141	169	191

Source: Company, Emkay Research

Exhibit 6: Change in estimates

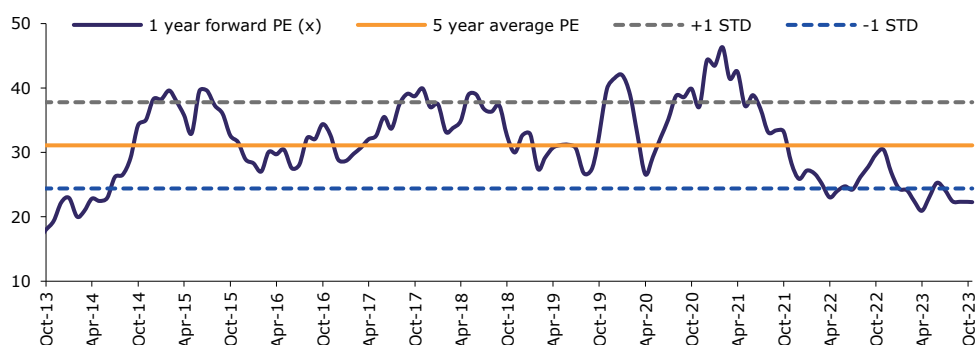
Consolidated	FY24E				FY25E				FY26E		
	Earlier	Revised	Change (%)	YoY (%)	Earlier	Revised	Change (%)	YoY (%)	Earlier	Revised	Change (%)
RE (Units)	9,61,151	9,48,123	(1.4)	13.6	10,92,110	10,93,536	0.1	15.3	11,79,479	11,81,019	0.1
Revenue	1,72,746	1,70,376	(1.4)	18.0	2,01,945	2,01,923	(0.0)	18.5	2,26,585	2,26,560	(0.0)
EBITDA	44,648	44,300	(0.8)	28.6	53,187	53,161	(0.0)	20.0	59,938	59,911	(0.0)
Margin (%)	25.8%	26.0%	15 bps	216 bps	26.3%	26.3%	(1) bps	33 bps	26.5%	26.4%	(1) bps
APAT	38,816	38,467	(0.9)	32.0	46,183	46,073	(0.2)	19.8	52,260	52,131	(0.2)
EPS (Rs)	141.8	140.5	(0.9)	32.0	168.7	168.3	(0.2)	19.8	190.9	190.4	(0.2)

Source: Bloomberg, Emkay Research

Exhibit 7: Emkay vs. Consensus Estimates

Eicher Motors	Emkay Estimates			Bloomberg estimates			Difference (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net revenue	1,70,376	2,01,923	2,26,560	1,64,340	1,85,576	2,10,323	3.7%	8.8%	7.7%
EBITDA	44,300	53,161	59,911	41,943	47,398	53,043	5.6%	12.2%	12.9%
EBITDA margin (%)	26.0	26.3	26.4	25.1	25.3	25.3	3.8%	4.1%	4.6%
EPS (Rs)	141	169	191	134	152	168	4.9%	11.1%	13.6%

Source: Bloomberg, Emkay Research

Exhibit 8: Valuations: One-year forward PER at ~22x; ~1SD below LTA PER

Source: Company, Emkay Research

Eicher Motors : Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,02,978	1,44,422	1,70,376	2,01,923	2,26,560
Revenue growth (%)	18.1	40.2	18.0	18.5	12.2
EBITDA	21,723	34,436	44,300	53,161	59,911
EBITDA growth (%)	22.0	58.5	28.6	20.0	12.7
Depreciation & Amortization	4,519	5,262	5,854	7,025	8,285
EBIT	17,203	29,174	38,446	46,137	51,626
EBIT growth (%)	29.3	69.6	31.8	20.0	11.9
Other operating income	0	0	0	0	0
Other income	4,408	5,951	6,511	6,949	8,651
Financial expense	188	280	356	348	340
PBT	21,424	34,845	44,601	52,738	59,937
Extraordinary items	0	0	0	0	0
Taxes	5,259	8,857	11,239	13,290	15,104
Minority interest	(602)	(3,152)	(5,105)	(6,626)	(7,298)
Income from JV/Associates	0	0	0	0	0
Reported PAT	16,766	29,139	38,467	46,073	52,131
PAT growth (%)	24.5	73.8	32.0	19.8	13.1
Adjusted PAT	16,766	29,139	38,467	46,073	52,131
Diluted EPS (Rs)	61.3	106.7	140.9	168.7	190.9
Diluted EPS growth (%)	24.4	74.0	32.0	19.8	13.1
DPS (Rs)	21.0	36.9	47.9	56.7	63.0
Dividend payout (%)	34.2	34.6	34.0	33.6	33.0
EBITDA margin (%)	21.1	23.8	26.0	26.3	26.4
EBIT margin (%)	16.7	20.2	22.6	22.8	22.8
Effective tax rate (%)	24.5	25.4	25.2	25.2	25.2
NOPLAT (pre-IndAS)	12,980	21,758	28,757	34,510	38,616
Shares outstanding (mn)	273.4	273.0	273.0	273.0	273.0

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	21,424	34,845	44,601	52,738	59,937
Others (non-cash items)	776	(3,153)	8,366	11,648	14,257
Taxes paid	(5,136)	(7,703)	(11,284)	(13,343)	(15,164)
Change in NWC	(1,793)	4,486	3,353	6,223	2,158
Operating cash flow	15,270	28,475	45,036	57,266	61,188
Capital expenditure	(6,387)	(6,737)	(10,005)	(7,500)	(7,500)
Acquisition of business	(7,702)	(19,932)	(20,000)	(10,000)	(10,000)
Interest & dividend income	4,256	2,453	0	0	0
Investing cash flow	(9,833)	(24,216)	(30,005)	(17,500)	(17,500)
Equity raised/(repaid)	65	0	0	0	0
Debt raised/(repaid)	(1,046)	1,369	(338)	80	63
Payment of lease liabilities	(170)	(189)	0	0	0
Interest paid	(142)	(280)	(356)	(348)	(340)
Dividend paid (incl tax)	(4,647)	(10,115)	(13,109)	(15,512)	(17,238)
Others	(30,578)	(13,697)	2,994	2,403	1,726
Financing cash flow	(36,517)	(22,912)	(10,809)	(13,377)	(15,790)
Net chg in Cash	(31,079)	(18,654)	4,222	26,389	27,898
OCF	15,270	28,475	45,036	57,266	61,188
Adj. OCF (w/o NWC chg.)	17,064	23,989	41,682	51,043	59,030
FCFF	8,883	21,738	35,030	49,766	53,688
FCFE	12,952	23,910	34,675	49,418	53,347
OCF/EBITDA (%)	70.3	82.7	101.7	107.7	102.1
FCFE/PAT (%)	77.3	82.1	90.1	107.3	102.3
FCFF/NOPLAT (%)	68.4	99.9	121.8	144.2	139.0

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	273	274	274	274	274
Reserves & Surplus	1,25,807	1,49,629	1,74,987	2,05,548	2,40,441
Net worth	1,26,080	1,49,903	1,75,260	2,05,822	2,40,714
Minority interests	0	0	0	0	0
Deferred tax liability (net)	2,201	2,913	2,868	2,816	2,756
Total debt	588	1,957	1,619	1,699	1,762
Total liabilities & equity	1,28,869	1,54,773	1,79,748	2,10,337	2,45,232
Net tangible fixed assets	19,108	21,765	24,295	26,346	25,561
Net intangible assets	3,298	3,298	3,298	3,298	3,298
Net ROU assets	1,837	1,837	1,837	1,837	1,837
Capital WIP	5,048	4,721	6,341	4,766	4,766
Goodwill	0	0	0	0	0
Investments [JV/Associates]	19,671	22,284	22,284	22,284	22,284
Cash & equivalents	84,759	1,09,494	1,33,716	1,70,105	2,08,003
Current assets (ex-cash)	27,677	28,578	33,714	39,956	45,452
Current Liab. & Prov.	32,529	37,204	45,737	58,255	65,969
NWC (ex-cash)	(4,852)	(8,626)	(12,023)	(18,299)	(20,517)
Total assets	1,28,869	1,54,773	1,79,748	2,10,337	2,45,232
Net debt	(84,171)	(1,07,537)	(1,32,097)	(1,68,406)	(2,06,241)
Capital employed	1,28,869	1,54,773	1,79,748	2,10,337	2,45,232
Invested capital	19,391	18,274	17,407	13,182	10,179
BVPS (Rs)	460.5	547.5	640.1	751.7	879.1
Net Debt/Equity (x)	(0.7)	(0.7)	(0.8)	(0.8)	(0.9)
Net Debt/EBITDA (x)	(3.9)	(3.1)	(3.0)	(3.2)	(3.4)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	13.1	18.6	20.2	20.4	19.8

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	57.2	32.9	24.9	20.8	18.4
P/CE(x)	45.0	27.9	21.6	18.1	15.9
P/B (x)	7.6	6.4	5.5	4.7	4.0
EV/Sales (x)	8.5	5.9	4.9	3.9	3.3
EV/EBITDA (x)	40.3	24.7	18.7	14.9	12.6
EV/EBIT(x)	50.7	29.1	21.4	17.1	14.5
EV/IC (x)	45.0	46.4	47.3	59.7	73.6
FCFF yield (%)	1.0	2.6	4.3	6.3	7.2
FCFE yield (%)	1.4	2.5	3.6	5.2	5.6
Dividend yield (%)	0.6	1.1	1.4	1.6	1.8
DuPont-RoE split					
Net profit margin (%)	16.3	20.2	22.6	22.8	23.0
Total asset turnover (x)	0.8	1.0	1.0	1.0	1.0
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	13.9	21.1	23.7	24.2	23.3
DuPont-RoIC					
NOPLAT margin (%)	12.6	15.1	16.9	17.1	17.0
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	70.0	115.5	161.2	225.6	330.6
Operating metrics					
Core NWC days	(17.2)	(21.8)	(25.8)	(33.1)	(33.1)
Total NWC days	(17.2)	(21.8)	(25.8)	(33.1)	(33.1)
Fixed asset turnover	2.4	3.0	3.1	3.1	3.1
Opex-to-revenue (%)	21.1	19.3	18.4	18.2	18.1

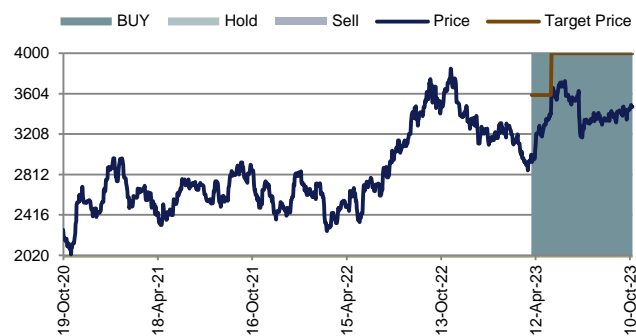
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
03-Aug-23	3,380	4,000	Buy	Chirag Jain
12-May-23	3,626	4,000	Buy	Chirag Jain
04-Apr-23	3,004	3,590	Buy	Chirag Jain

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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