

November 11, 2023

Q2FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	3,800		3,730	
Sales (Rs. m)	1,62,523	1,80,346	1,61,302	1,79,010
% Chng.	0.8	0.7		
EBITDA (Rs. m)	40,680	45,940	40,353	45,355
% Chng.	0.8	1.3		
EPS (Rs.)	142.7	160.8	135.9	154.7
% Chng.	5.0	3.9		

Key Financials - Standalone

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	1,44,422	1,62,523	1,80,346	1,98,857
EBITDA (Rs. m)	34,436	40,680	45,940	51,342
Margin (%)	23.8	25.0	25.5	25.8
PAT (Rs. m)	29,139	39,038	43,966	47,736
EPS (Rs.)	106.5	142.7	160.8	174.5
Gr. (%)	73.7	34.0	12.6	8.6
DPS (Rs.)	37.0	51.0	57.0	57.0
Yield (%)	1.0	1.4	1.6	1.6
RoE (%)	21.1	24.0	23.2	21.8
RoCE (%)	20.9	21.4	20.9	20.3
EV/Sales (x)	6.0	5.1	4.5	3.9
EV/EBITDA (x)	25.0	20.5	17.6	15.1
PE (x)	33.3	24.9	22.1	20.3
P/BV (x)	6.5	5.5	4.8	4.1

Key Data

EICH.BO | EIM IN

52-W High / Low	Rs.3,748 / Rs.2,836
Sensex / Nifty	64,905 / 19,425
Market Cap	Rs.971bn/ \$ 11,650m
Shares Outstanding	274m
3M Avg. Daily Value	Rs.1834.31m

Shareholding Pattern (%)

Promoter's	49.15
Foreign	28.89
Domestic Institution	11.37
Public & Others	10.48
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.6	3.8	(4.2)
Relative	4.4	(0.9)	(10.5)

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Focus on new product launches and exports

Quick Pointers:

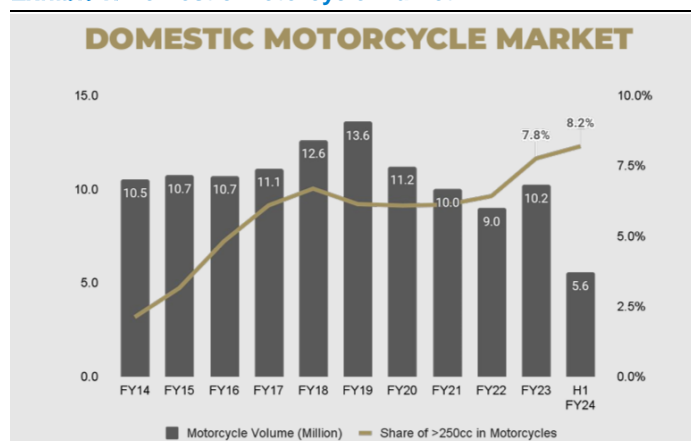
- Margin beats consensus on cost savings, lower commodity and inventurisation
- Festive season growth at 15%; sees new launches helping demand

We increase our FY24/FY25/FY26 consol. EPS estimate by 5%/4%/2% to factor in 2Q results, higher other income and management commentary. Eicher Motors' (EIM) 2QFY24 consol. EBITDA margin at 26.4% came c90bps above BBG consensus (25.5%) and slightly below PLe (26.7%); margins expanded c80bps QoQ helped by (1) lower commodity prices, (2) price hikes, (3) inventurisation benefit. RE noted that festive season demand was good with a growth of ~15% until now and both rural and urban market performed well. On the CV side, VECV would benefit from profitable growth as peers work towards lowering discounts in the industry.

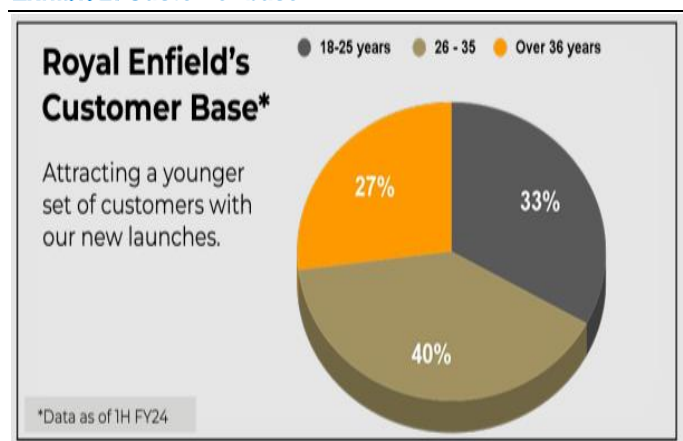
Recent increase in competitive landscape has marred EIM's near to medium term growth prospects and could chip away RE's growth volumes. However, (1) volume growth from new product launches, (2) focus on increasing export revenue mix, (3) higher mix of spares and merchandise revenue should aid both revenue growth and margin expansion. Maintain 'ACCUMULATE with a revised SoTP based TP of Rs 3,800 (previous TP at Rs. 3,730) (at 23x Sep-25E standalone EPS and 11x EV/EBITDA for VECV in line with Ashok Leyland).

Beat on revenues, beat on consensus margin estimates: (1) Revenue grew by 16.9% YoY to Rs. 41.1bn, and came above Bloomberg consensus estimates (BBGe) (Rs.40.3bn) and PLe (Rs.40.4bn). EBITDA margins at c26.4% slightly lower than PLe (26.7%) and beat BBGe (25.5%). Higher other income aided beat on PAT. **Standalone:** Revenue at Rs 39.3bn grew by ~16% YoY, in line with PLe. EBITDA margin came in at 27.9%, up c430bps YoY, helped by inventurisation benefit and lower other expenses. PAT came in at Rs 9.4bn. (2) **VECV:** Revenue grew by 22% YoY, with volume growth of c11%. EBITDA margin at 7.9% was up 200bps YoY, led by lower input price, better ASP. PAT came in at Rs 1.9bn, 128% YoY.

Key takeaways: (1) Festive season demand was positive for Royal Enfield (RE), despite the period being spread over two months unlike last year and it experienced a 14% YoY growth. RE is cautious about building inventory and aims to maintain its market share. (2) RE faced some volatility in export markets however, it has maintained its market shares in key regions like APAC, Europe, North America, and America. New products like the Super Meteor will start getting sold in the United States and it has partnered with AW Rostamani Group for distribution in the UAE. RE market share was ~7% in Americas and 9% in APAC. (3) Management sees the increased competition leading to market growth, which could benefit RE even if it loses some market share. They remain bullish and are not worried about the competition. (4) RE's margins benefited from material cost savings (100bps), portfolio mix and price hikes. (5) On the CV side, VECV continued to gain market share in 2Q across. (6) Around 89% to 90% of consumers who buy RE bikes also purchase accessories. RE network consists of 1050+ touchpoints spread across 60+ countries. (7) Newly launched Himalayan based on the new Sherpa-450 engine, a liquid-cooled, dual overhead camshaft engine received a positive response globally. It plans to scale up international volumes on the back of newly launched Himalayan. An electric version of the Himalayan was unveiled as a concept. It plans to collaborate with Stark Future on potential for joint development and sourcing for electronics, EV parts.

Exhibit 1: Domestic motorcycle market


Source: Company, PL

Exhibit 2: Customer base


Source: Company, PL

Exhibit 3: Q2FY24 Result Overview – Standalone (Rs mn) – EBITDA margins expand 420bps YoY

Y/e March	2QFY24	2QFY23	YoY gr.	1QFY24	QoQ gr.	1HFY24	1HFY23	YoY gr.
Net Revenues	39,307	33,972	15.7%	39,012	0.8%	78,319	66,451	17.9%
Raw Materials	20,913	19,873	5.2%	22,110	-5.4%	43,023	38,487	11.8%
<i>% of Net Sales</i>	<i>53.2%</i>	<i>58.5%</i>		<i>56.7%</i>		<i>54.9%</i>	<i>57.9%</i>	
Personnel	2,832	2,277	24.4%	2,710	4.5%	5,541	4,600	20.5%
<i>% of Net Sales</i>	<i>7.2%</i>	<i>6.7%</i>		<i>6.9%</i>		<i>7.1%</i>	<i>6.9%</i>	
Manufacturing & Otler Exp	4,588	3,786	21.2%	4,065	12.9%	8,653	7,446	16.2%
<i>% of Net Sales</i>	<i>11.7%</i>	<i>11.1%</i>		<i>10.4%</i>		<i>11.0%</i>	<i>11.2%</i>	
Total Expenditure	28,333	25,936	9.2%	28,885	-1.9%	57,218	50,533	13.2%
EBITDA	10,974	8,036	36.6%	10,127	8.4%	21,101	15,919	32.6%
<i>EBITDA Margin (%)</i>	<i>27.9%</i>	<i>23.7%</i>		<i>26.0%</i>		<i>26.9%</i>	<i>24.0%</i>	
Depreciation	1,311	1,251	4.8%	1,352	-3.1%	2,663	2,393	11.3%
EBIT	9,664	6,786	42.4%	8,775	10.1%	18,439	13,526	36.3%
Interest Expenses	48	34	39.7%	34	39.7%	82	59	38.4%
Non-operating income	2,760	1,534	79.9%	3,352	-17.7%	6,111	2,462	148.2%
PBT	12,376	8,286	49.4%	12,092	2.3%	24,468	15,929	53.6%
Tax-Total	2,991	2,137	39.9%	2,953	1.3%	5,944	3,978	49.4%
<i>Tax Rate (%) - Total</i>	<i>24.2%</i>	<i>25.8%</i>		<i>24.4%</i>		<i>24.3%</i>	<i>25.0%</i>	
PAT	9,385	6,149	52.6%	9,139	2.7%	18,524	11,950	55.0%
Adj. PAT	9,385	6,149	52.6%	9,139	2.7%	18,524	11,950	55.0%
<i>PAT Margin</i>	<i>23.9%</i>	<i>18.1%</i>		<i>23.4%</i>		<i>23.7%</i>	<i>18.0%</i>	

Source: Company, PL

Exhibit 4: Operating Metrics – Realization grew by 4.8% YoY

Y/e March	2QFY24	2QFY23	YoY gr.	1QFY24	QoQ gr.	1HFY24	1HFY23	YoY gr.
Sales Volume (nos)	2,29,280	2,07,764	10.4%	2,27,706	0.7%	4,56,986	3,94,969	15.7%
Net Realisation/Vehicle	1,71,437	1,63,512	4.8%	1,71,325	0.1%	1,71,381	1,68,244	1.9%
Material cost / vehicle	91,211	95,651	-4.6%	97,101	-6.1%	94,146	97,443	-3.4%
Gross Profit / vehicle	80,226	67,861	18.2%	74,225	8.1%	77,236	70,802	9.1%
Employee cost /vehicle	12,350	10,957	12.7%	11,899	3.8%	12,125	11,646	4.1%
Otler expenses / vehicle	20,011	18,224	9.8%	17,852	12.1%	18,936	18,852	0.4%
EBITDA/vehicle	47,865	38,680	23.7%	44,473	7.6%	46,175	40,303	14.6%
Net Profit/vehicle	40,932	29,594	38.3%	40,134	2.0%	40,535	30,256	34.0%

Source: Company, PL

Exhibit 5: Q2FY24 Result Overview – Consolidated (Rs mn) –PAT grew by –49% YoY

Y/e March	2QFY24	2QFY23	YoY gr.	1QFY24	QoQ gr.	1HFY24	1HFY23	YoY gr.
Net Revenues	41,145	35,194	16.9%	39,864	3.2%	81,009	69,169	17.1%
Raw Materials	22,201	20,256	9.6%	22,273	-0.3%	44,473	39,286	13.2%
<i>% of Net Sales</i>	<i>54.0%</i>	<i>57.6%</i>		<i>55.9%</i>		<i>54.9%</i>	<i>56.8%</i>	
Personnel	3,061	2,435	25.7%	2,927	4.6%	5,988	4,904	22.1%
<i>% of Net Sales</i>	<i>7.4%</i>	<i>6.9%</i>		<i>7.3%</i>		<i>7.4%</i>	<i>7.1%</i>	
Manufacturing & Otler Exp	5,012	4,287	16.9%	4,456	12.5%	9,468	8,452	12.0%
<i>% of Net Sales</i>	<i>12.2%</i>	<i>12.2%</i>		<i>11.2%</i>		<i>11.7%</i>	<i>12.2%</i>	
Total Expenditure	30,274	26,978	12.2%	29,655	2.1%	59,929	52,642	13.8%
EBITDA	10,872	8,216	32.3%	10,208	6.5%	21,080	16,527	27.5%
<i>EBITDA Margin (%)</i>	<i>26.4%</i>	<i>23.3%</i>		<i>25.6%</i>		<i>26.0%</i>	<i>23.9%</i>	
Depreciation	1,425	1,271	12.1%	1,423	0.2%	2,848	2,433	17.0%
EBIT	9,446	6,945	36.0%	8,786	7.5%	18,232	14,094	29.4%
Interest Expenses	127	71	79.6%	104	21.6%	231	123	88.2%
Non-operating income	2,738	1,486	84.2%	2,432	12.6%	5,170	1,973	162.1%
PBT	12,057	8,361	44.2%	11,114	8.5%	23,171	15,944	45.3%
Tax-Total	2,911	2,233	30.4%	2,935	-0.8%	5,845	4,047	44.4%
<i>Tax Rate (%) - Total</i>	<i>24.1%</i>	<i>26.7%</i>		<i>26.4%</i>		<i>25.2%</i>	<i>25.4%</i>	
PAT	9,146	6,127	49.3%	8,179	11.8%	17,325	11,896	45.6%
Minority interest / Slare in profit	1,016	441	130.3%	1,004	1.2%	2,021	779	159.4%
Profit after MI / Slare of profit	10,163	6,569	54.7%	9,183	10.7%	19,346	12,675	52.6%
Adj. PAT	10,163	6,569	54.7%	9,183	10.7%	19,346	12,675	52.6%
<i>PAT Margin</i>	<i>24.7%</i>	<i>18.7%</i>		<i>23.0%</i>		<i>23.9%</i>	<i>18.3%</i>	

Source: Company, PL

Exhibit 6: Q2FY24 Result Overview – EBITDA margin grew by 200bps YoY

Y/e March	2QFY24	2QFY23	YoY gr.	1QFY24	QoQ gr.	1HFY24	1HFY23	YoY c/g
Volumes (in units)	19,551	17,616	11.0%	19,571	-0.1%	39,122	35,085	11.5%
Net ASP (Rs/vel)	26,23,395	23,92,144	9.7%	25,50,202	2.9%	25,86,780	23,22,360	11.4%
Net Sales	51,290	42,140	21.7%	49,910	2.8%	1,01,200	81,480	24.2%
EBITDA	4,040	2,490	62.2%	3,870	4.4%	7,910	4,560	73.5%
<i>EBITDA Margin (%)</i>	<i>7.9%</i>	<i>5.9%</i>		<i>7.8%</i>		<i>7.8%</i>	<i>5.6%</i>	
PAT	1,850	810	128.4%	1,810	2.2%	3,660	1,430	155.94%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	1,44,422	1,62,523	1,80,346	1,98,857
YoY gr. (%)	40.2	12.5	11.0	10.3
Cost of Goods Sold	82,119	90,501	1,00,399	1,10,651
Gross Profit	62,303	72,021	79,947	88,206
Margin (%)	43.1	44.3	44.3	44.4
Employee Cost	10,019	12,075	12,554	13,790
Other Expenses	17,848	19,267	21,453	23,073
EBITDA	34,436	40,680	45,940	51,342
YoY gr. (%)	58.5	18.1	12.9	11.8
Margin (%)	23.8	25.0	25.5	25.8
Depreciation and Amortization	5,262	5,538	5,884	6,448
EBIT	29,174	35,141	40,056	44,895
Margin (%)	20.2	21.6	22.2	22.6
Net Interest	280	380	364	349
Other Income	5,951	9,412	9,839	9,774
Profit Before Tax	34,845	44,173	49,532	54,320
Margin (%)	24.1	27.2	27.5	27.3
Total Tax	8,857	11,036	12,472	13,652
Effective tax rate (%)	25.4	25.0	25.2	25.1
Profit after tax	25,988	33,137	37,059	40,668
Minority interest	-	-	-	-
Share Profit from Associate	3,152	5,901	6,907	7,068
Adjusted PAT	29,139	39,038	43,966	47,736
YoY gr. (%)	-	-	-	-
Margin (%)	20.2	24.0	24.4	24.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	29,139	39,038	43,966	47,736
YoY gr. (%)	73.8	34.0	12.6	8.6
Margin (%)	20.2	24.0	24.4	24.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Equity Shares O/s (m)	274	274	274	274
EPS (Rs)	106.5	142.7	160.8	174.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	52,837	58,837	64,837	70,837
Tangibles	52,837	58,837	64,837	70,837
Intangibles	-	-	-	-
Acc: Dep / Amortization	25,938	31,476	37,360	43,807
Tangibles	25,938	31,476	37,360	43,807
Intangibles	-	-	-	-
Net fixed assets	26,900	27,361	27,478	27,030
Tangibles	26,900	27,361	27,478	27,030
Intangibles	-	-	-	-
Capital Work In Progress	4,721	5,021	5,321	5,621
Goodwill	-	-	-	-
Non-Current Investments	22,284	26,490	29,249	29,249
Net Deferred tax assets	(2,913)	(2,942)	(2,972)	(3,001)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	1,00,923	1,01,716	1,03,958	1,08,958
Inventories	12,784	10,241	11,364	12,531
Trade receivables	3,689	2,226	2,470	2,724
Cash & Bank Balance	8,571	34,748	59,072	87,783
Other Current Assets	4,413	4,633	4,865	5,108
Total Assets	1,91,976	2,20,975	2,53,253	2,89,523
Equity				
Equity Share Capital	274	274	274	274
Other Equity	1,49,629	1,74,719	2,03,095	2,35,242
Total Networkth	1,49,903	1,74,993	2,03,369	2,35,515
Non-Current Liabilities				
Long Term borrowings	1,957	2,055	2,158	2,265
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	18,104	20,482	22,729	25,061
Other current liabilities	19,099	20,503	22,027	23,680
Total Equity & Liabilities	1,91,976	2,20,975	2,53,253	2,89,523

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	37,996	50,074	56,438	61,388
Add. Depreciation	5,262	5,538	5,884	6,448
Add. Interest	280	380	364	349
Less Financial Other Income	5,951	9,412	9,839	9,774
Add. Other	(5,951)	(9,412)	(9,839)	(9,774)
Op. profit before WC changes	37,588	46,581	52,846	58,410
Net Changes-WC	3,773	6,721	1,232	1,280
Direct tax	(8,144)	(11,007)	(12,443)	(13,622)
Net cash from Op. activities	33,217	42,295	41,635	46,068
Capital expenditures	(7,592)	(6,300)	(6,300)	(6,300)
Interest / Dividend Income	-	-	-	-
Others	3,247	5,205	7,081	9,774
Net Cash from Inv. activities	(4,345)	(1,095)	781	3,474
Issue of share cap. / premium	4,803	-	-	-
Debt changes	1,369	98	103	108
Dividend paid	(10,120)	(13,949)	(15,590)	(15,590)
Interest paid	(280)	(380)	(364)	(349)
Others	-	-	-	-
Net cash from Fin. activities	(4,228)	(14,231)	(15,850)	(15,830)
Net change in cash	24,643	26,970	26,566	33,712
Free Cash Flow	25,624	35,995	35,335	39,768

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	37,210	38,043	39,864	41,145
YoY gr. (%)	29.2	19.1	17.3	16.9
Raw Material Expenses	21,655	21,178	22,273	22,201
Gross Profit	15,555	16,865	17,591	18,945
Margin (%)	41.8	44.3	44.1	46.0
EBITDA	8,572	9,336	10,208	10,872
YoY gr. (%)	47.2	23.3	22.8	32.3
Margin (%)	23.0	24.5	25.6	26.4
Depreciation / Depletion	1,348	1,480	1,423	1,425
EBIT	7,224	7,856	8,786	9,446
Margin (%)	19.4	20.7	22.0	23.0
Net Interest	76	82	104	127
Other Income	1,923	2,055	2,432	2,738
Profit before Tax	9,071	9,830	11,114	12,057
Margin (%)	24.4	25.8	27.9	29.3
Total Tax	2,302	2,508	2,935	2,911
Effective tax rate (%)	25.4	25.5	26.4	24.1
Profit after Tax	6,770	7,322	8,179	9,146
Minority interest	-	-	-	-
Share Profit from Associates	639	1,734	1,004	1,016
Adjusted PAT	7,408	9,056	9,183	10,163
YoY gr. (%)	62.4	48.4	50.4	54.7
Margin (%)	19.9	23.8	23.0	24.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	7,408	9,056	9,183	10,163
YoY gr. (%)	62.4	48.4	50.4	54.7
Margin (%)	19.9	23.8	23.0	24.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Avg. Shares O/s (m)	273	273	273	273
EPS (Rs)	27.2	33.2	33.7	37.3

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	106.5	142.7	160.8	174.5
CEPS	125.8	163.0	182.3	198.1
BVPS	548.1	639.8	743.6	861.1
FCF	93.7	131.6	129.2	145.4
DPS	37.0	51.0	57.0	57.0
Return Ratio(%)				
RoCE	20.9	21.4	20.9	20.3
ROIC	73.1	94.2	106.1	134.9
RoE	21.1	24.0	23.2	21.8
Balance Sheet				
Net Debt : Equity (x)	(0.7)	(0.8)	(0.8)	(0.8)
Net Working Capital (Days)	(46)	(58)	(57)	(57)
Valuation(x)				
PER	33.3	24.9	22.1	20.3
P/B	6.5	5.5	4.8	4.1
P/CEPS	28.2	21.8	19.5	17.9
EV/EBITDA	25.0	20.5	17.6	15.1
EV/Sales	6.0	5.1	4.5	3.9
Dividend Yield (%)	1.0	1.4	1.6	1.6

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Royal volumes (in units)	8,34,895	9,28,047	10,03,479	10,77,665
% YoY	39	11	8	7
VECV volumes (in units)	79,623	88,431	93,958	89,928
% YoY	40	11	6	(4)

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Oct-23	Accumulate	3,730	3,450
2	04-Aug-23	Accumulate	3,520	3,380
3	07-Jul-23	Accumulate	3,460	3,222
4	11-May-23	BUY	4,030	3,404
5	12-Apr-23	BUY	4,050	3,054
6	14-Feb-23	BUY	4,120	3,176
7	05-Jan-23	BUY	4,200	3,215

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	220	172
2	Bajaj Auto	Reduce	4,800	5,144
3	Bharat Forge	BUY	1,170	1,076
4	CEAT	Accumulate	2,515	2,195
5	Eicher Motors	Accumulate	3,730	3,450
6	Endurance Technologies	Accumulate	1,755	1,624
7	Exide Industries	Accumulate	295	266
8	Hero Motocorp	Accumulate	3,575	3,052
9	Mahindra & Mahindra	BUY	1,740	1,524
10	Maruti Suzuki	BUY	12,485	10,561
11	Tata Motors	BUY	785	636
12	TVS Motor Company	Accumulate	1,650	1,609

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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