Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Eicher Motors Ltd

Mixed bag result, focus on growth continue

Automobiles	Sharekhan code: EICHERMOT

Reco/View: Buy	↔	CMP: Rs. 4,589	Price Target: Rs. 5,307	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

Company details

Market cap:	Rs. 1,25,477 cr
52-week high/low:	Rs. 5104/3564
NSE volume: (No of shares)	6.6 lakh
BSE code:	505200
NSE code:	EICHERMOT
Free float: (No of shares)	13.9 cr

Shareholding (%)

Promoters	49.1
FII	27.6
DII	13.8
Others	9.5

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-4.0	-4.4	0.5	30.8
Relative to Sensex	1.2	-2.8	-6.8	11.1

Sharekhan Research, Bloomberg

Summary

- Eicher reported a mixed performance in Q2, as it missed EBITDA margin estimates; bottom line came close to estimates on lower tax providing and higher income from VECV.
- Retails in the overseas market is increasing. Management expects a gradual improvement in its overseas business going ahead.
- We maintain BUY with an unchanged PT of Rs. 5,307, led by its leadership position in the premium motorcycle segment, rising premiumisation, and a focus on balanced growth.
- The stock trades at a P/E multiple of 27x/24.3x and EV/EBITDA multiple of 21.9x/20x its FY2026E/FY2027E estimates.

Eicher Motors (Eicher) reported a mixed performance in Q2FY2025. EBITDA margin missed estimates, but bottom line came close to estimates on lower tax provisioning and slightly higher-than-expected income from VECV JV. Going forward, management witnessed a healthy traction in sales during the festive season and even after the festive season. Retail sales in overseas markets have started picking up, and management assumes a gradual recovery in export markets going ahead. Net sales increased by 3.6% y-o-y to Rs, 4,263 crore (against estimate of Rs. 4,473 crore) on account of a 0.6% y-o-y decline in volumes and a 4.3% y-o-y increase in ASPs. EBITDA came flat y-o-y at Rs. 1,088 crore (against estimate of Rs. 1,196 crore). EBITDA margin contracted by 90 bps y-o-y to 25.5% (against estimate of 26.7%), as the 50 bps expansion in gross margin was offset by increased other expenses and employee cost. Concerned share of profit from VECV has increased by 11.9% y-o-y to Rs. 113.8 crore (against estimate of Rs. 100 crore). APAT increased by 8.3% y-o-y to Rs. 1100 crore (against estimate of Rs. 1,131 crore).

Key positives

- The new bullet has been gaining healthy response in its key markets.
- Retail sales in export markets have increased by 12% y-o-y.
- The company has witnessed healthy traction in retail sales during the festive season.

Key negatives

- ASP declined by 3.7% q-o-q to Rs 187,082 due to change in product mix.
- Other expenses expanded by 60 bps y-o-y to 12.8% on expenses related with new product launches and additional expense of Rs. 12 crore pertain to warehousing of products.
- Employee cost as percentage of sales expanded by 70 bps y-o-y to 8.1%.

Management Commentary

- The new Classic 350 has been well-received in the domestic market, with strong consumer interest.
- The current inventory levels stand at approximately 3-4 weeks.
- Retail sales in overseas markets are showing improvement.

Our Call

Valuation – Maintain BUY with an unchanged PT of Rs. 5,307: Eicher reported a mixed performance in Q2FY2025, as the shortfall in EBITDA was partly compensated by lower tax provisioning and higher income from VECV. Going forward, management is hoping for a continuation of momentum in retail sales, as was witnessed during the festive season. The management continue to focus on growth with rise in absolute profitability. Further, retail sales in overseas markets have started improving. Management has highlighted that commodity price points are no more a pressure point and, hence, the increase in volumes along with improvement in product mix would drive its profitability levels. The company expects commercial vehicle volumes to pick up in the second half of the fiscal year and anticipates margins to improve as operating leverage benefits start to materialise. Post factoring in Q2FY2025 performance in our earnings estimates and rolling forward our target multiple to FY2027E, we maintain BUY with an unchanged PT of Rs. 5,307, led by its leadership position in the premium motorcycle segment, rising premiumisation, and a 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. Rise in competition.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	14,442	16,536	17,445	19,198	21,045
Growth (%)	40.2	14.5	5.5	10.0	9.6
EBIDTA	3,444	4,327	4,640	5,184	5,682
OPM (%)	23.8	26.2	26.6	27.0	27.0
Adjusted PAT	2914	4001	4218	4657	5157
Growth (%)	72.3	37.3	5.4	10.4	10.7
EPS (Rs.)	107	146	154	170	189
PE (x)	43.1	31.4	29.8	27.0	24.3
P/BV (x)	8.4	7.0	6.0	5.3	4.6
EV/EBIDTA (x)	33.3	26.5	24.6	21.9	20.0
RoNW (%)	19.4	22.2	20.3	19.6	19.0
RoCE (%)	17.3	19.8	18.1	17.6	16.9

Source: Company; Sharekhan estimates

- The new Classic 350 has been well-received in the domestic market, with strong consumer interest.
- The company ramped up inventory in October in anticipation of the festive season and worked on providing inventory financing to dealers to drive growth.
- Both the Classic and Bullet models performed well during the festive period. Demand continues to show positive momentum, supported by robust customer inquiries.
- Rural demand accounts for about one-third of Royal Enfield (RE) sales.
- The current inventory levels stand at 3-4 weeks.
- A reasonable inventory correction was seen during the festive season.
- Higher-end variants of various models have traditionally seen stronger sales, and the trend continues.
- The company also launched the Bullet 350 Battalion Black edition, which has been well-received.
- This move was partly in response to subdued sales of the Bullet 350, and the company is working on improving dealer inventory for this variant, as stock levels remain low.
- Eicher has experienced a rise in other expenses in Q2FY2025, primarily due to launch-related activities. The company also incurred a one-off cost of around Rs. 12 crore for securing additional warehouse space ahead of the festive period.
- International retail sales are picking up, with positive trends emerging in several markets.
- The company is not building significant inventory in international markets ahead of the OBD 2B transition, which will come into effect from January 2025.
- Some challenges persist in Argentina and Colombia, but the company expects the situation to stabilise gradually. Eicher is expanding its retail reach in Brazil with the upcoming launch of a new Completely Knocked Down (CKD) facility, which is expected to drive growth.
- Additionally, the company is seeing strong momentum in Mexico and anticipates further growth in the region.
- The company plans to set up a second CKD facility in Brazil, with construction set to begin in January 2025, as part of its expansion strategy in international markets.
- The company expects commercial vehicle volumes to pick up in the second half of the fiscal year and anticipates margins to improve as operating leverage benefits start to materialise.

Results (Consolidated) Rs cr

Particulars	Q2FY25	Q2FY24	YoY (bps)	Q1FY25	QoQ (bps)
Revenue	4,263	4,115	3.6	4,393	(3.0)
Total Expenses	3,175	3,027	4.9	3,228	(1.6)
EBITDA	1,088	1,087	0.1	1,165	(6.7)
Other income	354	274	29.2	282	25.5
Depreciation	180	143	26.3	169	6.8
Interest	13	13	3.6	12	7.1
PBT	1,248	1,206	3.5	1,266	(1.4)
Tax	262	291	-10.1	340	(22.9)
Reported PAT	1,100	1,016	8.3	1,101	(0.1)
Adjusted PAT	1,100	1,016	8.3	1,101	(0.1)
EPS (Rs)	40.2	37.2	8.3	40.3	(0.1)

Source: Company, Sharekhan Research

Key ratios (Consolidated)

Particulars	Q2FY25	Q2FY24	YoY (bps)	Q1FY25	QoQ (bps)
Gross margin (%)	46.5	46.0	40	46.4	10
EBIDTA margin (%)	25.5	26.4	(90)	26.5	(100)
Net profit margin (%)	25.8	24.7	110	25.1	70
Effective tax rate (%)	21.0	24.1	(320)	26.8	(580)

Source: Company, Sharekhan Research

Volume Analysis (consolidated) (Rs/ Vehicle)

Particulars	Q2FY25	Q2FY24	YoY (bps)	Q1FY25	QoQ (bps)
Volume	2,27,872	2,29,280	(0.6)	2,26,021	0.8
Realization	1,87,082	1,79,454	4.3	1,94,365	(3.7)
RMC/Vehicle	1,00,161	96,828	3.4	1,04,245	(3.9)
EBITDA/Vehicle	47,734	47,416	0.7	51,563	(7.4)
PAT/Vehicle	48,287	44,324	8.9	48,733	(0.9)

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - 2W demand to recover in support of low base

We expect growth momentum to sustain in FY2025E, driven by improvement in 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 increased 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

Eicher is well poised to recover strongly and put performance in top gear, driven by an increase in the addressable market's 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 an unchanged PT of Rs. 5307

Eicher reported a mixed performance in Q2FY2025, as the shortfall in EBITDA was partly compensated by lower tax provisioning and higher income from VECV. Going forward, management is hoping for a continuation of momentum in retail sales, as was witnessed during the festive season. The management continue to focus on growth with rise in absolute profitability. Further, retail sales in overseas markets have started improving. Management has highlighted that commodity price points are no more a pressure point and, hence, the increase in volumes along with improvement in product mix would drive its profitability levels. The company expects commercial vehicle volumes to pick up in the second half of the fiscal year and anticipates margins to improve as operating leverage benefits start to materialise. Post factoring in Q2FY2025 performance in our earnings estimates and rolling forward our target multiple to FY2027E, we maintain BUY with an unchanged PT of Rs. 5,307, led by its leadership position in the premium motorcycle segment, rising premiumisation, and a focus on balanced growth.

Change in earning estimates (Rs cr)

Particulars	Earlier		New		% change		Introduction
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY27E
Revenue	19,441	21,799	17,445	19,198	-10.3%	-11.9%	21,045
EBITDA	5,171	5,886	4,640	5,184	-10.3%	-11.9%	5,682
EBITDA margin	26.6%	27.0%	26.6%	27.0%			27.0%
PAT	4,616	5,184	4,218	4,657	-8.6%	-10.2%	5157
EPS (Rs)	169	190	154	170	-8.6%	-10.2%	189

Source: Company, Sharekhan Research

About company

Eicher 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

Eicher 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 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 addressable market. We remain positive on EML's growth prospects and maintain our 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.

Additional Data

Key management personnel

Siddhartha Lal	Managing Director - Eicher Motors
B. Govindrajan	CEO - Royal Enfield
Vidhya Srinivasan	Chief Financial Officer - Eicher Motors

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SIMRAN SIDDHAR TARA BEN TRST	43.9
2	Blackrock Inc	3.0
3	SBI Funds Management Ltd	3.0
4	Life Insurance Corp of India	2.5
5	ICICI Prudential Asset Management	2.4
6	HDFC Asset Management Co Ltd	2.3
7	FIL Ltd	2.1
8	Capital Group Cos Inc/The	2.1
9	Vanguard Group Inc/The	2.1
10	New World Fund Inc	1.9

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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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN: - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

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