

Eicher Motors Ltd

Strategies working well, gaining share, more tailwinds ahead!

Topline matched, EBITDA margin came-in lower due to meagre product & geographic mix, while PAT surpassed estimates owing to higher other income & good performance from VECV. Upgrade the stock from ACCUMULATE to BUY as we believe the company is ticking right boxes for growth by applying the 360-degree approach on products, exports, marketing and correct pricing that's 1) attracting a wider & younger audience in domestic, and 2) supporting to capture bigger international markets. Expect commodity softness & recent pricing action benefits to flow-in. No more critical supply concerns is a major relief.

Q3FY23 result analysis – Revenue matched, PAT surpassed expectations

- RE reported volumes at 18 quarters high in Q3FY23 at 220K units. RE market share in Q3FY23 touched highest ever at 8% in domestic (+182bps YoY & +188bps QoQ).
- Consolidated Revenues/EBITDA/PAT are at historic highs. Topline matched estimates at Rs 37.21bn in Q3FY23, but the EBITDA margin came in at 23.0%, is lower than expectation of 24.4%. Inferior product (higher share of Hunter 350cc) & geographic mix (lower exports ~9% in Q3 vs. ~12% in Q2) impacted margins.
- PAT Rs 7.41bn was higher than est. Rs 6.92bn driven by higher other income of Rs 1.92bn (+109% YoY & 29% QoQ) and higher than expected Share of profits from JV of Rs 639mn vs est. Rs 512mn. Good performance from VECV.

Supply is no more a concern, new products supporting growth, gained share

- Received good response for newly launched Hunter 350cc & Super Meteor (SM) 650cc. Strong line-up of products are in the pipeline should support growth across nations.
- Hunter on one hand is able to pull younger audience; more such launches could wider the target audience. On the other side, SM 650cc along with other options is the right choice for upgraders.
- RE is focused on growing internationally with the combination of (building communities, expanding retail network & build CKD facilities).
- Export opportunity is good and mid-sized motorcycle market is under-served with a size of 1mn units. RE's exports have grown at a ~39% CAGR FY13-FY23e. Expect mid-teens growth to continue.
- The biggest hurdle 'supply' is now resolved. RE is now able to meet the demand prudently.

Reasonably attractive valuations

- Assigned 27x multiple to RE's FY25e EPS of Rs143 and 9x to FY25e VECV EBITDA of ~Rs10bn (54.4% Eicher's share) to arrive at a **fair value of 3,829**, seeking an upside of 16.5%. Upgrade from ACCUMULATE to BUY! Reduced VECV multiple from 10x to 9x looking at the uncertainty by FY25e on the CV industry.
- Revised EPS is lower by ~5%/10%/11% for FY23e/FY24e/FY25e respectively as volumes & EBITDA margin toned down, offset by expected benefits from soft commodities.

Y/E Mar (Rs Mn)	Q3 FY23	Q3 FY22	YoY (%)	Q2 FY23	QoQ (%)	Q3 FY23e	Var. (%)
Volumes (No)	219,898	167,664	31.2	203,451	8.1	219,898	-
Core realization (Rs)	169,215	171,811	(1.5)	172,985	(2.2)	169,525	(0.2)
EBITDA/unit (Rs)	38,983	34,734	12.2	40,384	(3.5)	41,317	
Total Income	37,210	28,807	29.2	35,194	5.7	37,278	(0.2)
Gross margin (%)	41.8	40.3	151 bps	42.4	(64) bps	-	-
EBITDA	8,572	5,824	47.2	8,216	4.3	9,086	(5.6)
EBITDA margin (%)	23.0	20.2	282 bps	23.3	(31) bps	24.4	(133) bps
Other income	1,923	921	108.7	1,486	29.4	-	-
PBT	9,710	5,929	63.8	8,802	10.3	-	-
Taxes paid	2,302	1,368	68.2	2,233	3.1	-	-
Effective tax rate (%)	23.7	23.1	63 bps	25.4	(167) bps	-	-
Reported PAT	7,408	4,561	62.4	6,569	12.8	6,925	7.0
PAT margin (%)	19.9	15.8	408 bps	18.7	125 bps	18.6	133 bps

Source: Company, SMIFS research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	87,204	(4.7)	17,813	20.4	13,469	(26.3)	49.3	12.6	11.4	66.7	29.2
FY22	102,978	18.1	21,723	21.1	16,766	24.5	61.3	13.9	12.8	53.6	28.9
FY23e	147,976	43.7	35,025	23.7	28,341	69.0	103.6	20.9	18.2	31.7	22.6
FY24e	170,153	15.0	41,074	24.1	33,298	17.5	121.7	21.4	17.9	27.0	18.8
FY25e	192,589	13.2	47,562	24.7	39,123	17.5	143.0	21.8	17.9	23.0	15.7

Source: Company, SMIFS research estimates



Rating: **BUY** Upside/(Downside): **16.5%**

Current Price: **3,286** Target Price: **3,829**

Earlier recommendation

Previous Rating: Accumulate

Previous Target Price: 3,999

Market data

Bloomberg:	EIM IN
52-week H/L (Rs):	3,886/2,110
Mcap (Rs bn/USD bn):	899/10.9
Shares outstanding (mn):	273
Free float:	50.0%
Daily vol. (3M Avg):	0.63mn
Face Value (Rs):	1

Source: Bloomberg, SMIFS research

Shareholding pattern (%)

	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	49.2	49.2	49.2	49.2
FII's	29.8	30.2	29.5	29.2
DII's	10.1	10.1	10.2	10.1
Public/others	10.9	10.5	11.1	11.5

Source: BSE

Promoters pledging (%)

% of o/s shares	-	-	-	-
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Source: BSE

Price performance (%) *

	1M	3M	12M	36M
Nifty 50	-0.6	-2.2	3.7	49.0
Nifty 500	-2.6	-3.8	1.6	51.7
EIM	3.3	-4.6	20.7	77.2

* As on 17th Feb 2023; Source: AceEquity, SMIFS research

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Q3FY23 – Key takeaways from the management call

Domestic demand & supply

- Launched Super Meteor 650cc across the globe & received excellent reviews. Hunter 350cc won the Indian Motorcycle of the year 2023. Received very good response since its launch in August. It's available across the globe now.
- On further new launches, RE will keep introducing new products gradually, have a healthy line-up planned for the next few years.
- On domestic demand, huge potential exists in youth of rural India, getting new set of customers & a younger audience with new launches.

Exports demand

- On exports, although macros are weak, however, started exporting Hunter from Q3 & need to stock well for the upcoming season.
- RE is looking from a long-term angle, hence the focus is to build community, expand retail network and built CKD to grow exports.
- The potential in international markets is good, hence it will continue to outpace in the mid-to-long term.

Capacity & supplies

- There are no capacity issues now for Hunter 350cc. Overall, there are no capacity constraints and have sufficient for near-term growth. Incremental investments will require for de-bottlenecking.
- Overall, supplies are good except for some minor issues here & there. RE can supply as per the demand.

Margin

- There is no commodity pressure, received some benefits in Q3, will start getting some in coming quarters. This was offset by an inferior product & geographic mix in Q3.
- Taken price increase in Hunter and Bullet models of about 1.5% that will start flowing in the coming quarters.

VECV

- Model changeover to new norms already begun, a lot of models moved to the OBD-II. The cost increase is 3-5%. No plans to build inventory.

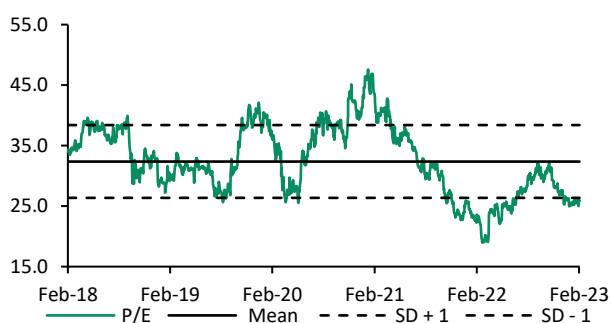
Other key highlights

- Accessories are steadily growing. Number of SKUs gone up.
- Increase in other income is largely due to higher interest income.

Outlook and Valuations

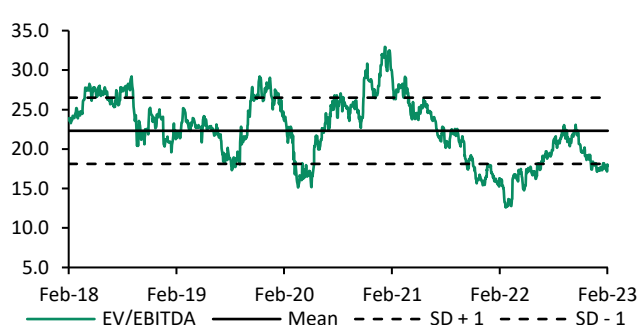
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Fig 1: 1-year forward P/E

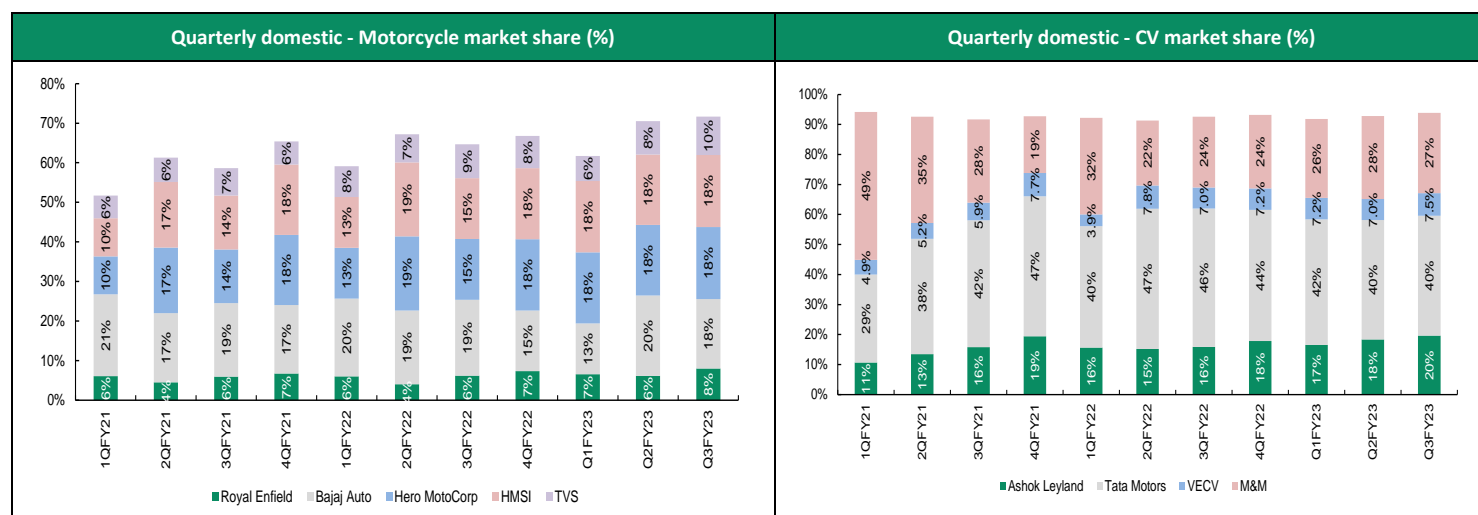


Source: AceEquity, SMIFS institutional research

Fig 2: 1-year forward EV/EBITDA



Source: AceEquity, SMIFS institutional research

Fig 3: Quarterly market share trend (%) – Royal Enfield and VECV

Fig 4: Change in Estimates

Rs mn	New estimates			Old estimates			Change		
	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e
RE volumes (No.)	848,268	937,882	1,020,621	900,025	992,028	1,073,631	-5.8%	-5.5%	-4.9%
Revenue	147,976	170,153	192,589	160,079	185,230	210,451	-7.6%	-8.1%	-8.5%
Gross profit	63,630	73,591	83,776	66,378	77,548	89,159	-4.1%	-5.1%	-6.0%
Gross margin (%)	43.0	43.3	43.5	41.5	41.9	42.4	150 bps	135 bps	113 bps
EBITDA	35,025	41,074	47,562	38,262	45,323	52,551	-8.5%	-9.4%	-9.5%
EBITDA margin (%)	23.7	24.1	24.7	23.9	24.5	25.0	(23) bps	(36) bps	(27) bps
PAT	28,341	33,298	39,123	29,910	36,955	43,949	-5.2%	-9.9%	-11.0%
EPS (Rs)	104	122	143	109	135	161	-4.9%	-9.8%	-11.2%

Source: Company, SMIFS Research Estimates

Quarterly financials, operating metrics & key performance indicators

Fig 5: Quarterly Financials

Y/E March (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Sales	29,403	19,743	22,496	28,807	31,933	33,975	35,194	37,210
Raw Materials	17,391	11,417	12,964	17,200	17,971	19,030	20,256	21,655
Employee Costs	2,254	2,234	1,738	2,017	2,221	2,470	2,435	2,594
Other Expenditure	3,415	2,463	3,095	3,766	4,170	4,165	4,287	4,389
EBITDA	6,344	3,630	4,699	5,824	7,571	8,311	8,216	8,572
Depreciation	1,248	1,116	1,094	1,114	1,194	1,162	1,271	1,348
Interest	39	64	31	61	31	52	71	76
Other Income	1,139	1,220	1,086	921	1,180	487	1,486	1,923
Share of profit of JV	690	-394	98	359	538	338	441	639
PBT	6,886	3,275	4,758	5,929	8,063	7,921	8,802	9,710
Tax	1,625	904	1,026	1,368	1,962	1,814	2,233	2,302
Tax rate (%)	26.2	24.6	22.0	24.6	26.1	23.9	26.7	25.4
Reported PAT	5,261	2,371	3,732	4,561	6,101	6,107	6,569	7,408
Adjusted PAT	5,261	2,371	3,732	4,561	6,101	6,107	6,569	7,408
YoY Growth (%)								
Revenue	33.2	141.3	5.4	1.9	8.6	72.1	56.4	29.2
EBITDA	46.8	9,477.0	(0.3)	(13.3)	19.3	129.0	74.9	47.2
PAT	72.9	(529.7)	8.7	(14.4)	16.0	157.5	76.0	62.4
QoQ Growth (%)								
Revenue	4.0	(32.9)	13.9	28.1	10.9	6.4	3.6	5.7
EBITDA	(5.6)	(42.8)	29.5	23.9	30.0	9.8	(1.1)	4.3
PAT	(1.2)	(54.9)	57.4	22.2	33.8	0.1	7.6	12.8
Margin (%)								
RMC/revenue (%)	59.1	57.8	57.6	59.7	56.3	56.0	57.6	58.2
Gross margin (%)	40.9	42.2	42.4	40.3	43.7	44.0	42.4	41.8
Employee cost/revenue (%)	7.7	11.3	7.7	7.0	7.0	7.3	6.9	7.0
Other expenses/revenue (%)	11.6	12.5	13.8	13.1	13.1	12.3	12.2	11.8
EBITDA margin (%)	21.6	18.4	20.9	20.2	23.7	24.5	23.3	23.0
PAT margin (%)	17.9	12.0	16.6	15.8	19.1	18.0	18.7	19.9
Per Unit (Rs.)								
EBITDA	31,198	29,710	38,042	34,734	40,773	44,675	40,384	38,983
Blended Realization	144,600	161,603	182,128	171,811	171,984	182,628	172,985	169,215

Source: Company, SMIFS research

Fig 6: Key Assumptions

Operating Details	FY20	FY21	FY22	FY23e	FY24e	FY25e
Royal Enfield						
- Domestic	656,651	570,781	515,242	752,511	827,762	893,983
YoY Growth (%)	(18.5)	(13.1)	(9.7)	46.1	10.0	8.0
- Exports	39,188	38,622	80,232	95,757	110,120	126,638
YoY Growth (%)	88.2	(1.4)	107.7	19.4	15.0	15.0
Total RE volumes	695,839	609,403	595,474	848,268	937,882	1,020,621
YoY Growth (%)	(15.8)	(12.4)	(2.3)	42.5	10.6	8.8
RE - Realization (Rs)	131,547	143,097	172,935	174,444	181,422	188,698
YoY Growth (%)	10.9	8.8	20.9	0.9	4.0	4.0
EBITDA/unit (Rs)	41,721	35,778	29,913	41,290	43,795	46,601
YoY Growth (%)	22.8	(14.2)	(16.4)	38.0	6.1	6.4
VECV						
MHCVs	32,462	28,914	44,510	57,375	65,474	70,935
YoY Growth (%)	(36.3)	(10.9)	53.9	28.9	14.1	8.3
LCVs	15,072	11,292	11,326	13,630	15,324	17,145
YoY Growth (%)	(27.8)	(25.1)	0.3	20.3	12.4	11.9
Volvo trucks	1,187	1,062	1,241	1,303	1,499	1,618
YoY Growth (%)	3.6	(10.5)	16.9	5.0	15.0	8.0
Total VECV volumes	48,721	41,268	57,077	72,308	82,296	89,698
YoY Growth (%)	(33.2)	(15.3)	38.3	26.7	13.8	9.0
VECV - Realization (Rs)	1,749,642	2,102,355	2,229,269	2,380,414	2,475,630	2,574,655
YoY Growth (%)	10.1	20.2	6.0	6.8	4.0	4.0
EBITDA/unit (Rs)	82,355	142,979	125,437	150,604	183,860	206,662
YoY Growth (%)	(38.2)	73.6	(12.3)	20.1	22.1	12.4

Source: Company, SMIFS research estimates

Financial Statements

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Revenues	87,204	102,978	147,976	170,153	192,589
Raw Materials	51,128	59,557	84,346	96,562	108,813
% of sales	58.6	57.8	57.0	56.8	56.5
Personnel	8,432	8,210	10,295	11,675	13,117
% of sales	9.7	8.0	7.0	6.9	6.8
Manufacturing & Other Expenses	9,831	13,489	18,310	20,842	23,098
% of sales	11.3	13.1	12.4	12.2	12.0
EBITDA	17,813	21,723	35,025	41,074	47,562
Other Income	4,532	4,408	5,185	4,331	4,628
Depreciation & Amortization	4,507	4,519	5,171	5,851	6,531
EBIT	17,837	21,611	35,039	39,555	45,659
Share of profit of JV (VECV)	311	602	1,987	3,551	4,779
Finance cost	165	188	270	310	351
Core PBT	13,452	17,617	31,571	38,464	45,459
Exceptional Items	-	-	-	-	-
PBT	17,984	22,025	36,756	42,795	50,087
Tax	4,515	5,259	8,414	9,497	10,965
Tax Rate (%)	25.5	24.5	24.2	24.2	24.2
Reported PAT	13,469	16,766	28,341	33,298	39,123
Adjusted PAT	13,469	16,766	28,341	33,298	39,123

Source: Company, SMIFS research estimates

Key Ratios					
YE March	FY21	FY22	FY23e	FY24e	FY25e
Growth Ratios (%)					
Net Sales	(4.7)	18.1	43.7	15.0	13.2
EBITDA	(18.3)	22.0	61.2	17.3	15.8
Net Profit	(26.3)	24.5	69.0	17.5	17.5
Margin Ratio (%)					
Gross Margin	41.4	42.2	43.0	43.3	43.5
EBITDA Margin	20.4	21.1	23.7	24.1	24.7
EBIT Margin	20.5	21.0	23.7	23.2	23.7
PBT margins	15.4	17.1	21.3	22.6	23.6
Adj. PAT Margin	15.4	16.3	19.2	19.6	20.3
Return Ratios (%)					
ROE	12.6	13.9	20.9	21.4	21.8
ROCE	11.4	12.8	18.2	17.9	17.9
Turnover Ratios (days)					
Gross Block Turnover (x)	2.2	2.4	3.0	3.1	3.1
Adjusted OCV/PAT (%)	124	90	114	102	100
Inventory	52	62	62	62	62
Debtors	5	8	8	8	8
Creditors	90	101	101	101	101
Cash Conversion Cycle	(33)	(32)	(32)	(32)	(32)
Solvency ratio (x)					
Debt-equity	0.0	0.0	0.0	0.0	0.0
Net Debt-Equity	(0.7)	(0.7)	(0.7)	(0.8)	(0.8)
Gross Debt/EBITDA	0.1	0.0	0.0	0.0	0.0
Current ratio	3.4	1.9	1.5	1.6	1.8
Interest coverage ratio	108	115	130	127	130
Dividend					
DPS (Rs.)	17	21	35	42	49
Dividend Yield (%)	0.8	0.8	1.1	1.3	1.5
Dividend Payout (%)	34.5	34.2	34.2	34.2	34.2
Per share (Rs.)					
Basic EPS (reported)	49	61	104	122	143
Adjusted EPS	49	61	104	122	143
CEPS	66	78	123	143	167
BV	418	461	529	609	703
Valuation					
P/E	66.7	53.6	31.7	27.0	23.0
P/BV	5.2	5.7	6.2	5.4	4.7
EV/EBITDA	29.2	28.9	22.6	18.8	15.7
EV/Sales	6.0	6.1	5.4	4.5	3.9
Adj Mcap/Core PBT	38.4	35.6	25.1	20.0	16.4
Adj Mcap/Adj OCF	30.9	41.6	24.6	22.8	19.0

Source: Company, SMIFS research estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Sources of funds					
Capital	273	273	274	274	274
Reserves & Surplus	114,108	125,807	144,445	166,343	192,072
Shareholders' Funds	114,381	126,080	144,718	166,617	192,345
Total Loan Funds	2,193	1,077	981	1,108	1,236
Other non-current liabilities	4,456	5,743	8,265	9,326	10,557
Total Liabilities	121,029	132,900	153,965	177,050	204,138
Application of funds					
Gross Block	41,017	45,926	52,404	58,883	65,361
Net Block	24,861	26,114	27,422	28,050	27,998
Capital WIP	639	1,340	692	716	720
Investments	39,021	77,206	102,908	117,018	131,525
Other non-current assets	3,741	5,404	6,679	7,184	7,755
Inventories	8,746	11,324	14,212	16,270	18,334
Sundry Debtors	1,582	3,020	3,306	3,802	4,303
Cash & Bank Balances	58,304	27,224	25,583	35,374	49,586
Other current Assets	8,693	10,377	11,955	12,732	13,518
Total Current Assets	77,324	51,946	55,056	68,178	85,742
Sundry Creditors	15,132	17,881	23,377	26,763	30,158
Other Current Liabilities	9,425	11,229	15,415	17,333	19,444
Total Current Liabilities	24,557	29,110	38,792	44,095	49,603
Net Current Assets	52,767	22,837	16,264	24,083	36,140
Total Assets	121,029	132,900	153,965	177,050	204,138

Source: Company, SMIFS institutional research estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Operating profit before WC changes	19,124	21,909	36,357	41,548	48,202
Net chg in working capital	2,352	(1,503)	4,504	2,075	2,201
Income tax paid	(4,566)	(5,136)	(8,414)	(9,497)	(10,965)
Cash flow from operating activities (a)	16,910	15,270	32,447	34,126	39,438
Adjusted OCF	16,745	15,083	32,177	33,815	39,087
Capital expenditure	(5,149)	(6,387)	(5,831)	(6,502)	(6,483)
Adjusted FCF	11,596	8,696	26,346	27,313	32,604
Cash flow from investing activities (b)	(16,253)	(9,833)	(24,682)	(13,168)	(12,077)
Debt Issuance/(repayment)	130	(1,046)	257	127	128
Dividend Paid	-	(4,647)	(9,703)	(11,400)	(13,394)
Interest and Lease Expenses	(661)	(306)	(270)	(310)	(351)
Cash flow from financing activities (c)	(148)	(5,934)	(9,348)	(11,166)	(13,148)
Net chg in cash (a+b+c)	509	(496)	(1,582)	9,791	14,213

Source: Company, SMIFS research estimates

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