

## Focus on 'Rebalance strategy' for holistic growth...

**About the stock:** Eicher Motors (EML) is the market leader in the >250 cc premium motorcycle segment (market share ~85%+) through its aspirational models under the Royal Enfield (RE) brand, such as Classic, etc. With the launch of 650 cc twins, its market share in international markets is pegged at ~8-10% in mid-weight segment.

- Via its JV with Volvo, VECV (EML has 54.4% stake), the company has a presence in the CV space as well (6.6% FY22 market share)
- Strong net cash positive b/s with healthy return ratios metrics

### Key Highlights:

- Addressing the customer need of an affordable RE product, which is easy to manoeuvre, EML has recently launched Hunter 350 at an ex-showroom price of ₹ 1.5 lakh/unit. Domestically, with Hunter 350, EML wants to tap the first time buyers and upgrades from the 100 cc+ segment and sees >125 cc segment as its addressable market with market size pegged at ~32 lakh units (sales in FY22 at 5.2 lakh units). Internationally, the addressable market size is pegged at ~10 lakh units (sales in FY22 at 80,000 units)
- RE's recent volume prints were encouraging with total volumes in August 2022 pegged at 70,000 units, up 26% MoM, vastly outperforming its peers
- Continued focus on **Rebalance strategy** wherein it will focus on all aspects of growth including EV development, superior product offering & increasing revenue from non-auto business (mainly accessories & spares)

**What should investors do?** EML's stock price has grown at ~2% CAGR in last five years from ₹ 3,200 in September 2017, underperforming broader Nifty Auto index.

- We maintain **BUY** amid healthy volume growth prospects over FY22-24E

**Target Price and Valuation:** Upgrading our numbers, we now value EML at ₹ 4,170 on SOTP basis; assigning 34x PE to RE business & 30x PE to VECV business on FY24E

### Key triggers for future price performance:

- Healthy response to Hunter 350 and intent to shift consumer preference to more superior offerings. We expect RE volumes to grow at a CAGR of 25% over FY22-24E. CV volumes are expected to grow at a CAGR of 22%
- Steady improvement in motorcycle production amid diversified product offering and increasing market share in international market to bring in operating leverage benefits with margins seen reaching 26.1% in FY24E

**Alternate Stock Idea:** In our auto OEM coverage, we like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with a target price of ₹ 1,550



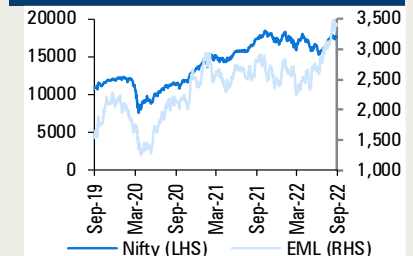
### Particulars

Particular	₹ crore
Market Capitalization	94,289
Total Debt (FY22)	59
Cash & Investments (FY22)	8,485
EV (₹ crore)	85,862
52 week H/L (₹)	3514 / 2110
Equity capital	₹ 27.3 Crore
Face value	₹ 1

### Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	49.2	49.2	49.2	49.2
FII	30.3	29.5	29.2	29.5
DII	8.7	9.7	10.0	10.1
Other	11.9	11.6	11.6	11.2

### Price Chart



### Recent event & key risks

- Concluded annual investor meet
- **Key Risk:** (i) Cannibalisation of premium offerings amid new budgeted offering, (ii) Lower than anticipated volume growth limiting operating leverage benefits in FY22-24E

### Research Analyst

Shashank Kanodia, CFA  
shashank.kanodia@icicisecurities.com

Raghvendra Goyal  
raghvendra.goyal@icicisecurities.com

### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	9,797.1	9,153.6	8,720.4	10,297.8	7.9%	14,121.5	15,638.2	23.2%
EBITDA	2,903.1	2,180.3	1,781.3	2,172.2	0.0%	3,503.5	4,075.6	37.0%
EBITDA Margins (%)	29.6	23.8	20.4	21.1		24.8	26.1	
Net Profit	2,202.8	1,827.5	1,346.9	1,676.6	0.1%	2,784.1	3,336.7	41.1%
EPS (₹)	80.8	67.0	49.3	61.3		101.8	122.0	
P/E	42.7	51.5	70.0	56.3		33.9	28.3	
RoNW (%)	24.8	18.3	11.8	13.3		19.3	20.1	
RoCE(%)	27.8	17.3	11.3	13.3		20.4	20.9	

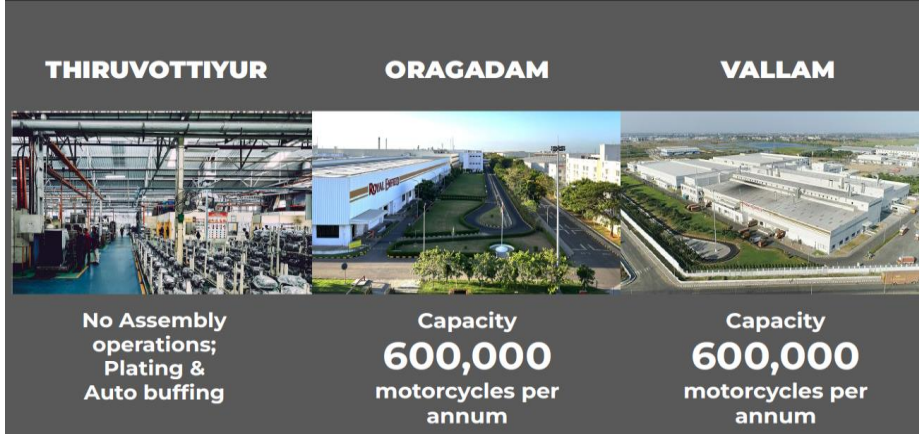
Key presentation highlights from recent Investor Day...

Exhibit 1: Rebalance strategy



Source: Company, ICICI Direct Research

Exhibit 2: Production capacity



Company has production capacity of 12 lakh units annually.

Source: Company, ICICI Direct Research

Exhibit 3: Opportunity size

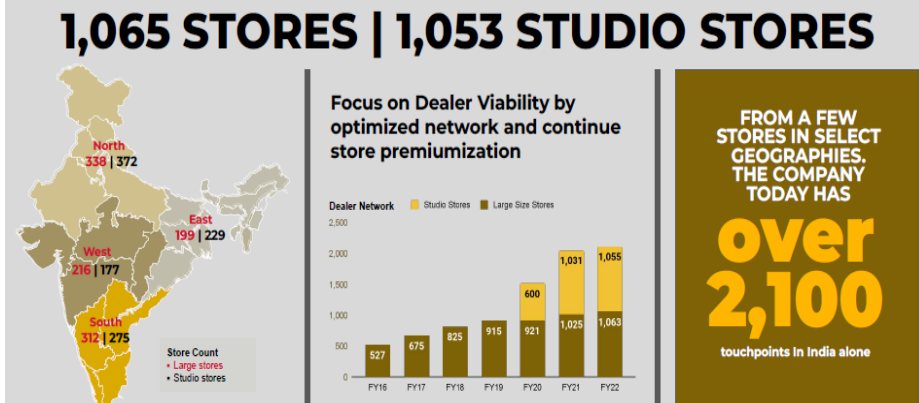


With launch of Hunter 350 cc, domestic addressable size is pegged at ~32 lakh

International addressable market size is pegged at ~10 lakh units

Source: Company, ICICI Direct Research

Exhibit 4: Distribution presence - India



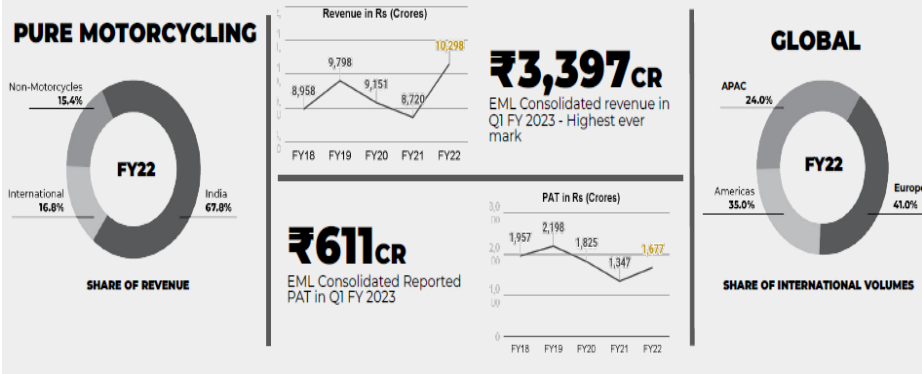
Royal Enfield has over 2100 touchpoints pan India, which includes the full format stores as well as smaller studio stores

The company has over 840 touchpoints in international markets

Source: Company, ICICI Direct Research

Exhibit 5: Revenue bifurcation across segments and geographies

## DIVERSIFICATION OF BUSINESS LEADING STRONG REVENUE PERFORMANCE



Source: Company, ICICI Direct Research

Exhibit 6: EV offerings from VECV

## ELECTRIC VEHICLES...FUTURE READY. PRIORITIZING EARLY-ADOPTER SEGMENTS

- Order for 9-meter Buses from City of Chandigarh under execution (40 units). 150 units from city of Surat
- 12-meter low floor City Bus under development
- Light Truck of 5T GVW and 55T GCW Tractor being developed for short-lead (200 Kms) haulage applications
- In-house E-axle concept design in progress for 3.5T-7T with Single & 2 Speed gearbox
- Investment of ₹2.6 Billion over the next 2 to 3 years.
- Synergy areas with Volvo Group in Traction system, Charging system and Electric Architecture (CAST) domains
- Operating Subsidiary established to manage Vehicle-as-a-Service (new Business Model) required in Bus Tenders



The company, going forward, will focus on dealer profitability and connected tech features to reap benefits of coming cyclical upswing in CV space

Source: Company, ICICI Direct Research

Exhibit 7: SOTP valuation

	Amount	Remarks
<b>Two-wheeler business-Royal Enfield</b>		
FY24E EPS (₹)	115	
Target PE multiple(x)	34.0	Valued RE business at 34x P/E
Per share value (₹)	3,915	
Target market cap (₹ crore)	1,06,721	
<b>CV business-VECV</b>		
FY24E PAT (₹ crore)	423	
Target PE multiple(x)	30.0	Valued VECV business at 30x P/E
Target market cap (₹ crore)	12,680	
Contribution towards EML	0.54	EML has 54.4% stake in VECV
Target market cap towards EML (₹ crore)	6,898	
Per share value-VECV Eicher (₹)	255	
Total target market cap (₹ crore)	1,13,619	
<b>Per share value (₹)</b>	<b>4,170</b>	

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Total operating Income</b>	<b>8,720.4</b>	<b>10,297.8</b>	<b>14,121.5</b>	<b>15,638.2</b>
Growth (%)	-4.7	18.1	37.1	10.7
Raw Material Expenses	4,846.7	5,616.7	7,750.9	8,563.2
Employee Expenses	843.3	821.0	961.9	1,041.5
Other Expenses	983.1	1,349.4	1,578.7	1,665.2
Total Operating Expenditure	6,939.1	8,125.6	10,618.0	11,562.6
<b>EBITDA</b>	<b>1781.3</b>	<b>2172.2</b>	<b>3503.5</b>	<b>4075.6</b>
Growth (%)	-18.3	21.9	61.3	16.3
Depreciation	450.7	451.9	508.4	547.3
Interest	16.5	18.8	16.9	15.2
Other Income	453.2	440.8	522.6	640.4
PBT	1,767.3	2,142.3	3,500.8	4,153.4
Others	0.0	0.0	0.0	0.0
Total Tax	451.5	525.9	872.5	1,046.7
<b>PAT</b>	<b>1346.9</b>	<b>1676.6</b>	<b>2784.1</b>	<b>3336.7</b>
Growth (%)	-26.3	24.5	66.1	19.8
<b>EPS (₹)</b>	<b>49.3</b>	<b>61.3</b>	<b>101.8</b>	<b>122.0</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Profit after Tax</b>	<b>1,346.9</b>	<b>1,676.6</b>	<b>2,784.1</b>	<b>3,336.7</b>
Add: Depreciation	450.7	451.9	508.4	547.3
(Inc)/dec in Current Assets	-990.5	-570.1	-602.9	-330.3
Inc/(dec) in CL and Provisions	597.2	453.1	873.6	407.9
<b>CF from operating activities</b>	<b>951.1</b>	<b>1570.7</b>	<b>3040.6</b>	<b>3321.3</b>
(Inc)/dec in Investments	1,880.8	-3,786.7	-1,500.0	-1,900.0
(Inc)/dec in Fixed Assets	-508.7	-633.5	-500.0	-500.0
Others	433.2	346.8	460.0	585.4
<b>CF from investing activities</b>	<b>1805.3</b>	<b>-4073.4</b>	<b>-1540.0</b>	<b>-1814.6</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	13.0	-98.6	-10.0	-10.0
Dividend paid & dividend tax	-464.6	-574.1	-956.9	-1,148.3
Others	574.9	67.5	0.0	0.0
<b>CF from financing activities</b>	<b>123.3</b>	<b>-605.2</b>	<b>-966.9</b>	<b>-1158.3</b>
Net Cash flow	2,879.7	-3,108.0	533.7	348.4
Opening Cash	2,950.5	5,830.2	2,722.2	3,256.0
<b>Closing Cash</b>	<b>5830.2</b>	<b>2722.2</b>	<b>3256.0</b>	<b>3604.3</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	27.3	27.3	27.3	27.3
Reserve and Surplus	11,410.8	12,580.7	14,407.9	16,596.3
<b>Total Shareholders funds</b>	<b>11438.1</b>	<b>12608.0</b>	<b>14435.2</b>	<b>16623.6</b>
Total Debt	157.4	58.8	48.8	38.8
Deferred Tax Liability	221.5	220.1	220.1	220.1
Others	270.2	389.6	404.1	409.9
<b>Total Liabilities</b>	<b>12087.2</b>	<b>13276.5</b>	<b>15108.2</b>	<b>17292.4</b>
<b>Assets</b>				
Gross Block	4,176.2	4,619.2	5,174.0	5,774.0
Less: Acc Depreciation	1,742.9	2,194.8	2,703.2	3,250.5
<b>Net Block</b>	<b>2433.3</b>	<b>2424.4</b>	<b>2470.8</b>	<b>2523.5</b>
Capital WIP	314.3	504.8	450.0	350.0
Total Fixed Assets	2,747.6	2,929.2	2,920.8	2,873.5
Investments	3,902.2	7,720.6	9,270.6	11,220.6
Inventory	874.6	1,132.4	1,547.6	1,713.8
Debtors	158.2	302.0	386.9	428.4
Others	869.3	1,037.7	1,140.6	1,263.1
<b>Cash</b>	<b>5830.2</b>	<b>2722.2</b>	<b>3256.0</b>	<b>3604.3</b>
Total Current Assets	7,732.2	5,194.4	6,331.0	7,009.7
Creditors	1,535.8	1,788.1	2,321.3	2,570.7
Provisions	90.2	150.7	195.6	216.6
Others	845.4	985.8	1281.2	1418.8
Total Current Liabilities	2,471.4	2,924.5	3,798.1	4,206.1
<b>Net Current Assets</b>	<b>5260.8</b>	<b>2269.9</b>	<b>2532.9</b>	<b>2803.6</b>
Other Non current asset	176.5	356.7	383.8	394.6
<b>Application of Funds</b>	<b>12087.2</b>	<b>13276.5</b>	<b>15108.2</b>	<b>17292.4</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	49.3	61.3	101.8	122.0
Cash EPS	65.8	77.9	120.4	142.1
BV	418.5	461.2	528.0	608.0
DPS	17.0	21.0	35.0	42.0
Cash Per Share	285.6	310.3	384.7	467.0
<b>Operating Ratios (%)</b>				
EBITDA Margin	20.4	21.1	24.8	26.1
PBT / Net sales	15.3	16.7	21.2	22.6
PAT Margin	15.4	16.3	19.7	21.3
Inventory days	36.6	40.1	40.0	40.0
Debtor days	6.6	10.7	10.0	10.0
Creditor days	64.3	63.4	60.0	60.0
<b>Return Ratios (%)</b>				
RoE	11.8	13.3	19.3	20.1
RoCE	11.3	13.3	20.4	20.9
RoIC	36.0	44.1	80.2	93.7
<b>Valuation Ratios (x)</b>				
P/E	70.0	56.3	33.9	28.3
EV / EBITDA	48.6	39.5	23.9	20.0
EV / Net Sales	9.9	8.3	5.9	5.2
Market Cap / Sales	10.8	9.2	6.7	6.0
Price to Book Value	8.2	7.5	6.5	5.7
<b>Solvency Ratios</b>				
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	1.0	1.0	1.0	1.0
<b>Quick Ratio</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>

Source: Company, ICICI Direct Research

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**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, AkruTI Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com**

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