

CMP: ₹ 3,155

Target: ₹ 3,650 (16%)

Target Period: 12 months

August 11, 2022

BUY

Hunter 350 to propel volume growth over FY22-24E...

About the stock: Eicher Motors (EML) is the market leader in the >250 cc premium motorcycle segment (market share ~90%) through its aspirational models under the Royal Enfield (RE) brand, such as Bullet, Classic, Interceptor among others.

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

Q1FY23 Results: Eicher posted a healthy operational performance in Q1FY23

- Consolidated revenues were at ₹ 3,397 crore, up 6.4% QoQ
- Reported EBITDA margins came in at 24.5%, up 75 bps QoQ
- Consequent consolidated PAT was at ₹ 611 crore, flat QoQ amid lower other income primarily on account of MTM loss on investments

What should investors do? EML stock price has largely been flat over last five years amid muted volume trajectory, underperforming the broader Nifty Auto index.

- We upgrade EML from HOLD to **BUY** amid affordable offering in premium segment (Hunter 350) thereby supporting volume growth over FY22-24E

Target Price and Valuation: We value EML at ₹ 3,650 on SOTP basis; assigning 30x PE to RE business & 30x PE to VECV business on FY24E numbers.

Key triggers for future price performance:

- With attractive pricing for Hunter 350 (lowest price point offering by RE at ₹1.5 lakh/unit, ex-showroom), network optimisation & increasing global presence, we expect RE volumes to grow at a CAGR of 22% over FY22-24E
- With CV cyclical upswing domestically, CV volumes at VECV are expected to grow at a CAGR of 21% FY22-24E amidst market share gains
- Overall on a consolidated basis, we expect net sales to grow at a CAGR of 22.1%. With operating leverage gains & stable input costs, margins are seen improving to 26.1% with consequent RoCE placed at ~21% by FY24E
- Continues to be net cash positive b/s with positive CFO generation

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

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



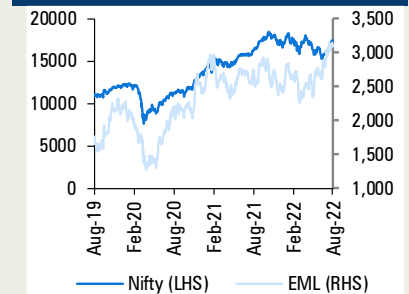
Particulars

Particular	₹ crore
Market Capitalization	86,226
Total Debt (FY22)	59
Cash & Investments (FY22)	8,485
EV (₹ crore)	77,800
52 week H/L (₹)	3200 / 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

- Reported healthy Q1FY23 results
- **Key Risk:** (i) Cannibalisation of premium offerings amid new budget offerings, (ii) lower than anticipated volume growth & o/p leverage benefits in FY22-24E

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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%	13,673.4	15,364.1	22.1%
EBITDA	2,903.1	2,180.3	1,781.3	2,172.2	0.0%	3,378.7	4,004.6	35.8%
EBITDA Margins (%)	29.6	23.8	20.4	21.1		24.7	26.1	
Net Profit	2,202.8	1,827.5	1,346.9	1,676.6	0.1%	2,705.4	3,285.3	40.0%
EPS (₹)	80.8	67.0	49.3	61.3		99.0	120.2	
P/E	39.0	47.1	64.0	51.4		31.9	26.3	
RoNW (%)	24.8	18.3	11.8	13.3		18.7	19.7	
RoCE(%)	27.8	17.3	11.3	13.3		19.6	20.5	

Source: Company, ICICI Direct Research

Key takeaways of the recent quarter & Concall highlights

Q1FY23 Results:

- Consolidated revenues for Q1FY23 was at ₹ 3,397 crore up 6.4% QoQ. ASPs at Royal Enfield (RE), were up 1% QoQ to ~₹ 1.71 lakh/unit. RE sales volumes were at ~1.87 lakh units, flat QoQ
- EBITDA for the quarter was at ₹ 831 crore with margins at 24.5%, up 75 bps QoQ. The company reported ~30 bps gross margin expansion which were aptly supported by lower other expense which were down 80 bps QoQ
- Consolidated PAT was at ₹ 611 crore, flat QoQ. The company's share of profit from VECV JV stood at ₹ 33.8 crore vs. our estimate of ₹ 41.5 crore

Q1FY23 Earnings Conference Call highlights

- The company achieved highest ever revenue & EBITDA and continued on its path to become global affordable brand in mid-range segment with consistent channel expansion
- Eicher continues to dominate >350cc space with >85% market share and within >125 cc (even though it is not present in 125 cc or 150 cc segments) it increased market share from 32.9% in Q4FY22 to ~36% in Q1FY23
- The company's recent launch Hunter 350 is witnessing good response from journalists all across the world largely due to unique ergonomics, price point
- Eicher through VECV arm supplied its first E-Bus to Chandigarh state transport undertaking and is running with 90%+ uptime. Also during the quarter Volvo launched its new 9600 platform bus in India with factory fitted seats offering comfort equivalent to business class. It has received order of 120 electric buses from Surat state transportation undertaking
- During the quarter, the company booked ₹ 40 crore as incentive from state and suffered ~₹ 120 crore MTM loss on investments
- Retail network was at 2,132 outlets in Q1FY23 vs 2,118 in FY22 with new outlets opened in Kuala-lampur, Mexico, etc. in international markets
- EML expects raw material cost inflation to stabilise, going forward, particularly in base metals
- The management expects New Hunter 350 to bring in volumes and attract price sensitive buyers which liked RE brand but were not able to afford or didn't liked its usual riding stance
- VECV's market share in Low & Medium Duty trucks was at 27.7%, high duty trucks stood at 7.4% and for Bus stood at 28.6% vs 17-18% in the past. Also the company added 29 retail outlets for VECV during the quarter
- Price hike in Q1FY23 was at ₹ 3,000 for <350 cc & ~₹5,000 for >350cc segment

Peer comparison

Exhibit 1: ICICI Direct coverage universe (2-W)

Company	CMP	TP	Rating	Mcap	2-W Lakh volumes			EBITDA margin (%)			RoCE (%)			P/E		
	₹	₹		₹ crore	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Bajaj Auto (BAAUTO)	4,034	4,180	Hold	1,16,745	38.4	41.6	45.1	15.9	17.5	18.0	18.4	27.1	29.3	23.3	18.5	16.3
Hero Moto (HERHON)	2,738	2,495	Hold	54,678	49.4	54.4	57.7	11.5	12.5	13.0	16.3	20.7	22.2	22.1	17.5	15.5
Eicher Motors (EICMOT)	3,155	3,650	Buy	86,226	6.0	7.8	9.0	21.1	24.7	26.1	13.3	19.6	20.5	51.4	31.9	26.3

Source: Company, ICICI Direct Research; Note – Bajaj Auto volumes above are for its 2-W business

We ascribe BUY rating to Eicher Motors amidst launch of affordable offering in the premium motorcycle segment and assign HOLD rating to other incumbent 2-W auto OEMs in our coverage and await firm volume growth (monthly numbers) as well as more meaningful action from them on EV front before turning decisively positive.

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Total Operating Income	3397	3286	1974	72.1	3193	6.4	Topline came in ahead of estimates and was up 6.4% QoQ at ₹ 3397 crore
Raw Material Expenses	1788	1835	1073	66.6	1692	5.7	RM costs came in much lower than anticipated at 56% of sales, down 30 bps QoQ vs. our estimates of 58.1% of sales
Purchase of traded goods	115	74	69	67.2	105	9.5	
Employee Expenses	247	220	223	10.5	222	11.2	Employee costs was up 30 bps QoQ at 7.3% of
Other expenses	416	411	246	69.1	417	-0.1	
EBITDA	831	745	363	129.0	757	9.8	
EBITDA Margin (%)	24.5	22.7	18.4	608 bps	23.7	75 bps	EBITDA margins came in higher than estimates primarily tracking beat on gross margins
Other Income	49	128	122	-60.1	118	-58.8	Other income came in substantially lower at ₹ 49 crore, down 59% QoQ
Depreciation	116	122	112	4.1	119	-2.7	
Interest	5	4	6	-18.9	3	66.8	
Total Tax	181	188	90	100.7	196	-7.5	
PAT	611	601	237	157.5	610	0.1	PAT for the quarter came in broadly inline with our estimates amidst better than anticipated margins & lower other income

Key Metrics

Royal Enfield ASP(₹)	1,71,165	1,72,942	1,52,501	12.2	1,69,551	1.0	ASP's at RE came in lower than anticipated and stood at ₹ 1,71 lakh/unit, up 1% QoQ
VECV ASP (₹ lakhs)	22.6	21.9	28.2	-20.0	21.4	5.3	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	12,718	13,673	7.5	14,412	15,364	6.6	Upgraded our topline estimates. We expect topline at the company to grow at a CAGR of 22.1% over FY22-24E
EBITDA	2,982	3,379	13.3	3,560	4,005	12.5	
EBITDA Margin (%)	23.4	24.7	126 bps	24.7	26.1	136 bps	Upgraded margin estimates tracking upbeat Q1FY23 as well as operating leverage benefits amidst increase in volumes
PAT	2,395	2,705	13.0	2,932	3,285	12.1	
EPS (₹)	88	99	13.0	107	120	12.1	Resultant earnings witness a healthy upgrade. We expect PAT to grow at a CAGR of ~40% over FY22-24E

Source: ICICI Direct Research

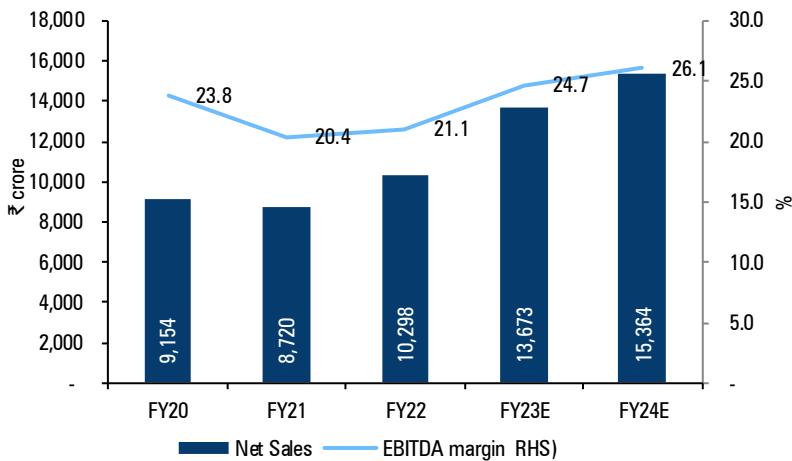
Exhibit 4: Assumptions

	Current				Earlier				Comments
	FY19	FY20	FY21	FY22	FY23E	FY24	FY23E	FY24E	
Royal Enfield volumes	8,26,098	6,95,839	6,12,060	6,02,268	7,82,727	9,00,137	7,22,563	7,94,819	With Hunter 350 launch at lucrative price point, upgraded our sales volume estimates at RE wherein we expect volumes to grow at a CAGR of 22% over FY22-24E
Royal Enfield ASP/unit (₹)	1,17,603	1,29,465	1,40,044	1,65,758	1,70,281	1,68,164	1,73,406	1,78,648	Marginally lowered ASP estimates with Hunter 350 contributing in overall sales mix
VECV volumes	72,860	48,786	41,265	57,077	72,846	83,773	71,344	82,045	Marginally upgraded our CV volume estimates at VECV arm over FY22-24E

Source: ICICI Direct Research

Financial story in charts

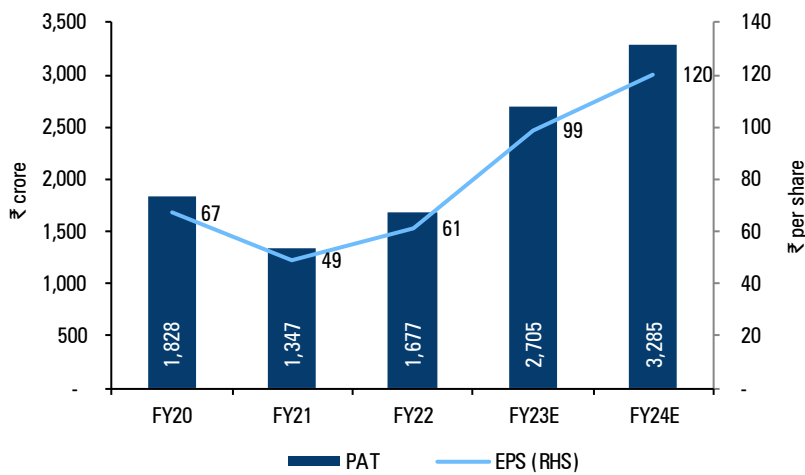
Exhibit 5: Topline and EBITDA margin trend



We expect sales to grow at 22.1% CAGR in FY22-24E amid ~22% RE sales volume CAGR. EBITDA margins are seen at 26.1% in that time frame

Source: Company, ICICI Direct Research

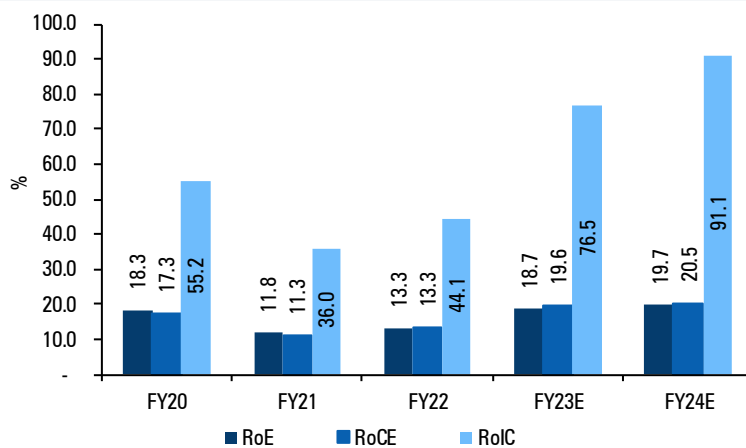
Exhibit 6: PAT and EPS trend



PAT at Eicher Motors is seen growing at 40% CAGR over FY22-24E

Source: Company, ICICI Direct Research

Exhibit 7: Return ratios trend



RoCE profile at Eicher Motors is seen improving to ~20.5% levels gradually by FY24E. RoI at Eicher Motors are seen comfortable placed over 70% for FY23-24E, given high cash & investments on its books as a% of Networth

Source: Company, ICICI Direct Research

Exhibit 8: Valuation Summary

	Net Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	9,797.1	9.28	80.8	12.4	39.0	27.7	24.8	27.8
FY20	9,153.6	(6.6)	67.0	(17.0)	47.1	36.5	18.3	17.3
FY21	8,720.4	(4.7)	49.3	(26.5)	64.0	44.1	11.8	11.3
FY22	10,297.8	18.1	61.3	24.4	51.4	35.8	13.3	13.3
FY23E	13,673.4	32.8	99.0	61.4	31.9	22.4	18.7	19.6
FY24E	15,364.1	12.4	120.2	21.4	26.3	18.3	19.7	20.5

Source: Company, ICICI Direct Research

Exhibit 9: SOTP valuation

	Amount	Remarks
Two-wheeler business-Royal Enfield		
FY24E EPS (₹)	113	
Target PE multiple(x)	30.0	Valued RE business at 30x P/E
Per share value (₹)	3,405	
Target market cap (₹ crore)	92,818	
CV business-VECV		
FY24E PAT (₹ crore)	413	
Target PE multiple(x)	30.0	Valued VECV business at 30x P/E
Target market cap (₹ crore)	12,392	
Contribution towards EML	0.54	EML has 54.4% stake in VECV
Target market cap towards EML (₹ crore)	6,741	
Per share value-VECV Eicher (₹)	245	
Total target market cap (₹ crore)	99,559	
Per share value (₹)	3,650	

Source: ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	8,720.4	10,297.8	13,673.4	15,364.1
Growth (%)	-4.7	18.1	32.8	12.4
Raw Material Expenses	4,846.7	5,616.7	7,462.7	8,350.8
Employee Expenses	843.3	821.0	967.9	1,056.0
Other Expenses	983.1	1,349.4	1,546.5	1,665.1
Total Operating Expenditure	6,939.1	8,125.6	10,294.7	11,359.5
EBITDA	1781.3	2172.2	3378.7	4004.6
Growth (%)	-18.3	21.9	55.5	18.5
Depreciation	450.7	451.9	492.2	537.7
Interest	16.5	18.8	16.9	15.2
Other Income	453.2	440.8	521.7	640.0
PBT	1,767.3	2,142.3	3,391.2	4,091.7
Others	0.0	0.0	0.0	0.0
Total Tax	451.5	525.9	844.9	1,031.1
PAT	1346.9	1676.6	2705.4	3285.3
Growth (%)	-26.3	24.5	61.4	21.4
EPS (₹)	49.3	61.3	99.0	120.2

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	1,346.9	1,676.6	2,705.4	3,285.3
Add: Depreciation	450.7	451.9	492.2	537.7
(Inc)/dec in Current Assets	-990.5	-570.1	-505.3	-368.2
Inc/(dec) in CL and Provisions	597.2	453.1	753.1	454.7
CF from operating activities	951.1	1570.7	2923.7	3269.6
(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	460.5	584.5
CF from investing activities	1805.3	-4073.4	-1539.5	-1815.5
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	-874.9	-1,038.9
Others	574.9	67.5	0.0	0.0
CF from financing activities	123.3	-605.2	-884.9	-1048.9
Net Cash flow	2,879.7	-3,108.0	499.4	405.1
Opening Cash	2,950.5	5,830.2	2,722.2	3,221.6
Closing Cash	5830.2	2722.2	3221.6	3626.7

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	27.3	27.3	27.3	27.3
Reserve and Surplus	11,410.8	12,580.7	14,411.2	16,657.5
Total Shareholders funds	11438.1	12608.0	14438.5	16684.9
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	402.4	408.8
Total Liabilities	12087.2	13276.5	15109.8	17352.6
Assets				
Gross Block	4,176.2	4,619.2	5,174.0	5,774.0
Less: Acc Depreciation	1,742.9	2,194.8	2,687.1	3,224.8
Net Block	2433.3	2424.4	2487.0	2549.2
Capital WIP	314.3	504.8	450.0	350.0
Total Fixed Assets	2,747.6	2,929.2	2,937.0	2,899.2
Investments	3,902.2	7,720.6	9,270.6	11,220.6
Inventory	874.6	1,132.4	1,498.5	1,683.7
Debtors	158.2	302.0	374.6	420.9
Others	869.3	1,037.7	1,104.4	1,241.0
Cash	5830.2	2722.2	3221.6	3626.7
Total Current Assets	7,732.2	5,194.4	6,199.1	6,972.4
Creditors	1,535.8	1,788.1	2,247.7	2,525.6
Provisions	90.2	150.7	189.4	212.8
Others	845.4	985.8	1,240.6	1,394.0
Total Current Liabilities	2,471.4	2,924.5	3,677.6	4,132.4
Net Current Assets	5260.8	2269.9	2521.5	2840.1
Other Non current asset	176.5	356.7	380.6	392.6
Application of Funds	12087.2	13276.5	15109.8	17352.6

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	49.3	61.3	99.0	120.2
Cash EPS	65.8	77.9	117.0	139.8
BV	418.5	461.2	528.1	610.3
DPS	17.0	21.0	32.0	38.0
Cash Per Share	285.6	310.3	383.5	467.8
Operating Ratios (%)				
EBITDA Margin	20.4	21.1	24.7	26.1
PBT / Net sales	15.3	16.7	21.1	22.6
PAT Margin	15.4	16.3	19.8	21.4
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
Return Ratios (%)				
RoE	11.8	13.3	18.7	19.7
RoCE	11.3	13.3	19.6	20.5
RoIC	36.0	44.1	76.5	91.1
Valuation Ratios (x)				
P/E	64.0	51.4	31.9	26.3
EV / EBITDA	44.1	35.8	22.4	18.3
EV / Net Sales	9.0	7.6	5.5	4.8
Market Cap / Sales	9.9	8.4	6.3	5.6
Price to Book Value	7.5	6.8	6.0	5.2
Solvency Ratios				
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	1.0	1.0	1.0	1.0
Quick Ratio	0.5	0.5	0.5	0.5

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E
Apollo Tyre (APOTYR)	229	230	Buy	14,543	10.1	12.7	19.4	22.8	18.0	11.8	7.4	6.5	5.0	6.3	7.3	10.3	5.4	6.6	9.4
Ashok Leyland (ASHLEY)	145	180	Buy	42,443	1.8	1.7	4.8	78.6	84.8	30.4	43.8	26.7	15.1	2.1	7.6	17.7	0.2	6.5	17.1
Bajaj Auto (BAAUTO)	4,034	4,180	Hold	1,16,745	173.4	218.4	247.2	23.3	18.5	16.3	18.2	13.5	11.8	18.4	27.1	29.3	17.6	24.5	26.3
Balkrishna Ind. (BALIND)	2,162	2,550	Buy	41,789	73.0	65.3	98.3	29.6	33.1	22.0	22.0	23.0	15.2	15.9	13.1	19.7	20.4	16.0	20.4
Bharat Forge (BHAFOR)	712	840	Buy	33,149	23.1	23.9	30.0	30.8	29.8	23.8	18.0	15.8	13.3	9.6	10.7	12.6	15.2	15.1	16.8
Eicher Motors (EICMOT)	3,155	3,650	Buy	86,226	61.3	99.0	120.2	51.4	31.9	26.3	35.8	22.4	18.3	13.3	19.6	20.5	13.3	18.7	19.7
Escorts Kubota (ESCORT)	1,688	1,650	Hold	22,267	55.8	56.4	71.9	30.2	29.9	23.5	18.3	18.6	14.5	10.4	8.8	10.1	9.3	8.7	10.2
Hero Moto (HERHON)	2,738	2,495	Hold	54,678	123.8	156.1	176.3	22.1	17.5	15.5	13.9	10.8	9.5	16.3	20.7	22.2	15.7	18.7	19.9
M&M (MAHMAH)	1,277	1,550	Buy	1,58,757	41.4	48.7	60.6	30.9	26.2	21.1	21.8	17.5	13.8	9.3	11.4	13.9	13.1	13.5	14.9
Maruti Suzuki (MARUTI)	8,879	10,000	Buy	2,68,230	124.7	236.8	333.3	71.2	37.5	26.6	40.0	22.5	16.3	5.1	11.5	15.2	7.0	12.1	15.3
Uno Minda (MININD)	537	650	Buy	30,692	6.2	10.0	13.6	86.3	53.5	39.5	35.3	27.1	21.6	10.2	13.4	16.9	10.3	14.5	16.7
Tata Motors (TATMOT)	476	530	Buy	1,82,107	-29.9	-9.5	17.9	-15.9	-49.8	26.5	7.6	6.3	4.7	4.8	8.2	14.5	-23.5	-8.1	13.2

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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