

Eicher Motors

29 September, 2022

Reuters: EICH.NS; Bloomberg: EIM IN

Blockbuster beginning points towards a bright future!

We recently hosted a leading Royal Enfield dealer from Western India to gauge the demand environment and response to the new model – Hunter 350. He also shared his estimates and opinions regarding volume expectations for the upcoming festive season and post the festive season. He sounded very optimistic about the future prospects of the company. He opined that RE has successfully plugged the product portfolio gap by introducing the Hunter 350 and has extended its reach to those customers, which it was not catering to earlier. He acknowledged that the Hunter 350 is attracting higher interest from the younger set of customers and first-time buyers besides addressing the affordability concerns. He also stated that the Hunter 350 is cannibalising volume of the Classic 350 and Meteor to the extent of ~40%. But, he felt that the Hunter 350 will add an incremental volume of ~10k-15k/month. He added that the Hunter 350 has also attracted interest from the customers of Bajaj Pulsar, TVS Apache and Jawa due to an array of features and aggressive pricing. Overall competitive intensity remains low in the segment. He stated that overall bookings for the Hunter 350 across the country are ~70k while production capacity stands at ~18k/month. He also hinted at a strong new model pipeline from RE over the next 6-12 months. The interaction also reinforced our positive stance on the company, which we have highlighted in our [note](#). We continue to remain upbeat about volume growth from RE in both domestic as well as exports market. Despite the rising share of lower margin products, we don't see a major impact on profitability on the back of improving utilization and moderating commodity costs. We are thus building in Revenue/EBITDA/EPS CAGR of 19%/32%/31% over FY22-25E. However, after the recent run-up in the Eicher stock, we see limited upside potential. We maintain ACCUMULATE on Eicher. We are keeping our estimates unchanged. We are valuing RE's standalone business at 28x Sept'24E EPS (26x earlier) and VECV at 12x EV/EBITDA on Sept'24E to arrive at a target price (TP) of Rs3,918.

Demand Scenario and Volume Expectations:

- Enquiries and footfalls remain strong post the launch of the Hunter 350.
- **Order book for the Hunter 350:** 70k units across the country
- **Production capacity:** ~18k/month
- **Waiting time:** Waiting time for the Hunter 350 is around four months while other RE models are readily available.
- **Inventory:** ~30 days of inventory for models other than the Hunter 350.
- Expects growth of ~25% in the festive season. Expects RE to clock dispatch of ~80k units in Sept'22. Dealer has received the highest-ever booking for September month in the last six years.
- Expects sustainable volume run-rate of ~75k units/month in FY24.
- **Rural vs Urban:** Hunter 350 has been accepted very well in urban areas while in rural markets, still there is an inclination towards the traditional models like Classic 350 and Bullet. However, the dealer believes that going ahead, rural consumers too will shift towards new models like Hunter 350.

Changing Customer Profile:

- Earlier the main issue was lack of young customers; a typical RE customer was in the age bracket of 30-40 years. The company has addressed this issue through the Hunter 350 launch. Now the customer age profile is 22-25 years for Hunter 350; 60% customers are students while more than 55% are first-time buyers.
- Hunter 350 is being preferred because of its light weight, easy maneuverability and attractive design. Also, the pricing is quite aggressive in the segment compared to competition, which is helping attract first-time buyers and younger customers.
- Life cycle of RE bikes is much higher compared to other motorcycles (a major reason for lower volume). It also does not get replacement buyers, unlike other players, which also has led to saturation in volume over the last three years.
- The dealer has conducted a survey of the Hunter 350 customers, which has revealed that 60% of the customers would have preferred Bajaj Pulsar while 20% would have opted for TVS Apache and the rest would have gone for Jawa, H'ness and other models if Hunter 350 was not launched.
- Despite the launch of Ronnin, not much interest is seen among the customers mainly due to lack of awareness about the model.
- **Cannibalisation:** ~40% of volume of other models is expected to be cannibalised by Hunter 350.

Others

- Supply chain constraints have largely been resolved
- Financing availability has improved significantly; aggressive financing options available now
- Series of new launches in 450cc and 650cc are expected over the next 6-12 months
- Studio store is supportive to the main store; designed primarily to provide ancillary services and is helpful if it is backed by a large full-scale store.

ACCUMULATE

Sector: Automobiles

CMP: Rs3,628

Target Price: Rs3,918

Upside: 9%

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Key Data

Current Shares O/S (mn)	273.5
Mkt Cap (Rsbn/US\$bn)	992.2/12.1
52 Wk H / L (Rs)	3,787/2,110
Daily Vol. (3M NSE Avg.)	932,923.5

Price Performance (%)

	1 M	6 M	1 Yr
Eicher Motors	10.2	46.3	27.6
Nifty Index	(2.6)	(2.7)	(4.8)

Source: Bloomberg

[1QFY23 results](#)

[Investor presentation](#)

Exhibit 1: Key financials - Standalone

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
RE volume (units)	612,350	602,268	782,948	901,444	1,008,395
YoY growth (%)	(12.2)	(1.6)	30.0	15.1	11.9
Net sales	86,190	101,229	135,513	161,304	185,721
YoY growth (%)	(5.1)	17.4	33.9	19.0	15.1
EBITDA	17,865	21,136	33,268	40,407	48,195
EBITDA margin (%)	20.7	20.9	24.6	25.1	26.0
Adjusted PAT	13,297	15,862	25,035	30,120	35,730
EPS	48.7	58.0	91.6	110.2	130.7
YoY change (%)	(32.0)	19.2	57.8	20.3	18.6
RoCE (%)	17.9	19.2	25.5	25.6	25.3
RoE (%)	13.7	14.7	19.4	19.5	19.2
P/E (x)	69.3	58.1	36.8	30.6	25.8
EV/Sales (x)	9.8	8.4	6.1	4.9	4.1
EV/EBITDA (x)	47.2	39.5	24.4	19.4	15.6

Source: Company, Nirmal Bang Institutional Equities Research

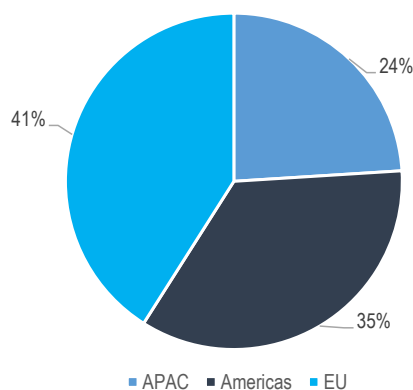
Exhibit 2: Change in our estimates

Y/E March (Rsmn)	New estimate		Old estimate		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Volume	782,948	901,444	782,948	901,444	-	-
Net sales	135,513	161,304	135,513	161,304	-	-
EBITDA	33,268	40,407	33,268	40,407	-	-
EBITDA margin (%)	24.6	25.1	24.6	25.1	-	-
PAT	25,035	30,120	25,035	30,120	-	-

Source: Company, Nirmal Bang Institutional Equities Research

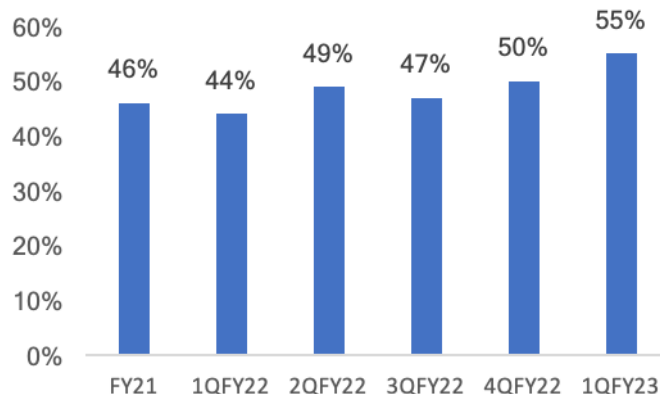
Story in Charts

Exhibit 3: Regional distribution of export volume



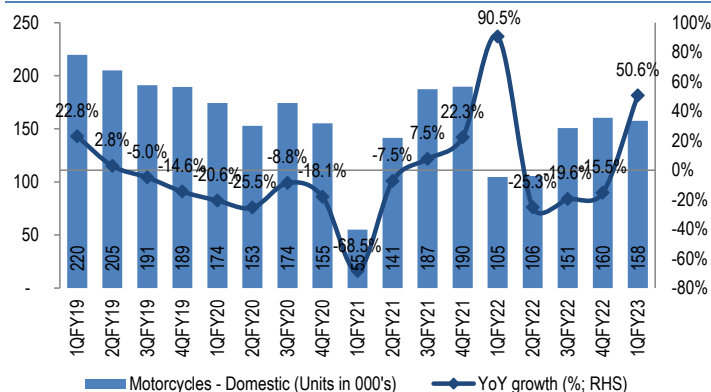
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Finance penetration on the rise



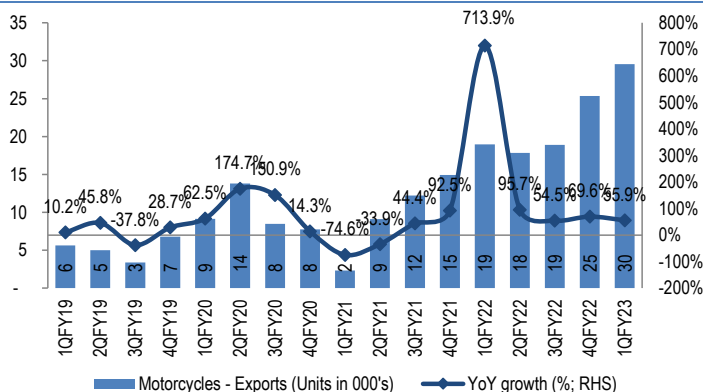
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: RE - Motorcycle – Domestic volume trend



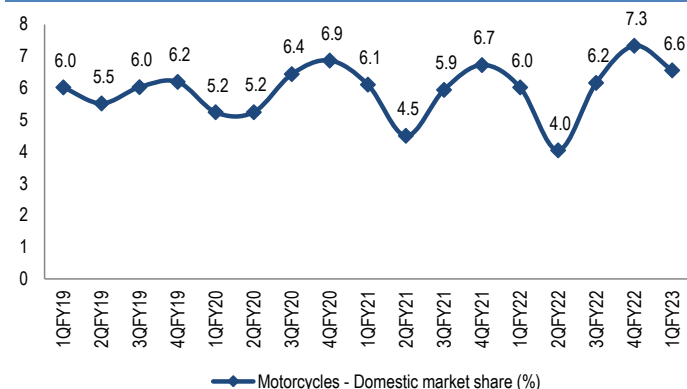
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: RE - Motorcycle – Exports volume trend



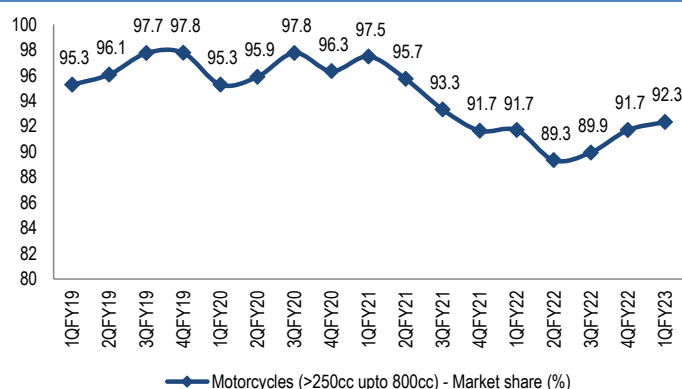
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Motorcycles – Domestic market share (%)

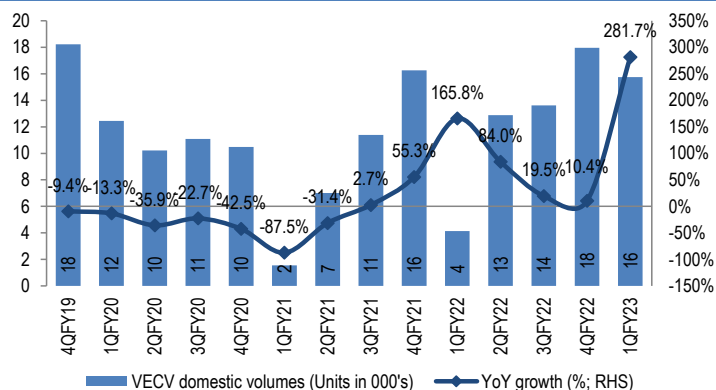


Source: Company, Nirmal Bang Institutional Equities Research

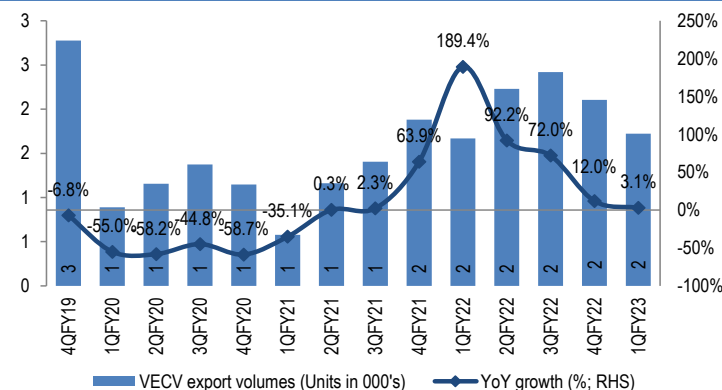
Exhibit 8: RE - Domestic motorcycles (250-800cc) market share



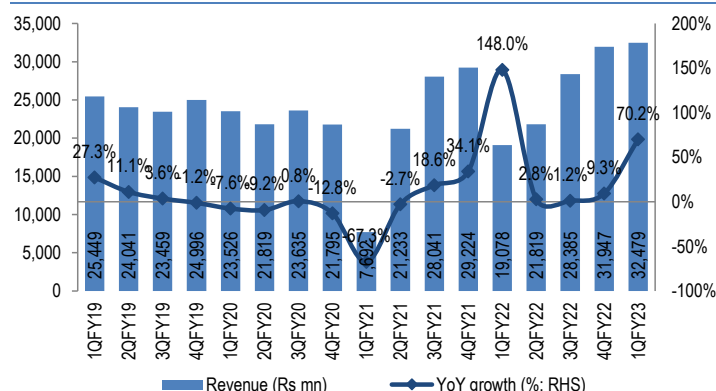
Source: SIAM, Nirmal Bang Institutional Equities Research

Exhibit 9: VECV: Domestic volume trend


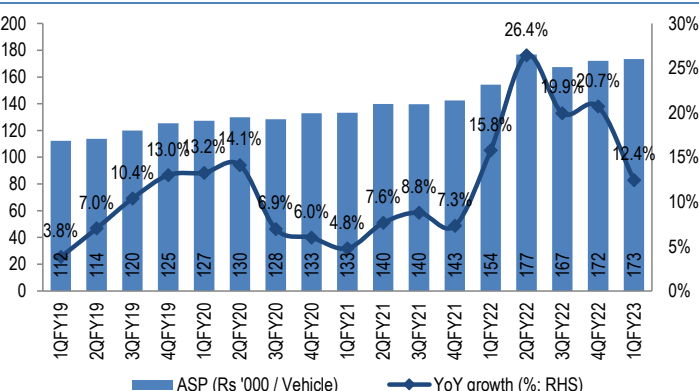
Source: SIAM, Nirmal Bang Institutional Equities Research

Exhibit 10: VECV: Export volume trend


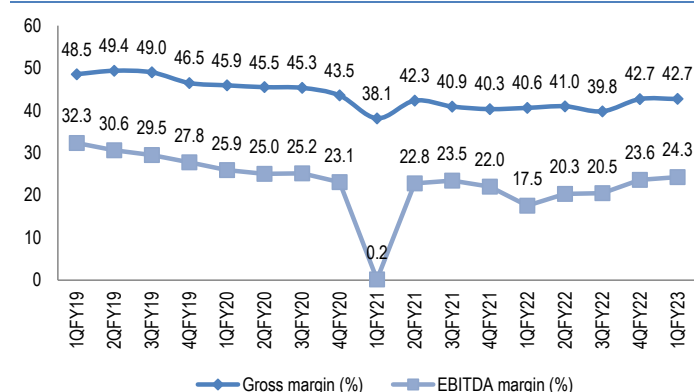
Source: SIAM, Nirmal Bang Institutional Equities Research

Exhibit 11: Revenue & YoY growth (%)


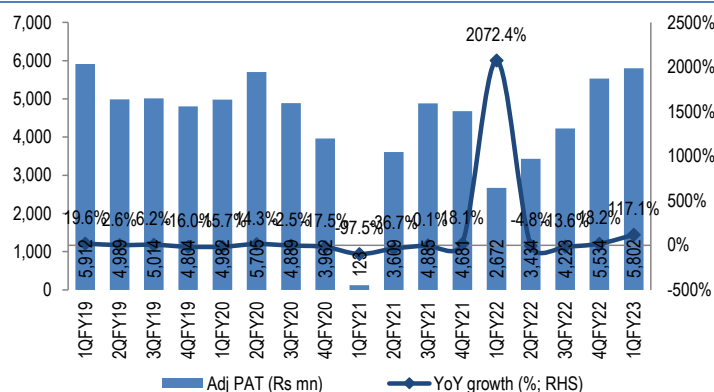
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Avg Selling Price (ASP) & YoY growth (%)


Source: Company, Nirmal Bang Institutional Equities Research

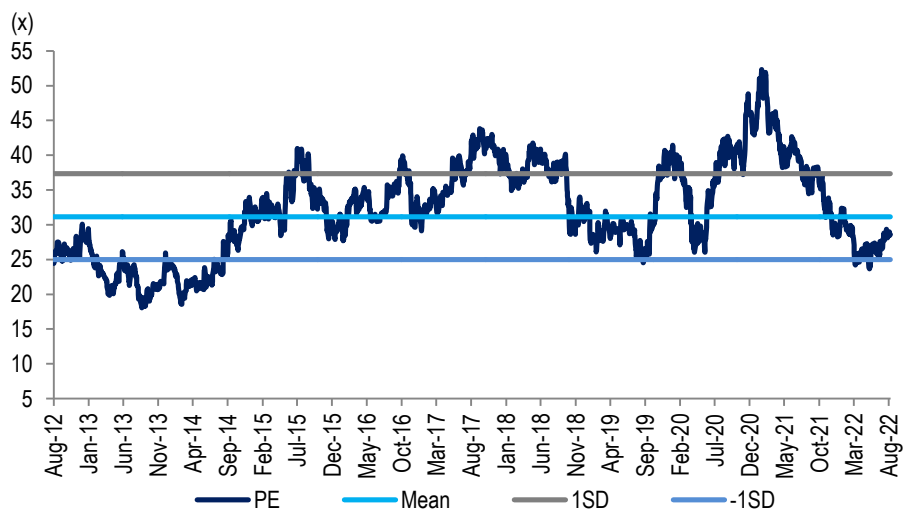
Exhibit 13: Gross margin and EBITDA margin trend


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Adj PAT & YoY growth (%)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: One-year forward P/E chart



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Financials (Consolidated)

Exhibit 16: Income statement

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	87,204	102,978	137,313	163,104	187,521
% Growth	(4.7)	18.1	33.3	18.8	15.0
Raw material	51,128	59,557	78,326	92,588	106,418
Staff costs	41.4	42.2	43.0	43.2	43.3
Gross margin (%)	8,432	8,210	8,402	9,678	10,772
Other expenses	9,831	13,489	17,390	20,504	22,210
Total expenses	69,391	81,256	104,118	122,771	139,400
EBITDA	17,813	21,723	33,195	40,333	48,121
% Growth	(18.3)	22.0	52.8	21.5	19.3
EBITDA margin (%)	20.4	21.1	24.2	24.7	25.7
Other income	4,532	4,408	5,422	6,669	8,203
Interest costs	165	188	216	248	286
Depreciation	4,507	4,519	4,901	5,489	6,038
Profit before tax (before x/o)	17,673	21,424	33,500	41,265	50,001
Exceptional items	0	0	0	0	0
Share of profit/(loss) of JV	311	602	3,813	4,849	0
Tax	4,515	5,259	8,375	10,316	12,500
Adj PAT	13,469	16,766	28,938	35,797	37,501
% Growth	(26.3)	24.5	72.6	23.7	4.8
Adj PAT margin (%)	15.4	16.3	21.1	21.9	20.0
EPS (Rs)	49.3	61.3	105.8	130.9	137.2
% Growth	(26.4)	24.4	72.6	23.7	4.8
DPS (Rs)	17.0	21.0	12.5	12.5	12.5
Payout (incl. div. tax) (%)	41.6	41.3	14.2	11.5	11.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Balance sheet

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Share capital	273	273	273	273	273
Reserves	114,108	125,807	150,624	182,299	215,679
Net worth	114,381	126,080	150,897	182,573	215,952
Total debt	2,193	1,077	1,077	1,077	1,077
Net deferred tax liability	2,215	2,201	2,201	2,201	2,201
Capital employed	118,788	129,358	154,175	185,851	219,230
Gross block	40,757	45,186	50,436	55,936	61,436
Depreciation	16,424	20,943	25,844	31,333	37,370
Net block	24,333	24,243	24,592	24,603	24,066
Capital work-in-progress	3,143	5,048	5,048	5,048	5,048
Investments	39,021	77,206	87,206	97,206	107,206
Inventories	8,746	11,324	15,178	18,044	20,755
Debtors	1,582	3,020	4,048	4,813	5,536
Cash	58,304	27,225	43,056	65,776	90,699
Loans & advances	4,592	6,768	6,793	6,818	6,843
Other current assets	5,866	7,177	7,677	8,177	8,677
Total current assets	79,089	55,514	76,751	103,627	132,509
Creditors	15,358	17,881	23,966	28,492	32,772
Other current liabilities & provisions	11,440	14,771	15,456	16,141	16,826
Total current liabilities	26,798	32,652	39,422	44,633	49,599
Net current assets	52,291	22,861	37,329	58,994	82,911
Application of funds	118,788	129,358	154,175	185,851	219,230

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Cash flow

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
OP/(loss) before tax	13,305	17,203	28,294	34,844	42,084
Depreciation & amortization	4,507	4,519	4,901	5,489	6,038
Other income	4,532	4,408	5,422	6,669	8,203
(Inc.)/dec. in working capital	(3,057)	(1,649)	1,363	1,055	1,007
Direct taxes paid	(4,822)	(5,274)	(8,375)	(10,316)	(12,500)
Other/extra-ordinary items	20,507	2,459	3,813	4,849	(0)
Cash flow from operations (after E/O)	17,136	21,667	35,419	42,590	44,831
Capital expenditure (-)	(5,086)	(6,334)	(5,250)	(5,500)	(5,500)
Net cash after capex	12,049	15,333	30,169	37,090	39,331
Other investing activities	18,466	(38,184)	(10,000)	(10,000)	(10,000)
Dividends paid (-)	(5,603)	(6,924)	(4,122)	(4,122)	(4,122)
Inc./(dec.) in total borrowings	(462)	(1,303)	(216)	(248)	(286)
Others		0	-	-	-
Cash from financial activities	(1,718)	(8,227)	(4,337)	(4,370)	(4,407)
Opening cash balance	29,506	58,304	27,225	43,056	65,776
Closing cash balance	58,304	27,225	43,056	65,776	90,699
Change in cash balance	28,798	(31,079)	15,831	22,720	24,923

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Key ratios

Y/E March	FY21	FY22	FY23E	FY24E	FY25E
Per share (Rs)					
EPS	49.3	61.3	105.8	130.9	137.2
EPS Growth (%)	(26.4)	24.4	72.6	23.7	4.8
Cash EPS	64.6	75.7	109.8	133.3	159.2
Book value per share	418.5	461.2	551.9	667.8	789.9
DPS	17.0	21.0	12.5	12.5	12.5
Payout (incl. div. tax) %	41.6	41.3	14.2	11.5	11.0
Valuation (x)					
P/E	68.4	55.0	31.8	25.7	24.6
Cash P/E	52.2	44.6	30.7	25.3	21.2
EV/EBITDA	46.4	37.7	23.9	18.8	15.1
EV/Sales	9.5	8.1	5.8	4.7	3.9
P/BV	8.1	7.3	6.1	5.0	4.3
Dividend yield (%)	0.5	0.6	0.4	0.4	0.4
Return ratios (%)					
RoCE	15.0	16.7	21.9	22.3	22.9
RoE	11.8	13.3	19.2	19.6	17.4
Profitability ratios (%)					
EBITDA margin	20.4	21.1	24.2	24.7	25.7
PAT margin	15.4	16.3	21.1	21.9	20.0
Turnover ratios					
Debtors (days)	7	11	11	11	11
Inventory (days)	37	41	41	41	41
Creditors (days)	65	64	64	64	64
Asset turnover (x)	0.7	0.8	0.9	0.9	0.8
Leverage Ratio					
Debt/equity (x)	0.0	0.0	0.0	0.0	0.0

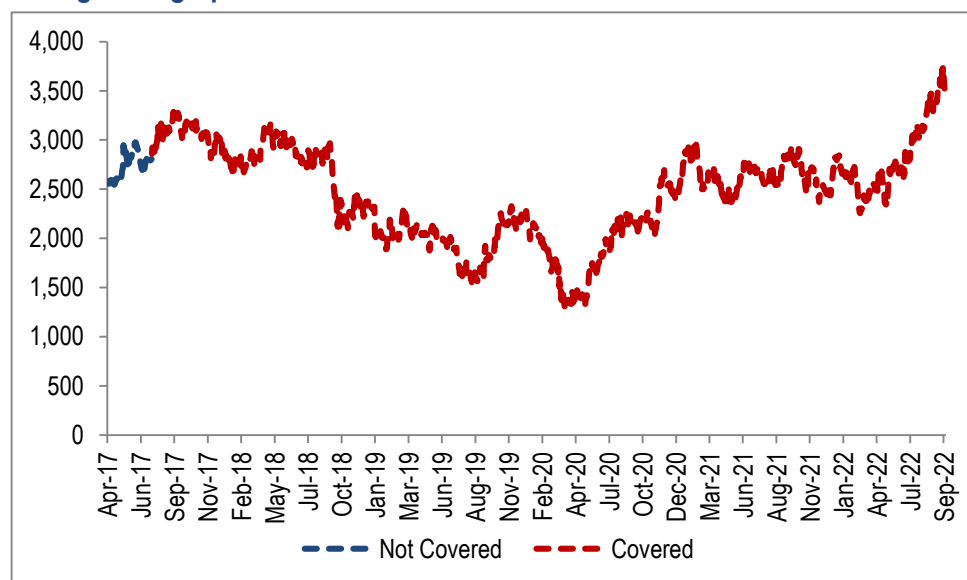
Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
18 July 2017	Buy	28,059	32,566
10 August 2017	Accumulate	31,440	33,462
15 November 2017	Buy	30,090	35,375
8 February 2018	Buy	28,010	36,271
10 May 2018	Buy	30,316	36,529
10 August 2018	Buy	27,439	36,529
13 November 2018	Buy	21,934	29,402
1 August 2019*	Under Review	16,240	N.A
9 October 2019	Buy	18,212	21,127
11 November 2019	Buy	21,640	24,843
07 February 2020	Buy	20,530	23,896
30 March 2020	Buy	14,360	20,372
15 June 2020	Buy	16,825	19,377
14 August 2020	Accumulate	21,660	20,728
22 September 2020#	Buy	2,072	2,398
13 November 2020	Accumulate	2,346	2,398
06 January 2021	Accumulate	2,668	2,662
11 February 2021	Accumulate	2,893	2,750
9 April 2021	Accumulate	2,521	2,575
28 May 2021	Accumulate	2,604	2,514
7 October 2021	Sell	2,820	2,664
7 November 2021	Sell	2,669	2,532
15 February 2022	Accumulate	2,565	2,750
15 May 2022	Buy	2,420	2,939
11 August 2022	Accumulate	3,144	3,466
1 September 2022	Accumulate	3,360	3,678
29 September 2022	Accumulate	3,628	3,918

#Stock Split from Rs.10/- to Rs.1/- wef 24 August 2020

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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