



Introduction: Eicher Motors Ltd. (Eicher) is the owner of the iconic Royal Enfield (RE) brand. A global leader in the mid-sized motorcycle segment (250cc - 750cc), RE is the oldest motorcycle brand in continuous production since 1901. The company has modern product development centers at Leicestershire (UK) and Chennai (India) to conceptualize next-generation motorcycles. This is supported by its three state-of-the-art manufacturing facilities around Chennai, where these machines are handcrafted to perfection. Eicher's products are sold in India and 60+ countries globally through exclusive stores and dealers.

The company also has a joint venture with Sweden's AB Volvo - VE Commercial Vehicles Ltd. (VECV) - which is driving modernization in India's commercial vehicle space and in other developing countries with its superior engineering capabilities and advanced technology know-how. Eicher has 54.4% interest in the JV.

Recent quarterly performance:

- On the back of healthy demand and further opening up of the economic activities across the country, Eicher reported a 2.7% Y-o-Y decline in the standalone top-line to Rs. 21,232.7mn. Motorcycle sales volume decline by 9.6% Y-o-Y to 0.15mn units, but increased by 162.8% sequentially. Blended realization increased by 7.7% Y-o-Y to Rs. 141,063.3 per unit, mainly aided by better sales-mix and price increase in Sept. 2020.
- Total operating expenditure was flat on Y-o-Y basis, resulting to an 11.4% Y-o-Y decline in standalone EBITDA to Rs. 4,837.8mn. EBITDA margin contracted by 224bps Y-o-Y to stand at 22.8%. Margin contraction was mainly due to lower sales volume and BSIV transitions.
- With higher depreciation charge, lower other income and higher tax expenses, standalone reported PAT declined by 36.7% Y-o-Y to Rs. 3,608.6mn, with 915bps Y-o-Y contraction in PAT margin to 17% in Q2 FY21.
- Its commercial vehicle (CV) JV, reported a 13% Y-o-Y lower revenue in Q2 FY21, mainly on 28% lower sales volume. However, because of massive cost reduction EBITDA was up 11% Y-o-Y, while margin stood at 6.9%. At PAT level, the JV made a loss of Rs. 70mn in Q2 FY21 as compared to a profit of Rs. 150mn in same quarter last year.
- On consolidated basis, top-line and EBITDA declined by 2.7% and 13% Y-o-Y, respectively, in Q2 FY21. Consolidated PAT declined by 40.1% Y-o-Y. Consolidated EBITDA and PAT margin stood at 22.1% and 16.3%, respectively, in Q2 FY21. Last year in same quarter, PAT was higher because of corporate tax rate cut. Thus excluding this one-time impact, consolidated PAT this quarter declined by 24% Y-o-Y

In FY20, standalone revenue declined by 7.3% to Rs. 90.8bn, mainly due to 15.2% lower sales volume. Consequently, EBITDA declined by 25.2% with 578bps contraction in margin to 24.3% in FY20. However, lower tax led to a 7.3% fall in standalone PAT, while PAT margin remained flat at 21% in FY20.

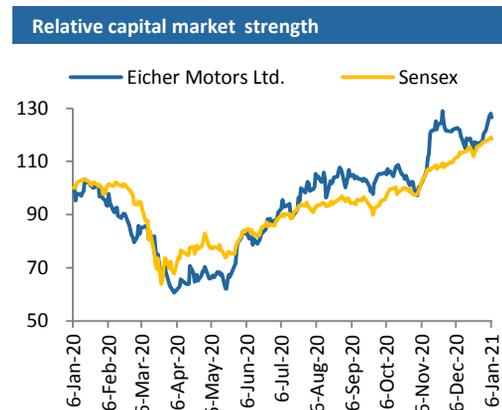
Future outlook and valuation (continued in next page):

- Eicher is the market leader with 96% share in the India's mid-size motorcycles segment, however in the overall domestic motorcycle market, it had around 6% share. It also had a market share of 29.5% in domestic light & medium duty (3.5-15 tonnes) commercial vehicle (CV) segment.

Rating matrix	
CMP	Rs. 2,643.1
Face value	Rs. 1.0
MCAP	Rs. 722,172mn
Enterprise value	Rs. 655,934mn
Rating	BUY
Target price	Rs. 3,311.4
Upside potential	25.3%
Investment horizon	18-24 months
52 week H/L	Rs. 2,724.9 / 1,246
Sector	2/3 Wheelers
Category	Large cap

Shareholding pattern as on 30 th Sept. 2020				
Particulars	Dec. 2019	Mar. 2020	Jun. 2020	Sept. 2020
Promoters	49.28%	49.28%	49.28%	49.25%
FIIIs	31.19%	27.71%	26.95%	28.16%
DIIIs	8.32%	11.27%	12.09%	10.09%
Non institutions	11.21%	11.75%	11.68%	12.50%

Standalone financial snapshot (Rs. bn)					
Projections	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	97.9	90.8	85.1	113.1	123.2
EBITDA	29.4	22.0	17.0	28.3	34.5
Reported PAT	20.5	19.0	12.8	20.4	25.9
EBITDAM (%)	30.1%	24.3%	20.0%	25.0%	28.0%
PATM (%)	21.0%	21.0%	15.0%	18.0%	21.0%
EPS (Rs.)	75.2	69.7	46.7	74.5	94.7
BVPS (Rs.)	260.8	302.9	334.3	388.8	458.5
RoE (%)	28.8%	23.0%	14.0%	19.2%	20.7%
RoCE (%)	35.3%	20.9%	14.1%	22.5%	24.1%
P / E (x)			56.5	35.5	27.9
P / BV (x)			7.9	6.8	5.8
EV / Sales (x)			8.1	6.0	5.4
EV / EBITDA (x)			40.5	23.8	19.4
MCAP/Sales (x)			8.5	6.4	5.9



Future outlook and valuation (Contd...):

- With improving consumer demand for RE, the order book has been growing consistently since Jun. 2020. With bookings well ahead of pre-Covid-19 levels, the company had a booking backlog of more than 0.125mn units at the end of Q2 FY21 as compared to 0.040-0.045mn units at the end of Q1 FY21. Despite production ramp-up from 0.03mn units per month in Jul. 2020 to 0.07mn units in Oct. 2020, the waiting period is more than a month. The company management is confident of further ramping-up the production to around 0.1mn units per month so as to meet the robust demand growth. Over FY17-20, Eicher reported a 1.5% CAGR rise in the 2W sales, but with new product launches, innovations and expanded geographic reach both domestically and overseas, we are forecasting a 5.6% CAGR growth in 2W sales volume over FY20-23E.
- Eicher is consistently working towards enhancing and improving the purchase and ownership experience of customers. Innovative initiatives like personalized options (Make it Yours, MIY), Services on Wheels and Home Test Rides are well received by the customers and it is the first in the industry globally to put a navigation display device for real time directions.
- Due to Covid-19 pandemic, new product launches were delayed. In the month of Nov. 2020, Eicher digitally launched new Royal Enfield Meteor 350, which was well received by the customers. Within a week's time, it had more than 8000 bookings - of which around 90% booking were through MIY. The company management has guided that every quarter there will be more launches and all of them will be on MIY page. So this is fine transformation for the company in terms of customer personalization & experience, upselling opportunity for different kind of accessories and thus a relatively higher end price.
- In H1 FY21, the company has acquired the domestic Volvo Bus India (VBI) business of Volvo Group India Pvt. Ltd., and this will be integrated with VECV. Eicher will assemble & manufacture and do the distribution & sale of the Volvo Buses in India. Consequently, the bus manufacturing facility at Bengaluru with all employees of VBI will be transferred to VECV. With this integration, the company will have a wide portfolio from heavy duty & premium buses to light, medium duty and more mass market buses in India. The VBI business is very futuristic with bright growth outlook. Mega trend of urbanization, e-mobility, connectivity, sustainability etc. are going to be the growth drivers for the bus business and Eicher is well placed with wide portfolio and technology advancements to benefit from the same.
- In the CV space, we feel that we are nearing the sector downcycle trend and the trigger will be the scrappage policy, if and when it is implemented. The current downcycle led to a lower levels of trucks (less than 5/10 years age) plying on the road. Thus post-Covid-19, with pickup in the economic activities, especially infrastructure, we believe that the CV segment would revive in the later part of the current fiscal. Already, this segment with lower inventory levels has witnessed sales revival in light CVs and revival in tipper sales for construction activities. Eicher motors with a JV has presence in the CV space and is one of the major players in the light & medium duty CVs. With technological edge from Volvo India, we expect Eicher to be key beneficiaries in the next upcycle.
- Over FY20-23E, we are anticipating a 10.7% CAGR rise in the standalone top-line to Rs. 123.2bn in FY23E. EBITDA margin is expected to expand by 372bps over the period to stand at 28% in FY23E. Reported PAT margin to remain flat over the period to remain at 21% in FY23E.

Valuation: At a CMP of Rs. 2,643.1, Eicher's share are trading a TTM P/E multiple of 60.4x. Considering the above observations, we assign a **"BUY"** rating on the stock with a target price of Rs. 3,311.4 per shares.

Choice's Rating Legend

Rating	Upside
BUY	Absolute Return >15%
Hold	Absolute Return Between 0-15%
Reduce	Absolute Return 0 To Negative 10%
Sell	Absolute Return > Negative 10%

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