

Steady outlook, gradual margin recovery under way...

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 Bullet, Classic, Interceptor among others.

- Via its JV with Volvo i.e. 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

Q3FY23 Results: Eicher posted a mixed performance in Q3FY23.

- ASPs at RE, profitability at VECV arm surprised positively while operating margins disappoint at 23%, down 30 bps QoQ (gross margin down 60 bps)
- Consolidated revenues were at ₹ 3,721 crore, up 5.7% QoQ
- Consequent consolidated PAT was at ₹ 741 crore, up 12.8% QoQ

What should investors do? EML's price has grown at ~4% CAGR over the last five years (from ₹ 2,732 levels in February 2018), in line with the broader Nifty Auto index.

- We retain **BUY** rating on the stock amid RE driving premiumisation play in 2-W space with healthy double digit volume growth on anvil driven by new launches including affordable Hunter 350 & ongoing CV cyclical upswing

Target Price and Valuation: Introducing FY25E, we value EML at ₹ 4,065 on SOTP basis (i.e. 30x PE to RE business & 30x PE to VECV business on FY24-25E average).

Key triggers for future price performance:

- With dominant position in >250 cc segment, healthy response to Hunter 350, exploration of EV opportunity in premium motorcycle space & global ambitions, we expect RE volumes to grow at 21% CAGR over FY22-25E
- Capabilities showcased in alternate fuel technologies domain like BEV, fuel cells, CNG, etc, for entire range of CVs (trucks, buses) during recently concluded Auto Expo 2023. With CV cyclical upswing domestically, CV volumes at VECV are expected to grow at 18% CAGR over FY22-25E
- Strengthening its presence in overseas markets in mid-weight category with new product launched in >350 cc segment like "Super Meteor 650"
- With levers in place margins, RoCE are seen at 25.4%, 27.3%, respectively, by FY25E

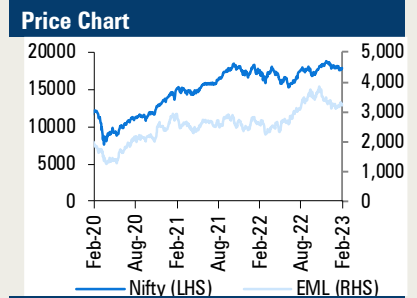
Alternate Stock Idea: In our auto OEM coverage, we also like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with target price of ₹ 1,665



Particulars	
Particular	₹ crore
Market Capitalization	86,773
Total Debt (FY22)	59
Cash & Investments (FY22)	8,485
EV (₹ crore)	78,347
52 week H/L (₹)	3890 / 2110
Equity capital	₹ 27.3 Crore
Face value	₹ 1

Shareholding pattern				
	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	49.2	49.2	49.2	49.2
FII	29.2	29.5	30.3	29.9
DII	10.0	10.1	10.0	10.0
Other	11.6	11.2	10.6	11.0



Recent event & key risks

- Reported mixed Q3FY23 results
- **Key Risk:** (i) Budgeted offering leading to cannibalisation of existing product portfolio, (ii) Lower than anticipated margin recovery, going forward

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Sales	9,797.1	9,153.6	8,720.4	10,297.8	7.9%	14,411.2	16,247.7	18,187.2	20.9%
EBITDA	2,903.1	2,180.3	1,781.3	2,172.2	0.0%	3,414.2	3,978.1	4,613.0	28.5%
EBITDA Margins (%)	29.6	23.8	20.4	21.1		23.7	24.5	25.4	
Net Profit	2,202.8	1,827.5	1,346.9	1,676.6	0.1%	2,773.7	3,373.8	3,875.6	32.2%
EPS (₹)	80.8	67.0	49.3	61.3		101.5	123.4	141.8	
P/E	39.3	47.4	64.4	51.8		31.3	25.7	22.4	
RoNW (%)	24.8	18.3	11.8	13.3		19.2	20.3	20.2	
RoCE(%)	27.8	17.3	11.3	13.3		19.8	20.2	27.3	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q3FY23 Results:

- Consolidated revenues for Q3FY23 were at ₹ 3,721 crore up 5.7% QoQ. ASPs at Royal Enfield (RE), were flat QoQ at ~₹ 1.6 lakh/unit. RE sales volumes were at ~2.21 lakh units, up 6.6% QoQ
- EBITDA for the quarter was at ₹ 857 crore with margins at 23%, down 30 bps QoQ. The company reported ~64 bps gross margin decline (amid adverse product mix) and limited operating leverage gains (other expense as percentage of sales, down just ~40 bps)
- Consolidated PAT was at ₹ 741 crore, up 12.8% QoQ. The company's share of profit from VECV JV was at ₹ 63.9 crore

Q3FY23 Earnings Conference Call highlights

- The company achieved highest ever revenue & EBITDA for a quarter for both VECV & RE operations amid positive demand sentiments domestically and continued on its path to become a global, affordable brand in the mid-range segment
- Eicher continues to dominate >350 cc 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 to ~30.7% in 9MFY23 vs. ~27% till 9MFY22. Also, the company has ~8.1% market share in motorcycle space, as a whole
- The management informed about a healthy uptick in international volumes and has grown ~4x from FY18 leading to 8%, 9% & 10% market share in America, APAC & EMEA regions, respectively. Further, to strengthen its export the company is setting up CKD facilities in Nepal and Bangladesh
- During the quarter, it invested ~US\$50 million in Stark Mobility for ~11% equity and will be exploring EV opportunities through the same
- The management remains upbeat about demand from domestic markets amid positive macroeconomics like (i) young population with ~60% population at 20-59 years of age, (ii) rising disposable income, (iii) favourable disposition towards premium bikes
- The management informed about its recent launch Super Meteor 650 is getting brilliant response from journalists all around the globe post its launch event in Rajasthan, whereas Hunter 350 continued to perform well and has crossed ~80,000+ units mark till 9MFY23. Further, the company has started export of Hunter 350 in foreign markets
- Eicher's bus market share improved to ~22.5% in 9MFY23 vs. ~5.3% in FY09. Same for light & medium trucks improved to 30% from 25% in FY09
- The management informed about some commodity decline benefits to accrue in coming quarters as old order book ramp down protecting the interest of customers who booked at old prices

In the CV domain, it expects a price hike of ~3%-5% due to upcoming OBD Phase 2 norms from April, 2023 & has technologies available for same.

On export front company continued to build upon brand building, retail channel expansion & new CKD facilities.

Company during the Auto Expo 2023 company showcased future ready mobility technologies like BEV, Fuel Cell, CNG/LNG, EV Bus (13.5 m) in CV space.

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)	3,876	4,100	Hold	1,12,160	43.1	40.1	44.4	15.9	17.8	19.4	18.4	24.2	29.0	22.3	19.6	16.1
Hero Moto (HERHON)	2,542	2,770	Hold	50,764	49.4	52.9	56.6	11.5	11.5	12.7	16.3	18.4	22.2	20.5	18.5	15.0
Eicher Motors (EICMOT)	3,175	4,065	Buy	86,773	6.0	8.5	9.8	21.1	23.7	24.5	13.3	19.8	20.2	51.8	31.3	25.7

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

We ascribe BUY rating to Eicher Motors amid 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

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Total Operating Income	3721	3483	2881	29.2	3519	5.7	Topline came in ahead of estimates tracking beat on ASP's despite adverse product mix
Raw Material Expenses	2052	1947	1637	25.3	1912	7.4	RM costs came in higher than anticipated at 58.2% of sales, up 60 bps QoQ.
Purchase of traded goods	113	62	83	37.0	114	-0.7	
Employee Expenses	259	233	202	28.6	243	6.5	Employee costs stood a tad higher at 7% of sales
Other expenses	439	377	377	16.5	429	2.4	
EBITDA	857	864	582	47.2	822	4.3	
EBITDA Margin (%)	23.0	24.8	20.2	282 bps	23.3	-31 bps	EBITDA margins came in below our estimates tracking lower than anticipated operating leverage gains and gross margins expansion
Other Income	192	138	92	108.7	149	29.4	Other income came in higher than estimates
Depreciation	135	124	111	21.0	127	6.1	
Interest	8	4	6	24.9	7	7.4	
Total Tax	230	220	137	68.2	223	3.1	
PAT	741	701	456	62.4	657	12.8	PAT came in higher due to higher other income and inline absolute EBITDA
Key Metrics							
Royal Enfield ASP(₹)	1,60,176	1,54,985	1,64,731	-2.8	1,61,442	-0.8	ASP's at RE were down just 0.8% QoQ at ₹1.6 lakh/unit vs. our estimates of ₹1.55 lakh/unit
VECV ASP (₹ lakhs)	25.4	23.9	22.6	12.2	23.9	6.0	ASP's at VECV were also healthy at ₹25.4 lakh/unit

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	14,331	14,411	0.6	16,215	16,248	0.2	18,187	Broadly retained FY23-24E estimates. Introduced FY25E numbers. We expect topline at the company to grow at a CAGR of 20.9% over FY22-25E
EBITDA	3,519	3,414	-3.0	4,230	3,978	-5.9	4,613	
EBITDA Margin (%)	24.6	23.7	-86 bps	26.1	24.5	-160 bps	25.4	Lowered margin estimates for FY23-24E tracking delayed RM decline benefits. Introduced FY25E margins at 25.4%
PAT	2,771	2,774	0.1	3,407	3,374	-1.0	3,876	
EPS (₹)	101	101	0.1	125	123	-1.0	142	Broadly retained FY23-24E numbers. We expect earnings at the company to grow at a CAGR of 32% over FY22-25E

Source: ICICI Direct Research

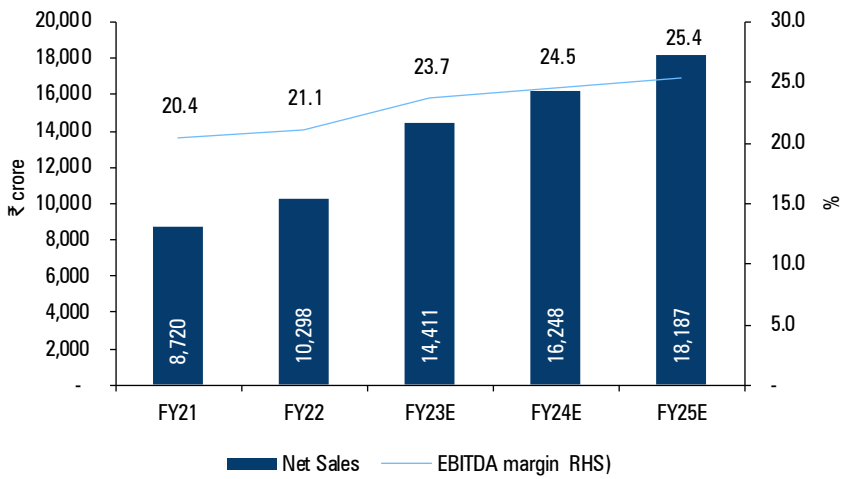
Exhibit 4: Assumptions

	FY19	FY20	FY21	FY22	Current			Earlier		Comments
					FY23E	FY24E	FY25E	FY23E	FY24E	
Royal Enfield volumes	8,26,098	6,95,839	6,12,060	6,02,268	8,48,464	9,84,218	10,80,009	8,47,447	9,74,564	Post new product launches including Hunter 350, volumes at RE franchise are seen growing at a CAGR of 21% over FY22-25E to 10.8 lakh units by FY25E
Royal Enfield ASP/unit (₹)	1,17,603	1,29,465	1,40,044	1,65,758	1,62,911	1,62,643	1,65,910	1,63,590	1,63,927	Adjusted ASP estimates tracking management commentary
VECV volumes	72,860	48,786	41,265	57,077	75,349	86,652	95,317	74,202	89,043	Amidst cyclical upswing in domestic CV space, volumes in this domain are seen growing at a CAGR of 18% over FY22-25E

Source: ICICI Direct Research

Financial story in charts

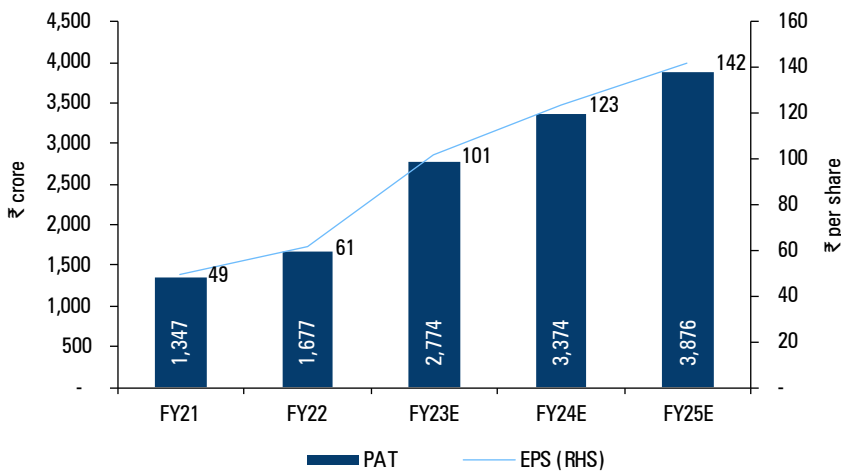
Exhibit 5: Topline and EBITDA margin trend



We expect sales to grow at 20.9% CAGR in FY22-25E amid ~21% RE sales volume CAGR. EBITDA margins are seen at 25.4% in that time frame

Source: Company, ICICI Direct Research

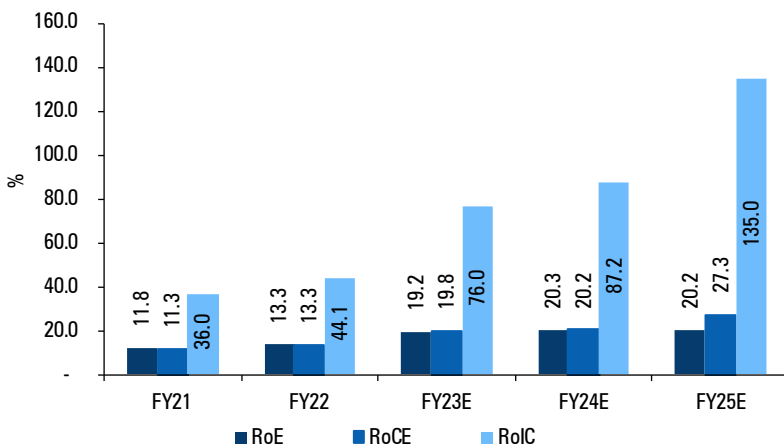
Exhibit 6: PAT and EPS trend



PAT at Eicher Motors is seen growing at 32.2% CAGR over FY22-25E

Source: Company, ICICI Direct Research

Exhibit 7: Return ratios trend



RoCE profile at Eicher Motors is seen improving to ~20% levels starting FY24E. RoIC at Eicher Motors is seen comfortably placed over 75% for FY23-24E & 100%+ by FY25E, given high cash & investments on its books as a% of net worth

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	39.3	27.9	24.8	27.8
FY20	9,153.6	(6.6)	67.0	(17.0)	47.4	36.7	18.3	17.3
FY21	8,720.4	(4.7)	49.3	(26.5)	64.4	44.4	11.8	11.3
FY22	10,297.8	18.1	61.3	24.4	51.8	36.1	13.3	13.3
FY23E	14,411.2	39.9	101.5	65.4	31.3	22.4	19.2	19.8
FY24E	16,247.7	12.7	123.4	21.6	25.7	18.6	20.3	20.2
FY25E	18,187.2	11.9	141.8	14.9	22.4	15.5	20.2	27.3

Source: Company, ICICI Direct Research

Exhibit 9: SOTP valuation

	Amount	Remarks
Two-wheeler business-Royal Enfield		
FY24-25E Average EPS (₹)	123	
Target PE multiple(x)	30.0	Valued RE business at 30x P/E; ~1x PEG
Per share value (₹)	3,675	
Target market cap (₹ crore)	1,00,183	
CV business-VECV		
FY24-25E Average PAT (₹ crore)	654	
Target PE multiple(x)	30.0	Valued VECV business at 30x P/E
Target market cap (₹ crore)	19,628	
Contribution towards EML	0.54	EML has 54.4% stake in VECV
Target market cap towards EML (₹ crore)	10,677	
Per share value-VECV Eicher (₹)	390	
Total target market cap (₹ crore)	1,10,860	
Per share value (₹)	4,065	

Source: ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Total operating Income	10,297.8	14,411.2	16,247.7	18,187.2
Growth (%)	18.1	39.9	12.7	11.9
Raw Material Expenses	5,616.7	7,874.5	9,117.2	10,182.1
Employee Expenses	821.0	1,001.4	1,084.8	1,188.1
Other Expenses	1,349.4	1,711.6	1,779.4	1,881.4
Total Operating Expenditure	8,125.6	10,997.0	12,269.6	13,574.2
EBITDA	2172.2	3414.2	3978.1	4613.0
Growth (%)	21.9	57.2	16.5	16.0
Depreciation	451.9	511.6	560.5	609.3
Interest	18.8	23.5	21.1	19.0
Other Income	440.8	543.7	663.1	695.7
PBT	2,142.3	3,422.8	4,059.6	4,680.5
Others	0.0	0.0	0.0	0.0
Total Tax	525.9	867.1	1,023.0	1,179.5
PAT	1676.6	2773.7	3373.8	3875.6
Growth (%)	24.5	65.4	21.6	14.9
EPS (₹)	61.3	101.5	123.4	141.8

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	1,676.6	2,773.7	3,373.8	3,875.6
Add: Depreciation	451.9	511.6	560.5	609.3
(Inc)/dec in Current Assets	-570.1	-666.0	-399.9	-422.3
Inc/(dec) in CL and Provisions	453.1	951.5	493.9	521.7
CF from operating activities	1570.7	3027.2	3365.2	3888.5
(Inc)/dec in Investments	-3,786.7	-1,800.0	-2,000.0	-2,500.0
(Inc)/dec in Fixed Assets	-633.5	-500.0	-500.0	-500.0
Others	346.8	380.1	507.1	539.4
CF from investing activities	-4073.4	-1919.9	-1992.9	-2460.6
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-98.6	-10.0	-10.0	-10.0
Dividend paid & dividend tax	-574.1	-956.9	-1,148.3	-1,367.0
Others	67.5	0.0	0.0	0.0
CF from financing activities	-605.2	-966.9	-1158.3	-1377.0
Net Cash flow	-3,108.0	140.4	214.0	50.8
Opening Cash	5,830.2	2,722.2	2,862.6	3,076.6
Closing Cash	2722.2	2862.6	3076.6	3127.5

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Liabilities				
Equity Capital	27.3	27.3	27.3	27.3
Reserve and Surplus	12,580.7	14,397.5	16,622.9	19,131.6
Total Shareholders funds	12608.0	14424.8	16650.3	19158.9
Total Debt	58.8	48.8	38.8	28.8
Deferred Tax Liability	220.1	220.1	220.1	220.1
Others	389.6	405.2	412.2	419.5
Total Liabilities	13276.5	15098.9	17321.4	19827.4
Assets				
Gross Block	4,619.2	5,174.0	5,774.0	6,324.0
Less: Acc Depreciation	2,194.8	2,706.4	3,267.0	3,876.2
Net Block	2424.4	2467.6	2507.1	2447.8
Capital WIP	504.8	450.0	350.0	300.0
Total Fixed Assets	2,929.2	2,917.6	2,857.1	2,747.8
Investments	7,720.6	9,670.6	11,820.6	14,470.6
Inventory	1,132.4	1,579.3	1,780.6	1,993.1
Debtors	302.0	394.8	445.1	498.3
Others	1,037.7	1,164.0	1,312.4	1,469.0
Cash	2722.2	2862.6	3076.6	3127.5
Total Current Assets	5,194.4	6,000.8	6,614.7	7,087.9
Creditors	1,788.1	2,369.0	2,670.9	2,989.7
Provisions	150.7	199.6	225.0	251.9
Others	985.8	1,307.5	1,474.1	1,650.1
Total Current Liabilities	2,924.5	3,876.1	4,370.0	4,891.7
Net Current Assets	2269.9	2124.7	2244.7	2196.3
Other Non current asset	356.7	385.9	398.9	412.6
Application of Funds	13276.5	15098.9	17321.4	19827.4

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	61.3	101.5	123.4	141.8
Cash EPS	77.9	120.2	143.9	164.0
BV	461.2	527.6	609.0	700.8
DPS	21.0	35.0	42.0	50.0
Cash Per Share	310.3	381.3	462.3	555.6
Operating Ratios (%)				
EBITDA Margin	21.1	23.7	24.5	25.4
PBT / Net sales	16.7	20.1	21.0	29.1
PAT Margin	16.3	19.2	20.8	21.3
Inventory days	40.1	40.0	40.0	40.0
Debtor days	10.7	10.0	10.0	10.0
Creditor days	63.4	60.0	60.0	60.0
Return Ratios (%)				
RoE	13.3	19.2	20.3	20.2
RoCE	13.3	19.8	20.2	27.3
RoIC	44.1	76.0	87.2	135.0
Valuation Ratios (x)				
P/E	51.8	31.3	25.7	22.4
EV / EBITDA	36.1	22.4	18.6	15.5
EV / Net Sales	7.6	5.3	4.6	3.9
Market Cap / Sales	8.4	6.0	5.3	4.8
Price to Book Value	6.9	6.0	5.2	4.5
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)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Apollo Tyre (APOTYR)	328	390	Buy	20,829	10.1	15.9	25.2	32.6	20.6	13.0	9.9	7.6	5.8	6.3	10.0	13.8	5.4	8.1	11.8
Ashok Leyland (ASHLEY)	149	185	Buy	43,614	1.8	3.9	6.8	80.7	38.4	22.0	45.0	17.0	12.0	2.1	15.9	23.3	0.2	14.1	22.0
Bajaj Auto (BAAUTO)	3,876	4,100	Hold	1,12,160	173.4	197.5	240.9	22.3	19.6	16.1	17.3	14.5	11.6	18.4	24.2	29.0	17.6	22.3	26.1
Balkrishna Ind. (BALIND)	1,996	2,170	Hold	38,586	73.0	52.1	77.5	27.4	38.3	25.7	20.4	27.7	17.4	15.9	8.6	15.8	20.4	13.2	17.3
Bharat Forge (BHAFOR)	874	1,050	Buy	40,691	23.1	17.5	28.2	37.8	49.9	30.9	21.7	23.1	16.8	9.6	8.4	12.6	15.2	11.4	16.4
Eicher Motors (EICMOT)	3,175	4,065	Buy	86,773	61.3	101.5	123.4	51.8	31.3	25.7	36.1	22.4	18.6	13.3	19.8	20.2	13.3	19.2	20.3
Escorts Kubota (ESCORT)	2,052	2,165	Hold	27,074	58.0	45.1	60.7	35.4	45.5	33.8	23.4	29.9	23.7	10.4	6.9	8.4	9.7	8.0	9.0
Hero Moto (HERHON)	2,542	2,770	Hold	50,764	123.8	137.2	169.7	20.5	18.5	15.0	12.6	11.2	9.0	16.3	18.4	22.2	15.7	16.6	19.5
M&M (MAHMAH)	1,363	1,665	Buy	1,69,448	41.4	54.9	66.3	32.9	24.8	20.6	23.3	16.0	13.6	9.3	13.1	14.3	13.1	16.6	15.9
Maruti Suzuki (MARUTI)	8,774	11,200	Buy	2,65,045	124.7	261.9	369.0	70.4	33.5	23.8	39.2	20.4	14.6	5.1	12.9	16.9	7.0	13.3	16.7
Uno Minda (MININD)	524	630	Buy	29,960	6.2	11.5	15.6	84.2	45.7	33.5	34.5	23.8	18.9	10.2	15.2	18.0	10.3	16.3	18.4
Tata Motors (TATMOT)	441	530	Buy	1,68,859	-29.9	-3.1	24.3	-14.8	-144.0	18.2	7.2	6.4	4.3	4.8	7.9	15.1	-23.5	-2.5	16.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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