

India

REDUCE (no change)

Consensus ratings*: Buy 25 Hold 13 Sell 6

Current price:	Rs3,645
Target price:	Rs3,127
Previous target:	Rs3,053
Up/downside:	-14.2%
InCred Research / Consensus:	-17.6%
Reuters:	
Bloomberg:	EIM IN
Market cap:	US\$13,743m Rs997,926m
Average daily turnover:	US\$34.8m Rs2528.4m
Current shares o/s:	273.3m
Free float:	50.8%

*Source: Bloomberg

Key changes in this note

- Sales cut by ~3% for FY24F-25F.
- EBITDA maintained for FY24F-25F.
- EPS raised by 3-5% for FY24F-25F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.9	7.6	3.6
Relative (%)	7.0	8.2	(1.4)

Major shareholders

	% held
Lal Family	49.2
SBI Mutual Fund	1.9
Amansa Holdings Pvt Ltd	1.8

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Eicher Motors Ltd**2Q EBITDA margin spike difficult to sustain**

- 2Q EBITDA margin scaling a 5-year high led to a 11% EPS growth qoq. EPS beat vs. our estimate resulted in 1H EPS forming 58% of our FY24F estimate.
- New products with aggressive pricing by competitors, we believe, will impact RE bike's profitability. Export headwinds are likely to prolong.
- While forward P/E valuation is attractive at -1SD, it is high within the 2W sector. With earnings at risk from their current peak levels, we retain REDUCE rating.

RE's EBITDA margin scales a 5-year high aided by rise in inventory

2QFY24 consol. EBITDA of Eicher Motors rose by 32% yoy & 7% qoq to Rs10.8bn, above our estimate (8%) and Bloomberg consensus estimate (5%). The EBITDA margin expanded by 308bp yoy and 81 qoq to 25.6%, driven by a sharp rise in Royal Enfield or RE bike inventory (7% of sales). RE's EBITDA margin scaled a five-year high at 27.9% (Fig. 5). With the help of an 84% yoy growth in other income, EPS rose by 60% yoy & 11% qoq to Rs37.2, beating our estimate (18%), but in line with Bloomberg consensus estimate.

Management conference-call highlights

Management indicated that the festive season sales growth stood at 14% yoy, in line with the two-wheeler industry's growth. It stated that the test ride reports of the new Himalayan 450cc bike have been encouraging. In terms of exports, management indicated that it is maintaining local market share even as industry demand is weak. Management reiterated its focus on new product launch and accessory/ spare part sales to drive sales going ahead.

EPS upgrade limited to 3-5% because of rising competition

The short-term momentum for the EBITDA margin has been strong, aided by an increase in inventory and easing Hunter 350cc bike's composition in the product mix which, we feel, is difficult to sustain. With the deliveries of Bajaj Triumph and Hero Harley bikes commencing in Oct 2023, we feel the five-year peak EBITDA margin of RE bike will be difficult to sustain. We build in 2HFY24F EBITDA margin at 25% and FY25F-26F EBITDA margin in the range of 22.5% to 24%. The lower depreciation and high other income led to an EPS upgrade of 3-5% for FY24F-26F.

Absolute valuation still rich, but relative to its history is comforting

The short-term profit performance is well captured in recent weeks' stock price outperformance to the Nifty Auto Index. With rising competition in the domestic 300+cc bike segment, we feel RE will be challenged for customer mindshare. With profit margin peaking in the short term, we reiterate REDUCE rating on the stock but marginally raise our sum-of-the-parts or SOTP-based target price to Rs3,127 from Rs3,053 earlier. Key upside risks: Slow production ramp-up by competitors and the success of the new bike of RE in the domestic and export markets.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	102,979	143,652	166,326	193,923	221,661
Operating EBITDA (Rsm)	21,324	33,666	42,794	46,824	49,654
Net Profit (Rsm)	16,767	28,370	38,219	41,064	42,679
Core EPS (Rs)	59.9	103.8	139.8	150.2	156.1
Core EPS Growth	17.0%	73.3%	34.7%	7.4%	3.9%
FD Core P/E (x)	59.43	35.13	26.08	24.27	23.35
DPS (Rs)	21.0	37.0	46.0	50.0	55.0
Dividend Yield	0.58%	1.02%	1.26%	1.37%	1.51%
EV/EBITDA (x)	41.86	26.26	20.28	18.12	16.64
P/FCFE (x)	(39.33)	(110.38)	136.01	76.92	63.58
Net Gearing	(82.4%)	(85.6%)	(82.9%)	(82.5%)	(83.4%)
P/BV (x)	7.90	7.58	6.42	5.55	4.88
ROE	13.6%	22.0%	26.7%	24.5%	22.2%
% Change In Core EPS Estimates			5.59%	3.29%	(1.56%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

2Q EBITDA margin spike difficult to sustain

Management conference-call highlights➤

- In Sep 2023, Eicher Motors launched its new Bullet bike with a J-series engine, which was the transition from its UCE platform. Management plans to launch the bike globally soon.
- The company witnessed volume growth of 14% yoy in the festive season, mainly led by volume growth in Bullet Classic.
- The company has showcased its new Himalaya 450cc motorcycle and Himalaya electric vehicle or EV concept at the recent EICMA 2023. Management stated that it wants to focus on mid-range cc motorcycles.
- On the export front, volume was up by 9% and the company's market share is as follows: in Europe at 9%, in America at 7% and in Asia at 8.4%.
- In the commercial vehicle or CV segment, Eicher Motors has grown its market share in all the verticals led by new product launches. The powertrain division witnessed sales of 14,800 units.
- The retail market remains strong while the wholesale market witnessed inventory level going up slightly for catering to the ongoing festive season and is likely to normalize within a few months.
- The EBITDA margin was up by 308bp, 1% led by input cost savings and the rest from price hike, the full impact of which will be witnessed in the current quarter.
- Yearly capacity stood at 1.2m units. In the 250cc+ bike category, the company holds a 90%+ market share, and it believes that rising competition is likely to grow the market further and its capex will remain at 2-3% of sales.

Figure 1: Results comparison

Y/E Mar (Rs m)	2QFY24	2QFY23	yoy % chg	1QFY24	qoq % chg	Comments for the quarter
Revenue	41,145	35,194	16.9	39,864	3.2	3% above our estimate.
Raw material costs	22,201	20,256	9.6	22,273	(0.3)	
RM costs as a % of revenue	54	58	(359.8)	56	(191.5)	
EBITDA	10,872	8,216	32.3	10,208	6.5	8% above our estimate.
<i>EBITDA margin (%)</i>	<i>26.4</i>	<i>23.3</i>	<i>307.7</i>	<i>25.6</i>	<i>81.4</i>	<i>141bp above our estimate.</i>
Depreciation & amortization	1,425	1,271	12.1	1,423	0.2	
EBIT	9,446	6,945	36.0	8,786	7.5	
Interest expenses	127	71	79.6	104	21.6	
Other income	2,738	1,486	84.2	2,432	12.6	37% above our estimate.
Pre-tax profit	12,057	8,361	44.2	11,114	8.5	
Tax	2,911	2,233	30.4	2,935	(0.8)	
Profit before minority interest	9,146	6,127	49	8,179	12	
Profit in joint venture	1,016	441	130	1,004	1	
Normalized net profit	10,163	6,569	54.7	9,183	10.7	18% above our estimate.
Exceptional items	-	-	nm	-	nm	
Reported net profit	10,163	6,363	59.7	9,183	10.7	
Normalized EPS (Rs)	37.2	24.0	59.7	33.6	10.7	
Volume (nos.)	236,335	207,764	13.8	227,706	3.8	
Net realization (Rs)	174,097	169,394	2.8	175,067	(0.6)	
EBITDA/vehicle	46,001	39,545	16.3	44,831	2.6	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Sales volume break-up (units)

	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)	1HFY24	1HFY23	yoy (%)
RE - domestic	216,401	183,067	18.2%	207,171	4.5%	423,572	340,709	24.3%
RE - export	19,934	24,697	-19.3%	20,535	-2.9%	40,469	54,260	-25.4%
Commercial vehicles	19,464	17,616	10.5%	19,571	-0.5%	39,035	35,085	11.3%
Total sales volume	255,799	225,380	13.5%	247,277	3.4%	503,076	430,054	17.0%

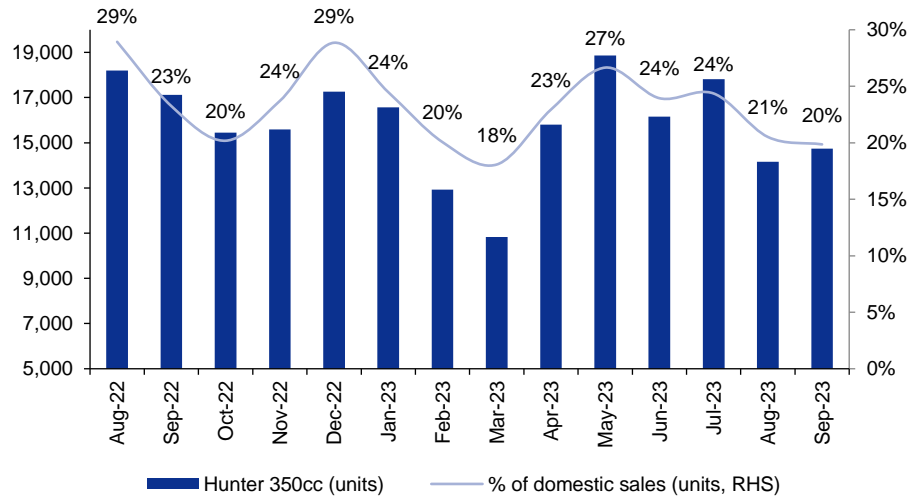
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Royal Enfield or RE's quarterly performance

(Rs m)	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)	1HFY24	1HFY23	yoy (%)
Net sales	39,307	33,972	15.7%	39,012	0.8%	78,319	66,451	17.9%
EBITDA	10,974	8,036	36.6%	10,127	8.4%	21,101	15,919	32.6%
EBITDA margin (%)	27.9%	23.7%	426	26.0%	196	26.9%	24.0%	299
Normalized PAT	9,385	6,149	52.6%	9,139	2.7%	18,524	11,950	55.0%
Total volume (in nos.)	236,335	207,764	13.8%	227,706	3.8%	464,041	394,969	17.5%
ASP (Rs)	166,319	163,512	1.7%	171,325	-2.9%	168,776	168,244	0.3%

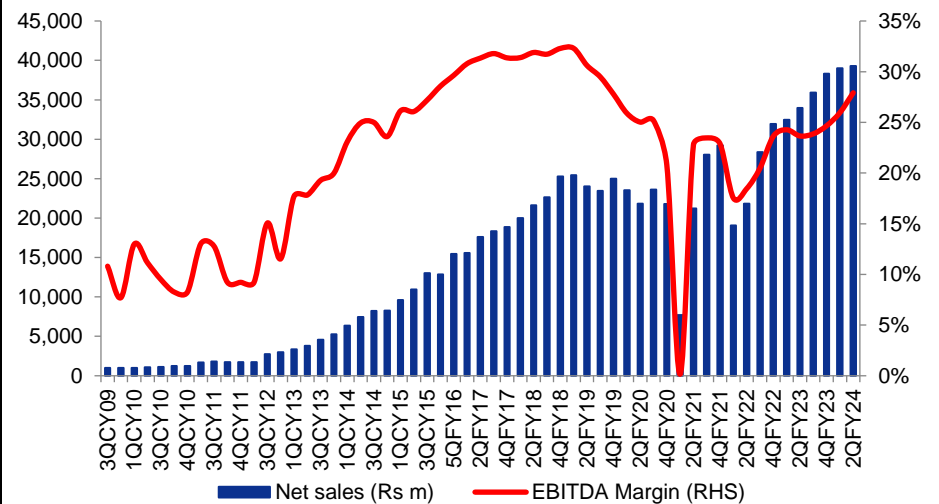
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Hunter 350cc bike sales trend and its share as a % of total sales



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Royal Enfield or RE's EBITDA margin trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Royal Enfield's quarterly performance

(Rs m)	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)	1HFY24	1HFY23	yoy (%)
Net sales	51,290	42,150	21.7%	49,910	2.8%	189,520	13,905	1262.9%
EBITDA	4,040	2,487	62.5%	3,870	4.4%	13,805	1,114	1139.2%
EBITDA margin (%)	7.9%	5.9%	198	7.8%	12	7.3%	8.0%	-73
Normalized PAT	1,850	811	128.0%	1815	1.9%	5,791	761	661.0%
Total volume (in nos.)	19,464	17,616	10.5%	19,571	-0.5%	72,706	12,631	475.6%
ASP (Rs)	2,635,121	2,392,711	10.1%	2,550,202	3.3%	2,606,656	1,100,887	136.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Our revised consolidated earnings estimates

	FY24F		FY25F		FY26F	
	Old	New	Old	New	Old	New
RE Sales volume	1,006,600	978,853	1,145,984	1,132,393	1,288,502	1,279,040
Change (%)		-2.8%		-1.2%		-0.7%
Net sales (Rs m)	172,584	166,326	199,303	193,923	226,925	221,661
Change (%)		-3.6%		-2.7%		-2.3%
EBITDA (Rs m)	42,093	42,794	46,728	46,824	52,143	49,654
Change (%)		1.7%		0.2%		-4.8%
EBITDA margin	24.4%	25.7%	23.4%	24.1%	23.0%	22.4%
Bp		134		70		(58)
EPS (Rs)	132.4	139.7	145.4	150.1	158.6	156.0
Change (%)		5.5%		3.3%		-1.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Key assumptions

Rs m	FY21A	FY22A	FY23	FY24F	FY25F	FY26F
Volume (nos)						
Royal Enfield	612,060	394,969	834,895	978,853	1,132,393	1,279,040
VECV	41,250	12,631	72,706	88,013	99,377	111,433
Consol.	653,310	407,600	907,601	1,066,866	1,231,770	1,390,473
Sales						
Royal Enfield	86,190	66,451	139,897	166,326	193,923	221,661
VECV	85,970	13,905	189,520	230,895	265,294	302,876
Consol.	172,160	80,357	329,417	397,221	459,217	524,536
EBITDA Margin (%)						
Royal Enfield	21.0%	24.0%	23.7%	25.7%	24.1%	22.4%
VECV	6.9%	8.0%	7.3%	7.9%	7.4%	7.0%
Consol.	14.0%	21.2%	14.3%	15.4%	14.5%	13.5%
Net Profit						
Royal Enfield	13,297	11,947	25,455	34,879	37,757	39,181
VECV	264	7	2,641	4,015	4,323	4,735
Consol.	13,561	11,955	28,096	38,895	42,080	43,916

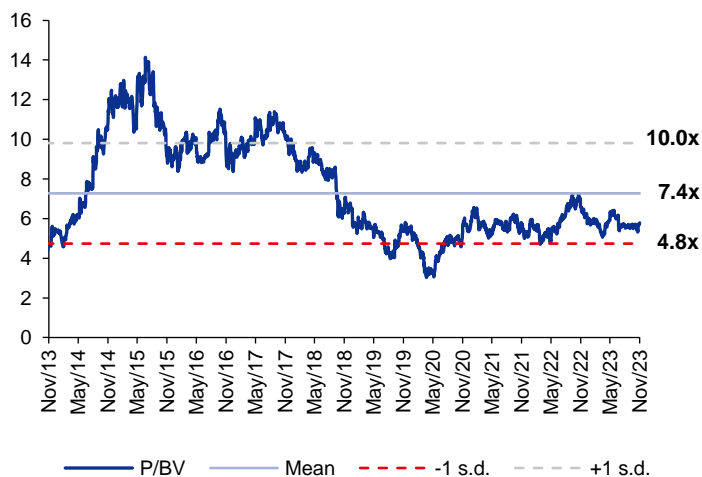
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Eicher Motors' sum-of-the-parts or SOTP valuation

Sum-of-the-parts (Rs m)	EBITDA 1-year forward	Multiple (x)	EV	Net debt 1-year forward	Equity Value	Stake	Attributable	No. of shares (m)	Value per share (Rs)
Royal Enfield	48,584	12.0	583,007	(153,621)	736,629	100%	736,629	273.3	2,695
Volvo Eicher CV (incl. engine business)	20,608	10.0	206,079	(10,633)	216,712	54.4%	117,891	273.3	432
SOTP value of Eicher Motors									3,127

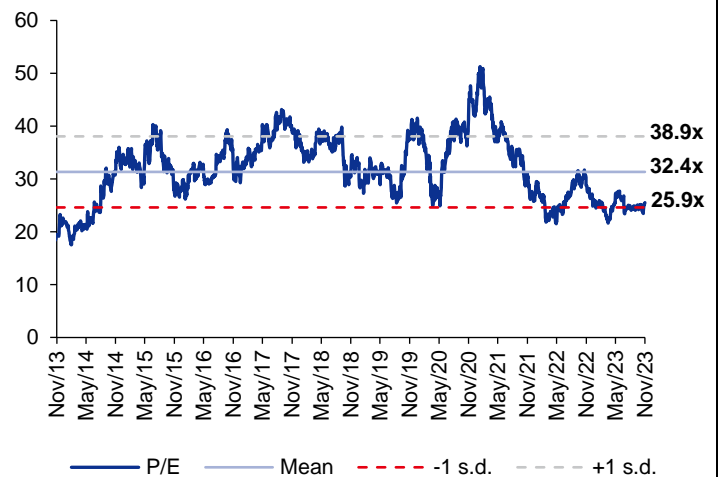
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Forward P/BV valuation below the mean level



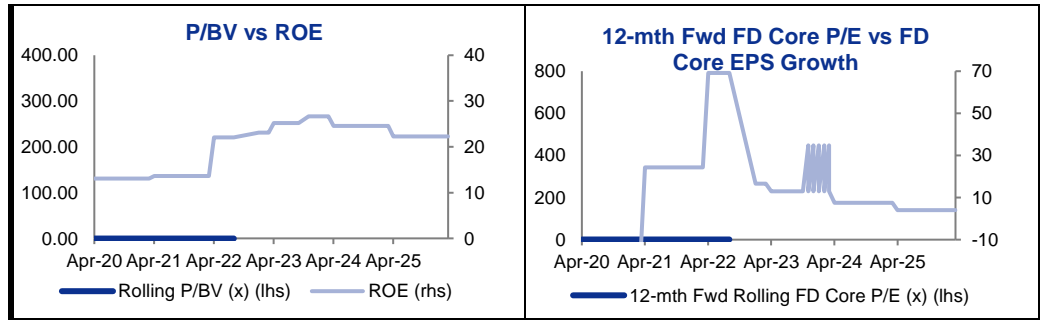
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Forward P/E valuation



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	102,979	143,652	166,326	193,923	221,661
Gross Profit	43,427	61,533	73,682	84,356	93,097
Operating EBITDA	21,324	33,666	42,794	46,824	49,654
Depreciation And Amortisation	(4,519)	(5,262)	(5,950)	(6,700)	(8,600)
Operating EBIT	16,804	28,404	36,844	40,124	41,054
Financial Income/(Expense)	(188)	(280)	(485)	(650)	(600)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	4,408	5,951	9,447	9,769	10,388
Profit Before Tax (pre-EI)	21,025	34,075	45,806	49,243	50,842
Exceptional Items					
Pre-tax Profit	21,025	34,075	45,806	49,243	50,842
Taxation	(5,259)	(8,857)	(12,376)	(13,336)	(13,810)
Exceptional Income - post-tax	400				
Profit After Tax	16,165	25,218	33,429	35,907	37,031
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	601	3,152	4,790	5,157	5,648
Net Profit	16,767	28,370	38,219	41,064	42,679
Recurring Net Profit	16,367	28,370	38,219	41,064	42,679
Fully Diluted Recurring Net Profit	16,367	28,370	38,219	41,064	42,679

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	21,324	33,666	42,794	46,824	49,654
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,494)	(2,139)	(1,397)		(607)
(Incr)/Decr in Total Provisions	(285)	5,838	(1,854)	(300)	(200)
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1,001	3,152	4,790	5,157	5,648
Net Interest (Paid)/Received	4,220	5,671	8,962	9,119	9,788
Tax Paid	(5,259)	(8,857)	(12,376)	(13,336)	(13,810)
Cashflow From Operations	19,507	37,331	40,918	47,464	50,472
Capex	(6,334)	(6,542)	(10,250)	(11,200)	(10,300)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments					
Other Investing Cashflow	(37,525)	(40,218)	(23,340)	(23,308)	(24,497)
Cash Flow From Investing	(43,859)	(46,760)	(33,590)	(34,508)	(34,797)
Debt Raised/(repaid)	(986)	400			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(5,741)	(10,120)	(12,581)	(13,675)	(15,043)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(6,727)	(9,720)	(12,581)	(13,675)	(15,043)
Total Cash Generated	(31,079)	(19,148)	(5,253)	(718)	632
Free Cashflow To Equity	(25,337)	(9,029)	7,328	12,957	15,675
Free Cashflow To Firm	(24,164)	(9,149)	7,813	13,607	16,275

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	104,431	113,513	129,634	149,224	171,268
Total Debtors	3,020	7,020	9,114	11,688	13,968
Inventories	11,324	9,109	11,392	13,814	17,004
Total Other Current Assets	13,944	11,183	12,000	13,500	15,000
Total Current Assets	132,719	140,826	162,140	188,226	217,239
Fixed Assets	29,291	30,570	34,870	39,370	41,070
Total Investments					
Intangible Assets					
Total Other Non-Current Assets					
Total Non-current Assets	29,291	30,570	34,870	39,370	41,070
Short-term Debt	588	988	988	988	988
Current Portion of Long-Term Debt					
Total Creditors	17,881	17,527	20,506	25,502	30,364
Other Current Liabilities	13,362	15,780	15,000	16,000	17,000
Total Current Liabilities	31,832	34,295	36,494	42,490	48,352
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities					
Total Provisions	4,098	5,591	5,334	5,534	5,835
Total Liabilities	35,930	39,886	41,828	48,024	54,187
Shareholders Equity	126,080	131,510	155,182	179,572	204,122
Minority Interests					
Total Equity	126,080	131,510	155,182	179,572	204,122

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	18.1%	39.5%	15.8%	16.6%	14.3%
Operating EBITDA Growth	16.4%	57.9%	27.1%	9.4%	6.0%
Operating EBITDA Margin	20.7%	23.4%	25.7%	24.1%	22.4%
Net Cash Per Share (Rs)	379.82	411.58	470.54	542.19	622.82
BVPS (Rs)	461.16	481.02	567.60	656.81	746.61
Gross Interest Cover	89.62	101.44	75.97	61.73	68.42
Effective Tax Rate	25.0%	26.0%	27.0%	27.1%	27.2%
Net Dividend Payout Ratio	35.1%	35.7%	32.9%	33.3%	35.2%
Accounts Receivables Days	8.16	12.76	17.70	19.58	21.12
Inventory Days	61.51	45.41	40.39	41.98	43.75
Accounts Payables Days	101.86	78.69	74.92	76.63	79.30
ROIC (%)	76.5%	107.8%	149.9%	125.9%	111.3%
ROCE (%)	13.6%	21.5%	25.0%	23.4%	21.0%
Return On Average Assets	10.8%	17.2%	21.0%	19.6%	17.8%

Key Drivers

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
ASP (% chg, main prod./serv.)	19.4%	(0.3%)	1.4%	0.8%	1.2%
Unit sales grth (% , main prod./serv.)	(1.6%)	38.6%	17.2%	15.7%	13.0%
ASP (% chg, 2ndary prod./serv.)	11.0%	17.5%	3.0%	2.0%	2.0%
Unit sales grth (% ,2ndary prod/serv)	38.2%	27.5%	21.1%	12.9%	12.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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