Eicher Motors — BUY

Export: New Growth Arena

Summary

Eicher Motors (EICHER) Q4FY22 results were below our estimates primarily on account of lower other income. The ongoing global shortage of semiconductor chips and the onset of the third wave of Covid with Omicron impacted its Q4FY22 performance. The Company expressed high optimism on the export market front and sounded positive growth outlook in the domestic market. EICHER continues to receive highly encouraging response to its newly launched Classic 350 towards new bookings. In the export market, the Company dispatched ~81,028 units in FY22 which grew by 110% YoY. We have increased our PAT estimates by 7.1% and 1.0% for FY23 and FY24 respectively. We change our rating from HOLD to BUY with a revised price target of Rs 2,786.

Key Highlights and Investment Rationale

- **Q4FY22 Result Highlights:** During Q4FY22, EICHER sales grew by 8.6% YoY to Rs31.9bn (our Estimates Rs35.5bn), purely driven by 19.7% increase in average realizations YoY. EBITDA margins expanded by 213bps YoY to 23.7% (Our Estimates 20%) on account of higher Gross Margins. PAT increased by 16% YoY to Rs6.1bn (Our Estimates Rs6.4bn).
- **Earning Revision:** To factor in change in the business environment, we have increased our PAT estimates by 7.1% and 1.0% in FY23E and FY24E respectively.
- **Outlook and Valuation:** We expect EICHER to report 14.4% volume CAGR and 23.7% PAT CAGR over FY22-24E. At CMP of Rs 2,421 EICHER stock is quoting at PE of 20.9xFY24E earnings. We change our rating from HOLD to BUY with revised price target of Rs 2,786 (PER of 24x FY24E earnings).

TP	Rs 2,786
CMP	**Rs 2,421**
Potential upside/downside	+15%
Previous Rating	HOLD

Key Stock Data	
Bloomberg/Reuters	EIM IN / EICH.BO
Sector	Automobile
Shares o/s (mn)	273
Market cap. (Rs mn)	666,059
3-m daily avg Trd value (Rs mn)	168.5
52-week high / low	2,995 / 2,110
Sensex / Nifty	52,794 / 15,782

Price Performance (%)	-1m	-3m	-12m
Absolute	(2.6)	(6.2)	(0.8)
Rel to Sensex	6.9	3.0	(9.3)

V/s Consensus		
EPS (Rs)	**FY23E**	**FY24E**
IDBI Capital	90	111
Consensus	96	118
% difference	*(6.6)*	*(6.3)*

Shareholding Pattern (%)	
Promoters	49.2
FII	29.2
DII	9.7
Public	11.9

Financial snapshot **(Rs mn)**

Year	FY20	FY21	FY22	FY23E	FY24E
Revenue	91,536	87,204	102,978	137,376	156,392
Change (yoy, %)	*(7)*	*(5)*	*18*	*33*	*14*
EBITDA	21,804	17,813	21,723	32,549	39,039
Change (yoy, %)	*(25)*	*(18)*	*22*	*50*	*20*
EBITDA Margin(%)	*23.8*	*20.4*	*21.1*	*23.7*	*25.0*
Adj.PAT	17,957	13,158	16,165	24,476	30,286
EPS (Rs)	66	48	59	90	111
Change (yoy, %)	*(9)*	*(27)*	*23*	*51*	*24*
PE(x)	37	50	41	28	23
Dividend Yield (%)	1	1	1	1	1
EV/EBITDA (x)	29	34	29	19	15
RoE (%)	19	12	13	18	19
RoCE (%)	18	12	14	20	21

Source: IDBI Capital Research;

Conference call highlights:

- Despite the industry de-growth of 18% in FY22, RE (Royal Enfield) has gained market share in the domestic market. Steady volume growth has been in witnessed in last few months.
- The focus on domestic market remains on new product launches and ease of financing for customers. The RE bookings in last 6 months at higher levels than retail.
- The CV industry is facing headwinds in terms of pricing due to its inability to pass on prices due to competitive pressure. The Management believes this to be a temporary situation and with higher utilization levels, the industry discount will be ruled out.
- VECV is not participating in the recent CESL tender (for 5000 e-buses) and will be exploring opportunities outside FAME and PSU schemes.
- The Management stated that, the CESL e-bus tender is difficult business to be in, as it is based on per km basis and rate is fixed for next 12 years, which can convert into losses if hit taken on per kilometer.
- On the commodity cost inflation, the headwinds continue. Although the precious metal prices are benign now, the base metal prices remains at elevated levels. The additional pressure was seen in beginning of Q4FY22 due to geo-political tensions. The commodity prices stability can expected only after 1-2 quarters.
- The higher other expenses of Rs 14bn in FY22 (Rs 12bn in FY20) was mainly due to increase in share of international business leading to higher branding and marketing expenses along with higher freight rates. Around 6x increase was seen in freight cost.
- On exports, RE is ramping up its volumes and distribution operations with good performance seen in FY22. The Motorcycles manufactured in India are exported to more than 60 countries. RE has huge opportunity to grow in Europe and North America markets and penetrating deeply into those. While Australia, New Zealand, Japan and Korea markets are also doing well. LATAM and Asia Pacific still at nascent stage and have huge growth potential.
- The majority of export business comprises of Europe at 40%, North America & LATAM at 25-30% and rest from Asia pacific. In LATAM, Brazil market has huge growth opportunity. The two new local assembly units in Colombia and Thailand and Brazil comprises of 20% of exports.

- The total RE stores and studio stores count at 1,063 and 1,055 with presence across ~1,750 cities across nation. The Non-motorcycle revenue in FY22 at Rs 16bn (Rs 11bn in FY21) which comprises of 15.4% of total revenue.
- The New Classic 350 and Scram 411 models launched in FY22 received an extremely positive response from customers. EIM is steadily ramping up in FY23 as per market requirement and closing working with suppliers on timely RM procurement.

Exhibit 1: Quarterly Snapshot

Rs mn (Consolidated)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
Sales Volumes	**1,85,675**	**2,04,604**	***(9.3)***	**1,69,526**	***9.5***
Net Sales	**31,933**	**29,403**	***8.6***	**28,807**	***10.9***
Expenditure	**24,363**	**23,059**	***5.7***	**22,983**	***6.0***
as % of sales	*76.3*	*78.4*	-	*79.8*	-
Consumption of RM	17,971	17,391	*3.3*	17,200	*4.5*
as % of sales	*56.3*	*59.1*	-	*59.7*	-
Employee Cost	2,221	2,254	*(1.4)*	2,017	*10.1*
as % of sales	*7.0*	*7.7*	-	*7.0*	-
Other expenditure	4,170	3,415	*22.1*	3,766	*10.7*
as % of sales	*13.1*	*11.6*	-	*13.1*	-
EBITDA	**7,571**	**6,344**	***19.3***	**5,824**	***30.0***
Depreciation	1,194	1,248	*(4.3)*	1,114	*7.2*
EBIT	**6,376**	**5,096**	***25.1***	**4,709**	***35.4***
Other Income	1,180	1,139	*3.6*	921	*28.1*
Interest	31	39	*(20.6)*	61	*(48.4)*
PBT	**7,525**	**6,196**	***21.5***	**5,570**	***35.1***
Total Tax	1,962	1,625	*20.7*	1,368	*43.4*
Adjusted PAT	**5,564**	**4,571**	***21.7***	**4,202**	***32.4***
Share of profit/ (loss) of JV	538	690	*(22.0)*	359	*49.7*
Reported PAT	**6,101**	**5,261**	***16.0***	**4,561**	***33.8***
Adjusted EPS	**22.3**	**19.3**	***15.8***	**16.7**	***33.6***

Margins (%)			***YoY (bps)***		***QoQ (bps)***
EBIDTA	23.7	21.6	*213*	20.2	*349*
EBIT	20.0	17.3	*264*	16.3	*362*
EBT	23.6	21.1	*249*	19.3	*423*
PAT	19.1	17.9	*121*	15.8	*327*
Effective Tax rate	26.1	26.2	*(15)*	24.6	*150*

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

(Rs mn)	Actual	IDBI Est	% Variance
Net sales	31,933	35,497	*(10.0)*
EBITDA	7,571	7,099	*6.6*
EBITDA Margin (%)	*23.7*	*20.0*	*371bps*
Adj. net income	6,101	6,395	*(4.6)*

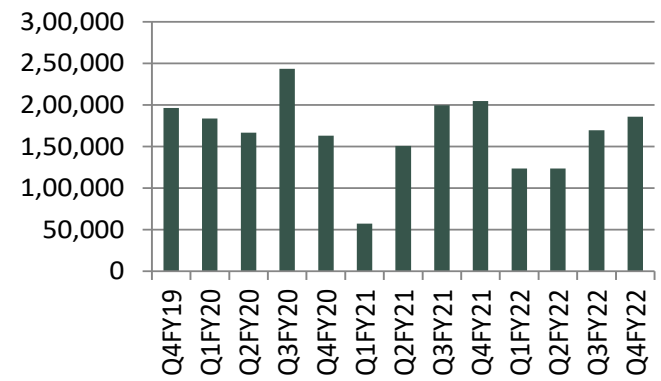
Source: Bloomberg; IDBI Capital Research

Exhibit 3: Change in estimates

	FY23E			FY24E		
(Rs mn)	Old	New	% Chg	Old	New	% Chg
Volumes	7,63,582	7,96,595	*4.3*	8,85,475	9,02,485	*1.9*
Net Sales	1,30,844	1,37,376	*5.0*	1,52,418	1,56,392	*2.6*
EBITDA	29,357	32,549	*10.9*	37,783	39,039	*3.3*
EBITDA margin (%)	*22.4*	*23.7*	*126*	*24.8*	*25.0*	*17*
Net Profit	24,082	25,790	*7.1*	31,429	31,732	*1.0*

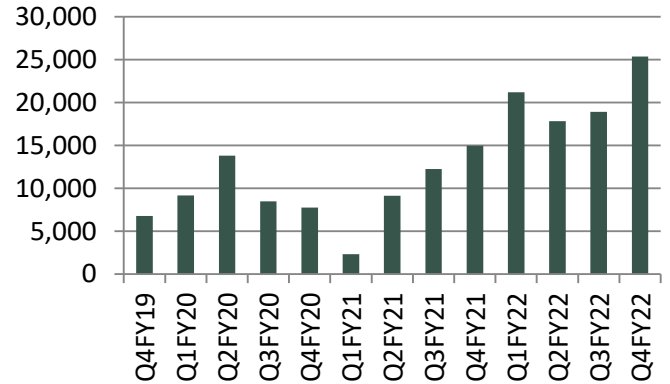
Source: IDBI Capital Research

Exhibit 4: RE Sales volumes (Domestic + Exports)



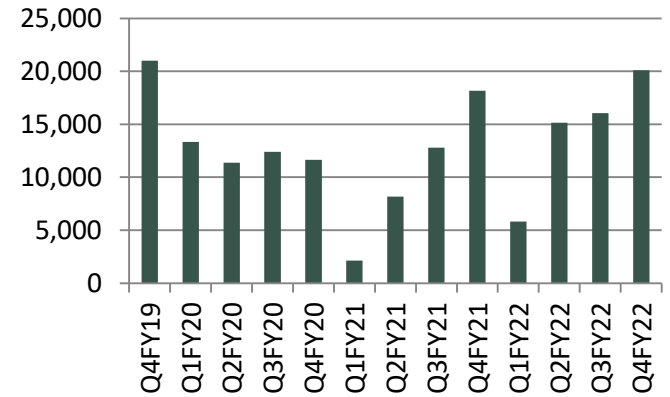
Source: Company Data.

Exhibit 5: RE Sales volumes (Exports)



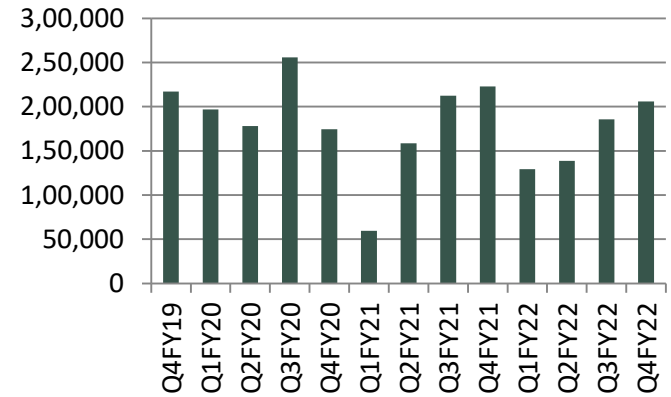
Source: Company Data.

Exhibit 6: VECV Sales volumes



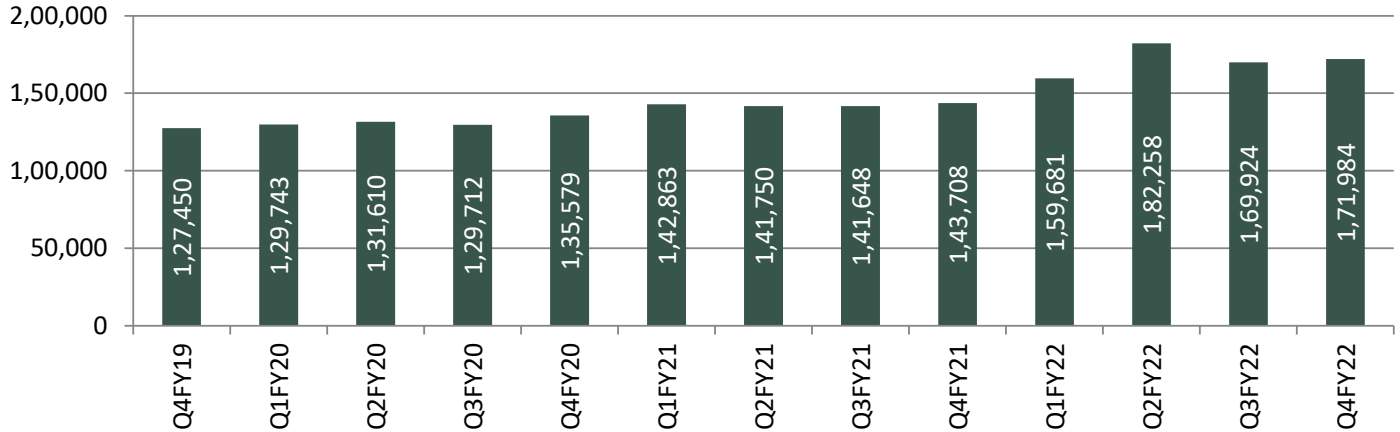
Source: Company Data.

Exhibit 7: Total Sales volumes (RE + VECV)



Source: Company Data.

Exhibit 8: Sales Realisation (in Rs)



Source: Company Data.

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	**97,971**	**91,536**	**87,204**	**1,02,978**	**1,37,376**	**1,56,392**
Change (yoy, %)	*9*	*(7)*	*(5)*	*18*	*33*	*14*
Operating expenses	(68,940)	(69,732)	(69,391)	(81,256)	(1,04,827)	(1,17,353)
EBITDA	**29,031**	**21,804**	**17,813**	**21,723**	**32,549**	**39,039**
Change (yoy, %)	*3*	*(25)*	*(18)*	*22*	*50*	*20*
Margin (%)	*29.6*	*23.8*	*20.4*	*21.1*	*23.7*	*25.0*
Depreciation	(3,003)	(3,815)	(4,507)	(4,519)	(4,877)	(5,448)
EBIT	**26,028**	**17,988**	**13,305**	**17,203**	**27,671**	**33,590**
Interest paid	(73)	(189)	(165)	(188)	(188)	(188)
Other income	4,434	5,433	4,532	4,408	5,151	6,979
Pre-tax profit	**30,214**	**23,232**	**17,673**	**21,424**	**32,634**	**40,381**
Tax	(10,770)	(5,275)	(4,515)	(5,259)	(8,159)	(10,095)
Effective tax rate (%)	*35.6*	*22.7*	*25.5*	*24.5*	*25.0*	*25.0*
Minority Interest	-	-	-	-	-	-
Net profit	**19,443**	**17,957**	**13,158**	**16,165**	**24,476**	**30,286**
Exceptional items	(175)	-	-	-	-	-
Adjusted net profit	**19,619**	**17,957**	**13,158**	**16,165**	**24,476**	**30,286**
Change (yoy, %)	*2*	*(8)*	*(27)*	*23*	*51*	*24*
EPS	72	66	48	59	90	111
Dividend per sh	13	13	17	17	26	32
Dividend Payout %	*20*	*23*	*42*	*29*	*29*	*29*

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Shareholders' funds	**89,187**	**99,809**	**114,381**	**126,080**	**144,722**	**167,659**
Share capital	273	273	273	273	273	273
Reserves & surplus	88,914	99,536	114,108	1,25,807	1,44,449	1,67,386
Total Debt	**1,868**	**1,444**	**1,574**	**588**	**588**	**588**
Other liabilities	2,555	2,056	1,702	758	758	758
Curr Liab & prov	**20,075**	**20,722**	**27,416**	**30,312**	**35,456**	**39,927**
Current liabilities	19,268	19,748	26,289	28,414	35,456	39,927
Provisions	807	974	1,128	1,898	2,532	2,882
Total liabilities	**24,497**	**24,223**	**30,692**	**31,658**	**36,802**	**41,273**
Total equity & liabilities	**113,684**	**124,032**	**145,073**	**157,738**	**184,056**	**211,815**
Net fixed assets	23,243	26,897	27,476	25,992	26,114	25,666
Investments	49,225	57,488	39,021	77,206	77,206	77,206
Other non-curr assets	-	-	-	-	-	-
Current assets	**41,216**	**39,647**	**78,576**	**54,540**	**80,735**	**108,943**
Inventories	6,334	5,724	8,746	11,324	12,483	12,781
Sundry Debtors	843	868	1,582	3,020	3,070	3,495
Cash and Bank	29,653	29,506	58,304	27,225	47,880	72,968
Loans and advances	13	1	4,592	7,237	9,654	10,991
Total assets	**113,684**	**124,032**	**145,073**	**157,738**	**184,056**	**211,815**

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Pre-tax profit	30,214	23,232	17,673	21,424	32,634	40,381
Depreciation	3,003	3,815	4,507	4,519	4,877	5,448
Tax paid	(10,770)	(5,275)	(4,515)	(5,259)	(8,159)	(10,095)
Chg in working capital	(4,945)	2,069	(3,436)	(4,148)	2,135	1,703
Other operating activities	3,935	103	(101)	1,252	2,191	-
Cash flow from operations (a)	**21,436**	**23,944**	**14,128**	**17,788**	**33,680**	**37,438**
Capital expenditure	(7,930)	(7,753)	(5,029)	(4,024)	(5,000)	(5,000)
Chg in investments	6,809	(8,263)	18,466	(38,184)	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	**(1,121)**	**(16,016)**	**13,437**	**(42,208)**	**(5,000)**	**(5,000)**
Equity raised/(repaid)	757	(3,536)	6,693	(421)	-	-
Debt raised/(repaid)	359	(423)	130	(986)	-	-
Dividend (incl. tax)	(3,898)	(4,117)	(5,590)	(4,647)	(7,148)	(8,794)
Chg in monorities	-	-	-	-	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	**(2,782)**	**(8,076)**	**1,233**	**(6,053)**	**(7,148)**	**(8,794)**
Net chg in cash (a+b+c)	**17,533**	**(147)**	**28,798**	**(30,473)**	**21,532**	**23,643**

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	327	366	419	461	529	613
Adj EPS (Rs)	*72*	*66*	*48*	*59*	*90*	*111*
Adj EPS growth (%)	*2*	*-9*	*-27*	*23*	*51*	*24*
EBITDA margin (%)	*29.6*	*23.8*	*20.4*	*21.1*	*23.7*	*25.0*
Pre-tax margin (%)	*30.8*	*25.4*	*20.3*	*20.8*	*23.8*	*25.8*
Net Debt/Equity (x)	*(0.3)*	*(0.3)*	*(0.5)*	*(0.2)*	*(0.3)*	*(0.4)*
ROCE (%)	*31*	*18*	*12*	*14*	*20*	*21*
ROE (%)	*25*	*19*	*12*	*13*	*18*	*19*
DuPont Analysis						
Asset turnover (x)	0.9	0.8	0.6	0.7	0.8	0.8
Leverage factor (x)	1.3	1.3	1.3	1.3	1.3	1.3
Net margin (%)	*20.0*	*19.6*	*15.1*	*15.7*	*17.8*	*19.4*
Working Capital & Liquidity ratio						
Inventory days	24	23	37	40	33	30
Receivable days	3	3	7	11	8	8
Payable days	65	54	81	80	75	74

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	34	37	50	41	28	23
Price/Book value (x)	7.4	6.6	5.8	5.2	4.8	4.1
EV/Net sales (x)	6	7	7	6	5	4
EV/EBITDA (x)	22	29	34	29	20	16
Dividend Yield (%)	*1*	*1*	*1*	*1*	*1*	*1*

Source: Company; IDBI Capital Research

Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com

Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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