Eicher Motors HOLD

Operationally weak quarter, Revised to HOLD

TP	Rs2,630
CMP	Rs2,638
Potential upside / downside	0%
Previous Rating	HOLD

V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	79.3	106.7
Consensus	84.6	109.1
% difference	*(6.2)*	*(2.2)*

Key Stock Data

Bloomberg / Reuters	EIM IN / EICH.BO
Sector	Automobile
Shares o/s (mn)	273
Market cap. (Rs mn)	721,212
Market cap. (US$ mn)	9,955
3-m daily avg Trd value (Rs mn)	975.7
52-week high / low	3,036 / 1,545
Sensex / Nifty	51,423 / 15,4366

Summary

Royal Enfield's (RE) Q4FY21 consolidated revenue was broadly in-line with our and consensus estimates whereas EBITDA was below our and consensus estimates on account of higher Raw material cost and other operating expenses. The falling covid cases and pickup in vaccination drive will help in normalizing the economic activity. We expect domestic 2W industry to see a double digit growth for FY22/FY23 on a low base. We build our volume growth estimates for FY22/FY23 to +18%/+15% factoring the strong recovery in 2W domestic market. We expect revenue/EBITDA/ earnings to grow at 14%/16%/17% respectively CAGR over FY20-FY23E with EBITDA margin of ~24.9% on account of rise in realization, strong traction from new product launches, healthy order book and higher exports. We value RE biz at 25x and 15x for VECV business. Due to recent fall in share price we change our rating to HOLD (earlier REDUCE) with TP of Rs2,630 (earlier Rs2,650).

Key Highlights and Investment Rationale

- **EBITDA below Estimate:** Consolidated revenue increased 33%YoY/4%QoQ to Rs29.4bn. RE volume increased 28%YoY/5%QoQ to ~222.8k units. Revenue improved on account better product mix and price hikes taken by the company. RM cost % to sales increased 70bps to 59.1%. Employee expenses increased 6%YoY/-4%QoQ to Rs2.3bn. EBITDA increased 47%YoY/-6%QoQ to Rs6.34bn. Adj. PAT increased 73% YoY/-1% QoQ to Rs5.3bn (IDBI est: Rs5.9bn).
- **VECV performance:** VECV revenue increased 43%YoY/78%QoQ to Rs37.5bn. Volumes for the quarter increased 56%YoY/42%QoQ to 12,802 units. EBITDA increased 742%YoY/42%QoQ to Rs3.2bn. Adj. PAT stood at Rs1.27bn. During the quarter company have seen strong rebound in medium and heavy duty segment on account of good pickup in economic activates and it was able to improve its market share in Heavy Duty Trucks segment, Light Medium Duty Truck segment and Bus.
- **Outlook:** The 2nd covid wave has hit harder with extended lockdown in various part of the countries affecting the supply chain and production. However pent demand for 2W is expected to come back as situation normalize. Royal Enfield with its strong exports order backlog and good booking in domestic market across various models i.e. Classic, Meteor is well placed to fill the pent-up demand. The Govt. strong push on Infrastructure and pickup in construction activity will also help in VECV recovery.

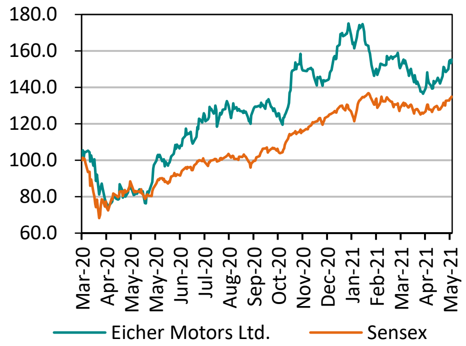
Shareholding Pattern (%)

Promoters	49.2
FII	29.1
DII	8.7
Public	13.0

Price Performance (%)

	-1m	-3m	-12m
Absolute	9.0	1.4	59.3
Rel to Sensex	3.6	(0.8)	0.8

Relative to Sensex (%)



Financial snapshot **(Rs mn)**

Year	FY2019	FY2020	FY2021	FY2022E	FY2023E
Revenue	97,971	91,536	87,204	1,11,141	1,36,917
EBITDA	29,031	21,804	17,813	26,452	34,092
EBITDA (%)	*29.6*	*23.8*	*20.4*	*23.8*	*24.9*
Adj. PAT	22,027	18,274	13,469	21,677	29,162
EPS (Rs)	80.6	66.9	49.3	79.3	106.7
EPS Growth (%)	*(88.8)*	*(17.0)*	*(26.3)*	*60.9*	*34.5*
PE (x)	31.5	38.0	51.5	32.0	23.8
Dividend Yield (%)	*0.5*	*0.5*	*0.7*	*0.5*	*0.7*
EV/EBITDA (x)	22.9	30.5	35.8	24.1	18.5
RoE (%)	*27.6*	*19.3*	*12.6*	*17.6*	*20.1*
RoCE (%)	*20.6*	*14.5*	*9.1*	*12.9*	*14.6*

Source: Company; IDBI Capital Research

Concall Takeaways:

Royal Enfield

- **Exports:** In Q4FY21, exports were 13.7K units, an increase of 72% YoY. In FY21, exports were 35.7K units, down by 8% YoY. Americas region clocked double-digit growth due to lesser lockdown.
- **Production run rate:** Production run rate remains steady in Q4. This helped reducing the waiting period from 6 months to 2-3 months. Semi-conductor remains to be a global challenge and Raw material cost is volatile. Prices of commodities including precious metals have affected margins.
- **Network:** In the long run company need to look at distribution strategy as people want bikes directly from the company.
    - **India:** In India the company has 2056+ stores in 500+ cities. The company added 104 large size stores. The company launched the studio stores concept last year and has 1000+ stores. In the last year the company added 430 studio stores despite lockdown.
    - **International:** The Company did rapid expansion in the international market. The exclusive stores went from 77 stores in 21 countries to 132 stores in 26 countries. The company did a lot of expansion in France, Thailand, Brazil, and Argentina. Royal Enfield is the first Indian automobile company to have a store in Tokyo, Japan.
- **Make it yours (MIY):** The Penetration of MIY is 80+%. Accessory level penetration has increased to 70% from 30%.
- **Digital Initiatives:** The Company has an online community of 8mn people. The share of online inquiry increased over 2.5x and online booking increased by 5x. The website visits have gone up by 66mn in FY21 Vs 29mn in FY20.
- **Price Hike:** In FY21, the company took a price increase of Rs.12K (~8% of ASP).
- **Supply Chain:** The Company is facing 3 types of supply chain issues. 1) Global chip shortage which slowly improving 2) Lockdown related supply chain issues from Pune & Delhi belt 3) Tamil Nadu lockdown where only bus production was allowed 2W not allowed. The company announced 3 days of plant closure from 27th May to 30th May. The Company used the last 1 year for finding alternating sources and as the supply chain relaxes it will bounce back. Insourcing was also done.

- **Outlook:** The management expects the covid curve to flatten by the middle of June and from July demand will start coming back. Consumer sentiment due to 2nd covid waves. In Tamil Nadu, it has hit pick and going down. It will further go down in 2 weeks. Maharashtra and Delhi continue to lockdown and hence dealerships are closed.

- **VECV:**

- **Volume:** The Company sold 18.2K units of trucks and buses in Q4FY21. For FY21, the company sold 41.3K units; -15% decline YoY Vs -30% decline in Industry. Export volume up by 10% YoY.
- **Market Share:** VECV gain market share across segments and in Heavy Duty Segment grew 6% in FY21 Vs industry de-growth of 21%. The Company has a gain market share on the back of the successful inception of the BSVI range.
  - **Light Medium Duty (LMD):** The company gain market share from 29.8% to 30.6%
  - **Heavy Duty Truck segment:** The Company gains the highest ever market share from 5.9% to 7.9%.
  - **Bus Segment:** The company gain market share from 14.1% to 19.9%
- **Outlook:** The situation will normalize as the economy recovers. A good monsoon forecast, government infrastructure focus, positive policy stance should support the CV demand in coming years.

Exhibit 1: Quarterly Snapshot

Rs mn (Consolidated)	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)	FY21	FY20	YoY (%)
Volumes	**2,22,760**	**1,74,499**	**2,12,470**	***27.7***	***4.8***	**6,53,310**	**7,44,560**	***(12.3)***
Net Revenue	**29,403**	**22,082**	**28,283**	***33.2***	***4.0***	**87,204**	**91,536**	***(4.7)***
Expenditure	**23,059**	**17,760**	**21,562**	***29.8***	***6.9***	**69,391**	**69,732**	***(0.5)***
as % of sales	*78.4*	*80.4*	*76.2*	*(200.4)*	*218.5*	*79.6*	*76.2*	
Consumption of RM	17,391	12,439	16,505	*39.8*	*5.4*	51,128	49,959	*2.3*
as % of sales	*59.1*	*56.3*	*58.4*	*281.6*	*79.2*	*58.6*	*54.6*	
Employee Cost	2,254	2,136	2,335	*5.5*	*(3.5)*	8,432	7,958	*6.0*
as % of sales	*7.7*	*9.7*	*8.3*	*(200.8)*	*(59.2)*	*9.7*	*8.7*	
Other expenditure	3,415	3,185	2,723	*7.2*	*25.4*	9,831	11,815	*(16.8)*
as % of sales	*11.6*	*14.4*	*9.6*	*(281.2)*	*198.6*	*11.3*	*12.9*	
EBITDA	**6,344**	**4,322**	**6,720**	***46.8***	***(5.6)***	**17,813**	**21,804**	***(18.3)***
Depreciation	1,248	1,089	1,229	*14.6*	*1.5*	4,507	3,815	*18.1*
EBIT	**5,096**	**3,233**	**5,491**	***57.6***	***(7.2)***	**13,305**	**17,988**	***(26.0)***
Other Income	1,139	1,431	1,250	*(20.4)*	*(8.9)*	4,532	5,433	*(16.6)*
Interest	39	55	36	*(28.8)*	*9.4*	165	189	*(12.9)*
PBT	**6,196**	**4,609**	**6,706**	***34.4***	***(7.6)***	**17,673**	**23,232**	***(23.9)***
Total Tax	1,625	1,426	1,694	*14.0*	*(4.1)*	4,515	5,275	*(14.4)*
Adjusted PAT	**4,571**	**3,183**	**5,012**	***43.6***	***(8.8)***	**13,158**	**17,957**	***(26.7)***
(Profit)/loss from JV's/Ass/MI	(690)	140	(314)	*(592.5)*	*119.9*	(311)	(317)	*(1.8)*
Adjusted PAT after MI	**5,261**	**3,043**	**5,326**	***72.9***	***(1.2)***	**13,469**	**18,274**	***(26.3)***
Extra ordinary items Loss/(Gain)	-	-	-	*NA*	*NA*	-	-	*NA*
Reported PAT	**5,261**	**3,043**	**5,326**	***72.9***	***(1.2)***	**13,469**	**18,274**	***(26.3)***
Adjusted EPS	**19.3**	**11.2**	**19.5**	***71.9***	***(1.2)***	**49.3**	**67.2**	***(26.6)***
Margins (%)								
EBIDTA	*21.6*	*19.6*	*23.8*	*200*	*(219)*	*20.4*	*23.8*	*(339)*
EBIT	*17.3*	*14.6*	*19.4*	*269*	*(208)*	*15.3*	*19.7*	*(439)*
EBT	*21.1*	*20.9*	*23.7*	*20*	*(264)*	*20.3*	*25.4*	*(511)*
PAT	*17.9*	*13.8*	*18.8*	*411*	*(94)*	*15.4*	*20.0*	*(452)*
Effective Tax rate	*26.2*	*30.9*	*25.3*	*(472)*	*96*	*25.5*	*22.7*	*284*

Source: Company; IDBI Capital Research

Exhibit 2: VECV Quarterly Performance

Rs mn	Q4FY21	Q4FY20	Q3FY21	*YoY (%)*	*QoQ (%)*	FY21	FY20	*YoY (%)*
Volume	18,152	11,629	12,802	*56.1*	*41.8*	*41,250*	*48,721*	*(15.3)*
Revenue	36,520	21,010	26,800	*78.2*	*43.2*	*86,760*	*85,240*	*1.8*
EBITDA	3,160	380	2,305	*742.1*	*41.6*	*5,920*	*4,010*	*47.6*
Reported PAT	690	(260)	580	*(604.0)*	*122.8*	*570*	*588*	*(3.1)*
EPS	69	(26)	58	*(604.0)*	*122.8*	*57*	*59*	*(3.1)*
Margins (%)								
EBIDTA	*8.7*	*6.4*	*8.6*	*674*	*(9)*	*6.8*	*4.7*	*212*
PAT	*1.9*	*1.4*	*2.2*	*459*	*121*	*9.6*	*14.7*	*(503)*

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. Estimates

(Rs mn)	Actual	IDBI Est	*% Variance*	Consensus	*% Variance*
Net sales	29,403	29,709	*(1.0)*	29,036	*1.3*
EBITDA	6,344	6,860	*(7.5)*	6,556	*(3.2)*
Margin (%)	*21.6*	*23.1*	*(151) bps*	*22.6*	*(100) bps*
Adj net income	5,261	5,856	*(10.1)*	5,660	*(7.0)*
FDEPS (Rs)	19.3	21.4	*(10.1)*	20.6	*(6.3)*

Source: Bloomberg; IDBI Capital Research

Exhibit 4: Change in estimates

	FY22E			FY23E		
(Rs mn)	Earlier	Revised	*% Change*	Earlier	Revised	*% Change*
Revenues	1,11,310	1,11,141	*(0.2)*	1,33,505	1,36,917	*2.6*
EBITDA	24,933	26,452	*6.1*	32,041	34,092	*6.4*
Margin (%)	*22.4%*	*23.8%*	*140 bps*	*24.0%*	*24.9%*	*90 bps*
Net Profit	22,439	21,677	*(3.4)*	28,917	29,162	*0.8*
FDEPS	82.1	79.3	*(3.4)*	105.8	106.7	*0.8*

Source: IDBI Capital Research

Exhibit 5: Domestic Royal Enfield region wise and Top 10 state wise sales mix (%)

	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Region Wise												
North	32	30	33	35	34	29	36	31	33	27	33	29
East	16	16	18	16	17	17	17	16	15	17	19	17
West	19	18	22	18	17	19	22	20	15	19	21	21
South	34	35	27	31	31	34	25	33	36	36	27	33
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Top 10 State Wise Sales												
Maharashtra	7	7	9	7	7	7	9	9	4	7	9	9
Kerala	11	11	9	10	10	11	9	9	11	9	8	9
Tamil Nadu	10	10	5	9	8	9	5	10	9	10	6	9
Karnataka	6	6	5	5	6	6	5	5	7	6	5	5
U.P.	12	10	11	15	17	9	13	13	13	10	14	11
Punjab	5	6	7	7	5	6	7	6	6	5	6	6
Delhi	7	7	7	4	4	6	7	6	5	5	6	5
Gujarat	4	4	4	3	3	4	4	3	4	4	4	4
Andhra Prad.	3	4	3	3	3	3	3	4	4	6	5	5
Rajasthan	3	3	4	3	3	3	4	3	2	3	3	3

Source: SIAM; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net sales	**91,536**	**87,204**	**1,11,141**	**1,36,917**
growth (%)	*(6.6)*	*(4.7)*	*27.5*	*23.2*
Operating expenses	(69,732)	(69,391)	(84,690)	(1,02,825)
EBITDA	**21,804**	**17,813**	**26,452**	**34,092**
growth (%)	*(24.9)*	*(18.3)*	*48.5*	*28.9*
Depreciation	(3,815)	(4,507)	(4,933)	(5,508)
EBIT	**17,988**	**13,305**	**21,518**	**28,584**
Interest paid	(189)	(165)	(160)	(160)
Other income	5,433	4,532	5,538	7,277
Pre-tax profit	**23,232**	**17,673**	**26,897**	**35,701**
Tax	(5,275)	(4,515)	(6,724)	(8,925)
Effective tax rate (%)	*22.7*	*25.5*	*25.0*	*25.0*
Minority Interest	317	311	1,505	2,387
Net profit	**18,274**	**13,469**	**21,677**	**29,162**
Adjusted net profit	**18,274**	**13,469**	**21,677**	**29,162**
growth (%)	*(17.0)*	*(26.3)*	*60.9*	*34.5*
Shares o/s (mn nos)	*273*	*273*	*273*	*273*

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Pre-tax profit	23,232	17,673	26,897	35,701
Depreciation	2,777	6,448	4,933	5,508
Tax paid	(5,492)	(4,822)	(6,724)	(8,925)
Chg in working capital	1,245	(1,633)	4,479	3,116
Other operating activities	(4,820)	(530)	(1,872)	(2,820)
Cash flow from operations (a)	**16,941**	**17,136**	**27,713**	**32,580**
Capital expenditure	(6,430)	(7,027)	(4,959)	(5,000)
Chg in investments	(8,263)	18,466	(23,000)	(23,000)
Other investing activities	(391)	(27,920)	3,536	5,367
Cash flow from investing (b)	**(15,084)**	**(16,480)**	**(24,422)**	**(22,633)**
Equity raised/(repaid)	439	-	-	-
Debt raised/(repaid)	(423)	130	-	-
Dividend (incl. tax)	(3,415)	(4,644)	(3,476)	(4,702)
Chg in minorities	317	311	1,505	2,387
Other financing activities	(5,500)	4,187	(1,665)	(2,547)
Cash flow from financing (c)	**(8,583)**	**(17)**	**(3,636)**	**(4,862)**
Net chg in cash (a+b+c)	**(6,725)**	**639**	**(346)**	**5,084**

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net fixed assets	26,897	27,476	27,501	26,993
Investments	57,488	39,021	62,021	85,021
Other non-curr assets	(1,030)	(450)	(450)	(450)
Current assets	**38,621**	**77,324**	**75,527**	**82,522**
Inventories	5,724	8,746	7,811	9,474
Sundry Debtors	868	1,582	1,066	1,313
Cash and Bank	29,506	58,304	57,958	63,042
Marketable Securities	-	-	-	-
Loans and advances	1	4,592	4,592	4,592
Total assets	**1,21,976**	**1,43,371**	**1,64,600**	**1,94,086**
Shareholders' funds	**99,810**	**1,14,381**	**1,32,582**	**1,57,042**
Share capital	273	273	273	273
Reserves & surplus	99,536	1,14,108	1,32,308	1,56,769
Total Debt	**1,444**	**1,574**	**1,574**	**1,574**
Secured loans	-	-	-	-
Unsecured loans	1,444	1,574	1,574	1,574
Other liabilities	-	-	-	-
Curr Liab & prov	**20,722**	**27,416**	**30,444**	**35,470**
Current liabilities	19,748	26,289	25,795	29,548
Provisions	974	1,128	4,649	5,922
Total liabilities	**22,166**	**28,990**	**32,018**	**37,044**
Total equity & liabilities	**1,21,976**	**1,43,371**	**1,64,600**	**1,94,086**
Book Value (Rs)	**365**	**419**	**485**	**575**

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	66.9	49.3	79.3	106.7
Adj. EPS growth (%)	*(17.0)*	*(26.3)*	*60.9*	*34.5*
EBITDA margin (%)	*23.8*	*20.4*	*23.8*	*24.9*
Pre-tax margin (%)	*25.4*	*20.3*	*24.2*	*26.1*
ROE (%)	*19.3*	*12.6*	*17.6*	*20.1*
ROCE (%)	*14.5*	*9.1*	*12.9*	*14.6*
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.8	0.7	0.7	0.8
Leverage factor (x)	1.2	1.2	1.2	1.2
Net margin (%)	*20.0*	*15.4*	*19.5*	*21.3*
Net Debt/Equity (x)	(0.3)	(0.5)	(0.4)	(0.4)
Working Capital & Liquidity ratio				
Inventory days	23	37	26	25
Receivable days	3	7	4	4
Payable days	94	116	93	90

Valuation

Year-end: March	FY20	FY21E	FY22E	FY23E
P/E (x)	38.0	51.5	32.0	23.8
Price / Book value (x)	6.9	6.1	5.2	4.4
PCE (x)	31.4	38.6	26.1	20.0
EV / Net sales (x)	7.3	7.3	5.7	4.6
EV / EBITDA (x)	30.5	35.8	24.1	18.5
Dividend Yield (%)	*0.5*	*0.7*	*0.5*	*0.7*

Notes

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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Disclaimer

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