



TM

Eicher Motors

12 August 2021

RESULT UPDATE

Sector: Auto **Rating:** HOLD
CMP: Rs 2,615 **Target Price:** Rs 2,800

Stock Info

Sensex/Nifty	54,184 / 16,182
Bloomberg	EIM IN
Equity shares	27.2 mn
52-wk High/Low	Rs 3,035 / 2,007
Face value	Rs 1
M-Cap	Rs 739bn/ USD 9.9bn
3-m Avg volume	USD 39.6mn

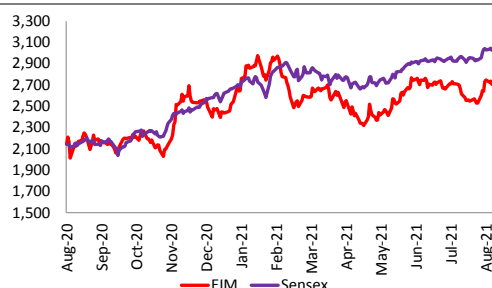
Financial Snapshot (Rs mn)

Y/E March	FY21	FY22E	FY23E
RE Volume growth (%)	-12	15	21
Net Sales	87,204	104,883	126,915
EBIDTA	17,813	22,013	30,542
PAT	13,469	20,663	29,431
EPS (Rs)	49	76	108
PE (x)	53.0	34.5	24.2
EV/EBITDA (x)	29.7	21.5	14.9
RoE (%)	13	18	25
RoCE (%)	16	20	27
Dividend yield (%)	0.7	0.7	0.7

Shareholding pattern (%)

	Jun'21	Mar'21	Dec'20
Promoter	49.2	49.3	49.3
-Pledged	-	-	-
FII	28.8	29.1	28.9
DII	9.6	9.2	9.5
Others	12.4	12.4	12.3

Stock Performance (1-year)



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Supply chain constraints continue

Eicher Motors (EIM) 1QFY22 EBITDA margin at 17.5% was below consensus and our estimates as operating deleverage hurt profitability. VECV margin was also weak at 1.1%. For Royal Enfield (RE), the management indicated that it is facing supply chain constraints due to the second wave of COVID-19 and the shortage of semiconductors. This has also led to a delay in the launch of the new *Classic 350* ([spy images](#)). Demand has started to improve with the lifting of local lockdowns and the management is focusing on mitigating the supply chain constraints. Network expansion & improved product portfolio in the export markets is yielding positive results; exports now account for >10% of the topline vs. 3% five years back. We lower our FY22/23 estimates by 14%/5% to factor in the weak 1Q performance. We also downgrade the stock to HOLD given limited upside (EIM has outperformed the sector pack by 7%). Our target price of Rs 2,800 is based on 26x FY23E PER.

Con-call takeaways:

- **RE demand scenario:** Demand has started to improve with the lifting of local lockdowns. Supply chain constraints may however restrict volume growth; this has also led to a delay in launching the new *Classic 350*. Export demand remains robust (up 28% QoQ); exports accounted for ~10% of the overall FY21 revenue. The recently launched *Meteor 350* has been received well in the international markets as well.
- **Production/supply constraints:** The industry-wide shortage of chips/semiconductors continues to impact production. The management is working on developing alternate sources for semi-conductors and expects a gradual improvement in the situation over the fiscal.
- **MIY (Make it Yours) app gaining traction; non-motorcycle business growing:** The management highlighted that RE's MIY app penetration is increasing and ~80% of bookings now come through the app. It is also driving the sales of apparels and accessories for the company. The management targets to increase the contribution of its merchandise/accessory sales to 20% in the long run.
- **RM costs and price hikes:** Given the consistent increase in raw material costs, RE took another price increase in July. It has been able to pass on the entire RM cost inflation till now. It expects commodity prices to keep trending upwards over the next few quarters; however, the increase is expected to be in low single digits.
- **Network expansion:** RE's total number of touch-points as of end-1Q stood at 2,071, including 1,038 studio stores. It expanded its exclusive store count in international markets to 140 across 36 countries (8 stores added in 1Q). Network expansion in the international markets remains a key focus area for EIM and it plans to reach ~175 stores by the end of the fiscal.
- **VECV performance:** VECV reported revenue of Rs 16bn (-55% YoY) and EBITDA of Rs 180 mn (-94% QoQ, margin at 1.1%) in 1Q. With the economy re-opening, the management expects VECV to perform better sequentially in 2Q.

Outlook and valuation: We estimate EIM to deliver revenue/EBITDA/PAT CAGRs of 21%/31%/38% between FY21-23E. The success of the new platforms can lead to earnings upgrades. At the CMP, the stock trades at 24.2x PER and 14.9x EV/EBITDA on FY23E.

Exhibit 1: Reported numbers vs. expectations

Rs mn	Reported	Est	Var %	Consensus	Var %
Net Sales	19,743	21,802	(9.4)	18,335	7.7
EBITDA	3,630	4,346	(16.5)	3,608	0.6
EBITDA Margin (%)	18.4	19.9	(155)	19.7	(129)
Adj PAT	2,371	3,028	(21.7)	2,313	2.5
Adj EPS	87.5	111.3	(21.4)	85.0	2.9

Source: Company, Systematix Institutional Research

Exhibit 2: Standalone quarterly performance

Standalone (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)
Net Sales	7,692	21,233	28,041	29,224	19,078	148.0	(34.7)
- Consumption of Raw Material	4,759	12,250	16,569	17,446	11,333	138.1	(35.0)
(% of Net Sales)	61.9	57.7	59.1	59.7	59.4	171	(29)
- Staff Expenditure	1,693	1,976	2,229	2,142	2,124	25.5	(0.9)
(% of Net Sales)	22.0	9.3	7.9	7.3	11.1	183	380
- Other Expenditure	1,228	2,169	2,664	2,951	2,276	85.3	(22.9)
(% of Net Sales)	16.0	10.2	9.5	10.1	11.9	171	183
Total Expenditure	7,680	16,395	21,461	22,539	15,733	104.9	(30.2)
EBITDA	12	4,838	6,580	6,685	3,345	28,008.4	(50.0)
EBITDA Margin (%)	0.2	22.8	23.5	22.9	17.5	(525)	(534)
Depreciation	971	1,036	1,219	1,234	1,105	13.8	(10.5)
EBIT	-959	3,802	5,362	5,451	2,240	(333.5)	(58.9)
Interest	30	18	22	22	19	(37.0)	(14.9)
Other Income	1,153	998	1,241	1,129	1,340	16.2	18.7
PBT	163	4,782	6,580	6,557	3,561	2,079.2	(45.7)
Tax	40	1,173	1,696	1,627	889	2,099.8	(45.4)
Tax Rate (%)	24.7	24.5	25.8	24.8	25.0	42	15
PAT	123	3,609	4,885	4,931	2,672	2,072.4	(45.8)
EPS (Rs)	4.5	133.2	180.2	172.7	98.6	2,072.4	(42.9)
Total Volumes (In Nos)	57,269	150,519	199,668	204,604	149,644	161.3	(26.9)
Net Realisation (Rs)	134,315	141,063	140,439	142,834	127,489	(5.1)	(10.7)
EBITDA / Vehicle (Rs)	208	32,141	32,956	32,673	22,352	10,657.1	(31.6)

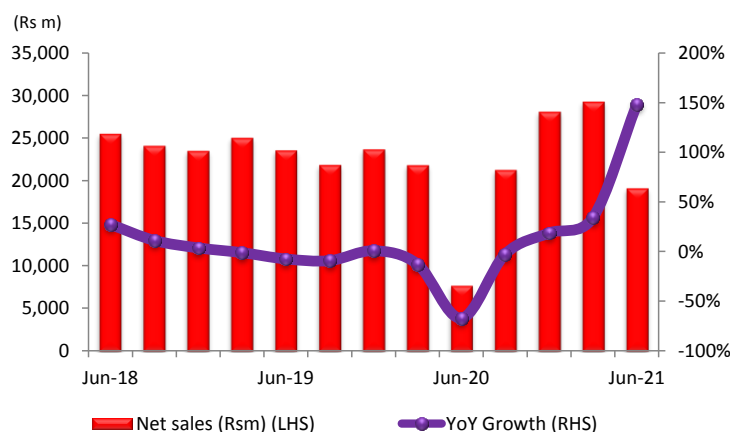
Source: Company, Systematix Institutional Research

Exhibit 3: VECV quarterly performance

VECV (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)
Net Sales	6,410	17,030	26,150	36,020	16,390	155.7	(54.5)
EBITDA	-720	1,180	2,260	3,200	180	(125.0)	(94.4)
EBITDA Margin (%)	-11.2	6.9	8.6	8.9	1.1	(583)	(779)
PAT	-1,200	-70	-70	1,270	-720	(40.0)	(156.7)
Total Volumes (In Nos)	1,528	8,167	12,802	18,167	5,806	280.0	(68.0)
Net Realisation (Rs)	4,195,026	2,085,221	2,042,650	1,982,716	2,822,942	(32.7)	42.4
EBITDA / Vehicle (Rs)	-471,204	144,484	176,535	176,144	31,002	(106.6)	(82.4)

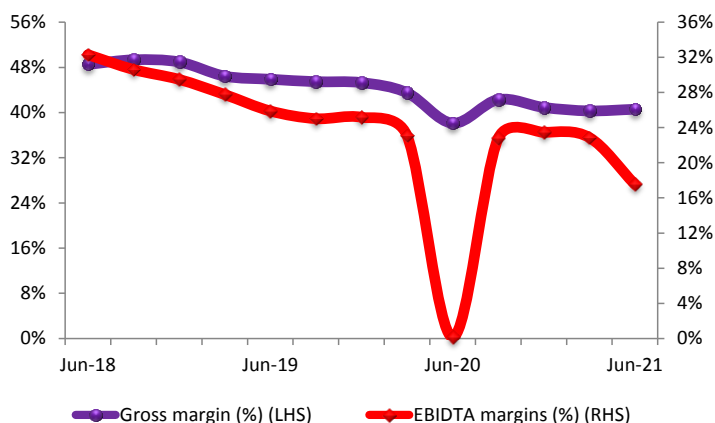
Source: Company, Systematix Institutional Research

Exhibit 4: Revenues & YoY growth trend



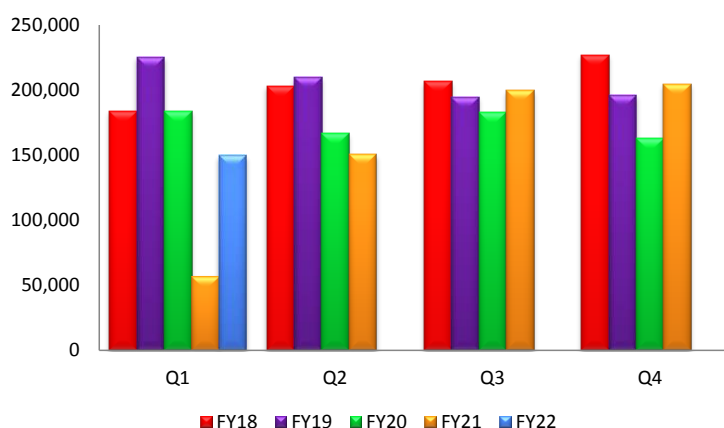
Source: Company, Systematix Institutional Research

Exhibit 5: Gross margin & EBITDA margin trend



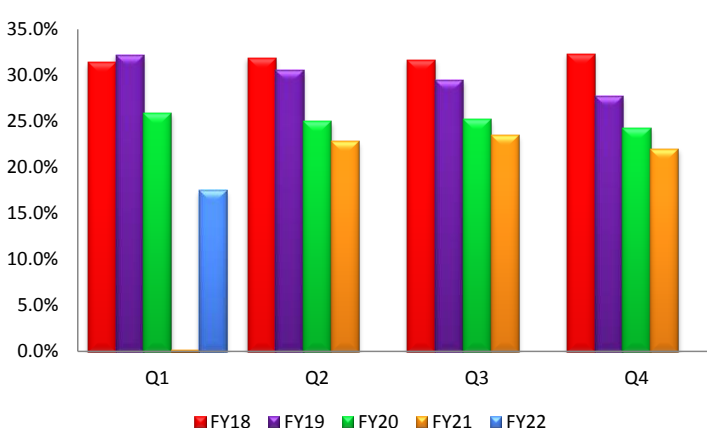
Source: Company, Systematix Institutional Research

Exhibit 6: Quarterly volume trend



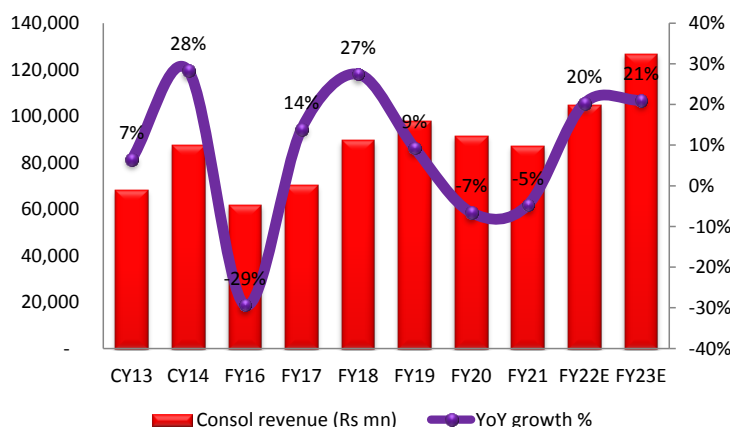
Source: Company, Systematix Institutional Research

Exhibit 7: Quarterly EBITDA margin trend



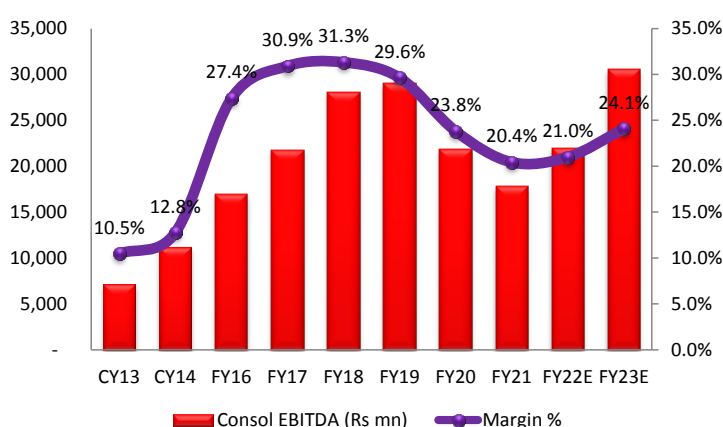
Source: Company, Systematix Institutional Research

Exhibit 8: Annual consolidated revenue & YoY growth (RHS)



Source: Company, Systematix Institutional Research

Exhibit 9: Annual consolidated EBITDA & EBITDA margin (RHS)



Source: Company, Systematix Institutional Research

Exhibit 10: Annual RE & VECV volume & growth trend

Volumes (units)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Royal Enfield	666,490	820,493	826,098	695,839	612,060	702,164	848,906
YoY growth %	11%	23%	1%	-16%	-12%	15%	21%
VECV	58,332	66,171	73,481	49,058	40,664	56,898	70,468
YoY growth %	-6%	13%	11%	-33%	-17%	40%	24%

Source: Company, Systematix Institutional Research

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	97,971	91,536	87,204	104,883	126,915
Growth, %	9	(7)	(4)	20	21
RM expenses	-50,574	-49,959	-51,128	-60,098	-72,342
Employee expenses	-7,024	-7,958	-8,432	-7,342	-8,884
Other expenses	-11,341	-11,815	-9,831	-15,431	-15,147
EBITDA	29,031	21,804	17,813	22,013	30,542
Growth, %	3	(25)	(18)	24	39
Margin, %	29.6	23.8	20.4	21.0	24.1
Depreciation	-3,002	-3,815	-4,507	-4,570	-5,043
EBIT	26,029	17,988	13,305	17,442	25,499
Growth, %	1	(31)	(26)	31	46
Margin, %	26.6	19.7	15.3	16.6	20.1
Interest paid	-73	-189	-165	-97	-101
Other Income	4,433	5,433	4,532	6,142	7,460
Non-recurring Items	(175)	0	0	0	0
Pre-tax profit	30,389	23,232	17,673	23,488	32,858
Tax provided	-10,770	-5,275	-4,515	-5,637	-7,839
Profit after tax	19,619	17,957	13,158	17,851	25,019
Others (Minorities, Associates)	2,584	317	311	2,812	4,413
Net Profit	22,028	18,274	13,469	20,663	29,431
Growth, %	12	(17)	(26)	53	42
Net Profit (adjusted)	22,203	18,274	13,469	20,663	29,431

Source: Company, Systematix Institutional Research;

Balance Sheet

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Cash & bank	29,653	29,506	58,304	68,296	83,333
Marketable securities cost	0	0	0	0	0
Debtors	903	868	1,582	3,117	3,772
Inventory	6,334	5,724	8,746	9,359	11,325
Loans & advances	13	1	4,592	5,280	6,072
Other current assets	4,497	4,014	5,866	6,477	7,449
Total current assets	41,400	40,113	79,089	92,530	111,952
Investments	49,225	57,488	39,021	25,560	31,950
Gross fixed assets	35,165	44,010	49,075	45,778	50,278
Less: Depreciation	-16,419	-20,235	-24,742	-21,615	-26,658
Add: Capital WIP	4,497	3,122	3,143	3,102	3,102
Net fixed assets	18,746	23,775	24,333	24,163	23,620
Total assets	113,868	124,497	145,586	145,354	170,623
Current liabilities	19,268	19,748	26,289	32,212	38,416
Provisions	807	974	1,128	1,235	1,359
Total current liabilities	20,075	20,722	27,416	31,401	37,123
Non-current liabilities	2,739	2,522	2,215	2,211	2,211
Total liabilities	22,814	23,244	29,631	33,613	39,335
Paid-up capital	273	273	273	273	273
Reserves & surplus	88,914	99,536	114,108	109,372	128,815
Shareholders' equity	89,187	99,809	114,381	109,645	129,088
Total equity & liabilities	113,868	124,497	145,586	143,309	167,972

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Pre-tax profit	30,389	23,232	17,673	23,488	32,858
Depreciation	3,002	3,815	4,507	4,570	5,043
Chg in working capital	-4,720	1,788	-3,484	536	1,337
Total tax paid	-10,770	-5,275	-4,515	-5,637	-7,839
CFO	13,541	18,317	9,813	16,912	24,041
Capital expenditure	-7,890	-7,383	-5,028	-4,459	-4,500
Chg in investments	0	0	0	0	1
Chg in marketable securities	6,583	-8,262	18,466	13,462	-6,391
CFI	3,126	-10,213	17,971	15,145	-3,430
Free cash flow	5,651	10,934	4,786	12,453	19,542
Debt raised/(repaid)	359	-423	130	-1,348	0
Dividend (incl. tax)	0	0	0	0	0
CFF	-3,703	-4,605	-5,470	-7,201	-6,177
Net chg in cash	12,964	3,499	22,313	24,856	14,434
Opening cash balance	12,120	29,653	29,506	58,304	68,296
Closing cash balance	29,653	29,506	58,304	68,296	83,333

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY19	FY20	FY21	FY22E	FY23E
EPS (INR)	81	67	49	76	108
PER (x)	32.1	39.0	53.0	34.5	24.2
Price/Book (x)	8.0	7.1	6.2	6.5	5.5
EV/EBITDA (x)	18.6	26.3	29.7	21.5	14.9
EV/Net sales (x)	7.0	7.5	7.5	6.2	5.0
RoE (%)	28	19	13	18	25
RoCE (%)	36	24	16	20	27
Fixed Asset turnover (x)	2.8	2.1	1.8	2.3	2.5
Dividend Yield (%)	0.5	0.5	0.7	0.7	0.7
Receivable (days)	3	3	7	11	11
Inventory (days)	34	30	46	41	43
Payable (days)	102	103	138	133	135
Revenue Growth (%)	9	(7)	(4)	20	21
EBITDA Growth (%)	3	(25)	(18)	24	39
EPS Growth, %	2	(18)	(26)	53	42
Net D/E ratio (x)	(0.3)	(0.3)	(0.5)	(0.6)	(0.6)

Source: Company, Systematix Institutional Research

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Analyst holding in the stock	No
Served as an officer, director or employee	No

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SELL (S): The stock's total return is expected to give negative returns of more than 15% over the next 12 months.

NOT RATED (NR): The analyst has no recommendation on the stock under review.

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ATTRACTIVE (AT): Fundamentals/valuations of the sector are expected to be attractive over the next 12-18 months.

NEUTRAL (NL): Fundamentals/valuations of the sector are expected to neither improve nor deteriorate over the next 12-18 months.

CAUTIOUS (CS): Fundamentals/valuations of the sector are expected to deteriorate over the next 12-18 months.

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