



Eicher Motors Ltd

Operational beat, picking up the pace in right lane!

Q4FY22 EBITDA margin surpassed expectations on account of the benefits accrued from the stability in RMC, price increase, better geographic & product mix. EBITDA/unit (Rs) increased by 33% YoY to Rs 41.6K in Q4FY22 is an indication of superior operational performance. Domestic bookings continue to remain strong, exports more than doubled in FY22 with optimistic outlook ahead, supplies are improving consecutively since last four quarters & a gradual improvement will continue QoQ due to addition of suppliers & alternate sourcing. We see much positivity ahead across parameters; demand/supply/margins are picking-up pace in the right lane. Moreover, there is no threat of electrification in the mid-term & VECV performance is icing on the cake. We have a long-term positive view on Eicher Motors and is our top pick in the 2W space. Strongly recommend BUY!

Healthy domestic bookings, supply improvement is real & new model introduction is happening

- Volumes inched up from 122K units in Q1FY22 to 182K units in Q4FY22. Our checks & management too indicated that the supply situation, which was the biggest hurdle, is showing better days ahead.
- Monthly bookings run-rate is healthy. Royal Enfield now has a range of products starting with Meteor, Himalayan, Bullet, new Classic, Interceptor & Continental GT and newly introduced Scram 411. Further strong products in the pipeline will be able to deal with the competition.
- RE is following Maruti's footsteps in expanding its network. Dealer network increased by 4x in six years to 2,118 stores. We believe no premium motorcycle player has such a wide & deep reach.

Exports more than doubled, opportunity ahead is enormous

- Posted 108% YoY exports growth in FY22, growing in the toughest markets in the world viz. Europe and the US and made space for RE globally. Improved share in the US, EU & APAC region.
- RE models are winning awards in the Euro zone, the market is huge over there & people are liking Royal Enfield's motorcycle. Continue to expand its reach in existing & new markets, which will keep the growth momentum ongoing.

VECV business outperforming the industry, exciting times ahead

- VECV MHCV has been gaining share in domestic from just 11% in FY19 to 16% in FY22 majorly due to its wide CNG products range, which is a red-hot growth segment in the market at present.
- Fast gaining share in exports from 15% in FY19 to 20% in FY22. The long-term historic trend is encouraging as its share was just 5% in FY08.
- The industry is picking up & seeing a good recovery. QoQ volumes as well as margins will only get better from hereon. VECV in its best days, business-outperforming industry.

Long term positive view, trading at a reasonably attractive valuation

- Operating leverage, better mix and VAVE to support in margin improvement in the coming years.
- Trading at striking good valuation of 22.4x FY24e EPS. We have valued RE's FY24e EPS at 27x and assigned 10x to FY24e EBITDA of VECV (54.4% Eicher's share) to arrive at a **target price of 2,922**, seeking an upside of 20%. **Strongly recommend BUY!**

Y/E Mar (Rs Mn)	Q4 FY22	Q4 FY21	YoY (%)	Q3 FY22	QoQ (%)	Q4 FY22e	Var. (%)
Volumes (No)	1,82,125	2,03,343	(10.4)	1,67,664	8.6	1,82,125	-
Core realization (Rs)	1,72,422	1,44,140	19.6	1,68,646	2.2	1,72,862	(0.3)
EBITDA/unit (Rs)	41,568	31,198	33.2	34,734	19.7		
Total Income	31,933	29,403	8.6	28,807	10.9	31,875	0.2
Gross margin (%)	43.7	40.9	287 bps	40.3	343 bps	-	-
EBITDA	7,571	6,344	19.3	5,824	30.0	7,142	6.0
EBITDA margin (%)	23.7	21.6	213 bps	20.2	349 bps	22.4	130 bps
Other income	1,180	1,139	3.6	921	28.1	-	-
PBT	8,063	6,886	17.1	5,929	36.0	-	-
Taxes paid	1,962	1,625	20.7	1,368	43.4	-	-
Effective tax rate (%)	24.3	23.6	74 bps	23.1	125 bps	-	-
Reported PAT	6,101	5,261	16.0	4,561	33.8	5,966	2.3
PAT margin (%)	19.1	17.9	121 bps	15.8	327 bps	18.7	39 bps

Source: Company, SMIFS institutional research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY20	91,536	-6.6%	21,804	23.8%	18,274	-17.0%	67	19.3	18.8	28.3	20.8
FY21	87,204	-4.7%	17,813	20.4%	13,469	-26.3%	49	12.6	12.2	49.4	29.2
FY22	1,02,978	18.1%	21,723	21.1%	16,766	24.5%	61	13.9	13.4	39.7	28.9
FY23e	1,20,520	17.0%	27,838	23.1%	23,181	38.3%	85	17.3	15.4	28.7	20.4
FY24e	1,40,026	16.2%	33,607	24.0%	29,741	28.3%	109	19.7	16.3	22.4	16.4

Source: Company, SMIFS institutional research estimates

Rating: **Buy** Upside/(Downside): **20.0%**
 Current Price: **2,436** Target Price: **2,922**

Earlier recommendation

Previous Rating: Buy
 Previous Target Price: 3,345

Market data

Bloomberg:	EIM IN
52-week H/L (Rs):	2,995/2,110
Mcap (Rs bn/USD bn):	666/8.6
Shares outstanding (mn):	273
Free float:	51.0%
Daily vol. (3M Avg):	0.75mn
Face Value (Rs):	1
Group:	Nifty 50

Source: Bloomberg, SMIFS institutional research

Shareholding pattern (%)

	Mar-22	Dec-21	Sep-21	Jun-21
Promoter	49.2%	49.2%	49.2%	49.2%
FIIs	29.2%	29.5%	30.3%	28.8%
DIIs	10.0%	9.8%	8.8%	9.6%
Public/others	11.6%	11.5%	11.7%	12.4%

Source: BSE

Price performance (%) *

	1M	3M	12M	36M
Nifty 50	-10%	-9%	7%	42%
EIM	-2%	-6%	-1%	30%

* As on 13th May 2022; Source: AceEquity, SMIFS research

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Q4FY22 – Key takeaways from the management call

Domestic & new launches

- ✓ The new Classic 350cc motorcycle remain the highest sold motorcycle in the middleweight segment. Received positive response for Scram 411. Meteor continues to receive global awards.
- ✓ Improved market share in 125cc+ motorcycle segment from ~29% in Q4FY21 to ~33% in Q4FY22 and has 90%+ share in 250cc+ motorcycle segment.
- ✓ Have strong products pipeline, confident of getting upgraders in RE's fold. Good overall work is ongoing and people will be willing to pay for exciting bikes.
- ✓ The industry demand is gradually improving towards normalization, RE's bookings are higher and once production comes up, sales numbers will go up.

Exports

- ✓ Reported 108% YoY growth in FY22, growing in the toughest markets in the world like Europe and the US and made space for RE globally.
- ✓ Strengthened it's global presence by setting up two CKD plants in Colombia and Thailand. Apart from already established CKD units in Argentina and Buenos Aires.
- ✓ Through these CKD units, RE is distributing its products to all other countries in Latin America and South-East Asia.
- ✓ With the expansion in Singapore and the Netherlands, RE is now present in 60 countries across the world. Added 32 exclusive stores and 45 multi-brand outlets in FY22.
- ✓ All markets are seeing improvement in the market share. The share in middleweight motorcycle is 7% in Europe, 5% in the US and 7% in APAC region.
- ✓ Europe market is huge for Royal Enfield and can grow tremendously in the coming years as people love RE motorcycles over there.
- ✓ Expanding dealer network in the US. Developed great brand equity in Australia and the New Zealand. Japan and Korean market doing well.
- ✓ Core LatAm and APAC markets is a long-term story and has huge potential. Do not want to enter Africa, which is more of a taxi market. Brazil continues to be a significant opportunity (except short-term challenges in the country w.r.t. the currency).
- ✓ Large part of export business comes from Europe (~40%), followed by the Americas, including LatAm ~35% and the balance comes from APAC.

Margin

- ✓ Headwinds continue in commodities, and there is no clarity when it will stabilize as base metals started to increase again. Internally working on VAVE initiatives & other things to reduce cost.
- ✓ Other expenses increased 22% YoY to Rs 4,170mn in Q4FY22 due to challenges in the availability of containers & its premium cost.
- ✓ Secondly, exports doubled YoY. This cost will continue, better to look 'other expense' line item as a percentage of revenue as brand-building exercise will also come under it.

Supply situation

- ✓ FY22 faced severe supply chain challenges due to dependent on one supplier for semiconductors.
- ✓ QoQ improvement is happening as added two suppliers and sourcing from alternate places as well.
- ✓ Production is steadily ramping up as working closely with suppliers and seeing a constant growth happening.

VECV

- ✓ VECV volumes grew by 38.3% YoY to 57,077 units in FY22 and improved market share in 5-16 ton segment & buses. Lost share in heavy-duty segment from 7.9% in FY21 to 7.3% in FY22 due to extremely heavy discounting. The CV industry is now back on a growth path.
- ✓ EBITDA margin came in at 5.6% in FY22 vs. 6.8% in FY21, declined due to inflation and high discounting due to competition and supply challenges.
- ✓ Encouraging performance and remained profitable across business cycles.
- ✓ Introduction of new product range with the widest range of CNG trucks and distribution expansion continues specially in East India. Overall, launched 66 new products/variants in FY22.
- ✓ On high discounts in the market, the industry cannot continue like this. The CV is now on the recovery path, once industry utilization improves, will see better pricing. Not too much worried on discounting, as the management believes it is for the short-term.
- ✓ On EVs, this is the beginning & industry is evolving. Government tender business is going to be very competitive; however, VECV will not take loss-making tenders.
- ✓ The EV industry will evolve; more participation and action will happen in private routes. VECV is ready with EV technology/products and is ready for the long run.

Other highlights

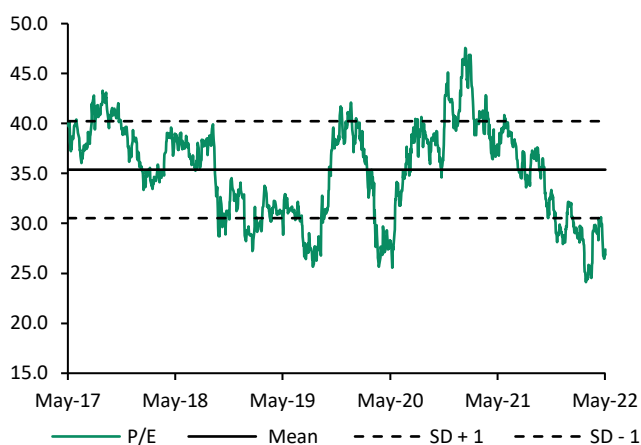
- ✓ Mr B. Govindarajan is the new CEO of Royal Enfield.
- ✓ Reported 45% YoY growth in non-motorcycle revenue in FY22 and is now contributing 15% of the overall revenue. Given the strong focus to grow service, spares, apparels and accessories business.
- ✓ Declared dividend of Rs 21 per share for FY22. The new Classic 350cc motorcycle remain the highest sold motorcycle in the middleweight segment. Received positive response for Scram 411. Meteor continues to receive global awards.

Outlook and Valuations

- ✓ Q4FY22 EBITDA margin surpassed expectations on account of the benefits accrued from the stability in RMC, price increase, better geographic & product mix. EBITDA/unit (Rs) increased by 33% YoY to Rs 41.6K in Q4FY22 is an indication of superior operational performance.
- ✓ Domestic bookings continue to remain strong, exports more than doubled in FY22 with optimistic outlook ahead, supplies are improving consecutively since last four quarters & a gradual improvement will continue QoQ due to addition of suppliers & alternate sourcing.
- ✓ We see much positivity ahead across parameters; demand/supply/margins are picking-up pace in the right lane. Moreover, there is no threat of electrification in the mid-term & VECV performance is icing on the cake. We have a long-term positive view on Eicher Motors and is our top pick in the 2W space.
- ✓ Operating leverage, better mix and VAVE to support in margin improvement in the coming years.

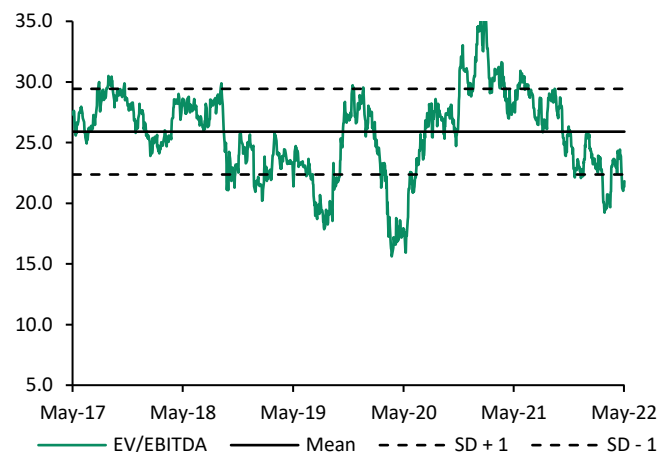
Trading at striking good valuation of 22.4x FY24e EPS. We have valued RE's FY24e EPS at 27x and assigned 10x to FY24e EBITDA of VECV (54.4% Eicher's share) to arrive at a target price of 2,922, seeking an upside of 20%. Strongly recommend BUY!

Fig 1: 1-year forward P/E



Source: AceEquity, SMIFS institutional research

Fig 2: 1-year forward EV/EBITDA



Source: AceEquity, SMIFS institutional research

Quarterly financials, operating metrics & key performance indicators

Fig 3: Quarterly Financials

Y/E March (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Net Sales	8,182	21,336	28,283	29,403	19,743	22,496	28,807	31,933
Raw Materials	5,011	12,221	16,505	17,391	11,417	12,964	17,200	17,971
Employee Costs	1,769	2,075	2,335	2,254	2,234	1,738	2,017	2,221
Other Expenditure	1,364	2,329	2,723	3,415	2,463	3,095	3,766	4,170
EBITDA	38	4,711	6,720	6,344	3,630	4,699	5,824	7,571
Depreciation	982	1,048	1,229	1,248	1,116	1,094	1,114	1,194
Interest	51	38	36	39	64	31	61	31
Other Income	1,142	1,000	1,250	1,139	1,220	1,086	921	1,180
Share of profit of JV	-654	-39	314	690	-394	98	359	538
PBT	-507	4,585	7,019	6,886	3,275	4,758	5,929	8,063
Tax	45	1,152	1,694	1,625	904	1,026	1,368	1,962
Tax rate (%)	30.6%	24.9%	25.3%	26.2%	24.6%	22.0%	24.6%	26.1%
Reported PAT	-552	3,433	5,326	5,261	2,371	3,732	4,561	6,101
YoY Growth (%)								
Revenue	-65.7	-2.7	19.3	33.2	141.3	5.4	1.9	8.6
EBITDA	-99.4	-13.0	13.5	46.8	9,477.0	-0.3	-13.3	19.3
PAT	NA	-40.0	6.8	72.9	-529.7	8.7	-14.4	16.0
QoQ Growth (%)								
Revenue	(62.9)	160.8	32.6	4.0	(32.9)	13.9	28.1	10.9
EBITDA	(99.1)	NA	42.7	(5.6)	(42.8)	29.5	23.9	30.0
PAT	NA	NA	55.1	(1.2)	(54.9)	57.4	22.2	33.8
Margin (%)								
RMC/revenue (%)	61.2	57.3	58.4	59.1	57.8	57.6	59.7	56.3
Gross margin (%)	38.8	42.7	41.6	40.9	42.2	42.4	40.3	43.7
Employee cost/revenue (%)	21.6	9.7	8.3	7.7	11.3	7.7	7.0	7.0
Other expenses/revenue (%)	16.7	10.9	9.6	11.6	12.5	13.8	13.1	13.1
EBITDA margin (%)	0.5	22.1	23.8	21.6	18.4	20.9	20.2	23.7
PAT margin (%)	(6.7)	16.1	18.8	17.9	12.0	16.6	15.8	19.1

Source: Company, SMIFS institutional research

Fig 4: Key Assumptions

Operating Details	FY19	FY20	FY21	FY22	FY23e	FY24e
Royal Enfield						
- Domestic	8,05,273	6,56,651	5,70,781	5,15,242	5,77,071	6,34,778
YoY Growth (%)	0.5%	-18.5%	-13.1%	-9.7%	12.0%	10.0%
- Exports	20,825	39,188	38,622	80,232	86,651	99,648
YoY Growth (%)	8.1%	88.2%	-1.4%	107.7%	8.0%	15.0%
Total RE volumes	8,26,098	6,95,839	6,09,403	5,95,474	6,63,722	7,34,426
YoY Growth (%)	0.7%	-15.8%	-12.4%	-2.3%	11.5%	10.7%
RE - Realization (Rs)	1,17,631	1,30,397	1,42,132	1,70,067	1,78,571	1,87,499
YoY Growth (%)	8.2%	10.9%	9.0%	19.7%	5.0%	5.0%
VECV						
MHCVs	50,962	32,462	28,914	44,510	57,863	82,337
YoY Growth (%)	11.5%	-36.3%	-10.9%	53.9%	30.0%	42.3%
LCVs	20,861	15,072	11,292	11,326	12,952	16,000
YoY Growth (%)	8.8%	-27.8%	-25.1%	0.3%	14.4%	23.5%
Volvo trucks	1,146	1,187	1,062	1,241	1,613	2,178
YoY Growth (%)	8.6%	3.6%	-10.5%	16.9%	30.0%	35.0%
Total VECV volumes	72,969	48,721	41,268	57,077	72,429	1,00,515
YoY Growth (%)	10.7%	-33.2%	-15.3%	38.3%	26.9%	38.8%
VECV - Realization (Rs)	15,89,708	17,49,642	21,02,355	22,29,269	23,40,733	24,57,769
YoY Growth (%)	4.3%	10.1%	20.2%	6.0%	5.0%	5.0%

Source: Company, SMIFS institutional research estimates

Financial Statements

Income Statement					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
Revenues	91,536	87,204	1,02,978	1,20,520	1,40,026
% Growth	(6.6)	(4.7)	18.1	17.0	16.2
Raw Materials	49,959	51,128	59,557	69,099	79,583
% of sales	54.6	58.6	57.8	57.3	56.8
Personnel	7,958	8,432	8,210	9,049	10,261
% of sales	8.7	9.7	8.0	7.5	7.3
Other Expenses	11,815	9,831	13,489	14,534	16,575
% of sales	12.9	11.3	13.1	12.1	11.8
EBITDA	21,804	17,813	21,723	27,838	33,607
EBITDA Margin (%)	23.8	20.4	21.1	23.1	24.0
Depreciation & Amortization	3,815	4,507	4,519	5,153	5,749
EBIT	17,988	13,305	17,203	22,684	27,858
Finance cost	189	165	188	220	255
PBT From Operations	17,799	13,141	17,015	22,465	27,603
Other Income	5,433	4,532	4,408	4,497	4,752
Share of profit of JV (VECV)	317	311	602	2,658	5,112
PBT	23,549	17,984	22,025	29,619	37,466
Tax	5,275	4,515	5,259	6,438	7,726
Tax Rate (%)	22.7	25.5	24.5	23.9	23.9
Net Profit after tax	18,274	13,469	16,766	23,181	29,741
PAT Margin	20.0	15.4	16.3	19.2	21.2

Source: Company, SMIFS institutional research estimates

Key Ratios					
YE March	FY20	FY21	FY22	FY23e	FY24e
Growth Ratios (%)					
Net Sales	(6.6)	(4.7)	18.1	17.0	16.2
EBITDA	(24.9)	(18.3)	22.0	28.2	20.7
Adjusted Net Profit	(17.0)	(26.3)	24.5	38.3	28.3
Margin Ratio (%)					
EBITDA Margin	23.8	20.4	21.1	23.1	24.0
EBIT Margin	19.7	15.3	16.7	18.8	19.9
PBT margins	25.7	20.6	21.4	24.6	26.8
Adj. PAT Margin	20.0	15.4	16.3	19.2	21.2
Return Ratios					
ROE	19.3	12.6	13.9	17.3	19.7
ROCE	18.8	12.2	13.4	15.4	16.3
ROIC	39.7	26.1	30.9	38.4	45.5
Turnover Ratios (days)					
Gross Block Turnover (x)	2.8	2.2	2.3	2.3	2.4
Inventory	42	62	69	69	69
Debtors	3	7	11	11	11
Creditors	74	108	110	110	110
Cash Conversion Cycle	(28)	(39)	(29)	(29)	(29)
Solvency ratio (x)					
Debt-equity	0.0	0.0	0.0	0.0	0.0
Net Debt-Equity	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Gross Debt/EBITDA	0.1	0.1	0.0	0.0	0.0
Current ratio	3.4	3.6	1.9	1.9	2.0
Interest coverage ratio	95	81	92	103	109
Dividend					
DPS (Rs.)	25	17	21	29	37
Dividend Yield (%)	1.0	0.7	0.9	1.2	1.5
Dividend Payout (%)	37.3	34.5	34.2	34.2	34.2
Per share (Rs.)					
Basic EPS (reported)	67	49	61	85	109
CEPS	81	66	78	104	130
BV	366	418	461	517	589
Valuation					
P/E	28.3	49.4	39.7	28.7	22.4
P/BV	5.2	5.2	5.7	4.7	4.1
EV/EBITDA	20.8	29.2	28.9	20.4	16.4
EV/Sales	4.9	6.0	6.1	4.7	3.9

Source: Company, SMIFS institutional research estimates

Balance Sheet					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
Sources of funds					
Capital	273	273	273	273	273
Reserves & Surplus	99,536	1,14,108	1,25,807	1,41,051	1,60,610
Shareholders' Funds	99,809	1,14,381	1,26,080	1,41,325	1,60,884
Total Loan Funds	1,444	1,574	588	689	800
Deferred tax liabilities	2,522	2,215	2,201	2,694	3,233
Other non-current liabilities	1,981	2,702	3,896	4,011	4,545
Total Liabilities	1,05,756	1,20,872	1,32,765	1,48,718	1,69,461
Application of funds					
Gross Block	36,727	41,017	48,577	55,457	62,337
Accumulated Dep.	12,006	16,156	22,463	27,616	33,365
Net Block	24,720	24,861	26,114	27,841	28,971
Capital WIP	268	639	1,340	675	683
Net Assets	24,988	25,500	27,454	28,515	29,654
Investments	32,394	28,261	72,959	84,004	96,263
Other non current assets	3,369	3,741	5,404	5,905	6,414
Inventories	5,724	8,746	11,324	13,138	15,132
Sundry Debtors	868	1,582	3,020	3,535	4,107
Cash & Bank Balances	29,506	58,304	27,224	31,678	39,779
Loans and Advances	1	4,592	6,768	6,768	6,768
Other current Assets	27,648	14,862	7,857	8,896	10,047
Total Current Assets	63,746	88,085	56,193	64,015	75,832
Sundry Creditors	10,078	15,132	17,881	20,746	23,893
Other Current Liabilities	7,927	8,680	9,858	11,316	12,927
Provisions	737	902	1,507	1,660	1,883
Total Current Liabilities	18,742	24,714	29,245	33,722	38,703
Net Current Assets	45,004	63,371	26,948	30,293	37,129
Total Assets	1,05,756	1,20,872	1,32,765	1,48,718	1,69,461

Source: Company, SMIFS institutional research estimates

Cash Flow					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
Operating profit before WC changes	22,362	19,124	21,909	29,088	35,015
Net chg in working capital	859	2,352	(1,503)	1,146	1,757
Income taxes paid (net)	(6,283)	(4,566)	(5,136)	(6,438)	(7,726)
Cash flow from operating activities (a)	16,941	16,910	15,270	23,797	29,046
Capital expenditure	(5,445)	(5,149)	(6,387)	(6,215)	(6,888)
Free Cash Flow	11,497	11,760	8,883	17,582	22,158
Cash flow from investing activities (b)	(15,084)	(16,253)	(9,833)	(10,826)	(10,163)
Cash flow from financing activities (c)	(8,583)	(148)	(5,934)	(8,458)	(10,782)
Net chg in cash (a+b+c)	(6,725)	509	(496)	4,513	8,101

Source: Company, SMIFS institutional research estimates

Disclaimer

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