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Equity Research Desk

ALPHA

19 JAN 2023

Eicher Motors Ltd. – Made Like a Gun

Market Data	
CMP	Rs. 3167
Date	19-Jan-23
Target Price	Rs. 3725
Upside Potential	18.00%
52 Week High/Low	3890/2160
Market Cap	Large Cap
NSE Code	EICHERMOT
Sector	Automobiles
Rating	Buy

Eicher Motors Limited (EML), incorporated in 1982, is the listed flagship company of the Eicher Group in India and a leading player in the Indian automobile industry. On a standalone basis, EML manufactures and markets motorcycles under the iconic Royal Enfield brand, with its production facilities based in Chennai, Tamil Nadu. Additionally, the company operates as a holding company for investments in VE Commercial Vehicles Limited. A joint venture of EML (54.4%) and AB Volvo (45.6%), VECV came into existence with effect from July 1, 2008. The JV is engaged in EML's truck and bus operations, auto components business and technical consulting services business and Volvo Group's Indian truck sales and marketing functions, as well as service and spares network operations for both Volvo trucks and buses.

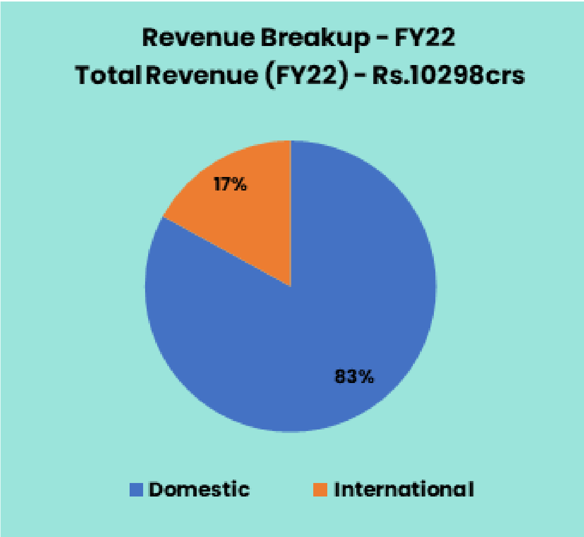
Products & Services: The company has various products under its two business segments.

Royal Enfield – The Company has models like Bullet 350, Classic 350, Meteor 350, Himalayan, Scram 411, Hunter 350, Super Meteor 650 and 650 Twins.

VECV – It consists of Heavy, Light & Medium Duty trucks, Buses, special applications like ambulances from Eicher and Volvo Brands. It also has Engine Business, Engineering component business and Powertrain business.

SHP	Sep - 22 (%)	Jun - 22 (%)	Change
Promoters	49.21	49.21	0.00
FPI	30.25	29.50	0.75
DII	10.05	10.13	-0.08
Public & Others	10.48	11.16	-0.68
Pledged	0.00	0.00	0.00

Subsidiaries: As on 31st Mar 2022, the company has 6 subsidiaries, 1 Joint Ventures and 2 step down subsidiaries.



Margins - FY22	
Gross	42%
EBITDA	21%
PAT	16%

Key Rationale

- **Strong Market Position –** Eicher Motors (EML) is the Global leader in the 250 cc -750cc mid segment motorcycle. It has a market share of ~90% in the Indian Mid size segment through its aspirational models under the Royal Enfield (RE) brand, such as Bullet, Classic, Interceptor among others. The same has a market share of 28.7% for FY22 and 30.2% for H1FY23 in the above 125cc segment. The VECV division has a overall CV market share of 16.6% in FY22. The market share as of H1FY23 are 28.6% in L&MCV, 7.5% in HCV, 24.2% in Buses, 94.6% in Volvo trucks India (High End premium Segment). The dealer network of the Royal Enfield (2W Division) have grown 4x in 7 years from just 527 stores in FY16 to 2130 stores in H1FY23. In that 2130 stores, 1047 belongs to studio stores and 1083 belongs to Large Size stores. These stores are spread across ~1750 cities in India.
- **New Launches –** Regular new launches and product variations underpin RE's technical prowess. With launch of the Himalayan (early 2016), The Twins (FY2019), Meteor (FY2021) and Hunter(H1FY23), it has demonstrated its capability to develop new models from the ground up, incorporating new engines as well as a platform. This has given the existing RE users a chance to upgrade and helped ramp up its presence in export markets. Further, the company officially launched the already unveiled Super Meteor 650 recently which has started the bookings way back. RE Classic 350 based on new J platform gained good traction in international market with Himalayan and scram created new category of budgeted adventure tourer. Eicher Motors also launched new Volvo and Eicher bus models. At the Auto Expo 2023, Eicher and Volvo showcased various range of products and prototypes such as LNG/CNG trucks and tractors, EV bus and Trucks, Hydrogen Fuel Cell Truck and Hydrogen ICE technology.
- **EV Investment –** The Board of Eicher Motors Ltd. (EML) has approved a strategic investment in, and plans for collaboration with European, high-performance electric motorcycle manufacturer Stark Future SL. As part of this collaboration, the board of Eicher Motors has approved an investment of 50 million euros for a close to 10.35% equity stake in Stark Future. Stark Future recently launched its first high performance electric motocross bike, the Stark VARG, which received an exceptional response from global media, professional riders and dealers.
- **Q2FY23 –** Consolidated revenues for Q2FY23 were at Rs.3,519 crs, up 3.6% QoQ and 56% YoY. Average Selling Price at Royal Enfield (RE) were down 5.7% QoQ to ~Rs.1.61 lakh/unit. RE sales volumes were at ~2.08 lakh units, up 11% QoQ. EBITDA for the quarter was at Rs.822 crs with margins at 23.3%, down 112 bps QoQ. Consolidated PAT was at Rs.657 crs, up 7.6% QoQ and 76% YoY. The company's share of profit from VECV JV was at Rs.44.1 crs.

Ratios - FY22	
ROE	13%
ROCE	17%
Div. Yield	0.66%
PE Ratio	52.00
Face Value	1.00
EPS	Rs. 61.32

Industry Analysis

The Automobile industry produced a total 22.93 mn vehicles including Passenger Vehicles, Commercial Vehicles, Three Wheelers, Two Wheelers, and Quadricycles in April 2021 to March 2022. Currently, the automobile industry contributes 7.1% of India's GDP and 49% of its manufacturing GDP. India is the world's largest two-wheeler and three-wheeler manufacturer. The total number of two-wheeler (internal combustion engine and electric) sales registered in CY22 stands at 15.4 mn, up by 13 per cent against the same period last year. Two Wheelers Exports increased from 3 mn to 4.4 mn units in April 2021 to March 2022 over same period last year. The industry is expected to post a growth of 16% in FY23. India's Automotive Industry is worth more than $222 bn and contributes 8% of the country's total export and it became the 3rd largest in the world at the end of 2022. In the Automobile market in India, Two-wheelers and passenger cars accounted for 76% and 17.4% market share, respectively.

Growth Drivers

The EV market is expected to grow at CAGR of 49% between 2022-2030 and is expected to hit 10 mn unit annual sales by 2030. The EV industry will create 50 mn direct and indirect jobs by 2030.

The Production Linked Incentive (PLI) Scheme for Automobile and Auto Component successful in attracting proposed investment of ₹74,850 crore against the target estimate of investment ₹42,500 crore over a period of five years.

The Foreign Direct Investment (FDI) inflow into the Indian automotive industry between April 2000-March 2022 stood at US$ 32.84 billion as per the data released by the Department for Promotion of Industry and Internal Trade (DPIIT).

Peer Analysis

Competitors: Hero MotoCorp, TVS Motors, etc.

Among the listed 2W makers, Eicher motors has a better Gross margin and EBITDA margin than the others. The balance sheet strength of Eicher is way better than Hero and TVS in comparison. The high ROE and Low ROCE of TVS is due to the impact of high Debt and low equity.

Company	CMP	Mcap.	ROE	ROCE	Gross Margin	EBITDA Margin	P/E
Eicher	3167	86585	13.00%	17.00%	42%	21%	52
Hero	2770	55170	15.00%	19.00%	29%	11%	24
TVS	1014	48094	17.00%	10.00%	33%	11%	64

Outlook

The company's' recent launch Hunter 350 is witnessing a good response from consumers and is witnessing increasing trend in enquiries. Further the company achieved the milestone of producing 50,000 units of Hunter 350. The management said first time buyers were going up post launch of Hunter 350 from 13% earlier to 18.2% now. The company took a price hike of ~Rs.3,000 in Hunter 350 model starting November 2022. Also, customers are preferring higher priced variant within Hunter series. The Management does not have aggressive capex plans for Hunter 350 as the components required for variants 'Hunter Metro' are sourced from 'Hunter Retro', for which the company has already invested Rs.10mn-12mn. Thus, no major incremental capex is on the cards. In the VECV segment, the management guided that domestic truck demand would remain healthy amid replacement demand picking up, MoM dip in sales is temporary & seasonal, whereas industry is well positioned for growth over two to three years. EML also executed ~40 electric bus order for Chandigarh. Management is expecting commodity prices to soften in the medium term.

Valuation

The company continues to expand its addressable market via increasing its distribution network, new product launches, and personalization initiatives through the 'Make it Yours' (MIY) platform. VECV is also expected to see a cyclical recovery in volumes and profits as the CV industry recovers. At CMP, the stock trades at 34x of FY24E EPS. We recommend a BUY rating in the stock with the target price (TP) of Rs.3725, 40x FY24E EPS.

Risks

- **Dependency Risk -** The company's growth has been driven by the over 250-cc motorcycle sub segment in the last few years. It has no presence in the high volume (75-110 cc) sub-segments. Even in the over 250-cc sub-segment, its Classic 350 model accounts for most of the sales. Strong competition to its leading model could significantly hurt its volumes.

- **Cyclical Risk –** The VECV segment of the company is highly susceptible to the cyclicality of the Commercial Vehicle Industry which can impact the sales growth of the same segment.

- **Slowdown Risk -** EML has negligible presence in the mid-market 2-wheeler segment. A sustained slowdown in the economy could hamper the discretionary spending and can also result in downtrading across consumer categories which can impact growth of premium motorcycles in short to medium term.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

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