

Best placed to play the 2-W premiumisation trend...

About the stock: Eicher Motors (EML) is the market leader in the >250 cc premium motorcycle segment (market share ~90%) through its aspirational models under the Royal Enfield (RE) brand, such as Bullet, Classic, Himalayan, Interceptor, etc.

- EML via its JV with Volvo i.e. VECV (EML has 54.4% stake), also has a sizeable presence in the CV space (8.2% FY24 market share)

Q1FY25 Results: Eicher posted stable Q1FY25 results. On the consolidated basis, total operating income for the quarter came in at ₹4,393 crore (up 10% YoY) amid flattish Royal Enfield sales volume at 2.26 lakh units. EBITDA in Q1FY25 came in at ₹1,165 crore with corresponding EBITDA margins at 26.5% (flat QoQ). Resultant PAT for the quarter stood at ₹1,102 crore (up 20% YoY). Share of profits from the VECV arm stood at ₹175 crore with EBITDA margins at 7.6% (down 20 QoQ).

Investment Rationale:

- 2-W space to outperform industry in FY25, Eicher a key beneficiary:** Domestic auto industry has witnessed a remarkable recovery over the past two years with PV space already surpassing its pre-Covid highs in FY23 and CV space in close proximity of its earlier peak. Volume recovery in 2W space however has been lacklustre and is still below its pre-Covid highs. The recent prints however in 2W space are encouraging with Q1FY25 volumes up ~20% on YoY basis. On high base, industry commentary is cautious on the growth prospects in PV & CV space for FY25E, with 2-W emerging as a sole shining star and expected to outperform the industry, driven by both revival in domestic demand & bottoming out of export volumes. Eicher Motors via its Royal Enfield franchise and leadership position in premium motorcycle segment (>250cc) is anticipated to capitalize on this trend and drive volume growth for the company amid growing consumer preference towards premiumisation.
- Niche brand positioning & new product launches bodes well for RE-EML:** Royal Enfield maintains a commanding position in the >250 cc segment supported by frequent new launches including recent models like Guerilla 450, Himalayan 450 and Shotgun 650. It is also leading the industry with ~30% market share in the >125 cc segment, offering a substantial addressable opportunity size of ~30 lakh units compared to its domestic sales of 8.3 lakh units in FY24. Moreover, its addressable export market size is estimated at ~10 lakh units vs. its export sales volume of ~80k units in FY24. With upcoming new launches in pipeline coupled with tangible steps being taken in the EV space, there exists healthy growth longevity for Royal Enfield franchise at Eicher Motors going forward.

Rating and Target Price

- With prominent role to play in 2W premiumisation space domestically and healthy growth prospects we assign **BUY rating** on the stock. EML has a capital efficient business model with cash positive b/s. We value EML at ₹ **5,750** on SoTP basis (30x PE to RE business & 25x PE to VECV arm- FY26E)

Key Financial Summary

Key Financials (₹ crore)	FY20	FY21	FY22	FY23	FY24	5 year CAGR (FY19-24)	FY25E	FY26E	2 year CAGR (FY24-26E)
Net Sales	9,153.6	8,720.4	10,297.8	14,442.2	16,535.8	11.0%	18,526.9	20,239.7	10.6%
EBITDA	2,180.3	1,781.3	2,172.2	3,443.6	4,326.9	8.3%	5,037.9	5,535.8	13.1%
EBITDA Margins (%)	23.8	20.4	21.1	23.8	26.2		27.2	27.4	
Net Profit	1,827.5	1,346.9	1,676.6	2,913.9	4,001.0	12.7%	4,743.5	5,223.6	14.3%
EPS (₹)	67.0	49.3	61.3	106.5	146.3		173.4	191.0	
P/E	71.2	96.9	77.9	44.8	32.6		27.5	25.0	
RoNW (%)	18.3	11.8	13.3	19.4	22.2		22.5	21.3	
RoCE(%)	17.3	11.3	13.3	18.8	19.9		28.5	27.2	

Source: Company, ICICI Direct Research



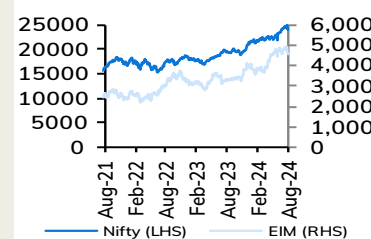
Particulars

Particular	₹ crore
Market Capitalization	1,30,501
Total Debt (FY24)	276
Cash & Invt (FY24)	14,055
EV (₹ crore)	1,16,722
52 week H/L (₹)	5,059 / 3,272
Equity capital	₹ 27.4 Crore
Face value	₹ 1

Shareholding pattern

	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	49.2	49.2	49.1	49.1
FII	28.9	30.3	29.0	28.8
DII	10.5	9.7	11.0	11.8
Other	11.5	10.9	10.9	10.2

Price Chart



Recent event & key risks

- Build in 7%/11% CAGR in RE volumes/Sales over FY24-26E
- Key Risk: (i) less than built in sales volume CAGR amid greater competition in market place, (ii) volatile commodity prices limiting margin gains

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Key takeaways of Recent Quarter

Q1FY25 Earnings Conference Call highlights

Royal Enfield

- Performance:** EML is currently witnessing ~8-8.5 k per month sales volume from K (Sherpa) platform. Since its launch six months ago, EML has sold 32,000 units of Himalayan 450. Its newly launch guerilla 450 has sold 6,000 units in both domestic and international market. The company ASP in Q1FY25 have improved due to higher product mix towards >350 cc segment and increase in share towards international market. It has also benefited from a 0.6% YoY reduction in commodity cost and has not taken any price hike till date.
- Exports:** EML is witnessing a good traction from Latin American market, Europe, and APAC region, holding a high single digit market share in retail sales in these regions. It plans to launch the Super Meteor and Himalayan models in several high growing international market. However, EML remain cautiously optimistic about this space.
- Launches and Guidance:** EML expects mid-weight category to grow at high single digit in FY25E, driven by premiumization trend. It is currently revamping the classic 350 model and is also engaged in brand building for Hunter 350.

Volvo-Eicher Commercial Vehicles

- Performance:** VECV reported a sales volume of 4,689 units in Q1FY25 for Heavy duty tracks vs 4,662 units in Q1FY24, with 8.4% market share. It has 34% market share in light and medium duty trucks, reporting sales volume of 7,842 units in the same period. It plans to expand product range and dealership network in order to improve the market share in this segment.

Exhibit 1: Quarterly Analysis

	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comments
Total Operating Income	4,393	3,986	10.2	4,256	3.2	Topline came in on expected lines amidst flattish RE sales volume at 2.26 lakh units
Raw Material Expenses	2,252	2,131	5.7	2,179	3.4	
Purchase of traded goods	104	97	7.4	97	7.4	RM costs were contained at 53.6% of sales, flattish QoQ
Employee Expenses	354	293	20.8	328	7.9	
Other expenses	518	446	16.2	524	-1.2	Other expenses were down 50 bps QoQ at 11.8% of sales
EBITDA	1,165	1,021	14.2	1,129	3.3	
EBITDA Margin (%)	26.5	25.6	92 bps	26.5	1 bps	EBITDA margins came in steady at 26.5%
Other Income	282	243	15.9	305	-7.6	
Depreciation	169	142	18.5	165	2.0	Depreciation came in on expected lines
Interest	12	10	17.6	15	-20.0	
Total Tax	340	293	15.7	315	8.0	
PAT	1,101	918	19.9	1,070	2.9	PAT came in higher than expectation amidst PAT outperformance at VECV (aided by change in tax rate)
Key Metrics						
Royal Enfield ASP(₹)	1,84,082	1,68,832	9.0	1,81,021	1.7	APS's were up 1.7% QoQ at ₹ 1.84 lakh amidst greater share of >350 cc segment
VECV ASP (₹ lakhs)	25.7	25.5	0.9	24.3	5.7	VECV volumes were flat on YoY basis

Source: Company, ICICI Direct Research

Exhibit 2: Assumptions

	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Royal Enfield volumes	8,26,098	6,95,839	6,12,060	6,02,268	8,34,895	9,12,732	9,76,627	10,44,991
Royal Enfield ASP/unit (₹)	1,17,603	1,29,465	1,40,044	1,65,758	1,66,188	1,73,407	1,85,044	1,90,632
VECV volumes	72,860	48,786	41,265	57,077	79,623	85,560	88,990	93,440

Source: ICICI Direct Research

Exhibit 3: Change in Estimates

(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	18,953	18,527	-2.2	20,494	20,240	-1.2	Marginally lowered our RE volume estimates tracking muted Q1FY25. We expect sales at Eicher to grow at 10.6% CAGR over FY24-26E
EBITDA	5,148	5,038	-2.1	5,582	5,536	-0.8	
EBITDA Margin (%)	27.2	27.2	3 bps	27.2	27.4	11 bps	Marginally tweaked margin estimates
PAT	4,550	4,744	4.2	5,018	5,224	4.1	
EPS (₹)	166	173	4.2	184	191	4.1	PAT stage a single digit upgrade tracking change in tax rate at VECV arm of Eicher Motors (from 35% in the past to 25% now)

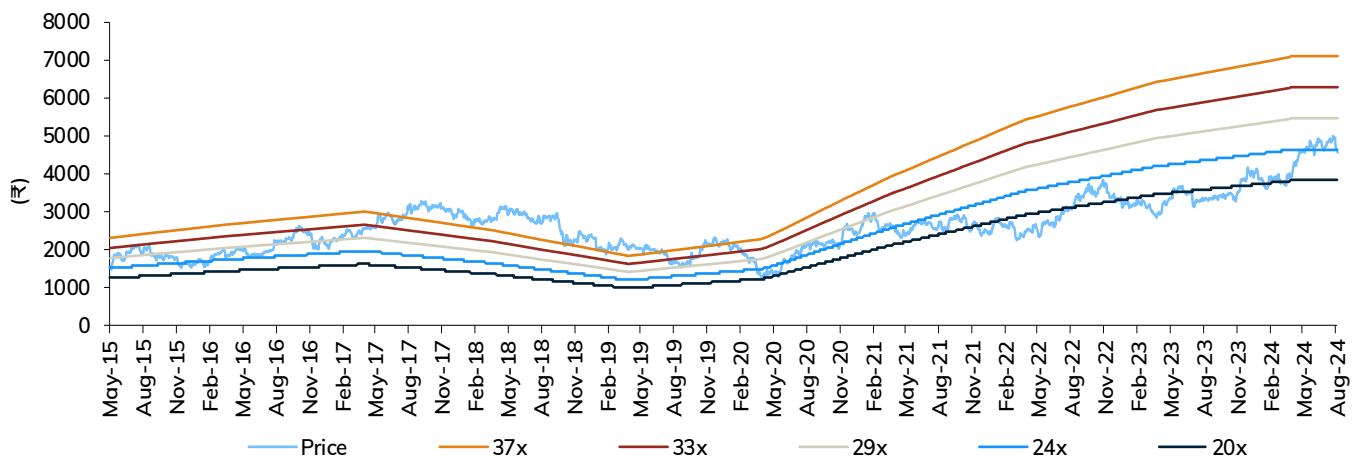
Source: ICICI Direct Research

Exhibit 4: SOTP valuation

	Amount	Remarks
Two-wheeler business-Royal Enfield		
FY26E EPS (₹)	172	
Target PE multiple(x)	30.0	Valued RE business at 30x P/E
Per share value (₹)	5,155	
Target market cap (₹ crore)	1,41,144	
CV business-VECV		
FY26E PAT (₹ crore)	1,196	
Target PE multiple(x)	25.0	Valued VECV business at 25x P/E
Target market cap (₹ crore)	29,907	
Contribution towards EML	0.54	EML has 54.4% stake in VECV
Target market cap towards EML (₹ crore)	16,269	
Per share value-VECV Eicher (₹)	595	
Total target market cap (₹ crore)	1,57,413	
Per share value (₹)	5,750	

Source: ICICI Direct Research

Exhibit 5: Eicher Motors trades at ~25x PE on 2 year forward basis



Source: ICICI Direct Research

Financial Summary

Exhibit 6: Profit and loss statement		₹ crore			
(Year-end March)	FY23	FY24	FY25E	FY26E	
Total operating Income	14,442	16,536	18,527	20,240	
Growth (%)	40.2	14.5	12.0	9.2	
Raw Material Expenses	7,781	8,526	9,590	10,480	
Employee Expenses	1,002	1,236	1,385	1,514	
Other Expenses	1,785	1,993	2,187	2,391	
Total Operating Expenditure	10,999	12,209	13,489	14,704	
EBITDA	3,444	4,327	5,038	5,536	
Growth (%)	58.5	25.7	16.4	9.9	
Depreciation	526	598	667	729	
Interest	28	51	46	41	
Other Income	595	1,076	1,221	1,347	
PBT	3,484	4,754	5,546	6,113	
Others	-	-	-	-	
Total Tax	886	1,201	1,418	1,541	
PAT	2,914	4,001	4,744	5,224	
Growth (%)	73.8	37.3	18.6	10.1	
EPS (₹)	106.5	146.1	173.2	190.8	

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement		₹ crore			
(Year-end March)	FY23	FY24	FY25E	FY26E	
Profit after Tax	2,914	4,001	4,744	5,224	
Add: Depreciation	526	598	667	729	
(Inc)/dec in Current Assets	(226)	44	(453)	(287)	
Inc/(dec) in CL and Provisions	177	384	359	356	
CF from operating activities	2,797	3,951	4,096	4,673	
(Inc)/dec in Investments	(4,330)	(3,816)	(2,400)	(2,900)	
(Inc)/dec in Fixed Assets	(759)	(905)	(1,000)	(1,000)	
Others	730	1,017	1,034	1,209	
CF from investing activities	(4,359)	(3,704)	(2,366)	(2,691)	
Issue/(Buy back) of Equity	-	-	-	-	
Inc/(dec) in loan funds	137	80	(50)	(50)	
Dividend paid & dividend tax	(1,012)	(1,395)	(1,668)	(1,832)	
Others	480	449	-	-	
CF from financing activities	(395)	(866)	(1,718)	(1,882)	
Net Cash flow	(1,957)	(619)	11	99	
Opening Cash	2,722	766	146	158	
Closing Cash	766	146	158	257	

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet		₹ crore			
(Year-end March)	FY23	FY24	FY25E	FY26E	
Liabilities					
Equity Capital	27.4	27.4	27.4	27.4	
Reserve and Surplus	14,963	18,018	21,093	24,484	
Total Shareholders funds	14,990	18,046	21,121	24,512	
Total Debt	196	276	226	176	
Deferred Tax Liability	291	461	461	461	
Others	619	859	831	799	
Total Liabilities	16,096	19,642	22,638	25,947	
Assets					
Gross Block	5,411	6,233	7,733	8,683	
Less: Acc Depreciation	2,721	3,319	3,986	4,714	
Net Block	2,690	2,914	3,747	3,969	
Capital WIP	472	555	55	105	
Total Fixed Assets	3,162	3,469	3,802	4,074	
Investments	12,321	16,487	19,037	22,037	
Inventory	1,278	1,410	1,624	1,774	
Debtors	369	374	508	555	
Others	1,050	871	976	1,066	
Cash	766	146	158	257	
Total Current Assets	3,463	2,800	3,265	3,651	
Creditors	1,810	2,090	2,284	2,495	
Provisions	155	100	109	119	
Others	1,136	1,297	1,453	1,587	
Total Current Liabilities	3,102	3,486	3,846	4,201	
Net Current Assets	361	(686)	(581)	(550)	
Other Non current asset	252	371	379	386	
Application of Funds	16,096	19,642	22,638	25,947	

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios					
(Year-end March)	FY23	FY24	FY25E	FY26E	
Per share data (₹)					
EPS	106.5	146.1	173.2	190.8	
Cash EPS	125.8	168.1	197.8	217.6	
BV	548.1	659.8	772.2	896.2	
DPS	37.0	51.0	61.0	67.0	
Cash Per Share	397.0	513.9	602.0	711.7	
Operating Ratios (%)					
EBITDA Margin	23.8	26.2	27.2	27.4	
PBT / Net sales	20.2	22.6	33.5	33.8	
PAT Margin	20.2	24.2	25.6	25.8	
Inventory days	32.3	31.1	32.0	32.0	
Debtor days	9.3	8.3	10.0	10.0	
Creditor days	45.8	46.1	45.0	45.0	
Return Ratios (%)					
RoE	19.4	22.2	22.5	21.3	
RoCE	18.8	19.9	28.5	27.2	
RoIC	70.3	89.4	117.5	122.7	
Valuation Ratios (x)					
P/E	44.8	32.6	27.5	25.0	
EV / EBITDA	34.8	27.0	22.7	20.1	
EV / Net Sales	8.3	7.1	6.2	5.5	
Market Cap / Sales	9.0	7.9	7.0	6.4	
Price to Book Value	8.7	7.2	6.2	5.3	
Solvency Ratios					
Debt/Equity	0.0	0.0	0.0	0.0	
Current Ratio	1.1	1.0	1.0	1.0	
Quick Ratio	0.6	0.4	0.5	0.5	

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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