

Valuations favourable amid healthy growth prospect

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)

Q4FY24 Results: Eicher posted stable Q4FY24 results. On consolidated basis, topline for the quarter came in at ₹4,256 crore (up 12% YoY) amid 4% rise in Royal Enfield sales volume at 2.3 lakh units. EBITDA in Q3FY24 came in at ₹1,129 crore with EBITDA margins at 26.5% (up 40 bps QoQ). Resultant PAT for Q4FY24 stood at ₹1,070 crore (up 18% YoY). Share of profits from VECV arm stood at ₹132 crore. Margin performance on standalone basis was steady at 27.6% (up 10 bps QoQ).

Investment Rationale:

- 2-W space to outperform industry in FY25, Eicher a key beneficiary:** Over the past two years, the domestic auto industry has experienced a significant recovery with PV space surpassing its pre-Covid highs in FY23. Also, the cyclical recovery in CV space has been robust with industry up ~70% from the lows experienced during covid and nearing its pre-Covid highs. However, volume recovery has been sluggish in 2-W space with 1.8 crore units as sales volume in FY24, well below pre-Covid highs of 2.1 crore units in FY19. Nevertheless, recent prints in 2-W space are encouraging with Q4FY24 and April'24 volumes up ~20%+ on YoY basis. On high base & impending union election industry commentary is cautious on growth prospects in the PV & CV space for FY25E, with 2-W emerging as a sole shining star and expected to outperform the industry going forward, driven by both revival in domestic demand & bottoming out of export volumes. Eicher Motors with its leadership in premium motorcycle segment (>250cc) is expected to benefit from this trend and expected to lead the volume growth given increasing consumer preference towards premiumisation.
- Niche brand positioning & new product launches augur well for RE-EML:** Royal Enfield maintains a dominant position in >250 cc segment aided by regular new launches including recent models like Himalayan 450 and Shotgun 650. It is also an industry leader commanding ~30% market share in the >125 cc segment providing it with healthy addressable opportunity size of ~30 lakh units vs. its domestic sales of 8.3 lakh units in FY24. Even its addressable export market size is pegged at ~10 lakh units vs. its export sales volume of ~80k units in FY24. With new launches in the pipeline coupled with tangible steps being taken in the EV space, there exits healthy growth longevity for Royal Enfield franchise at Eicher Motors.

Rating and Target Price

- Eicher Motors have a capital efficient business model with cash positive b/s. With healthy growth prospects and inexpensive valuations, we assign **BUY rating** on the stock. We value EML at ₹ 5,500 on SoTP basis (30x PE to RE business & 26x PE to VECV business on FY26E)

Key Financial Summary

Key Financials (₹ crore)	FY19	FY20	FY21	FY22	FY23	FY24P	5 year CAGR (FY19-24P)	FY25E	FY26E	2 year CAGR (FY24-26E)
Net Sales	9,797.1	9,153.6	8,720.4	10,297.8	14,442.2	16,535.8	11.0%	18,952.5	20,493.5	11.3%
EBITDA	2,903.1	2,180.3	1,781.3	2,172.2	3,443.6	4,326.9	8.3%	5,148.1	5,582.3	13.6%
EBITDA Margins (%)	29.6	23.8	20.4	21.1	23.8	26.2		27.2	27.2	
Net Profit	2,202.8	1,827.5	1,346.9	1,676.6	2,913.9	4,001.0	12.7%	4,550.3	5,017.6	12.0%
EPS (₹)	80.8	67.0	49.3	61.3	106.5	146.3		166.4	183.5	
P/E	57.7	69.5	94.6	76.0	43.7	31.9		28.0	25.4	
RoNW (%)	24.8	18.3	11.8	13.3	19.4	22.2		21.7	20.7	
RoCE (%)	27.8	17.3	11.3	13.3	18.8	19.9		28.2	26.8	

Source: Company, ICICI Direct Research



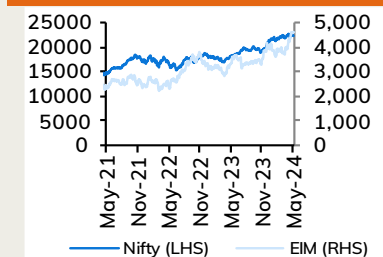
Particulars

Particular	₹ crore
Market	1,27,358
Total Debt (FY24P)	276
Cash & Invt (FY24P)	11,095
EV (₹ crore)	1,16,539
52 week H/L (₹)	4,709 / 3,159
Equity capital	₹ 27.4 Crore
Face value	₹ 1

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	49.2	49.2	49.2	49.1
FII	30.3	28.9	30.3	29.0
DII	10.0	10.5	9.7	11.0
Other	10.5	11.5	10.9	10.9

Price Chart



Recent event & key risks

- Build in 9%/11% CAGR in RE volumes/Sales over FY24-26E
- Key Risk: (i) increasing competition in mid-weight space limiting growth at Royal Enfield, (ii) rise in metal prices exerting pressure on margins

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Key takeaways of Recent Quarter

Exhibit 1: Quarterly Analysis

	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Comments
Total Operating Income	4,256	3,804	11.9	4,179	1.8	Topline for the quarter was up healthy 12% on YoY basis amid 4% growth in RE sales volume to 2.3 lakh units
Raw Material Expenses	2,179	2,029	7.4	2,121	2.7	
Purchase of traded goods	97	89	9.1	137	-29.7	Marginal savings were realised on the raw material front with gross margins expanding 50 bps QoQ
Employee Expenses	328	252	29.9	309	5.9	
Other expenses	524	501	4.7	521	0.6	
EBITDA	1,129	934	20.9	1,090	3.5	EBITDA for the quarter was up healthy 21% on YoY bases and 4% on QoQ basis at ₹ 1,129 crore with margins at 26.5%
EBITDA Margin (%)	26.5	24.5	198 bps	26.1	43 bps	
Other Income	305	206	48.5	254	20.3	Other income came in higher
Depreciation	165	148	11.6	148	12.0	
Interest	15	8	88.0	12	23.4	
Total Tax	315	251	25.4	302	4.2	
PAT	1,070	906	18.2	996	7.5	PAT for the quarter was healthy 18% on YoY basis to ₹ 1,070 crore
Key Metrics						
Royal Enfield ASP(₹)	1,81,021	1,72,528	4.9	1,75,334	3.2	ASP's improved 3.2% QoQ at ₹ 1.8 lakh/unit amidst improved product mix
VECV ASP (₹ lakhs)	24.3	23.5	3.6	26.5	-8.1	VECV ASP's surprisingly declined QoQ

Source: Company, ICICI Direct Research

Q4FY24 Earnings Conference Call highlights

Royal Enfield

- Industry:** EML anticipates mid-weight category in 2-W space to grow in double digits in FY25. Its aim is to surpass this growth, driven by recent launches such as Himalayan 450cc and Shotgun 650cc along with its new launches planned for FY25. This is complimented by growing trend of premiumization in the domestic market. Moreover, it currently witnessing a recovery in motorcycle volumes to a pre-covid level.
- Performance:** EML has ~30% market share in >125cc category as of FY24. It has ~7.2% market share in overall domestic motorcycle market. It has produced ~9.2 lakh motorcycles in FY24, which is the highest till date. The increase in the average selling price in Q4FY24 was due to an improvement in the product mix with a rise in contribution from higher cc motorcycles.
- New Launches:** EML is planning to launch new products in 450cc category. It is producing ~200 units of Himalayan 450 cc per day with plans to ramp up production in this domain. It does not have any major plans to launch new products in the 350cc category as the existing products are yet to witness the replacement cycle.
- Exports:** EML was able to maintain its market share despite weak macro situation in the international market. It has forayed into new territory, Turkey with an aim to improve its share of export business. It aims to improve the profitability in the US and European market while also targeting to increase its penetration in the high growth potential regions such as Latin America and South East Asian markets.
- Others:** EML reported the highest revenue of ₹2,439 crores in the non-motorcycling segment in FY24 up by 20% YoY driven by expansion in service reach. It has commenced regional warehouse operations in Chandigarh and Kolkata. It has not taken any price hikes in Royal Enfield. It does not witness any cost pressure at this stage. Financial penetration is currently at about 61%.

Volvo-Eicher Commercial Vehicles

- Industry:** VECV witnessed subdued demand for trucks in Q4FY24 due to pre-buying happened in Q4FY23 owing to change in industry norms. It expects the CV industry to report growth in FY25 driven by pent up replacement demand and government push towards infrastructure space.
- Performance:** VECV reported volume growth of 7.5% YoY as against CV industry growth of 4% YoY in FY24, thereby improving its market share in all categories. It has sold about 75 electric trucks in FY24. EBITDA Margins for Q4FY24 stood at 7.8%, down by ~220 bps YoY as it has earlier received government incentives in Q4FY23.
- New Launches:** VECV has unveiled small commercial vehicle in the 2.5T – 3.5T category at Bharat Mobility in January'24.

Exhibit 2: Assumptions

	FY19	FY20	FY21	FY22	FY23	FY24P	FY25E	FY26E
Royal Enfield volumes	8,26,098	6,95,839	6,12,060	6,02,268	8,34,895	9,12,732	10,20,190	10,81,401
Royal Enfield ASP/unit (₹)	1,17,603	1,29,465	1,40,044	1,65,758	1,66,188	1,73,407	1,82,849	1,86,524
VECV volumes	72,860	48,786	41,265	57,077	79,623	85,560	87,271	91,635

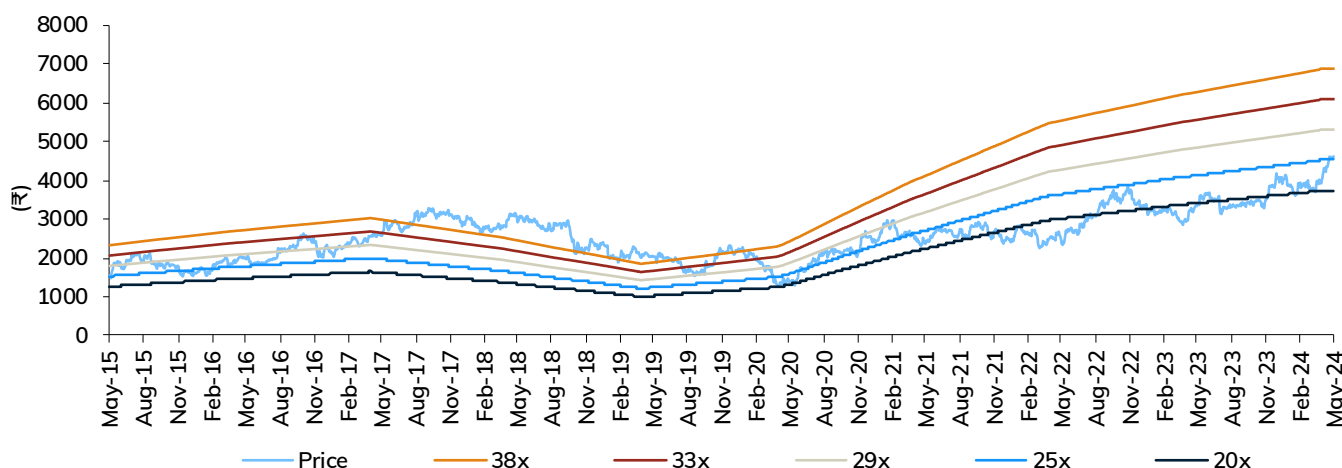
Source: ICICI Direct Research

Exhibit 3: SOTP valuation

	Amount	Remarks
Two-wheeler business-Royal Enfield		
FY26E EPS (₹)	165	
Target PE multiple(x)	30.0	Valued RE business at 30x P/E
Per share value (₹)	4,960	
Target market cap (₹ crore)	1,35,804	
CV business-VECV		
FY26E PAT (₹ crore)	1,021	
Target PE multiple(x)	26.0	Valued VECV business at 26x P/E
Target market cap (₹ crore)	26,553	
Contribution towards EML	0.54	EML has 54.4% stake in VECV
Target market cap towards EML (₹ crore)	14,445	
Per share value-VECV Eicher (₹)	540	
Total target market cap (₹ crore)	1,50,249	
Per share value (₹)	5,500	

Source: ICICI Direct Research

Exhibit 4: Eicher Motors trades at ~25x PE on 2 year forward basis



Source: ICICI Direct Research

Financial Summary

Exhibit 5: Profit and loss statement					₹ crore
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Total operating Income	14,442	16,536	18,953	20,493	
Growth (%)	40.2	14.5	14.6	8.1	
Raw Material Expenses	7,781	8,526	9,847	10,595	
Employee Expenses	1,002	1,236	1,346	1,492	
Other Expenses	1,785	1,993	2,238	2,420	
Total Operating Expenditure	10,999	12,209	13,804	14,911	
EBITDA	3,444	4,327	5,148	5,582	
Growth (%)	58.5	25.7	19.0	8.4	
Depreciation	526	598	663	717	
Interest	28	51	46	41	
Other Income	595	1,076	1,023	1,141	
PBT	3,484	4,754	5,462	5,965	
Others	-	-	-	-	
Total Tax	886	1,201	1,376	1,503	
PAT	2,914	4,001	4,550	5,018	
Growth (%)	73.8	37.3	13.7	10.3	
EPS (₹)	106.5	146.1	166.2	183.3	

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement					₹ crore
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Profit after Tax	2,914	4,001	4,550	5,018	
Add: Depreciation	526	598	663	717	
(Inc)/dec in Current Assets	(226)	(1,126)	(696)	(367)	
Inc/(dec) in CL and Provisions	177	384	448	320	
CF from operating activities	2,797	2,781	3,943	4,546	
(Inc)/dec in Investments	(4,330)	(856)	(1,700)	(2,500)	
(Inc)/dec in Fixed Assets	(759)	(905)	(1,000)	(1,000)	
Others	730	(773)	577	835	
CF from investing activities	(4,359)	(2,534)	(2,123)	(2,665)	
Issue/(Buy back) of Equity	-	-	-	-	
Inc/(dec) in loan funds	137	80	(50)	(50)	
Dividend paid & dividend tax	(1,012)	(1,395)	(1,586)	(1,750)	
Others	480	449	-	-	
CF from financing activities	(395)	(866)	(1,636)	(1,800)	
Net Cash flow	(1,957)	(619)	184	80	
Opening Cash	2,722	766	146	330	
Closing Cash	766	146	330	410	

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet					₹ crore
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Liabilities					
Equity Capital	27.4	27.4	27.4	27.4	
Reserve and Surplus	14,963	18,018	20,982	24,249	
Total Shareholders funds	14,990	18,046	21,010	24,277	
Total Debt	196	276	226	176	
Deferred Tax Liability	291	461	461	461	
Others	619	860	835	801	
Total Liabilities	16,096	19,642	22,531	25,715	
Assets					
Gross Block	5,411	6,233	7,733	8,683	
Less: Acc Depreciation	2,721	3,319	3,982	4,699	
Net Block	2,690	2,914	3,751	3,984	
Capital WIP	472	555	55	105	
Total Fixed Assets	3,162	3,469	3,806	4,089	
Investments	12,321	13,527	15,377	17,977	
Inventory	1,278	1,410	1,662	1,797	
Debtors	369	374	519	561	
Others	1,050	2,041	2,339	2,529	
Cash	766	146	330	410	
Total Current Assets	3,463	3,970	4,850	5,297	
Creditors	1,810	2,090	2,337	2,527	
Provisions	155	100	111	120	
Others	1,136	1,297	1,486	1,607	
Total Current Liabilities	3,102	3,486	3,934	4,254	
Net Current Assets	361	484	916	1,044	
Other Non current asset	252	2,161	2,432	2,605	
Application of Funds	16,096	19,642	22,531	25,715	

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY23	FY24P	FY25E	FY26E
Per share data (₹)				
EPS	106.5	146.1	166.2	183.3
Cash EPS	125.8	168.1	190.6	209.7
BV	548.1	659.8	768.2	887.6
DPS	37.0	51.0	58.0	64.0
Cash Per Share	397.0	405.7	474.5	568.9
Operating Ratios (%)				
EBITDA Margin	23.8	26.2	27.2	27.2
PBT / Net sales	20.2	22.6	32.3	32.6
PAT Margin	20.2	24.2	24.0	24.5
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	21.7	20.7
RoCE	18.8	19.9	28.2	26.8
RoIC	70.3	52.3	70.7	72.2
Valuation Ratios (x)				
P/E	43.7	31.9	28.0	25.4
EV / EBITDA	33.9	26.9	22.3	20.1
EV / Net Sales	8.1	7.0	6.0	5.5
Market Cap / Sales	8.8	7.7	6.7	6.2
Price to Book Value	8.5	7.1	6.1	5.2
Solvency Ratios				
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	1.1	1.4	1.5	1.5
Quick Ratio	0.6	0.9	0.9	0.9

Source: Company, ICICI Direct Research

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