

SELL

TP: Rs 1,900 | ▼ 19%

EICHER MOTORS

Auto Components

12 November 2020

Q2 in line; maintain SELL

Eicher Motors (EIM) reported in-line Q2FY21 revenue and a slight beat on EBITDA margins (22.8% vs. 21.4% est.), led by better operating efficiencies. With the recent rollout of the 'Meteor' 350cc and an aggressive launch pipeline, we expect Royal Enfield to clock a 3% volume CAGR over FY20-FY23 despite the economic slowdown. EIM is forecast to post a 6%/5%/7% CAGR in revenue/EBITDA/PAT. We maintain our Sep'21 SOTP-based TP at Rs 1,900 (adj. for share split), valuing RE at 21x one-year fwd EPS and VECV at Rs 150/sh.

Mayur Milak | Nishant Chowhan, CFA

research@bobcaps.in

Q2 in line: EIM's standalone topline declined 3% YoY on the back of a 10% drop in quarterly volumes while ASP grew 8% YoY led by a better product mix and pricing actions. EBITDA at Rs 4.8bn was down 11% YoY but margins came in ahead of expectations at 22.8% (21.4% est.) primarily owing to better operating efficiencies. Adj. PAT declined 37% YoY to Rs 3.6bn.

New launches expected to rev up volumes: RE recently launched a new 350cc variant 'Meteor' which has initial bookings of ~8k units. We believe this along with other new launches should support a 3% volume CAGR for RE over FY20-FY23 despite downtrading fears due to the dent in personal incomes of most salaried as well as self-employed consumers during the pandemic. We estimate that the company could witness a ~17% YoY volume decline in FY21.

Maintain SELL on lofty valuations: We expect EIM to clock a revenue/EBITDA/PAT CAGR of 6%/5%/7% during FY20-FY23. Our SOTP-based TP of Rs 1,900 remains unchanged and is based on Rs 1,750 for RE (21x Sep'22E P/E) and Rs 150 for VECV. We maintain our SELL rating given expensive valuations at 30x/27x FY22E/FY23E EPS.

| | |
|------------------|-------------------|
| Ticker/Price | EIM IN/Rs 2,351 |
| Market cap | US\$ 8.6bn |
| Shares o/s | 273mn |
| 3M ADV | US\$ 43.9mn |
| 52wk high/low | Rs 2,387/Rs 1,245 |
| Promoter/FPI/DII | 49%/32%/7% |

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

| Y/E 31 Mar | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------------|--------|--------|--------|--------|---------|
| Total revenue (Rs mn) | 97,945 | 90,775 | 79,279 | 99,094 | 108,390 |
| EBITDA (Rs mn) | 29,269 | 22,038 | 17,549 | 23,586 | 25,831 |
| Adj. net profit (Rs mn) | 20,544 | 19,356 | 14,172 | 21,782 | 24,066 |
| Adj. EPS (Rs) | 75.8 | 69.8 | 50.7 | 78.4 | 86.7 |
| Adj. EPS growth (%) | 20.7 | (8.0) | (27.4) | 54.8 | 10.5 |
| Adj. ROAE (%) | 28.8 | 23.4 | 15.0 | 19.4 | 18.2 |
| Adj. P/E (x) | 31.0 | 33.7 | 46.4 | 30.0 | 27.1 |
| EV/EBITDA (x) | 21.5 | 27.5 | 34.4 | 26.1 | 23.8 |

Source: Company, BOBCAPS Research

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Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE

| (Rs mn) | Q2FY21 | Q2FY20 | YoY (%) | Q1FY21 | QoQ (%) | H1FY21 | H1FY20 | YoY (%) |
|-----------------------------------|---------------|---------------|---------------|--------------|-----------------|---------------|---------------|---------------|
| Volume | 150,519 | 166,589 | (9.6) | 57,269 | 162.8 | 207,788 | 350,178 | (40.7) |
| Avg. Realisation per Vehicle (Rs) | 141,063 | 130,973 | 7.7 | 134,315 | 5.0 | 139,203 | 129,490 | 7.5 |
| Net Revenues | 21,233 | 21,819 | (2.7) | 7,692 | 176.0 | 28,925 | 45,344 | (36.2) |
| Total Income (A) | 21,233 | 21,819 | (2.7) | 7,692 | 176.0 | 28,925 | 45,344 | (36.2) |
| Operating Expenses: | | | | | | | | |
| Raw materials consumed | 12,250 | 11,896 | 3.0 | 4,759 | 157.4 | 17,010 | 24,622 | (30.9) |
| Employee Expenses | 1,976 | 1,783 | 10.8 | 1,693 | 16.7 | 3,668 | 3,824 | (4.1) |
| Other Expenses | 2,169 | 2,679 | (19.0) | 1,228 | 76.6 | 3,397 | 5,345 | (36.4) |
| Total Expenditure (B) | 16,395 | 16,359 | 0.2 | 7,680 | 113.5 | 24,075 | 33,791 | (28.8) |
| EBITDA (A-B) | 4,838 | 5,460 | (11.4) | 12 | 39,554.1 | 4,850 | 11,553 | (58.0) |
| Other Income | 998 | 1,450 | (31.1) | 1,153 | (13.4) | 2,151 | 3,333 | (35.5) |
| Depreciation | 1,036 | 890 | 16.5 | 971 | 6.7 | 2,007 | 1,758 | 14.2 |
| EBIT | 4,800 | 6,020 | (20.3) | 194 | 2,378.0 | 4,994 | 13,129 | (62.0) |
| Finance Costs | 18 | 27 | (34.4) | 30 | (40.3) | 48 | 57 | (15.5) |
| PBT | 4,782 | 5,993 | (20.2) | 164 | 2,821.1 | 4,946 | 13,072 | (62.2) |
| Tax expense | 1,173 | 288 | 307.3 | 40 | 2,804.2 | 1,214 | 2,385 | (49.1) |
| Reported PAT | 3,609 | 5,705 | (36.7) | 123 | 2,826.7 | 3,732 | 10,687 | (65.1) |
| Adjusted PAT | 3,609 | 5,705 | (36.7) | 123 | 2,826.7 | 3,732 | 10,687 | (65.1) |
| Adj EPS (Rs) | 13.2 | 21.0 | (37.1) | 0.5 | 2,826.7 | 13.7 | 39.3 | (65.3) |

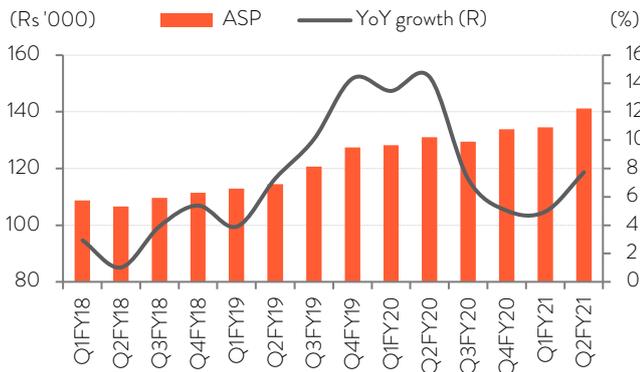
Source: Company, BOBCAPS Research

FIG 2 – KEY PARAMETERS

| (%) | Q2FY21 | Q2FY20 | YoY (bps) | Q1FY21 | QoQ (bps) | H1FY21 | H1FY20 | YoY (bps) |
|----------------|--------|--------|-----------|--------|-----------|--------|--------|-----------|
| Gross Margin | 42.3 | 45.5 | (317) | 38.1 | 418 | 41.2 | 45.7 | (451) |
| EBITDA Margin | 22.8 | 25.0 | (224) | 0.2 | 2,263 | 16.8 | 25.5 | (871) |
| EBIT Margin | 22.6 | 27.6 | (499) | 2.5 | 2,009 | 17.3 | 29.0 | (1,169) |
| PBT Margin | 22.5 | 27.5 | (494) | 2.1 | 2,039 | 17.1 | 28.8 | (1,173) |
| Tax Rate | 24.5 | 4.8 | 1973 | 24.7 | (14) | 24.5 | 18.2 | 630 |
| Adj PAT Margin | 17.0 | 26.1 | (915) | 1.6 | 1,539 | 12.9 | 23.6 | (1,067) |

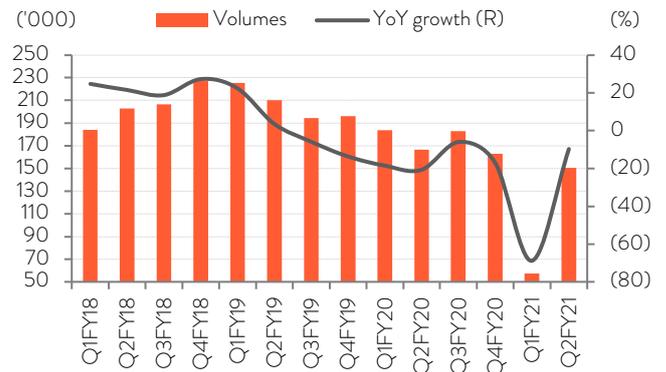
Source: Company, BOBCAPS Research

FIG 3 – AVERAGE SELLING PRICE (ASP) – RE



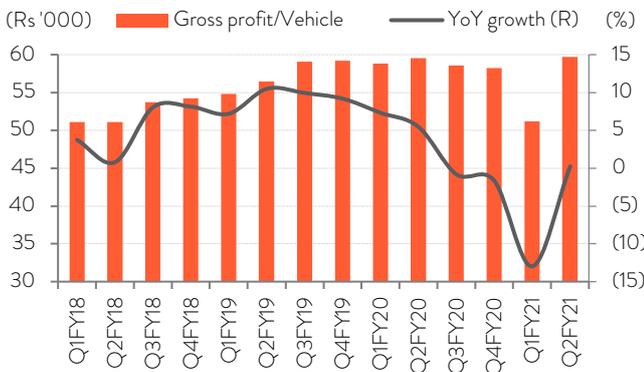
Source: Company, BOBCAPS Research

FIG 4 – VOLUME GROWTH TREND – RE



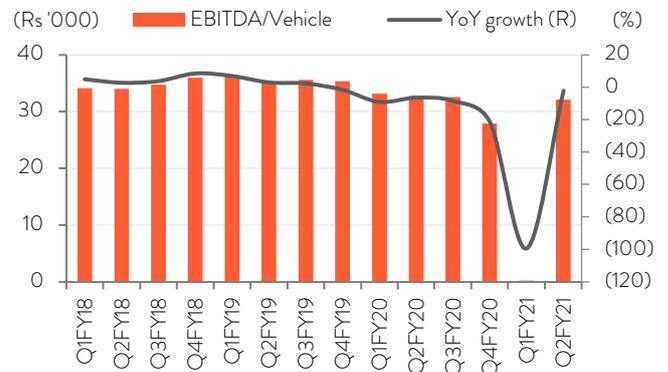
Source: Company, BOBCAPS Research

FIG 5 – GROSS PROFIT/VEHICLE – RE



Source: Company, BOBCAPS Research

FIG 6 – EBITDA/VEHICLE – RE



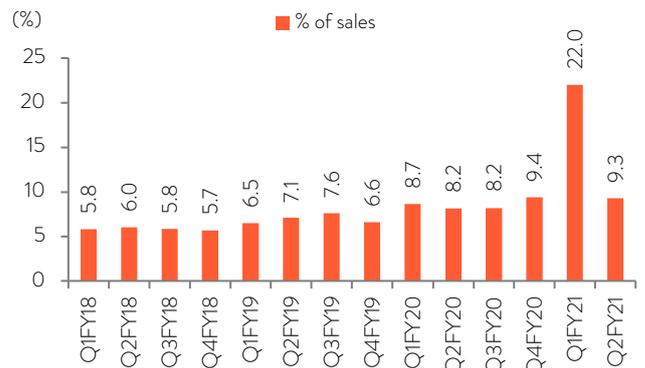
Source: Company, BOBCAPS Research

FIG 7 – RM COST/SALES TREND – RE

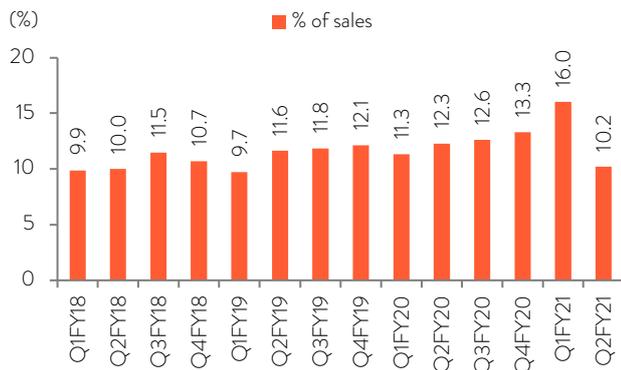


Source: Company, BOBCAPS Research

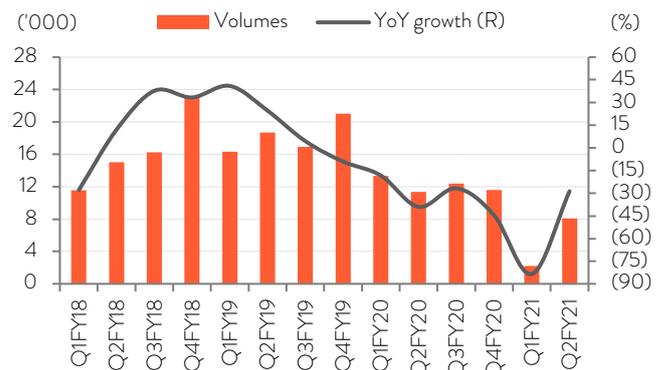
FIG 8 – EMPLOYEE COST/SALES TREND – RE



Source: Company, BOBCAPS Research

FIG 9 – OTHER EXPENSES/SALES TREND – RE

Source: Company, BOBCAPS Research

FIG 10 – VOLUME GROWTH TREND – VECV

Source: Company, BOBCAPS Research

Earnings call highlights

- Royal Enfield's (RE) current order backlog stands at ~125k units and has been increasing since June. RE has also been ramping up production and manufactured 72k vehicles in Oct'20.
- Bookings per day at dealers have returned to pre-Covid levels and the company is confident that demand is sustainable. Smaller cities and towns are showing better traction compared to metros.
- Sporadic lockdowns had affected the supply chain but these issues have been largely resolved.
- Due to the Covid-19 crisis, model launches have been postponed by 3-6 months. The company aims to launch a new variant/model every quarter going ahead.
- In Q2, RE opened 25 regular stores and 133 studio stores in India.
- Capex in H1FY21 was at Rs 2bn and management aims to spend ~Rs 4bn for FY21.

Valuation methodology

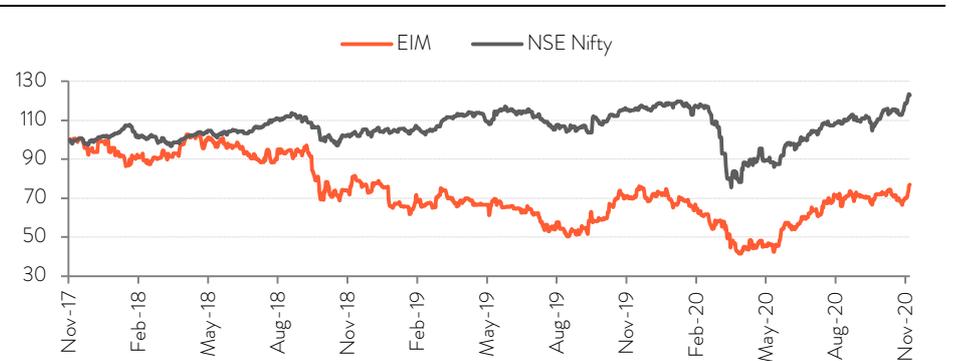
We expect EIM to clock a revenue/EBITDA/PAT CAGR of 6%/5%/7% during FY20-FY23. Our SOTP-based target price of Rs 1,900 remains unchanged and is based on Rs 1,750 for RE (21x Sep'22E P/E) and Rs 150 for VECV. We maintain SELL given expensive valuations at 30x/27x FY22E/FY23E EPS.

FIG 11 – SOTP VALUATION

| Business | Fair value (Rs/Share) | Comments |
|---------------------|-----------------------|--------------------------|
| RE – Standalone | 1,750 | 21x one-year forward EPS |
| VECV | 150 | - |
| Target price | 1,900 | |

Source: BOBCAPS Research

FIG 12 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Better-than-expected demand could pose upside risks to our estimates.
- Higher and easy availability of financing could reduce the initial cost burden and help sales inch up.

FINANCIALS

Income Statement

| Y/E 31 Mar (Rs mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|--------------------------------|---------------|---------------|---------------|---------------|----------------|
| Total revenue | 97,945 | 90,775 | 79,279 | 99,094 | 108,390 |
| EBITDA | 29,269 | 22,038 | 17,549 | 23,586 | 25,831 |
| Depreciation | 2,989 | 3,779 | 4,270 | 5,095 | 6,002 |
| EBIT | 31,360 | 24,412 | 18,590 | 28,708 | 31,710 |
| Net interest income/(expenses) | (30) | (109) | (110) | (100) | (100) |
| Other income/(expenses) | 5,080 | 6,153 | 5,311 | 10,216 | 11,881 |
| Exceptional items | 141 | 0 | 0 | 0 | 0 |
| EBT | 31,471 | 24,303 | 18,480 | 28,608 | 31,610 |
| Income taxes | 10,785 | 5,265 | 4,657 | 7,209 | 7,966 |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| Min. int./Inc. from associates | 2,584 | 317 | 349 | 384 | 422 |
| Reported net profit | 23,269 | 19,356 | 14,172 | 21,782 | 24,066 |
| Adjustments | (141) | 0 | 0 | 0 | 0 |
| Adjusted net profit | 20,544 | 19,356 | 14,172 | 21,782 | 24,066 |

Balance Sheet

| Y/E 31 Mar (Rs mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|---------------------------------------|---------------|----------------|----------------|----------------|----------------|
| Accounts payables | 11,807 | 10,208 | 11,297 | 12,274 | 13,425 |
| Other current liabilities | 5,222 | 7,641 | 5,605 | 6,358 | 7,040 |
| Provisions | 1,991 | 974 | 1,000 | 1,000 | 1,000 |
| Debt funds | 764 | 0 | 0 | 0 | 0 |
| Other liabilities | 961 | 1,693 | 1,693 | 1,693 | 1,693 |
| Equity capital | 273 | 273 | 273 | 273 | 273 |
| Reserves & surplus | 70,992 | 82,481 | 94,121 | 111,973 | 132,071 |
| Shareholders' fund | 71,265 | 82,753 | 94,394 | 112,246 | 132,344 |
| Total liabilities and equities | 92,009 | 103,270 | 113,989 | 133,571 | 155,502 |
| Cash and cash eq. | 29,401 | 29,264 | 26,540 | 27,218 | 26,573 |
| Accounts receivables | 1,127 | 1,340 | 1,189 | 1,189 | 1,301 |
| Inventories | 6,053 | 5,181 | 6,342 | 5,946 | 6,503 |
| Other current assets | 2,525 | 2,457 | 2,480 | 2,876 | 3,285 |
| Investments | 30,465 | 39,256 | 49,256 | 64,256 | 84,256 |
| Net fixed assets | 18,708 | 23,687 | 25,418 | 29,323 | 30,821 |
| CWIP | 4,497 | 3,122 | 3,800 | 3,800 | 3,800 |
| Intangible assets | 0 | 0 | 0 | 0 | 0 |
| Deferred tax assets, net | (2,765) | (2,520) | (2,520) | (2,520) | (2,520) |
| Other assets | 1,998 | 1,484 | 1,484 | 1,484 | 1,484 |
| Total assets | 92,009 | 103,269 | 113,989 | 133,571 | 155,502 |

Source: Company, BOBCAPS Research

Cash Flows

| Y/E 31 Mar (Rs mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------------------------|----------------|-----------------|-----------------|-----------------|-----------------|
| Net income + Depreciation | 23,534 | 23,135 | 18,441 | 26,877 | 30,069 |
| Interest expenses | 30 | 109 | 110 | 100 | (100) |
| Non-cash adjustments | (5,080) | (6,153) | (5,311) | (10,216) | (11,881) |
| Changes in working capital | (4,763) | 1,777 | (1,956) | 1,731 | 755 |
| Other operating cash flows | (632) | (86) | 0 | 0 | 0 |
| Cash flow from operations | 13,088 | 18,781 | 11,285 | 18,492 | 18,843 |
| Capital expenditures | (7,890) | (7,383) | (6,678) | (9,000) | (7,500) |
| Change in investments | 8,195 | (8,791) | (10,000) | (15,000) | (20,000) |
| Other investing cash flows | 5,080 | 6,153 | 5,311 | 10,216 | 11,881 |
| Cash flow from investing | 5,385 | (10,020) | (11,368) | (13,784) | (15,619) |
| Equities issued/Others | 548 | 439 | 0 | 0 | 0 |
| Debt raised/repaid | (96) | (764) | 0 | 0 | 0 |
| Interest expenses | (30) | (109) | (110) | (100) | (100) |
| Dividends paid | (2,999) | (8,087) | (2,182) | (3,546) | (3,546) |
| Other financing cash flows | 1,335 | (245) | 0 | 0 | 0 |
| Cash flow from financing | (1,242) | (8,766) | (2,292) | (3,646) | (3,646) |
| Changes in cash and cash eq. | 17,231 | (4) | (2,375) | 1,061 | (423) |
| Closing cash and cash eq. | 29,401 | 29,264 | 26,540 | 27,218 | 26,573 |

Per Share

| Y/E 31 Mar (Rs) | FY19A | FY20A | FY21E | FY22E | FY23E |
|----------------------|-------|-------|-------|-------|-------|
| Reported EPS | 75.8 | 69.8 | 50.7 | 78.4 | 86.7 |
| Adjusted EPS | 75.8 | 69.8 | 50.7 | 78.4 | 86.7 |
| Dividend per share | 11.0 | 25.0 | 8.0 | 13.0 | 13.0 |
| Book value per share | 261.2 | 303.3 | 346.0 | 411.5 | 485.1 |

Valuations Ratios

| Y/E 31 Mar (x) | FY19A | FY20A | FY21E | FY22E | FY23E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales | 6.4 | 6.7 | 7.6 | 6.2 | 5.7 |
| EV/EBITDA | 21.5 | 27.5 | 34.4 | 26.1 | 23.8 |
| Adjusted P/E | 31.0 | 33.7 | 46.4 | 30.0 | 27.1 |
| P/BV | 9.0 | 7.7 | 6.8 | 5.7 | 4.8 |

DuPont Analysis

| Y/E 31 Mar (%) | FY19A | FY20A | FY21E | FY22E | FY23E |
|---------------------------------|-------|-------|-------|-------|-------|
| Tax burden (Net profit/PBT) | 65.7 | 78.3 | 74.8 | 74.8 | 74.8 |
| Interest burden (PBT/EBIT) | 100.4 | 99.6 | 99.4 | 99.7 | 99.7 |
| EBIT margin (EBIT/Revenue) | 32.0 | 26.9 | 23.4 | 29.0 | 29.3 |
| Asset turnover (Revenue/Avg TA) | 152.5 | 115.3 | 87.8 | 94.4 | 87.4 |
| Leverage (Avg TA/Avg Equity) | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Adjusted ROAE | 33.1 | 24.7 | 15.6 | 20.7 | 19.3 |

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

| Y/E 31 Mar | FY19A | FY20A | FY21E | FY22E | FY23E |
|--|---------|--------|--------|-------|-------|
| YoY growth (%) | | | | | |
| Revenue | 9.3 | (7.3) | (12.7) | 25.0 | 9.4 |
| EBITDA | 2.6 | (24.7) | (20.4) | 34.4 | 9.5 |
| Adjusted EPS | 20.7 | (8.0) | (27.4) | 54.8 | 10.5 |
| Profitability & Return ratios (%) | | | | | |
| EBITDA margin | 29.9 | 24.3 | 22.1 | 23.8 | 23.8 |
| EBIT margin | 32.0 | 26.9 | 23.4 | 29.0 | 29.3 |
| Adjusted profit margin | 21.0 | 21.3 | 17.9 | 22.0 | 22.2 |
| Adjusted ROAE | 28.8 | 23.4 | 15.0 | 19.4 | 18.2 |
| ROCE | 32.1 | 24.3 | 15.4 | 20.4 | 19.1 |
| Working capital days (days) | | | | | |
| Receivables | 4 | 5 | 6 | 4 | 4 |
| Inventory | 18 | 23 | 27 | 23 | 21 |
| Payables | 83 | 81 | 87 | 77 | 77 |
| Ratios (x) | | | | | |
| Gross asset turnover | 0.3 | 0.4 | 0.5 | 0.5 | 0.5 |
| Current ratio | 2.1 | 2.0 | 2.0 | 1.9 | 1.8 |
| Net interest coverage ratio | 1,048.8 | 224.0 | 169.0 | 287.1 | 317.1 |
| Adjusted debt/equity | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

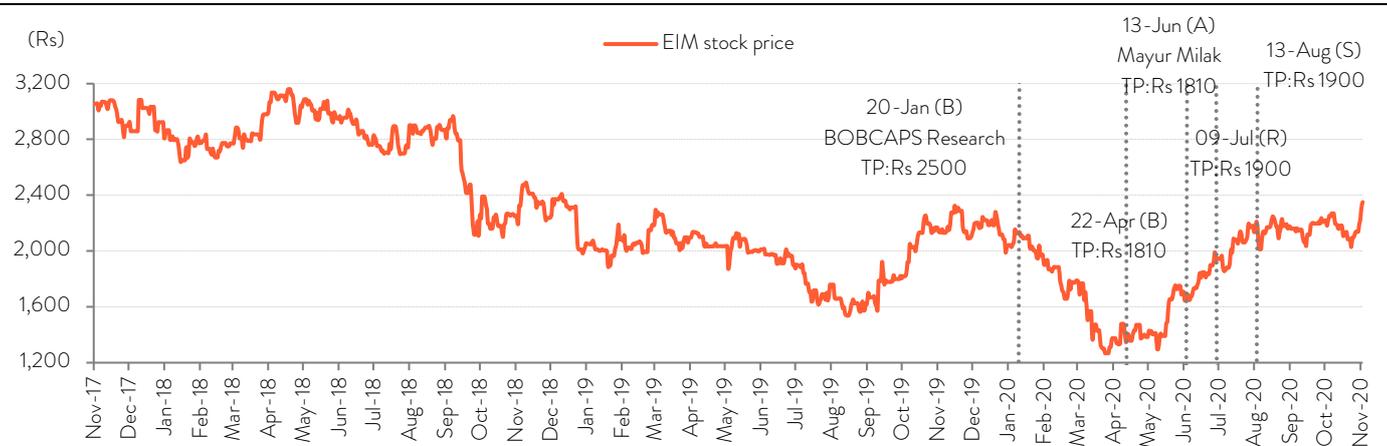
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): EICHER MOTORS (EIM IN)



B – Buy, A – Add, R – Reduce, S – Sell

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