# FIRST LIGHT

22 November 2022

## RESEARCH

### [SECTOR REPORT] LOGISTICS

Full throttle ahead

### EICHER MOTORS | TARGET: Rs 3,543 | +5% | HOLD

Volume gains encouraging; ASP revival key

**Daily macro indicators**

| Indicator | 17-Nov | 18-Nov | Chg (%) |
|---|---|---|---|
| US 10Y yield (%) | 3.77 | 3.83 | 6bps |
| India 10Y yield (%) | 7.28 | 7.31 | 3bps |
| USD/INR | 81.63 | 81.70 | (0.1) |
| Brent Crude (US$/bbl) | 89.8 | 87.6 | (2.4) |
| Dow | 33,546 | 33,746 | 0.6 |
| Hang Seng | 18,046 | 17,993 | (0.3) |
| Sensex | 61,751 | 61,663 | (0.1) |
| **India FII (US$ mn)** | **16-Nov** | **17-Nov** | **Chg ($ mn)** |
| FII-D | 122.3 | 64.1 | (58.2) |
| FII-E | 4.8 | 193.9 | 189.2 |

Source: Bank of Baroda Economics Research

## SUMMARY

### [SECTOR REPORT] LOGISTICS

- Government-led manufacturing push, fast-growing consumer demand and boom in 3PL to bolster logistics sector topline
- Structural tailwinds ahead from steady sector formalisation, conducive policies and anticipated DFC-led shift in freight mix toward rail
- Initiate with BUY on MAHLOG (rising 3PL and e-commerce penetration), and HOLD on TCIEXP and CCRI (positives in the price)

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### EICHER MOTORS

- Q2 revenue up 5% QoQ to Rs 33bn backed by 11% volume growth (MoM run-rate of 60k units), partly offset by 7% fall in ASP
- Gross margin dipped 119bps QoQ due to higher raw material cost at 58.5% of sales
- We assume coverage with HOLD and an SOTP-based TP of Rs 3,543, valuing the core business at 28x FY24E EPS

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BOBCAPS Research
research@bobcaps.in

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## LOGISTICS

21 November 2022

# Full throttle ahead

- **Government-led manufacturing push, fast-growing consumer demand and boom in 3PL to bolster logistics sector topline**
- **Structural tailwinds ahead from steady sector formalisation, conducive policies and anticipated DFC-led shift in freight mix toward rail**
- **Initiate with BUY on MAHLOG (rising 3PL and e-commerce penetration), and HOLD on TCIEXP and CCRI (positives in the price)**

Aseem Madan
research@bobcaps.in

**Recommendation snapshot**

| Ticker | Price | Target | Rating |
|---|---|---|---|
| CCRI IN | 733 | 825 | HOLD |
| MAHLOG IN | 491 | 630 | BUY |
| TCIEXP IN | 1,907 | 2,010 | HOLD |

Price & Target in Rupees | Price as of 21 Nov 2022

**Healthy industry outlook:** According to RedSeer, direct logistics spends in India are expected to log a 9.1% CAGR from US$ 216bn to US$ 365bn by FY26, fuelled by the government's manufacturing push and rising consumer demand. Rail is forecast to lead the way at 14% CAGR, with the revenue share of freight transport improving from 14% to 19%. Warehousing is likely to follow at 9% backed by rising 3PL adoption and e-commerce penetration. Given a conducive demand and policy climate, we model for a 20%/31% revenue/PAT CAGR for our coverage over FY22-FY25.

**Logistics a historically underinvested sector…:** India's logistics cost is high at ~14% of GDP vs. 11% on average for BRICS countries and 8-10% for developed markets such as Europe and the US (Niti Aayog). The sector has been historically under-invested, lagging behind on both policy and infrastructure fronts. This has giving rise to an unfavourable modal mix skewed towards roads, which is expensive, slow, inefficient, technologically weak and carbon unfriendly.

**…but slew of policies to usher in efficiencies:** The government is committed to bringing logistics cost to sub-10% of GDP (vs. 14% currently) by curbing infrastructure inefficiencies and improving India's road-heavy modal mix. Measures such as the DFC (phased operations underway) will allow for greater speed and productivity from the railways, making it suitable for non-bulk goods. The Gati Shakti scheme targets faster, cost-optimised infrastructure project completion and is buttressed by the new National Logistics Policy. As efficiencies rise, we expect average ROCE/ROIC for our coverage to improve 645bps/465bps over FY22-FY25.

**BUY MAHLOG; HOLD TCIEXP, CCRI:** We initiate coverage on MAHLOG with a BUY rating (TP Rs 630) as we expect the company to deliver a robust revenue/PAT CAGR of 21%/70% over FY22-FY25 through strategic acquisitions and service extension across the logistics chain. For CCRI (HOLD, TP Rs 825), the DFC, LLF and privatisation are key stock triggers, but a ~24% stock rally since Jun'22 has taken current valuations to 24.6x FY24E EPS, pricing in the positives. TCIEXP (HOLD, TP Rs 2,010) offers B2B express delivery in key industry verticals, a model that carries high ROCE/ ROIC, but upsides appear capped at current valuations of 37.1x FY24E EPS.

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**HOLD**
**TP: Rs 3,543 | ▲ 5%**

**EICHER MOTORS** | Auto Components | 21 November 2022

## Volume gains encouraging; ASP revival key

- **Q2 revenue up 5% QoQ to Rs 33bn backed by 11% volume growth (MoM run-rate of 60k units), partly offset by 7% fall in ASP**
- **Gross margin dipped 119bps QoQ due to higher raw material cost at 58.5% of sales**
- **We assume coverage with HOLD and an SOTP-based TP of Rs 3,543, valuing the core business at 28x FY24E EPS**

Milind Raginwar
research@bobcaps.in

**Volumes pick up:** EIM's Q2FY23 revenue grew 5% QoQ to Rs 33.4bn backed up 11% volume gains, partly offset by a 7% sequential fall in average selling price (ASP) which remains under pressure. With a MoM run-rate of 60k+ units, the volume revival over the past four months has been encouraging. Gross margin dipped 119bps QoQ owing to inflated raw material cost at 58.5% of sales (57.3% in Q1FY22). EBITDA was flat QoQ at Rs 8bn, but EBITDA margin fell 60bps to 23.7% due to lower operating efficiencies in Q2FY23. Adj. PAT increased 11% QoQ to Rs 6.4bn owing to a lower tax rate of 20% against the average of 24%.

**Margins on improving trajectory:** EIM's operations have suffered from the non-availability of semiconductor chips and raw material cost inflation. However, with both these constraints easing, we expect margins to improve. During the chip shortage, EIM had to rely on resellers which piled on pricing pressure. This is likely to recede as chip availability improves. The company launched new models including 'Hunter 350' and 'Super Meteor 650' that boosted Q2 volumes (by +50k units). With better synergies from higher utilisation, we expect operating leverage to improve, further boosting margins.

**No major capex plans:** 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.

**HOLD, TP Rs 3,543:** We expect EIM to clock a revenue, EBITDA and PAT CAGR of 23%, 33% and 35% respectively over FY22-FY25. Our FY24-FY25 earnings forecasts are ~5% below consensus due to lower volume assumptions and our EBITDA margins are 100bps below at ~26%. Our margin forecast represents ~600bps expansion by FY25 to bake in new high-end variants, export volumes and operating efficiencies. However, we believe current valuations of ~28x FY24E EPS capture the positives. We value EIM at 28x FY24E EPS (in line with its long-term average) and assign Rs 175/sh (average consensus value) to its VECV business, translating to a TP of Rs 3,543 – assume coverage with HOLD.

### Key changes

| Target | Rating |
|---|---|
| ▲ | ◄ ► |

| | |
|---|---|
| Ticker/Price | EIM IN/Rs 3,390 |
| Market cap | US$ 11.3bn |
| Free float | 51% |
| 3M ADV | US$ 35.0mn |
| 52wk high/low | Rs 3,890/Rs 2,160 |
| Promoter/FPI/DII | 49%/30%/9% |

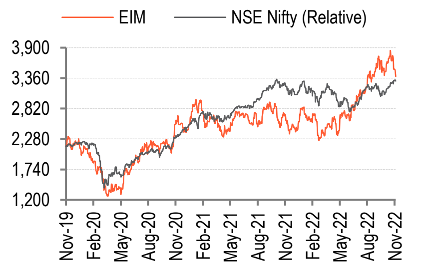
Source: NSE | Price as of 18 Nov 2022

### Key financials

| Y/E 31 Mar | FY22A | FY23E | FY24E |
|---|---|---|---|
| Total revenue (Rs mn) | 101,229 | 144,350 | 165,600 |
| EBITDA (Rs mn) | 21,136 | 35,338 | 42,641 |
| Adj. net profit (Rs mn) | 15,772 | 26,433 | 32,709 |
| Adj. EPS (Rs) | 58.1 | 97.3 | 120.3 |
| Consensus EPS (Rs) | 58.1 | 102.1 | 127.2 |
| Adj. ROAE (%) | 14.6 | 20.7 | 21.3 |
| Adj. P/E (x) | 58.3 | 34.9 | 28.2 |
| EV/EBITDA (x) | 41.1 | 25.0 | 21.4 |
| Adj. EPS growth (%) | 19.3 | 67.3 | 23.7 |

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance




Source: NSE

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**Recommendation scale: Recommendations and Absolute returns (%) over 12 months**

**BUY** – Expected return >+15%

**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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