Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Eicher Motors (EIM IN)

Rating: ACCUMULATE | CMP: Rs2,617 | TP: Rs2,737

August 13, 2021

Q1FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	**ACCUMULATE**		**ACCUMULATE**	
Target Price	**2,737**		**2,774**	
Sales (Rs. m)	1,05,488	1,27,403	1,06,216	1,27,143
% Chng.	*(0.7)*	*0.2*		
EBITDA (Rs. m)	23,875	32,559	23,784	33,060
% Chng.	*0.4*	*(1.5)*		
EPS (Rs.)	69.9	96.9	72.5	98.7
% Chng.	*(3.6)*	*(1.7)*		

Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	91,536	87,204	1,05,488	1,27,403
EBITDA (Rs. m)	21,804	17,813	23,875	32,559
Margin (%)	*23.8*	*20.4*	*22.6*	*25.6*
PAT (Rs. m)	18,275	13,469	19,115	26,496
EPS (Rs.)	67.0	49.3	69.9	96.9
Gr. (%)	*(17.7)*	*(26.4)*	*41.9*	*38.6*
DPS (Rs.)	12.5	17.0	17.0	17.0
Yield (%)	*0.5*	*0.6*	*0.6*	*0.6*
RoE (%)	*19.3*	*12.6*	*15.7*	*19.0*
RoCE (%)	*18.6*	*12.2*	*15.6*	*19.5*
EV/Sales (x)	7.2	7.4	6.0	4.8
EV/EBITDA (x)	30.3	36.4	26.5	18.8
PE (x)	39.1	53.1	37.4	27.0
P/BV (x)	7.2	6.3	5.5	4.7

Key Data

Key Data	EICH.BO | EIM IN
52-W High / Low	Rs.3,037 / Rs.2,007
Sensex / Nifty	54,844 / 16,364
Market Cap	Rs.715bn/ $ 9,633m
Shares Outstanding	273m
3M Avg. Daily Value	Rs.3708.11m

Shareholding Pattern (%)

Promoter's	49.22
Foreign	28.83
Domestic Institution	9.50
Public & Others	12.46
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(3.4)	(5.9)	18.3
Relative	(7.8)	(11.6)	(17.2)

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Supply-chain issues impacting volumes and model launches

Quick Pointers:

- Gaining traction in Exports market. 1Q was best ever quarter for exports with 28% QoQ volume growth at 17,493 units.
- Semi conductor shortage is a cause of concern and is expected to impact volumes and model launches, going ahead.

We cut FY22/23 consol EPS by 3.9%/3.3% as we cut RE volumes by 2.3%/3.2% & VECV volumes by 1.5%/1.5% to adjust for lower 1Q volumes and downgrade the stock to 'HOLD'. EIM's 1QFY22 S/A revenue declined 35% QoQ to Rs19.1b (PLe: 18b). Realization/volume came in at 8%/-35% QoQ. Higher share of exports, mix improvement and price hikes led to growth in realizations. S/A margins came in at 17.5% (22.9% in 4QFY21, PLe 20.8%) impacted by lower scale of operation and higher fixed cost. Company has reiterated its aggressive stance of new product launches, though supply challenges may play a spoil sport in near term. After series of delays, company is expected to launch new classic 350 by this month end.

We turn cautious on the stock given 1) saturation in key markets of Kerala and Chandigarh and 2) price rise impacting vehicle affordability. However, we believe that strong pickup in export market and aggressive model pipeline will remain as a key positive. We downgrade the stock to 'HOLD' (earlier Accumulate) with revised SoTP based TP of Rs2,737 (v/s Rs2,774) as we value S/A business at 27x (unchanged) and VECV at 12x EV/EBITDA (unchanged).

Q1FY22 S/A revenue came at Rs19.1b (+148%/-34.7% YoY/QoQ, PLe: 18b) led by 116%/-40% YoY/QoQ growth in volumes and 15%/8% YoY/QoQ growth in ASPs at Rs154.3k/unit (PLe Rs144.3k/unit). ASP growth was largely led by mix improvement and price hikes. Gross margin was at 40.6% vs 40.3% in 4QFY21 (PLe 39.8%). Led by higher fixed costs, EBITDA declined 50% QoQ at Rs3.3bn with margins of 17.5% vs 22.9% in 4QFY21 (PLe: 20.8%). Adj. PAT led by higher other income came at Rs2.7b (PLe: 2.8b).

VECV operations impacted by lockdown 1QFY22 Volumes grew 172% YoY but declined 68% QoQ at 5,086 units while ASP increased 1% QoQ led by revenue decline of ~55% QoQ at Rs16.3b. VECV margins stood at 1.1% (PLe 7.2%).

Key con-call takeaways: 1) Export volume increased 28% QoQ led by strong pickup in US, thereby posting the best quarter for Eicher in international market. **2)** Global semiconductor shortage continues to be a concern & will impact production in 2Q, expect improvement from 2H **3) Gross margins in 1Q improved due to increasing share of export and price hikes taken by the company. Commodity inflation to continue in 2Q** 4) The company targets to achieve 20% of revenue from non-auto sales, going forward **5)** - Mr B. Govindarajan current Chief Operating Officer (COO) is appointed as CEO and will replace Mr. Vinod K Dasari.

Exhibit 1: Q1FY22 Result Overview - Consolidated (Rs m)

Y/e March	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	FY21	FY20	YoY gr. (%)
Net Revenues	**19,743**	**8,182**	***141.3***	**29,403**	**87,204**	**91,536**	***(4.7)***
Raw Materials	11,417	5,011	*127.9*	17,391	51,128	49,959	*2.3*
% of Net Sales	*57.8*	*61.2*		*59.1*	*58.6*	*54.6*	
Personnel	2,234	1,769	*26.3*	2,254	8,432	7,958	*6.0*
% of Net Sales	*11.3*	*21.6*		*7.7*	*9.7*	*8.7*	
Manufacturing & Other Exp	2,463	1,364	*80.5*	2,915	9,331	11,315	*(17.5)*
% of Net Sales	*12.5*	*16.7*		*9.9*	*10.7*	*12.4*	
Total Expenditure	16,113	8,144	*97.9*	22,559	68,891	69,232	*(0.5)*
EBITDA	**3,630**	**38**	***9,477.0***	**6,844**	**18,313**	**22,304**	***(17.9)***
EBITDA Margin (%)	***18.4***	***0.5***		***23.3***	***21.0***	***24.4***	
Depreciation	1,116	982	*13.7*	1,248	4,507	3,815	*18.1*
EBIT	**2,513**	**-944**	***(366.2)***	**5,596**	**13,805**	**18,488**	***(25.3)***
Interest Expenses	64	51	*26.5*	39	165	189	*(12.9)*
Non-operating income	1,220	1,142	*6.8*	1,139	4,532	5,433	*(16.6)*
Extraordinary Expenses	0	0		0	0	0	
PBT	**3,669**	**147**	***2,391.0***	**6,696**	**18,173**	**23,732**	***(23.4)***
Tax-Total	904	45	*1,904.2*	1,625	4,515	5,275	*(14.4)*
Tax Rate (%) - Total	*24.6*	*30.6*		*24.3*	*24.8*	*22.2*	
Reported PAT	**2,765**	**102**	***2,605.8***	**5,071**	**13,658**	**18,457**	***(26.0)***
Share of profit	-394	-654	*(39.8)*	690	311	317	*(1.8)*
Profit after MI	**2,371**	**-552**	***(529.7)***	**5,761**	**13,969**	**19,274**	***(27.5)***
Adj. PAT	**2,371**	**-552**	***(529.7)***	**5,761**	**13,969**	**18,774**	***(25.6)***

Source: Company, PL

Exhibit 2: Operating Metrics - Standalone

Y/e March	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	FY21	FY20	YoY gr. (%)
Sales Volume (nos)	**1,23,640**	**57,269**	***115.9***	**2,04,604**	**6,12,060**	**6,95,839**	***(12.0)***
Net Realisation/Vehicle	1,59,681	1,42,863	*11.8*	1,43,708	1,42,475	1,31,547	*8.3*
Material cost / vehicle	92,340	87,492	*5.5*	85,000	83,534	71,797	*16.3*
Gross Profit / vehicle	67,341	55,370	*21.6*	58,709	58,942	59,750	*(1.4)*
Employee cost /vehicle	18,068	30,884	*(41.5)*	11,014	13,777	11,436	*20.5*
Other expenses / vehicle	19,917	23,824	*(16.4)*	14,245	15,245	16,261	*(6.2)*
EBITDA/vehicle	29,357	662	*4,336.0*	33,449	29,919	32,053	*(6.7)*
Net Profit/vehicle	19,179	-9,635	*(299.1)*	28,159	22,823	26,981	*(15.4)*

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	**91,536**	**87,204**	**1,05,488**	**1,27,403**
YoY gr. (%)	*(6.6)*	*(4.7)*	*21.0*	*20.8*
Cost of Goods Sold	49,959	51,128	62,238	73,894
Gross Profit	41,577	36,076	43,250	53,509
Margin (%)	*45.4*	*41.4*	*41.0*	*42.0*
Employee Cost	7,958	8,432	8,581	8,832
Other Expenses	11,815	9,831	10,794	12,118
EBITDA	**21,804**	**17,813**	**23,875**	**32,559**
YoY gr. (%)	*(24.9)*	*(18.3)*	*34.0*	*36.4*
Margin (%)	*23.8*	*20.4*	*22.6*	*25.6*
Depreciation and Amortization	3,815	4,507	4,711	5,166
EBIT	**17,989**	**13,305**	**19,163**	**27,393**
Margin (%)	*19.7*	*15.3*	*18.2*	*21.5*
Net Interest	189	165	80	80
Other Income	5,433	4,532	5,150	5,150
Profit Before Tax	**23,232**	**17,673**	**24,233**	**32,463**
Margin (%)	*25.4*	*20.3*	*23.0*	*25.5*
Total Tax	5,275	4,515	6,233	8,323
Effective tax rate (%)	*22.7*	*25.5*	*25.7*	*25.6*
Profit after tax	**17,958**	**13,158**	**18,001**	**24,140**
Minority interest	-	-	-	-
Share Profit from Associate	317	311	1,114	2,356
Adjusted PAT	**18,275**	**13,469**	**19,115**	**26,496**
YoY gr. (%)	*(17.7)*	*(26.3)*	*41.9*	*38.6*
Margin (%)	*20.0*	*15.4*	*18.1*	*20.8*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**18,275**	**13,469**	**19,115**	**26,496**
YoY gr. (%)	*(17.0)*	*(26.3)*	*41.9*	*38.6*
Margin (%)	*20.0*	*15.4*	*18.1*	*20.8*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	18,275	13,469	19,115	26,496
Equity Shares O/s (m)	**273**	**273**	**273**	**273**
EPS (Rs)	**67.0**	**49.3**	**69.9**	**96.9**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	**36,518**	**41,583**	**48,819**	**54,306**
Tangibles	36,518	41,583	48,819	54,306
Intangibles	-	-	-	-
Acc: Dep / Amortization	**12,743**	**17,250**	**21,961**	**27,128**
Tangibles	12,743	17,250	21,961	27,128
Intangibles	-	-	-	-
Net fixed assets	**23,775**	**24,333**	**26,858**	**27,178**
Tangibles	23,775	24,333	26,858	27,178
Intangibles	-	-	-	-
Capital Work In Progress	3,122	3,143	250	250
Goodwill	-	-	-	-
Non-Current Investments	32,363	28,261	29,375	31,731
Net Deferred tax assets	(2,522)	(2,215)	(2,215)	(2,215)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	25,125	10,761	15,065	18,078
Inventories	5,724	8,746	7,225	7,679
Trade receivables	868	1,582	867	1,047
Cash & Bank Balance	29,506	58,304	67,499	83,967
Other Current Assets	4,014	5,866	5,058	6,108
Total Assets	**1,24,497**	**1,45,586**	**1,52,197**	**1,76,039**
Equity				
Equity Share Capital	273	273	273	273
Other Equity	99,536	1,14,108	1,28,576	1,50,426
Total Networth	**99,809**	**1,14,381**	**1,28,850**	**1,50,699**
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,490	2,193	602	602
Trade payables	10,078	15,358	11,560	13,962
Other current liabilities	9,598	11,440	10,084	12,031
Total Equity & Liabilities	**1,24,497**	**1,45,586**	**1,52,197**	**1,76,039**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	23,549	17,984	24,233	32,463
Add. Depreciation	3,815	4,507	4,711	5,166
Add. Interest	(2,207)	(3,103)	5,150	5,150
Less Financial Other Income	5,433	4,532	5,150	5,150
Add. Other	(317)	770	(1,025)	(4,174)
Op. profit before WC changes	24,841	20,158	33,070	38,605
Net Changes-WC	(1,616)	1,544	(1,563)	1,768
Direct tax	(6,283)	(4,566)	(6,233)	(8,323)
Net cash from Op. activities	**16,941**	**17,136**	**25,274**	**32,049**
Capital expenditures	(5,445)	(5,375)	(4,344)	(5,486)
Interest / Dividend Income	-	-	-	-
Others	(9,639)	(11,104)	(5,419)	(5,369)
Net Cash from Invt. activities	**(15,084)**	**(16,479)**	**(9,762)**	**(10,855)**
Issue of share cap. / premium	289	384	-	-
Debt changes	(618)	(373)	(1,591)	-
Dividend paid	(8,087)	-	(4,646)	(4,646)
Interest paid	(167)	(158)	(80)	(80)
Others	-	-	-	-
Net cash from Fin. activities	**(8,583)**	**(148)**	**(6,317)**	**(4,726)**
Net change in cash	**(6,725)**	**509**	**9,195**	**16,468**
Free Cash Flow	11,496	11,760	20,931	26,563

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	67.0	49.3	69.9	96.9
CEPS	81.0	65.8	87.2	115.8
BVPS	365.9	418.5	471.5	551.4
FCF	42.1	43.0	76.6	97.2
DPS	12.5	17.0	17.0	17.0
Return Ratio(%)				
RoCE	18.6	12.2	15.6	19.5
ROIC	33.1	24.5	35.2	53.1
RoE	19.3	12.6	15.7	19.0
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.6)	(0.6)	(0.7)
Net Working Capital (Days)	(14)	(21)	(12)	(15)
Valuation(x)				
PER	39.1	53.1	37.4	27.0
P/B	7.2	6.3	5.5	4.7
P/CEPS	32.3	39.8	30.0	22.6
EV/EBITDA	30.3	36.4	26.5	18.8
EV/Sales	7.2	7.4	6.0	4.8
Dividend Yield (%)	0.5	0.6	0.6	0.6

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	**21,336**	**28,283**	**29,403**	**19,743**
YoY gr. (%)	*(2.7)*	*19.3*	*33.2*	*141.3*
Raw Material Expenses	12,221	16,505	17,391	11,417
Gross Profit	9,115	11,778	12,012	8,326
Margin (%)	*42.7*	*41.6*	*40.9*	*42.2*
EBITDA	**4,711**	**6,720**	**6,844**	**3,630**
YoY gr. (%)	*(13.0)*	*13.5*	*41.9*	*9,477.0*
Margin (%)	*22.1*	*23.8*	*23.3*	*18.4*
Depreciation / Depletion	1,048	1,229	1,248	1,116
EBIT	**3,662**	**5,491**	**5,596**	**2,513**
Margin (%)	*17.2*	*19.4*	*19.0*	*12.7*
Net Interest	38	36	39	64
Other Income	1,000	1,250	1,139	1,220
Profit before Tax	**4,624**	**6,706**	**6,696**	**3,669**
Margin (%)	*21.7*	*23.7*	*22.8*	*18.6*
Total Tax	1,152	1,693	1,625	904
Effective tax rate (%)	*24.9*	*25.3*	*24.3*	*24.6*
Profit after Tax	**3,472**	**5,012**	**5,071**	**2,765**
Minority interest	-	-	-	-
Share Profit from Associates	(39)	314	690	(394)
Adjusted PAT	**3,433**	**5,326**	**5,761**	**2,371**
YoY gr. (%)	*(40.0)*	*6.8*	*62.6*	*(529.7)*
Margin (%)	*16.1*	*18.8*	*19.6*	*12.0*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**3,433**	**5,326**	**5,761**	**2,371**
YoY gr. (%)	*(40.0)*	*6.8*	*62.6*	*(529.7)*
Margin (%)	*16.1*	*18.8*	*19.6*	*12.0*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**3,433**	**5,326**	**5,761**	**2,371**
Avg. Shares O/s (m)	27	27	27	27
EPS (Rs)	**127.2**	**197.3**	**213.5**	**87.9**

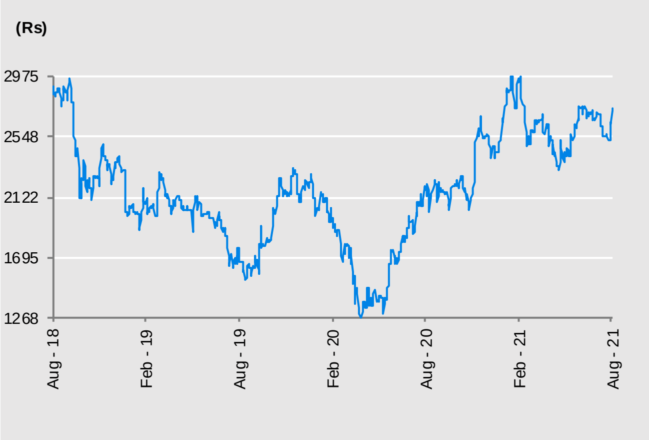
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Royal Enfield volumes (units)	6,95,947	6,12,060	7,15,397	8,17,561
Net Realisation (Rs/unit)	1,29,445	1,40,046	1,46,088	1,54,365
VECV volume (units)	48,721	41,268	57,293	65,796

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-21	Accumulate	2,774	2,711
2	27-May-21	Accumulate	2,895	2,604
3	07-Apr-21	Accumulate	2,958	2,487
4	10-Feb-21	Accumulate	3,129	2,901
5	11-Jan-21	Accumulate	2,901	2,761
6	12-Nov-20	Accumulate	2,598	2,346
7	09-Oct-20	Accumulate	2,291	2,218

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	153	122
2	Bajaj Auto	Hold	3,919	3,853
3	Bharat Forge	UR	-	767
4	CEAT	Hold	1,383	1,367
5	Eicher Motors	Accumulate	2,774	2,711
6	Endurance Technologies	BUY	1,772	1,635
7	Exide Industries	BUY	191	179
8	Hero Motocorp	Accumulate	3,516	2,919
9	Mahindra & Mahindra	BUY	961	758
10	Maruti Suzuki	Accumulate	7,684	7,165
11	Motherson Sumi Systems	BUY	249	207
12	Tata Motors	Reduce	255	317
13	TVS Motors	BUY	669	562

PL's Recommendation Nomenclature (Absolute Performance)

Buy : > 15%
Accumulate : 5% to 15%
Hold : +5% to -5%
Reduce : -5% to -15%
Sell : < -15%
Not Rated (NR) : No specific call on the stock
Under Review (UR) : Rating likely to change shortly

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