

Performance broadly in-line

Eicher Motors (Eicher) Ltd's performance was broadly in line with our estimates. Company posted a decent set of numbers. Eicher reported standalone net revenues of Rs 2,123 crs in Q2FY21 (reporting a decline of 3% YoY) v/s our estimates of Rs 2,078 crs. This was on the back of 10% YoY decline in Royal Enfield (RE) volumes supported by 7.7% YoY increase in net realizations.

Company reported EBITDA of Rs 448 crs (decline of 18% YoY) which was in line with our estimate of Rs 445 crs (0.7% increase). EBITDA margin came in at 21.1% (down 393 bps YoY), which was 30 bps below our estimate of 21.4% due to higher-than expected input costs and negative operating leverage. The margins improved substantially on a sequential basis as compared to 0.2% in Q1FY21. Company reported Profit after Tax of Rs 361 crs (in line with our estimate of Rs 359 crs) resulting in a decline of 37% YoY as compared to Rs 570 crs in Q2FY20. The sharp decline was on account of lower other income and higher tax outgo.

VECV volumes declined by 28% YoY. VECV reported Net revenues of Rs 1,703 crs (15% YoY decline) during the quarter. In Spite of drop in revenues, the EBITDA margin improved to 6.9% for the quarter against 5.4% during corresponding quarter for the last year due to stringent cost reduction measures being undertaken. VECV incurred a marginal loss of Rs 7 crs during this quarter against a profit of Rs 15 Crs in Q2 last year.

The recovery in demand to pre-Covid levels, normalization of supply chain and logistics, prudent cost & cash management, along with upcoming product launches, will help the company deliver profitability going forward. **We revise our rating from BUY to HOLD and upgrade our TP to Rs. 2,500 (Rs 2,400 earlier) resulting in an upside of 6% from current levels.**

Key concall takeaways

- Demand Outlook:** The recovery in domestic 2W industry has been quite strong. RE's volumes are also witnessing strong sequential recovery after a subdued 1st quarter. Company is witnessing higher bookings and the waiting period has reached over a month. RE has a current backlog of 1,25,000 bookings. Management noted that production has also ramped up MoM and reached ~70k units last month. It indicated that company continued to face some supply side constraints like availability of parts for specific models which weighed on production. Though by end of quarter, it has reached to pre covid levels. We note that company has production capacity of 100k units per month on a 2 shift basis.
- Meteor 350 launch:** Company digitally launched the new cruiser Meteor 350 in the 1st week of November 2020 and witnessed strong response receiving ~8000 bookings within a week of the launch. Management noted that ~90% of bookings have come from RE's newly launched 'Make It Yours' (MIY) feature on its mobile app. Through MIY customers have the option to personalize the vehicle by choosing from a variety of colour, accessories, and bike parts (mirror, silencer, seat etc.) Meteor 350 launch was mainly delayed due to Covid 19. Its product development plan continues and company has lined up new products for coming quarters.
- VECV Business:** The initial signs of revival in the CV industry are visible with a positive outlook for the economy going forward. Company is witnessing good demand from niche segments like construction, mining, agriculture and e-commerce. The company is also positive on revival in the replacement demand that had been muted for last 2 years. Hence, the overall outlook for the CV industry remains positive in H2FY21.

Valuation & Outlook

We estimate Company's volumes to decline ~11% in FY21E followed by a sharp recovery of ~25% & ~12% in FY22E and FY23E. We expect the company to register Revenue/Ebitda/PAT CAGR of ~11%/~11%/~9% from FY20-FY23E driven by volume CAGR of 7.5% over FY20-23E. **We revise our rating from BUY to HOLD and upgrade our TP to Rs. 2,500 (Rs 2,400 earlier), valuing RE standalone business at 25x FY23E P/E (Rs 2,276) and VECV Business at 9x FY23E EV/EBITDA (Rs 224).**

Key Financials (Standalone)

(Rs. Cr)	FY20A	FY21E	FY22E	FY23E
Net Sales	9,077	8,731	11,022	12,469
EBITDA	2,204	1,878	2,535	3,050
Net Profit	1,904	1,498	2,047	2,485
EPS (Rs.)	697.2	54.8	74.9	91.0
ROE (%)	24.7	17.0	20.4	21.5
ROCE (%)	23.7	16.5	19.8	21.0
PER (x)	18.8	42.9	31.4	25.9
P/BV (x)	4.3	6.9	6.0	5.2
EV/EBITDA (x)	13.0	30.0	21.6	17.4
Debt/ Equity (x)	-0.8	-0.8	-0.9	-0.9

Source: Company, Axis Research

(CMP as of Nov 12, 2020)

CMP (Rs)	2,354
Upside /Downside (%)	6%
High/Low (Rs)	2,389/ 1,246
Market cap (Cr)	63,598
Avg. daily vol. (6m) Shrs.	234,559
No. of shares (Cr)	27.3

Shareholding (%)

	Mar-20	Jun-20	Sep-20
Promoter	49.28	49.28	49.25
FIIs	27.71	26.95	28.16
MFs / UTI	8.49	9.32	6.96
Banks / FIIs	0.47	0.47	0.05
Others	14.05	13.98	15.58

Financial & Valuations

Y/E Mar (Rs. Crs)	2021E	2022E	2023E
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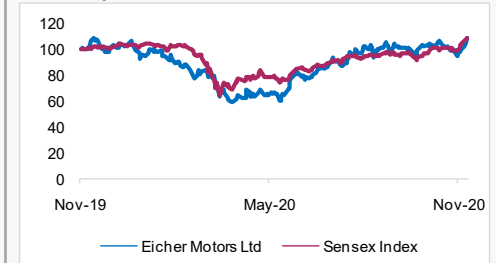
Change in Estimates (%)

Y/E Mar	FY21E	FY22E	FY23E
Sales	3.1	6.9	6.4
EBITDA	(0.6)	2.5	0.9
PAT	(0.3)	4.3	2.9

Axis vs Consensus

EPS Estimates	2021E	2022E	2023E
Axis	54.8	74.9	91.0
Consensus	51.3	81.8	100.9
Mean Consensus TP (12M)			2,165

Relative performance



Source: Capitaline, Axis Securities

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Q2FY21 Financial Highlights (Standalone)

(Rs crs)	Q2FY21	Axis Sec Estimates	Axis Sec Var (%)	Q1FY21	QoQ growth (%)	Q2FY20	YoY growth %
Total Revenue	2,123	2,078	2.2	769	176	2,182	(2.7)
Less:							
Net Raw Material consumed	1,261	1,205	4.6	476	165	1,190	6.0
Other Exp.	217	249	(13.0)	123	77	268	(19.0)
Personnel	198	179	10.5	169	17	178	10.8
Total Expenditure	1,675	1,633	2.6	768	118	1,636	2.4
EBIDTA	448	445	0.7	1.2	37,538	546	(18.0)
Less: Depreciation	104	103	0.9	97	7	89	16.5
EBIT	344	342	0.7	-96	(459)	457	(24.7)
Less: Interest	2	2	(28.3)	3	(40)	3	(34.4)
Add: Other Income	100	141	(29.1)	115	(13)	145	(31.1)
Profit Before Extraordinary items and Tax	442	480	(7.9)	16	2,607	599	(26.2)
Extraordinary Expense/(Income)	0	0		0		0	
Profit Before Tax	442	480	(7.9)	16	2,607	599	(26.2)
Less: Total Tax	117	121	(2.9)	4	2,804	29	307.3
Profit After Tax	325	359	(9.6)	12	2,542	570	(43.0)
Adj. Net Profit	361	359	0.4	12	2,834	570	(36.7)
Shares Outstanding (mn)	27	27	-	27		27	
Reported EPS (Rs.)	11.9	13.2	(9.6)	0.5	2,542	20.9	(43.1)
Adj. EPS (Rs.)	13.2	13.2	0.4	0.5	2,834	20.9	(36.8)

Source: Company; Axis Securities

Other Key Concall Takeaways

- 1) **Ramp-up in Distribution Network:** In Q2FY21, RE added 25 regular stores and 133 studio stores in India, taking the total store count to 1,717 outlets across 1,400 cities now. It also added 6 exclusive stores in overseas markets taking the total count to 85. It added Cambodia and Costa Rica to its list of export markets. During the quarter, RE commenced local assembly of motorcycles in Argentina in partnership with Grupo Simpa, RE's local distributor in the country since 2018. VECV has also added 38 touch points in H1 and is trying to add additional 100 touch points by end of FY21. It is also focusing on expansion in new markets like Latin America and North America.
- 2) **Improvement in Realizations:** Company's realizations improved during the quarter on the back of improved product mix, and price increases. In Q2, RE took a price increase of ~Rs 3k for Bullet and ~Rs 2k for other variants.
- 3) **Other takeaways:**
 - ✓ H1FY21 capex stood at Rs 200 crs. For FY21, capex is expected to be in the range of Rs 400-450 crs.
 - ✓ Share of digital enquiries has increased substantially with 2 out of 3 enquiries coming from digital. RE has also tripled its conversion rate of digital enquiries to ~13-14% now
 - ✓ Apparel and accessory business grew ~20% YoY in Q2.
 - ✓ The company signed an agreement for integration of Volvo Bus India into VECV. With a strong product line of Eicher brand, the addition of iconic Volvo brand will give it an edge in technology with access to Volvo Group's world class technology for Buses.
 - ✓ At VECV, company continues to remain focused on driving modernization in commercial vehicles space and became first and only commercial vehicle company to have introduced 100% connected trucks and buses through advanced telematics.

Change in Estimates

(Rs Crs)

	Revised			Old			%Change		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	8,731	11,022	12,469	8,465	10,311	11,721	3.1%	6.9%	6.4%
EBITDA	1,878	2,535	3,050	1,889	2,475	3,024	-0.6%	2.5%	0.9%
PAT	1,498	2,047	2,485	1,502	1,963	2,414	-0.3%	4.3%	2.9%
EPS	54.8	74.9	91.0	55.2	72.1	88.7	-0.7%	3.9%	2.5%

Source: Company, Axis Research

Financials (Standalone)
Profit & Loss
(Rs Cr)

Y/E March	FY20A	FY21E	FY22E	FY23E
Net revenues	9,077	8,731	11,022	12,469
Operating expenses	6,874	6,853	8,487	9,419
EBIDTA	2,204	1,878	2,535	3,050
EBIDTA margin (%)	24.3	21.5	23.0	24.5
Other income	615	563	701	841
Interest	11	11	12	13
Depreciation	378	441	505	578
Profit Before Tax	2,430	1,989	2,719	3,300
Tax	527	491	672	815
Reported Net Profit	1,904	1,498	2,047	2,485
Net Margin (%)	21.0	17.2	18.6	19.9
Adjusted Net Profit	1,904	1,498	2,047	2,485

Source: Company, Axis Securities

Balance Sheet
(Rs Cr)

Y/E March	FY20A	FY21E	FY22E	FY23E
Equity capital	27	27	27	27
Reserves & surplus	8,248	9,302	10,694	12,325
Shareholders' funds	8,275	9,329	10,722	12,353
Total Loans	101	101	101	101
Deferred tax liability	252	252	252	252
Total Liabilities and Equity	8,628	9,682	11,074	12,705
Gross block	3,684	4,184	4,834	5,484
Depreciation	1,316	1,756	2,261	2,839
Net block	2,369	2,428	2,573	2,645
Capital WIP	312	312	312	312
Investments	3,926	3,920	3,920	3,920
Inventory	518	534	654	733
Debtors	134	129	163	184
Cash & Bank Bal	2,926	3,947	5,466	7,205
Loans & Advances	394	394	394	394
Current Assets	3,973	5,004	6,677	8,517
Sundry Creditors	1,021	1,054	1,291	1,448
Other Current Liability	930	929	1,117	1,242
Current Liability & Provisions	1,951	1,983	2,408	2,689
Net current assets	2,022	3,021	4,269	5,828
Total Assets	8,628	9,682	11,074	12,705

Source: Company, Axis Securities

Cash Flow
(Rs Cr)

Y/E March	FY20A	FY21E	FY22E	FY23E
EBIT	1,826	1,437	2,030	2,472
Other Income	615	563	701	841
Depreciation & Amortization	378	441	505	578
Interest Paid (-)	11	11	12	13
Tax paid (-)	-628	-491	-672	-815
Extra Ord Income	-552	0	0	0
Operating Cash Flow	1,650	1,961	2,576	3,088
Change in Working Capital	92	21	272	180
Cash Flow from Operations	1,742	1,982	2,848	3,268
Capex	-555	-500	-650	-650
Strategic investments	0	0	0	0
Non-Strategic Investments	-964	5	0	0
Cash Flow from Investing	-1,519	-495	-650	-650
Change in borrowing	-103	0	0	0
Others	28	0	0	0
Dividends paid (-)	-809	-444	-655	-854
Cash Flow from Financial Activities	-883	-444	-655	-854
Change in Cash	-661	1,044	1,543	1,764
Opening Cash	691	19	1,040	2,559
Closing Cash	19	1,040	2,559	4,298

Source: Company, Axis Securities

Ratio Analysis
(%)

Y/E March	FY20A	FY21E	FY22E	FY23E
Revenue Growth	-7.3	-3.8	26.3	13.1
EBITDA Margin	24.3	21.5	23.0	24.5
Net Profit Margin	21.0	17.2	18.6	19.9
ROCE (%)	23.7	16.5	19.8	21.0
ROE (%)	24.7	17.0	20.4	21.5
EPS (Rs)	697.2	54.8	74.9	91.0
P/E (x)	18.8	42.9	31.4	25.9
P / BV (x)	4.3	6.9	6.0	5.2
EV / EBITDA (x)	13.0	30.0	21.6	17.4
Fixed Asset Turnover Ratio (x)	3.4	3.2	3.8	4.2
Debt Equity (x)	0.0	0.0	0.0	0.0
EV / Sales	3.2	6.4	5.0	4.3

Source: Company, Axis Securities

About the analyst**Analyst:** Darshan Gangar**Contact Details:** darshan.gangar@axissecurities.in**Sector:** Auto**Analyst Bio:** Darshan Gangar is Chartered Accountant with over a year of research experience in the Mid Cap space and Auto sector.**Disclosures:**

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