

14 November 2024

India | Equity Research | Q2FY25 results review

Eicher Motors

Automotives

Higher marketing spends impact profitability; focus on volume growth ahead

Eicher Motors' (EIM) Q2FY25 standalone EBITDAM came in at 26.3%, down ~160bps QoQ (vs consensus estimate of 28%); margin decline was due to higher other expenses, including warehousing related one-off items and increased marketing spends, amidst flat volumes QoQ. With volume growth likely to remain ~7%, we believe additional driver for EBITDA growth would be rise in ASP as 450cc/650cc model mix is set to rise, other than exports revival on a low base. We have cut our FY25/26E EPS by ~2% to factor in lower margins led by higher marketing expenses. Maintain **ADD** with DCF-based revised TP of INR 4,850 (earlier INR 4,827), implying ~26x FY26E EPS.

Takeaways from Q2FY25 conference call

- In Q2FY25, RE's volume stood at ~228k, flat YoY and QoQ. From demand perspective, RE remains confident on continuity of premiumisation theme. It is taking the right steps to address demand across various potential segments in the form of adventure bikes, cruiser bikes, speedsters, café-racers etc. RE's recent Bear 650 and Guerilla 450 launches have helped it expand its portfolio further, and have received good initial response. RE exports increased ~2% QoQ to 22k units in Q2, and it expects the scale of exports to pick up in the next couple of quarters. RE's marketing initiatives have helped it revive demand, and post strong festive season sales (+26% YoY for RE), it is currently at lower-than-average inventory levels of ~3 weeks. We are building in ~79k/86k monthly average volume for RE in FY25/26E, against ~76k units monthly average in FY24.
- RE reported EBITDAM of 25.5% in Q2FY25 at consolidated level, down ~100bps QoQ led by gross margin worsening of 110bps and higher other expenses due to increased marketing spends and certain one-off items (related to warehousing costs); marketing spends are expected to be elevated going ahead as well. Though no price hike was implemented, ASP increased YoY by 8% and EBITDA/unit stood at ~INR 48k in Q2FY25 (up 1% YoY), despite RE's volumes being flat YoY, at ~228k units. With 450cc and 650cc model demand rising in the mix, higher ASP would be sustainable and may grow hereon. Going ahead, RE is focusing on growth and EBITDA rather than EBITDA margin. We are building in ~0.94mn/1.04mn units for FY25/26E with mean EBITDAM of ~27.2%.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	1,44,422	1,65,358	1,82,830	2,08,751
EBITDA	34,436	43,269	49,025	56,300
EBITDA %	23.8	26.2	26.8	27.0
Net Profit	29,139	40,010	45,322	49,679
EPS (INR)	106.8	146.7	166.1	182.1
EPS % Chg YoY	73.8	36.8	13.7	9.6
P/E (x)	42.9	31.4	27.6	25.2
EV/EBITDA (x)	32.6	25.9	21.8	18.3
RoCE (%)	19.0	21.6	20.6	20.0
RoE (%)	22.4	26.1	24.7	22.6

Vishakha Maliwal

vishakha.maliwal@icicisecurities.com
+91 22 6807 7161

Market Data

Market Cap (INR)	1,258bn
Market Cap (USD)	14,902mn
Bloomberg Code	EIM IN
Reuters Code	EICH.BO
52-week Range (INR)	5,105 /3,562
Free Float (%)	50.0
ADTV-3M (mn) (USD)	29.7

Price Performance (%)	3m	6m	12m
Absolute	(4.4)	(1.5)	25.9
Relative to Sensex	(2.8)	(8.2)	6.2

ESG Score	2023	2024	Change
ESG score	73.2	73.2	0.0
Environment	63.2	66.8	3.6
Social	70.9	72.9	2.0
Governance	78.7	77.5	(1.2)

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	(0.0)	(0.0)
EBITDA	(2.1)	(1.8)
EPS	(1.8)	(1.6)

Previous Reports

09-08-2024: [Q1FY25 results review](#)

12-05-2024: [Q4FY24 results review](#)

Exhibit 1: Q2FY25 result review (consolidated)

(INR mn, year ending March 31)	Q2FY25	Q2FY24	YoY	Q1FY25	QoQ
Operating income	42,631	41,145	4%	43,930	-3%
Raw Material Costs	22,824	22,201	3%	23,562	-3%
As % of sales	53.5%	54.0%	-42 bps	53.6%	-10 bps
Gross profit	19,807	18,945	5%	20,369	-3%
Gross margin	46.5%	46.0%	42 bps	46.4%	10 bps
Employees Cost	3,464	3,061	13%	3,536	-2%
As % of sales	8.1%	7.4%	68 bps	8.0%	8 bps
Other expenditure	5,466	5,012	9%	5,178	6%
As % of sales	12.8%	12.2%	64 bps	11.8%	103 bps
EBITDA	10,877	10,872	0%	11,654	-7%
EBITDA margin	25.5%	26.4%	-91 bps	26.5%	-101 bps
Depreciation & amortisation	1,801	1,425	26%	1,686	7%
EBIT	9,077	9,446	-4%	9,968	-9%
EBIT margin	21.3%	23.0%	-167 bps	22.7%	-140 bps
Other Income (net)	3,538	2,738	29%	2,820	25%
Interest	131	127	4%	123	7%
PBT (before EO)	12,483	12,057	4%	12,665	-1%
Tax expense	2,617	2,911	-10%	3,396	-23%
Effective tax rate	21.0%	24.1%	-318 bps	26.8%	-585 bps
Adjusted PAT	9,866	9,146	8%	9,269	6%
Profit from share of associates	1,138	1,016	12%	1,746	-35%
Adjusted PAT after share from JVs	11,003	10,163	8%	11,015	0%

Source: Company data, I-Sec research

Exhibit 2: Q2FY25 result per vehicle matrix

Per vehicle matrix	Q2FY25	Q2FY24	YoY	Q1FY25	QoQ
Royal Enfield volume (units)	2,27,872	2,29,280	-1%	2,27,736	0%
Royal Enfield realisation (INR)	1,84,553	1,71,437	8%	1,85,798	-1%
RE gross profit/unit (INR)	84,357	80,226	5%	86,940	-3%
RE EBITDA/unit (INR)	48,487	47,865	1%	51,752	-6%
VECV Volume (units)	20,774	19,551	6%	19,702	5%
VECV Realisation (INR)	26,65,832	26,23,395	2%	25,73,343	4%
RE EBITDA margin (bps)	26.3%	27.9%	-165 bps	27.9%	-158 bps
VECV EBITDA margin (bps)	7.1%	7.9%	-74 bps	7.6%	-46 bps

Source: I-Sec research, Company data

Exhibit 3: Volume and margin assumptions

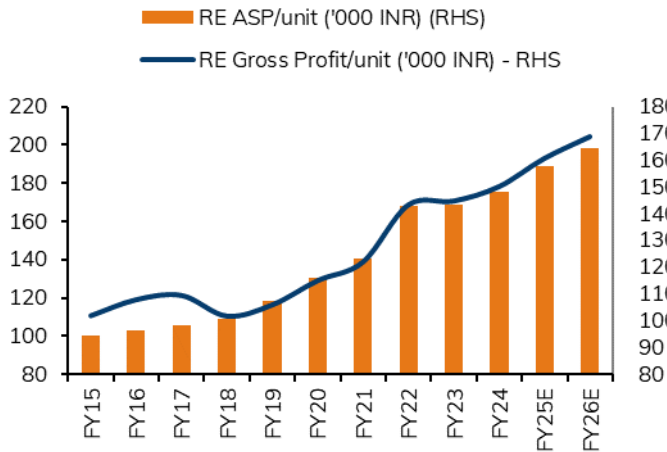
	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
RE volume (Units)	6,95,839	6,12,060	6,02,275	8,34,895	9,12,732	9,44,419	10,39,002
ASP (INR)	1,30,454	1,40,823	1,68,078	1,68,866	1,75,473	1,88,805	1,98,113
Consolidated EBITDA Margin (%)	23.8%	20.4%	21.1%	23.8%	26.2%	27.1%	27.3%
Consolidated EBITDA/unit (INR)	31,334	29,103	36,067	41,246	47,406	51,212	54,001
Consolidated Capex (INR mn)	5,445	5,375	6,387	7,592	9,050	8,916	8,234
VECV volume (units)	48,721	41,250	55,824	79,078	84,407	88,627	70,902
VECV EBITDA Margin (%)	4.7%	6.9%	5.6%	7.3%	7.8%	9.8%	8.2%

Source: I-Sec research, Company data

Downside risks

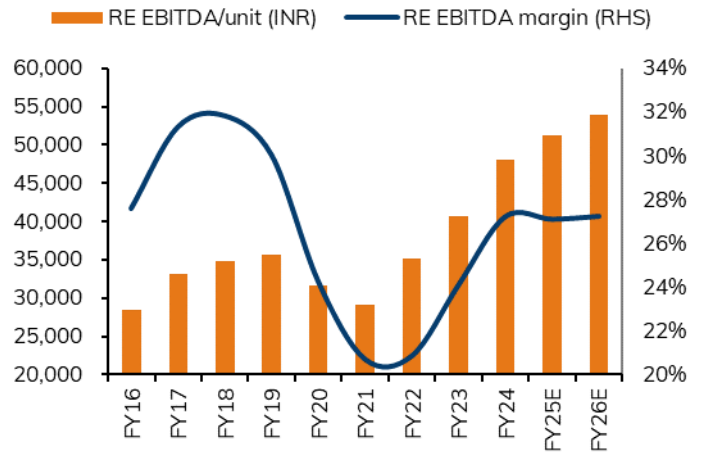
- Higher-than-expected impact of competitive intensity in RE volumes.
- Slower-than-expected premiumisation within domestic motorcycle market.
- Inability to raise share in global mid-weight motorcycle market (1mn size currently).

Exhibit 4: Per unit profitability on rising trajectory



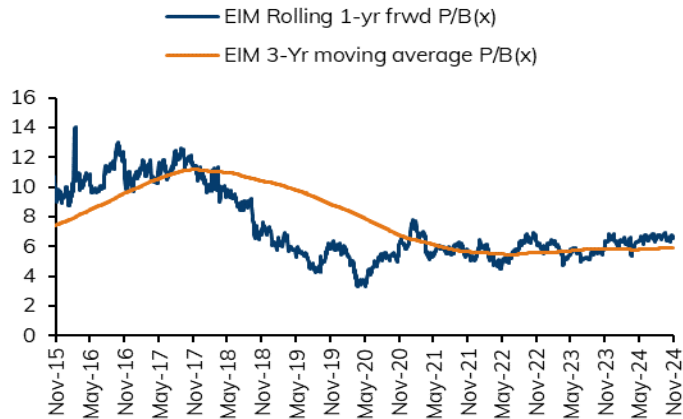
Source: I-Sec research, Company data

Exhibit 5: Expect EBITDAM to remain ~27% in FY25-26E



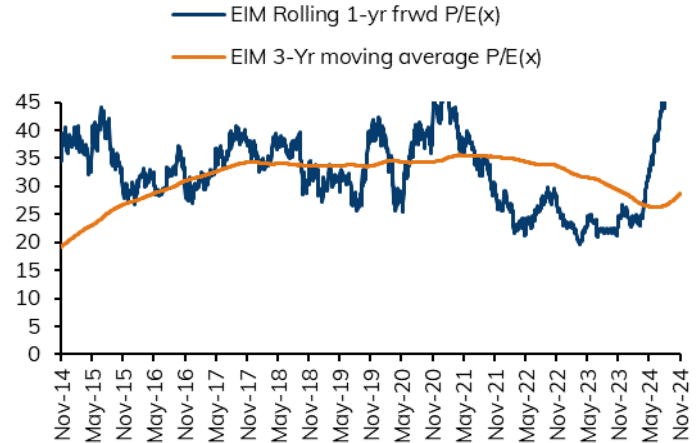
Source: I-Sec research, Company data

Exhibit 6: Three-year moving P/B



Source: Bloomberg, Company data, I-Sec research

Exhibit 7: Three-year moving core P/E



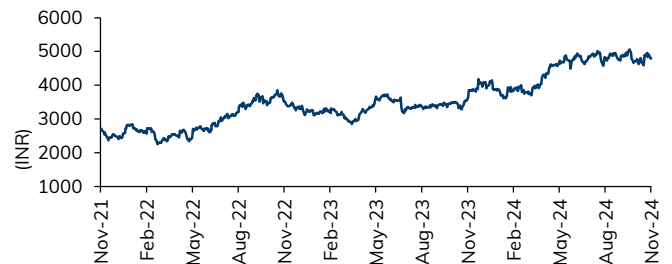
Source: Bloomberg, Company data, I-Sec research

Exhibit 8: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	49.2	49.1	49.1
Institutional investors	40.1	40.8	41.4
MFs and others	6.6	8.4	9.5
FIs/Banks	0.1	0.2	0.7
Insurance	2.7	2.9	3.1
FIIIs	30.7	29.3	28.1
Others	10.8	10.1	9.5

Source: Bloomberg

Exhibit 9: Price chart



Source: Bloomberg

Financial Summary

Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	1,44,422	1,65,358	1,82,830	2,08,751
Operating Expenses	27,867	32,282	33,238	37,626
EBITDA	34,436	43,269	49,025	56,300
EBITDA Margin (%)	23.8	26.2	26.8	27.0
Depreciation & Amortization	5,262	5,976	6,700	7,600
EBIT	29,174	37,293	42,325	48,700
Interest expenditure	280	509	300	200
Other Non-operating Income	5,951	10,759	11,835	13,018
Recurring PBT	34,845	47,543	53,860	61,518
Profit / Loss from Associates	3,152	4,477	5,000	3,000
Less: Taxes	8,857	12,010	13,538	14,839
PAT	25,988	35,533	40,322	46,679
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	29,139	40,010	45,322	49,679
Net Income (Adjusted)	29,139	40,010	45,322	49,679

Source Company data, I-Sec research

Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	37,149	61,315	85,417	1,29,235
of which cash & cash eqv.	8,571	1,463	48,851	87,485
Total Current Liabilities & Provisions	47,323	57,421	50,523	57,229
Net Current Assets	(10,174)	3,894	34,894	72,007
Investments	1,23,207	1,35,270	1,35,270	1,35,270
Net Fixed Assets	26,900	29,144	34,233	34,752
ROU Assets	-	-	-	-
Capital Work-in-Progress	4,721	5,551	2,650	2,650
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	1,44,653	1,73,858	2,07,047	2,44,678
Liabilities				
Borrowings	1,957	2,756	1,574	1,574
Deferred Tax Liability	2,913	4,611	4,611	4,611
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	274	274	274	274
Reserves & Surplus	1,39,510	1,66,218	2,00,588	2,38,220
Total Net Worth	1,39,783	1,66,492	2,00,862	2,38,493
Minority Interest	-	-	-	-
Total Liabilities	1,44,653	1,73,858	2,07,047	2,44,678

Source Company data, I-Sec research

Exhibit 12: 5-stage Du-Pont

(% , year ending March)

	FY23A	FY24A	FY25E	FY26E
Tax Burden (Adjusted PAT/PBT)	83.6	84.2	84.1	80.8
Interest Burden (PBT/EBIT)	119.4	127.5	127.3	126.3
EBIT Margin (EBIT/Sales)	20.2	22.6	23.2	23.3
Asset Turnover	99.8	95.1	88.3	85.3
Financial Leverage (Total Assets/Equity)	103.5	104.4	103.1	102.6
ROE	22.4	26.1	24.2	22.5

Source Company data, I-Sec research

Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	33,217	12,414	59,887	44,887
Working Capital Changes	3,773	(25,020)	19,400	426
Capital Commitments	(7,592)	(9,050)	(8,889)	(8,119)
Free Cashflow	25,624	3,364	50,999	36,768
Other investing cashflow	(40,050)	(1,304)	11,835	13,018
Cashflow from Investing Activities	(47,642)	(10,355)	2,946	4,899
Issue of Share Capital	425	662	0	0
Interest Cost	(280)	(509)	(300)	(200)
Inc (Dec) in Borrowings	1,369	799	(1,182)	-
Dividend paid	(5,741)	(10,120)	(13,964)	(10,952)
Others	-	-	-	-
Cash flow from Financing Activities	(4,228)	(9,168)	(15,446)	(11,152)
Chg. in Cash & Bank balance	(18,654)	(7,108)	47,388	38,634
Closing cash & balance	8,571	1,463	48,851	87,485

Source Company data, I-Sec research

Exhibit 14: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	106.9	146.1	166.2	182.2
Adjusted EPS (Diluted)	106.8	146.7	166.1	182.1
Cash EPS	126.2	168.0	190.8	210.0
Dividend per share (DPS)	37.1	51.0	40.2	44.2
Book Value per share (BV)	512.6	608.1	736.6	874.6
Dividend Payout (%)	34.7	34.9	24.2	24.3
Growth (%)				
Net Sales	40.2	14.5	10.6	14.2
EBITDA	58.5	25.7	13.3	14.8
EPS (INR)	73.8	36.8	13.7	9.6
Valuation Ratios (x)				
P/E	42.9	31.4	27.6	25.2
P/CEPS	36.4	27.3	24.1	21.8
P/BV	9.0	7.5	6.2	5.2
EV / EBITDA	32.6	25.9	21.8	18.3
EV / Sales	7.8	6.8	5.8	4.9
Profitability Ratios				
Gross Profit Margins (%)	43.1	45.7	45.0	45.0
EBITDA Margins (%)	23.8	26.2	26.8	27.0
EBIT Margins (%)	20.2	22.6	23.2	23.3
Net Profit Margins (%)	20.2	24.2	24.8	23.8
RoCE (%)	19.0	21.6	20.6	20.0
RoE (%)	22.4	26.1	24.7	22.6
Dividend Yield (%)	0.8	1.1	0.9	1.0
Operating Ratios				
Fixed Asset Turnover (x)	4.6	4.8	5.0	5.6
Inventory Turnover Days	4	4	3	3
Receivables Days	8	8	8	8
Payables Days	75	78	96	102
Effective Tax Rate (%)	25.4	25.3	25.1	24.1
Net Debt / Equity (x)	(0.9)	(0.8)	(0.9)	(0.9)
Net Debt / EBITDA (x)	(3.8)	(3.1)	(3.7)	(3.9)

Source Company data, I-Sec research

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For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122
