Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Eicher Motors Ltd

Mixed bag result, focus on growth continue

Automobiles	Sharekhan code: EICHERMOT

Reco/View: Buy	↔	CMP: Rs. 4,589	Price Target: Rs. 5,307	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Eicher reported a mixed performance in Q2, as it missed EBITDA margin estimates; bottom line came close to estimates on lower tax providing and higher income from VECV.
- Retails in the overseas market is increasing. Management expects a gradual improvement in its overseas business going ahead.
- We maintain BUY with an unchanged PT of Rs. 5,307, led by its leadership position in the premium motorcycle segment, rising premiumisation, and a focus on balanced growth.
- The stock trades at a P/E multiple of 27x/24.3x and EV/EBITDA multiple of 21.9x/20x its FY2026E/FY2027E estimates.

Eicher Motors (Eicher) reported a mixed performance in Q2FY2025. EBITDA margin missed estimates, but bottom line came close to estimates on lower tax provisioning and slightly higher-than-expected income from VECV JV. Going forward, management witnessed a healthy traction in sales during the festive season and even after the festive season. Retail sales in overseas markets have started picking up, and management assumes a gradual recovery in export markets going ahead. Net sales increased by 3.6% y-o-y to Rs, 4,263 crore (against estimate of Rs. 4,473 crore) on account of a 0.6% y-o-y decline in volumes and a 4.3% y-o-y increase in ASPs. EBITDA came flat y-o-y at Rs. 1,088 crore (against estimate of Rs. 1,196 crore). EBITDA margin contracted by 90 bps y-o-y to 25.5% (against estimate of 26.7%), as the 50 bps expansion in gross margin was offset by increased other expenses and employee cost. Concerned share of profit from VECV has increased by 11.9% y-o-y to Rs. 113.8 crore (against estimate of Rs. 100 crore). APAT increased by 8.3% y-o-y to Rs. 1100 crore (against estimate of Rs. 1,131 crore).

Key positives

- The new bullet has been gaining healthy response in its key markets.
- Retail sales in export markets have increased by 12% y-o-y.
- The company has witnessed healthy traction in retail sales during the festive season.

Key negatives

- ASP declined by 3.7% q-o-q to Rs 187,082 due to change in product mix.
- Other expenses expanded by 60 bps y-o-y to 12.8% on expenses related with new product launches and additional expense of Rs. 12 crore pertain to warehousing of products.
- Employee cost as percentage of sales expanded by 70 bps y-o-y to 8.1%.

Management Commentary

- The new Classic 350 has been well-received in the domestic market, with strong consumer interest.
- The current inventory levels stand at approximately 3-4 weeks.
- Retail sales in overseas markets are showing improvement.

Our Call

Valuation – Maintain BUY with an unchanged PT of Rs. 5,307: Eicher reported a mixed performance in Q2FY2025, as the shortfall in EBITDA was partly compensated by lower tax provisioning and higher income from VECV. Going forward, management is hoping for a continuation of momentum in retail sales, as was witnessed during the festive season. The management continue to focus on growth with rise in absolute profitability. Further, retail sales in overseas markets have started improving. Management has highlighted that commodity price points are no more a pressure point and, hence, the increase in volumes along with improvement in product mix would drive its profitability levels. The company expects commercial vehicle volumes to pick up in the second half of the fiscal year and anticipates margins to improve as operating leverage benefits start to materialise. Post factoring in Q2FY2025 performance in our earnings estimates and rolling forward our target multiple to FY2027E, we maintain BUY with an unchanged PT of Rs. 5,307, led by its leadership position in the premium motorcycle segment, rising premiumisation, and a focus on balanced growth.

Key Risks

Failure of new launches due to competition may result in Royal Enfield's market share loss and adversely impact our future projections. Rise in competition.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	14,442	16,536	17,445	19,198	21,045
Growth (%)	40.2	14.5	5.5	10.0	9.6
EBIDTA	3,444	4,327	4,640	5,184	5,682
OPM (%)	23.8	26.2	26.6	27.0	27.0
Adjusted PAT	2914	4001	4218	4657	5157
Growth (%)	72.3	37.3	5.4	10.4	10.7
EPS (Rs.)	107	146	154	170	189
PE (x)	43.1	31.4	29.8	27.0	24.3
P/BV (x)	8.4	7.0	6.0	5.3	4.6
EV/EBIDTA (x)	33.3	26.5	24.6	21.9	20.0
RoNW (%)	19.4	22.2	20.3	19.6	19.0
RoCE (%)	17.3	19.8	18.1	17.6	16.9

Source: Company; Sharekhan estimates

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

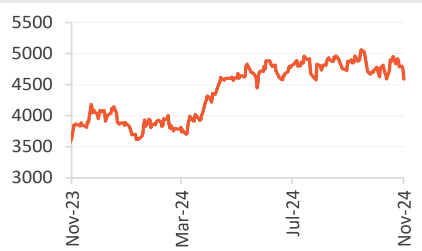
Company details

Market cap:	Rs. 1,25,477 cr
52-week high/low:	Rs. 5104/3564
NSE volume: (No of shares)	6.6 lakh
BSE code:	505200
NSE code:	EICHERMOT
Free float: (No of shares)	13.9 cr

Shareholding (%)

Promoters	49.1
FII	27.6
DII	13.8
Others	9.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.0	-4.4	0.5	30.8
Relative to Sensex	1.2	-2.8	-6.8	11.1

Sharekhan Research, Bloomberg