

14th Nov '24 - Eicher Motors Q2FY25 - Everything you need to know - Results review, Intrinsic Value, Target Price and Analyst Recommendations.

Q2FY25 results

1. Revenue rises 3.4% YoY to ₹4,263 crore.
2. EBITDA and margins stay flat.
3. Net Profit rises 8% YoY to ₹1,100 crore.
4. The toughest phase of the competition is behind Royal Enfield and the management's strategy is to prioritize growth over the margins.

Intrinsic Value (based on all the information in this report)

Given Royal Enfield's expertise and leadership history in the 250cc to 650cc motorcycle segment and the 'tough time' being behind the company, I believe Royal Enfield should continue to grow. The management hasn't seen significant change and that's the biggest underlying strength for any company. They know their products inside out; their services are top notch; and there's a lot of craze and organic demand for Royal Enfield bikes. I feel the premiumisation trend should grow in India and it should continue to benefit Royal Enfield. Although the management has guided for margin dilution to focus more on volume (sales) growth, I still believe the premium aspect will be there for the company going forward, primarily because of the brand Royal Enfield has become over the years. I understand that the competition has also offered good products and the market is dynamic but a brand like Royal Enfield doesn't lose its shine and premiumness in a span of 6 to 8 quarters - For that to happen, they should be making terrible motorcycles. The company continues to offer great products and great customer experience. Their rising international sales is itself a testament of better things to come. The company may go through a rough patch during the strategy shift but it should continue to perform better than it has done over the years.

Current Intrinsic Valuation Status: (as on 14th November 2024)

The current intrinsic valuation of the EICHERMOT stock stands at ₹5,237 per share at 33.6x Current TTM EPS of ₹155.83. The current price of the stock is ₹4,890 per share.

Target Price:

The EICHERMOT stock is a BUY at current level (CMP: ₹4,890) with a Target Price of ₹5,559 per share based on 33.6x FY25E EPS.

Royal Enfield

1. Market of mid size (250 - 750cc) motorcycles is growing and Royal Enfield is leading this mid-size industry.
2. Royal Enfield's share in all motorcycles is at 6.4% and in motorcycles above 125 cc is at 27%.
3. Royal Enfield's market share in the Americas is at 8%, APAC is at 9% and EMEA is at 9%. The international volumes have grown more than 3x in the past 6 years.
4. Royal Enfield recorded its highest ever monthly sales of 110,574 units in October 2024, up 31% from the year ago period. Exports stood at 8,688 units, marking a 150% increase in overseas shipments.
5. Total Royal Enfield sales stood at 225,317 units, down 2% YoY. The response to the new launches has also been remarkable. Eicher logged a more than 36% YoY rise in sales of motorcycles with more than 350cc engine capacity, helped by its main demographic, urban consumers.
6. Royal Enfield has also forayed into EVs with a new brand - Flying Flea.

Commercial Vehicles - Joint Venture of Eicher and Volvo

1. Highest ever Q2 and H1 for VECV.
2. Q2 sales were at 20,774 units.
 - a. #1 in LMD trucks - Q2 sales of 9,565 units - market share of 36.5%
 - b. Heavy Duty trucks - highest ever Q2 sales of 5,155 units - market share of 9.5%
 - c. Bus division - highest ever Q2 sales of 3,984 units
 - d. Parts business - highest ever Q2 revenue of ₹648 crore - a 27% growth YoY.
 - e. Exports in Q2 grew by 12.2% to 1,130 units
3. 972 touchpoints out of which 22 were operationalised in Q2FY25.
4. Total revenue from operations for VECV increased by 8.4% YoY to ₹5,435 crore.

5. EBITDA decreased by 2% YoY to ₹395 crore and margins decreased by 80 bps to 7.3%
6. PAT increased by 10.8% YoY.

Analysts Recommendations

1. Emkay Research

Upgraded to Buy from Sell with a target of ₹5,300. They say that the competitive cycle is largely behind and have upped the FY26E and FY27E EPS by 10% each, led by volume upgrades and building in 82,000 and 97,000 average monthly RE volumes. Near term margins would be addressed once operating leverage kicks-in. They also cite growth focus over margins, product intervention, improved supplies and higher marketing activities.

2. ICICI Securities

They have maintained their Add rating with a target price of ₹4,850 implying a 26x FY26E EPS. The margin decline was due to higher other expenses. The 450cc to 650cc segment is set to rise. But they have cut FY25 and FY26E EPS by 2%.

3. Nuvama

Upgraded the stock to Buy with a target price of ₹5,500. They expect a strong rebound in H2FY25. They also project a 9% revenue CAGR from FY24 and FY27.

4. Jefferies

They have retained their Buy call with a target price of ₹5,000. They see Royal Enfield volumes picking up and expect it to be a key beneficiary of the 2W premiumisation trend. They feel that the toughest phase of competition for Eicher Motors is behind.

5. Morgan Stanley

Retained Underweight stance with a target of ₹3,655. They believe the stock is currently valued above its intrinsic worth but they agree with the shift in the management's strategy to focus more on growth rather than margins.

6. Nomura

Upgraded to Neutral with a target of ₹4,391 on the back of better growth strategy. They have also raised FY25 and FY26 volume estimates by 3 - 5%

7. Sharekhan

Buy with a target price of ₹5,307. The company missed the EBITDA margin estimates and the bottom line came close to estimates on the back of lower tax. Retails in the international market is increasing and the management expects a gradual improvement in its overseas business going ahead. The target price is justified by the rising premiumisation and Royal Enfield's leadership in the segment.

8. Prabhudas Lilladher

Buy with a target price of ₹5,299. They value the core business at 27.5x on its Sep '26 EPS and 10x EV / EBITDA for its VECV business. Eicher Motors remains optimistic on delivering growth in its volume driven by promotional spends in the domestic and international market which in turn will keep its margin range-bound.

9. Motilal Oswal

Sell with a target price of ₹4,000 based on Sep '26 SOTP. They say demand generation activities going ahead will result in dipping margins and this will lead to slower earnings growth. This should no longer attract premium valuations.

This is a report by Chaitanya Sabharwal for guruspakes.com/markets

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