

BSE SENSEX
 38,051

 S&P CNX
 11,247

CMP: INR21,124 TP: INR24,750 (+17%)
Buy

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Stock Info

	EIM IN
Bloomberg	27
Equity Shares (m)	27
M.Cap.(INRb)/(USD\$b)	576.8 / 7.3
52-Week Range (INR)	23428 / 12460
1, 6, 12 Rel. Per (%)	9/21/25
12M Avg Val (INR M)	3855
Free float (%)	50.7

Financials & Valuations (INR b)

Y/E March	FY20	FY21E	FY22E
Sales	91.5	86.3	105.3
EBITDA	21.8	18.8	27.5
Adj. PAT	18.3	13.9	22.4
EPS (INR)	669.4	510.1	822.0
EPS Gr. (%)	-17.8	-23.8	61.1
BV/Sh. (INR)	3,656	4,016	4,672

Ratios

RoE (%)	19.3	13.3	18.5
RoCE (%)	18.7	13.0	18.5
Payout (%)	21.7	29.5	20.1

Valuations

P/E (x)	31.6	41.4	25.7
P/BV (x)	5.8	5.3	4.5
Div. Yield (%)	0.6	0.6	0.7
FCF Yield (%)	2.0	1.3	3.0

“These are difficult times, but great disruptions present greater opportunities, and bring out the best in each one of us.”



RE ready to capitalize on next product cycle as situation normalizes...

...substantial network expansion and exports to support growth

- Eicher Motor's (EIM) FY20 Annual Report highlights Royal Enfield's (RE) readiness for the next product cycle. With launch of BS6 models, RE has achieved technical parity with other bikes. Further, launch of RE 'Studio' stores has substantially increased its reach in newer markets.
- EIM has further demonstrated its seriousness to grow RE exports by rapidly expanding exclusive RE stores (from 35 to 77 stores in FY20) along with the launch of the 650 Twins and geo-fenced website in respective markets.

Sailing through times of COVID; Strong outlook ahead

- The company estimates recovery to be gradual. However, it also expects personal transportation demand to grow and benefit the industry as many people are now wary of using public transport due to the COVID crisis.
- EIM is confident of sailing through these tough times on the back of (a) solid balance sheet and cash position, (b) robust business model with focused and cash-optimized approach, (c) strong line-up, (d) retail footprint, and (e) an exceptional management team at RE and VECV.
- It is further building accessibility through various solutions – both digital and financial – and is confident of capitalizing demand as the situation stabilizes.

Domestic market performance

- RE's total volume declined 15.8% to 695.9k while domestic volume declined 18.5% to 656.6k units. Market share for (a) overall motorcycles stood at 5.9% (flat YoY), and (b) the 250+cc segment was at 96% (flat YoY).
- The company ended FY20 with 921 dealerships (v/s 915 in FY19) and 600 Studio stores, taking RE's total retail touch points to 1,521 across India.
- Finance penetration increased to 53% in FY20 (v/s 51% in FY19). It has five major banks and NBFCs as its preferred financiers.
- RE discontinued the single cylinder 500cc UCE engine in Jan'20. It now has three categories: (a) 350cc (*Bullet*, *Thunderbird* and *Classic*), (b) 410cc (*Himalayan*), and (c) 650cc (*Interceptor* and *Continental GT*).

Export market performance

- Export volume increased 96% YoY to 38.7k units. This led to an increase in export share in total sales volume of 5.5% in FY20 (v/s 2.4% in FY19), mainly driven by the launch of 650cc Twins.
- RE's market share in the mid-sized motorcycle segment stood at 5.4% in Europe and 4.8% in the Asia Pacific region (5.3% in Thailand).
- RE opened 35 new exclusive stores during FY20, taking the total count to 77 exclusive stores in the international markets. It now has over 660 touch points including multi-brand outlets.
 - Europe is the largest market for RE (outside India) with ~400 dealers.
 - The North America market has ~120 dealers.
 - RE started its first flagship store in Seoul, South Korea in 1QFY20.

- The RE 650 Twins (*Interceptor 650* and *Continental GT 650*) were launched in Indonesia, Vietnam and Malaysia in 1QFY20 and in Brazil in 4QFY20.
- The RE 650 Twins garnered great response globally with the EU seeing substantial increase in bookings and inquiries. Led by this, RE was ranked #6 in the mid-sized motorcycle segment in the EU in CY19, up from rank #9 in CY19.

RE – significant technical/qualitative/aesthetic portfolio upgrades

- The RE upgraded to EFI and catalytic converter to meet BS6 regulations. In order to make the ride more controlled and smooth with better aesthetics, it introduced multiple upgrades. Two major changes were:
 - Switchable ABS introduced in *Himalayan* models (Feature to switch off rear wheel ABS while off-road riding).
 - Introduction of Alloy Wheel and Tubeless tyres for *Classic* models.
- RE has increased the standard warranty from 2 years to 3 years along with the transition to BS6 emission norms. It reflects the company's confidence in its new products.
- RE's new mix of semi-synthetic oil helped it to extend the service and oil-change intervals for its Unit Construction Engine (UCE) based models – *Bullet*, *Classic* and *Thunderbird*. It has brought down the in-use ownership cost of the motorcycles by 40% over a 3-year period.

'Make Your Own' initiative as part of digital expansion spree

- The 'Make Your Own' (MYO) program was launched in FY20 to enhance the customer's purchase experience. It allows a customer to select and configure motorcycle accessories, which will come factory-fitted with a 2-year manufacturer's warranty.
- RE has increased its accessories portfolio from 80 to over 125 products along with expansion of its helmet customization range (up to 500 options).
- RE's website witnessed significant increase in web visits to 28m in FY20 (v/s 18m in FY19). It also launched geo-fenced websites in Korea, Malaysia and Vietnam, taking the total website footprint to 21 countries.

R&D upgrades: Chennai Tech Center to supplement UK Tech Center

- The technology center at Chennai was commissioned during FY20. A major development at this center is its new hemi-anechoic chamber, which will aid development of the famous RE exhaust note for future models. It's proved to be an important development as the exhaust note is an aspirational feature for RE customers. Post launch of its UCE engine in 2009, RE has been missing its signature 'Thump' sound.
- It also has an in-house Climatic Chassis Test cell, which allows simulation of various temperature conditions for optimal drivability.
- R&D spends as % of sales declined to 2.8% in FY20 (v/s 3.8% in FY19), as large part of the capex for Chennai R&D center was invested in FY19.

Tough year for VECV

- VECV sales declined by 29.9% YoY to 44.2k vehicles.
- Domestic volume declined by 29.9% YoY to 44,153 vehicles. Exports declined to 4,568 units (v/s 10,010 units), largely owing to the steep decline of 62% in South Asia, which constitutes 45% of exports.
- VECV introduced the Pro 2000 series, a new range of light/medium duty vehicles. The new vehicles are indigenously developed with two new engines (2L and 3L engines) designed from scratch.
- Operations for VECVs started operations at its new plant at Bagroda, near Bhopal, for the assembly of new engines for the Pro 2000 series with delivery expected in FY21.
- VE Powertrain (VEPT) engines sales declined 28.7% to 28,383 units.
- Adverse operating leverage led to EBITDA margin decline of 3.7pp YoY (at 4.7%) due to staff cost inflation (+1% YoY or 250bp), partially offset by other expenses (-13% YoY or +166bp). This translated to EBIT loss of ~INR83m; however, higher other income/deferred tax resulted in recurring PAT of ~INR583m.
- Core working capital improved from -14 days to -35 days with ~16 days increase in payable days and 5 days decrease in receivable days.
- CFO from operations declined 30% to ~INR6b due to EBIT loss of ~INR83m (v/s ~INR5.98b profit), partially offset by lower tax and reduction in overall working capital. Capex stood at ~INR10.2b (v/s ~INR7.1b in FY19), resulting in negative FCF of ~INR1.07b (v/s +INR1.5b FCF in FY19).
- RoCE declined to 2% (from 14%), the lowest in the last 11 years due to lower net profit and cash drag.

Financial highlights of FY20

- S/A revenues declined 7.3% YoY to ~INR90.8b. Motorcycle revenue declined 8.3% to ~INR79.5b; however, spare parts' revenue grew 3.7% YoY to ~INR10.6b. India revenue declined 14.4% to ~INR71.2b, but export revenue grew 119% to ~INR8.3b on the back of strong response to the 650 Twins.
- FY20 gross margin (GM) declined 3.2pp YoY as it did not load GM on cost inflation pass through (ABS + BS6). This coupled with operating deleverage (volume declined 15.8% YoY) translated to EBITDA margin decline of 5.8pp YoY (at 24.3%). This can be explained by cost inflation in all other cost heads such as staff cost (+12% YoY or 150bp), other expenses (+1.4% YoY or 105bp), SD&A (+7.3% YoY) and repair costs (+6.2% YoY). Staff costs included ~INR250m (v/s INR142m in FY19) charge for ESOPs.
- In FY20, the company invested ~INR2.57b in R&D (incl. capitalized R&D) constituting ~2.8% of revenues (v/s 3.6% in FY19).
- Core working capital was increased from -19 days to -15 days with ~5 days reduction in payable days.
- CFO from operations grew 9% to ~INR16.9b, driven by reduction in corporate tax rate/overall working capital. Capex stood at ~INR7.4b (v/s ~INR7.9b in FY19), resulting in FCF growth of ~43% to ~INR11.8b.
- RoCE declined to 18.7% (from 26.5%), the lowest in the last 7 years due to lower net profit and cash drag.

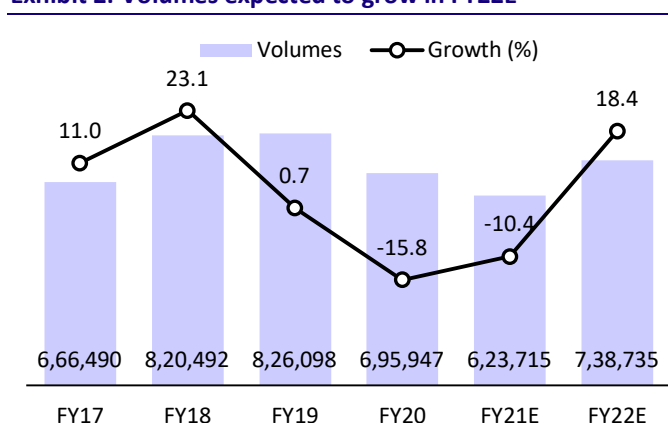
Valuation and view

- FY21 would be another challenging year for the domestic 2W industry as well as for EIM due to the COVID-19 pandemic and its impact. As a result, along with volume pressure, RE production will also be at higher risk due to its singular location unlike other OEMs, which have plants located in multiple locations. We estimate volumes to decline ~10.4% in FY21 and grow 18.4% in FY22E.
- Technical parity with other high-end motorcycles, strong product pipeline and network expansion in both domestic and export market has equipped RE to capture the benefit of the upcoming favorable product cycle.
- The stock trades at ~41.4x/25.7x FY21E/FY22E consol. EPS. We believe BS6 transition would be an inflection point for RE as a completely new improved platform could drive revival of the brand. Maintain **Buy** with TP of ~INR24,750 (Sep'22E based SOTP).

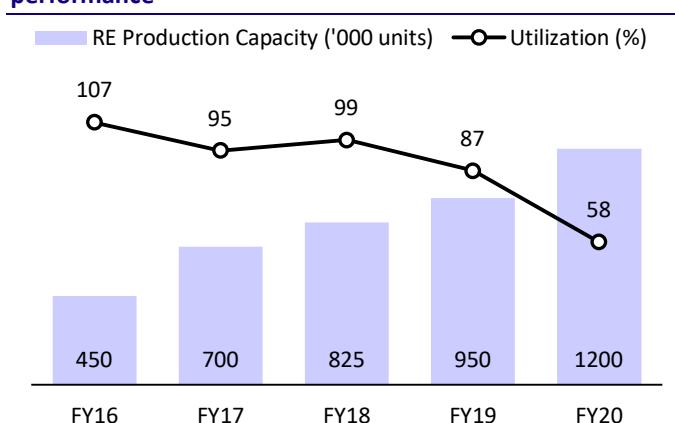
Exhibit 1: SOTP Valuations

INR Mn		FY22E	FY23E
Royal Enfield			
PAT		22,100	28,423
Equity Value	PE @ 25x	552,500	710,585
VECV (@ 54.4% Economic interest)			9.95
EBITDA		3,694	4,457
EV	@ 10x EV/EBITDA	36,758	44,570
Net Debt		-2,869	-4,092
Equity Value		39,627	48,661
Total Equity Value		592,127	759,246
Target Price (INR/Sh)		21,690	27,811
Upside (%)		3	32

Source: Company, MOFSL

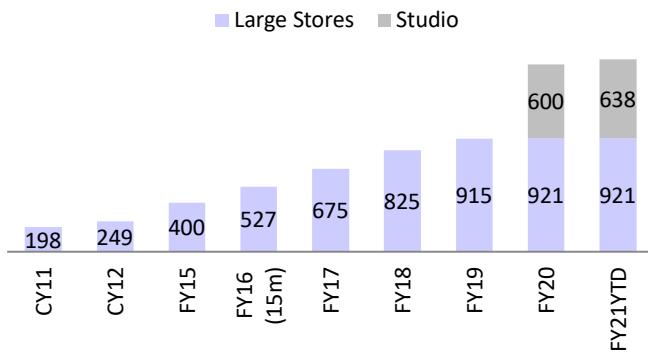
Exhibit 2: Volumes expected to grow in FY22E

Source: Company, MOFSL

Exhibit 3: Low capacity utilization to affect operating performance

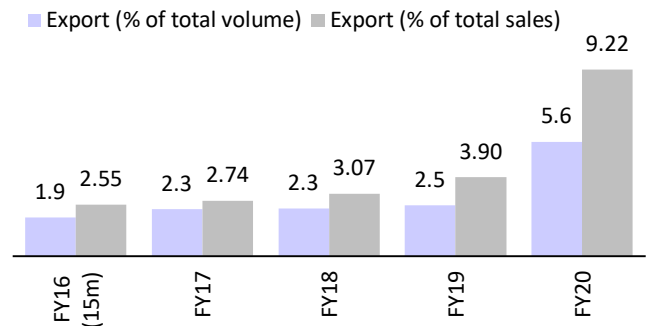
Source: Company, MOFSL

Exhibit 4: Studio stores substantially widened network, especially in Tier 2 cities



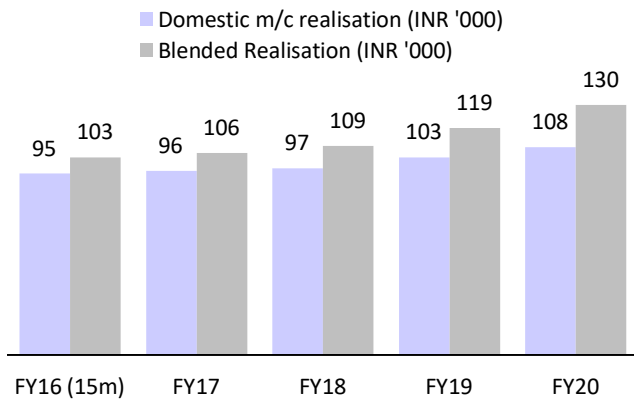
Source: Company, MOFSL

Exhibit 5: Export realization/unit increased for 650 Twins, leading to higher increase in export revenue share



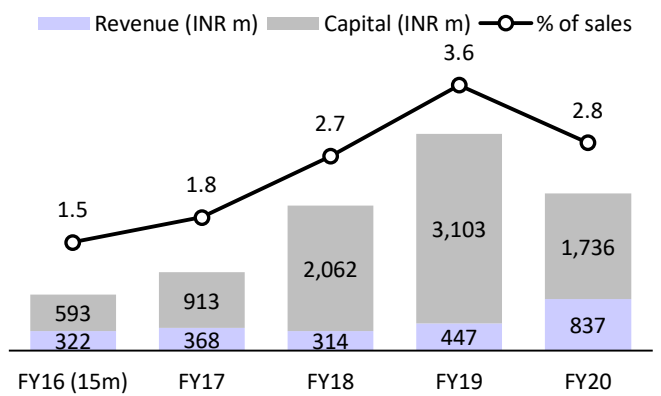
Source: Company, MOFSL

Exhibit 6: Blended realization grew faster than domestic m/c realization



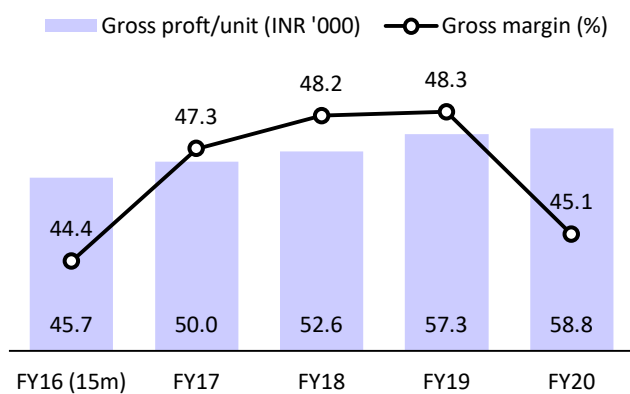
Source: Company, MOFSL

Exhibit 7: R&D expense stabilizing after completing facilities



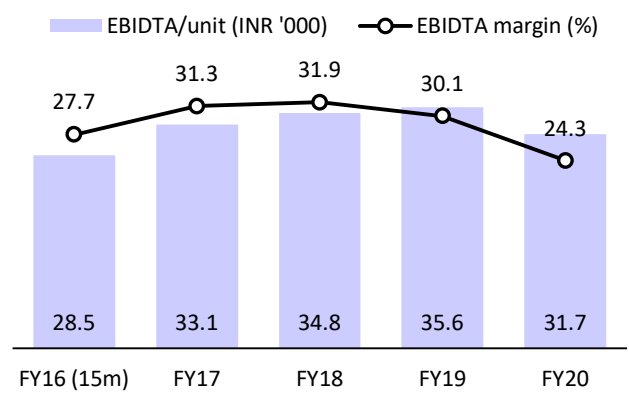
Source: Company, MOFSL

Exhibit 8: Gross margin came under pressure after technical upgrades due to regulations



Source: Company, MOFSL

Exhibit 9: EBIDTA margin due to operating leverage



Source: Company, MOFSL

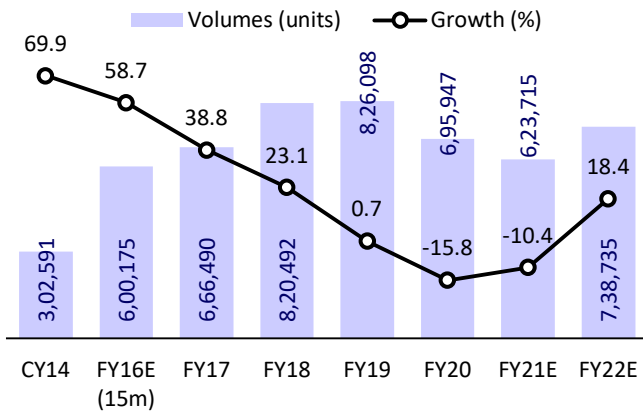
Exhibit 10: Snapshot of Revenue model

'000 units	FY16 (15m)	FY17	FY18	FY19	FY20	FY21E	FY22E
ROYAL ENFIELD (S/A)							
Total 2W (units)	600	666	820	826	696	624	739
<i>Growth (%)</i>	98.3	38.8	23.1	0.7	-15.8	-10.4	18.4
Net realn (INR'000/unit)	103	105	109	118	129	137	141
<i>Growth (%)</i>	3.1	2.4	3.3	8.3	10.1	6.1	2.7
RE Revenues (INR b)	62	70	90	98	91	86	0
<i>Growth (%)</i>	104.2	42.1	27.3	9.3	-7.3	-4.9	-99.9
VECV							
Dom - LMD	42	38	44	48	36	27	35
<i>Growth (%)</i>	50.0	14.1	13.6	11.4	-26.2	-24.3	27.9
<i>% of CV Vols</i>	68.1	66.7	67.1	67.5	75.1	71.3	72.7
Dom - HCV	12	11	12	13	7	6	7
<i>Growth (%)</i>	98.2	14.8	11.4	7.3	-45.2	-22.0	20.0
<i>% of CV Vols</i>	19.7	19.3	19.1	18.5	15.3	15.0	14.3
Total Dom.	54	49	56	62	43	33	41
<i>Growth (%)</i>	58.6	14.3	13.1	10.5	-30.3	-23.9	26.5
<i>% of CV Vols</i>	87.8	86.0	86.1	86.0	90.4	86.3	87.0
Exports	8	8	9	10	5	5	6
<i>Growth (%)</i>	29.0	33.7	12.0	11.2	-54.4	14.1	19.0
<i>% of CV Vols</i>	12.2	14.0	13.9	14.0	9.6	13.7	13.0
Total CV vols	62	57	65	72	48	38	48
<i>Growth (%)</i>	54.3	16.7	12.9	10.6	-33.6	-20.3	25.5
MDEP Vols ('000 Ex captive)	24	24	32	34	31	22	23
Net realn (INR'000/unit)	1,465	1,459	1,524	1,590	1,750	1,966	1,935
<i>Growth (%)</i>	4	24	4	4	10	12	-2
VECV Revenues (INR b)	92	86	100	116	85	77	95
<i>Growth (%)</i>	60.5	15.7	17.5	15.4	-26.5	-10.0	23.7
Net Consol sales (INR b)	62	70	90	98	92	86	105
<i>Growth (%)</i>	-29.4	42.4	27.5	9.3	-6.6	-5.7	22.0

Source: Company, MOFSL

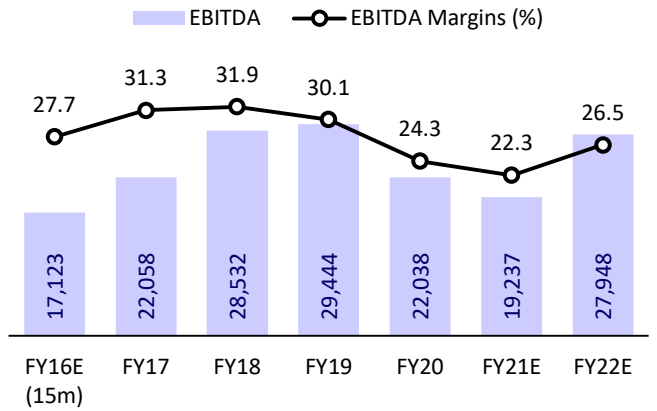
Story in charts

Exhibit 11: RE volume and growth trends



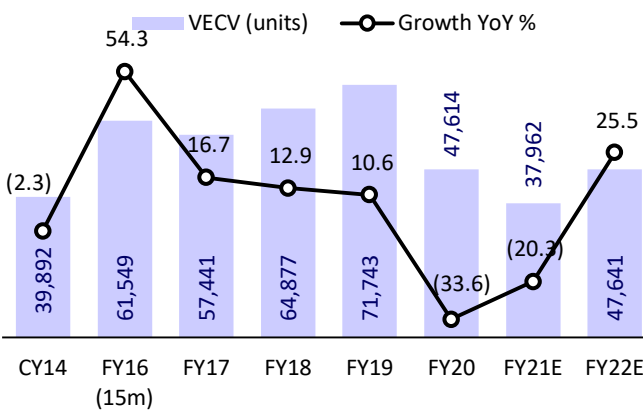
Source: Company, MOFSL

Exhibit 12: RE EBITDA and EBITDA margin trends



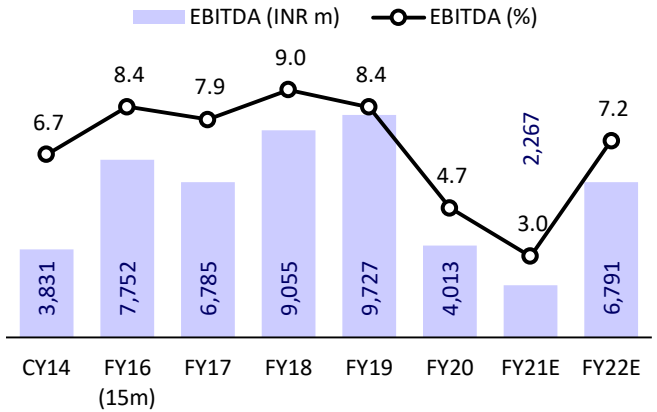
Source: Company, MOFSL

Exhibit 13: VECV volume growth trajectory



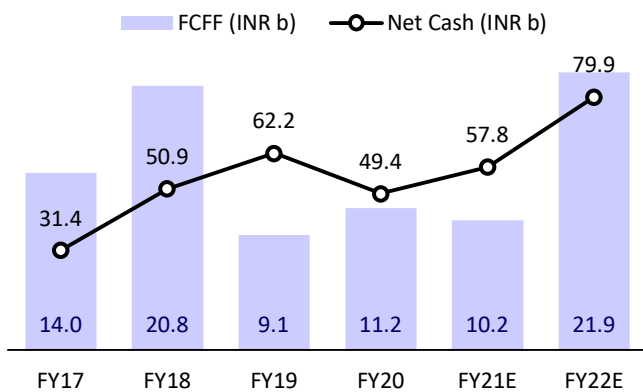
Source: Company, MOFSL

Exhibit 14: VECV EBITDA and EBITDA margins



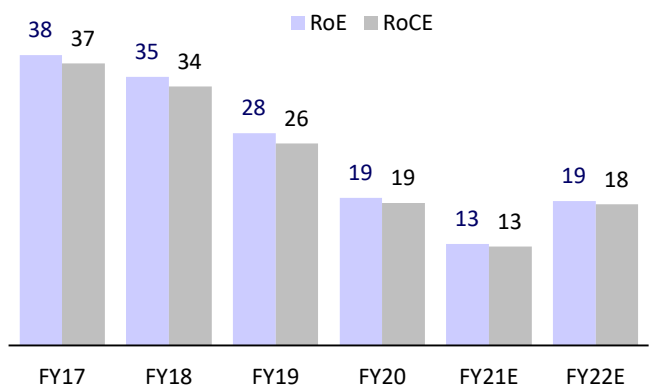
Source: Company, MOFSL

Exhibit 15: Strong FCF generation and liquidity (pro-rata)



Source: Company, MOFSL

Exhibit 16: Return ratios to remain healthy



Source: Company, MOFSL

Financials and valuations

Income Statement (Consolidated)

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Op. Income	79,395	92,193	97,971	91,536	86,291	105,280
Change (%)	42.4	16.1	6.3	-6.6	-5.7	22.0
EBITDA	21,740	28,076	29,031	21,804	18,777	27,488
EBITDA Margin (%)	31.0	31.5	29.9	24.0	21.9	26.4
Depreciation	1,538	2,233	3,003	3,815	4,376	4,567
EBIT	20,201	25,843	26,028	17,988	14,401	22,921
Interest cost	36	53	73	189	130	130
Other Income	2,273	2,801	4,434	5,433	4,725	5,000
PBT	22,439	28,591	30,389	23,232	18,996	27,791
Tax	7,203	9,359	10,770	5,275	4,572	6,609
Effective Rate (%)	32.1	32.7	35.4	22.7	24.1	23.8
PAT	15,236	19,232	19,619	17,957	14,424	21,182
Change (%)	60.1	26.2	2.0	-8.5	-19.7	46.9
Less: Minority Interest	-1,895	-2,566	-2,584	-317	497	-1,259
Adj. PAT	17,131	21,797	22,203	18,274	13,927	22,441
Change (%)	60.0	27.2	1.9	-17.7	-23.8	61.1

Note: FY16 onwards IndAS

Balance Sheet (Consolidated)

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E
Share Capital	53,451	70,301	89,187	99,809	109,631	127,559
Net Worth	0	0	0	0	497	-762
Minority Interest	778	1,421	2,739	2,522	3,301	4,450
Deferred Tax	444	1,508	1,868	1,444	0	0
Loans	54,673	73,230	93,794	103,775	113,429	131,246
Capital Employed						
Application of Funds	12,328	21,443	27,673	36,194	43,919	48,419
Gross Fixed Assets	3,875	6,426	8,927	12,419	16,795	21,362
Less: Depreciation	8,453	15,017	18,746	23,775	27,124	27,057
Net Fixed Assets	3,738	3,332	4,497	3,122	250	250
Capital WIP	223	223	223	223	223	223
- of which Goodwill	49,871	55,808	49,225	57,488	57,289	58,044
Investments	7,658	21,065	41,400	40,113	47,769	68,968
Curr.Assets, L & Adv.	3,359	3,946	6,334	5,724	4,255	5,192
Inventory	500	680	903	868	709	865
Sundry Debtors	251	12,120	29,653	29,506	38,667	57,863
Cash & Bank Balances	92	7	13	1	0	0
Loans & Advances	3,456	4,312	4,497	4,014	4,137	5,048
Others	15,047	21,992	20,075	20,722	19,003	23,073
Current Liab. & Prov.	8,327	11,719	12,341	10,277	10,639	12,980
Sundry Creditors	6,033	9,511	6,928	9,472	7,092	8,653
Other Liabilities	686	763	807	974	1,272	1,440
Provisions	-7,389	-927	21,325	19,391	28,766	45,895
Net Current Assets	54,673	73,230	93,794	103,775	113,429	131,246
Application of Funds	79,395	92,193	97,971	91,536	86,291	105,280

E: MOFSL Estimates

Financials and valuations

Ratios (Consolidated)

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)						
EPS	629.6	799.6	813.9	669.4	510.1	822.0
EPS Growth (%)	59.7	27.0	1.8	-17.8	-23.8	61.1
Cash EPS	686	882	924	809	670	989
Book Value per Share	1,964	2,579	3,269	3,656	4,016	4,672
DPS	100.0	110.0	125.0	125.0	125.0	140.0
Payout (Incl. Div. Tax) %	18.5	15.0	17.9	21.7	29.5	20.1
Valuation (x)						
P/E	33.6	26.4	26.0	31.6	41.4	25.7
Cash P/E	30.8	24.0	22.9	26.1	31.5	21.4
EV/EBITDA	21.1	15.7	14.8	21.8	25.3	15.7
EV/Sales	4.6	3.6	3.2	3.8	4.1	3.2
Price to Book Value	10.8	8.2	6.5	5.8	5.3	4.5
Dividend Yield (%)	0.5	0.5	0.6	0.6	0.6	0.7
Profitability Ratios (%)						
RoE	38.1	35.2	27.8	19.3	13.3	18.9
RoCE	37.0	33.9	26.5	18.7	13.0	18.5
RoIC	1,145.7	1,373.6	298.2	117.5	68.4	114.1
Turnover Ratios						
Debtors (Days)	3	3	3	3	3	3
Inventory (Days)	17	16	24	23	18	18
Creditors (Days)	43	48	46	41	45	45
Working Capital (Days)	-23	-29	-19	-15	-24	-24
Asset Turnover (x)	1.3	1.2	1.0	0.9	0.8	0.8
Leverage Ratio						
Net Debt/Equity (x)	-0.6	-0.7	-0.6	-0.7	-0.7	-0.8

Cash Flow Statement (Consolidated)

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E
Profit before Tax	23,874	28,956	32,798	23,549	18,499	29,050
Depreciation	1,538	2,233	3,003	3,815	4,376	4,567
Direct Taxes Paid	-6,516	-8,071	-9,085	-6,283	-3,792	-5,460
(Inc)/Dec in Working Capital	1,635	4,380	-4,557	862	1,989	1,249
Interest/Div. Received	-40	-394	-1,304	-2,207	-2,025	-3,300
Other Items	-3,411	-2,282	-5,126	-2,795	-6,797	-4,052
CF from Oper. Activity	17,080	24,823	15,730	16,941	12,249	22,053
(Inc)/Dec in FA+CWIP	-5,470	-7,460	-7,874	-5,445	-4,853	-4,500
Free Cash Flow	11,610	17,363	7,855	11,497	7,396	17,553
(Pur)/Sale of Invest.	-11,966	-13,991	1,301	-9,639	2,224	2,545
CF from Inv. Activity	-17,436	-21,450	-6,574	-15,084	-2,630	-1,955
Issue of Shares	57	195	361	289	0	0
Inc/(Dec) in Debt	213	390	247	-709	-1,444	0
Interest Paid	-17	-34	-50	-75	-130	-130
Dividends Paid	0	-3,171	-3,482	-8,087	-4,105	-4,513
CF from Fin. Activity	253	-2,620	-2,923	-8,583	-5,680	-4,643
Inc/(Dec) in Cash	-103	752	6,233	-6,725	3,940	15,455
Add: Beginning Balance	530	251	925	7,158	29,506	38,667
Closing Balance	427	1,003	7,158	432	33,446	54,122

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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