



IDEA2ACT : Eicher Motors

Reco Price	12-months Target Price
BUY @ ₹ 2610-2660	₹ 2940

Eicher Motors is the flagship company of the Eicher Group in India and a leading player in the Indian automobile industry. Eicher manufactures the well-known Royal Enfield (RE) motorcycles in India. The company entered into a 50:50 JV with the Volvo Group to form VE Commercial Vehicles (VECV). Operational since July 2008, VECV comprises five business verticals – Eicher Trucks and Buses, Volvo Trucks India, Eicher Engineering Components and VE Powertrain. VECV undertakes the complete range of Eicher's commercial vehicles, components and engineering design businesses as well as the sales & distribution of Volvo trucks.

Best placed within the 2W pack

The 2W industry's near-term outlook is challenging, with softness in demand and pressure on margins due to a sharp rise in input costs. We expect Eicher to stand out within the 2W pack, with its better retail demand trajectory vs. industry, lower inventory levels, strong new model pipeline and relatively insulated margin/earnings profile. Market perception with respect to Royal Enfield (RE) order book and waiting period has come off to realistic levels post 3QFY21; so has the stock. Yet, there has not been any earnings downgrade. We expect Eicher to outperform the 2W industry in FY22, with a much higher volume growth (37% vs. 22% for the industry). **Positive catalysts for the stock include better margin defence as against the rest of the industry, and new model launches (specifically, the upcoming all-new Classic 350).**

Key highlights:

- Despite weakness in retails in the 2W industry in recent months, RE retails have held up fairly well. On a FY21 YTD basis, RE retails stand at 103% of wholesales vs. industry retails at 95% of wholesales.
- Wholesales (incl. exports) have averaged at 68k in the past five months, within touching distance of our forecast of 70k per month in FY22.
- The newly launched Meteor 350 has met with very good response and accounts for ~10% of overall domestic volumes. Management had previously guided to launch of one new model/refresh every quarter.
- The next new launch, we believe, would be the all-new Classic 350, which if successful would be a big positive catalyst for volumes.



- The auto industry may see margin pressure due to sharp rise in commodity prices. We believe Eicher would be better placed vs. peers.
- Given RE's premium portfolio, exposure to pure commodities (as a % of ASP) would be lower compared to basic 2Ws. RE has increased prices by ~4% in the past 3 quarters; this should largely cover the cost increases.
- Moreover, given its high margin, the EPS sensitivity to margin change is low (100bps margin = 4% EPS impact).

Technically, the stock has given a strong recovery from its multi-week support and is showing strong momentum on the MACD Histogram. Eicher Motors has given a consolidation breakout on the daily chart. **If the current impulse move accentuates the way it should, we expect Eicher Motor to trend higher and test our immediate target price of Rs 2940 during the next 1-Year. We recommend a Buy Rating on the stock.**

Previous Recommendations:

Date	Stock Name	Reco Price	Target Price	P & L %	Status
26-May-20	Emami Limited	205	241	18%	Target Achieved
2-Jul-20	ITC	201	235	17%	Target Achieved (₹225 + Dividend ₹10.15 exdate 6th Jul 2020)
2-Jul-20	NHPC	19.5	24	23%	Target Achieved
15-Jul-20	HCL Tech	610	695	14%	Target Achieved
30-Jul-20	INDIGO	920	1074	17%	Target Achieved
11-Aug-20	JB Chemicals & Pharmaceuticals	750	867	16%	Target Achieved
13-Aug-20	UPL	480	555	16%	Target Achieved
18-Aug-20	Crompton Consumer	256	299	17%	Target Achieved
28-Aug-20	Sudarshan Chemical	474	557	18%	Target Achieved
14-Sep-20	Apollo Tyres	114.5	138	21%	Target Achieved
1-Oct-20	Manappuram Finance Ltd	155.5	186	4%	Open
16-Oct-20	Cyient Ltd	370	440	19%	Target Achieved
28-Oct-20	Amara Raja Batteries	770	898	17%	Target Achieved
2-Nov-20	SIS (I) Ltd	363	423	17%	Target Achieved
3-Dec-20	Bharat Electronics	112	139.0	24%	Target Achieved
16-Dec-20	RBL Bank	233	273	17%	Target Achieved
6-Jan-21	Alembic Pharmaceuticals	1075	1252	-13%	Open
15-Jan-21	Hindustan Petroleum Corporation Ltd	229	274	4%	Open
5-Feb-21	State Bank of India	351.5	429	10%	Open
1-Mar-21	Cummins India	772	914	11%	Open
10-Mar-21	HCL Tech	962	1140	0%	Open



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