

# “Intrinsic Valuation of Eicher Motors, A DCF-Based Financial Modelling Approach”

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## Abstract

This study undertakes a DCF-based financial modelling approach to estimate the intrinsic valuation of Eicher Motors Limited (EML), a leading Indian automotive company known for its Royal Enfield motorcycles and its joint venture with the Volvo Group (VE Commercial Vehicles). The research integrates historical financial analysis and discounted cash flow (DCF) modelling using both Free Cash Flow to Equity (FCFE) and Free Cash Flow to Firm (FCFF) frameworks.

Findings reveal that despite Eicher’s strong brand equity, consistent profitability, and strategic initiatives in electric mobility and global expansion, the company’s stock is currently overvalued relative to its intrinsic worth. The FCFE model estimates an equity value of ₹1.03 lakh crore with a target price of ₹3,788.64, while the FCFF model yields ₹1.23 lakh crore with a target price of ₹4,524.75—both significantly below the prevailing market price of ₹5,561 (July 2025). High capital expenditure, fluctuating margins, and reliance on terminal value projections constrain near-term cash flow stability and valuation upside. The study concludes with a SELL recommendation, emphasizing the need for Eicher Motors to optimize capital efficiency, stabilize free cash flows, and accelerate EV innovation to align market expectations with intrinsic value. While long-term fundamentals remain robust, cautious investor sentiment is warranted until cash flow resilience and margin recovery are achieved.

**Key words:** Discounted Cash Flow, Eicher Motors, Valuation, Joint Venture, Volvo Groups  
Financial Performance, Free CashFlow to the Firm, Free CashFlow to Equity

## Introduction

The automobile industry is one of the key drivers of India’s economic growth, and Eicher Motors Limited (EML) has played a major role in shaping it through its legendary Royal Enfield motorcycles and its joint venture with the Volvo Group under VE Commercial Vehicles (VECV). Over the years, Eicher has built a strong presence in both domestic and international markets, combining heritage with modern engineering excellence. This project focuses exclusively on analyzing Eicher Motors’ intrinsic valuation using the Discounted Cash Flow (DCF) approach, which is considered one of the most robust methods

for estimating the true worth of a company. The study evaluates historical financial data, projects future cash flows, and applies DCF modelling frameworks specifically Free Cash Flow to Equity (FCFE) and Free Cash Flow to Firm (FCFF) to derive the company's intrinsic value. By comparing the DCF-derived valuation with the prevailing market price, the project aims to provide insights into whether Eicher Motors' stock is fairly valued, undervalued, or overvalued, thereby offering a grounded perspective for investors and stakeholders.

## Review of Literature

**Divya, D., Darshan, R., & Abdullah, A. S. (2025)** Financial performance and working capital management at devi motors-a yamaha dealership perspective. The study found that Devi Motors maintained strong liquidity and positive working capital throughout 2020–2024, showing that the dealership was financially stable and able to meet its short-term obligations. However, in 2024 there was an unusually large jump in working capital driven mainly by a sharp rise in trade debtors and closing stock. This indicates business expansion but also signals potential concerns related to slow collections and excess inventory. The company's assets and liabilities nearly doubled in 2024, reflecting growth but also increased financial dependence on secured loans. Overall, while Devi Motors shows healthy financial capacity, the findings highlight the need to strengthen receivable management, control inventory levels, and reduce reliance on external borrowing to ensure long-term financial sustainability.

**Dr. D Divya & Shanmugapriya V (2024)**, Investment Pattern of Working Women With Reference to Coimbatore City, The literature collectively suggests that while working women in India, particularly in Coimbatore, demonstrate cautious investment behaviour rooted in safety and tradition, there is a gradual shift toward profitability-driven and technology-enabled avenues. Enhancing financial literacy and awareness of diverse instruments could empower women to balance risk and return more effectively, thereby contributing to broader capital formation and economic growth.

**Dr. D. Mythili, Mr. Hariharan I, Mr. Gugan A E (2025)**, A Study On Financial Performance Of Bajaj Finserv Limited Existing literature on financial performance analysis emphasizes the use of ratio analysis to evaluate liquidity, profitability, solvency, and overall financial stability in NBFCs. Studies consistently show that assessing current ratios, quick ratios, and profitability ratios provides meaningful insights into a company's short-term financial strength and long-term growth potential. Research also highlights that stable liquidity, efficient debtor turnover, and consistent profitability trends are key indicators of a strong financial position. Overall, the literature concludes that systematic financial analysis using ratios is essential for understanding organizational performance and supporting effective decision-making in financial service institutions.

## Objective of the study

- To estimate the company's valuation using Discounted Cash Flow (DCF).
- To build a detailed financial model of Eicher Motors using historical data.

## Problem Statement

Despite Eicher Motors’ strong brand presence and consistent growth in both two-wheeler and commercial vehicle segments, investors face difficulty in accurately assessing its intrinsic value due to fluctuating margins, evolving EV strategy, and dynamic industry competition. This report seeks to address the challenge by building a detailed financial model that analyzes historical performance, forecasts future cash flows, and applies valuation techniques to evaluate Eicher’s investment potential and strategic positioning within the automotive sector.

## Research Methodology

This financial modelling report on Eicher Motors Ltd. adopts a quantitative and analytical research approach to evaluate the company’s financial performance, strategic direction, and valuation outlook. The methodology integrates historical data analysis, ratio interpretation, forecasting techniques, and valuation models (including DCF) to assess investment potential.

## Method of Data Collection

The study relies entirely on secondary data sources that are publicly available and widely recognized for financial analysis. These include company annual reports, investor presentations, industry benchmarks, financial databases such as Moneycontrol and Screener, and strategic updates from news articles and press releases. All financial figures, ratios, and valuation metrics are derived from historical financial statements (Income Statement, Balance Sheet, Cash Flow), market data like share price and enterprise value, and peer comparison metrics for relative valuation. The data spans FY2020 to FY2025 (actuals), with projections up to FY2030 based on internal modelling and industry growth estimates.

## Discounted Cashflow Method

### Free Cashflow to Equity

FCFE	FY26	FY27	FY28	FY29	Terminal value
PAT	4,970.98	4,920.52		4,609.72	4,950.01
Dep	1184.87	1976.37		2517.47	3586.06
Change in WC	-46.56	52.70		55.83	100.38
Capex	3699.97	5840.67		4109.55	7751.02
New Debt Taken	0.00	0.00		0.00	0.00
FCFE	2,502.45	1,003.53		2,961.80	684.66
Year	1	2		3	4
DCF	2197.58	773.91		2005.83	407.19
Value of equity	103734.96				
Target price	3788.64				
Current price as on 21-07-2025	5561.00				
Analyst View	overvalued				
Buy/Sell Call	sell				

## Interpretation

The FCFE-based valuation of Eicher Motors suggests an intrinsic equity value of about ₹1.03 lakh crore, which translates into a target price of ₹3,788.64 per share. This is nearly 47% lower than the current market price of ₹5,561, indicating that the stock is significantly overvalued in its present market context. The gap between intrinsic value and market price is largely driven by high capital expenditure requirements and the company’s reliance on optimistic future projections, both of which introduce uncertainty into cash flow

sustainability. Based on these findings, the valuation warrants a “Sell” recommendation, as the risk-adjusted return potential appears limited at current levels. For investors, the critical factors to watch will be capital efficiency, cost control, and the stability of free cash flows, since long-term returns will depend on disciplined capital allocation and effective management of growth-related expenditures.

### Free Cashflow to Firm

FCFF	FY26	FY27	FY28	FY29	Terminal value
PAT	4,970.98	4,920.52		4,609.72	4,950.01
Dep	1184.87	1976.37		2517.47	3586.06
Change in WC	-46.56	52.70		55.83	100.38
Capex	3699.97	5840.67		4109.55	7751.02
Finance Cost	21.71	20.28		10.59	26.37
FCFF	2,524.15	1,023.81		2,972.39	711.04
Year	1	2		3	4
DCF	2217.88	790.43		2016.38	423.82
Value of equity	123890.29				
Target price	4524.75				
Current price as on 21-07-2025	5561.00				
Analyst View	overvalued				
Buy/Sell Call	sell				

### Interpretation

The DCF valuation indicates a total equity value of ₹1,23,890.29 crore with a target price of ₹4,524.75 per share, compared to the current market price of ₹5,561.00 as of July 21, 2025. This suggests the stock is overvalued, as the market price exceeds its intrinsic value. Despite positive free cash flow projections, volatile FCFF and heavy capital expenditure reduce near-term cash generation potential. Hence, the analyst view is “Sell”, reflecting limited upside and potential downside risk.

### Findings & Suggestion

The DCF-based valuation of Eicher Motors reveals that the stock is currently overvalued, with FCFE and FCFF models indicating target prices of ₹3,788.64 and ₹4,524.75, respectively both below the prevailing market price of ₹5,561. High capital expenditure and volatile cash flows limit short-term value creation despite strong brand equity and profitability, leading to a cautious “SELL” recommendation. To address these concerns and unlock long-term shareholder value, the company should focus on stabilizing cash flows by optimizing production efficiency, managing fixed costs, and balancing capital expenditure. Strengthening profitability through cost rationalization, value engineering, and supply chain optimization will improve valuation metrics, while accelerating EV initiatives and global expansion can diversify revenue streams and reduce reliance on domestic sales. Additionally, value-driven innovation in premium motorcycle design, sustainable manufacturing practices, and transparent financial communication with regular DCF sensitivity updates will help rebalance market perception and align intrinsic value with market expectations.

### Conclusion

The intrinsic valuation of Eicher Motors Limited, based on a DCF-driven model, indicates that the stock is currently overvalued despite strong brand equity, consistent profitability, and a strategic alliance with Volvo under VECV. To unlock long-term shareholder value and align market perception with intrinsic worth, the company must improve cash flow stability by optimizing production efficiency, managing fixed costs, and balancing capital expenditure. Enhancing profitability through cost rationalization, value engineering, and

supply chain optimization is essential to strengthen valuation metrics. Accelerating its EV and global expansion strategy will diversify revenue streams and reduce reliance on domestic sales. Additionally, value-driven innovation in premium motorcycle design and sustainable practices will reinforce competitive positioning. Transparent financial communication and regular DCF sensitivity updates can help rebalance market expectations. While Eicher's fundamentals remain sound, a strategic recalibration focused on sustainable growth and capital efficiency is vital for long-term success.

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