

# Eicher Motors Limited

Industry Automobiles  
Bloomberg EIM IN  
BSE CODE 505200

## Kerela market still under stress, 650 twins gaining strong momentum

RATING	ACCUMULATE
CMP	20675
Price Target	22734
Potential Upside	10%

Rating Change	↔
Estimate Change	↓
Target Change	↓

### Stock Info

52wk Range H/L	32210/18780
Mkt Capital (Rs Cr)	56390
Free float (%)	49%
Avg. Vol 1M (,000)	156
No. of Shares (Cr.)	3
Promoters Pledged %	0%

### Research Analyst

**NAVEEN KUMAR DUBEY**

Naveen.dubey@narnolia.com

+91-22-62701235

Swati Singh

Swati.singh@narnolia.com

+91-22-62701224

### Q3FY19 Result Update

- ❑ Net sales grew by 3.2%YoY to Rs.2341 crores during the quarter. Volumes de-grew by 6% YoY due to slowdown in demand while realization increased by 10% YoY due to the introduction of rear disc brakes and ABS in the models.
- ❑ EBITDA margin has also declined by 130 bps QoQ to 29% on the back of weaker operating leverage and higher launch costs on 650 twin models.
- ❑ PAT for the quarter stood at Rs.533 crores with 2.4%YoY growth due to higher other income. PAT margin declined by 70 bps at 22.8%.
- ❑ VECV revenue grew by 9% YoY led by 4% YoY growth in the volumes. The EBITDA declined by 18% YoY to Rs. 186 crores due to higher discounting in heavy duty segment. PAT also declined by 43% YoY to Rs. 76 crores.
- ❑ The company launched 650 twin models (Interceptor 650 and Continental GT650) during the quarter in India. The company has witnessed strong demand for these models in domestic as well as in overseas markets thus resulting in waiting period of 5-6 months.

### View and Valuation

The margins slipped for second straight quarter by 130bps on a sequential basis due to higher launch cost on 650cc twins, addition of new stores and weaker operating leverage. The demand scenario in the domestic market continues to be challenging due to increased ownership cost and Kerala flood situation (30% market share). The management has also reduced its production guidance to 8.7 lakh units from 9.5 lakh units for FY19. However the 650 twins have a waiting period of 5-6 months against 4-5 weeks for Thunderbird X and Classic 350. The management is constantly increasing its dealer network in order to have strong hold in the domestic market. We expect that Jawa motorcycles can be a potential threat to Royal Enfield and snatch good chunk of market share as it has already stopped bookings till September 2019 because of strong demand. International business remains a primary focus area as the company is investing consistently on network expansion, promotional and brand building activities in key export markets. The management expects CV demand scenario to be strong on the back of new products in LMD space, infrastructure development and strong replacement demand. Factoring the demand concerns and weaker operating leverage, we reduce our FY19/20 EBITDA margin estimates by 70/40 bps respectively. We value EICHERMOT at 23x FY20e EPS and arrive at a target price of Rs.22734 and maintain ACCUMULATE rating on the stock.

### Key Risks to our rating and target

- ❑ Prolonged softness in demand
- ❑ Increase in commodity prices

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	6173	7033	8965	9975	11736
EBITDA	1690	2174	2808	3027	3634
EBIT	1553	2020	2584	2730	3276
PAT	1338	1667	1960	2257	2694
EPS (Rs)	493	613	719	828	988
EPS growth (%)	117	24	17	15	19
ROE (%)	37	31	28	26	25
ROCE (%)	43	38	37	31	30
BV	1345	1964	2579	3241	4032
P/B (X)	14	13	11	6	5
P/E (x)	39	41	39	25	21

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## 3QFY19 Results

**PAT above estimates**

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Volumes	206586	227042	225361	210102	194473	-6%	-7%	666490	820493	23.1%
Realization	109,834	111,345	113,052	114,619	120,380	10%	5%	105,534	109,263	3.5%
Net Sales	2,269	2,528	2,548	2,408	2,341	3%	-3%	7,033	8,965	27.5%
Other Income	47	85	60	94	147	210%	57%	227	280	23.2%
Total Income	2,316	2,613	2,607	2,502	2,488	7%	-1%	7,261	9,245	27.3%
COGS	1,158	1,300	1,311	1,219	1,192	3%	-2%	3,704	4,643	25.3%
Staff Cost	138	154	171	176	185	34%	5%	402	574	42.6%
Other Exp.	266	277	256	284	285	7%	1%	753	940	24.9%
Expenditure	1,562	1,731	1,738	1,679	1,662	6%	-1%	4,859	6,157	26.7%
EBITDA	707	797	810	729	680	-4%	-7%	2,174	2,808	29.1%
Depreciation	65	64	70	72	77	18%	6%	154	223	45.2%
EBIT	642	733	739	657	603	-6%	-8%	2,020	2,584	27.9%
Interest	2	1	2	2	2	19%	6%	4	5	50.0%
PBT	688	817	798	749	748	9%	0%	2,244	2,859	27.4%
Excpt. Item	-	187	-	-	-	0%	0%	46	220	0.0%
Tax	230	265	286	260	256	12%	-1%	720	936	29.9%
PAT	521	462	576	566	533	2%	-6%	1,667	1,960	17.6%

### Revenue growth of 3.2% YoY driven by 10% YoY realization growth

EICHERMOT posted a revenue growth of 3.2%YoY to Rs.2341 crores (vs. our estimates of Rs.2251 crores) in 3QFY19. Volumes de-grew by 6% YoY due to higher ownership cost, Kerala flood and strike at Oragadam plant. However, realization increased by 10% YoY due to the introduction of rear disc brakes and ABS in the models. The Interceptor 650 and Continental GT 650 have been received well by the customers in domestic as well as in international markets resulting in a waiting period of 5-6 months.

VECV revenue grew by 9% YoY led by 4% YoY growth in the volumes. The EBITDA declined by 18% YoY to Rs. 186 crores due to higher discounting in heavy duty segment and product mix. PAT also declined by 43% YoY to Rs. 76 crores. The management expects the CV industry to remain slow in Q4FY19.

### Higher launch costs and employee expenses dented EBITDA margins

Gross margin declined marginally by 30bps QoQ due to increase in raw material cost. On the other hand, EBITDA margin has declined by 130bps QoQ to 29% due to increase in employee cost led by commencement of Technical centre at Chennai and higher launch cost on 650 twin models.

### Higher other income led to PAT growth

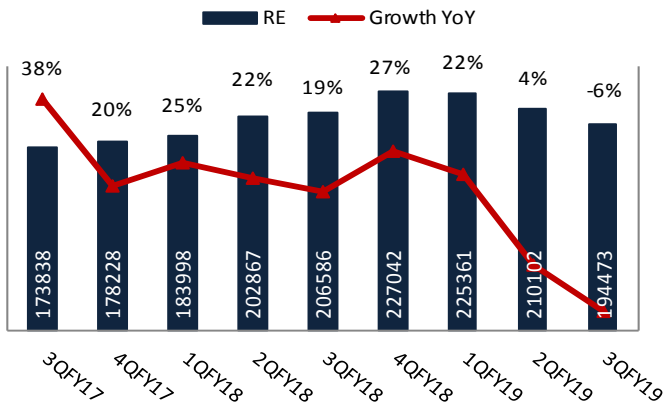
PAT for the quarter stood at Rs.533 crores with 2.4%YoY growth due to higher other income. PAT margin declined by 70bps on sequential basis to 22.8%.

### Concall highlights

- The company has decreased the total production guidance from 9.5 lakhs units to 8.7-8.8 lakh units for FY19.
- The Strike at Oragadam plant has been resolved during the quarter which lasted till 50 days. It led to the loss of 30000 motorcycles.
- The company crossed 2000 units of production of twins model and it will continue to ramp up in next 2-3 months. It is expected to reach 4500-5000 units by April-May 2019.
- On VECV side, the company has expended its range of heavy duty trucks.
- The company is focusing on Southeast Asia, the Middle East and Africa for exports.
- The company has proposed new plant in Bhopal with a capacity of 40,000 units. The 150 acres land has been sanctioned by the Madhya Pradesh State Government. The capacity to come on stream is within 18-24 months with a planned capital outlay of around Rs 400 cr.
- Phase II of the Vallam plant is underway and is expected to get commissioned by the end of the year.
- The company has taken a price hike of Rs 1400 on 1st feb 2019 except on twins model
- Inventory level for Royal Enfield is at 30-35 days.
- The company has added 20 dealers during the quarter with a total 878 dealers in India and internationally it has added stores in Columbia with a total of 42 stores internationally.
- Capex plan for FY19 upto Rs. 800 cr for Phase-2 of Vallam Vadagal plant, construction of the Technology Centre, development of new products and to expand RE's portfolio for global markets. Capital expenditure for VECV is Rs. 500 cr for FY19.

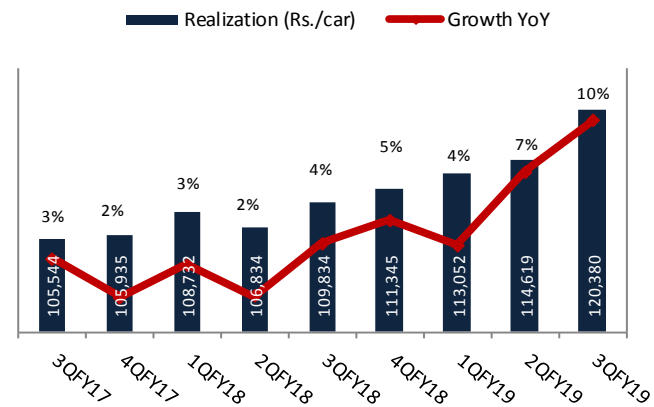
## Exhibit: Volume and Volume Growth Trend

The continued strike at Oragadam plant has led to production loss of 30000 units in 3QFY19



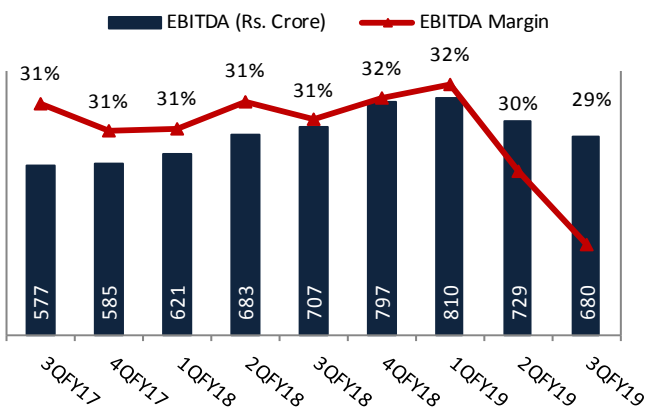
## Exhibit: Realisation and Realisation Growth Trend

Introduction of ABS and rear disc brakes in models has led to sharp increase in realisation



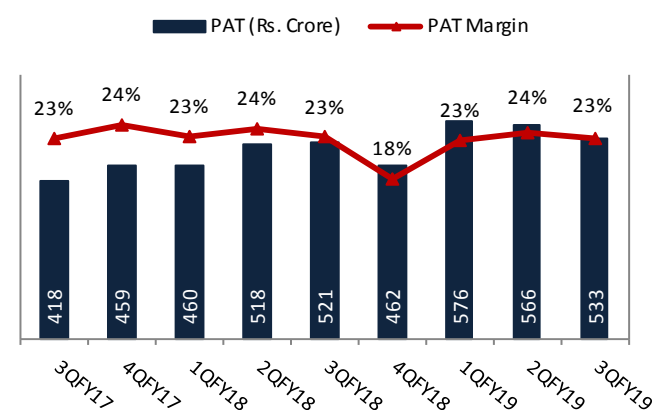
## Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

Higher launch cost of twin models coupled with weaker operating leverage benefit led to margin contraction



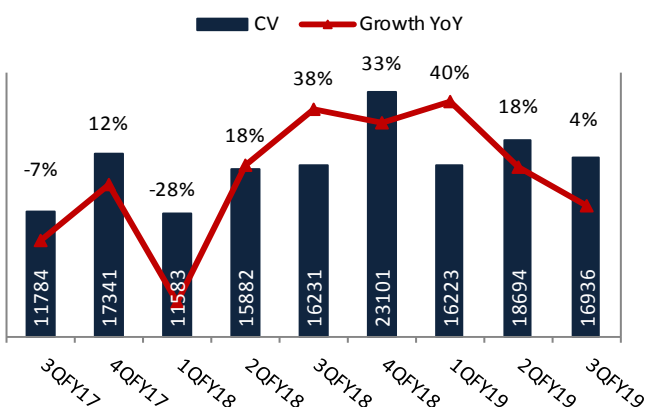
## Exhibit: PAT (Rs. Crore) and PAT Margin Trend

Higher other income led to PAT growth. PAT margin declined by 70bps on sequential basis to 22.8%.



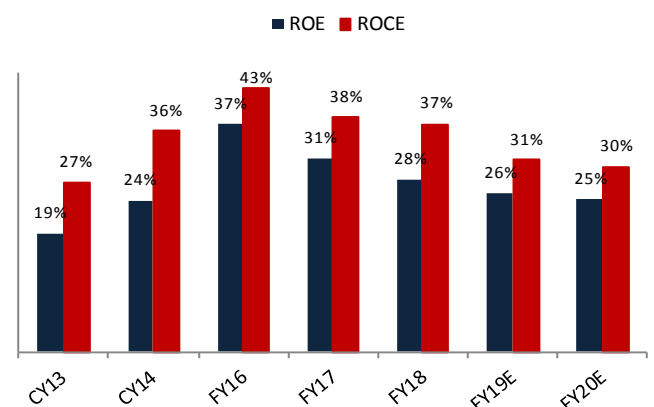
## Exhibit: Commercial Vehicle Growth Trend

Heavy duty segments affected due to higher discountings in VECV



## Exhibit: Return Ratios

As the profitability improves going ahead return ratios will follow the same



## Financial Details

### Balance Sheet

Y/E March	CY12	CY13	CY14	FY16	FY17	FY18	FY19E	FY20E
Share Capital	27	27	27	27	27	27	27	27
Reserves	1,728	2,028	2,489	3,626	5,318	7,003	8,807	10,961
Networth	1,755	2,055	2,516	3,653	5,345	7,030	8,835	10,988
Debt	22	84	58	23	112	151	135	101
Other Non Cur Liab	197	254	329	81	134	227	235	241
Total Capital Employed	1,755	2,055	2,516	3,653	5,345	7,030	8,835	10,988
Net Fixed Assets (incl CWIP)	1,496	2,120	2,728	884	1,242	1,831	2,854	3,017
Non Cur Investments	0	0	161	2,801	2,358	3,183	3,874	5,840
Other Non Cur Asst	6	7	8	141	243	164	164	164
Non Curr Assets	1,833	2,425	3,374	3,890	5,628	6,987	8,701	10,830
Inventory	489	527	646	308	336	395	439	517
Debtors	446	513	562	33	50	68	76	89
Cash & Bank	804	683	481	49	25	1,212	1,177	1,183
Other Curr Assets	42	46	48	63	77	196	218	256
Curr Assets	2,639	2,911	3,033	1,049	1,381	2,535	2,825	3,183
Creditors	955	1,191	1,513	723	765	1,172	1,304	1,534
Provisons (both)	114	156	248	26	43	47	53	62
Other Curr Liab	480	556	658	350	430	617	687	808
Curr Liabilities	1,549	1,904	2,419	1,182	1,418	2,115	2,321	2,682
Net Curr Assets	1,090	1,008	614	(134)	(37)	421	503	501
Total Assets	4,471	5,337	6,408	4,939	7,009	9,522	11,526	14,013

### Income Statement

Y/E March	CY12	CY13	CY14	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	6,390	6,810	8,738	6,173	7,033	8,965	9,975	11,736
Change (%)	12	7	28	(29)	14	8	12	12
Other Income	137	95	107	178	227	280	337	351
<b>EBITDA</b>	<b>549</b>	<b>713</b>	<b>1,115</b>	<b>1,690</b>	<b>2,174</b>	<b>2,808</b>	<b>3,027</b>	<b>3,634</b>
Change (%)	(7)	30	56	52	29	29	8	20
<b>Margin (%)</b>	<b>9</b>	<b>10</b>	<b>13</b>	<b>27</b>	<b>31</b>	<b>31</b>	<b>30</b>	<b>31</b>
Depr & Amor.	82	130	220	137	154	223	297	358
EBIT	467	583	895	1,553	2,020	2,584	2,730	3,276
Int. & other fin. Cost	4	8	10	2	4	5	7	5
<b>EBT</b>	<b>600</b>	<b>671</b>	<b>993</b>	<b>1,729</b>	<b>2,244</b>	<b>2,859</b>	<b>3,061</b>	<b>3,622</b>
Exp Item	-	-	-	-	46	220	-	-
Tax	125	145	291	539	720	936	1,065	1,242
Minority Int & P/L share of Ass.	(151)	(131)	(86)	148	189	257	262	314
<b>Reported PAT</b>	<b>324</b>	<b>394</b>	<b>615</b>	<b>1,338</b>	<b>1,667</b>	<b>1,960</b>	<b>2,257</b>	<b>2,694</b>
<b>Adjusted PAT</b>	<b>324</b>	<b>394</b>	<b>615</b>	<b>1,338</b>	<b>1,667</b>	<b>1,960</b>	<b>2,257</b>	<b>2,694</b>
Change (%)	5	21	56	117	25	18	15	19
<b>Margin(%)</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>22</b>	<b>24</b>	<b>22</b>	<b>23</b>	<b>23</b>

## Financial Details

### Key Ratios

Y/E March	CY12	CY13	CY14	FY16	FY17	FY18	FY19E	FY20E
ROE	18%	19%	24%	37%	31%	28%	26%	25%
ROCE	27%	27%	36%	43%	38%	37%	31%	30%
Asset Turnover	1.43	1.28	1.36	1.25	1.00	0.94	0.87	0.84
Debtor Days	25	27	23	2	3	3	3	3
Inv Days	28	28	27	18	17	16	16	16
Payable Days	55	64	63	43	40	48	48	48
Int Coverage	123	74	92	733	567	484	404	646
P/E	24	34	66	39	41	39	25	21
Price / Book Value	4	7	16	14	13	11	6	5
EV/EBITDA	13	18	36	31	31	28	19	16
FCF per Share	297	252	177	5	6	34	21	23
Div Yield	0.7%	0.6%	0.3%	0.5%	0.4%	0.4%	0.5%	0.5%

### Cash Flow Statement

Y/E March	CY12	CY13	CY14	FY16	FY17	FY18	FY19E	FY20E
PBT	600	671	993	1,338	1,667	2,896	3,061	3,622
(inc)/Dec in Working Capital	551	718	1,126	1,719	2,196	2,851	3,626	4,299
Non Cash Op Exp	82	130	220	137	154	223	297	358
Int Paid (+)	4	8	10	2	4	5	7	5
Tax Paid	(108)	(150)	(281)	(519)	(652)	(807)	(1,065)	(1,242)
others	(633)	(659)	(1,020)	(1,214)	(1,660)	(2,686)	(3,223)	(3,747)
CF from Op. Activities	496	716	1,047	1,463	1,709	2,482	2,702	3,294
(inc)/Dec in FA & CWIP	(786)	(712)	(972)	(510)	(548)	(749)	(1,320)	(520)
Free Cashflow	(289)	4	76	953	1,161	1,734	1,382	2,774
(Pur)/Sale of Inv	(126)	(187)	(92)	422	(242)	-	(251)	(223)
others	138	109	(24)	(914)	(962)	(1,397)	(691)	(1,966)
CF from Inv. Activities	(773)	(790)	(1,087)	(1,001)	(1,752)	(2,145)	(2,262)	(2,709)
inc/(dec) in NW	262	300	460	1,137	1,692	1,685	1,805	2,154
inc/(dec) in Debt	(12)	62	(26)	-	44	495	(16)	(34)
Int. Paid	(4)	(8)	(10)	(2)	(3)	(3)	(7)	(5)
Div Paid (inc tax)	(90)	(102)	(135)	(468)	-	(317)	(453)	(540)
others	(267)	(299)	(453)	(1,132)	(1,686)	(2,122)	(1,805)	(2,154)
CF from Fin. Activities	(111)	(47)	(162)	(466)	47	(262)	(475)	(579)
Inc(Dec) in Cash	(388)	(121)	(202)	(4)	4	75	(35)	6
Add: Opening Balance	1,192	804	683	17	13	17	92	57
Closing Balance	804	683	481	13	17	92	57	63

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Correspondence Office Address: Arch Waterfront, 5<sup>th</sup> Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; [www.narnolia.com](http://www.narnolia.com).

Registered Office Address: Marble Arch, Office 201, 2<sup>nd</sup> Floor, 236B, AIC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; [www.narnolia.com](http://www.narnolia.com)

Compliance Officer: Manish Kr Agarwal, Email Id: [mkagarwal@narnolia.com](mailto:mkagarwal@narnolia.com), Contact No.:033-40541700.

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