

## EICHER MOTORS LIMITED

Industry  
Bloomberg  
BSE Code  
NSE Code

Automobiles  
EIM:IN  
505200  
EICHERMOT

10 August 2018

| RATING           | ACCUMULATE |
|------------------|------------|
| CMP              | 27484      |
| Price Target     | 31000      |
| Previous Target  | 33407      |
| Potential Upside | 13%        |

## Stock Info

|                       |             |
|-----------------------|-------------|
| 52wk Range H/L        | 33484/26000 |
| Mkt Capital (Rs Cr)   | 74939       |
| Free float (%)        | 49%         |
| Avg. Vol 1M (,000)    | 27          |
| No. of Shares (Crore) | 3           |
| Promoters Pledged %   | 0%          |

## Better product mix to drive margins

## Key Highlights

- ✓ EICHERMOT is one of the leading premium segment 2 wheeler manufactures in India and commands over 90% market share in the domestic market in mid size motorcycles (250-750 cc).
- ✓ To keep pace with a strong demand and improve accessibility, the management targets 950 exclusive stores of RE in the domestic market and 25-30 new exclusive stores in the overseas markets by FY19.
- ✓ The company will spend Rs.1300 crores towards capacity expansion and new product launches. Out of which Rs.800 crores will be towards RE and Rs.500 crores towards VECV.
- ✓ The interceptor twin 650 bikes are expected to be launched in CY18 and the management expects good demand for these bikes from cities like; Delhi, Chandigarh, Kerala and Tamil Nadu.

## 1Q FY19 Result:

Net sales grew by 27%YoY to Rs.2548 crore which was in-line with our estimates (Rs.2522 crore). Volumes grew robustly by 23%YoY and realization increased by 4%YoY due to better product mix. Better product mix and efficient cost management led the 130bps YoY improvement in gross margins despite increasing commodity prices. EBITDA margin has also expanded by 80bps YoY to 31.8% on the back of operating leverage. VECV revenue grew handsomely by 45%YoY led by 40% YoY growth in the volumes. PAT for the quarter remained at Rs.576 crores with 25%YoY growth

## View and Valuation

EICHERMOT continues to deliver sturdy operating performance led by strong brand positioning and competitive advantage over the peers. The demand for Royal Enfield motorcycles remained strong across the country with waiting period of 1-1.5 months. New refreshed premium versions of the existing models are driving the growth with 50% contribution in the overall demand. There will be some headwinds related to increasing commodity prices in 2QFY19 but we expect that increasing contribution of premium motorcycles will lessen the impact on margins. The management expect robust CV demand scenario to continue on the back of new products, infrastructure development and strong replacement demand. International business outlook also remains strong based on robust network expansion and strong response from key export markets. Considering the strong premium motorcycle demand, increasing export opportunities and strong growth prospects on CV side we expect over 150bps improvement in margins over FY18-20. We value EICHERMOT at 27x FY20e EPS and arrive at a target price of 31000 and maintain ACCUMULATE rating on the stock.

## Key Risks to our rating and target

- ◆ Slow down in demand from metro cities may hamper the volumes sharply

| KEY FINANCIAL/VALUATIONS | FY16 | FY17 | FY18 | FY19E | FY20E |
|--------------------------|------|------|------|-------|-------|
| Net Sales                | 6173 | 7033 | 8965 | 10646 | 12335 |
| EBITDA                   | 1690 | 2174 | 2808 | 3423  | 4065  |
| EBIT                     | 1553 | 2020 | 2584 | 3137  | 3706  |
| PAT                      | 1338 | 1667 | 1960 | 2567  | 3129  |
| EPS (Rs)                 | 493  | 613  | 719  | 942   | 1148  |
| EPS growth (%)           | 117  | 24   | 17   | 31    | 22    |
| ROE (%)                  | 37   | 31   | 28   | 28    | 27    |
| ROCE (%)                 | 43   | 38   | 37   | 34    | 31    |
| BV                       | 1345 | 1964 | 2579 | 3364  | 4321  |
| P/B (X)                  | 14   | 13   | 11   | 8     | 6     |
| P/E (x)                  | 39   | 41   | 39   | 29    | 24    |

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## 1Q FY 19 Results

## PAT misses estimates

| Financials      | 1QFY18   | 2QFY18   | 3QFY18   | 4QFY18   | 1QFY19   | YoY %  | QoQ%   | FY17     | FY18     | YoY %  |
|-----------------|----------|----------|----------|----------|----------|--------|--------|----------|----------|--------|
| Total Volumes   | 184      | 203      | 207      | 227      | 225      | 22.5%  | -0.7%  | 666      | 820      | 23.1%  |
| Realization(Rs) | 1,08,732 | 1,06,834 | 1,09,834 | 1,11,345 | 1,13,052 | 4.0%   | 1.5%   | 1,05,534 | 1,09,263 | 3.5%   |
| Net Sales       | 2,001    | 2,167    | 2,269    | 2,528    | 2,548    | 27.3%  | 0.8%   | 7,033    | 8,965    | 27.5%  |
| Other Income    | 78       | 70       | 47       | 85       | 60       | -23.3% | -29.8% | 227      | 280      | 23.2%  |
| COGS            | 1,057    | 1,128    | 1,158    | 1,300    | 1,311    | 24.0%  | 0.9%   | 3,704    | 4,643    | 25.3%  |
| Gross Margin    | 47%      | 48%      | 49%      | 49%      | 49%      | 1.4%   | 0.0%   | 47%      | 48%      | 0.9%   |
| Employee Cost   | 121      | 136      | 138      | 154      | 171      | 41.7%  | 11.0%  | 402      | 574      | 42.6%  |
| Other Expenses  | 202      | 221      | 266      | 277      | 256      | 26.6%  | -7.6%  | 753      | 940      | 24.9%  |
| EBITDA          | 621      | 683      | 707      | 797      | 810      | 30.4%  | 1.6%   | 2,174    | 2,808    | 29.1%  |
| EBITDA Margin   | 31%      | 31%      | 31%      | 32%      | 32%      | 0.8%   | 0.2%   | 31%      | 31%      | 0.4%   |
| Depreciation    | 45       | 49       | 65       | 64       | 70       | 55.1%  | 9.7%   | 154      | 223      | 45.2%  |
| EBIT            | 576      | 633      | 642      | 733      | 739      | 28.5%  | 0.9%   | 2,020    | 2,584    | 27.9%  |
| Interest        | 1        | 1        | 2        | 1        | 2        | 37%    | 13.3%  | 4        | 5        | 50.0%  |
| PBT             | 652      | 702      | 688      | 817      | 798      | 22.3%  | -2.4%  | 2,244    | 2,859    | 27.4%  |
| Exceptional     | -        | -        | -        | 187      | -        | 0.0%   | 0.0%   | 46       | 220      | 378.4% |
| Tax             | 218      | 224      | 230      | 265      | 286      | 31.3%  | 8.0%   | 720      | 936      | 29.9%  |
| PAT             | 460      | 518      | 521      | 462      | 576      | 25.4%  | 24.8%  | 1,667    | 1,960    | 17.6%  |
| PAT Margin      | 23%      | 24%      | 23%      | 18%      | 23%      | -0.4%  | 4.4%   | 24%      | 22%      | -1.8%  |

**Strong revenue growth backed by robust volume growth**

Net sales grew by 27%YoY to Rs.2548 crore which was in-line with our estimates (Rs.2522 crore). Volumes grew robustly by 23%YoY and realization increased by 4%YoY due to better product mix.

Domestic volume soared by 30%YoY while export grew by 10%YoY. The demand of premium classic 350 gun metal grey and thunderbird X remained robust with waiting period of over 1.5 months in the domestic markets. The 500 cc segment sales triggered by refreshes as the segment posted 35% YoY growth during the quarter

**EBITDA margin expanded due to better product mix and operating leverage benefit**

Better product mix and efficient cost management led the 130bps YoY improvement in gross margins despite increasing commodity prices. EBITDA margin has also expanded by 80bps YoY to 31.8% on the back of operating leverage. Staff cost was higher due to increase in headcount and wage hike during the quarter.

**VECV recorded 45%YoY revenue growth**

VECV revenue grew handsomely by 45%YoY led by 40% YoY growth in the volumes. Strong demands from infrastructure, logistics and mining sectors have geared such kind of growth. Realization increased by 4%YoY due to improvement in sales of Volvo trucks.

**Higher tax expenses restricted further PAT growth**

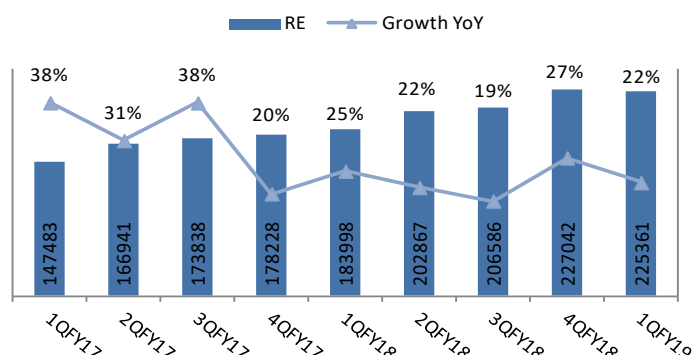
PAT for the quarter remained at Rs.576 crores with 25%YoY growth. However, PAT margin declined by 40bps YoY to 22.6% due to higher tax expenses in the quarter.

**Concall Highlights :**

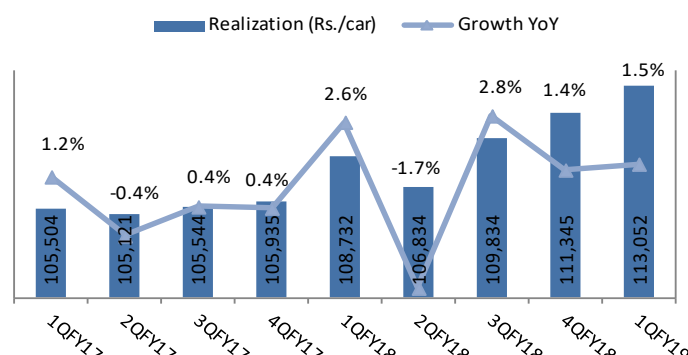
- ✓ The management continues to witness strong demand from domestic market. Strong growth to come in 2HFY19.
- ✓ Demand for premium segment bikes (Classic 350 gunmetal grey and thunderbird X) has led to increase in waiting period. (currently 50% of the portfolio)
- ✓ The demand continues to be strong in Delhi, Kerala, Punjab and Tamilnadu while Maharashtra and Karnataka have witnessed slow down due to higher sales of commuter bike and increase in road tax.
- ✓ UP, Bihar and Orissa have shown healthy demand in last couple of quarters.
- ✓ There would be some commodity cost pressure in 2QFY19 also.
- ✓ Inventory level remains at 10-11 days.
- ✓ There was some supply issues due to trucker's strike in July.
- ✓ Capacity for RE by march 2019 will be 9.5 lakh units
- ✓ The demand for commercial vehicles remain strong due to new products and increasing last mile connectivity.
- ✓ The 650cc twin bikes are expected to be launched in the current calendar year and the management expects good demand for these bikes from cities like; Delhi, Chandigarh. Kerala and Tamil Nadu.
- ✓ The capex will be Rs.800 crores towards Royal Enfield.

**Exhibit: Volume Growth Trend**

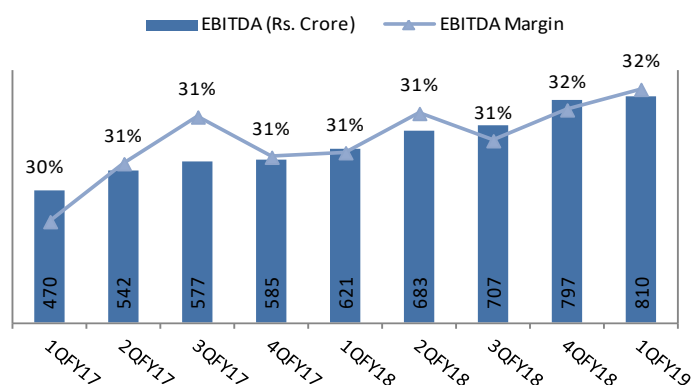
Robust sale of classic 350 models continues while refreshed versions of 500cc models added further growth in the volumes


**Exhibit: Realisation Trend**

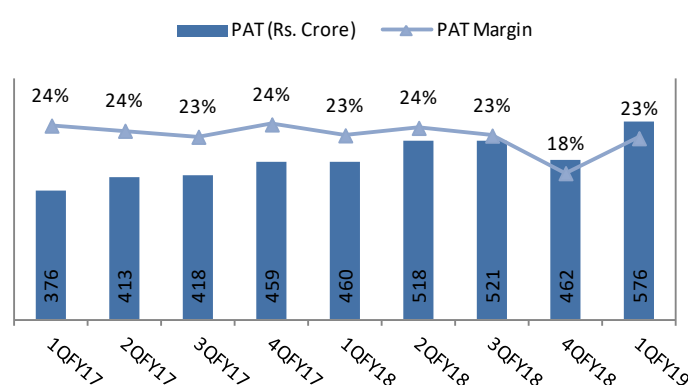
Higher sales of classic 350 and improvement in 500cc motorcycles led to increase in realization


**Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend**

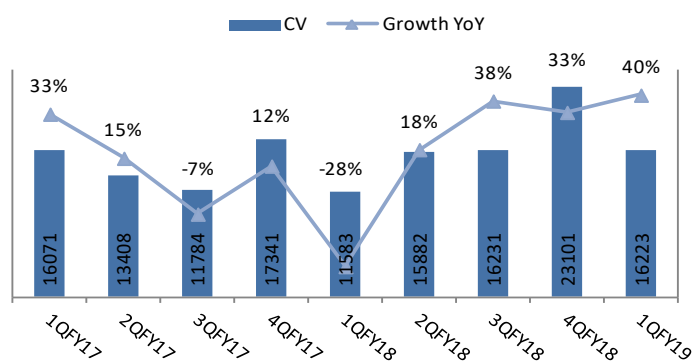
Efficient cost management coupled with operating leverage benefit helped in margin expansion


**Exhibit: PAT (Rs. Crore) and PAT Margin trend**

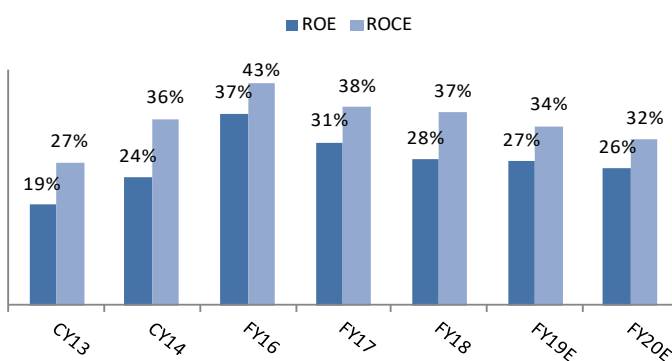
Higher tax expenses restricted further PAT growth and margins expansion.


**Exhibit: Commercial Vehicle Growth Trend**

Strong demands from infrastructure, logistics and mining sectors have geared such kind of growth


**Exhibit: Return Ratios**

Return ratios continues to be strong backed by healthy PAT growth



## 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        | 9,142         | 11,750        |
| <b>Networth</b>               | <b>1,755</b> | <b>2,055</b> | <b>2,516</b> | <b>3,653</b> | <b>5,345</b> | <b>7,030</b> | <b>9,169</b>  | <b>11,777</b> |
| Debt                          | 22           | 84           | 58           | 23           | 112          | 151          | 113           | 85            |
| Other Non Current Liab        | 197          | 254          | 329          | 81           | 134          | 227          | 232           | 237           |
| <b>Total Capital Employed</b> | <b>1,755</b> | <b>2,055</b> | <b>2,516</b> | <b>3,653</b> | <b>5,345</b> | <b>7,030</b> | <b>9,169</b>  | <b>11,777</b> |
| Net Fixed Assets (incl CWIP)  | 1,496        | 2,120        | 2,728        | 884          | 1,242        | 1,831        | 2,865         | 3,026         |
| Non Current Investments       | 0            | 0            | 161          | 2,801        | 2,358        | 3,183        | 3,874         | 5,840         |
| Other Non Current Assets      | 6            | 7            | 8            | 141          | 243          | 164          | 164           | 164           |
| <b>Non Current Assets</b>     | <b>1,833</b> | <b>2,425</b> | <b>3,374</b> | <b>3,890</b> | <b>5,628</b> | <b>6,987</b> | <b>8,712</b>  | <b>10,838</b> |
| Inventory                     | 489          | 527          | 646          | 308          | 336          | 395          | 469           | 543           |
| Debtors                       | 446          | 513          | 562          | 33           | 50           | 68           | 81            | 94            |
| Cash & Bank                   | 804          | 683          | 481          | 49           | 25           | 1,212        | 1,177         | 1,183         |
| Other Current Assets          | 42           | 46           | 48           | 63           | 77           | 196          | 232           | 269           |
| <b>Current Assets</b>         | <b>2,639</b> | <b>2,911</b> | <b>3,033</b> | <b>1,049</b> | <b>1,381</b> | <b>2,535</b> | <b>3,262</b>  | <b>4,066</b>  |
| Creditors                     | 955          | 1,191        | 1,513        | 723          | 765          | 1,172        | 1,392         | 1,612         |
| Provisions                    | 114          | 156          | 248          | 26           | 43           | 47           | 56            | 65            |
| Other Current Liabilities     | 480          | 556          | 658          | 350          | 430          | 617          | 733           | 849           |
| <b>Curr Liabilities</b>       | <b>1,549</b> | <b>1,904</b> | <b>2,419</b> | <b>1,182</b> | <b>1,418</b> | <b>2,115</b> | <b>2,459</b>  | <b>2,805</b>  |
| <b>Net Current Assets</b>     | <b>1,090</b> | <b>1,008</b> | <b>614</b>   | <b>(134)</b> | <b>(37)</b>  | <b>421</b>   | <b>803</b>    | <b>1,261</b>  |
| <b>Total Assets</b>           | <b>4,471</b> | <b>5,337</b> | <b>6,408</b> | <b>4,939</b> | <b>7,009</b> | <b>9,522</b> | <b>11,973</b> | <b>14,904</b> |

## 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        | 10,646       | 12,335       |
| Change (%)                       | 12         | 7          | 28           | (29)         | 14           | 8            | 12           | 12           |
| Other Income                     |            |            |              |              |              |              |              |              |
| <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>3,423</b> | <b>4,065</b> |
| Change (%)                       | (7)        | 30         | 56           | 52           | 29           | 29           | 22           | 19           |
| Margin (%)                       | 9          | 10         | 13           | 27           | 31           | 31           | 32           | 33           |
| Depr & Amor.                     | 82         | 130        | 220          | 137          | 154          | 223          | 286          | 359          |
| <b>EBIT</b>                      | <b>467</b> | <b>583</b> | <b>895</b>   | <b>1,553</b> | <b>2,020</b> | <b>2,584</b> | <b>3,137</b> | <b>3,706</b> |
| Int. & other fin. Cost           | 4          | 8          | 10           | 2            | 4            | 5            | 4            | 3            |
| Other Income                     | 137        | 95         | 107          | 178          | 227          | 280          | 291          | 440          |
| <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>3,424</b> | <b>4,142</b> |
| Exp Item                         |            |            |              |              |              |              |              |              |
| Tax                              | 125        | 145        | 291          | 539          | 720          | 936          | 1,152        | 1,367        |
| Minority Int & P/L share of Ass. | (151)      | (131)      | (86)         | 148          | 189          | 257          | 295          | 354          |
| Reported PAT                     | 324        | 394        | 615          | 1,338        | 1,667        | 1,960        | 2,567        | 3,129        |
| <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>2,567</b> | <b>3,129</b> |
| Change (%)                       | 5          | 21         | 56           | 117          | 25           | 18           | 31           | 22           |
| Margin(%)                        | 5          | 6          | 7            | 22           | 24           | 22           | 24           | 25           |

## Financial Details

### Key Ratios

| Y/E March          | CY12 | CY13 | CY14 | FY16 | FY17 | FY18 | FY19E | FY20E |
|--------------------|------|------|------|------|------|------|-------|-------|
| ROE                | 18%  | 19%  | 24%  | 37%  | 31%  | 28%  | 28%   | 27%   |
| ROCE               | 27%  | 27%  | 36%  | 43%  | 38%  | 37%  | 34%   | 31%   |
| Asset Turnover     | 1.4  | 1.3  | 1.4  | 1.2  | 1.0  | 0.9  | 0.9   | 0.8   |
| 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  | 783   | 1,234 |
| P/E                | 24   | 34   | 66   | 39   | 41   | 39   | 29    | 24    |
| Price / Book Value | 4    | 7    | 16   | 14   | 13   | 11   | 8     | 6     |
| EV/EBITDA          | 13   | 18   | 36   | 31   | 31   | 28   | 22    | 18    |
| 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% | 0.4%  | 0.4%  |

### Cash Flow Statement

| Y/E March                      | CY12         | CY13         | CY14           | FY16           | FY17           | FY18           | FY19E          | FY20E          |
|--------------------------------|--------------|--------------|----------------|----------------|----------------|----------------|----------------|----------------|
| PBT                            | 600          | 671          | 993            | 1,338          | 2,387          | 2,896          | 3,424          | 4,142          |
| (inc)/Dec in Working Capital   | 551          | 718          | 1,126          | 1,719          | 2,196          | 2,851          | 4,010          | 4,859          |
| Non Cash Op Exp                | 82           | 130          | 220            | 137            | 154            | 223            | 286            | 359            |
| Int Paid (+)                   | 4            | 8            | 10             | 2              | 4              | 5              | 4              | 3              |
| Tax Paid                       | (108)        | (150)        | (281)          | (519)          | (652)          | (807)          | (1,152)        | (1,367)        |
| others                         |              |              |                |                |                |                |                |                |
| <b>CF from Op. Activities</b>  | <b>496</b>   | <b>716</b>   | <b>1,047</b>   | <b>1,463</b>   | <b>1,708</b>   | <b>2,482</b>   | <b>3,084</b>   | <b>3,719</b>   |
| (inc)/Dec in FA & CWIP         | (786)        | (712)        | (972)          | (510)          | (548)          | (749)          | (1,320)        | (520)          |
| Free Cashflow                  | (289)        | 4            | 76             | 953            | 1,160          | 1,734          | 1,763          | 3,199          |
| (Pur)/Sale of Inv              | (96)         | (158)        | (181)          | (503)          | (1,196)        | (340)          | (1,329)        | (2,640)        |
| others                         | 105          | 73           | 62             | 120            | 38             | (1,042)        | -              | -              |
| <b>CF from Inv. Activities</b> | <b>(773)</b> | <b>(790)</b> | <b>(1,087)</b> | <b>(1,001)</b> | <b>(1,744)</b> | <b>(2,145)</b> | <b>(2,650)</b> | <b>(3,160)</b> |
| inc/(dec) in NW                | 262          | 300          | 460            | 1,137          | 1,692          | 1,685          | 2,139          | 2,608          |
| inc/(dec) in Debt              | (12)         | 62           | (26)           | -              | 389            | 495            | (38)           | (28)           |
| Int. Paid                      | (4)          | (8)          | (10)           | (2)            | (2)            | (3)            | (4)            | (3)            |
| Div Paid (inc tax)             | (90)         | (102)        | (135)          | (468)          | -              | (317)          | (428)          | (522)          |
| others                         | 0            | 2            | 8              | 5              | 6              | 19             | -              | -              |
| <b>CF from Fin. Activities</b> | <b>(111)</b> | <b>(47)</b>  | <b>(162)</b>   | <b>(466)</b>   | <b>25</b>      | <b>(262)</b>   | <b>(470)</b>   | <b>(553)</b>   |
| Inc(Dec) in Cash               | (388)        | (121)        | (202)          | (4)            | (10)           | 75             | (36)           | 6              |
| <b>Add: Opening Balance</b>    | <b>1,192</b> | <b>804</b>   | <b>683</b>     | <b>17</b>      | <b>28</b>      | <b>17</b>      | <b>1,212</b>   | <b>1,177</b>   |
| Closing Balance                | 804          | 683          | 481            | 13             | 17             | 92             | 1,176          | 1,182          |

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