

EICHER MOTORS
LIMITED

IndustryAutomobiles
BloombergEIM:IN
BSE Code505200
NSE CodeEICHERMOT

14 May 2018

RATING	ACCUMULATE
CMP	30861
Price Target	33407
Previous Target	28009
Potential Upside	8%

Stock Info

52wk Range H/L	33484/26000
Mkt Capital (Rs Cr)	84116
Free float (%)	49%
Avg. Vol 1M (,000)	40
No. of Shares (Crore)	3
Promoters Pledged %	NA

Capacity expansion to drive growth

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). The volumes have grown by 49% CAGR in last 5 years. The company has a margin profile of over 31% which is best in the automotive industry. In FY18 the company volumes grew by 23%YoY to 820943 units. We expect volumes to grow at 15% CAGR over FY18-20.
- ✓ 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 management targets 925 exclusive stores of RE in the domestic market by FY19. The company will open 25-30 new exclusive stores in the overseas markets.
- ✓ EICHERMOT revenue for FY18 stood at Rs.8965 crores with a growth of 27%YoY and PAT for the year was Rs.1960 crores with a growth of 18%YoY.

4Q FY18 Result:

Net sales grew by 34%YoY to Rs.2528 crore which was in-line with our estimates (Rs.2531 crore). Volumes grew robustly by 27%YoY and realization increased by 5%YoY. Efficient cost management led the 120bps YoY improvement in gross margins despite increasing commodity prices during the quarter. EBITDA margin has also expanded by 50bps YoY to 31.5% on the back of operating leverage. VECV revenue grew handsomely by 30%YoY led by 33% YoY growth in the volumes. The company reported an exceptional loss of Rs.187 crores which resulted in flat YoY PAT growth during 4QFY18. PAT for the quarter remained at Rs.462 crores.

View and Valuation

Going ahead we expect that the capacity expansion drive in-line with the demand for both RE and VECV, early ramp up of existing capacities, rising export opportunities and strong growth prospects on CV side will provide further headroom for growth.

we value EICHERMOT at 27x FY20e EPS and arrive at a target price of 33407 and change our rating from NEUTRAL to ACCUMULATE.

Key Risks to our rating and target

- ◆ Delay in commencement of phase-III of Valam Vadagal can lead to capacity constraints
- ◆ Slow down in demand from metro cities may hamper the volumes sharply

KEY FINANCIAL/VALUATIONS	CY14	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	8738	6173	7033	8965	10644	12722
EBITDA	1115	1690	2174	2808	3426	4181
EBIT	895	1553	2020	2584	3136	3819
PAT	615	1338	1667	1960	2618	3367
EPS (Rs)	227	493	613	720	962	1237
EPS growth (%)	55.8	117.0	24.4	17.6	33.6	28.6
ROE (%)	24.5	36.6	31.2	27.9	28.6	28.3
ROCE (%)	35.6	42.5	37.8	36.8	34.2	32.0
BV	928	1345	1964	2584	3369	4380
P/B (X)	16	14	13	11	9	7
P/E (x)	66	39	41	39	32	25

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**4Q FY 18 Results
In line**
Strong Performance Continues

Financials	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY %	QoQ%	FY17	FY18	YoY %
Total Volumes	178	184	203	207	215	20.6%	4.1%	666	820	23.1%
Realization(Rs)	1,05,935	1,08,732	1,06,834	1,09,834	1,17,749	11.2%	7.2%	1,05,528	1,09,263	3.5%
Net Sales	1,888	2,001	2,167	2,269	2,528	33.9%	11.4%	7,033	8,965	27.5%
Other Income	55	78	70	47	85	54.3%	78.9%	227	280	23.2%
COGS	993	1,057	1,128	1,158	1,300	31.0%	12.3%	3,704	4,643	25.3%
Gross Margin	47%	47%	48%	49%	49%	1.1%	-0.4%	47%	48%	0.9%
Employee Cost	106	121	136	138	154	45.3%	11.7%	402	574	42.6%
Other Expenses	205	202	221	266	277	35.1%	3.9%	753	940	24.9%
EBITDA	585	621	683	707	797	36.3%	12.7%	2,174	2,808	29.1%
EBITDA Margin	31%	31%	31%	31%	32%	0.6%	0.4%	31%	31%	0.4%
Depreciation	43	45	49	65	64	48.1%	-1.5%	154	223	45.2%
EBIT	542	576	633	642	733	35.4%	14.2%	2,020	2,584	27.9%
Interest	1	1	1	2	1	24%	-14.6%	4	5	50.0%
PBT	596	652	702	688	817	37.1%	18.7%	2,244	2,859	27.4%
Exceptional	-	-	-	-	187	0.0%	0.0%	46	220	378.4%
Tax	189	218	224	230	265	40.0%	15.2%	720	936	29.9%
Share of JV	53	25	40	62	96	82.2%	55.4%	189	257	35.4%
PAT	407	435	478	459	462	13.5%	0.6%	1,667	1,960	17.6%
PAT Margin	24%	23%	24%	23%	18%	-6.1%	-4.7%	24%	22%	-1.8%

Strong revenue growth backed by robust volume growth

Net sales grew by 34%YoY to Rs.2528 crore which was in-line with our estimates (Rs.2531 crore). Volumes grew robustly by 27%YoY and realization increased by 5%YoY.

Domestic volume soared by 28%YoY while export grew by 10%YoY. The sales of classic 350 models continues to be strong as these models still have a waiting period of over 1.5 months in the domestic markets. The refreshed versions in the 500cc segment have also pushed the sales of 500 cc segment vehicles which were struggling a bit since last one year. This segment posted a whopping growth of 77%YoY during 4QFY18.

Margin expanded despite commodity cost pressure

Efficient cost management led the 120bps YoY improvement in gross margins despite increasing commodity prices during the quarter. EBITDA margin has also expanded by 50bps YoY to 31.5% on the back of operating leverage.

VECV recorded 30%YoY revenue growth

VECV revenue grew handsomely by 30%YoY led by 33% YoY growth in the volumes. Strong demands from infrastructure, logistics and mining sectors have geared such kind of growth. Although realization declined by 2.5%YoY due to adverse product mix.

Bottomline impacted due to impairment in Eicher Polaris JV

Though the top-line of the company has performed exceptionally well but the impact of such growth was not visible on the bottomline due to impairment loss of Rs.187 crores in the Eicher Polaris JV. PAT for the quarter remained at Rs.462 crores. PAT margin also declined by over 600bps YoY to 18%.

Concall Highlights :

- ✓ The management expects growth to be stable in FY19 but expects delta growth in FY20 due to capacity addition.
- ✓ The company has seen sharp recovery in the demand from Maharashtra and Karnataka.
- ✓ Waiting period for the classic 350 model remains robust at 1.5 months.
- ✓ The exit capacity in FY19 will be 9.58 lakh units per annum.
- ✓ Rs.800 crores of capex in RE and Rs.500 crores in VECV for capacity addition and new product launches.
- ✓ Despite the increase in commodity prices management expects margins to be protected in near term.
- ✓
- ✓ The company will open 25-30 stores in next 2-3 years in export markets.

Exhibit: Volume Growth Trend

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

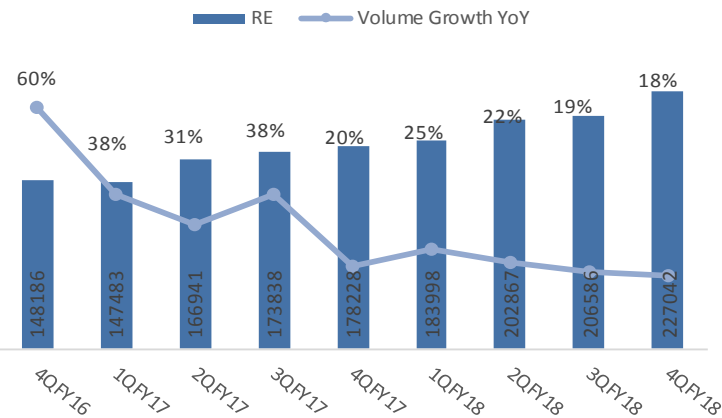


Exhibit: Realisation Trend

Higher sales of 500cc models and price hike taken during the quarter increased realization in 4QFY18.

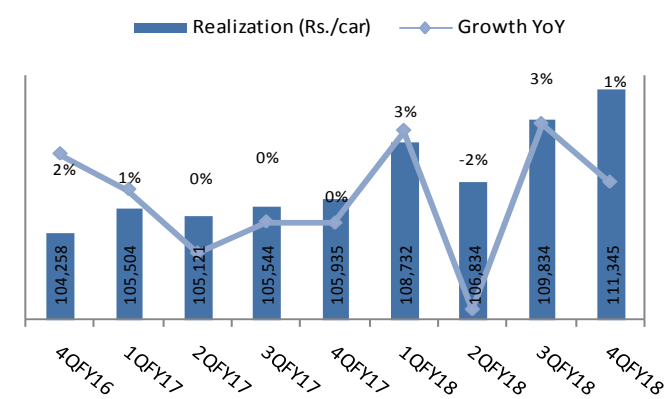


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

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

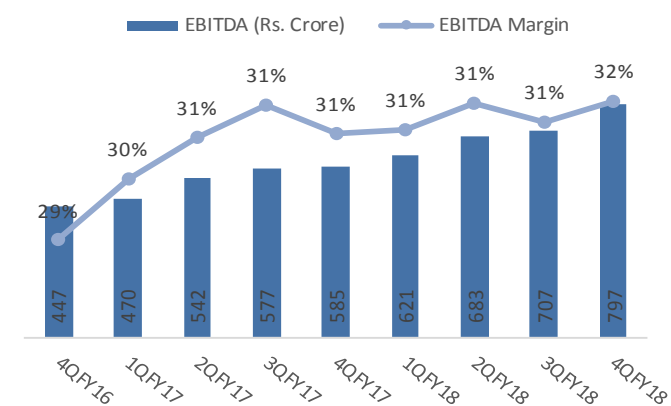


Exhibit: PAT (Rs. Crore) and PAT Margin trend

Impairment loss of Rs.187 crores contracted the PAT margin by 600bps YoY

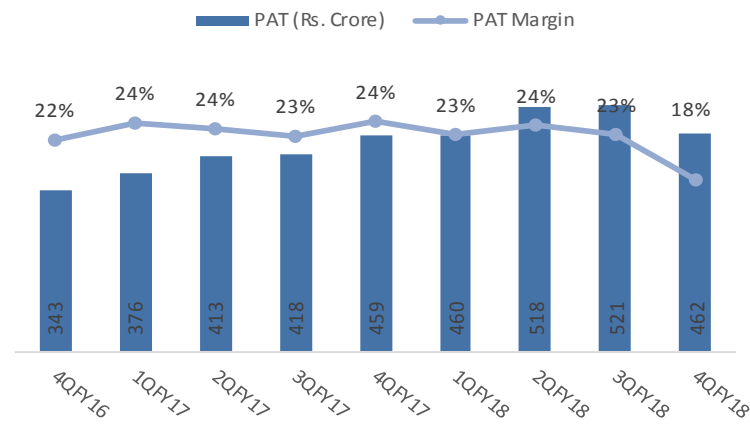


Exhibit: Commercial Vehicle Growth Trend

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

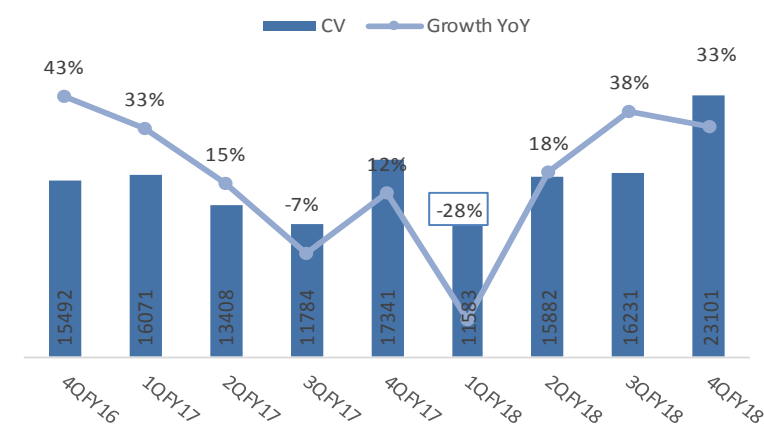
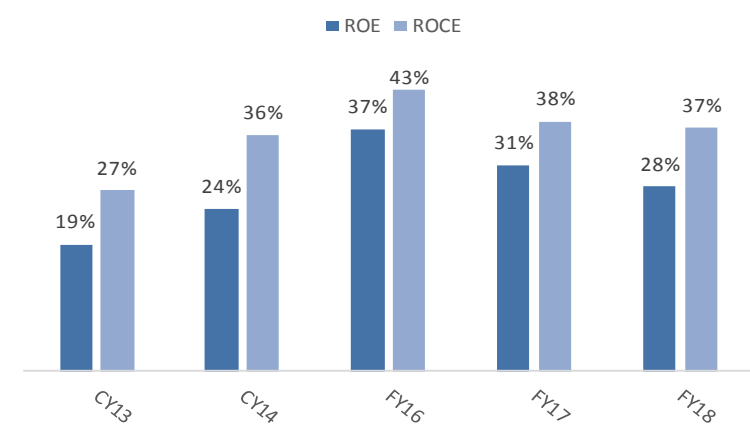


Exhibit: Return Ratios

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	9,141	11,890
Networth	1,755	2,055	2,516	3,653	5,345	7,030	9,168	11,918
Debt	22	84	58	23	44	151	113	85
Other Non Current Liab	197	254	329	81	144	227	231	238
Total Capital Employed	1,755	2,055	2,516	3,653	5,345	7,030	9,168	11,918
Net Fixed Assets (incl CWIP)	1,496	2,120	2,728	884	1,242	1,831	2,858	3,013
Non Current Investments	0	0	161	2,801	4,104	1,764	2,347	4,191
Other Non Current Assets	6	7	8	141	232	164	164	164
Non Current Assets	1,833	2,425	3,374	3,890	5,610	6,987	8,597	10,596
Inventory	489	527	646	308	336	395	469	560
Debtors	446	513	562	33	50	68	81	96
Cash & Bank	804	683	481	49	25	1,212	1,177	1,183
Other Current Assets	42	46	48	63	77	196	232	278
Current Assets	2,639	2,911	3,033	1,049	1,381	2,535	3,374	4,528
Creditors	955	1,191	1,513	723	833	1,172	1,391	1,663
Provisions	114	156	248	26	33	47	56	67
Other Current Liabilities	480	556	658	350	430	617	733	876
Curr Liabilities	1,549	1,904	2,419	1,182	1,457	2,115	2,458	2,884
Net Current Assets	1,090	1,008	614	(134)	(76)	421	915	1,644
Total Assets	4,471	5,337	6,408	4,939	6,991	9,522	11,970	15,124

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	10,644	12,722
Change (%)	12	7	28	(29)	14	8	12	12
Other Income								
EBITDA	549	713	1,115	1,690	2,174	2,808	3,426	4,181
Change (%)	(7)	30	56	52	29	29	22	22
Margin (%)	9	10	13	27	31	31	32	33
Depr & Amor.	82	130	220	137	154	223	291	362
EBIT	467	583	895	1,553	2,020	2,584	3,136	3,819
Int. & other fin. Cost	4	8	10	2	4	5	4	3
Other Income	137	95	107	178	227	280	303	531
EBT	600	671	993	1,729	2,244	2,859	3,435	4,347
Exp Item								
Tax	125	145	291	539	720	936	1,112	1,334
Minority Int & P/L share of Ass.	(151)	(131)	(86)	148	143	37	295	354
Reported PAT	324	394	615	1,338	1,667	1,960	2,618	3,367
Adjusted PAT	324	394	615	1,338	1,667	1,960	2,618	3,367
Change (%)	5	21	56	117	25	18	34	29
Margin(%)	5	6	7	22	24	22	25	26

Financial Details

Key Ratios

Y/E March	CY12	CY13	CY14	FY16	FY17	FY18	FY19E	FY20E
ROE	18.5	19.2	24.5	36.6	31.2	27.9	28.6	28.3
ROCE	26.6	27.3	35.6	42.5	37.8	36.8	34.2	32.0
Asset Turnover	1.4	1.3	1.4	1.2	1.0	0.9	0.9	0.8
Debtor Days	25.5	27.5	23.5	1.9	2.6	2.6	2.8	2.8
Inv Days	27.9	28.2	27.0	18.2	17.4	17.4	16.1	16.1
Payable Days	54.5	63.9	63.2	42.8	43.2	43.2	47.7	47.7
Int Coverage	123	74	92	733	567	484	783	1,271
P/E	24.2	34.2	66.4	38.9	40.7	39.3	32.1	24.9
Price / Book Value	4.5	6.5	16.2	14.2	12.7	11.0	9.2	7.0
EV/EBITDA	12.9	18.0	36.3	30.8	31.2	27.4	24.5	20.1
FCF per Share	297.2	252.4	177.3	4.9	6.4	627.7	21.0	23.4
Div Yield	0.7%	0.6%	0.3%	0.5%	0.4%	0.4%	0.3%	0.3%

Cash Flow Statement

Y/E March	CY12	CY13	CY14	FY16	FY17	FY18E	FY19E	FY20E
PBT	600	671	993	1,338	1,667	2,859	3,435	4,347
(inc)/Dec in Working Capital	551	718	1,126	1,719	2,196	3,386	4,024	5,066
Non Cash Op Exp	82	130	220	137	154	223	291	362
Int Paid (+)	4	8	10	2	4	5	4	3
Tax Paid	(108)	(150)	(281)	(519)	(652)	(936)	(1,112)	(1,334)
others								
CF from Op. Activities	496	716	1,047	1,463	1,709	(1,446)	3,137	4,012
(inc)/Dec in FA & CWIP	(786)	(712)	(972)	(510)	(548)	(812)	(1,317)	(517)
Free Cashflow	(289)	4	76	953	1,161	(2,258)	1,819	3,495
(Pur)/Sale of Inv	(126)	(187)	(92)	422	(242)	250	(751)	(996)
others	-	-	(150)	(1,084)	(1,474)	2,339	(583)	(1,844)
CF from Inv. Activities	(773)	(790)	(1,087)	(1,001)	(1,752)	1,777	(2,651)	(3,357)
inc/(dec) in NW	262	300	460	1,137	1,692	1,685	2,138	2,750
inc/(dec) in Debt	(12)	62	(26)	-	44	106	(38)	(28)
Int. Paid	(4)	(8)	(10)	(2)	(3)	(5)	(4)	(3)
Div Paid (inc tax)	(90)	(102)	(135)	(468)	-	(359)	(480)	(617)
others	0	2	8	5	6	-	-	-
CF from Fin. Activities	(111)	(47)	(162)	(466)	47	(256)	(521)	(648)
Inc(Dec) in Cash	(388)	(121)	(202)	(4)	4	75	(35)	7
Add: Opening Balance	1,192	804	683	17	13	17	92	57
Closing Balance	804	683	481	13	17	92	57	64

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