

EICHER MOTORS LTD

NEUTRAL

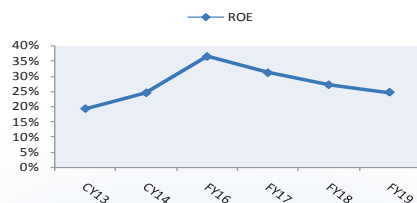
24-Nov-17

INDUSTRY - AUTOMOBILE
 BLOOMBERG EIM IN
 BSE Code - 505200
 NSE Code - EICHERMOT
 NIFTY - 10349

Company Data

CMP	30635
Target Price	28009
Previous Target Price	28009
Upside	-9%
52wk Range H/L	33484/19975
Mkt Capital (Rs Cr)	83,399
Av. Volume (,000)	2

RoE on declining trend

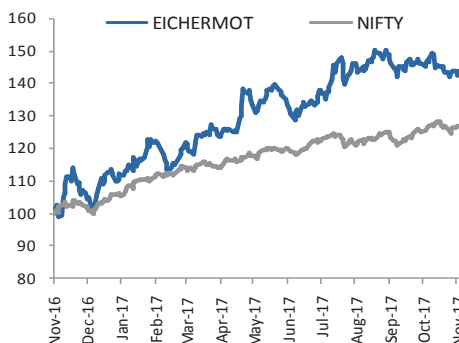


Shareholding patterns %

	2QFY18	1QFY18	4QFY17
Promoters	50.6	50.6	50.6
Public	49.5	49.4	49.4
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	(1.6)	(0.1)	48.3
Rel. to Nifty	(3.2)	(5.1)	19.0



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Key Highlights of the Report:

- ✓ Net sales grew by 24%YoY to Rs.2167 crore which was in-line with our estimates (Rs.2150 crore). Volumes grew by 22%YoY and realization have also grown by 2%YoY.
- ✓ Higher volume helped the company in gaining benefits of operating leverage which led the EBITDA margin expansion of 60 bps YoY to 31.5% during the quarter.
- ✓ Depreciation and Amortization expenses remain higher in the quarter due to operationalization of valam vadagal facility.
- ✓ Going forward, we envisage tapering of volume growth going ahead with contraction in the margins, hence we value it at 32.8x FY19 expected EPS and maintain NEUTRAL rating with previous target price of Rs.28009.

Financials/Valu	CY14	FY16	FY17	FY18E	FY19E
Net Sales	8,738	6,173	7,033	8,643	9,781
EBITDA	1,115	1,690	2,174	2,706	3,074
EBIT	895	1,553	2,020	2,537	2,782
PAT	615	1,338	1,667	2,070	2,320
EPS (Rs)	227	493	613	761	853
EPS growth (%)	56%	117%	24%	24%	12%
ROE (%)	24%	37%	31%	29%	26%
ROCE (%)	36%	43%	38%	36%	31%
BV	928	1,345	1,964	2,605	3,337
P/B (X)	16	14	13	12	9
P/E (x)	66	39	41	40	36

RECENT DEVELOPMENT: Commencement of Vallam Vadagal plant

- ✓ Earlier the company was facing capacity constraints because of huge demand for its classic models. But the management of the company took right decision to increase the capacity in phased manner and in-line with the demand.
- ✓ The Vallam Vadagal facility has commenced production from August 2017 and with this expansion total capacity for two wheelers will reach to 825000 units per annum in FY18.
- ✓ The company has target to take the production capacity to 900000 units per annum by FY2018-19. Eicher Motors has planned Rs.800 crore and 500 crores of capex in this regard in FY18 and FY19 respectively.
- ✓ Besides that the company is also working on developing refreshed versions of popular models from its two technical centres situated in Chennai and UK. Significant part of capex will be spent on developing these models.

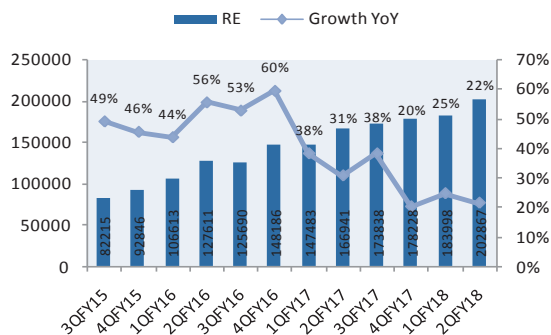
Quarterly Performance

Financials	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Total Volumes ('000)	167	174	178	184	203	22%	10%	601	666	11%
Realization(Rs./ bike)	105121	105544.2	105935.1	108731.6	106834	2%	-2%	102954	105526	2%
Net Sales	1,755	1,835	1,888	2,001	2,167	24%	8%	6,173	7,033	14%
Other Income	66	59	55	78	70	5%	-10%	178	227	28%
COGS	912	969	993	1,057	1,128	24%	7%	3,435	3,704	8%
Employee Cost	100	106	106	121	136	36%	12%	350	402	15%
Other Expenses	201	183	205	202	221	10%	9%	699	753	8%
EBITDA	542	577	585	621	683	26%	10%	1,690	2,174	29%
Depreciation	36	36	43	45	49	37%	9%	137	154	13%
Interest	1	1	1	1	1	57%	15%	2	4	68%
PBT	572	599	596	652	702	23%	8%	1,729	2,244	30%
Tax	184	200	189	218	224	22%	3%	539	720	34%
Share of Associates/JV	25	19	53	25	40	60%	61%	148	143	-3%
PAT	413	418	459	460	518	25%	13%	1,338	1,667	25%

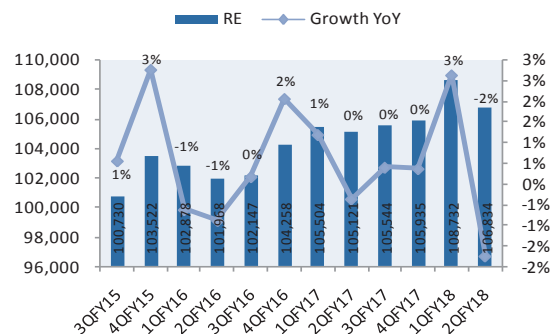
Strong revenue growth with stable margins

- ✓ Net sales grew by 24%YoY to Rs.2167 crore which was in-line with our estimates (Rs.2150 crore). Volumes grew by 22%YoY and realization have also grown by 2%YoY.
- ✓ Higher sales of Classic 350 motorcycles led to this volume growth. These motorcycles have 2 months of waiting period in the domestic market. Export volumes have also increased by 10%YoY during the quarter. The commercial vehicle segment grew by 18%YoY during the quarter. The commercial vehicle industry is witnessing heavy discounting of over Rs.300000 and this has resulted in loss of market share for some of the strong players like VECV and Ashok Leyland.
- ✓ Reported EBITDA grew by 26%YoY to Rs.683 crore. Lower advertising and promotion expenses helped company to post 31% of EBITDA margin.
- ✓ Depreciation and Amortization expenses remain higher in the quarter due to operationalization of valam vadagal facility.
- ✓ PAT stood Rs.518 crore at a growth of 25%YoY due to higher other income. The share of profit from associates and JVs were about Rs.40 crore.

Royal Enfield volume trend



Royal Enfield realization trend

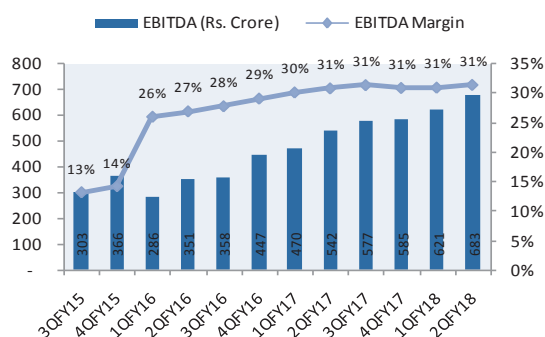


Higher operating leverage leads to margin expansion by 60 bps

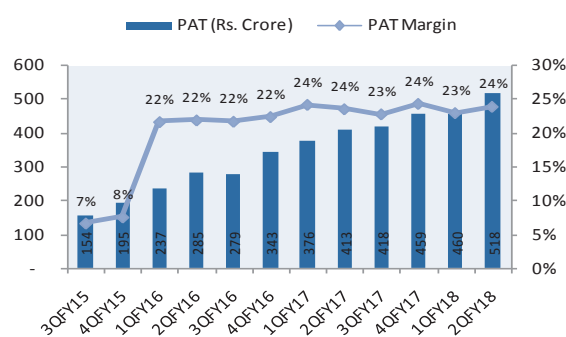
Margin %	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	48.1%	47.2%	47.4%	47.2%	47.9%	-0.12%	0.8%	44%	47%	0.03
EBITDA Margin	30.9%	31.4%	31.0%	31.0%	31.5%	0.60%	0.5%	27%	31%	0.04
PAT Margin	23.5%	22.8%	24.3%	23.0%	23.9%	0.36%	0.9%	22%	24%	0.02

- ✓ Gross Margin remained flat YoY to 47.9% on the back of lower commodity prices and higher realization during the quarter.
- ✓ Higher volume helped the company in gaining benefits of operating leverage which led the EBITDA margin expansion of 60 bps YoY to 31.5% during the quarter.
- ✓ PAT margin increased by 36 bps to 23.9%. The share of profit from associates and JVs were about Rs.40 crore.

EBITDA and EBITDA Margin trend



PAT and PAT Margin trend



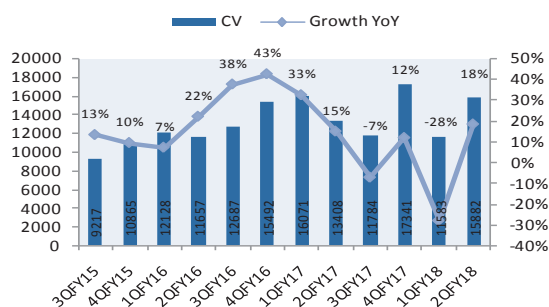
Concall Highlights:

- ✓ Strong order book for classic 350 models in metro cities. Bookings are growing at double digit in these regions. However, the waiting period has reduced to 1.5-2 months.
- ✓ There would be some cost pressure going ahead considering the recent commodity price increase.
- ✓ Exports: RE sales is higher in developed markets than developing market. (UK, Germany, Italy and France has on around 40-60 dealers in each countries). Company is focusing on Asian and Latin American markets.
- ✓ 22 new exclusive stores will be added in the international market in FY18 and FY19..
- ✓ Currently the company has 750 dealers and the company does not have any plans for expanding through sub-dealers.
- ✓ The company recently launched 2 new bikes in the European market in 650cc category.(Interceptor 650 and Continental 650 cc). These bikes will be launched in Indian market in April 2018.
- ✓ Capex Rs.800 crore for FY18
- ✓ Valam Vadagal plant has started rolling out vehicles from August 2017 and currently it contributes around 10% of total volumes.
- ✓ VECV witnessed marginal loss in market share in the current quarter as a result of heavy discounting of over Rs.300000. The management expect to regain market share in coming quarters.
- ✓ VECV took price hike of 1% for M&HCV segment in mid September 2017.

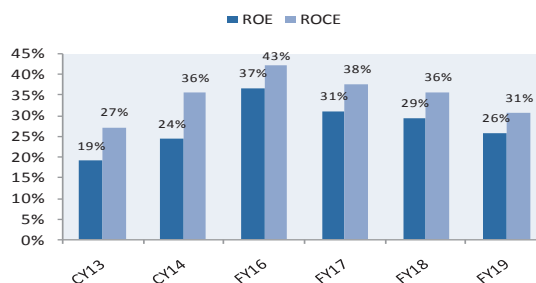
Investment Arguments:

- ✓ **Volume growth to taper down going ahead-** The demand for RE motorcycles has slowed down because of growing competitive intensity in sub 400cc segment which has resulted in the reduction in waiting period to 1.5-2 months from earlier over 3 months. Going ahead, once the new capacity kicks in FY19, waiting period will reduce further. UM Renegade could be potential threat for RE in the cruiser segment as it has started gaining market share in that category.
- ✓ **Margins to come under pressure due to New Plants-** Considering the 2 months waiting period the company increased the capacity from 720000 units to 825000 units per annum looking at the demand scenario. We expect that there could be some pressure on margins once the new plant gets operational and new plant will take at least 5-6 months to fully ramp up production.
- ✓ **Expanding footprints in export markets-** RE has expanded its footprint in the exports by opening up stores in the various export markets like; Latin America, Indonesia, Bangkok and Madrid. The investments are becoming fruitful in terms of higher volumes from exports. The company has already more than 150 RE stores in UK, Germany, Italy and France. However considering the potential in the developing economies Royal Enfield has started looking for the big opportunity in the fast growing Brazilian market.
- ✓ **Commercial Vehicles industry to be sluggish in FY18-** The commercial vehicle industry remained sluggish during 1HFY18, VECV volumes also declined by 7%YoY. Infrastructure and Mining segment also slowed down for the first half due to heavy rain. However the management expects better second half of the fiscal because of robust execution of infra projects, so we expect overall flat growth in FY18.

VECV volume trend



Declining trend in ROE and ROCE



View & Valuation

Royal Enfield's volume has grown significantly over last 5 years at the CAGR of 42%. The company has reported 2QFY18 numbers in-line with our estimates. Net Revenue was up by 24%YoY to Rs.2167 crores (Vs our estimates: Rs.2150 crores). Higher volume helped the company in gaining benefits of operating leverage which led the EBITDA margin expansion of 60 bps YoY to 31.5% during the quarter. PAT for the quarter stood at Rs.518 crore with a growth of 25%YoY. The demand for RE motorcycles has slowed down because of growing competitive intensity in sub 400cc segment which has resulted in the reduction in waiting period to 2 months from earlier above 3 months. UM Renegade could be potential threat for the company in the cruiser segment as it has started gaining market share in that category. Higher fixed cost and depreciation on new capacity in FY18 and FY19 will add pressure to the margins. The commercial vehicles space (VECV) has witnessed 30 bps contractions in the market share in 2QFY18 due to heavy discounting in the industry. We expect company's ROE to be 29% and 26% for FY18 and FY19 respectively. Going forward, we envisage tapering of volume growth going ahead with contraction in margin, hence we value it at 32.8x FY19 expected EPS and maintain NEUTRAL rating with previous target price of Rs.28009.

Financials Snap Shot

Income Statement				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	6,173	7,033	8,643	9,781
Change (%)	-29%	14%	8%	12%
<i>Other Operating Income</i>				
EBITDA	1,690	2,174	2,706	3,074
Change (%)	52%	29%	24%	14%
Margin (%)	27%	31%	31%	31%
Dep & Amortization	137	154	169	291
EBIT	1,553	2,020	2,537	2,782
Interest & other finance cost	2	4	4	4
Other Income	178	227	286	373
EBT	1,729	2,244	2,820	3,152
<i>Exceptional Item</i>				
Tax	539	720	910	1,007
Minority Int & P/L share of Ass.	148	143	160	175
Reported PAT	1,338	1,667	2,070	2,320
Adjusted PAT	1,338	1,667	2,070	2,320
Change (%)	117%	25%	24%	12%
Margin(%)	22%	24%	24%	24%

Balance Sheet				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	27	27	27	27
Reserves	3,626	5,318	7,061	9,054
Networth	3,653	5,345	7,088	9,081
Debt	22.57	44.4	44.4	44.4
Other Non Current Liab	81	144	156	162
Total Capital Employed	3,653	5,345	7,088	9,081
Net Fixed Assets (incl CWIP)	884	1,242	1,887	2,110
Non Current Investments	2,801	4,104	5,013	6,473
Other Non Current Assets	141	232	232	232
Non Current Assets	3,890	5,610	7,164	8,847
Inventory	308	336	413	467
Debtors	33	50	61	70
Cash & Bank	49	25	58	65
Other Current Assets	63	77	95	107
Current Assets	1,049	1,381	1,877	2,404
Creditors	723	833	1,023	1,158
Provisions	26	33	40	45
Other Current Liabilities	350	430	528	598
Curr Liabilities	1,182	1,457	1,754	1,963
Net Current Assets	(134)	(76)	124	441
Total Assets	4,939	6,991	9,041	11,251

Key Ratios				
Y/E March	FY16	FY17	FY18E	FY19E
ROE	37%	31%	29%	26%
ROCE	43%	38%	36%	31%
Asset Turnover	1.2	1.0	1.0	0.9
Debtor Days	1.9	2.6	2.6	2.6
Inventory Days	18.2	17.4	17.4	17.4
Payable Days	42.8	43.2	43.2	43.2
Interest Coverage	733	567	656	749
P/E	38.9	40.7	40.1	35.8
Price / Book Value	14.2	12.7	11.7	9.1
EV/EBITDA	30.8	31.2	30.7	27.0
FCF per Share	4.9	6.4	18.5	20.8
Dividend Yield	0.5%	0.4%	0.3%	0.3%

Assumptions				
Y/E March	FY16	FY17	FY18E	FY19E
Volume ('000)	6,00,946	6,66,490	8,05,780	9,00,468
Volume Growth	99%	11%	21%	12%
Realization(Rs./vehicle)	1,02,954	1,05,526	1,07,267	1,08,626
Realization Growth	3%	2%	2%	1%
Capex(Rs crore)	494	219	800	500

Cash Flow Statement				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
PBT	1,338	1,667	2,820	3,152
(inc)/Dec in Working Capital	1,719	2,196	3,153	3,622
Non Cash Op Exp	137	154	169	291
Interest Paid (+)	2	4	4	4
Tax Paid	(519)	(652)	(910)	(1,007)
others				
CF from Op. Activities	1,463	1,709	2,445	2,756
(inc)/Dec in FA & CWIP	(510)	(548)	(814)	(514)
Free Cashflow	953	1,161	1,630	2,242
(Pur)/Sale of Investment	422	(242)	(357)	(445)
others	(1,084)	(1,474)	(909)	(1,460)
CF from Inv. Activities	(1,001)	(1,752)	(2,081)	(2,419)
inc/(dec) in NW	1,137	1,692	1,743	1,993
inc/(dec) in Debt	-	44	-	-
Interest Paid	(2)	(3)	(4)	(4)
Dividend Paid (inc tax)	(468)	-	(327)	(327)
others	5	6	-	-
CF from Fin. Activities	(466)	47	(330)	(330)
Inc/Dec) in Cash	(4)	4	33	6
Add: Opening Balance	17	13	17	50
Closing Balance	13	17	50	56