

## Eicher Motors Limited

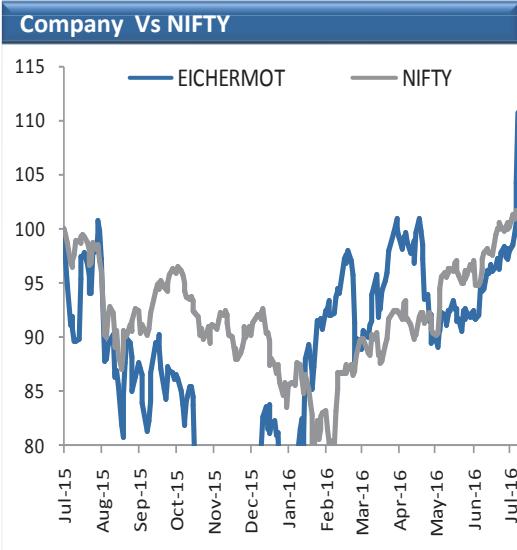
1-Aug-16

| Result Update         |       |
|-----------------------|-------|
| CMP                   | 22466 |
| Target Price          | 23500 |
| Previous Target Price |       |
| Upside                | 5%    |
| Change from Previous  | -     |

| Market Data         |             |
|---------------------|-------------|
| BSE Code            | 505200      |
| NSE Symbol          | EICHERMOT   |
| 52wk Range H/L      | 22567/14818 |
| Mkt Capital (Rs Cr) | 61,024      |
| Av. Volume          | 4453        |
| Nifty               | 8639        |

| Stock Performance |        |       |      |
|-------------------|--------|-------|------|
|                   | 1Month | 1Year | YTD  |
| Absolute          | 17.3   | 15.3  | 30.4 |
| Rel.to Nifty      | 13.6   | 11.7  | 16.8 |

| Share Holding Pattern-% |        |        |        |
|-------------------------|--------|--------|--------|
|                         | 1QFY17 | 5QFY16 | 4QFY16 |
| Promoter                | 50.7   | 54.9   | 54.9   |
| Public                  | 49.3   | 45.1   | 45.1   |
| Others                  | --     | --     | --     |
| Total                   | 100.0  | 100.0  | 100.0  |



Eicher Motors have reported Rs.1556 crore of revenue, a growth of 42% YoY in 1QFY17. The motorcycle volumes clocked 38% growth YoY in 1QFY17 on account of higher 'RE Classic 350' sales. The realization also improved by 3% YoY, because of price hike during the quarter. The commercial vehicle segment has also reported Rs. 2139 crore revenue, a growth of 21% YoY. L&MCV and HCV segments recorded 21% and 85% growth YoY during the quarter respectively. The average waiting period for 'Royal Enfield' remain 3 months. Currently, the capacity is 620000 units, but the management is scaling up the capacity to 675000 units in FY17, looking at the growing demand for premium motorcycles. On commencement of Vallam Vadagal facility the total production capacity will reach to 900000 units in FY19. The demand for commercial vehicles is coming from infrastructure sector. The company has gained 1.3% market share in L&MCV and 2.2% market share in HCV segment over corresponding quarter previous year. The management has also said that the immediate business outlook continues to be strong.

### 1QFY17 Result Update

Revenue grew by 42% YoY to Rs.1556 crore in 1QFY17. The motorcycle sales grew by 38%YoY and the commercial vehicle segment grew by 21% YoY.

Gross Margin declined by 380 bps to 53.2% majorly due to increase in steel prices.

EBITDA Margin expanded by 420 bps to 30.2% driven by benefit of operating leverage.

PAT Margin expanded by 250 bps to 24.2%.

### Outlook and Valuation

Going forward, EML's growth potential depends on the new product launches, capacity addition in line with demand and entering into the new geographies in both motorcycle as well as commercial vehicle segment. Considering management's past performance and the future strategies, we have positive view on this stock and we recommend 'BUY' with a Target price of Rs. 23500.

|            | Rs. In crore |        |        |     |     |
|------------|--------------|--------|--------|-----|-----|
| Financials | 1QFY17       | 5QFY16 | 2QFY16 | QoQ | YoY |
| Sales      | 1556         | 1532   | 1096   | 2%  | 42% |
| EBITDA     | 470          | 447    | 286    | 5%  | 65% |
| Net Profit | 376          | 360    | 237    | 5%  | 59% |
| EBITDA%    | 30%          | 29%    | 26%    |     |     |
| PAT %      | 24%          | 23%    | 22%    |     |     |

(Source: Company/Eastwind)

## Investment Argument

- >>Investment of Rs. 600 crore during the current fiscal for product development, setting up of two R&D centres in India and UK and expansion of manufacturing capacities in India to cope up with the growing demand.
- >>RE has expanded its footprint in the exports by opening up stores in the various export markets like; Latin America, Paris, London, indonesia, bangkok and Madrid.
- >>Seventh pay commission may boost premium segment motorcycles demand and implementation of BS-IV norms from 1st April 2017 can raise commercial vehicles demand in the second half of the year.

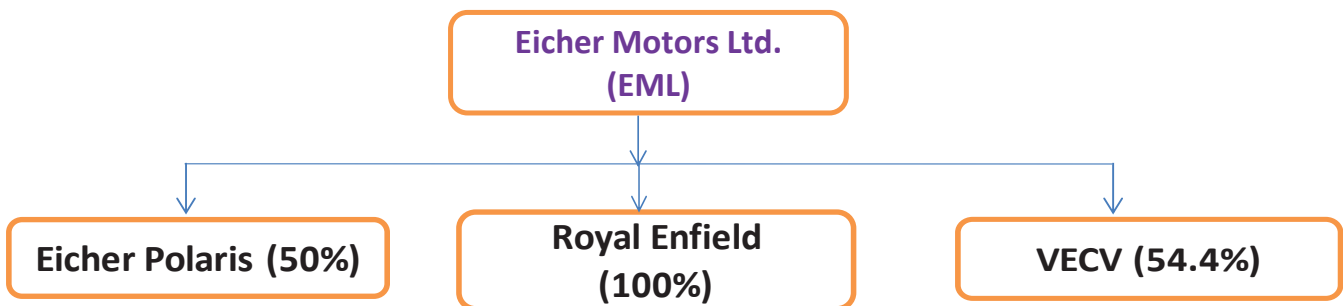
## Management Highlight

- >>Management expects 30-40% growth in volumes in FY17.
- >>Higher growth potential international markets are Latin America and South East Asia.
- >>The company plans to produce 675000 motorcycles in CY2016 and 900000 motorcycles by FY2019.
- >>Production is 50000 units per month and average waiting period is 3 months for classic models.
- >>Currently RE dealer count is 500 and it will reach more than 600 by FY17.
- >>Royal Enfield's R&D centre in the UK is developing a 600-650cc twin-cylinder motorcycle, designed to serve cruiser riders of the US and Europe. The bike is likely to be launched next year.
- >>Capex is Rs.600 crore for RE and Rs.400 crore for VECV towards setting up technical centers and capacity enhancement.
- >>Multix- Plant in Jaipur, produced 650 units till december 2015. Target customers for Multix are Independent businessmen.
- >>No plans for setting up plants in overseas market in near future.
- >>The company plans to increase its capacity in the Pithampur facility from 5500 to 7500 units per month going forward.

## About The Company

Incorporated in 1982, Eicher Motors Limited is the flagship company of the Eicher Group in India and a leading player of the Indian automobile industry. The company is mainly engaged in the business of high end motorcycles (350cc & above) under the brand '**Royal Enfield**' and Commercial Vehicles business segment under '**Volvo Eicher Commercial Vehicles**'.

### EML Business Details



## Key Risk

- >>Company have plans to increase its capacity to 9 Lakh units per annum by the end of 2018. Rise in demand may increase the waiting period for the bikes in short term, which is 3-4 months.
- >>In the US market the company can face stiff competition from Harley Davidson.
- >>Bajaj Auto's Avenger can be potential threat for Royal Enfield in Indian market.

## Financials Snap Shot

### INCOME STATEMENT

|                          | CY12 | CY13 | CY14 | FY16  |
|--------------------------|------|------|------|-------|
| Revenue (Net of Excise D | 6390 | 6810 | 8738 | 15689 |
| Other Income             | 137  | 95   | 107  | 112   |
| Total Revenue            | 6527 | 6905 | 8846 | 15801 |
| COGS                     | 4585 | 4639 | 5766 | 10121 |
| GPM                      | 28%  | 32%  | 34%  | 35%   |
| Other Expenses           | 798  | 925  | 1198 | 2063  |
| EBITDA                   | 549  | 713  | 1115 | 2447  |
| EBITDA Margin (%)        | 9%   | 10%  | 13%  | 16%   |
| Depreciation             | 82   | 130  | 220  | 452   |
| EBIT                     | 467  | 583  | 895  | 1996  |
| Interest                 | 4    | 8    | 10   | 9     |
| PBT                      | 600  | 671  | 993  | 2099  |
| Tax                      | 125  | 145  | 291  | 647   |
| Tax Rate (%)             | 21%  | 22%  | 29%  | 31%   |
| Reported PAT             | 324  | 394  | 615  | 1278  |
| Dividend Paid            | 63   | 95   | 159  | 318   |
| No. of Shares            | 3    | 3    | 3    | 3     |

Source: Eastwind/Company

### RATIOS

|                             | CY12 | CY13 | CY14 | FY16 |
|-----------------------------|------|------|------|------|
| EPS                         | 120  | 146  | 227  | 470  |
| Book Value                  | 650  | 760  | 928  | 1275 |
| DPS                         | 23   | 35   | 59   | 117  |
| Payout (incl. Div. Tax.)    | 19%  | 24%  | 26%  | 25%  |
| <b>Valuation(x)</b>         |      |      |      |      |
| P/E                         | 24   | 34   | 66   | 41   |
| Price / Book Value          | 4    | 7    | 16   | 15   |
| Dividend Yield (%)          | 0.8% | 0.7% | 0.4% | 0.6% |
| <b>Profitability Ratios</b> |      |      |      |      |
| RoE                         | 18%  | 19%  | 24%  | 37%  |
| RoCE                        | 27%  | 27%  | 36%  | 58%  |
| <b>Turnover Ratios</b>      |      |      |      |      |
| Asset Turnover (x)          | 1.4  | 1.3  | 1.4  | 1.9  |
| Debtors (No. of Days)       | 25   | 27   | 23   | 19   |
| Inventory (No. of Days)     | 39   | 41   | 41   | 37   |
| Creditors (No. of Days)     | 55   | 64   | 63   | 58   |
| Net Debt/Equity (x)         | 0.00 | 0.04 | 0.00 | 0.00 |

Source: Eastwind/Company

### BALANCE SHEET

|                        | CY12 | CY13 | CY14 | FY16 |
|------------------------|------|------|------|------|
| Share Capital          | 27   | 27   | 27   | 27   |
| Reserves               | 1728 | 2028 | 2489 | 3437 |
| Net Worth              | 1755 | 2055 | 2516 | 3464 |
| Long term Debt         | 0    | 84   | 0    | 0    |
| Short term Debt        | 22   | 84   | 58   | 86   |
| Deferred Tax           | 123  | 180  | 239  | 338  |
| Total Capital Employed | 1755 | 2139 | 2516 | 3464 |
| Net Fixed Assets       | 1496 | 2120 | 2728 | 3314 |
| Capital WIP            | 279  | 125  | 236  | 118  |
| Debtors                | 446  | 513  | 562  | 834  |
| Cash & Bank Balances   | 804  | 683  | 380  | 476  |
| Trade payables         | 955  | 1191 | 1513 | 2509 |
| Total Provisions       | 132  | 170  | 265  | 99   |
| Net Current Assets     | 1090 | 1008 | 614  | 353  |
| Total Assets           | 4471 | 5337 | 6408 | 8479 |

Source: Eastwind/Company

### CASH FLOW

|                            | CY12  | CY13  | CY14   | FY16   |
|----------------------------|-------|-------|--------|--------|
| OP/(Loss) before Tax       | 600   | 671   | 993    | 2099   |
| Depreciation               | 82    | 130   | 220    | 452    |
| Direct Taxes Paid          | (108) | (150) | (281)  | (634)  |
| Operating profit before w  | 551   | 718   | 1126   | 2460   |
| CF from Op. Activity       | 496   | 716   | 1047   | 2282   |
|                            | 0     | 0     | (150)  | (869)  |
| Capital expenditure on fix | (786) | (712) | (972)  | (1070) |
| CF from Inv. Activity      | (773) | (790) | (1087) | (1481) |
| Repayment of Long Term     | (6)   | (1)   | 0      | 0      |
| Interest Paid              | (4)   | (8)   | (10)   | (9)    |
| Divd Paid (incl Tax)       | (77)  | (88)  | (115)  | (486)  |
| CF from Fin. Activity      | (111) | (47)  | (162)  | (563)  |
| Inc/(Dec) in Cash          | (388) | (121) | (202)  | 238    |
| Add: Opening Balance       | 1192  | 804   | 683    | 353    |
| Closing Balance            | 804   | 683   | 481    | 591    |

Source: Eastwind/Company