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# EICHERMOT

**BUY**

## Eicher Motors Limited

2-Feb-17

| Result Update | |
|---|---|
| CMP | 24007 |
| Target Price | 26600 |
| Previous Target Price | 26000 |
| Upside | 11% |
| Change from Previous | - |

| Market Data | |
|---|---|
| BSE Code | 505200 |
| NSE Symbol | EICHERMOT |
| 52wk Range H/L | 26602/16657 |
| Mkt Capital (Rs Cr) | 65,310 |
| Av. Volume | 4621 |
| Nifty | 8716 |

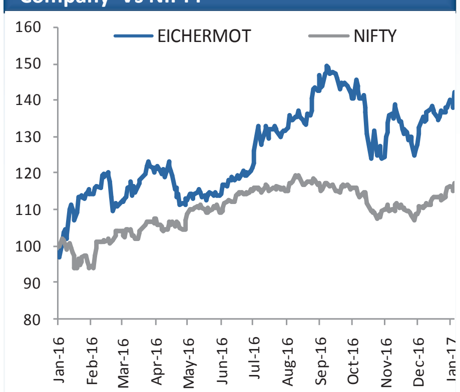
**Stock Performance**

| | 1Month | 3Month | 1Year |
|---|---|---|---|
| Absolute | 6.7 | 0.2 | 39.6 |
| Rel.to Nifty | 0.3 | -3.1 | 22.7 |

**Share Holding Pattern-%**

| | 3QFY17 | 2QFY17 | 1QFY17 |
|---|---|---|---|
| Promoter | 50.6 | 50.6 | 50.7 |
| Public | 49.4 | 49.4 | 49.3 |
| Others | -- | -- | -- |
| Total | 100.0 | 100.0 | 100.0 |

**Company Vs NIFTY**





**Naveen Kumar Dubey**
naveen.dubey@narnolia.com


### Strong growth momentum maintained

Eicher Motors net sales surged by 43%YoY to Rs.1835 crore in 3QFY17. Domestic two wheeler volumes grew by 37%YoY and Exports grew by 163% YoY owing to the huge demand from Bangkok and Jakarta. The demand for Royal Enfield motorcycles remain robust despite the demonetisation issue in the country during 3QFY17. The company continues to have healthy order book with a waiting period of 3 months. The investment in international markets has also started giving results in terms of high volumes. Realization improved by 3%YoY due to increase in sales of 500cc vehicles. On the commercial vehicle front, VECV reported 7% de-growth due to demonetization issue in the country. From 1st April 2017, the BS-III compliant vehicles will not be sold in the country, so the management expects pre-buying to happen in 4QFY17 because 8-10 percent of price increase after the implementation of BS-IV norms.

### 3QFY17 Result Update

Net revenue stood at Rs.1835 crore in 3QFY17, a growth of 43%YoY. Volumes grew by 39%YoY and Realization grew by 3.5%YoY.

Gross Margin increased by 110 bps YoY to 47.2% majorly due to better product mix.

EBITDA Margin expanded by 350 bps YoY to 31.4% driven by benefit of operating leverage. .

PAT Margin increased by 110 bps YoY to 22.8% in 3QFY17.

### Outlook and Valuation

Going forward, capacity addition in line with demand(RE), seventh pay commission payout, expectation of pre-buying on new emission norms, improving infrastructure activities in the country and expanding footprints in the international markets will lead to higher volumes and margins for the company. We expect Eicher Motors to report 35% RoE in FY17E. Considering the strong order book in the Royal Enfield and better traction from commercial vehicle business, we recommend 'BUY' and upgrade our target price to Rs.26600 from our previous target price of Rs.26000.

**Rs. In crore**

| *Financials* | *3QFY17* | *2QFY17* | *3QFY16* | *QoQ* | *YoY* |
|---|---|---|---|---|---|
| *Sales* | *1835* | *1755* | *1284* | *5%* | *43%* |
| *EBITDA* | *577* | *542* | *358* | *6%* | *61%* |
| *Net Profit* | *418* | *413* | *279* | *1%* | *50%* |
| *EBIDTA%* | *31%* | *31%* | *28%* | | |
| *PAT %* | *23%* | *24%* | *22%* | | |

## Investment Arguments

♦ **Capacity addition in-line with demand-** Considering the 3 months waiting period the company increased the capacity from 600000 units to 720000 units per annum looking at the demand scenario. We expect that the Eicher will enjoy the benefit of operating leverage with increasing volumes going ahead.

♦ **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, Paris, London, indonesia, bangkok and Madrid. The investments are becoming fruitful in terms of higher volumes from exports.

♦ **Seventh Pay commission payout**- The payout will increase the income level and living standard, so we expect that the demand for premium segment vehicles will surge and Eicher Motors will be one of the bigger beneficiaries of seventh pay.

♦ **BS-IV norms to drive CV demand**- From 1st April 2017, the BS-III compliant vehicles will not be sold in the country, so management expects demand for BS-III vehicles to surge in 4QFY17 because 8-10 percent of price increase after the implementation of BS-IV norms.

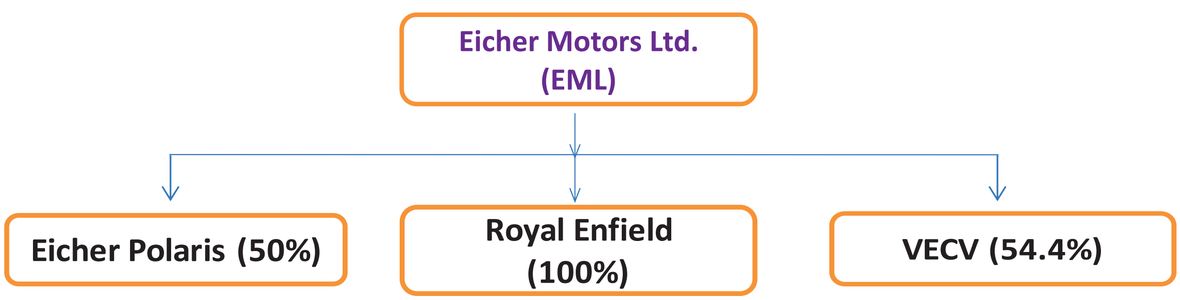
## Management Highlights

♦ Management said that the out look for RE is strong backed by healthy order book.
♦ Higher growth potential markets for exports are Latin America, Jakarta and Bangkok.
♦ Production is 60000 units per month and average waiting period is 3 months for classic models.
♦ Orgadam plant to be commissioned by the end of 2017.
♦ Currently RE has 640 retail outlets covering around 400 cities.
♦ Capex is Rs.600 crore for RE and Rs.400 crore for VECV towards setting up technical centers and capacity enhancement.
♦ Spare parts stands around 5-6 percent of total revenue.
♦ No BS-III compliant vehicles can not be sold after 1st April 2017.

## 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 Risks

>> 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.

# EICHERMOT

## Financials Snap Shot

INCOME STATEMENT

| | CY13 | CY14 | FY16 | FY17 |
|---|---|---|---|---|
| Net Revenue | 6810 | 8738 | 15689 | 6942 |
| Other Income | 95 | 107 | 112 | 222 |
| Total Revenue | 6905 | 8846 | 15801 | 7165 |
| COGS | 4639 | 5766 | 10121 | 3657 |
| GPM | 32% | 34% | 35% | 47% |
| Other Expenses | 925 | 1198 | 2063 | 745 |
| EBITDA | 713 | 1115 | 2447 | 2141 |
| EBITDA Margin (%) | 10% | 13% | 16% | 31% |
| Depreciation | 130 | 220 | 452 | 146 |
| EBIT | 583 | 895 | 1996 | 1995 |
| Interest | 8 | 10 | 9 | 3 |
| PBT | 671 | 993 | 2099 | 2213 |
| Tax | 145 | 291 | 647 | 701 |
| Tax Rate (%) | 22% | 29% | 31% | 32% |
| Reported PAT | 394 | 615 | 1278 | 1618 |
| Dividend Paid | 95 | 159 | 318 | 402 |
| No. of Shares | 3 | 3 | 3 | 3 |

RATIOS

| | CY13 | CY14 | FY16 | FY17 |
|---|---|---|---|---|
| EPS | 146 | 227 | 470 | 597 |
| Book Value | 760 | 928 | 1275 | 1727 |
| DPS | 35 | 59 | 117 | 148 |
| Payout (incl. Div. Tax.) | 24% | 26% | 25% | 25% |
| **Valuation(x)** | | | | |
| P/E | 34 | 66 | 41 | 42 |
| Price / Book Value | 7 | 16 | 15 | 14 |
| Dividend Yield (%) | 0.7% | 0.4% | 0.6% | 0.6% |
| **Profitability Ratios** | | | | |
| RoE | 19% | 24% | 37% | 35% |
| RoCE | 27% | 36% | 58% | 43% |
| **Turnover Ratios** | | | | |
| Asset Turnover (x) | 1.3 | 1.4 | 1.9 | 0.9 |
| Debtors (No. of Days) | 27 | 23 | 19 | 19 |
| Inventory (No. of Days) | 41 | 41 | 37 | 37 |
| Creditors (No. of Days) | 64 | 63 | 58 | 58 |
| Net Debt/Equity (x) | 0.04 | 0.00 | 0.00 | 0.00 |

BALANCE SHEET

| | CY13 | CY14 | FY16 | FY17 |
|---|---|---|---|---|
| Share Capital | 27 | 27 | 27 | 27 |
| Reserves | 2028 | 2489 | 3437 | 4653 |
| Net Worth | 2055 | 2516 | 3464 | 4680 |
| Long term Debt | 84 | 0 | 0 | 0 |
| Short term Debt | 84 | 58 | 86 | 38 |
| Deferred Tax | 180 | 239 | 338 | 338 |
| Total Capital Employed | 2139 | 2516 | 3464 | 4680 |
| Net Fixed Assets | 2120 | 2728 | 3314 | 3724 |
| Capital WIP | 125 | 236 | 118 | 118 |
| Debtors | 513 | 562 | 834 | 369 |
| Cash & Bank Balances | 683 | 380 | 476 | 596 |
| Trade payables | 1191 | 1513 | 2509 | 1110 |
| Total Provisions | 170 | 265 | 99 | 53 |
| Net Current Assets | 1008 | 614 | 353 | 848 |
| Total Assets | 5337 | 6408 | 8479 | 7732 |

CASH FLOW

| | CY13 | CY14 | FY16 | FY17 |
|---|---|---|---|---|
| OP/(Loss) before Tax | 671 | 993 | 2099 | 2213 |
| Depreciation | 130 | 220 | 452 | 146 |
| Direct Taxes Paid | (150) | (281) | (634) | (701) |
| Op before WC | 718 | 1126 | 2460 | 2469 |
| CF from Op. Activity | 716 | 1047 | 2282 | 814 |
| | 0 | (150) | (869) | 0 |
| Capex | (712) | (972) | (1070) | (557) |
| CF from Inv. Activity | (790) | (1087) | (1481) | (732) |
| Repayment of debt | (1) | 0 | 0 | 0 |
| Interest Paid | (8) | (10) | (9) | (3) |
| Divd Paid (incl Tax) | (88) | (115) | (486) | (344) |
| CF from Fin. Activity | (47) | (162) | (563) | (454) |
| Inc/(Dec) in Cash | (121) | (202) | 238 | (372) |
| Add: Opening Balance | 804 | 683 | 353 | 591 |
| Closing Balance | 683 | 481 | 591 | 220 |