

Eicher Motors Limited

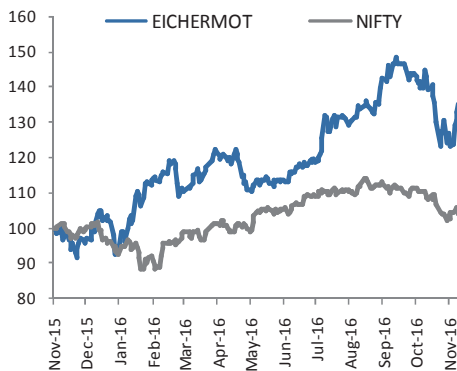
| Result Update | |
|-----------------------|-------|
| CMP | 22742 |
| Target Price | 26000 |
| Previous Target Price | |
| Upside | 14% |
| Change from Previous | - |

| Market Data | |
|---------------------|-------------|
| BSE Code | 505200 |
| NSE Symbol | EICHERMOT |
| 52wk Range H/L | 26602/14818 |
| Mkt Capital (Rs Cr) | 61,855 |
| Av. Volume | 7067 |
| Nifty | 8087 |

| Stock Performance | | | |
|-------------------|--------|-------|------|
| | 1Month | 1Year | YTD |
| Absolute | -7.6 | 38.9 | 34.7 |
| Rel.to Nifty | -2.9 | 36.9 | 32.9 |

| Share Holding Pattern-% | | | |
|-------------------------|--------|--------|--------|
| | 2QFY17 | 1QFY17 | 4QFY16 |
| Promoter | 50.6 | 50.7 | 54.9 |
| Public | 49.4 | 49.3 | 45.1 |
| Others | -- | -- | -- |
| Total | 100.0 | 100.0 | 100.0 |

Company Vs NIFTY



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Eicher Motors have reported Rs.1755 crore of revenue, a growth of 35% YoY in 2QFY17. The motorcycle volumes clocked 33% growth YoY in 2QFY17 on account of higher 'RE Classic 350' sales. The realization also improved by 3% YoY, because of price hike during the quarter. The waiting period for 'Classic350' models remain 3 months and for other models it is 14-15 days. The company has scaled 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. This facility will commence production in 3 phases starting from 2QFY18. Market share in top-20 cities in the premium segment stands at 20%. The commercial Vehicle segment reported sales of 3176 units, a degrowth of 13% YoY. The demand from fleet owners may remain sluggish due to the cash crunch in the economy. CV segment market share has improved from 11% to 13% in the current fiscal. The management has stated that the business outlook continues to be strong in the long run for both RE and VECV.

2QFY17 Result Update

Revenue grew by 35% YoY to Rs.1755 crore in 1QFY17. The motorcycle sales grew by 31% YoY and the commercial vehicle segment grew by 15% YoY.

Gross Margin increased by 460 bps YoY to 48.1% majorly due to better product mix and lower commodity cost.

EBITDA Margin expanded by 390 bps YoY to 30.9% driven by benefit of operating leverage. PAT Margin expanded by 170 bps YoY to 23.5%.

Outlook and Valuation

Going forward, we expect capacity addition in line with demand (RE), seventh pay commission payout, expectation of pre-buying on new emission norms and improving infrastructure activities in the country may be next growth drivers for the company. But in the near term we see some stress in demand due to demonetisation and see some tapering of growth due to higher base in previous year. Presently, we are 'Neutral' on this stock considering latest demonetisation and confusion regarding the demand scenario, with a target price of Rs. 26000. Earlier, we recommended 'BUY' on this stock at Rs.19753, and 'Booked Profit' at Rs.24777, an upside of 25%.

| | Rs. In crore | | | | |
|------------|--------------|--------|--------|-----|-----|
| Financials | 2QFY17 | 1QFY17 | 2QFY16 | QoQ | YoY |
| Sales | 1755 | 1556 | 1300 | 13% | 35% |
| EBITDA | 542 | 470 | 351 | 15% | 55% |
| Net Profit | 413 | 376 | 285 | 10% | 45% |
| EBITDA% | 31% | 30% | 27% | | |
| PAT % | 24% | 24% | 22% | | |

(Source: Company/Eastwind)

Investment Argument

- >> The user segment has changed drastically for RE and 90% of the customers have bought these bikes for daily use. The penetration in the premium segment is very low, so we assume that there is a lot of potential exist for Royal Enfield going ahead.
- >> 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.
- >> 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.
- >> On the commercial vehicle front, the transportation sector has been affected mostly by the cash crunch and monthly run-rate would be 10-20% lower in second half than the first of the current fiscal. We anticipate that this could be deferral of sales only in near term, because around 80-85 percent commercial vehicles are financed.

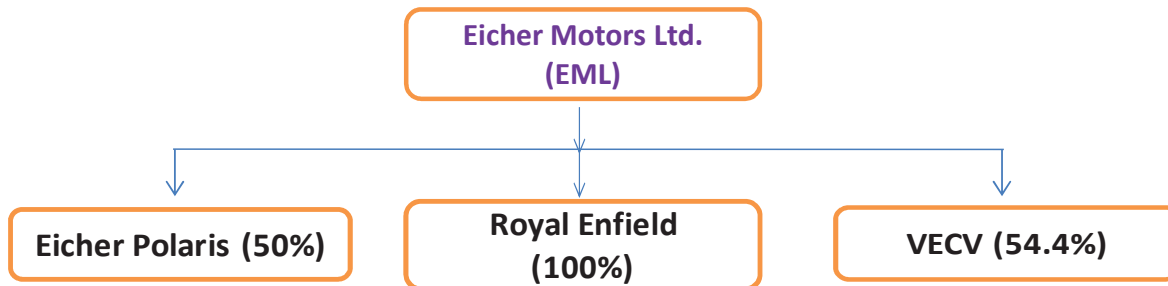
Management Highlight

- >> Management said that the out look for RE is strong backed by healthy order book.
- >> CV space looks challenging going ahead due to cash crunch in the economy.
- >> Higher growth potential international markets are Latin America and South East Asia.
- >> 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.
- >> 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 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.

Financials Snap Shot

| | INCOME STATEMENT | | | | | RATIOS | | | |
|--------------------------|------------------|------|-------|------|-----------------------------|--------|------|------|------|
| | CY13 | CY14 | FY16 | FY17 | | CY13 | CY14 | FY16 | FY17 |
| Revenue (Net of Excise D | 6810 | 8738 | 15689 | 6778 | EPS | 146 | 227 | 470 | 581 |
| Other Income | 95 | 107 | 112 | 203 | Book Value | 760 | 928 | 1275 | 1715 |
| Total Revenue | 6905 | 8846 | 15801 | 6981 | DPS | 35 | 59 | 117 | 145 |
| COGS | 4639 | 5766 | 10121 | 3561 | Payout (incl. Div. Tax.) | 24% | 26% | 25% | 25% |
| GPM | 32% | 34% | 35% | 47% | Valuation(x) | | | | |
| Other Expenses | 925 | 1198 | 2063 | 746 | P/E | 34 | 66 | 41 | 43 |
| EBITDA | 713 | 1115 | 2447 | 2082 | Price / Book Value | 7 | 16 | 15 | 15 |
| EBITDA Margin (%) | 10% | 13% | 16% | 31% | Dividend Yield (%) | 0.7% | 0.4% | 0.6% | 0.6% |
| Depreciation | 130 | 220 | 452 | 147 | Profitability Ratios | | | | |
| EBIT | 583 | 895 | 1996 | 1935 | RoE | 19% | 24% | 37% | 34% |
| Interest | 8 | 10 | 9 | 3 | RoCE | 27% | 36% | 58% | 42% |
| PBT | 671 | 993 | 2099 | 2135 | Turnover Ratios | | | | |
| Tax | 145 | 291 | 647 | 657 | Asset Turnover (x) | 1.3 | 1.4 | 1.9 | 0.9 |
| Tax Rate (%) | 22% | 29% | 31% | 31% | Debtors (No. of Days) | 27 | 23 | 19 | 19 |
| Reported PAT | 394 | 615 | 1278 | 1575 | Inventory (No. of Days) | 41 | 41 | 37 | 37 |
| Dividend Paid | 95 | 159 | 318 | 392 | Creditors (No. of Days) | 64 | 63 | 58 | 58 |
| No. of Shares | 3 | 3 | 3 | 3 | Net Debt/Equity (x) | 0.04 | 0.00 | 0.00 | 0.00 |

Source: Eastwind/Company

Source: Eastwind/Company

| | BALANCE SHEET | | | | | CASH FLOW | | | |
|------------------------|---------------|------|------|------|----------------------------|-----------|--------|--------|-------|
| | CY13 | CY14 | FY16 | FY17 | | CY13 | CY14 | FY16 | FY17 |
| Share Capital | 27 | 27 | 27 | 27 | OP/(Loss) before Tax | 671 | 993 | 2099 | 2135 |
| Reserves | 2028 | 2489 | 3437 | 4620 | Depreciation | 130 | 220 | 452 | 147 |
| Net Worth | 2055 | 2516 | 3464 | 4648 | Direct Taxes Paid | (150) | (281) | (634) | (657) |
| Long term Debt | 84 | 0 | 0 | 0 | Operating profit before w | 718 | 1126 | 2460 | 2285 |
| Short term Debt | 84 | 58 | 86 | 37 | CF from Op. Activity | 716 | 1047 | 2282 | 656 |
| Deferred Tax | 180 | 239 | 338 | 338 | | 0 | (150) | (869) | 0 |
| Total Capital Employed | 2139 | 2516 | 3464 | 4648 | Capital expenditure on fix | (712) | (972) | (1070) | (558) |
| Net Fixed Assets | 2120 | 2728 | 3314 | 3724 | CF from Inv. Activity | (790) | (1087) | (1481) | (593) |
| Capital WIP | 125 | 236 | 118 | 118 | Repayment of Long Term | (1) | 0 | 0 | 0 |
| Debtors | 513 | 562 | 834 | 360 | Interest Paid | (8) | (10) | (9) | (3) |
| Cash & Bank Balances | 683 | 380 | 476 | 596 | Divd Paid (incl Tax) | (88) | (115) | (486) | (335) |
| Trade payables | 1191 | 1513 | 2509 | 1084 | CF from Fin. Activity | (47) | (162) | (563) | (444) |
| Total Provisions | 170 | 265 | 99 | 52 | Inc/(Dec) in Cash | (121) | (202) | 238 | (380) |
| Net Current Assets | 1008 | 614 | 353 | 813 | Add: Opening Balance | 804 | 683 | 353 | 591 |
| Total Assets | 5337 | 6408 | 8479 | 7663 | Closing Balance | 683 | 481 | 591 | 211 |

Source: Eastwind/Company

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