

Eicher Motors Ltd.

Industry Automobiles
Bloomberg EIM IN
BSE CODE 505200

Margin deterioration continues with muted volume growth

RATING	NEUTRAL
CMP	16370
Price Target	17517
Potential Upside	7%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	29,800/15,947
Mkt Capital (Rs Cr)	44670
Free float (%)	49%
Avg. Vol 1M (,000)	118
No. of Shares (Cr.)	3
Promoters Pledged %	0%

1QFY20 Result Update

- ❑ EICHERMOT revenue declined by 6.5%YoY to Rs.2382 crores during the quarter. Volumes de-grew by 19% YoY due to weak consumer demand while realization improved by 15% YoY led by price hikes and higher sales of 650 twins.
- ❑ EBITDA margin declined by 158 bps QoQ to 25.8% on the back of weaker operating leverage and higher employee cost.
- ❑ PAT for the quarter stood at Rs.452 crores with a decline of 21.6%YoY. PAT margin also declined by 282 bps QoQ at 19% due to decline in EBITDA margins and lower profit from VECV.
- ❑ The Interceptor and the Continental GT 650 were launched in Indonesia, Vietnam and Malaysia during the quarter.
- ❑ VECV sold 13331 trucks and buses in 1QFY20, registering a decline of 18% YoY. VECV's revenue was Rs. 2,255 crores down 14% YoY. EBITDA declined by 48% YoY to Rs. 125 crores while PAT declined by 68% YoY to Rs. 38 crores.
- ❑ The VECV unveiled the Eicher Pro 2000 series during the quarter which is India's first BS VI compliant range of CV's.

View and Valuation

EICHERMOT reported weak set of numbers with 160bps QoQ decline in EBITDA margins. The benefit from reduction in commodity prices may get marred by weaker operating leverage. The overall demand outlook continues to be benign at-least till the festive season. Due to increased competition in 150cc and above category the company has also lost 300bps market share in last 4 months. 650 twins have been accepted well in export markets and have waiting period of 3-4 months in the domestic market. The demand scenario on the CV side seems bleak as well which will lead to further reduction in overall profitability. Factoring the demand concerns and weaker operating leverage, we reduce our FY20 PAT estimates by 5%. We value EICHERMOT at 22x FY20e EPS and arrive at a target price of Rs.17517 and maintain NEUTRAL rating.

Key Risks to our rating and target

- ❑ Prolonged softness in demand
- ❑ Increase in commodity prices

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	7033	8965	9797	10571	11615
EBITDA	2174	2808	2903	2843	3240
EBIT	2020	2584	2603	2495	2846
PAT	1667	1960	2203	2170	2521
EPS (Rs)	613	719	808	796	925
EPS growth (%)	24	17	12	-1	16
ROE (%)	31	28	25	20	19
ROCE (%)	38	37	29	23	22
BV	1964	2579	3272	3911	4836
P/B (X)	13	11	6	4	3
P/E (x)	41	39	25	21	18

Research Analyst

NAVEEN KUMAR DUBEY

Naveen.dubey@narnolia.com

+91-22-62701235

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1QFY20 Results

PAT below estimates

Fig in Rs Cr

Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Volumes	225361	210102	194473	196162	183589	-19%	-6%	820493	826098	0.7%
Realization	113,052	114,619	120,380	127,450	133,072	18%	4%	109,263	118,594	8.5%
Net Sales	2,548	2,408	2,341	2,500	2,382	-7%	-5%	8,965	9,797	9.3%
Other Income	60	94	147	143	120	102%	-16%	280	443	58.3%
Total Income	2,607	2,502	2,488	2,643	2,502	-4%	-5%	9,245	10,240	10.8%
COGS	1,311	1,219	1,192	1,335	1,277	-3%	-4%	4,643	5,057	8.9%
Staff Cost	171	176	185	171	212	24%	24%	574	702	22.4%
Other Exp.	256	284	285	310	279	9%	-10%	940	1,134	20.6%
Expenditure	1,738	1,679	1,662	1,815	1,767	2%	-3%	6,157	6,894	12.0%
EBITDA	810	729	680	685	614	-24%	-10%	2,808	2,903	3.4%
Depreciation	70	72	77	81	88	25%	8%	223	300	34.5%
EBIT	739	657	603	604	527	-29%	-13%	2,584	2,603	0.7%
Interest	2	2	2	2	5	205%	118%	5	7	37.3%
PBT	798	749	748	744	643	-19%	-14%	2,859	3,039	6.3%
Excpt. Item	-	-	-	-	-	0%	0%	220	-	0.0%
Tax	286	260	256	275	212	-26%	-23%	936	1,077	15.1%
PAT	576	566	533	545	452	-22%	-17%	1,960	2,203	12.4%

Revenue declined by 6.5% YoY driven by 19% YoY decline in volumes

EICHERMOT revenue has declined by 6.5%YoY to Rs.2382 crores during the quarter. Volumes de-grew by 19% YoY due to weak consumer sentiments led by slowing economic growth, tightening liquidity and regulation driven price increases. However, the 650 Twins model continue to do extremely well in India as well as across international markets and has a waiting period of 3-4 months. Realizations improved by 15% YoY led by price hikes and higher twin sales.

VECV sold 13331 trucks and buses in 1QFY20, registering a decline of 18% YoY. VECV's revenue was Rs. 2,255 crores down 14% YoY. EBITDA declined by 48% YoY to Rs. 125 crores while PAT declined by 68% YoY to Rs. 38 crores.

Weaker operating leverage and higher employee cost ddented EBITDA margins

Gross margin declined by 21bps QoQ despite softening of commodity prices. EBITDA margin also declined by 158 bps QoQ to 25.8% on the back of weaker operating leverage and higher employee cost led by commencement of Technical centre at Chennai. The management expects to see raw material cost benefits on margins in Q2FY20 and Q3FY20 going ahead.

PAT Decline in EBITDA margins and higher interest cost led to PAT margin decline

PAT for the quarter stood at Rs.452 crores with a decline of 21.6%YoY. PAT margin also declined by 282 bps QoQ at 19% due to decline in EBITDA margins and lower profit from VECV.

Concall highlights

➤ Royal Enfield

- The company has given the total production guidance of 9.5 lakhs units for FY20.
- The demand in two-wheeler industry remains weak due to slowing economic growth, tightening liquidity and regulation driven price increases that have led to poor consumer sentiment.
- The 650 Twins model continue to do extremely well in India as well as across international markets and has a waiting period of 3-4 months.
- The company is working on building a network of compact retail format studio stores to reinforce the distribution network across smaller towns and cities in India.
- The management plans to open up 350 studio stores during H1FY20.
- The company will be introducing new motorcycle variants in the coming months.
- Royal Enfield continued to strengthen its presence in international markets during 1QFY20.
- The company entered South Korea by launching its first exclusive store in Seoul, and also added two new stores in Brazil, and one each in Argentina, Indonesia and Vietnam.
- During the 1QFY20, the Interceptor and the Continental GT 650 were launched in Indonesia, Vietnam and Malaysia and have been received extremely well.

➤ VECV

- In the CV industry, sales have been low due to the weak demand on account of economic slowdown, increase in fuel prices, lower availability of loads and consequently low replacement demand and it is also witnessing heavy discounting.
- The management expects some pick up to happen from September with the onset of the festive season and also anticipate seeing some positive impact of pre-buying with BS VI norms becoming applicable from 1st April 2020.
- The VECV unveiled the Eicher Pro 2000 series during the quarter which is India's first BS VI compliant range of CV's.
- VECV sold 13331 trucks and buses in 1QFY20, registering a decline of 18% YoY. VECV's revenue was Rs. 2,255 crores down 14% YoY. EBITDA declined by 48% YoY to Rs. 125 crores while PAT declined by 68% YoY to Rs. 38 crores.

➤ Other Highlights

- The company has added 13 dealers during the quarter with a total 958 dealers in India and internationally it has added 6 exclusive stores with a total count of 48 stores.
- The raw material cost benefits on margins are expected to be seen in Q2FY20 and Q3FY20.
- Phase II of the Vallam Vadgal plant is expected to get commissioned by 2HFY20.
- Inventory level for Royal Enfield and VECE both stands at 30 days.

Exhibit: Volume and Volume Growth Trend

Slowdown in overall demand across various key markets led to decline in volumes

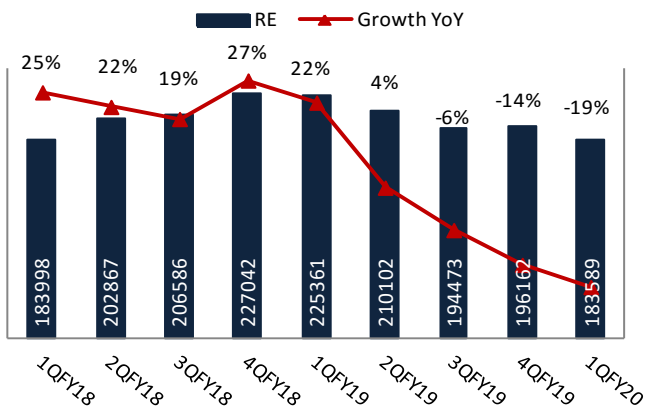


Exhibit: Realisation and Realisation Growth Trend

Price hikes and higher sales of 650 twins led to increase in realisation

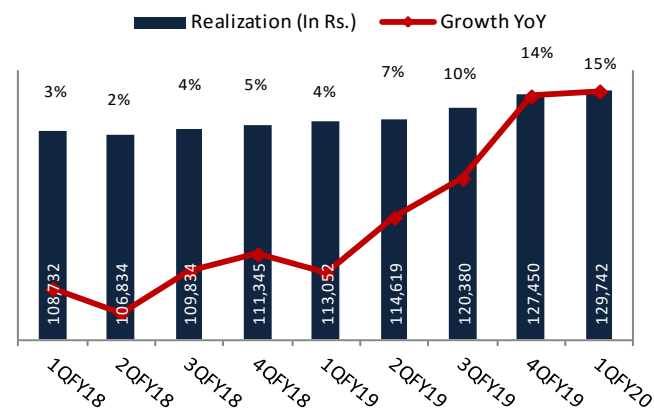


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

Weaker operating leverage and higher employee cost dented EBITDA margins

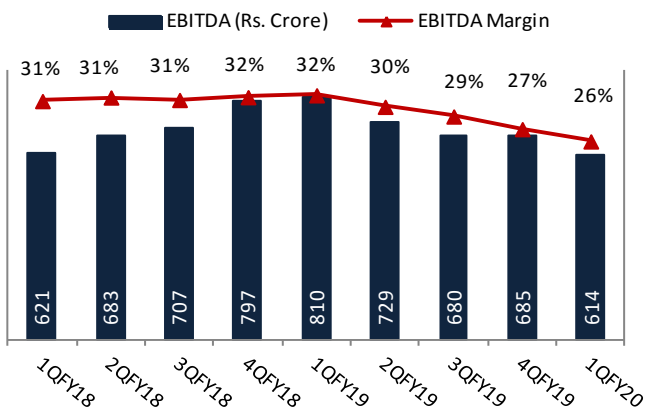


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

PAT Decline in EBITDA margins and higher interest cost led to PAT margin decline

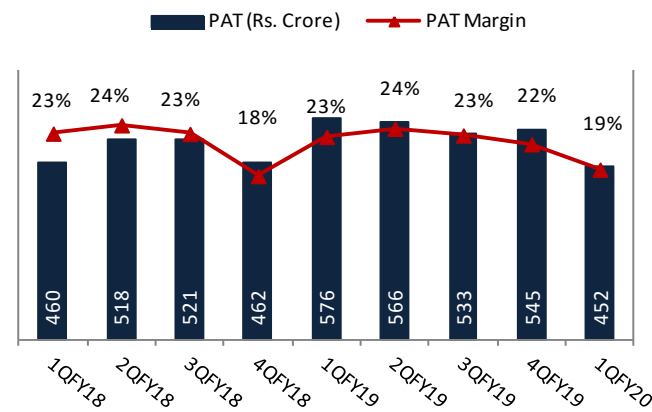


Exhibit: Commercial Vehicle Growth Trend

Higher discountings, intense competition and higher base last year affected the VECV volumes

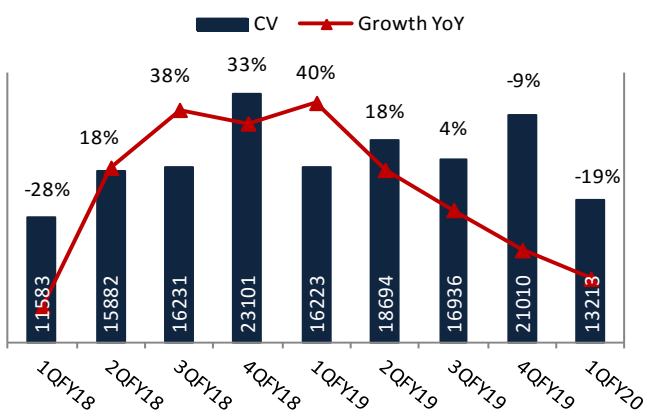
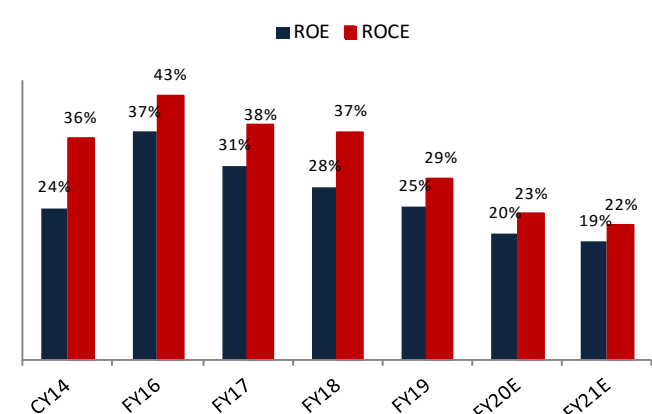


Exhibit: Return Ratios

As the profitability improves going ahead return ratios will follow the same



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	CY13	CY14	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	27	27	27	27	27	27	27	27
Reserves	2,028	2,489	3,626	5,318	7,003	8,891	10,633	13,154
Networth	2,055	2,516	3,653	5,345	7,030	8,919	10,660	13,181
Debt	84	58	23	112	151	187	159	135
Other Non Cur Liab	254	329	81	134	227	370	374	375
Total Capital Employed	2,055	2,516	3,653	5,345	7,030	8,919	10,660	13,181
Net Fixed Assets (incl CWIP)	2,120	2,728	884	1,242	1,831	2,321	2,639	2,745
Non Cur Investments	0	161	2,801	2,358	3,183	2,510	3,745	6,089
Other Non Cur Asst	7	8	141	243	164	153	153	153
Non Curr Assets	2,425	3,374	3,890	5,628	6,987	6,977	8,530	10,980
Inventory	527	646	308	336	395	633	683	751
Debtors	513	562	33	50	68	90	97	107
Cash & Bank	683	481	49	25	1,212	2,965	3,048	3,108
Other Curr Assets	46	48	63	77	196	180	195	214
Curr Assets	2,911	3,033	1,049	1,381	2,535	4,410	4,702	4,921
Creditors	1,191	1,513	723	765	1,172	1,234	1,332	1,463
Provisons (both)	156	248	26	43	47	58	62	68
Other Curr Liab	556	658	350	430	617	315	340	373
Curr Liabilities	1,904	2,419	1,182	1,418	2,115	1,911	2,038	2,210
Net Curr Assets	1,008	614	(134)	(37)	421	2,499	2,664	2,712
Total Assets	5,337	6,408	4,939	7,009	9,522	11,387	13,231	15,901

Income Statement

Fig in Rs Cr

Y/E March	CY13	CY14	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	6,810	8,738	6,173	7,033	8,965	9,797	10,571	11,615
Change (%)	7	28	-29	14	8	12	12	12
Other Income	95	107	178	227	280	443	399	536
EBITDA	713	1,115	1,690	2,174	2,808	2,903	2,843	3,240
Change (%)	30	56	52	29	29	3	-2	14
Margin (%)	10	13	27	31	31	30	27	28
Depr & Amor.	130	220	137	154	223	300	348	394
EBIT	583	895	1,553	2,020	2,584	2,603	2,495	2,846
Int. & other fin. Cost	8	10	2	4	5	7	6	5
EBT	671	993	1,729	2,244	2,859	3,039	2,888	3,377
Exp Item	-	-	-	46	220	-	-	-
Tax	145	291	539	720	936	1,077	951	1,112
Minority Int & P/L share of Ass.	(131)	(86)	148	189	257	241	234	257
Reported PAT	394	615	1,338	1,667	1,960	2,203	2,170	2,521
Adjusted PAT	394	615	1,338	1,667	1,960	2,203	2,170	2,521
Change (%)	21	56	117	25	18	12	-1	16
Margin(%)	6	7	22	24	22	22	21	22

Financial Details

Key Ratios

Fig in Rs Cr

Y/E March	CY13	CY14	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	19%	24%	37%	31%	28%	25%	20%	19%
ROCE	27%	36%	43%	38%	37%	29%	23%	22%
Asset Turnover	1.28	1.36	1.25	1.00	0.94	0.86	0.80	0.73
Debtor Days	27	23	2	3	3	3	3	3
Inv Days	28	27	18	17	16	24	24	24
Payable Days	64	63	43	40	48	46	46	46
Int Coverage	74	92	733	567	484	355	400	537
P/E	34	66	39	41	39	25	21	18
Price / Book Value	7	16	14	13	11	6	4	3
EV/EBITDA	18	36	31	31	28	19	16	14
FCF per Share	252	177	5	6	34	263	297	319
Div Yield	0.6%	0.3%	0.5%	0.4%	0.4%	0.5%	0.6%	0.6%

Cash Flow Statement

Fig in Rs Cr

Y/E March	CY13	CY14	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	671	993	1,338	1,667	2,896	3,280	2,888	3,377
(inc)/Dec in Working Capital	718	1,126	1,719	2,196	2,851	2,937	3,476	4,033
Non Cash Op Exp	130	220	137	154	223	300	348	394
Int Paid (+)	8	10	2	4	5	7	6	5
Tax Paid	(150)	(281)	(519)	(652)	(807)	(908)	(951)	(1,112)
others	(659)	(1,020)	(1,214)	(1,660)	(2,686)	(4,043)	(3,183)	(3,700)
CF from Op. Activities	716	1,047	1,463	1,709	2,482	1,573	2,585	2,996
(inc)/Dec in FA & CWIP	(712)	(972)	(510)	(548)	(749)	(789)	(666)	(500)
Free Cashflow	4	76	953	1,161	1,734	784	1,918	2,496
(Pur)/Sale of Inv	(187)	(92)	422	(242)	-	-	(137)	(63)
others	109	(24)	(914)	(962)	(1,397)	132	(1,235)	(2,344)
CF from Inv. Activities	(790)	(1,087)	(1,001)	(1,752)	(2,145)	(657)	(2,038)	(2,907)
inc/(dec) in NW	300	460	1,137	1,692	1,685	1,889	1,741	2,521
inc/(dec) in Debt	62	(26)	-	44	495	369	(28)	(24)
Int. Paid	(8)	(10)	(2)	(3)	(3)	(5)	(6)	(5)
Div Paid (inc tax)	(102)	(135)	(468)	-	(317)	(348)	(429)	-
others	(299)	(453)	(1,132)	(1,686)	(2,122)	(2,197)	(1,741)	(2,521)
CF from Fin. Activities	(47)	(162)	(466)	47	(262)	(292)	(463)	(29)
Inc(Dec) in Cash	(121)	(202)	(4)	4	75	623	83	60
Add: Opening Balance	804	683	17	13	17	92	727	810
Closing Balance	683	481	13	17	92	716	810	870

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AIC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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