

# Eicher Motors Ltd.

|           |             |
|-----------|-------------|
| Industry  | Automobiles |
| Bloomberg | EIM IN      |
| BSE CODE  | 505200      |

## Growth and promotional strategies leading to margin compression

|                  |                |
|------------------|----------------|
| <b>RATING</b>    | <b>NEUTRAL</b> |
| CMP              | 21701          |
| Price Target     | 19041          |
| Potential Upside | -12%           |

|                 |   |
|-----------------|---|
| Rating Change   | ↔ |
| Estimate Change | ↓ |
| Target Change   | ↔ |

### Stock Info

|                     |               |
|---------------------|---------------|
| 52wk Range H/L      | 25,300/15,197 |
| Mkt Capital (Rs Cr) | 59219         |
| Free float (%)      | 49%           |
| Avg. Vol 1M (,000)  | 165           |
| No. of Shares (Cr.) | 3             |
| Promoters Pledged % | 0%            |

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### 2QFY20 Result Update

- ❑ EICHERMOT revenue declined by 9%YoY to Rs.2192 crores (vs our estimates of Rs.2172 crores) during the quarter. Volumes de-grew by 21% YoY due to slowdown in domestic market while realization improved by 15% YoY led by price hikes and higher sales of 650 twins.
- ❑ EBITDA margin declined by 110 bps QoQ to 24.7% on the back of lower volumes and higher other expenses led by new studio stores and new launches coupled with promotional activities.
- ❑ PAT for the quarter stood at Rs.573 crores (vs our estimates of Rs.522 crores) with a growth of 1.1%YoY. PAT margin also improved by 720 bps QoQ to 26.1% led by lower tax expense and higher other income.
- ❑ The company has launched 6 new variants of the Royal Enfield Bullet 350 and Bullet 350ES and they are well received by the customers. Classic 350 has also been launched with single ABS in 2QFY20.
- ❑ Inventory level for Royal Enfield stands at 3 weeks.
- ❑ VECV sold 11370 trucks and buses in 2QFY20, registering a decline of 39.2% YoY. VECV's revenue was Rs. 2004 crores down 32% YoY. EBITDA declined by 61% YoY to Rs. 105 crores while PAT declined by 89% YoY to Rs. 15 crores.
- ❑ Industry volumes have declined by 36% in H1FY20 while there was a drop of about 50% in 2QFY20. VECVs volumes declined by 39% during the quarter.
- ❑ VECV launched two new tippers - Eicher Pro 8028XM and Eicher Pro 6019T in heavy duty category during the quarter. The company also launched India's first 9-Ton payload CNG truck in 2QFY20.

### View and Valuation

The management's strategy to open studio stores in tier-2 & tier-3 cities will drive the volumes with increased presence. The demand situation has improved on the retail side during festivals but the sustenance remains a concern. However, the 650 twins have been growing robustly and lead to over 150%YoY growth in exports in 2QFY20. Going ahead we expect margins to remain under pressure because of new stores, new launches and increased promotional activities. The demand scenario on the CV side remained lull leading to reduction in overall profitability. Factoring the demand concerns and margin contraction, we reduce our FY21 PAT estimates by 2%. We value EICHERMOT at 21x FY21e EPS to arrive at a target price of Rs.19041 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 | 9445  | 10511 |
| EBITDA                   | 2174 | 2808 | 2903 | 2428  | 2886  |
| EBIT                     | 2020 | 2584 | 2603 | 2066  | 2489  |
| PAT                      | 1667 | 1960 | 2203 | 2047  | 2422  |
| EPS (Rs)                 | 613  | 719  | 808  | 751   | 889   |
| EPS growth (%)           | 24   | 17   | 12   | -7    | 18    |
| ROE (%)                  | 31   | 28   | 25   | 19    | 19    |
| ROCE (%)                 | 38   | 37   | 29   | 20    | 19    |
| BV                       | 1964 | 2579 | 3272 | 3875  | 4764  |
| P/B (X)                  | 13   | 11   | 6    | 6     | 5     |
| P/E (x)                  | 41   | 39   | 25   | 29    | 24    |

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## 2QFY20 Results

PAT above estimates

Fig in Rs Cr

| Financials   | 2QFY19  | 3QFY19  | 4QFY19  | 1QFY20  | 2QFY20  | YoY % | QoQ% | FY18    | FY19    | YoY % |
|--------------|---------|---------|---------|---------|---------|-------|------|---------|---------|-------|
| Volumes      | 210102  | 194473  | 196162  | 183589  | 166589  | -21%  | -9%  | 820493  | 826098  | 0.7%  |
| Realization  | 114,619 | 120,380 | 127,450 | 129,742 | 131,610 | 15%   | 1%   | 109,263 | 118,594 | 8.5%  |
| Net Sales    | 2,408   | 2,341   | 2,500   | 2,382   | 2,192   | -9%   | -8%  | 8,965   | 9,797   | 9.3%  |
| Other Income | 94      | 147     | 143     | 120     | 145     | 54%   | 20%  | 280     | 443     | 58.3% |
| Total Income | 2,502   | 2,488   | 2,643   | 2,502   | 2,338   | -7%   | -7%  | 9,245   | 10,240  | 10.8% |
| COGS         | 1,219   | 1,192   | 1,335   | 1,277   | 1,185   | -3%   | -7%  | 4,643   | 5,057   | 8.9%  |
| Staff Cost   | 176     | 185     | 171     | 212     | 186     | 6%    | -12% | 574     | 702     | 22.4% |
| Other Exp.   | 284     | 285     | 310     | 279     | 280     | -1%   | 1%   | 940     | 1,134   | 20.6% |
| Expenditure  | 1,679   | 1,662   | 1,815   | 1,767   | 1,651   | -2%   | -7%  | 6,157   | 6,894   | 12.0% |
| EBITDA       | 729     | 680     | 685     | 614     | 541     | -26%  | -12% | 2,808   | 2,903   | 3.4%  |
| Depreciation | 72      | 77      | 81      | 88      | 90      | 24%   | 3%   | 223     | 300     | 34.5% |
| EBIT         | 657     | 603     | 604     | 527     | 452     | -31%  | -14% | 2,584   | 2,603   | 0.7%  |
| Interest     | 2       | 2       | 2       | 5       | 4       | 148%  | -5%  | 5       | 7       | 37.3% |
| PBT          | 749     | 748     | 744     | 643     | 592     | -21%  | -8%  | 2,859   | 3,039   | 6.3%  |
| Excpt. Item  | -       | -       | -       | -       | -       | 0%    | 0%   | 220     | -       | 0.0%  |
| Tax          | 260     | 256     | 275     | 212     | 28      | -89%  | -87% | 936     | 1,077   | 15.1% |
| PAT          | 566     | 533     | 545     | 452     | 573     | 1%    | 27%  | 1,960   | 2,203   | 12.4% |

### Concall highlights

#### ➤ Royal Enfield

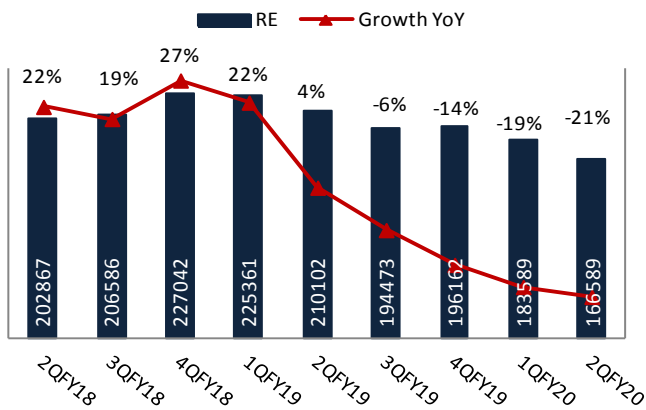
- The Northern and Eastern states NCR, Punjab, UP have shown good growth during the quarter. The southern regions will show better growth from January led by festivals.
- Exports market may be affected going ahead in 3QFY20 and 4QFY20 led by seasonality impact.
- The company has launched 6 new variants of the Royal Enfield Bullet 350 and Bullet 350ES and they are well received by the customers. Classic 350 has also been launched with single ABS in 2QFY20.
- There were 250 Studio Stores opened up across in tier 2 and 3 towns in August. It launched 4 small format stores during the quarter and by the end of October, 250 more studio stores have been opened up.
- The management has planned to open upto 200-300 more studio format stores by the end of FY20.
- The company has further increased its presence in international markets in 2QFY20 and has added three stores each in France and Thailand and one store each in Italy, Brazil and Argentina.
- Inventory level for Royal Enfield stands at 3 weeks.
- The company has taken a marginal price increase in August.
- Financing level stands at 59% during the quarter due to festive season against 53-54% normal level.

#### ➤ VECV

- The Commercial Vehicle industry continues to be challenging due to weak industry sentiments.
- The industry is expected to perform well from 3QFY20 led by thrust on infrastructure investments and pre-buying of BS IV vehicles and likely pick up in business activity with improved sentiments.
- Industry volumes have declined by 36% in H1FY20 while there was a drop of about 50% in 2QFY20. VECV's volumes declined by 39% during the quarter.
- The company is on track for the BS-VI commercial vehicle roll out from February 2020.
- VECV launched two new tippers - Eicher Pro 8028XM and Eicher Pro 6019T in heavy duty category during the quarter. The company also launched India's first 9-Ton payload CNG truck in 2QFY20.
- The Pro 2000 series of trucks and which was launched in June 2019 have been received extremely well with market share improving to 31% in Q2FY19 from 25% in Q1FY19 in the sub-5 Ton category.
- VECV sold 11370 trucks and buses in 2QFY20, registering a decline of 39.2% YoY. VECV's revenue was Rs. 2004 crores down 32% YoY. EBITDA declined by 61% YoY to Rs. 105 crores while PAT declined by 89% YoY to Rs. 15 crores.

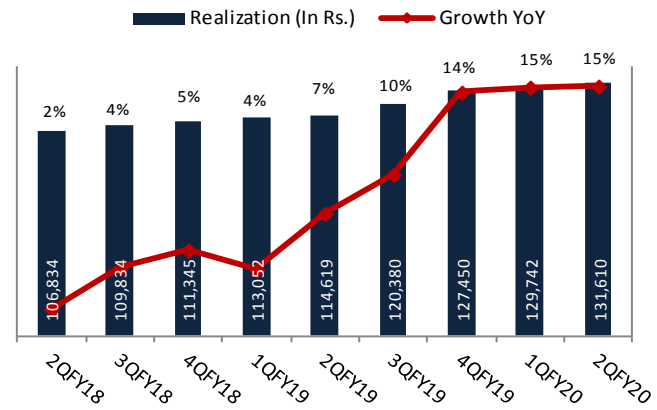
## Exhibit: RE Volume and Volume Growth Trend

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



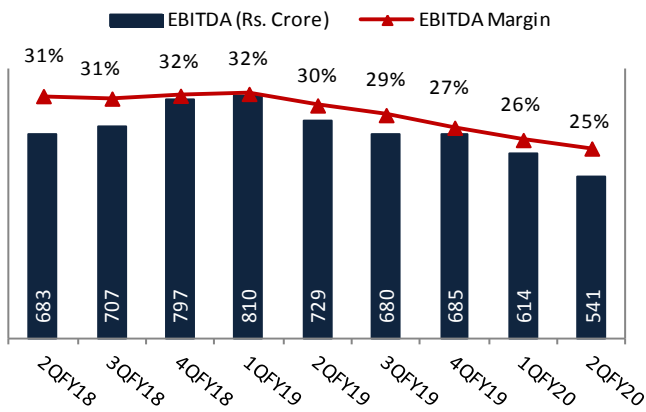
## Exhibit: Realisation and Realisation Growth Trend

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



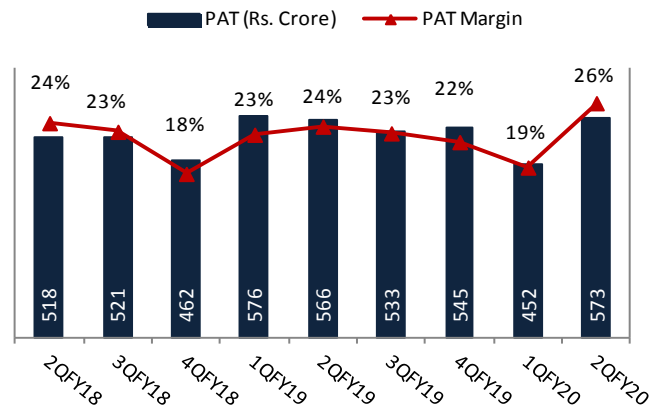
## Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

Other expenses led by new studio stores and new launches coupled with promotional activities dented EBITDA margins



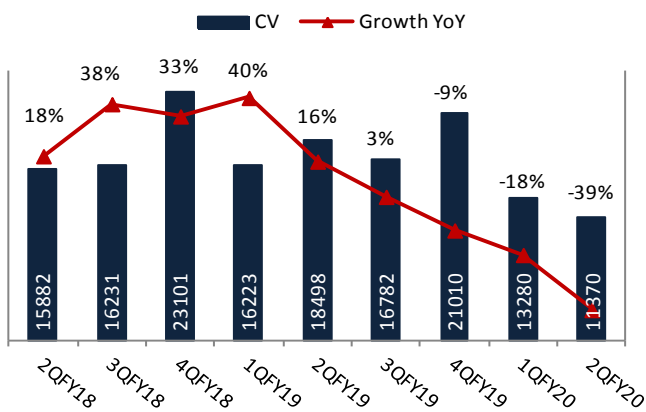
## Exhibit: PAT (Rs. Crore) and PAT Margin Trend

PAT margin declined led by lower tax expenses and higher other income



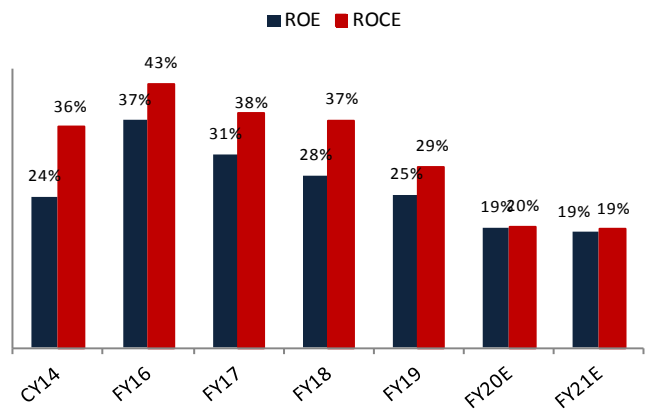
## Exhibit: Commercial Vehicle Growth Trend

Higher discountings, intense competition and slowdown in CV industry 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  | 10,534 | 12,956 |
| Networth                     | 2,055 | 2,516 | 3,653 | 5,345 | 7,030 | 8,919  | 10,561 | 12,984 |
| Debt                         | 84    | 58    | 23    | 112   | 151   | 187    | 159    | 135    |
| Other Non Cur Liab           | 254   | 329   | 81    | 134   | 227   | 370    | 372    | 372    |
| Total Capital Employed       | 2,055 | 2,516 | 3,653 | 5,345 | 7,030 | 8,919  | 10,561 | 12,984 |
| Net Fixed Assets (incl CWIP) | 2,120 | 2,728 | 884   | 1,242 | 1,831 | 2,321  | 2,753  | 2,855  |
| Non Cur Investments          | 0     | 161   | 2,801 | 2,358 | 3,183 | 2,510  | 3,596  | 5,764  |
| 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  | 8,495  | 10,765 |
| Inventory                    | 527   | 646   | 308   | 336   | 395   | 633    | 611    | 680    |
| Debtors                      | 513   | 562   | 33    | 50    | 68    | 90     | 87     | 97     |
| Cash & Bank                  | 683   | 481   | 49    | 25    | 1,212 | 2,965  | 3,048  | 3,108  |
| Other Curr Assets            | 46    | 48    | 63    | 77    | 196   | 180    | 174    | 193    |
| Curr Assets                  | 2,911 | 3,033 | 1,049 | 1,381 | 2,535 | 4,410  | 4,451  | 4,754  |
| Creditors                    | 1,191 | 1,513 | 723   | 765   | 1,172 | 1,234  | 1,190  | 1,324  |
| Provisons (both)             | 156   | 248   | 26    | 43    | 47    | 58     | 56     | 62     |
| Other Curr Liab              | 556   | 658   | 350   | 430   | 617   | 315    | 304    | 338    |
| Curr Liabilities             | 1,904 | 2,419 | 1,182 | 1,418 | 2,115 | 1,911  | 1,854  | 2,028  |
| Net Curr Assets              | 1,008 | 614   | (134) | (37)  | 421   | 2,499  | 2,597  | 2,726  |
| Total Assets                 | 5,337 | 6,408 | 4,939 | 7,009 | 9,522 | 11,387 | 12,946 | 15,520 |

### 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        | 9,445        | 10,511       |
| Change (%)                       | 7          | 28           | -29          | 14           | 8            | 12           | 12           | 12           |
| Other Income                     | 95         | 107          | 178          | 227          | 280          | 443          | 379          | 510          |
| <b>EBITDA</b>                    | <b>713</b> | <b>1,115</b> | <b>1,690</b> | <b>2,174</b> | <b>2,808</b> | <b>2,903</b> | <b>2,428</b> | <b>2,886</b> |
| Change (%)                       | 30         | 56           | 52           | 29           | 29           | 3            | -16          | 19           |
| <b>Margin (%)</b>                | <b>10</b>  | <b>13</b>    | <b>27</b>    | <b>31</b>    | <b>31</b>    | <b>30</b>    | <b>26</b>    | <b>27</b>    |
| Depr & Amor.                     | 130        | 220          | 137          | 154          | 223          | 300          | 362          | 397          |
| EBIT                             | 583        | 895          | 1,553        | 2,020        | 2,584        | 2,603        | 2,066        | 2,489        |
| Int. & other fin. Cost           | 8          | 10           | 2            | 4            | 5            | 7            | 14           | 12           |
| <b>EBT</b>                       | <b>671</b> | <b>993</b>   | <b>1,729</b> | <b>2,244</b> | <b>2,859</b> | <b>3,039</b> | <b>2,430</b> | <b>2,987</b> |
| Exp Item                         | -          | -            | -            | 46           | 220          | -            | -            | -            |
| Tax                              | 145        | 291          | 539          | 720          | 936          | 1,077        | 540          | 753          |
| Minority Int & P/L share of Ass. | (131)      | (86)         | 148          | 189          | 257          | 241          | 157          | 188          |
| <b>Reported PAT</b>              | <b>394</b> | <b>615</b>   | <b>1,338</b> | <b>1,667</b> | <b>1,960</b> | <b>2,203</b> | <b>2,047</b> | <b>2,422</b> |
| <b>Adjusted PAT</b>              | <b>394</b> | <b>615</b>   | <b>1,338</b> | <b>1,667</b> | <b>1,960</b> | <b>2,203</b> | <b>2,047</b> | <b>2,422</b> |
| Change (%)                       | 21         | 56           | 117          | 25           | 18           | 12           | -7           | 18           |
| Margin(%)                        | 6          | 7            | 22           | 24           | 22           | 22           | 22           | 23           |

## Financial Details

### Key Ratios

| Y/E March          | CY13 | CY14 | FY16 | FY17 | FY18 | FY19 | FY20E | FY21E |
|--------------------|------|------|------|------|------|------|-------|-------|
| ROE                | 19%  | 24%  | 37%  | 31%  | 28%  | 25%  | 19%   | 19%   |
| ROCE               | 27%  | 36%  | 43%  | 38%  | 37%  | 29%  | 20%   | 19%   |
| Asset Turnover     | 1.28 | 1.36 | 1.25 | 1.00 | 0.94 | 0.86 | 0.73  | 0.68  |
| 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  | 145   | 205   |
| P/E                | 34   | 66   | 39   | 41   | 39   | 25   | 29    | 24    |
| Price / Book Value | 7    | 16   | 14   | 13   | 11   | 6    | 6     | 5     |
| EV/EBITDA          | 18   | 36   | 31   | 31   | 28   | 19   | 24    | 20    |
| 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% | 0.5%  | 0.5%  |

### 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   | 2,430   | 2,987   |
| (inc)/Dec in Working Capital | 718   | 1,126   | 1,719   | 2,196   | 2,851   | 2,937   | 2,963   | 3,585   |
| Non Cash Op Exp              | 130   | 220     | 137     | 154     | 223     | 300     | 362     | 397     |
| Int Paid (+)                 | 8     | 10      | 2       | 4       | 5       | 7       | 14      | 12      |
| Tax Paid                     | (150) | (281)   | (519)   | (652)   | (807)   | (908)   | (540)   | (753)   |
| others                       | (659) | (1,020) | (1,214) | (1,660) | (2,686) | (4,043) | (2,829) | (3,320) |
| CF from Op. Activities       | 716   | 1,047   | 1,463   | 1,709   | 2,482   | 1,573   | 2,400   | 2,909   |
| (inc)/Dec in FA & CWIP       | (712) | (972)   | (510)   | (548)   | (749)   | (789)   | (794)   | (500)   |
| Free Cashflow                | 4     | 76      | 953     | 1,161   | 1,734   | 784     | 1,606   | 2,409   |
| (Pur)/Sale of Inv            | (187) | (92)    | 422     | (242)   | -       | -       | 10      | (145)   |
| others                       | 109   | (24)    | (914)   | (962)   | (1,397) | 132     | (1,086) | (2,168) |
| CF from Inv. Activities      | (790) | (1,087) | (1,001) | (1,752) | (2,145) | (657)   | (1,870) | (2,813) |
| inc/(dec) in NW              | 300   | 460     | 1,137   | 1,692   | 1,685   | 1,889   | 1,643   | 2,422   |
| inc/(dec) in Debt            | 62    | (26)    | -       | 44      | 495     | 369     | (28)    | (24)    |
| Int. Paid                    | (8)   | (10)    | (2)     | (3)     | (3)     | (5)     | (14)    | (12)    |
| Div Paid (inc tax)           | (102) | (135)   | (468)   | -       | (317)   | (348)   | (404)   | -       |
| others                       | (299) | (453)   | (1,132) | (1,686) | (2,122) | (2,197) | (1,643) | (2,422) |
| CF from Fin. Activities      | (47)  | (162)   | (466)   | 47      | (262)   | (292)   | (447)   | (36)    |
| 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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|   |     |
|---|-----|
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|---|-----|

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Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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