

Industry **Automobiles**
 Bloomberg **EIM IN**
 BSE CODE **505200**

RATING	NEUTRAL
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 (Crs)	3
Promoters Pledged %	0%

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Growth and promotional strategies leading to margin compression

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. VECV's 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. VECVs 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

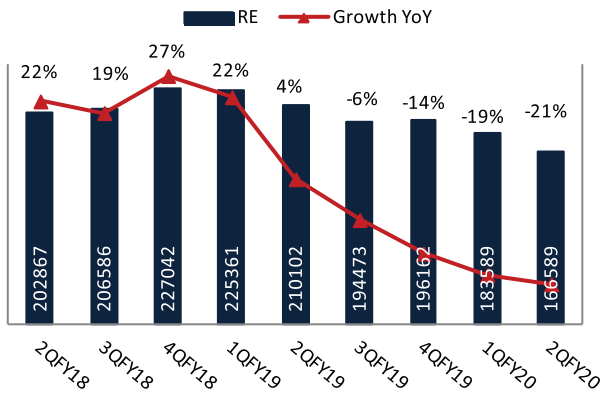


Exhibit: Realisation and Realisation Growth Trend

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

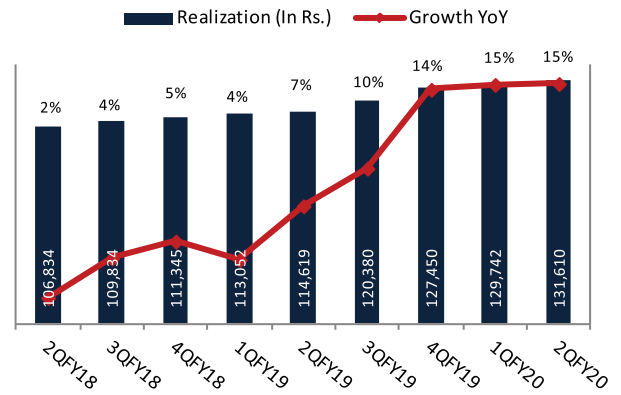


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

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

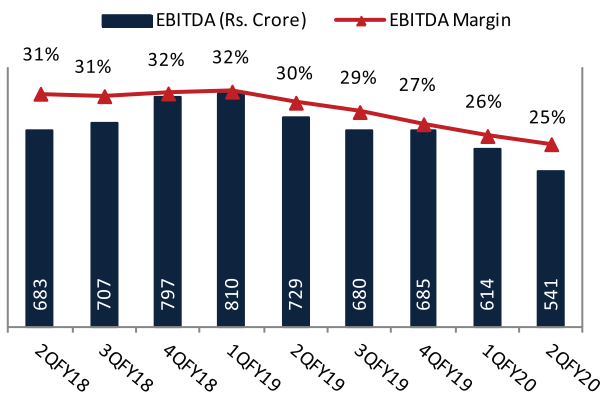


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

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

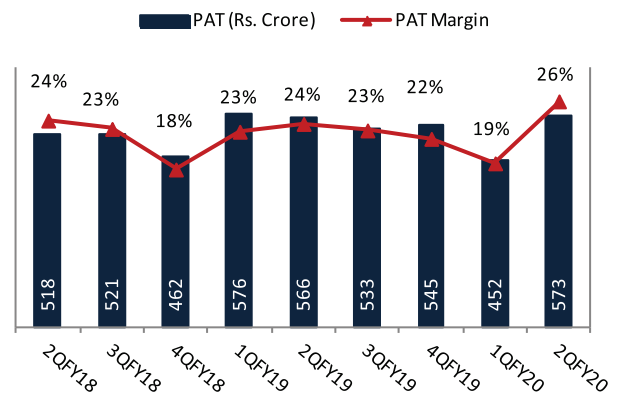


Exhibit: Commercial Vehicle Growth Trend

Higher discountings, intense competition and slowdown in CV industry affected the VECV volumes

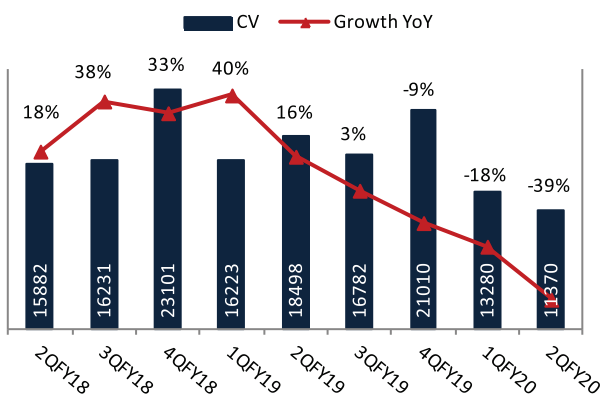
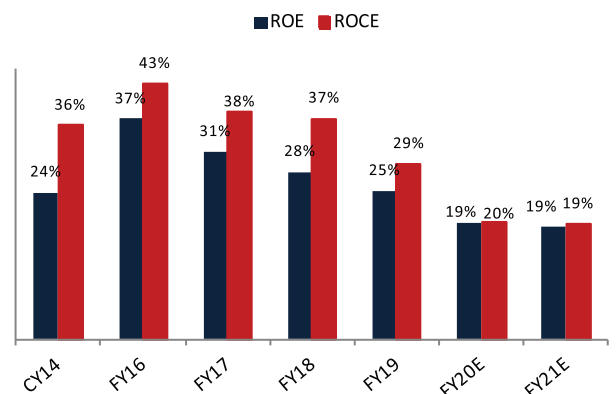


Exhibit: Return Ratios

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
Provisions (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
EBITDA	713	1,115	1,690	2,174	2,808	2,903	2,428	2,886
Change (%)	30	56	52	29	29	3	-16	19
Margin (%)	10	13	27	31	31	30	26	27
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
EBT	671	993	1,729	2,244	2,859	3,039	2,430	2,987
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
Reported PAT	394	615	1,338	1,667	1,960	2,203	2,047	2,422
Adjusted PAT	394	615	1,338	1,667	1,960	2,203	2,047	2,422
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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