

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

Margins to remain under pressure in 1HFY21

RATING	NEUTRAL
CMP	20417
Price Target	21501
Potential Upside	5%

Rating Change	
Estimate Change	
Target Change	

STOCK INFO	
52wk Range H/L	23428/15197
Mkt Capital (Rs Cr)	54217
Free float (%)	49%
Avg. Vol 1M (,000)	157
No. of Shares (Crs)	3
Promoters Pledged %	0%

RESEARCH ANALYST

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3QFY20 Result update

- EICHERMOT revenue grew by 1%YoY to Rs.2371 crores (vs our estimates of Rs.2425 crores) during the quarter. Volumes de-grew by 6% YoY due to slowdown in domestic market while realization improved by 7% YoY led by increasing BS-VI products and higher sales of 650 twins.
- EBITDA margin improved by 30 bps QoQ to 25% on account of better operating leverage and improved product mix.
- PAT for the quarter stood at Rs.499 crores (vs our estimates of Rs.491 crores) with a decline of -6.4%YoY. PAT margin contracted by 510 bps QoQ to 21% largely led by higher tax expense.
- The company has added 250 studio stores and 7 large format stores in 3QFY20 which takes total touch points to 1400 in domestic market.
- Royal Enfield added 10 new stores across Thailand, Brazil, Argentina, France and the UK, increasing its overall touch points to about 675 stores including 67 exclusive stores.
- Overall inventory level for Royal Enfield stands at 2 weeks. BS-IV inventory is less than 10 days.
- VECV sold 12391 vehicles in 3QFY20, registering a decline of 25% YoY. VECV's revenue was Rs. 2164 crores down 23% YoY. EBITDA declined by 31% YoY to Rs. 133 crores while PAT declined by 61% YoY to Rs. 30 crores.

View and Valuation

The company has witnessed growth on the retail side largely because of expansion in distribution reach while overall demand situation still remains a concern for the industry. The management expects low single digit growth in 2HFY21. Going ahead we expect margins to remain under pressure because of increasing cost of precious metals used in BS-VI and new stores addition. Further on the commercial vehicle side growth will be triggered by the scrappage policy. Factoring the demand concerns and margin contraction due to BS-VI, we reduce our FY21 PAT estimates by 3%. We value EICHERMOT at 25x FY21e EPS to arrive at a target price of Rs.21501 and maintain NEUTRAL rating.

Key Risks to our rating and target

- Prolonged softness in demand
- Increase in commodity prices

Conso./Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	7033	8965	9797	9399	10236
EBITDA	2174	2808	2903	2389	2673
EBIT	2020	2584	2603	2021	2289
PAT	1667	1960	2203	2083	2307
EPS (Rs)	613	719	808	764	846
EPS growth (%)	24	17	12	-5	11
ROE (%)	31	28	25	20	19
ROCE (%)	38	37	29	19	18
BV	1964	2579	3272	3885	4565
P/B (X)	13	11	6	5	4
P/E (x)	41	39	25	27	24

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PAT above estimates

3QFY20 Results

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Volumes	194473	196162	183589	166589	182791	-6%	10%	820493	826098	0.7%
Realization	120,380	127,450	129,742	131,610	129,712	8%	-1%	109,263	118,594	8.5%
Net Sales	2,341	2,500	2,382	2,192	2,371	1%	8%	8,965	9,797	9.3%
Other Income	147	143	120	145	135	-8%	-7%	280	443	58.3%
Total Income	2,488	2,643	2,502	2,338	2,506	1%	7%	9,245	10,240	10.8%
COGS	1,192	1,335	1,277	1,185	1,290	8%	9%	4,643	5,057	8.9%
Staff Cost	185	171	212	186	185	0%	-1%	574	702	22.4%
Other Exp.	285	310	279	280	304	7%	9%	940	1,134	20.6%
Expenditure	1,662	1,815	1,767	1,651	1,779	7%	8%	6,157	6,894	12.0%
EBITDA	680	685	614	541	592	-13%	9%	2,808	2,903	3.4%
Depreciation	77	81	88	90	95	24%	6%	223	300	34.5%
EBIT	603	604	527	452	497	-18%	10%	2,584	2,603	0.7%
Interest	2	2	5	4	4	127%	-4%	5	7	37.3%
PBT	748	744	643	592	628	-16%	6%	2,859	3,039	6.3%
Excpt. Item	-	-	-	-	-	-	-	220	-	-
Tax	256	275	212	28	145	-43%	423%	936	1,077	15.1%
PAT	533	545	452	573	499	-6%	-13%	1,960	2,203	12.4%

Concall Highlights:

- The growth scenario will remain challenging in 1HFY21 based on steep price hike due to BS-VI transition; however 2HFY21 will show better improvement. Market expected to grow by 5% in 2HFY21.
- Overall inventory level is less than 2 weeks. BS IV inventory is of 10 days.
- There is no volatility in Europe, America & other export market and slowdown was largely led by seasonality impact.
- **Royal Enfield**
 - Entire motorcycle segment was down 23% YoY and RE was down by 6% YoY.
 - Bullet X is 10% of bullet franchise sales. Overall Bullet franchise sales went up while classic remained at same level in 3QFY20.
 - BS-VI vehicle sales were one third of total January 2020 sales.
 - The company has added 250 studio stores and 7 large format stores in 3QFY20 which takes total touch points to 1400 in domestic market.
 - In international markets, Royal Enfield added 10 new stores across Thailand, Brazil, Argentina, France and the UK, increasing its overall touch points to about 675 stores including 67 exclusive stores.
 - The company has shifted the entire product portfolio to BS-VI except bullet that would be launched by February end.
 - It introduced 'Make Your Own' a unique initiative which allows its customers to custom build the motorcycle with a select array of accessories. The order will be placed to factories in 24 hrs for these bikes.
 - It launched special edition Tribute black, last of the 500 series. Its sales expected to start from 10 Feb, 2020.
 - The margin is expected to remain subdued due to sharp increase in precious metal prices.
- **VECV**
 - Overall CV industry is extremely weak, especially medium and heavy duty vehicles.
 - Some segments are showing signs of pickup due to pre-buying led by BS VI transition.
 - VECV Revenue was down by 23% to Rs 2164 crores, EBITDA was down 28% to Rs 133 crores, EBITDA margin was at 6.2% and PAT was down 60% to Rs 30 crores.
 - Total Trucks and buses sales were 12400 units down 27% against industry drop of 37% in the quarter.

Exhibit: RE Volume and Volume Growth Trend

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

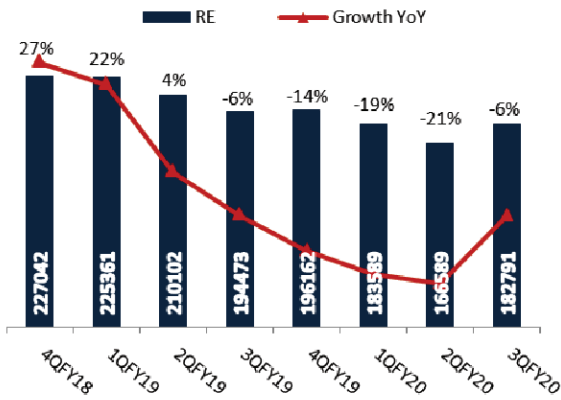


Exhibit: Realisation and Realisation Growth Trend

Realization improved by 7% YoY led by increasing BS-VI products and higher sales of 650 twins.

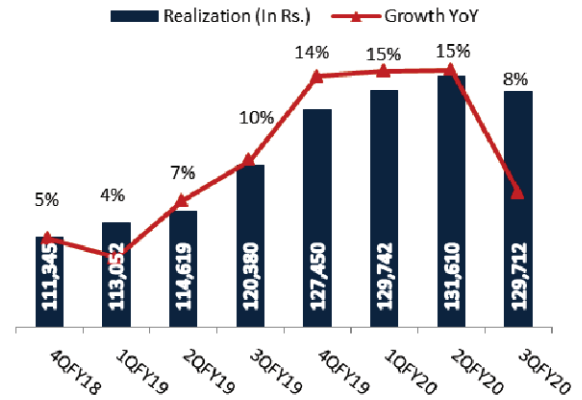


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

Operating leverage benefits and product mix led to improvement in EBITDA Margins on QoQ by 30 bps.

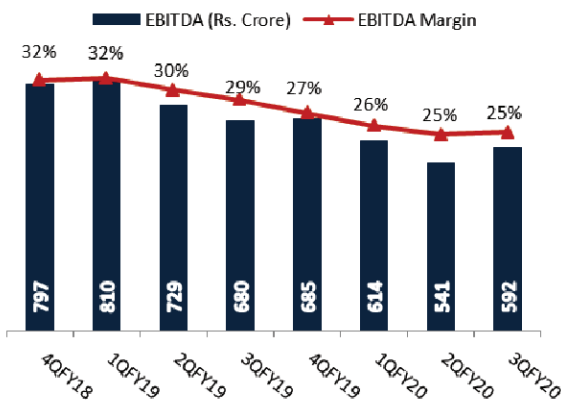


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

PAT margin declined led by higher tax expenses on QoQ by 509 bps due to increased tax expenses.

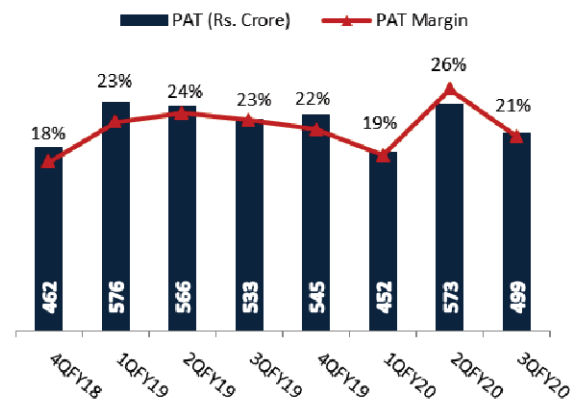


Exhibit: Commercial Vehicle Growth Trend

Subdued demand for commercial vehicles led to decline in volumes of VECV.

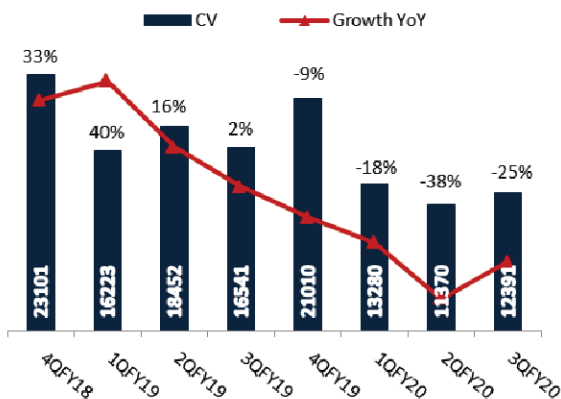
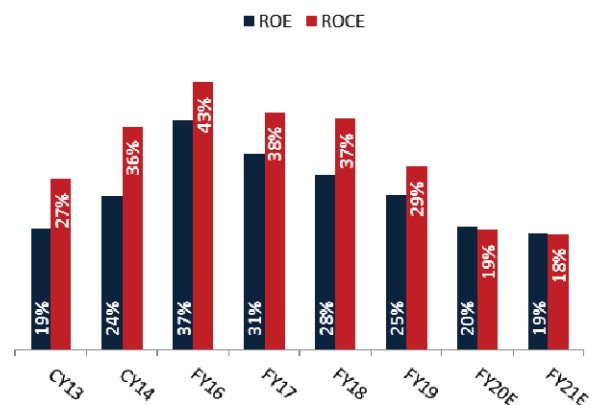


Exhibit: Return Ratios

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



Financial Details

Balance Sheet

Conso./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	10,563	12,414
Networth	2,055	2,516	3,653	5,345	7,030	8,919	10,590	12,441
Debt	84	58	23	112	151	187	159	135
Other Non Cur Liab	254	329	81	134	227	370	372	373
Total Capital Employed	2,055	2,516	3,653	5,345	7,030	8,919	10,590	12,441
Net Fixed Assets (incl CWIP)	2,120	2,728	884	1,242	1,831	2,321	2,748	2,864
Non Cur Investments	0	161	2,801	2,358	3,183	2,510	3,606	5,101
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	8,500	10,111
Inventory	527	646	308	336	395	633	637	693
Debtors	513	562	33	50	68	90	126	137
Cash & Bank	683	481	49	25	1,212	2,965	3,065	3,201
Other Curr Assets	46	48	63	77	196	180	149	162
Curr Assets	2,911	3,033	1,049	1,381	2,535	4,410	4,496	4,853
Creditors	1,191	1,513	723	765	1,172	1,234	1,129	1,230
Provisions (both)	156	248	26	43	47	58	69	75
Other Curr Liab	556	658	350	430	617	315	372	405
Curr Liabilities	1,904	2,419	1,182	1,418	2,115	1,911	1,875	2,015
Net Curr Assets	1,008	614	(134)	(37)	421	2,499	2,621	2,838
Total Assets	5,337	6,408	4,939	7,009	9,522	11,387	12,996	14,964

Income Statement

Conso./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	9,399	10,236
Change (%)	7	28	-29	14	8	12	12	12
Other Income	95	107	178	227	280	443	518	537
EBITDA	713	1,115	1,690	2,174	2,808	2,903	2,389	2,673
Change (%)	30	56	52	29	29	3	(18)	12
Margin (%)	10	13	27	31	31	30	25	26
Depr & Amor.	130	220	137	154	223	300	367	384
EBIT	583	895	1,553	2,020	2,584	2,603	2,021	2,289
Int. & other fin. Cost	8	10	2	4	5	7	16	13
EBT	671	993	1,729	2,244	2,859	3,039	2,524	2,813
Exp Item	-	-	-	46	220	-	-	-
Tax	145	291	539	720	936	1,077	552	709
Minority Int & P/L share of Ass.	(131)	(86)	148	189	257	241	110	203
Reported PAT	394	615	1,338	1,667	1,960	2,203	2,083	2,307
Adjusted PAT	394	615	1,338	1,667	1,960	2,203	2,083	2,307
Change (%)	21	56	117	25	18	12	(5)	11
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%	20%	19%
ROCE	27%	36%	43%	38%	37%	29%	19%	18%
Asset Turnover	1.28	1.36	1.25	1.00	0.94	0.86	0.72	0.68
Debtor Days	27	23	2	3	3	3	5	5
Inv Days	28	27	18	17	16	24	25	25
Payable Days	64	63	43	40	48	46	44	44
Int Coverage	74	92	733	567	484	355	127	170
P/E	34	66	39	41	39	25	27	24
Price / Book Value	7	16	14	13	11	6	5	4
EV/EBITDA	18	36	31	31	28	19	23	21
FCF per Share	252	177	5	6	34	263	304	353
Div Yield	0.6%	0.3%	0.5%	0.4%	0.4%	0.5%	0.5%	0.5%

Cash Flow Statement

Conso./Fig in Rs Cr

Y/E March	CY13	CY14	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	671	993	1,338	2,387	2,896	3,280	2,524	2,813
(inc)/Dec in Working Capital	718	1,126	1,719	2,196	2,851	2,937	3,017	3,414
Non Cash Op Exp	130	220	137	154	223	300	367	384
Int Paid (+)	8	10	2	4	5	7	16	13
Tax Paid	(150)	(281)	(519)	(652)	(807)	(908)	(552)	(709)
others	(659)	(1,020)	(1,214)	(2,381)	(2,686)	(4,043)	(2,948)	(3,151)
CF from Op. Activities	716	1,047	1,463	1,708	2,482	1,573	2,424	2,764
(inc)/Dec in FA & CWIP	(712)	(972)	(510)	(548)	(749)	(789)	(794)	(500)
Free Cashflow	4	76	953	1,160	1,734	784	1,630	2,264
(Pur)/Sale of Inv	(187)	(92)	422	-	-	-	22	(140)
others	109	(24)	(914)	(1,196)	(1,397)	132	(1,096)	(1,495)
CF from Inv. Activities	(790)	(1,087)	(1,001)	(1,744)	(2,145)	(657)	(1,868)	(2,135)
inc/(dec) in NW	300	460	1,137	1,692	1,685	1,889	1,671	1,851
inc/(dec) in Debt	62	(26)	-	389	495	369	(28)	(24)
Int. Paid	(8)	(10)	(2)	(2)	(3)	(5)	(16)	(13)
Div Paid (inc tax)	(102)	(135)	(468)	-	(317)	(348)	(411)	(456)
others	(299)	(453)	(1,132)	(2,054)	(2,122)	(2,197)	(1,671)	(1,851)
CF from Fin. Activities	(47)	(162)	(466)	25	(262)	(292)	(455)	(493)
Inc(Dec) in Cash	(121)	(202)	(4)	(10)	75	623	100	136
Add: Opening Balance	804	683	17	28	17	92	727	827
Closing Balance	683	481	13	17	92	716	827	963

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