

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

Robust store additions & new launches to drive sales in 2HFY21

RATING	BUY
CMP	16861
Price Target	19353
Potential Upside	15%

Rating Change	
Estimate Change	
Target Change	

STOCK INFO	
52wk Range H/L	23427/12460
Mkt Capital (Rs Cr)	46038
Free float (%)	49%
Avg. Vol 1M (,000)	291
No. of Shares (Crs)	3
Promoters Pledged %	0%

RESEARCH ANALYST

NAVEEN KUMAR DUBEY

Naveen.dubey@narnolia.com
 +91-22-62701235

4QFY20 Result update

- EICHERMOT revenue declined by 12%YoY to Rs.2208 crores (vs our estimates of Rs.2144 crores) during the quarter. It was largely driven by 17% YoY decline in volumes due to slowdown in domestic market while realization improved by 5% YoY led by increasing BS-VI products and higher sales of 650 twins.
- EBITDA margin contracted sharply by 540 bps QoQ to 19.6% due to weaker operating leverage and increased BS-VI conversion cost coupled with foreign exchange fluctuation.
- PAT for the quarter stood at Rs.304 crores (vs our estimates of Rs.418 crores) with a decline of -44%YoY. PAT margin further contracted by 730 bps QoQ to 13.8% due to loss in VECV during the quarter.
- Currently there are 600 studio stores as of March 31, 2020. Total touch points stand in India at 1521 stores (921 dealerships and 600 studio stores).
- The company added 35 stores and entered in 3 new geographies (South Korea, Italy and Belgium) in FY20. The total store count stands at 77 and spread across 21 countries.
- VECV sold 11565 vehicles in 4QFY20, registering a decline of 45% YoY. VECV's revenue was Rs. 2101 crores down 25% YoY. EBITDA declined by 86% YoY to Rs. 38 crores while there was loss on PAT level of Rs. 26 crores.

View and Valuation

The company will continue to expand its distribution reach through studio stores despite slowdown in demand situation. The management remains optimistic about the growth prospects of premium segment motorcycles and hence will continue to launch one product every quarter for next 3 years (in mid-size motorcycles only). Though there could be some pressure on margins because of weaker operating leverage in FY21. The CV segment growth will be largely dependent scrappage policy. Factoring the sluggish demand and margin contraction due to low utilization levels, we reduce our FY21 PAT estimates by 25%. We value EICHERMOT at 23x FY22e EPS to arrive at a target price of Rs.19353 and maintain BUY.

Key Risks to our rating and target

- Prolonged softness in demand
- Increase in commodity prices

Conso./Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY18	FY19	FY20	FY21E	FY22E
Net Sales	8965	9797	9154	8318	10209
EBITDA	2808	2903	2180	1977	2763
EBIT	2584	2603	1799	1615	2397
PAT	1960	2203	1827	1565	2363
EPS (Rs)	719	808	670	574	867
EPS growth (%)	0	0	0	0	1
ROE (%)	0	0	0	0	0
ROCE (%)	0	0	0	0	0
BV	2579	3272	3662	4124	4820
P/B (X)	11	6	5	4	3
P/E (x)	39	25	25	29	19

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PAT above estimates

4QFY20 Results

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY %	QoQ %	FY19	FY20	YoY %
Volumes	196162	183589	166589	182791	162870	-17%	-11%	826098	695839	-15.8%
Realization	127,450	129,742	131,610	129,712	135,579	5%	5%	118,594	131,547	10.9%
Net Sales	2,500	2,382	2,192	2,371	2,208	-12%	-7%	9,797	9,154	-6.6%
Other Income	143	120	145	135	143	0%	6%	443	543	22.5%
Total Income	2,643	2,502	2,338	2,506	2,351	-11%	-6%	10,240	9,697	-5.3%
COGS	1,335	1,277	1,185	1,290	1,244	-7%	-4%	5,057	4,996	-1.2%
Staff Cost	171	212	186	185	214	25%	16%	702	796	13.3%
Other Exp.	310	279	280	304	319	3%	5%	1,134	1,182	4.2%
Expenditure	1,815	1,767	1,651	1,779	1,776	-2%	0%	6,894	6,973	1.1%
EBITDA	685	614	541	592	432	-37%	-27%	2,903	2,180	-24.9%
Depreciation	81	88	90	95	109	34%	14%	300	382	27.1%
EBIT	604	527	452	497	323	-46%	-35%	2,603	1,799	-30.9%
Interest	2	5	4	4	6	158%	30%	7	19	157.6%
PBT	744	643	592	628	461	-38%	-27%	3,039	2,323	-23.6%
Excpt. Item	-	-	-	-	-	-	-	-	-	-
Tax	275	212	28	145	143	-48%	-2%	1,077	527	-51.0%
PAT	545	452	573	499	304	-44%	-39%	2,203	1,827	-17.0%

Concall Highlights:

- The overall demand environment will continue to be uncertain for next couple of months.
- Royal Enfield will continue to be in the mid-size category for next 5-7 years as the management does not see any drastic shift towards 1000cc motorcycles.
- The company gained 200bps market share in above 125cc space and its market share stands at 27%.
- 85-90% dealerships are opened.
- On-line enquiries have started to pick up in last 2-3 months.
- The company took price increase of Rs.3000 per motorcycle but it is not sufficient to pass on the full impact of BS-VI.
- The plants are running at close to 40% utilization levels.
- The management will continue to add studio stores in FY21 as well (expected to add 500-600 stores in FY21). Currently has 600 studio stores as of March 31, 2020. Total touch points stand in India at 1521 stores (921 dealerships and 600 studio stores).
- There will be product launches (Royal Enfield) every quarter for next 3 years. There has been delay in 1QFY21 launch due to COVID-19. However further launches are expected to be scheduled on time.
- The product launches will be similar for India as well as overseas.
- There will be higher capex largely related to product and stores expansion in FY21, but then after there will be sharp decline in capex since FY22 onwards as majority of expenditure has already happened.
- The company added 35 stores and entered in 3 new geographies in FY20. The total store count stands at 77 and spread across 21 countries.
- The new geographies are South Korea, Italy and Belgium.
- **VECV**
 - The management does not see any meaningful demand in the commercial vehicle space in the near future. CV industry declined by 40%YoY in FY20.
 - VECV revenue declined by 35%YoY to Rs.2101 crores. While EBITDA margin declined by 430bps QoQ to 1.8% in 4QFY20.
 - Market share in Heavy duty segment stands at 5.9% whereas in Light and Medium duty segment stands at close to 30%.

Exhibit: RE Volume and Volume Growth Trend

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

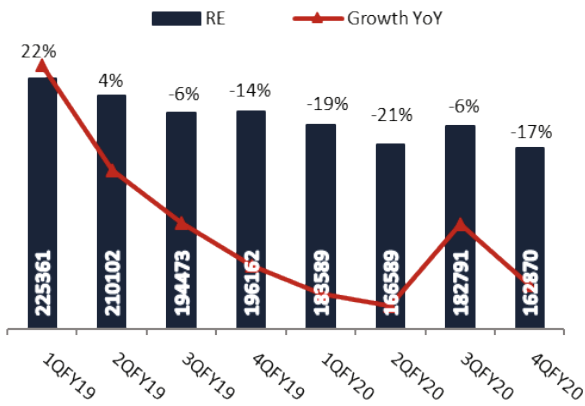


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

EBITDA margin declined by 540 bps QoQ to due to weaker operating leverage and increased BS-VI conversion cost.

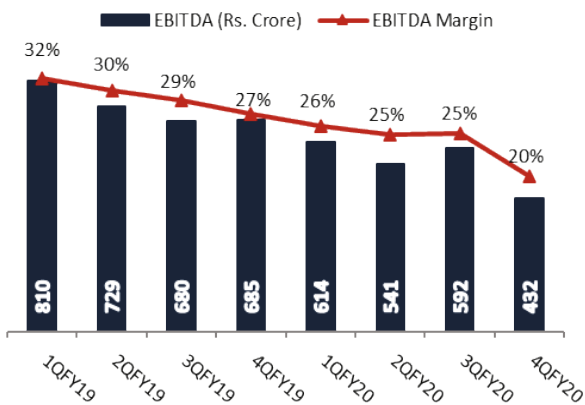


Exhibit: Commercial Vehicle Growth Trend

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

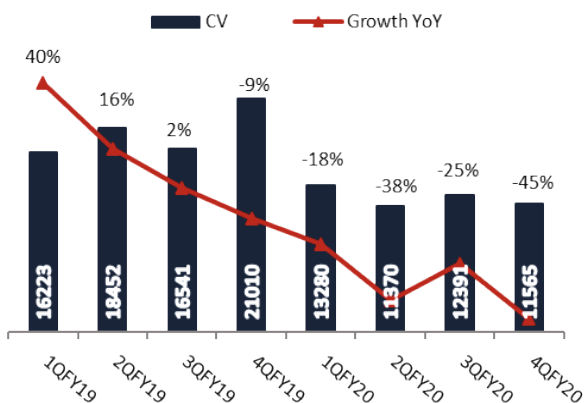


Exhibit: Realisation and Realisation Growth Trend

Realization improved by 5% YoY led by increasing BS-VI products and higher sales of 650 twins.

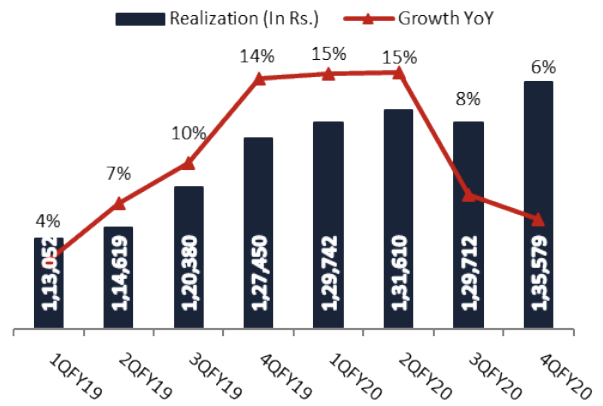


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

PAT margin further contracted by 730 bps QoQ to 13.8% due to loss in VECV during the quarter.

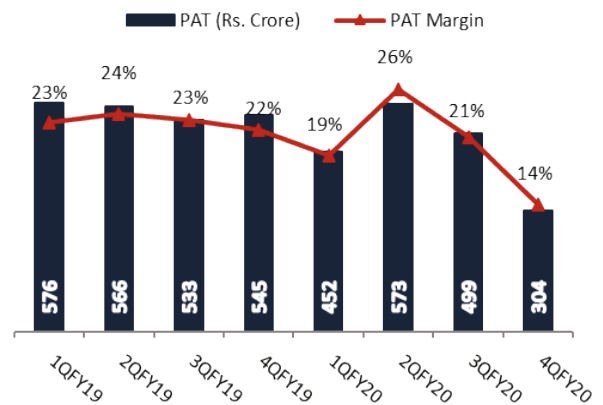
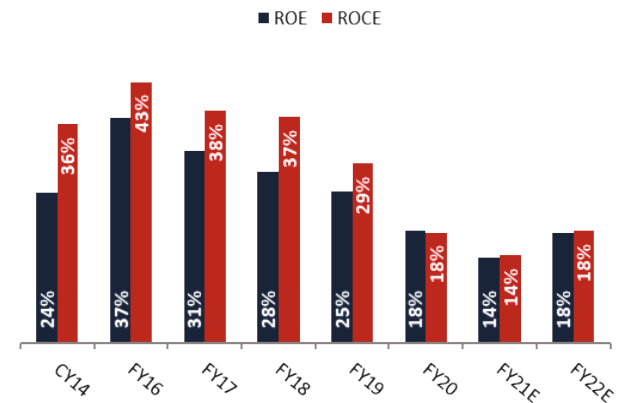


Exhibit: Return Ratios

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



Financial Details

Balance Sheet

Conso./Fig in Rs Cr

Y/E March	CY14	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Share Capital	27	27	27	27	27	27	27	27
Reserves	2,489	3,626	5,318	7,003	8,891	9,954	11,214	13,110
Networth	2,516	3,653	5,345	7,030	8,919	9,981	11,241	13,137
Debt	58	23	112	151	187	144	139	118
Other Non Cur Liab	329	81	134	227	370	444	310	311
Total Capital Employed	2,516	3,653	5,345	7,030	8,919	9,981	11,241	13,137
Net Fixed Assets (incl CWIP)	2,728	884	1,242	1,831	2,321	2,499	2,549	2,583
Non Cur Investments	161	2,801	2,358	3,183	2,510	1,344	3,423	5,248
Other Non Cur Asst	8	141	243	164	153	79	79	79
Non Curr Assets	3,374	3,890	5,628	6,987	6,977	6,075	8,017	9,875
Inventory	646	308	336	395	633	572	520	638
Debtors	562	33	50	68	90	87	79	97
Cash & Bank	481	49	25	1,212	2,965	2,951	3,570	3,632
Other Curr Assets	48	63	77	196	180	161	147	180
Curr Assets	3,033	1,049	1,381	2,535	4,410	6,375	5,058	5,333
Creditors	1,513	723	765	1,172	1,234	1,028	934	1,146
Provisions (both)	248	26	43	47	58	76	69	85
Other Curr Liab	658	350	430	617	315	138	125	154
Curr Liabilities	2,419	1,182	1,418	2,115	1,911	1,880	1,386	1,642
Net Curr Assets	614	(134)	(37)	421	2,499	4,494	3,673	3,691
Total Assets	6,408	4,939	7,009	9,522	11,387	12,450	13,075	15,208

Income Statement

Conso./Fig in Rs Cr

Y/E March	CY14	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenue from Operation	8,738	6,173	7,033	8,965	9,797	9,154	8,318	10,209
Change (%)	28	-29	14	8	12	(7)	(9)	23
Other Income	107	178	227	280	443	543	426	600
EBITDA	1,115	1,690	2,174	2,808	2,903	2,180	1,977	2,763
Change (%)	56	52	29	29	3	(25)	(9)	40
Margin (%)	13	27	31	31	30	23.8	23.8	27.1
Depr & Amor.	220	137	154	223	300	382	362	367
EBIT	895	1,553	2,020	2,584	2,603	1,799	1,615	2,397
Int. & other fin. Cost	10	2	4	5	7	19	16	14
EBT	993	1,729	2,244	2,859	3,039	2,323	2,025	2,983
Exp Item	-	-	46	220	-	-	-	-
Tax	291	539	720	936	1,077	527	510	709
Minority Int & P/L share of Ass.	(86)	148	189	257	241	32	50	89
Reported PAT	615	1,338	1,667	1,960	2,203	1,827	1,565	2,363
Adjusted PAT	615	1,338	1,667	1,960	2,203	1,827	1,565	2,363
Change (%)	56	117	25	18	12	(17)	(14)	51
Margin(%)	7	22	24	22	22	20.0	18.8	23.1

Financial Details

Key Ratios

Y/E March	CY14	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
ROE	24%	37%	31%	28%	25%	18%	14%	18%
ROCE	36%	43%	38%	37%	29%	18%	14%	18%
Asset Turnover	1.36	1.25	1.00	0.94	0.86	0.74	0.64	0.67
Debtor Days	23	2	3	3	3	3	3	3
Inv Days	27	18	17	16	24	23	23	23
Payable Days	63	43	40	48	46	41	41	41
Int Coverage	92	733	567	484	355	95	101	176
P/E	66	39	41	39	25	25	29	19
Price / Book Value	16	14	13	11	6	5	4	3
EV/EBITDA	36	31	31	28	19	21	23	17
FCF per Share	177	5	6	34	263	16	363	266
Div Yield	0.3%	0.5%	0.4%	0.4%	0.5%	0.6%	0.6%	0.6%

Cash Flow Statement

Conso./Fig in Rs Cr

Y/E March	CY14	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
PBT	993	1,338	2,387	2,896	3,280	2,355	2,025	2,983
(inc)/Dec in Working Capital	1,126	1,719	2,196	2,851	2,937	2,236	2,454	3,452
Non Cash Op Exp	220	137	154	223	300	382	362	367
Int Paid (+)	10	2	4	5	7	19	16	14
Tax Paid	(281)	(519)	(652)	(807)	(908)	(628)	(510)	(709)
others	(1,020)	(1,214)	(2,381)	(2,686)	(4,043)	(2,669)	(2,438)	(3,276)
CF from Op. Activities	1,047	1,463	1,708	2,482	1,573	1,694	1,908	2,831
(inc)/Dec in FA & CWIP	(972)	(510)	(548)	(749)	(789)	(546)	(413)	(400)
Free Cashflow	76	953	1,160	1,734	784	1,148	1,496	2,431
(Pur)/Sale of Inv	(92)	422	-	-	-	-	1,861	(43)
others	(24)	(914)	(1,196)	(1,397)	132	(963)	(2,079)	(1,825)
CF from Inv. Activities	(1,087)	(1,001)	(1,744)	(2,145)	(657)	(1,508)	(631)	(2,268)
inc/(dec) in NW	460	1,137	1,692	1,685	1,889	1,062	1,260	1,896
inc/(dec) in Debt	(26)	-	389	495	369	267	(5)	(21)
Int. Paid	(10)	(2)	(2)	(3)	(5)	(8)	(16)	(14)
Div Paid (inc tax)	(135)	(468)	-	(317)	(348)	(809)	(309)	(467)
others	(453)	(1,132)	(2,054)	(2,122)	(2,197)	(1,371)	(1,260)	(1,896)
CF from Fin. Activities	(162)	(466)	25	(262)	(292)	(858)	(331)	(501)
Inc(Dec) in Cash	(202)	(4)	(10)	75	623	(673)	947	62
Add: Opening Balance	683	17	28	17	92	716	43	662
Closing Balance	481	13	17	92	716	43	990	724

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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, AJC 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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