

## EICHERMOT HOLD

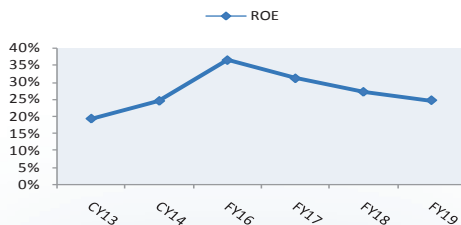
9-May-17

INDUSTRY - AUTOMOBILE  
BSE Code - 505200  
NSE Code - EICHERMOT  
NIFTY - 9314

### Company Data

CMP	26910
Target Price	28009
Previous Target Price	26600
Upside	4%
52wk Range H/L	26999/18006
Mkt Capital (Rs Cr)	73,224
Av. Volume (,000)	11

### RoE to maintain over 25%

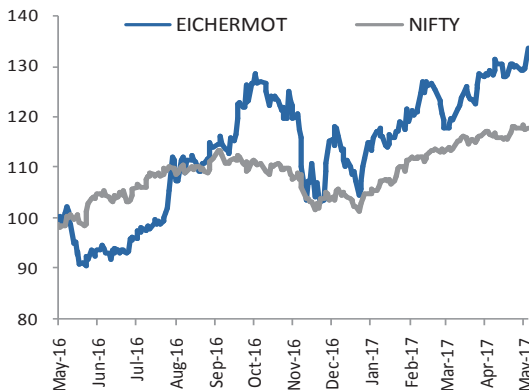


### Shareholding patterns %

	4QFY17	3QFY17	2QFY17
Promoters	50.6	50.6	50.6
Public	49.4	49.4	49.4
Total	100.0	100.0	100.0

### Stock Performance %

	1Mn	3Mn	1Yr
Absolute	4.4	12.7	33.1
Rel.to Nifty	3.1	6.5	12.7



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### Key Highlights of the Report:

- ✓ Eicher Motors has reported one of the best quarters in terms of volume and profitability. The company reported highest ever PAT of Rs.459 crore in 4QFY17.
- ✓ Despite pre-buying due to BS-IV transition in 3QFY17 the company posted healthy volume growth in April 2017.
- ✓ Eicher Motors volumes has grown at 42% CAGR over last 5 years well ahead of industry growth.
- ✓ Strong positioning in the commercial vehicle segment with the partnership of Volvo provided VECV technical edge over its peers in the domestic as well as in the export markets.
- ✓ Currently, the stock is trading at 8.0x FY19E P/BV. We maintain 'BUY' with the target price of Rs. 28009 .

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	8,738	6,173	7,033	7,923	8,915
EBITDA	1,115	1,690	2,174	2,448	2,902
EBIT	895	1,553	2,020	2,278	2,608
PAT	615	1,338	1,667	1,872	2,148
EPS (Rs)	227	493	613	688	790
EPS growth (%)	56%	117%	24%	12%	15%
ROE (%)	24%	37%	31%	27%	25%
ROCE (%)	36%	43%	38%	33%	30%
BV	928	1,345	1,964	2,532	3,202
P/B (X)	16	14	13	11	8
P/E (x)	66	39	41	39	34

### RECENT DEVELOPMENT: Commencement of Vallam Vadagal plant

- ✓ Earlier the company was facing capacity constraints because of huge demand for its classic models. But the management of the company took right decision to increase the capacity in phased manner and in-line with the demand.
- ✓ The Vallam Vadagal facility is likely to commence production from August 2017 and with this expansion total capacity for two wheelers will reach to 825000 units per annum in FY18.
- ✓ The company has target to take the production capacity to 900000 units per annum by FY2018-19. Eicher Motors has planned Rs.800 crore of capex in this regard in FY19.
- ✓ Besides that the company is also working on developing refreshed versions of popular models from its two technical centres situated in Chennai and UK. Significant part of capex will be spent on developing these models.

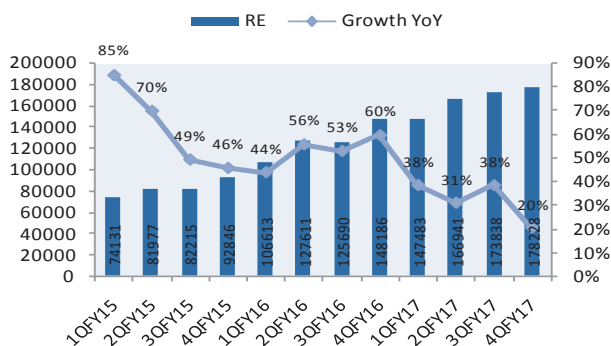
## Quarterly Performance

Financials	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY %	QoQ%	FY16	FY17	YoY %
Total Volumes ('000)	148	147	167	174	178	20%	3%	601	666	11%
Realization(Rs./ bike)	104258.2	105503.7	105121	105544.2	105935.1	2%	0%	102954	105526	2%
Net Sales	1,532	1,556	1,755	1,835	1,888	23%	3%	6,173	7,033	14%
Other Income	45	47	66	59	55	22%	-7%	178	227	28%
COGS	833	831	912	969	993	19%	2%	3,435	3,704	8%
Employee Cost	77	91	100	106	106	37%	0%	350	402	15%
Other Expenses	175	164	201	183	205	17%	12%	699	753	8%
EBITDA	447	470	542	577	585	31%	1%	1,690	2,174	29%
Depreciation	37	39	36	36	43	16%	21%	137	154	13%
Interest	1	1	1	1	1	91%	14%	2	4	68%
PBT	454	477	572	599	596	31%	-1%	1,729	2,244	30%
Tax	144	147	184	200	189	31%	-6%	539	720	34%
PAT	343	376	413	418	459	34%	10%	1,338	1,667	25%

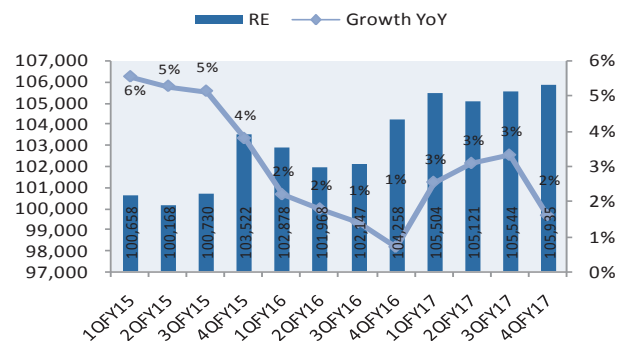
## Strong growth momentum maintained

- ✓ Net sales grew by 23%YoY to Rs.1888 crore which was in-line with our estimates (Rs.1915 crore). Volumes grew by 21%YoY and realization have also grown by 2%YoY.
- ✓ Higher sales of Classic 350 motorcycles led to this volume growth. These motorcycles have more than 2 months of waiting period in the domestic market. Export volumes have seen sharp increase of 41%YoY during the quarter. On the commercial vehicle front VECV reported volume growth of 20%YoY in 4QFY17. The growth was supported by higher sales of Medium and Heavy Commercial vehicles on the back of BS-IV transition.
- ✓ Reported EBITDA grew by 30.9%YoY to Rs.585 crore. Lower advertising and promotion expenses helped company to post 31% of EBITDA margin.
- ✓ Depreciation and Amortization expenses remain higher in the quarter due to operationalization of valam vadagal facility.
- ✓ PAT stood Rs.459 crore at a growth of 34%YoY due to higher other income.

## Royal Enfield volume trend



## Royal Enfield realization trend

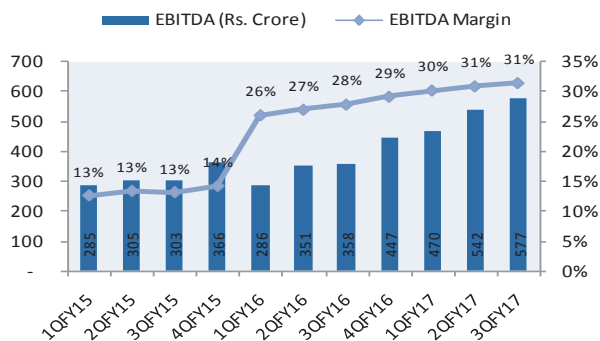


## Higher operating leverage leads to further margin expansion

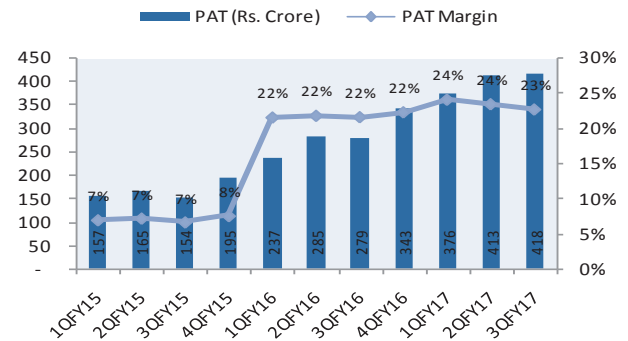
Margin %	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	46%	47%	48%	47%	47%	1.81%	0.00	44%	47%	0.03
EBITDA Margin	29%	30%	31%	31%	31%	1.81%	0.00	27%	31%	0.04
PAT Margin	22%	24%	24%	23%	24%	1.94%	0.02	22%	24%	0.02

- ✓ Gross Margin improved by 180 bps YoY to 47.4% on the back of lower commodity prices and higher realization during the quarter.
- ✓ The company has been taking the advantage of high operating leverage based on the higher volumes which led the EBITDA margin to 31% during the quarter up by 180 bps YoY.
- ✓ PAT margin increased by 190 bps owing to minimal finance cost and higher other income in the 4QFY17.

### EBITDA and EBITDA Margin trend



### PAT and PAT Margin trend



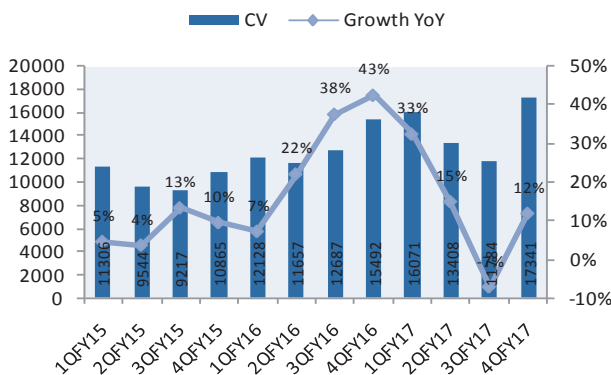
### Concall Highlights:

- ✓ The company has robust order book for classic 350 models
- ✓ Valam vadagal facility will start from August 2017 and the total capacity will reach to 825000 units p.a.
- ✓ Capex Rs.800 crore
- ✓ Waiting period of more than 2 months for classic 350
- ✓ Exports: RE sales is higher in developed markets than developing market. (UK, Germany, Italy and France has on around 40-60 dealers in each countries)
- ✓ The company has 1 store in Bangkok, 1 in Jakarta and 4 in Columbia.
- ✓ 22 new exclusive stores will be added in the international market.
- ✓ Currently the company has 675 dealers and the company does not have any plans for expanding through sub-dealers.
- ✓ The outlook for commercial vehicles can be subdued going ahead.
- ✓ Management expects that the rollout of GST on July 1 and it will benefit the consumers tax wise and so may incentivize them to buy more trucks.
- ✓ The company will come out with refresh versions of existing Royal Enfield models the current fiscal.
- ✓ Spare parts stands 5-6 percent of total revenue.
- ✓ On the BS-III inventory, the management has stated that the company has left with very minimal BS-III stocks which can be sold to export markets.

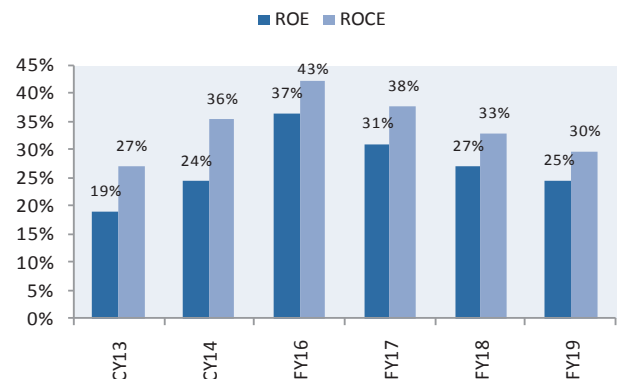
## Investment Arguments:

- ✓ **Focus to keep RE as a Premium brand-** Eicher Motors is catering niche segment in the Indian motorcycles market. In order to make it a global premium brand the management has complete focused approach to expand through exclusive dealers and stores. The company does not have any plan to expand through sub dealers strategy generally used by other two wheeler manufacturers.
- ✓ **Capacity addition in-line with demand-** Considering the 3 months waiting period the company increased the capacity from 720000 units to 825000 units per annum looking at the demand scenario. We expect that the Eicher Motors will enjoy the benefit of operating leverage with increasing volumes going ahead.
- ✓ **Expanding footprints in export markets-** RE has expanded its footprint in the exports by opening up stores in the various export markets like; Latin America, indonesia, bangkok and Madrid. The investments are becoming fruitful in terms of higher volumes from exports. The company has already more than 150 RE stores in UK, Germany, Italy and France. However considering the potential in the developing economies Royal Enfield has started looking for the big opportunity in the fast growing Brazilian market.
- ✓ **VECV prepared to take advantage of recovery in the commercial vehicles space-** Currently the CV segment is going through the pain of BS-IV transition from BS-III. GST roll out and monsoon will also keep the situation haizy for few months. However we are optimistic about the growth in the commercial vehicle space because of growing infrastructure activity in the country. The Govt. of India and SIAM is in talk to bring scrappage policy in the country, which will bring the huge demand for commercial vehicles in the country.

## VECV volume trend



## Growth in RE and VECV to drive ROE and ROCE



## View & Valuation

Eicher Motors is well placed in the domestic two wheeler industry. RE volumes have grown at a 42% CAGR over last 5 years. Management is expanding itself through only exclusive stores which reflect management's focused approach to make it a premium brand. Strong order book of classic 350 models and capacity addition in-line with demand will give further headroom for growth for RE. In the commercial vehicle space VECV has positioned itself as a third strong player after Tata Motors and Ashok Leyland. There are short term hiccups in the domestic market like GST and Monsoon which may slow down the overall trucking activity in the country, however, the long term growth story remains intact backed by strong infra-activity in the country and growing exports markets. We expect margins to expand by 160 bps to 32.5% in FY19. Currently, the stock is trading at 8.0x FY19E P/BV. Earlier we recommended this stock at Rs.24007 for a target price of Rs.26600 and the stock has achieved our recommended target, but considering the future growth potential, we upgrade our target to Rs. 28009 and maintain 'HOLD' rating on this stock.

## Financials Snap Shot

Income Statement				
	Rs in Crores			
Y/E March	FY16	FY17E	FY18E	FY19E
<b>Revenue from Operation</b>	6,173	7,033	7,923	8,915
Change (%)	-29%	14%	8%	12%
<i>Other Operating Income</i>				
EBITDA	1,690	2,174	2,448	2,902
Change (%)	52%	29%	13%	19%
<b>Margin (%)</b>	<b>27%</b>	<b>31%</b>	<b>31%</b>	<b>33%</b>
Dep & Amortization	137	154	169	294
EBIT	1,553	2,020	2,278	2,608
Interest & other finance cost	2	4	4	4
Other Income	178	227	270	349
EBT	1,729	2,244	2,545	2,953
Exceptional Item				
Tax	539	720	817	948
Minority Int & P/L share of Ass.	148	143	143	143
Reported PAT	1,338	1,667	1,872	2,148
<b>Adjusted PAT</b>	<b>1,338</b>	<b>1,667</b>	<b>1,872</b>	<b>2,148</b>
Change (%)	117%	25%	12%	15%
Margin(%)	22%	24%	24%	24%

Key Ratios				
Y/E March	FY16	FY17E	FY18E	FY19E
ROE	37%	31%	27%	25%
ROCE	43%	38%	33%	30%
Asset Turnover	1.2	1.0	0.9	0.8
Debtor Days	1.9	2.6	2.6	2.6
Inventory Days	18.2	17.4	17.4	17.4
Payable Days	42.8	43.2	43.2	43.2
Interest Coverage	732.6	567.5	589.4	702.3
P/E	38.9	40.7	39.1	34.1
Price / Book Value	14.2	12.7	10.6	8.4
EV/EBITDA	30.8	31.2	29.9	25.2
FCF per Share	217.7	6.4	18.5	20.9
Dividend Yield	0.5%	0.4%	0.4%	0.4%

## Assumptions

Y/E March	FY16	FY17E	FY18E	FY19E
Volume ('000)	600,946	666,490	747,887	833,191
Volume Growth	99%	11%	12%	11%
Realization(Rs./vehicle)	102,954	105,526	105,935	106,994
Realization Growth	3%	2%	0%	1%
Capex(Rs crore)	977	223	800	500

Balance Sheet				
	Rs in Crores			
Y/E March	FY16	FY17E	FY18E	FY19E
Share Capital	27	27	27	27
Reserves	3,626	5,318	6,863	8,685
<b>Networth</b>	<b>3,653</b>	<b>5,345</b>	<b>6,890</b>	<b>8,712</b>
Debt	22.57	44.4	44.4	44.4
Other Non Current Liab	81	144	85	85
Total Capital Employed	3,653	5,345	6,890	8,712
Net Fixed Assets (incl CWIP)	884	1,242	1,883	2,100
Non Current Investments	2,801	4,104	4,800	6,078
Other Non Current Assets	141	232	232	232
<b>Non Current Assets</b>	<b>3,890</b>	<b>5,610</b>	<b>6,947</b>	<b>8,442</b>
Inventory	308	336	378	426
Debtors	33	50	56	63
Cash & Bank	49	25	58	65
<b>Other Current Assets</b>	<b>63</b>	<b>77</b>	<b>87</b>	<b>98</b>
Current Assets	1,049	1,381	1,693	2,203
Creditors	723	833	938	1,055
Provisions	26	33	37	41
Other Current Liabilities	350	430	484	545
Curr Liabilities	1,182	1,457	1,621	1,804
<b>Net Current Assets</b>	<b>(134)</b>	<b>(76)</b>	<b>72</b>	<b>399</b>
Total Assets	4,939	6,991	8,640	10,645

Cash Flow Statement				
	Rs in Crores			
Y/E March	FY16	FY17E	FY18E	FY19E
PBT	2,099	2,244	2,545	2,953
(inc)/Dec in Working Capital	2,460	2,587	2,862	3,394
Non Cash Op Exp	452	154	169	294
Interest Paid (+)	9	4	4	4
Tax Paid	(634)	(720)	(817)	(948)
others				
<b>CF from Op. Activities</b>	<b>2,282</b>	<b>2,404</b>	<b>2,091</b>	<b>2,563</b>
(inc)/Dec in FA & CWIP	(1,070)	(512)	(810)	(510)
Free Cashflow	1,212	1,892	1,280	2,053
(Pur)/Sale of Investment	207	(301)	(220)	(438)
others	(869)	(1,303)	(696)	(1,278)
<b>CF from Inv. Activities</b>	<b>(1,481)</b>	<b>(2,116)</b>	<b>(1,727)</b>	<b>(2,226)</b>
inc/(dec) in NW	1,137	1,692	1,545	1,822
inc/(dec) in Debt	28	22	-	-
Interest Paid	(9)	(4)	(4)	(4)
Dividend Paid (inc tax)	(586)	(327)	(327)	(327)
others	5	-	-	-
<b>CF from Fin. Activities</b>	<b>(563)</b>	<b>(307)</b>	<b>(330)</b>	<b>(330)</b>
Inc/Dec) in Cash	238	(18)	33	7
Add: Opening Balance	353	36	17	50
Closing Balance	591	17	50	57