

Retail Equity Research

Eicher Motors Limited

Automobiles

BSE CODE: 505200 NSE CODE: EICHERMOT
Bloomberg CODE: EIM:IN SENSEX: 40,286

HOLD

12M Investment period Rating as per Large Cap
CMP Rs 21,569 TARGET Rs 22,736 RETURN 5% ↑
(Closing: 14-11-19)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Earnings continue to decline as demand slumps

Eicher Motors Limited (EML) manufactures motorcycles and accessories. The company owns the iconic Royal Enfield brand and also has a joint venture with AB Volvo – Volvo Eicher Commercial Vehicles (VECV).

- Revenue slumped 9.3% YoY to Rs. 2,172cr in Q2FY20 (Rs. 2,361cr in Q1FY20) due to weakening market demand.
- EBITDA margin declined 550bps YoY in Q2FY20 to 24.9% due to lower volumes and rise in costs.
- Adj. PAT improved 1.1% YoY to Rs. 573cr as reduced corporate tax came in as a lifeline for the company during the quarter.
- We decrease our FY20-21E revenue estimates by 1%-3% considering the decline in consumer demand but only marginally decrease our FY21E EPS estimates on adoption of lower corporate tax rate.
- VECV business declined owing to liquidity pressure and surplus freight capacity. Overall revenue was down ~32% while PAT declined ~90% YoY in Q2FY20
- We maintain our HOLD rating on the stock considering pressure on margins with a revised target price of Rs 22,736 based on SOTP.

Temid demand and increasing costs reduce margins

Q2FY20 was yet another quarter of reduced sales in the automobile industry. The company reported 9.3% YoY decline in Q2FY20 revenue to Rs. 2,172cr. Rising costs due to ABS implementation along with lower volumes has put pressure on margins. EBITDA declined 25.8% YoY in Q2FY20 to Rs. 541cr while EBITDA margin fell 552bps YoY to 24.9% in Q2FY20. Depreciation and amortization expenses were up 24.5% YoY pulling down the operating profit margin to 20.8% (down 664 bps YoY) in Q2FY20.

Volumes continue to stumble

Both the RE and VECV business showed weak volumes in Q2FY20. In the RE business, the domestic volumes were down 26.2% YoY to 151,446 units while the export volumes surged 160.9% YoY to 12,741 units. According to the company, American and European markets are showing good demand. Exports of Twins picked up thereby increasing the overall average selling price. VECV business was weak with the total volumes down by 39.2% YoY in Q2FY20 to 11,370 units while export volumes declined 58.2% YoY to 1,157 units in Q2FY20. Surplus freight capacity in the market along with liquidity squeeze has impacted new purchases in the market. Share of profit for Eicher from VECV business fell by 89.2% YoY to Rs. 8cr in Q2FY20.

Key concall highlights

- Company plans to expand aggressively through Studio stores in tier 2 and 3 cities. By the end of Q2FY20, company opened 500 stores
- BS-VI transition is in-line with company's expectations and the company would plan to decide on pricing strategy within the next few months
- Final phase of the Vallam plant has been completed
- Management mentioned that the VECV industry will take longer to recover
- Twins dominate the 500cc plus market in India and the company expects to gain from strong sales of twins coupled with pre-buying of BS-VI vehicles

Valuation

We have reduced our EBITDA margin due to rise in costs and slump in volumes and incorporated the lower tax rate leading to minimal changes to EPS. Hence, we reiterate our HOLD rating on the stock with a revised target price of Rs 22,736 based on SOTP.

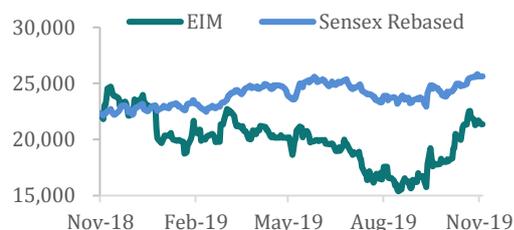
Company Data

Market Cap (cr)	Rs.58,885
Enterprise Value (cr)	Rs.54,749
Outstanding Shares (cr)	2.7
Free Float	49.0%
Dividend Yield	0.6%
52 week high	Rs.25,300
52 week low	Rs.15,197
6m average volume (k)	5.5
Beta	1.5
Face value	Rs.10

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	49.3	49.3	49.3
FII's	32.5	33.2	31.9
MFs/Insti	4.7	4.8	7.3
Public	9.9	9.5	9.1
Others	3.7	3.3	2.5
Total	100.0	100.0	100.0
Promoter's pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	30.2%	12.9%	-6.6%
Absolute Sensex	8.0%	8.0%	14.6%
Relative Return*	22.2%	4.9%	-21.2%

*over or under performance to benchmark index



Consolidated (cr)	FY19A	FY20E	FY21E
Sales	9,717	9,572	11,103
Growth (%)	5.9	-1.5	16.0
EBITDA	2,903	2,426	2,845
EBITDA Margin (%)	29.9	25.3	25.6
Adj. PAT	2,220	2,082	2,335
Growth (%)	1.9	-6.2	12.1
Adj. EPS	813.3	762.8	855.4
Growth (%)	1.8	-6.2	12.1
P/E	25.3	28.3	25.2
P/B	6.3	5.5	4.6
EV/EBITDA	18.4	22.6	18.6
ROE (%)	24.7	19.5	18.4
D/E	0.0	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Revenue	2,172	2,395	(9.3)	2,361	(8.0)	4,533	4,930	(8.0)
EBITDA	541	729	(25.8)	614	(11.9)	1,156	1,539	(24.9)
EBITDA margins	24.9	30.4	(552bps)	25.8	(86bps)	25.5	31.2	(572bps)
Depreciation	90	72	24.5	88	2.5	177	142	24.7
EBIT	452	657	(31.3)	527	(14.3)	978	1,397	(29.9)
Interest	4	2	148.3	5	(5.4)	9	3	174.6
Other Income	145	94	54.4	120	20.5	265	154	72.9
Exceptional Items	-	-	-	-	-	-	-	-
PBT	592	749	(21.0)	643	(7.8)	1,235	1,547	(20.2)
Tax	28	260	(89.3)	212	(86.9)	240	546	(56.1)
Share of profit from Associate	8	77	(89.2)	21	(60.2)	29	141	(79.4)
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	573	549	4.4	452	26.8	1,024	1,125	(8.9)
Adjustments	-	18	-	-	-	-	18	-
Adjusted PAT	573	566	1.1	452	26.8	1,024	1,143	(10.3)
No. of shares	2.7	2.7	-	2.7	-	2.7	2.7	-
EPS (Rs)	209.8	207.6	1.1	165.5	26.8	375.2	418.5	(10.4)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	9,912	11,200	9,572	11,103	(3.4)	(0.9)
EBITDA	2,675	3,032	2,426	2,845	(9.3)	(6.2)
Margins (%)	27.0	27.1	25.3	25.6	(170bps)	(150bps)
Adj. PAT	2,077	2,349	2,082	2,335	0.2	(0.6)
EPS	760.9	860.4	762.8	855.4	0.2	(0.6)

SOTP Valuation

Particulars	Basis	Multiple	% holding	Value (Rs. cr.)	Value/share (Rs.)
Standalone (Royal Enfield)	FY21E AEPS	27.0x	100%	60,643	22,213
VE Commercial Vehicle	FY21E AEPS	16.0x	54%	1,426	522
Total value				62,069	22,736

PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	7,909	9,175	9,717	9,572	11,103
% change	38.2	16.0	5.9	(1.5)	16.0
EBITDA	2,174	2,808	2,903	2,426	2,845
% change	48.9	29.1	3.4	(16.4)	17.3
Depreciation	154	223	300	348	395
EBIT	2,020	2,584	2,603	2,078	2,451
Interest	4	5	7	34	45
Other Income	371	537	702	632	715
PBT	2,387	3,116	3,297	2,676	3,121
% change	58.9	30.5	5.8	(18.9)	16.6
Tax	720	936	1,077	593	785
Tax Rate (%)	30.2	30.0	32.7	22.2	25.2
Reported PAT	1,667	1,960	2,203	2,082	2,335
Adj*	46	220	18	-	-
Adj PAT	1,713	2,180	2,220	2,082	2,335
% change	44.9	27.2	1.9	(6.2)	12.1
No. of shares (cr)	2.7	2.7	2.7	2.7	2.7
Adj EPS (Rs)	628.3	799.0	813.3	762.8	855.4
% change	44.7	27.2	1.8	(6.2)	12.1
DPS (Rs)	100.0	110.0	125.0	118.1	132.4
CEPS (Rs)	684.7	880.8	923.3	890.3	1000.0

CASH FLOW

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	1,821	2,183	2,503	2,431	2,730
Non-cash adj.	(177)	(31)	(731)	(74)	219
Changes in W.C	65	330	(199)	45	80
C.F. Operation	1,709	2,482	1,573	2,402	3,029
Capital exp.	(547)	(746)	(787)	(777)	(902)
Change in inv.	(1,211)	(1,466)	(25)	122	90
Other invest.CF	6	67	156	45	50
C.F - Investment	(1,752)	(2,145)	(657)	(610)	(761)
Issue of equity	6	19	36	-	-
Issue/repay debt	44	39	25	(12)	(15)
Dividends paid	-	(272)	(300)	(341)	(322)
Other finance.CF	(3)	(48)	(53)	(84)	(98)
C.F - Finance	47	(262)	(292)	(437)	(435)
Chg. in cash	4	75	623	1,355	1,832
Closing cash	25	1,212	2,965	4,320	6,152

BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	25	1,212	2,965	4,320	6,152
Accounts Receivable	50	68	90	91	111
Inventories	336	395	633	663	772
Other Cur. Assets	970	860	721	607	539
Investments	4,108	4,951	4,457	4,357	4,157
Gross Fixed Assets	1,223	2,052	2,509	3,286	4,188
Net Fixed Assets	835	1,459	1,692	2,220	2,710
CWIP	265	142	272	173	190
Intangible Assets	142	230	357	427	457
Def. Tax (Net)	-	18	18	23	27
Other Assets	260	186	180	185	189
Total Assets	6,991	9,522	11,387	13,067	15,209
Current Liabilities	1,457	2,114	1,911	1,864	2,103
Provisions	36	29	23	26	28
Debt Funds	52	160	197	185	170
Other Liabilities	101	189	337	288	236
Equity Capital	27	27	27	27	27
Reserves & Surplus	5,318	7,003	8,891	10,633	12,646
Shareholder's Fund	5,345	7,030	8,919	10,660	12,673
Minority Interest	-	-	-	-	-
Total Liabilities	6,991	9,522	11,387	13,067	15,209
BVPS (Rs)	1,960	2,577	3,267	3,905	4,642

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	27.5	30.6	29.9	25.3	25.6
EBIT margin (%)	25.5	28.2	26.8	21.7	22.1
Net profit mgn.(%)	21.1	21.4	22.7	21.8	21.0
ROE (%)	31.2	27.9	24.7	19.5	18.4
ROCE (%)	37.4	35.9	28.6	19.2	19.1
W.C & Liquidity					
Receivables (days)	2.3	2.7	3.4	3.5	3.7
Inventory (days)	26.6	29.4	45.7	46.0	46.4
Payables (days)	65.9	87.3	89.1	90.8	91.2
Current ratio (x)	0.9	1.1	2.1	2.8	3.3
Quick ratio (x)	0.6	0.8	1.7	2.3	2.9
Turnover & Leverage					
Gross asset T.O (x)	7.1	5.6	4.3	3.3	3.0
Total asset T.O (x)	1.3	1.1	0.9	0.8	0.8
Int. covge. ratio (x)	567.5	484.0	355.1	60.5	53.9
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	8.4	8.2	5.5	5.7	4.8
EV/EBITDA (x)	30.6	26.7	18.4	22.6	18.6
P/E (x)	38.8	34.9	25.3	28.3	25.2
P/BV (x)	12.4	10.8	6.3	5.5	4.6

Recommendation Summary



Dates	Rating	Target
18-Sep-19	HOLD	16,558
15-Nov-19	HOLD	22,736

Source: Bloomberg

Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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