

Eicher Motors

17 July 2018

Reuters: EICH.NS; Bloomberg: EIM IN

We had a meeting with the management of Eicher Motors (EML) recently. Following are the key takeaways:

Demand: The management expects demand to continue to remain strong going forward. Its bikes currently have a waiting period of one month across various motorcycle models. The Classic 350 Gun metal grey model has a waiting period of 35-45 days, while the Thunderbird Sport has a waiting period of 2.5 months.

Replacement cycle: For an average Royal Enfield bike, the replacement cycle is between five to seven years. The replacement cycle has not yet started as a major portion of Royal Enfield's motorcycle output was sold only in recent years and the initial volume was also very low. The company would like to see an organised market evolve for uptrading as it protects the value of the brand and the product. An average Royal Enfield motorcycle retains 70% of its three-year prior value.

New launch: The company will be launching two 650cc engine motorcycles - Interceptor and Continental GT - before the festive season this year.

Price hikes/vendor cost: The company went for a price hike of up to 1% in 4QFY18. It is also rationalising costs by means of better vendor negotiations owing to higher motorcycle production which translates into more business for the suppliers. Vendors are now co-locating their facilities in close proximity with the result that freight costs have reduced.

State-wise sales: States like Uttar Pradesh, Kerala, Tamil Nadu, Maharashtra and Karnataka contribute 40% to its total sales. The company has seen a sequential bounce-back in demand in Maharashtra in 1QFY19.

Capex: In FY19, capex is slated to be Rs8bn which will be incurred on increasing plant capacity from 800,000 units to 950,000 units.

Industry scenario: As per the management, the 250cc- 750cc segment is growing at a very fast pace as this space was not in existence until seven years ago. 35% of the buyers in this segment are existing buyers who own bikes in the less than 150cc engine segment. The average age of a Royal Enfield buyer is under 30 years.

Same-store sales growth (SSG): For the company, SSG is in low double digits. It has a total 830 outlets currently. It is adding 120 stores this year and a similar number next year.

Spare parts: Sales of spare parts account for 8% - 10% of the company's revenues. Spare parts have a big opportunity to grow as the bikes come out of their warranty period. Many bikes sold in recent years carry a warranty period of two years, implying that the opportunity is big.

Exports: The company sold 20,000 motorcycles in FY18 in export markets, or 3% in overall value terms and in volume terms at 2.5% of overall volume of 820,000 units. The company has 37 stores across 16 countries with a focus on South East Asia which has an annual motorcycle market base of 12mn units. Other markets where the company is focusing include Colombia and Brazil.

Outlook: We expect EML to report a strong 14% CAGR in Royal Enfield's volume over FY18-FY20E. We have a Buy rating on EML with a target price of Rs36,529 (35x FY20E EPS+Rs1,792 valuation for VECV business) from Rs36,271 earlier

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BUY

Sector: Automobiles

CMP: Rs27,424

Target price: Rs36,529

Upside: 33%

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Key Data

Current Shares O/S (mn)	27.3
Mkt Cap (Rsbn/US\$bn)	742.9/10.9
52 Wk H / L (Rs)	33,484/26,000
Daily Vol. (3M NSE Avg.)	39,147

Price Performance (%)

	1 M	6 M	1 Yr
Eicher Motors	(7.9)	(3.5)	(2.9)
Nifty Index	1.5	1.8	10.8

Source: Bloomberg

Y/E March (Rsmn)	FY16 (15months)	FY17	FY18	FY19E	FY20E
Net sales	61,862	70,380	89,575	1,07,749	1,23,701
EBITDA	17,082	22,058	28,532	35,029	39,295
Net profit	13,092	15,600	17,129	24,422	27,054
EPS (Rs)	482.0	573.3	628.4	895.9	992.5
EPS growth (%)	133.7	18.9	9.6	42.6	10.8
EBITDA margin (%)	27.6	31.3	31.9	32.5	31.8
P/E (x)	56.9	47.8	43.6	30.6	27.6
P/BV (x)	32.0	19.1	13.9	11.0	8.4
EV/EBITDA (x)	43.6	33.8	25.8	21.0	18.7
RoE (%)	46.6	39.8	37.7	35.8	34.4
RoCE (%)	45.3	38.4	36.2	34.8	33.6

Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 1: Income statement

Y/E March (Rsmn)	FY16*	FY17	FY18	FY19E	FY20E
Net sales	61,862	70,380	89,575	1,07,749	1,23,701
% growth	104.1	13.8	27.3	20.3	14.8
Raw material expenses	34,442	37,066	46,391	55,944	63,686
Staff costs	3,422	3,851	5,479	5,636	6,763
Other expenses	6,916	7,405	9,174	11,140	13,957
Total expenditure	44,780	48,322	61,043	72,720	84,406
EBITDA	17,082	22,058	28,532	35,029	39,295
% growth	132.9	29.1	29.3	22.8	12.2
EBITDA margin (%)	27.6	31.3	31.9	32.5	31.8
Other income	2,835	2,273	3,324	3,657	4,055
Interest costs	21	28	30	33	41
Gross profit	27,420	33,314	43,184	51,805	60,015
% growth	124.1	21.5	29.6	20.0	15.8
Depreciation	1,366	1,533	2,223	2,844	3,640
Profit before tax	18,530	22,770	29,603	35,809	39,669
% growth	132.2	22.9	30.0	21.0	10.8
Tax	5,438	7,170	9,354	11,387	12,615
Effective tax rate (%)	29.3	31.5	31.6	31.8	31.8
Net profit	13,092	15,600	17,129	24,422	27,054
% growth	134.2	19.2	29.8	20.6	10.8
EPS (Rs)	482.0	573.3	628.4	895.9	992.5
% growth	133.7	18.9	9.6	42.6	10.8
DPS (Rs)	149.9	100.0	110.0	179.2	198.5
Payout (%)	31.1	17.4	17.5	20.0	20.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Balance sheet

Y/E March (Rsmn)	FY16*	FY17	FY18	FY19E	FY20E
Equity	272	272	273	273	273
Reserves	23,093	38,954	53,450	67,859	88,690
Net worth	23,364	39,226	53,722	68,131	88,963
Net deferred tax liabilities	408	792	1,430	1,430	1,430
LT liabilities/provisions	451	664	848	664	664
Total loans	226	-	860	1,272	1,272
Liabilities	24,449	40,682	56,860	71,496	92,328
Gross block	10,596	12,818	21,317	29,317	38,317
Depreciation	2,711	4,159	6,383	9,295	12,935
Net block	7,885	8,658	14,934	20,022	25,382
Capital work-in-progress	945	3,738	3,332	3,332	3,332
Long-term investments	14,907	26,623	32,613	41,623	54,623
Other long-term assets	2,008	2,595	1,823	1,823	1,823
Inventories	3,004	3,225	3,792	4,409	5,062
Debtors	461	489	780	514	675
Current investments	5,829	8,836	6,334	7,834	12,684
Cash	445	206	12,088	11,907	11,626
Other current assets	755	848	2,250	3,142	3,368
Total current assets	10,494	13,604	25,244	27,807	33,415
Trade payables	7,213	8,319	11,705	11,854	13,644
Other current liabilities/provisions	4,577	6,217	9,382	11,257	12,603
Total current liabilities	11,790	14,537	21,087	23,111	26,247
Net current assets	(1,296)	(933)	4,158	4,696	7,168
Total assets	24,449	40,682	56,860	71,496	92,328

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Cash flow

Y/E March (Rsmn)	FY16*	FY17	FY18	FY19E	FY20E
EBIT	18,551	22,798	29,633	35,842	39,710
(Inc.)/dec. in working capital	2,556	1,862	5,149	1,193	2,097
Cash flow from operations	21,107	24,660	34,782	37,035	41,807
Other (income)/expense, net	(2,543)	(2,058)	(3,324)	(3,657)	(4,055)
Depreciation	1,366	1,533	2,223	2,844	3,640
Tax paid	(5,187)	(6,516)	(9,354)	(11,387)	(12,615)
Net cash from operations	14,743	17,619	24,328	24,835	28,777
Capital expenditure	(5,082)	(5,448)	(8,094)	(8,000)	(9,000)
Net cash after capex	9,661	12,171	16,234	16,835	19,777
Other investment activity	(5,091)	(9,030)	(1,840)	(11,592)	(13,795)
Cash from financial activity	(4,655)	(3,100)	(2,434)	(5,423)	(6,263)
Opening cash balance	171	86	128	12,088	11,908
Closing cash balance	86*	128*	12,088	11,908	11,626
Change in cash balance	(85)	41	11,960	(181)	(281)

Source: Company, Nirmal Bang Institutional Equities Research

*Excluding other bank balances

Exhibit 4: Key ratios

Y/E March	FY16*	FY17	FY18	FY19E	FY20E
Profitability & return ratios					
EBITDA margin (%)	27.6	31.3	31.9	32.5	31.8
EBIT margin (%)	30.0	32.4	33.1	33.3	32.1
Net profit margin (%)	21.2	22.2	22.6	22.7	21.9
RoE (%)	46.6	39.8	37.7	35.8	34.4
RoCE (%)	45.3	38.4	36.2	34.8	33.6
Working capital & liquidity ratios					
Receivables (days)	2	2	2	2	2
Inventory (days)	15	16	15	15	15
Payables (days)	49	59	60	59	59
Cash conversion cycle (WC days)	(33)	(40)	(44)	(42)	(42)
Current ratio (x)	0.9	0.9	1.2	1.1	1.2
Quick ratio (x)	0.6	0.7	1.0	1.0	1.0
Valuation ratios					
EV/Sales (x)	12.0	10.6	8.2	6.8	5.9
EV/EBITDA (x)	43.6	33.8	25.8	21.0	18.7
P/E (x)	56.9	47.8	43.6	30.6	27.6
P/BV (x)	32.0	19.1	13.9	11.0	8.4

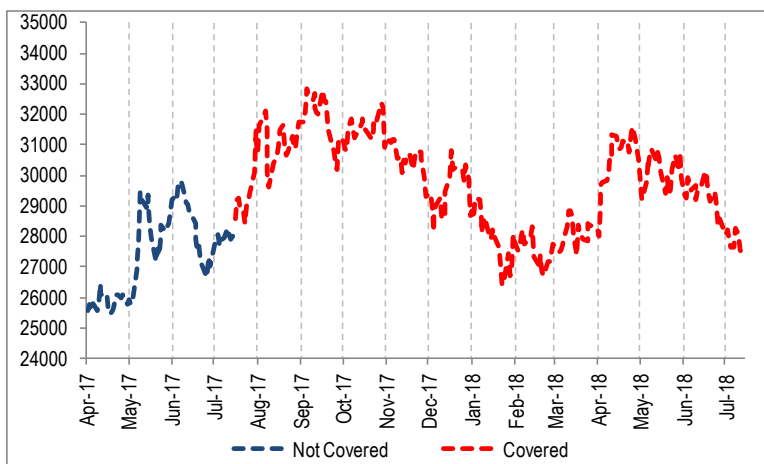
*Note: FY16 financials are for 15-month period

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
18 July 2017	Buy	28,059	32,566
10 August 2017	Accumulate	31,440	33,462
15 November 2017	Buy	30,090	35,375
8 February 2018	Buy	28,010	36,271
10 May 2018	Buy	30,316	36,529

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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