

Eicher Motors

10 August 2018

Reuters: EICH.NS; Bloomberg: EIM IN

In-line Quarter; Strong Outlook On The Back Of New Launches

Eicher Motors' (EML's) 1QFY19 earnings were in line with our expectation, with PAT at Rs5.9bn coming in 2% above our estimate. Net sales at Rs25.5bn grew by a strong 27% YoY on 22% YoY volume growth while EBITDA margin at 32.3% improved 90bps YoY and was broadly in line with our estimate. EML reported EBITDA of Rs8.2bn which grew in strong double digits because of YoY margin expansion, while PAT at Rs5.9bn grew 20% YoY and was 2% above our estimate. Realisation for the quarter grew by a strong 4% YoY and 1% QoQ, resulting in sales coming in 1% above our estimate. Improvement in realisation was on account of a stronger product mix comprising higher sales of premium models. The company, in the post-result conference call, stated that demand continues to remain strong with recent variants of its 350cc motorcycle and Thunderbird X driving good demand. Its Gunmetal Grey and Thunderbird X models constitute roughly 50% of its overall sales and the demand for these models has been stronger than the company's expectations. The management indicated that EML will continue to expand its dealer network and will be opening close to 100 new dealerships in India during FY19 taking the total dealer count to 950. While the current inventory at the plant and dealer level is 10-11 days, their recent monthly numbers were impacted because of the truckers' strike which impacted despatches. EML will launch new 650cc twin motorcycles by the year-end in a phased manner globally. We have broadly retained our estimates for FY19/FY20 factoring in 16%/12% YoY volume growth, respectively. We retain our Buy rating on the stock with a target price of Rs36,529 (35x FY20E EPS + Rs1,792 valuation for VE Commercial Vehicles business)

Increased capex for FY19 indicates strong demand: Royal Enfield closed FY18 with a sales volume of 820,493 units, reporting strong double-digit growth of 23% YoY. The company recently announced a capex of Rs8bn for FY19 to increase its production capacity from 825,000 units per annum to 950,000 units per annum. The company has just started construction of Phase-2 of its Vallam Vadagal plant in Tamil Nadu and production is expected to begin in November of the next financial year. EML, in the conference call, indicated that demand for recently launched variants of Royal Enfield motorcycle is strong and it expects the demand momentum to continue. Currently, the demand for motorcycles launched recently has been strong and there are supply constraints which EML expects to clear in two months. Further, the company indicated that it should be able to meet the demand for new vehicles. We have retained our estimates for FY19/FY20 factoring in 16%/12% YoY growth in volume, respectively.

VECV registers improvement in volume and margins: During the quarter, VECV's revenues stood at Rs26,090mn, up 45% YoY. EBITDA also grew in strong double digits and stood at Rs2,400mn (up 74% YoY) and PAT at Rs1,180mn (up 78% YoY). The company indicated that there has been a steady improvement in margins with the quarter's margins at 9.2% versus 8.3% earlier. As regards the new axle load norms, the company indicated that it is awaiting some clarity on the same, but overall the demand environment remains strong.

Outlook and valuation: We expect EML to report a strong 14% CAGR in Royal Enfield motorcycle volume over FY18-FY20E. We have retained Buy rating on EML and increased our target price on it to Rs36,529 (35x FY20E EPS+Rs1,792 valuation for VECV business).

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BUY

Sector: Automobiles

CMP: Rs27,439

Target Price: Rs36,529

Upside: 33%

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Key Data

Current Shares O/S (mn)	27.3
Mkt Cap (Rsbn/US\$bn)	747.4/10.9
52 Wk H / L (Rs)	33,484/26,000
Daily Vol. (3M NSE Avg.)	45,919

Price Performance (%)

	1 M	6 M	1 Yr
Eicher Motors	(0.8)	(1.2)	(13.0)
Nifty Index	5.7	9.7	15.8

Source: Bloomberg

Y/E March (Rmn)	1QFY18	4QFY18	1QFY19	YoY (%)	QoQ (%)
Net revenues	19,999	25,298	25,449	27.3	0.6
Raw material costs	10,591	12,989	13,097	23.7	0.8
Staff costs	1,160	1,436	1,653	42.5	15.1
Other expenses	1,971	2,703	2,477	25.7	(8.4)
Total expenditure	13,722	17,128	17,227	25.5	0.6
EBITDA	6,278	8,170	8,222	31.0	0.6
EBITDAM (%)	31.4	32.3	32.3	92	1
Depreciation	450	637	698	55.1	9.7
Interest costs	7	7	7	9.1	0.0
Other income	1,294	848	1,260	(2.7)	48.5
PBT	7,115	8,375	8,776	23.3	4.8
Tax	2,172	2,653	2,864	31.9	7.9
Net profit (Adj.)	4,943	5,721	5,912	19.6	3.3
NPM (%)	24.7	22.6	23.2	(149)	62
EPS (Rs)	182.4	211.1	218.2	19.6	3.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Key financials

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	47.9	43.7	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

Exhibit 2: SOTP valuation

(Rs)	FY20E
Royal Enfield's EPS (Rs/share)	992
P/E (x)	35
Royal Enfield- standalone	34,736
Eicher Motors' stake in VECV	
EPS @ 54.4% stake (Rs/share)	119
P/E (x)	15
VECV's share	1,792
Total	36,529

Source: Nirmal Bang Institutional Equities Research

Exhibit 3: Change in our estimates

(Rsmn)	New estimates		Old estimates		Change (%)	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Volume	9,55,390	10,71,534	9,55,390	10,71,534	-	-
Net sales	1,07,749	1,23,701	1,07,749	1,23,701	-	-
EBITDA	35,029	39,295	35,029	39,295	-	-
EBITDA margin (%)	32.5	31.8	32.5	31.8	-	-
PAT	24,422	27,054	24,422	27,054	-	-
EPS (Rs)	896	992	896	992	-	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Deviation of our estimates from actual performance in 1QFY19

(Rsmn)	Actual performance	Our estimate	Deviation
	1QFY19	1QFY19	%
Net sales	25,449	25,228	0.9
EBITDA	8,222	8,250	(0.3)
Net profit	5,912	5,773	2.4

Source: Nirmal Bang Institutional Equities Research

Key takeaways from post-result conference call

- The management expects domestic demand to continue to remain strong in 2HFY19. It stated that demand for its Gunmetal Grey Classic and Thunderbird motorcycle models has outstripped the company’s initial expectations as the same have been very well received by the market. Of its total outstanding order book, over 50% of the demand is for premium bikes. Barring a few states like Karnataka where the demand has been affected by the road tax situation over the past one year, the demand outlook across India looks good.
- While raw material expenses are on the rise, EML has not undertaken a price hike during the quarter and higher realisation was driven by a better product mix.
- Same-store sales (older than 24 months) growth for the quarter stood at 10% YoY, in line with the growth in 1QFY18. The management is targeting a faster-than-industry store growth going forward.
- VE Commercial Vehicles or VECV witnessed volume improvement during the quarter driven by sales of improved value trucks. A better product mix and a blended price hike of over 1.5% contributed to realisation jump of 12% YoY. The management feels that VECV is well placed to take advantage of the revised axle load norm owing to the superior quality of its heavy duty truck range (Pro 6000 and 8000 series) which have better road speed.
- EML’s international market expansion is happening at a controlled pace and the company is not keen to be highly aggressive in setting up new stores.
- EML has added 12 new stores in India, and the total dealership count now stands at 837. By the end of March 2019, the total number of stores is likely to be close to 950.
- EML currently has inventory days outstanding of 10-11 days and it was indicated that it has been able to convert bookings into deliveries in the same month.
- EML’s focus on digital marketing will continue going forward, while it will not be spending significantly on television and print advertising.

Exhibit 5: One-year forward P/E



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Financials

Exhibit 6: 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 8: 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 7: 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 9: 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	6.0
EV/EBITDA (x)	43.6	33.8	25.8	21.0	18.7
P/E (x)	56.9	47.9	43.7	30.6	27.6
P/BV (x)	32.0	19.1	13.9	11.0	8.4

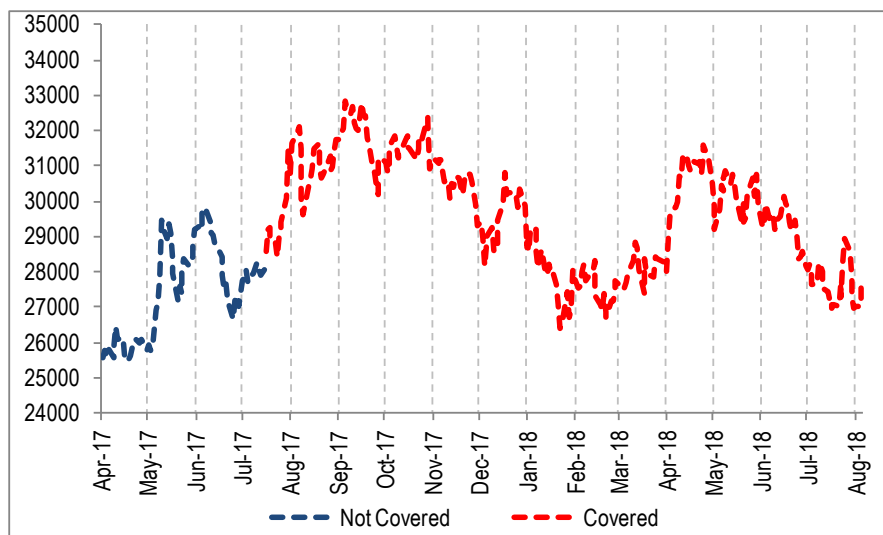
*Note: FY16 financials are for 15-month period

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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ACCUMULATE -5% to 15%

SELL < -5%

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