

SELL

TP: Rs 19,000 | ▼ 12%

EICHER MOTORS

| Auto Components

| 13 August 2020

Downtrading could dent volumes – cut to SELL

Eicher Motors (EIM) reported in-line Q1FY21 revenue but dismal operating margins at 0.2%, primarily due to higher input costs and lower operating efficiencies. Given the economic slowdown, we believe Royal Enfield sales could slow significantly as buyers either postpone purchases or downtrade to cheaper models. We now expect EIM to post a 6%/7%/8% CAGR in revenue/EBITDA/PAT for FY20-FY23. On rollover, our Sep'21 TP stays at Rs 19,000 though we downgrade the stock from REDUCE to SELL post the recent rally.

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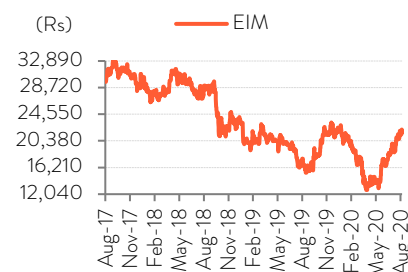
Disappointing Q1: EIM's standalone topline declined 67% YoY (in line with our estimate), led by a 69% YoY drop in quarterly volumes. Unlike peers, EIM reported a jump in input costs, thus shaving 540bps QoQ off gross margins. EBITDA at Rs 12mn (Rs 6.1bn in Q1FY20) came in much lower than estimates (Rs 1.5bn), primarily owing to higher input costs and lower operating efficiencies. Reported PAT declined 98% YoY to Rs 123mn.

Ticker/Price	EIM IN/Rs 21,673
Market cap	US\$ 7.8bn
Shares o/s	27mn
3M ADV	US\$ 67.8mn
52wk high/low	Rs 23,450/Rs 12,450
Promoter/FPI/DII	49%/32%/7%

Source: NSE

Covid-19 downtrading fears: Due to the significant dent in personal incomes of most salaried as well as self-employed people during the pandemic, we believe Royal Enfield (RE) could be one of the hardest hit companies. RE sales have dropped steadily over the last few quarters amid slower economic activity. We estimate that the company could witness an ~18% YoY volume decline in FY21.

STOCK PERFORMANCE



Source: NSE

Cut to SELL: We introduce FY23 estimates and now expect EIM to clock a revenue/EBITDA/PAT CAGR of 6%/7%/8% during FY20-FY23. Our SOTP-based TP of Rs 19,000 remains unchanged and is based on Rs 17,700 for RE (21x Sep'22E P/E) and Rs 1,300 for VECV. We, however, downgrade our rating to SELL given the recent rally in stock price which has taken valuations to an expensive 27x FY22E EPS.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	97,945	90,775	78,483	99,094	108,390
EBITDA (Rs mn)	29,269	22,038	18,240	24,676	27,024
Adj. net profit (Rs mn)	20,544	21,234	16,631	24,636	27,122
Adj. EPS (Rs)	758.3	697.9	521.1	805.7	887.1
Adj. EPS growth (%)	20.7	(8.0)	(25.3)	54.6	10.1
Adj. ROAE (%)	28.8	24.5	16.8	21.0	19.7
Adj. P/E (x)	28.6	31.1	41.6	26.9	24.4
EV/EBITDA (x)	19.5	24.9	30.7	23.3	21.0

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE – STANDALONE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Volume	57,269	183,589	(68.8)	162,870	(64.8)
Avg. Realisation per Vehicle (Rs)	134,315	114,423	17.4	133,818	0.4
Net Revenues	7,692	23,526	(67.3)	21,795	(64.7)
Operating Expenses:					
Raw materials consumed	4,759	12,725	(62.6)	12,310	(61.3)
Employee Expenses	1,693	2,041	(17.1)	2,051	(17.5)
Other Expenses	1,228	2,667	(53.9)	2,902	(57.7)
Total Expenditure (B)	7,680	17,433	(55.9)	17,263	(55.5)
EBITDA (A-B)	12	6,093	(99.8)	4,533	(99.7)
Other Income	1,153	1,884	(38.8)	1,462	(21.2)
Depreciation	971	868	11.9	1,079	(10.0)
EBIT	194	7,109	(97.3)	4,915	(96.1)
Finance Costs	30	29	2.0	25	21.5
PBT after excep items	164	7,079	(97.7)	4,891	(96.7)
Tax expense	40	2,097	(98.1)	1,429	(97.2)
Reported PAT	123	4,982	(97.5)	3,462	(96.4)
Adj EPS (Rs)	4.5	182.8	(97.5)	127.0	(96.4)

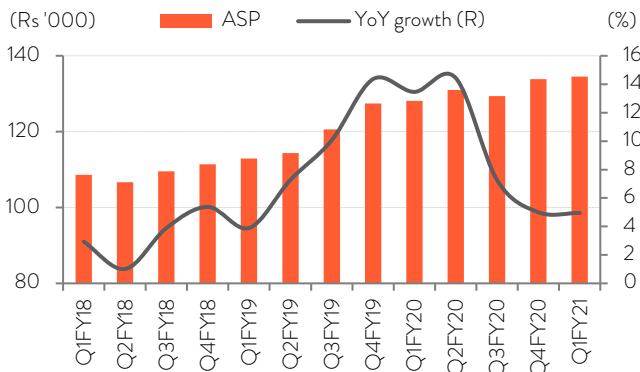
Source: Company, BOBCAPS Research

FIG 2 – KEY PARAMETERS

(%)	Q1FY21	Q1FY20	YoY (bps)	Q4FY20	QoQ (bps)
Gross margin	38.1	45.9	(778)	44	(539)
EBITDA margin	0.2	25.9	(2,574)	21	(2,064)
EBIT margin	2.5	30.2	(2,770)	23	(2,003)
PBT margin	2.1	30.1	(2,796)	22	(2,031)
Tax rate	24.7	29.6	(494)	29	(454)
Adj PAT margin	1.6	21.2	(1,958)	16	(1,428)

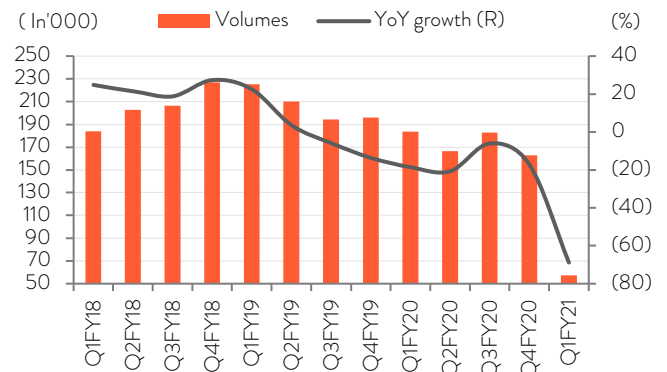
Source: Company, BOBCAPS Research

FIG 3 – AVERAGE SELLING PRICE (ASP) – RE



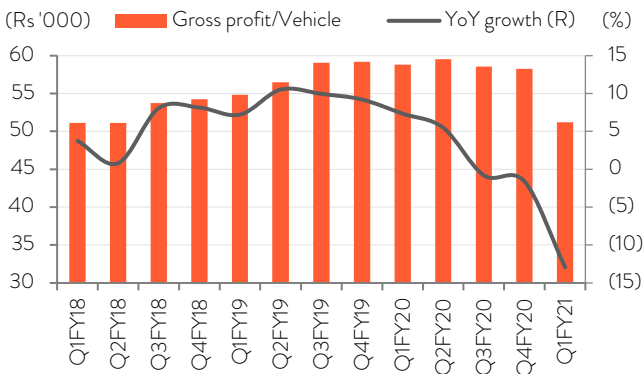
Source: Company, BOBCAPS Research

FIG 4 – VOLUME GROWTH TREND – RE



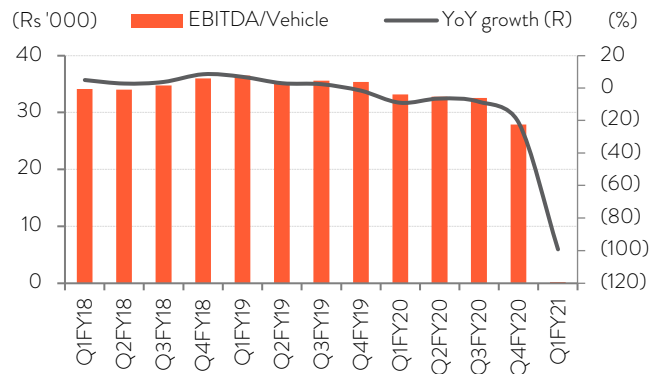
Source: Company, BOBCAPS Research

FIG 5 – GROSS PROFIT/VEHICLE – RE



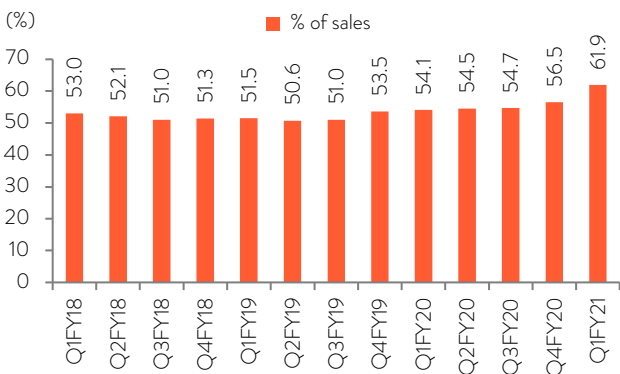
Source: Company, BOBCAPS Research

FIG 6 – EBITDA/VEHICLE – RE



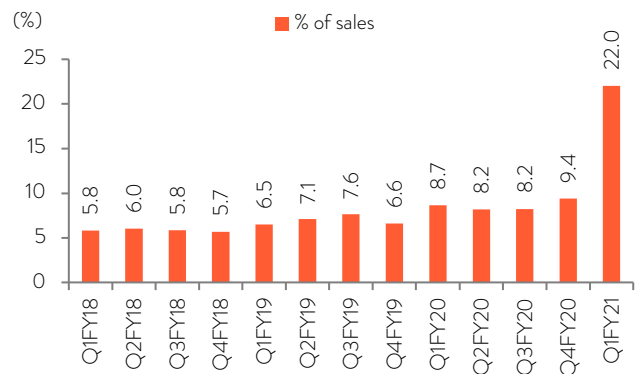
Source: Company, BOBCAPS Research

FIG 7 – RM COST/SALES TREND – RE



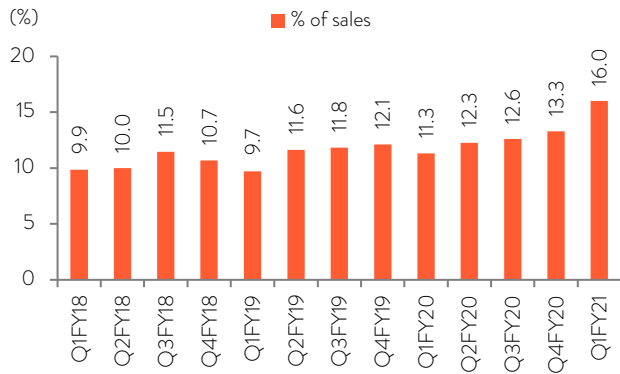
Source: Company, BOBCAPS Research

FIG 8 – EMPLOYEE COST/SALES TREND – RE



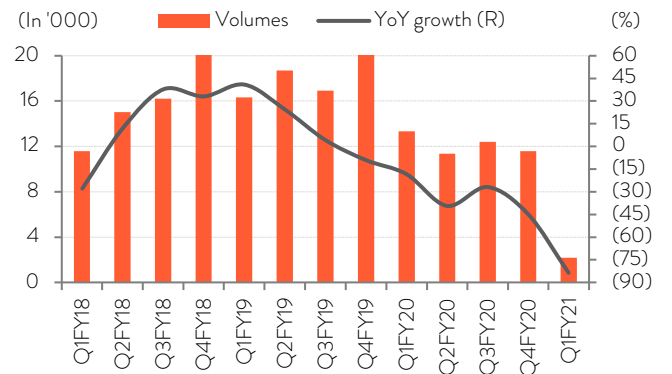
Source: Company, BOBCAPS Research

FIG 9 – OTHER EXPENSES/SALES TREND – RE



Source: Company, BOBCAPS Research

FIG 10 – VOLUME GROWTH TREND – VECV



Source: Company, BOBCAPS Research

Earnings call highlights

- Royal Enfield's (RE) current order backlog stands at 40-50k units and has been increasing largely since June.
- Bookings per day at dealers have returned to pre-Covid levels and the company is confident that demand is sustainable. Smaller cities and towns are showing better traction compared to metros.
- RE is currently facing supply-side issues and is thus not able to meet demand.
- Inventory stands low at one week (10k units) against the normal three weeks.
- On the exports front, RE is seeing good traction in US and European countries and the focus remains on expanding network in these regions. In the US, RE currently has over 100 dealers. The company's long-term goal is to derive ~20% of volume sales from export markets.
- Due to the Covid-19 crisis, model launches have been postponed by 3-6 months. The company aims to launch a new variant/model every quarter going ahead.

Valuation methodology

We introduce FY23 estimates and now expect EIM to clock a revenue/EBITDA/PAT CAGR of 6%/7%/8% during FY20-FY23. On rolling valuations forward, our Sep'21 SOTP-based target price of Rs 19,000 remains unchanged and is based on Rs 17,700 for RE (21x Sep'22E P/E) and Rs 1,300 for VECV. We, however, downgrade our rating from REDUCE to SELL given the recent rally in stock price which has taken valuations to an expensive 27x FY22E EPS.

FIG 11 – REVISED ESTIMATES

Change (%)	FY21E	FY22E
Volume	(0.6)	2.6
Income	(1.6)	1.7
EBITDA	(1.4)	2.3
EBITDA Margin (bps)	0.2	0.6
Profit	(11.9)	1.7
EPS	(11.9)	1.7

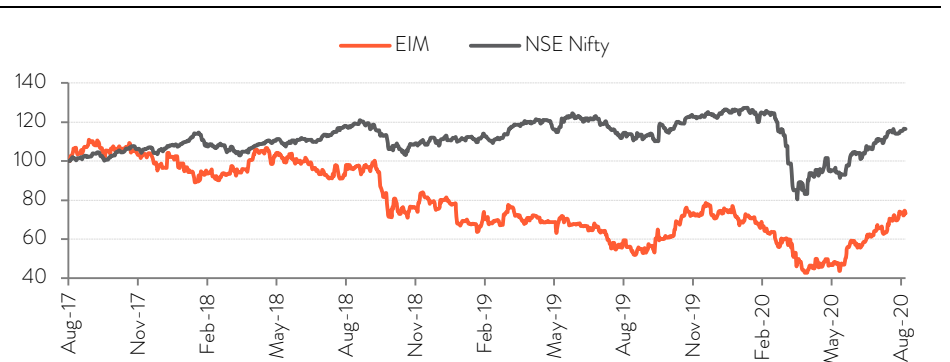
Source: BOBCAPS Research

FIG 12 – SOTP VALUATION

Business	Fair value (Rs/Share)	Comments
RE- Standalone	17,700	21x one-yr fwd EPS
VECV	1,300	
Target price	19,000	

Source: BOBCAPS Research

FIG 13 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Better-than-expected demand could pose upside risks to our estimates.
- Higher and easy availability of financing could reduce the initial cost burden and can help sales inch up.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	97,945	90,775	78,483	99,094	108,390
EBITDA	29,269	22,038	18,240	24,676	27,024
Depreciation	2,989	3,779	4,549	5,389	6,313
EBIT	31,360	24,412	19,134	29,503	32,472
Net interest income/(expenses)	(30)	(109)	(130)	(120)	(120)
Other income/(expenses)	5,080	6,153	5,442	10,215	11,760
Exceptional items	141	0	0	0	0
EBT	31,471	24,303	19,004	29,383	32,352
Income taxes	10,785	5,265	4,789	7,404	8,153
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	2,584	2,196	2,416	2,658	2,923
Reported net profit	23,269	21,234	16,631	24,636	27,122
Adjustments	(141)	0	0	0	0
Adjusted net profit	20,544	21,234	16,631	24,636	27,122

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	11,807	11,467	10,791	11,903	13,020
Other current liabilities	5,222	6,779	5,679	6,445	7,135
Provisions	1,991	1,000	1,000	1,000	1,000
Debt funds	764	764	764	764	764
Other liabilities	961	961	961	961	961
Equity capital	273	273	273	273	273
Reserves & surplus	70,992	86,483	98,516	116,948	137,600
Shareholders' fund	71,265	86,756	98,789	117,220	137,873
Total liabilities and equities	92,009	107,727	117,984	138,294	160,753
Cash and cash eq.	29,401	16,385	13,723	15,306	15,500
Accounts receivables	1,127	1,089	1,177	1,189	1,301
Inventories	6,053	4,539	6,279	5,946	6,503
Other current assets	2,525	2,087	1,927	2,363	2,772
Investments	30,465	55,465	65,465	80,465	100,465
Net fixed assets	18,708	24,929	26,381	29,992	31,179
CWIP	4,497	4,000	3,800	3,800	3,800
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(2,765)	(2,765)	(2,765)	(2,765)	(2,765)
Other assets	1,998	1,998	1,998	1,998	1,998
Total assets	92,009	107,727	117,984	138,294	160,753

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	23,534	25,013	21,179	30,025	33,435
Interest expenses	30	109	130	120	(120)
Non-cash adjustments	(5,080)	(6,153)	(5,442)	(10,215)	(11,760)
Changes in working capital	(4,763)	2,216	(3,443)	1,763	728
Other operating cash flows	(632)	0	0	0	0
Cash flow from operations	13,088	21,185	12,424	21,693	22,283
Capital expenditures	(7,890)	(9,503)	(5,800)	(9,000)	(7,500)
Change in investments	8,195	(25,000)	(10,000)	(15,000)	(20,000)
Other investing cash flows	5,080	6,153	5,442	10,215	11,760
Cash flow from investing	5,385	(28,350)	(10,358)	(13,785)	(15,740)
Equities issued/Others	548	0	0	0	0
Debt raised/repaid	(96)	0	0	0	0
Interest expenses	(30)	(109)	(130)	(120)	(120)
Dividends paid	(2,999)	(3,546)	(2,182)	(3,546)	(3,546)
Other financing cash flows	1,335	0	0	0	0
Cash flow from financing	(1,242)	(3,655)	(2,312)	(3,666)	(3,666)
Changes in cash and cash eq.	17,231	(10,820)	(246)	4,242	2,877
Closing cash and cash eq.	29,401	16,385	13,723	15,306	15,500

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	758.3	697.9	521.1	805.7	887.1
Adjusted EPS	758.3	697.9	521.1	805.7	887.1
Dividend per share	109.9	130.0	80.0	130.0	130.0
Book value per share	2,612.3	3,180.2	3,621.3	4,296.9	5,054.0

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	5.8	6.0	7.1	5.8	5.2
EV/EBITDA	19.5	24.9	30.7	23.3	21.0
Adjusted P/E	28.6	31.1	41.6	26.9	24.4
P/BV	8.3	6.8	6.0	5.0	4.3

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	65.7	78.3	74.8	74.8	74.8
Interest burden (PBT/EBIT)	100.4	99.6	99.3	99.6	99.6
EBIT margin (EBIT/Revenue)	32.0	26.9	24.4	29.8	30.0
Asset turnover (Revenue/Avg TA)	152.5	112.4	83.1	90.3	83.8
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	33.1	24.1	15.3	20.3	19.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	9.3	(7.3)	(13.5)	26.3	9.4
EBITDA	2.6	(24.7)	(17.2)	35.3	9.5
Adjusted EPS	20.7	(8.0)	(25.3)	54.6	10.1
Profitability & Return ratios (%)					
EBITDA margin	29.9	24.3	23.2	24.9	24.9
EBIT margin	32.0	26.9	24.4	29.8	30.0
Adjusted profit margin	21.0	23.4	21.2	24.9	25.0
Adjusted ROAE	28.8	24.5	16.8	21.0	19.7
ROCE	32.1	23.7	15.1	20.1	18.8
Working capital days (days)					
Receivables	4	4	5	4	4
Inventory	18	21	25	23	21
Payables	83	85	94	77	77
Ratios (x)					
Gross asset turnover	0.3	0.4	0.6	0.5	0.6
Current ratio	2.1	1.3	1.3	1.3	1.2
Net interest coverage ratio	1,048.8	224.0	147.2	245.9	270.6
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

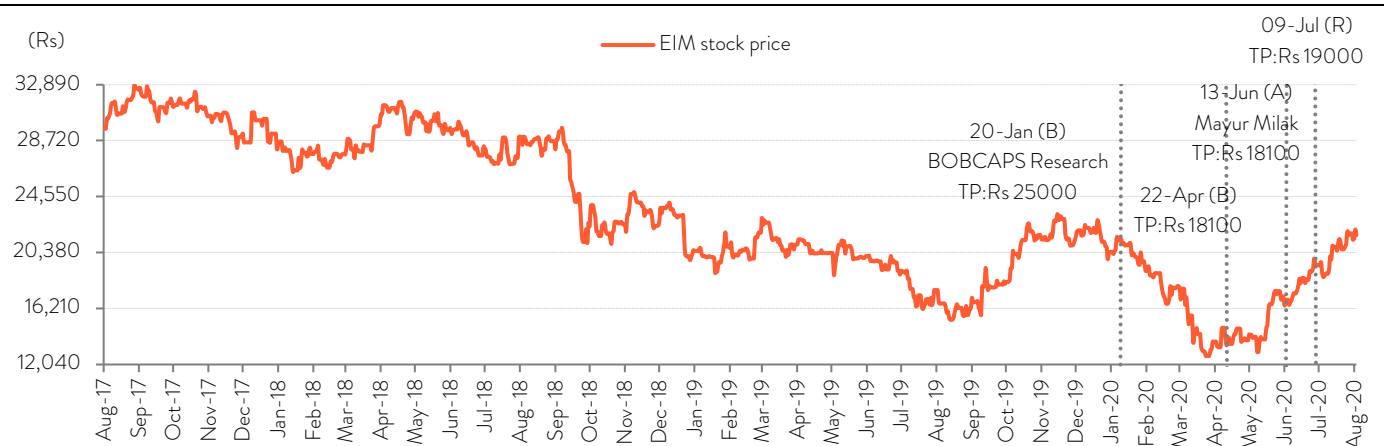
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: EICHER MOTORS (EIM IN)



B – Buy, A – Add, R – Reduce, S – Sell

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