

BUY

TP: Rs 25,000 | ▲ 23%

EICHER MOTORS

| Auto Components

| 07 February 2020

Steady operational performance

Eicher Motors' (EIM) consolidated Q3FY20 EBITDA at Rs 5.9bn (-14% YoY) was in line with estimates. Royal Enfield's (RE) performance was steady despite the tough demand environment and its proactive efforts to transition to BS-VI. Modest inventory and palatable BS-VI price hikes bode well for EIM amid likely cyclical recovery from H2FY21. Transition to new emission norms should aid market share gains for the VECV business given its edge as a long-time supplier of Euro-VI engines to Volvo. Retain BUY.

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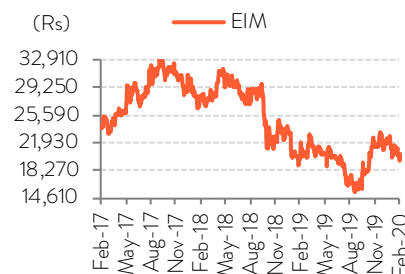
Steady Q3: Standalone topline inched up 1% YoY as a 6% drop in volumes was offset by a 7% rise in ASP. EBITDA at Rs 5.95bn (-14% YoY) was largely in line with estimates. RE's Q3 performance partly assuages concerns over the adverse effect of low-priced models on margins. VECV was weak but met our subdued expectations, with topline/EBITDA/PAT down 23%/28%/61% YoY.

Ticker/Price	EIM IN/Rs 20,391
Market cap	US\$ 7.8bn
Shares o/s	27mn
3M ADV	US\$ 42.6mn
52wk high/low	Rs 23,450/Rs 15,200
Promoter/FPI/DII	49%/32%/7%

Source: NSE

Focus on volumes and EBITDA/vehicle: RE has been proactive in BS-VI transition efforts which has helped it bring down BS-IV inventory to ~10days; overall inventory stands at two weeks. The company is rapidly expanding its studio store count from 500 stores as at end-Q3 to 750 stores by end-FY20. Attractive pricing of de-contented models has aided higher footfalls and led to a positive rub-off effect on the balance portfolio. RE reckons that the BS-VI led price hike has been accepted by customers and with pass-through of cost on a portfolio basis, the focus is on maintaining steady EBITDA/vehicle.

STOCK PERFORMANCE



Source: NSE

Maintain BUY: EIM remains our top pick in the auto space given its long runway for growth. We retain our estimates and SOTP-based TP of Rs 25,000 based on Rs 23,500 for RE (24x FY22E P/E) and Rs 1,500 for VECV.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	89,650	97,971	96,026	112,737	127,776
EBITDA (Rs mn)	28,076	29,031	23,957	27,194	31,591
Adj. net profit (Rs mn)	21,797	22,203	20,816	23,372	27,868
Adj. EPS (Rs)	799.6	813.9	763.1	856.7	1,021.6
Adj. EPS growth (%)	27.0	1.8	(6.2)	12.3	19.2
Adj. ROAE (%)	31.0	24.9	19.6	18.7	18.9
Adj. P/E (x)	25.5	25.1	26.7	23.8	20.0
EV/EBITDA (x)	18.9	17.8	21.0	18.1	15.2

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE – STANDALONE

Y/E Mar (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Net Revenues	23,635	23,459	0.8	21,819	8.3	68,980	72,949	(5.4)
Raw Materials	12,926	11,972	8.0	11,896	8.7	37,548	37,246	0.8
% of Net Sales	54.7	51.0	-	54.5	-	54.4	51.1	-
Personnel	1,776	1,791	(0.8)	1,783	(0.4)	5,600	5,150	8.7
% of Net Sales	7.5	7.6	-	8.2	-	8.1	7.1	-
Manufacturing & Other Exp	2,981	2,778	7.3	2,679	11.3	8,327	8,052	3.4
% of Net Sales	12.6	11.8	-	12.3	-	12.1	11.0	-
Total Expenditure	17,683	16,541	6.9	16,359	8.1	51,474	50,447	2.0
EBITDA	5,952	6,918	(14.0)	5,460	9.0	17,505	22,502	(22.2)
EBITDA Margin (%)	25.2	29.5	-	25.0	-	25.4	30.8	-
Depreciation	942	765	23.2	890	5.9	2,700	2,181	23.8
EBIT	5,010	6,154	(18.6)	4,570	9.6	14,805	20,320	(27.1)
Interest Expenses	27	7	277.8	27	(0.4)	84	22	283.1
Non-operating income	1,358	1,446	(6.0)	1,450	(6.3)	4,692	3,658	28.2
Extraordinary Expenses	0	0	-	0	-	0	(175)	-
Extraordinary Income	0	0	-	0	-	0	0	-
PBT	6,341	7,592	(16.5)	5,993	5.8	19,413	24,132	(19.6)
Tax-Total	1,452	2,578	(43.7)	288	403.8	3,836	8,041	(52.3)
Tax Rate (%) - Total	22.9	34.0	(32.6)	4.8	-	19.8	33.3	(40.7)
Reported PAT	4,889	5,014	(2.5)	5,705	(14.3)	15,576	16,090	(3.2)
Adj. PAT	4,889	5,014	(2.5)	5,705	(14.3)	15,576	15,968	(2.5)
PAT Margin	20.7	21.4	-	26.1	-	22.6	21.9	-

Source: Company, BOBCAPS Research

FIG 2 – PER UNIT PARAMETERS

Y/E Mar (Rs)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Sales Volume (nos)	182,781	194,473	(6.0)	166,589	9.7	532,959	629,936	(15.4)
Net Realisation/Vehicle	129,309	120,630	7.2	130,973	(1.3)	129,428	115,804	11.8
Material cost/Vehicle	70,719	61,560	14.9	71,412	(1.0)	70,452	59,126	19.2
Gross Profit/Vehicle	58,590	59,069	(0.8)	59,561	(1.6)	58,976	56,678	4.1
Employee cost/Vehicle	9,716	9,210	5.5	10,705	(9.2)	10,507	8,176	28.5
Other expenses/Vehicle	16,310	14,285	14.2	16,080	1.4	15,623	12,781	22.2
EBITDA/Vehicle	32,564	35,575	(8.5)	32,776	(0.6)	32,845	35,720	(8.0)
Net Profit/Vehicle	26,750	25,783	3.8	34,244	(21.9)	29,226	25,348	15.3

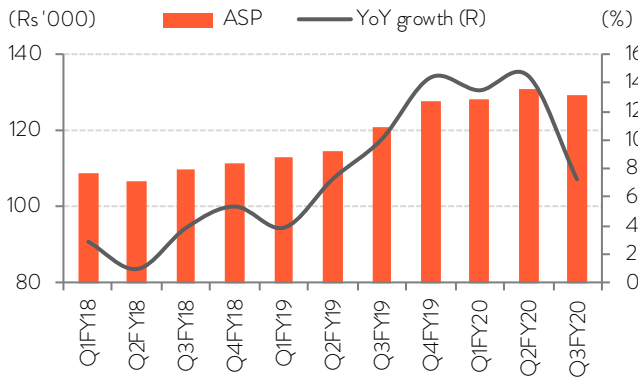
Source: Company, BOBCAPS Research

FIG 3 – QUARTERLY PERFORMANCE – CONSOLIDATED

Y/E Mar (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Net Revenues	23,710	23,411	1.3	21,925	8.1	69,454	72,970	(4.8)
Raw Materials	12,900	11,915	8.3	11,849	8.9	37,521	37,222	0.8
% of Net Sales	54.4	50.9	-	54.0	-	54.0	51.0	-
Personnel	1,846	1,849	(0.2)	1,860	(0.8)	5,822	5,318	9.5
% of Net Sales	7.8	7.9	-	8.5	-	8.4	7.3	-
Manufacturing & Other Exp	3,042	2,851	6.7	2,802	8.6	8,630	8,246	4.7
% of Net Sales	12.8	12.2	-	12.8	-	12.4	11.3	-
Total Expenditure	17,787	16,615	7.1	16,510	7.7	51,972	50,786	2.3
EBITDA	5,923	6,795	(12.8)	5,414	9.4	17,482	22,184	(21.2)
EBITDA Margin (%)	25.0	29.0	-	24.7	-	25.2	30.4	-
Depreciation	952	768	23.9	898	6.0	2,726	2,192	24.4
EBIT	4,971	6,027	(17.5)	4,516	10.1	14,756	19,993	(26.2)
Interest Expenses	43	19	126.6	44	(3.6)	134	52	157.2
Non-operating income	1,347	1,471	(8.4)	1,450	(7.1)	4,001	3,007	33.1
Extraordinary Expenses	0	0	-	0	-	0	(175)	-
Extraordinary Income	0	0	-	0	-	0	0	-
PBT	6,275	7,479	(16.1)	5,922	6.0	18,623	23,123	(19.5)
Tax-Total	1,454	2,565	(43.3)	278	422.6	3,849	8,023	(52.0)
Tax Rate (%) - Total	23.2	34.3	(32.4)	4.7		20.7	34.7	(40.4)
Reported PAT	4,821	4,915	(1.9)	5,644	(14.6)	14,774	15,100	(2.2)
SOPA/MI	166	415	(60.0)	83	99.6	457	1,829	(75.0)
Adj. PAT	4,987	5,330	(6.4)	5,727	(12.9)	15,232	16,754	(9.1)
PAT Margin	21.0	22.8	-	26.1	-	21.9	23.0	-

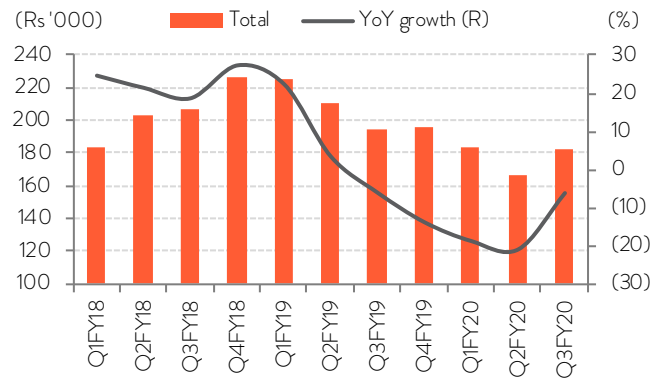
Source: Company, BOBCAPS Research

FIG 4 – AVERAGE SELLING PRICE (ASP) – RE



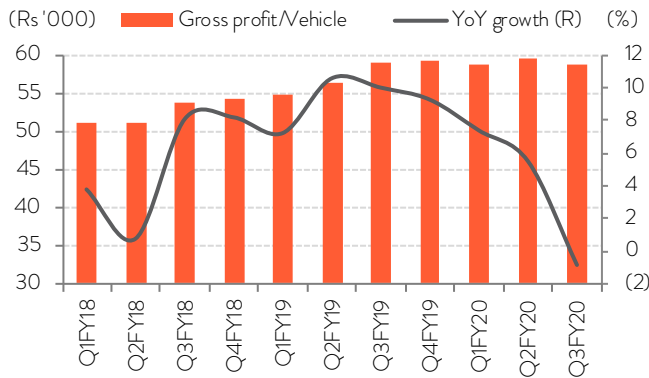
Source: Company, BOBCAPS Research

FIG 5 – VOLUME GROWTH TREND – RE



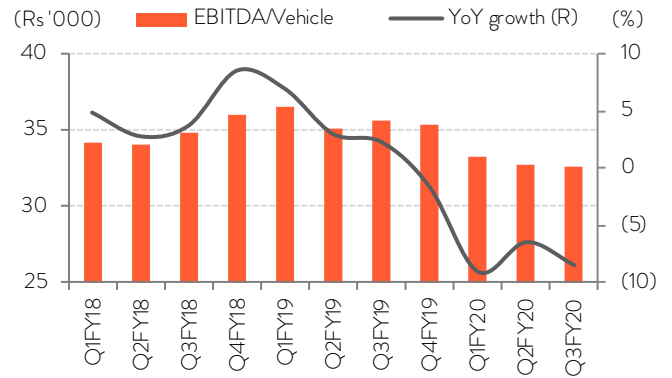
Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 6 – GROSS PROFIT/VEHICLE – RE



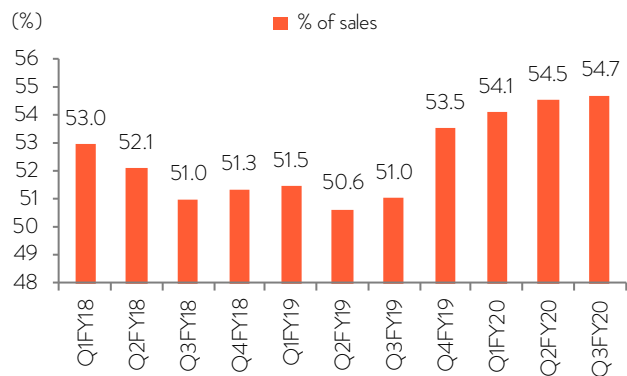
Source: Company, BOBCAPS Research

FIG 7 – EBITDA/VEHICLE – RE



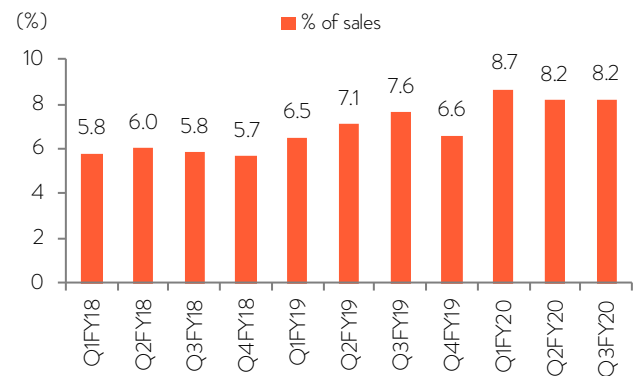
Source: Company, BOBCAPS Research

FIG 8 – RM COST/SALES TREND – RE



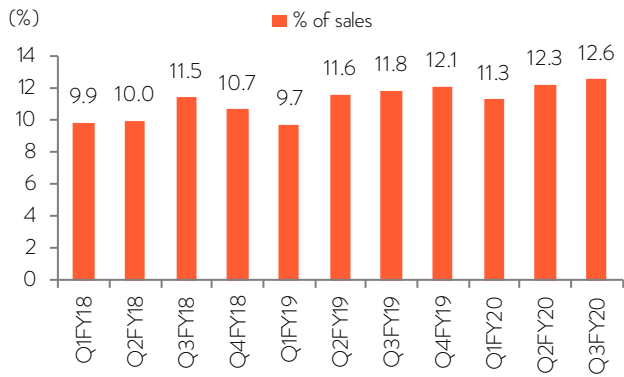
Source: Company, BOBCAPS Research

FIG 9 – EMPLOYEE COST/SALES TREND – RE



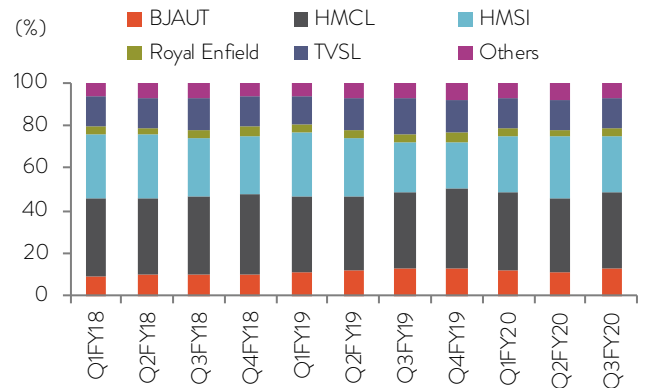
Source: Company, BOBCAPS Research

FIG 10 – RE'S OTHER EXPENSES/SALES TREND



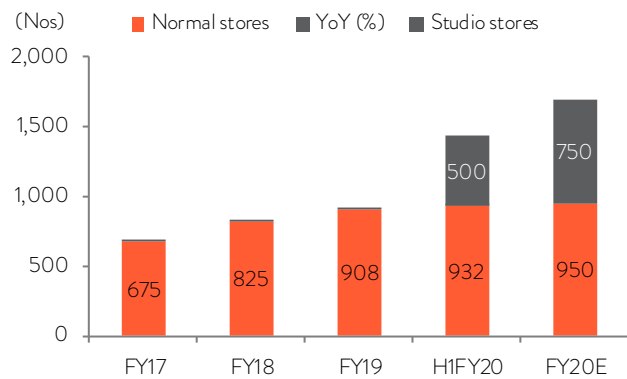
Source: Company, BOBCAPS Research

FIG 11 – DOMESTIC 2W MARKET SHARE



Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 12 – STORE COUNT – RE



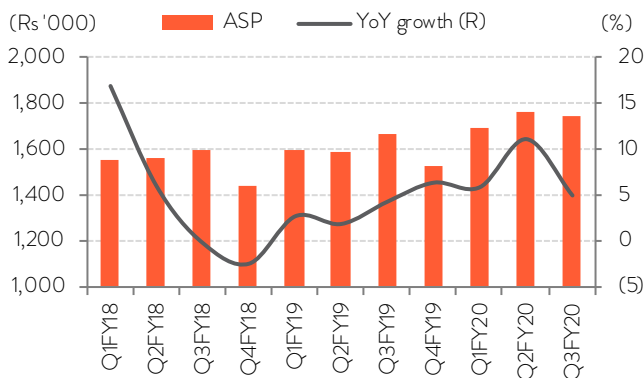
Source: Company, BOBCAPS Research

FIG 13 – PENETRATION TREND – RE

(mn)	FY11	FY19	FY25E
Total addressable households (for Premium 2W)	22.6	61.4	88.8
Parc of premium bikes (12 Y replacement)	7.89	20.5	39.9
Household Penetration (%)	35	33	45
RE's Parc	0.5	4.1	8.6
RE's share in premium bikes parc (%)	7	16	22

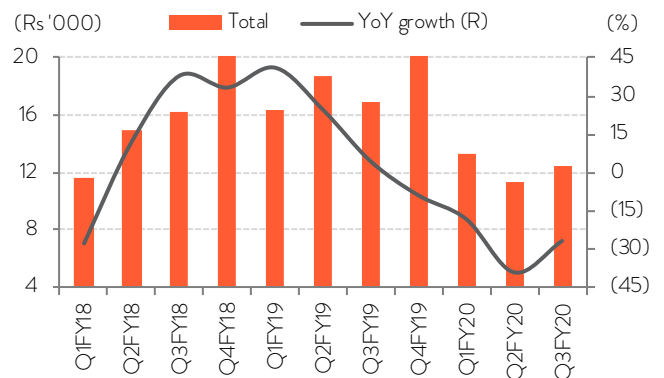
Source: Company, BOBCAPS Research

FIG 14 – AVERAGE SELLING PRICE (ASP) – VECV

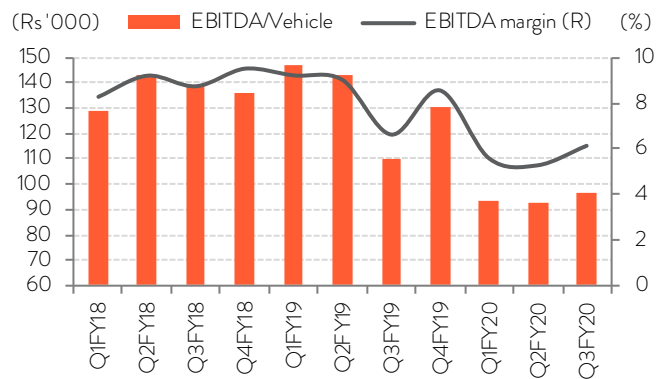


Source: Company, BOBCAPS Research

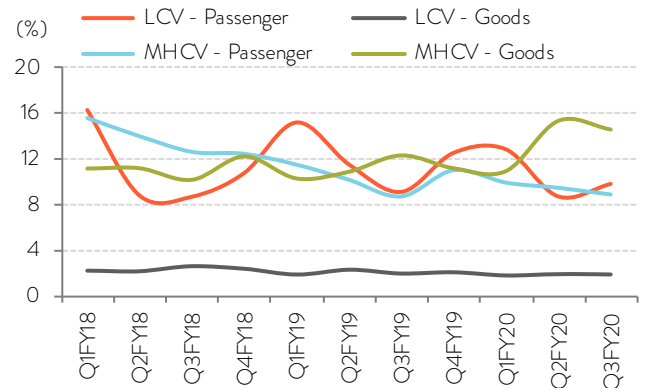
FIG 15 – VOLUME GROWTH – VECV



Source: Company, BOBCAPS Research

FIG 16 – EBITDA/ VEHICLE – VECV

Source: Company, BOBCAPS Research

FIG 17 – MARKET SHARE – VECV

Source: SIAM, ET Autolytics, BOBCAPS Research

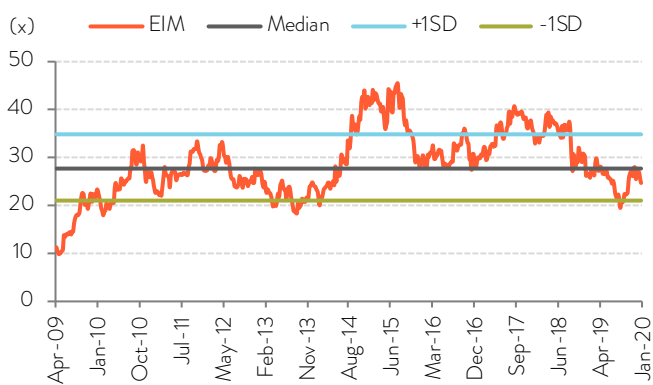
Earnings call highlights

- All EIM's models have been launched in BS-VI format, except the 'Bullet' series which should be rolled out in a few weeks. Management stated that price hikes related to BS-VI have been well received by customers and nearly a third of dispatches made in Jan'20 were for BS-VI models. EIM will be discontinuing its 500cc bikes on transition to the new emission norms.
- Market share for RE in the >150cc motorcycle category has increased from 26% to 32% in Q3FY20.
- RE's order book exceeded its production level in January. Old BS-IV channel inventory (with the dealer) is at 10 days and overall inventory levels stand at two weeks.
- Management expects H1FY21 to be weak for the 2W industry, followed by a healthy pickup in H2. Growth expectation for FY21 is at 5-6% YoY.
- As per management, raw material costs are likely to increase as some precious metals have seen a sharp spike recently and could affect operating margins.
- In Q3FY20, RE added 7 new large format stores (940 stores in total). Studio format store count in India stood at 500 by end-December, taking the total to 1,400 retail touch-points
- The CV industry is expected to remain weak for the medium term. However, VECV outperformed the industry in Q3 (volume decline of 27% vs. industry decline of 35%), gaining some market share.
- Signs of pre-buying due to BS-VI transition are visible in certain CV segments.

Valuation methodology

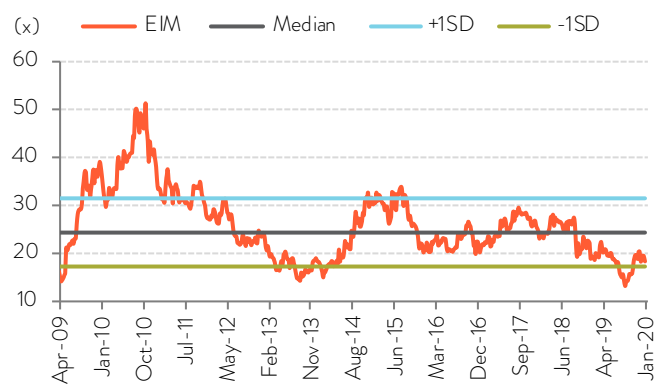
We believe RE is the best play on the growing premiumisation trends in 2Ws and has scope to improve share in premium motorcycles, which should support steady long-term volume growth. Valuations at 24x FY21E EPS appear fair in the context of expected recovery in volumes and earnings growth. We reiterate BUY with an unchanged Mar'21 SOTP-based target price of Rs 25,000, which assigns 24x FY22E EPS for the RE business (Rs 23,500), 8x FY22E EBITDA for VECV's EV (Rs 1,220) and Rs 280 for EIM's share of VECV's net cash.

FIG 18 – P/E MULTIPLE



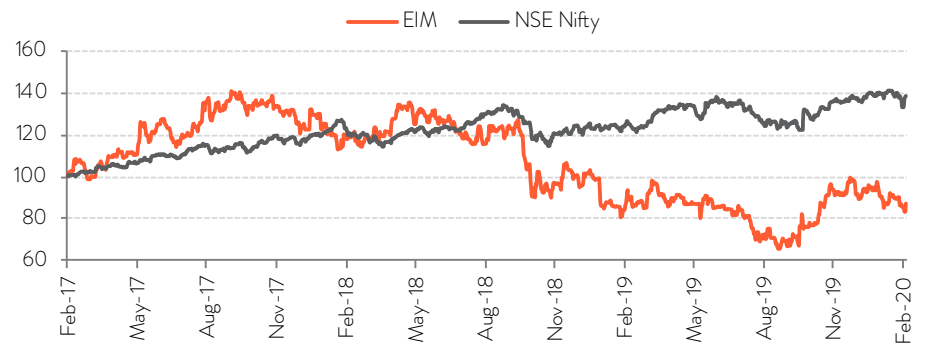
Source: Company, BOBCAPS Research

FIG 19 – EV/EBITDA MULTIPLE



Source: Company, BOBCAPS Research

FIG 20 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Aggressively priced model launches in the 350-500cc segments by international players such as Harley Davidson and Triumph could increase competitive intensity and hurt RE's volume growth outlook.
- Over the past few years, RE has been making significant investments to grow its exports business. Inability to ramp up volumes over the medium term will reflect negatively on EIM's execution capabilities.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	89,650	97,971	96,026	112,737	127,776
EBITDA	28,076	29,031	23,957	27,194	31,591
Depreciation	2,233	3,003	3,658	4,466	5,274
EBIT	30,309	32,034	27,615	31,660	36,864
Net interest income/(expenses)	(53)	(73)	(73)	(73)	(73)
Other income/(expenses)	2,801	4,434	5,931	6,970	8,218
Exceptional items	(2,201)	(175)	0	0	0
EBT	28,591	30,389	26,157	29,625	34,461
Income taxes	9,359	10,770	6,154	6,965	8,134
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	2,566	2,584	813	712	1,541
Reported net profit	19,597	22,027	20,816	23,372	27,868
Adjustments	2,201	175	0	0	0
Adjusted net profit	21,797	22,203	20,816	23,372	27,868

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	11,719	12,774	14,694	15,913	18,259
Other current liabilities	7,722	4,763	2,669	2,771	3,267
Provisions	763	807	807	807	807
Debt funds	1,508	1,868	1,868	1,868	1,868
Other liabilities	1,789	1,732	1,732	1,732	1,732
Equity capital	529	529	529	529	529
Reserves & surplus	69,772	88,658	105,538	124,455	147,121
Shareholders' fund	70,301	89,187	106,067	124,985	147,650
Total liabilities and equities	93,802	111,129	127,835	148,074	173,581
Cash and cash eq.	50,286	59,439	71,489	86,618	106,608
Accounts receivables	680	903	1,165	1,254	1,445
Inventories	3,946	6,334	6,408	7,226	8,461
Other current assets	3,909	4,055	4,033	4,202	4,567
Investments	17,643	19,439	20,439	21,939	23,939
Net fixed assets	15,017	18,746	22,088	24,622	26,348
CWIP	3,332	4,497	4,497	4,497	4,497
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(1,421)	(2,739)	(2,739)	(2,739)	(2,739)
Other assets	410	455	455	455	455
Total assets	93,802	111,129	127,835	148,074	173,581

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	24,030	25,205	24,474	27,838	33,142
Interest expenses	53	73	73	73	73
Non-cash adjustments	0	0	0	0	0
Changes in working capital	4,974	(4,618)	(488)	245	1,051
Other operating cash flows	643	1,318	0	0	0
Cash flow from operations	29,700	21,979	24,060	28,157	34,266
Capital expenditures	(8,117)	(7,897)	(7,000)	(7,000)	(7,000)
Change in investments	(185)	(1,797)	(1,000)	(1,500)	(2,000)
Other investing cash flows	159	(102)	0	0	0
Cash flow from investing	(8,142)	(9,796)	(8,000)	(8,500)	(9,000)
Equities issued/Others	1	0	0	0	0
Debt raised/repaid	1,064	359	0	0	0
Interest expenses	(53)	(73)	(73)	(73)	(73)
Dividends paid	(3,482)	(3,958)	(3,936)	(4,455)	(5,203)
Other financing cash flows	(1,466)	642	0	0	0
Cash flow from financing	(3,936)	(3,030)	(4,009)	(4,528)	(5,276)
Changes in cash and cash eq.	17,622	9,153	12,050	15,129	19,990
Closing cash and cash eq.	50,286	59,439	71,489	86,618	106,608

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	799.6	813.9	763.1	856.7	1,021.6
Adjusted EPS	799.6	813.9	763.1	856.7	1,021.6
Dividend per share	110.0	125.0	124.3	140.7	164.3
Book value per share	2,578.9	3,271.7	3,890.9	4,584.9	5,416.4

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	5.9	5.3	5.2	4.4	3.7
EV/EBITDA	18.9	17.8	21.0	18.1	15.2
Adjusted P/E	25.5	25.1	26.7	23.8	20.0
P/BV	7.9	6.2	5.2	4.4	3.8

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	68.5	72.5	79.6	78.9	80.9
Interest burden (PBT/EBIT)	94.3	94.9	94.7	93.6	93.5
EBIT margin (EBIT/Revenue)	33.8	32.7	28.8	28.1	28.9
Asset turnover (Revenue/Avg TA)	95.6	88.2	75.1	76.1	73.6
Leverage (Avg TA/Avg Equity)	134.4	125.3	121.1	119.0	118.0
Adjusted ROAE	31.0	24.9	19.6	18.7	18.9

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	27.5	9.3	(2.0)	17.4	13.3
EBITDA	29.1	3.4	(17.5)	13.5	16.2
Adjusted EPS	27.0	1.8	(6.2)	12.3	19.2
Profitability & Return ratios (%)					
EBITDA margin	31.3	29.6	24.9	24.1	24.7
EBIT margin	33.8	32.7	28.8	28.1	28.9
Adjusted profit margin	24.3	22.7	21.7	20.7	21.8
Adjusted ROAE	31.0	24.9	19.6	18.7	18.9
ROCE	30.4	24.4	19.3	18.4	18.6
Working capital days (days)					
Receivables	3	3	4	4	4
Inventory	31	46	46	46	46
Payables	48	48	56	52	52
Ratios (x)					
Gross asset turnover	4.2	3.5	2.7	2.7	2.6
Current ratio	1.0	2.2	2.4	2.4	2.3
Net interest coverage ratio	567.6	437.0	376.7	431.9	502.9
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%

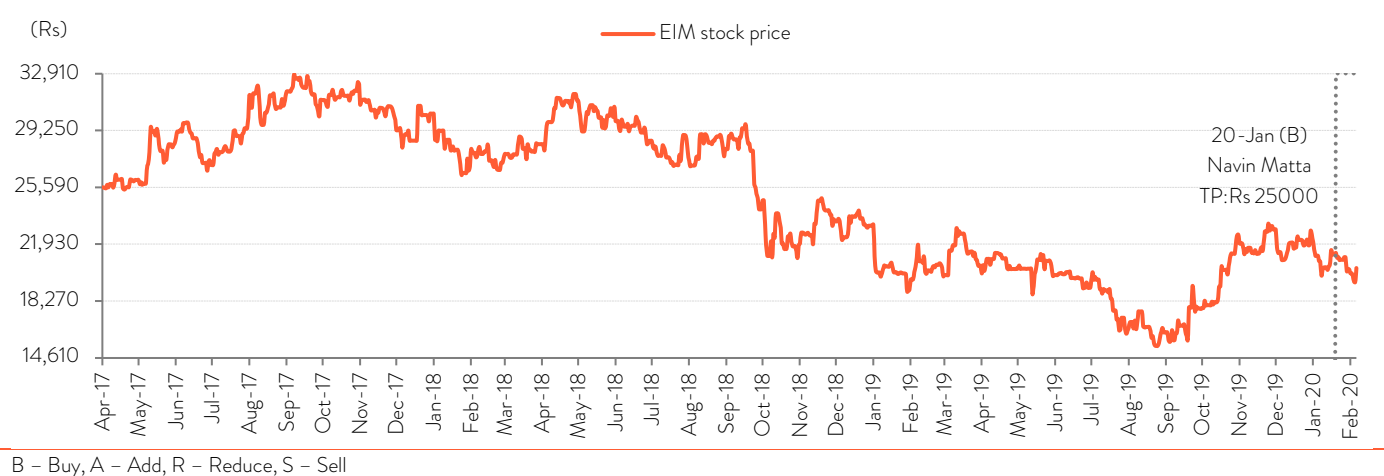
ADD – Expected return from >+5% to +15%

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)



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