

Retail Equity Research

Eicher Motors Limited

Automobiles

BSE CODE: 505200

NSE CODE: EICHERMOT

Bloomberg CODE: EIM:IN

SENSEX: 38,051

HOLD

12M Investment period

Rating as per Large Cap

CMP Rs. 21,124 TARGET Rs. 22,585 RETURN 7%
(Closing: 17-08-20)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Supply-side impacted Q1; Uncertain future

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).

- Company posted 65.7% YoY decline in top-line due to volume drop of ~69% YoY for Royal Enfield and ~84% YoY for VECV in Q1FY21.
- EBITDA shrank ~25pps YoY to 0.5% reaching breakeven, just to cover up the fixed operational costs during the production and supply constraints.
- Export opportunities and upgradation of consumer preferences will build strong growth over long-term. However, given short-term uncertainties, remain cautious on the stock and reiterate our HOLD rating on the stock with a revised target price of Rs. 22,585 using SOTP valuation.

Volumes impacted by suspension of operations

Eicher's revenue shrunk to Rs. 809cr (-65.7% YoY) on consolidated basis with 68.8% YoY drop in overall sales volume to about 57,000 while market share rising to 29.6% in Q1FY21 (vs 22.3% in Q1FY20). Closure of manufacturing plants and supply chain issues related to procurement of automobile components amidst sluggish demand have led to rapid fall in top-line. For Royal Enfield, Two-wheeler motorcycles sales volume fell about 70% YoY to 58,383, while the order backlogs have jumped to 40,000-45,000 motorcycles (double than average). With the production ramp-up, the lost sales will be recouped over the next few quarters owing to the pent-up demand. For Volvo Commercial vehicles, volumes dropped 84.0% YoY to 2,129 vehicles. Demand may remain sluggish over short-term, especially due to cut in discretionary spending by transportation sector.

Margins to remain under pressure

EBITDA reached breakeven to cover up the fixed operating costs with a margin of 0.5%. Net loss reached to Rs. 55.2cr (vs. profit of Rs. 452cr in Q1FY20). Acquisition of Volvo Bus India will help gain stronger foothold in commercial vehicle business (especially buses and medium duty trucks). With the transition to BS-VI emission norms, new motorcycle model launches are in pipeline. The new plant in Bhopal will help improve production capacity to fulfil the growing domestic and export demands

Key concall highlights

- Though the export volumes have dropped 67% over the April-July 2020 period, the company has long-term target of making export sales as 20% of their overall revenue.
- Capacity utilization has only been 45% and 25% at RE and VECV production plants during the quarter. However about 75-80% of dealers are now operational.
- Acquisition of Volvo Bus India and new product launches will drive the volume growth over the upcoming quarters.
- Plans to add about 600 new stores by the end of FY21.

Valuation

With the rising per-capita income, the consumer preferences for premium motorcycle is on upward trend over long-term. Export opportunity for the company is also huge. However, over the short-term, the expansion plans may remain constrained due to market uncertainties. Hence, we remain cautious on the stock and reiterate our HOLD rating on the stock with a revised target price of Rs. 22,585 using SOTP valuation.

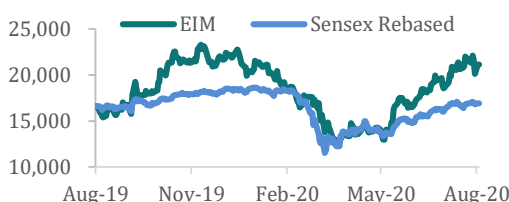
Company Data

Market Cap (cr)	Rs. 57,668
Enterprise Value (cr)	Rs. 54,242
Outstanding Shares (cr)	2.7
Free Float	49.0%
Dividend Yield	0.6%
52 week high	Rs. 23,428
52 week low	Rs. 12,460
6m average volume	7,478
Beta	1.4
Face value	Rs. 10

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	49.3	49.3	49.3
FII's	31.2	27.7	27.0
MFs/Insti	8.3	11.3	12.1
Public	8.8	8.9	9.0
Others	2.4	2.8	2.7
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	49.8%	14.9%	27.3%
Absolute Sensex	22.4%	-7.3%	1.9%
Relative Return*	27.4%	22.2%	25.5%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	9,074	8,166	10,534
Growth (%)	(6.6)	(10.0)	29.0
EBITDA	2,180	1,749	2,591
EBITDA Margin (%)	24.0	21.4	24.6
Adj. PAT	1,827	1,429	2,104
Growth (%)	(17.7)	(21.8)	47.2
Adj. EPS	669.4	523.5	770.7
Growth (%)	(17.7)	(21.8)	47.2
P/E	19.6	40.3	27.4
P/B	3.6	5.2	4.5
EV/EBITDA	15.2	31.0	20.4
ROE (%)	18.3	12.9	16.4
D/E	0.0	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Revenue	809	2,361	(65.7)	2,190	(63.1)
EBITDA	4	614	(99.4)	432	(99.1)
EBITDA margins	0.5	26.0	(2550bps)	19.7	(1920bps)
Depreciation	98	88	12.1	109	(9.8)
EBIT	(94)	527	n.m.	323	n.m.
Interest	5	5	9.0	6	(8.0)
Other Income	49	141	(65.4)	129	(62.2)
Exceptional Items	-	-	n.m.	-	n.m.
PBT	(51)	663	n.m.	447	n.m.
Tax	5	212	(97.9)	143	(96.8)
Share of profit from Associate	(65)	21	n.m.	(14)	n.m.
Minority Interest	-	-	n.m.	-	n.m.
Reported PAT	(55)	452	n.m.	304	n.m.
Adjustments	-	-	n.m.	-	n.m.
Adj. PAT	(55)	452	n.m.	304	n.m.
No. of shares	2.7	2.7	-	2.7	-
Adj. EPS (Rs.)	(20.2)	165.5	n.m.	111.5	n.m.

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	10,432	12,548	8,166	10,534	(21.7)	(16.0)
EBITDA	2,677	3,254	1,749	2,591	(34.7)	(20.4)
Margins (%)	25.7	25.9	21.4	24.6	(430bps)	(130bps)
Adj. PAT	2,248	2,756	1,429	2,104	(36.4)	(23.7)
Adj. EPS	823.0	1,008.9	523.5	770.7	(36.4)	(23.6)

SOTP Valuation

Particulars	Basis	Multiple	% holding	Value (Rs. cr.)	Value/share (Rs.)
Royal Enfield	FY22E AEPS	29.5x	100%	60,781	22,264
VE Commercial Vehicle	FY22E AEPS	20.0x	54%	875	321
Total value				61,656	22,585



PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	9,175	9,717	9,074	8,166	10,534
% change	16.0	5.9	(6.6)	(10.0)	29.0
EBITDA	2,808	2,903	2,180	1,749	2,591
% change	29.1	3.4	(24.9)	(19.8)	48.2
Depreciation	223	300	382	376	433
EBIT	2,584	2,603	1,799	1,373	2,158
Interest	5	7	19	30	38
Other Income	537	702	575	525	630
PBT	3,116	3,297	2,355	1,868	2,750
% change	30.5	5.8	(28.6)	(20.7)	47.2
Tax	936	1,077	527	439	646
Tax Rate (%)	30.0	32.7	22.4	23.5	23.5
Reported PAT	1,960	2,203	1,827	1,429	2,104
Adj*	220	18	-	-	-
Adj PAT	2,180	2,220	1,827	1,429	2,104
% change	27.2	1.9	(17.7)	(21.8)	47.2
No. of shares (cr)	2.7	2.7	2.7	2.7	2.7
Adj EPS (Rs.)	799.0	813.3	669.4	523.5	770.7
% change	27.2	1.8	(17.7)	(21.8)	47.2
DPS (Rs.)	110.0	125.0	125.0	115.0	140.0
CEPS (Rs.)	880.8	923.3	809.2	661.3	929.4

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	1,212	2,965	2,951	3,672	5,175
Accounts Receivable	68	84	87	86	121
Inventories	395	633	572	542	718
Other Cur. Assets	860	732	2,765	2,841	2,930
Investments	4,951	4,457	3,239	3,339	3,439
Gross Fixed Assets	2,052	2,509	3,053	3,600	4,211
Net Fixed Assets	1,459	1,692	2,002	2,200	2,377
CWIP	142	272	27	-	-
Intangible Assets	230	357	658	688	707
Def. Tax (Net)	18	18	47	51	54
Other Assets	186	175	103	107	113
Total Assets	9,522	11,387	12,450	13,525	15,633
Current Liabilities	2,114	1,911	1,853	1,876	2,315
Provisions	29	23	21	23	24
Debt Funds	160	197	262	247	247
Other Liabilities	189	337	333	283	229
Equity Capital	27	27	27	27	27
Reserves & Surplus	7,003	8,891	9,954	11,069	12,791
Shareholder's Fund	7,030	8,919	9,981	11,096	12,818
Minority Interest	-	-	-	-	-
Total Liabilities	9,522	11,387	12,450	13,525	15,633
BVPS (Rs.)	2,577	3,267	3,656	4,065	4,695

CASH FLOW

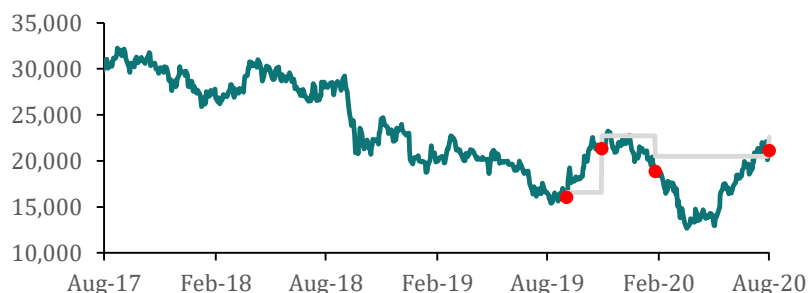
Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	2,183	2,503	2,209	1,805	2,537
Non-cash adj.	(31)	(733)	(361)	(157)	2
Changes in W.C	330	(194)	(154)	104	99
C.F. Operation	2,482	1,575	1,694	1,753	2,639
Capital exp.	(746)	(790)	(544)	(547)	(611)
Change in inv.	(1,466)	(25)	(1,236)	(75)	(52)
Other invest.CF	67	156	272	-	-
C.F - Investment	(2,145)	(660)	(1,508)	(623)	(663)
Issue of equity	19	36	29	-	-
Issue/repay debt	39	25	(71)	(15)	-
Dividends paid	(272)	(300)	(682)	(314)	(382)
Other finance.CF	(48)	(53)	(134)	(80)	(92)
C.F - Finance	(262)	(292)	(858)	(409)	(474)
Chg. in cash	75	623	(673)	722	1,502
Closing cash	1,212	2,965	2,951	3,672	5,175

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	30.6	29.9	24.0	21.4	24.6
EBIT margin (%)	28.2	26.8	19.8	16.8	20.5
Net profit mgn.(%)	21.4	22.7	20.1	17.5	20.0
ROE (%)	27.9	24.7	18.3	12.9	16.4
ROCE (%)	35.9	28.6	17.6	12.1	16.5
W.C & Liquidity					
Receivables (days)	2.7	3.2	3.5	3.8	4.2
Inventory (days)	29.4	45.7	41.8	43.8	45.6
Payables (days)	87.3	89.1	75.1	88.9	89.7
Current ratio (x)	1.1	2.1	3.1	3.5	3.6
Quick ratio (x)	0.8	1.7	2.7	3.1	3.2
Turnover & Leverage					
Gross asset T.O (x)	5.6	4.3	3.3	2.5	2.7
Total asset T.O (x)	1.1	0.9	0.8	0.6	0.7
Int. coverage ratio (x)	484.0	355.1	95.3	46.4	57.3
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	8.2	5.5	3.6	6.6	5.0
EV/EBITDA (x)	26.7	18.4	15.2	31.0	20.4
P/E (x)	34.9	25.3	19.6	40.3	27.4
P/BV (x)	10.8	6.3	3.6	5.2	4.5



Recommendation Summary



Dates	Rating	Target
18-Sep-19	HOLD	16,558
15-Nov-19	HOLD	22,736
11-Feb-20	HOLD	20,492
18-Aug-20	HOLD	22,585

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

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

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