

Reaching new heights with record top line

Eicher Motors (EIM) posted highest ever top line at ₹ 25.5 bn (up 27.3% YoY) in Q1FY19 supported by RE volume growth of 22.5% with favorable product mix as compared to lower base in the same period in the last year. The favorable mix due to higher sales of premium products helped in improvement at margin levels, negating the adverse impact of increasing raw material prices. EIM posted gross margin and EBITDA margin of 48.5% and 31.8% respectively during the quarter. We believe increasing share of premium bikes in the sales mix will improve the margins further going forward. We have an Accumulate rating with target price of ₹ 30,802, valuing at multiple of 25x FY20E EPS.

Increasing premium penetration to drive margins favorable

Further increase in the penetration of higher end models will drive the margins favorable despite short term pressure due to increasing price of the raw materials. For the quarter ended Q1FY19, growth in sub 350cc category by 21.5% and in above 350cc by 35%. We believe there is much more potential for the premium bikes and EIM is in the sweet spot being the brand leader in the category. EIM is also increasing its product portfolio in the premium segment. It is expected to launch twin cylinder (Continental GT and Interceptor) bike of 650cc with bookings for the same starting Nov'18 onwards.

Network Expansion to help

During the quarter Q1FY19, EIM added 12 new stores in India taking the total count to 837 stores and 1 international store in Malaysia taking the total count of exclusive international store to 37. EIM management has set a target of 950 touch points of sales by the end of year FY19. Further, the same store (>2 years) growth for EIM is at ~10%. We believe there is much scope left for EIM for its network expansion, which will drive its top line ahead.

VECV ramping up

VECV recorded sales of ₹ 26 bn during the quarter Q1FY19 registering growth of 45% over the same period during the last year. With the CV segment demand growing at higher pace, this segment is expected to contribute more to the profitability of EIM, albeit with lower margins. VECV posted EBITDA margin of 9.2% during the quarter as compared to 8.3% EBITDA margins during Q1FY18.

Q1FY19 Result – Consolidated (₹ Mn)

Particulars	Q1FY19	Q1FY18	YoY(%)	Q4FY18	QoQ(%)
Net Sales	25,478	20,006	27.3	25,280	0.8
Total Raw Mat	13,115	10,573	24.0	13,001	0.9
Total Operating Cost	17,382	13,799	26.0	17,308	0.4
EBIDTA	8,096	6,207	30.4	7,972	1.6
Other Income	596	777	(23.3)	850	(29.8)
Interest	15	11	36.6	14	13.3
Depreciation	702	452	55.1	640	9.7
PBT	7,975	6,521	22.3	8,168	(2.4)
Share from associate/JV	643	250	156.7	963	(33.2)
Tax	2,856	2,175	31.3	2,645	8.0
Net Profit	5,762	4,596	25.4	6,486	(11.2)
EPS (in ₹)	211.3	169.0	25.0	237.9	(11.2)
OPM (in %)	31.8	31.0		31.5	

CMP	₹ 27,610
Target / Upside	₹ 30,802/12%
BSE Sensex	37,869
NSE Nifty	11,430

Scip Details

Equity / FV	₹ 273mn/₹ 10/-
Market Cap	₹ 753bn
	USD 11bn
52-week High/Low	₹ 33,484/26,000
Avg. Volume (no)	55,598
NSE Symbol	EICHERMOT
Bloomberg Code	EIM IN

Shareholding Pattern June'18 (%)

Promoters	50.5
MF/Banks/FIs	5.8
FIIIs	31.8
Public / Others	11.9

Valuation (x)

	FY18P	FY19E	FY20E
P/E	38.4	27.5	22.4
EV/EBITDA	26.4	20.7	16.7
ROE	31.7	33.9	32.3
ROCE	44.2	43.0	41.4

Estimates (₹ mn)

	FY18	FY19E	FY20E
Net Sales	89,650	109,115	128,924
EBITDA	28,076	35,475	43,188
PAT	19,597	27,408	33,586
EPS (₹)	613	719	1,005

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Exhibit 1: Q1FY19 Result – Standalone (₹ Mn)

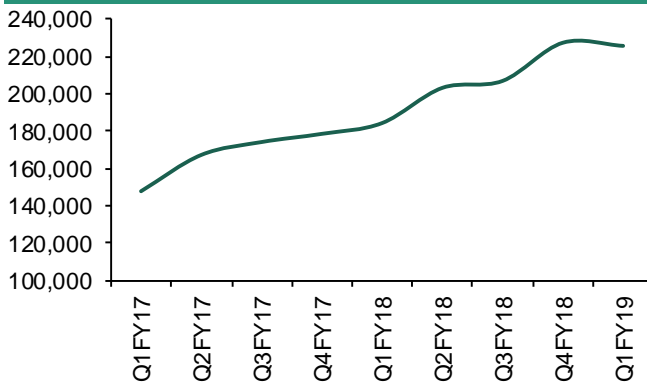
Particulars	Q1FY19	Q1FY18	YoY(%)	Q4FY18	QoQ(%)
Net Sales	25,449.1	18,844.2	35.1	25,297.7	0.6
Total Raw Mat	13,097	9,908	32.2	12,989	0.8
Total Operating Cost	17,227	12,934	33.2	17,128	0.6
EBIDTA	8,222	5,910	39.1	8,170	0.6
Other Income	1,260	550	128.9	848	48.5
Interest	7	7	5.9	7	-
Depreciation	698	430	62.5	637	9.7
Exceptional Items	-	-		(3,120)	
PBT	8,776	6,024	45.7	8,375	4.8
Tax	2,864	1,909	50.1	2,653	7.9
Net Profit	5,912	4,116	43.7	5,721	3.3
EPS (in ₹)	216.8	151.3	43.3	209.9	3.3
OPM (in %)	32.3	31.4		32.3	
Volume (Unit)	225,361	183,998	22.5	227,042	(0.7)
Realisations (₹ / Unit)	112,926	102,415	10.3	111,423	1.3
RM Cost (₹ / Unit)	58,117	53,849	7.9	57,208	1.6
Gross Profit (₹ / Unit)	54,809	48,566	12.9	54,215	1.1
EBITDA (₹ / Unit)	36,484	32,122	13.6	35,985	1.4

Valuation

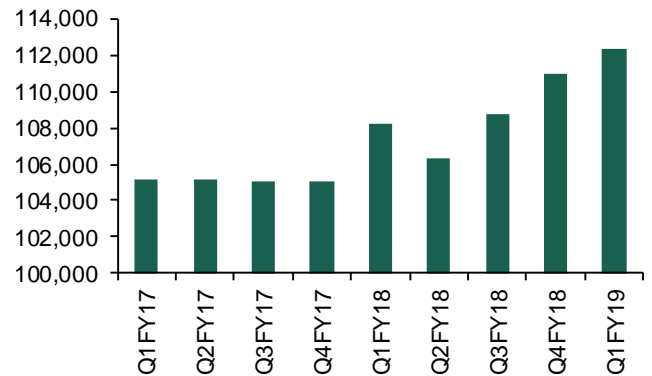
With production capacity in place for RE and strong demand through increasing distribution expansion and new product launches, RE should sustain its growth momentum and increase profitability through better revenue mix. Export market potential is the focus area, but we expect that it will take some years to mature. CV cycle is expected to remain and VECV looks well equipped to play this opportunity with enhanced product profile and expanding distribution channel. We reiterate Accumulate with a target price of ₹ 30,802 based on 25x FY20E EPS on consolidated basis.

Concall KTAs

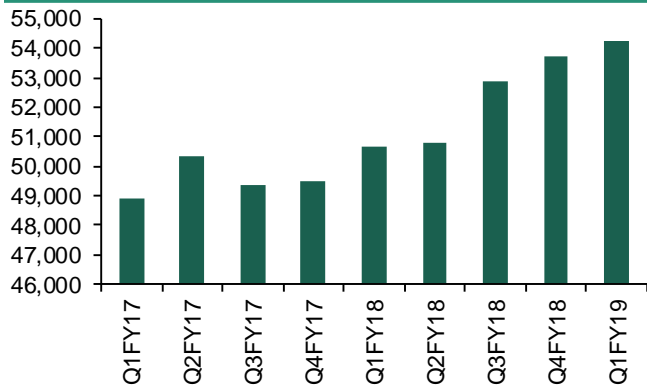
- EIM clocked highest ever revenue in the quarter Q1FY19.
- On the distribution network side, EIM added 12 new stores in India taking the total dealership at 837 stores and added 1 more international store in Malaysia with exclusive international store counts reaching to 37 stores.
- EIM management have given a guidance of 950 points of sales by the end of FY19.
- Same store sales growth for EIM (>2 years) was at 10%.
- EIM has started with construction of Vallum plant phase II, management expects the production to start from H2FY20.
- VECV volumes are at 16,327 units (41% YoY), driven by improved value trucks and new launches.
- EIM volume financing is ~45% and growing at significant growth rate.
- Top line and EBITDA margins for VECV business for Q1FY19 were at ₹ 26 bn and 9.2% respectively.

Exhibit 2: RE Volume (Units)


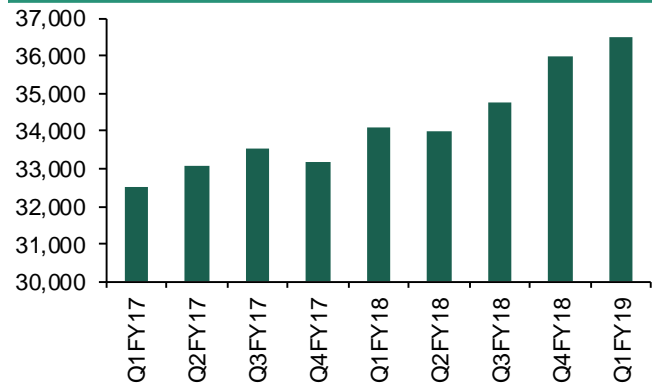
Source: Company, DART

Exhibit 3: RE Realisation (₹ /Unit)


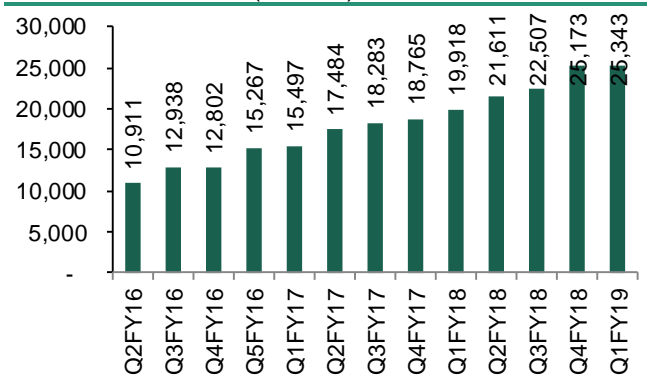
Source: Company, DART

Exhibit 4: RE Gross Profit (₹ /Unit)


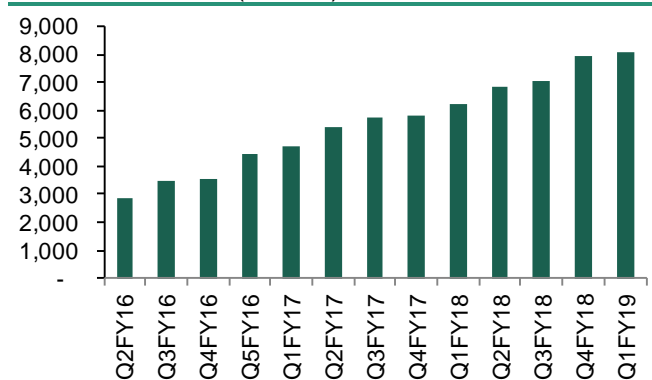
Source: Company, DART

Exhibit 5: RE EBITDA (₹ /Unit)


Source: Company, DART

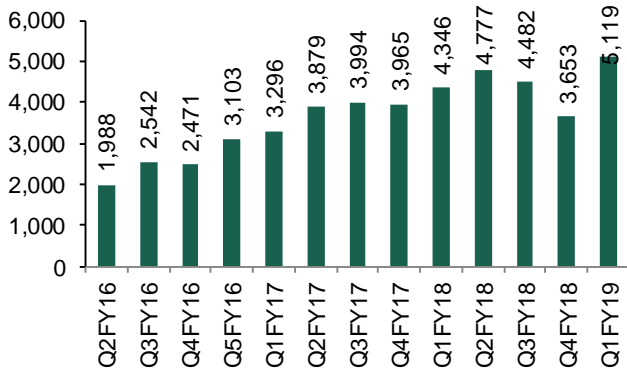
Exhibit 6: Net Sales (₹ in Mn)


Source: Company, DART

Exhibit 7: EBITDA (₹ in Mn)


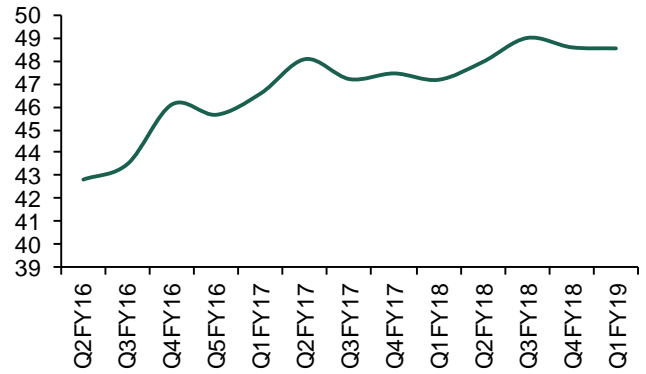
Source: Company, DART

Exhibit 8: Net Profit (₹ in Mn)



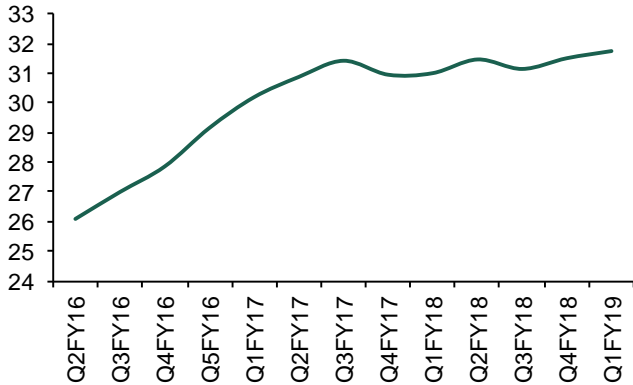
Source: Company, DART

Exhibit 9: Gross Margin %



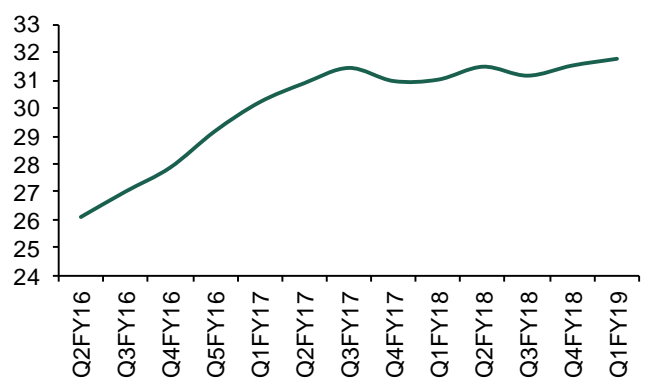
Source: Company, DART

Exhibit 10: OPM %



Source: Company, DART

Exhibit 11: Net Profit Margin (%)



Source: Company, DART

Income Statement (₹ mn)

Particulars	Mar'17	Mar'18	Mar'19E	Mar'20E
Net Sales	70,334	89,650	109,115	128,924
Other Income	2,273	2,801	3,361	4,033
Total Income	72,607	92,451	112,476	132,957
Total Expenditure	48,594	61,573	73,640	85,736
Cost of Material Consumed	37,045	46,435	55,637	65,006
Employees Benefit Exp.	4,263	5,737	7,158	8,318
Other Expenses	7,287	9,402	10,845	12,413
EBIDTA (Excl. OI)	21,740	28,076	35,475	43,188
EBIDTA (Incl. OI)	24,013	30,877	38,836	47,221
Interest	36	53	60	65
Depreciation	1,538	2,233	2,903	3,483
Share of profit/(loss) of JV	1,895	2,566	3,848	5,003
PBT & EO Items	24,334	31,157	39,722	48,675
Exceptional Items	(460)	(2,201)	0	0
Profit Before Tax	23,874	28,956	39,722	48,675
Tax	7,203	9,359	12,314	15,089
Net Profit	16,671	19,597	27,408	33,586

Balance Sheet (₹ mn)

Particulars	Mar'17	Mar'18P	Mar'19E	Mar'20E
Sources of Funds				
Equity Capital	272	273	273	273
Other Reserves	53,179	70,028	91,058	116,352
Net Worth	53,451	70,301	91,330	116,625
Loan Funds	1,119	1,508	490	514
Deferred Tax Liability	971	2,299	1,200	1,100
Total Capital Employed	55,540	74,108	93,020	118,239
Applications of Funds				
Gross Block	12,850	21,376	29,376	39,376
Less: Accumulated Dep.	4,165	6,398	9,300	12,784
Net Block	8,686	14,978	20,075	26,592
Capital Work in Progress	3,738	3,332	4,998	6,997
Investments	49,913	55,847	62,568	70,548
Current Assets, Loans & Advances				
Inventories	3,359	3,946	4,783	5,651
Sundry Debtors	500	680	747	883
Cash and Bank Balance	251	12,120	20,263	30,804
Loans and Advances	3	7	8	10
Other Current Assets	3,456	4,127	5,778	6,934
<i>sub total</i>	7,570	20,881	31,579	44,282
Less: Current Liabilities & Provisions				
Current Liabilities	13,680	20,167	25,209	28,990
Provisions	686	763	992	1,191
<i>sub total</i>	14,366	20,930	26,201	30,181
Net Current Assets	(6,796)	(50)	5,379	14,101
Total Assets	55,540	74,108	93,020	118,239

E – Estimates

Cash Flow (₹ mn)

Particulars	Mar'17	Mar'18P	Mar'19E	Mar'20E
Profit before tax	23,874	31,157	39,722	48,675
Depreciation & w.o.	1,538	2,233	2,903	3,483
Net Interest Exp	36	53	60	65
Direct taxes paid	(6,516)	(9,359)	(12,314)	(15,089)
Change in Working Capital	1,644	5,123	2,714	1,818
Other	(3,486)	(87)	(1,099)	(100)
(A) CF from Opt. Activities	17,089	29,119	31,987	38,853
Capex	(5,470)	(8,120)	(9,666)	(11,999)
Free Cash Flow	11,619	20,999	22,321	26,854
Inc./ (Dec.) in Investments	(12,105)	(5,934)	(6,721)	(7,980)
Other	57	54	0	0
(B) CF from Invt. Activities	(17,519)	(14,000)	(16,387)	(19,979)
Issue of Equity/ Preference	57	0	0	0
Inc./ (Dec.) in Debt	444	390	(1,019)	24
Interest exp net	(32)	(53)	(60)	(65)
Dividend Paid (Incl. Tax)	0	(3,508)	(6,378)	(8,292)
(C) CF from Financing	469	(3,172)	(7,457)	(8,332)
Net Change in Cash	40	11,948	8,143	10,541
Opening Cash balances	133	172	12,120	20,263
Closing Cash balances	172	12,120	20,263	30,804

Important Ratios

Particulars	Mar'17	Mar'18P	Mar'19E	Mar'20E
(A) Measures of Performance (%)				
EBIDTA Margin (excl. O.I.)	30.9	31.3	32.5	33.5
EBIDTA Margin (incl. O.I.)	34.1	34.4	35.6	36.6
Interest / Sales	0.1	0.1	0.1	0.1
Tax/PBT	30.2	32.3	31.0	31.0
Net Profit Margin	23.7	21.9	25.1	26.1
(B) As Percentage of Net Sales				
Cost of materials consu.	51.4	50.4	51.0	50.4
Employee Benefits Exp.	6.1	6.4	6.6	6.5
Other Expenses	10.4	10.5	9.9	9.6
(C) Measures of Financial Status				
Interest Coverage (x)	674.5	578.2	647.3	726.5
Avg. Cost of Debt (%)	3.6	4.1	6.0	13.0
Debtors Period (days)	2.6	2.8	2.5	2.5
Closing stock (days)	17.4	16.1	16.0	16.0
Inventory Turn. Ratio (x)	20.9	22.7	22.8	22.8
Fixed Assets Turnover (x)	5.5	4.2	3.7	3.3
WC Turnover (x)	(10.3)	(1,803.8)	20.3	9.1
Non-Cash WC (₹ Mn)	(7,047)	(12,170)	(14,884)	(16,703)
(D) Measures of Investment				
EPS (₹.) (excl EO)	596	638	1,005	1,232
EPS (₹.)	613	719	1,005	1,232
CEPS (₹.)	669	801	1,112	1,360
DPS (₹.)	100	110	200	260
Dividend Payout (%)	16.3	15.3	19.9	21.1
Profit Ploughback (%)	83.7	84.7	80.1	78.9
Book Value (₹.)	1,964	2,579	3,350	4,278
RoANW (%)	37.8	31.7	33.9	32.3
RoACE (%)	42.4	44.2	43.0	41.4
RoAIC (%)	45.0	48.8	53.3	54.6
(E) Valuation Ratios				
CMP (₹.)	27,610	27,610	27,610	27,610
P/E (x)	45.1	38.4	27.5	22.4
Market Cap. (₹. Mn.)	751,268	752,649	752,649	752,649
MCap/ Sales (x)	10.7	8.4	6.9	5.8
EV (₹. Mn.)	752,136	742,037	732,876	722,359
EV/Sales (x)	10.7	8.3	6.7	5.6
EV/EBDITA (x)	34.6	26.4	20.7	16.7
P/BV (x)	14.1	10.7	8.2	6.5
Dividend Yield (%)	0.4	0.4	0.7	0.9

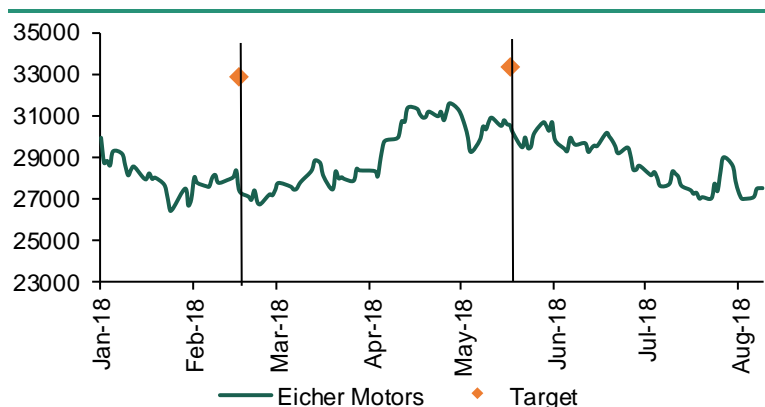
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
Feb-18	Accumulate	32,799	28,400
May-18	Accumulate	33,308	30,400

* As on Recommendation Date

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