

Eicher Motors (EIM IN)

Rating: ACCUMULATE | CMP: Rs21,673 | TP: Rs22,869

In-line performance; downgrade to Accumulate

Quick Pointers:

- RE bookings/inquiries back to pre-COVID level as 90% of the dealerships have resumed. However, supply chain hinderances prevail in the short run.
- Volvo Buses India to integrate with VECV- The transaction will include transfer of bus manufacturing facility at Hisakote, Bangalore and all employees.

We downgrade EIM to Accumulate as we think recent valuation catch-up at 27x/23x FY22/23 EPS factors in near to med term positive. Structurally we remain positive on key factors such as 1) RE's under penetration in key motorcycling states (market share of <4% v/s national average of 6%) and 2) RE's monopoly for upgrade options in >300CC segment. In 1QFY21 EIM's consolidated performance were in-line with breakeven margins at 0.5%. This we believe is a reasonable performance in challenging conditions with high fixed cost structure. We cut FY21 consol EPS by 3.5% to factor in for weak VECV margins and maintain FY22/23 earnings. We downgrade the stock to Accumulate with revised price target of Rs22,869 (v/s Rs20,852) as we value stock at 25x in line with 10 year LPA v/s 24x earlier) rolled forward to Sep-22 consol EPS.

Consol revenue was broadly in-line at Rs8.1bn (-66% YoY, PLe Rs7.7bn) led by decline in RE volumes by 69% YoY partially offset by ~5% YoY increase in RE realization at Rs133.3k/unit (in-line). VECV reported ~72% YoY decline in revenue at Rs6.4bn as volumes declined by 84% YoY while realizations improved by ~7%.

Cost control ensured EBITDA breakeven (in-line): Led by cost control initiatives EBITDA margins came in line at Rs38m (PLe Rs34m) **with breakeven margins at 0.5%** (v/s 25.8% in Q1FY20, in-line). However, higher depreciation at Rs982m (PLe Rs650m) and lower other income at Rs1.2b (PLe Rs1.1b) led to adj. loss at Rs552m (PLe adj profit of Rs159m).

Volvo Buses India to integrate with VECV: EIM has announced acquisition of Volvo bus India for consideration of Rs1b on slump sales basis. This shall include entire business operations of Volvo India (ex-debt). While this might help VECV to gain technological benefits however we believe the funds could have been utilized for better impetus. We don't factor for the same as we await details.

Key con-call takeaways: 1) Bookings have reached to pre-COVID level as 90% of dealers have restarted operations. 2) Utilization at RE is lower at ~40% due to supply challenges (Could have easily dispatch 15-20% more in the month of July). 3) Bookings of ~45k units while inventory level is at just 10k units (<1 week). 4) Presently have ~638 studio stores (added 38 in Q1), while total touchpoints tally has reached to 1559 in India. 5) Exports - Added 5 exclusive and 32 multi branded stores in International market. Aiming volume contribution from exports at ~20% (v/s 5%) in long term. 6) Sticking to the plan of new model/variant launch a quarter. However, the launch schedule has been delayed to Sep/Oct (from April). Expect series of new launched from end of Q2.

August 13, 2020

Q1FY21 Result Update

☑ Change in Estimates | ☑ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		BUY	
Target Price	22,869		20,852	
Sales (Rs. m)	1,06,727	1,19,719	1,08,118	1,21,280
% Chng.	(1.3)	(1.3)		
EBITDA (Rs. m)	27,698	32,434	27,654	32,424
% Chng.	0.2	-		
EPS (Rs.)	798.9	941.9	798.9	942.9
% Chng.	-	(0.1)		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	91,536	89,039	1,06,727	1,19,719
EBITDA (Rs. m)	21,804	20,291	27,698	32,434
Margin (%)	23.8	22.8	26.0	27.1
PAT (Rs. m)	18,275	15,995	21,793	25,696
EPS (Rs.)	669.9	586.3	798.9	941.9
Gr. (%)	(17.7)	(12.5)	36.2	17.9
DPS (Rs.)	125.0	135.0	140.0	140.0
Yield (%)	0.6	0.6	0.6	0.6
RoE (%)	19.3	15.1	18.0	18.2
RoCE (%)	18.6	15.4	19.5	19.7
EV/Sales (x)	5.9	5.9	4.8	4.1
EV/EBITDA (x)	24.7	26.0	18.5	15.2
PE (x)	32.4	37.0	27.1	23.0
P/BV (x)	5.9	5.3	4.5	3.9

Key Data

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52-W High / Low	Rs.23,450 / Rs.12,450
Sensex / Nifty	38,310 / 11,300
Market Cap	Rs.592bn/ \$ 7,906m
Shares Outstanding	27m
3M Avg. Daily Value	Rs.10143.46m

Shareholding Pattern (%)

Promoter's	49.28
Foreign	26.95
Domestic Institution	11.94
Public & Others	11.83
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	10.3	12.0	30.2
Relative	5.6	21.2	25.6

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Exhibit 1: Q1FY21 Result Overview - Consolidated (Rs m)

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Net Revenues	8,182	23,819	(65.7)	22,082	89,039	91,536	(2.7)
Raw Materials	5,011	12,772	(60.8)	12,439	50,752	49,959	1.6
<i>% of Net Sales</i>	<i>61.2</i>	<i>53.6</i>		<i>56.3</i>	<i>57.0</i>	<i>54.6</i>	
Personnel	1,769	2,116	(16.4)	2,136	7,642	7,958	(4.0)
<i>% of Net Sales</i>	<i>21.6</i>	<i>8.9</i>		<i>9.7</i>	<i>8.6</i>	<i>8.7</i>	
Manufacturing & Other Exp	1,364	2,787	(51.0)	2,685	10,354	11,315	(8.5)
<i>% of Net Sales</i>	<i>16.7</i>	<i>11.7</i>		<i>12.2</i>	<i>11.6</i>	<i>12.4</i>	
Total Expenditure	8,144	17,675	(53.9)	17,260	68,748	69,232	(0.7)
EBITDA	38	6,145	(99.4)	4,822	20,291	22,304	(9.0)
<i>EBITDA Margin (%)</i>	<i>0.5</i>	<i>25.8</i>		<i>21.8</i>	<i>22.8</i>	<i>24.4</i>	
Depreciation	982	876	12.1	1,089	3,756	3,815	(1.6)
EBIT	-944	5,269	(117.9)	3,733	16,535	18,488	(10.6)
Interest Expenses	51	47	9.0	55	100	189	(47.0)
Non-operating income	1,142	1,204	(5.1)	1,431	5,015	5,433	(7.7)
Extraordinary Expenses	0	0		0	0	0	#DIV/0!
PBT	147	6,426	(97.7)	5,109	21,450	23,732	(9.6)
Tax-Total	45	2,117	(97.9)	1,426	4,829	5,275	(8.4)
<i>Tax Rate (%) - Total</i>	<i>30.6</i>	<i>32.9</i>		<i>27.9</i>	<i>22.5</i>	<i>22.2</i>	
Reported PAT	102	4,309	(97.6)	3,683	16,621	18,457	(10.0)
Share of profit	-654	209	NA	-140	-625	317	NA
Profit after MI	-552	4,518	NA	4,043	15,995	19,274	(17.0)
Adj. PAT	-552	4,518	NA	3,543	15,995	18,774	(14.8)

Source: Company, PL

Exhibit 2: Operating Metrics - Standalone

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Sales Volume (nos)	57,269	1,83,589	(68.8)	1,62,978	6,45,773	6,95,947	(7.2)
Net Realisation/Vehicle	1,42,863	1,29,742	10.1	1,35,489	1,37,879	1,31,527	4.8
Material cost / vehicle	87,492	69,570	25.8	76,323	78,591	71,786	9.5
Gross Profit / vehicle	55,370	60,172	(8.0)	59,167	59,288	59,741	(0.8)
Employee cost /vehicle	30,884	11,524	168.0	13,105	11,833	11,434	3.5
Other expenses / vehicle	23,824	15,178	57.0	16,476	16,034	16,259	(1.4)
EBITDA/vehicle	662	33,470	(98.0)	29,586	31,421	32,048	(2.0)
Net Profit/vehicle	-9,635	24,608	(139.2)	21,738	24,770	26,977	(8.2)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	91,536	89,039	1,06,727	1,19,719
YoY gr. (%)	(6.6)	(2.7)	19.9	12.2
Cost of Goods Sold	49,959	50,752	57,739	64,649
Gross Profit	41,577	38,287	48,988	55,071
Margin (%)	45.4	43.0	45.9	46.0
Employee Cost	7,958	7,642	8,161	8,717
Other Expenses	11,816	10,354	13,129	13,920
EBITDA	21,804	20,291	27,698	32,434
YoY gr. (%)	(24.9)	(6.9)	36.5	17.1
Margin (%)	23.8	22.8	26.0	27.1
Depreciation and Amortization	3,815	3,756	4,075	4,716
EBIT	17,988	16,535	23,622	27,718
Margin (%)	19.7	18.6	22.1	23.2
Net Interest	189	100	80	80
Other Income	5,433	5,015	5,150	5,150
Profit Before Tax	23,232	21,450	28,692	32,788
Margin (%)	25.4	24.1	26.9	27.4
Total Tax	5,275	4,829	7,006	8,004
Effective tax rate (%)	22.7	22.5	24.4	24.4
Profit after tax	17,957	16,621	21,686	24,783
Minority interest	-	-	-	-
Share Profit from Associate	317	(625)	107	913
Adjusted PAT	18,275	15,995	21,793	25,696
YoY gr. (%)	(17.7)	(12.5)	36.2	17.9
Margin (%)	20.0	18.0	20.4	21.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	18,275	15,995	21,793	25,696
YoY gr. (%)	(17.0)	(12.5)	36.2	17.9
Margin (%)	20.0	18.0	20.4	21.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	18,275	15,995	21,793	25,696
Equity Shares O/s (m)	27	27	27	27
EPS (Rs)	669.9	586.3	798.9	941.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	36,518	46,875	54,758	62,891
Tangibles	36,518	46,875	54,758	62,891
Intangibles	-	-	-	-
Acc: Dep / Amortization	12,743	16,499	20,574	25,290
Tangibles	12,743	16,499	20,574	25,290
Intangibles	-	-	-	-
Net fixed assets	23,775	30,377	34,184	37,601
Tangibles	23,775	30,377	34,184	37,601
Intangibles	-	-	-	-
Capital Work In Progress	3,122	250	250	250
Goodwill	-	-	-	-
Non-Current Investments	32,363	31,738	31,844	32,757
Net Deferred tax assets	(2,522)	(2,522)	(2,522)	(2,522)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	25,125	25,125	25,125	25,125
Inventories	5,724	5,367	6,433	7,216
Trade receivables	868	732	877	984
Cash & Bank Balance	29,506	39,401	54,971	72,711
Other Current Assets	4,014	4,269	5,117	5,740
Total Assets	1,24,497	1,37,257	1,58,802	1,82,384
Equity				
Equity Share Capital	273	273	273	273
Other Equity	99,536	1,11,849	1,29,823	1,51,700
Total Network	99,809	1,12,122	1,30,096	1,51,973
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,617	-	-	-
Trade payables	10,277	10,977	13,158	14,760
Other current liabilities	9,273	11,011	12,508	13,525
Total Equity & Liabilities	1,24,497	1,37,257	1,58,802	1,82,384

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	23,549	21,450	28,692	32,788
Add. Depreciation	3,815	3,756	4,075	4,716
Add. Interest	(2,207)	5,015	5,150	5,150
Less Financial Other Income	5,433	5,015	5,150	5,150
Add. Other	(515)	(3,430)	(4,421)	(4,676)
Op. profit before WC changes	24,642	26,791	33,496	37,977
Net Changes-WC	(1,418)	1,193	969	712
Direct tax	(6,283)	(4,829)	(7,006)	(8,004)
Net cash from Op. activities	16,941	23,156	27,459	30,685
Capital expenditures	(5,445)	(7,486)	(7,883)	(8,133)
Interest / Dividend Income	-	-	-	-
Others	(9,639)	625	(107)	(913)
Net Cash from Invst. activities	(15,084)	(6,861)	(7,990)	(9,046)
Issue of share cap. / premium	289	-	-	-
Debt changes	(709)	(2,617)	-	-
Dividend paid	(8,087)	(3,683)	(3,819)	(3,819)
Interest paid	(75)	(100)	(80)	(80)
Others	-	-	-	-
Net cash from Fin. activities	(8,583)	(6,400)	(3,899)	(3,899)
Net change in cash	(6,725)	9,895	15,570	17,740
Free Cash Flow	11,497	15,670	19,576	22,552

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	21,925	23,710	22,082	8,182
YoY gr. (%)	(9.0)	1.3	(11.7)	(65.7)
Raw Material Expenses	11,849	12,900	12,439	5,011
Gross Profit	10,076	10,810	9,643	3,171
Margin (%)	46.0	45.6	43.7	38.8
EBITDA	5,414	5,923	4,822	38
YoY gr. (%)	(25.8)	(12.8)	(29.6)	(99.4)
Margin (%)	24.7	25.0	21.8	0.5
Depreciation / Depletion	898	952	1,089	982
EBIT	4,516	4,971	3,733	(944)
Margin (%)	20.6	21.0	16.9	(11.5)
Net Interest	44	43	55	51
Other Income	1,450	1,347	1,431	1,142
Profit before Tax	5,922	6,275	5,109	147
Margin (%)	27.0	26.5	23.1	1.8
Total Tax	278	1,454	1,426	45
Effective tax rate (%)	4.7	23.2	27.9	30.6
Profit after Tax	5,644	4,821	3,683	102
Minority interest	-	-	-	-
Share Profit from Associates	83	166	(140)	(654)
Adjusted PAT	5,727	4,987	3,543	(552)
YoY gr. (%)	1.1	(6.4)	(35.0)	(112.2)
Margin (%)	26.1	21.0	16.0	(6.7)
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,727	4,987	3,543	(552)
YoY gr. (%)	4.4	(6.4)	(35.0)	(112.2)
Margin (%)	26.1	21.0	16.0	(6.7)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,727	4,987	3,543	(552)
Avg. Shares O/s (m)	27	27	27	27
EPS (Rs)	212.2	184.8	131.3	(20.4)

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	669.9	586.3	798.9	941.9
CEPS	809.7	724.0	948.3	1,114.8
BVPS	3,658.7	4,110.0	4,768.9	5,570.8
FCF	421.4	574.4	717.6	826.7
DPS	125.0	135.0	140.0	140.0
Return Ratio(%)				
RoCE	18.6	15.4	19.5	19.7
ROIC	33.0	30.0	43.5	48.5
RoE	19.3	15.1	18.0	18.2
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.6)	(0.6)	(0.6)
Net Working Capital (Days)	(15)	(20)	(20)	(20)
Valuation(x)				
PER	32.4	37.0	27.1	23.0
P/B	5.9	5.3	4.5	3.9
P/CEPS	26.8	29.9	22.9	19.4
EV/EBITDA	24.7	26.0	18.5	15.2
EV/Sales	5.9	5.9	4.8	4.1
Dividend Yield (%)	0.6	0.6	0.6	0.6

Source: Company Data, PL Research

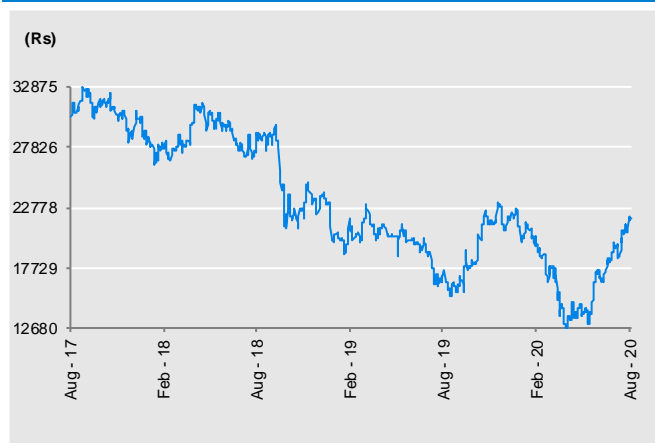
Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Royal Enfield volumes (units)	6,95,947	6,45,773	7,58,679	8,34,547
Net Realisation (Rs/unit)	1,29,445	1,36,660	1,39,458	1,42,192
VECV volume (units)	48,721	42,918	49,220	56,465

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Jul-20	BUY	20,852	19,465
2	14-Jun-20	BUY	18,665	16,857
3	09-Apr-20	BUY	17,990	13,742
4	25-Mar-20	BUY	18,032	14,517
5	06-Feb-20	Hold	20,681	20,391
6	03-Jan-20	Reduce	20,280	21,189
7	09-Nov-19	Reduce	19,152	21,640
8	03-Oct-19	Reduce	15,800	18,285

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	Accumulate	59	51
2	Bajaj Auto	Hold	2,713	2,985
3	Bharat Forge	Hold	401	436
4	CEAT	Accumulate	951	845
5	Eicher Motors	BUY	20,852	19,465
6	Exide Industries	BUY	183	155
7	Hero Motocorp	Accumulate	2,855	2,681
8	Mahindra & Mahindra	BUY	703	600
9	Maruti Suzuki	BUY	6,858	6,192
10	Motherson Sumi Systems	BUY	125	107
11	Tata Motors	Hold	108	105
12	TVS Motors	Sell	365	402

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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