

Eicher Motors

India Research

RESULT REVIEW

 Bloomberg: EIM IN
 Reuters: EICH.NS

HOLD

Transition towards Moderating Growth Era.....

Eicher Motors (EICHER) Q2FY19 results were better than our expectations. The Company has been witnessing volume growth slowdown in the recent past on account of high base effect and moderate saturation in the premium bike market in India. Though EICHER is planning to scale up its export business and launch new high end bikes (Continental GT 650 and Interceptor 650 Twin) in the near term, we believe, it may not compensate slackness in its core business of 350cc bikes. We clearly see high volume growth phase of 20 %+ for EICHER is a thing of the past. We believe investor needs to reset their growth expectations from the Company which is likely to be in the range of 14-18% in the medium term. On account of production disruption due to strike in its manufacturing facility and general slowdown in the market, we revise our volume and PAT estimates by 1.7%/2.5% and 3.1%/3.8% for FY19 and FY20 respectively. We also revise our rating from BUY to HOLD with a revised price target to Rs24586 (PER of 22x FY20E earnings).

Q2FY19 Result Highlights: During Q2FY19, EICHER sales grew by 11.1% YoY to Rs24.1bn (our Estimates Rs23.3bn), driven by 3.6% volume growth and a 7.3% increase in average realizations. EBITDA margins during the quarter contracted by 121bps YoY to 30.3% (Our estimates 31.5%) on account of higher staff cost and other expenditure. PAT increased by 5.9% YoY to Rs5.5bn which was 10.1% higher than our estimates.

Volume impacted due to Employee strike: During Q2FY19, EICHER reported muted 3.6% volume growth on account of employee strike at one of its manufacturing facility (Oragadam, Tamil Nadu). As per the management, the company witnessed production loss of 25,000 motorcycles in September and October month.

New Launches in the next 2-3 weeks: The Company is expected to formally launch two new flagship bikes, the Interceptor 650 and Continental GT 650 in the next 2-3 weeks in India. EICHER plans to launch these new models in Indian and International market simultaneously and anticipates strong response from the buyers. We have not factored-in volumes from these new models in our estimates as we await for the initial response from the customers.

Key Financials:

Y/E (Rs mn)	FY17	FY18	FY19E	FY20E
Net sales	70,334	89,650	1,07,422	1,26,470
EBIDTA	21,740	28,076	33,481	39,532
Margin (%)	30.9%	31.3%	31.2%	31.3%
PAT	16,671	19,597	25,730	30,464
Margin %	23.7%	21.9%	24.0%	24.1%
EPS (Rs)	630	800	944	1,118
ROCE (%)	36.1%	30.6%	30.7%	28.4%
ROE (%)	37.1%	31.7%	31.7%	29.1%
EV/EBITDA (x)	25.2	19.0	15.4	12.4
PE (x)	34.9	27.5	23.3	19.7

Source: Karvy Stock Broking

Recommendation

CMP:	Rs21,977
Target Price:	Rs24,586
Downside (%)	11.9%

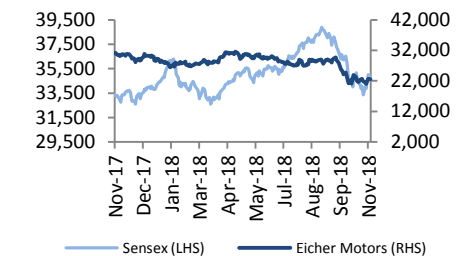
Stock Information

Market Cap. (Rsbn / US\$ mn)	598/8,207
52-week High/Low (Rs)	32,237/20,001
3m ADV (Rsmn / US\$ mn)	2,320/32
Beta	1.1
Sensex/ Nifty	34,813/10,482
Share outstanding (mn)	27

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(8.2)	(22.8)	(28.3)	(27.7)
Rel. to Sensex	(8.5)	(16.5)	(32.0)	(29.3)

Performance



Source: Bloomberg

Earnings Revision

(%)	FY19E	FY20E
Revenue	↓ 1.6	↓ 2.3
EBITDA	↓ 3.5	↓ 4.2
PAT	↓ 3.5	↓ 4.3

Source: Karvy Stock Broking

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Eicher Motors

Earning Revision: To factor in production loss due to strike in its manufacturing facility and general slowdown in the market, we reduce our volume estimates by 1.7%/2.5% for FY19 and FY20 respectively. We also reduce our sales and PAT estimates by 1.6%/2.3% and 3.1%/3.8% for FY19 and FY20 respectively.

Outlook and Valuations: Eicher is currently witnessing volume growth slowdown on account of high base effect and moderate saturation in the premium bike market. It is planning to scale up its export business and launch new high end bikes, we believe, it may not compensate slackness in its core business. We understand investor needs to reset their volume growth expectations from EICHER which is likely to be in the range of 14-18% in the medium term. Over FY18-20E, we expect, EICHER to report 13.2% volume CAGR, 18.8% sales CAGR and 18.9% PAT CAGR. The Company is expected to report EPS of Rs944 and Rs1118 in FY19E and FY20E respectively. At CMP of Rs21,997 EICHER stock is quoting at PE of 19.7x FY20 earnings. We revise our rating from BUY to HOLD with a revised price target to Rs24586 (PER of 22x FY20E earnings).

Exhibit 1: Quarterly Performance

Rs Mn	Q2FY19	Q2FY18	Y-o-Y %	Q1FY19	Q-o-Q %
Net Sales	24,082	21,673	11.1%	25,478	-5.5%
Raw Material	12,192	11,285	8.0%	13,115	7.0%
Staff Cost	1,760	1,355	29.9%	1,709	3.0%
Other expenditure	2,837	2,208	28.5%	2,558	10.9%
Total Expenditure	16,789	14,848	13.1%	17,382	-3.4%
EBITDA	7,293	6,825	6.9%	8,096	-9.9%
Depreciation	722	492	46.8%	702	2.9%
EBIT	6,571	6,334	3.8%	7,395	-11.1%
Interest	18	13	38.0%	15	16.3%
Other Income	940	699	34.3%	596	57.6%
PBT	7,493	7,020	6.7%	7,975	-6.0%
Tax	2,602	2,243	16.0%	2,856	-8.9%
PAT	4,891	4,777	2.4%	5,119	-4.5%
Extraordinary	597	403	47.9%	643	-7.2%
Reported PAT	5,488	5,180	5.9%	5,762	-4.8%
EPS (Rs)	201.3	190.0	5.9%	211.4	-4.8%
Margins (%)	Q2FY19	Q2FY18	Y-o-Y %	Q1FY19	Q-o-Q %
Gross margins	49.4%	47.9%	143.9bps	48.5%	84.6bps
EBITDA	30.3%	31.5%	(120.8)bps	31.8%	(149.3)bps
PAT	22.8%	23.9%	(111.4)	22.6%	17.2
Tax Rate	34.7%	32.0%	277.1bps	35.8%	(109.1)bps

Source: Company, Karvy Stock Broking

Eicher Motors
Key Con-call Highlights –

- The company's production capacity plan of 950000 motorcycles for FY2018-19 is likely to come down by at least 25,000 units.
- Current production capacity of the company stood at 2,300-2,400 bikes per day and average waiting period for its product portfolio has come off to 2-3 weeks.
- The company is setting up Phase-II of Vallam Vadagal plant near Chennai at a cost of Rs 8bn.
- The company is likely to commence the production of new Twin motorcycles "Interceptor 650 and Continental GT 650" in November 2018 in India.
- The Company has received very encouraging media and press coverage for its Twin motorcycles "Interceptor 650 and Continental GT 650" in India and abroad.
- The company is likely to incur some additional cost on advertisement and promotion in coming quarters due to new launches.

Financials:

Exhibit 2: Variance		(Rs mn)	
Old	FY19E	FY20E	
OLD ESTIMATES			
Volumes (nos)	9,36,518	10,79,307	
Net sales	1,09,121	1,29,462	
EBITDA	34,681	41,258	
Margins	31.8%	31.9%	
PAT	23,807	28,380	
NEW ESTIMATES			
Volumes (nos)	9,20,493	10,51,905	
Net sales	1,07,422	1,26,470	
EBITDA	33,481	39,532	
Margins	31.2%	31.3%	
PAT	22,985	27,170	
CHANGE			
Volumes	-1.7%	-2.5%	
Net sales	-1.6%	-2.3%	
EBITDA	-3.5%	-4.2%	
Margins	-61bps	-61bps	
PAT	-3.5%	-4.3%	

Source: Company, Karvy Stock Broking

Eicher Motors
Exhibit 3: Profit & Loss Statement

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E
Net Sales	70,334	89,650	1,07,422	1,26,470
YoY (%)	13.9	27.5	19.8	17.7
Raw material cost	37,045	46,435	56,231	66,202
Employee Cost	4,263	5,737	6,874	8,081
Admin Expenses	7,287	9,402	10,836	12,655
Total expenses	48,594	61,573	73,941	86,938
EBIDTA	21,740	28,076	33,481	39,532
EBIDTA Margin (%)	30.9%	31.3%	31.2%	31.3%
Depreciation	1,538	2,233	3,202	4,083
EBIT	20,202	25,843	30,279	35,449
Interest	36	53	53	53
Other income	2,273	2,801	3,945	4,996
PBT	22,439	28,591	34,171	40,392
(-) Tax	7,203	9,359	11,186	13,222
Tax/ PBT	32.1	32.7	32.7	32.7
PAT	15,236	19,232	22,985	27,170
PAT(%)	23.7%	21.9%	24.0%	24.1%
Share of Associate	1,895	2,566	2,745	3,294
Consolidated PAT	17,131	21,797	25,730	30,464
Less: Extraordinary Items	-460	-2201	0	0
Reported PAT	16,671	19,597	25,730	30,464

Source: Company, Karvy Stock Broking

Eicher Motors
Exhibit 4: Balance sheet

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E
Equity capital	272	273	273	273
Reserves	53,179	70,028	91,594	1,17,128
Net worth	53,451	70,301	91,867	1,17,401
Total Loans	1,119	1,508	1,508	1,508
Total Liabilities	55,347	73,230	94,796	1,20,330
Gross block	12,951	21,443	29,443	35,443
Less: Acc. depreciation	4,224	6,426	9,628	13,711
Net block	8,728	15,017	19,815	21,732
Work in progress	3,738	3,332	3,332	3,332
Investments	50,220	56,218	56,218	56,218
Inventories	3,359	3,946	5,549	6,533
Debtors	500	680	707	833
Cash	251	12,120	27,447	53,195
Loans and advances	3,295	3,909	4,683	5,514
Current assets	7,405	20,655	38,387	66,074
Current liabilities	14,058	21,229	22,042	25,950
Provisions	686	763	915	1,077
Net current assets	-7,339	-1,337	15,431	39,048
Total Assets	55,347	73,230	94,796	1,20,330

Source: Company, Karvy Stock Broking

Exhibit 5: Cash Flow Statement

Cash Flow	FY17	FY18	FY19E	FY20E
Net profit	16,671	19,597	25,730	30,464
Depreciation	1,538	2,233	3,202	4,083
Deferred tax	417	586	0	0
Change in W/C	1,490	5,868	-1,441	2,131
Operating cash flow	20,116	28,284	27,491	36,677
Capex	-5,161	-8,059	-8,000	-6,000
Investments	-16,338	-5,998	0	0
Investing cash flow	-21,499	-14,057	-8,000	-6,000
Free Cash Flow	14,955	20,224	19,491	30,677
Dividend	0	-3,171	-4,164	-4,930
Equity	249	425	0	0
Debt	893	390	0	0
Financing cash flow	1,142	-2,357	-4,164	-4,930
Net change in cash	-241	11,869	15,327	25,748
Opening cash	492	251	12,120	27,447
Closing cash	251	12,120	27,447	53,195

Source: Company, Karvy Stock Broking

Eicher Motors
Exhibit 6: Ratios

Valuation Ratios	FY17	FY18	FY19E	FY20E
EPS (Rs)	629.6	799.6	943.9	1,117.5
Book value (Rs/share)	1,964	2,579	3,370	4,307
P/E (x)	34.9	27.5	23.3	19.7
EV/EBDITA (x)	25.2	19.0	15.4	12.4
P/B (x)	11.2	8.5	6.5	5.1
EV/Sales (x)	7.8	5.9	4.8	3.9
ROCE (%)	36.1%	30.6%	30.7%	28.4%
ROE (%)	37.1%	31.7%	31.7%	29.1%
Free cash/Share (Rs)	274.8	371.0	357.5	562.7
Dividend/ Share	0	50	66	78
Dividend Yield	0.0%	0.2%	0.3%	0.4%
Gross Asset Turnover (x)	1.5	1.4	1.3	1.2
Avg Net WC Days (x)	6.0	5.2	4.2	3.9
Net W/C (% of sales)	-10.8%	-15.0%	-11.2%	-11.2%

Source: Company, Karvy Stock Broking

Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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