

ADD

TP: Rs 18,100 | ▲ 7%

EICHER MOTORS

Auto Components

13 June 2020

Downtrading fears could dent volumes – cut to ADD

Eicher Motors (EIM) reported in-line Q4FY20 revenue but disappointing operating margins at 20.8%, the lowest in the last eight quarters. Due to the economic slowdown, we believe Royal Enfield sales could slow significantly as customers either postpone purchases or downtrade to cheaper models. We tweak FY20-FY22 estimates and now expect EIM to post a 4%/5%/4% CAGR in revenue/EBITDA/PAT. We maintain our Mar'21 TP at Rs 18,100 but downgrade the stock from BUY to ADD as upsides look capped post the recent rally.

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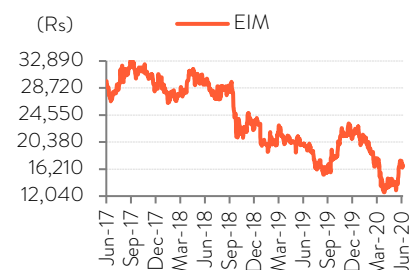
Disappointing Q4: EIM's standalone topline declined 13% YoY as a 17% drop in volumes was only partly offset by a 5% rise in ASP. EBITDA at Rs 4.5bn (-35% YoY) came in much lower than estimates. The company reported weak quarterly operating margins of 20.8% (vs. 24.9% estimated) owing to an increase of ~Rs 5,000 per bike in input costs and lower operating efficiencies. Reported PAT declined 28% YoY to Rs 3.5bn.

Ticker/Price	EIM IN/Rs 16,857
Market cap	US\$ 6.0bn
Shares o/s	27mn
3M ADV	US\$ 49.5mn
52wk high/low	Rs 23,450/Rs 12,450
Promoter/FPI/DII	49%/32%/7%

Source: NSE

Covid-19 downtrading fears: Due to the significant dent in personal incomes of most salaried as well as self-employed people owing to the pandemic, we believe Royal Enfield (RE) could be one of the hardest hit companies. RE sales have dropped steadily over the last few quarters amid slower economic activity. We believe the company could witness a ~15% YoY volume decline in its FY21 annual sales.

STOCK PERFORMANCE



Source: NSE

Cut to ADD: We expect EIM to clock a revenue/ EBITDA/PAT CAGR of 4%/5%/4%. We forecast a ~400bps drop in ROCE and ROE by end-FY22 to ~20% each. Our SOTP-based TP of Rs 18,100 remains unchanged and is based on Rs 16,700 for RE (22x FY22E EPS) and Rs 1,400 for VECV. We, however, downgrade our rating to ADD given the ~22% rally in stock price since May which limits upside potential.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	89,575	97,945	90,775	81,900	97,431
EBITDA (Rs mn)	28,532	29,269	22,038	19,354	24,119
Adj. net profit (Rs mn)	20,249	20,544	21,234	16,560	23,401
Adj. EPS (Rs)	628.4	758.3	697.9	518.5	760.4
Adj. EPS growth (%)	9.6	20.7	(8.0)	(25.7)	46.7
Adj. ROAE (%)	37.7	28.8	24.5	16.8	20.2
Adj. P/E (x)	26.8	22.2	24.2	32.5	22.2
EV/EBITDA (x)	15.9	15.1	19.0	22.2	18.5

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)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Net Revenues	21,795	24,996	(12.8)	23,635	(7.8)	90,775	97,945	(7.3)
Raw Materials	12,310	13,382	(8.0)	12,926	(4.8)	49,858	50,628	(1.5)
% of Net Sales	56.5	53.5	-	54.7	-	54.9	51.7	-
Personnel	2,051	1,645	24.7	1,776	15.5	7,651	6,795	12.6
% of Net Sales	9.4	6.6	-	7.5	-	8.4	6.9	-
Manufacturing & Other Exp	2,902	3,027	(4.1)	2,981	(2.7)	11,228	11,078	1.4
% of Net Sales	13.3	12.1	-	12.6	-	12.4	11.3	-
Total Expenditure	17,263	18,054	(4.4)	17,683	(2.4)	68,737	68,501	0.3
EBITDA	4,533	6,942	(34.7)	5,952	(23.9)	22,038	29,444	(25.2)
EBITDA Margin (%)	20.8	27.8	-	25.2	-	24.3	30.1	-
Depreciation	1,079	808	33.6	942	14.5	3,779	2,989	26.4
EBIT	3,454	6,134	(43.7)	5,010	(31.1)	18,259	26,455	(31.0)
Interest Expenses	25	8	208.8	27	(9.2)	109	30	263.2
Non-operating income	1,462	1,422	2.8	1,358	7.6	6,153	5,080	21.1
Extraordinary Expenses	0	0	-	0	-	0	(175)	-
Extraordinary Income	0	0	-	0	-	0	0	-
PBT	4,891	7,549	(35.2)	6,341	(22.9)	24,303	31,680	(23.3)
Tax-Total	1,429	2,744	(47.9)	1,452	(1.6)	5,265	10,785	(51.2)
Tax Rate (%) - Total	29.2	36.4	(19.6)	22.9	-	21.7	34.0	(36.4)
Reported PAT	3,462	4,804	(27.9)	4,889	(29.2)	19,038	20,895	(8.9)
Adj. PAT	3,462	4,804	(27.9)	4,889	(29.2)	19,038	20,772	(8.3)
PAT Margin	15.9	19.2	-	20.7	-	21.0	21.2	-

Source: Company, BOBCAPS Research

FIG 2 – PER UNIT PARAMETERS

Y/E Mar (Rs)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Sales Volume (nos)	162,870	196,162	(17.0)	182,781	(10.9)	695,829	826,098	(15.8)
Net Realisation/Vehicle	133,818	127,425	5.0	129,309	3.5	130,455	118,563	10.0
Material Cost/Vehicle	75,581	68,219	10.8	70,719	6.9	71,652	61,285	16.9
Gross Profit/Vehicle	58,238	59,206	(1.6)	58,590	(0.6)	58,803	57,278	2.7
Employee Cost/Vehicle	12,594	8,386	50.2	9,716	29.6	10,996	8,226	33.7
Other Expenses/Vehicle	17,815	15,429	15.5	16,310	9.2	16,136	13,410	20.3
EBITDA/Vehicle	27,829	35,391	(21.4)	32,564	(14.5)	31,671	35,642	(11.1)
Net Profit/Vehicle	21,255	24,492	(13.2)	26,750	(20.5)	27,360	25,145	8.8

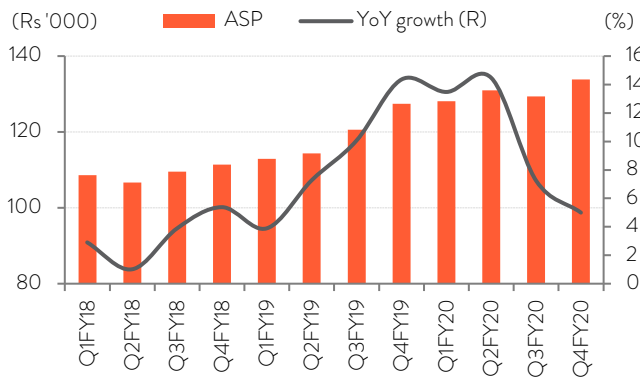
Source: Company, BOBCAPS Research

FIG 3 – QUARTERLY PERFORMANCE – CONSOLIDATED

Y/E Mar (Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Net Revenues	22,082	25,001	(11.7)	23,710	(6.9)	91,536	97,971	(6.6)
Raw Materials	12,439	13,352	(6.8)	12,900	(3.6)	49,959	50,574	(1.2)
% of Net Sales	56.3	53.4	-	54.4	-	54.6	51.6	-
Personnel	2,136	1,707	25.1	1,846	15.7	7,958	7,024	13.3
% of Net Sales	9.7	6.8	-	7.8	-	8.7	7.2	-
Manufacturing & Other Exp	3,185	3,096	2.9	3,042	4.7	11,815	11,341	4.2
% of Net Sales	14.4	12.4	-	12.8	-	12.9	11.6	-
Total Expenditure	17,760	18,154	(2.2)	17,787	(0.2)	69,732	68,940	1.1
EBITDA	4,322	6,847	(36.9)	5,923	(27.0)	21,804	29,031	(24.9)
EBITDA Margin (%)	19.6	27.4	-	25.0	-	23.8	29.6	-
Depreciation	1,089	811	34.3	952	14.4	3,815	3,003	27.1
EBIT	3,233	6,036	(46.4)	4,971	(35.0)	17,988	26,028	(30.9)
Interest Expenses	55	21	158.4	43	29.8	189	73	157.6
Non-operating income	1,431	1,427	0.3	1,347	6.3	5,433	4,434	22.5
Extraordinary Expenses	0	0	-	0	-	0	(175)	-
Extraordinary Income	0	0	-	0	-	0	0	-
PBT	4,609	7,441	(38.1)	6,275	(26.6)	23,232	30,564	(24.0)
Tax-Total	1,426	2,748	(48.1)	1,454	(1.9)	5,275	10,770	(51.0)
Tax Rate (%) - Total	30.9	36.9	(16.2)	23.2	-	22.7	35.2	(35.6)
Reported PAT	3,183	4,694	(32.2)	4,821	(34.0)	17,957	19,794	(9.3)
SOPA/MI	(140)	755	(118.6)	166	(184.6)	317	2,584	(87.7)
Adj. PAT	3,043	5,448	(44.2)	4,987	(39.0)	18,274	22,203	(17.7)
PAT Margin	13.8	21.8	-	21.0	-	20.0	22.7	-

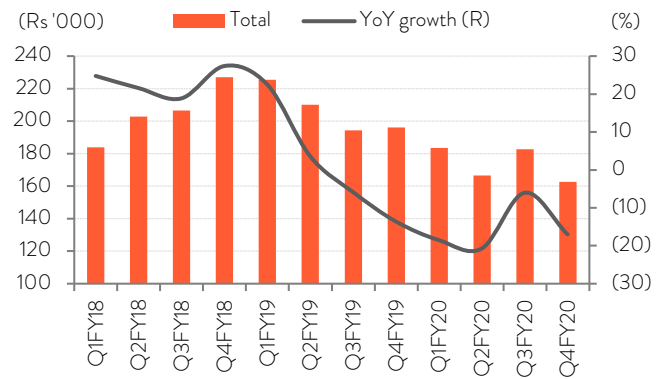
Source: Company, BOBCAPS Research

FIG 4 – AVERAGE SELLING PRICE (ASP) – RE



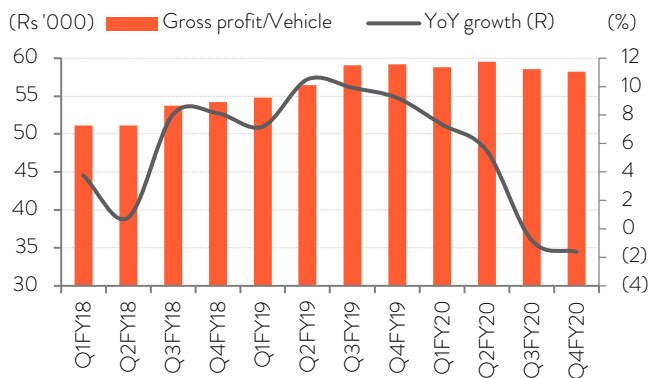
Source: Company, BOBCAPS Research

FIG 5 – VOLUME GROWTH TREND – RE



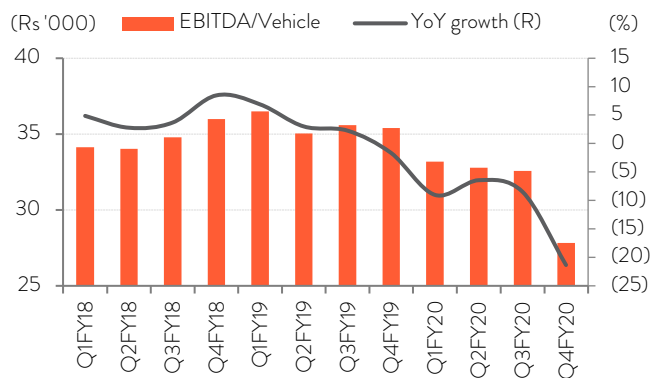
Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 6 – GROSS PROFIT/VEHICLE – RE



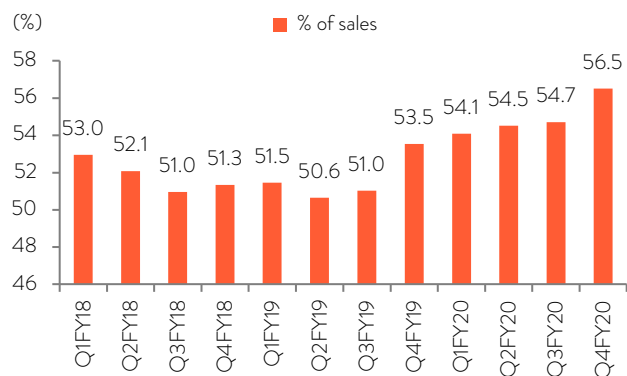
Source: Company, BOBCAPS Research

FIG 7 – EBITDA/VEHICLE – RE



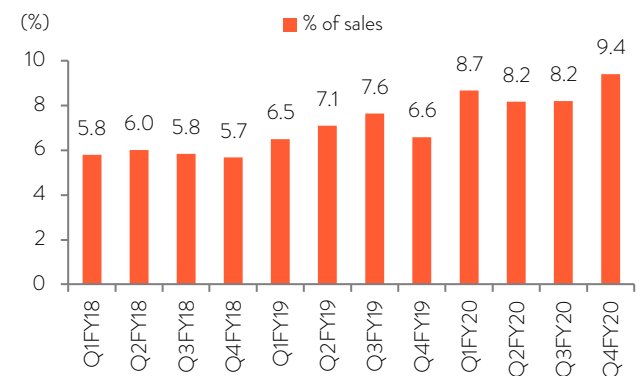
Source: Company, BOBCAPS Research

FIG 8 – RM COST/SALES TREND – RE



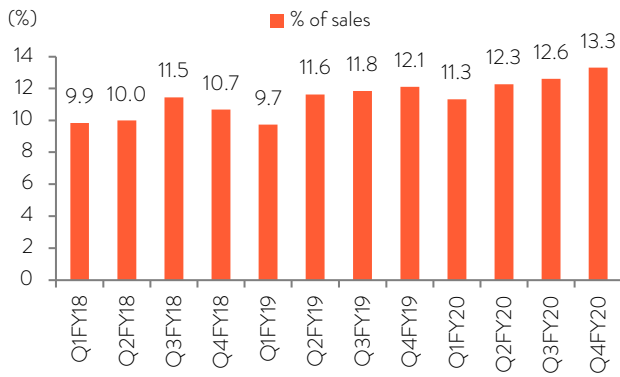
Source: Company, BOBCAPS Research

FIG 9 – EMPLOYEE COST/SALES TREND – RE



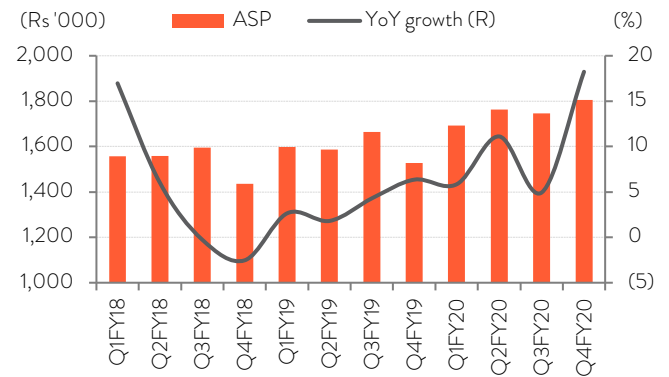
Source: Company, BOBCAPS Research

FIG 10 – OTHER EXPENSES/SALES TREND – RE



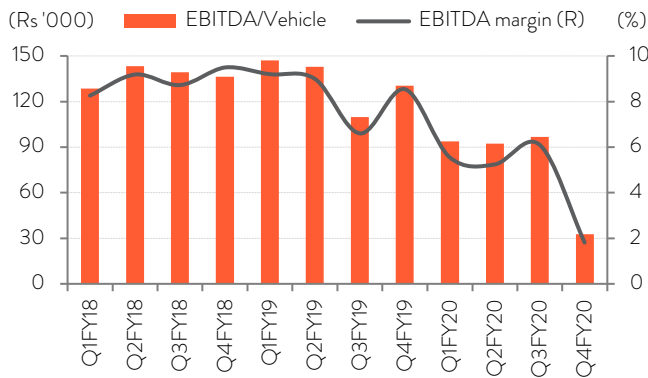
Source: Company, BOBCAPS Research

FIG 11 – AVERAGE SELLING PRICE (ASP) – VECV



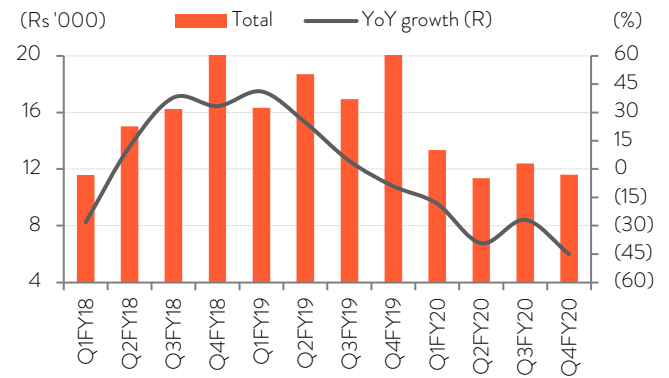
Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 12 – EBITDA/ VEHICLE – VECV



Source: Company, BOBCAPS Research

FIG 13 – VOLUME GROWTH – VECV



Source: Company, BOBCAPS Research

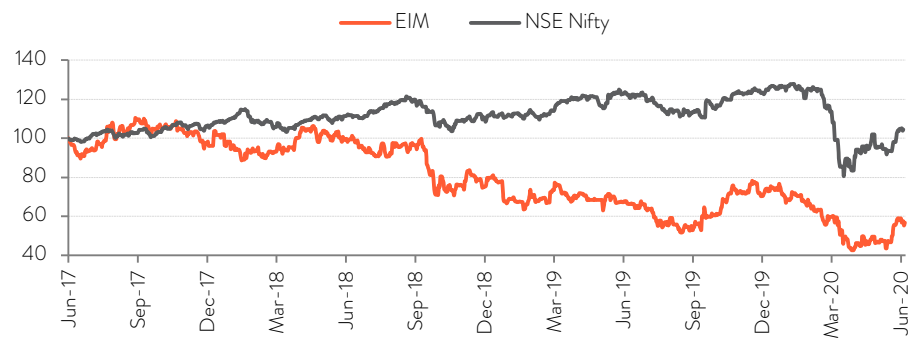
Earnings call highlights

- RE continues to focus on studio stores, opening 100 of these outlets in Q4FY20, taking the total count to 600.
- EIM has sold all RE BS-IV stock and had no inventory left as of end-Mar'20.
- Bookings for RE have now returned to pre-Covid levels. Production remains at ~40% capacity and is gradually ramping up. Supply chain issues persist and will take some time to be ironed out.
- In Q4, EIM expensed ~Rs 500mn on one-offs which included a provision made for recall of bikes, adverse forex movement and under-recovery of BS-VI related costs.
- RE took a price increase of ~Rs 3k in Apr'20 which included passing along of BS-VI costs.
- EIM plans to have similar capex as last year. Major infrastructure outlay is complete and capex would be directed largely towards product development.

Valuation methodology

We expect EIM to clock a revenue/ EBITDA/PAT CAGR of 4%/5%/4%. We forecast a ~400bps drop in ROCE and ROE by end-FY22 to ~20% each. Our SOTP-based target price remains unchanged at Rs 18,100 and is based on Rs 16,700 for RE (22x FY22E EPS) and Rs 1,400 for VECV. We, however, downgrade our rating from BUY to ADD given the ~22% rally in stock price since May which limits upside potential.

FIG 14 – 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	FY20P	FY21E	FY22E
Total revenue	89,575	97,945	90,775	81,900	97,431
EBITDA	28,532	29,269	22,038	19,354	24,119
Depreciation	2,223	2,989	3,779	4,549	5,389
EBIT	29,633	31,360	24,412	19,038	27,851
Net interest income/(expenses)	(30)	(30)	(109)	(130)	(120)
Other income/(expenses)	3,324	5,080	6,153	4,233	9,121
Exceptional items	(3,120)	141	0	0	0
EBT	26,483	31,471	24,303	18,908	27,731
Income taxes	9,354	10,785	5,265	4,765	6,988
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	2,566	2,584	2,196	2,416	2,658
Reported net profit	19,695	23,269	21,234	16,560	23,401
Adjustments	3,120	(141)	0	0	0
Adjusted net profit	20,249	20,544	21,234	16,560	23,401

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	11,295	11,807	11,467	11,261	11,703
Other current liabilities	8,239	5,222	6,779	5,877	6,358
Provisions	1,552	1,991	1,000	1,000	1,000
Debt funds	860	764	764	764	764
Other liabilities	848	961	961	961	961
Equity capital	273	273	273	273	273
Reserves & surplus	53,450	70,992	86,483	98,444	115,641
Shareholders' fund	53,722	71,265	86,756	98,717	115,914
Total liabilities and equities	76,517	92,009	107,727	118,580	136,700
Cash and cash eq.	12,088	29,401	16,385	13,824	13,905
Accounts receivables	780	1,127	1,089	1,228	1,169
Inventories	3,792	6,053	4,539	6,552	5,846
Other current assets	2,250	2,525	2,087	2,097	2,289
Investments	38,660	30,465	55,465	65,465	80,465
Net fixed assets	14,973	18,708	24,929	26,381	29,992
CWIP	3,332	4,497	4,000	3,800	3,800
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(1,430)	(2,765)	(2,765)	(2,765)	(2,765)
Other assets	2,072	1,998	1,998	1,998	1,998
Total assets	76,517	92,009	107,727	118,580	136,700

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	22,472	23,534	25,013	21,108	28,789
Interest expenses	30	30	109	130	120
Non-cash adjustments	(3,324)	(5,080)	(6,153)	(4,233)	(9,121)
Changes in working capital	5,672	(4,763)	2,216	(3,271)	1,496
Other operating cash flows	(460)	(632)	0	0	0
Cash flow from operations	24,390	13,088	21,185	13,735	21,285
Capital expenditures	(8,090)	(7,890)	(9,503)	(5,800)	(9,000)
Change in investments	(3,243)	8,195	(25,000)	(10,000)	(15,000)
Other investing cash flows	3,324	5,080	6,153	4,233	9,121
Cash flow from investing	(8,008)	5,385	(28,350)	(11,567)	(14,879)
Equities issued/Others	283	548	0	0	0
Debt raised/repaid	185	(96)	0	0	0
Interest expenses	(30)	(30)	(109)	(130)	(120)
Dividends paid	(2,722)	(2,999)	(3,546)	(2,182)	(3,546)
Other financing cash flows	638	1,335	0	0	0
Cash flow from financing	(1,646)	(1,242)	(3,655)	(2,312)	(3,666)
Changes in cash and cash eq.	14,736	17,231	(10,820)	(145)	2,739
Closing cash and cash eq.	12,088	29,401	16,385	13,824	13,905

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	628.4	758.3	697.9	518.5	760.4
Adjusted EPS	628.4	758.3	697.9	518.5	760.4
Dividend per share	99.9	109.9	130.0	80.0	130.0
Book value per share	1,970.7	2,612.3	3,180.2	3,618.7	4,249.0

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	5.1	4.5	4.6	5.2	4.6
EV/EBITDA	15.9	15.1	19.0	22.2	18.5
Adjusted P/E	26.8	22.2	24.2	32.5	22.2
P/BV	8.6	6.5	5.3	4.7	4.0

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	64.7	65.7	78.3	74.8	74.8
Interest burden (PBT/EBIT)	89.4	100.4	99.6	99.3	99.6
EBIT margin (EBIT/Revenue)	33.1	32.0	26.9	23.2	28.6
Asset turnover (Revenue/Avg TA)	186.8	152.5	112.4	86.7	89.4
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	36.9	33.1	24.1	15.3	19.3

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Revenue	27.3	9.3	(7.3)	(9.8)	19.0
EBITDA	29.3	2.6	(24.7)	(12.2)	24.6
Adjusted EPS	9.6	20.7	(8.0)	(25.7)	46.7
Profitability & Return ratios (%)					
EBITDA margin	31.9	29.9	24.3	23.6	24.8
EBIT margin	33.1	32.0	26.9	23.2	28.6
Adjusted profit margin	22.6	21.0	23.4	20.2	24.0
Adjusted ROAE	37.7	28.8	24.5	16.8	20.2
ROCE	40.0	32.1	23.7	15.1	19.1
Working capital days (days)					
Receivables	3	4	4	5	4
Inventory	14	18	21	25	23
Payables	74	83	85	92	79
Ratios (x)					
Gross asset turnover	0.2	0.3	0.4	0.5	0.5
Current ratio	0.9	2.1	1.3	1.3	1.2
Net interest coverage ratio	974.8	1,048.8	224.0	146.4	232.1
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%

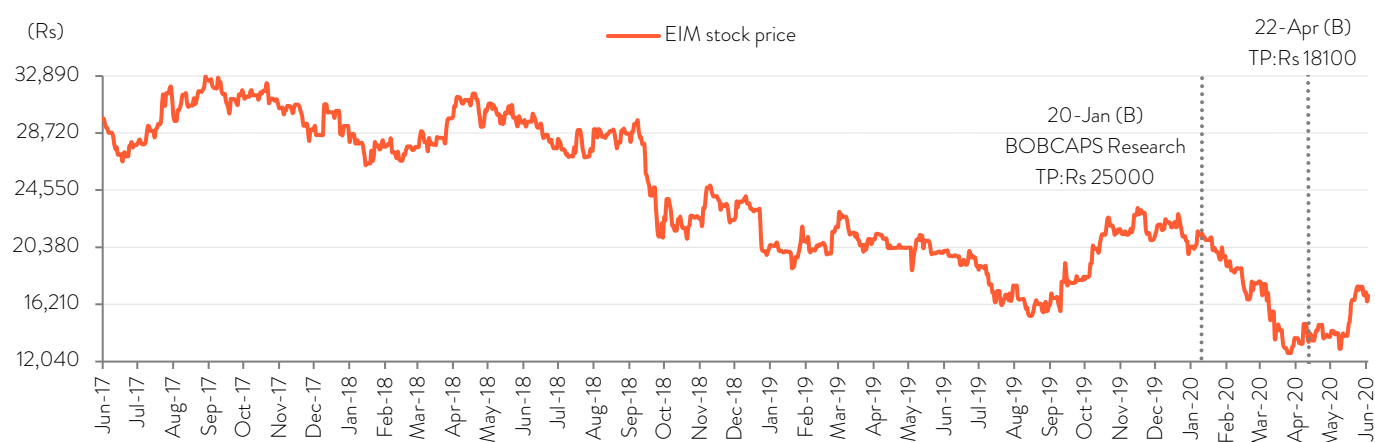
ADD – Expected return from >+5% to +15%

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)



B – Buy, A – Add, R – Reduce, S – Sell

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