



Eicher Motors Limited
Buy: ₹21,524 (+14.6%)

Gearing up for a strong season

2 February 2019

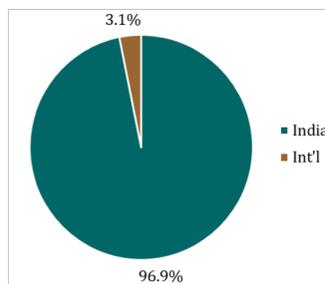


Company Overview

Eicher Motors Limited (EML) is listed on the Bombay Stock Exchange (BSE: 505200) and the National Stock Exchange (EICHERMOT) of India. EML is headquartered in New Delhi and designs and manufactures automotive vehicles such as motorcycles and trucks to the average consumer in India. The main revenue driver for the firm is the motorcycle segment under subsidiary “Royal Enfield” where it holds 91% of the market share in the 250cc to 750cc motorcycle segment in India. EML also has a joint venture with Volvo Group with a 50:50 stake in VE Commercial Vehicles (VECV) that focuses on trucks, buses, engineering components and powertrains. VECV profits contribute to 2.77% of the group revenue.

Rs Crores	FY17A	FY18A	FY19E	FY20E
Revenue (2W)	7,033	8,965	10,638	12,920
Gr Rate (%)	35.0%	27.5%	18.7%	21.4%
EBITDA	2,173	2,806	3,298	4,044
EBITDA (%)	30.9%	31.3%	31.0%	31.0%
Net Income	1,713	2,180	2,531	3,073
Net Income (%)	24.3%	24.3%	23.8%	23.8%
2-Wheeler Vol.	666,135	820,121	943,139	1,108,189
Gr Rate (%)	31.2%	23.1%	15.0%	17.5%
P/E Ratio	37.7x	29.3x	19.3x	15.9x

FY2018 Net Revenue by Geography



Source: Company reports

Investment Thesis

- Significant potential for domestic expansion:** The overall premium bike market (200cc+) is only at 1% of households but seems promising with this segment gaining considerable traction. Royal Enfield (RE) has approximately 850 dealerships as compared to that of Maruti (lower tier motorcycles with less than 200CC bikes) with 2500+ dealerships. RE dealerships are largely centered in mature cities such as Kerala where RE has a 20% market share but has yet to penetrate into 15 states where they have less than 5% of market share.
- Enhanced product portfolio:** Upper-end premium bikes (500cc+) in India are imported and expensive, leaving a large price gap between mid-tier and upper-end premium bikes. RE is trying to seize this portion of the market via offering the Twin 650cc bikes at one third the price or USD\$4000. This will allow existing bikers in India to make a more affordable upgrade to a stronger bike. Furthermore, the Twin 650cc bikes provide a platform for penetration into international markets.
- VECV strategic placement:** India’s supreme court imposed regulations for 4-Wheeled vehicular emissions to transition from BS-IV (EURO 4) to BS-VI (EURO 6). Vehicles not compliant with this new standard by April 2020 will be illegal to purchase. We anticipate VECV to handle this technology shift with ease given Volvo’s expertise in handling similar technologies in the Europe region.

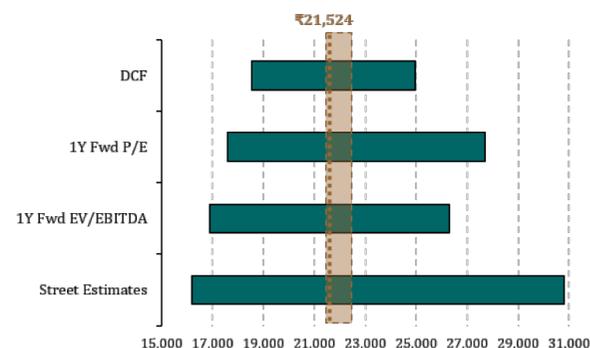
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12M Industry Outlook

- Growing demand for motorcycles internationally and locally:** Global motorcycle market is estimated to grow at a CAGR of 4.6% till 2025 on the back of key factors such as burgeoning urbanization in developing countries, technological advancements and rising disposable income. India is one of the leading motorcycle markets due to the nature of the narrow road infrastructure in the country. ICRA, an independent Indian Information Credit Rating Agency, expects motorcycle segment growth of 8-10% in India this year.
- Rise in consumers’ disposable income:** There is an increased traction in the premium(200cc+) motorcycle segment for India. In 2017, overall premium motorcycle market recorded stellar YoY growth of 32%. as we see more customers upgrading from the 100-200cc. Reasons cited for the shift can be mainly attributed to the rise in consumers’ disposable income and the weakening price gap between premium motorcycles and the higher end 100-200cc. Besides, the stylish premium motorcycles appeal to first-time buyers over the big superbikes as these muscular superbikes are not suited for Indian traffic conditions.
- Enhanced technology creating value in commercial vehicles segment:** Whilst analysts are expecting moderate commercial vehicle volume CAGR of about 1% until 2030, revenues and profits are expected to outgrow unit sales, at CAGR of more than 2%. The main driver for growth in revenue and profits is value creation through additional technologies such as advanced analytics and internal digitization to improve operational efficiency.

Valuations

Valuation Summary



Our 5Y DCF-based 12-month price target from date of coverage is ₹21,524, assuming a terminal growth rate of 3% from 2023E, and a WACC of 12.0%; our range of base case TPs across valuation methods is ₹21,438 – ₹25,659. Our base case revenue growth estimates for 2019/20/21E are fairly conservative at 18.7/21.4/21.3% respectively, based on separate forecasts of EML’s 2W sales volumes and motorbike ASPs. EML’s VECV JV was valued using a 1Y forward average P/E of 15.0x for the commercial vehicle manufacturing industry. Given EML’s sizeable brand equity from its well-known Royal Enfield brand, we expect strong volume growth to drive revenues going forward.

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