

June 14, 2020

Q4FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	18,665		17,990	
Sales (Rs. m)	92,077	1,08,247	94,283	1,10,834
% Chng.	(2.3)	(2.3)		
EBITDA (Rs. m)	21,166	27,653	22,043	27,937
% Chng.	(4.0)	(1.0)		
EPS (Rs.)	608.7	798.7	621.5	774.4
% Chng.	(2.1)	3.1		

Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	97,971	91,536	92,077	1,08,247
EBITDA (Rs. m)	29,031	21,804	21,166	27,653
Margin (%)	29.6	23.8	23.0	25.5
PAT (Rs. m)	22,203	18,275	16,604	21,789
EPS (Rs.)	813.9	669.9	608.7	798.7
Gr. (%)	5.6	(17.7)	(9.1)	31.2
DPS (Rs.)	125.0	125.0	135.0	140.0
Yield (%)	0.7	0.7	0.8	0.8
RoE (%)	27.8	19.3	15.6	17.9
RoCE (%)	32.0	18.6	16.2	19.4
EV/Sales (x)	4.4	4.5	4.3	3.5
EV/EBITDA (x)	14.7	18.7	18.7	13.7
PE (x)	20.7	25.2	27.7	21.1
P/BV (x)	5.2	4.6	4.1	3.5

Key Data

EICH.BO | EIM IN

52-W High / Low	Rs.23,450 / Rs.12,450
Sensex / Nifty	33,781 / 9,973
Market Cap	Rs.460bn / \$ 6,069m
Shares Outstanding	27m
3M Avg. Daily Value	Rs.7635.81m

Shareholding Pattern (%)

Promoter's	49.28
Foreign	27.71
Domestic Institution	11.12
Public & Others	11.90
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	19.0	(23.2)	(16.2)
Relative	10.5	(7.8)	(1.3)

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Adjusted for one-offs margins in-line

Quick Pointers:

- Demand commentary positive with RE bookings back to pre-COVID level. RE observes healthy demand from salaried as well as business class segments.
- ~90% dealerships have resumed operations. However, expect some supply chain hinderance in the short run. BS6 retail sales were ~60% in 4QFY20.

Adjusted for one-offs (recall and currency loss in exports markets) EIM consolidated performance were in-line with margins at 21.8% (-550bp YoY). This is a good margin performance in weak demand conditions. However, VECV performance looked weak with miss in margins at 1.8% (PLe 3.6%) and PAT loss at Rs260mn (PLe profit at Rs40mn). Going forward we believe several levers can drive RE volumes such as 1) new product launch in 350cc segment after many years, 2) RE's under penetration in key motorcycling states (market share of <4% v/s national average of 6%) and 3) natural upgrade options in >300CC segment. We tweak FY21/22 consol EPS by -2%/3% and continue to maintain BUY rating with revised price target of Rs18,665 (v/s Rs17,990). The stock currently trades at 21x FY22 EPS (v/s ~25x 10 year LPA). EIM is one of our top-picks among OEMs currently.

Revenue in-line: Consolidated revenues declined 11.7% YoY/6.9% QoQ to Rs22bn (in-line) led by decline in RE volumes by 16.9% YoY partially offset by ~5% YoY increase in RE realization at Rs133.7k/unit (PLe Rs132.4k/unit).

Adjusted for one-offs margins in-line at 21.8% (-550bps YoY): Consol EBITDA de-grew ~37% YoY to Rs4.3bn, with OPM at 19.6%, (-780bps YoY/-540bps QoQ). Adjusted for one-off expense of Rs500mn related to product recall in exports market margins which were in-line at 21.8%. Higher tax rate at 28% (PLe 25%) led to lower Adj PAT at Rs3.5bn (PLe Rs3.7bn). **FY20 Consol Revenue/ EBITDA/ Adj. PAT** declined by ~7% / 25% / 18%.

Weak VECV performance as margins declined 670bp YoY: VECV revenue declined ~34.5%YoY at Rs21bn (in-line) as volumes declined by ~45% YoY. EBITDA margins declined 670bp YoY/ 430 bps QoQ at 1.8% (PLe 3,6%). VECV reported first ever loss in last 12 years at Rs260m (PLe profit of Rs40m).

Key con-call takeaways: 1) Bookings have reached pre-COVID level as North/ South regions are back on track. 90% of dealers have opened. 2) Supply chain is still picking up as Aurangabad and NCR will take time to recover. **Currently operating at ~40% capacity.** 3) Took price increase of ~Rs3k with majority of BS6 cost and margins have been passed on. BS6 retail sale was >60% in 4Q. 4) **Currently have ~921 dealerships in India** (added 60 in FY20) and 600 studios till March (will be adding ~600 more in FY21). Total international store count at ~77 with entry in Korea, Brazil and Belgium. 5) **Believe FY21 capex to be lower** than FY20 as only product related capex would be there. 6) Expect new launch in next quarter (delayed due to COVID) and will later have new launches every quarter.

Exhibit 1: Q4FY20 Result Overview - Consolidated (Rs m)

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Net Revenues	22,082	25,001	(11.7)	23,710	91,536	97,971	(6.6)
Raw Materials	12,439	13,352	(6.8)	12,900	49,959	50,574	(1.2)
<i>% of Net Sales</i>	<i>56.3</i>	<i>53.4</i>		<i>54.4</i>	<i>54.6</i>	<i>51.6</i>	
Personnel	2,136	1,707	25.1	1,846	7,958	7,024	13.3
<i>% of Net Sales</i>	<i>9.7</i>	<i>6.8</i>		<i>7.8</i>	<i>8.7</i>	<i>7.2</i>	
Manufacturing & Other Exp	2,685	3,096	(13.3)	3,042	11,315	11,341	(0.2)
<i>% of Net Sales</i>	<i>12.2</i>	<i>12.4</i>		<i>12.8</i>	<i>12.4</i>	<i>11.6</i>	
Total Expenditure	17,260	18,154	(4.9)	17,787	69,232	68,940	0.4
EBITDA	4,822	6,847	(29.6)	5,923	22,304	29,031	(23.2)
<i>EBITDA Margin (%)</i>	<i>21.8</i>	<i>27.4</i>		<i>25.0</i>	<i>24.4</i>	<i>29.6</i>	
Depreciation	1,089	811	34.3	952	3,815	3,003	27.1
EBIT	3,733	6,036	(38.2)	4,971	18,488	26,028	(29.0)
Interest Expenses	55	21	158.4	43	189	73	157.6
Non-operating income	1,431	1,427	0.3	1,347	5,433	4,434	22.5
Extraordinary Expenses	-	-		-	-	175	NA
PBT	5,109	7,441	(31.3)	6,275	23,732	30,213	(21.5)
Tax-Total	1,426	2,748	(48.1)	1,454	5,275	10,770	(51.0)
<i>Tax Rate (%) - Total</i>	<i>27.9</i>	<i>36.9</i>		<i>23.2</i>	<i>22.2</i>	<i>35.6</i>	
Reported PAT	3,683	4,694	(21.5)	4,821	18,457	19,443	(5.1)
Share of profit	-140	755	(118.6)	166	317	2,584	(87.7)
Profit after MI	3,543	5,448	(35.0)	4,987	18,774	22,027	(14.8)
Adj. PAT	3,543	5,448	(35.0)	4,987	18,774	22,202	(15.4)

Source: Company, PL

Exhibit 2: Operating Metrics - Standalone

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Sales Volume (nos)	1,62,978	1,96,162	(16.9)	1,82,791	6,95,947	8,26,098	(15.8)
Net Realisation/Vehicle	1,35,489	1,27,450	6.3	1,29,712	1,31,527	1,18,594	10.9
Material cost / vehicle	76,323	68,064	12.1	70,571	71,786	61,221	17.3
Gross Profit / vehicle	59,167	59,386	(0.4)	59,141	59,741	57,374	4.1
Employee cost /vehicle	13,105	8,700	50.6	10,099	11,434	8,503	34.5
Other expenses / vehicle	16,476	15,782	4.4	16,640	16,259	13,729	18.4
EBITDA/vehicle	29,586	34,904	(15.2)	32,401	32,048	35,142	(8.8)
Net Profit/vehicle	21,738	27,775	(21.7)	27,283	26,977	26,876	0.4

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	97,971	91,536	92,077	1,08,247
YoY gr. (%)	9.3	(6.6)	0.6	17.6
Cost of Goods Sold	50,574	49,959	50,919	58,453
Gross Profit	47,397	41,577	41,159	49,793
Margin (%)	48.4	45.4	44.7	46.0
Employee Cost	7,024	7,958	8,101	8,652
Other Expenses	11,341	11,816	11,892	13,489
EBITDA	29,031	21,804	21,166	27,653
YoY gr. (%)	3.4	(24.9)	(2.9)	30.6
Margin (%)	29.6	23.8	23.0	25.5
Depreciation and Amortization	3,003	3,815	3,756	4,075
EBIT	26,028	17,988	17,410	23,577
Margin (%)	26.6	19.7	18.9	21.8
Net Interest	73	189	80	80
Other Income	4,434	5,433	5,015	5,150
Profit Before Tax	30,214	23,232	22,345	28,647
Margin (%)	30.8	25.4	24.3	26.5
Total Tax	10,770	5,275	5,483	6,995
Effective tax rate (%)	35.6	22.7	24.5	24.4
Profit after tax	19,443	17,957	16,862	21,652
Minority interest	-	-	-	-
Share Profit from Associate	2,584	317	(258)	137
Adjusted PAT	22,203	18,275	16,604	21,789
YoY gr. (%)	5.6	(17.7)	(9.1)	31.2
Margin (%)	22.7	20.0	18.0	20.1
Extra Ord. Income / (Exp)	(113)	-	-	-
Reported PAT	22,027	18,275	16,604	21,789
YoY gr. (%)	12.4	(17.0)	(9.1)	31.2
Margin (%)	22.5	20.0	18.0	20.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	22,027	18,275	16,604	21,789
Equity Shares O/s (m)	27	27	27	27
EPS (Rs)	813.9	669.9	608.7	798.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	27,673	36,518	46,875	54,758
Tangibles	27,673	36,518	46,875	54,758
Intangibles	-	-	-	-
Acc: Dep / Amortization	8,927	12,743	16,499	20,574
Tangibles	8,927	12,743	16,499	20,574
Intangibles	-	-	-	-
Net fixed assets	18,746	23,775	30,377	34,184
Tangibles	18,746	23,775	30,377	34,184
Intangibles	-	-	-	-
Capital Work In Progress	4,497	3,122	250	250
Goodwill	-	-	-	-
Non-Current Investments	44,537	32,363	32,105	32,242
Net Deferred tax assets	(2,739)	(2,522)	(2,522)	(2,522)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	4,688	25,125	25,125	25,125
Inventories	6,334	5,724	5,550	6,524
Trade receivables	903	868	757	890
Cash & Bank Balance	29,653	29,506	39,566	54,953
Other Current Assets	4,497	4,014	4,415	5,190
Total Assets	1,13,868	1,24,497	1,38,144	1,59,358
Equity				
Equity Share Capital	273	273	273	273
Other Equity	88,914	99,536	1,12,458	1,30,427
Total Network	89,187	99,809	1,12,731	1,30,700
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,868	2,617	-	-
Trade payables	12,341	10,277	11,352	13,345
Other current liabilities	7,734	9,273	11,282	12,670
Total Equity & Liabilities	1,13,868	1,24,497	1,38,144	1,59,358

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	32,798	23,549	22,345	28,647
Add. Depreciation	3,003	3,815	3,756	4,075
Add. Interest	(1,304)	(2,207)	5,015	5,150
Less Financial Other Income	4,434	5,433	5,015	5,150
Add. Other	(7,694)	(515)	(3,325)	(4,458)
Op. profit before WC changes	26,803	24,642	27,791	33,415
Net Changes-WC	(1,989)	(1,418)	1,360	886
Direct tax	(9,085)	(6,283)	(5,483)	(6,995)
Net cash from Op. activities	15,730	16,941	23,669	27,306
Capital expenditures	7,906	(5,445)	(7,486)	(7,883)
Interest / Dividend Income	-	-	-	-
Others	(14,480)	(9,639)	258	(137)
Net Cash from Inv. activities	(6,574)	(15,084)	(7,228)	(8,020)
Issue of share cap. / premium	361	289	-	-
Debt changes	247	(709)	(2,617)	-
Dividend paid	(3,482)	(8,087)	(3,683)	(3,819)
Interest paid	(50)	(75)	(80)	(80)
Others	-	-	-	-
Net cash from Fin. activities	(2,923)	(8,583)	(6,380)	(3,899)
Net change in cash	6,233	(6,725)	10,061	15,387
Free Cash Flow	23,635	11,497	16,183	19,423

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	23,819	21,925	23,710	22,082
YoY gr. (%)	(6.5)	(9.0)	1.3	(11.7)
Raw Material Expenses	12,772	11,849	12,900	12,439
Gross Profit	11,047	10,076	10,810	9,643
Margin (%)	46.4	46.0	45.6	43.7
EBITDA	6,145	5,414	5,923	4,822
YoY gr. (%)	(24.1)	(25.8)	(12.8)	(29.6)
Margin (%)	25.8	24.7	25.0	21.8
Depreciation / Depletion	876	898	952	1,089
EBIT	5,269	4,516	4,971	3,733
Margin (%)	22.1	20.6	21.0	16.9
Net Interest	47	44	43	55
Other Income	1,204	1,450	1,347	1,431
Profit before Tax	6,426	5,922	6,275	5,109
Margin (%)	27.0	27.0	26.5	23.1
Total Tax	2,117	278	1,454	1,426
Effective tax rate (%)	32.9	4.7	23.2	27.9
Profit after Tax	4,309	5,644	4,821	3,683
Minority interest	-	-	-	-
Share Profit from Associates	209	83	166	(140)
Adjusted PAT	4,518	5,727	4,987	3,543
YoY gr. (%)	(21.6)	1.1	(6.4)	(35.0)
Margin (%)	19.0	26.1	21.0	16.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,518	5,727	4,987	3,543
YoY gr. (%)	(21.6)	4.4	(6.4)	(35.0)
Margin (%)	19.0	26.1	21.0	16.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,518	5,727	4,987	3,543
Avg. Shares O/s (m)	27	27	27	27
EPS (Rs)	167.4	212.2	184.8	131.3

Source: Company Data, PL Research

Key Financial Metrics

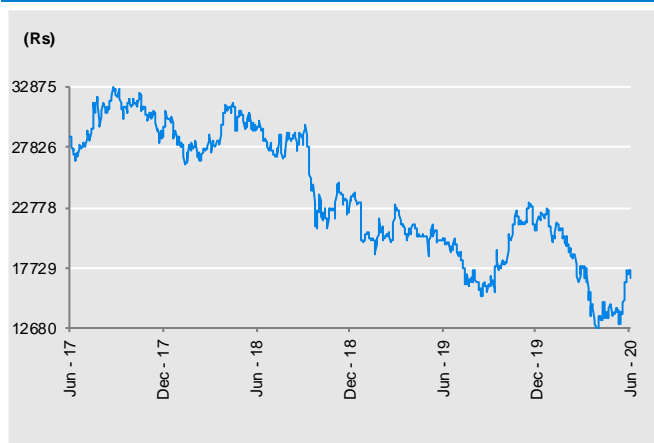
Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	813.9	669.9	608.7	798.7
CEPS	923.9	809.7	746.3	948.1
BVPS	3,269.3	3,658.7	4,132.4	4,791.1
FCF	866.4	421.4	593.2	712.0
DPS	125.0	125.0	135.0	140.0
Return Ratio(%)				
RoCE	32.0	18.6	16.2	19.4
ROIC	35.6	33.0	30.6	42.8
RoE	27.8	19.3	15.6	17.9
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.5)	(0.6)	(0.6)
Net Working Capital (Days)	(19)	(15)	(20)	(20)
Valuation(x)				
PER	20.7	25.2	27.7	21.1
P/B	5.2	4.6	4.1	3.5
P/CEPS	18.2	20.8	22.6	17.8
EV/EBITDA	14.7	18.7	18.7	13.7
EV/Sales	4.4	4.5	4.3	3.5
Dividend Yield (%)	0.7	0.7	0.8	0.8

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Royal Enfield volumes (units)	8,26,098	6,95,947	6,72,039	7,70,762
Net Realisation (Rs/unit)	1,17,603	1,29,445	1,35,872	1,39,285
VECV volume (units)	72,969	48,721	42,918	49,220

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Apr-20	BUY	17,990	13,742
2	25-Mar-20	BUY	18,032	14,517
3	06-Feb-20	Hold	20,681	20,391
4	03-Jan-20	Reduce	20,280	21,189
5	09-Nov-19	Reduce	19,152	21,640
6	03-Oct-19	Reduce	15,800	18,285
7	31-Jul-19	Reduce	15,800	16,348
8	04-Jul-19	Hold	19,318	19,825

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	Accumulate	59	46
2	Bajaj Auto	Hold	2,504	2,556
3	Bharat Forge	Hold	345	246
4	CEAT	Accumulate	899	810
5	Eicher Motors	BUY	17,990	13,742
6	Exide Industries	Accumulate	179	173
7	Hero Motocorp	Accumulate	2,444	2,292
8	Mahindra & Mahindra	Hold	420	381
9	Maruti Suzuki	BUY	5,830	5,036
10	Motherson Sumi Systems	BUY	116	102
11	Tata Motors	Hold	84	75
12	TVS Motors	Hold	318	333

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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