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Eicher Motors Limited (EML) is the flagship company of the Eicher Group. It operates in two distinct business verticals – motorcycles and commercial vehicles. Eicher Motors owns the iconic Royal Enfield motorcycle business, which leads the premium motorcycle segment in India.

🔗 **Royal Enfield - the growth engine for Eicher Motors:** Over the years, RE has created strong brand equity in the mid-sized motorcycle segment with powerful product offerings viz; 'Bullet', 'Classic' and 'Thunderbird' leading to leadership position with ~27% market share in the premium segment (engine capacity 150cc & above). Its consistent focus on new launches/upgrades and expanding dealer network has aided in market share gains (market share of 12% in FY12). We expect RE to continue to outperform domestic motorcycle industry owing to 1) increasing income levels 2) rising aspiration for premium bikes 3) expanding dealer network and 4) new launches.

🔗 **New launches and capacity expansion to drive volumes:** RE is expected to launch 650 CC twin cylinder motorcycles - the Interceptor and Continental GT in 2018. This will offer compelling opportunity for segment upgrade and will further strengthen its market share in the domestic market. In the international market, the company is positioning itself in the mid-size motorcycle category and the upcoming launches of twin cylinder motorcycles hold huge potential for growth. To meet this increasing demand, the company is expanding its motorcycles capacity. Recently, the company has completed its third manufacturing facility at Vallam Vadagal in Chennai with a capacity of 3,00,000 units per annum which takes the overall capacity to 9,00,00 units per annum. It is further expanding its capacity at Vallam Vadagal facility and with the completion of the second phase, the overall capacity will reach 950,000 units per annum. Hence, we expect RE's volumes to grow at a robust CAGR of 16% over FY17- FY20E.

🔗 **VECV business on a strong footing:** Despite being a cyclical business, Eicher's VECV business continues to gain market share which increased to ~15% in FY17 from 11% in CY11 primarily led by new launches and augmentation of its distribution reach. Going ahead, we estimate VECV volumes to grow at 11% CAGR over FY17-20E led by cyclical recovery, new launches and traction in exports. Resultantly, we expect revenue CAGR of 17% over FY17-20E. Additionally, we factor VECV EBITDA/PAT to grow at 24%/27% over FY17-20E.

**Outlook and Valuation:**

Given strong earnings growth potential in both RE & VECV businesses, we estimate consolidated PAT to grow at a robust CAGR of 23% over FY17-20E. The free cash flow generation of the company continues to remain strong despite significant capex. We expect RE's premium valuation to sustain given its continued volume outperformance leading to market share gains. Further its industry leading margins and return ratios will also support higher valuation. The stock currently trades at 38x/32x/27x FY18E/19E/20E EPS. We recommend BUY rating on the stock with a SOTP based target price of Rs. 35,512, valuing RE/VECV at 33x/15x FY20E EPS.

**Market Data**

<b>Rating</b>	<b>BUY</b>
<b>CMP (Rs.)</b>	30,680
<b>Target (Rs.)</b>	35,512
<b>Potential Upside</b>	16%
<b>Duration</b>	Long Term
Face Value (Rs.)	10
52 week H/L (Rs.)	33,484/25,337
Decline from 52WH (%)	8%
Rise from 52WL (%)	21%
Beta	0.7
Mkt. Cap (Rs.Cr)	83,480

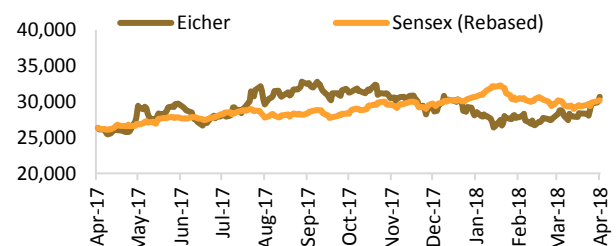
**Fiscal Year Ended**

Y/E	FY17	FY18E	FY19E	FY20E
Revenue (Rs.Cr)	7,033	8,915	10,473	12,276
Adj. profit (Rs.Cr)	1,667	2,176	2,608	3,092
Adj. EPS (Rs.)	612.7	799.8	958.7	1,136.4
P/E (x)	50.1	38.4	32.0	27.0
P/BV (x)	15.6	11.7	9.0	7.0
ROE (%)	37.1	34.9	31.8	29.3

**Shareholding Pattern**

	Jun-17	Sep-17	Dec-17
Promoters	50.6	50.6	50.5
FII's	31.9	32.1	32.1
MFs/Insti	4.2	4.5	5.6
Public	9.2	9.1	8.7
Others	4.1	3.7	3.1

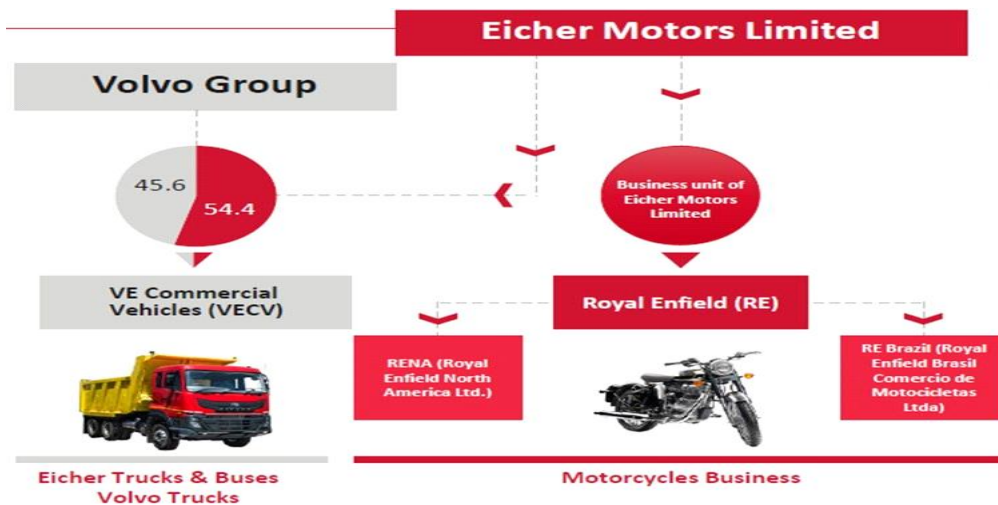
**One year price chart**



### Eicher Motors Ltd: Business overview

Eicher Motors Limited (EML) is the flagship company of the Eicher Group. It operates in two distinct business verticals – motorcycles and commercial vehicles. Eicher Motors owns the iconic Royal Enfield motorcycle business, which leads the premium motorcycle segment in India. The company is also present in commercial vehicles segment through its subsidiary - VE Commercial Vehicles Ltd. VE Commercial Vehicles Ltd (VECV) is a joint venture between the Volvo Group and Eicher Motors Ltd.

#### Eicher's corporate structure



Source: Company, In-house research

### Royal Enfield; the cult brand

Royal Enfield has been the growth driver of Eicher Motors over the years and has managed to create strong brand equity in the mid-sized motorcycle segment as evidenced by its leading position with ~27% market share in premium motorcycle segment (engine capacity of 150cc and above). Further its continuous focus on new launches coupled with expansion of dealer network and geographical expansion have resulted in strong growth for the company. Over the years RE has created powerful product offerings viz; 'Bullet', 'Classic' and 'Thunderbird' which were well accepted by the market, leading to strong growth in volumes. As a result, RE has witnessed tremendous growth in volumes in the past few years, registering 42% CAGR over CY12-FY17. We expect RE to continue to outperform domestic motorcycle industry owing to 1) increasing income levels 2) rising aspiration for premium bikes 3) expanding dealer network and 4) new launches.

#### RE's product portfolio addressing a unique mix of appeals



### **Consistent new launches drive market share gains**

The company's consistent focus on new launches/upgrades over the years has enabled the company in broadening its customers profile. Over the years the company has established strong powerful products viz; Bullet, Classic and Thunderbird. The launch of 'Classic' in 2009 and 'Thunderbird' in 2012 resulted in sharp spike in sales volume and market share. Further to attract youth, the company launched Continental GT in 2013 and Himalayan bikes in 2016. The company has lined up new launches in 2018 which will further strengthen its market share. It is expected to launch 650 CC twin cylinder motorcycles - the Interceptor and Continental GT in 2018 which will offer compelling opportunity for segment upgrade and also hold huge potential for growth in the international markets. The company's consistent focus on new launches/upgrades has enabled RE to sharply increase its market share in the motorcycle segment (150cc & above) in India to ~27% currently from a mere ~7% in 2012. Resultantly, we expect RE's volumes to grow at a robust CAGR of 16% over FY17- FY20E.

### **VECV business on a strong footing**

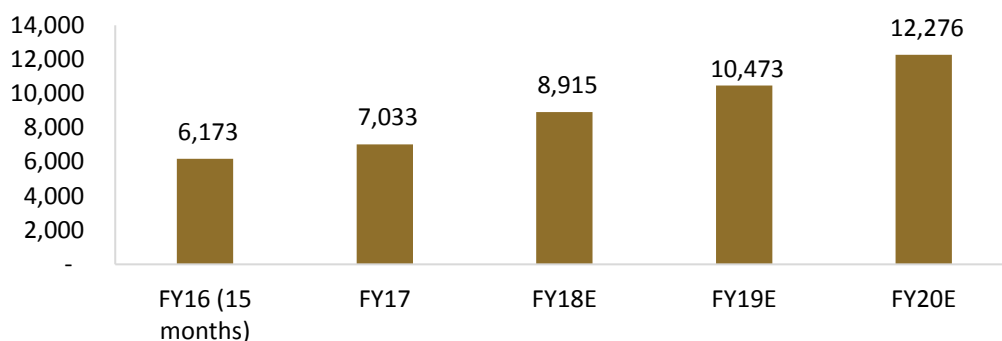
In order to further provide scale to its commercial vehicle business, the company formed a joint venture company - VE Commercial Vehicles Limited (VECV) with Sweden based Volvo group in 2008. As per the agreement, while the company transfers its complete range of Eicher branded trucks and buses, VE Powertrain, Eicher's components and engineering design services businesses into the joint venture company, Volvo brought its sales and distribution business of Volvo trucks and aftermarket support. VECV now comprises of five business verticals – Eicher Trucks and Buses, Volvo Trucks India, Eicher Engineering Components and VE Powertrain. Eicher Engineering Components is the automotive component division of VECV and is a strategic supplier of drive line components and aggregates to VECV, The Volvo group, exports and strategic domestic OEM customers. As per the joint venture agreement, while the company owns 54.4% stake in VECV, Volvo group owns the rest.

Rising investments in the infrastructure sector, renewed focus on roads and highways construction coupled with increasing port traffic and restrictions on overloading is likely to propel demand of commercial vehicles. In the truck segment, in order to tap the growing opportunities in the key sectors like e-commerce, mining, infrastructure, construction, FMCG, and white goods, it has continuously launched new range of trucks with higher payload. Eicher is steadily gaining market share in the heavy-duty trucks (Pro – 5000, 6000 & 8000 range) space that has increased to ~5% in FY18 from 3.6% in FY15. It has also upgraded its existing variants with wider body and larger wheel base in order to meet the specific needs of customers. In the bus segment, the company has recently launched smart electric buses in India based on Eicher's Skyline Pro platform using KPIT Technologies' electrification technology, 'Revolvo'. The company has a strong distribution network with dealer base of 299 including 15 company owned company operated outlets. We believe the rebound in demand of commercial vehicles coupled with new launches, wide distribution network, strong demand from e-commerce business and traction in exports will drive volume CAGR of 11% over FY17-20E.

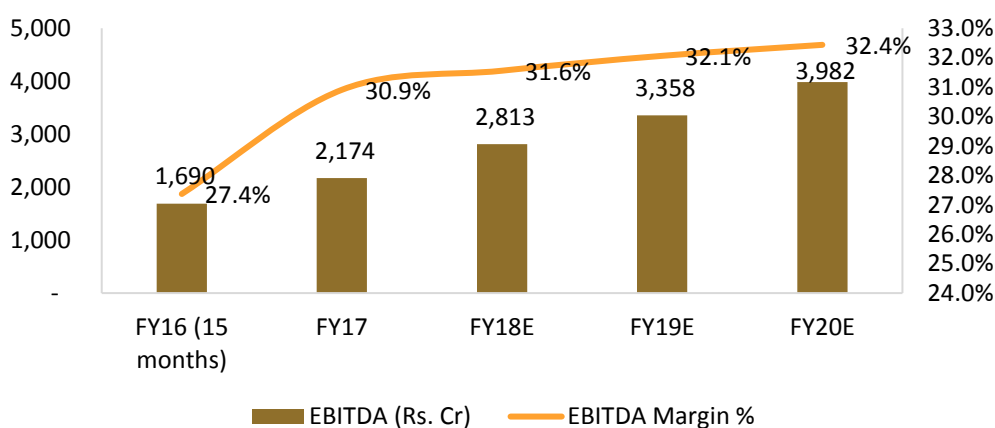
### **Traction in revenue growth momentum to sustain**

RE has witnessed a robust sales growth of ~60% CAGR over CY12-FY17 driven by sustained growth in demand, consistent new launches/upgrades and widening of dealer network resulting in robust growth in volumes. We expect the company to clock a healthy CAGR of 20% in revenue over FY17-20E owing to its sustained focus on new launches, increasing market share and capacity expansion. Further, we expect overall EBITDA margin to remain resilient and is expected to improve to 32.4% in FY20E owing to ramp up in volumes, stabilisation of new capacities, economies of scale and further benefit of operating leverage.

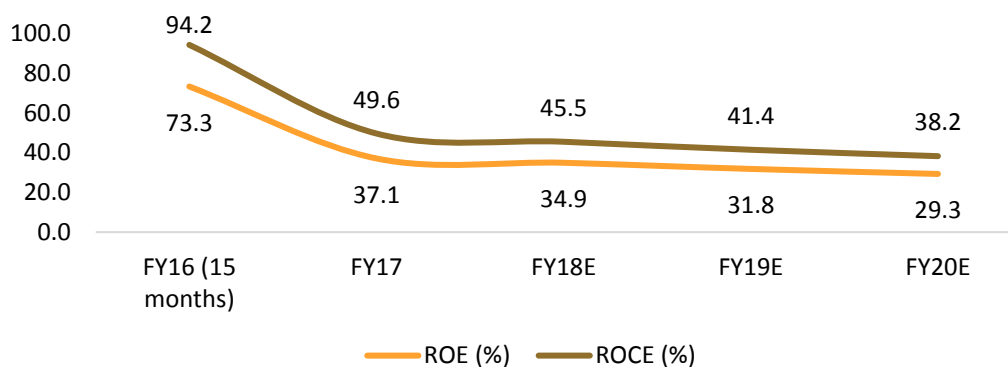
### Overall revenue to grow at 20% CAGR during FY17-20E



### EBITDA to grow at 22% CAGR over FY17-20E



### Return ratios to stay robust



#### Key risks:

- Delay in capacity expansion would lead to higher waiting periods and loss of potential customers.
- New launches fail to gain customer's acceptance.
- High dependence on 'Classic' model.

### Profit & Loss Account (Consolidated)

Y/E (Rs. Cr)	FY17	FY18E	FY19E	FY20E
<b>Total operating Income</b>	<b>7,033</b>	<b>8,915</b>	<b>10,473</b>	<b>12,276</b>
Raw Material cost	3,704	4,643	5,447	6,386
Employee cost	402	515	584	660
Other operating expenses	753	943	1,085	1,248
<b>EBITDA</b>	<b>2,174</b>	<b>2,813</b>	<b>3,358</b>	<b>3,982</b>
Depreciation	154	228	277	349
<b>EBIT</b>	<b>2,020</b>	<b>2,586</b>	<b>3,081</b>	<b>3,633</b>
Interest cost	4	5	5	5
Other Income	227	270	338	422
<b>Profit before tax</b>	<b>2,244</b>	<b>2,850</b>	<b>3,413</b>	<b>4,050</b>
Tax	720	912	1,092	1,296
<b>Profit after tax</b>	<b>1,524</b>	<b>1,938</b>	<b>2,321</b>	<b>2,754</b>
Minority Interests	-	-	-	-
P/L from Associates	143	238	287	338
<b>Adjusted PAT</b>	<b>1,667</b>	<b>2,176</b>	<b>2,608</b>	<b>3,092</b>
E/o income / (Expense)	-	-	-	-
<b>Reported PAT</b>	<b>1,667</b>	<b>2,176</b>	<b>2,608</b>	<b>3,092</b>

### Balance Sheet (Consolidated)

Y/E (Rs. Cr)	FY17	FY18E	FY19E	FY20E
Paid up capital	27	27	27	27
Reserves and Surplus	5,318	7,102	9,254	11,823
<b>Net worth</b>	<b>5,345</b>	<b>7,130</b>	<b>9,281</b>	<b>11,850</b>
Minority interest	-	-	-	-
Total Debt	44	44	44	44
Other non-current liabilities	66	66	66	66
<b>Total Liabilities</b>	<b>5,456</b>	<b>7,240</b>	<b>9,392</b>	<b>11,961</b>
Total fixed assets	873	1,519	1,942	2,193
Capital WIP	374	300	200	200
Goodwill	-	-	-	-
Investments	4,987	6,287	8,187	10,587
Net Current assets	(960)	(1,048)	(1,119)	(1,201)
Deferred Tax assets (Net)	(78)	(78)	(78)	(78)
Other non-current assets	260	260	260	260
<b>Total Assets</b>	<b>5,456</b>	<b>7,240</b>	<b>9,392</b>	<b>11,961</b>

### Cash Flow Statement (Consolidated)

Y/E (Rs. Cr)	FY17	FY18E	FY19E	FY20E
Pre tax profit	<b>1,667</b>	<b>3,088</b>	<b>3,701</b>	<b>4,388</b>
Depreciation	154	228	277	349
Chg in Working Capital	164	149	126	142
Others	375	(265)	(332)	(417)
Tax paid	(652)	(912)	(1,092)	(1,296)
<b>Cash flow from operating activities</b>	<b>1,709</b>	<b>2,289</b>	<b>2,680</b>	<b>3,166</b>
Capital expenditure	(548)	(800)	(600)	(600)
Chg in investments	(1,172)	(1,300)	(1,900)	(2,400)
Other investing cashflow	(32)	270	338	422
<b>Cash flow from investing activities</b>	<b>(1,752)</b>	<b>(1,830)</b>	<b>(2,163)</b>	<b>(2,578)</b>
Equity raised/(repaid)	6	-	-	-
Debt raised/(repaid)	44	-	-	-
Dividend paid	-	(327)	(381)	(435)
Other financing activities	(3)	(71)	(82)	(92)
<b>Cash flow from financing activities</b>	<b>47</b>	<b>(397)</b>	<b>(462)</b>	<b>(528)</b>
Net chg in cash	4	61	55	60

### Key Ratios (Consolidated)

Y/E	FY17	FY18E	FY19E	FY20E
<b>Growth (%)</b>				
Net Sales	13.9	26.8	17.5	17.2
EBITDA	28.7	29.4	19.4	18.6
Net profit	24.6	30.5	19.9	18.5
<b>Margin (%)</b>				
EBITDA	30.9	31.6	32.1	32.4
NPM	23.8	24.5	25.0	25.3
<b>Return Ratios (%)</b>				
RoE	37.1	34.9	31.8	29.3
RoCE	49.6	45.5	41.4	38.2
<b>Per share data (Rs.)</b>				
EPS	612.7	799.8	958.7	1,136.4
DPS	100.0	120.0	140.0	160.0
<b>Valuation(x)</b>				
P/E	50.1	38.4	32.0	27.0
EV/EBITDA	38.4	29.7	24.8	20.9
EV/Net Sales	11.9	9.4	8.0	6.8
P/B	15.6	11.7	9.0	7.0
<b>Turnover Ratios (x)</b>				
Net Sales/GFA	5.9	5.1	4.1	3.9
Sales/Total Assets	1.2	1.1	1.0	1.0

#### Rating Criteria

Large Cap.	Return	Mid/Small Cap.	Return
<b>Buy</b>	More than equal to 10%	<b>Buy</b>	More than equal to 15%
<b>Hold</b>	Upside or downside is less than 10%	<b>Accumulate*</b>	Upside between 10% & 15%
<b>Reduce</b>	Less than equal to -10%	<b>Hold</b>	Between 0% & 10%
		<b>Reduce/sell</b>	Less than 0%

\* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

\* Eicher Motors Limited is a large-cap company.

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