

Eicher Motors: In top gear

Royal Enfield, the company's premium offering, is expected to help it deliver strong returns in the long term.

Eicher Motors surprised the market with its operating profit rising 41% on a year-on-year (y-o-y) basis for the fourth quarter of 2013, even as the consolidated revenue rose only 2% during the same period. The net profit, after minority interest, grew 32% on a y-o-y basis due to the lower other income. The rise in net profit was attributed to better-than-expected performance by Royal Enfield and VE Commercial Vehicles.

Royal Enfield, the company's flagship model, is a premium product and enjoys great brand power, along with a huge demand. This is proved by the fact that despite hitting a record production of 20,000 units in December, Royal Enfield's waiting period remains 3-6 months, with its Classic 350 cc variant enjoying the maximum waiting period. Due to the unmet demand and production ramp-up at the Oragadam facility, Royal Enfield should be able to achieve its revised production target of 2.8 lakh units for 2014. It also reported an all-time high margin of 20% during the quarter, helped by cost reduction measures and higher sales of its 500 cc variant. The higher volumes should help Royal Enfield raise its margins by improving the operating leverage and increasing bargaining power with the suppliers.

VE Commercial Vehicles, the 50:50 joint venture between Eicher Motors and Volvo Group, has also done reasonably well in the fourth quarter despite the ongoing economic crisis. Its revenue fell 15% on a y-o-y basis due to heavy year-end discounting by the larger competitors. Though its

operating margin compressed to 5.3% during the quarter, the figures remain strong considering that its bigger peers are reporting operating losses. The expected pick-up in economy should help the company improve its volume in the coming quarters. It is planning to refresh its entire 5-49 tonne product

line in the next 12-18 months with the launch of its Pro series, which is better in terms of fuel efficiency and performance. This should help VE Commercial Vehicles get a higher market share. The company exported 2,534 engines to Volvo from its recently started power train plant during the quarter, and the exports are expected to go up to 20,000 in 2014.

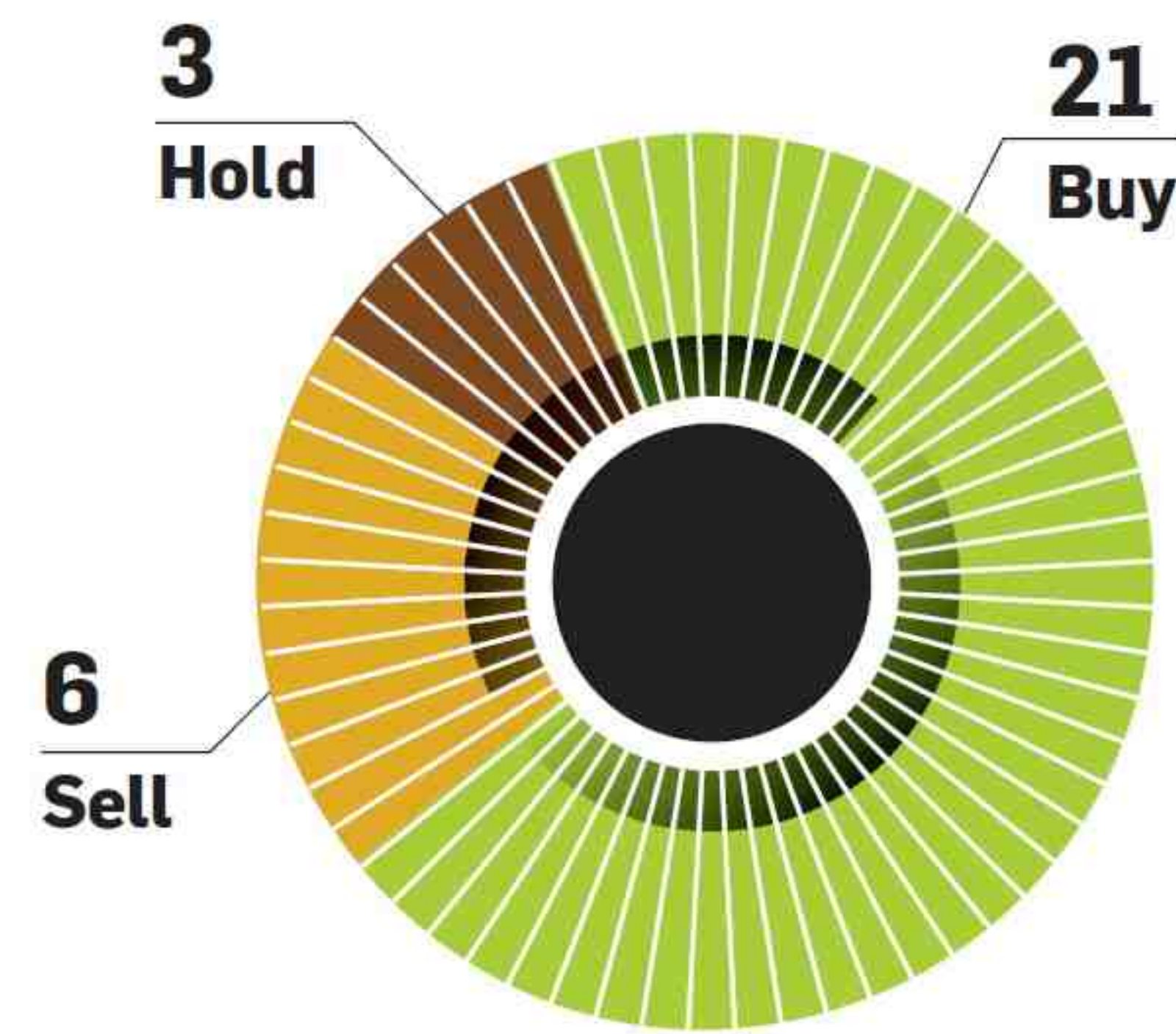
Eicher Motors is a growth stock, which should deliver good returns in the long term. Though it is currently trading at a premium compared to its peers, this higher multiple is justified due to its expected higher growth and consistency of earnings.

Selection methodology: We choose the stock that has shown the maximum improvement in consensus analyst rating over the past month. Consensus rating is arrived at by averaging all analyst recommen-

dations after attributing weightages to each (5 for strong buy, 4 for buy, 3 for hold, 2 for sell, and 1 for strong sell). Any improvement in rating indicates that analysts are becoming more bullish on the stock. To ensure that we pick only widely covered companies, this search is restricted to stocks covered by at least 10 analysts. You may see similar consensus analyst rating changes during the last one week in the ETW 50 stocks table (see page 21).

—Narendra Nathan

Analysts' views



Despite premium valuations, analysts have faith in the company's growth and consistent earnings.

> Fundamentals

| | Actual | | Consensus estimate | |
|-------------------------|--------|--------|--------------------|--------|
| | 2012 | 2013 | 2014 | 2015 |
| Revenues (₹ cr) | 6,390 | 6,810 | 10,797 | 13,502 |
| Operating profit (₹ cr) | 549 | 713 | 1,292 | 1,574 |
| Net profit (₹ cr) | 324 | 394 | 796 | 1,054 |
| EPS (₹) | 120.11 | 145.84 | 292.84 | 326.27 |

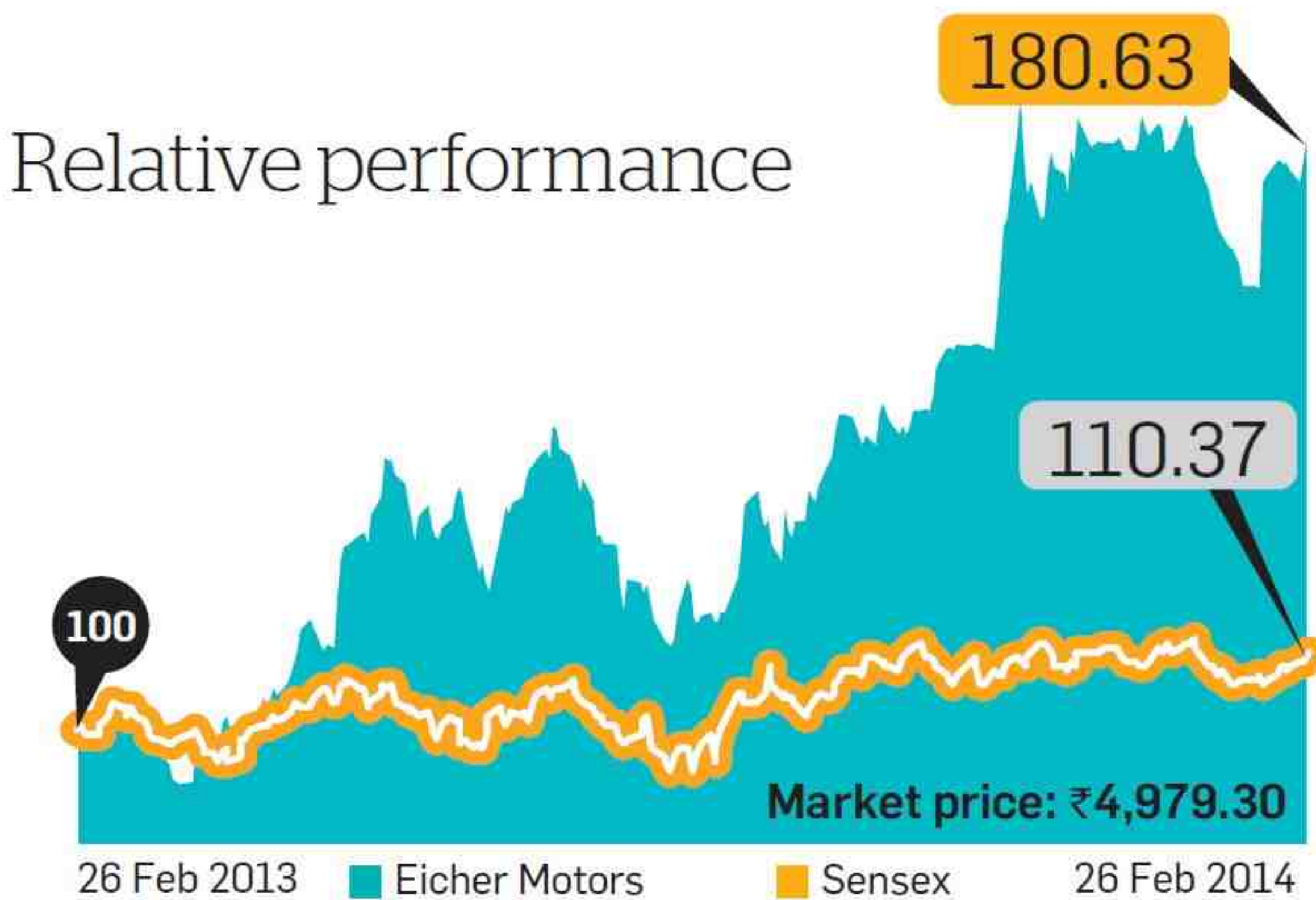
> Valuation

| | PBV | PE | Dividend yield (%) |
|---------------|------|-------|--------------------|
| Eicher Motors | 6.55 | 34.19 | 0.60 |
| Hero Motocorp | 7.87 | 18.51 | 3.04 |
| Bajaj Auto | 6.90 | 17.15 | 2.34 |
| Tata Motors | 3.36 | 9.20 | 0.50 |

> Latest brokerage calls

| Recomm date | Research house | Advice | Target price (₹) |
|-------------|--------------------------|------------|------------------|
| 25 Feb '14 | JM Financial | Buy | 5,770 |
| 18 Feb '14 | Motilal Oswal Securities | Buy | 5,700 |
| 17 Feb '14 | IDFC Securities | Outperform | 6,255 |
| 17 Feb '14 | India Infoline | Buy | 5,729 |

> Relative performance



Performance of Eicher Motors compared with the Sensex. Figures are normalised to a base of 100. Source: ETIG Database & Bloomberg