Enfield , CV Sales to Put Eicher in Fast Lane

Calculus

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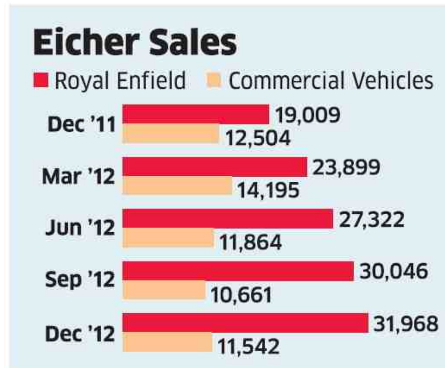
Commercial vehicles and bike maker Eicher Motors' financial performance for 2012 (its financial year too) was below expectations, especially on the margins front. It was the best performing stock in the automobile sector last year logging a gain of 94%. Despite a healthy 32% volume growth on a consolidated basis due to a 52% sales growth Y-o-Y in Royal Enfield bikes, Eicher's consolidated operating or EBITDA margins slid by close to 200 basis points to 8.6% for the year.

A noticeable increase in the company's other expenses because of new product launches and higher fuel and power costs impacted margins for the year. It faced power problems in Tamil Nadu where its plant is located. Huge discounts offered by the company on its commercial vehicles also hit margins as realisations were lower.

Thus, while the average net realisation for Eicher's standalone (Royal Enfield) business improved 3% year-on-year to ₹92,176 per vehicle, on a consolidated basis, its net realisation deteriorated by 15% to less than ₹4 lakh per vehicle for the calendar year 2012.

Even as the street punished the stock for its disappointing performance – the stock shed close to 2% following the result announcement to ₹2,620 – analysts are positive given the company's strong presence in the niche premium bike segment.



In the last couple of years, Royal Enfield has done well having sold over 1,13,000 units in 2012 – its highest ever so far with a waiting period of 6-8 months. Such is the demand for the bike that the company offers absolutely no discount resulting in decent margins. Operating margins in this segment have in fact improved by 200 bps to 14% from 12% a year ago. With production at its new facility expected to commence soon, the waiting period for these heavy-duty bikes is also expected to ease.

On the commercial vehicles front, Eicher's market share has gone up to 12.7% from 11.1% a year ago. Competition continues to be tough and margins will continue to be under pressure owing to weak price realisations in the face of a slowing economy and intense competition. However, with its planned outlay of close to ₹1,200 crore in this business, it may be interesting to see how well its CV business is able to take on competition from established companies such as Tata Motors and Bharat Benz.

With sales of Royal Enfield humming and CVs expected to pick up in the next few years, Eicher's stock has caught the fancy of foreign institutional investors, whose shareholding in the company has increased from 6.18% in Dec '11 to 10.68% in Dec '12. Interestingly, local fund houses have opted to book profits at this counter having received healthy returns during the year. MFs' stake in the company was lower at 11.5% against 15.26% a year ago, given the company's rich valuations. At its current market price, Eicher's stock trades at a consolidated trailing price-to-earning multiples of over 21, which is at a premium to even Bajaj Auto, which trades at a trailing P/E of 19.7.

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