

Eicher Motors' show powered by Royal Enfield

Amid a slowdown in demand and rising discounts in the auto industry, **Eicher Motors Ltd** put up a decent show in the March quarter. The kicker came from its Royal Enfield motorcycle, even though its core commercial vehicle (CV) business dragged performance.

Consolidated net sales rose by 11.5% from the year-ago period to ₹1,924 crore on the back of a 90.5% surge in revenue from sales of Bullet motorcycles. Royal Enfield's monthly run rate during the quarter was nearly double that of the year-ago period. Although motorcycles account for only a third of consolidated revenue, the scorching pace of growth offset the 7% contraction in CV sales.

MARK TO MARKET

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Royal Enfield's units are running at optimum utilization as demand for its motorcycles continues to outstrip supply. Better realization and falling raw material costs also lifted profit margins. Operating margin jumped by 540 basis points from a year ago to 23.1%, beating the Street's forecast. A basis point is 0.01%.

This shored up Eicher Motors' consolidated margin to 11.5%, rising 160 basis points over the year-earlier period. It was in spite of the 220 basis

points fall in CV profit margin during the quarter. However, an **Emkay Global Financial Services Ltd** report attributes the fall in margin to higher-than-expected staff costs and other expenses.

On the whole, consolidated net profit revved up by 42% to ₹139.1 crore, beating consensus expectations.

Eicher Motors' stock has got a lifeline after Royal Enfield started healthy cash flows, helping it weather the slowdown in CVs. The stock has outperformed the benchmark

S&P BSE Sensex and the S&P BSE Auto index. The share price discounts one-year estimated earnings by about 23 times.

Indeed, at this price-to-earnings multiple, the stock may have priced in future prospects. But, according to a report by **IDBI Capital Market Services Ltd**, Royal Enfield margins are the best in many years and the CV margin, though low, is commendable given the weak auto environment.

Further, the premium motorcycle business has no indications of slowing down, with a waiting list despite an increase in capacity. Analysts also say the slowdown in demand for trucks seems to have bottomed out.