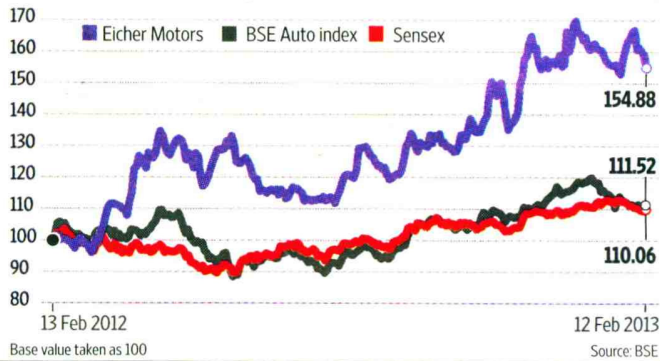


LOSING STEAM

The Eicher Motors' stock has outperformed key indices, but has been falling over the last few weeks on grim outlook for the commercial vehicles sector.



Drop in margins could cap valuation at Eicher Motors

Eicher Motors Ltd's performance in the quarter ended 31 December was reasonably good, especially at a time when the commercial vehicles sector is going through turbulent times. In line with *Bloomberg's* consensus estimates, consolidated net revenue rose 4% from a year ago to ₹1,653.6 crore.

Stand-alone operations, including that of Royal Enfield motorcycles, revved up net revenue by 73% to ₹296.7 crore. As expected, the commercial vehicles entity posted a revenue decline of 3%, perhaps lower than that seen across the industry.

The bright spot in Eicher's performance is the significant improvement in market share in the past few quarters, which, analysts say, is around 28% in light trucks. The management, therefore, is gearing up to cater to better times ahead with expansion plans worth ₹1,200 crore in the next two years. The company's success is seen in the seven-eight month waiting period for its light trucks, which, hopefully, will come down as higher capacities are added in the near term.

Unfortunately though, consolidated operating profit disappointed the Street, falling 22.7% from a year ago to ₹118 crore. Operating margin fell an annual 2.6 percentage points to 7.1%, lower than *Bloomberg's* consensus estimates of around 7.9%. The

stand-alone entity posted a rise in other expenses, which affected operating margins, as Enfield incurred higher promotional expenses on new launches. The management also indicated a rise in power costs due to a power deficit in Tamil Nadu. Also, the profitability in commercial vehicles was hit by a contraction in heavy commercial vehicles, which normally improves realization per vehicle.

Eicher reported a 15% dip in net profit to ₹72.7 crore although this is without the dividends from its subsidiaries due to change in accounting policy norms.

More importantly, however, brokerage firms are hopeful the additional Enfield capacities should step up volumes and profitability at the operating level. Commercial vehicle sales could get better, even as growth rates will be higher on a low base.

Kaushal Maroo, analyst at **Emkay Global Financial Services Ltd**, says in his report that earnings growth has been revised, given that the motorcycle volumes could offset the weak pricing power in commercial vehicles in the near term. That said, the stock is fairly priced, trading at nearly 15 times its one-year estimated earnings. Any strong increase in the stock price will come from an improvement in consolidated operating performance and margins.

VATSALA KAMAT