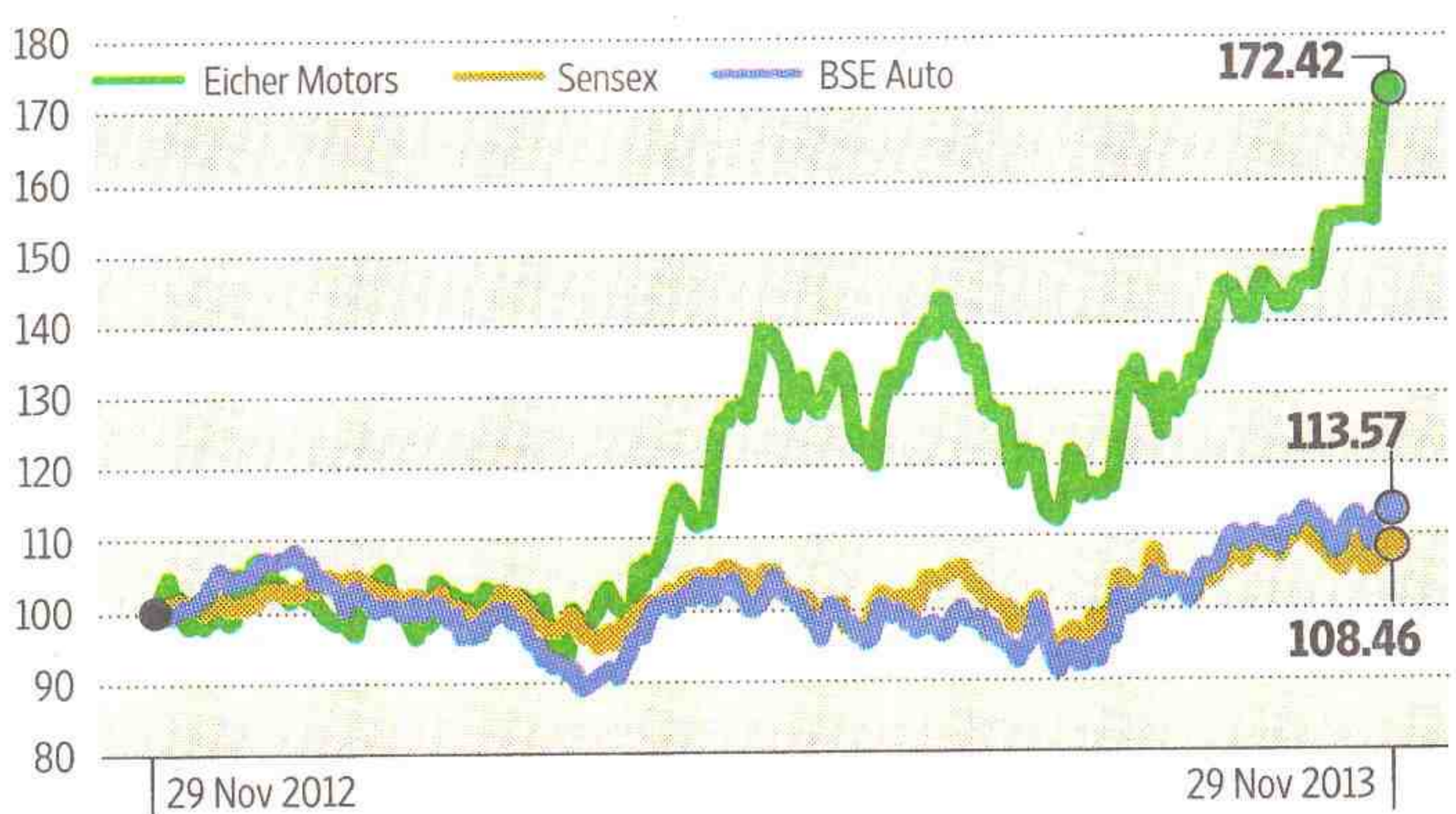




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## AHEAD OF THE PACK

Eicher Motors' stock is in the fast lane following strong performance in the motorcycles segment, which offset the slowdown in commercial vehicles.



Base value taken as 100.

Source: BSE

VENKATESULU/MINT

# Eicher Motors' stock sparks up on better prospects

The Eicher Motors Ltd stock scaled a 52-week high of ₹4,833 on Friday, recording a gain of 17% since results were announced around a fortnight ago. Sustained strong sales of its iconic Royal Enfield motorcycle and a rise in profitability led to a revision in earnings estimates on the street, driving the stock up. Its monopoly in a niche motorcycle segment where demand is expanding helped the firm steer clear of the significant slowdown that has hit other leading two-wheeler firms that cater to the mass market.

Royal Enfield sold 61% more vehicles in the September quarter than a year ago.

A report by Bank of America Merrill Lynch forecasts a 38% compounded annual growth rate for India's leisure motorcycle market for the next five years, which is twice its earlier estimates. Conviction in Eicher's growth rates is also reflected in the three-four months waiting period in spite of capacity additions. Also, the prospects on exports to the developed world are bright, following the well-received launch of its new motorcycle, Continental GT.

In fact, motorcycles have helped Eicher buck the auto slowdown, in a sense comparable with Jaguar Land Rover's role in shoring up Tata Motors Ltd's performance in the last

several quarters. Otherwise, Eicher, which is also a key player in the light commercial vehicle (CV) market, has been hit by the slowdown in the industry. Of course, for the quarter ended September, its 12.5% decline in CV sales was better than the industry's 26% decline. Further, Eicher's cost control and higher operating leverage have translated into lower raw material cost as a percentage to sales. Operating margin at the consolidated level are 220 basis points higher than a year ago at 9.3%.

**Eicher's cost control and higher operating leverage have translated into lower raw material cost as a percentage to sales**

One basis point is one-hundredth of a percentage point.

Note that the firm's stand-alone operations (housing Royal Enfield) registered its highest ever operating margin at

19.3% during the quarter. However, new launches in CVs and success on the marketing front raises hopes the firm will ride the expected recovery in the future. Meanwhile, the supply of engines overseas is on firm ground with assured growth in the coming quarters. All this has led to Eicher's profit growth forecasts for calendar years 2014 and 2015 being revised upwards. More importantly, it has led to a re-rating, which back the rich valuations of about 19-20 times one-year estimated earnings at the present ₹4,686 a share.