In the fifth part of a special series on market movers, we look at the automobile manufacturer's prospects

Eicher still a Royal Enfield show

RAM PRASAD SAHU & SHARMISTHA MUKHERJEE

The tripling of Eicher Motors' stock price over the past year has largely been due to a spurt in the volumes and margins of Royal Enfield motorcycles.

The company has been having a hard time coping with a demand surge for its Bullet and Classic brands, which have waiting periods of four to five months. While the doubling of annual capacity to 300,000 units over the past two years has helped to halve the waiting period, volumes continue to surge.

For the calendar year to date, the company has posted a volume growth of 81 per cent to 192,000 units and has a target of achieving 300,000 units for the full year. Siddharth Lal, managing director and chief executive officer, said: "We are certainly on track (to doing so). It is subject to various supply chain issue constraints being removed but it is not a huge problem."

GAINERS MARKET MOVERS

The company is looking at further raising monthly production, from the 25,000 units currently to 30,000 units in early 2015 and 40,000 units by the end of that calendar year. Analysts at IIFL believe Royal Enfield volumes, which have grown by a factor of six over four years, could touch a one million by 2020. This could happen as positioning and usage becomes more mainstream than niche and its under-penetrated dealer network doubles from the current levels.

Eicher is additionally working on developing a new platform to spin off products for global markets. Lal said, "There is a lot of starting with the Continental GT and then we get into a new platform in the future and new products. We are working a lot on an India-out strategy on products. That is, we make a product in India and then try and send it everywhere else. The products have a global idea and (are) global in the type of approach but all products as we see in the future...are totally wedded in some sense to the mid-size segment in the forseeable future... None are market-centric and so, should sell well in developed and developing markets."

It is the volume surge, current and projected for Royal Enfield, coupled with the improving product mix, which has been helping Eicher report steady growth in margins for the two-wheeler business. From just under 14 per cent at the end of calendar year 2012, the margins are now at 24 per cent.

The margin for its joint venture with Volvo (Volvo Eicher Commercial Vehicles or VECV) is in single digits. The importance of the two-wheeler business can be gauged from the fact that though it contributes about a third of revenue, its higher margins are what drives 70 per cent of the operating profit and about 90 per cent of the consolidated bottom line.

Unlike the two-wheeler business, volumes in VECV have been declining due to the severe downturn in the CV space. For the calendar year so far, VECV volumes are down 10 per cent over a year to 27,663 units, largely due to a 16 per cent fall in sales of light to medium duty vehicles. Lal said, "In the past few months, we have seen the market continues to be weak. We have seen very little sustainable traction. There are one or two routes which are showing slightly better freight rates and all of that but it is still sporadic. It is not like a major shift is happening yet. We believe it is the bottom of the cycle, so things should start looking up but we have not actually seen the traction."

After two and a half years of decline, analysts believe CVs are likely to see a revival, growing 14 per cent in the current financial year and 30 per cent in FY16. Growth for VECV is expected to come from the December 2013 launch of the Pro-series of trucks and buses helping the company gain market share.

Lal is positive about the mid-term prospects. "On heavy duty (vehicles), the downturn has put some dent in our aspiration of growth, as the market has fallen from nearly 250,000 to 130,000, even to 90,000 (units). It has also taken in a bit of dent to our market share aspirations because of the extreme position that everyone else has been," he said. Yet, he'sn optimistic and is targeting Eicher to achieve 15 per cent market share in the heavy duty segment in three to five years. The company is also focusing on the export market to drive volumes of heavy duty vehicles.

"Exports should also clock a similar trajectory, as immense effort has been poured into inducting the right manpower to develop its key markets," said Chirag Shah and Siddhartha Bera of Edelwiess, in a report earlier this month. The two have factored in 450,000 and 620,000 units' sales of Royal Enfield motorcycles in CY15 and CY16, respectively, and have a 'Buy' on the stock, with a target price of ₹14,954.

Volume growth and margin expansion in motorcycles and recovery in CVs should, according to IIFL analysts, help Eicher grow its revenue by 32 per cent, margin by 800 basis points to 18.2 per cent, powering consolidated earnings by 60 per cent over the CY13-16. At current levels of ₹11,380, the stock is trading at 29 times its CY15 estimates and could see a re-rating if the CV business rebounds.

So far this calendar year, the company has posted a volume growth of 81 per cent to 192,000 units. It has a target of selling 300,000 units in 2014

VOLUME-LED GAINS

In ₹ crore	CY14E	CY15E	CY16E
Sales	8,625	11,934	15,743
% change y-o-y	26.7	38.4	31.9
Ebitda	1,109	1,860	2,858
% change y-o-y	55.5	67.7	53.7
Ebitda (%)	12.9	15.6	18.2
Net profit	638	1,081	1,664
% change y-o-y	62.3	69.4	53.9

E:Estimates — Source: IIFL Research

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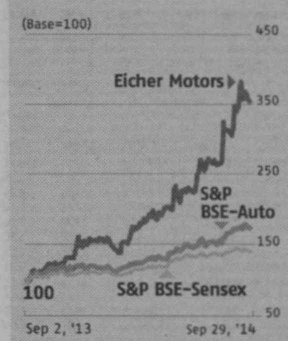

Data compiled by BS Research Bureau