

Eicher Motors: An expensive ride

While there are multiple growth triggers going ahead, current valuations leave little room for upside

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Continuing strong sales of Royal Enfield motorcycles and a recovery expected in the commercial vehicle (CV) segment have helped the Eicher Motors' stock notch up gains of about 50 per cent over the past three months.

Aided by a record show by its two-wheeler division, the company in the March quarter saw its consolidated net profits jump 42 per cent year-on-year (y-o-y), ahead of expectations. What have helped Eicher post these numbers have been the higher volumes and margin performance at Royal Enfield. While volumes were

up 85 per cent, better product mix helped it improve realisations by three per cent. As a result, margins spurted 539 basis points to 23.1 per cent -- its highest ever.

Analysts say the company is expected to maintain the 50 per cent volume growth for CY14 and will be similar to the volume growth (57 per cent) recorded in CY13. In addition to the domestic market growth, likely to be aided by network expansion, volumes are likely to get a boost from exports, as Eicher increases capacity to cater to markets such as the US, the UK and Western Europe. Higher capacities from the new plant and cost-cutting initia-



tives coupled with increasing sales of high-margin spares and accessories are likely to help the company maintain its margins. While international majors are

eyeing the lucrative segment of above-200cc bikes and competition is likely to intensify, the segment is expected to grow at twice the two-wheeler growth rate of nine per cent over the next decade, say analysts at Emkay Research. This should help the company improve its volumes, while market share could trend down.

The commercial vehicle business, however, continues to offer a contrasting picture. A weak economy continues to impact volumes with the March quarter numbers down 21 per cent y-o-y basis. Net sales were down seven per cent, while operating profits fell 32

per cent versus a year ago. However, analysts say the CV cycle has bottomed out given the pace of decline has been slowed after peaking out in the September 2013 quarter and freight rates are inching up over the last four months.

While there are positives to the Eicher Motors story, analysts believe the steep run-up and the fact it is trading at 26 times CY15 estimates, there is little room for major upsides. Of the 18 analysts tracking the company, 16 have a 'hold' or a 'sell', with 12 analysts continuing to recommend a 'buy'. While the stock is currently trading at ₹7,291, the consensus target price is at ₹6,718.