

**INDUSTRY AUTOS**
**CMP (as on 15 Mar 2019) Rs 22,612**
**Target Price Rs 21,000**

Nifty 11,427

Sensex 38,024

**KEY STOCK DATA**

Bloomberg EIM IN

No. of Shares (mn) 27

MCap (Rs bn) / (\$ mn) 617/8,924

6m avg traded value (Rs mn) 2,781

**STOCK PERFORMANCE (%)**
**52 Week high / low Rs 32,237/18,780**

	3M	6M	12M
Absolute (%)	(4.7)	(23.0)	(21.2)
Relative (%)	(10.4)	(22.9)	(34.1)

**SHAREHOLDING PATTERN (%)**

Promoters 49.33

FIs &amp; Local MFs 5.87

FPIs 30.79

Public &amp; Others 13.54

Source : BSE

**Aditya Makharia**

aditya.makharia@hdfcsec.com

+91-22-6171-7316

**Abhishek Jain**

abhishekkumar.jain@hdfcsec.com

+91-22-6171-7320

## Legacy wars

Multiple factors are likely to impact the growth outlook at Eicher. After witnessing robust growth over CY12-FY18, when earnings grew at 46% CAGR, we believe earnings growth will moderate to 10% CAGR over FY19-21E as lifestyle segment growth normalizes in India, competition steps in and export initiatives take time to pay off. We reinstate coverage with a SELL and have a target price of Rs 21,000 based on SOTP. We assign 22x to the RE business – at 25% premium to the mass market OEM's (vs. 50% in the trailing three years). The lower multiple reflects the moderating growth outlook.

- Industry growth rates to normalize:** After witnessing hyper growth over the past decade (Royal Enfield volumes delivered 46% CAGR between CY10-FY18), segment growth rates will likely settle at 1.5-2x of overall two wheeler industry growth, in our view. The higher penetration levels in the early adopter states (Kerala, Maharashtra, etc) which account for ~45% of overall RE's volumes, will have a bearing on growth, even as the under penetrated northern states are expected to drive sales.

- Competition in the lifestyle biking segment:** The Jawa is the first serious competitor to the RE range of bikes as the brand has a rich legacy in India, similar to that of Royal Enfield. They have launched twin products i.e. the Jawa and the Jawa forty two. The bikes have received an encouraging consumer response, with c.50,000 bookings. Also, other competitors are now targeting product launches in

this segment including Bajaj & Triumph (in collaboration) – though timelines are to be firmed up.

- Exports – a medium term opportunity:** While Eicher's launches of the 650cc Twins in global markets reflects its enhanced R&D capabilities, the adoption of these products by consumers needs to be monitored, especially since developed countries are witnessing stagnating volumes. For instance, overall motorbike volume sales in the US have declined from 1.1mn units in 2006 to below 0.5mn units currently. We believe that exports can contribute meaningfully only in the medium term.
- Near tear headwinds** (1) customers are yet to absorb price hikes in their entirety (Rs.25,000, ~15% of the ASP) 2) high volume markets such as Kerala (where RE has a 30% market share of overall bike sales) are sluggish 3) Competition in commercial vehicles remains intense, with the industry continuing to witness aggressive discounting. This is impacting profitability at VECV.

### Financial Summary (Consolidated)

Y/E Mar (Rs. mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	70,334	89,650	99,134	110,922	123,581
EBITDA	21,740	28,076	29,635	32,549	36,023
APAT	17,131	21,797	22,619	25,174	27,618
Diluted EPS (Rs)	630	800	830	923	1,013
P/E (x)	35.9	28.3	27.3	24.5	22.3
EV/EBITDA (x)	26.3	19.8	18.3	16.1	13.9
RoE (%)	38.1	35.2	28.4	25.2	22.6

Source: Company, HDFC sec Inst Research

**The super premium segment (250cc and above) has witnessed aggressive growth, driven by Royal Enfield**

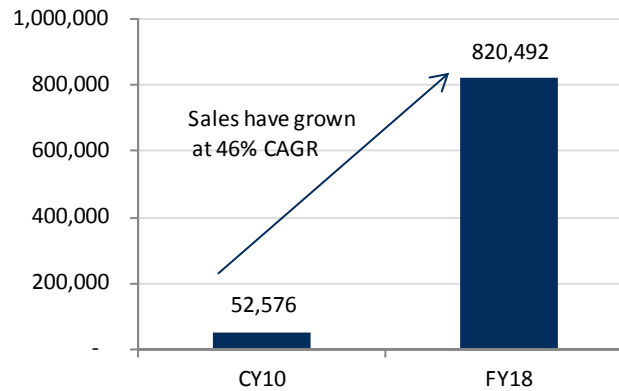
**The early adopter states account for ~45% of the RE's volumes.**

**On balance, we expect segment growth to converge closer to industry. We believe that volumes are likely to grow at ~1.5-2x of the two wheeler industry, going ahead.**

## Growth rates to normalize

- The super premium segment (250cc and above) has witnessed aggressive growth, driven by the emergence of lifestyle bikes. Over CY10-FY18, sales at Royal Enfield have grown at 46% CAGR and now account for over 800,000 units annually.

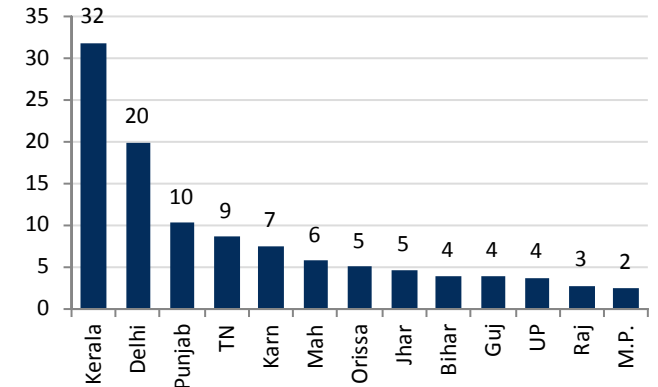
### Royal Enfield Sales (unit nos)



Source: Company, HDFC sec Inst Research

- The early adopter states account for ~45% of RE's volumes. In these markets (Kerala, Tamil Nadu, Punjab), growth is moderating as penetration levels are high. In Kerala for instance, RE has an over 30% market share of the motorbike market.

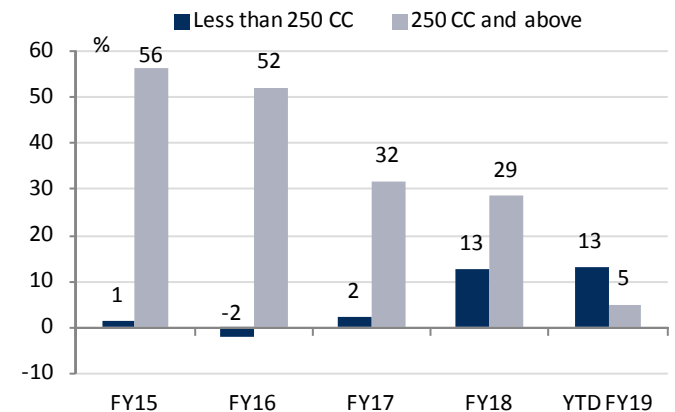
### RE As % of State's Motorbike Sales



Source: SIAM, HDFC sec Inst Research

- While the underpenetrated states will continue to drive volumes, slowing sales in the mature markets will impact overall growth. On balance, we expect segment growth to converge closer to that of the industry. We believe that volumes are likely to grow at ~1.5-2x of the two wheeler industry, going ahead.

### Motorbikes – Segmental Growth



Source: Company, HDFC Sec Inst Research, SIAM

**The Early Adopter states have witnessed weak volumes in FY19**

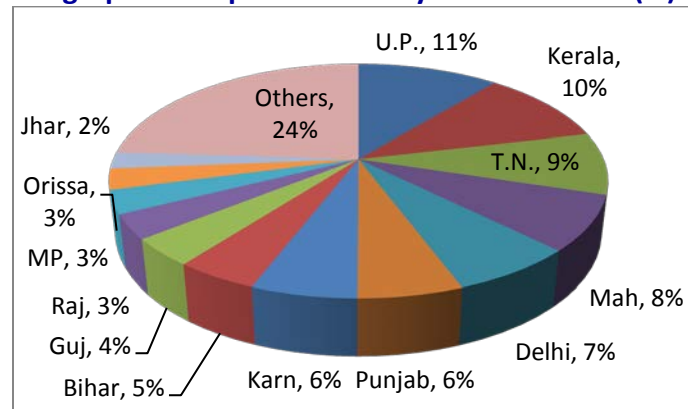
**Amongst growth states, Bihar, Madhya Pradesh are witnessing healthy volumes**

**State Wise Sales of Royal Enfield Bikes (unit nos)**

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	Comment
Kerala	19,108	24,264	23,524	23,891	23,855	21,735	17,957	Early adopter markets are witnessing stagnating sales
Maharashtra	17,964	16,827	19,592	20,309	15,318	14,931	16,733	
Tamil Nadu	19,038	21,049	15,991	22,985	21,131	21,249	10,013	
Delhi	12,706	12,889	13,460	15,710	15,040	13,352	13,837	
Karnataka	14,444	13,620	11,313	13,050	12,786	12,562	10,257	
Punjab	10,421	10,857	11,040	13,512	10,987	11,493	12,652	
U.P.	15,842	18,397	19,783	22,824	26,000	20,054	21,354	Lower penetrated states will drive growth
Bihar	5,595	6,370	7,798	7,964	9,736	9,321	8,842	
Rajasthan	4,711	6,015	6,696	6,599	6,595	6,400	7,769	
MP	4,234	5,045	5,811	6,345	6,379	6,129	7,361	
Orissa	3,689	4,079	5,322	5,744	6,250	5,514	6,099	
Jharkhand	3,001	3,429	4,233	3,736	4,464	4,431	5,060	

Source: SIAM, HDFC Sec Inst Research

**Geographic Composition of Royal Enfield Sales (%)**



Source: SIAM, HDFC Sec Inst Research

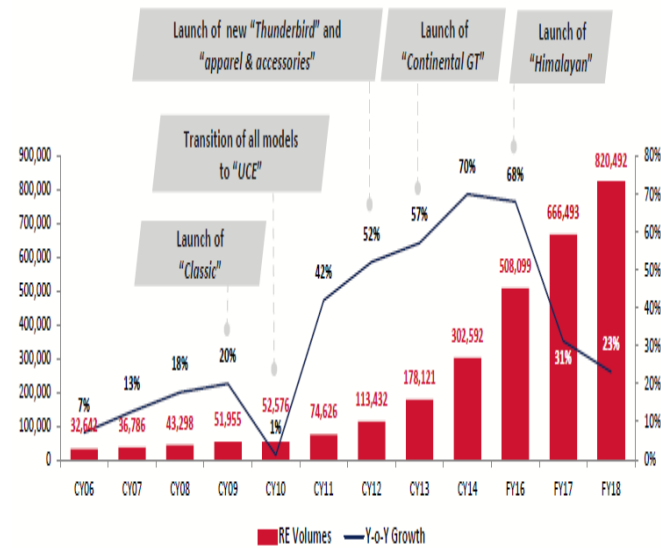
**New entrants are now stepping up, given that segment volumes are approaching the 1M mark.**

**The Jawa is the first serious competitor to the RE. The bikes have received an extremely encouraging consumer response, with c.50,000 bookings received for the products and a six month waiting period.**

## Competition is stepping in

- The lifestyle biking segment emerged with the revamp of RE’s product range in 2009. While RE has enjoyed unhindered competition over the past decade – the new entrants are now stepping up, given that segment volumes are approaching the 1M mark.

### Royal Enfield Annual Sales



Note: Standalone volumes for Eicher Motors Limited

Source: Company

- The Jawa is the first serious competitor to the Royal Enfield. The bikes have received an extremely encouraging consumer response, with c.50,000 bookings received for the products and a six month waiting period.
- Jawa is originally from the Czech Republic, with a 90-year legacy – it had initially entered the Indian markets in the early 1960’s. The brand has recently been reintroduced by Classic Legends Pvt Ltd. The

company is 60% owned by Mahindra and it leverages M&M’s infrastructure including the manufacturing facility. Jawa is rolling out 100+ dealerships across India, to capitalize on the strong demand momentum.

- The products have been launched in two variants – ‘Jawa Forty Two’ and the ‘Jawa’ which are priced at Rs. 155K and 165K (Ex showroom) respectively and are competing with the Royal Enfield Classic 350, which is priced at Rs.1.5L. The motorbikes have received good reviews, particularly for the powertrain – it is a 293cc motor, which is BS-VI compliant and it features fuel-injection, liquid-cooling and DOHC. Also, the Jawa offers a six-speed gearbox. As deliveries will commence from March onwards, the on road product feedback will drive the next leg of demand.

### Jawa and Royal Enfield: Specifications

	Jawa Forty Two	Royal Enfield Classic 350
Displacement	293cc	346cc
Engine layout	DOHC, Single-cylinder, liquid-cooled	Single-cylinder, air-cooled
Emission Standard	Fuel Injection (BSVI)	Carburettor (BSIV)
Power	27hp	19.8hp at 5,250rpm
Torque	28Nm	28Nm at 4,000rpm
Gearbox	6-speed	5-speed
Power-to-weight ratio	158.8hp/tonne	103.1hp/tonne

- Bajaj and Triumph have also announced plans to enter, though the launch is some time away.

## Exports: a medium term opportunity

- While Eicher's launches of the 650cc Twins (Interceptor 650 and the Continental GT) are reflective of its enhanced R&D capabilities, the adoption of these products by consumers needs to be monitored, especially since developed countries are witnessing stagnating volumes. We believe that export initiatives will take time to pay off
- The global market outside of India is estimated to be ~0.5mn units.

### Global Sales of Lifestyle Bike OEM's

Brand	Annual Sales (units) **
Harley Davidson	228,000
Triumph	63,000

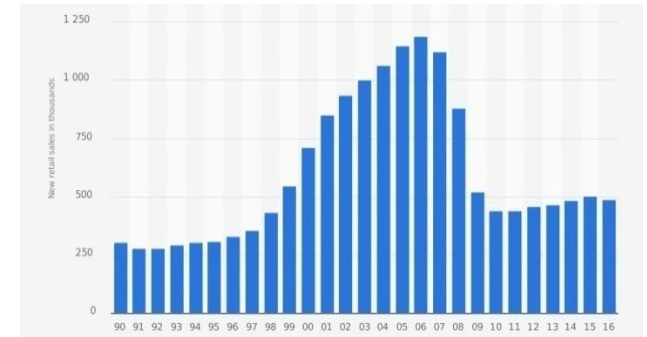
Source: HDFC Sec Inst Research\*\* indicative

- Developed markets are facing challenges:** Markets such as the US are facing their own set of challenges, with bike sales falling consistently over the past decade. Total industry sales peaked at 1.1mn units in 2006 and post the GFC have fallen to below 0.5mn units. As the current generation of baby boomers makes way for the millennial generation, this potential set of consumers has yet to adopt to the biking culture.

*The global market for lifestyle bikes outside of India is estimated to be ~0.5mn units.*

*Markets such as the US are facing their own set of challenges, with bike sales falling consistently over the past decade. Total industry sales peaked at 1.1M units in 2006 and post the GFC have fallen to below 0.5M units.*

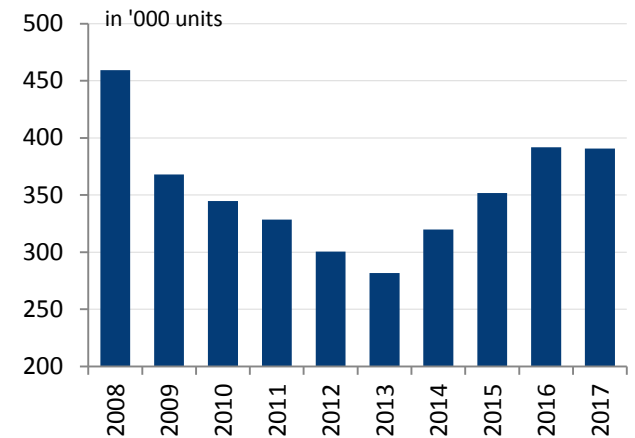
## US Motorbike Sales (in '000 units)



Source: Industry, HDFC Sec Inst Research

- Similarly, the European market volumes have been range bound over the past decade.

## Sales of 601cc+ Bikes in Europe

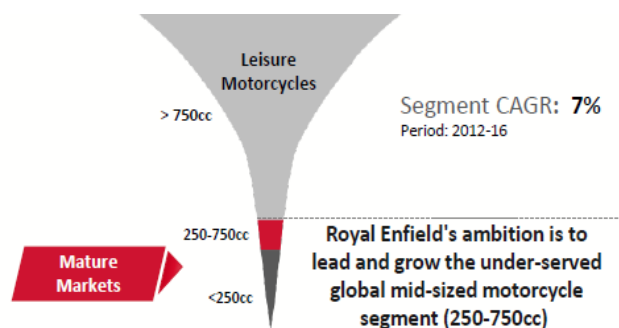


Source: Industry, HDFC Sec Inst Research

*Eicher is attempting to create new export opportunities with their 650cc launches.*

- **Is downsizing the way ahead :** In developed markets, the premium 750cc and above segment constitutes a large part of the motorbike sales. Royal Enfield believes that the 250-750cc mid-sized motorcycle segment is currently under served. Eicher is attempting to create export opportunities with their recent 650cc launches.

### Structure of bike industry in Mature Markets



Source: Company

- As per media interactions, Royal Enfield’s goal over the next five to ten years, is to sell between 10K – 15K motorcycles a year (up from 2,000 units currently in the US) and they want to be the largest middleweight motorcycle OEM in North America. Inroads in the mature markets will enhance the brand perception of RE, which will benefit sales in emerging markets such as Latin America, ASEAN as well.
- Harley Davidson has also launched the ‘Street’ series of bikes in the mid sized segment (in 500cc/750cc). The products have been launched to appeal to urban consumers.

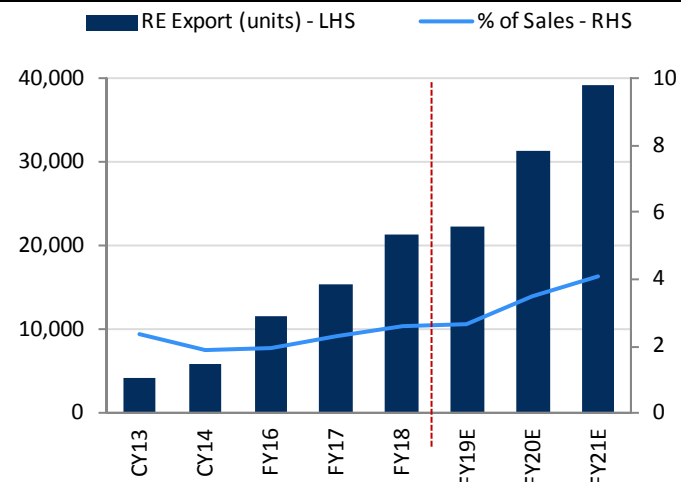
### Product pricing of mid-sized lifestyle bikes

Model	Price (\$)
RE Interceptor 650cc	\$5,799
Harley Street 500cc	\$6,899
Harley Street 750cc	\$7,599

Source: Company, HDFC sec Inst Research

- Eicher currently has 42 exclusive dealerships across the world (outside India) with several of them present in USA and Europe. They also retail their products through multi brand dealerships in markets such as USA.

### Royal Enfield Exports (unit nos)



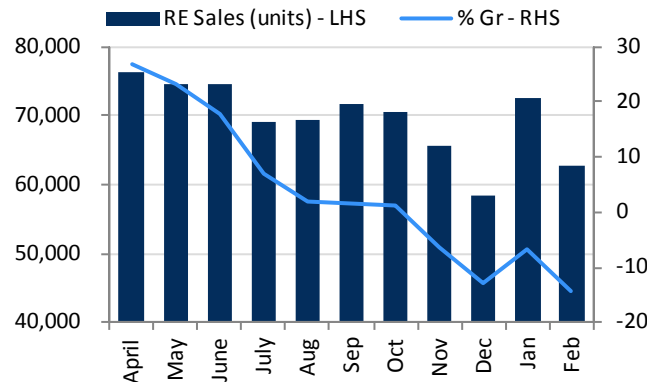
Source: Company, HDFC sec Inst Research

*We believe that the near term headwinds will continue to impact RE sales as i) customers are yet to absorb the price hikes ii) high volume markets such as Kerala (where Eicher has a 30% market share) are yet to recover iii) Competition in commercial vehicles remains intense, which is impacting profitability at VECV*

## Near term headwinds

- We believe that near term headwinds will continue to impact RE sales as (1) customers are yet to absorb the price hikes in their entirety (prices have risen by ~Rs.25,000, which is ~15% of the price). ii) high volume markets such as Kerala (where Eicher has a 30% market share) are yet to recover iii) Competition in commercial vehicles remains intense, with the industry continuing to witness aggressive discounting. This has impacted VECV's profitability in 3QFY19.

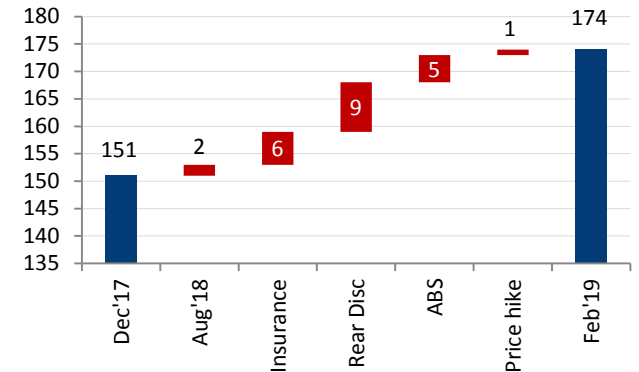
### Royal Enfield :Monthly Sales (unit nos)



Source: Company, HDFC Sec Inst Research

- **Sharp Price Increases:** The Royal Enfield product prices have risen due to multiple factors 1) introduction of Anti Lock Braking Systems - The price hikes due to ABS has been significant as the company also had to introduce rear disk brakes along with the dual channel ABS ii) The insurance cost has also risen due to the regulatory changes, particularly for third party insurance, which is now mandatory for five years.

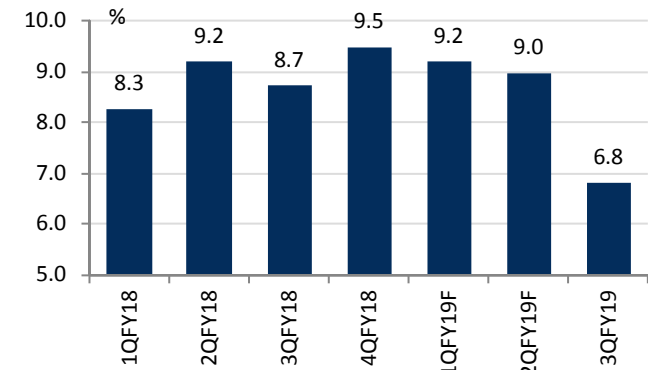
### Classic 350 : On Road Price (in Rs'000)



Source: Company, HDFC Sec Inst Research (Prices are on road, Tamil Nadu)

- Coupled with this price rise, the company will also have to incur an additional price increase for the changing regulations of BSVI, which will require Fuel Injection. This could entail a price increase in the range of Rs.5-10K
- **VECV: High discounting is impacting profitability:** As per the management, VECV's EBITDA margins came off to 6.8% (vs.8.7% yoy) over 3QFY19 due to aggressive discounting. This trend is expected to continue in the near future as well.

### VECV Quarterly EBITDA Margin Trend



Source: Company, HDFC Sec Inst Research



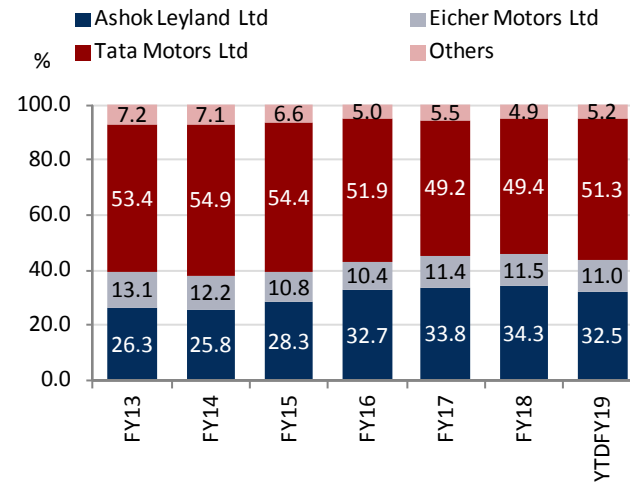
*The incumbents, Tata Motors and Ashok Leyland have adopted an aggressive discounting policy in order to protect market share.*

*The commercial vehicle industry is witnessing a shift in its tonnage mix towards lower GVW vehicles.*

## VECV: competitive pressures to sustain

- The incumbents, Tata Motors and Ashok Leyland have adopted an aggressive discounting policy to protect market share. Our channel checks suggest that discounts continue to remain elevated, particularly for large fleet orders. Thus, VECV's market share has been restricted to ~11%.

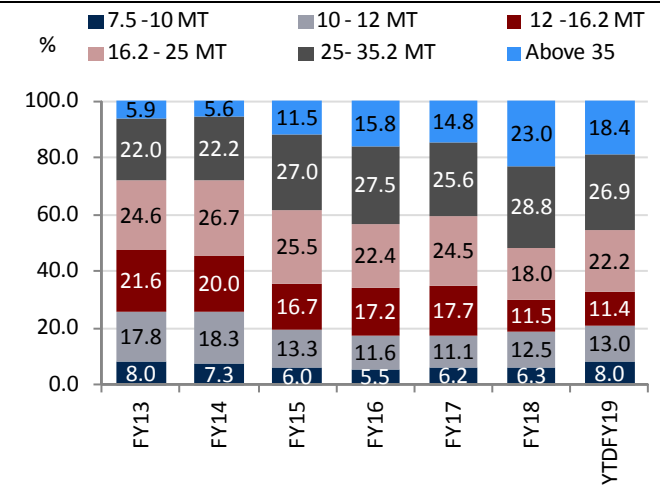
### M/HCV : Industry Market Share



Source: Company, HDFC sec Inst Research, \*YTD-till Dec-18

- Post the change in axle load regulations, existing trucks are allowed to carry ~20% higher pay load. Thus, the commercial vehicle industry is witnessing a shift in its tonnage mix towards lower GVW vehicles. As the share of 35T and above vehicles has fallen sharply to 18% of the market (vs. 23% YoY), it will impact industry growth / profitability dynamics.

### M/HCV – Industry Tonnage Mix (%)



Source: Company, HDFC sec Inst Research, \*YTD-till Dec-18



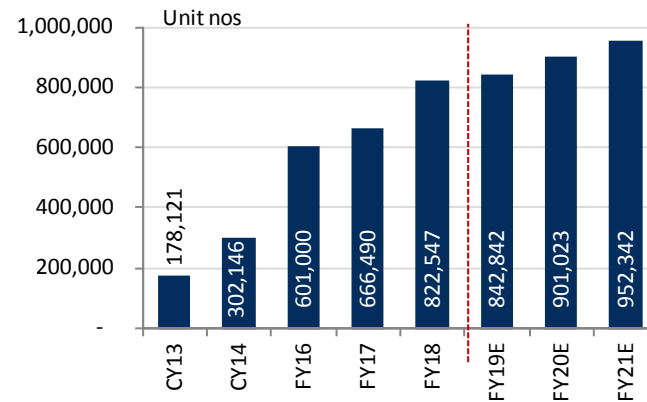
**After witnessing a 46% CAGR in volumes over the past seven years, volume growth and revenues for Royal Enfield will moderate from hereon**

**As utilization levels normalize and competitive pressures rise, we believe that EBITDA margins at Royal Enfield will stabilise in the 28-30% range going ahead**

## Financials

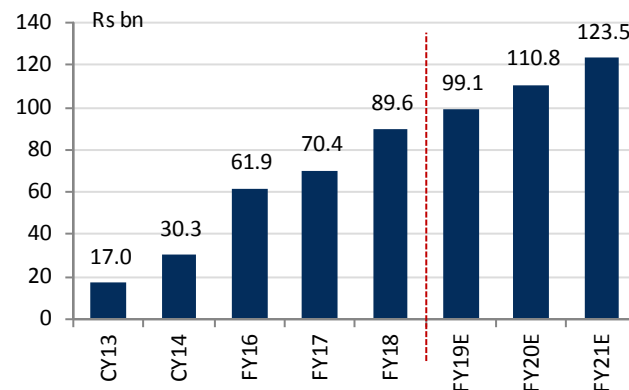
- After witnessing a 46% CAGR in volumes over CY10-FY18, revenues for Royal Enfield will moderate to 11% over FY18-21E, in our view. As highlighted above, growth is expected to come off due to multiple factors, including a demanding base, rising competition as well as the impact of price hikes due to stricter regulatory norms.

### Royal Enfield Volumes (unit nos)



Source: Company, HDFC Sec Inst Research

### Royal Enfield Revenues (in Rs bn)



Source: Company, HDFC Sec Inst Research

- While Eicher has been witnessing peak utilisation levels, as their products typically commanded a waiting period, we expect utilisation levels to moderate as new capacities are commissioned and products are now readily available.

### Royal Enfield installed Capacity

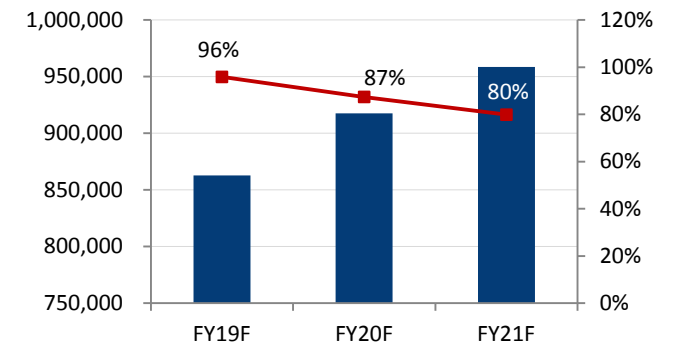
	Capacity	Status
Oragadam	600,000	Operational
Vallam Phase I	300,000	Operational
Vallam Phase II	300,000	from 2HFY20
<b>Total Capacity</b>	<b>1,200,000</b>	

Source: Company, HDFC Sec Inst Research

- Thus, utilisation levels should moderate from peak levels earlier to 80% going ahead.

### Royal Enfield Utilization Levels (%)

■ Volumes (unit nos) - LHS ■ Utilisation Levels (%) - RHS

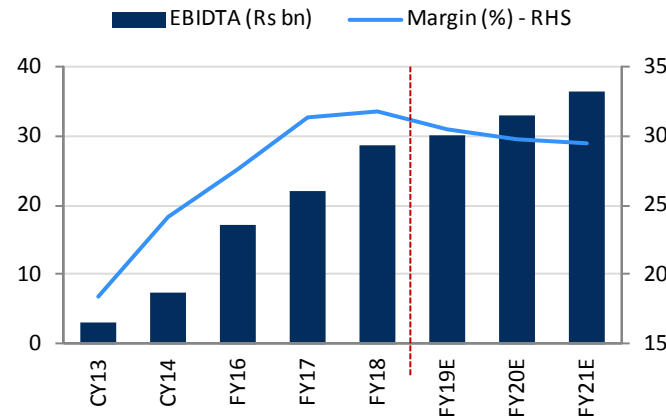


Source: Company, HDFC Sec Inst Research

**After witnessing a 60% CAGR in profits over CY10-FY18, we expect standalone profits to grow at 10% CAGR over FY19-21E.**

- EBITDA margins have expanded sharply from 18% in CY13 to 31% in FY19 as the benefits of operating leverage kicked in. We believe that margins will stabilise in the 28-30% range.

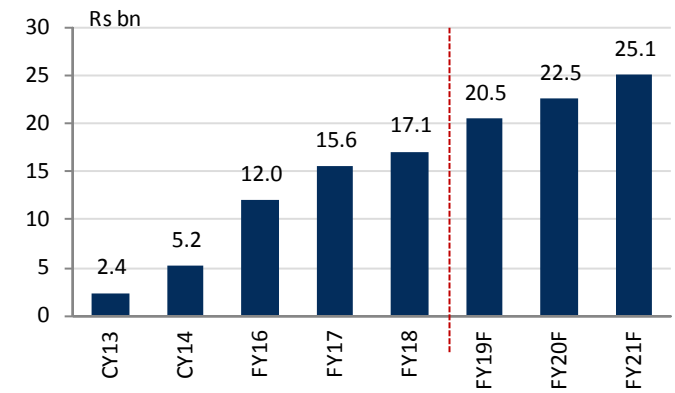
**Royal Enfield EBITDA Margin**



Source: Company, HDFC sec Inst Research

- After witnessing a 60% CAGR in profits over CY10-FY18, we expect standalone profit growth to moderate to 10% over FY19-21E, due to the factors highlighted above.

**Eicher Motors Standalone Profits**



Source: Company, HDFC sec Inst Research

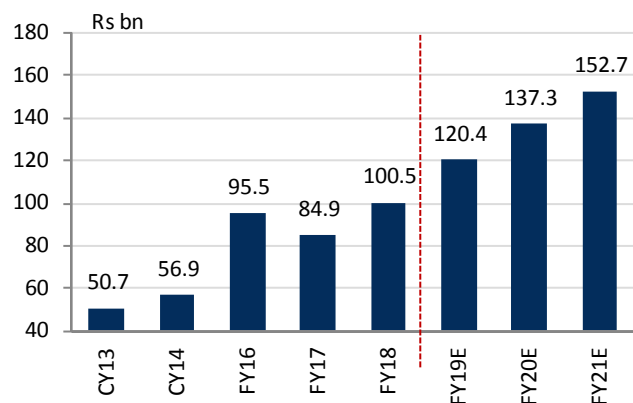
**We expect VECV to report revenue growth of 13% CAGR over FY19-21E.**

**However, we expect EBITDA margins to be under pressure due to the rollover to BSVI**

### VECV

- We expect VECV to report revenue growth of 13% CAGR over FY19-21E. While sales will benefit due to pre buy in FY20, post the introduction of BSVI – volume growth is expected to be in low single digits in FY21.

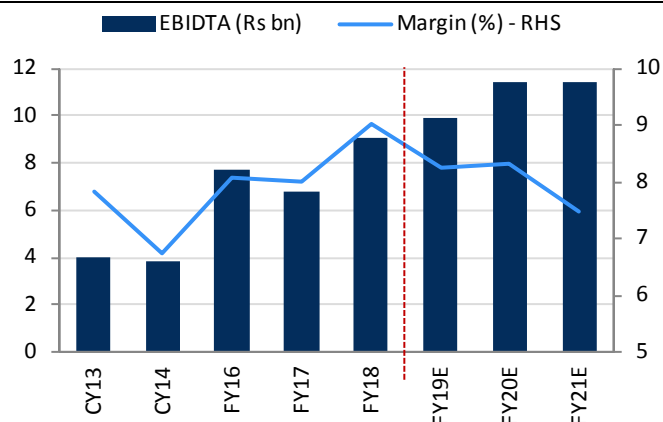
#### VECV Revenues



Source: Company, HDFC sec Inst Research

- We expect EBITDA margins to be impacted by competitive pressures as well as the rollover to BSVI.

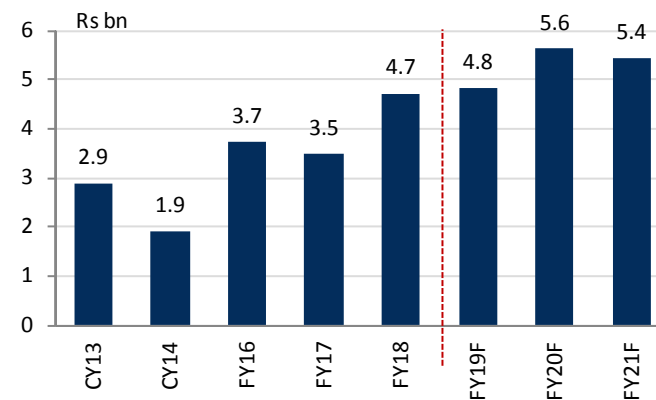
#### VECV Margin



Source: Company, HDFC sec Inst Research

- We expect VECV net profit to grow at CAGR of 6% over FY19-21E vs 13% over CY13-FY18.

#### VECV Profits (Rs bn)



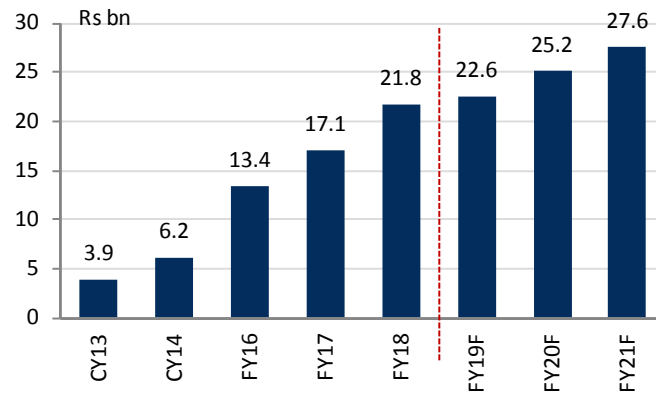
Source: Company, HDFC sec Inst Research

**The consolidated profit growth is expected to moderate to 10% CAGR over FY19-21E**

**The company continues to enjoy healthy return ratios in excess of 20%.**

- The consolidated profit growth is expected to come off to 10% CAGR over FY19-21E due to the moderation in growth at RE.

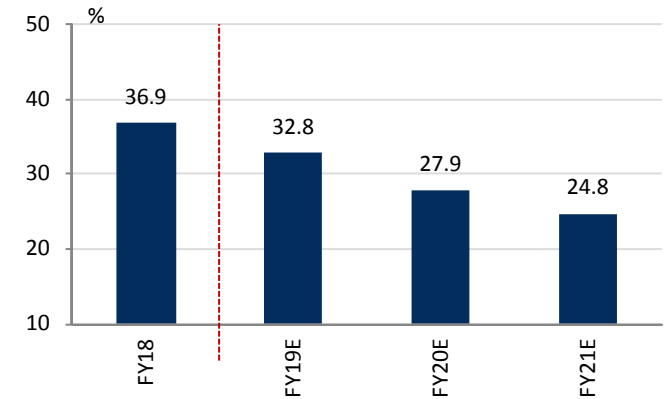
**Eicher – Consolidated Profit (Rs bn)**



Source: Company, HDFC sec Inst Research

- The company continues to enjoy healthy return ratios in excess of 20%.

**Eicher – Return Ratio (%)**



Source: Company, HDFC sec Inst Research

## Valuation

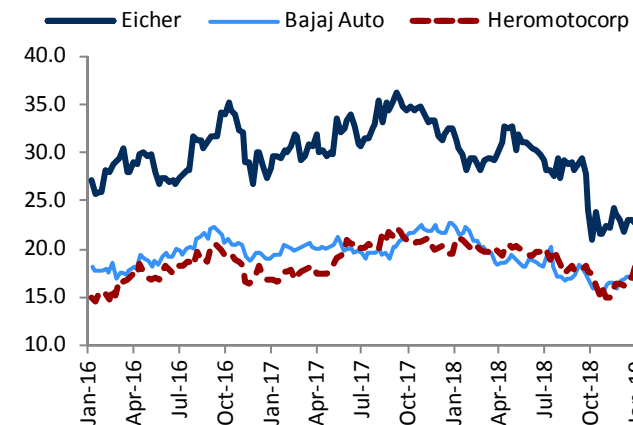
We reinstate coverage with a SELL and have a target price of Rs 21,000 based on SOTP. We assign 22x to the RE business –(at 25% premium to the mass market OEM's (vs. 50% in the trailing three years). The lower multiple reflects the moderating growth outlook.

### Eicher Motors – Sum of Parts Valuation

	Stake held (%)	Valuation methodology	Multiple (x)	Per share (Rs)
Royal Enfield	100	P/E on FY21E Core EPS	22.0	19,372
VECV	54.4	P/E on FY21E	15.0	1,628
<b>Target price (Rs)</b>				<b>21,000</b>

Source: HDFC sec Inst Research

### One Year Rolling Forward P/E



Source: Company, HDFC sec Inst Research

### Peer Set Comparison

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	Adj EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			RoE (%)		
					FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Maruti Suzuki	2,140	7092	BUY	7,400	251.4	300.6	348.6	28.2	23.6	20.3	18.3	15.5	13.4	17.1	18.1	18.4
Bajaj Auto	875	3,022	BUY	3,174	149.4	170.5	190.5	20.3	17.7	15.9	14.3	12.0	10.3	21.5	22.1	21.8
<b>Eicher Motors</b>	<b>617</b>	<b>22,612</b>	<b>SELL</b>	<b>21,000</b>	<b>830</b>	<b>923</b>	<b>1,013</b>	<b>27.3</b>	<b>24.5</b>	<b>22.3</b>	<b>18.3</b>	<b>16.1</b>	<b>13.9</b>	<b>28.4</b>	<b>25.2</b>	<b>22.6</b>
Hero Motocorp	548	2740	BUY	3,350	177.4	201.1	212.0	15.4	14.0	13.1	10.1	8.5	7.8	28.9	30.1	28.7
Ashok Leyland	275	94	NEU	90	6.7	7.2	6.9	13.8	13.0	13.4	7.6	6.7	6.7	25.7	24.1	20.8

Source: Company, HDFC sec Inst Research

### Key Assumptions

	FY16	FY17	FY18	FY19E	FY20E	FY21E
RE	601,000	666,490	822,547	842,842	901,023	952,342
% YoY	98.9	10.9	23.4	2.5	6.9	5.7
VECV	63,083	58,538	65,928	73,891	81,419	84,875
% YoY	54.7	(7.2)	12.6	12.1	10.2	4.2
<b>Total volumes (Units)</b>	<b>664,083</b>	<b>725,028</b>	<b>888,475</b>	<b>916,733</b>	<b>982,442</b>	<b>1,037,217</b>
% YoY	93.7	9.2	22.5	3.2	7.2	5.6
RE (Net ASP in Rs)	102,932	105,598	108,900	117,530	123,024	129,687
% YoY	2.6	2.6	3.1	7.9	4.7	5.4
VECV (Net ASP in Rs)	1,514,490	1,450,810	1,524,293	1,628,887	1,686,839	1,799,267
% YoY	8.5	(4.2)	5.1	6.9	3.6	6.7

Source: Company, HDFC sec Inst Research

### Key risks

- **Better than expected response for the 650cc bikes** in the end markets. Demand for these bikes may increase in emerging markets such as ASEAN, South America.
- Post the initial euphoria, demand for Jawa bikes may come off. The on road product feedback will be a critical factor in driving sustainable sales.

**Income Statement (Consolidated)**

Year ending March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
<b>Net Revenues</b>	<b>70,334</b>	<b>89,650</b>	<b>99,134</b>	<b>110,922</b>	<b>123,581</b>
<b>Growth (%)</b>	<b>13.9</b>	<b>27.5</b>	<b>10.6</b>	<b>11.9</b>	<b>11.4</b>
Material Expenses	37,045	46,435	51,015	58,195	65,458
Employee Expenses	4,263	5,737	7,262	8,264	9,474
Other Operating Expenses	7,287	9,402	11,221	11,913	12,625
<b>EBITDA</b>	<b>21,740</b>	<b>28,076</b>	<b>29,635</b>	<b>32,549</b>	<b>36,023</b>
<b>EBITDA Margin (%)</b>	<b>30.9</b>	<b>31.3</b>	<b>29.9</b>	<b>29.3</b>	<b>29.1</b>
<b>EBITDA Growth (%)</b>	<b>12.9</b>	<b>1.3</b>	<b>(4.5)</b>	<b>(1.8)</b>	<b>(0.7)</b>
Depreciation	1,538	2,233	3,023	3,763	4,657
EBIT	20,201	25,843	26,612	28,786	31,366
Other Income	2,273	2,801	3,874	4,854	6,060
Interest	36	53	68	52	52
PBT	22,439	28,591	30,418	33,589	37,375
Tax (Incl Deferred)	7,203	9,359	10,431	11,474	12,715
Share of Profit/Loss in JVs	1,895	2,566	2,632	3,059	2,958
<b>APAT</b>	<b>17,131</b>	<b>21,797</b>	<b>22,619</b>	<b>25,174</b>	<b>27,618</b>
<b>APAT Growth (%)</b>	<b>28.0</b>	<b>27.2</b>	<b>3.8</b>	<b>11.3</b>	<b>9.7</b>
<b>Adjusted EPS (Rs)</b>	<b>630</b>	<b>800</b>	<b>830</b>	<b>923</b>	<b>1,013</b>
<b>EPS Growth (%)</b>	<b>27.8</b>	<b>27.0</b>	<b>3.8</b>	<b>11.3</b>	<b>9.7</b>
EO (Loss) / Profit (Net Of Tax)	(460)	(2,201)			
RPAT	16,671	19,597	22,619	25,174	27,618

Source: Company, HDFC sec Inst Research,

**Balance Sheet (Consolidated)**

As at March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	272	273	273	273	273
Reserves	53,179	70,028	88,994	110,149	133,314
<b>Total Shareholders' Funds</b>	<b>53,451</b>	<b>70,301</b>	<b>89,266</b>	<b>110,422</b>	<b>133,587</b>
Long Term Debt					
Short Term Debt	444	1,508	1,508	1,508	1,508
<b>Total Debt</b>	<b>444</b>	<b>1,508</b>	<b>1,508</b>	<b>1,508</b>	<b>1,508</b>
Net Deferred Taxes	778	1,421	1,435	1,449	1,464
Long Term Provisions & Others	1,496	1,789	1,789	1,789	1,789
<b>TOTAL SOURCES OF FUNDS</b>	<b>56,168</b>	<b>75,019</b>	<b>93,699</b>	<b>114,569</b>	<b>137,448</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	8,728	15,017	19,994	24,231	27,574
CWIP	3,738	3,332	3,632	3,932	4,232
Investments	6,027	6,027	6,027	6,027	6,027
LT Loans & Advances	276	410	410	410	410
<b>Total Non-current Assets</b>	<b>18,768</b>	<b>24,786</b>	<b>30,063</b>	<b>34,600</b>	<b>38,243</b>
Inventories	3,359	3,946	4,428	4,963	5,619
Debtors	500	680	921	1,025	1,144
Other Current Assets	3,184	3,909	4,031	4,283	4,569
Cash & Equivalents	44,095	61,902	75,773	93,808	114,919
<b>Total Current Assets</b>	<b>51,139</b>	<b>70,437</b>	<b>85,153</b>	<b>104,078</b>	<b>126,251</b>
Creditors	12,859	19,440	20,468	22,775	25,426
Current Liabilities	880	763	763	763	763
<b>Total Current Liabilities</b>	<b>13,739</b>	<b>20,204</b>	<b>21,232</b>	<b>23,538</b>	<b>26,189</b>
<b>Net Current Assets</b>	<b>37,400</b>	<b>50,233</b>	<b>63,922</b>	<b>80,540</b>	<b>100,062</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>56,168</b>	<b>75,019</b>	<b>93,698</b>	<b>114,569</b>	<b>137,448</b>

Source: Company, HDFC sec Inst Research,



**Cash Flow Statement(Consolidated)**

Year ending March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Reported PBT	24,334	31,157	33,050	36,648	40,333
Non-operating & EO items					
Interest expenses	36	53	68	52	52
Depreciation	1,538	2,233	3,023	3,763	4,657
Working Capital Change	1,375	4,568	183	1,417	1,589
Tax Paid	(7,203)	(9,359)	(10,431)	(11,474)	(12,715)
<b>OPERATING CASH FLOW ( a )</b>	<b>20,079</b>	<b>28,651</b>	<b>25,892</b>	<b>30,406</b>	<b>33,916</b>
Capex	(1,298)	(8,363)	(8,000)	(8,000)	(8,000)
Free cash flow (FCF)	18,781	20,288	17,892	22,406	25,916
Investments					
Non-operating Income					
<b>INVESTING CASH FLOW ( b )</b>	<b>(1,298)</b>	<b>(8,363)</b>	<b>(8,000)</b>	<b>(8,000)</b>	<b>(8,000)</b>
Debt Issuance/(Repaid)	-	-	-	-	-
Interest Expenses	(36)	(53)	(68)	(52)	(52)
FCFE	18,745	20,234	17,824	22,354	25,864
Dividend	(2,953)	(2,428)	(3,953)	(4,318)	(4,753)
<b>FINANCING CASH FLOW ( c )</b>	<b>(2,988)</b>	<b>(2,482)</b>	<b>(4,021)</b>	<b>(4,370)</b>	<b>(4,805)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>15,793</b>	<b>17,806</b>	<b>13,871</b>	<b>18,035</b>	<b>21,111</b>
Closing Cash & Equivalents	44,094	61,901	75,773	93,808	114,919

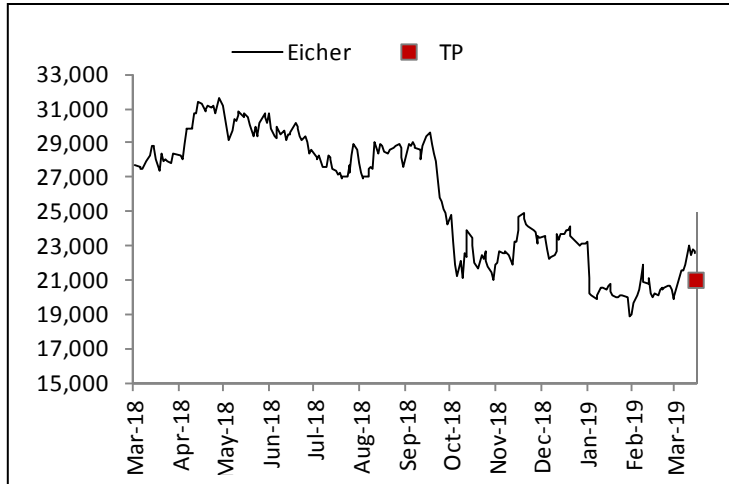
Source: Company, HDFC sec Inst Research

**Key Ratios (Consolidated)**

	FY17	FY18	FY19E	FY20E	FY21E
<b>PROFITABILITY (%)</b>					
GPM	47.3	48.2	48.5	47.5	47.0
EBITDA Margin	30.9	31.3	29.9	29.3	29.1
APAT Margin	24.4	24.3	22.8	22.7	22.3
RoE	38.1	35.2	28.4	25.2	22.6
RoIC (or Core RoCE)	150.3	176.4	142.1	117.6	112.5
RoCE	37.8	34.7	27.9	25.0	22.5
<b>EFFICIENCY</b>					
Tax Rate (%)	32.1	32.7	34.3	34.2	34.0
Fixed Asset Turnover (x)	1.4	1.4	1.4	1.3	1.3
Inventory (days)	17	16	16	16	17
Debtors (days)	3	3	3	3	3
Other Current Assets (days)	17	16	15	14	13
Payables (days)	67	79	75	75	75
Other Current Liab & Provns (days)	4.6	3.1	2.8	2.5	2.3
Cash Conversion Cycle (days)	(34.7)	(47.5)	(43.6)	(43.7)	(43.9)
Debt/EBITDA (x)	0.0	0.1	0.0	0.0	0.0
Net D/E (x)	(0.8)	(0.9)	(0.8)	(0.8)	(0.9)
Interest Coverage (x)	567	484	391	554	603
<b>PER SHARE DATA (Rs)</b>					
EPS	630	800	830	923	1,013
CEPS	686	882	941	1,062	1,184
Dividend	100	110	115	127	140
Book Value	1,964	2,579	3,275	4,051	4,900
<b>VALUATION</b>					
P/E (x)	35.9	28.3	27.3	24.5	22.3
P/BV (x)	11.5	8.8	6.9	5.6	4.6
EV/EBITDA (x)	26.3	19.8	18.3	16.1	13.9
EV/Revenues (x)	8.1	6.2	5.5	4.7	4.1
OCF/EV (%)	3.5	5.2	4.8	5.8	6.8
FCF/EV (%)	3.3	3.6	3.3	4.3	5.2
FCFE/Mkt Cap (%)	3.0	3.3	2.9	3.6	4.2
Dividend Yield (%)	0.4	0.5	0.5	0.6	0.6

Source: Company, HDFC sec Inst Research

**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
15-Mar-19	22,612	SELL	21,000

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- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
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**INSTITUTIONAL RESEARCH**
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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600

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Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,  
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013  
Board : +91-22-6171 7330 [www.hdfcsec.com](http://www.hdfcsec.com)