

Background & Business

Incorporated in 1982, EIML, promoted by Delhi based Vikram Lal group, is one of the leading players in the domestic 2W & CV industry. The former business is housed under the standalone entity, which is engaged in manufacturing & distribution of the iconic motorcycle brand “Royal Enfield (RE)”. It is interesting to note that amidst the slowdown in overall 2W sales for the last 3 years in India, Royal Enfield (RE) has clocked north of 50% CaGR & has emerged as a category leader in the niche 350cc plus motorcycles in India. RE has been unaffected by the current demonetization drive recording average volume growth of more than 35% over Nov’16-Jan’17. At the same time, this business has seen robust improvement in operating profit margins aided by operating leverage benefits & to some extent product mix improvement. The latter business of CVs is through a JV with AB Volvo, Sweden housed under VE Commercial Vehicles (VECV – formed in 2008) in which EIML has 54.4% economic interest. The areas of business of VECV are – Eicher Trucks & Buses, Volvo Trucks India, VE Power Train, Eicher Engineering Solutions & Eicher Engineering Components. Recently, EIML has entered into a 50:50 JV with US-based powersports major Polaris Industries, for manufacture of a range of PVs suitable for India & other emerging markets.

From : 30-05-2014
 To : 28-02-2017
 Performance : 260%
 Recommendation : OPEN

Investment Thesis

EIML is a unique company which houses the RE franchise and has a JV with leading CV manufacturer Volvo (VECV). Both the businesses have their own strengths – while the ones for RE are apparent, the VECV story is a long term story; but with strong legs for growth. Some of the arguments in favour of EIML are:

- RE growing at a brisk pace of 50% plus every year; expected to retain high growth rates – 40% plus going ahead** (“Classic” model still enjoys waiting period of 3 months while other models enjoy 1-1.5 months’ waiting period; Top-20 cities growing at 15% plus, after launching only 1 product in past 5 years, RE plans to launch several new products over next 5 years),
- Capacity expansion to bridge demand-supply gap** (RE production capacity has already ramped up to 720,000 units per year in Q3FY17 ahead of schedule – end-FY17, expected to further expand to 900,000 units by FY19),
- Demographic dividend and brand image** (In India, RE is benefiting from the shift in Young India’s buying preferences from mileage/value-for-money to aesthetics and ride quality, which reflects in the reducing average age of RE customers),
- VECV is well equipped to handle changes in emission norms and would be biggest beneficiary of economic recovery** (VECV is well prepared for implementation of BS-IV / BS VI norms as it has a very strong moat in terms of readiness with complete engine manufacturing for these stringent emission norms.)

Outlook

We have a constructive outlook on the business model of the company; the management along with the presence of Volvo Group has high potential to deliver. Over the last few years, the company has made significant investments in its CV business & is well positioned to benefit from a recovery in the CV cycle. On the RE business, current growth momentum is picking up & we think there are strong levers to support this growth going forward. EIML is expected to deliver strong earnings growth with stock having high potential of growing 2-3xs over current levels over the next 3-5 years.

