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FINANCIAL Chronicle

Tue, 04 Dec-18; Financial Chronicle - Delhi; Size : 404 sq.cm.; Circulation:-;
Page : 4

BROKERAGE REPORT

EICHER MOTORS

RATING: BUY; TARGET PRICE: Rs 30,000; CMP: Rs 21,934; UPSIDE: 36.8%

NEAR TERM DISRUPTIONS CONTINUE

Eicher Motors (EIM) 2QFY19 performance was inline JMFe with EBIDTA margin at 30.6 per cent (-130bps YoY, -170bps QoQ). Gross margin expanded 140bps YoY/ 80 QoQ owing to higher share of premium models. However, lower volumes (due to multiple disruptions during the quarter) and increase in other expenses led by new model launch cost impacted margins. With the upcoming India launch of 650cc Twins (and EICMA Motorshow), launch and promotional costs are expected to remain elevated during 3QFY19. The company is positive on the response garnered by the new bikes and expects a positive rub-off on the existing portfolio.

■ **2QFY19 – Operationally in-line: EIM reported net sales of Rs 24b (over 11.1 per cent YoY, less 5.5 per cent QoQ), in-line with JMFe/street. Volumes for the quarter at 0.21mn grew more than 3.5 per cent YoY, less 6.8 than QoQ. Realisation grew over 7 per cent YoY and over 1 per cent sequentially. Ebitda margin for the quarter stood at 30.6 per cent (less 130bps YoY, less 170bps QoQ), impacted by higher other expense due to new model launch cost (associated with the 650cc Twins) and negative operating leverage owing to lower volumes, partially offset by internal cost control measures.**

■ **Con-call takeaways: The management highlighted that the strike at Oragadam plant, Chennai continues to impact production to the tune of 800 units/day. As a result, the management reduced its full year production guidance from 950,000 units to 925,000 units. Further, sales during FY20 are likely to be lower than estimated as Vallam Vadagam phase-2 is likely to be operational towards the end of FY20 versus earlier expectations of mid-FY20. Sales in mature market like Karnataka and Maharashtra remained subdued during the quarter. Kerala has now almost fully normalised post floods. With India launch of 650 twins on 14 November, the management is confident on gaining sales traction in mature states, while garnering higher export share for the twins.**

■ **Maintain Buy: Due to restriction on production capacity from on-going strike and likely continuation of higher other expenses, we cut our earnings estimate by 6.3/12.3 per cent for FY19/FY20, respectively. However, driven by new model launches and double digit volume growth, we estimate EIM's standalone EPS to post c.15 per cent CAGR over FY18- FY21E. We reiterate Buy with a revised target price of Rs 30,000 (target multiple cut from 30x to 25x P/E primarily due to revised volume growth).**

—JM Financial

SHREE CEMENT

RATING: HOLD; TARGET PRICE: Rs 16,000; CMP: Rs 15,396; UPSIDE: 3.9%

POWER/FUEL COSTS WEIGH DOWN ON EBITDA

Shree Cement (Shree) reported 21 per cent YoY growth in cement revenues primarily on volume growth (over15.6 per cent YoY). Cement realisations improved by 2.4/3.9 per cent on a YoY and QoQ basis. Adjusted Ebitda grew by 8 per cent while Ebitda/t declined by 7 per cent as higher power/fuel and other expenses was partially offset by realisation improvement and lower freight costs. Power revenues grew materially on YoY basis on higher power unit sales and per unit power realisations. Other expenses were higher on account of Rs 840m of unhedged forex losses. In addition, company booked a loss of Rs 1.8b on its investment in IL&FS' preference shares. Shree is setting up two greenfield projects in the Eastern India with a cumulative capacity of 5.5MTPA expected to be commissioned by FY20. Sustainability of cement demand and realisation trend would be key monitorables going forward. We have cut our Ebitda estimates by c.13-15 per cent to account for cost increase and muted realisation. We value SRCM's existing assets at 12x EVE. We maintain Hold with a target price of Rs 16,000 (Sep'19).

■ **16 per cent volume growth drive revenues: Shree reported 2QFY19 revenue, at Rs 25.9b, grew by 21 per cent YoY, driven by cement segment volumes. Cement revenues for the quarter grew 18.3 per cent YoY on the back of volume growth (over 15.6 per cent YoY; 57 per cent capacity utilisation on expanded grinding capacity). Cement realisations improved by 2.4/3.9 per cent on YoY/QoQ basis. Cement volumes, at 5.43mnT, grew primarily on account higher capacity vs the base quarter. Clinker sales during the quarter were at 0.21mnT (vs. 0.01mnT in 2QFY18). Power revenues from external sales at Rs 1,795m (over 75 per cent YoY) grew primarily on higher volumes of electricity units sold in the quarter (400m units vs 295m units in 2QFY18). Power unit realisations increased by 29 per cent during the quarter.**

■ **Power/fuel costs weigh down on Ebitda/t: Reported Ebitda for the quarter stood at Rs 5.2b, however adjusted for unhedged forex losses of Rs 840m, Ebitda for 2Q at Rs 6.04b grew by 7.7 per cent on a YoY basis; sequential decline of 6.4 per cent. The company reported a 7 per cent decline in Ebitda/t (Rs 1,056/t); as positive impact of improvement in realisation (over Rs 98/t impact) lower raw material costs (over Rs 26/t impact) and lower freight costs (less than Rs 54/t) was more than offset by the negative impact of higher power/fuel costs (less than 136/t impact) and other expenses (less than Rs 116/t impact). Power/fuel cost escalation was on account of petcoke/coal price increase. Freight costs declined on railway freight rebate recognised under Long Term Tariff Contract of Rs 280.9m and higher load factor. Company reported PAT at Rs 577m; less than 72 per cent YoY.**

■ **Other details: i) Shree is setting up two greenfield projects in East expected to be operational by FY20; 3MTPA grinding unit at Athagarh in Cuttack, Odisha with an investment of Rs 4.23b and 2.5MTPA unit in Seraikela - Kharsawan district in Jharkhand with an investment of Rs 4.8b.**

—JM Financial