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Financial Statement Analysis of Eicher Motors

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Abstract

The purpose of this research article is to analyze the development and performance of Eicher Motors Limited, a leading Indian automobile manufacturer. The study analyzes the company's financial performance over a 5-year period from 2018 to 2022 through various financial statements such as the income statement and the cash flow statement. In addition, the article highlights the company's strategic initiatives, including the joint venture with the Volvo Group, expansion into new markets, and entry into the electric vehicles. The research shows that Eicher Motors has experienced significant growth in recent years, with strong financial results and a well-executed strategic vision. The joint venture with the Volvo Group has proven to be a key growth driver, allowing the company to expand its product portfolio and enter new markets. However, the study also highlights some of the challenges and threats that Eicher Motors faces, such as: Intense competition, changing market dynamics and regulatory uncertainty in the electric mobility industry. The document concludes with recommendations for the company to continue on its growth trajectory and successfully address these challenges.

Keywords: Fundamental analysis, income statement, cash flow statement, Eicher Motors, product

INTRODUCTION

Overview of Fundamental Analysis

By studying a company's financial and economic fundamentals, such as sales, earnings, assets, liabilities, and market position, a company's intrinsic worth can be ascertained [1]. Fundamental analysis is a technique for determining these fundamentals. This analysis includes an in-depth assessment of the company's balance sheet, management team, industry trends, competitive environment and other macroeconomic factors that may affect the company's growth prospects. Investors frequently utilize fundamental research as a major tool when deciding whether to buy or sell a company's shares. By understanding a company's financial health, growth potential, and competitive advantage, investors can identify undervalued stocks that can generate long-term returns. The purpose of fundamental analysis is to determine the underlying value of a company's stock, which can then be compared to its current market price to determine whether the stock is undervalued or overvalued. This analysis requires in-depth knowledge of the company's industry, its products or services, and its financial reports. In summary, fundamental analysis is a key tool for investors to assess the underlying value of a company and make informed decisions about investing in its shares. Investors can find companies with significant growth potential and make long-term investments in them by looking at a company's financial and economic fundamentals [2].

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COMPANY OVERVIEW

Eicher Motors Limited

Eicher Motors is an Indian manufacturer of motorcycles, commercial vehicles, and auto parts.

Chennai, India is home to the business, which was established there in 1948. The two principal subsidiaries of Eicher Motors are Royal Enfield and VE Commercial Vehicles [3]. Royal Enfield is a motorcycle brand known for its retro style motorcycles and has been a subsidiary of Eicher Motors since 1994. Royal Enfield has a strong presence in India and also exports its bikes to many other countries VE Commercial Vehicles is a joint venture between Eicher Motors and the Volvo Group that manufactures commercial vehicles such as trucks and buses [4]. VE Commercial Vehicles is headquartered in Gurugram, India, and has manufacturing facilities in India and South America. The company has won numerous honors for its goods and services, and Eicher Motors is renowned for its dedication to quality and innovation. In India, Eicher Motors is well-established, and it is growing internationally [5].

Founder

Table 1 provides the key management personnel and their designations. Vikram Lal was the founder of Eicher Motors Limited. He was born in 1942 and is a businessman from India. He graduated from the Technical University of Darmstadt with a degree in mechanical engineering. Lal was a board member of the Doon School, Dehradun. In 1966, he joined the Eicher company founded by his father [6]. The company began producing the first tractor in 1960, followed by light commercial vehicles in 1989, followed by heavy vehicles. He is married and has two sons and a daughter as his three children. Siddhartha Lal, his son, is the organization's current Managing Director [7].

Table 1. Management.

Eicher Motors Ltd. Company Management Team	
Board of Directors	
Name	*Designation*
Mr. S. Sandilya	Chairman
Mr. Inder Mohan Singh	Independent Director
Ms. Manvi Sinha	Independent Director
Mr. Siddhartha Lal	Managing Director
Mr. Vinod Aggarwal	Non-Executive Director
Mr. Vinod K. Dasari	Whole-Time Director and CEO
Key Executives	
Name	*Designation*
Mr. Kaleeswaran Arunachalam	Chief Financial Officer
Mr. Manhar Kapoor	Company Secretary and Compliance Officer

Net Worth

Eicher Motors Limited earns Rs. 9,696.83 crore ($1.4 billion) in 2020. It is one of the top businesses in India. In addition to creating employment possibilities, Eicher Motors aided in the expansion of the Indian economy [8].

OBJECTIVES OF THE STUDY

1. To know how fundamental analysis is helpful to find out the profitability of the company.
2. To study the significance of fundamental analysis of Eicher Motors, regarding future investment.
3. A fundamental analysis provides most of the information about what really helps one invest.
4. To determine company's fair value and it also helps to decide whether t is undervalued or overvalued.

Literature Review

Eicher Motors is a major player in the Indian automotive industry with a strong presence in the commercial vehicle segment. The company is well known for its flagship brand 'Royal Enfield', popular with motorcycle enthusiasts in India and elsewhere. In recent years, Eicher Motors has expanded its product portfolio and entered new markets, including electric vehicles. This literature review provides an overview of the existing research on Eicher Motors with a focus on the business model, product development strategies, and the competitive landscape.

Business Model

Eicher Motors' success in the Indian automotive industry is due to its unique business model [9]. The company is pursuing a “targeted differentiation strategy” that caters to a niche segment of motorcycle enthusiasts who value style, performance, and heritage. This approach has allowed Eicher Motors to differentiate itself from other market participants and retain customers. Another important aspect of Eicher Motors' business model is the partnership with the Volvo Group. The two companies have entered into a joint venture agreement with Volvo to provide Eicher Motors with technology, know-how, and global reach. Through this relationship, Eicher Motors has been able to diversify its product line and grow into new markets, such as those for electric vehicles. the partnership was beneficial to both companies as Eicher Motors gained access to Volvo's advanced technologies and Volvo was able to leverage Eicher Motors' expertise in the Indian market [10].

Product Development Strategies

Eicher Motors has maintained its leading position in the market through constant innovation and new product development. One of the most successful products is the Royal Enfield Classic 350 motorcycle, which has become a cult classic among motorcycle enthusiasts in India. the success of the Classic 350 is due to its retro design, powerful engine, and affordable price. The company also introduced new models such as the Interceptor 650 and the Continental GT 650, which have received positive reviews from customers and critics. With the introduction of the Urbanite brand in recent years, Eicher Motors has also entered the market for electric vehicles. The company has developed an electric scooter called the B8, which is designed for city commuters. the B8 is designed to be comfortable, efficient and economical, with a range of up to 70 km on a single charge. The business is also developing electric motorcycles, which it plans to release soon.

Competitive Landscape

Market share is a hotly contested issue for a number of competitors, including Eicher Motors. One of its main competitors is Bajaj Auto, known for its popular Pulsar motorcycle brand. Bajaj Auto has maintained its market leadership by offering a wide range of products in different price ranges and by targeting different customer segments. Hero MotoCorp, the main player in the Indian two-wheeler sector, is another rival. Hero MotoCorp has a strong distribution network and recognized brand that has enabled it to maintain its market share. However, Eicher Motors was able to differentiate itself from Hero MotoCorp by focusing on a niche segment of customers who value style, performance, and heritage.

Research Methodology

The systematic and organized way of examining a research problem or subject is known as research methodology. It involves the use of specific methods, techniques, and tools to collect, analyze, and interpret data in order to draw meaningful conclusions and make informed decisions.

Research Design

This study uses descriptive research to guarantee that bias is minimized and data collection reliability is increased. In order to critically evaluate the material accessible, the researchers had to use fact and information that were already available through financial statements from prior years and analyze them. Consequently, we conducted research that is both descriptive and analytical in nature.

Data Collection

The study's necessary data are primarily secondary in nature, and they are gathered from the company's annual reports.

Secondary Data

The majority of computations are based on 5-year periods of the company's financial statements, including the income statement and cash flow statement. Some of the information regarding to the theoretical aspects were collected by referring standards texts and through annual reports.

The Eicher logo was designed in 1948 and has not changed at all till today. There was only a slight refinement of the logotype, which can be placed whether in the right or under the bright and strong emblem of the Swedish automaking brand. When combined with the light gray logotype, the red and white color scheme of the Eicher visual identity is a reflection of passion, power, and valor. The emblem also stands for stability and the brand's core values, emphasizing qualities like responsibility, loyalty, and stability as well as the protection and safety of the customers (Figure 1).

EICHER

Figure 1. Logo.

Need of the Study

The most accurate measure of a company's performance is its financial metrics. This is due to the fact that the company's financial state will always be reflected in all costs, efficient operations, and solvency positions. According to the need for the study, the following are listed:

- Knowing Eicher Motors' financial performance and operational effectiveness is important.
- Knowing the company's liquidity condition is important.
- To comprehend the alterations in profits over time.
- To understand the causes of the variations in earnings.

In other words, this study is being done in order for the company to be made aware of its financial performance. Additionally, it will provide investors with a succinct summary of the business and safeguard their investment (Figure 2).

Pattern of Study

The study spans Eicher Motors' 2018–2019 through 2021–2022 fiscal years (FY).

$$Percent\ change = \frac{New\ value - Old\ value}{Old\ value} \times 100\%$$

If the result is positive, it is an increase.
If the result is negative, it is a decrease.

Figure 2. Percentage analysis.

DATA ANALYSIS AND INTERPRETATION

Eicher Motor Income Statement Interpretation

- Total income during the year 2019 rose by 11.20% as compared to FY18
- The company's total expenses increased by 14.74% in FY19, as compared to FY18
- Depreciation charges increased by 34.5% in FY19, as compared to FY18.
- The company's EBITDA (earnings before interest, taxes, depreciation, and amortization) increased by 3.3% in FY19, as compared to FY18.
- The company's EBIT (earnings before interest and taxes) increased by 0.47% in FY19, as compared to FY18.
- The company's profit before tax increased by 15.6% in FY19, as compared to FY18
- Profit after tax during the year increased to 15.22% in FY19 as compared to FY18 (Table 2).

Table 2. Eicher Motors income statement for 2018–2019 (in crore).

Particulars	Mar '18	Mar '19	% Change
Income			
Sales turnover	9,219	9,797	
Excise duty	254	-	
Net sales	8,965	9,797	
Stock adjustments	34	210	
Total income	*8,999*	*10,007*	*11.20%*
Expenditure			
Raw materials	4,827	5,437	
Power and fuel cost	52	67	
Employee cost	574	702	
Selling and admin expenses	16	30	
Miscellaneous expenses	722	867	
Total expenses	*6,191*	*7,104*	*14.74%*
EBITDA	*2,808*	*2,903*	*3.3%*
Depreciation	223	300	
EBIT	*2,584*	*2,603*	*0.47%*
Other income	58	442	
Interest	5	7	
PBT	*2,637*	*3,037*	*15.16%*
Tax	936	1,077	
Tax %	35%	35%	
Profit after Tax	*1,701*	*1,960*	*15.22%*

EBIT, earnings before interest and taxes; EBITDA, earnings before interest, taxes, depreciation, and amortization; PBT, profit before tax.

Eicher Motors Cash Flow Statement Interpretation

- Eicher Motors' cash flow from operating activities (CFO) during FY19 decreased by 36.5% as compared to FY18.
- Net cash used in investing activities during FY19 decreased 69.2% as compared to FY18.
- Net cash used from financing activities during FY19 increased by 728%as compared to FY18
- Overall, net cash flows for the company during FY19 stood at Rs 6 billion and, Rs 75.2 crore net cash flows seen during FY18 (Table 3).

Eicher Motors Income Statement Interpretation

- Total income during the year decreased by 9.37% in FY20, as compared to FY19
- The company's total expenses also decreased by 3.02% in FY20, as compared to FY19
- Depreciation charges increased by 27.3% in FY20, as compared to FY19.
- The company's EBITDA has decreased by 24% in FY20, as compared to FY19.
- The company's EBIT has decreased by 30% in FY20, as compared to FY19.
- The company's profit before tax has decreased by 23.57% in FY19, as compared to FY19
- Profit after tax during the year has decreasedto8.46% in FY20as compared to FY19 (Table 4).

Eicher Motors Cash Flow Statement Interpretation

- Eicher Motors cash flow from operating activities (CFO) during FY20 increased by 7.53% as compared to FY19.
- In comparison to FY19, net cash used in investing activities grew by 128.59% in FY20.
- Net cash used from financing activities during FY20 increased by 193.62% as compared to FY19
- Overall, net cash flows for the company during FY20 decreased to Rs 672.54 crore. It was 623.29 crore in FY19 (Table 5).

Table 3. Eicher Motors cash flow statement for 2018–2019.

Cash flow of Eicher Motors (in Rs. Cr.)	Mar-18	Mar-19	% Change
Net profit/loss before extraordinary items and tax	*2,895.60*	*3,297.29*	
Net cash flow from operating activities	2,482.25	1,575.47	-36.5%
Net cash used in investing activities	-2,145.02	-659.88	-69.2%
Net cash used from financing activities	-262.01	-292.3	11.5%
Net INC/DEC in cash and cash equivalents	*75.22*	*623.29*	*728%*
Cash and cash equivalents begin of year	17.24	92.46	
Cash and cash equivalents end of year	92.46	715.75	

DEC, decrease; INC, increase.

Table 4. Eicher motor income statement for 2019-20.

Particulars	Mar '19	Mar '20	% Change
Income			
Sales turnover	9,797	9,154	
Excise duty	-	-	
Net sales	9,797	9,154	
Stock adjustments	210	(84)	
Total income	*10,007*	*9,069*	*-9.37%*
Expenditure			
Raw materials	5,437	5,068	
Power and fuel cost	67	63	
Employee cost	702	796	
Selling and admin expenses	30	22	
Miscellaneous expenses	867	941	
Total expenses	*7,104*	*6,889*	*-3.02%*
EBITDA	*2,903*	*2,180*	*-24%*
Depreciation	300	382	27.3%
EBIT	*2,603*	*1,799*	*-30%*
Other income	442	541	
Interest	7	19	
PBT	*3,037*	*2,321*	*-23.57%*
Tax	1,077	527	
Tax %	35%	23%	
Profit after Tax	*1,960*	*1,794*	*-8.46%*

EBIT, earnings before interest and taxes; EBITDA, earnings before interest, taxes, depreciation, and amortization; PBT, profit before tax.

Table 5. Eicher Motors cash flow statement for 2019–2020.

Cash Flow of Eicher Motors (in Rs. Cr.)	Mar-19	Mar-20	% Change
Net profit/loss before extraordinary items and tax	*3,297.29*	*2,354.89*	
Net cash flow from operating activities	1,575.47	1,694.13	7.53%
Net cash used in investing activities	-659.88	-1,508.41	128.59%
Net cash used from financing activities	-292.3	-858.26	193.62%
Net INC/DEC in cash and cash equivalents	*623.29*	*-672.54*	*-207.90%*
Cash and cash equivalents begin of year	92.46	715.75	
Cash and cash equivalents end of year	715.75	43.21	

DEC, decrease; INC, increase.

Eicher Motors Income Statement Interpretation

- Total income during the year decreased by 1.57% in FY21, as compared to FY20
- The company's total expenses also decreased by 3.71% in FY21, as compared to FY20
- Depreciation charges increased by 18.6% in FY21, as compared to FY20.
- The company's EBITDA has decreased by 18.30% in FY21, as compared to FY20.
- When compared to FY20, the company's EBIT declined by 26.1% (Table 6).
- Compared to FY20, the company's profit before taxes fell by 23.69% in FY21.
- Year-over-year profit after tax declined to 26.24% in FY21 from FY20 (Figure 3)

Table 6. Eicher Motors income statement for 2020–2021.

Particulars	Mar '20	Mar '21	% Change
Income			
Sales turnover	9,154	8,720	
Excise duty	-	-	
Net sales	9,154	8,720	
Stock adjustments	(84)	206	
Total income	*9,069*	*8,926*	*-1.57%*
Expenditure			
Raw materials	5,068	5,319	
Power and fuel cost	63	-	
Employee cost	796	843	
Selling and admin expenses	22	-	
Miscellaneous expenses	941	983	
Total expenses	6,889	7,145	3.71%
EBITDA	*2,180*	*1,781*	*-18.30%*
Depreciation	382	451	18.6%
EBIT	*1,799*	*1,331*	*-26.01%*
Other income	541	457	
Interest	19	16	
PBT	*2,321*	*1,771*	*-23.69%*
Tax	527	452	
Tax %	23%	25%	
Profit after Tax	*1,794*	*1,320*	*-26.42%*

EBIT, earnings before interest and taxes; EBITDA, earnings before interest, taxes, depreciation, and amortization; PBT, profit before tax.

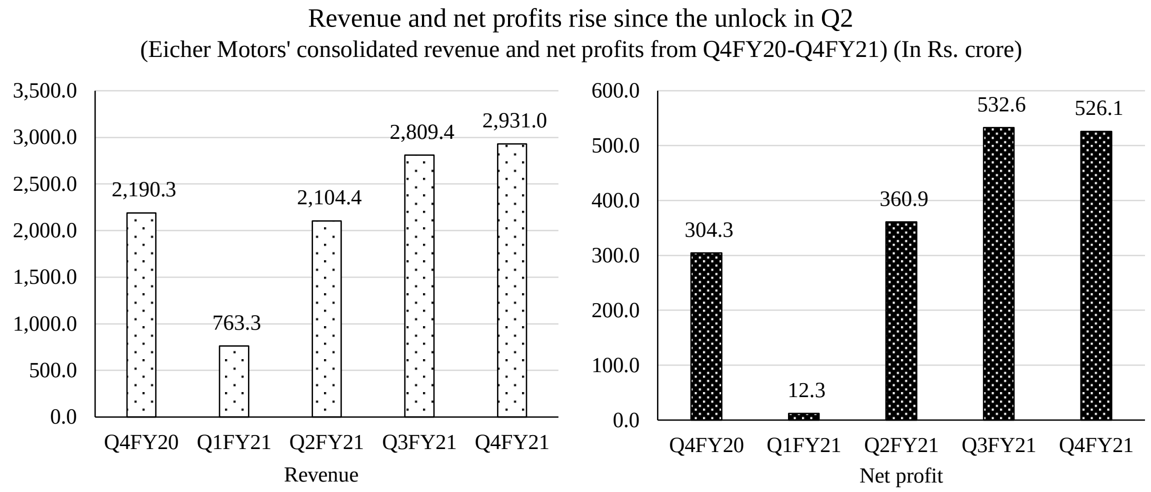

Figure 3. Revenue and net profits.

Eicher Motor Cash Flow Statement Analysis

- Eicher Motors cash flow from operating activities (CFO) during FY21 stood at Rs 17 billion, an improvement of 1.15% as compared to FY20.
- Cash used in investing activities (CFI) during FY21 stood at Rs –16 billion, an improvement of 9.25% as compared to FY20.
- Cash used from financing activities (CFF) during FY21 stood at Rs –148 million, an improvement of 98% as compared to FY20.
- The company's overall net cash flows for FY21 were Rs 509 million as opposed to the Rs –7 billion net cash flows experienced during FY20 (Table 7).

Eicher Motors Income Statement Interpretation

- Total income during the year increased by 17.02% in FY22, as compared to FY21
- The company's total expenses also increased by 15.80% in FY22, as compared to FY21
- Depreciation charges increased by 0.22% in FY22, as compared to FY21.
- The company's EBITDA increased by 21.95% in FY22, as compared to FY21.
- The company's EBIT increased by 29.22% in FY22 as compared to FY21.
- The company's profit before tax increased by 20.77% in FY22 as compared to FY21
- Profit after tax during the year increased to 22.19% in FY22 as compared to FY21 (Table 8).

Eicher Motors Cash Flow Statement Interpretation

- In FY22, Eicher Motors had a cash flow from operating operations (CFO) of Rs 15 billion, which is 10.89% less than in FY21.
- In FY22, cash flow from investing activities (CFI) totaled Rs. 10 billion, which is 40% less than in FY21.
- During FY22, the cash flow from financial operations (CFF) was Rs –6 billion.
- The company's overall net cash flows for FY22 were Rs –496 million, down from Rs 509 million during FY21 (Table 9).

Findings

- Profit after tax during the year has increased to 22.19% in FY22 which is a good sign for the company.
- When compared to FY21, the company's EBIT increased by 29.22% in FY22. Even if Eicher Motors' profitability was under pressure to decline, compared to its rivals, it was still generating superior profit margins.
- In FY22, Eicher Motors had a cash flow from operating operations (CFO) of Rs 15 billion, which is 10.89% less than in FY21.
- In FY22, cash flow from investing activities (CFI) totaled Rs. 10 billion, which is 40% less than in FY21.

Table 7. Eicher Motors cash flow statement for 2020–2021.

Cash Flow of Eicher Motors (in Rs. Cr.)	Mar-20	Mar-21	% Change
Net profit/loss before extraordinary items and tax	*2,354.89*	*1,798.39*	
Net cash flow from operating activities	1,694.13	1,713.57	1.15%
Net cash used in investing activities	-1,508.41	-1,647.90	9.25%
Net cash used from financing activities	-858.26	-14.76	-98.28%
Net INC/DEC in cash and cash equivalents	*-672.54*	*50.91*	*-107.57%*
Cash and cash equivalents begin of year	715.75	43.21	
Cash and cash equivalents end of year	43.21	94.12	

DEC, decrease; INC, increase.

Table 8. Eicher Motors income statement for 2021–2022.

Particulars	Mar '21	Mar '22	% Change
Income			
Sales turnover	8,720	10,298	
Excise duty	-	-	
Net sales	8,720	10,298	
Stock adjustments	206	149	
Total income	*8,926*	*10,446*	*17.02%*
Expenditure			
Raw materials	5,319	6,104	
Power and fuel cost	-	-	
Employee cost	843	821	
Selling and admin expenses	-	-	
Miscellaneous expenses	983	1,349	
Total expenses	*7,145*	*8,274*	*15.80%*
EBITDA	*1,781*	*2,172*	*21.95%*
Depreciation	451	452	0.22%
EBIT	*1,331*	*1,720*	*29.22%*
Other income	457	438	
Interest	16	19	
PBT	*1,771*	*2,139*	*20.77%*
Tax	452	526	
Tax %	25%	25%	
Profit after tax	*1,320*	*1,613*	*22.19%*

EBIT, earnings before interest and taxes; EBITDA, earnings before interest, taxes, depreciation, and amortization; PBT, profit before tax.

Table 9. Eicher Motors cash flow statement for 2021–2022.

Cash Flow of Eicher Motors (in Rs. Cr.)	Mar-21	Mar-22	% Change
Net profit/loss before extraordinary items and tax	*1,798.39*	*2,202.51*	
Net cash flow from operating activities	1,713.57	1,527.04	-10.89%
Net cash used in investing activities	-1,647.90	-983.25	-40.33%
Net cash used from financing activities	-14.76	-593.36	
Net INC/DEC in cash and cash equivalents	*50.91*	*-49.57*	*-2.63%*
Cash and cash equivalents begin of year	43.21	94.12	
Cash and cash equivalents end of year	94.12	44.55	

DEC, decrease; INC, increase.

- Overall, the company's net cash flows decreased by Rs 496 million in FY22 from Rs 509 million in FY21.
- As compared to FY21, the company's total expenses grew by 15.80% in FY22.

CONCLUSION

This project provides an overview of fundamental analysis and emphasizes the importance of long-term investing. As mentioned above, fundamental analysis forces the investor to use both qualitative and quantitative information to identify companies that have strong financial performance and therefore the strength to face the future. This is regarded as the basis of investment.

Simply said, fundamental analysis is the art of dissecting any company down to its bare essentials in order to gain a clear understanding of how financially stable and sustainable it is. It entails examining the potential for future growth of a company while taking into account various micro- and macroeconomic aspects. This analysis aids in determining a stock's intrinsic value, which supports investment choices. Determining the intrinsic value of a company's stocks includes looking at every area of its operations, including the balance sheet, historical performance, financial reports, even market goodwill, management, and customer behavior.

Eicher Motors has a long and successful history as a manufacturer of motorcycles, commercial vehicles, and auto parts in India. The company has two major subsidiaries, Royal Enfield and VE Commercial Vehicles, which have helped Eicher Motors establish itself in the Indian market. The company, noted for its dedication to quality and innovation, has won numerous prizes for its goods and services. The company has also expanded globally, exporting to several countries and manufacturing facilities in South America. Eicher Motors has demonstrated resilience and adaptability in the face of various challenges, including the economic downturn and the COVID-19 pandemic. Overall, Eicher Motors is well-positioned for continued growth and success in the years to come, as it continues to leverage its strengths and pursue new opportunities in both domestic and international markets. However, since the fundamental analysis bases on a plethora of company's accounting reports, covering the most important financial aspects of a firm, we believe it is more suitable for the long term.

Eicher Motors Limited's profits/earnings is well below the median of its peer group of around 8.00. Eicher Motors Limited's valuation on these metrics is well below the market valuation of its peer group. So it is undervalued as compared to its competitors.

Suggestions

- The company is expanding very well, but we advise that it continue to manage its assets and liabilities effectively in order to benefit from leverage.
- As investors' interest in the company grows, earnings per share (EPS) is also increasing, making it easier for the business to raise money from the market.
- Inefficient asset utilization to produce profits – return on assets (ROA) has been falling over the past 2 years. Assets ought to be used responsibly.
- Competitors in the auto and truck manufacturers sector can readily copy Eicher Motors' business model. The business must create a platform model that can combine suppliers, vendors, and end users to overcome these obstacles.
- Eicher Motors’ cash flow from operational operations (CFO) in FY22 was Rs 15 billion, 10.89% less than in FY21, indicating a decline in income and the need for appropriate action to increase income.
- Because of the 10.89% decline in net cash flow from operational activities in FY 22, management should take action to boost it.
- The company's total expenses increased by 15.80% in FY22 compared to FY21; hence, management needs to take appropriate action to reduce costs.

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