

August 1, 2011

Reco	Previous Reco
Buy	Accumulate
CMP	Target Price
Rs1,354	Rs1,700
EPS change CY11E/12E (%)	13.2/13.9
Target Price change (%)	13
Nifty	5,517
Sensex	18,314

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	9	32	38
Rel. to Nifty	6	14	31	34

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Automobiles
Bloomberg	EIM@IN
Equity Capital (Rs mn)	270
Face Value(Rs)	10
No of shares o/s (mn)	27
52 Week H/L	1,450/975
Market Cap (Rs bn/USD mn)	37/840
Daily Avg Volume (No of sh)	15958
Daily Avg Turnover (US\$m)	0.5

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	55.3	55.3	55.3
FII/NRI	15.1	14.4	18.2
Institutions	16.5	16.6	12.7
Private Corp	2.1	2.3	2.4
Public	11.1	11.4	11.5

Source: Capitaline

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- Operating performance in line with sales at Rs 12.9bn (our est Rs 12.1 bn) while EBITDA at Rs 1.3bn (in line). Higher other inc & lower tax leads to APAT of Rs 763mn (~13% abv est.)
- Targets ~15%/~30% mkt share in heavy duty/medium duty commercial vehicles in next 2-3 years. Engine business to start contributing from CY13
- Raise our CY11/12 EPS by 13%/14% to factor in higher volumes (+7.5%/7.6%), better product mix and lower RM cost pressure
- Remains a preferred play in the CV space. Raise our TP to Rs 1,700 (current business value – Rs 1,547, NPV of engine business – Rs 153). Key risk-sharp downturn in the industry

Volumes – Higher tonnage contribution declines

Strong momentum in Royal Enfield and LCV volumes resulted in drop in share of high tonnage vehicles in the total product mix. Volvo trucks volumes at 122 units were lower both YoY and QoQ.

Volume mix

(%)	Q2CY10	Q3CY10	Q4CY10	Q1CY11	Q2CY11
M&HCV -7.5-12t	26.1	27.1	25.2	25.3	21.5
M&HCV Others	5.0	5.9	5.6	7.5	5.6
M&HCV Total	31.2	33.1	30.8	32.8	27.1
Volvo- M&HCV	1.2	1.0	1.3	0.7	0.4
LCV	9.7	9.8	9.1	9.4	9.8
Royal Enfield	58.0	56.2	58.9	57.2	62.8
Units sold	21,562	22,804	25,148	29,669	29,609

Source: SIAM, Emkay research

Consolidated sales – ~7% above est.

Net sales at Rs 12.9bn was ~7% above our est. of Rs 12.1bn. Key reason was higher than expected top line in VECV at Rs 11.3bn vs our est. of Rs 10.4bn. Standalone revenues at Rs 1.67bn was in line with est.

Sales breakup

(Rs mn)	1QCY10	Q2CY10	Q3CY10	Q4CY10	Q1CY11
Conso	10,409	10,385	10,984	12,435	13,897
Standalone	1,005	1,080	1,111	1,231	1,509
VECV (bal)	9,404	9,305	9,872	11,204	12,388

Source: Company, Emkay research

Financial Snapshot

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
CY09	29,386	1,455	4.9	844	31.3	(746.0)	7.8	43.2	17.9	3.4
CY10	43,971	3,578	8.1	1,899	70.5	124.9	16.5	19.2	12.3	3.0
CY11E	53,341	5,189	9.7	2,792	103.7	47.1	20.9	13.1	7.9	2.5
CY12E	64,821	6,388	9.9	3,255	120.8	16.6	20.8	11.2	5.8	2.2

Source: Company, Emkay Research

Quarterly Summary

Rs mn	Q2CY10	Q3CY10	Q4CY10	Q1CY11	Q2CY11	YoY(%)	QoQ(%)	YTD'11	YTD'10	YoY(%)
Revenue	10,385	10,984	12,435	13,897	12,984	25.0	(6.6)	26,881	20,794	29.3
Expenditure	9,530	10,145	11,230	12,273	11,723	23.0	(4.5)	23,995	19,027	26.1
<i>as % of sales</i>	<i>91.8</i>	<i>92.4</i>	<i>90.3</i>	<i>88.3</i>	<i>90.3</i>			<i>89.3</i>	<i>91.5</i>	
Consumption of RM	7,798	8,295	9,227	10,195	9,512	22.0	(6.7)	19,708	15,625	26.1
<i>as % of sales</i>	<i>75.1</i>	<i>75.5</i>	<i>74.2</i>	<i>73.4</i>	<i>73.3</i>			<i>73.3</i>	<i>75.1</i>	
Employee Cost	628	693	730	742	863	37.3	16.3	1,605	1,208	32.8
<i>as % of sales</i>	<i>6.1</i>	<i>6.3</i>	<i>5.9</i>	<i>5.3</i>	<i>6.6</i>			<i>6.0</i>	<i>5.8</i>	
Other expenditure	1,103	1,156	1,274	1,335	1,347	22.1	0.9	2,683	2,194	22.3
<i>as % of sales</i>	<i>10.6</i>	<i>10.5</i>	<i>10.2</i>	<i>9.6</i>	<i>10.4</i>			<i>10.0</i>	<i>10.5</i>	
EBITDA	855	839	1,205	1,624	1,262	47.5	(22.3)	2,886	1,767	63.3
Depreciation	143	148	147	154	154	7.4	(0.4)	308	279	10.5
EBIT	712	692	1,058	1,470	1,108	55.6	(24.6)	2,578	1,488	73.2
Other Income	394	183	239	254	412	4.4	62.2	665	612	8.7
Interest	36	32	8	14	21	(41.7)	45.8	35	55	(35.9)
PBT	1,070	843	1,289	1,709	1,499	40.0	(12.3)	3,208	2,045	56.8
Total Tax	241	203	346	483	338	40.5	(30.0)	821	554	48.3
Adjusted PAT	830	640	942	1,226	1,160	39.9	(5.3)	2,386	1,491	60.0
Profit/(loss) from JV's/Ass/MI	278	253	389	493	397	43.0	(19.4)	890	537	65.6
Adj. PAT after MI	552	387	554	733	763	38.3	4.1	1,496	954	56.8
Extra ordinary items	-	-	5	-	-			-	-	
Reported PAT	552	387	559	733	763	38.3	4.1	1,496	954	56.8
Reported EPS	20.7	14.4	20.4	27.2	28.3	37.0	4.1	55.5	35.7	55.3

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	8.2	7.6	9.7	11.7	9.7	148	(197)	10.7	8.5	224
EBIT	6.9	6.3	8.5	10.6	8.5	168	(204)	9.6	7.2	243
EBT	10.3	7.7	10.4	12.3	11.5	124	(76)	11.9	9.8	210
PAT	5.3	3.5	4.5	5.3	5.9	56	60	5.6	4.6	98
Effective Tax rate	22.5	24.1	26.9	28.3	22.6	8	(572)	25.6	27.1	(147)

Source: Company, Emkay Research

EBIDTA at Rs 1.3bn was in line with est.

Consolidated EBIDTA at Rs 1.3 bn was marginally below our est., resulting in lower than estimated margins. Key reason was higher than expected raw material cost pressures in CV segment. Standalone EBITDA at Rs 223mn was in line with our est. Subsidiaries EBIDTA of Rs 1bn was below our est. of Rs 1.1bn.

EBIDTA breakup and margins

Rs mn	Q2CY10	Q3CY10	Q4CY10	Q1CY11	Q2CY11
Conso	855	839	1,205	1,624	1,262
Standalone	120	106	102	198	223
VECV (bal)	735	734	1,103	1,427	1,039

EBIDTA margins (%)	Q2CY10	Q3CY10	Q4CY10	Q1CY11	Q2CY11
Conso	8.2	7.6	9.7	11.7	9.7
Standalone	11.1	9.5	8.3	13.1	13.3
VECV (bal)	7.9	7.4	9.8	11.5	9.2

Source: Company, Emkay research

Conso APAT at Rs 763mn (our est Rs 676mn)

Consolidated APAT at Rs 763mn was ~13% higher than our est. of Rs 676mn due to higher other income and lower tax rate. Company benefited from maturity of certain FMP investments in the standalone business which led to higher other income of Rs 158mn (our est. Rs 50mn). Also, higher non operating income led to lower effective tax rate of ~22.6% vs our est. of ~28%.

APAT breakup

Rs mn	Q2CY10	Q3CY10	Q4CY10	Q1CY11	Q2CY11
Conso	552	387	549	733	763
Standalone	220	84	357	145	289
VECV (bal)	331	302	191	588	474

Source: Company, Emkay research

Revision in estimates

Given the strong volume momentum in Royal Enfield business and sustained traction in VECV- M&HCV and LCV segments, we revise our volume estimates by ~7.5%/7.6% in CY11/12. We lower volume forecast for Volvo truck trading business on subdued business environment. Our EBIDTA estimates increase by 25%/24% in CY11/CY12 due to improving product mix (higher Royal Enfield/LCV/ICV sales and lower Volvo truck sales) and lower RM cost pressures. Thus our EBITDA margin est. increases by 160bps/170bps to 9.7%/9.9% in CY11/12. Our EPS est. is revised upwards by ~13%/14% in CY11/13 to 103.7/120.8

Rs mn	CY11E			CY12E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Volumes	111,687	120,067	7.5%	140,437	151,145	7.6%
Sales	51,143	53,341	4.3%	62,901	64,821	3.1%
EBIDTA	4,143	5,189	25.2%	5,153	6,388	24.0%
EBIDTA margins (%)	8.1%	9.7%		8.2%	9.9%	
Net Profits	2,467	2,792	13.2%	2,858	3,255	13.9%
EPS	91.6	103.7	13.2%	106.1	120.8	13.9%

Valuations and View

At CMP of Rs 1,354, the stock trades at PER of 13.1x/11.2x and EV/EBIDTA of 7.9x/5.8x our CY11 and CY12 estimates respectively. We raise our target price to Rs 1,700 and upgrade our rating to BUY. On our revised TP the stock trades at 16.4x/14.1x PER and 10.8x/8.2x EV/EBITDA on our CY11/12 estimates. We have valued the company on SOTP basis as indicated below.

Summary valuations

Rs mn	CY11E	CY12E
Sales		
VECV	46,832	56,149
Standalone	6,510	8,672
Total	53,341	64,821
EBIDTA		
VECV*	4,404	5,328
Standalone	784	1,060
Total	5,189	6,388
Target Multiple(EV/EBIDTA)		
VECV	7	7
Standalone	8	8
Target EV (Rs. Mn)		
VECV (Only Eicher's share)	16,771	20,290
Standalone	6,276	8,477
Total	23,047	28,767
Less. Net Debt (Rs. Mn)*	(10,879)	(12,908)
Target Market Cap (Rs. Mn)	33,926	41,675
Share Cap. (Nos mn)	26.9	26.9
Value per share (Rs.)	1,259	1,547
Value of Engine business# (Rs.)	153	153
Total (Rs.)	1,412	1,700

* Net Debt for VECV - only Eicher's share is considered

#CY13 - 40,000 engines, ASP - Rs 0.3mn, margins – 10%, COE - 13%

Key Con Call Extracts

- Demand outlook remains robust in the long term driven by multiplier effect of GDP, moderation in high logistics costs in India from current levels and introduction of GST. Management is “cautiously optimistic” for the near term demand. Expects growth to remain around low double digits or high single digits.
- In the lower tonnage segment (5-12ton) company has maintained market share at ~30.2%. It has gained market share in the Heavy duty segment and in certain geographies. Market share in 16 ton tipper segment stands at ~9.1%. Company is not looking at pan India presence.
- Targets ~30% market share in medium duty and ~15% market share in heavy duty segment in the next 2-3 years. Strong distribution network and ramp up in dealer network from ~145 dealers (~50% in HD ready segment) currently to ~200 by end of 2012 to aid volume growth.
- Company is looking at high density point to point routes in North, West and South regions and increasing touch points,-workshops and spare parts availability to increase customer acceptance.
- Royal Enfield: New capacity expansion is on track. Company has procured land of 58 acre in Chennai. Production is expected to begin from 1QCY13 with a target capacity of 150,000 vehicles. Current capacity for Bangalore plant stands at ~70,000 units.
- Volvo Engine JV (54.4% Eicher) business: Strong focus from Volvo Powertrain as engines to be used in house by Volvo Europe. New plant with ~85,000 medium duty engine capacity (Euro 3- Euro 6) to come onstream from Dec 2012. Capex target of Rs 3bn maintained for this plant.
- Company has taken two price hikes in CY11 (January and July) across all segments. Price hike of ~1 – 2% was taken in July.
- Capex: Royal Enfield Rs 1.2– 1.4bn, Commercial Vehicles Rs 5bn for the next 2– 3 years and Rs 3bn – 3.5bn in medium duty vehicle segment.

Financials

Income Statement

Y/E, Mar (Rs. mn)	CY09	CY10	CY11E	CY12E
Net Sales	29,386	43,971	53,341	64,821
Growth (%)	71.1	49.6	21.3	21.5
Expenditure	27,932	40,392	48,153	58,433
Materials Consumed	21,992	33,147	39,325	48,162
Employee Cost	2,152	2,631	3,308	3,671
Other Exp	3,788	4,614	5,520	6,600
EBITDA	1,455	3,578	5,189	6,388
Growth (%)	4,044.2	146.0	45.0	23.1
EBITDA margin (%)	4.9	8.1	9.7	9.9
Depreciation	539	573	686	872
EBIT	916	3,005	4,503	5,516
EBIT margin (%)	3.1	6.8	8.4	8.5
Other Income	1,054	1,276	1,517	1,554
Interest expenses	87	95	112	112
PBT	1,884	4,186	5,908	6,958
Tax	578	1,108	1,556	1,885
Effective tax rate (%)	30.7	26.5	26.3	27.1
Adjusted PAT	1,305	3,078	4,352	5,072
Growth (%)	(1,657.6)	135.8	41.4	16.6
Net Margin (%)	4.4	7.0	8.2	7.8
(Profit)/loss from JV's/Ass/MI	461	1,179	1,559	1,817
Adj. PAT After JV's/Ass/MI	844	1,899	2,792	3,255
E/O items	(10)	(9)	-	-
Reported PAT	834	1,889	2,792	3,255
Growth (%)	258.7	126.5	47.8	16.6

Cash Flow

Y/E, Mar (Rs. mn)	CY09	CY10	CY11E	CY12E
PBT (Ex-Other income)	829	2,910	4,391	5,404
Depreciation	539	573	686	872
Interest Provided	87	95	112	112
Other Non-Cash items	585	163	-	-
Chg in working cap	2,224	726	34	423
Tax paid	(578)	(1,108)	(1,556)	(1,885)
Operating Cashflow	3,685	3,360	3,666	4,925
Capital expenditure	(259)	(1,222)	(3,148)	(1,800)
Free Cash Flow	3,426	2,137	518	3,125
Other income	373	947	1,517	1,554
Investments	(2,879)	(1,645)	(500)	-
Investing Cashflow	-2,764	-1,921	1,017	1,554
Equity Capital Raised	(14)	3	-	-
Loans Taken / (Repaid)	(392)	(307)	(465)	335
Interest Paid	(87)	(95)	(112)	(112)
Dividend paid (incl tax)	(219)	(346)	(732)	(853)
Income from investments	-	-	-	-
Others	(929)	57	-	-
Financing Cashflow	(1,641)	(689)	(1,309)	(630)
Net chg in cash	(979)	(472)	226	4,049
Opening cash position	12,318	11,707	12,457	12,683
Closing cash position	11,339	11,234	12,683	16,732

* The difference between the closing cash as per balance sheet and as per cash flow is due to cash credit balances

Balance Sheet

Y/E, Mar (Rs. mn)	CY09	CY10	CY11E	CY12E
Equity share capital	267	269	269	269
Reserves & surplus	10,424	12,018	14,186	16,588
Net worth	10,690	12,287	14,455	16,857
Minority Interest	5,747	6,774	8,333	10,150
Secured Loans	735	865	400	735
Unsecured Loans	529	91	91	91
Loan Funds	1,264	956	491	826
Net deferred tax liability	142	250	142	142
Total Liabilities	17,842	20,267	23,421	27,975
Gross Block	7,437	8,113	9,913	12,713
Less: Depreciation	3,802	4,269	4,955	5,827
Net block	3,635	3,844	4,958	6,886
Capital work in progress	122	669	2,017	1,017
Investment	2,941	4,586	5,086	5,086
Current Assets	18,121	20,500	24,793	31,413
Inventories	2,190	3,265	4,080	4,942
Sundry debtors	2,325	2,609	4,284	5,149
Cash & bank balance	11,707	12,457	12,683	16,732
Loans & advances	1,540	1,814	3,083	3,781
Other current assets	360	355	663	809
Current lia & Prov	6,978	9,332	13,432	16,426
Current liabilities	6,016	7,942	11,137	13,593
Provisions	962	1,391	2,296	2,834
Net current assets	11,144	11,168	11,361	14,987
Misc. exp	-	-	-	-
Total Assets	17,842	20,267	23,421	27,976

Key Ratios

Y/E, Mar	CY09	CY10	CY11E	CY12E
Profitability (%)				
EBITDA Margin	4.9	8.1	9.7	9.9
Net Margin	4.4	7.0	8.2	7.8
ROCE	11.0	22.5	27.6	27.5
ROE	7.8	16.5	20.9	20.8
RoIC	22.8	106.8	145.5	125.7
Per Share Data (Rs)				
EPS	31.3	70.5	103.7	120.8
CEPS	42.8	83.9	119.9	141.6
BVPS	400.5	456.1	536.6	625.7
DPS	7.0	15.7	23.2	27.1
Valuations (x)				
PER	43.2	19.2	13.1	11.2
P/CEPS	31.6	16.1	11.3	9.6
P/BV	3.4	3.0	2.5	2.2
EV / Sales	1.5	1.0	0.8	0.6
EV / EBITDA	17.9	12.3	7.9	5.8
Dividend Yield (%)	0.5	1.2	1.7	2.0
Gearing Ratio (x)				
Net Debt/ Equity	(1.0)	(0.9)	(0.8)	(0.9)
Net Debt/EBITDA	(7.2)	(3.2)	(2.3)	(2.5)
Working Cap Cycle (days)	(18.6)	(17.2)	(19.0)	(19.7)

Recommendation History: Eicher Motor – EIM IN

Date	Reports	Reco	CMP	Target
09/05/2011	Eicher Motor Q1CY11 Result Update	Accumulate	1,158	1,505
03/03/2011	Eicher Motors Initiating Coverage	Accumulate	1,101	1,505

Recent Research Reports

Date	Reports	Reco	CMP	Target
29/07/2011	Motherson Sumi Q1FY12 Result Update	Accumulate	230	260
29/07/2011	TVS Motor Q1FY12 Result Update	Accumulate	49	62
28/07/2011	Tata Motors JLR FY11 Conference Call Update	Buy	951	1,450
26/07/2011	Maruti Suzuki Q1FY12 Result Update	Accumulate	1,178	1,400

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