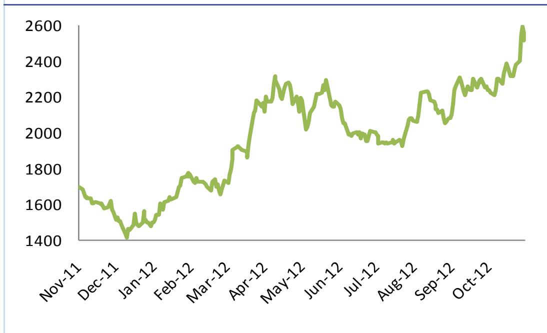
Eicher Motors Ltd

Recommendation	HOLD
CMP (12/11/2012)	Rs. 2,578
Target Price	Rs 2,609
Sector	Commercial Vehicles

Stock Details	
BSE Code	505200
NSE Code	EICHERMOT
Bloomberg Code	EIM IN
Market Cap (Rs cr)	7,280
Free Float (%)	44.8%
52- wk HI/Lo (Rs)	2,637/1,376
Avg. volume BSE (Quarterly)	3,520
Face Value (Rs)	Rs.10
Dividend (CY 11)	160%
Shares o/s (Crs)	2.7

Relative Performance	1Mth	3Mth	1Yr
Eicher	11.3%	20.9%	48%
Sensex	-0.6%	6.4%	8.7%



Shareholding Pattern	30th Sept 12
Promoters Holding	55.20%
Institutional (Incl. FII)	24.42%
Corporate Bodies	0.83%
Public & others	19.55%

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Slowing VECV business; standalone business continues to deliver

Eicher Motor consolidated results were below estimates reflecting slowdown in the overall commercial vehicle segment. Standalone business benefitted from strong demand and price hikes and continued to maintain momentum.

Eicher Motors has witnessed the impact of the slowdown evident in the overall commercial vehicle industry in line with industry trend. However, we derive comfort from the fact that the EML's standalone business is delivering performance on expected lines. The company continues to witness strong demand for its two wheelers and the waiting period stands between 6-8 months. The company is expanding its Royal Enfield capacity to 150,000 units which is expected to go on stream from Q1CY13. In addition the company's engine project with Volvo will also add to revenues from CY13E onwards.

EML has a strong balance sheet with a credible management to withstand the slowdown in a more effective manner going forward. Standalone net cash stands at Rs ~590 cr whereas net cash at VECV stands at Rs ~850 cr. At CMP the stock is trading at P/E of 21.71x CY12E and 14.82x CY13E. We continue to maintain our positive outlook on the company. However, as the stock has already appreciated ~21% since our previous update, we believe that upside from current levels stands limited. ***Nevertheless, considering the strong fundamentals of the company we believe that the stock can be accumulated on any major decline from a long term perspective. Assigning a target multiple of 15x on CY13E EPS we arrive at a target price of Rs 2,609.***

Key positive

Eicher Motors is doubling the installed capacity of Royal Enfield to 150,000 units p.a. by setting up a new plant in Chennai by early CY13 to meet increasing demand. The capex plan is on track which will enable the company to reach a run rate of 12,000-13,000 units per month from current 11,000 units per month. Moreover, Volvo Eicher Commercial Vehicles (VECV) will produce medium-duty engines for the Volvo group globally. The company is setting up an engine plant with a capacity of 85,000 units p.a, which will commence in early 2013. It will manufacture Euro 3 and 4 compliant engines and the Euro 5 & 6 base engines. This project will give VECV a huge technological edge along with additional revenue stream from CY13E.

- Eicher Motors Ltd (EML's) consolidated revenues increased 2.2% YoY to Rs 1,483 crs in Q3CY12 against Rs 1,451 crs in Q3CY11 due to slowdown witnessed in the commercial vehicle business.
- EBITDA declined 26.3% YoY and 20.2% QoQ to Rs 111 cr in Q3CY12. Higher increase in operating expenses (+5.5% YoY) as compared to growth in total revenues limited the growth in EBITDA.
- PAT declined 10.5% YoY and 13.1% QoQ to Rs 66 cr in Q3CY12. This was led by higher depreciation; lower other income during the quarter.

Year	Net Sales (Rs crs)	Growth (%)	EBITDA (Rs cr)	Margin (%)	PAT (Rs cr)	Margin (%)	EPS (Rs)	P/E (x)	EV/EBITDA (x)
CY 10	4,397	49.6%	381	8.6	189	4.3%	70.3	36.7	15.2
CY 11	5,678	29.1%	589	10.3	309	5.4%	114.0	22.6	9.8
CY 12E	6,369	12.2%	575	9.0	321	5.0%	118.7	21.71	10.0
CY 13E	9,088	42.7%	893	9.8	471	5.2%	173.9	14.82	6.1

Performance Analysis

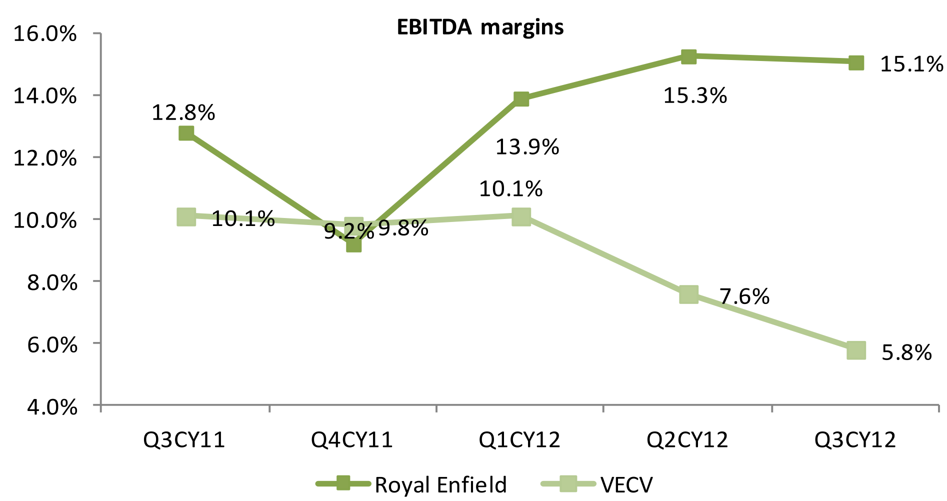
- Eicher Motors Ltd (EML's) consolidated revenues increased 2.2% YoY to Rs 1,483 crs in Q3CY12 against Rs 1,451 crs in Q3CY11 due to slowdown witnessed in the commercial vehicle business. However, on QoQ basis the company reported 6.4% decline. Volumes in the Commercial vehicle business declined 14.1% YoY to 10,791 units which was in line with industry trend. The industry witnessed decline of 14.5% YoY to 96,538 units. Royal Enfield witnessed a volume growth of 49.7% YoY to 30,046 units.

- EBITDA declined 26.3% YoY and 20.2% QoQ to Rs 111 cr in Q3CY12. Higher increase in operating expenses (+5.5% YoY) as compared to growth in total revenues limited the growth in EBITDA. The company reported significant growth employee cost (up 31.1% YoY) and other expenses grew 21.5% YoY resulting from higher incentives provided in order to push sales.

- Consequently, consolidated EBITDA margin declined ~290 bps YoY to 7.5% after nearly Q4CY09 when it witnessed margin of 5.1%. While, on QoQ basis EBITDA margin lowered by ~130 bps because of 6.4% de-growth in top line performance.

- EBITDA margin of VECV business witnessed decline of ~180 bps QoQ and ~430 bps YoY to 5.8% whereas EBITDA margin of the two-wheeler business stood flat at 15.1% vs 15.3% in Q2CY12 and 12.8% in Q3CY11.

- EBITDA margins of the VECV business have been impacted resulting from the change in product mix as the company is increasing its exposure towards Heavy Duty Commercial Vehicles which commands a lower margin as compared to Medium and Light Commercial Vehicles.



Source: Company data, Nirmal Bang Research

- PAT declined 10.5% YoY and 13.1% QoQ to Rs 66 cr in Q3CY12. This was led by higher depreciation; lower other income during the quarter. Other income declined 14.9% YoY to Rs 25 cr. The tax rate stood at 17.4% in Q3CY12 as compared to 25% in Q3CY11 and Q2CY12. Lower tax rate was due to lower other income and lower R&D expenses which accounts for tax benefit.

- For Q3CY12 stand alone revenues grew 8.4% QoQ and 52.6% YoY to Rs 275 crs due to 50.0% YoY and 9.2% QoQ increase in volumes to 30,046 units and 1.8% YoY increase in realizations to Rs 91,476. EBITDA margins stood at 15.1% for Q3CY12 against 12.9% in Q3CY11 and 15.3% in Q2CY12. PAT increased 79.8% YoY.

Standalone performance

Particulars	Q3CY12	Q3CY11	YoY	Q2CY12	QoQ
Volume	30,046	20,036	50.0%	27,519	9.2%
Realization	91,476	89,873	1.8%	92,162	(0.7%)
Sales	**275**	**180**	**52.6%**	**254**	**8.4%**
EBITDA (Rs cr)	41.60	23.24	79.0%	38.93	6.9%
EBITDA margin	*15.1%*	*12.9%*	*223 bps*	*15.3%*	*(21) bps*
PAT (Rs cr)	33	18	79.8%	32	2.1%
PAT margin	*12.0%*	*10.2%*	*181 bps*	*12.7%*	*(74) bps*
EPS	12	7	80.1%	12	2.0%

Source: Company Data, Nirmal Bang Research

- In the 5–14T Light and Medium duty segment the company witnessed 17.8% YoY decline to 6,289 units. However, the company has been able to maintain its market share at the same level of ~30% in Q3CY12.

- VECV posted volume de-growth of 12.7% YoY to 1,615 units in the Heavy Duty segment against the industry de growth of 14.1%.

- On the Royal Enfield part the company has been able to increase the monthly production to 11,000+ units.

- The company reported a de-growth of 6.5% YoY to 130 units vs 139 in Q3CY11 in Volvo Truck segment. In the Volvo Bus segment the company has witnessed a strong demand registering a 16.8% YoY growth to 2,326 units. The market share of the company increased from 11.2% in Q3CY11 to 13.7% in Q3CY12.

- However, the company witnessed lower exports reflecting weak demand scenario in the Bangladesh markets. Exports declined 53.5% YoY to 431 units.

Volume break up	Q3CY12	Q3CY11	YoY growth
Light and Medium Duty	6289	7,652	(17.8%)
Heavy Duty	1615	1,851	(12.7%)
Eicher buses	2326	1,991	16.8%
Volvo Trucks	130	139	(6.5%)
Exports	431	927	(53.5%)
Total CV	**10,791**	**12,560**	(14.1%)
Royal Enfield	30,046	20,067	49.7%

Source: Company data, Nirmal Bang Research

- Eicher Motors did not take any price hike.
- In order to increase its market share in the Heavy Duty Commercial Vehicle the company is targeting geographic expansion.
- Moreover, the company is continuously witnessing good response for dealership in the small towns for its Royal Enfield business.
- As per the management, the company has witnessed some revival in sales in the month of October 2012 as compared to Q3CY12.

Particulars	Q3CY12	Q3CY11	YoY	Q3CY12	QoQ
Gross Sales	1619	1553	4.2%	1726	(6.2%)
(-) Excise duty	147.9	115.0	28.6%	152.6	(3.0%)
Net Sales	**1,471**	**1,438**	**2.3%**	**1,573**	**(6.5%)**
Other operating income	12.42	13.13	(5.4%)	11.92	4.2%
Total income from operations	1483	1451	2.2%	1585	(6.4%)
(Inc)/Dec stock in trade and WIP	(17)	(22)	(23.9%)	(80)	(79.1%)
Consumption of RM and components	937	869	7.8%	1,064	(11.9%)
Purchase of finished goods for resale	142	205	(30.7%)	148	(3.9%)
Employee Cost	116	88	31.1%	116	(0.3%)
Other Expenditure	194	159	21.5%	198	(2.0%)
Total	1,372	1,300	5.5%	1,445	(5.1%)
EBITDA	**111**	**151**	**-26.3%**	**140**	**(20.2%)**
Margin	*7.5%*	*10.4%*	*(290) bps*	*8.8%*	*(129) bps*
Interest	1	3	(64.8%)	1	57.9%
Depreciation	21	16	31.4%	19	13.9%
Other income	25	29	(14.9%)	31	(19.6%)
Profit Before Tax	113	160	(29.3%)	151	(24.7%)
Provision for Tax	19.8	40.1	(50.8%)	38.1	(48.1%)
Net Profit before Minority Interest	94	120	(22.1%)	113	(16.7%)
Minority Interest	27.7	46.5	(40.5%)	36.6	(24.3%)
Net Profit After Minority Interest	**66.0**	**73.7**	**(10.5%)**	**76**	**(13.1%)**
Margin	*4.5%*	*5.1%*	*(63) bps*	*4.8%*	*(34) bps*
Earnings per share (Rs)	24.3	27.3	(10.8%)	28.0	(13.1%)

Source: Company Data, Nirmal Bang Research

Key development

EML has signed a strategic 50-50 joint venture agreement with US based Polaris Industries Inc to set up a green field project in the automotive sector. The joint venture company will design, develop, manufacture and sell a full new range of personal vehicles (Passenger cars) suitable for India and other emerging markets. The overall investment over a period of three years is expected to be Rs 250 cr and the JV is expected to start production from 2015 onwards.

Outlook

Eicher Motors has witnessed the impact of the slowdown which is evident in the overall commercial vehicle industry. The company has a strong balance sheet with a credible management which is likely to help the company to manage the slowdown in a more effective manner going forward.

The company is focusing on improving its volumes and market share in the heavy duty commercial vehicle. Moreover, Eicher Motors already enjoys the premium position in the industry by being the only manufacturer of premium segment bikes in India.

In addition to that, the company enjoys strong financial health and cash position. Standalone net cash stands at Rs ~590 cr whereas net cash at VECV stands at Rs ~850 cr.

At CMP the stock is trading at P/E of 21.71x CY12E and 14.82x CY13E. We continue to maintain our positive outlook on the company. However, as the stock has already appreciated ~20% since our previous update, we believe that upside from current levels stands limited. ***Nevertheless, considering the strong fundamentals of the company we believe that the stock can be accumulated on any major decline from a long term perspective. Assigning a target multiple of 15x on CY13E EPS we arrive at a target price of Rs 2,609.***

Financials

Profitability (Rs. In Cr)	CY10A	CY11A	CY12E	CY13E
Net sales	**4,397**	**5,678**	**6,369**	**9,088**
Other op income	24	49	50	55
Total Income	**4,421**	**5,726**	**6,419**	**9,144**
Raw Mat Cost	3,315	4,196	4,744	6,021
Other exp	725	941	1,100	2,187
EBITDA	**381**	**589**	**575**	**936**
Dep	57	64	88	131
Op Income	**324**	**525**	**487**	**804**
Interest	10	8	8	9
Other Income	103	142	151	154
Exceptional	0	0	0	0
PBT	**418**	**660**	**630**	**950**
Tax	111	163	148	270
PAT (before minority)	**307**	**497**	**482**	**679**
Minority interest	118	189	158	218
PAT (after minority)	189	309	324	461

Quarterly (Rs. In Cr)	Dec.11	Mar.12	June.12	Sep.12
Net Sales	**1,568**	**1,656**	**1,573**	**1,471**
EBITDA	**154**	**180**	**140**	**111**
Dep	17	18	19	21
Op Income	**137**	**162**	**121**	**90**
Interest	1	1	1	1
Other Inc.	43	54	31	25
PBT	**179**	**216**	**151**	**113**
Tax	41	53	38	20
PAT	**139**	**163**	**113**	**94**
PAT after minority int	85.4	109.6	76.0	66.0

Performance Ratio	CY10A	CY11A	CY12E	CY13E
Sales growth (%)	49.6%	29.1%	12.2%	42.7%
EBITDA margin (%)	8.6%	10.3%	9.0%	10.2%
PAT margin (%)	4.3%	5.4%	5.1%	5.1%
ROE (%)	16.4%	22.7%	19.9%	23.4%
ROCE (%)	18.9%	27.6%	22.2%	28.5%

Valuation Ratio	CY10A	CY11A	CY12E	CY13E
Price Earnings (x)	35.29	21.75	20.75	14.56
Price / Book Value (x)	3.29	2.74	2.33	1.91
EV / Sales	1.25	0.97	0.85	0.57
EV / EBIDTA	14.51	9.39	9.52	5.55
Dividend Yield	0.4%	0.6%	0.6%	0.6%

Turnover ratios	CY10A	CY11A	CY12E	CY13E
Inventory (days)	29.50	30.41	28.00	22.00
Receivables (days)	21.54	21.89	22.00	20.00
Creditors (days)	71.7	84.2	75.0	59.0
Working cap cycle (days)	-20.71	-31.87	-25.00	-17.00

Financial Health (Rs. In Cr)	CY10A	CY11A	CY12E	CY13E
Share Capital	27	27	27	27
Reserves & Surplus	1,205	1,466	1,739	2,150
Share Holder's Funds	**1,232**	**1,493**	**1,766**	**2,177**
Deferred Tax Liab.	25	64	64	64
Total Loans	96	50	50	50
Minority interest	677	838	996	1,214
Total Liabilities	**2,030**	**2,446**	**2,877**	**3,506**
Net Fixed Assets	384	504	1,016	1,285
Capital work in progress	67	395	200	200
Investments	**459**	**513**	**513**	**513**
Inventories	327	428	448	495
Debtors	261	343	387	501
Cash & Bank	1,246	1,197	1,258	1,538
Loans & Adv	181	339	353	411
Other current assets	36	42	45	55
Total	**2,050**	**2,350**	**2,491**	**3,000**
Curr Liab & Prov	**933**	**1,334**	**1,361**	**1,510**
Net Current Assets	1,117	1,016	1,130	1,490
Pre operative expenses	**3**	**18**	**18**	**18**
Total Assets	**2,030**	**2,446**	**2,877**	**3,506**

Cash Flow (Rs. In Cr)	CY10A	CY11A	CY12E	CY13E
Operating income	418	660	630	950
Depreciation	57	64	88	131
Change in working capital	37	(23)	(53)	(81)
Interest/dividend net	(76)	(103)	(143)	(145)
Direct tax paid	(83)	(167)	(148)	(270)
Others	(17)	(28)	0	0
CF from Operation	**336**	**403**	**374**	**585**
Inc/Dec in Fixed Assets	(131)	(417)	(405)	(400)
Interest/Dividend received	104	132	151	154
(Inc.)/ Dec. in Investments	(164)	(54)	0	0
CF from Investments	**(192)**	**(340)**	**(254)**	**(246)**
Issue of Equity/(Buyback)	9	2	0	0
Borrowings	(43)	(54)	(8)	(9)
Dividend Paid (Incl. Tax)	(35)	(61)	(51)	(51)
CF from Financing	**(69)**	**(112)**	**(59)**	**(60)**
Net change in cash	75	(48)	61	280
Cash at beginning	**1,171**	**1,246**	**1,197**	**1,258**
Cash at end	**1,246**	**1,197**	**1,258**	**1,538**

Per Share Data	CY10A	CY11A	CY12E	CY13E
Diluted EPS	70.3	114.0	119.5	170.4
Cash EPS	91.4	138.1	152.5	219.6
BV per share	753.6	906.1	1066.0	1299.0
Dividend per share	11.00	16.00	16.00	16.00

Source: Company data, Nirmal Bang Research

NOTES

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