

Eicher Motors Ltd

Recommendation	BUY
CMP (10/08/2012)	Rs. 2,070
Target Price	Rs 2,578
Sector	Commercial Vehicles

Stock Details

BSE Code	505200
NSE Code	EICHERMOT
Bloomberg Code	EIM IN
Market Cap (Rs cr)	5,879
Free Float (%)	44.8%
52- wk HI/Lo (Rs)	2,361/1298
Avg. volume BSE (Quarterly)	8,559
Face Value (Rs)	Rs.10
Dividend (CY 11)	160%
Shares o/s (Cr)	28.89

Relative Performance	1Mth	3Mth	1Yr
Eicher	3.8%	-5.4%	55.9%
Sensex	-0.3%	6.9%	2.5%



Shareholding Pattern		30 th June 12
Promoters Holding		55.20%
Institutional (Incl. FII)		24.09%
Corporate Bodies		1.01%
Public & others		19.7%

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Lower other income and higher tax rate drags profitability

Eicher Motor results were marginally below estimates. Standalone business benefitted from strong demand and price hikes. Despite tough operating environment, the company gained market share in heavy commercial vehicles.

Key Highlights

- Eicher Motors Ltd (EML's) consolidated revenues increased 23.6% YoY to Rs 1,585 crs in Q2CY12 against Rs 1,283 crs in Q2CY11 due to 8.9% YoY volume growth in the Commercial Vehicle business to 12,016 units and 48.1% YoY volume growth in the Royal Enfield business to 27,519 units.
- EBITDA grew 11.0% YoY to Rs 180 crs in Q2CY12. Higher increase in operating expenses (+25% YoY) limited the growth in EBITDA. The company reported significant growth employee cost (up 34.6% YoY and 14.4% QoQ) and other expenses grew 42.8% YoY resulting from higher incentives provided in order to push sales.
- PAT stood flat with a marginal 0.5% YoY decline to Rs 75.96 crs in Q2CY12. This was led by higher depreciation; lower other income during the quarter and higher tax rate. Other income declined 26.7% YoY to Rs 31 cr. The tax rate stood at 33.9% in Q2CY12 as compared to 29.1% in Q2CY11 and 32.1% in Q1CY12. Lower tax rate was due to lower other income and lower R&D expenses which accounts for tax benefit.

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 10,000 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.

Valuation & Recommendation

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.

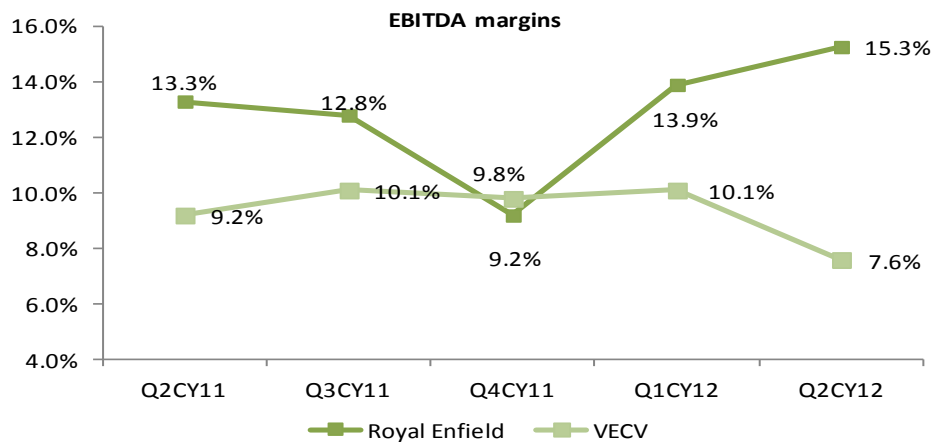
Standalone net cash stands at Rs 590 cr whereas net cash at VECV stands at Rs 850 cr. At CMP the stock is trading at P/E of 14.74x CY12E and 12.04x CY13E. We continue to maintain our BUY rating on the stock with a target price of Rs 2,578 based on P/E multiple of 15x on CY13E EPS of Rs 172.

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	29.45	11.62
CY 11	5,678	29.1%	589	10.3	309	5.4%	114.0	18.15	7.52
CY 12E	6,797	19.7%	734	10.7	380	5.6%	140.5	14.74	5.81
CY 13E	8,972	32.0%	972	10.8	465	5.2%	171.9	12.04	4.07

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Performance Analysis

- Eicher Motors Ltd (EML's) consolidated revenues increased 23.6% YoY to Rs 1,585 crs in Q2CY12 against Rs 1,283 crs in Q2CY11 due to 8.9% YoY volume growth in the Commercial Vehicle business to 12,016 units and 48.1% YoY volume growth in the Royal Enfield business to 27,519 units.
- EBITDA grew 11.0% YoY to Rs 180 crs in Q2CY12. Higher increase in operating expenses (+25% YoY) limited the growth in EBITDA. The company reported significant growth employee cost (up 34.6% YoY and 14.4% QoQ) and other expenses grew 42.8% YoY resulting from higher incentives provided in order to push sales.
- Consequently, consolidated EBITDA margin declined ~100 bps YoY. While, on QoQ basis EBITDA margin lowered by ~200 bps because of 5% de-growth in top line performance.
- EBITDA margin of VECV business witnessed decline of ~250 bps QoQ and ~160 bps YoY to 7.6% whereas EBITDA margin of the two-wheeler business improved tremendously by ~140 bps QoQ and ~200 bps YoY to 15.3% in Q1CY12. EBITDA margin of the two wheeler business stood at its historical high level.
- 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

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- For Q2CY12 stand alone revenues grew 15.2 QoQ and 52.7% YoY to Rs 254 crs due to 48.1% YoY and 15.1% QoQ increase in volumes to 27,519 units and 3.1% YoY increase in realizations to Rs 92,162. EBITDA margins stood at 15.3% for Q2CY12 against 13.9% in Q1CY12 and 13.4% in Q2CY11. PAT increased 11.7% YoY.

Standalone performance

Particulars	Q2CY12	Q2CY11	YoY	Q1CY12	QoQ
Volume	27,519	18,581	48.1%	23,899	15.1%
Realization	92,162	89,376	3.1%	92,083	0.1%
Sales	254	166	52.7%	220	15.2%
EBITDA (Rs cr)	38.93	22.32	74.4%	30.66	27.0%
<i>EBITDA margin</i>	<i>15.3%</i>	<i>13.4%</i>	<i>191 bps</i>	<i>13.9%</i>	<i>142 bps</i>
PAT (Rs cr)	32	29	11.7%	45	(28.7%)
<i>PAT margin</i>	<i>12.7%</i>	<i>17.4%</i>	<i>(467) bps</i>	<i>20.6%</i>	<i>(786) bps</i>
EPS	12	11	11.2%	17	(28.8%)

Source: Company Data, Nirmal Bang Research

- In the 5–14T Light and Medium duty segment the company witnessed 2.5% YoY decline to 6,472 units and has been able to maintain its market share at 31.7 % in Q2 2012.
- VECV posted volume growth of 35.5% YoY to 1,906 units in the Heavy Duty segment against the industry de growth of 22%. Moreover the company has been able to increase its market share from 3.3% in Q1CY12 and 2.7% in Q2CY11 to 4.8% in Q2CY12.
- On the Royal Enfield part the company has been able to increase the monthly production to 10,000+ units.
- The company reported a growth of 24.6% YoY to 152 units vs 122 in Q2CY11 in Volvo Truck segment. In the Volvo Bus segment the company has witnessed a strong demand registering a 30.8% YoY growth to 2,784 units. The market share of the company increased from 12.4% in Q2CY11 to 13.4% in Q2CY12.
- However, the company witnessed lower exports which de grew by 4.1% YoY basis to 702 units. But the exports were better than that of the last 2 quarters.

Volume break up	Q2CY12	Q2CY11	YoY growth
Light and Medium Duty	6,472	6,640	(2.5%)
Heavy Duty	1,906	1,407	35.5%
Eicher buses	2,784	2,128	30.8%
Volvo Trucks	152	122	24.6%
Exports	702	732	(4.1%)
Total CV	12,016	11,029	8.9%
Royal Enfield	27,519	18,580	48.1%

Source: Company data, Nirmal Bang Research

Eicher Motors Ltd

- Eicher Motors has raised prices by ~1.6% across its CV products in April 2012 and took a price hike of 1% in its two wheeler business during the quarter.
- In order to increase its market share in the Heavy Duty Commercial Vehicle the company is targeting geographic expansion. Currently the company is present in ~50% of the country and aims to achieve 80-90% presence by CY13E.
- Moreover, the company is continuously witnessing good response for dealership in the small towns for its Royal Enfield business.

Particulars	Q2CY12	Q2CY11	YoY	Q1CY12	QoQ
Gross Sales	1726	1369	26.1%	1802	(4.2%)
(-) Excise duty	152.6	99.8	52.9%	145.8	4.6%
Net Sales	1,573	1,269	24.0%	1,656	(5.0%)
Other operating income	11.92	13.70	(13.0%)	12.54	(4.9%)
Total income from operations	1585	1283	23.6%	1668	(5.0%)
(Inc)/Dec stock in trade and WIP	(80)	(68)	17.3%	(66)	21.4%
Consumption of RM and components	1,064	863	23.2%	1,125	(5.4%)
Purchase of finished goods for resale	148	137	7.8%	129	15.2%
Employee Cost	116	86	34.6%	102	14.4%
Other Expenditure	198	138	42.8%	199	(0.6%)
Total	1,445	1,157	25.0%	1,488	(2.9%)
EBITDA	140	126	11.0%	180	(22.6%)
<i>Margin</i>	<i>8.8%</i>	<i>9.8%</i>	<i>(100) bps</i>	<i>10.8%</i>	<i>(200) bps</i>
Interest	1	2	(63.8%)	1	(10.6%)
Depreciation	19	15	21.5%	18	5.4%
Other income	31	42	(26.7%)	54	(43.7%)
Profit Before Tax	151	150	0.5%	216	(30.2%)
Provision for Tax	38.1	33.8	12.7%	52.5	(27.5%)
Net Profit before Minority Interest	113	116	(3.1%)	163	(31.1%)
Minority Interest	36.6	39.7	(7.9%)	53.9	(32.1%)
Net Profit After Minority Interest	76.0	76.4	(0.5%)	110	(30.7%)
<i>Margin</i>	<i>4.8%</i>	<i>6.0%</i>	<i>(116) bps</i>	<i>6.6%</i>	<i>(178) bps</i>
Earnings per share (Rs)	28.0	28.2	(0.8%)	40.4	(30.7%)

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.

Eicher Motors Ltd**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. Royal Enfield's margin has reached all time high of 15.3% in Q2CY12.

Considering the robust earnings growth and strong balance sheet, we believe that Eicher Motors Ltd will continue with its growth story in the coming years. In addition to that, the company enjoys strong financial health and cash position.

At CMP the stock is trading at P/E of 14.74x CY12E and 12.04x CY13E. We continue to maintain our **BUY** rating on the stock with a target price of Rs 2,578 based on P/E multiple of 15x on CY13E EPS of Rs 172.

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Financials

Profitability (Rs. In Cr)	CY10A	CY11A	CY12E	CY13E
Net sales	4,397	5,678	6,797	8,972
Other op income	24	49	50	55
Total Income	4,421	5,726	6,847	9,028
Raw Mat Cost	3,315	4,196	5,015	5,893
Other exp	725	941	1,098	2,162
EBITDA	381	589	734	972
Dep	57	64	88	131
Op Income	324	525	646	840
Interest	10	8	8	9
Other Income	103	142	166	159
Exceptional	0	0	0	0
PBT	418	660	804	991
Tax	111	163	211	283
PAT (before minority)	307	497	593	708
Minority interest	118	189	213	242
PAT (after minority)	189	309	380	465
Quarterly (Rs. In Cr)	Sep.11	Dec.11	Mar.12	June.12
Net Sales	1,438	1,568	1,656	1,573
EBITDA	151	154	180	140
Dep	16	17	18	19
Op Income	135	137	162	121
Interest	3	1	1	1
Other Inc.	29	43	54	31
PBT	160	179	216	151
Tax	40	41	53	38
PAT	120	139	163	113
PAT after minority int	73.7	85.4	109.6	76.0
Performance Ratio	CY10A	CY11A	CY12E	CY13E
Sales growth (%)	49.6%	29.1%	19.7%	32.0%
EBITDA margin (%)	8.6%	10.3%	10.7%	10.8%
PAT margin (%)	4.3%	5.4%	5.6%	5.2%
ROE (%)	16.4%	22.7%	22.9%	22.9%
ROCE (%)	18.9%	27.6%	27.9%	28.8%
Valuation Ratio	CY10A	CY11A	CY12E	CY13E
Price Earnings (x)	29.45	18.15	14.74	12.04
Price / Book Value (x)	2.75	2.28	1.87	1.53
EV / Sales	1.00	0.77	0.62	0.44
EV / EBITDA	11.62	7.52	5.81	4.07
Dividend Yield	0.5%	0.8%	0.8%	0.8%
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

Source: Company data, Nirmal Bang Research

Financial Health (Rs. In Cr)	CY10A	CY11A	CY12E	CY13E
Share Capital	27	27	27	27
Reserves & Surplus	1,205	1,466	1,796	2,211
Share Holder's Funds	1,232	1,493	1,823	2,238
Deferred Tax Liab.	25	64	64	64
Total Loans	96	50	50	50
Minority interest	677	838	1,051	1,293
Total Liabilities	2,030	2,446	2,988	3,645
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	469	486
Debtors	261	343	413	495
Cash & Bank	1,246	1,197	1,362	1,672
Loans & Adv	181	339	377	406
Other current assets	36	42	48	54
Total	2,050	2,350	2,668	3,112
Curr Liab & Prov	933	1,334	1,427	1,483
Net Current Assets	1,117	1,016	1,241	1,630
Pre operative expenses	3	18	18	18
Total Assets	2,030	2,446	2,988	3,645
Cash Flow (Rs. In Cr)	CY10A	CY11A	CY12E	CY13E
Operating income	418	660	804	991
Depreciation	57	64	88	131
Change in working capital	37	(23)	(60)	(79)
Interest/dividend net	(76)	(103)	(158)	(150)
Direct tax paid	(83)	(167)	(211)	(283)
Others	(17)	(28)	0	0
CF from Operation	336	403	462	610
Inc/Dec in Fixed Assets	(131)	(417)	(405)	(400)
Interest/Dividend receivec	104	132	166	159
(Inc.)/ Dec. in Investments	(164)	(54)	0	0
CF from Investments	(192)	(340)	(239)	(241)
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)	165	309
Cash at beginning	1,171	1,246	1,197	1,362
Cash at end	1,246	1,197	1,362	1,672
Per Share Data	CY10A	CY11A	CY12E	CY13E
Diluted EPS	70.3	114.0	140.5	171.9
Cash EPS	91.4	138.1	173.5	221.1
BV per share	753.6	906.1	1107.2	1350.7
Dividend per share	11.00	16.00	16.00	16.00

NOTES

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