MOTILAL OSWAL

11 December 2012
Initiating Coverage | Sector: Automobile

Eicher Motors

At inflection point

Chirag Jain (Chirag.Jain@MotilalOswal.com) + 91 22 3982 5418
Jinesh Gandhi (Jinesh@MotilalOswal.com) + 91 22 3982 5416

Eicher Motors: At inflection point

Page No.

Investors are advised to refer through disclosures made at the end of the Research Report.

Eicher Motors

CMP: INR2,660 | **TP: INR3,850** | **Buy**

BSE SENSEX	S&P CNX
19,410	5,909

Bloomberg	EIM IN
Equity Shares (m)	26.99
52-Week Range	3,240/1,376
1,6,12 Rel. Perf. (%)	2/7/51
M.Cap. (INR b)	71.8
M.Cap. (USD b)	1.3

Financial summary (INR b)

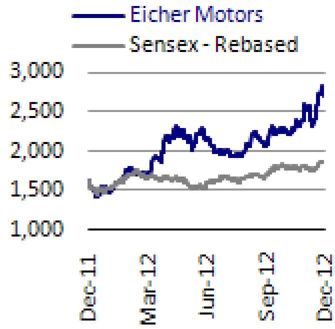
Y/E December	2012E	2013E	2014E
Net Income	63.5	81.1	106.4
EBITDA	5.7	6.7	10.2
Net Profit	3.1	3.3	4.7
Adj. EPS (INR)	116.5	120.8	175.5
EPS Gr. (%)	1.9	3.7	45.2
BV/Sh. (INR)	645.4	728.8	852.3
P/E (x)	22.8	22.0	15.2
P/BV (x)	4.1	3.7	3.1
EV/EBITDA (x)	16.4	13.5	8.8
Div. Payout (%)	18.0	18.3	18.6
Divi. Yield (%)	0.7	0.7	1.1
RoCE (%)	23.0	20.8	26.7
RoE (%)	19.4	17.6	22.2

Price as on 10 December 2012

Shareholding pattern (%)

As on	Sep-12	Jun-12	Sep-11
Promoter	55.2	55.2	55.2
Dom. Inst	15.3	16.3	17.4
Foreign	17.5	16.3	14.4
Others	12.0	12.3	13.0

Stock performance (1 year)



At inflection point

Multiple growth drivers in place

- **With several of its projects to commence in CY13-14, driving 28% sales CAGR and 34% EBITDA CAGR over CY12-15, Eicher Motors (EIM) is at an inflection point.**
- **Its motorcycle business will benefit from capacity expansion (new plant to start in 1QCY13), new launches (Thunderbird 500 and Café Racer), and network expansion.**
- **CV subsidiary, Volvo Eicher Commercial Vehicles (VECV), will benefit from the commencement of the Medium Duty Engine Project (MDEP) and ramp-up in HCVs.**
- **Buy with a target price of INR3,850, 45% upside over two years. EIM's strong balance sheet (net cash increasing to INR16.9b by CY15E) limits downside risk, in our view.**

Motorcycles: Royal Enfield well-positioned

Given its leadership position, cult brand equity and minimal competition, Royal Enfield is well positioned to benefit from increasing trend of lifestyle biking. Currently, demand for Royal Enfield motorcycles far exceeds supply with average waiting period at 6-8 months. Capacity expansion (new plant to start in 1QCY13), new launches (Thunderbird 500 and Café Racer), and network expansion to drive 25%/29% volume/EBTIDA CAGR over CY12-15E.

CVs: VECV better placed to challenge incumbents

The Indian CV industry is likely to evolve giving new players opportunity to challenge the incumbents. VECV is better placed among new entrants, given the marriage of Volvo's technological strength with Eicher's local market expertise. It is taking initiatives to gain 15% share in HCVs and initial signs of success are visible. Volvo intends to use Eicher as a mass market brand and VECV as its low cost manufacturing hub over the long term; this presents a sizable export opportunity. We estimate VECV to register a CAGR of 16%/28%/37% in volumes/ revenues/EBITDA over CY12-15.

MDEP: A linear business opportunity

MDEP holds immense strategic importance for both the Volvo Group and VECV. While the Volvo Group would become entirely dependent on VECV for Euro 5 and Euro 6 base engines, MDEP will improve VECV's positioning in HCVs with headstart on futuristic technology. Moreover, MDEP provides a stable business opportunity to VECV. We estimate MDEP (excluding captive consumption of engine by VECV) to contribute 26%/20%/17% to VECV's revenues/EBITDA/PAT in CY15.

Initiating coverage with a Buy rating

EIM provides strong growth visibility, driven by both Royal Enfield and VECV operations, notwithstanding near-term weakness in CV business. We estimate 28% sales CAGR, 34% EBITDA CAGR and 28% PAT CAGR over CY12-15. The stock has re-rated post the JV with Volvo. We expect appreciation from current levels to be largely driven by earnings growth. Initiate coverage with a **Buy** rating and target price of INR3,850, 45% upside over two years.

Story in charts Royal Enfield capacity expansion to drive growth...

❶ Capacity expansion coupled with new launches to drive 25% Royal Enfield volume CAGR over CY12-15E

❷ Royal Enfield margins to improve with higher volumes and efficiencies of new plant

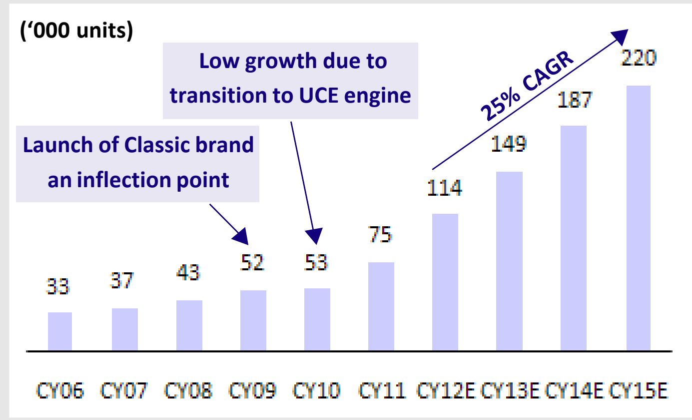
❸ Standalone cash generation from operations to be far higher than capex needs of Royal Enfield

❹ Royal Enfield to contribute ~44% of CY13E consolidated adjusted EBITDA

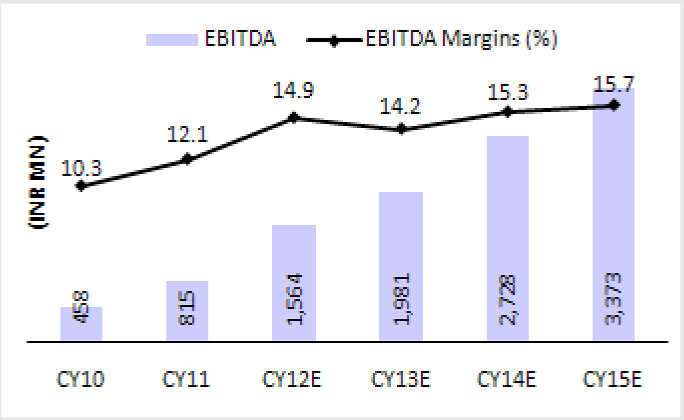
❺ Driven by introduction of new HCV range powered by Volvo engines from CY13-end and start of new bus body plant to drive VECV's volume CAGR of 15.5% over CY12-15E

❻ VECV's EBITDA margin to improve with higher volumes, lower marketing incentives and increase in after-market revenues

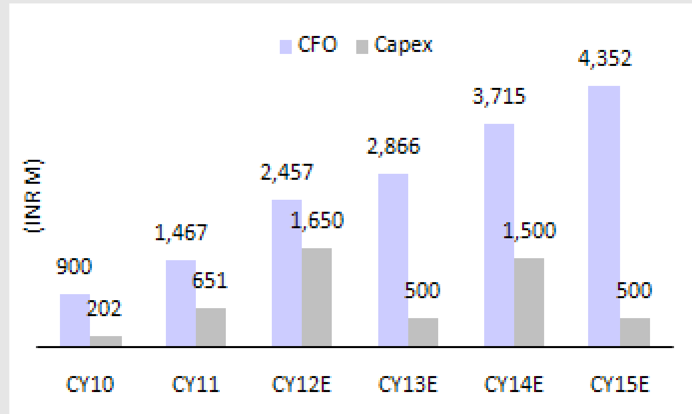
❶ Capacity expansion to drive 25% volume CAGR over CY12-15E



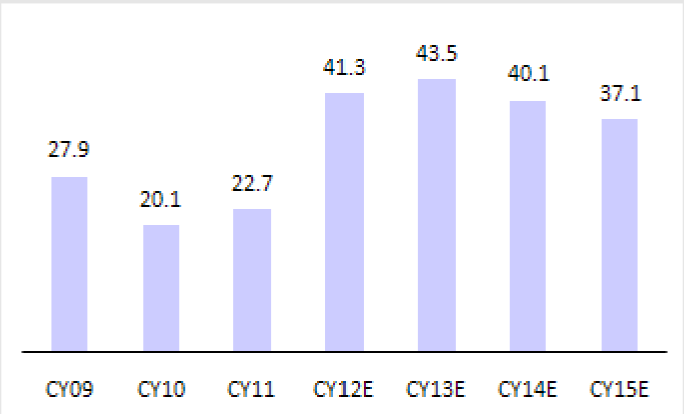
❷ Higher volumes and new plant to improve margins



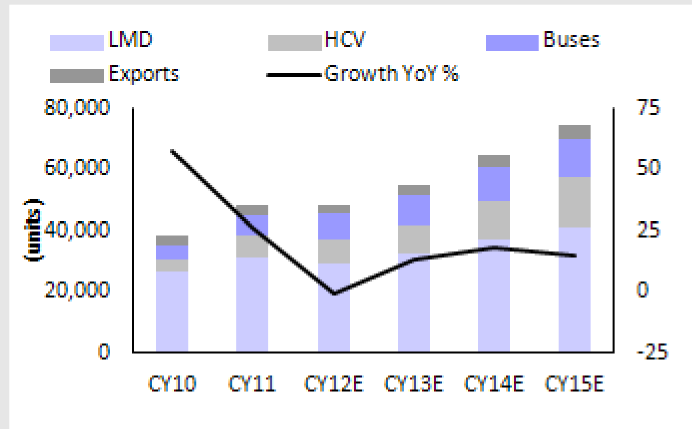
❸ Cash generation from operations higher than capex needs



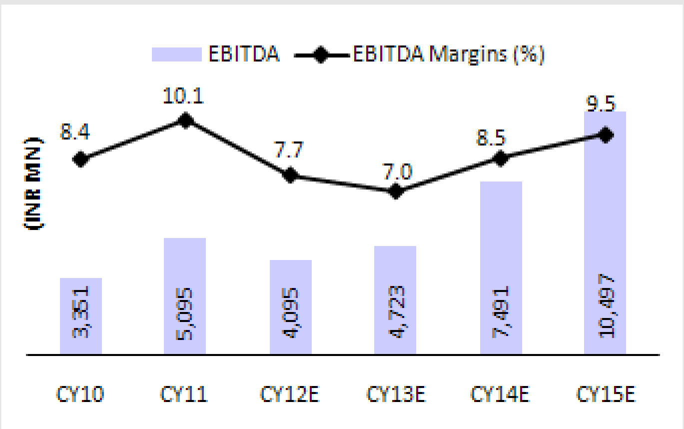
❹ RE to contribute ~44% of CY13E consolidated adjusted EBITDA



❺ VECV to witness volume growth of 15.5% over CY12-15E



❻ VECV EBITDA margin to improve



Source: Company, MOSL

Story in charts ...coupled with ramp-up in VECV to drive strong performance

❶ Despite capex of INR18.5b over CY12-15E, VECV's FCF to remain positive

❷ MDEP provides stable business opportunity to VECV, company aims full utilization by CY15

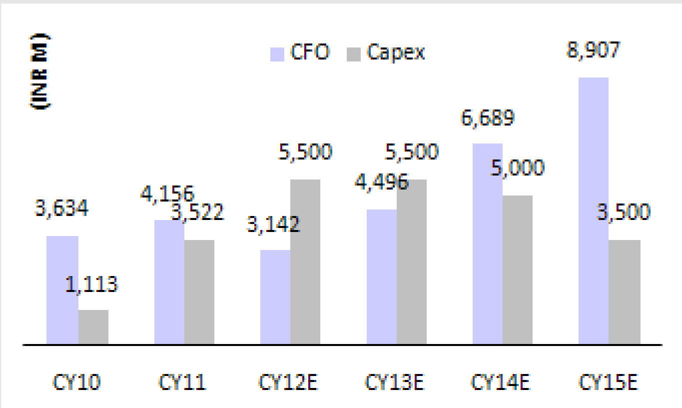
❸ We estimate MDEP (excluding captive consumption of engine by VECV) to contribute 26%/20%/17% to VECV's revenues/EBITDA/PAT in CY15E.

❹ Consolidated revenues, EBITDA & PAT to register a CAGR of 28%/34%/28% respectively over CY12-15E driven both by Royal Enfield and VECV

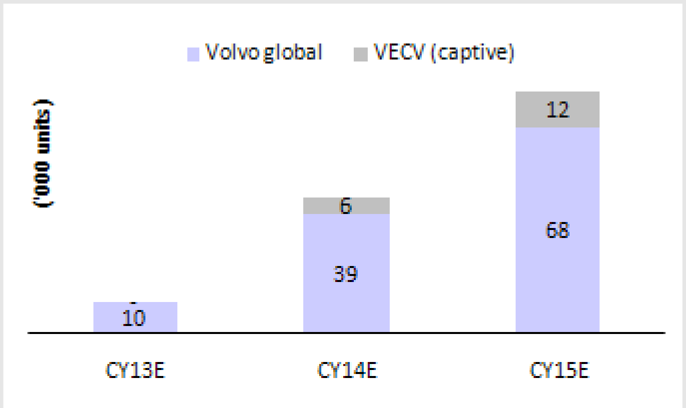
❺ Initiate coverage with a Buy rating and a target price of INR3,850. EIM's strong balance sheet, with net cash increasing to INR16.9b by CY15E limits downside risk.

❻ Royal Enfield, VECV & surplus cash constitutes 40%,44% & 16% of the SOTP respectively.

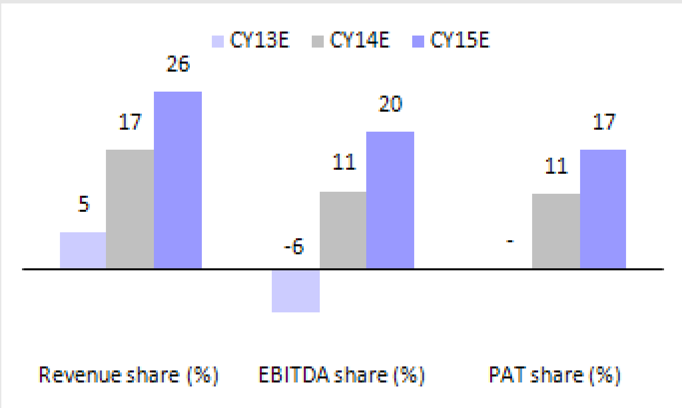
❶ Despite high capex, VECV's FCF to remain positive



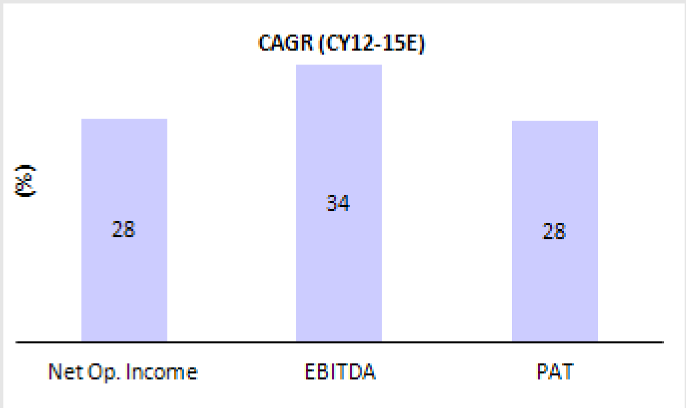
❷ MDEP ramp-up, aims to achieve full capacity by CY15



❸ MDEP to contribute 20% of VECV's CY15E EBITDA



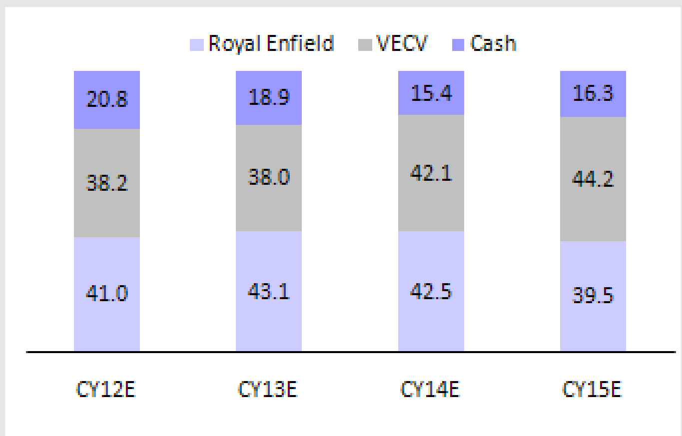
❹ Robust consolidated financial performance over CY12-15E



❺ SOTP Valuation

	CY12E	CY13E	CY14E	CY15E
Royal Enfield				
Core PAT (ex div & fin income)	1,064	1,296	1,828	2,280
Core Equity Value @ 18x PE	19,145	23,336	32,910	41,043
Net Debt	-5,280	-7,014	-8,502	-11,376
Equity Value	24,425	30,349	41,412	52,419
VECV (@ 54.4% Economic interest)				
EBITDA	2,227	2,569	4,075	5,711
EV@ 8x EV/EBITDA	17,819	20,555	32,599	45,942
Net Debt	-4,442	-3,244	-3,416	-5,547
Equity Value	22,261	23,799	36,015	51,489
Total Equity Value	**46,686**	**54,148**	**77,427**	**103,908**
Target Price	**1,730**	**2,006**	**2,869**	**3,850**

❻ SOTP Contribution (%)



Source: Company, MOSL

Motorcycles: Royal Enfield well-positioned

To benefit from trend towards lifestyle biking

- **Rising income and aspiration levels together with favorable demographics have triggered a trend towards lifestyle biking in India.**
- **Given its leadership position, cult brand equity and minimal competition, Royal Enfield is well positioned to benefit from this trend.**
- **Currently, incremental demand for Royal Enfield motorcycles far exceeds supply. On an average, the waiting period for its various products is 6-8 months.**
- **Capacity expansion (new plant to start in 1QCY13), new launches (*Thunderbird 500* and *Café Racer*), and network expansion to drive 25%/29% volume/EBTIDA CAGR over CY12-15E.**

Well positioned to capitalize on trend towards lifestyle biking

Lifestyle biking is gaining momentum, with rising income and aspiration levels. Several global luxury/lifestyle bike manufactures have entered the Indian market, considering the long-term potential the Indian market offers. This should further boost the lifestyle biking culture in India. With its leadership position and cult brand equity, Royal Enfield is well positioned to benefit from the rising trend of lifestyle/ leisure biking. Considering the huge price differential (price of Harley's entry-level motorcycle is INR0.6m), we do not perceive the global luxury/lifestyle bike manufactures as a major threat.

Rich history; cult brand

Royal Enfield is amongst the world's oldest motorcycle brands still in business

Royal Enfield is amongst the world's oldest motorcycle brands still in production. Use of the brand name, Royal Enfield, was licensed by the British Crown in 1890. Eicher Motors (EIM) acquired the brand in 1994-95, after it took over Chennai-based Enfield India, then the sole producer of Royal Enfield motorcycles. The Redditch-based British manufacturer that originally produced these motorcycles had stopped production in 1970 and was dissolved in 1971.

Royal Enfield has three sub-brands – *Thunderbird*, *Classic* and *Bullet*, but it is *Bullet* that stands out. The *Bullet 350* has been the longest running motorcycle model in continuous production. First built in Britain, the *Bullet 350* has been made in India since 1955. *Classic* was launched in late 2009 and *Thunderbird* in 2000 (upgraded version launched recently in October 2012).

Royal Enfield's current product portfolio

Thunderbird (INR130K onwards)	Classic (INR114K onwards)	Bullet (INR96k onwards)
Thunderbird 500	Classic Desert Storm 500	Bullet Electra Twinspark
Thunderbird 350	Classic Battle Green	Bullet 350 Twinspark
	Classic Chrome	Bullet Electra EFI
	Classic 500	Bullet Electra Deluxe
	Classic 350	Bullet 500

Source: Company, MOSL

While very few people drive Royal Enfield motorcycles, many aspire for them

There is a sense of aura around the Royal Enfield brand. Its motorcycles are very heavy, tough to drive and remain exclusive to the very few ‘men’ that can wield them. The Bullet offers a very different riding experience. The thumping sound, the road presence, the sheer ‘ego’ boost that the brand gives its rider makes him feel ‘arrived’. While very few people drive Royal Enfield motorcycles, many aspire for them.

Royal Enfield motorcycles have evolved over the years, with improvements in fuel efficiency, quality and reliability, particularly with the unit construction engine (UCE) platform. However, the vintage looks and styling, and the familiar thumping sound remain. To promote leisure motorcycling as a lifestyle (as well as the Royal Enfield brand), EIM organizes annual various events such as the Himalayan Odyssey, the Tour of Rajasthan and the Southern Odyssey.

Promoting biking culture and Royal Enfield brand through ‘keep riding’ initiative

Royal Enfield organizes various Rides and Events for Royal Enfield motorcycle owners throughout the year. These are adventure-filled, fun and leisure activities at exotic locales.

Royal Enfield is a community-built brand. There are a number of Royal Enfield clubs, each having 400-500 members. The only criterion to join the club is to own a Royal Enfield motorcycle.

Royal Enfield Independence Day Rally 2012

Royal Enfield Rally in Ajmer (Rajasthan)

Capacity addition to help meet demand

The average waiting period for Royal Enfield motorcycles is 6-8 months

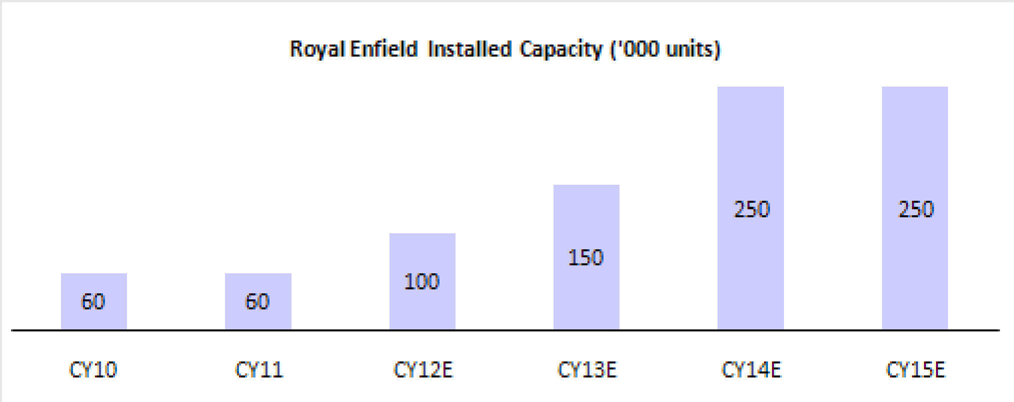
While the current annual installed capacity is 60k units, over the last couple of years, the company has been consistently increasing its monthly output. Current production is ~10k units/month, way above its installed capacity. Despite production increasing by 50% YoY in recent months, the average waiting period for Royal Enfield motorcycles is 6-8 months.

Setting up new plant with capacity of 150k units/ year to meet increasing demand

To meet the increasing demand and further improve product quality and profitability, EIM is setting up a new plant with capacity of 150k units/year in Chennai at a capex of INR1.5b. The new plant is spread over 50 acres and is slated to commence production in 1QCY13. Capacity at the new plant can be further expanded by 100k units up to 250k units/year at a reasonably short notice.

Capacity expansion will enable it to improve availability and expand its reach - both domestic and global. In India, it currently has 240 dealers, catering largely to tier 1 & 2 cities. It is yet to tap the potential of semi-urban/rural markets, where affordability for its product is improving.

Capacity expansion to support strong growth



Source: Company, MOSL

New launches to aid growth momentum

EIM has recently launched the *Thunderbird* with a 500cc engine option in addition to the 350cc version available earlier. The company is also likely to launch the *Café Racer* powered by a 500cc UCE engine in 1HCY13. This would be the lightest Royal Enfield motorcycle.

New Thunderbird 500 launched in October 2012

Café Racer to be launched in 1HCY13

Source: Company, MOSL

Exports to gain momentum once capacity constraints ease

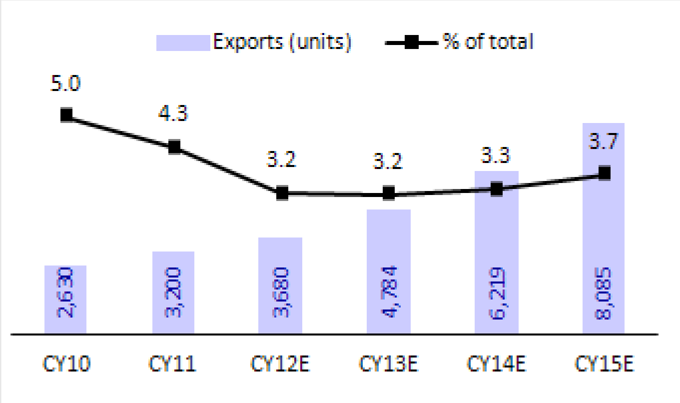
Currently, less than 5% of Royal Enfield sales come from exports

Currently, less than 5% of Royal Enfield sales come from exports, primarily to the US, UK, Germany, Italy, Japan and Australia. However, as part of its long-term strategy, EIM intends to make Royal Enfield a global motorcycle brand, with a much higher share of sales coming from exports. The product planning and development are being done keeping in mind the export potential. For instance, the recently launched *Thunderbird 500* / upgraded *Thunderbird 350* have been developed to tap overseas opportunities as well. Export markets generally offer higher realizations and margins, due to premium pricing and better product mix (primarily 500cc products).

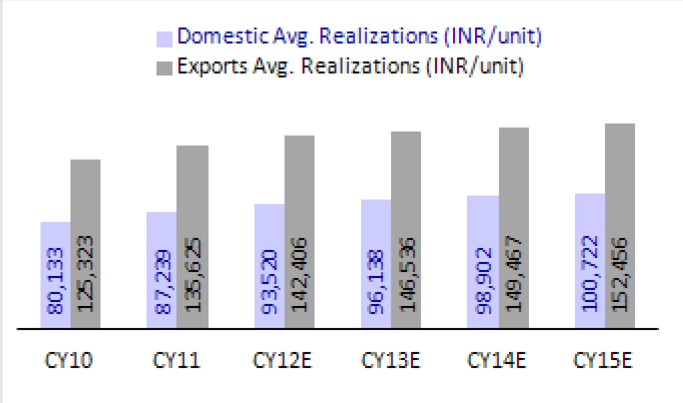
As capacity concerns ease, focus on high margin export business would increase significantly

Considering the huge order backlog (with average waiting period of 6-8 months), EIM has been focusing on supplying vehicles in the domestic market. However, as capacity concerns ease, we believe the focus on high margin export business would increase significantly.

With capacity expansion, exports to grow at a higher rate



Export realizations are higher than domestic



Source: Company, MOSL

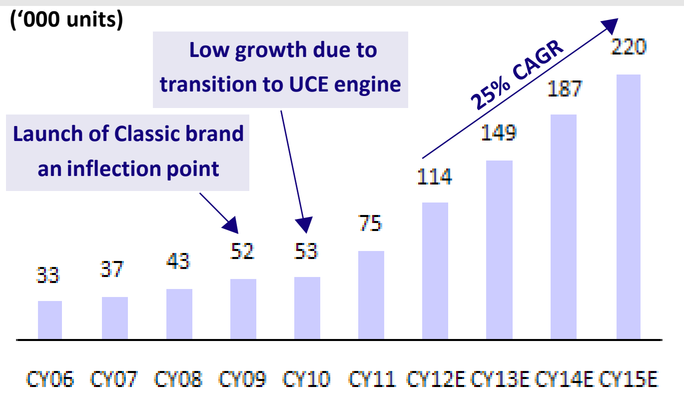
Accessories launched to promote and extend brand to wider audience

Has launched a range of accessories under Royal Enfield to extend the brand to a wider audience

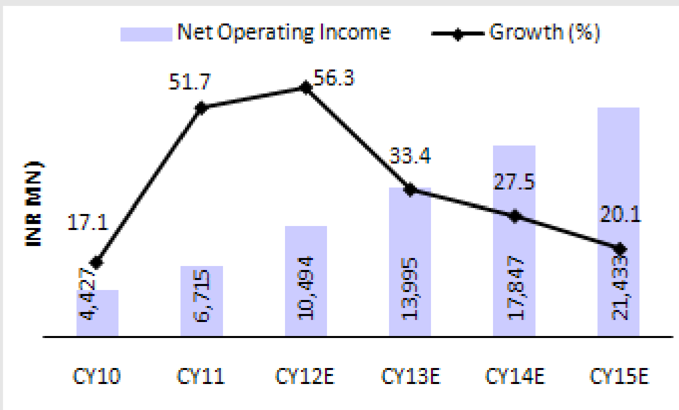
To promote and extend the brand to a wider audience, EIM recently launched a range of accessories under the Royal Enfield brand. The accessories would be sold through Royal Enfield Brand Stores as well as dealers. Some of the products launched are riding shoes, rain gear, branded jackets, gloves, helmets, visors, T-shirts and mugs. Global peer, Harley Davidson derives ~6% of its revenue from general merchandise.

Royal Enfield accessories showcased at the Auto Expo 2012

Capacity expansion to drive 25% volume CAGR over CY12-15E...

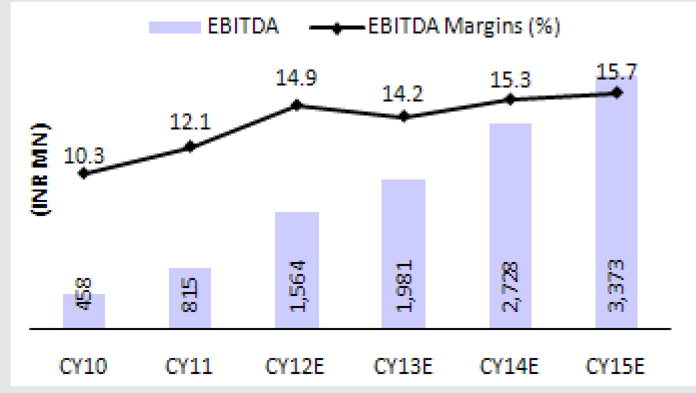


....and 27% revenue CAGR

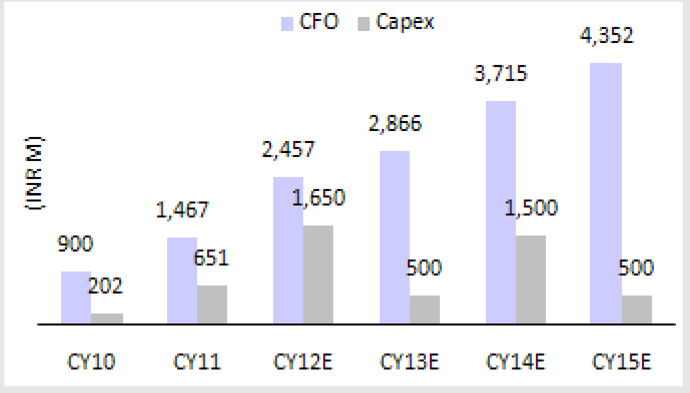


Source: Company, MOSL

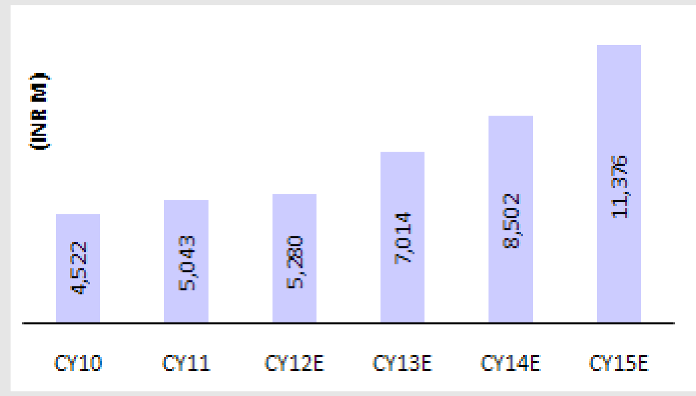
Higher volumes and efficiencies of new plant to drive margin improvement



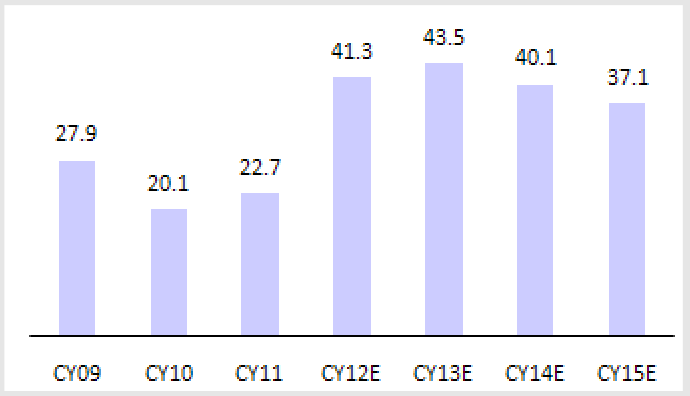
Cash generation from operations higher than capex needs...



....which would further augment surplus cash

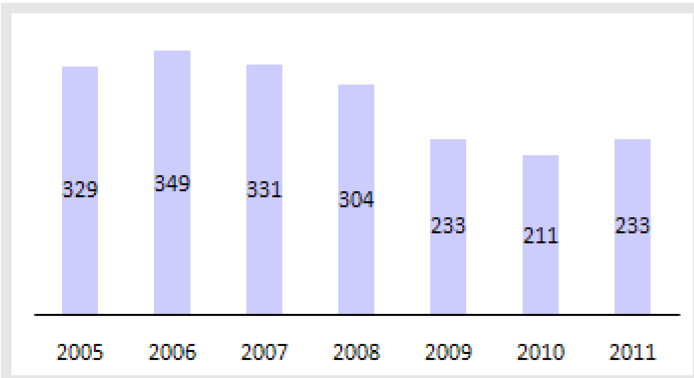


RE to contribute ~44% of CY13E consolidated adjusted EBITDA

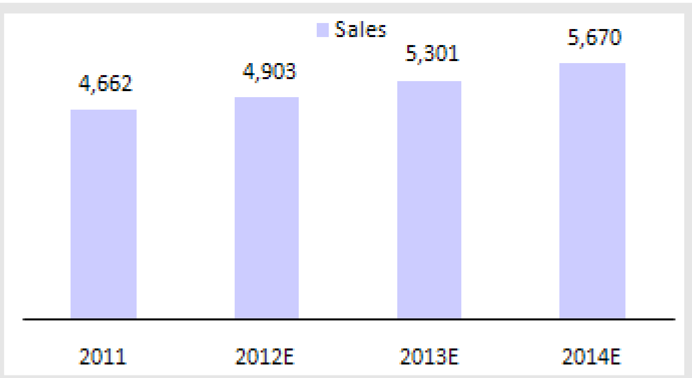


Snapshot of Harley Davidson's (global leader in leisure biking) financials

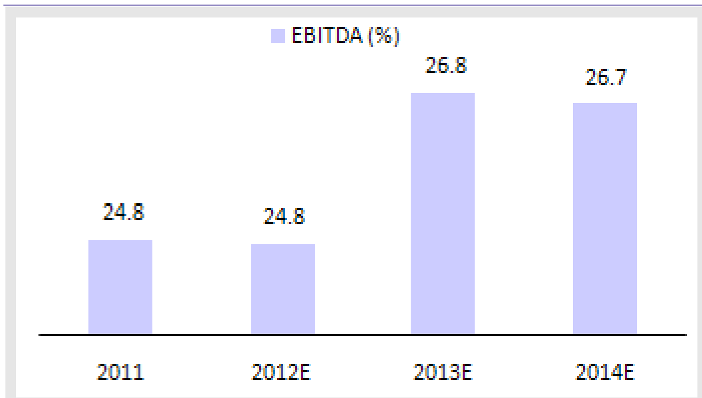
Global sales volumes ('000 units)

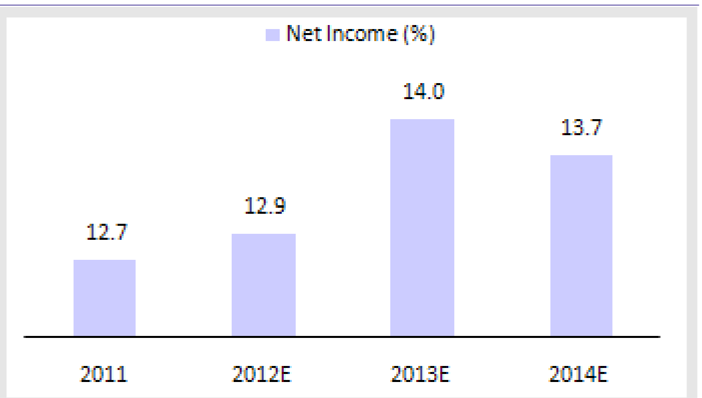


Revenues (USD m)



Harley Davidson enjoys high margins, led by cult brand following across the globe





Source: Company, Bloomberg Estimates

CVs: VECV better placed to challenge incumbents

Leveraging Volvo's technological strength and Eicher's local market expertise

- **The Indian CV industry is likely to evolve in the footsteps of developed markets, giving new players opportunity to challenge the incumbents.**
- **VECV is relatively better placed among the new players, given the marriage of Volvo's technological strength with Eicher's local market expertise.**
- **The company is taking initiatives with target to gain 15% share in HCVs from current ~4% and initial signs of success are visible; the growth opportunity is tremendous.**
- **Volvo intends to use Eicher as a mass market brand and VECV as its low cost manufacturing hub over the long term; this presents a sizable export opportunity.**

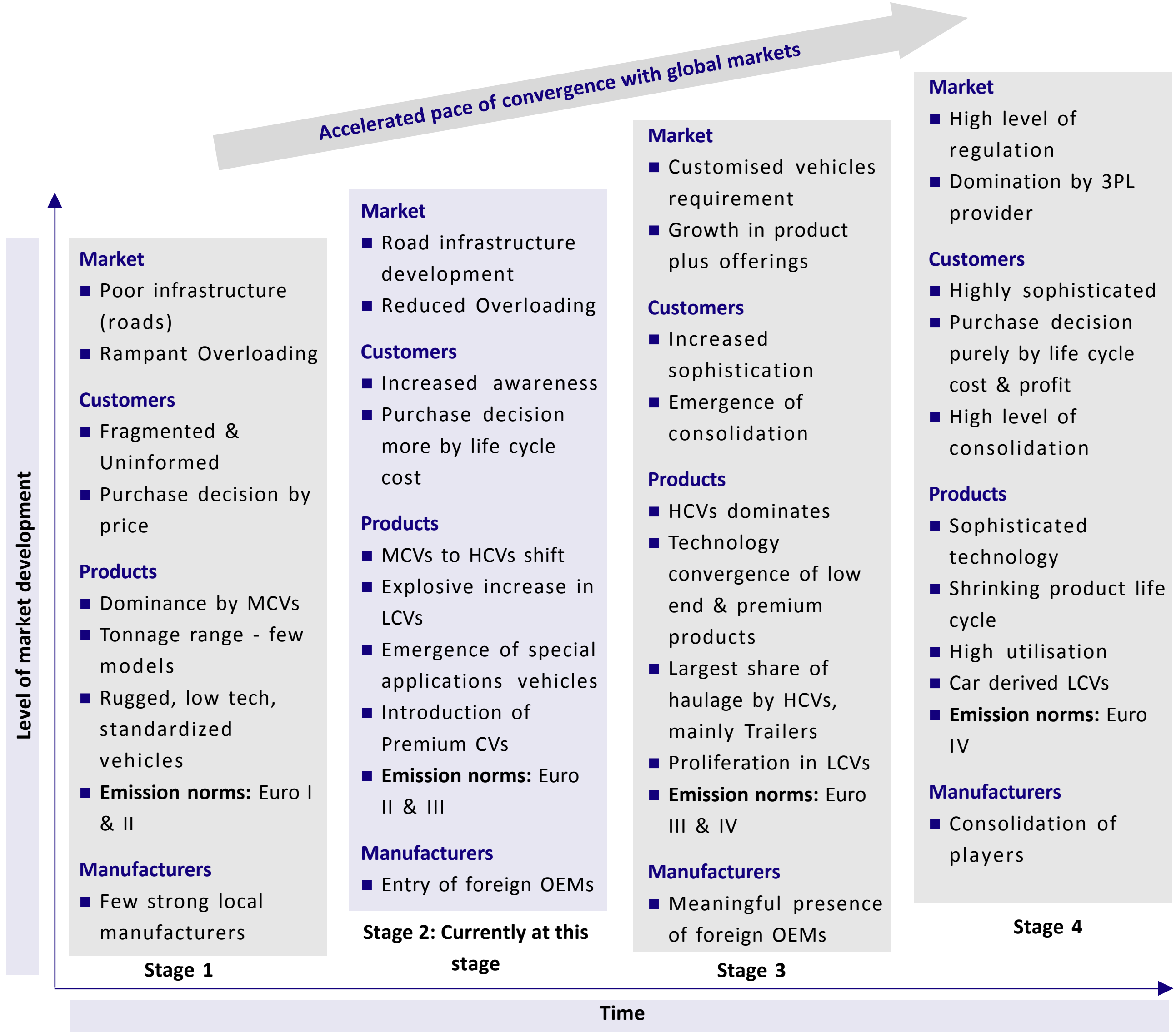
Indian CV industry to evolve in the footsteps of developed markets...

We expect the Indian commercial vehicle (CV) industry to evolve gradually on the lines of the developed markets. Improving road infrastructure, rapid urbanization, regulator policies (including emission norms), shortage of drivers, consolidation of fleet operators, heightened focus on total cost of ownership (as against the current focus on initial acquisition price) are some of the factors at play that would drive the evolution of the Indian CV Industry. We highlight below the key drivers of evolution and their implications on the Indian CV industry:

Drivers	Implications
Better road infrastructure	Higher speeds, faster turnaround time and better mileage would drive demand for faster/powerful trucks.
Stringent enforcement of overloading regulations	Market demand to converge towards right-load vehicles; potential to change value-proposition for global players.
Shortage of drivers	Drivers to be more influential in purchase decision; hence, more focus on driving comfort, safety etc. Also, driver shortage would drive demand for higher tonnage trucks.
Continued tightening of emission & safety norms	Would lead to increasing complexity in vehicles due to the involvement of advanced technology with more electronics. With higher vehicle complexity, the ability of road side mechanics to service vehicles would reduce, making legacy investments of incumbents relatively less meaningful.
Professionalization/ consolidation of fleet operators	Focus on total cost of ownership approach to buying vehicles as against focus on initial cost of ownership.
End use demands on logistics/supply chain	Improved dependability of supplies required leading to better demand for reliable products together with strong after market support.
GST implementation	Implementation of GST would drive re-mapping of supply chain structure, with focus on optimizing logistics cost rather than reducing tax incidence.

Source: Company

The Global CV markets have developed in 4 distinct stages: Example Goods Carrier



Source: Company, MOSL

...giving new players opportunity to challenge incumbents

Several global players have entered the Indian CV industry

With the Indian CV industry attaining meaningful size and showing potential for healthy long-term growth, several global players (Volvo, Daimler, Navistar, MAN, Isuzu, etc) have entered, some in association with Indian partners. Evolution of the industry would give these new players opportunity to gain a foothold. These global players would be better placed than before in this evolutionary phase of the industry. While it would not be easy for these new players, the challenges faced by them would be less intense. We enlist the key challenges to be addressed by both incumbent as well as new players.

Ability to adapt to evolving industry dynamics would determine eventual pecking order

Challenges for new entrants	Challenges for incumbents
Building distribution and service network, and maintaining dealer viability	Delivering lowest total cost of ownership rather than just initial cost of ownership
Customizing products to local needs	Building R&D competency
Wide product portfolio to meet customer needs and mitigate cyclical risks	Improving skill sets of service network and local mechanics as technology content per vehicle increases
Competitive pricing, low operating cost and lower downtime	Improving service infrastructure at dealers' end
Building and investing in supply chain partners	Develop high technology products at low cost
Availability of finance at competitive rates	Designing products to address gaps
Building and managing appropriate brand image and perception	Meeting evolving stringent emission norms
Localizing to remain cost competitive	

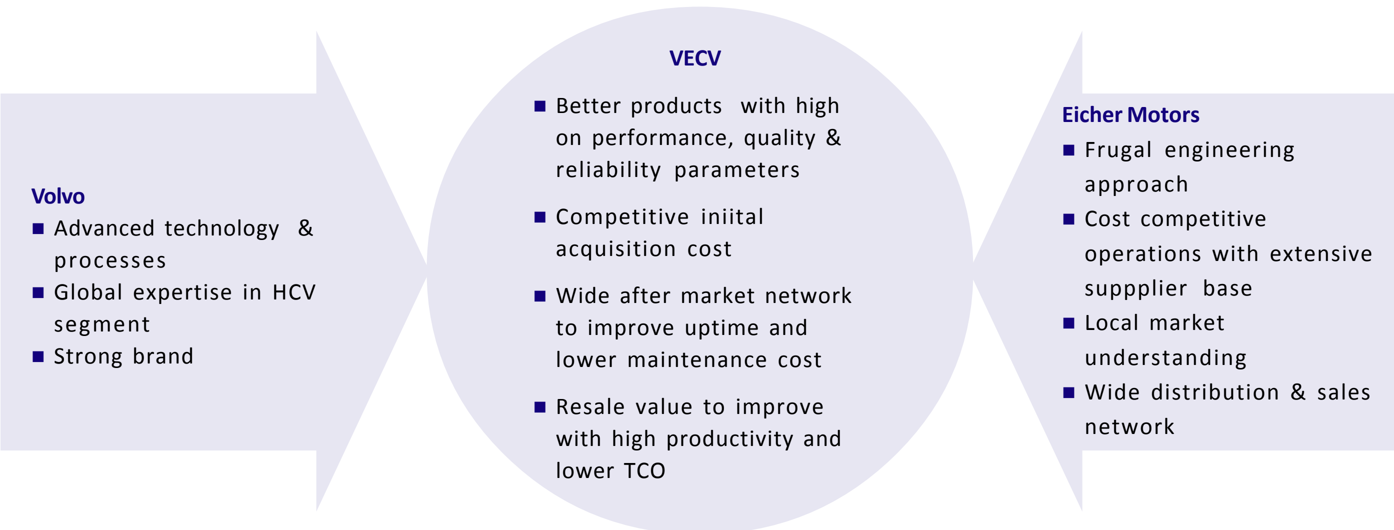
Source: Company

VECV best placed among new entrants to compete against incumbents

Evolution of the Indian CV industry would give new entrants opportunity to challenge incumbents. Demand for relatively advanced products, with better after-market services (thus, lower downtime), higher driver comfort (driven by driver shortage), etc is expected to increase.

Among new entrants, we believe that Volvo Eicher Commercial Vehicles (VECV), the Volvo-Eicher JV, is best placed, and would be the key beneficiary of the opportunity arising from the evolution of the Indian CV industry. The JV leverages the strengths of both partners: (1) Volvo brings strong product, technology and design capabilities, while (2) Eicher has in-depth understanding of the local market, established back-end and front-end relationships, and low cost base. This association would enable introduction of products, which are not only high on technology at competitive cost, but are also apt for Indian roads and driving conditions.

VECV: Marriage of equals with complementary strengths



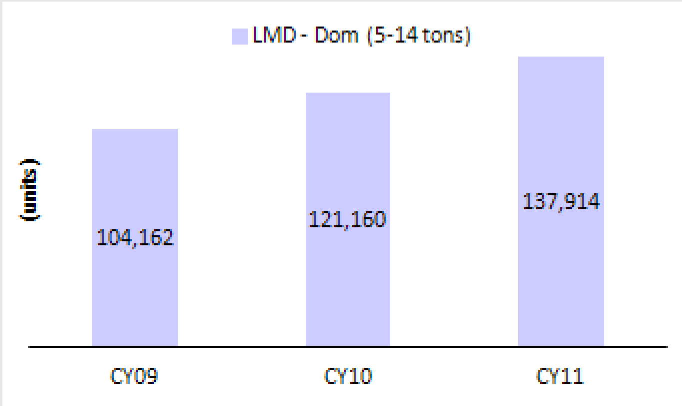
Source: Company

Eicher - established brand with strong franchise in LMD (5-14T) segment

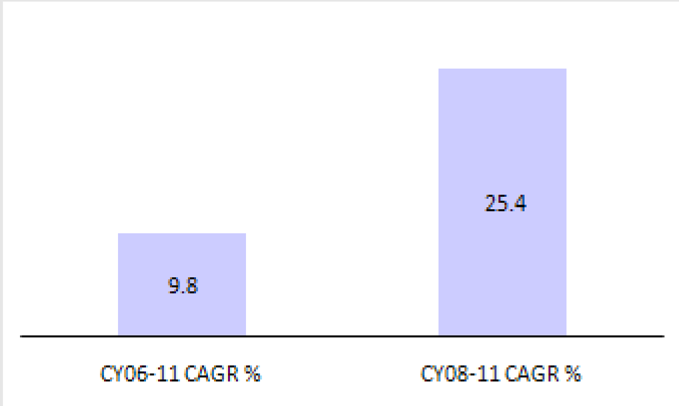
Unlike other new entrants, Eicher is already a well established brand in the Indian CV industry

Unlike other new entrants, Eicher is already a well established brand in the Indian CV industry. It enjoys strong franchise in the LMD segment and is known for its superior mileage, faster turnaround and driving comfort. Eicher commands ~30% market share in LMD category and over 40% share in the 7-14T category. The LMD segment has registered a CAGR of 25% over the last three years, led by rise in consumption spend and proliferation of the hub-and-spoke model.

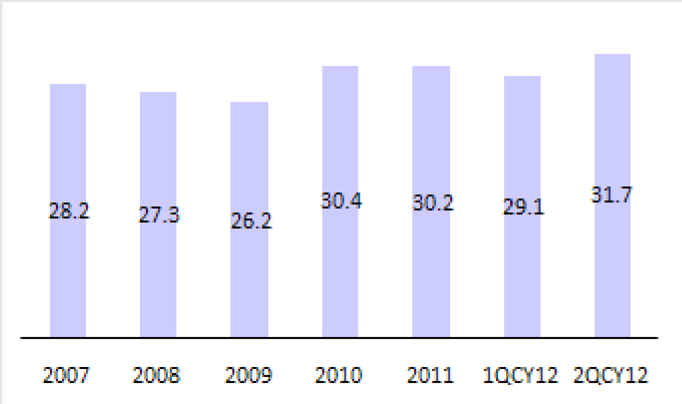
Market size for 5-14T segment ('000 units)



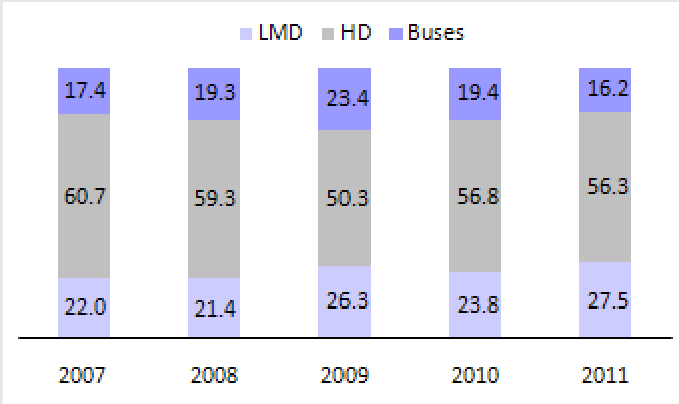
5-14T segment has registered a CAGR of 25% over the last three years



Eicher enjoys over 30% share in LMD category...



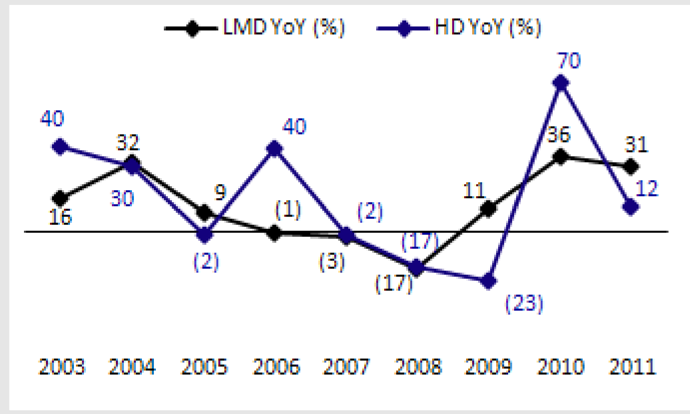
...which represents 28% of above 5T CV volumes



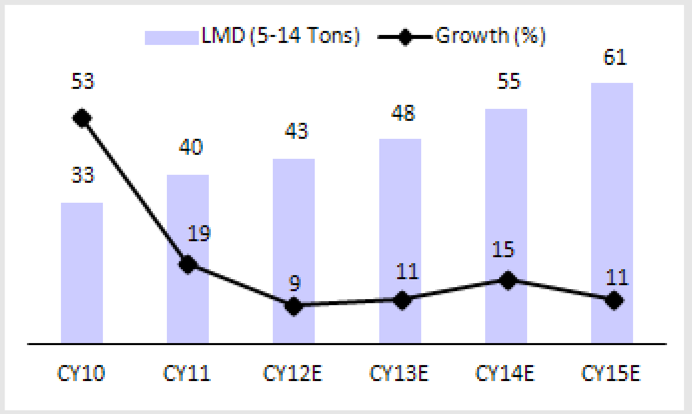
Source: Company, MOSL

LMD segment benefiting from relatively stable secondary movement: Compared to the HCV segment, the LMD segment has been relatively resilient for the following reasons: (a) with lower freight availability and consequent impact on capacity utilization, transporters have been down-trading to LMDs from HCVs (particularly from 16T), and (b) LMDs typically move goods within a state or nearby 2-3 states - this activity is not impacted as much as the movement of primary goods. While competitive intensity is expected to increase with Ashok Leyland's renewed focus (with products from its subsidiary Avia's portfolio) and entry of Daimler (Bharat Benz), we believe EIM's strong brand equity would help it to sustain market share in LMD segment.

LMD segment relatively less cyclical than HCV segment



Healthy consumption spend to drive demand for LMD segment

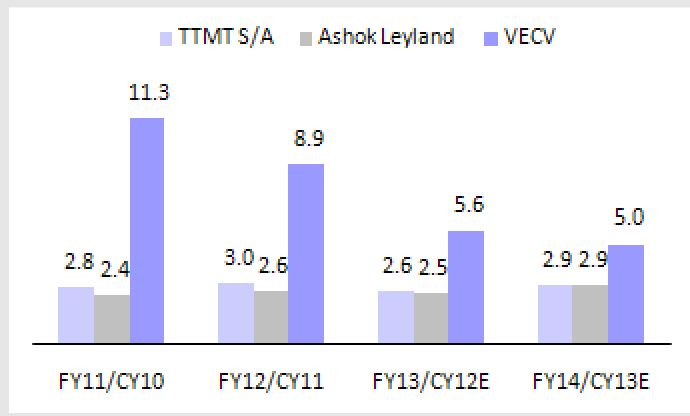


Source: Company, MOSL

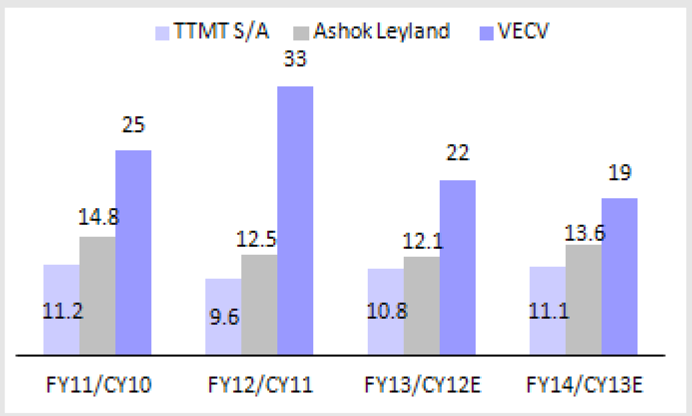
Stronger balance sheet than peers gives headroom to compete

EIM follows an asset light model, with relatively higher level of outsourcing and better working capital management than peers. This is reflected in higher asset turnover and in turn in capital efficiency. This is an additional strength of VECV, as it would help to withstand sharp competitive pressure and/or greater than expected weakness in the CV industry.

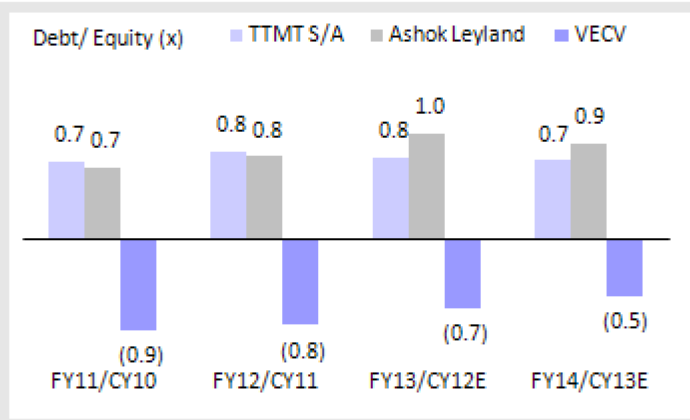
High fixed asset turnover is reflective of VECV's higher outsourcing than peers....

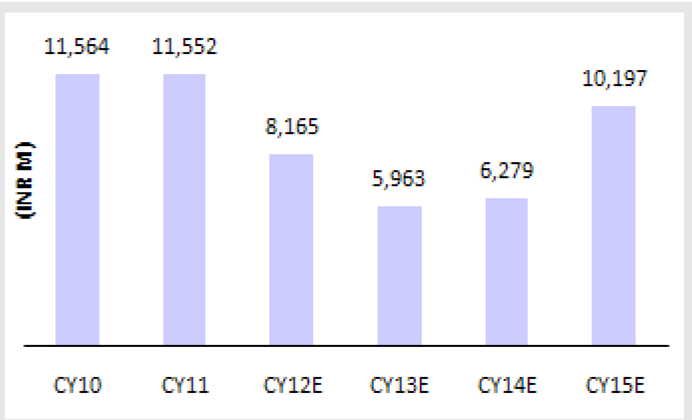


...resulting in better capital efficiency - RoCE (%)



Unlike peers, VECV is expected to remain net cash positive, despite ongoing capex in all business



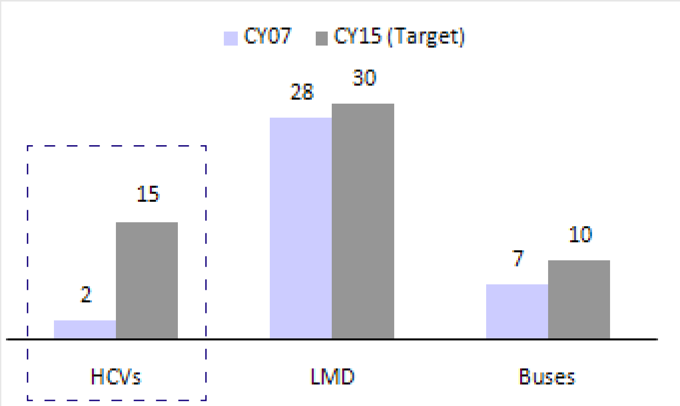


Source: Company, MOSL

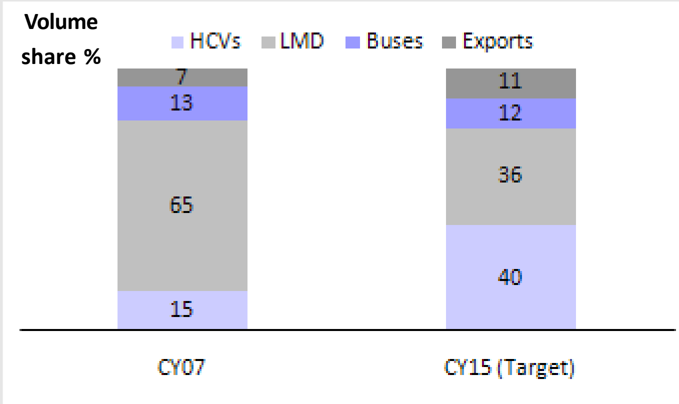
Taking initiatives to gain 15% share in HCVs

With its superior and relevant product offerings (through Volvo's technological inputs and EIM's local market understanding) together with marked improvement in after market service (with Volvo's global expertise in after market segment), VECV aims to garner 15% share in the HCV market.

Aims to garner 15% market share in HCVs....



...leading to significant rise in HCVs contribution



Source: Company, MOSL

Post the JV with Volvo, various initiatives have been undertaken as discussed below on the HCV segment to improve its acceptance amongst transporters:

Critical Success factors

Factors	VECV (Eicher) trucks pre-JV positioning	Initiatives taken post JV with Volvo
Products high on performance, reliability, fuel efficiency, capable of overloading together with competitive upfront cost	Eicher HCVs had niggling product quality issues. Eicher's trucks are known for high fuel efficiency.	■ By securing Japanese production practices and quality standards (through the support of Nissan Diesel – Volvo Group Company), VECV has been able to sort out niggling product quality related issues, leading to better product acceptability among transporters. ■ VECV is also working on a new range of HCVs (with contemporary designs, value-added features, new range of engines, etc) expected to be introduced gradually from CY13-end, offering better value to transporters.
Wide service network and spare parts availability	Apart from niggling product quality related issues, Eicher HCVs earlier suffered from lack of adequate service & spare parts network. Local mechanics could not service Eicher HCVs due to non-familiar technology. These led to high down-time for transporters, which impacted their overall cost economics.	■ Instead of launching its improved product range nationally, VECV has mapped and identified the key transport routes/markets for HCV movement and is expanding its sales gradually along with the expansion in after-market network in those routes/markets. ■ VECV is ensuring that an authorized service center is available at every 50-60km (earlier only at dealerships), is providing training to local mechanics (to familiarize them with the technology), and is ensuring availability of higher/ dedicated manpower at the dealerships for service centers.

Factors	VECV (Eicher) trucks pre-JV positioning	Initiatives taken post JV with Volvo
Resale value	Due to relatively inferior products and poor after-market service, the difference in resale value between Eicher and competitors was as high as ~80%.	■ Improved product performance with high uptime will improve transporters' profitability and thus, their acceptability of VECV's vehicles. This in turn would improve resale value and narrow the gap with competitors.
Low total cost of ownership (TCO)	Though upfront cost was lower than incumbents, inadequate service network and lower resale value led to higher cost of ownership for Eicher HCVs.	■ With competitive upfront cost, better product reliability & fuel efficiency supported with improved after-market service & resale value, total cost of ownership is expected to reduce.

Source: Company

Aggressive work on complete product renewal underway; to be introduced from CY13-end

VECV has been working on revamping its entire HCV product range

To compete not only with the incumbents but also with recent global entrants like Bharat Benz (Daimler), VECV has been working on revamping its entire HCV product range, leveraging the Volvo Group's technological support and EIM's frugal engineering and local expertise. VECV's new range of HCVs (with contemporary designs, value-added features, new range of engines, cabins, engine management systems, etc) will be introduced CY13-end and is likely to be priced at a premium to the current range.

Current product range to be gradually replaced with…. **...new product range from CY13-end onwards**

Its engine platform would combine Japanese quality, European technology and Indian production cost

Source: Company, MOSL

Volvo engine based new products to further drive acceptance of VECV's HCV range

Its engine platform would combine Japanese quality, European technology and Indian cost

AB Volvo chose VECV as its global manufacturing hub for 100k units of medium duty (Euro 3 to Euro 6) engines to meet its global requirements as well as to power VECV's own future product range. The engine platform would combine Japanese quality, European state-of-the-art technology and Indian production cost. These engines would be future proof, with high sophistication levels in terms of designing, manufacturing controls, fuel efficiency, etc.

The very high quality and durability requirements of the Volvo Group, such as a million kilometer duty cycle for such an engine, will allow VECV to give high level of reliability and asset life.

This deal would make VECV India's largest and technologically most advanced engine manufacturer. Moreover, VECV will become a force to reckon with in the Volvo Group, as VECV is taking a much bigger step and helping to produce high-quality long block engines for Volvo's global requirement.

Currently, Volvo is sourcing its requirement for medium-duty engines from German firm, Deutz AG. While Volvo is exploring possibilities to further strengthen the cooperation with Deutz, it will bolster the numbers in Europe as well as strengthen its presence in Asia by sourcing engines from India.

Aggressive investment plans to achieve 2015 goals

Despite the near term weakness in the CV industry, VECV is going ahead with various expansion plans, indicating its confidence in the long term growth potential. It plans to invest INR15b over CY12-14 towards its various capex programs, including medium duty engine plant (MDEP), bus body building facility, upgradation/augmentation of existing facilities and new HCV product platforms to be introduced from CY13-end.

Capex plans

Particulars	Details
Assembly capacity	To be increased from the current 5.5k/month to 6.5k/month by the end of CY13.
MDEP project	Investment of INR4.8b-5b for state-of-the-art new facility in Pithampur, with initial capacity of 25k units in CY13 and ramping up to 100k units by CY15.
Paint shop facility	CCED paint shop commissioned, with capacity of 90k units/annum.
Bus body facility	- Creating in-house capability for building bus coaches, with capex of INR1.25b, to be commissioned in 2QCY13 (in 1st phase, annual capacity of 5k units). The capacity can be expanded to 10k units, with additional capex of INR550m. - The multi-model bus manufacturing plant would produce bodies for light, medium and heavy buses, including the rear engine semi low floor buses for school, city and inter-city bus segments. The plant would be highly mechanized, with robotic processes for bus painting. - This facility would also be utilized to cater to export markets.
New HCV product platform	VECV has been working on a new range of HCVs, which will be introduced from CY13-end onwards based on Volvo engines and would be priced at a premium to the current range.

Source: Company

Improving after-market network using Volvo's global expertise

To increase transporters' uptime, improve profitability and accelerate HCV product acceptance, VECV has been working aggressively to raise its after-market service to best-in-class standards. For this, it has initiated several measures to get closer to the customer in terms of improving customer value proposition and supporting vehicle uptime.

Some of these measures include:

- State-of-the-art parts distribution center to distribute spare parts to any part of the country at short notice
- Expanding network of authorized service centers (currently over 200 centers)
- Providing training to private mechanics (over 10,000 private mechanics trained so far by VECV)
- Each of the dealerships is equipped with mobile service vans
- 24x7 helpline numbers to ensure quick response and speedy service

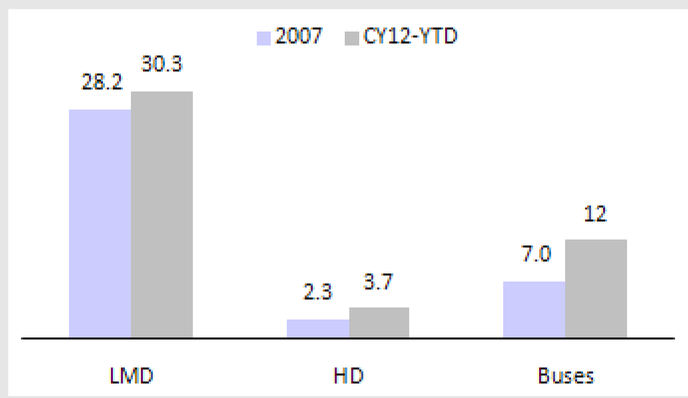
VECV has mapped and identified all key transport routes in the country to create a dense service network. It plans to take the number of touch points to 300 by the year-end. While after-market service is essential to provide support to transporters, it is also a high margin business. With greater focus on this segment, VECV's overall profitability should improve, as well.

Initial signs of success visible; growth opportunity tremendous

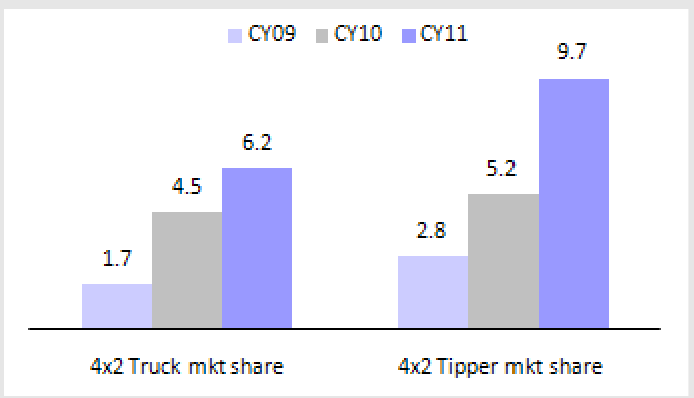
VECV has been able to improve its market share across segments

VECV has been able to improve its market share across segments, particularly in the bus and HCV segments post cooperation with Volvo. In specific product categories within the HCV segment, VECV has attained higher market share, for instance 9.7% in 4x2 tipper truck segment in CY11 compared to 2.8% in CY09.

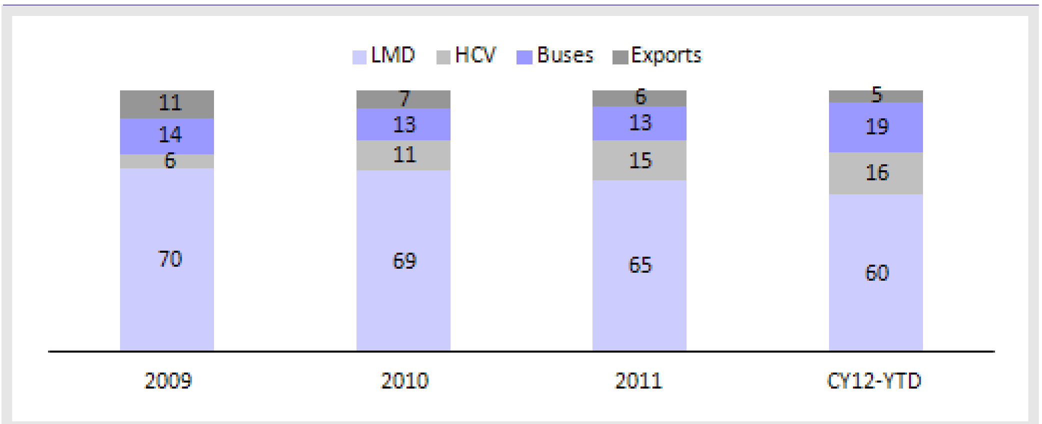
Market share improvement across segments (%)



Share in certain HCV segments increased significantly (%)



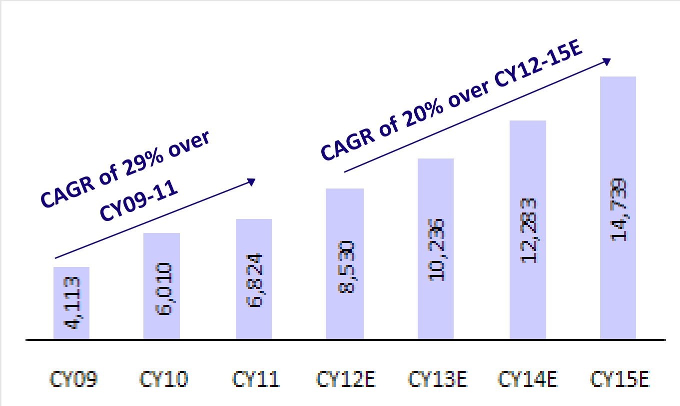
Share of HCVs in overall volumes has increased post launch of VE Series of HCVs in 2010



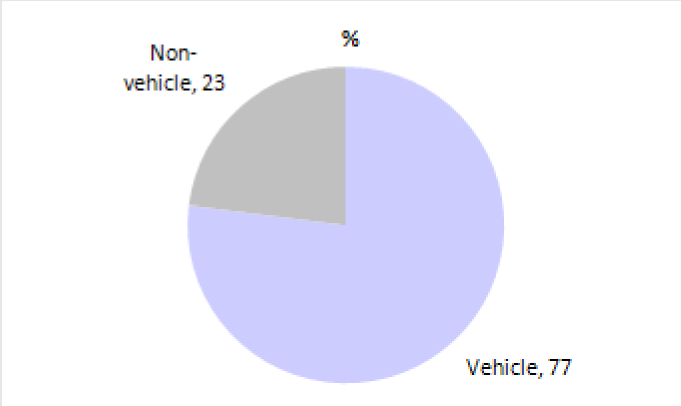
Source: Company, MOSL

With the help of Volvo's inputs, VECV has been able to achieve strong growth in the high margin spare parts segment with 29% CAGR over CY09-11. Over CY12-15E, we expect growth in spare parts to remain robust with 20% CAGR, however revenue contribution will remain at ~13% levels due to healthy growth in vehicle sales as well.

With Volvo's inputs, VECV's spare parts business grew at a healthy rate over CY09-11, expect CY12-15E CAGR of 20%



Volvo (globally) derived ~23% of its CY11 revenues from spare parts (non-vehicle) business



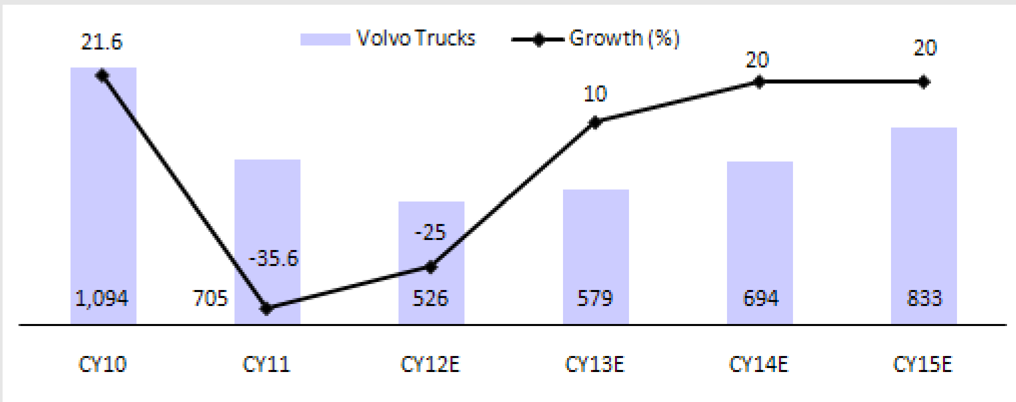
Source: Company, MOSL

Volvo Trucks to benefit from higher mining and infrastructure activity

As part of the JV deal, the distribution and after sales service of Volvo Trucks and after sales service of Volvo Buses were transferred to VECV. In India, Volvo trucks are the most preferred in the mining and construction industries. Volvo offers a range of premium trucks (400HP and above) that are high on performance and reliability in extreme working conditions.

Volvo Trucks India enjoys ~70% market share in the European truck segment (400HP and above) in India. The European truck segment registered a CAGR of 15-20% up to CY10. However, CY11 and CY12-YTD have been impacted due to lower mining operations. We have factored in volume de-growth of 25% for CY12. Over CY12-15E, we expect a CAGR of 17%, driven by recovery in mining and infrastructure activities.

Volvo Trucks growth to resume with recovery in mining and infrastructure activities and low base



Source: Company, MOSL

To leverage Volvo's global reach to tap huge export opportunity

Given the divergence in various markets, global OEMs have been addressing various markets with regional brands and product positioning. To boost its presence in emerging/growth markets such as Latin America, ASEAN, Africa and the Middle East, Volvo intends to use Eicher as a mass market brand and VECV as its low cost manufacturing hub over the long term.

Eicher: A brand that complements Volvo's global offerings

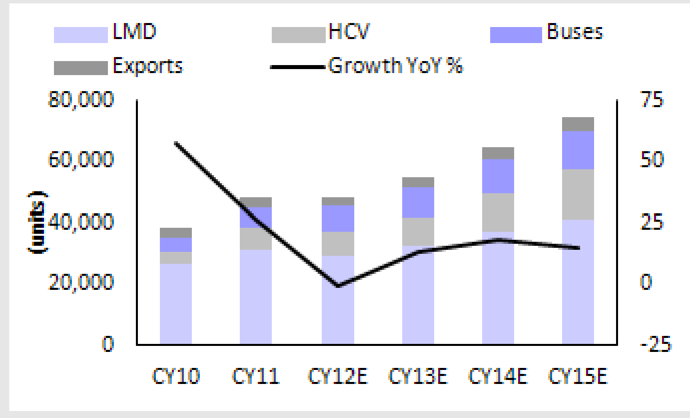
Volvo	Mack Trucks	Renault Trucks	UD Trucks (erstwhile Nissan Diesel)	Eicher
One of the strongest heavy duty truck in North America	Strong presence in Western Europe. Also present in West Africa and South Africa	Strong presence in Asia, with Japan being the largest market. Present in light, medium and heavy duty truck range	Strong global presence in premium category	To be used as an emerging market brand to focus on value and mass market segment

Source: Company, MOSL

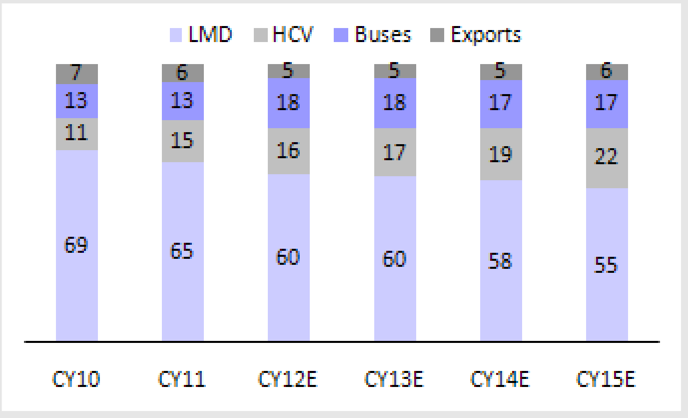
VECV has set an ambitious export target – 11% of total business from exports by CY15

VECV has set an ambitious export target – 11% of total business from exports by CY15. With the introduction of its new product range from CY13-end and riding on Volvo's distribution and sales network, we expect VECV's export business to witness strong growth. Volvo's widespread distribution network will facilitate the export of these products to identified countries and will help VECV bolster its presence in more than 26 countries to where it currently exports. Apart from driving overall growth, higher exports would lend diversification benefit to VECV.

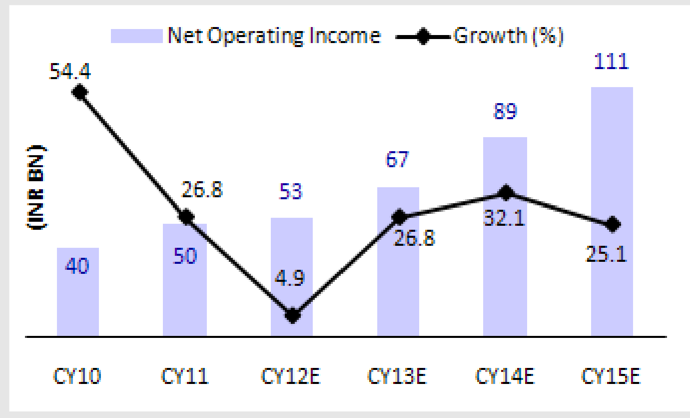
New HCV range powered by Volvo engines and new bus body plant to drive 15.5% volume CAGR over CY12-15E



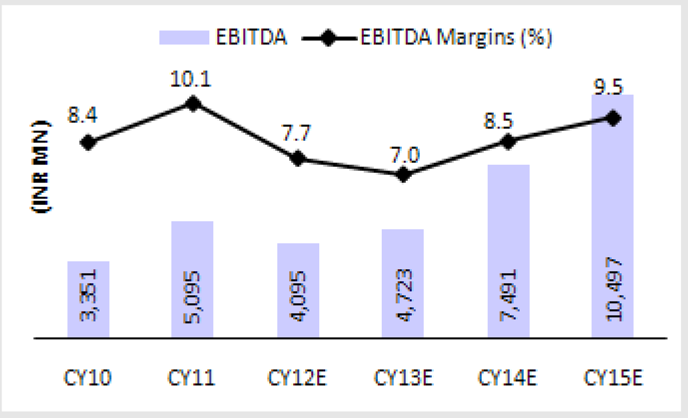
Product mix to shift in favour of HCVs (%)



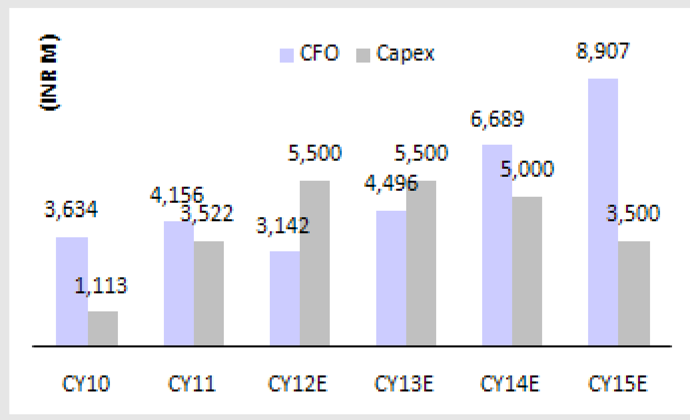
Healthy volume growth and product mix improvement to drive strong revenue growth



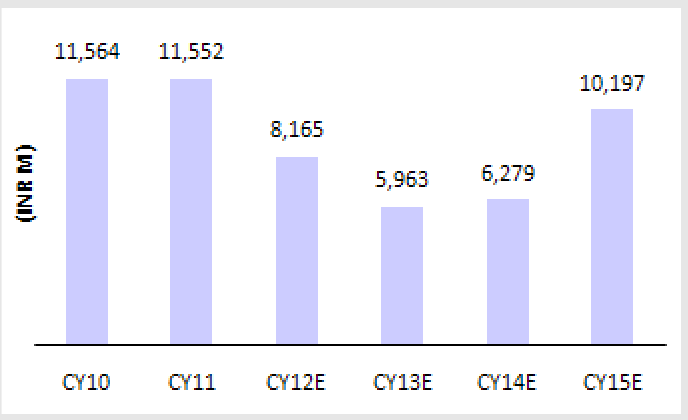
VECV's EBITDA margin to improve with higher volumes, lower incentives and increase in after-market revenues



High capex to restrict FCF generation in CY12-13...



...but still remain net cash company



Source: Company, MOSL

MDEP: A linear business opportunity

Might open up larger outsourcing opportunity from Volvo Group

- **MDEP holds immense strategic importance for both the Volvo Group and VECV. While the Volvo Group would become entirely dependent on VECV for supply of Euro 5 and Euro 6 base engines, VECV's positioning in HCVs would improve on futuristic technology.**
- **Apart from a huge technological leap, MDEP also provides a stable business opportunity to VECV. The success of this deal could throw up further outsourcing opportunity from Volvo Group.**
- **We estimate MDEP (excluding captive consumption of engines by VECV) to contribute 26%/20%/17% to VECV's revenues/EBITDA/PAT in CY15E.**

MDEP holds strategic importance for both Volvo Group and VECV

The Medium Duty Engine Project (MDEP) is VECV's first major outsourcing project from the Volvo Group and marks VECV's entry into Volvo's global supply chain. While MDEP will help meet Volvo Group's global medium duty engine requirement, it will also power VECV's new range of HCVs. It holds immense strategic importance for both the Volvo Group and VECV.

Volvo Group to entirely depend on VECV for Euro 5 and Euro 6 base engines

Volvo would be entirely dependent on VECV for Euro 5 and Euro 6 compliant base engines, with VECV replacing the current supplier, Deutz. The Volvo group would now have an engine platform that combines Japanese quality, European state-of-the-art technology and Indian production cost. VECV already produces ~40k engines per annum.

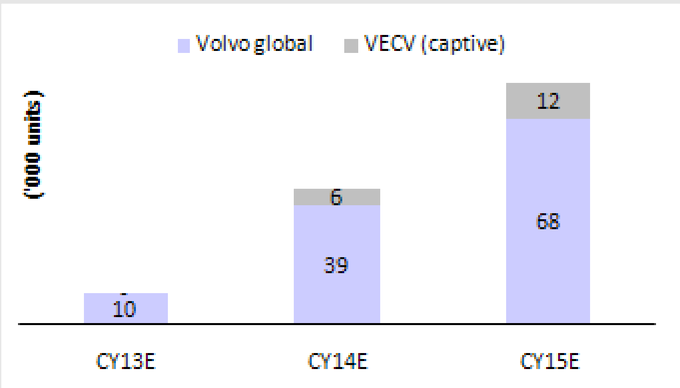
MDEP to improve positioning in HCVs with headstart on futuristic technology

This deal would make VECV India's largest and technologically most advanced engine manufacturer. VECV's positioning in the HCV segment would improve with headstart on futuristic technology.

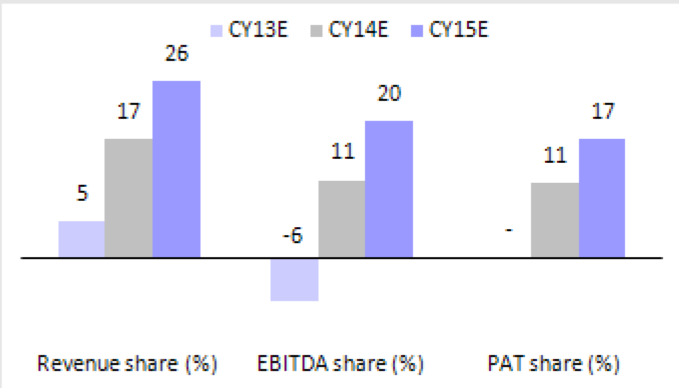
Apart from technological leap, MDEP also provides a stable business opportunity to VECV

VECV aims to reach full capacity by CY15, with exports to the Volvo Group forming a larger part of sales. Apart from providing a huge technological leap for VECV's domestic CV business, particularly for HCVs, the deal also provides a stable business opportunity to VECV. We estimate that MDEP (excluding captive consumption of engine by VECV) would contribute 26%/20%/17% to VECV's revenues/EBITDA/PAT in CY15E.

MDEP ramp-up, aims to achieve full capacity by CY15



MDEP to contribute 20% of VECV's CY15E EBITDA



Medium Duty Engine Project (MDEP) – a snapshot

- Futuristic global engine platform developed by Volvo Powertrain, Japan.
- Investment of INR4.8b-5b for state-of-the-art new facility in Pithampur.
- To have an initial capacity of 25k units in CY13, which would be ramped up to 100k units by CY15.
- To supply base engines to Volvo Power Train (VPT), France for Euro 5 and Euro 6 requirements, and also export engines for machining and assembly to UD Trucks (Japan). The balance (Euro 3 and Euro 4 norms) to be used to meet Volvo Group's Asian market requirements, including VECV.
- Volvo Group to also invest ~SEK460m in its engine production plants in Ageo, Japan and Venissieux, France.
- Trial production to start by 1QCY13, with commercial production in 3QCY13; project is on schedule.

Engine specifications

- Two main variants – 4-cylinder 5-liter and 6-cylinder 8-liter engines, with output of 180-350HP.
- Engine platform capable of meeting Euro 6 norms, Japanese PNLT and US EPA norms.

Snapshot of MDEP's P&L (excluding captive consumption of engines by VECV)

Particulars	CY13E	CY14E	CY15E
Capacity (units)	100,000	100,000	100,000
Sales - Volvo Global (units)	**10,000**	**39,000**	**68,000**
Realization (MN INR)	0.28	0.28	0.28
Revenues (MN INR)	**2,800**	**11,029**	**19,230**
EBITDA	**-300**	**846**	**2,091**
EBITDA %	(10.7)	7.7	10.9
Depreciation	363	399	417
PBT	**-663**	**447**	**1,674**
Tax (@30% rate)	0	(65)	502
PAT	**-663**	**512**	**1,172**

Source: Company, MOSL

Success of MDEP deal could throw up further outsourcing opportunities from Volvo Group

Given that the engine is the most critical component of a vehicle, we believe the successful execution of this deal could throw up further outsourcing opportunities for VECV from the Volvo Group. VECV is currently exploring opportunities to supply drive line components like transmission gears, shafts and axle parts to meet Volvo's global requirements from India.

JV with Polaris: Can it be another big thing?

EIM has recently entered into a strategic JV agreement with US-based Polaris Industries to set up a greenfield project in the automotive segment in India. While the company has not shared any product-specific details, we expect the JV to start with a new range of sports bikes (based on Polaris' current offerings), which will complement EIM's leisure motorcycle portfolio.

Broad contours of the deal

- The JV will design, develop, manufacture and sell a full new range of personal vehicles suitable for India and other emerging markets.
- The JV will combine Polaris' innovative designs and engineering acumen with EIM's powertrain expertise, low cost supplier base and intimate knowledge of local consumer trends.
- The JV involves total investment of ~INR2.5b over the next three years. The manufacturing facility will be located in India.
- The JV will be managed by equal representatives from EIM and Polaris.
- EIM will contribute INR1.25b as its share in the JV, which is likely to be sourced through internal accruals.
- Production is targeted to commence by 2015.

Respective strengths of the JV partners

Eicher	Polaris
Proven expertise in LEAN Engineering	Proven product development capabilities
Experience of manufacturing vehicles in India	World class quality and reliability
In-depth understanding of India and emerging markets	LEAN manufacturing know-how
Experienced vehicle JV partner	Proven distribution expertise

Source: Company, MOSL

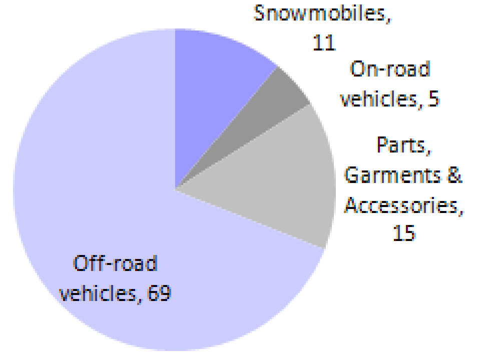
About Polaris: Polaris is a leading player for both snowmobiles and off-road vehicles, and has established presence in the heavyweight cruiser and touring motorcycle market, with *Victory* and *Indian* motorcycle brands. The company designs, manufactures and markets innovative, high quality off-road vehicles, including all-terrain vehicles and the Polaris RANGER side-by-side vehicles, snowmobiles, motorcycles and on-road electric/hybrid powered vehicles. In CY11, it reported revenue of USD2.7b with EBITDA margin of 15.7% and net margin of 8.6%. The US and Canada contribute ~70% and 14% of its revenues, respectively.

Polaris Industries at a glance

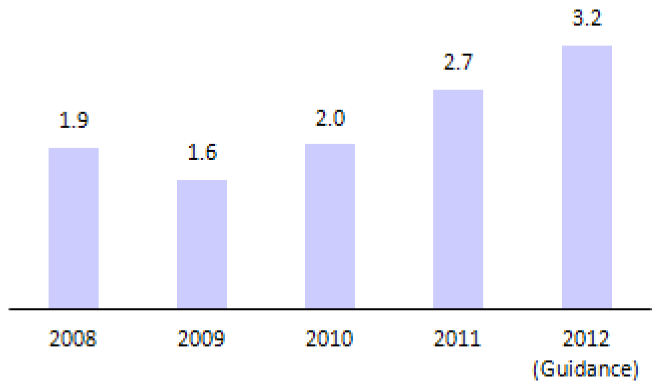
Key facts

Manufacturer of high-performance motorized products	
Strong distribution channel	
1,500 dealers in North America	
1,000 dealers Internationally	
Productive non-union workforce	
4,300 strong	
Stakeholder focus	
Product innovation for customers	
Profit sharing for employees	
Dividends / growth for investor	

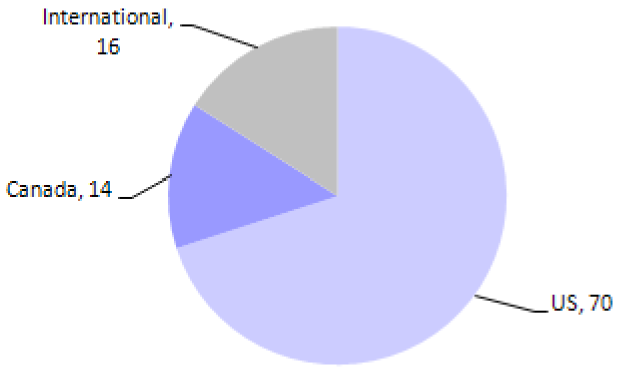
Product-wise sales (%, CY11)



Revenues (USD BN)



Region-wise sales (%, CY11)



Source: Company, MOSL

ATV (off-road)

Ranger (off-road)

Victory Motorcycle

Indian Motorcycle

Source: Company, MOSL

Initiating coverage with a Buy rating

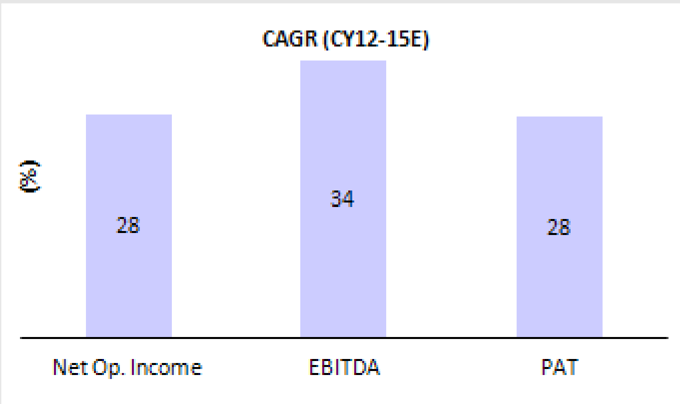
SOTP based target price of INR3,850, 45% upside over two years

- **EIM provides strong growth visibility, driven by both Royal Enfield and VECV operations, notwithstanding near-term macro headwinds impacting the CV business.**
- **With multiple growth drivers, we expect EIM to deliver strong consolidated financial performance. We estimate 28% sales CAGR, 34% EBITDA CAGR and 28% PAT CAGR over CY12-15.**
- **We initiate coverage with a Buy rating and a SOTP based target price of 3,850, 45% upside over two years.**
- **Strong balance sheet, with net cash increasing to INR16.9b by CY15E limits downside risk, in our view.**

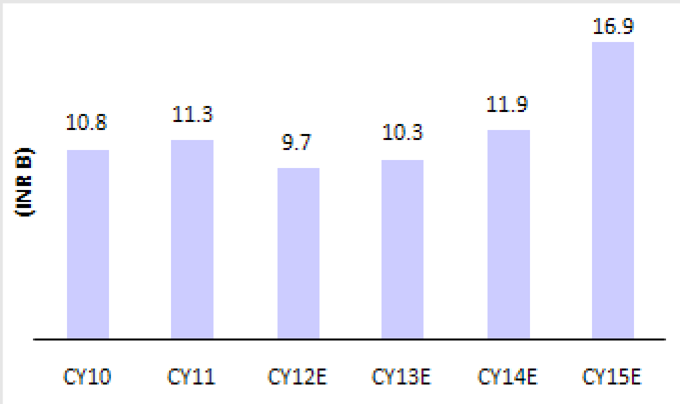
Strong growth visibility, notwithstanding near-term weakness in CV industry

We expect healthy growth in both the standalone (Royal Enfield) and VECV operations over CY12-15. While Royal Enfield would benefit from capacity expansion and continued strength in demand, VECV would benefit from the commencement of MDEP and ramp-up in HCVs (particularly with the introduction of the new HCV range powered by Volvo engines), notwithstanding the near-term weakness in the MHCV industry. With multiple growth drivers, we expect EIM to deliver strong financial performance. We estimate 28% sales CAGR, 34% EBITDA CAGR and 28% PAT CAGR over CY12-15.

Strong growth in key consolidated financial parameters, driven by both Royal Enfield and VECV...



...leading to robust growth in surplus cash



Source: Company, MOSL

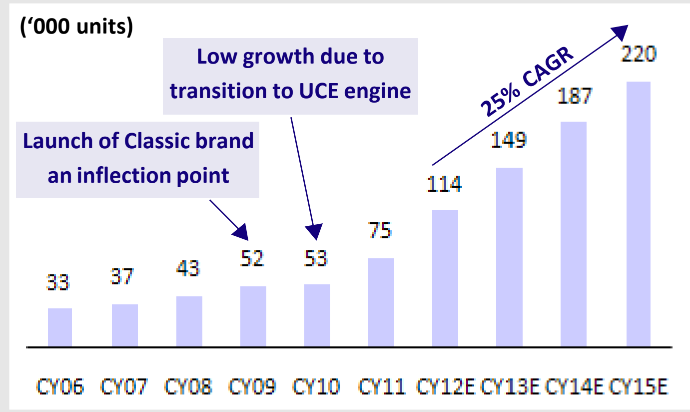
CY13-14 to be the years of inflection

CY13-14 would be the years of inflection for EIM, characterized by strong revenue / EBITDA growth. Various projects, both under the standalone (Royal Enfield) and VECV businesses are likely to commence operations in CY13-14.

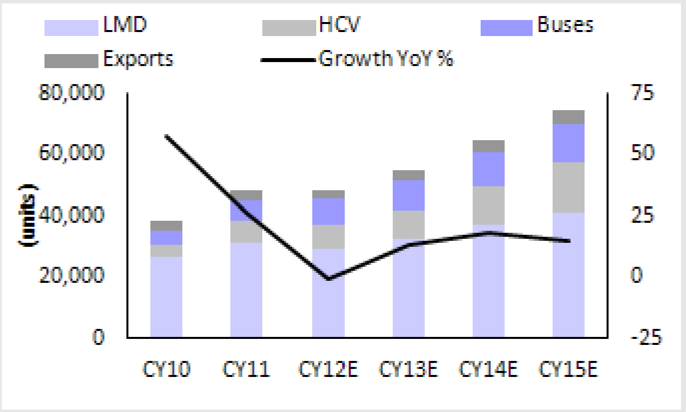
- **New Royal Enfield plant to commence operations in 1QCY13:** The new plant will become operational in 1QCY13, expanding capacity to 150,000 units per year, thereby continuing to drive strong volume growth momentum. We expect strong volume/EBTIDA CAGR of 25%/29% over CY12-15E.
- **VECV business:** VECV has multiple projects scheduled for commencement in CY13-14.
  - **MDEP to commence in 2Q/3QCY13:** MDEP is likely to begin commercial production in 2Q/3QCY13, with significant ramp-up in CY14. Management aims to achieve full capacity utilization by CY15.

- **New bus body building facility to start in 2QCY13:** The new bus body building plant is likely to commence operations in 2QCY13. With growing reliance on in-house production, which would help replace sourcing of bus bodies from external sources, profitability of the bus division and VECV's market share should improve. We expect VECV's bus volumes to register a CAGR of 13% over CY12-15E.
- **New HCV range to be introduced by end of CY13:** The new HCV range, powered by Volvo engines, would be introduced from CY13-end. With the launch of the new HCV range, supported by expansion in geographical coverage and after market network, VECV's market share gains in the HCV segment would accelerate. We expect VECV's HCV volumes to register a CAGR of 27% over CY12-15E.

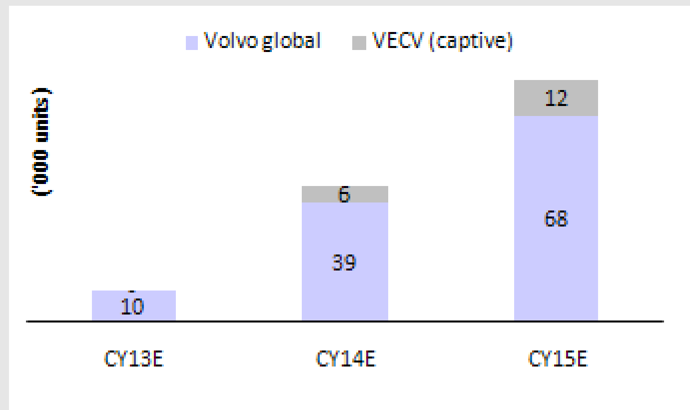
Royal Enfield volumes to register a strong CAGR of 25% over CY12-15E driven by capacity expansion and new launches



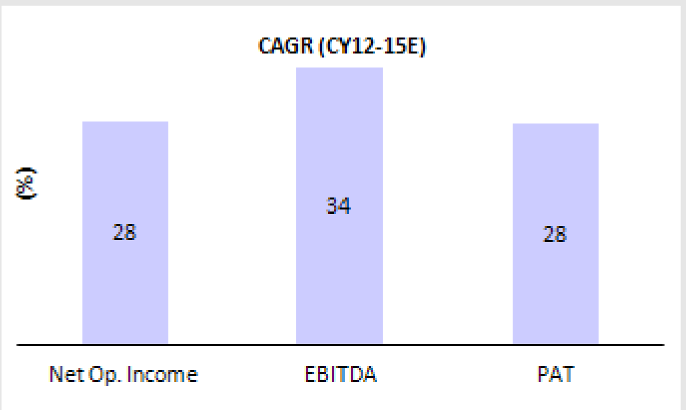
VECV to witness volume growth of 15.5% over CY12-15E driven by new bus body plant and introduction of new HCV range



MDEP to ramp up; aims to achieve full capacity by CY15



Robust consolidated financial performance over CY12-15E



Source: Company, MOSL

SOTP-based target price of INR3,850 implies 45% upside over two years

We initiate coverage with a **Buy** rating and SOTP-based target price of INR3,850, implying an upside of 45% upside over two years.

We value EIM based on sum-of-the-parts (SOTP) methodology, considering the varied nature of its earnings stream.

- **Royal Enfield:** We value the standalone business (Royal Enfield) based on a target multiple of 18x. We believe this is justified considering the strong brand equity, volume growth prospects and high EBITDA margin, together with healthy pricing power.
- **VECV:** We value the CV business at an EV of 8x CY13E EBITDA, ~10% premium to

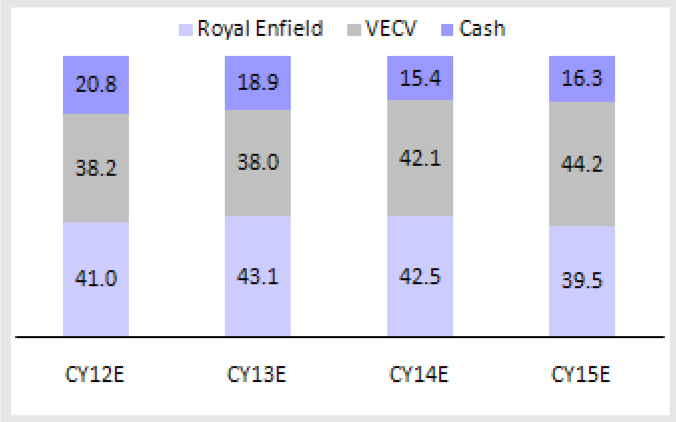
Ashok Leyland's target multiple. We believe EIM's business model is superior due to high exposure to the relatively less cyclical LMD segment. Besides, it enjoys other advantages: (1) MDEP's earnings prospects, (2) association with Volvo, (3) outsourcing opportunity from AB Volvo, and (4) strong balance sheet.

SOTP Valuation

	CY12E	CY13E	CY14E	CY15E
Royal Enfield				
Core PAT (ex div & fin income)	1,064	1,296	1,828	2,280
Core Equity Value @ 18x PE	19,145	23,336	32,910	41,043
Net Debt	-5,280	-7,014	-8,502	-11,376
Equity Value	24,425	30,349	41,412	52,419
VECV (@ 54.4% Economic interest)				
EBITDA	2,227	2,569	4,075	5,711
EV@ 8x EV/EBITDA	17,819	20,555	32,599	45,942
Net Debt	-4,442	-3,244	-3,416	-5,547
Equity Value	22,261	23,799	36,015	51,489
Total Equity Value	**46,686**	**54,148**	**77,427**	**103,908**
Target Price	**1,730**	**2,006**	**2,869**	**3,850**

Source: Company, MOSL

SOTP Contribution (%)



The stock has re-rated post the JV with Volvo and subsequent market share gains across VECV's product segments as well as Royal Enfield's strong growth and profitability performance.

We expect appreciation from current levels to be largely driven by earnings growth. However, the following triggers could lead to further re-rating of the stock:

- Stronger than expected volume growth and margin performance in Royal Enfield
- Ramp-up in HCV operations, with market share gains and consequent rub-off effect on profitability
- Commencement of MDEP and further outsourcing deals from AB Volvo.

Key risks and challenges

Industry specific

- **Sustained weakness in CV industry:** The CV industry is cyclical and often witnesses steep volume increases/declines. Over the past few months, the performance of the CV industry has been weak due to macro headwinds impacting road freight availability and freight rates. If the current weakness sustains, it could impact sales and margin performance.
- **Increasing competition could delay ramp-up of HCV segment:** The domestic MHCV industry has witnessed entry/resurgence of several new players like Bharat Benz, Mahindra Navistar, MAN Trucks, etc. In the medium term, we do not expect any meaningful change in competitive landscape, as recent entrants work towards entry barriers in the form of servicing network, and a relevant, cost competitive product portfolio. However, in the long run, we expect competitive intensity to increase, as the domestic MHCV industry evolves, driven by factors like shift towards higher tonnage vehicles, focus on uptime/total cost of ownership, technology change driven by regulatory requirements, etc.

Company specific

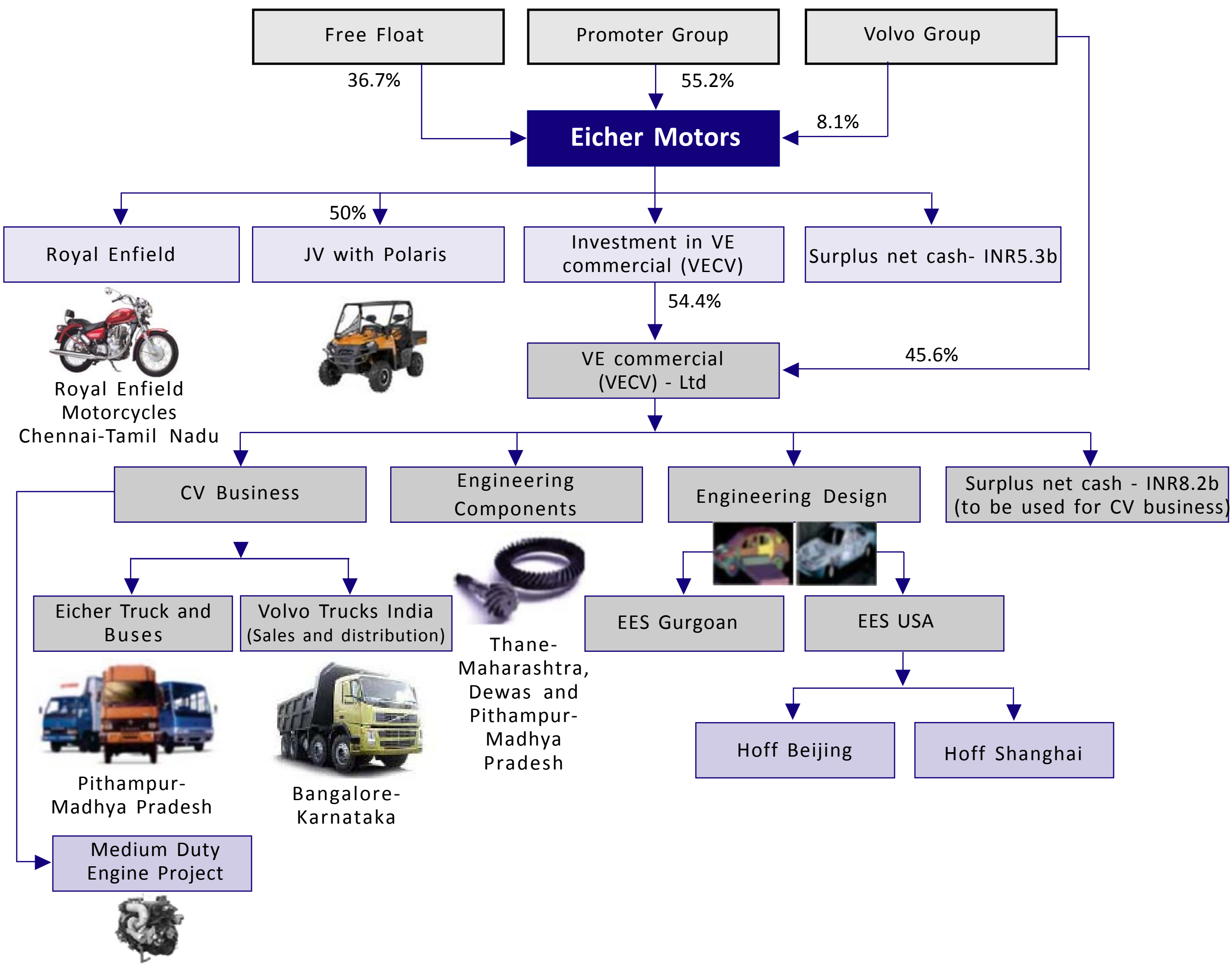
- **Execution risk:** Various expansion projects (such as MDEP, new range of HCV products, Royal Enfield capacity expansion) are underway across business segments. Successful execution of these projects would be critical.
- **Lack of financing arm could hurt when credit availability is tight:** As majority of the CVs are bought on finance, having an in-house financing arm improves product acceptance. Both the leading players – Tata Motors and Ashok Leyland have captive financing arms. Moreover, recent entrants such as Daimler and Mahindra Navistar also have the support of their captive financing arms. While VECV has tie-ups with leading financial institutions for financing its CVs, having a captive financing arm would have been an added advantage.

Company background

Promoted by the Delhi-based Vikram Lal Group, Eicher Motors (Bloomberg: EIM) is a diversified engineering company. It is engaged in the business of high end motorcycles (350cc & above) under the brand 'Royal Enfield', and commercial vehicles (CVs), automotive gears and components, and engineering solutions through its subsidiary, Volvo Eicher Commercial Vehicles (VECV).

Formed a JV with AB Volvo to become a leading CV player: To become a full-fledged CV player, EIM entered into a 50:50 joint venture with AB Volvo, Sweden in July 2008 and formed Volvo Eicher Commercial Vehicles (VECV). Post the JV formation, EIM's CV business along with related components and engineering solutions businesses were transferred to VECV (a step-down subsidiary of EIM). Simultaneously, Volvo acquired 45.6% stake in VECV for USD350m [USD275m as cash and USD75m for Volvo Trucks (distribution of vehicles, spares and services) and Volvo Buses (only services)].

EIM - Group structure



Operating and financial snapshot (INR M)

Royal Enfield	CY11	CY12E	CY13E	CY14E	CY15E
Domestic (units)	71,426	109,996	144,643	180,353	212,171
Growth (%)	43.0	54.0	31.5	24.7	17.6
% of total	95.7	96.8	96.8	96.7	96.3
Exports (units)	3,200	3,680	4,784	6,219	8,085
Growth (%)	21.7	15.0	30.0	30.0	30.0
% of total	4.3	3.2	3.2	3.3	3.7
Volumes (units)	**74,626**	**113,676**	**149,427**	**186,572**	**220,256**
Growth (%)	41.9	52.3	31.4	24.9	18.1
Realizations (INR/unit)	89,977	92,318	93,677	95,685	97,353
Growth (%)	6.9	2.6	1.5	2.1	1.7
Net Operating Income	**6,715**	**10,494**	**13,998**	**17,852**	**21,443**
Growth (%)	51.7	56.3	33.4	27.5	20.1
Gross Margins (%)	33.7	35.4	35.5	35.5	35.5
EBITDA	**815**	**1,564**	**1,982**	**2,730**	**3,376**
EBITDA Margins (%)	12.1	14.9	14.2	15.3	15.7
Effective tax rate (%)	12.2	17.5	19.0	19.5	19.5
Reported PAT	1,246	1,856	2,181	2,821	3,397
Core PAT (Excl Div. & Fin. income)	529	1,064	1,297	1,829	2,282
Core EPS (Excl Div. & Fin. income)	**19.6**	**39.4**	**48.1**	**67.8**	**84.6**
Growth (%)	113.6	100.9	21.9	41.1	24.7

VECV	CY11	CY12E	CY13E	CY14E	CY15E
LMD (5-14T) (units)	31,381	29,027	32,511	37,387	41,126
Growth (%)	18.8	-7.5	12.0	15.0	10.0
% of total	64.0	59.7	58.9	57.3	54.9
HCV (units)	8,057	8,429	10,063	13,024	16,861
Growth (%)	51.6	4.6	19.4	29.4	29.5
% of total	16.4	17.3	18.2	20.0	22.5
Buses (units)	6,496	8,677	9,741	11,244	12,624
Growth (%)	34.8	33.6	12.3	15.4	12.3
% of total	13.2	17.9	17.6	17.2	16.8
Exports (units)	3,108	2,472	2,878	3,539	4,358
Growth (%)	14.4	-20.5	16.4	23.0	23.1
% of total	6.3	5.1	5.2	5.4	5.8
Volumes (units)	**49,042**	**48,606**	**55,192**	**65,194**	**74,969**
Growth (%)	24.9	-0.9	13.6	18.1	15.0
Realizations (INR/unit)	**1,029,377**	**1,089,239**	**1,215,920**	**1,359,387**	**1,479,336**
Growth (%)	1.5	5.8	11.6	11.8	8.8
CV business	50,483	52,943	64,309	77,595	91,674
Growth (%)	26.8	4.9	21.5	20.7	18.1
% of total			96	88	83
Engine project			2,800	11,029	19,230
Growth (%)			-	293.9	74.4
% of total			4	12	17
Net Operating Income	**50,483**	**52,943**	**67,109**	**88,624**	**110,905**
Growth (%)	26.8	4.9	26.8	32.1	25.1
Gross Margins (%)	26.0	26.8	25.5	25.3	25.3
EBITDA	**5,095**	**4,095**	**4,723**	**7,491**	**10,497**
EBITDA Margins (%)	10.1	7.7	7.0	8.5	9.5
Effective tax rate (%)	26.0	25.2	27.0	27.0	27.0
Reported PAT	**4,137**	**3,154**	**3,054**	**4,757**	**6,850**
Core PAT (Excl Div. & Fin. income)	3,074	2,364	2,479	4,210	6,150
Growth (%)	68.9	-23.1	4.8	69.8	46.1

Source: Company, MOSL

Financials and Valuation

Income Statement (Consolidated) (INR Million)

Y/E December	2010	2011	2012E	2013E	2014E	2015E
Net Sales	**43,971**	**56,775**	**62,966**	**80,511**	**105,479**	**130,939**
Change (%)	49.6	29.1	10.9	27.9	31.0	24.1
Operating Other Income	242	487	507	558	947	1,344
Total Operating Income	44,213	57,262	63,473	81,068	106,426	132,284
EBITDA	**3,811**	**6,037**	**5,694**	**6,668**	**10,174**	**13,816**
EBITDA Margin (%)	8.6	10.5	9.0	8.2	9.6	10.4
Depreciation	573	640	803	1,331	1,790	2,153
EBIT	3,238	5,398	4,891	5,337	8,384	11,663
Interest cost	95	77	42	37	37	37
Other Income	1,034	1,281	1,190	995	1,002	1,240
PBT	**4,177**	**6,602**	**6,040**	**6,295**	**9,349**	**12,867**
Tax	1,108	1,628	1,456	1,641	2,443	3,356
Effective Rate (%)	26.5	24.7	24.1	26.1	26.1	26.1
PAT	**3,068**	**4,974**	**4,583**	**4,654**	**6,906**	**9,511**
Change (%)	137.0	62.1	-7.9	1.5	48.4	37.7
% of Op. Income	6.9	8.7	7.2	5.7	6.5	7.2
Less: Minority Interest	1,179.3	1,886.3	1,438.3	1,392.5	2,169.2	3,123.7
Adj. PAT	**1,889**	**3,088**	**3,145**	**3,262**	**4,737**	**6,387**
Change (%)	126.5	63.4	1.9	3.7	45.2	34.8

Balance Sheet (Consolidated) (INR Million)

Y/E December	2010	2011	2012E	2013E	2014E	2015E
Share Capital	269	270	270	270	270	270
Reserves	12,052	14,661	17,150	19,401	22,733	27,285
Net Worth	**12,321**	**14,931**	**17,420**	**19,671**	**23,002**	**27,555**
Minority Interest	6,774	8,377	9,815	11,207	13,377	16,500
Deferred Tax	249	645	794	946	1,177	1,500
Loans	956	504	504	504	504	504
Capital Employed	**20,301**	**24,456**	**28,532**	**32,328**	**38,059**	**46,059**
Gross Fixed Assets	8,113	9,887	15,703	24,803	30,803	35,803
Less: Depreciation	4,269	4,843	5,646	6,977	8,767	10,920
Net Fixed Assets	**3,844**	**5,044**	**10,058**	**17,827**	**22,037**	**24,884**
Capital WIP	703	4,128	5,350	2,250	2,750	1,750
- of which Goodwill	223	223	223	223	223	223
Investments	4,586	5,126	5,126	5,126	5,126	5,126
Curr.Assets, L & Adv.	**20,500**	**23,501**	**21,955**	**24,868**	**31,462**	**43,307**
Inventory	3,265	4,280	4,708	6,015	7,900	9,824
Sundry Debtors	2,609	3,434	3,640	4,620	6,095	7,620
Cash & Bank Balances	12,457	11,973	8,824	8,355	10,159	16,951
Loans & Advances	1,814	3,391	4,341	5,318	6,567	7,985
Others	355	424	442	561	741	926
Current Liab. & Prov.	**9,332**	**13,343**	**13,956**	**17,743**	**23,315**	**29,008**
Sundry Creditors	7,596	11,238	11,498	14,712	19,303	23,978
Other Liabilities	346	608	750	981	1,268	1,547
Provisions	1,391	1,497	1,707	2,050	2,745	3,482
Net Current Assets	**11,168**	**10,157**	**7,999**	**7,126**	**8,147**	**14,299**
Application of Funds	**20,301**	**24,456**	**28,532**	**32,328**	**38,059**	**46,059**

E: MOSL Estimates

Financials and Valuation

Ratios (Consolidated)

Y/E December	2010	2011	2012E	2013E	2014E	2015E
Basic (INR)						
EPS	**70.1**	**114.4**	**116.5**	**120.8**	**175.5**	**236.6**
EPS Growth (%)	6.5	63.1	1.9	3.7	45.2	34.8
Cash EPS	91.4	138.1	146.3	170.2	241.8	316.4
Book Value per Share	457.4	553.2	645.4	728.8	852.3	1,020.9
DPS	11.0	16.0	18.0	19.0	28.0	38.0
Payout (Incl. Div. Tax) %	18.3	16.3	18.0	18.3	18.6	18.7
Valuation (x)						
P/E		23.3	22.8	22.0	15.2	11.2
Cash P/E		19.3	18.2	15.6	11.0	8.4
EV/EBITDA		16.9	16.4	13.5	8.8	6.0
EV/Sales		1.8	1.6	1.2	0.9	0.7
Price to Book Value		4.8	4.1	3.7	3.1	2.6
Dividend Yield (%)		0.6	0.7	0.7	1.1	1.4
Profitability Ratios						
RoE (%)	16.4	22.7	19.4	17.6	22.2	25.3
RoCE (%)	22.4	29.8	23.0	20.8	26.7	30.7
Turnover Ratios						
Debtors (Days)	22	22	21	21	21	21
Inventory (Days)	27	27	27	27	27	27
Creditors (Days)	63	72	66	66	66	66
Asset Turnover (x)	2.2	2.3	2.2	2.5	2.8	2.8
Leverage Ratio						
Debt/Equity (x)	0.1	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement (Consolidated) (INR Million)

Y/E December	2010	2011	2012E	2013E	2014E	2015E
Profit before Tax	**4,177**	**6,602**	**6,040**	**6,295**	**9,349**	**12,867**
Depreciation & Amort.	573	640	803	1,331	1,790	2,153
Direct Taxes Paid	-831	-1,668	-1,307	-1,489	-2,212	-3,032
(Inc)/Dec in Working Capital	374	-234	-374	927	1,231	1,226
Interest/Div. Received	1,039	1,316	1,190	995	1,002	1,240
Other Items	-933	-1,305	-1,765	-1,480	-1,413	-1,790
CF from Oper. Activity	**4,399**	**5,351**	**4,586**	**6,579**	**9,747**	**12,663**
(Inc)/Dec in FA+CWIP	-1,315	-4,173	-7,038	-6,000	-6,500	-4,000
(Pur)/Sale of Invest.	-1,645	-540	0	0	0	0
CF from Inv. Activity	**-2,960**	**-4,713**	**-7,037**	**-6,000**	**-6,500**	**-4,000**
Issue of Shares	88	24	-90	-413	-525	-640
Inc/(Dec) in Debt	-307	-453	0	0	0	0
Interest Paid	-118	-84	-42	-37	-37	-37
Dividends Paid	-351	-609	-566	-597	-880	-1,195
CF from Fin. Activity	**-689**	**-1,122**	**-698**	**-1,048**	**-1,442**	**-1,872**
Inc/(Dec) in Cash	750	-484	-3,149	-469	1,804	6,792
Add: Beginning Balance	11,707	12,457	11,973	8,824	8,355	10,159
Closing Balance	**12,457**	**11,973**	**8,824**	**8,355**	**10,159**	**16,951**

E: MOSL Estimates

N O T E S

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MOTILAL OSWAL

Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025

Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com