

Operating performance disappoints ; Maintain Neutral

The 3QCY13 operating performance of Eicher Motors (EML) reflected significant pressure on its Truck & Bus segment with VECV's EBITDA margins coming at 5.8% (one of the lowest in the past several quarters) compared to our estimate of 7.3%. Royal Enfield business also marginally disappointed with EBITDA margins at 15.1% compared to our estimate of 15.8%. As a result, Consolidated EBITDA margins for EML stood at 7.5% compared to our estimate of 8.9%. Though the Royal Enfield business is doing extremely well, we continue to believe that current discounts and negligible rise in fleet operators' pricing power suggest weak demand environment for M&HCV goods segment. We expect the recovery to be gradual for the M&HCV goods segment over 2HFY13-FY14E and await meaningful signs of recovery in the investment cycle before re-rating the stock. We continue to maintain our Neutral rating on the stock with target price of Rs.2,433.

○ **VECV drags consolidated profits:** While the operating performance for Royal Enfield was lower by 6% compared to our estimate, VECV (CV business) significantly disappointed with operating performance coming lower by 25%. Net revenues at Royal Enfield stood at Rs.2.8bn compared to our estimate of Rs.2.9bn, lower by 1.7%. This was largely on account of lower than expected ASP (Average selling price per unit) which stood at Rs.91,556, lower by 1% QoQ. EBITDA margins for the quarter stood at 15.1% vs. our estimate of 15.8%. Lower ASP coupled with higher than expected other expenditure (Rs.369mn vs. est. Rs.325mn) led to lower than expected operating performance. We understand that higher advertising spend on the new product launch (Thunderbird 500) would have led to higher other expenditure. Net revenues at VECV stood at Rs.12.1bn compared to our estimate of Rs.12.7mn, lower by 5%. This was largely on account of lower than expected ASP (Average Selling Price per unit) which stood lower by 6.7% vs. our estimate of 6% QoQ. We understand lower realization is largely attributable to higher discounts in the M&HCV goods space. Higher levels of discounts across OEMs in the M&HCV space continue to reflect weak demand environment. Hence, Consolidated EBITDA margin stood at 7.5% compared to our estimate of 8.9%.

○ **Con call takeaways:** 1) Capex of Rs.1.5bn on the new motorcycle plant will be completed by 1QCY13; overall two-wheeler capacity will be expanded by 150k units by 1QCY13. 2.) Capex in JV to be maintained at Rs.15bn over CY12-CY14 3.) Truck & Bus capacity at VECV to be expanded by 1,000 units per month in CY13; the current T&B monthly capacity stands at 5,500 units. 4.) To maintain its long term target of achieving 100k units of sales at VECV by 2015. 5.) It has recently won an order from Gujarat State Transport Undertaking for 1,000 buses.

Y/E Dec-Cons (Rsmn)	3QCY13	3QCY12	YoY (%)	2QCY13	QoQ (%)	3QCY13E	Var (%)
Net sales	14,831	14,513	2.2	15,850	(6.4)	15,479	(4.2)
Con. of raw materials	10,624	10,525		11,318		10,970	
% of sales	71.6	72.5	(89) bp	71.4	22 bp	70.9	
Employee costs	1,158	884		1,161		1,159	
% of sales	7.8	6.1	172 bp	7.3		7.5	
Other expenditure	1,936	1,593		1,975		1,976	
% of sales	13.1	11.0	207 bp	12.5		12.8	
Operating profit	1,114	1,511	(26.3)	1,395	(20.2)	1,374	(19.0)
OPM (%)	7.5	10.4	(290) bp	8.8	(129) bp	8.9	(137) bp
Dep. and amortisation	213	162		187		194	
Interest	12	34		8		8	
EBT	889	1,315	(32.4)	1,201	(26.0)	1,173	(24.2)
Other income	246	289		306		299	
PBT	1,135	1,604	(29.3)	1,507	(24.7)	1,472	(22.9)
Provision for tax	198	401		381		367	
-effective tax rate	17.4	25.0		25.3		24.9	
PAT before MI	937	1,203		1,126		1,105	
MI	(277)	(465)		(366)		(334)	
PAT after MI	660	737	(10.5)	760	(13.1)	771	(14.4)
NPM (%)	4.5	5.1	(63) bp	4.8	(34) bp	5.0	(53) bp

Source: Company, Centrum Research Estimates

○ **Valuations and Recommendation:** At the CMP of Rs2,562, the stock is currently trading at 19.1 x CY12E consolidated EPS of Rs134 and 14.2x CY13E consolidated EPS of Rs180. We continue to maintain our Neutral rating on the stock with target price of Rs2,433.

Y/E Dec (Rsmn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)
CY10	43,971	49.6	3,569	8.1	1,889	45.9	70.1	10.6	23.8	36.5
CY11	56,775	29.1	5,551	9.8	3,088	63.4	114.4	14.6	31.2	22.4
CY12E	65,840	16.0	6,119	9.3	3,622	17.3	134.2	14.1	27.4	19.1
CY13E	82,724	25.6	8,560	10.3	4,872	34.5	180.5	15.6	29.8	14.2
CY14E	101,748	23.0	10,742	10.6	6,138	26.0	227.4	15.9	30.5	11.3

Source: Company, Centrum Research Estimates

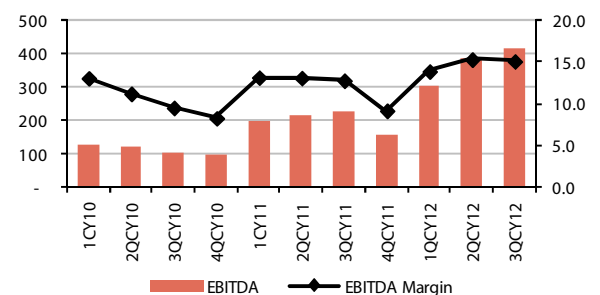
Key Data

Target Price	Rs2,433	Bloomberg Code	EIM IN
CMP	Rs2,565*	Reuters Code	EICH.BO
Downside	5%	Current Shares O/S (mn)	27.0
Stock to Sector	Outperform	Diluted Shares O/S(mn)	27.0
Sector to Market	Neutral	Mkt Cap (Rsbn/USDbn)	69.9/1.3
Price Performance (%)*		52 Wk H / L (Rs)	2,637/1,360
	1M	6M	1Yr
Eicher Motors	15.8	18.8	51.5
NIFTY	0.1	15.3	10.0
		Daily Vol. (3M NSE Avg.)	17,105
		Face Value (Rs)	10
		1 USD = Rs54.9	

Source: Bloomberg, Centrum Research

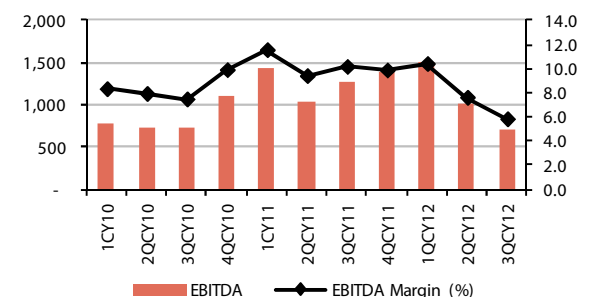
*as on 12 November 2012

Trend in EBITDA margin (%) - RE



Source: Company, Centrum Research

Trend in EBITDA margin (%) - VECV



Source: Company, Centrum Research

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Financials (Consolidated)

Exhibit 1: Income Statement

Y/E Dec (Rsmn)	CY10	CY11	CY12E	CY13E	CY14E
Net Sales	43,971	56,775	65,840	82,724	101,748
% Growth	49.6	29.1	16.0	25.6	23.0
Raw Materials	33,367	42,176	49,037	61,178	75,476
Personnel	2,631	3,461	4,293	5,342	6,476
Manufact. & Other Exp.	4,404	5,587	6,391	7,645	9,053
EBITDA	3,569	5,551	6,119	8,560	10,742
EBITDA Margin (%)	8.1	9.8	9.3	10.3	10.6
Depn. & Amortn	573	640	967	1,379	1,664
EBIT	2,996	4,911	5,151	7,181	9,077
Interest Expenses	95	77	67	81	104
EBT	2,901	4,834	5,084	7,100	8,973
Other Income	1,276	1,768	1,929	2,190	2,738
Extraord. (Income)/Exp.					
PBT	4,177	6,602	7,013	9,290	11,712
Tax-Total	1,108	1,628	1,655	2,177	2,745
Tax Rate (%) - Total	26.5	24.7	23.6	23.4	23.4
Reported PAT	3,069	4,974	5,358	7,113	8,968
Minority Interest	1,179	1,886	1,736	2,241	2,828
PAT after MI	1,889	3,088	3,622	4,872	6,138
PAT Margin	4.3	5.4	5.5	5.9	6.0
% Growth	45.9	63.4	17.3	34.5	26.0

Source: Company, Centrum Research Estimates

Exhibit 2: Balance Sheet

Y/E Dec (Rsmn)	CY10	CY11	CY12E	CY13E	CY14E
SOURCES OF FUNDS					
Capital	269	270	270	270	270
Reserves & Surplus	12,052	14,661	17,740	21,891	27,121
Shareholders' Funds	12,321	14,931	18,010	22,161	27,391
Minority Interest	6,774	8,377	10,113	12,354	15,182
Secured Loans	865	354	354	354	354
Unsecured Loans	91	150	150	150	150
Total Loan Funds	956	504	504	504	504
Deferred Tax Liabi. - Net	250	645	645	645	645
Total	20,302	24,456	29,271	35,663	43,721
APPLICATION OF FUNDS					
Gross Block	8,113	9,887	17,234	20,734	24,234
Accumulated Dep.	4,269	4,843	5,810	7,190	8,854
Capital WIP	669	3,947	100	100	100
Net Fixed Assets	4,513	8,991	11,523	13,644	15,480
Investments	4,586	5,126	5,626	6,126	6,626
Inventories	3,265	4,280	5,074	6,379	7,847
Sundry Debtors	2,609	3,434	4,072	5,119	6,297
Other Current Assets	390	605	658	827	1,017
Cash & Bank Balances	12,457	11,973	12,903	16,731	22,517
Loans and Advances	1,814	3,391	4,020	5,054	6,217
Total CA, Loans & Adv.	20,535	23,682	26,728	34,111	43,895
Current Liabilities	7,942	11,846	14,046	17,658	21,720
Provisions	1,391	1,497	561	561	561
Total Current Liab. & Prov.	9,332	13,343	14,606	18,218	22,281
Net Current Assets	11,203	10,339	12,122	15,893	21,615
Miscellaneous Expend.					
Total assets	20,301	24,456	29,271	35,663	43,721

Source: Company, Centrum Research Estimates

Exhibit 3: Cash flow

Y/E Dec (Rsmn)	CY10	CY11	CY12E	CY13E	CY14E
Sources	3,144	5,123	5,782	7,771	9,722
Cash Profit	3,749	6,011	6,326	8,492	10,631
(-) Dividends	300	436	543	721	909
Retained Earnings	3,449	5,575	5,782	7,771	9,722
Issue of Equity/Premium	3	1	-	-	-
Borrowings	(307)	(453)	-	-	-
	-	-	-	-	-
Applications	3,144	5,123	5,782	7,771	9,722
Capital Expenditure	1,222	5,052	3,500	3,500	3,500
Investments	1,645	540	500	500	500
Net Current Assets	(726)	(527)	1,034	(57)	(64)
Others	252	541	(182)	-	-
Change in Cash	750	(484)	930	3,828	5,786

Source: Company, Centrum Research Estimates

Exhibit 4: Key Ratios

Y/E Dec	CY10	CY11	CY12E	CY13E	CY14E
O/s Shares	27	27	27	27	27
Fully Diluted Shares	27	27	27	27	27
Per share (Rs)					
Basic EPS	70	114	134	180	227
Fully diluted EPS	70	114	134	180	227
Book value	709	864	1,042	1,279	1,577
Valuation (x)					
P/E	36.5	22.4	19.1	14.2	11.3
P/BV	3.6	3.0	2.5	2.0	1.6
EV/EBITDA	17.8	11.8	10.9	7.6	5.8
EV/Sales	1.4	1.2	1.0	0.8	0.6
Margin Ratio (%)					
EBITDA Margin	8.1	9.8	9.3	10.3	10.6
EBIT Margin	6.8	8.6	7.8	8.7	8.9
PAT Margin	4.3	5.4	5.5	5.9	6.0
Return Ratio (%)					
ROE	10.6	14.6	14.1	15.6	15.9
ROcE	23.8	31.2	27.4	29.8	30.5
Other Ratios					
Interest coverage ratio (%)	31.5	64.0	76.7	88.5	87.2
Debt-equity (x)	0.0	0.0	0.0	0.0	0.0
Liquidity ratio (x)	2.2	1.8	1.8	1.9	2.0
Other income contrib. (%)	30.5	26.8	27.5	23.6	23.4
Dividend Payout (%)	15.7	14.0	14.8	14.6	14.6
Asset TO (x)	2.4	2.9	2.3	2.4	2.4
WC Turnover (days)	(55.4)	(46.2)	(47.8)	(47.8)	(47.8)

Source: Company, Centrum Research Estimates

Appendix A

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