

## Eicher Motors

STOCK INFO.	BLOOMBERG
BSE SENSEX: 13,934	EIM IN
	REUTERS CODE
S&P CNX: 4,117	EICH.BO

4 May 2007

Neutral

Previous Recommendation: Neutral

Rs269

Equity Shares (m)	28.1
52-Week Range (Rs)	416/203
1,6,12 Rel. Perf. (%)	8/-38/-28
M.Cap. (Rs b)	7.6
M.Cap. (US\$ b)	0.2

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	19,525	613	21.8	21.6	12.4	1.8	14.8	16.0	0.3	5.4
3/08E	21,566	764	27.2	24.6	9.9	1.6	16.1	17.7	0.2	3.7
3/09E	24,046	866	30.8	13.4	8.7	1.4	15.9	18.0	0.2	2.6

- Eicher Motors' adjusted PAT for 4QFY07 declined 25.5% YoY to Rs209m. However, 4QFY06 PAT was high on account of tax write-backs. At the PBT level, the company witnessed a growth of 22.4% YoY.
- Sales grew 20.3% YoY to Rs6.2b, driven by 15.4% increase in CV sales to 9,065 units. EBITDA margins at 6.2% were 90bp below our estimate, while EBITDA increased 7.3% YoY to Rs384m. EBITDA margins have been mainly impacted by higher raw material costs (74.2% in 4QFY07 v/s 73.2% in 4QFY06 and 72.8% in 3QFY07).
- For FY07, Eicher Motors reported 18.7% increase in its net sales, on the back of 18.9% volume growth in CVs. EBITDA margin was 5.9%, while EBITDA increased 78.4% to Rs1.2b (EBITDA margins were significantly lower in 1HFY06, leading to lower base). Adjusted PAT increased 21.8% to Rs613m.
- Eicher Motors is a small player in the CV industry, facing margin pressures. However, initiatives such as restructuring, new model launches in high growth segments, attempts to improve realizations and reduce costs, will help counter margin pressures.
- In FY08, we expect Eicher Motors to report CV volume growth of 9.7%, resulting in 10.5% increase in net sales and 24.6% increase in PAT. The stock trades at 9.9x FY08E EPS of Rs27.2 and 8.7x FY09E EPS of Rs30.8. We maintain **Neutral**.

### QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>Net Sales</b>	<b>3,877</b>	<b>3,530</b>	<b>3,900</b>	<b>5,144</b>	<b>3,831</b>	<b>4,565</b>	<b>4,938</b>	<b>6,191</b>	<b>16,449</b>	<b>19,525</b>
Change (%)	12.0	-20.9	-26.9	-21.7	-1.2	29.3	26.6	20.3	-17.0	18.7
Total Expenses	3,778	3,511	3,725	4,787	3,649	4,301	4,612	5,807	15,801	18,369
<b>EBITDA</b>	<b>99</b>	<b>19</b>	<b>174</b>	<b>358</b>	<b>183</b>	<b>263</b>	<b>326</b>	<b>384</b>	<b>648</b>	<b>1,156</b>
As a % of Sales	2.6	0.5	4.5	7.0	4.8	5.8	6.6	6.2	3.9	5.9
Non-Operating Income	68	61	81	104	73	73	52	70	314	267
Extraordinary Income	1,821	0	0	0	0	0	0	0	1,821	0
Extraordinary Expense	0	0	151	4	0	0	0	0	155	0
Interest	41	37	42	45	34	31	32	41	165	138
<b>Gross Profit</b>	<b>1,948</b>	<b>43</b>	<b>61</b>	<b>412</b>	<b>221</b>	<b>305</b>	<b>346</b>	<b>413</b>	<b>2,464</b>	<b>1,285</b>
Less: Depreciation	116	95	95	162	98	99	102	107	468	405
<b>PBT</b>	<b>1,832</b>	<b>-52</b>	<b>-34</b>	<b>250</b>	<b>123</b>	<b>206</b>	<b>244</b>	<b>306</b>	<b>1,996</b>	<b>880</b>
Tax	7	24	-178	-26	39	65	66	97	-200	267
Effective Tax Rate (%)	0.4	-45.8	522.1	-10.5	31.7	31.3	27.0	31.8	-8.7	30.3
<b>PAT</b>	<b>1,825</b>	<b>-76</b>	<b>144</b>	<b>277</b>	<b>84</b>	<b>142</b>	<b>178</b>	<b>209</b>	<b>2,196</b>	<b>613</b>
<b>Adjusted PAT</b>	<b>4</b>	<b>-76</b>	<b>295</b>	<b>280</b>	<b>84</b>	<b>142</b>	<b>178</b>	<b>209</b>	<b>503</b>	<b>613</b>
Change (%)	-93.6	-148.6	44.8	5.0	2,238.9	N.A.	-39.6	-25.5	-23.1	21.8

E: MOST Estimates

**Volume growth below industry growth**

Eicher Motors’ CV volumes grew by 15.4% YoY in 4QFY07 and by 18.9% in FY07. The M&HCV segment registered volume growth of 21.9% YoY in FY07 to 19,536 units whereas the LCV segment registered volume growth of 12.7% YoY to 8,536 units. Though the company registered strong growth in CV volumes, it was lower than the industry growth rate of 32.2%. Consequently, Eicher Motors’ CV market share has declined from 6% in FY06 to 5.4% in FY07.

**VOLUMES**

	FY07	FY06	CHG.(%)
LCV	8,536	7,571	12.7
M&HCV	19,536	16,029	21.9
<b>Total</b>	<b>28,072</b>	<b>23,600</b>	<b>18.9</b>

Source: Company/ Motilal Oswal Securities

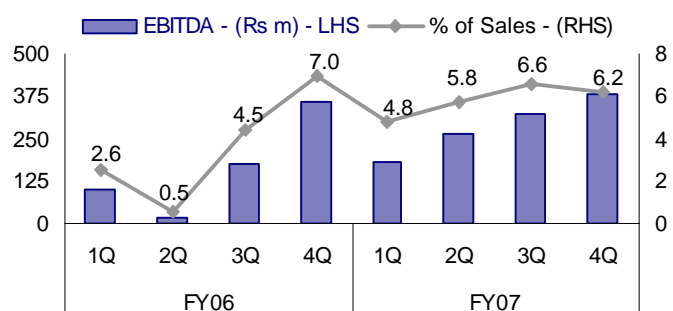
**EBITDA margin disappoints again**

In 4QFY07, Eicher Motors reported sales of Rs6.2b (up 20.3% YoY and 25.4% QoQ). EBITDA margins at 6.2% were below expectations, declining by 80bp YoY and 40bp QoQ. EBITDA margins have been mainly impacted by higher raw material costs (74.2% in 4QFY07 v/s 73.2% in 4QFY06 and 72.8% in 3QFY07).

EBITDA has increased 7.3% YoY to Rs384m. PAT declined 25.5% YoY to Rs209m (below expectations). However, 4QFY06 PAT was high on account of tax write-backs. At the PBT level, the company witnessed a growth of 22.4% YoY.

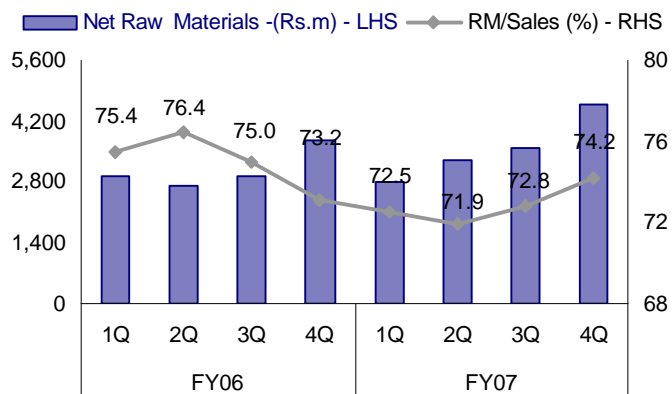
We expect EBITDA margins to expand 60bp in FY08 and FY09 from 5.9% in FY07, as higher volume growth would result in improved operating leverage.

**EBITDA MARGIN DECLINES**



Source: Company/ Motilal Oswal Securities

**RMSALES: INCREASES AFTER DECLINING FOR 5 CONSECUTIVE QUARTERS**



Source: Company/ Motilal Oswal Securities

**Motorcycle business to be retained**

The management had taken a decision to transfer the loss making motorcycle business out of Eicher Motors. The company planned to restructure its Royal Enfield business unit by transferring it into a 100% subsidiary during the year. The decision was not implemented, as a suitable partner could not be found. Due to this and due to better financial performance of the segment in 4QFY07, the company has now decided not to transfer the motorcycle business to a subsidiary.

**Valuation and view**

Eicher has revamped its strategy and has a new management team to run its current operations. All segments (manufacturing of commercial vehicles, two-wheelers, components and engineering services) in which the company operates are high potential segments. We are positive on the growth prospects of the CV, components and engineering services businesses.

Eicher Motors is expanding the portfolio of products that it offers to its customers. The company has a good recall for its products. While growth may get capped on account of its limited geographical reach and distribution and service network, it is attempting to resolve this issue by expanding its marketing and distribution network.

Competition is increasing due to the entry of new players such as MAN and M&M, and established presence of Tata Motors and Ashok Leyland. It would be a challenge for Eicher Motors to increase market share post completion of capex.

In FY08, we expect Eicher Motors to report CV volume growth of 9.7%, resulting in 10.5% increase in net sales. Adjusted PAT should increase 24.6% to Rs763m. The stock trades at 9.9x FY08E EPS of Rs27.2 and 8.7x FY09E EPS of Rs30.8. We maintain **Neutral**.

## Eicher Motors: an investment profile

### Company description

Eicher Motors, incorporated in 1982, manufactures commercial vehicles. It has emerged as a significant player in the 6-9 ton GVW segment. From a single 6-ton GVW truck in 1986, it now boasts of a range of CVs of 5.4-ton to 25-ton GVW trucks and buses.

### Key investment arguments

- ✍ We remain positive on the growth prospects for CVs, due to the increased focus of government on highway development and strong industrial growth.
- ✍ Eicher has revamped its strategy and has a new management team to run its operations. The company is a niche player in the segments in which it operates.
- ✍ Eicher has strong brand equity in the LCV range, which it will leverage for its expansion in M&HCVs.

### Key investment risks

- ✍ Increased competition, with several MNC players such as ITEC and MAN entering the Indian market.
- ✍ Any further increase in diesel prices and rising interest rates will affect demand.

### Recent developments

- ✍ The company has decided not to transfer the motorcycle business into a separate subsidiary company.

### Valuation and view

- ✍ In FY08, we expect Eicher Motors to report CV volume growth of 9.7%, resulting in 10.5% increase in net sales. We expect adjusted PAT to increase 24.6% to Rs763m.
- ✍ The stock trades at 9.9x FY08E EPS of Rs27.2 and 8.7x FY09E EPS of Rs30.8. We maintain **Neutral**.

### Sector view

- ✍ Demand related factor of IIP production remains strong for the sector.
- ✍ Freight rates have remained firm, quelling any near-term fears.
- ✍ We maintain a positive but cautious stance on the sector.

#### COMPARATIVE VALUATIONS

		EICHER	ASHOK LEY.	TATA MOTORS
P/E (x)	FY08E	9.9	10.5	11.2
	FY09E	8.7	9.2	9.9
EPS Gr (%)	FY08E	24.6	16.8	11.8
	FY09E	13.4	13.9	13
RoE (%)	FY08E	16.1	26.4	26.5
	FY09E	15.9	26.1	24.5
EV/EBITDA (x)	FY08E	3.7	5.4	6.9
	FY09E	2.6	4.4	6.1

#### SHAREHOLDING PATTERN (%)

	MAR.07	DEC.06	MAR.06
Promoter	61.8	61.8	62.2
Domestic Inst	7.5	8.2	5.5
Foreign	16.1	16.9	19.2
Others	14.7	13.1	13.1

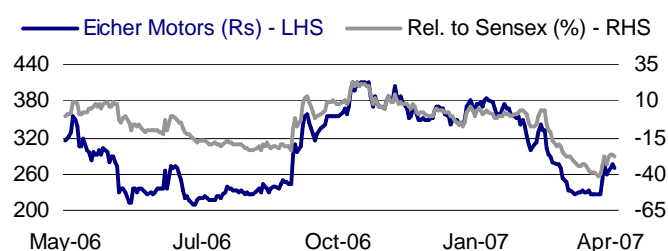
#### EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	27.2	26.1	4.2
FY09	30.8	-	-

#### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
269	277	2.8	Neutral

#### STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
<b>Net Sales</b>	<b>19,826</b>	<b>16,449</b>	<b>19,525</b>	<b>21,566</b>	<b>24,046</b>
Change (%)	45.3	-17.0	18.7	10.5	11.5
Total Expenses	18,500	15,801	18,369	20,158	22,474
<b>EBITDA</b>	<b>1,326</b>	<b>648</b>	<b>1,156</b>	<b>1,409</b>	<b>1,572</b>
Change (%)	10.4	-51.1	78.4	21.8	11.6
% of Net Sales	6.7	3.9	5.9	6.5	6.5
Depreciation	484	468	405	436	452
Other Income	183	314	267	262	260
<b>EBIT</b>	<b>1,025</b>	<b>494</b>	<b>1,018</b>	<b>1,234</b>	<b>1,380</b>
Interest & Finance Charges	223	165	138	138	138
Non-recurring Expense	67	67	0	0	0
Non-recurring Income	0	1,734	0	0	0
<b>PBT</b>	<b>735</b>	<b>1,996</b>	<b>880</b>	<b>1,096</b>	<b>1,242</b>
Tax	147	-173	267	332	376
Effective Rate (%)	19.9	-8.7	30.3	30.3	30.3
<b>PAT</b>	<b>589</b>	<b>2,169</b>	<b>613</b>	<b>764</b>	<b>866</b>
<b>Adj. PAT</b>	<b>655</b>	<b>504</b>	<b>613</b>	<b>764</b>	<b>866</b>
Change (%)	58.9	-23.1	21.6	24.6	13.4

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Share Capital	281	281	281	281	281
Reserves	2,129	4,169	3,866	4,468	5,172
<b>Net Worth</b>	<b>2,410</b>	<b>4,450</b>	<b>4,147</b>	<b>4,749</b>	<b>5,453</b>
Deferred Tax	671	437	437	437	437
Loans	1,383	1,776	1,776	1,776	1,776
<b>Capital Employed</b>	<b>4,463</b>	<b>6,663</b>	<b>6,359</b>	<b>6,961</b>	<b>7,665</b>
Gross Fixed Assets	6,329	5,004	5,404	5,604	5,804
Less: Depreciation	2,529	2,052	2,457	2,893	3,345
<b>Net Fixed Assets</b>	<b>3,800</b>	<b>2,952</b>	<b>2,947</b>	<b>2,710</b>	<b>2,458</b>
Capital WIP	87	73	73	73	73
Investments	27	2,689	2,689	2,689	2,689
<b>Curr.Assets, L &amp; Adv.</b>	<b>5,051</b>	<b>4,844</b>	<b>4,869</b>	<b>5,938</b>	<b>7,173</b>
Inventory	1,613	1,612	1,874	2,057	2,293
Sundry Debtors	1,581	1,176	1,372	1,530	1,707
Cash & Bank Balances	310	261	366	1,471	2,558
Loans & Advances	1,547	1,795	1,257	880	616
<b>Current Liab. &amp; Prov.</b>	<b>4,560</b>	<b>3,916</b>	<b>4,219</b>	<b>4,449</b>	<b>4,728</b>
Sundry Creditors	2,847	2,351	2,754	3,075	3,437
Other Liabilities	820	552	552	552	552
Provisions	893	1,014	913	821	739
<b>Net Current Assets</b>	<b>491</b>	<b>928</b>	<b>651</b>	<b>1,489</b>	<b>2,445</b>
Miscellaneous Expenditures	59	21	0	0	0
<b>Application of Funds</b>	<b>4,463</b>	<b>6,663</b>	<b>6,359</b>	<b>6,961</b>	<b>7,665</b>

E: MOSt Estimates

RATIOS					
Y/E MARCH	2005	2006	2007	2008E	2009E
<b>Basic (Rs)</b>					
<b>EPS</b>	<b>21.0</b>	<b>17.9</b>	<b>21.8</b>	<b>27.2</b>	<b>30.8</b>
Cash EPS	38.2	93.9	36.2	42.7	46.9
Book Value per Share	85.8	158.4	147.6	169.0	194.1
DPS	4.0	4.0	29.0	5.0	5.0
Payout (Incl. Div. Tax) %	21.0	5.7	149.5	21.2	18.7
<b>Valuation (x)</b>					
P/E		15.0	12.4	9.9	8.7
Cash P/E		2.9	7.4	6.3	5.7
EV/EBITDA		9.9	5.4	3.7	2.6
EV/Sales		0.4	0.3	0.2	0.2
Price to Book Value		1.7	1.8	1.6	1.4
Dividend Yield (%)		1.5	10.8	1.9	1.9
<b>Profitability Ratios (%)</b>					
RoE	27.2	11.3	14.8	16.1	15.9
RoCE	23.0	7.4	16.0	17.7	18.0
<b>Turnover Ratios</b>					
Working Capital (Days)	9	21	12	25	37
Asset Turnover (x)	4.4	2.5	3.1	3.1	3.1
<b>Leverage Ratio</b>					
Debt/Equity (x)	0.6	0.4	0.4	0.4	0.3

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006E	2007	2008E	2009E
OP/(Loss) before Tax	842	180	751	972	1,120
Interest/Div. Received	183	314	267	262	260
Depreciation & Amort.	484	468	405	436	452
Direct Taxes Paid	-140	-61	-267	-332	-376
(Inc)/Dec in Wkg. Capital	303	-486	383	266	131
Other Items	18	33	21	0	0
<b>CF from Op. Activity</b>	<b>1,689</b>	<b>448</b>	<b>1,560</b>	<b>1,605</b>	<b>1,587</b>
Extra-ordinary Items	-67	1,667	0	0	0
<b>CF after EO Items</b>	<b>1,622</b>	<b>2,115</b>	<b>1,560</b>	<b>1,605</b>	<b>1,587</b>
(Inc)/Dec in FA+CWIP	-723	394	-400	-200	-200
<b>CF from Inv. Activity</b>	<b>-723</b>	<b>-2,269</b>	<b>-400</b>	<b>-200</b>	<b>-200</b>
Issue of Shares	1	0	0	0	0
Inc/(Dec) in Debt	-574	393	0	0	0
Interest Paid	-223	-165	-138	-138	-138
Dividends Paid	-124	-124	-916	-162	-162
<b>CF from Fin. Activity</b>	<b>-920</b>	<b>104</b>	<b>-1,055</b>	<b>-300</b>	<b>-300</b>
<b>Inc/(Dec) in Cash</b>	<b>-20</b>	<b>-49</b>	<b>105</b>	<b>1,105</b>	<b>1,087</b>
Add: Beginning Balance	332	310	261	366	1,471
<b>Closing Balance</b>	<b>312</b>	<b>261</b>	<b>366</b>	<b>1,471</b>	<b>2,558</b>



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**Disclosure of Interest Statement**

**Eicher Motors**

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|---|----|
| 1. Analyst ownership of the stock                       | No |
| 2. Group/Directors ownership of the stock               | No |
| 3. Broking relationship with company covered            | No |
| 4. Investment Banking relationship with company covered | No |

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