



Eicher Motors

STOCK INFO.	BLOOMBERG
BSE SENSEX: 18,493	EIM IN
	REUTERS CODE
S&P CNX: 5,474	EICH.BO

23 October 2007

Neutral

Previous Recommendation: Neutral

Rs476

Equity Shares (m)	28.1
52-Week Range (Rs)	521/222
1,6,12 Rel. Perf. (%)	7/77/-13
M.Cap. (Rs b)	13.4
M.Cap. (US\$ b)	0.3

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	21.5	21.8	3.2	14.8	15.6	0.6	10.5
3/08E	22,754	724	25.8	18.3	18.5	2.8	15.4	16.7	0.5	9.0
3/09E	25,438	854	30.4	17.9	15.7	2.5	15.9	17.6	0.5	7.4

- Eicher Motors reported 17.6% growth in net sales to Rs5.4b in 2QFY08, with EBITDA margin remaining flat at 5.7%. PAT was in line with our estimate at Rs167m (up 17.8%).
- Sales growth was driven by 19% increase in motorcycle volumes and higher than expected 12% growth in CV volumes. While industry volumes for motorcycles declined 11.7%, *Royal Enfield* sales remained strong.
- EBITDA margin was 30bp lower than our estimate at 5.7%, while EBITDA increased 16.3% to Rs306m. EBITDA margin was buoyed by lower other expenditure as a percentage of sales (15.9% in 2QFY08 v/s 16.7% in 2QFY07 and 16.6% in 1QFY08). PAT increased 17.8% YoY to Rs167m (in line with expectations).
- The company has a capex plan of Rs0.8b for FY08, which will increase its CV capacity from ~ 38,000 units per annum to 48,000 units.
- Eicher Motors' Board has authorized the management to undertake necessary steps for actively evaluating opportunities for strategic partnership and alternatives on structures. This has cleared the way for the company to enter into strategic alliances with foreign players to increase penetration in the domestic market.
- In FY08, we expect Eicher Motors to register net sales growth of 16.5% to Rs22.8b, with an EBITDA margin of 6%. We expect PAT to increase 18.3% to Rs724m. The stock trades at 18.5x FY08E EPS of Rs25.8 and 15.7x FY09E EPS of Rs30.4. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	3,831	4,565	4,938	6,191	4,644	5,369	5,762	6,979	19,525	22,754
Change (%)	-1.2	29.3	26.6	20.3	21.2	17.6	16.7	12.7	18.7	16.5
Total Expenses	3,649	4,301	4,612	5,807	4,381	5,064	5,394	6,550	18,369	21,387
EBITDA	183	263	326	384	263	306	369	429	1,156	1,367
As a % of Sales	4.8	5.8	6.6	6.2	5.7	5.7	6.4	6.2	5.9	6.0
Non-Operating Income	73	73	52	70	53	83	55	71	267	262
Extraordinary Income	0	0	0	0	0	0	0	0	0	0
Extraordinary Expense	0	0	0	0	0	0	0	0	0	0
Interest	34	31	32	41	53	50	45	33	138	180
Gross Profit	221	305	346	413	263	338	379	468	1,285	1,448
Less: Depreciation	98	99	102	107	109	109	112	112	405	442
PBT	123	206	244	306	155	230	267	355	879	1,006
Tax	39	65	66	97	43	63	75	101	267	282
Effective Tax Rate (%)	31.7	31.3	27.0	31.8	28.0	27.3	28.0	28.5	30.3	28.0
PAT	84	142	178	209	111	167	192	254	613	724
Adjusted PAT	84	142	178	209	111	167	192	254	613	724
Change (%)	2,238.9	N.A.	-39.6	-25.5	32.2	17.8	8.0	21.7	22.0	18.3

E: MOST Estimates

Strong volume growth

In 2QFY08, Eicher Motors reported volume growth of 12% in CVs and 19% in motorcycles. While industry volumes for motorcycles declined 11.7%, *Royal Enfield* sales were strong.

The M&HCV segment registered a volume growth of 29.3%, whereas the LCV segment registered a decline of 28.9%. The strong growth in MHCVs is impressive, as it was achieved while industry volumes declined 4.2%. M&HCV volume growth has also been driven by launch of new products, giving Eicher a complete portfolio in CVs above 5 ton.

QUARTERLY VOLUMES (UNITS)

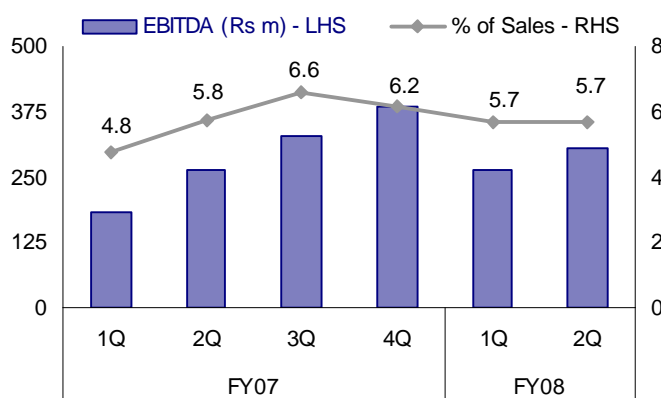
	2QFY08	2QFY07	%CH	1QFY08	%CH
M&HCV	5,951	4,603	29.3	4,590	29.7
LCV	1,382	1,943	-28.9	1,519	-9.0
Total CVs	7,333	6,546	12.0	6,109	20.0
Motorcycles	9,099	7,642	19.1	8,840	2.9

Source: Company/Motilal Oswal Securities

EBITDA margin maintained

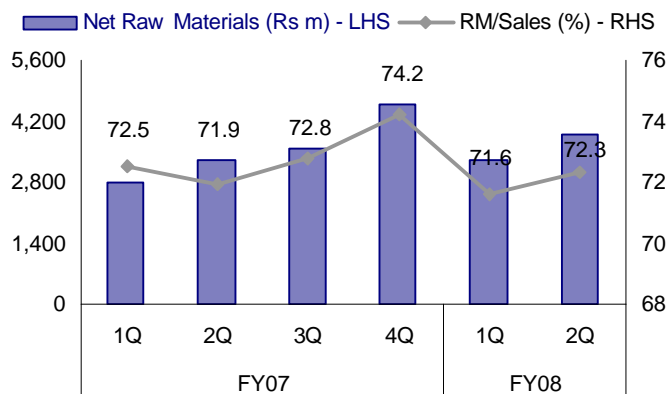
EBITDA margin at 5.7% was 30bp below our estimate while EBITDA increased 16.3% to Rs306m. EBITDA margin has been buoyed by lower other expenditure as a percentage of sales (15.9% in 2QFY08 v/s 16.7% in 2QFY07 and 16.6% in 1QFY08). PAT increased 17.8% to Rs167m (in line with expectations).

EBITDA MARGIN MAINTAINED



Source: Company/Motilal Oswal Securities

RMSALES: SLIGHT SEQUENTIAL INCREASE



Source: Company/Motilal Oswal Securities

Motorcycle business to be retained

The management had earlier taken a decision to transfer the loss-making motorcycle business to a 100% subsidiary. The decision was, however, not implemented. Considering the better financial performance of the motorcycle business 4QFY07 onwards, the company decided not to transfer the motorcycle business. The business has put up a stellar performance in 1HFY08 as well.

Acquisition and possible strategic alliance are positive triggers

Eicher Motors announced the acquisition of 100% stake in US-based Hoff and Associates and its two China-based subsidiaries for US\$3.5m in April 2007. Hoff and Associates is a profitable company delivering comprehensive engineering solutions to aerospace, automotive, semiconductor, medical, marine and plastics industries. The acquired company will be part of Eicher Motors' engineering design services business unit – Eicher Engineering Solutions. With a turnover of US\$5.2m in CY06, the acquisition is priced at a price/revenue ratio of 0.7x. Previous acquisitions in the engineering services space include Plexion Technologies by M&M in FY06 for US\$10m and INCAT by Tata Motors in FY06 at US\$97m.

Eicher Motors' Board has also authorized the management to undertake necessary steps for actively evaluating

opportunities for strategic partnership and alternatives on structures. This has cleared the way for the company to enter into strategic alliances with foreign players to increase penetration in the domestic market.

Conference call highlights

- ✍ The company has reduced the quantum of capex for FY08 from Rs1b to Rs750-800m.
- ✍ CV volumes for the industry are expected to recover in 2HFY08; Eicher has been able to defy the industry trend of volume declines by entering into newer CV segments and by launching new products.
- ✍ EBITDA margin may improve as the company's volumes increase; currently entry into new segments has subdued its margins.

Valuation and view

Eicher has revamped its strategy and has a new management team to run its current operations. All segments (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 and the components and engineering services businesses.

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

Given the entry of new players such as MAN and M&M, and established presence of Tata Motors and Ashok Leyland, Eicher Motors will face intense competition to increase market share post completion of capex.

In FY08, we expect Eicher Motors to register net sales growth of 16.5% to Rs22.8b, with an EBITDA margin of 6%. We expect PAT to increase 18.3% to Rs724m. The stock trades at 18.5x FY08E EPS of Rs25.8 and 15.7x FY09E EPS of Rs30.4. We maintain **Neutral**.

Eicher Motors: an investment profile

Company description

Eicher Motors, incorporated in 1982 is into manufacture of Commercial Vehicles. The company has emerged as a significant player in the 6-9 ton Gross Vehicle Weight Segment. From single 6 tons GVW truck in 1986 it now boasts of a range of commercial vehicles in segments above 5 tons.

Key investment arguments

- ✍ We remain positive on the growth rate for Commercial vehicle segment, 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 in the industry 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.

COMPARATIVE VALUATIONS

		EICHER	TATA MOTORS	ALL
P/E (x)	FY08E	18.5	15.3	11.2
	FY09E	15.7	13.5	10.1
EPS Gr (%)	FY08E	18.3	-1.9	4.8
	FY09E	17.9	13.6	11.5
RoE (%)	FY08E	15.4	21.4	21.9
	FY09E	15.9	21.0	21.2
EV/EBITDA (x)	FY08E	9.0	10.3	6.5
	FY09E	7.4	9.2	5.8

SHAREHOLDING PATTERN (%)

	SEP-07	JUN-07	SEP-06
Promoter	61.8	61.8	61.8
Domestic Inst	10.6	11.7	6.1
Foreign	9.4	9.2	17.9
Others	18.3	17.3	14.2

Recent developments

- ✍ The company has decided not to transfer the motorcycle business into a separate subsidiary company.
- ✍ Eicher Motors has announced in April 2007 the acquisition of 100% stake in US based Hoff and Associates and its two China based subsidiaries for US\$3.5m.

Valuation and view

- ✍ In FY08, we expect Eicher Motors to register net sales growth of 16.5% to Rs22.8b, with an EBITDA margin of 6%. We expect PAT to increase 18.3% YoY to Rs724m in FY08. We may change our estimates after the conference call tomorrow. Eicher Motors trades at 18.5x FY08E EPS of Rs25.8 and 15.7x FY09E EPS of Rs30.4. We maintain **Neutral**.

Sector view

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

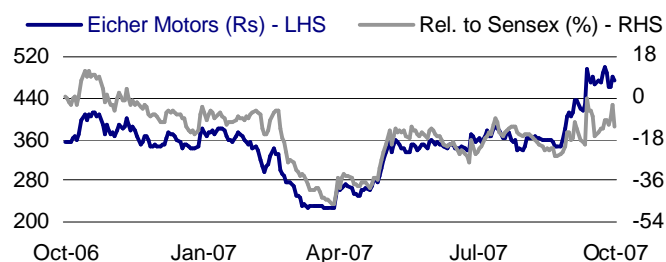
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	25.8	25.7	0.2
FY09	30.4	30.4	-

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
476	-	-	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2005	2006	2007	2008E	2009E	
Net Sales	19,826	16,448	19,525	22,754	25,438	
Change (%)	45.3	-17.0	18.7	16.5	11.8	
Total Expenses	18,500	15,801	18,369	21,387	23,855	
EBITDA	1,326	647	1,156	1,367	1,583	
Change (%)	10.4	-51.2	78.6	18.2	15.8	
% of Net Sales	6.7	3.9	5.9	6.0	6.2	
Depreciation	484	468	405	442	477	
Other Income	183	314	267	262	260	
EBIT	1,025	493	1,018	1,186	1,366	
Interest & Finance Charges	223	165	138	180	180	
Non-recurring Expense	67	67	0	0	0	
Non-recurring Income	0	1,734	0	0	0	
PBT	735	1,995	879	1,006	1,186	
Tax	147	-173	267	282	332	
Effective Rate (%)	19.9	-8.7	30.3	28.0	28.0	
PAT	589	2,168	613	724	854	
Adj. PAT	655	504	613	724	854	
Change (%)	58.9	-23.1	21.5	18.3	17.9	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2005	2006	2007	2008E	2009E	
Share Capital	281	281	281	281	281	
Reserves	2,129	4,169	3,853	4,416	5,092	
Net Worth	2,410	4,450	4,134	4,697	5,373	
Deferred Tax	671	437	401	401	401	
Loans	1,383	1,776	2,003	2,003	2,003	
Capital Employed	4,463	6,663	6,538	7,101	7,777	
Net Fixed Assets	3,800	2,952	2,938	3,495	3,518	
Capital WIP	87	73	85	85	85	
Investments	27	2,689	2,721	2,721	2,721	
Curr. Assets, L & Adv.	5,051	4,844	6,131	6,669	7,743	
Inventory	1,613	1,612	1,689	1,967	2,194	
Sundry Debtors	1,581	1,176	1,894	2,207	2,467	
Cash & Bank Balances	310	261	477	424	1,012	
Loans & Advances	1,547	1,795	2,071	2,071	2,071	
Current Liab. & Prov.	4,560	3,916	5,343	5,876	6,297	
Sundry Creditors	2,847	2,351	3,042	3,574	3,996	
Other Liabilities	820	552	1,048	1,048	1,048	
Provisions	893	1,014	1,254	1,254	1,254	
Net Current Assets	491	928	788	793	1,446	
Miscellaneous Expenditures	59	21	6	6	6	
Application of Funds	4,463	6,663	6,538	7,101	7,777	

E: MOSI Estimates

RATIOS						
Y/E MARCH	2005	2006	2007	2008E	2009E	
Basic (Rs)						
EPS	23.3	17.9	21.8	25.8	30.4	
Cash EPS	38.2	93.9	36.2	41.5	47.4	
Book Value per Share	85.8	158.4	147.2	167.2	191.3	
DPS	4.0	4.0	29.0	5.0	5.5	
Payout (Incl. Div. Tax) %	21.0	5.7	149.6	22.3	20.8	
Valuation (x)						
P/E		26.5	21.8	18.5	15.7	
Cash P/E		5.1	13.1	11.5	10.1	
EV/EBITDA		18.9	10.5	9.0	7.4	
EV/Sales		0.7	0.6	0.5	0.5	
Price to Book Value		3.0	3.2	2.8	2.5	
Dividend Yield (%)		0.8	6.1	10	12	
Profitability Ratios (%)						
RoE	27.2	11.3	14.8	15.4	15.9	
RoCE	23.0	7.4	15.6	16.7	17.6	
Leverage Ratio						
Debt/Equity (x)	0.6	0.4	0.5	0.4	0.4	

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2005	2006	2007	2008E	2009E	
OP/(Loss) before Tax	842	179	751	925	1,106	
Interest/Div. Received	183	314	267	262	260	
Depreciation & Amort.	484	468	405	442	477	
Direct Taxes Paid	-140	-61	-302	-282	-332	
(Inc)/Dec in Wkg. Capital	303	-486	356	-58	-66	
Other Items	18	34	2	0	0	
CF from Op. Activity	1,689	448	1,479	1,289	1,446	
Extra-ordinary Items	-67	1,667	0	0	0	
CF after EO Items	1,622	2,115	1,479	1,289	1,446	
(Inc)/Dec in FA+CWIP	-723	394	-403	-1,000	-500	
CF from Inv. Activity	-723	-2,269	-435	-1,000	-500	
Inc/(Dec) in Debt	-574	393	228	0	0	
Interest Paid	-223	-165	-138	-180	-180	
Dividends Paid	-124	-124	-916	-162	-178	
CF from Fin. Activity	-920	104	-827	-342	-358	
Inc/(Dec) in Cash	-20	-49	216	-53	588	
Add: Beginning Balance	332	310	261	477	424	
Closing Balance	312	261	477	424	1,012	



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motiloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited (*hereinafter referred as MOST*) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOST or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOST and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement

Eicher Motors

- | | |
|---|----|
| 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 |

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.