

Eicher Motors

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,016	EIM IN
	REUTERS CODE
S&P CNX: 5,090	EICH.BO

28 April 2008

Under Review

Previous Recommendation: Neutral

Rs278

Equity Shares (m)	28.1
52-Week Range (Rs)	644/225
1,6,12 Rel. Perf. (%)	11/-29/-18
M.Cap. (Rs b)	7.8
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	21.5	12.8	1.9	14.8	15.6	0.3	5.7
3/08E	22,024	630	22.4	2.9	12.4	1.7	13.7	14.8	0.3	5.8
3/09E	25,031	688	24.5	9.1	11.4	1.5	13.5	14.8	0.3	4.9
3/10E	26,860	798	28.4	16.0	9.8	1.4	13.9	15.5	0.2	4.0

- Net sales posted an increase of 5.5%, however EBITDA margin was lower by 160bp YoY (90bp QoQ). PAT decreased 6.8% YoY to Rs195m.
- Sales growth was driven by 19.4% YoY increase in motorcycle volumes to Rs6.5b. However CV volumes declined 3.4% YoY.
- EBITDA margin at 4.6% was lower than estimated, while EBITDA declined 21.9% YoY to Rs300m.
- PAT declined merely 6.8% YoY due to higher other income and lower tax on account of higher R&D spend (Eicher Motors could avail 150% weighted deduction).
- For full year FY08, Eicher Motors registered 12.8% increase in net sales to Rs22b, driven by higher M&HCV and motorcycle volumes and flat realizations. EBITDA margin was lower by 60bp at 5.3%, mainly due to the lower EBITDA margin in 2HFY08. EBITDA increased marginally by 1.2%, while PAT was up 2.9% to Rs631m.
- The company is yet to sign (expected to be signed in 1-2 months) the definitive agreement with Volvo to finalize the JV for the CV business. We believe the JV is a positive step for Eicher Motors, as it will give access to sophisticated technology from Volvo, the image of a global brand, as well as investment from Volvo in developing the business.
- Eicher Motors trades at valuations of 12.4x FY08E EPS of Rs22.4, 11.4x FY09E EPS of Rs24.5 and 9.8x FY10E EPS of Rs28.4.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	3,831	4,565	4,938	6,191	4,644	5,369	5,478	6,534	19,525	22,024
Change (%)	-1.2	29.3	26.6	20.3	21.2	17.6	10.9	5.5	18.7	12.8
Total Expenses	3,649	4,301	4,612	5,807	4,381	5,064	5,176	6,234	18,369	20,854
EBITDA	183	263	326	384	263	306	302	300	1,156	1,170
As a % of Sales	4.8	5.8	6.6	6.2	5.7	5.7	5.5	4.6	5.9	5.3
Non-Operating Income	73	73	52	70	53	83	63	96	267	295
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	38	37	138	178
Gross Profit	221	305	346	413	263	338	326	359	1,285	1,287
Less: Depreciation	98	99	102	107	109	109	107	107	405	431
PBT	123	206	244	306	155	230	220	252	879	856
Tax	39	65	66	97	43	63	62	58	267	226
Effective Tax Rate (%)	31.7	31.3	27.0	31.8	28.0	27.3	28.3	22.9	30.3	26.4
PAT	84	142	178	209	111	167	158	195	613	631
Adjusted PAT	84	142	178	209	111	167	158	195	613	631
Change (%)	2,238.9	N.A.	-39.6	-25.5	32.2	17.8	-11.4	-6.8	22.0	2.9

E: MOST Estimates

Strong volume growth in motorcycles and M&HCVs

Sales growth in 4QFY08 was driven by 19.4% YoY increase in motorcycle volumes to Rs6.5b. However CV volumes declined 3.4% YoY owing to which blended realization declined by 2.2% YoY.

For the full year FY08, Eicher Motors reported CV volume growth of 6.3% while the motorcycles segment grew 18.2%. We note, while for the full year FY08, industry volumes for motorcycles declined by 7.7%, Royal Enfield sales were strong.

Eicher Motors' M&HCV segment registered volume growth of 20.2% YoY in FY08, whereas the LCV segment registered a decline of 25.7% YoY. The strong growth in MHCVs is impressive, as it was achieved while the industry volumes declined by 0.5% in the quarter. Eicher Motors has improved its product portfolio in the M&HCV segment; volume growth has also been driven by launch of new products, giving the company a complete portfolio in CVs of above 5 tonnes.

MARKET SHARE (%)

	4QFY07	3QFY08	4QFY08	FY07	FY08
M&HCV	7.0	8.3	7.4	6.6	8.0
LCV	4.4	2.3	2.6	3.8	2.5
Total CVs	5.9	5.4	5.3	5.4	5.5
Motorcycles	0.5	0.5	0.7	0.5	0.6

Source: Company/Motilal Oswal Securities

EBITDA margin declines

EBITDA margin at 4.6% was lower than our estimates, while EBITDA declined 21.9% YoY to Rs300m (flat QoQ).

QUARTERLY VOLUMES (UNITS)

	4QFY08	4QFY07	YOY % CH	3QFY08	QOQ% CH	FY08	FY07	% CH
M&HCV	6,850	6,187	10.7	6,098	12.3	23,489	19,536	20.2
LCV	1,906	2,878	-33.8	1,531	24.5	6,338	8,536	-25.7
Total CVs	8,756	9,065	-3.4	7,629	14.8	29,827	28,072	6.3
Motorcycles	10,732	8,989	19.4	9,868	8.8	38,539	32,612	18.2

Source: Company/Motilal Oswal Securities

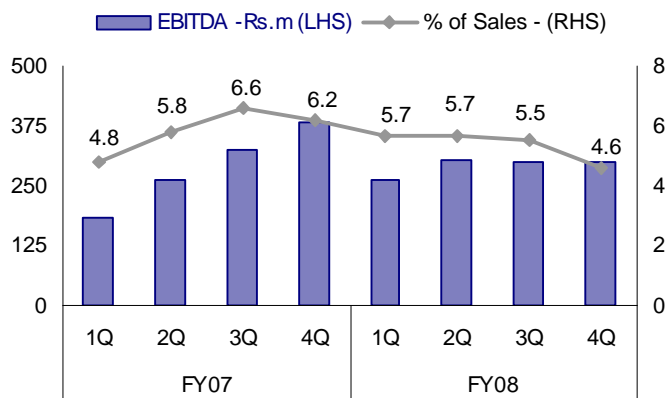
The key reasons for this were:

- (i) Eicher Motors' performance was negatively impacted by the strike at its Thane unit (makes components), which impacted production for 70 days in 2HFY08 (mainly in December and January). The components segment reported EBIT losses of Rs47m in 2HFY08, (profit of Rs15m achieved in 1HFY08);
- (ii) higher RM/sales on a sequential basis at 74.2% v/s 73.3% in 3QFY08. The company is still negotiating with its vendors for commodity contracts, hence the quantum of price increase is yet unknown.
- (iii) higher OE/net sales at 15.9% v/s 15.2% in 3QFY08 due to higher R&D expenditure, and an increase in marketing and subvention. On a YoY basis, other expenditure increased by 11% in 4QFY08 to Rs1b.
- (iv) staff expenses also increased on a YoY basis by 80bp, on account of the investment in better sales infrastructure being built for the future by Eicher.
- (v) lower proportion of two-wheeler exports at 3.1% of total two-wheeler volumes. Two-wheeler exports constituted a significantly higher 7.8% share of volumes in 4QFY07.

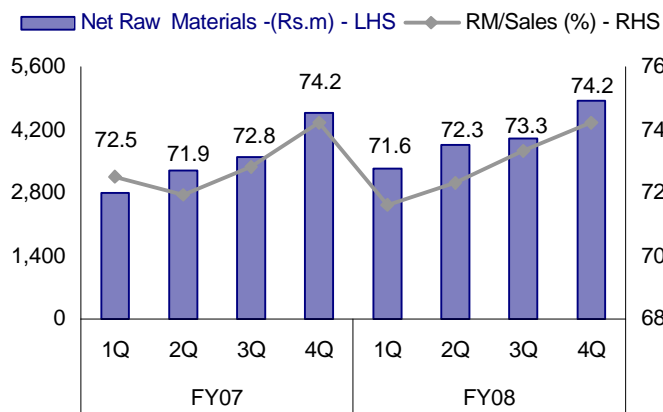
PAT declined only 6.8% YoY due to higher other incomes and lower tax rate on account of higher R&D spend in the quarter (where Eicher Motors was able to avail of 150% weighted deduction).

For the full year FY08, Eicher Motors registered 12.8% increase in net sales to Rs22b, driven by higher M&HCV and motorcycle volumes as well as flat realizations. EBITDA margin was lower 60bp at 5.3%, mainly due to the lower EBITDA margin seen in 2HFY08. EBITDA increased marginally by 1.2%, while PAT increased by 2.9% to Rs631m.

EBITDA MARGIN LOWER



RMSALES: SEQUENTIAL INCREASE



Source: Company

Other highlights

- Capacity expansion ongoing:** Eicher incurred capex of Rs560m in FY08 to increase its CV capacity to 48,000 units p.a. (from 38,000 units p.a.). The company will incur an additional Rs440m for upgradation of its paint shop, machine shop and other upgradations in FY09. It also plans to increase its motorcycle capacity from 3,500 units p.m. to 4,000 units p.m.
- Volvo JV likely to be finalized in 2 months:** Eicher Motors is yet to sign the definitive agreement (expected to be signed in 1-2 months) with Volvo to finalize the joint venture for the CV business. We believe the JV is a positive step for Eicher Motors, as it will give access to sophisticated technology from Volvo, the image of a global brand, as well as further investment from Volvo to develop the business.

Segmental performance

Eicher Motors’ CV business continues to be the leading profitability driver, contributing 84% to revenues and most of the profitability of the business along with stable EBIT margins. Performance of the components segment was negatively impacted by the strike at the Thane plant, resulting in loss of revenues and EBIT for the segment. While the two-wheeler segment had an EBIT margin of 2.8% in 9MFY08, the margin in 4QFY08 was just 0.5% due to lower exports (that have higher margins) and higher RM costs.

SEGMENTAL PERFORMANCE (RS M)

	4QFY07	3QFY08	4QFY08	FY07	FY08
Revenues					
Commercial Vehicles	5,353	4,758	5,698	16,617	18,851
Two-wheelers	558	607	655	1,984	2,400
Components	368	210	250	1,193	1,078
Others	13	12	13	42	74
Sub-total	6,292	5,587	6,615	19,835	22,402
Less: Intersegmental	87	86	31	220	247
Total Revenues	6,205	5,501	6,585	19,615	22,155
EBIT					
Commercial Vehicles	287	241	295	862	921
Two-wheelers	13	16	4	12	52
Components	32	-20	-27	57	-32
Others	-19	-13	-18	-55	-43
Sub-total	312	224	255	877	898
Less: Interest	41	38	37	138	178
Add: Unallocables	35	34	35	141	136
Total EBIT	306	220	252	879	856
EBIT Margin (%)					
Commercial Vehicles	5.4	5.1	5.2	5.2	4.9
Two-wheelers	2.2	2.6	0.5	0.6	2.2
Components	8.6	-	-	4.8	-
Others	-	-	-	-	-
Sub-total	5.0	4.0	3.8	4.4	4.0

Source: Company

Valuation and view

In FY09, we expect Eicher Motors to register net sales growth of 13.7% to Rs25b, with an EBITDA margin of 5.1%. We expect PAT to increase 9.1% YoY to Rs688m in FY08. Eicher Motors trades at valuations of 12.4x FY08E EPS of Rs22.4, 11.4x FY09E EPS of Rs24.5 and 9.8x FY10E EPS of Rs28.4. We are currently reviewing our recommendation on the stock. The stock is **Under Review**.

Eicher Motors: an investment profile

Company description

Eicher Motors, incorporated in 1982, manufactures 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.
- ✎ We believe that the JV with Volvo is a positive step for Eicher Motors, as it will give access to sophisticated technology from Volvo, the image of a global brand, as well as further investment from Volvo to develop the business.

Key investment risks

- ✎ Increased competition in the industry with several MNC players such as ITEC and MAN entering the Indian market.
- ✎ Further increase in diesel prices and interest rates will impact demand.

COMPARATIVE VALUATIONS

		EICHER	TATA MOTORS	ALL
P/E (x)	FY09E	11.4	11.1	11.6
	FY10E	9.8	9.9	11.6
EPS Gr (%)	FY09E	9.1	9.1	13.9
	FY10E	16.0	12.8	13.5
RoE (%)	FY09E	13.5	19.3	19.9
	FY10E	13.9	19.3	20.6
EV/EBITDA (x)	FY09E	4.9	8.3	6.7
	FY10E	4.0	7.5	5.9

SHAREHOLDING PATTERN (%)

	MAR-08	DEC-07	MAR-07
Promoter	61.8	61.8	61.8
Domestic Inst	9.1	11.1	7.5
Foreign	10.9	7.9	16.1
Others	18.3	19.3	14.7

Recent developments

- ✎ The company is to sign a definitive agreement with Volvo to finalize its JV for the CV business. This will entail transfer of Eicher Motors' CV and component business to the JV, wherein Eicher Motors will have a 54.4% holding.

Valuation and view

- ✎ In FY09, we expect Eicher Motors to register net sales growth of 13.7% to Rs25b, with an EBITDA margin of 5.1%. We expect PAT to increase 9.1% YoY to Rs688m in FY08. Eicher Motors trades at valuations of 12.4x FY08E EPS of Rs22.4, 11.4x FY09E EPS of Rs24.5 and 9.8x FY10E EPS of Rs28.4. We are currently reviewing our recommendation on the stock.

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.

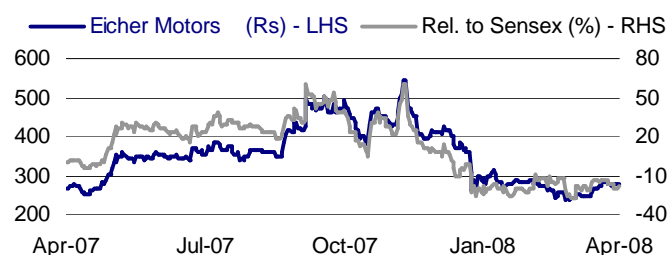
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	24.5	-	-
FY10	28.4	-	-

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
278	-	-	Under Review

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2006	2007	2008	2009E	2010E	
Net Sales	16,448	19,525	22,024	25,031	26,860	
Change (%)	-17.0	18.7	2.8	13.7	7.3	
Total Expenses	15,801	18,369	20,854	23,747	25,402	
EBITDA	647	1,156	1,170	1,284	1,458	
Change (%)	-512	78.6	12	9.7	13.6	
% of Net Sales	3.9	5.9	5.3	5.1	5.4	
Depreciation	468	405	431	477	512	
Other Income	314	267	295	305	315	
EBIT	493	1,018	1,034	1,112	1,261	
Interest & Finance Charges	165	138	178	178	178	
Non-recurring Expense	67	0	0	0	0	
Non-recurring Income	1,734	0	0	0	0	
PBT	1,995	879	856	934	1,084	
Tax	-173	267	226	246	286	
Effective Rate (%)	-8.7	30.3	26.4	26.4	26.4	
PAT	2,168	613	630	688	798	
Adj. PAT	504	613	630	688	798	
Change (%)	-23.1	215	2.9	9.1	16.0	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2006	2007	2008	2009E	2010E	
Share Capital	281	281	281	281	281	
Reserves	4,169	3,853	4,322	4,832	5,453	
Net Worth	4,450	4,134	4,603	5,113	5,734	
Deferred Tax	437	401	401	401	401	
Loans	1,776	2,003	2,003	2,003	2,003	
Capital Employed	6,663	6,538	7,007	7,517	8,138	
Gross Fixed Assets	5,004	5,315	6,315	6,815	7,315	
Less: Depreciation	2,052	2,377	2,808	3,285	3,797	
Net Fixed Assets	2,952	2,938	3,507	3,530	3,518	
Capital WIP	73	85	85	85	85	
Investments	2,689	2,721	2,721	2,721	2,721	
Curr.Assets, L & Adv.	4,844	6,131	6,419	7,416	8,337	
Inventory	1,612	1,689	1,918	2,184	2,336	
Sundry Debtors	1,176	1,894	2,135	2,416	2,593	
Cash & Bank Balances	261	477	295	746	1,338	
Loans & Advances	1,795	2,071	2,071	2,071	2,071	
Current Liab. & Prov.	3,916	5,343	5,732	6,241	6,529	
Sundry Creditors	2,351	3,042	3,430	3,940	4,228	
Other Liabilities	552	1,048	1,048	1,048	1,048	
Provisions	1,014	1,254	1,254	1,254	1,254	
Net Current Assets	928	788	688	1,175	1,808	
Miscellaneous Expenditures	21	6	6	6	6	
Application of Funds	6,663	6,538	7,007	7,517	8,138	

E: Most Estimates

RATIOS						
Y/E MARCH	2006	2007	2008	2009E	2010E	
Basic (Rs)						
EPS	17.9	21.8	22.4	24.5	28.4	
EPS Growth (%)	-23.1	21.5	2.9	9.1	16.0	
Cash EPS	93.9	36.2	37.8	41.5	46.6	
Book Value per Share	158.4	147.2	163.9	182.0	204.1	
DPS	4.0	29.0	5.0	5.5	5.5	
Payout (Incl. Div. Tax) %	5.7	149.6	25.6	25.8	22.3	
Valuation (x)						
P/E		12.8	12.4	11.4	9.8	
Cash P/E		7.7	7.4	6.7	6.0	
EV/EBITDA		5.7	5.8	4.9	4.0	
EV/Sales		0.3	0.3	0.3	0.2	
Price to Book Value		1.9	1.7	1.5	1.4	
Dividend Yield (%)		10.4	1.8	2.0	2.0	
Profitability Ratios (%)						
RoE	11.3	14.8	13.7	13.5	13.9	
RoCE	7.4	15.6	14.8	14.8	15.5	
Leverage Ratio						
Debt/Equity (x)	0.4	0.5	0.4	0.4	0.3	

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2006	2007	2008	2009E	2010E	
OP/(Loss) before Tax	179	751	739	807	946	
Interest/Div. Received	314	267	295	305	315	
Depreciation & Amort.	468	405	431	477	512	
Direct Taxes Paid	-61	-302	-226	-246	-286	
(Inc)/Dec in Wkg. Capital	-486	356	-82	-37	-41	
Other Items	34	2	0	0	0	
CF from Op. Activity	448	1,479	1,157	1,306	1,447	
Extra-ordinary Items	1,667	0	0	0	0	
CF after EO Items	2,115	1,479	1,157	1,306	1,447	
(Inc)/Dec in FA+CWIP	394	-403	-1,000	-500	-500	
CF from Inv. Activity	-2,269	-435	-1,000	-500	-500	
Inc/(Dec) in Debt	393	228	0	0	0	
Interest Paid	-165	-138	-178	-178	-178	
Dividends Paid	-124	-916	-162	-178	-178	
CF from Fin. Activity	104	-827	-339	-355	-355	
Inc/(Dec) in Cash	-49	216	-182	451	592	
Add: Beginning Balance	310	261	477	295	746	
Closing Balance	261	477	295	746	1,338	



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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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