

Eicher Motors

STOCK INFO.	BLOOMBERG
BSE SENSEX: 12,360	EIM IN
	REUTERS CODE
S&P CNX: 3,664	EICH.BO

5 May 2006

Neutral

Previous Recommendation: Under Review

Rs319

Equity Shares (m)	28.0
52-Week Range	396/205
1,6,12 Rel. Perf. (%)	-4/-25/-95
M.Cap. (Rs b)	9.0
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
3/06A	16,449	502	17.9	-23.3	17.8	2.0	11.3	7.7	0.4	9.8
3/07E	17,852	609	21.8	21.3	14.7	1.8	12.3	12.0	0.3	5.7
3/08E	19,718	729	26.0	19.7	12.3	1.6	13.2	13.6	0.2	4.0

- Eicher Motors' 4QFY06 results are in line with our estimates. Revenue grew 32% QoQ to Rs5.1b, EBITDA grew 105% QoQ to Rs358m and pre-tax profit grew 229% QoQ to Rs250m. The numbers are not comparable on a YoY basis, as the company sold its tractor division in 1QFY06.
- EBITDA margin expanded by 250bp QoQ as raw material cost declined from 75% of sales in 3QFY06 to 73.2% of sales in 4QFY06. Adjusted PAT registered 5% QoQ de-growth due to higher depreciation – there was a one-time write-off of gear division assets (about Rs35m) and lower tax write back.
- The company registered volumes of 23,604 units during FY06. Its volume growth of 2.5% was significantly lower than the industry growth of 12%. Sales, EBITDA and pre-tax profit for the year were Rs15.8b, Rs651m and Rs502m, respectively.
- We expect Eicher to register 10% CAGR in CV volumes during FY06-08 and estimate a 210bp margin expansion during the period on account of improved operating leverage. The stock currently trades at 14.7x FY07E and 12.3x FY08E earnings. We rate the stock as **Neutral**.

QUARTERLY PERFORMANCE (EICHER MOTORS LTD)

(Rs Million)

Y/E MARCH	FY05				FY06				FY05	FY06
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	3,459	4,460	5,337	6,570	3,875	3,530	3,900	5,144	19,826	16,449
Total Expenses	3242	4152	4922	6249	3,778	3,511	3,725	4,787	18,566	15,798
EBITDA	217	307	415	322	98	19	174	358	1,259	651
As a % of Sales	6.3	6.9	7.8	4.9	2.5	0.5	4.5	7.0	6.4	4.0
Non-Operating Income	20	22	32	108	70	61	81	104	183	312
Extraordinary Income	0	0	0	0	1,734	0	0	0	0	1,734
Extraordinary Expense	0	0	0	0	0	0	63	4	0	67
Interest	49	62	62	50	41	37	42	45	223	165
Gross Profit	188	268	384	380	1,861	43	149	412	1,219	2,464
Less: Depreciation	109	123	121	131	116	95	95	162	484	468
PBT	79	145	263	248	1,745	-52	54	250	736	1,996
Tax	23	42	60	23	7	-2	-178	-26	147	-173
Effective Tax Rate (%)	28.7	28.7	22.6	9.1	0.4	3.8	-328.7	-10.5	19.9	-8.7
PAT	57	103	203	226	1,738	-50	232	277	589	2,169
Adjusted PAT	57	103	203	226	4	-50	295	280	589	502

E: M0St Estimates

In 4QFY06, Eicher Motors reported sales of Rs5.1b (+31.9% QoQ). It reported its highest EBITDA margins in the past four quarters at 7%, an increase of 250bp QoQ. The margin growth was aided by lower raw material costs, which declined by 150bp QoQ to 73.2% of sales. EBITDA stood at Rs358m. Although margins expanded significantly, depreciation costs were higher due to one-time write-off and tax write-back was lower. As a result, adjusted PAT declined 5% QoQ to Rs280m.

In FY06, Eicher Motors reported sales of Rs16.5b. Despite the sale of the loss-making tractor business, Eicher reported a drop in EBITDA margins to 3.9% (down 250bp). The cost pressures along with the slowdown in M&HCV sales led to the margin de-growth. A write-back of tax helped Eicher post an adjusted PAT of Rs502m (down 15%), translating into an EPS of Rs17.9.

YoY volume growth disappoints

In 4QFY06 Eicher Motors reported a volume de-growth of 3% YoY due to poor performance of its heavy range of vehicles (16 ton and above). Though LCV sales grew by 6% YoY, HCV sales witnessed a sharp de-growth of 32% YoY. This is despite the fact that the HCV industry witnessed a robust growth of 15% YoY, driven by the one-time demand created due to the ban on overloading. The key reason for Eicher’s poor HCV volume growth is that while it lost market share of 150bp in the 25T segment, the 16T segment (as a whole) saw volume de-growth.

For FY06, Eicher has reported a marginal sales growth of 2.5% to 23,604 units. Though LCV volumes grew by 10%, M&HCVs witnessed a sharp de-growth of 26%.

VOLUME IN UNIT NOS

	4QFY06	4QFY05	% CH.	FY06	FY05	% CH.
M&HCV	1,260	1,856	-32.1	3,282	4,451	-26.3
LCV	6,597	6,226	5.8	20,322	18,554	9.5
Total	7,857	8,082	-2.9	23,604	23,005	2.5

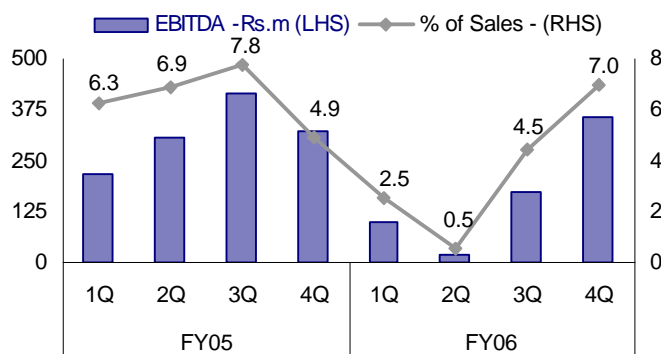
Source: Company/ Motilal Oswal Securities

EBITDA margins improve sequentially

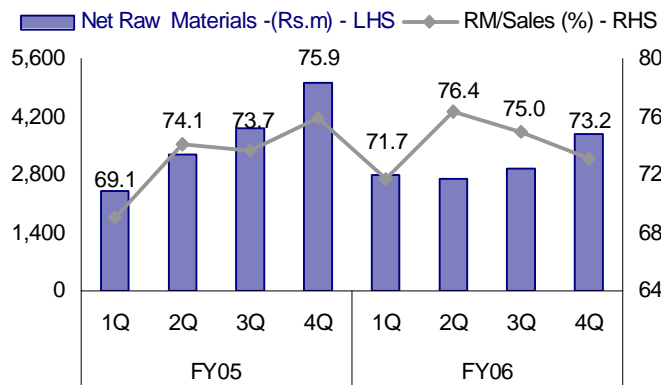
Eicher Motors reported its highest margins in the last four quarters during 4QFY06 at 7%, an increase of 250bp QoQ. The margin growth was aided by lower raw material costs, which declined by 150bp QoQ to 73.2% of sales. Eicher Motors has been facing cost pressures due to higher raw material costs and high other expenditure. Post the entry of the company in the M&HCV range in end-FY04, Eicher has been facing higher other expenditure in the form of higher manufacturing costs. Once volumes improve for the company, these costs will reduce as a proportion to sales.

We expect margins to expand 210bp over FY06-08, led by better volume growth, which will result in improved operating leverage.

EBITDA MARGIN: HIGHEST IN 4QFY06



RAW MATERIAL TO SALES



Source: Company/ Motilal Oswal Securities

Depreciation: higher due to one-time write-off

In 4QFY06, depreciation was significantly higher by 70% QoQ at Rs162m. This was due to a Rs35m one-time write-off of its gear division assets.

New management team

Eicher Motors has made several top-level management changes. Mr Siddhartha Lal, who is the promoter, will now head the commercial vehicle business. Eicher has also appointed Mr Ravichandran to head its loss-making two-wheeler business. Mr Ravichandran has extensive experience in this field and was formerly with TVS Motor and Bajaj Auto.

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, gears and engineering services), in which company operates, offer high growth potential.

We believe that the company is a niche player in all the segments in which it operates. It has a good recall for its products in the industry. But growth may be capped on account of its limited geographical reach and relatively small distribution & service network. Also, competition is increasing, with the entry of new players such as Force Motors and M&M.

We expect Eicher to register a volume growth of 10% in CVs over FY06-08 and expect margins to expand 210bp over the period on account of improved operating leverage and cost-cutting measures. After the sale of the tractor division, Eicher has cash of Rs130-140 per share, which the management intends to deploy whenever an opportunity arises. Also, the company has a healthy debt equity ratio of 0.3x.

The stock currently trades at 14.7x FY07E and 12.3x FY08E earnings. We rate the stock as **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 boosts a range of commercial vehicles of 5.4 tons to 25 tons GVW trucks and buses.

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 a strong brand equity in the LCV range, which it will leverage for its expansion in MCV's.

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.

Recent developments

- ✍ Freight rates have increased by 30% in the past 3-4 months due to the ban on overloading.

Valuation and view

- ✍ We expect Eicher to register a volume growth of 10% CAGR in CV's over FY06-08E and expect margins to expand 210bp over the same period on account of improved operating leverage. The stock currently trades 14.7x and 12.3x on FY07 and FY08 estimated earnings.
- ✍ We will monitor the volume growth over the next quarter before upgrading our recommendation. We rate the stock as **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

COMPARATIVE VALUATIONS

		EICHER	TATA MOTORS	ASHOK LEY.
P/E (x)	FY07E	14.7	22.1	17.3
	FY08E	12.3	16.9	15.2
EPS Gr (%)	FY07E	21.3	25.8	26.1
	FY08E	19.7	30.6	13.6
RoE (%)	FY07E	12.3	28.4	24.7
	FY08E	13.2	29.4	24.9
EV/EBITDA (x)	FY07E	5.7	11.6	9.4
	FY08E	4.0	8.9	7.9

SHAREHOLDING PATTERN (%)

	MAR.06	DEC.05	MAR.05
Promoters	62.2	61.8	61.8
Domestic Institutions	5.5	6.0	15.2
FII's/FDI's	19.2	18.5	9.0
Others	13.1	13.7	14.0

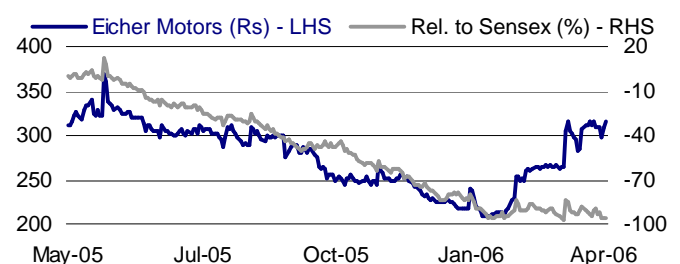
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	21.8	-	-
FY08	26.0	-	-

TARGET PRICE AND RECOMMENDATION

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

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2004	2005	2006	2007E	2008E	
Net Sales	13,648	19,826	16,449	17,852	19,718	
Change (%)	18.0	45.3	-17.0	8.5	10.5	
Total Expenses	12,447	18,500	15,801	16,878	18,527	
EBITDA	1,201	1,326	648	974	1,192	
Change (%)	63.6	10.4	-5.1	50.3	22.3	
% of Net Sales	8.8	6.7	3.9	5.5	6.0	
Depreciation	423	484	468	407	435	
Other Income	114	183	314	255	256	
EBIT	891	1,025	494	822	1,013	
Interest & Finance Charges	240	223	165	145	145	
Non-recurring Expense	76	67	67	0	0	
Non-recurring Income	0	0	1,734	0	0	
PBT	576	735	1,997	677	868	
Tax	239	147	-173	68	139	
Effective Rate (%)	41.6	19.9	-8.7	10.0	16.0	
PAT	336	589	2,170	609	729	
Adj. PAT	412	655	502	609	729	
Change (%)	10.1	58.9	-23.3	2.13	19.7	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2004	2005	2006E	2007E	2008E	
Share Capital	280	280	280	280	280	
Reserves	1,668	2,129	4,175	4,661	5,236	
Net Worth	1,948	2,409	4,455	4,941	5,516	
Deferred Tax	664	671	550	550	550	
Loans	1,957	1,383	1,383	1,383	1,383	
Capital Employed	4,569	4,462	6,387	6,873	7,448	
Application of Funds						
Gross Fixed Assets	5,724	6,329	4,229	4,629	4,829	
Less: Depreciation	2,121	2,529	1,997	2,405	2,839	
Net Fixed Assets	3,603	3,800	2,232	2,224	1,990	
Capital WIP	45	87	87	87	87	
Investments	27	27	27	27	27	
Curr.Assets, L & Adv.	4,157	5,051	7,774	8,426	9,457	
Inventory	1,263	1,613	1,385	1,480	1,675	
Sundry Debtors	1,549	1,581	1,333	1,473	1,704	
Cash & Bank Balances	332	310	3,973	4,715	5,547	
Loans & Advances	1,014	1,547	1,083	758	531	
Current Liab. & Prov.	3,342	4,560	3,731	3,890	4,111	
Sundry Creditors	2,446	2,847	2,533	2,754	3,031	
Other Liabilities	244	820	574	574	574	
Provisions	653	893	625	563	506	
Net Current Assets	815	491	4,042	4,536	5,345	
Miscellaneous Expenditures	81	59	0	0	0	
Application of Funds	4,570	4,463	6,387	6,873	7,448	

E: MOSt Estimates

RATIOS						
Y/E MARCH	2004	2005	2006E	2007E	2008E	
Basic (Rs)						
EPS	14.7	21.0	17.9	21.8	26.0	
Cash EPS	27.1	38.3	94.2	36.3	41.6	
Book Value per Share	69.6	86.0	159.1	176.5	197.0	
DPS	3.5	4.0	4.0	4.0	5.0	
Payout (Incl. Div. Tax) %	33.1	20.9	5.7	20.2	21.1	
Valuation (x)						
P/E		15.2	17.8	14.7	12.3	
Cash P/E		8.4	3.4	8.8	7.7	
EV/EBITDA		7.5	9.8	5.7	4.0	
EV/Sales		0.5	0.4	0.3	0.2	
Price to Book Value		3.7	2.0	1.8	1.6	
Dividend Yield (%)		13	13	13	16	
Profitability Ratios (%)						
RoE	212	27.2	11.3	12.3	13.2	
RoCE	19.5	23.0	7.7	12.0	13.6	
Turnover Ratios						
Working Capital (Days)	22	9	90	93	99	
Asset Turnover (x)	3.0	4.4	2.6	2.6	2.6	
Leverage Ratio						
Debt/Equity (x)	10	0.6	0.3	0.3	0.3	

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2004	2005	2006E	2007E	2007E	
OP/(Loss) before Tax	778	842	180	567	757	
Interest/Div. Received	114	183	314	255	256	
Depreciation & Amort.	423	484	468	407	435	
Direct Taxes Paid	78	-140	52	-68	-139	
(Inc)/Dec in Wkg. Capital	-438	303	111	249	23	
Other Items	554	17	59	0	0	
CF from Op. Activity	1,508	1,689	1,184	1,410	1,332	
Extra-ordinary Items	-76	-67	1,667	0	0	
CF after EO Items	1,432	1,622	2,851	1,410	1,332	
(Inc)/Dec in FA+CWIP	-2,548	-723	1,100	-400	-200	
CF from Inv. Activity	-2,548	-723	1,100	-400	-200	
Issue of Shares	80	0	0	0	0	
Inc/(Dec) in Debt	1,708	-574	0	0	0	
Interest Paid	-240	-223	-165	-145	-145	
Dividends Paid	-111	-123	-123	-123	-154	
CF from Fin. Activity	1,437	-920	-288	-268	-299	
Inc/(Dec) in Cash	321	-21	3,664	742	832	
Add: Beginning Balance	9	332	310	3,973	4,715	
Closing Balance	330	311	3,974	4,715	5,547	

E: MOSt Estimates



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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 |

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