

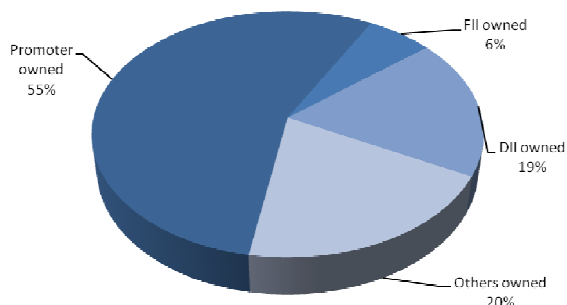
Company Report

Eicher Motors Ltd

3rd April, 2012**BUY**

CMP(as on 2/4/2012)	Rs.2111.65
Target Price	Rs.2600.00
BSE Code	505200
NSE Code	EICHERMOT
Market Cap (Rs Mn)	57000.78
52 Week High/Low	2150.00/1119.00
Industry	Auto
Face Value	Rs.10.00
Shares O/S	26993483
EPS	114.40
Book Value	553.22
P/E	18.46
P/B	3.82

Shareholding Pattern



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 research@hemonline.com

- Eicher Motors Limited, incorporated in 1982, is the flagship company of the Eicher Group in India and a leading player in the Indian automobile industry. Its 50-50 joint venture with the Volvo group, VE Commercial Vehicles Limited, designs, manufactures and markets reliable, fuel-efficient commercial vehicles of high quality and modern technology, engineering components and provides engineering design solutions. Eicher Motors manufactures and markets the iconic Royal Enfield motorcycles.
- The company has registered strong numbers for the quarter ending December 2011. The sales moved up 27% to Rs. 15766.40 million for the December 2011 quarter as compared to Rs. 12435.10 million during the year-ago period. Operating profit too jumped about 28% in Q4CY11 at Rs. 1538.40 million. EML has witnessed sharp growth across all segments coupled with increasing market gains. A comparatively good net profit growth of 55.74% to Rs. 854.40 million was reported for the Q4CY11 compared to Rs. 548.60 million of previous same quarter.
- In Q4 the industry grew by around 10.6% and Eicher has outperformed the industry by a good margin; so for the year it grew at 26.6% over 2010 and for Q4 it grew by 25% so it has beaten the industry by 15% and that has resulted in market share gains.
- EML's management look forward to another year of profitable growth with up gradation of its existing product range, capacity expansion and increasing its market reach.

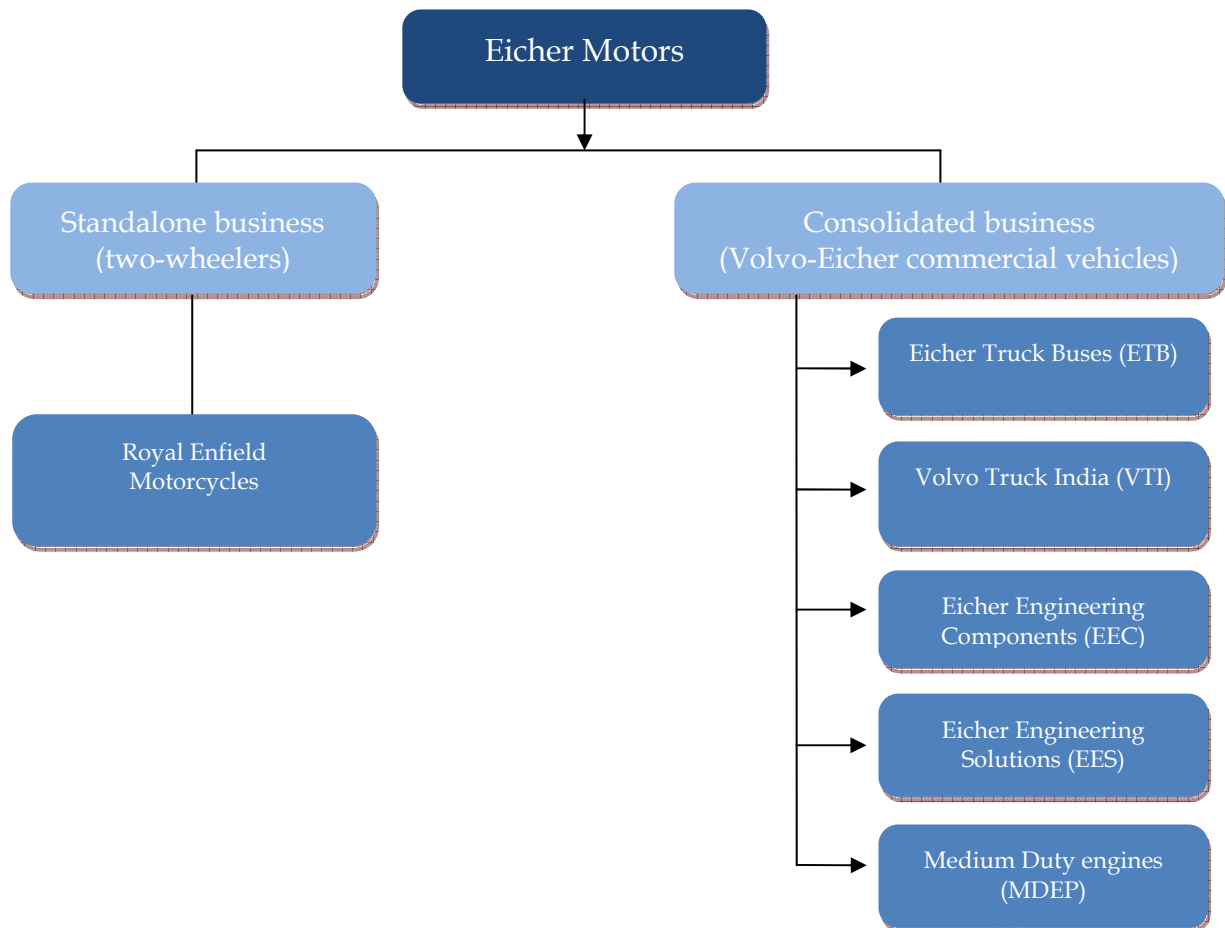
Valuation

With leadership position in premium segment motorcycles and leisure biking, strong distribution channels, robust volume growth and high realizations and increasing market presence; Eicher Motors Ltd. growth prospects looks promising. We believe Eicher Motors is trading at an attractive valuation at 15.68x and 12.07x of FY12EPS of Rs.134.78 and FY13EPS of Rs.174.98. We initiate a 'BUY' on the stock with a target price of Rs.2600 (appreciation of about 23%) with the medium to long term investment horizon.

Business Details

Eicher Motors Limited, incorporated in 1982, is the flagship company of the Eicher Group in India and a leading player in the Indian automobile industry. It is engaged in manufacturing of commercial vehicles, motorcycles and engineering components. Its 50-50 joint venture with the Volvo group, VE Commercial Vehicles Limited, designs, manufactures and markets reliable, fuel-efficient commercial vehicles of high quality and modern technology, engineering components and provides engineering design solutions. Eicher Motors manufactures and markets the iconic Royal Enfield motorcycles. It has manufacturing facilities located in Madhya Pradesh, Tamil Nadu, Maharashtra, and Haryana.

VE Commercial Vehicles Ltd (VECV): VE Commercial Vehicles Limited is a 50:50 joint venture between the Volvo Group (Volvo) and Eicher Motors Limited (EML). This joint venture came into effect in July 2008. It is a partnership that brings together Global leadership in technology, quality, safety and environmental care, along with the deep knowledge and understanding of the Indian Commercial Vehicle (CV) market. VECV comprises of five business verticals- Eicher Trucks and Buses, Volvo Trucks India, Eicher Engineering Components and Eicher Engineering Solutions and the recent Medium Duty Engine Project.



Strong Industry growth

India is the world's second fastest growing auto market and boasts of the sixth largest automobile industry after China, the US, Germany, Japan and Brazil. After an excellent 2010 wherein the two wheeler industry grew by 31%, the growth rate in 2011 moderated to 17.5%. The motorcycle segment which accounts for around 75 per cent of total two-wheeler sales recorded a 15.5 per cent growth in sales during the April-January 2012 period. While domestic demand was buoyant, exports rose by a robust 26.3 per cent, boosting the overall growth in motorcycle sales. The motorcycle industry achieved a growth of 16.6% in 2011 despite worse macro economic conditions as compared to 2010. The volume and growth of two wheeler and motorcycle industry are as below:

	2011	2012	Growth
Two Wheeler: Industry (Nos)	14,970,591	12,736,766	17.5%
Motorcycles (Nos):	11,728,487	10,058,454	16.6%

Source: Company

Within motorcycles, the growth of segments in 2011 over 2010 was as follows:

- economy segment (less than 125cc) grew by 15%
- executive segment (125 cc to 249 cc) grew by 20%
- premium segment (250cc and above) grew by 71%

These trends indicate the likelihood of higher growth in the higher cc (cubic capacity) segments. This endorses the emerging trend of leisure motorcycling that is fast catching up with the brand value conscious.

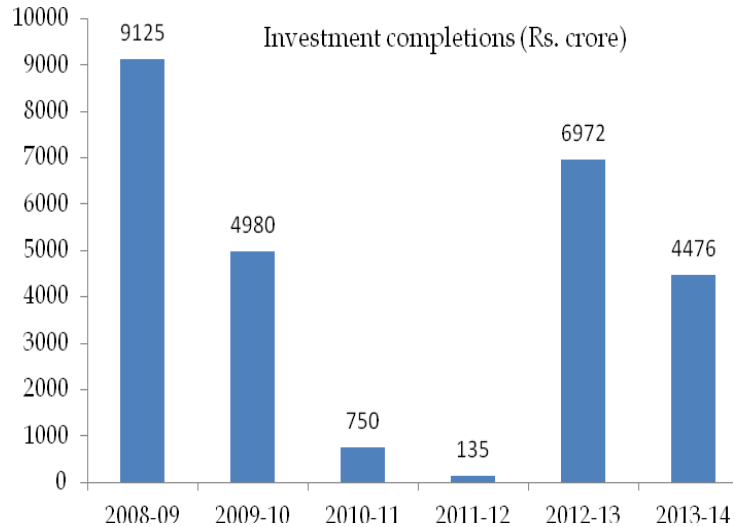
Commercial vehicle (CV) sales increased by a healthy 17.2 per cent to a little over 80,000 units in January 2012 as per the data released by the Society of Indian Automobile Manufacturers (SIAM). Exports grew by a robust 50.1 per cent and crossed the 10,000 units mark during the month, thereby aiding overall CV sales growth. Cumulative sales during April 2011 to January 2012 grew by 19.5 per cent to 7.2 lakh units.

Aggregate CV sales for the full year 2011-12 are expected to be 8.9 lakh vehicles, as compared to 7.5 lakh vehicles sold during 2010-11. This implies an 18.4 per cent growth during the year. Robust demand for light commercial vehicles (LCVs) is expected to drive the overall CV sales growth in 2011-12. CV sales are expected to grow by 10-14 per cent per annum during 2012-14. Huge capacity additions in the sector and new model launches are expected to aid sales growth during this period. The market size of the CV industry is expected to cross Rs.79,000 crore by 2013-14.

Commercial vehicle sales to grow by 18.4% during 2011-12							
	Units	2008-09	2009-10	2010-11	2011-12E	2012-13E	2013-14(E)
Production	Numbers	4,16,870	5,67,556	7,52,735	9,04,546	9,86,465	11,22,662
Sales	Numbers	4,26,819	5,77,730	7,52,702	8,91,002	9,81,643	11,13,741
Export	Numbers	42,625	45,009	76,297	88,442	1,00,200	1,15,300
Realisation	Rs./Numbers	6,59,000	6,59,000	7,05,000	6,96,000	7,00,00	7,11,000
Sales	Rs. crore	28,155	38,096.7	53,083.3	62,045.9	68,761	79,290.2

Source: CMIE

The commercial vehicles (CV) sector is expected to witness completion of projects worth Rs.11,448 crore during April 2012-March 2014. Twelve CV projects are scheduled to get completed during this period. The completion of these projects will push up the industry's total manufacturing capacity by at least 6.1 lakh units per annum. Of these, seven projects are scheduled to be completed in 2012-13. These involve an investment outlay of Rs.6,972 crore. The completion of these projects will add a CV manufacturing capacity of 2.6 lakh vehicles per annum by March 2013. In 2013-14, the CV industry is expected to witness completion of another five projects entailing an investment worth Rs.4,476 crore. The completion of these projects will add a manufacturing capacity of 3.5 lakh vehicles per annum.



VE Commercial Vehicles is in the process of expanding the capacity of its Pithampur plant in Madhya Pradesh at a cost of Rs.550 crore. It will add 18,000 trucks and buses manufacturing capacity. The expansion is expected to get completed by December 2012. In 2011-12, net sales of the industry are expected to rise by 16.6 per cent as per CMIE. The CV industry's sales growth is expected to moderate from 16.6 per cent in 2011-12 to 11.4 per cent in 2012-13. Net sales are further expected to rise by 15.6 per cent in 2013-14. The growth in sales will be mainly volume driven. Huge capacity additions coupled with new model launches in the sector are expected to boost volumes during 2012-14. Continuous improvement in road infrastructure will increase rural connectivity, which in turn will result in transportation of more goods.

Medium and heavy commercial vehicles market size to cross Rs.40,000 crore mark by March 2013

	Units	2008-09	2009-10	2010-11	2011-12E	2012-13E	2013-14(E)
Production	Numbers	1,92,283	2,50,133	3,44,542	3,80,688	4,00,775	4,45,520
Sales	Numbers	2,00,314	2,65,369	3,52,060	3,74,581	4,01,177	4,43,303
Export	Numbers	16,819	20,425	29,272	27,242	29,500	32,500
Realisation	Rs./Numbers	9,26,504.9	9,29,055.5	9,59,073.7	9,85,000	10,05,000	10,40,000
Sales	Rs. crore	18,559.2	24,654.3	33,765.1	36,896.2	40,318.3	46,103.5

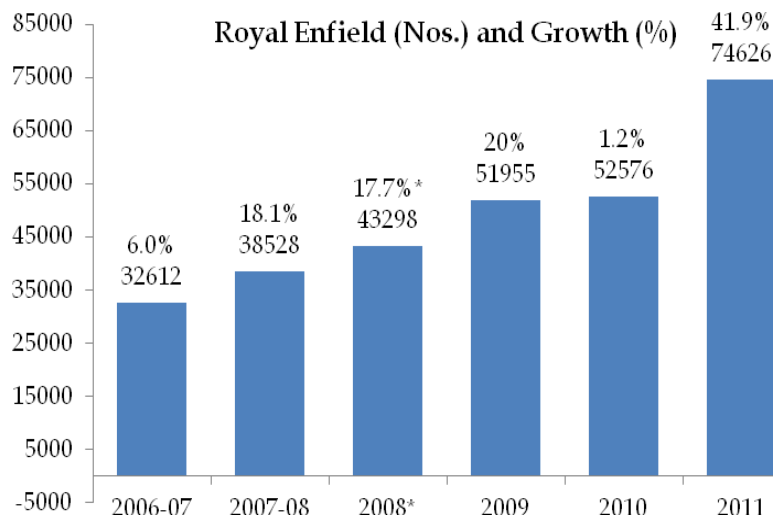
Source: CMIE

The medium and heavy commercial vehicles (M&HCV) sales growth accelerated to 14 per cent in January 2012, after reporting a modest 4.3 per cent growth in the preceding month. The industry sold a little over 34,000 M&HCVs, which were the highest monthly figures reported in the current fiscal year. For the full year 2011-12, M&HCV sales are expected to be 3.7 lakh units, as compared to 3.5 lakh units in 2010-11. Also, the continuous improvement and increase in road length by the National Highway Authority of India (NHAI) is expected to fuel demand for medium-to-heavy sized trucks.

Royal Enfield- Strong Brand Equity

Royal Enfield is often referred to as “The Indian cousin of Harley Davidson” and is the oldest motorcycle and renowned brand still in production. RE offerings are targeted towards leisure bikers. The Royal Enfield unit was able to produce and sell 42% more motorcycles in 2011 as compared to 2010. Total sales volume of Royal Enfield in 2011 was 74626 motorcycles as compared to 52576 in 2010. Total income for the year was 6,709.5 MINR, 51.6% growth over previous year. Total exports in 2011 were 3200 units, a growth of 21.7% over previous year. Royal Enfield products are now sold through 190 outlets in India and exported to 36 countries. The company has successfully achieved its target to produce and sell 7000 motorcycles per month by the end of CY2011.

Rising income levels and huge demand from urban youth for biking fanatics has led to strong demand for RE which is reflected in 6 to 12 months waiting period and in fact for some models it has gone beyond 12 months. Looking at such long waiting periods, EML is ramping up its capacity as much as they can in its existing plant and plans to produce beyond 8500 units per month. EML is also on track to build its new plant in Chennai and is targeting to start production in Q1CY2013 which would leave a major up shift in volumes with improving its capacity tremendously to beyond 1.5 lakhs.



*Growth (%) is with respect to full CY06-07 (For full year 2007, Sales volumes was 36786)

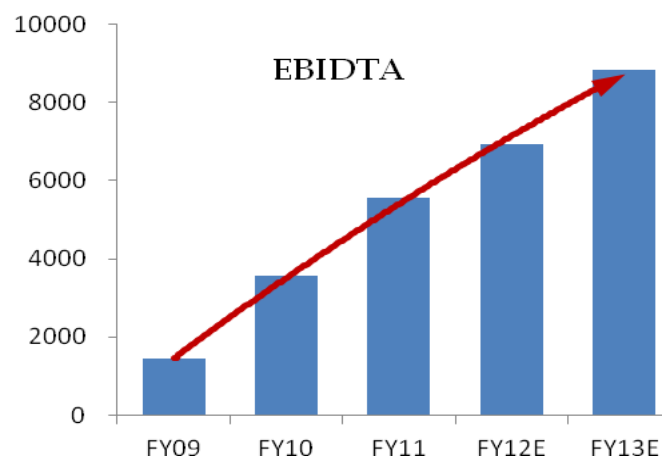
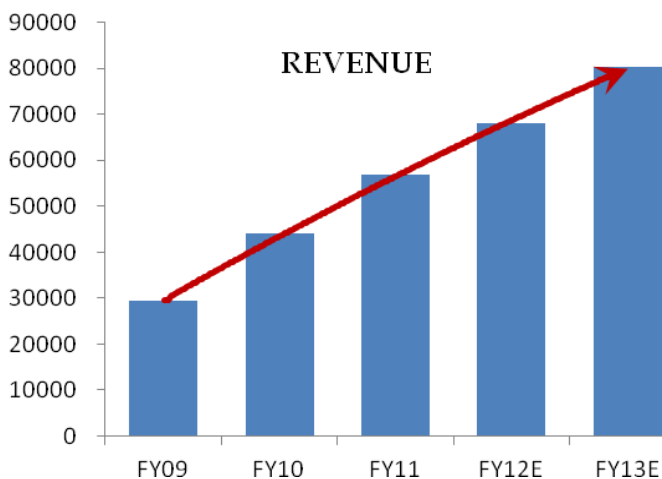
EML has launched new variants of its Classic 500cc model namely Classic Chrome and Classic Desert Storm which were received by customers with great enthusiasm. At the 2012 Auto Expo, Royal Enfield previewed the all new Thunderbird 500, fitted with the Unit Construction Engine and a host of design enhancements and also showcased new accessories- bike apparel, well crafted, meticulously detailed, purpose built motorcycle gear. With this new product, Royal Enfield has again upped the ante in leisure motorcycling. Further, it has also showcased ‘Café Racer’ which had a phenomenal response and that is due out in 2013, EML has a strong pipeline of products in the coming one or two year. Royal Enfield also carries forward a very healthy order book to 2012 and continued to expand its sales, distribution and after market network in India and abroad.

Excellent financial performance and growth triggers ahead

On a consolidated basis, EML has had best ever year with stellar financial performance. Its revenues jumped around 29% over preceding year at Rs.56775.40 million translating in operating profits of Rs.5550.60 million which shot up sharply by 56%. Net Profits skyrocketed by 63% at Rs.3087.70 million. The company had continued to have very good performance even in its working capital which has been negative for the last over two years. On the margins front, operating profit margin stood at 9.78% as against 8.12% clocked year ago witnessing sharp rise while net profit margin expanded by 115bps to stay at 5.44%.

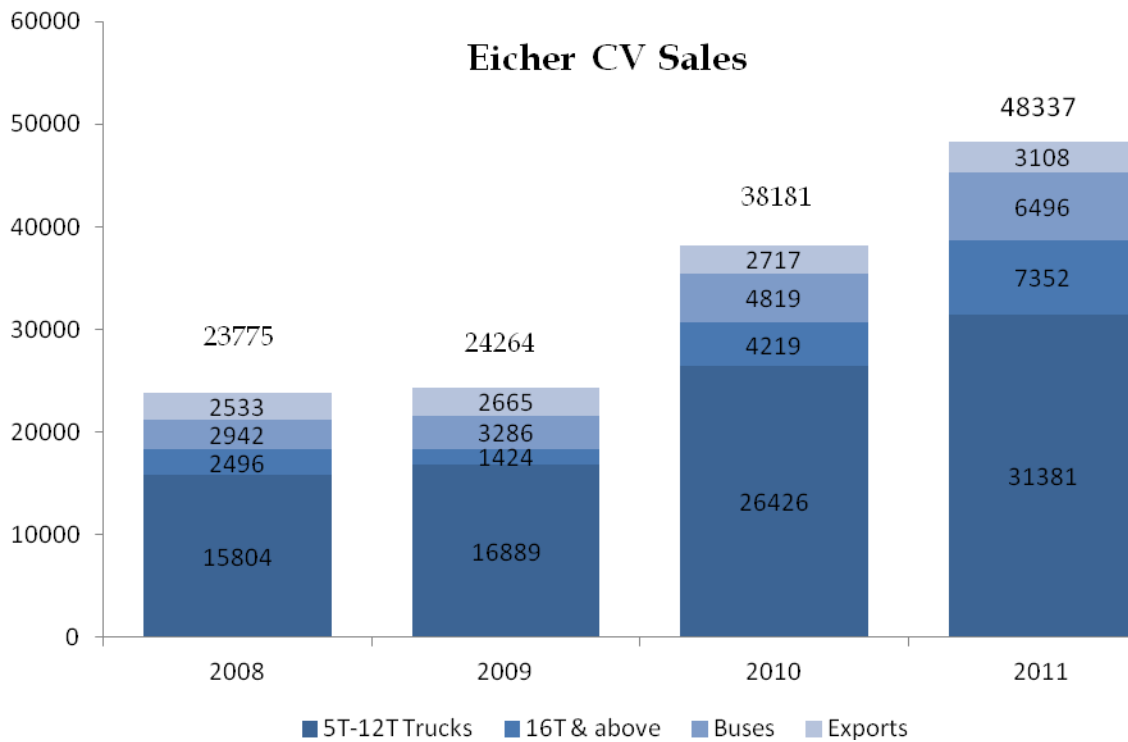
Looking to its past performance, EML expects strong growth to come in the next 2012 and the years coming. At consolidated level the company did a capex of Rs.450 crores across the two businesses. And for the next three years it intends to put in another 1000 odd crores for VECV and somewhere around 150-200 crores for two wheelers. EML is trying to push hard in heavy-duty and expect to continue to gain share in light and medium duty as well so therefore it expects to beat the industry. EML is upgrading its existing range and developing new products such as a new product line for ETB by 2013. Further, it is committed to its investment in capacity expansion and strategic projects. Work is on schedule for VECV's Medium Duty Engine Project and the new paint-shop at ETB.

The biggest area EML is focusing in 2012 is geographical expansion, especially for the products which the company is strong at. EML is looking at aggressively entering non-SSAARC areas also such as Africa, Middle East and potentially other markets in Asia, potentially other markets around the world all developing markets, but did not intend to get into developed markets which is North America, Europe, Australia, Japan.



Huge volume growth

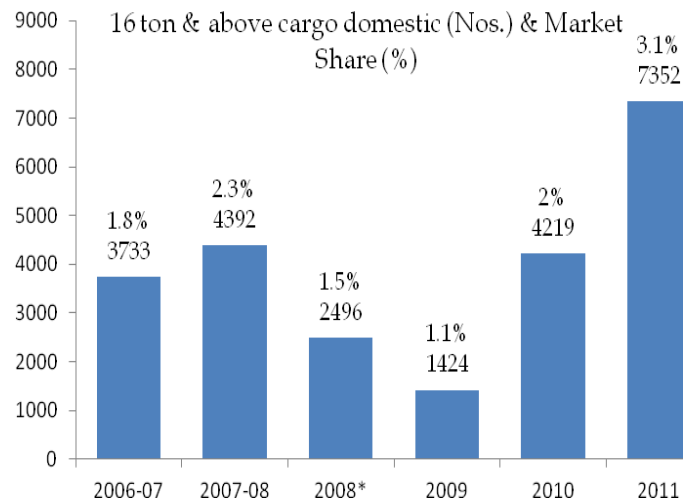
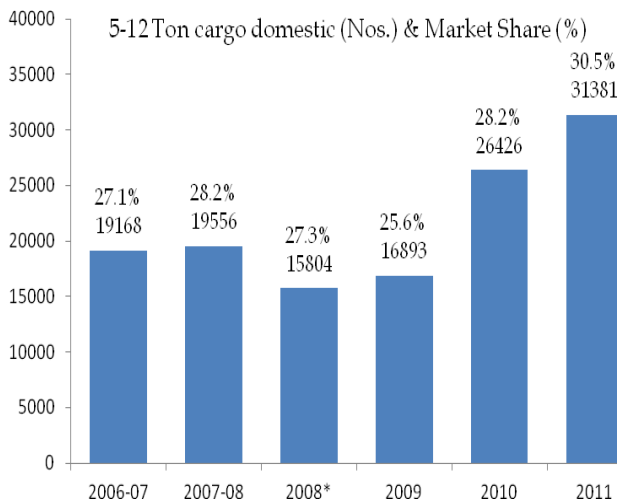
EML has witnessed sharp volume growth across all segments. For the year ended December 2011, the commercial vehicle volumes were at 49,000+ which is highest ever CV volumes, the highest ever motorcycle volumes are off nearly 75,000. EML’s joint venture with Volvo Group- VE Commercial Vehicles (VECV) reported a robust year with record volume numbers. VECV’s Eicher Trucks and Buses Division (ETB) showed an improvement in its sales volume with 48337 units for calendar year 2011 as compared to 38181 units in calendar year 2010. In the bus segment too, ETB has maintained its momentum with 6496 unit sales in calendar year 2011, a growth of 34.8% over the corresponding period last year. Heavy-duty bettered its performance by 74.3% at 7352 units in calendar year 2011 over 4219 units in the same period last year. In the calendar year 2011, VECV registered a volume growth of 24.8%, outpacing the industry which grew by 10% and increasing its corresponding market share. And exports EML has continued to have strong performance. It exported 3108 units in 2011 with the growth of 14.5% and in Q4 we have exported 686 units. For 5-12 ton cargo domestic volumes grew at 31381 units from 26426 units clocked in 2010.



Increasing market share in HD segment

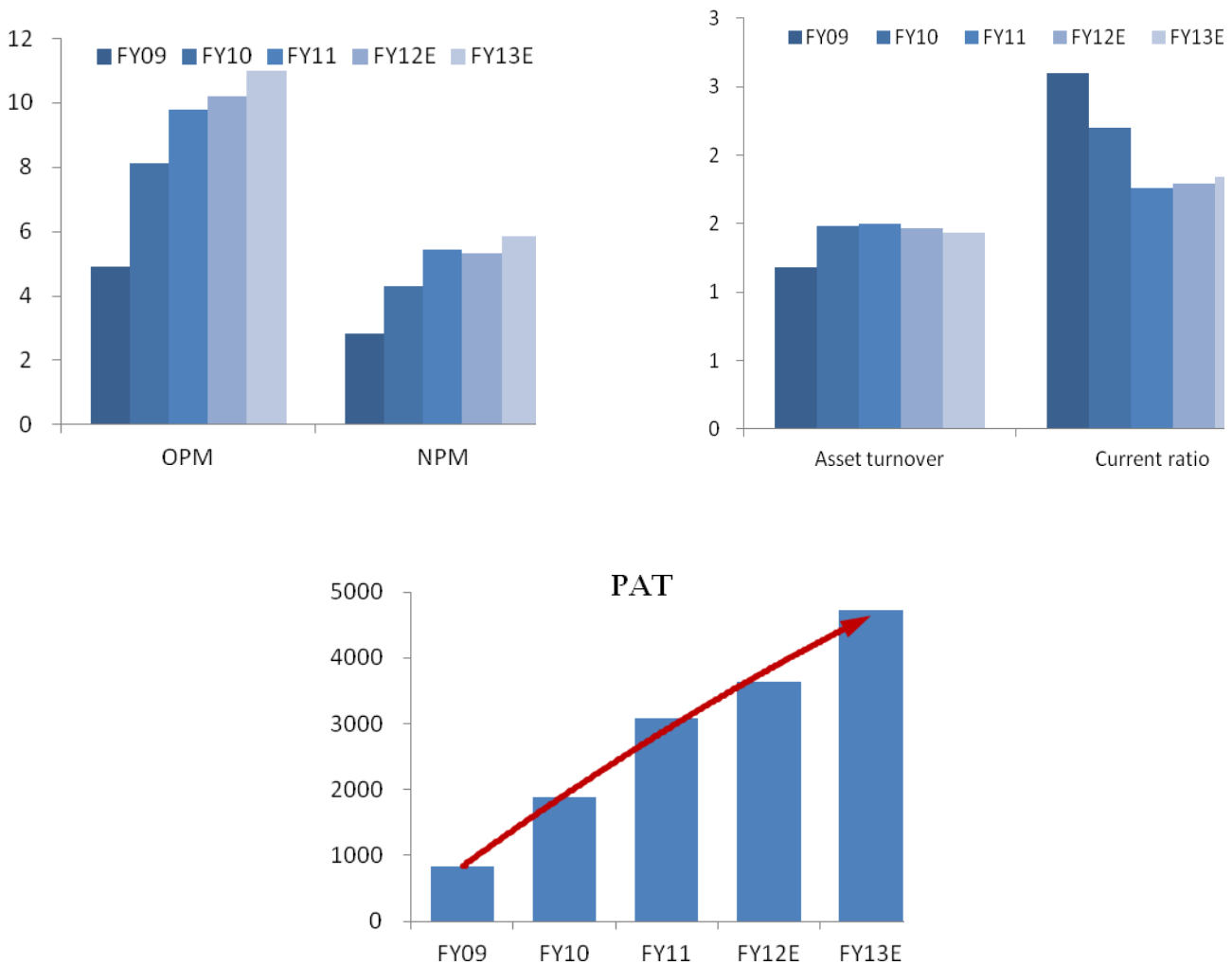
EML is putting continuous efforts to garner market share in all segments. In heavy duty in Q4, EML has actually sold 2180 units which is 83% improvement over the same period last year so that is a very substantial improvement it has been highest ever quarter in sales volumes and we have been able to get a market share of 3.8% for the quarter. So that is a significant increase in the market share as well. For the year EML did 7352 heavy-duty trucks which is a 74% growth over the previous year. So heavy-duty program is performing extremely well and is moving sharply forward. EML's market share for the entire year of 2011 was 3.1% as opposed to 2% for 2010. It is in heavy-duty where the company have continued to make the strongest progress. In 2008, EML's ambition was to clock 1000 units of heavy-duty sales by the end of 2011 and it clocked over 900 in heavy-duty trucks and including buses which means heavy-duty platforms; it had clocked over 1100 heavy-duty sale in the month of December alone. So it has been able to meet that benchmark and all in all, it is expanding on all fronts as far as heavy duty is concerned in 2012.

EML's market share in bus segment for the whole year has had an enormous improvement so in 2010 it was at 6.7% but for 2011 the company has been able to rise to 9.7% so that is a 3% improvement in market share in n buses and that is despite a shrinking market in the buses in itself which is fallen by 6%, the company has been able to add capacity and also been able to improve in its entire value proposition and its offering to the customers so that has been very-very strong improvement in buses.



Capacity expansion to fuel growth

EML is carrying a very healthy order book for execution in 2012 as well. In order to augment the production for growing market demand, the company has acquired 50 acres of land for construction of its new manufacturing facility at Oragadam, Chennai, Tamil Nadu. This will enhance Royal Enfield’s annual production capacity to 150,000 units. The new facility is expected to commence production in first half of 2013. Work is on schedule for VECV’s Medium Duty Engine Project and the new paint-shop at ETB. The company has also announced a new Eicher bus manufacturing plant near Indore at Dhar, Madhya Pradesh. The plant is being set up with an investment of Rs 125 Crores in the first phase and would commence production by the second quarter of 2013. The plant will have a capacity to produce 10,000 buses when fully operational.



Consolidated Profit & Loss Account

Rs. Million

Particulars	CY09	CY10	CY11	CY12E	CY13E
Net sales	29386.30	43970.80	56775.40	68130.48	80393.97
Growth		49.63%	29.12%	20.00%	18.00%
Expenditure	27942.10	40401.80	51224.80	61181.17	71550.63
EBITDA	1444.20	3569.00	5550.60	6949.31	8843.34
Growth		147.13%	55.52%	25.20%	27.25%
EBITDA margin	4.91%	8.12%	9.78%	10.20%	11.00%
Other income	1054.40	1275.70	1767.70	1975.78	2251.03
Depreciation & Amortization	538.80	573.00	639.60	929.05	1183.16
EBIT	1959.80	4271.70	6678.70	7996.04	9911.21
EBIT margin	6.67%	9.71%	11.76%	11.74%	12.33%
Interest	86.70	95.00	76.70	88.87	104.68
PBT	1873.10	4176.70	6602.00	7907.18	9806.53
Tax	578.20	1108.20	1628.00	2119.12	2628.15
PAT	1294.90	3068.50	4974.00	5788.05	7178.38
Minority interest	(461.00)	(1179.30)	(1886.30)	(2150.38)	(2455.74)
Adjusted PAT	833.90	1889.20	3087.70	3637.67	4722.64
Growth		126.55	63.44	17.81	29.83
Net Profit margins	2.84	4.30	5.44	5.34	5.87
Extraordinary item	0.00	0.00	0.00	0.00	0.00
Reported PAT	833.90	1889.20	3087.70	3637.67	4722.64
Equity Capital	266.90	269.40	269.90	269.90	269.90
Res. & Surplus	10423.50	12052.00	14661.40	17,975.19	22,292.98
Equity Shares	12.66	26.94	26.99	26.99	26.99
EPS	65.87	70.13	114.40	134.78	174.98

Ratios

Particulars	CY09	CY10	CY11	CY12E	CY13E
Return on Equity	7.80	15.33	20.68	19.94	20.93
Return on Capital employed	16.39	32.17	43.27	42.45	42.61
Debt/Equity	0.12	0.08	0.03	0.03	0.03
Asset turnover	1.18	1.48	1.50	1.47	1.43
Current Ratio	2.60	2.20	1.76	1.79	1.84
Cash per share	924.68	462.39	443.60	579.48	729.49
Book value per share	844.42	457.36	553.22	675.99	835.97

Balance Sheet

Rs. Million

Particulars	CY09	CY10	CY11	CY12E	CY13E
Share Capital	266.90	269.40	269.90	269.90	269.90
Reserves & Surplus	10423.50	12052.00	14661.40	17,975.19	22,292.98
Shareholders' funds	10690.40	12321.40	14931.30	18245.09	22562.88
Borrowings	1263.70	956.40	503.80	592.44	697.86
Minority Interest	5,746.70	6774.10	8376.50	10526.88	12982.62
Deferred tax Liability	141.60	249.20	644.60	644.60	644.60
Sources of funds	17842.40	20301.10	24456.20	30009.01	36887.96
Gross block	7,436.90	8,112.80	9,887.20	12387.36	15168.67
Accumulated Depreciation	3,801.70	4,269.00	4,843.00	5,772.05	6,955.21
Net block	3635.20	3843.80	5044.20	6615.31	8213.46
Capital work in progress	122.30	668.80	3,946.70	4,459.45	5,252.10
Investments	2,941.10	4,585.90	5,126.20	5,838.93	6,825.90
Projects in progress	0.00	0.00	0.00	0.00	0.00
Inventories	2,189.60	3,265.20	4,279.60	4,969.81	5,727.69
Sundry debtors	2,325.30	2,609.30	3,434.30	4,092.78	5,369.71
Cash and bank balance	11,706.50	12,456.80	11,972.70	15,640.28	19,688.94
Other current assets	359.60	355.40	423.30	584.68	715.96
Loans and advances	1,540.30	1,813.50	3,390.60	3,946.61	4,295.77
Total current assets	18,121.30	20,500.20	23,500.50	29,234.17	35,798.07
Deferred tax asset	0.00	0.00	0.00	0.00	0.00
Current liabilities and provisions	6,977.50	9,332.10	13,343.10	16,331.94	19,455.47
Net current assets	11,143.80	11,168.10	10,157.40	12,902.23	16,342.60
Pre operative exp	0.00	34.50	181.70	193.09	253.9
Uses of funds	17,842.40	20,301.10	24,456.20	30,009.01	36,887.96

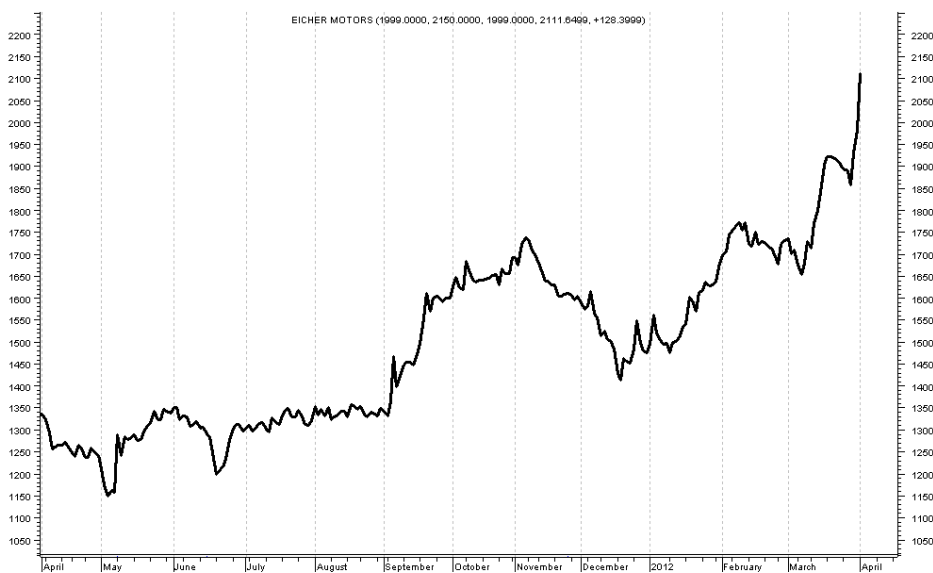
Quarterly Financial Highlights

Rs. Million

Particulars	Q4CY11	Q4CY10	Q3CY11	YoY%	QoQ%
Revenues	15766.40	12435.10	14512.80	26.79	8.64
Expenditures	14228.00	11230.30	13001.80	26.69	9.43
Operating Profit	1538.40	1204.80	1511.00	27.69	1.81
Net Profit	854.40	548.60	737.40	55.74	15.87
OPM%	9.76	9.69	10.41	7bps	(65bps)
NPM %	5.42	4.41	5.08	101bps	34bps
EPS*	31.66	20.33	27.32	55.73	15.86

*Adjusted for current no. of equity shares

Past Price movement of the stock



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<i>Disclosure of Interest Statement</i>	<i>Company Name</i>
<i>1. Analyst Ownership of the Stock</i>	<i>No</i>
<i>2. Hem & its Group Company Ownership of the Stock</i>	<i>No</i>
<i>3. Hem & its Group Companies' Director Ownership of the Stock</i>	<i>No</i>
<i>4. Broking relationship with company covered</i>	<i>No</i>

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