

November 11, 2011

Reco	Previous Reco
Accumulate	Buy
CMP	Target Price
Rs1,709	Rs1,975
EPS change CY11E/12E (%)	8/16
Target Price change (%)	16
Nifty	5,221
Sensex	17,570

Price Performance

(%)	1M	3M	6M	12M
Absolute	2	29	33	23
Rel. to Nifty	(3)	25	42	49

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Automobiles
Bloomberg	EIM@IN
Equity Capital (Rs mn)	270
Face Value(Rs)	10
No of shares o/s (mn)	27
52 Week H/L	1,762/975
Market Cap (Rs bn/USD mn)	46/929
Daily Avg Volume (No of sh)	25569
Daily Avg Turnover (US\$m)	0.8

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	55.2	55.3	55.3
FII/NRI	14.4	15.1	14.4
Institutions	17.4	16.5	16.6
Private Corp	2.0	2.1	2.3
Public	11.0	11.1	11.4

Source: Capitaline

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- **Results in line with EBIDTA/PAT at Rs 1.5bn/737mn vs est. of Rs 1.4bn/720mn. While two wheeler business disappointed, CV business surprised positively**
- **Demand for EIM's product continues to remain strong. However, macro environment for M&HCV is deteriorating. The impact, if any to be visible after two quarters**
- **Raise our CY11/12 EPS by 8%/16% to factor in higher volumes (+5%/4.8%) and lower RM cost. See downside risk to vol. est. due to macro environment/capacity constraints**
- **Upgrade TP to Rs 1975, (current business value – Rs 1,822, NPV of engine business – Rs 153). However, downgrade rating to ACCUMULATE**

Volumes – Product mix improves

Strong momentum in heavy duty vehicle segment (>16T) led to increase in its share to ~6.1%. Market share of the company improved to ~3.2% in this segment with volumes at ~1,800 units. Volvo trucks volumes continued its decline reporting -36% YoY to 139 units impacted by sharp drop in mining activity.

Volume mix

(%)	Q3CY10	Q4CY10	Q1CY11	Q2CY11	Q3CY11
M&HCV -7.5-12t	27.1	25.2	25.3	21.5	22.8
M&HCV Others	5.9	5.6	7.5	5.6	6.1
M&HCV Total	33.1	30.8	32.8	27.1	29.0
Volvo- M&HCV	1.0	1.3	0.7	0.4	0.4
LCV	9.8	9.1	9.4	9.8	9.1
Royal Enfield	56.2	58.9	57.2	62.8	61.5
Units sold	22,804	25,148	29,669	29,609	32,644

Source: SIAM, Emkay research

Consolidated sales – Marginally below est.

Net sales at Rs 14.5bn was ~2% below our est. of Rs 14.7bn. This was led by lower than expected top line in VECV at Rs 12.7bn vs our est. of Rs 12.9bn. Standalone revenues at Rs 1.8bn was in line with est.

Sales breakup

(Rs mn)	Q3CY10	Q4CY10	Q1CY11	Q2CY11	Q3CY11
Conso	10,984	12,435	13,897	12,984	14,513
Standalone	1,111	1,231	1,509	1,678	1,811
Subs (bal)	9,872	11,204	12,388	11,306	12,702

Source: Company, Emkay research

Financial Snapshot

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
CY09	29,386	1,455	4.9	844	31.3	(746.0)	7.8	54.5	24.5	4.3
CY10	43,971	3,578	8.1	1,899	70.5	124.9	16.5	24.2	16.9	3.7
CY11E	56,067	5,704	10.2	3,004	111.5	58.2	22.3	15.3	9.9	3.2
CY12E	67,948	7,383	10.9	3,786	140.5	26.0	23.6	12.2	7.1	2.6

Source: Company, Emkay Research

Quarterly Summary

Rs mn	Q3CY10	Q4CY10	Q1CY11	Q2CY11	Q3CY11	YoY(%)	QoQ(%)	YTD'11	YTD'10	YoY(%)
Revenue	10,984	12,435	13,897	12,984	14,513	32.1	11.8	41,394	31,778	30.3
Expenditure	10,145	11,230	12,273	11,723	13,002	28.2	10.9	36,997	29,172	26.8
<i>as % of sales</i>	92.4	90.3	88.3	90.3	89.6			89.4	91.8	
Consumption of RM	8,295	9,227	10,195	9,512	10,525	26.9	10.6	30,233	23,920	26.4
<i>as % of sales</i>	75.5	74.2	73.4	73.3	72.5			73.0	75.3	
Employee Cost	693	730	742	863	884	27.5	2.4	2,488	1,902	30.9
<i>as % of sales</i>	6.3	5.9	5.3	6.6	6.1			6.0	6.0	
Other expenditure	1,156	1,274	1,335	1,347	1,593	37.7	18.2	4,276	3,350	27.6
<i>as % of sales</i>	10.5	10.2	9.6	10.4	11.0			10.3	10.5	
EBITDA	839	1,205	1,624	1,262	1,511	80.1	19.8	4,397	2,606	68.7
Depreciation	148	147	154	154	162	9.7	5.3	470	426	10.2
EBIT	692	1,058	1,470	1,108	1,349	95.1	21.8	3,927	2,180	80.2
Other Income	183	239	254	412	289	57.9	(29.8)	954	795	20.0
Interest	32	8	14	21	34	7.9	62.4	70	87	(19.9)
PBT	843	1,289	1,709	1,499	1,604	90.3	7.0	4,811	2,888	66.6
Total Tax	203	346	483	338	401	97.8	18.7	1,223	757	61.6
Adjusted PAT	640	942	1,226	1,160	1,203	87.9	3.6	3,589	2,131	68.4
Profit/(loss) from JV's/Ass/MI	253	389	493	397	465	83.7	17.1	1,355	791	71.4
Adj. PAT after MI	387	554	733	763	737	90.7	(3.4)	2,233	1,341	66.6
Extra ordinary items	-	5	-	-	-			-	-	
Reported PAT	387	559	733	763	737	90.7	(3.4)	2,233	1,341	66.6
Reported EPS	14.4	20.4	27.2	28.3	27.4	89.6	(3.4)	82.8	50.2	65.2

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	7.6	9.7	11.7	9.7	10.4	277	69	10.6	8.2	242
EBIT	6.3	8.5	10.6	8.5	9.3	300	76	9.5	6.9	263
EBT	7.7	10.4	12.3	11.5	11.1	338	(49)	11.6	9.1	254
PAT	3.5	4.5	5.3	5.9	5.1	156	(80)	5.4	4.2	118
Effective Tax rate	24.1	26.9	28.3	22.6	25.0	95	246	25.4	26.2	(79)

Source: Company. Emkay Research

EBIDTA: ~4% above est.

Consolidated EBIDTA at Rs 1.5 bn (our est. of Rs 1.4bn) benefited from improved operating performance in the CV segment. Key surprise was led by lower than expected raw material cost pressures in CV segment. This led to EBITDA of Rs 1.3bn vs our est. of Rs 1.2bn in subsidiaries. Standalone EBITDA disappointed at Rs 231mn vs our est. of Rs 253mn.

EBIDTA breakup and margins

Rs mn	Q3CY10	Q4CY10	Q1CY11	Q2CY11	Q3CY11
Conso	839	1,205	1,624	1,262	1,511
Standalone	106	102	198	223	231
Subs (bal)	734	1,103	1,427	1,039	1,280
EBIDTA margins (%)					
Conso	7.6	9.7	11.7	9.7	10.4
Standalone	9.5	8.3	13.1	13.3	12.7
Subs (bal)	7.4	9.8	11.5	9.2	10.1

Source: Company, Emkay research

Conso APAT at Rs 737mn (our est Rs 720mn)

Consolidated APAT at Rs 737mn was marginally ahead of our est. of Rs 720mn due to higher other income. Other income was at Rs 289mn vs our est. of Rs 230mn. Depreciation expense of Rs 160mn and effective tax rate of ~25% were in line with our est.

APAT breakup

Rs mn	Q3CY10	Q4CY10	Q1CY11	Q2CY11	Q3CY11
Conso	387	549	733	763	737
Standalone	84	357	145	289	182
VECV (bal)	302	191	588	474	556

Source: Company, Emkay research

Revision in estimates

Given the sustained traction seen in CV segment and Royal Enfield business, we increase our volume est. by 5%/4.8% in CY11/12. We factor in a average run rate of 5,000 units per month in CV segment for 2012. This includes ~1,000 units per month volume run rate in HD segment. For two wheelers, we have factored in run rate of ~ 8,000 units per month. We do not rule out negative surprises on the volume front due to macro environment /capacity constraints. We increase our EBIDTA estimates by 10%/16% in CY11/CY12 due to improving product mix, lower discounts, lower RM cost pressures and higher other income. Our EPS est. is revised upwards by ~8%/16% in CY11/12 to 111.5/140.5.

Rs mn	CY11E			CY12E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Royal Enfield	73,498	76,102	3.5%	95,054	98,419	3.5%
CV	45,957	50,044	8.9%	55,416	60,010	8.3%
Total units	120,067	126,145	5.1%	151,145	158,430	4.8%
Sales	53,341	56,067	5.1%	64,821	67,948	4.8%
EBIDTA	5,189	5,704	9.9%	6,388	7,383	15.6%
EBIDTA margins (%)	9.7%	10.2%		9.9%	10.9%	
Net Profits	2,792	3,004	7.6%	3,255	3,786	16.3%
EPS	103.7	111.5	7.6%	120.8	140.5	16.3%

Valuations and View

At CMP of Rs 1,709, the stock trades at PER of 15.3x/12.2x and EV/EBIDTA of 9.9x/7.1x our CY11 and CY12 estimates respectively. Given the strong earnings visibility and significant free cash flow generation we increase our target multiple from 7x to 7.5x in CV business and from 8x to 9x in Royal Enfield segment. We raise our target price to Rs 1,975 implying 17.7x/14.1x PER and 12x/8.6x EV/EBITDA on our CY11/12 estimates. However, we downgrade our rating to ACCUMULATE. We have valued the company on SOTP basis as indicated below.

We believe there exists downside risk to our volume estimates due to macro environment/capacity constraints.

Summary valuations

Rs mn	CY11E	CY12E
Sales		
VECV	49,326	58,969
Standalone	6,741	8,979
Total	56,067	67,948
EBIDTA		
VECV*	4,898	6,254
Standalone	805	1,129
Total	5,704	7,383
Target Multiple(EV/EBIDTA)		
VECV	7	7.5
Standalone	8	9
Target EV (Rs. Mn)		
VECV (Only Eicher's share)	18,653	25,518
Standalone	6,441	10,160
Total	25,094	35,678
Less. Net Debt (Rs. Mn)*	(11,030)	(13,454)
Target Market Cap (Rs. Mn)	36,124	49,132
Share Cap. (Nos mn)	26.9	26.9
Value per share (Rs.)	1,342	1,822
Value of Engine business# (Rs.)	153	153
Total (Rs.)	1,495	1,975

* Net Debt for VECV - only Eicher's share is considered

#CY13 - 40,000 engines, ASP - Rs 0.3mn, margins – 10%, COE - 13%

Key Con Call Extracts

- In the Heavy duty vehicle segment, company has reached ~700 units per month. It maintains its target of ~1,000 units per month in CY12. However, it is not looking to push sales and strives to increase volumes on a sustainable basis.
- There is slowdown in cargo space (registering a decline). However, there is a strong demand in the tipper segment. The CV business is inherently cyclical and impact of macro environment will be felt. However, it seems in the next two quarters, industry will report a growth.
- Company has reached ~10% market share in >16 ton tipper segment. Management believes significant scope of market share improvement as it has recently launched a new 25 ton tipper which is well received and it is only present in <50% of TIVs.
- EIM has recently launched its semi low floor range of buses in October and has an order book of ~20 buses from Gujarat government.
- Engine: The plant is on schedule. However, it will take 18 to 24 months for a higher utilization levels as EIM will not replace the entire set of current engines with new series engines. It will be done gradually over a period of time. Total engine capacity is ~ 50,000 units of existing engines (which will be increased) plus the new engine capacity of ~ 85,000 engines
- Royal Enfield (RE): Plans for the new plant have been completed and the company is awaiting approvals for the same. Expects the plant to come on-stream by Q1CY13.
- Demand for Royal Enfield remains very strong and is outstripping supply by ~3,000 – 5,000 units per month. Management expects to increase current run rate of ~7,000 units per month to ~7,500 - 8,000 in CY12 by increasing outsourcing in paint shop, removing supply constraints in frames/tanks etc. Its premium model “Classic” has been launched in October and is attracting affluent customers
- For RE exports, company is already present in 30 countries. However, immediate focus of the company is domestic market given the demand supply mismatch. Company does not expect uptick in exports till 2014. Also, higher export contribution is likely to impact margins positively for the company.
- Capacity ramp up in CV: Management expects to have a capacity of ~4,500 units per month in Q1CY12 with a target of ~5,500 units by end CY12. Also, plans to gradually increase its capacity to 8,500+ units per month in the next 3 years.
- Raw Materials: There is a lag of 1 quarter of metal price movement on margins and hence some benefit is expected from next quarter onwards. However, management maintains that metal prices have stabilised and did not decline significantly.
- Price hikes: ~1.2% in October in the CV segment.
- Discounts: Discounting activity in LCV space is reasonable. It is higher in the M&HCV space. EIM's profitability in HD segment is lower as it is a new player and higher level of discounts in the industry.
- Margins: Improvement in product mix will be key driver for margin expansion. There will be slight increase in the fixed cost and EIM has been adding manpower as it is increasing its presence. Also, initially there will be pressure on margins with increasing sales of HD trucks. In the long term HD truck profitability will move up as and when the brand achieves recognition/stabilises
- Dealers: Dealer strength currently stands at 213 with ~14 dealers added till date in 2011. Notably, more than 50% dealers are effectively selling heavy duty vehicles. Also, it plans to add 10-12 more dealers by end of 2011.
- Total cash balance stands at Rs 12bn in VECV business and Rs 4.95 bn in standalone business.

Financials

Income Statement

Y/E, Mar (Rs. mn)	CY09	CY10	CY11E	CY12E
Net Sales	29,386	43,971	56,067	67,948
Growth (%)	71.1	49.6	27.5	21.2
Expenditure	27,932	40,392	50,363	60,565
Materials Consumed	21,992	33,147	40,930	49,778
Employee Cost	2,152	2,631	3,475	3,845
Other Exp	3,788	4,614	5,958	6,942
EBITDA	1,455	3,578	5,704	7,383
Growth (%)	4,044.2	146.0	59.4	29.4
EBITDA margin (%)	4.9	8.1	10.2	10.9
Depreciation	539	573	686	872
EBIT	916	3,005	5,018	6,511
EBIT margin (%)	3.1	6.8	8.9	9.6
Other Income	1,054	1,276	1,519	1,766
Interest expenses	87	95	112	112
PBT	1,884	4,186	6,425	8,166
Tax	578	1,108	1,699	2,190
Effective tax rate (%)	30.7	26.5	26.4	26.8
Adjusted PAT	1,305	3,078	4,726	5,976
Growth (%)	(1,657.6)	135.8	53.6	26.4
Net Margin (%)	4.4	7.0	8.4	8.8
(Profit)/loss from JV's/Ass/MI	461	1,179	1,722	2,190
Adj. PAT After JVs/Ass/MI	844	1,899	3,004	3,786
E/O items	(10)	(9)	-	-
Reported PAT	834	1,889	3,004	3,786
Growth (%)	258.7	126.5	59.0	26.0

Cash Flow

Y/E, Mar (Rs. mn)	CY09	CY10	CY11E	CY12E
PBT (Ex-Other income)	829	2,910	4,906	6,399
Depreciation	539	573	686	872
Interest Provided	87	95	112	112
Other Non-Cash items	585	163	-	-
Chg in working cap	2,224	726	80	438
Tax paid	(578)	(1,108)	(1,699)	(2,190)
Operating Cashflow	3,685	3,360	4,085	5,631
Capital expenditure	(259)	(1,222)	(3,148)	(1,800)
Free Cash Flow	3,426	2,137	937	3,831
Other income	373	947	1,519	1,766
Investments	(2,879)	(1,645)	(500)	-
Investing Cashflow	-2,764	-1,921	1,019	1,766
Equity Capital Raised	(14)	3	-	-
Loans Taken / (Repaid)	(392)	(307)	(465)	335
Interest Paid	(87)	(95)	(112)	(112)
Dividend paid (incl tax)	(219)	(346)	(788)	(992)
Income from investments	-	-	-	-
Others	(929)	57	-	-
Financing Cashflow	(1,641)	(689)	(1,364)	(769)
Net chg in cash	(979)	(472)	591	4,829
Opening cash position	12,318	11,707	12,457	13,048
Closing cash position	11,339	11,234	13,048	17,877

Balance Sheet

Y/E, Mar (Rs. mn)	CY09	CY10	CY11E	CY12E
Equity share capital	267	269	269	269
Reserves & surplus	10,424	12,018	14,342	17,135
Net worth	10,690	12,287	14,611	17,405
Minority Interest	5,747	6,774	8,496	10,687
Secured Loans	735	865	400	735
Unsecured Loans	529	91	91	91
Loan Funds	1,264	956	491	826
Net deferred tax liability	142	250	142	142
Total Liabilities	17,842	20,267	23,740	29,059
Gross Block	7,437	8,113	9,913	12,713
Less: Depreciation	3,802	4,269	4,955	5,827
Net block	3,635	3,844	4,958	6,886
Capital work in progress	122	669	2,017	1,017
Investment	2,941	4,586	5,086	5,086
Current Assets	18,121	20,500	25,800	33,292
Inventories	2,190	3,265	4,297	5,190
Sundry debtors	2,325	2,609	4,517	5,414
Cash & bank balance	11,707	12,457	13,048	17,877
Loans & advances	1,540	1,814	3,241	3,963
Other current assets	360	355	697	849
Current lia & Prov	6,978	9,332	14,121	17,221
Current liabilities	6,016	7,942	11,714	14,257
Provisions	962	1,391	2,407	2,964
Net current assets	11,144	11,168	11,679	16,071
Misc. exp	-	-	-	-
Total Assets	17,842	20,267	23,740	29,059

Key Ratios

Y/E, Mar	CY09	CY10	CY11E	CY12E
Profitability (%)				
EBITDA Margin	4.9	8.1	10.2	10.9
Net Margin	4.4	7.0	8.4	8.8
ROCE	11.0	22.5	29.7	31.4
ROE	7.8	16.5	22.3	23.6
RoIC	22.8	106.8	163.3	150.2
Per Share Data (Rs)				
EPS	31.3	70.5	111.5	140.5
CEPS	42.8	83.9	127.8	161.3
BVPS	400.5	456.1	542.4	646.1
DPS	7.0	15.7	25.0	31.5
Valuations (x)				
PER	54.5	24.2	15.3	12.2
P/CEPS	39.9	20.4	13.4	10.6
P/BV	4.3	3.7	3.2	2.6
EV / Sales	2.1	1.4	1.0	0.8
EV / EBITDA	24.5	16.9	9.9	7.1
Dividend Yield (%)	0.4	0.9	1.5	1.8
Gearing Ratio (x)				
Net Debt/ Equity	(1.0)	(0.9)	(0.9)	(1.0)
Net Debt/EBITDA	(7.2)	(3.2)	(2.2)	(2.3)
Working Cap Cycle (days)	(18.6)	(17.2)	(18.9)	(19.6)

* The difference between the closing cash as per balance sheet and as per cash flow is due to cash credit balances

Recommendation History: Eicher Motor – EIM IN

Date	Reports	Reco	CMP	Target
07/09/2011	Auto Sector Report Cruising through barriers			
03/08/2011	Eicher Motors Company Update	Buy	1,335	1,700
01/08/2011	Eicher Motors Q2CY11 Result Update	Buy	1,354	1,700
09/05/2011	Eicher Motor Q1CY11 Result Update	Accumulate	1,158	1,505

Recent Research Reports

Date	Reports	Reco	CMP	Target
08/11/2011	Motherson Sumi Q2FY12 Result Update	Accumulate	177	210
04/11/2011	Ashok Leyland Q2FY12 Result Update	Hold	28	30
03/11/2011	TVS Motor Q2FY12 Result Update	Hold	66	72
24/10/2011	Bajaj Auto Q2FY12 Result Con Call Update	Buy	1,693	2,210

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