DBFS

DOHA BROKERAGE

07th October 2011

associate of DOHA BANK

Eicher Motors Limited

Rating	BUY
Target	Rs 1924

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Commercial vehicles growth steady

- Even as passenger car sales declined sharply for a second time this year, on the back of rising interest rates and increased fuel prices, the commercial vehicle (CV) segment, which is often regarded as the barometer of economic health of a nation, continued to post sturdy growth numbers last month.
- Eicher Trucks and Buses, posted growth of 32 per cent in sales at 3,407 units last month. The company is expecting demand to stay high as CV consumption form the agricultural sector generally grows in the second half of the year.

Developing new trucks for export markets

- VE Commercial Vehicles Ltd, India's third largest commercial vehicle manufacturer and a JV between Sweden's Volvo and India's Eicher Motors, is working on trucks in the 5-40 tonne range, which it hopes to sell under the Eicher brand in these markets.
- It plans to sell these trucks in overseas markets such as Indonesia, Thailand and South Africa, taking on Korean and Japanese firms that dominate truck sales in these countries.

Royal Enfield Bullet planning to take on Harley?

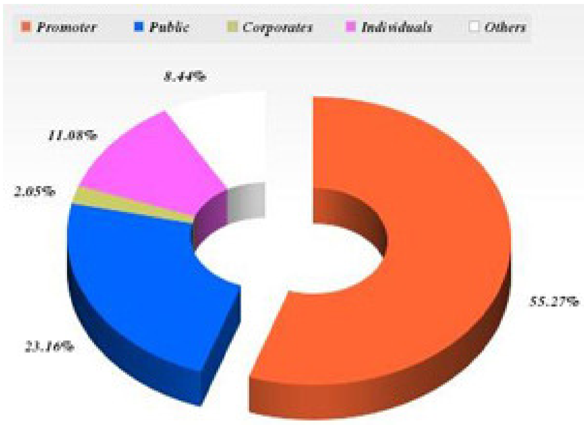
- Royal Enfield, which makes the popular Bullet motorcycles with an aim to take on the legendary Harley Davidson.
- It is working on a twin-cylinder 750 cc and 1-litre engines for which conceptualization work is being carried out. The bike is expected to hit the markets after 2013.

Stock Data –(Rs in Million)

Current Price	Rs 1605.10
Target Price	Rs 1924
Percentage Appreciation	20.00%
Stock Beta	0.72
52 week range High/Low	Rs 1697.95/970
Market Cap	Rs 43304.29Mln
Shares Outstanding	26.97Mln
Average daily volume	29582
NSE code	EICHERMOT
BSE Code	505200
Reuters code	EICH.NS
Bloomberg code	EIM:IN

Data as on 05-10-2011

Shareholding pattern(%)



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Profit & Loss Account

Rs in Million	2008A	2009A	2010A	2011E	2012E
INCOME					
Sales	7,717.80	4,080	4,844	5,750.73	6827.47
Less : Excise duty	843.20	329.00	459.10	640.65	893.98
Net Sales	6,874.60	3,750.90	4,384.70	5,110.08	5933.48
Other Income	263.70	321.40	583.80	1,060.43	1926.20
Total Revenue	7,138.30	4,072.30	4,968.50	6,170.51	7,859.68
EXPENDITURE					
Manufacturing & other expenses	6,805.00	3,500.80	3,968.80	4,499.36	5100.86
PROFIT					
Profit before,interest,depreciation & taxes	333.30	571.50	999.70	1,671.15	2,758.82
Interest	35.90	4.20	25.70	157.26	962.28
Depreciation	152.00	101.00	107.90	115.27	123.15
Profit before taxation	145	466	866	1047	1330
Provision for taxation					
Current tax	317.20	97.20	129.70	173.07	230.93
Minimum Alternate Tax (MAT)	12.70	0.00	-24.70	-24.70	-24.70
Deferred tax charge / (benefi t)	-374.60	-6.60	6.70	-6.80	6.90
Fringe benefi t tax	4	0	0	0.00	0.00
Profit after taxation	390.0	375.7	754.4	1,257.1	1,460.3
Balance bought forward	3,378.40	3,565.00	2,752.40	2,125.02	1640.65

Balance Sheet Data

As on 31stMarch	FY08A	FY09A	FY10A	FY11E	FY12E
Sources of funds					
Share holders fund					
Share Capital	280.9	127	269	269	269
Capital suspense	0	140	0	0.00	0
Reserves & Surplus	4,528.00	3,758	4,297	4,914	5618.89
Total	4,809	4,025	4,567	5,181	5,888
Loan Funds					
Secured Loans	33.7	88	144	236	386.77
Unsecured Loans	46.8	36.5	31.1	26	22.58
Total	81	124	175	262	409
Defered tax liability	22.2	16	22	32	45.57
Total	4,912	4,165	4,764	5,475	6,343
Application of funds					
Fixed Assets					
Gross block	1,357.30	1,459	1,593	1,738	1897.20
Less: Depreciation	738.6	822	875	932	993.12
Net block	619	638	718	806	904
Capital work in progress	19.5	17	30.60	55	99.14
Total	638	655	748	861	1,003
Investments	116.80	2,996	4,640	5,355	6013.00
Current Assets,loans & advances					
Inventories	193.7	220	282	362	463.56
Sundry debtors	50.8	52	36	26	17.90
Cash & bank balances	4,718.80	1,140	111	11	1.05
Other current assets	110.2	60	3	18	98.18
Loans & advances	172	387	528	720	982.88
Total	5,246	1,860	961	1,137	1,564
Current liabilities & provision					
Current liabilities	821.1	1,037	1,175	1,331	1507.48
Provision	267.8	308	411	547	728.89
Total	1,089	1,345	1,585	1,878	2,236
Net current assets	4,157	514	-624	757	-673
Total	4,912	4,165	4,764	5,475	6,343

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Cash flow Statements

Cash flow from operating activities	FY08A	FY09A	FY10A	FY11E	FY12E
Profit before taxation	145	466	866	1,047	1,330
Depreciation	152	101	108	115	123
Profit on sale of fixed asset	-1	-1	-1	-1	-2
Fixed assets discarded	1	1	2	3	6
Long term trade investment written off	0	0	0	0	0
Dividend on unquoted non trade investment	-20	-59	-63	-68	-74
Dividend on long term unquoted trade investment	0	-136	-272	-544	-1,088
Profit on sale of unquoted non trade current invstmts	0	0	-178	0	0
Loss on sale of fixed assets	7	1	1	3	7
Interest income	-193	-98	-28	-8	-2
Interest expense	36	4	26	157	962
Operating cash flow before changes in wrkng capital	127	280	460	703	1,262
Adjustments for changes in:					
Inventories	70	-27	-62	-145	-325
Trade and other receivables	-104	-36	13	-4	2
Trade and other payables	518	280	134	64	31
Cash generated from operations	611	497	545	619	969
Direct taxes paid *	-273	-278	-107	-41	-16
Net cash from operating activities (A)	338	220	438	577	953

CASH FLOW FROM INVESTING ACTIVITIES	FY08A	FY09A	FY10A	FY11E	FY12E
Purchase of fixed assets	-229	-120	-205	-351	-602
Sale of fixed assets	2,260	2	3	4	5
Net Investments made	0	0	0	0	0
Unquoted non trade current investments	-84	-2,879	-1,644	-939	-537
Profit on sale of unquoted non trade current invstmnts	2,580	0	178	178	178
Dividend on long term unquoted trade investment		0	136	136	136
Dividend on unquoted non trade current investments	20	59	63	68	74
Interest received	154	148	85	49	28
Net cash from investing activities (B)	4,701	-2,790	-1,384	-855	-717

CASH FLOW FROM FINANCING ACTIVITIES	FY08A	FY09A	FY10A	FY11E	FY12E
Proceeds from long term borrowings	0	0	4	0	0
Repayment of long term borrowings	-18	-13	-9	-6	-4
Proceeds/(repayment) from / short term borrowings	-301	54	56	58	60
Interest paid	-17	-5	-27	-135	-678
Buy back of equity share capital	0	-975	0	0	0
Proceeds from issue of equity share capital under ESOP	0	2	88	0	0
Dividend paid	-140	-158	-186	-218	-255
Corporate dividend tax	-24	-23	-9	-3	-1
Net cash from financing activities (C)	-499	-1,117	-83	-304	-878
Net Increase / (decrease) in cash and cash equivalents	4,540	-3,687	-1,029	-581	-642
Cash and cash equivalents at the beginning of the year					
Cash and bank balances	490	4,719	1,140	1,739	1,056
Cash and cash equivalent transferred	-311	109	0	0	0
Cash and cash equivalents at the end of the year					
Cash and bank balances	4,719	1,140	111	1,158	414

Valuations

VALUATIONS	FY08A	FY09A	FY10A	FY11E	FY12E
Equity Share Capital	281	127	269	269	269
Reserves & Surplus	4,528	3,758	4,297	4,914	5619
Equity Dividend	14.05	18.69	29.63	46.97	74.47
Equity Dividend %	50.00	70.00	110.00	172.86	271.63
EPS	13.88	29.64	28.01	33.60	41.97
P/E	18.14	17.95	43.02	57.25	45.85
ROE %	3.86	9.67	16.52	17.47	19.20
ROCE %	4.43	15.04	24.85	28.82	45.63

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Company Profile

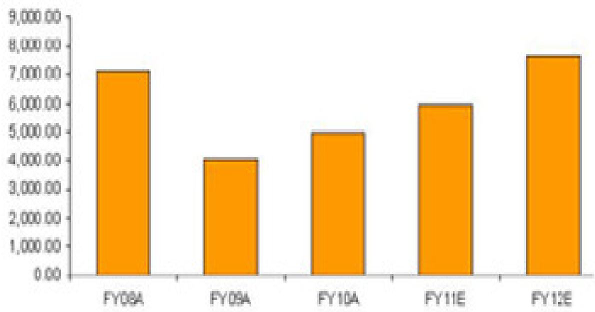
Eicher began its business operations in 1959 with the roll out of India's first tractor. Today the Eicher Group is a significant player in the Indian automobile industry with a gross sales turnover of over INR 19,000 million (424 USD Mn) in the year 2005-06.

The Eicher Group has diversified business interests in design & development, manufacturing and local/ international marketing of Trucks & Buses, Motorcycles, Automotive Gears and components.

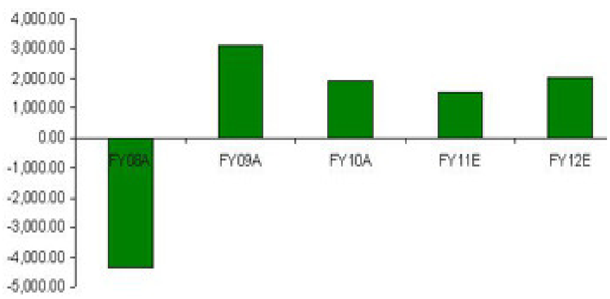
In addition to this, Eicher has also invested in the potential growth areas of Customised Engineering Solutions, City Map & Travel Guides. The activities of the Group are divided into the following business units covering all the business interests.

Over 85 executives work exclusively in the area of R&D. Product development and product-engineering facilities are available at each of Eicher's major manufacturing locations. Expertise has been developed in the areas of design and development of Trucks & Buses, Automotive transmission, Electronic instrumentation, Material science, Metrology as well as prototype manufacturing and testing.

Revenue growth– (Rs in Million)



Free Cash Flow – (Rs in Million)



Industry Outlook

India's Auto industry remains a major contributor to country's GDP, the Indian automobile industry is growing at an average rate of 30% and marking itself as one of the fastest growing industries in India. According to the reports of Society of Indian Automobile Manufacturers, annual car sales are estimated to reach 5 million vehicles by 2015 and more than 9 million by 2020. At present India is the largest tractor and three-wheel vehicle producer, second largest two-wheel vehicle producer, fourth largest commercial vehicle producer and eleventh largest passenger car producer.

With the recent monetary tightening measures by the RBI there has been an impact on this sector as demand for products has shown some weakness. But even though commercial vehicle sales were impacted a bit due to the increasing interest rates,2 & 3 wheeler sales were found some what isolated from this issue and continuously posted decent set of numbers and that sector really outperformed the market as a whole.

We expect economic activity to pick up in the long run and subsequently demand for products will improve further.

Performance Summary & Future Prospects

Company achieved impressive top line growth during the financial year 2010 with total Income at 4426.7 MINR. The operating profit before depreciation and interest amounted to 457.9 MINR which is 10.3% of the total income.

The year 2010 was an excellent year for the entire automobile industry. The two wheeler industry grew by 31% during the calendar year 2010 as against 18% growth achieved in the calendar year 2009.

- We expect the company to report a revenue CAGR of over 19% in FY11.
- Profit after taxes may post a growth of 20% in the current fiscal.
- Operating cash flow before changes in working capital are expected to come around Rs 703 Million compared to Rs 460 Million last fiscal.
- Net cash from its operating activities will post a decent 31% CAGR at Rs 577 Million against Rs 438 Million in FY2010.
- On performing a Free cash flow analysis on company financials, we see the company will continue to post strong Free cash flow position on a Year on Year basis, which will enable the organization to meet its working capital requirements and also help the company to invest in upgrading its R&D and upgrading production capacity.

Future Prospects

The economic activity is going to improve a lot from the current levels if the Reserve Bank of India starts loosening interest rates and also backed by good policy decisions from the Government. Freight movement has picked up because of which demand for commercial vehicles will see an uptick. Besides, there is a pent-up demand for CVs. Sales in the segment had fallen sharply between 2008 and 2010 during the economic slowdown. Those consumers who had postponed purchases at that time will now go ahead and replace their fleet.

Two wheeler business

We expect two wheelers demand to remain robust, given strong off take in both rural and urban areas, continuing rise in rural household incomes will also aid this continuous demand.

Further, with the entry of Harley Davidson and other life style bikes, it is expected that motorcycling culture will grow faster. This will have a favorable impact for Royal Enfield, being a highly treasured brand in this segment.

Exports

Company has entered the state of California USA after meeting the stringent Evaporative emission standards. There are also plans to expand to new markets in South Africa, Taiwan, Paraguay and Peru.

List of Subsidiary Companies

- VE Commercial Vehicles Limited(VECV)
- Eicher Trucks and Buses (ETB)
- Volvo Trucks India (VTI)
- Eicher Engineering Components (EEC)
- Eicher Engineering Solutions (EES)

Future Prospects of Subsidiary companies

VECVL

VECV has recorded an excellent overall performance in 2010. VECV will continue to steadily improve the market shares in HD and Bus Segments. Export has shown steady growth during last few years with a significant growth potential in future. In order to achieve the ambition from export and emerging competition in the overseas markets, VECV has put in place a new collaboration structure to leverage the distribution network of Volvo and UD Truck Corporation in various developing countries in Asia as well as outside Asia.

Eicher Trucks and Buses (ETB)

Focus on infrastructure by Government of India and the latest estimates of economic growth, the CV industry is expected to do well in coming years. Inflation is a big concern, hardening of interest rates in short to medium term in addition to hardening of commodity prices will have an impact on margins.

Eicher Engineering Components (EEC)

EEC's captive business from ETB is expected to grow on account of further growth in Vehicle sales volumes with 100% gears and Crown wheel requirement being met by EEC. On domestic front, the business is expected to be in line with manufacturing plans of the domestic Original Equipment Manufacturers (OEMs). However, due to higher share of business with OEMs, development of new products, upgradation of technology and acquisition of new strategic customers would be the main contributing factors taking the Company's growth to significant levels.

Eicher Engineering Solutions (EES)

EES Inc. is well poised to consolidate on the inroads and gains already made in the heavy truck and aerospace industries in the previous year. Overall EES Inc. is expected to do well in the current year.

Investment and Price objective

Demand outlook remains robust in the long term and we expect the growth to remain in double digits at least for the next couple of years. On valuing the company using discounted cash flow analysis (DCF), we are bullish on this scrip and put a BUY rating with a target of Rs 1924 which gives a percentage appreciation of 20% from the current levels.

Risks and Concerns

Key risks identified are as under:-

- Inability of suppliers and plant production capacity to meet demand
- Loss of customer satisfaction and brand image due to quality issues
- Significant rise in cost of input materials like steel and aluminium
- Interest rate risk and currency fluctuation.

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