

September 2, 2010

### NOT RATED

Price Target Price  
**Rs 1,259** **NR**

**Sensex** **18,206**

#### Price Performance

(%)	1M	3M	6M	12M
Absolute	28	49	101	181
Rel. to Sensex	26	36	84	137

Source: Bloomberg

#### Stock Details

Sector	Automobiles
Reuters	EICH.BO
Bloomberg	EIM@IN
Equity Capital (Rs mn)	268
Face Value(Rs)	10
No of shares o/s (mn)	27
52 Week H/L	1308/435
Market Cap (Rs bn/USD mn)	34/721
Daily Avg Volume (No of sh)	158214
Daily Avg Turnover (US\$m)	3.4

#### Shareholding Pattern (%)

	Jun'10	Mar'10	Dec'09
Promoters	55.7	55.8	55.9
FII/NRI	19.5	11.6	11.8
Institutions	10.5	9.6	8.9
Private Corp	1.4	10.0	10.5
Public	12.9	13.0	13.0

Source: Capitaline

#### Chirag Shah

chirag.shah@emkayglobal.com  
+91 22 6612 1252

#### Siddharth Aggarwal

siddharth.aggarwal@emkayglobal.com  
+91 22 6624 2414

- Management restructuring to result higher focus on Eicher brand. Mr Lal has step down as CEO of VECV and will now focus on two wheelers and Eicher Motors (parent company)
- Entry of Volvo has helped Eicher Motor in terms of process improvements and efficiency improvement across business verticals. Ability to attract new talent has also improved
- Capacity constraints persist in 2 wheelers. Adequate capacity for CV. Raw material buying is largely spot/ three month contracts
- Remains preferred pick in CV space due to strong ROIC. Valuation no longer attractive but for re-rating. Valued existing business at Rs 1258 and engine business at Rs 153

#### Key meeting highlights

##### Management restructuring

Mr Siddhartha Lal has relinquished his title of CEO – VECV retaining the MD position. Mr. Vinod Aggarwal (earlier CFO – Eicher Motors) has been appointed as CEO – VECV. The key reason for the change is to increase focus on two wheeler business and Eicher Motors (parent company). The integration (post the stake sale to Volvo) over last two years has been very smooth and is now complete. We view this as positive as now there will be higher focus on interest of various stakeholders.

##### Capacity constraints

Two wheelers business is facing capacity constraints (post the introduction of new products) due to age old plants. Efforts are being made to improve the plant and increase the capacity. The block closure in the current month will be used to improve upon the capacity of the plant. However, new capacity creation is the necessity as volumes from the current facilities cannot be increased beyond a point. Commercial vehicles business has adequate capacities.

##### Two wheelers – sudden increase in volumes

There has been a sudden jump in the volumes of two wheelers (from ~30,000 units per annum to ~50,000 units per annum). This is due to efforts on brand visibility, improving product styling, change in gear and brake setting, improving the presentation skills of the front end, etc. Also, general buoyancy in the demand has helped. The current demand is much higher than the capacity resulting in waiting list of > 3 months for its products.

##### Geographical spread – two wheelers

The brand is an urban centric brand with top 10 to 15 cities contributing >50% of domestic sales. Punjab, Haryana and Delhi region has a significant share in the volumes. There is greater focus to improve the brand visibility in the smaller town and villages given the rise in affluence and young population. Capacity constraints continue to be a key hurdle.

#### Financial Snapshot

YE-	Net	EBITDA			EPS	EPS	RoE	EV/		
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
CY08(9M)	17,168	1,002	5.8	173	6.2	-71.8	2.3	204.0	24.7	3.2
CY09	29,443	1,502	5.1	963	36.1	484.7	8.9	34.9	15.4	3.1
CY10E	44,169	3,386	7.7	1,892	70.9	96.3	16.5	17.8	6.3	2.8
CY11E	54,096	5,271	9.7	2,663	99.8	40.8	20.1	12.6	3.7	2.3

Source: Company, Emkay Research

**Geographical spread – commercial vehicles**

Eicher has a strong presence in the Southern markets. In some of the routes, it is the industry leader in the 5 ton to 12 ton segment. It is reasonably strong in North and West. However, in some pockets it does not have presence largely due to demand for HCVs, East is relatively weak due to demand for HCVs. With introduction of M&HCVs, Eicher expects to improve its positioning in these markets. However, the focus of Eicher is not to become a pan India player in the near term but to garner a large market share on select routes.

**Surplus cash on books**

The surplus cash in VECV will be utilized for various projects that are outlined based on the long term plans as discussed with Volvo. The recently announced engine manufacturing is one of such opportunities. Also, in the short term the cash will help VECV to withstand any aggressive pricing with the entry of many new players in the M&HCV space. However, it does not expect the aggressive pricing at the current juncture.

**Outlook on margins**

Margins are function of share of Volvo truck business. Higher the share of Volvo truck business, lower will be the margins as VECV earns only distribution margins. Company records sales and raw material at gross levels. There is no significant pressure on the Eicher business except for volatile raw material prices. Most of the raw material contracts are short term in nature (spot/ 3 month contracts).

**Demand outlook**

Commercial vehicles demand is robust and does not expect any significant impact except for the cyclical slowdown due to emission norms implementation and strong demand in the recent past. Two wheelers demand is robust and company is losing out due to capacity constraints.

**Valuations and View**

At Rs 1,259, the stock trades at PER of 17.8 and 12.6x our CY10 and CY11 estimates respectively. We continue to prefer Eicher in the commercial vehicle space given its strong ROIC. However, post the run up in the stock price, valuation are no more attractive unless there is a case of re-rating. We would like to have some signs executions without delay before re-rating of the stock on valuations.

**Summary valuation**

Rs mn	CY10E	CY11E
<b>Sales</b>		
VECV	39,697	48,645
Standalone	4,471	5,451
<b>Total</b>	<b>44,169</b>	<b>54,096</b>
<b>EBIDTA</b>		
VECV	2,926	4,717
Standalone	461	554
<b>Total</b>	<b>3,386</b>	<b>5,271</b>
<b>Target Multiple(EV/EBIDTA)</b>		
VECV	7	7
Standalone	8	8
<b>Target EV ( Rs. Mn)</b>		
VECV (Eicher's share)	11,140	17,964
Standalone	3,685	4,430
<b>Total</b>	<b>14,825</b>	<b>22,394</b>
<b>Less. Net Debt (Rs. Mn)*</b>	(10,202)	(11,328)
<b>Target Market Cap ( Rs. Mn)</b>	<b>25,027</b>	<b>33,722</b>
Share Cap. (Nos mn)	26.8	26.8
<b>Value per share (Rs.)</b>	<b>934</b>	<b>1,258</b>
<b>Value of Engine business (Rs.)#</b>	<b>135</b>	<b>153</b>
<b>Total (Rs.)</b>	<b>1,069</b>	<b>1,411</b>

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

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

## Financials

## Income Statement - Consolidated

Y/E, Mar (Rs. mn)	CY08(9M)	CY09	CY10E	CY11E
<b>Net Sales</b>	<b>17,168</b>	<b>29,443</b>	<b>44,169</b>	<b>54,096</b>
<i>Growth (%)</i>	<i>(24.0)</i>	<i>71.5</i>	<i>50.0</i>	<i>22.5</i>
<b>Expenditure</b>	<b>16,166</b>	<b>27,941</b>	<b>40,783</b>	<b>48,825</b>
Materials Consumed	12,862	21,992	33,268	40,162
Employee Cost	1,202	2,152	2,429	2,705
Other Exp	2,102	3,797	5,085	5,958
<b>EBITDA</b>	<b>1,002</b>	<b>1,502</b>	<b>3,386</b>	<b>5,271</b>
<i>Growth (%)</i>	<i>(10.0)</i>	<i>49.9</i>	<i>125.5</i>	<i>55.7</i>
<b>EBITDA margin (%)</b>	<b>5.8</b>	<b>5.1</b>	<b>7.7</b>	<b>9.7</b>
Depreciation	580	539	650	700
<b>EBIT</b>	<b>422</b>	<b>963</b>	<b>2,736</b>	<b>4,571</b>
<b>EBIT margin (%)</b>	<b>2.5</b>	<b>3.3</b>	<b>6.2</b>	<b>8.4</b>
Other Income	239	1,126	1,400	1,500
Interest expenses	110	87	110	110
<b>PBT</b>	<b>551</b>	<b>2,003</b>	<b>4,026</b>	<b>5,961</b>
<b>Tax</b>	<b>184</b>	<b>578</b>	<b>1,167</b>	<b>1,728</b>
<i>Effective tax rate (%)</i>	<i>33.4</i>	<i>28.9</i>	<i>29.0</i>	<i>29.0</i>
<b>Adjusted PAT</b>	<b>367</b>	<b>1,424</b>	<b>2,859</b>	<b>4,234</b>
<i>Growth (%)</i>	<i>(40.5)</i>	<i>288.4</i>	<i>100.7</i>	<i>48.1</i>
<b>Net Margin (%)</b>	<b>2.1</b>	<b>4.8</b>	<b>6.5</b>	<b>7.8</b>
(Profit)/loss from JV's/Ass/MI	193	461	968	1,571
<b>Adjusted PAT after MI</b>	<b>173</b>	<b>963</b>	<b>1,892</b>	<b>2,663</b>
E/O items	171	(7)	-	-
<b>Reported PAT</b>	<b>344</b>	<b>956</b>	<b>1,892</b>	<b>2,663</b>
<i>Growth (%)</i>	<i>(44.1)</i>	<i>178.0</i>	<i>97.8</i>	<i>40.8</i>

## Cash Flow- Consolidated

Y/E, Mar (Rs. mn)	CY08(9M)	CY09	CY10E	CY11E
<b>PBT (Ex-Other income)</b>	<b>312</b>	<b>876</b>	<b>2,626</b>	<b>4,461</b>
Depreciation	580	539	650	700
Interest Provided	110	87	110	110
Other Non-Cash items	(480)	537	-	-
Chg in working cap	(1,228)	2,224	345	204
Tax paid	(184)	(578)	(1,167)	(1,728)
<b>Operating Cashflow</b>	<b>(890)</b>	<b>3,685</b>	<b>2,564</b>	<b>3,748</b>
Capital expenditure	(994)	(259)	(1,678)	(2,700)
<b>Free Cash Flow</b>	<b>(1,884)</b>	<b>3,426</b>	<b>887</b>	<b>1,048</b>
Other income	1,099	373	1,400	1,500
Investments	2,550	(2,879)	-	-
<b>Investing Cashflow</b>	<b>3,649</b>	<b>(2,506)</b>	<b>1,400</b>	<b>1,500</b>
Equity Capital Raised	-	(14)	-	-
Loans Taken / (Repaid)	(539)	(392)	-	-
Interest Paid	(110)	(87)	(110)	(110)
Dividend paid (incl tax)	(141)	(187)	(377)	(558)
Income from investments				
Others	10,824	(961)	-	-
<b>Financing Cashflow</b>	<b>10,034</b>	<b>(1,641)</b>	<b>(487)</b>	<b>(668)</b>
<b>Net chg in cash</b>	<b>11,799</b>	<b>(720)</b>	<b>1,799</b>	<b>1,879</b>
Opening cash position	519	12,318	11,707	13,506
<b>Closing cash position</b>	<b>12,318</b>	<b>11,598</b>	<b>13,506</b>	<b>15,385</b>

Source: Company. Emkay Research

## Balance Sheet- Consolidated

Y/E, Mar (Rs. mn)	CY08(9M)	CY09	CY10E	CY11E
Equity share capital	281	267	267	267
Reserves & surplus	10,756	10,424	11,938	14,042
<b>Net worth</b>	<b>11,037</b>	<b>10,690</b>	<b>12,205</b>	<b>14,309</b>
<b>Minority Interest</b>	<b>5,305</b>	<b>5,747</b>	<b>6,714</b>	<b>8,285</b>
Secured Loans	1,088	735	735	735
Unsecured Loans	568	529	529	529
<b>Loan Funds</b>	<b>1,656</b>	<b>1,264</b>	<b>1,264</b>	<b>1,264</b>
Net deferred tax liability	(147)	142	142	142
<b>Total Liabilities</b>	<b>17,851</b>	<b>17,842</b>	<b>20,324</b>	<b>23,999</b>
Gross Block	6,783	7,437	8,237	9,137
Less: Depreciation	3,491	3,802	4,452	5,152
<b>Net block</b>	<b>3,292</b>	<b>3,635</b>	<b>3,785</b>	<b>3,985</b>
Capital work in progress	518	122	1,000	2,800
<b>Investment</b>	<b>62</b>	<b>2,941</b>	<b>2,941</b>	<b>2,941</b>
<b>Current Assets</b>	<b>19,011</b>	<b>18,121</b>	<b>23,853</b>	<b>28,058</b>
Inventories	3,381	2,190	3,532	4,326
Sundry debtors	1,802	2,325	3,751	4,594
Cash & bank balance	12,318	11,707	13,506	15,385
Loans & advances	1,510	1,900	3,065	3,754
Other current assets	-	-	-	-
<b>Current lia &amp; Prov</b>	<b>5,032</b>	<b>6,978</b>	<b>11,255</b>	<b>13,785</b>
Current liabilities	4,193	6,016	9,704	11,884
Provisions	839	962	1,552	1,901
<b>Net current assets</b>	<b>13,979</b>	<b>11,144</b>	<b>12,598</b>	<b>14,273</b>
Misc. exp	-	-	-	-
<b>Total Assets</b>	<b>17,851</b>	<b>17,842</b>	<b>20,324</b>	<b>23,999</b>

## Key Ratios- Consolidated

Y/E, Mar	CY08(9M)	CY09	CY10E	CY11E
<b>Profitability (%)</b>				
EBITDA Margin	5.8	5.1	7.7	9.7
Net Margin	2.1	4.8	6.5	7.8
ROCE	5.3	11.7	21.7	27.4
ROE	2.3	8.9	16.5	20.1
RoIC	9.9	24.0	92.0	159.0
<b>Per Share Data (Rs)</b>				
EPS	6.2	36.1	70.9	99.8
CEPS	26.8	56.3	95.2	126.0
BVPS	392.9	400.5	457.3	536.1
DPS	5.0	7.0	14.1	20.9
<b>Valuations (x)</b>				
PER	204.0	34.9	17.8	12.6
P/CEPS	46.9	22.4	13.2	10.0
P/BV	3.2	3.1	2.8	2.3
EV / Sales	1.4	0.8	0.5	0.4
EV / EBITDA	24.7	15.4	6.3	3.7
Dividend Yield (%)	0.4	0.6	1.1	1.7
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	(1.0)	(1.0)	(1.0)	(1.0)
Net Debt/EBITDA	(10.6)	(7.0)	(3.6)	(2.7)
Working Cap Cycle (days)	21.0	(18.6)	(20.0)	(20.0)

**Emkay Global Financial Services Ltd.**

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

**DISCLAIMER:** This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.