

## Eicher Motors

### Performance Highlights

Y/E December (₹ cr)	4QFY16*	3QCY14	% chg (yoy)	3QFY16*	% chg (qoq)
<b>Net Sales</b>	<b>3,317</b>	<b>2,294</b>	<b>44.6</b>	<b>3,123</b>	<b>6.2</b>
EBITDA	517	303	70.6	493	4.9
EBITDA Margin (%)	15.6	13.2	240 bp	15.8	(20 bp)
<b>Adj. PAT</b>	<b>271</b>	<b>154</b>	<b>76.1</b>	<b>255</b>	<b>6.0</b>

Source: Company, Angel Research; \* FY16 is a 15month period

**Results in line with estimates:** Eicher Motors' 4QFY2016 consolidated results have come in in line with our estimates. Consolidated revenues grew 45% yoy to ₹3,316cr, coming broadly in line with our expectation. The 2W business (Royal Enfield)'s top-line grew strongly by 55% yoy to ₹1,284cr, driven largely by volume growth. The VECV segment's revenues grew 39% yoy, driven majorly by strong demand in the commercial vehicle (CV) segment and market share gains. Consolidated operating margins at 15.6% were in line with our estimates of 15.3%. Royal Enfield posted its highest ever margins of 28.6% (a 90bp sequential improvement despite slightly lower volumes due to disruption by Chennai rains). Royal Enfield's margins were better than our estimate of 26.5%. The VECV segment's margins at 7.4% were lower than our estimate of 8.1%. The consolidated net profit at ₹271cr was in line with our estimate.

**Outlook and Valuation:** Demand for Royal Enfield continues to remain strong on increasing acceptance of leisure biking in India. The company continues to have an order backlog with higher number of orders being taken per month than the actual production despite huge capacity addition. Also, the company has recently introduced the 400cc adventure tourer bike "Himalayan" which is likely to boost demand going ahead. Also, commercial vehicle (VECV) business is witnessing strong demand given the recovery in the CV segment. We have marginally increased our earnings estimates given the margin beat at Royal Enfield. **We maintain our Accumulate recommendation on the stock with a revised SOTP based target price of ₹20,044.**

#### Key financials (Consolidated)

Y/E December (₹ cr)	CY2013	CY2014	15MFY2016E	FY2017E
<b>Net Sales</b>	<b>6,810</b>	<b>8,738</b>	<b>15,556</b>	<b>16,747</b>
% chg	6.6	28.3	49.3	28.9
<b>Net Profit</b>	<b>394</b>	<b>615</b>	<b>1,262</b>	<b>1,622</b>
% chg	21.2	55.9	77.0	52.1
EBITDA (%)	10.5	12.8	15.5	17.3
<b>EPS (₹)</b>	<b>145.6</b>	<b>227.1</b>	<b>464.8</b>	<b>597.5</b>
P/E (x)	124.5	79.8	39.0	30.3
P/BV (x)	24.2	19.7	14.2	10.5
RoE (%)	19.2	24.5	36.2	34.3
RoCE (%)	19.8	25.1	39.8	39.9
EV/Sales (x)	7.0	5.4	3.1	2.8
EV/EBITDA (x)	66.8	42.6	19.8	16.2

Source: Company, Angel Research; Note: CMP as of February 5, 2016

## ACCUMULATE

CMP	₹18,128
Target Price	₹20,044

Investment Period	12 Months
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#### Stock Info

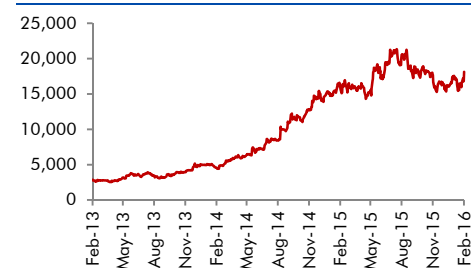
Sector	Automobile
Market Cap (₹ cr)	49,226
Net Debt (₹ cr)	(422)
Beta	1.2
52 Week High / Low	21,618/13,930
Avg. Daily Volume	10,398
Face Value (₹)	10
BSE Sensex	24,617
Nifty	7,489
Reuters Code	EICH.BO
Bloomberg Code	EIM IN

#### Shareholding Pattern (%)

Promoters	54.9
MF / Banks / Indian Fls	7.2
FII / NRIs / OCBs	26.6
Indian Public / Others	11.3

Abs. (%)	3m	1yr	3yr
Sensex	(6.4)	(14.7)	25.2
Eicher Motors	2.5	14.6	530.7

#### 3-year price chart



Source: Company, Angel Research

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**Exhibit 1: Quarterly financial performance (Consolidated)**

Y/E December (₹ cr)	4QFY16*	4QCY14	% chg (yoy)	3QFY16*	% chg (qoq)	12MFY16*	CY14	% chg (yoy)
<b>Net Sales</b>	<b>3,317</b>	<b>2,294</b>	<b>44.6</b>	<b>3,123</b>	<b>6.2</b>	<b>11,924</b>	<b>8,738</b>	<b>36.5</b>
Consumption of RM	2,132	1,493	42.8	2,017	5.7	7,708	5,766	33.7
(% of Sales)	64.3	65.1		64.6		64.6	66.0	
Staff Costs	228	167	36.3	214	6.2	830	660	25.9
(% of Sales)	6.9	7.3		6.9		7.0	7.5	
Other Expenses	440	330	33.2	398	10.5	1,578	1,198	31.7
(% of Sales)	13.3	14.4		12.8		13.2	13.7	
<b>Total Expenditure</b>	<b>2,800</b>	<b>1,991</b>	<b>40.6</b>	<b>2,630</b>	<b>6.5</b>	<b>10,116</b>	<b>7,624</b>	<b>32.7</b>
<b>Operating Profit</b>	<b>517</b>	<b>303</b>	<b>70.6</b>	<b>493</b>	<b>4.9</b>	<b>1,807</b>	<b>1,115</b>	<b>62.1</b>
OPM (%)	15.6	13.2		15.8		15.2	12.8	
Interest	2	2	13.8	3	(23.2)	8	10	25.9
Depreciation	99	60	65.0	88	12.8	343	220	56.1
Other Income	31	15	103.9	13	143.3	84	107	(21.9)
<b>PBT (excl. Extr. Items)</b>	<b>447</b>	<b>256</b>	<b>74.3</b>	<b>415</b>	<b>7.7</b>	<b>1,540</b>	<b>993</b>	<b>55.1</b>
Extr. Income/(Expense)								
<b>PBT (incl. Extr. Items)</b>	<b>447</b>	<b>256</b>	<b>74.3</b>	<b>415</b>	<b>7.7</b>	<b>1,540</b>	<b>993</b>	<b>55.1</b>
(% of Sales)	13.5	11.2		13.3		12.9	11.4	
Provision for Taxation	136	75	80.6	129	5.4	471	291	61.8
(% of PBT)	30.4	29.4		31.1		30.6	29.3	
<b>PAT before MI</b>	<b>311</b>	<b>181</b>	<b>71.7</b>	<b>286</b>	<b>8.7</b>	<b>1,069</b>	<b>702</b>	<b>52.4</b>
<b>Minority Interest</b>	<b>40</b>	<b>27</b>	<b>46.6</b>	<b>30</b>	<b>31.6</b>	<b>126</b>	<b>86</b>	<b>46.0</b>
<b>Net Profit after MI</b>	<b>271</b>	<b>154</b>	<b>76.1</b>	<b>255</b>	<b>6.0</b>	<b>943</b>	<b>615</b>	<b>53.3</b>
PATM	8.2	6.7		8.2		7.9	7.0	
Equity capital (cr)	27	27		27		27	27	
<b>Reported EPS (₹)</b>	<b>99.7</b>	<b>56.7</b>	<b>75.8</b>	<b>94.1</b>	<b>6.0</b>	<b>348</b>	<b>227</b>	<b>53.0</b>

Source: Company, Angel Research; \* FY16 is a 15month period

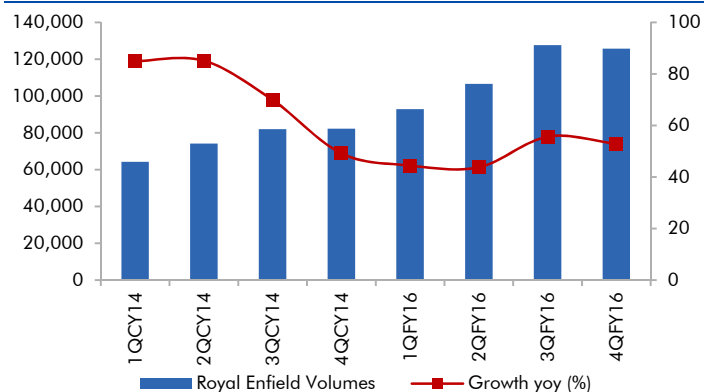
**Exhibit 2: 4QFY2016 – Actual vs Angel estimates**

Y/E December (₹ cr)	Actual	Estimates	Variation (%)
<b>Net Sales</b>	<b>3,317</b>	<b>3,278</b>	<b>1.2</b>
EBITDA	517	503	2.9
EBITDA margin (%)	15.6	15.3	30 bp
<b>Adj. PAT</b>	<b>271</b>	<b>271</b>	<b>0.0</b>

Source: Company, Angel Research

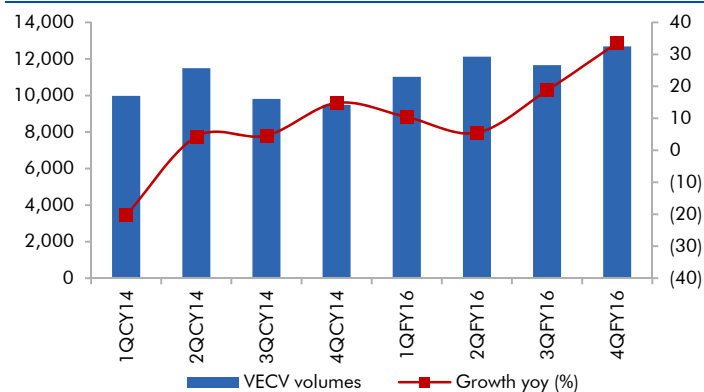
- Royal Enfield continued with its robust double-digit volume growth, led by capacity expansion as demand continues to outstrip supply. In 4QFY2016, volumes grew 53% yoy but declined marginally by 1% on a sequential basis. Volumes were impacted by about 11,200 units due to production disruptions owing to floods in Chennai. The current order backlog for Royal Enfield stands at 3-4 months.
- VECV volumes continued to report healthy double-digit growth, led by improvement in LMD and HD volumes. VECV reported the second consecutive month of double-digit growth (volumes grew by 34% yoy).

**Exhibit 3: Royal Enfield growth trend**



Source: Company, Angel Research

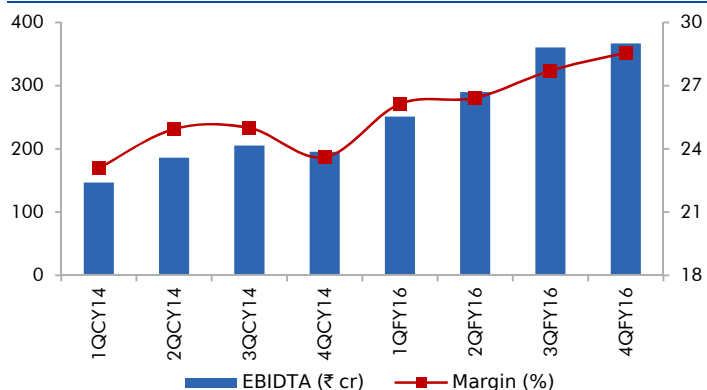
**Exhibit 4: VECV growth trend**



Source: Company, Angel Research

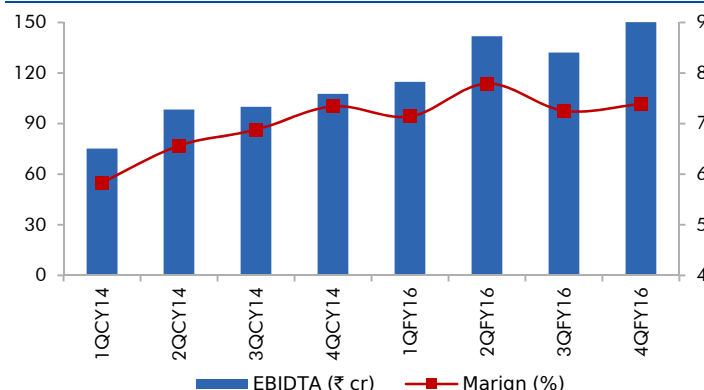
- Royal Enfield's margins are in a constant uptrend, buoyed by a sharp jump in volumes, tremendous pricing power and benign commodity prices. In 4QFY2016, Royal Enfield posted lifetime high margins of 28.6%.
- VECV margins at 7.4% improved marginally on a yoy basis.

**Exhibit 5: Royal Enfield margins at record high**



Source: Company, Angel Research

**Exhibit 6: VECV margins improve marginally**



Source: Company, Angel Research

### Conference call – Key highlights

- The demand for Royal Enfield bikes continues to remain strong with the company taking more orders every month as compared to sales volumes. However, given the huge capacity increase, the waiting period for bikes has reduced from 4-6 months earlier to 3-4 months currently.
- EML has received a board approval for commencing its third manufacturing plant for Royal Enfield, given the strong demand. Royal Enfield is targeting to have a total capacity of 9 lakh units by CY2018, given the ramp up at the second plant and commencement of the third unit. EML has given production guidance of 620,000 units for CY2016 and 780,000 units for CY2017.
- EML recently introduced an all new 411cc adventure bike "Himalyan". Himalyan has an all new engine developed by EML and would be positioned as an mid adventure tourer bike. As per EML, this is an altogether new segment as the current rugged off-roader bikes are in the higher cc segment.

The bookings for Himalyan would commence in mid March 2016. To broaden the product portfolio, EML would introduce another new bike in CY2017.

- Royal Enfield has been expanding its dealer network in tier 2 and tier 3 cities. It increased the dealership strength from 400 dealers in CY2014 to 500 dealers in CY2015. Royal Enfield plans to have more than 550 dealers by CY2016.
- EML is targeting export markets as a new growth driver for Royal Enfield. It is eyeing potential in South East Asia and Latin American markets which have a huge commuter bike base to boost exports. EML has established presence in Thailand and Jakarta and is likely to commence exports shortly.
- VECV volumes continued to improve given the uptick in the MHCV industry on account of better freight availability and improved fleet operator sentiments due to subdued diesel prices. VECV posted second consecutive month of double-digit growth in 4QFY2016.
- VECV lost some market share in the MHCV space due to high discounting in the industry. VECV market share slipped marginally from 11.7% in CY2014 to 10.6% in CY2015.
- Engine supplies to Volvo have been ramping up. In 4QFY2016, VECV shipped about 4,728 units as against 2,600 units in the corresponding quarter last year.
- Royal Enfield undertook a price increase of about 1% in January 2016 while VECV increased prices by 1.2% in November 2015.
- Eicher-Polaris JV for all terrain vehicles has been progressing as per plans. Eicher is expanding the distribution of its recently introduced "Multix" vehicle. So far Multix has sold 650 units in the last six months.

## Investment arguments

- **Royal Enfield demand to remain strong; ramping capacity to meet demand:** EML's two-wheeler business (Royal Enfield) is in a demand sweet spot and is expected to report a healthy 30% CAGR in volume over the next two years. Royal Enfield is the direct beneficiary of pick up in the leisure biking trend. Customers are increasingly opting for leisure bikes as an upgrade. Currently, the segment just accounts for about 3% of the motorcycle industry and has tremendous demand potential. EML enjoys virtual monopoly in the space commanding a market share of 95% on back of strong brand image and appropriate pricing which is very difficult to replicate. EML has an order backlog of about 5 months and continues to ramp capacity to meet demand. Recently, EML has acquired land for another plant in Chennai to boost production.
- **CV volumes to recover on back of improving demand cycle and new product launches:** After three consecutive years of downturn, the commercial vehicle segment is poised to recover over the next two to three years. Better economic growth and improvement in fleet utilization is expected to boost volumes. Further, VECV aims to gain market share in the HCV space on back of new product launches in technological tie up with Volvo. Also, the discounting levels which are currently at record highs are likely to recede given the recovery in volumes.

## Outlook and valuation

Demand for Royal Enfield continues to remain strong on increasing acceptance of leisure biking in India. The company continues to have an order backlog with higher number of orders being taken per month than the actual production despite huge capacity addition. Also, the company has recently introduced the 400cc adventure tourer bike "Himalayan" which is likely to boost demand going ahead. Also, commercial vehicle (VECV) business is witnessing strong demand given the recovery in the CV segment. We have marginally increased our earnings estimates given the margin beat at Royal Enfield. **We maintain our Accumulate recommendation on the stock with a revised SOTP based target price of ₹20,044.**

### Exhibit 7: SOTP valuation

Particulars	Value/share	Remarks
Royal Enfield	18,188	At 35x FY17 earnings
VECV	1,856	At 12x FY17 EV/EBIDTA
<b>Target Price</b>	<b>20,044</b>	

Source: Company, Angel Research

## Company background

Eicher Motors Ltd (EML) manufactures commercial vehicles in collaboration with global giant Volvo (through the subsidiary VECV) and manufactures two-wheelers (Royal Enfield). VECV is one of the leading commercial vehicle manufacturers, commanding a market share of about 7%. Apart from commercial vehicles, VECV also manufactures engines for captive usage and supplies to Volvo for their global range of trucks. VECV's manufacturing plant is located in Pithampur, Madhya Pradesh. Royal Enfield is the market leader in the leisure biking space, having a market share in excess of 95%. Two-wheelers are currently manufactured at the Chennai plant.

**Profit and loss statement (Consolidated)**

Y/E December (₹ cr)	CY2011	CY2012	CY2013	CY2014	15MFY2016E	FY2017E
<b>Total operating income</b>	<b>5,700</b>	<b>6,390</b>	<b>6,810</b>	<b>8,738</b>	<b>15,556</b>	<b>16,747</b>
% chg	28.9	12.1	6.6	28.3	49.3	28.9
<b>Total expenditure</b>	<b>5,110</b>	<b>5,841</b>	<b>6,097</b>	<b>7,624</b>	<b>13,146</b>	<b>13,844</b>
Net raw material costs	4,135	4,585	4,639	5,766	10,011	10,673
Employee expenses	346	457	533	660	1,070	1,026
Other	629	798	925	1,198	2,066	2,145
<b>EBITDA</b>	<b>590</b>	<b>549</b>	<b>713</b>	<b>1,115</b>	<b>2,410</b>	<b>2,903</b>
% chg	54.7	(6.9)	29.9	56.3	88.1	42.0
(% of total op. income)	10.3	8.6	10.5	12.8	15.5	17.3
Depreciation & amort.	64	82	130	220	449	455
<b>EBIT</b>	<b>666</b>	<b>603</b>	<b>678</b>	<b>1,002</b>	<b>2,035</b>	<b>2,615</b>
% chg	55.9	(9.3)	12.4	47.8	78.5	44.5
(% of total op. income)	11.7	9.4	10.0	11.5	13.1	15.6
Interest and other charges	8	4	8	10	11	13
Other income	140	137	95	107	74	168
<b>Recurring PBT</b>	<b>658</b>	<b>600</b>	<b>671</b>	<b>993</b>	<b>2,024</b>	<b>2,603</b>
% chg	57.6	(8.9)	11.8	48.0	79.0	52.9
Extraordinary items	-	-	-	-	-	-
<b>PBT (reported)</b>	<b>658</b>	<b>600</b>	<b>671</b>	<b>993</b>	<b>2,024</b>	<b>2,603</b>
Tax	163	125	145	291	613	757
(% of PBT)	24.7	20.8	21.7	29.3	30.3	29.1
<b>PAT before MI</b>	<b>496</b>	<b>475</b>	<b>525</b>	<b>702</b>	<b>1,411</b>	<b>1,845</b>
% chg	61.9	1.6	10.6	33.6	71.4	54.5
(% of total op. income)	8.7	7.4	7.7	8.0	9.1	11.0
<b>Minority Interest</b>	<b>189</b>	<b>151</b>	<b>131</b>	<b>86</b>	<b>149</b>	<b>223</b>
<b>Profit after MI</b>	<b>307</b>	<b>324</b>	<b>394</b>	<b>615</b>	<b>1,262</b>	<b>1,622</b>
<b>Basic EPS (₹)</b>	<b>103.3</b>	<b>120.1</b>	<b>145.6</b>	<b>227.1</b>	<b>464.8</b>	<b>597.5</b>
<b>Adj. EPS (₹)</b>	<b>103.3</b>	<b>120.1</b>	<b>145.6</b>	<b>227.1</b>	<b>464.8</b>	<b>597.5</b>
% chg	46.6	16.3	21.2	55.9	77.0	52.1

**Balance sheet statement**

Y/E December (₹ cr)	CY2011	CY2012	CY2013	CY2014	15MFY2016E	FY2017E
<b>SOURCES OF FUNDS</b>						
Equity share capital	27	27	27	27	27	27
Reserves & surplus	1,466	1,728	2,028	2,489	3,455	4,698
<b>Shareholders' Funds</b>	<b>1,493</b>	<b>1,755</b>	<b>2,055</b>	<b>2,516</b>	<b>3,482</b>	<b>4,725</b>
Total loans	44	23	84	58	58	58
Minority Interest	838	948	1,040	1,085	1,234	1,424
Deferred tax liability	64	123	180	239	239	239
Other long term liabilities	28	18	14	17	17	17
Long term provisions	43	56	60	73	80	90
<b>Total Liabilities</b>	<b>2,510</b>	<b>2,923</b>	<b>3,433</b>	<b>3,988</b>	<b>5,111</b>	<b>6,553</b>
<b>APPLICATION OF FUNDS</b>						
Gross block	989	1,526	2,299	3,137	4,337	5,337
Less: Acc. depreciation	484	534	643	828	1,277	1,732
<b>Net Block</b>	<b>504</b>	<b>992</b>	<b>1,656</b>	<b>2,309</b>	<b>3,060</b>	<b>3,605</b>
Capital work-in-progress	352	504	464	419	419	419
<b>Investments</b>	<b>513</b>	<b>639</b>	<b>825</b>	<b>1,078</b>	<b>1,078</b>	<b>1,278</b>
Long term loans and adv.	249	330	298	478	700	754
Other noncurrent assets	6	6	7	8	8	8
<b>Current assets</b>	<b>2,169</b>	<b>2,000</b>	<b>2,086</b>	<b>2,116</b>	<b>3,330</b>	<b>4,209</b>
Cash	1,192	804	683	481	188	839
Loans & advances	163	220	318	380	767	826
Other	815	977	1,085	1,256	2,375	2,545
<b>Current liabilities</b>	<b>1,284</b>	<b>1,548</b>	<b>1,904</b>	<b>2,419</b>	<b>3,484</b>	<b>3,719</b>
<b>Net current assets</b>	<b>886</b>	<b>452</b>	<b>182</b>	<b>(303)</b>	<b>(153)</b>	<b>490</b>
<b>Total Assets</b>	<b>2,510</b>	<b>2,923</b>	<b>3,433</b>	<b>3,988</b>	<b>5,111</b>	<b>6,553</b>

**Cash flow statement**

Y/E December (₹ cr)	CY2011	CY2012	CY2013	CY2014	15MFY2016E	FY2017E
Profit before tax	660	600	671	993	2,024	2,603
Depreciation	57	50	109	185	449	455
Change in working capital	177	46	149	283	(442)	7
Others	(196)	(58)	40	(145)	(215)	(77)
Direct taxes paid	(163)	(125)	(145)	(291)	(613)	(757)
<b>Cash Flow from Operations</b>	<b>536</b>	<b>513</b>	<b>824</b>	<b>1,025</b>	<b>1,203</b>	<b>2,230</b>
(Inc.)/Dec. in fixed assets	(463)	(689)	(733)	(793)	(1,200)	(1,000)
(Inc.)/Dec. in investments	(54)	(126)	(187)	(252)	-	(200)
<b>Cash Flow from Investing</b>	<b>(517)</b>	<b>(815)</b>	<b>(919)</b>	<b>(1,046)</b>	<b>(1,200)</b>	<b>(1,200)</b>
Issue of equity	-	-	-	-	-	-
Inc./(Dec.) in loans	(52)	(21)	61	(26)	-	-
Dividend paid (Incl. Tax)	(43)	(54)	(81)	(159)	(295)	(380)
Others	22	(10)	(5)	3	-	-
<b>Cash Flow from Financing</b>	<b>(73)</b>	<b>(86)</b>	<b>(25)</b>	<b>(181)</b>	<b>(295)</b>	<b>(380)</b>
Inc./(Dec.) in cash	(54)	(388)	(121)	(202)	(293)	651
<b>Opening Cash balances</b>	<b>1,246</b>	<b>1,192</b>	<b>803</b>	<b>683</b>	<b>480</b>	<b>188</b>
<b>Closing Cash balances</b>	<b>1,192</b>	<b>803</b>	<b>683</b>	<b>480</b>	<b>188</b>	<b>839</b>



**Key ratios**

Y/E December	CY11	CY12	CY13	CY14	15MFY16E	FY17E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	153.7	132.2	109.0	69.9	39.0	30.3
P/CEPS	114.9	105.4	82.0	51.5	28.8	23.7
P/BV	29.2	24.8	21.2	17.3	14.2	10.5
Dividend yield (%)	0.1	0.1	0.2	0.3	0.5	0.7
EV/Sales	7.3	6.5	6.1	4.7	3.1	2.8
EV/EBITDA	70.1	75.6	58.2	37.2	19.8	16.2
EV / Total Assets	16.5	14.2	12.1	10.4	9.4	7.2
<b>Per Share Data (₹)</b>						
EPS (Basic)	103.3	120.1	145.6	227.1	464.8	597.5
EPS (fully diluted)	103.3	120.1	145.6	227.1	464.8	597.5
Cash EPS	138.2	150.6	193.7	308.2	630.2	765.1
DPS	16.0	20.0	30.0	50.0	93.0	119.5
Book Value	543.4	640.2	749.9	918.4	1,272.7	1,730.4
<b>Returns (%)</b>						
ROCE (Pre-tax)	26.5	20.6	19.8	25.1	39.8	39.9
Angel ROIC (Pre-tax)	50.5	28.5	24.7	28.6	41.3	45.8
ROE	20.6	18.5	19.2	24.5	36.2	34.3
<b>Turnover ratios (x)</b>						
Asset Turnover (Gross Block)	5.8	4.2	3.0	2.8	3.6	3.1
Inventory / Sales (days)	27	28	28	27	28	28
Receivables (days)	22	25	27	23	26	26
Payables (days)	76	82	94	91	71	70
WC cycle (ex-cash) (days)	(26)	(29)	(38)	(40)	(16)	(16)
<b>Solvency ratios (x)</b>						
Net debt to equity	(0.8)	(0.4)	(0.3)	(0.2)	(0.0)	(0.2)
Net debt to EBITDA	(1.9)	(1.4)	(0.8)	(0.4)	(0.1)	(0.3)
Interest Coverage (EBIT / Int.)	86.8	159.2	86.1	102.5	184.0	209.2

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### Disclosure of Interest Statement

### Eicher Motors

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

*Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors*

**Ratings (Based on expected returns over 12 months investment period):**

Buy (> 15%)

Accumulate (5% to 15%)  
Reduce (-5% to -15%)

Neutral (-5 to 5%)  
Sell (< -15)