

## Eicher Motors

### Performance Highlights

Y/E December (₹ cr)	3QFY16*	3QCY14	% chg (yoy)	2QFY16*	% chg (qoq)
<b>Net Sales</b>	<b>3,123</b>	<b>2,275</b>	<b>37.3</b>	<b>2,917</b>	<b>7.1</b>
EBITDA	493	305	61.4	432	14.1
EBITDA Margin (%)	15.8	13.4	240 bp	14.8	100 bp
<b>Adj. PAT</b>	<b>255</b>	<b>165</b>	<b>54.8</b>	<b>222</b>	<b>15.2</b>

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

**Results in line with estimates:** Eicher Motors Ltd (EML)'s 3QFY2016 results (company has changed accounting year from December to March) have come in line with our estimates.

EML's consolidated revenues grew 37% yoy to ₹3,123cr (in line with our estimate of ₹3,105cr). The growth was led by Royal Enfield (robust growth of 59% yoy to ₹1,301cr). The commercial vehicle segment's (VE Commercial Vehicles [VECV]) revenues grew 25% yoy to ₹1,821cr, led by recovery in volumes and increase in engine supplies to Volvo. Operating margin, at 15.8%, improved 240bp yoy, coming in line with our estimates of 16.1%. Royal Enfield's margin, at 27.7%, improved sharply by 270bp yoy led by strong operating leverage and price hikes. VECV margins grew marginally by 40bp yoy to 7.3%, due to volume surge and soft commodity prices. Given the robust operating performance, the net profit, at ₹255cr, grew strongly by 55% yoy, coming broadly in line with our estimates of ₹271cr.

**Outlook and Valuation:** The demand for Royal Enfield continues to remain strong on increasing acceptance of leisure biking trend in India. However, Royal Enfield's growth rate is likely to slow down given the high base and the time required by company and the ancillary suppliers to ramp capacity. Going ahead, the growth rate is likely to normalize to 30% levels as against 60% rates achieved earlier. Given the growth moderation, we have lowered our earnings and target multiple for Royal Enfield. **We maintain Buy recommendation on the stock with a revised SOTP based target price of ₹19,036.**

#### Key financials (Consolidated)

Y/E December (₹ cr)	CY2013	CY2014	15MFY2016E	FY2017E
<b>Net Sales</b>	<b>6,810</b>	<b>8,738</b>	<b>15,379</b>	<b>16,498</b>
% chg	6.6	28.3	47.6	28.8
<b>Net Profit</b>	<b>394</b>	<b>615</b>	<b>1,284</b>	<b>1,560</b>
% chg	21.2	55.9	80.2	43.2
EBITDA (%)	10.5	12.8	15.6	16.6
<b>EPS (₹)</b>	<b>145.6</b>	<b>227.1</b>	<b>473.2</b>	<b>574.8</b>
P/E (x)	109.0	69.9	33.5	27.6
P/BV (x)	21.2	17.3	12.4	9.2
RoE (%)	19.2	24.5	36.7	33.2
RoCE (%)	19.8	25.1	39.8	38.0
EV/Sales (x)	6.1	4.7	2.7	2.5
EV/EBITDA (x)	58.2	37.2	17.3	15.0

Source: Company, Angel Research; Note: CMP as of November 10, 2015

## BUY

CMP	₹15,877
Target Price	₹19,036

Investment Period	12 Months
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#### Stock Info

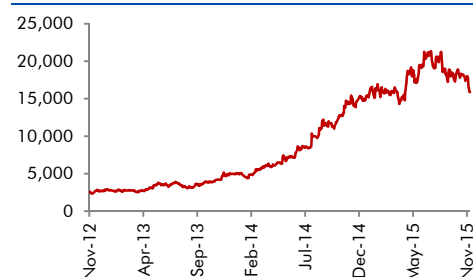
Sector	Automobile
Market Cap (₹ cr)	43,093
Net Debt (₹ cr)	(422)
Beta	1.1
52 Week High / Low	21,618/12,630
Avg. Daily Volume	9,491
Face Value (₹)	10
BSE Sensex	25,743
Nifty	7,783
Reuters Code	EICH.BO
Bloomberg Code	EIM IN

#### Shareholding Pattern (%)

Promoters	54.9
MF / Banks / Indian Fls	6.4
FII / NRIs / OCBs	28.3
Indian Public / Others	10.4

Abs. (%)	3m	1yr	3yr
Sensex	(8.4)	(7.6)	37.9
Eicher Motors	(22.2)	24.6	516.0

#### 3-year price chart



Source: Company, Angel Research

#### Bharat Gianani

022-3935 7800 Ext: 6817

bharat.gianani@angelbroking.com

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

Y/E December (₹ cr)	3QFY16*	3QCY14	% chg (yoy)	2QFY16*	% chg (qoq)	9MFY16*	9MCY14	% chg (yoy)
<b>Net Sales</b>	<b>3,123</b>	<b>2,275</b>	<b>37.3</b>	<b>2,917</b>	<b>7.1</b>	<b>8,607</b>	<b>6,445</b>	<b>33.6</b>
Consumption of RM	2,017	1,494	35.0	1,907	5.8	5,577	4,273	30.5
(% of Sales)	64.6	65.7		65.4		64.8	66.3	
Staff Costs	214	169	26.6	203	5.7	602	493	22.3
(% of Sales)	6.9	7.4		7.0		7.0	7.6	
Other Expenses	398	306	30.1	376	6.0	1,138	867	31.2
(% of Sales)	12.8	13.5		12.9		13.2	13.5	
<b>Total Expenditure</b>	<b>2,630</b>	<b>1,970</b>	<b>33.5</b>	<b>2,485</b>	<b>5.8</b>	<b>7,317</b>	<b>5,633</b>	<b>29.9</b>
<b>Operating Profit</b>	<b>493</b>	<b>305</b>	<b>61.4</b>	<b>432</b>	<b>14.1</b>	<b>1,290</b>	<b>812</b>	<b>59.0</b>
OPM (%)	15.8	13.4		14.8		15.0	12.6	
Interest	3	1	214.1	2	68.0	6	8	(25.4)
Depreciation	88	56	55.9	79	10.6	244	160	52.7
Other Income	13	19	(34.2)	7	86.2	53	92	(42.5)
<b>PBT (excl. Extr. Items)</b>	<b>415</b>	<b>267</b>	<b>55.2</b>	<b>357</b>	<b>16.0</b>	<b>1,094</b>	<b>736</b>	<b>48.5</b>
Extr. Income/(Expense)								
<b>PBT (incl. Extr. Items)</b>	<b>415</b>	<b>267</b>	<b>55.2</b>	<b>357</b>	<b>16.0</b>	<b>1,094</b>	<b>736</b>	<b>48.5</b>
(% of Sales)	13.3	11.7		12.2		12.7	11.4	
Provision for Taxation	129	81	58.8	101	28.1	335	216	55.2
(% of PBT)	31.1	30.4		28.2		30.6	29.3	
<b>PAT before MI</b>	<b>286</b>	<b>186</b>	<b>53.6</b>	<b>257</b>	<b>11.3</b>	<b>759</b>	<b>521</b>	<b>45.7</b>
Minority Interest	30	21	44.2	35	(13.0)	86	59	45.7
<b>Net Profit after MI</b>	<b>255</b>	<b>165</b>	<b>54.8</b>	<b>222</b>	<b>15.2</b>	<b>673</b>	<b>462</b>	<b>45.7</b>
PATM	8.2	7.3		7.6		7.8	7.2	
Equity capital (cr)	27	27		27		27	27	
<b>Reported EPS (₹)</b>	<b>94.1</b>	<b>60.9</b>	<b>54.6</b>	<b>81.7</b>	<b>15.2</b>	<b>248</b>	<b>170</b>	<b>45.4</b>

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

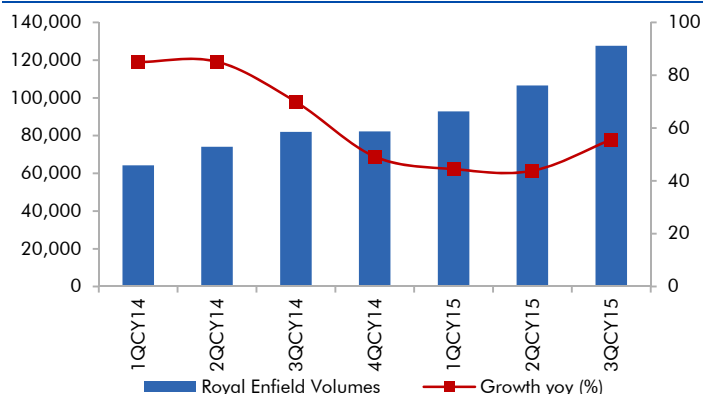
**Exhibit 2: 3QFY2016 – Actual vs Angel estimates**

Y/E December (₹ cr)	Actual	Estimates	Variation (%)
<b>Net Sales</b>	<b>3,123</b>	<b>3,105</b>	<b>0.6</b>
EBITDA	493	500	(1.4)
EBITDA margin (%)	15.8	16.1	(30 bp)
<b>Adj. PAT</b>	<b>255</b>	<b>271</b>	<b>(5.7)</b>

Source: Company, Angel Research

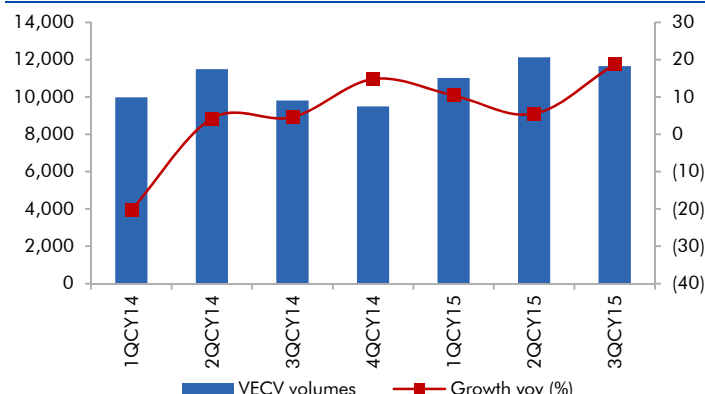
- Royal Enfield continued with its robust double-digit volume growth, led by capacity expansion as demand continues to outstrip supply. In 3QFY2016, volumes grew 56% yoy. The current order backlog for Royal Enfield stands at 1-4 months.
- VECV volumes continued to recover, led by improvement in LMD and HD volumes. VECV reported a sixth consecutive quarter of volume growth during 3QFY2016, witnessing a growth of 19%.

**Exhibit 3: Royal Enfield growth trend**



Source: Company, Angel Research

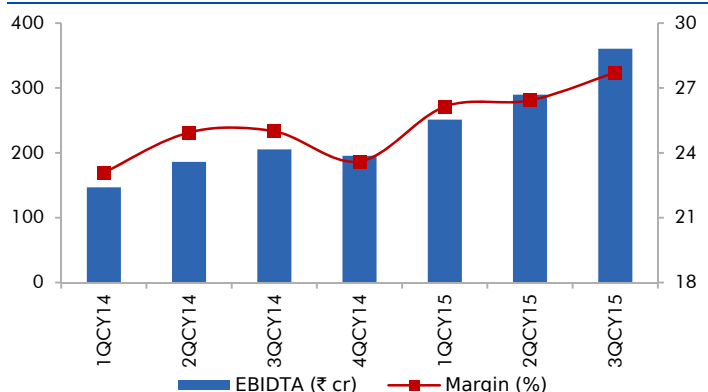
**Exhibit 4: VECV growth trend**



Source: Company, Angel Research

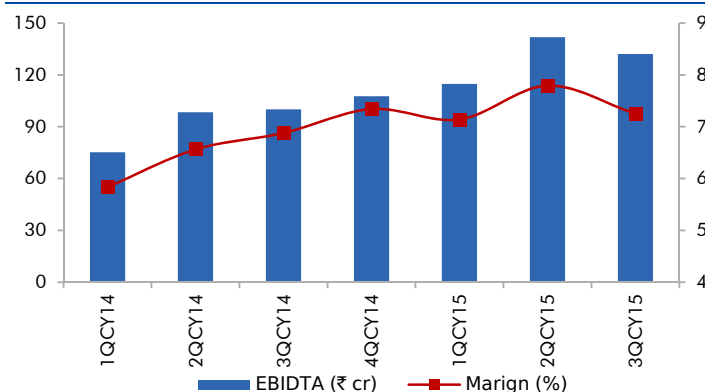
- Royal Enfield's margins are in a constant uptrend, buoyed by a sharp jump in volumes, tremendous pricing power and benign commodity prices. In 3QFY2016, Royal Enfield posted record margins of 28%.
- VECV margins at 7.3% improved marginally by 40bp on a yoy basis.

**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 1-4 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 thousand for CY2016 and 780 thousand for CY2017.
- Royal Enfield has been expanding its dealer network in tier 2 and tier 3 cities. It plans to increase 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.
- To broaden product portfolio, Royal Enfield is targeting to introduce two new platforms (one platform would be ready in CY2016 and other would rollout in CY2017).
- 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 lost some market share in the MHCV space due to high discounting in the industry. The discounting per vehicle in MHCV has moved up from ₹1.5 lakh levels in CY2014 to ₹2 lakh currently. VECV market share slipped marginally from 11.7% in CY2014 to 10.1% in 9MCY2015.
- Engine supplies to Volvo have been ramping up. In 3QFY2016, VECV shipped about 4,800 units as against 3,800 units in the corresponding quarter last year.
- Royal Enfield undertook a price increase of about 1.2% in the middle of 3QCY2015.
- 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 231 units in the seven states it has been introduced.

## 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

The demand for Royal Enfield continues to remain strong on increasing acceptance of leisure biking trend in India. However, Royal Enfield's growth rate is likely to slow down given the high base and the time required by company and the ancillary suppliers to ramp capacity. Going ahead, the growth rate is likely to normalize to 30% levels as against 60% rates achieved earlier. Given the growth moderation, we have lowered our earnings and target multiple for Royal Enfield. **We maintain Buy recommendation on the stock with a revised SOTP based target price of ₹19,036.**

### Exhibit 7: SOTP valuation

Particulars	Value/share	Remarks
Royal Enfield	17,136	At 35x FY17 earnings
VECV	1,900	At 12x FY17 EV/EBIDTA
<b>Target Price</b>	<b>19,036</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>15,379</b>	<b>16,498</b>
% chg	28.9	12.1	6.6	28.3	47.6	28.8
<b>Total expenditure</b>	<b>5,110</b>	<b>5,841</b>	<b>6,097</b>	<b>7,624</b>	<b>12,973</b>	<b>13,763</b>
Net raw material costs	4,135	4,585	4,639	5,766	9,931	10,735
Employee expenses	346	457	533	660	1,039	993
Other	629	798	925	1,198	2,002	2,035
<b>EBITDA</b>	<b>590</b>	<b>549</b>	<b>713</b>	<b>1,115</b>	<b>2,406</b>	<b>2,734</b>
% chg	54.7	(6.9)	29.9	56.3	87.8	34.0
(% of total op. income)	10.3	8.6	10.5	12.8	15.6	16.6
Depreciation & amort.	64	82	130	220	432	428
<b>EBIT</b>	<b>666</b>	<b>603</b>	<b>678</b>	<b>1,002</b>	<b>2,042</b>	<b>2,484</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	13.3	15.1
Interest and other charges	8	4	8	10	12	13
Other income	140	137	95	107	68	178
<b>Recurring PBT</b>	<b>658</b>	<b>600</b>	<b>671</b>	<b>993</b>	<b>2,030</b>	<b>2,472</b>
% chg	57.6	(8.9)	11.8	48.0	79.5	44.7
Extraordinary items	-	-	-	-	-	-
<b>PBT (reported)</b>	<b>658</b>	<b>600</b>	<b>671</b>	<b>993</b>	<b>2,030</b>	<b>2,472</b>
Tax	163	125	145	291	594	680
(% of PBT)	24.7	20.8	21.7	29.3	29.3	27.5
<b>PAT before MI</b>	<b>496</b>	<b>475</b>	<b>525</b>	<b>702</b>	<b>1,436</b>	<b>1,792</b>
% chg	61.9	1.6	10.6	33.6	74.5	46.9
(% of total op. income)	8.7	7.4	7.7	8.0	9.3	10.9
<b>Minority Interest</b>	<b>189</b>	<b>151</b>	<b>131</b>	<b>86</b>	<b>152</b>	<b>232</b>
<b>Profit after MI</b>	<b>307</b>	<b>324</b>	<b>394</b>	<b>615</b>	<b>1,284</b>	<b>1,560</b>
<b>Basic EPS (₹)</b>	<b>103.3</b>	<b>120.1</b>	<b>145.6</b>	<b>227.1</b>	<b>473.2</b>	<b>574.8</b>
<b>Adj. EPS (₹)</b>	<b>103.3</b>	<b>120.1</b>	<b>145.6</b>	<b>227.1</b>	<b>473.2</b>	<b>574.8</b>
% chg	46.6	16.3	21.2	55.9	80.2	43.2

**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	3,473	4,668
<b>Shareholders' Funds</b>	<b>1,493</b>	<b>1,755</b>	<b>2,055</b>	<b>2,516</b>	<b>3,500</b>	<b>4,695</b>
Total loans	44	23	84	58	58	58
Minority Interest	838	948	1,040	1,085	1,237	1,431
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>5,131</b>	<b>6,530</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	1,260	1,688
<b>Net Block</b>	<b>504</b>	<b>992</b>	<b>1,656</b>	<b>2,309</b>	<b>3,077</b>	<b>3,650</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	692	742
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>3,312</b>	<b>4,164</b>
Cash	1,192	804	683	481	201	816
Loans & advances	163	220	318	380	758	814
Other	815	977	1,085	1,256	2,353	2,534
<b>Current liabilities</b>	<b>1,284</b>	<b>1,548</b>	<b>1,904</b>	<b>2,419</b>	<b>3,454</b>	<b>3,730</b>
<b>Net current assets</b>	<b>886</b>	<b>452</b>	<b>182</b>	<b>(303)</b>	<b>(143)</b>	<b>434</b>
<b>Total Assets</b>	<b>2,510</b>	<b>2,923</b>	<b>3,433</b>	<b>3,988</b>	<b>5,131</b>	<b>6,530</b>

**Cash flow statement**

Y/E December (₹ cr)	CY2011	CY2012	CY2013	CY2014	15MFY2016E	FY2017E
Profit before tax	660	600	671	993	2,030	2,472
Depreciation	57	50	109	185	432	428
Change in working capital	177	46	149	283	(441)	39
Others	(196)	(58)	40	(145)	(207)	(79)
Direct taxes paid	(163)	(125)	(145)	(291)	(594)	(680)
<b>Cash Flow from Operations</b>	<b>536</b>	<b>513</b>	<b>824</b>	<b>1,025</b>	<b>1,221</b>	<b>2,180</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)	(301)	(365)
Others	22	(10)	(5)	3	-	-
<b>Cash Flow from Financing</b>	<b>(73)</b>	<b>(86)</b>	<b>(25)</b>	<b>(181)</b>	<b>(301)</b>	<b>(365)</b>
Inc./(Dec.) in cash	(54)	(388)	(121)	(202)	(280)	615
<b>Opening Cash balances</b>	<b>1,246</b>	<b>1,192</b>	<b>803</b>	<b>683</b>	<b>480</b>	<b>201</b>
<b>Closing Cash balances</b>	<b>1,192</b>	<b>803</b>	<b>683</b>	<b>480</b>	<b>201</b>	<b>816</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	33.5	27.6
P/CEPS	114.9	105.4	82.0	51.5	25.1	21.7
P/BV	29.2	24.8	21.2	17.3	12.4	9.2
Dividend yield (%)	0.1	0.1	0.2	0.3	0.6	0.7
EV/Sales	7.3	6.5	6.1	4.7	2.7	2.5
EV/EBITDA	70.1	75.6	58.2	37.2	17.3	15.0
EV / Total Assets	16.5	14.2	12.1	10.4	8.1	6.3
<b>Per Share Data (₹)</b>						
EPS (Basic)	103.3	120.1	145.6	227.1	473.2	574.8
EPS (fully diluted)	103.3	120.1	145.6	227.1	473.2	574.8
Cash EPS	138.2	150.6	193.7	308.2	632.4	732.3
DPS	16.0	20.0	30.0	50.0	94.6	115.0
Book Value	543.4	640.2	749.9	918.4	1,279.5	1,719.8
<b>Dupont Analysis</b>						
EBIT margin	11.7	9.4	10.0	11.5	13.3	15.1
Tax retention ratio	0.8	0.8	0.8	0.7	0.7	0.7
Asset turnover (x)	4.3	3.0	2.5	2.5	3.1	2.9
ROIC (Post-tax)	38.0	22.5	19.3	20.2	29.3	31.5
Cost of Debt (Post Tax)	13.1	13.1	7.4	11.8	15.0	15.5
Leverage (x)	(0.8)	(0.4)	(0.3)	(0.2)	(0.0)	(0.2)
Operating ROE	18.9	18.3	15.8	18.8	28.7	28.9
<b>Returns (%)</b>						
ROCE (Pre-tax)	26.5	20.6	19.8	25.1	39.8	38.0
Angel ROIC (Pre-tax)	50.5	28.5	24.7	28.6	41.4	43.5
ROE	20.6	18.5	19.2	24.5	36.7	33.2
<b>Turnover ratios (x)</b>						
Asset Turnover (Gross Block)	5.8	4.2	3.0	2.8	3.5	3.1
Inventory / Sales (days)	27	28	28	27	28	29
Receivables (days)	22	25	27	23	26	26
Payables (days)	76	82	94	91	71	72
WC cycle (ex-cash) (days)	(26)	(29)	(38)	(40)	(17)	(17)
<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	165.5	198.8

Research Team Tel: 022 - 39357800

 E-mail: [research@angelbroking.com](mailto:research@angelbroking.com)

 Website: [www.angelbroking.com](http://www.angelbroking.com)

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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)