

**ON A BOULEVARD TO
SUCCESS!!!!!!**

Stock Idea

Eicher Motors Ltd

| | |
|-----------------------------|------------------------------|
| Recommendation | Accumulate on Decline |
| CMP (24/11/2011) | Rs.1619 |
| Sector | Commercial Vehicles |
| Stock Details | |
| BSE Code | 505200 |
| NSE Code | EICHERMOT |
| Bloomberg Code | EIM IN |
| Market Cap (Rs. Crs) | 4,755 |
| Free Float (%) | 44.77 |
| 52- wk HI/Lo | 1762/975 |
| Avg. volume BSE (Quarterly) | 6,913 |
| Face Value | Rs.10 |
| Dividend payout (CY10) | 110% |
| Shares o/s (Crs) | 2.69 |

| | | | |
|-----------------------------|-------------|-------------|------------|
| Relative Performance | 1Mth | 3Mth | 1Yr |
| Eicher Motors | -2.6% | 20.6% | 39.4% |
| Sensex | -5.5% | -3.9% | -18.5% |



| | |
|---------------------------|----------------|
| Shareholding | Pattern |
| 30/09/2011 | |
| Promoters Holding | 55.23% |
| Institutional (Incl. FII) | 23.32% |
| Corporate Bodies | 1.99% |
| Public & others | 19.46% |

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On a boulevard to success !!!!!

Eicher Motors Ltd (EML) is present in commercial vehicles, two wheelers and related component and design services. Volvo entered into a JV (VECV- Volvo Eicher Commercial Vehicles) with EML as joint promoter of the commercial vehicles business.

Increasing demand for Royal Enfield

EML rides high on success of its Royal Enfield business. The brand has now been highly recognised and leading to exceptional growth in demand (6-8 months waiting period). EML is increasing capacity for Royal Enfield from existing ~70,000 units to ~150,000 units in CY13.

Commercial Vehicles to benefit from JV

Combined efforts of Volvo's technological proficiency and high quality standards, together with EML's distribution and low cost manufacturing will lead the road to success in HCV space

Global Manufacturing Hub

Volvo Group plans to make VECV's plant in Pithampur the base for its futuristic Medium Duty Engine global Platform involving an initial investment in industry of Rs 2880 mn. The 5 and 8-litre engines will be produced and assembled in India.

Slowdown in the CV industry

The overall CV industry is facing a slowdown in line with the overall automobile sector and raising concerns of lower economic growth. As Eicher follows calendar year the overall impact of this slowdown will not be visible in its CY11 numbers. However, going forward we believe that Eicher will also witness pressure in this segment in CY12. Despite this, the long term story remains intact. With recovery in demand in late CY12 and CY13 and enhanced capacity we believe that Eicher is poised for strong growth in the long term.

Valuation & Recommendation

Although, the final results of the steps taken by the company will be clearly visible from Q1CY13 onwards, we believe that the company has taken the right steps in the right direction and the initial success signs are visible.

Considering the robust earnings growth and strong balance sheet, we believe that EML will continue its growth story in the coming years.

At CMP, the stock is trading at P/E of 14.8x CY11E, 12.2x CY12E and 11.1x CY13E. Though the near term outlook for the stock is slightly subdued, we believe that the stock can be '**accumulated on decline**' from a long term perspective. On consolidated basis cash per share comes to Rs 629.

| Year | Net Sales (Rs. Crs) | Growth % | EBITDA (Rs. Crs) | Margin % | PAT (Rs. Crs) | Margin % | EPS (Rs.) | P/E (x) | P/BV (x) |
|---------|---------------------|----------|------------------|----------|---------------|----------|-----------|---------|----------|
| CY 2008 | 1717.96 | -23.90% | 66.23 | 3.71% | 62.6 | 3.51% | 22.28 | 72.04 | 4.12 |
| CY 2009 | 2938.63 | 71.05% | 249.86 | 8.21% | 83.39 | 2.74% | 30.78 | 52.14 | 4.25 |
| CY 2010 | 4397.08 | 49.63% | 484.47 | 10.71% | 188.92 | 4.18% | 70.54 | 22.75 | 3.69 |

INVESTMENT RATIONALE

EML has identified the following as main growth drivers - two wheelers – Royal Enfield (standalone), CVs and outsourcing opportunity for Volvo (through VECV).

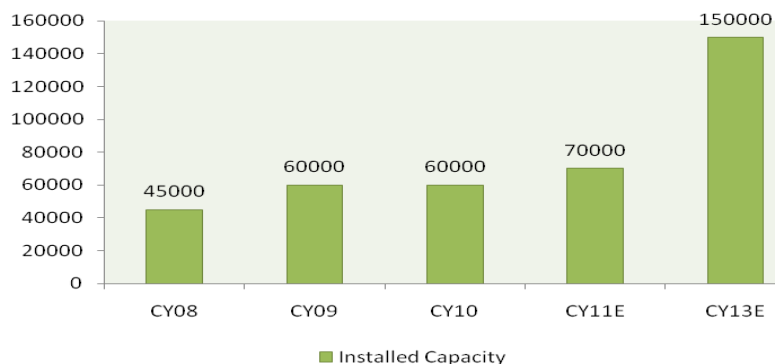
- **Royal Enfield- Back with a BANG!!!**

Royal Enfield has been a pioneer of powerful four stroke technology in India since 1955 and enjoys leadership position.

Historically the brand was being neglected due to various restructuring initiatives and focus on HCVs. Sidhartha Lal (promoter) relinquished his role as CEO of VECV and assumed the role of CEO of EML in order to focus on the two wheeler business and reinforce the Eicher brand. **"Made like a gun, goes like a bullet"** is the bike's punch line and Royal Enfield is all about style and distinctiveness. Its USP is the sound that proclaims the **"arrival of Maharaja "** on the street. Keeping in mind the perception of each individual's relationship with the bike being unique and equally distinct, Royal Enfield was repositioned as a **'rough and tough/sturdy'** model in order to target the muscular/heavy built class of people.

Moreover, reasons like rising income coupled with favorable demographics, entry of global players like Harley Davidson, Kawasaki further promoted this culture. The bikes of global players are too expensive and Eicher faces minimal competition in the 350+ cc bikes. Resulting from the above mentioned reasons Royal Enfield is well positioned to capitalize on the strong and growing demand (6-8 months waiting period).

The company is planning to increase the production capacity of its two wheelers from 70,000 units to 1,50,000 units in CY13. In the period from January to September 2011 the company has already sold 55,615 bikes which is more than the annual sales of CY10. The run rate for Royal Enfield has increased to ~7,000 units per month from ~4500 units per month in 2010. We believe that new model introduction, restyling of products and addressing capacity concerns are likely to result in strong volumes for the company going forward.



- **Commercial Vehicles to benefit from JV:**

The success of EML largely depends on HCVs in its product portfolio as it has already seen bad times in the past when its HCV segment could not achieve favourable results. We believe that VECV will now achieve success in the HCV space due to the collective strength of Volvo's technological proficiency and high quality standards, together with EML's distribution and low cost manufacturing. The likelihood of achieving success is high as the joint effort and roles of both EML and Volvo are well synchronised and have successfully developed a wide range of commercial vehicles to meet varying customer needs.

The CV business of Eicher Motors under VECV contributes approximately 90% to its consolidated revenues. The consolidated EBITDA margin of the company stood at 10.4% while standalone margin stood at 12.8% Q3CY11.

The CV business of the company is growing at above the industry growth rate and the company expects it to continue further going forward. Company intends to increase its monthly sales rate of 700 units in Q3CY11 to 1000 units by end of CY11E. EML also plans to increase its CV capacity to 100,000 units in next 3-4 years with a capital expenditure of Rs 500 crs.

The overall CV industry witnessed a buoyant growth of 35% and 30% in FY10 and FY11 respectively. However, currently this industry is facing a slowdown in line with the overall automobile sector and raising concerns of lower economic growth. Rise in interest rates and slowing industrial growth has brought down CV industry's growth to 20% during April-September 2011. As Eicher follows calendar year the overall impact of this slowdown will not be visible in its CY11 numbers. However, going forward we believe that Eicher will also witness pressure in this segment in CY12. Despite this our long term story remains intact. With recovery in demand in late CY12 and CY13 and enhanced capacity we believe that Eicher is poised for strong growth in the long term.

- **One stop centre**

The project VE Powertrain (VEPT) is based on Volvo Group decision to make VECV's plant in Pithampur the base for its futuristic Medium Duty Engine global Platform involving an initial investment in industry of Rs 2880 mn. The 5 and 8-litre engines will be produced and assembled in India.

VECV is already producing about 40,000 engines per year in its existing Pithampur plant. The new investment in Pithampur will result in an annual production capacity of an additional 85,000 engines; starting 2013. Of this count, Pithampur will also do the final assembly of 55,000 engines per year starting 2012 which will meet the Volvo group's global requirements of Euro 3 and Euro 4 engines as well as VECV's requirement of Eicher heavy-duty commercial vehicles. Also out of this 85000 count; 30,000 base engines will be sent from Pithampur to VPT's plant in Venissieux, France where these base engines will be assembled for the Volvo group's Euro 5 and Euro 6 requirements, starting 2013.

We expect its technological support to also gain prominence as and when the new engine plant starts producing engines.

- **Strong Network**

Eicher Motors' after sales network has been further strengthened with addition of new dealerships and also upgradation of existing dealerships. The Group's products are brought to the customers through its strong network of around 213 dealers distributed across the country and plans to further enhance it to 225 in CY11. Royal Enfield added 24 new outlets in 2010 with full fledged sales, service and spare facilities confirming to royal Enfield showroom and service standard. Eicher has around 2500 employees located in 4 manufacturing facilities all around India. Eicher is present in over 40 countries across the world.

HIGHLIGHTS OF Q3CY11 PERFORMANCE

- EML reported 32.1% YoY growth (highest ever) in its top line to Rs 1438.15 crs in Q3CY11. This was primary on account of strong growth in most of its CV segment. Heavy Duty segment grew 57% YoY (compared to 4.6% growth in industry), Bus segment grew 36% YoY (compared to decline of 2% in industry).
- Volvo trucks declined 36% YoY in volumes terms mainly due to higher exposure in the mining segment. Approximately 70% of the sales are in the mining segment which got impacted due to the mining issues.
- EBITDA grew 80.1% YoY to Rs 151 crs in Q3CY11. EBITDA margins increased by 277 bps YoY and 69 bps QoQ to 10.4% in Q3CY11. This was mainly attributable to decline in RM costs as a percentage to total income. RM costs declined 300 bps YoY and 74 bps QoQ to 72.5%.
- EML reported strong growth in bottom line as well. PAT grew 87.9% YoY to Rs 120.26 crs and PAT after minority stood at Rs 73.7 crs (90.7% YoY). PAT margins improved by 156 bps to 5.1% due to improvement in product mix and lower discounts.
- EML's standalone business also posted stellar performance. Total income increased 63.1% YoY to Rs 181.26 crs. EBITDA grew 120.3% YoY to Rs 23.24 crs while PAT grew 117.3% YoY to Rs 18.34 crs. EBITDA margins increased 333 bps YoY to 12.8% while PAT margins improved 252 bps YoY to 10.1%. However, on QoQ basis, EBITDA margins declined 48 bps while PAT margins declined 711 bps owing to lower other income.

Stock Idea
Eicher Motors Ltd
Income Statement (in Rs. Crs)

| Particulars | Q3CY11 | Q2CY11 | Q-o-Q | Q3CY10 | Y-o-Y |
|--|-----------------|-----------------|-----------------|-----------------|----------------|
| Gross Sales | 1,553.18 | 1,387.65 | 11.9% | 1,168.38 | 32.9% |
| (-) Excise duty | 115.03 | 99.80 | 15.3% | 76.74 | 49.9% |
| Net Sales | 1,438.15 | 1,287.85 | 11.7% | 1,091.64 | 31.7% |
| Other operating income | 13.13 | 10.57 | 24.2% | 6.72 | 95.4% |
| Total income from operations | 1451.28 | 1298.42 | 11.8% | 1098.36 | 32.1% |
| (Inc)/Dec stock in trade and WIP | (22.04) | (64.73) | (66.0%) | 24.13 | (191.3%) |
| Consumption of RM and components | 869.15 | 820.84 | 5.9% | 563.04 | 54.4% |
| Purchase of finished goods for resale | 205.41 | 195.13 | 5.3% | 242.31 | (15.2%) |
| Employee Cost | 88.37 | 86.29 | 2.4% | 69.33 | 27.5% |
| Other Expenditure | 159.29 | 134.72 | 18.2% | 115.64 | 37.7% |
| Total | 1,300.18 | 1,172.25 | 10.9% | 1,014.45 | 28.2% |
| EBITDA | 151.10 | 126.17 | 19.8% | 83.91 | 80.1% |
| Margin | 10.4% | 9.7% | 69 bps | 7.6% | 277 bps |
| Interest | 3.41 | 2.10 | 62.4% | 3.16 | 7.9% |
| Depreciation | 16.19 | 15.38 | 5.3% | 14.76 | 9.7% |
| Other income | 28.89 | 41.16 | (29.8%) | 18.30 | 57.9% |
| Profit Before Tax | 160.39 | 149.85 | 7.0% | 84.29 | 90.3% |
| Provision for Tax (incl deferred tax and MAT credit entitlement) | 40.13 | 33.81 | 18.7% | 20.29 | 97.8% |
| Net Profit before Minority Interest | 120.26 | 116.04 | 3.6% | 64.00 | 87.9% |
| Minority Interest | 46.52 | 39.73 | 17.1% | 25.33 | 83.7% |
| Net Profit After Minority Interest | 73.74 | 76.31 | -3.4% | 38.67 | 90.7% |
| Margins | 5.1% | 5.9% | (80) bps | 3.5% | 156 bps |
| Earnings per share (Rs) | 27.35 | 28.30 | -3.4% | 14.46 | 89.1% |

Source: Company Data, Nirmal Bang Research

OTHER KEY FACTORS

- EML's market share in the Heavy Duty segment improved 110 bps from 2.1% to 3.2% in Q3CY11. The company has reached ~700 units per month in this segment and has maintained its target of ~1,000 units per month in CY12.
- There is overall slowdown in cargo space (registering a de growth). However, there is a strong demand in the tipper segment. The cyclicity of the CV business and impact of macro environment will be felt in the coming quarters.
- EML 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.
- Market share in the Bus segment improved 300 bps from 8% to 11% in Q3CY11.
- EIM has recently launched its semi low floor range of buses in October and has an order book of ~20 buses from Gujarat government.
- EML has completed planning of its new plant of Royal Enfield and expects it to be up and running from Q1CY13E. The demand for Royal Enfield continues to remain very strong and is exceeding the supply by ~3,000 –4,000 units per month. Management expects to increase current run rate of ~7,000 units per month to ~7,500 - 8,000 in CY12E.
- As far as the exports for Royal Enfield are concerned, company is already present in 30 countries. The immediate focus of the company is domestic market as the management sees a potential growth in the domestic markets. Exports form 5-6% of the share and the company does not see any significant change in the share immediately.
- Management expects its VECV business to have a capacity of ~4,500 units per month in Q1CY12 from the current run rate of ~4000 units with a target of ~5,500 units by end CY12. Moreover, Management plans to gradually increase its capacity to 8,500+ units per month in the next 3 years.
- EML has taken a price hike of 1.2% in the month of October, 2011.
- Management expects some pressure on the margins till the HD vehicles start expanding. An improvement in the product mix will drive the margins going forward.
- Engine plant is on schedule. Total engine capacity is ~ 50,000 units of existing engines plus the new engine capacity of ~ 85,000 engines will be there.
- Total cash in subsidiary is at Rs 1,200 crs and Rs 495 crs of cash in the standalone business thus the total cash amounts to Rs 1,695 crs at the end of Q3CY11. Cash per share comes to Rs 629 on consolidated basis.
- Planned Capital expenditure for next three years is Rs 500 crs for CV segment, Rs 400 crs for the engine segment and Rs 150 crs for the two wheeler segment.

COMPANY PROFILE

Eicher Motors Limited, incorporated in 1982, is the flagship company of the Eicher Group in India and a leading player in the Indian automobile industry. Eicher Motors Limited designs, develops, manufactures, and markets trucks and buses, motorcycles, automotive gears, and components in India and internationally.

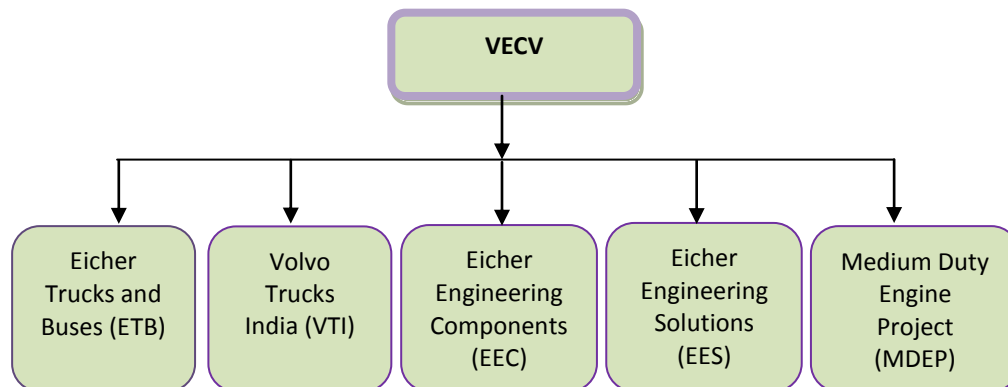
Its 50-50 joint venture with the Volvo group, VE Commercial Vehicles Limited (VECV) designs, manufactures and markets reliable, fuel-efficient commercial vehicles of high quality and modern technology, engineering components and provides engineering design solutions. Eicher Motors manufactures and markets the iconic Royal Enfield motorcycles.

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

VE Commercial Vehicles Ltd (VECV)

EML witnessed a tough time during FY04-FY08 when it entered the high tonnage segment and could not deliver desirable results impacting its financial performance. Post this, it took corrective steps and in 2008, Volvo entered into a JV with EML (where EML holds 54.4% stake) and EML's CV business was transferred into a separate subsidiary (VECV). VECV comprises of five business verticals – Eicher Trucks and Buses, Volvo Trucks India, Eicher Engineering Components and Eicher Engineering Solutions and the recent Medium Duty Engine Project. VECV includes the complete range of Eicher's commercial vehicles, components and engineering design businesses as well as the sales and distribution of Volvo trucks. Each of its business units is already well established and backed by a sizable customer base.

SUBSIDIARY COMPANIES



- **As a company VECV comprises of the following business verticals:**
 - Eicher Trucks and Buses (ETB)
 - ETB manufactures trucks, buses and bus chassis.
 - The company is mainly in trucks and buses of capacity ranging from 5-40T and is also into 21-69 seater buses. However, it has a strong presence in the Light/Medium Duty segment in 7T-12T category. The company is further strengthening its presence in 16T segment.
 - Eicher Engineering Components (EEC)
 - Eicher Engineering Components is the outcome of strategic backward integration. The manufacturing facility not only meets the internal EML (Eicher Motors Limited) demand, but also has a large market share. EEC manufactures some components (In-house Products), assembles a part of the portfolio (Gearbox Assemblies), and outsources some components (Outsourced Products), to provide end-to-end solution to its customer base.
 - Eicher Engineering Solutions (EES)
 - It has two main business areas – EES Inc. (US) and EES Gurgaon (Delhi).
 - The company is into design and CAE services
 - Customers- Toyota, Nissan, Harley Davidson, Navistar, Siemens etc
 - Volvo Trucks India
 - Engages in sales and after sales support of Volvo trucks in India
 - EML does not manufacture Volvo buses but it is only engaged into servicing and distribution of these buses.
 - Medium Duty Engine Project (MDEP)
 - The MDEP is based on Volvo Group decision to make VECV's plant in Pithampur the base for its futuristic Medium Duty Engine global Platform with an initial investment in industry of Rs 2,880 mn. The 5 and 8-litre engines will be produced and assembled in India.
 - The manufacturing capacity of Pithampur plant, starting 2013, would be 85,000 medium duty base engines per year.
 - These will fulfill the Volvo Group's global requirement of Euro 3, Euro 4, Euro 5 engines and Euro 6 base engines as well as VECV's engine requirements of Eicher heavy-duty commercial vehicles.

Royal Enfield

EML rides high on success of its Royal Enfield business. Sidhartha Lal relinquished his role as CEO of VECV and assumed the role of CEO of EML to focus on the two wheeler business and strengthen the brand. The brand has now been repositioned in the minds of the customers and the ownership of these bikes marks a status symbol creating unprecedented demand for the bikes (6-8 months waiting period). Royal Enfield exports its bikes to over 30 countries including developed countries such as USA, Japan, UK and several European countries. It manufactures bullet motorcycles Royal Enfield. It manufactures six different models ranging from 300cc to 600cc. The manufacturing plant has installed capacity of 70,000 motorcycles per annum.

RISKS AND CONCERNS

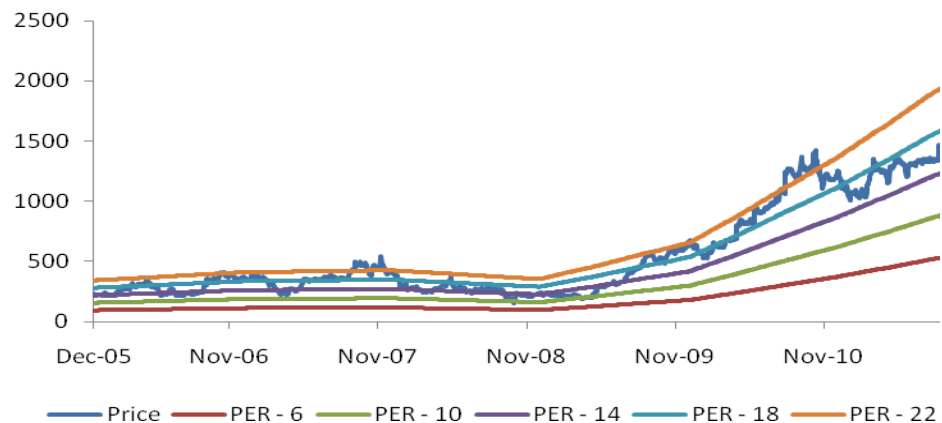
- Significant rise in cost of input materials like steel and aluminum will put the margins under pressure.
- The retail finance norms for the two wheeler industry continue to be tough and limited numbers of financing options are available for customers coupled with hardening of interest rates over the past few months.
- Inability of suppliers and plant production capacity to meet demand
- Vendor capacity constraints may limit the supply.
- Further slowdown in economy.

FUTURE OUTLOOK AND VALUATION

Although, the final results of the steps taken by the company will be clearly visible from Q1CY13 onwards, we believe that the company has taken the right steps in the right direction and the initial success signs are visible. Considering the robust earnings growth and strong balance sheet, we believe that EML will continue its growth story in the coming years. We see a significant potential upside in the stock for a long term horizon and believe that the stock can be purchased on decline.

At CMP, the stock is trading at P/E of 14.8x CY11E, 12.2x CY12E and 11.1x CY13E. Though the near term outlook for the stock is slightly subdued, we believe that the stock can be '**accumulated on decline**' from a long term perspective. On consolidated basis cash per share comes to Rs 629.

PE Band



Stock Idea
Eicher Motors Ltd
FINANCIALS

| Consolidated Income Statement | 2008 | 2009 | 2010 | Consolidated Balance Sheet | 2008 | 2009 | 2010 |
|--|----------------|----------------|----------------|---|----------------|----------------|----------------|
| Gross Sales | 1882.48 | 3112.22 | 4701.63 | SOURCES OF FUNDS | | | |
| (-) Excise Duty | 164.52 | 173.59 | 304.55 | Shareholder's Funds | | | |
| Net Sales | 1717.96 | 2938.63 | 4397.08 | Share Capital | 28.09 | 26.69 | 26.94 |
| Other Operating Income | 65.75 | 105.44 | 127.57 | Reserves and surplus | 1075.6 | 1042.35 | 1205.2 |
| Total income from operations | 1783.71 | 3044.07 | 4524.65 | Minority Interest | 530.53 | 574.67 | 677.41 |
| Manufacturing and other expenses | 1717.48 | 2794.21 | 4040.18 | Loan Funds | | | |
| EBITDA | 66.23 | 249.86 | 484.47 | Secured | 108.81 | 73.52 | 86.52 |
| EBITDA Margins | 3.7% | 8.2% | 10.7% | Unsecured | 56.8 | 52.85 | 9.12 |
| Depreciation | 36.89 | 53.88 | 57.3 | Deferred tax Liabilities | 0 | 14.16 | 24.92 |
| Interest | 9.93 | 8.67 | 9.50 | Total | 1799.83 | 1784.24 | 2030.11 |
| PBDIT | 19.41 | 187.31 | 417.67 | APPLICATION OF FUNDS | | | |
| Exceptional Items | 39.35 | 0 | 0 | Fixed Assets | | | |
| Provision for Tax | -8.53 | 57.82 | 110.82 | Gross Block | 678.3 | 743.69 | 811.28 |
| PAT | 67.29 | 129.49 | 306.85 | (-) Depreciation | 349.08 | 380.17 | 426.9 |
| PAT Margins | 3.8% | 4.3% | 6.8% | Net Block | 329.22 | 363.52 | 384.38 |
| (-) Minority Interest | 4.69 | 46.1 | 117.93 | CWIP | 51.76 | 12.23 | 66.88 |
| PAT After Minority Interest | 62.6 | 83.39 | 188.92 | Pre-operative expenditure (pending allocation) | 0 | 0 | 3.45 |
| PAT After Minority Interest Margins | 3.5% | 2.7% | 4.2% | Investments | 6.24 | 294.11 | 458.59 |
| EPS | | | | Deferred Tax Assets | 14.72 | | |
| <i>Basic</i> | 22.28 | 30.78 | 70.54 | Current Assets, Loans and Advances | 1901.05 | 1812.13 | 2050.02 |
| <i>Diluted</i> | 22.28 | 30.78 | 70.28 | Inventories | 338.07 | 218.96 | 326.52 |
| Key Ratios | 2008 | 2009 | 2010 | Sundry Debtors | 180.19 | 232.53 | 260.93 |
| P/E | 72.04 | 52.14 | 22.75 | Cash And Bank Balances | 1231.8 | 1170.65 | 1245.68 |
| P/BV | 4.12 | 4.25 | 3.69 | Other Current Assets | 28.34 | 35.96 | 35.54 |
| EV/Sales | 2.06 | 1.21 | 0.78 | Loans and Advances | 122.65 | 154.03 | 181.35 |
| EV/EBITDA | 53.34 | 14.23 | 7.12 | (-) Current Liabilities and Provisions | 503.16 | 697.75 | 933.21 |
| | | | | Current Liabilities | 419.29 | 601.55 | 794.15 |
| | | | | Provisions | 83.87 | 96.2 | 139.06 |
| | | | | Net Current Assets | 1397.89 | 1114.38 | 1116.81 |
| | | | | Total | 1799.83 | 1784.24 | 2030.11 |

Source: Company Data, Nirmal Bang Research

NOTE

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