



**“Eicher Motors
Q3 FY2020 Earnings Conference Call”**

February 06, 2020



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EICHER MOTORS LIMITED
MR. VINOD KUMAR DASARI – CHIEF EXECUTIVE OFFICER –
ROYAL ENFIELD
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MODERATOR: MR. SONAL GUPTA, ANALYST – UBS SECURITIES



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Moderator: Good day, ladies and gentlemen and welcome to Eicher Motors Limited Q3 FY2020 Earnings Conference Call hosted by UBS Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sonal Gupta from UBS Securities. Thank you and over to you Mr. Gupta!

Sonal Gupta: Thanks, Margaret. Good afternoon everyone. I welcome you all to the Q3 FY2020 Results Conference Call for Eicher Motors Limited. We are very happy and delighted to have with us the senior management team from Eicher Motors, led by Mr. Siddhartha Lal, CEO and Managing Director; Mr. Vinod Dasari, CEO, Royal Enfield; and Mr. Lalit Malik, CFO and Chief Commercial Officer.

I will now like to pass on the floor to Siddhartha for his opening comments. Over to you, Siddhartha.

Siddhartha Lal: Good afternoon and thank you very much Sonal for hosting this. Good afternoon everyone and welcome to Eicher Motors Limited's Q3 results.

I am going to update you on the financials first so at a consolidated level for Eicher Motors Limited for the third quarter ended December 31, 2019, we had a revenue of Rs. 2,371 Crores, which is up 1% from last year; and EBITDA of Rs. 592 Crores, which is down 13% from last year; and an EBITDA margin at 25% against 29% from last year, resulting in a profit after tax of Rs. 499 Crores, which is down 6% from last year, so that is on the overall financials. I will hand it over to Vinod Dasari to tell us about the updates on Royal Enfield business now.

Vinod Kumar Dasari: Thank you, Siddhartha. Good afternoon. The total sales for Royal Enfield for Q3 in terms of motorcycles was 189,000, down about 2% compared to last year. But our exports were up significantly to 8,400, which was triple of last year as both our 650cc Twins and the Himalayan are doing very well. If you look at the motorcycle segment higher than 125cc engine size, the entire motorcycle segment was down 23%, but Royal Enfield actually was down only 5%, and hence, our market share improved from 26% to 32%. Actually, if you look at sequentially, RE significantly outperformed the industry. We are up 20%, while both the industry and the PST segment, the highest SI segment, is down 7% to 8% so that is on the overall sales picture and I think this was led largely by 2 things: One was the network expansion that we had done. We continue to add large format stores. We now have about 940, roughly, and we opened a whole bunch of Studio Stores. By December, I think we would have crossed well over 500. We will add probably 750 by the end of the year. Very good initial response and almost all the stores have achieved breakeven point. Equally, we continue to



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grow internationally. We have added 10 more exclusive stores in markets like Brazil, where last year, we just had 1 store, now by the end of this year, we will have 10 stores. Overall, I think we have nearly 675 touchpoints outside of India so we are just as many touchpoints growing as fast as we are growing in India.

Equally, just like we did the network expansion for accessibility, we also launched bikes like the Bullet X and the Classic S, which makes bikes more accessible and we allowed the customers to have more personalized and customized things rather than just stock bikes. Building on the success of Bullet X and Classic S, we also launched what is called is 'Make Your Own', which is a first-of-its-kind initiative, allowing the customer to build their own bike using whatever array of paint colors that we have to, accessories and so on, so that they do not have to waste time or money doing it in the aftermarket so this is what helped us. Equally contributed was the continued success of the 650, which seems to have won every possible award in the World 'Bike of the Year' by Motorcycle Cruiser, 'Naked / Standard Motorcycle of the Year' by Motorcyclist Magazine and so on.

We were very successful with our Rider Mania. This time, a record turnout of 8,000 people who were paid participants, and we used the opportunity to announce the launch of a Slide School, which we will be launching in Bangalore, hopefully sometime in a month or two.

Lastly, we are completely ready with BS-VI. We have launched all the models in BS-VI, except Bullet, which we will probably be launching in the next couple of weeks. We did launch the 'Tribute Black', the last of the 500, as a special series, for which the sales will go live on Monday, I think, so initial response is quite overwhelming. We are very excited by just a special edition that we are doing, and we hope to turn this around overall market sometime soon.

So compared to last year, I mean, yes, the volumes are down by 2%, but sequentially, there has been a little bit of growth, and I hope that this trend will continue. I will hand it back to Siddhartha for comments on VECV.

Siddhartha Lal:

Thank you, Vinod. As you know, the commercial vehicle industry has been extremely weak for some time now so I am going to give an update on VECV, our commercial vehicle joint venture with Volvo.

So for the quarter, the revenues were down 23% to Rs. 2,164 Crores. The EBITDA was at Rs. 133 Crores, which is down 28%, and the EBITDA margin was at 6.2% versus 6.6% last year. That is despite a 27% drop in the volume, so overall PAT is at Rs. 30 Crores, which is down 60%, and total sales were at 12,400 units of trucks and buses, which is down 27% from last year's approximate 17,000 units that we did. But the 27% drop is against an industry drop of 37%, so we have actually



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dropped less than the industry and therefore, of course, marginally increased our market share also as a result so yes, overall, VECV industry has been extremely poor, medium and heavy duty, in particular but some segments are starting to show a little bit of sign of a pickup on account of pre-buying due to BS-VI transition. Having said that, there is also a lot of turmoil in the industry in order to get rid of BS-IV vehicles and to ramp up for BS-VI so there is a lot of work being done by all the teams, and we are absolutely ready for that, but it takes a lot of effort and energy in the company to get that going and to make sure that there is zero stock of BS-IV from April 1, 2020 onwards.

We have had an amazing launch of our new Eicher Pro 2000 series, which is our new light-duty platform with 1.8 and 2-meter wide cabins and while it is doing its duty as a first concept from light duty, which also goes up to now medium duty, all the way up to beyond 12, maybe even to 14 tonnes segment so this is a really new, competitive and state of the art platform and cabin and chassis and engines which have come in. So they have been in the market now for a few months and been doing extremely well and of course, it will be ubiquitous from BS-VI onwards, covering the entire range of light and medium duty for us so we are delighted about the new platform of trucks that we have got.

In addition to that, on the bus side, traditionally, Eicher has been very strong in the light and medium duty segment, which is now the bigger part of the bus market compared to even heavy duty, so we have been extremely successful in school buses and have a very high market share there. In the last decade, we have also become very successful in the staff segment and we have now just launched a new bus for the Route Permit segment, which is the more rigorous of all of these applications. The mileage is much higher and the weight is much more and there we have built a much stronger and high-durability bus, which we believe will give us another huge leg up on the Route Permit segment in the coming years, next year and subsequent years so we are excited about that.

Overall, we are ready with an extremely robust lineup of BS-VI engines and vehicles across all categories and segments of BS-VI products. We are in the process of rolling them out this quarter. We will have an extremely wide range of BS-VI engines in India with 2-liter, 3-liter, nearly 4-liter, 5-liter, and 8-liter diesel-powered engines as well as 2 CNG-powered engines, and we believe that this is going to be a shifting point for both the commercial vehicle industry and for the Eicher brand of trucks and buses, in particular, where the opportunity is there to leapfrog in the industry, whereas we have been making Euro 6 engines for Volvo for many years now, and we have made hundreds of thousands of these Euro 6 engines. We have an understanding and knowledge of the manufacturing, and also from our partners, we have a knowledge of the field-related areas that we need to look out for so as a result, we are extremely well prepared, and I believe much better prepared than our competition for introducing this extremely complex new technology of Bharat Stage VI, both from the industrial side and from the field side, and we believe that will give us a great competitive advantage in the coming year and in the years to come so that is all about VECV and commercial



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vehicles and so yes, overall, just to repeat the financials, our revenue has been Rs. 2,371 Crores and a PAT of Rs. 499 Crores in the last quarter so back to you, and over to you for some questions now.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Kumar Rakesh from BNP Paribas. Please go ahead.

Kumar Rakesh: My first question is around the export market. We have seen some volatility in the volume, which you have been dispatching. Although you had highlighted in the last earnings call that sequentially it will come down. But can you tell us what would be a more sustainable number is that, September quarter number were reflecting off some of the new store ramp up and hence dealer inventory build-up in that or is there some seasonality which we are looking at in the export market of Royal Enfield?

Lalit Malik: Seasonality. That has been there forever. Because what happens is that our big markets right now we can clearly say that some of the largest volume markets, which is Europe and USA, those slow down tremendously at this point in time, from October to December. Because the season just shuts up. You cannot ride in the very cold weather at this point in time. It will begin to pick up sometime in Feb and March again when buying by the dealers, not so into the customer at that point in time, but by the dealers, definitely tend to happen at that point in time because they want to be ready for the season to start so that is a pattern we have been seeing for years and years so there is no volatility at all, there is seasonality.

Kumar Rakesh: Got it. My next question is around the BS-VI transition for the Royal Enfield part so can you help us understand how do you plan your production. Have you completely shut down your BS-IV production and completely moved to BS-VI and how do you plan to prepare yourself for any pre-buying demand which comes in so how are you going to manage your retail, wholesale and production that these 3 bits in the coming 2 months?

Lalit Malik: Kumar, this question is slightly late in the day so all the planning and all that has been done. We have moved 100% of our Himalayan, Classic to BS-VI, and the Twins, so a large part of the portfolio has already moved. The rest will move by the end of the month. This is a new supply chain in terms of some of the BS-VI parts, so that will take a little bit of time to stabilize. Not necessarily at our end, but at the vendor end. But generally it is all in there now.

Vinod Kumar Dasari: Equally, our inventory level was brought down substantially back in October itself so it was not like we had to do a huge cleanup or anything like that. We had steadily brought down inventories from April to October. We had less than 3 weeks of inventory now or 2 weeks inventory, and that is including the entire pipeline so we can react or respond to it, whichever way it comes.



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Kumar Rakesh: Yes, so exactly on that. Essentially, so what I was trying to understand was that, given that your inventory was very low, unlike for other OEMs where the retail and wholesale could be disconnected, at least in these two months, should we expect that your retail and wholesale would largely be very connected and not reflecting of any disconnect given that the BS-IV inventory is largely cleared?

Lalit Malik: Frankly, in January, we were a little stock out at quite a few places around the country. Because like I said, the BS-IV stock we had just whittled down over the last many months and the BS-VI is yet to kind of fully take steam and that will happen, right I mean, so the emission of this enormity, the change of such enormity will lead to that problems. But in the next couple of months, they will all get ironed out, unless there is a major China disruption. There is that and the others so it is all in the works.

Kumar Rakesh: Okay and finally, my question is on the margin front. You had talked about 25% to 30% margin guidance, that holds for the BS-VI transition. Is it right?

Lalit Malik: It is not a guidance. We do not give any. But in the past, when somebody asked me that, at the peak and not so peak, where does the margin lies, my general sense and this is about a year back, so good that you just remember these numbers, was in that range. Well, the BS-VI, as you know, some of the precious metals have just skyrocketed, and not for us only, for everybody so some of that cost management, ways to tackle that cost, what to do internally and all the stuff will happen in time so will we protect our margins in percentage terms, the answer in a very short while is no and that is a job to be done, right and the major regulation changes happened, as far as we know so now is the time to, over time, claw back to some of the other margin ranges.

Kumar Rakesh: Got it. Thanks for that. I will come in the queue.

Moderator: Thank you. The next question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: My first question pertains to the demand situation, just extending on the point you made that you had stock-out situation so if you can just help us understand what was the kind of order intake, what you had in the month of January because we did hear from dealers that there has been a short supply from the company side and also related to that, how has been the acceptance of the higher-priced BS-VI variants across different models and also provide some color as to how strong the demand pipeline is in terms of whether do we have more orders than what we can produce for the next month or so if you can just provide some color on that?



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- Lalit Malik:** Well, we are definitely not carrying a 30-day order book at this point in time but has the pricing action that we have taken because of the BS-VI change necessitated by BS-VI answer is 100%. Have people accepted that pricing yes, I have not heard of a single comment over there that it was too high or whatever, any reaction to that so in that way, we are very pleased about. Otherwise, it is on a roll. I mean, there is not like the normal month of January, which a big spike used to happen, if you look at the past trends, I mean, that has not happened. We are still in a subdued environment, in that sense. But January has been promising. I mean it could have been far worse.
- Pramod Kumar:** Okay, was the total order intake or the customer bookings in the month in January at the dealer end higher than your dispatches?
- Lalit Malik:** Yes, yes. Like I said, we were in a stock out position also so definitely, they were carrying more orders than we could service.
- Pramod Kumar:** Sounds good and second question relates to the 650 performance. I think we had a spectacular start. We ramped up to almost 4,800 domestic plus export and thereafter, the volumes have kind of eased a bit and last month, of course a couple of months, it has been because of the exports, the seasonality, but even domestic numbers have been cooling off so if you can just throw some color there as to where do you think the sustainable run rate for the 650 Twins is because if I recollect, at some point, we were looking at capacity constraints and you are planning to increase capacity for the 650?
- Lalit Malik:** So look, last few months have definitely because of this whole BS-VI transition and also, we definitely I mean, we do not want any dealer to have any BS-IV bike at the end of the quarter. But if he had a bike, then the last thing you want him to have is a Twin bike, because it is so expensive and he will have to do something which we do not want him to do to sell off that bike, higher discount on that or any other so the sharp fall in the production, if you look at the numbers, for Twins and Himalayan, did happen from the month of say, mid-November or so we did choke down Twins and Himalayan quite a bit. But I have to say, the Twins were just launched like a few weeks back, but Himalayan was launched on BS-VI, it was the middle of last month. They have shown extremely good traction.
- Pramod Kumar:** So where do you think, Lalit, the sustainable run rate could be for the 650, all-inclusive and what capacities are we sitting on in terms of monthly run rate?
- Lalit Malik:** Just go quarter-by-quarter. This quarter only the 2 bikes have been kind of relaunched in terms of that BS-VI avatar. Let us discuss in next May, how they have done in Q4.
- Pramod Kumar:** Fair enough. I will come back in the queue.



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- Moderator:** Thank you. The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.
- Gunjan Prithyani:** I just needed that clarification that you said that inventory levels are 3 weeks or 2 weeks. I am not sure if you can clarify that, where we are on the inventory level and assuming since you mentioned that we had these BS-VI launches early in Jan so is it fair to say that a large part of this inventory also was BS-VI in the market now?
- Lalit Malik:** No, no. Not a large part, because the BS-IV inventory is quite low. It is actually less than 10 days in the entire pipeline from the factory to the dealership so it is that low. But because that is low and the BS-VI has not happened like commensurately in that pace, because of like of few issues I spoke about so therefore there are a few empty stands we have around the country.
- Gunjan Prithyani:** Okay and the total number you mentioned is 2 weeks at the dealerships, right?
- Lalit Malik:** Oh, no. Not even that.
- Gunjan Prithyani:** Okay. It is less than 2 weeks at the dealership?
- Lalit Malik:** Yes.
- Gunjan Prithyani:** Okay and the second question is on the studio expansion. You mentioned that we have reached 500 by end of December, and we will accelerate this further and putting this together with the breakeven thing, I am assuming that most of these stores are selling near about 10 or higher than that. Are you seeing that there has been a fair bit of cannibalization at the main stores because we are seeing acceleration on the Studio Stores, it should also you know, the growth should have been even higher and secondly, what has been the response that you are getting because it has been now a couple of months that we have had these formats, like from your channel. How are they I mean, what are the advantages of this, what kind of models are doing well at these stores if you can share some insights into it?
- Vinod Kumar Dasari:** For the Studio Store let me give Lalit a break for a second. The Studio Store, the breakeven point is roughly only about 7 or 8, depending on the location so even if we take all 500 of them, that is 3,500 a month extra so it is not huge amount yet, but what it does is, I remember visiting one Studio Store of a rural part of UP and I saw one old guy brought his bike. He was literally dragging that bike in, so I sort of felt bad and I apologized as to what happened and he said, look, nothing wrong, I was not riding my bike because there was not a Royal Enfield nearby. I did not want to go to the main city to get it serviced. Now that there is a Royal Enfield nearby, I will get to ride it. All I need is my battery charged up. So that is the flip side benefit. Now if you are spread out more often in more places, then



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people get to ride, and the more they ride, the more they enjoy Royal Enfield, and that helps our sales. So the direct result of this is there, as I told you, in the numbers. But there is also that indirect benefit is the rub-off effect of this as you penetrate deeper into the country.

Gunjan Prithyani: Okay. Service is something you really see that that has been the proximity to people has been a big help for this format?

Vinod Kumar Dasari: Yes.

Gunjan Prithyani: Okay just last question, if I can squeeze in. There was of course, I know you guys have not commented on it, but there was this expectation that there will be a new platform rollover or a new product portfolio rollout along with BS-VI, any comments on this. Is there a platform rollover that you can comment on when it happens or anything on the new launch pipeline from you guys?

Vinod Kumar Dasari: We do not want to comment on our future product pipeline. As of now, we are focused on transitioning everything to BS-VI, and we will let you know as soon as possible.

Gunjan Prithyani: Okay thank you so much.

Moderator: Thank you. The next question is from the line of Joseph George from IIFL. Please go ahead.

Joseph George: So my first question was on how you look at volumes next year and so under normal circumstances, if there was a big price tag related to BS-VI, it would have been normal to assume that volumes would take a beating. But given that we have taken a hit in terms of volumes, not only for you, for the industry, in FY20 itself on that lower base for instance, your average is about 60,000 when I look at FY20. Do you think it will be a struggle to grow next year or do you feel relatively confident?

Vinod Kumar Dasari: It is very difficult to predict what will happen next year. I think the first half will slightly be a little bit tight because of the changeover to BS-VI. But I think the market sentiment should come back in the second half, and I expect the market to actually grow by roughly about 5% overall. That is my guess. 1 year ago, somebody had guessed for this year, nobody would have predicted a 15% downturn, but that is what happened so we are in a volatile market. We have to continue to do what is the right thing for our customer and for our channel. We have to continue to bring in new products and expand our new solutions offering as well as grow into new markets outside India and that is what we are focused on. We are not looking for very short term, what will happen next month kind of figure.

Joseph George: Sir, the second question that I had was on how you look at passthrough of BS-VI cost. A couple of OEM indicated that given the environment, it will be very difficult to charge a profit margin on the



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BS-VI costs, and hence, the percentage margin may come off purely because of that denominator effect. Do you see a same I mean, is that how you are also thinking about it, easy to pass the cost, but difficult to pass a profit margin on the additional costs?

Vinod Kumar Dasari: In some cases, we can pass it on where possible and in some cases, we cannot.

Lalit Malik: So that's the way it is going to happen. I mean, we are going to be a little selective or choosy about the kind of platform and SKU and all that stuff so it is not going to be very easy to pass on cost plus margin. That is for sure. I mean, how much can you pass on, you have to kind of test the market and find out.

Joseph George: Okay and the last question that I had was the relatively lower-priced variants that you launched, for the Bullet 350 and the Classic 350. How has been the customer adoption there have you seen your normal Bullet 350, Classic 350 customers shift enmass to the low-priced variants or is the mix still in favor of the older ones?

Vinod Kumar Dasari: This was to make the bikes more accessible. They come to the store, and you obviously have to upsell it. In the end, I would say the Bullet X model that we launched was maybe less than 10% of our sales, and Classic S was actually not margin dilutive at all, because it was directly a result of cost reduction. So what it does is offers a lower-priced entry for the customer who walks into the store. It does not necessarily mean that he buys just that bike. So we did not see in fact, the entire Bullet franchise actually went up in overall, and the Classic remained where it was. So that is why, probably, our market share went up.

Joseph George: Thank you. Got it, that is all from my side.

Moderator: Thank you. The next question is from the line of Chirag Shah of Edelweiss. Please go ahead.

Chirag Shah: Sir, just first a basic question on gross margins. Did we see raw material benefits in the quarter? Or it is likely to come in the ensuing quarter? Because our gross margin versus your peers, be it in 4-wheelers or 2-wheelers, we are in a different trend where everybody is seeing some benefits that we have not seen in the reported numbers?

Lalit Malik: So it was a mix of both. In case of some commodities, there was a bit of a benefit. But generally, I would say, now and for the next few months, it is going to be adverse only, with the precious metals going the way they are going. There is this China issue. China has shut down most of its manufacturing for the next few days, and let us see, when they open up also. I do not see any relief over there. So what others are reporting, I do not fully understand. But like I said, to each his own.



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The way they source and the way they book orders, so it could be a function of that. But we are not seeing any tremendous benefits there, to be honest with you.

Chirag Shah: The second question was on 650cc Twins. Is it possible to indicate what is the current production that you are doing? Any other capacity that you have? Because we are looking to scale it upward of 5,000 units at some point of time. So are we there? Or we are at a higher levels of production capacity?

Lalit Malik: No. We are still at 5,000 from a capacity standpoint. Like I said, there was a huge surge when it started and all that stuff. The market also took its toll. The more expensive, the more higher end you are, the bigger will be the hit on you. So we are still in that phase. But some normalcy has now come in because the BS-IV have gone away and the BS-VI have come in. So we will see from a trend perspective how it behaves, because there also it is gone up by the way.

Chirag Shah: Just a follow-up on the earlier question on the platform side. So what was the thought process behind not introducing a new platform along with BS-VI, because that would have really brought in a good amount of excitement? Is it more to do with costs? It is more to do with demand environment? Or how do you look at that part? And when can we expect you gaining confidence that this is a time to launch new platforms or transition to a new platform?

Lalit Malik: I do not think my comments have anything to do with launching of a new bikes or a new kind of platform. But like we have said, given the product pipeline that we have, the product thinking that we have, and I am going with many years now, we are saying that we have a plan for the next 5, 7 years. In that whole scheme of things, you sort to understand the first one off the block. Then you see the risk as we have, kind of, comes along. It is silly to talk about new bikes, new platforms, when and all the stuff. When it happens, I hope we convince you that these are damn good bike.

Moderator: Thank you. The next question is from the line of Pravin Yeolekar from CGS-CIMB. Please go ahead.

Pravin Yeolekar: Sir, my question was specific to Classic 350 BS-VI. Now in Classic 350, we have provided a better value proposition to customers with the alloy wheel but since its cost hike was around Rs. 11,000 to 17,000. So just wanted to understand, it is fully passed on? Or we have absorbed some of the costs initially?

Lalit Malik: So you know, it is not about passing, but the portfolio as a whole, the intention is to pass on a large part of the cost. So that is where it stands. So like I said, within Classic or X or Bullet, there are many SKUs. So some will pass on cost plus a few margins. Some we will pass on costs. So therefore, as a portfolio as a whole, we will pass on the cost.



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- Pravin Yeolekar:** But is it a right understanding that this is the initial pricing and going forward we will just raise it as we go ahead? Considering a better proposition to...
- Lalit Malik:** It all depends on how the commodities are behaving, and how our own internal cost structures are kind of going through. So that is really a #1 function of that.
- Pravin Yeolekar:** Okay. And my second question was on 500cc product portfolio. So how do we look at that? Because it is not doing well. I mean we have seen a large part of decline in that portfolio. So considering the BS-VI challenge, so how are we going ahead with this in BS-VI ?
- Lalit Malik:** I think we did announce last week, including with the press releases of 500 portfolio in India will be discontinued, it is not going to BS-VI, because we have our 650 Twins which will do this job in an exceedingly better manner.
- Pravin Yeolekar:** Sure. And Sir, what was the proportion of BS-VI in our Jan dispatches?
- Lalit Malik:** 1/3.
- Moderator:** Thank you. The next question is from the line of Aditya Makharia from HDFC Securities. Please go head.
- Aditya Makharia:** Just wanted to clarify, when you mentioned that, obviously, the price tags on BS VI are difficult or may not be passed on entirely. So do you think your margins would now be in a band lower than 25%?
- Siddhartha Lal:** I think we would rather not answer all these questions, and we are only going to tell you in retrospect what is happened, not in forward. I think there are many questions coming today about future, margins. We are not in a position. We do not answer forward questions. So sorry about that. We are not going, I am just telling generally everybody, otherwise we are going to keep getting such questions.
- Aditya Makharia:** Okay. Fair point. And just secondly, in terms of your engine, you are using this air-cooled technology. Do you think you would be planning to move to a liquid cooled at some point of time, because most of the industry seems to be on that?
- Siddhartha Lal:** We are doing exceedingly well with our air-cooled platforms, and we are able to meet all our regulatory requirements absolutely. We are able to meet our consumer requirements absolutely. And we believe it is a great differentiator in the market to have an air-cooled product because there are



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certainly some benefits for that, and there is a differentiation as well. So as of now, we are absolutely on air-cooled technology.

Aditya Makharia: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Ronak Sarda from Systematix. Please go ahead.

Ronak Sarda: Sir, first question on Royal Enfield. I mean we highlighted when we were cutting down inventory post the festive season. But I mean, was there a pre-buy demand for BS-IV vehicles? because you highlighted the customers have accepted the price increase. But was it a possibility to have some more wholesales or some more retails for BS-IV product? I mean have you taken a call to transition to BS-VI early? Or was it a technical challenge, and it had to be done from January itself?

Siddhartha Lal: Because of the enormous supply chain complexities, we have decided not to try and cut it too fine, that means to try and build BS-IV only till the last date of 31st of March and then move to BS-VI. The possibility of enormous losses from unsold stocks and mismatch of stocks was very high. So we have decided to take a more phased approach and introduce BS-VI, and believe that is working for us. Sure, maybe there were some opportunity which we have lost on selling some lower-priced product. But I believe, overall, we took a call to go in this direction so that we do not have to have any, let us say, useless inventory of bikes. And yes, overall, the market has accepted it. I do not think there is a material change in volumes that may have come.

Ronak Sarda: Okay, okay. Sir, second question on the commercial vehicle business. Are we now seeing the axle load norm has got normalized? The impact of axle load norms with this sharp fall in commercial vehicles the industry also has shifted towards ICVs from HCVs. Do you think that shift is behind us and industry can see some normalization in FY2021, maybe in the second half?

Siddharth Lal: We really hope so. I mean, again, it is out in the future, and it is only opinion that you can ask us because we do not know obviously. Yes, I mean, obviously, that part is settled now. I mean, the axle load norms have settled down. And obviously, it was really in a sense of a sop to truck owners to take extra load on their trucks, which softened, let us say, the higher prices of trucks as it were. So what happened was the existing fleets of trucks, that means the fleet of trucks that are on the roads or whatever, so the tonnage capacity of this actually grew without selling more trucks. So that is obviously affected amongst other things, including economic downturn, that also affected truck buying. So probably truck buying was even lower because that. But I think that is all normalized now. And hopefully, and of course, there is going to be some turmoil. In VECV, we are very well prepared. Let us say at an industry level, there will be a bit of turmoil before BS-VI switch over. And after that, the first half is expected to because of higher prices, et cetera, it is expected to be a bit flattish, and



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hopefully after that if economic indicators look up, we should see an upturn. But, it is still lying low for the next few months for sure.

Ronak Sarda: Okay, sure. As a last question, again on Royal Enfield. Our configurator website went live last quarter. Can you just help us with how is the response? And any numbers which you can share? How things panned out there?

Lalit Malik: So, could you repeat the first part? Who went live?

Ronak Sarda: Configurator.

Vinod Kumar Dasari: Make your own. Well, you know, I think we did a soft launch. We just did very few options and accessories. Just in the last one month, I think we did about 600. It is very encouraging. We wanted to do this to test the system to see does it work all the way, including up to the back end? Because these vehicles are not made to stock, they are made to order. So the customer places an order and provides the advance, then within 24 hours we manufacture it and start dispatches. So you will agree that that is a huge change in the entire system. So we wanted to test that, and I think it has doubled every month in the last 3 months. So I think we will have lot more going forward.

Lalit Malik: And it is only launched in the big cities only. So I mean, from a potential standpoint, it is still very, very large. It is very untapped at this point in time. But I just wanted to chip in there.

Ronak Sarda: But the lead time is just 24 hours, you mean from the placement of order to manufacturing?

Vinod Kumar Dasari: Order to manufacturing time.

Ronak Sarda: The manufacturing is...

Lalit Malik: From order to manufacturing. Yes, you are right.

Ronak Sarda: So I mean, so it does not increase complexity in a way or does not disrupt the usual manufacturing operation then?

Vinod Kumar Dasari: No. It does not increase complexity, but it increases the number of choices to the customers by order of magnitude, several orders of magnitude.

Moderator: Thank you. The next question is from the line of Nishant Vass from ICICI Securities. Please go ahead.



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Nishant Vass: Sir, my question was primarily on customer profile and your observation in the last, say, 12 months, when you have seen the down cycle across your brands and, specifically, on 650cc. So could you shed some light in terms of, say, demographics or income structure and, specifically say across regions, high income, low income? Are you seeing any different trends there?

Lalit Malik: No. I mean, change because of what? I mean, these were the trends that kind of began to emerge, and we have been able to see them very clearly about over two years back that pretty much anybody who is a little aspirational in terms of his riding choices is buying us. So age-wise, demography-wise, income-wise, and any other have been quite well established at this point in time. With the Studio Stores we have gone, kind of, quite deep into our, from a distribution standpoint. So we are tapping the customers who are here, kind of, one step away from buying us because of proximity or because of income levels and any other scenarios. Everything is a little – it is all clear now. I mean, I do not think there is any group, specifically, 1,2,3,4 who is left out when he is not considering and buying.

Nishant Vass: Okay. 650 in specific, I remember when you initially launched the vehicle, you had highlighted about the upgraders from the non-RE category. So could you update us in terms of what is the percentage today in terms of the guys who are upgrading from non-RE bikes to 650?

Lalit Malik: So the latest number, I do not have. But till a few months back, a good 60% is still trading up within the Royal Enfield, and the rest comes from outside.

Nishant Vass: Okay. So this number has just marginally come off from the initial number?

Lalit Malik: It is around the same number, yes.

Nishant Vass: Okay. And Sir, on exports of Royal Enfield, you have rapidly expanded the touchpoints. So just wanted to I presume this will continue next year as well. So what kind of feedback is helping you to be so confident in terms of expanding stores? I know you had highlighted earlier in your event as well, but anything incremental?

Siddhartha Lal: Well, both our new platforms or relatively new platforms. The Himalayan and the Twins are on the back of, let us say, distribution that we have been growing over the last five years. In strategic key markets, the new motorcycles are doing exceptionally well. And as a heads up, the Twins, for example, are extremely highway worthy now and absolutely in the right sweet spot of the market. We had as Vinod Kumar Dasari had said earlier, we had outstanding reviews, won every kind of award in all sorts of countries around the world for our Interceptor and our GT, for example. So the Himalayan was a surprise win for us in a lot of markets. It was more made for India. But even in U.S., Europe, Brazil, we had very good ambience for that even Colombia. But the Twins, of course, were made for



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those markets and international markets in mind. And it is still early days. I mean they are doing exceptionally well. The growth you are seeing 120% growth in the first 9 months or maybe 3x growth in the last quarter, that is directly as a result of the efforts that we have put into distribution in the last few years and the new products which have come on top of that distribution and all the investments we made. I mean you had questions a few years ago about all the investments we are making, the teams we are hiring in places like U.S., Europe, Brazil, Thailand. All of these are now sort of paying the bills. The channel has, of course, responded. Because of our slower approach in the beginning, where we were conservative on adding new dealers, we were focused on profitability of those dealers like for Brazil for example, where we had only one dealer, Thailand we had one dealer to start with, but we focused on profitability and once they were profitable we expanded. Now we have been able to really add a lot of dealers who have demand pull, so we do not have to go and try and convince a dealer, there is a queue of dealers waiting even in remote markets like Brazil and Thailand, there are queues of dealers to get our product and we are working with them and making them profitable and only with a profitable channel in a new market like these, can we expand and flourish. I mean if a dealer is not making money, then everything starts going downhill very soon, so that is the strength that we have build up in international markets and just to give you an idea, last year we had one dealer in Brazil and this year we will have 10 by the end of the year, so the full effect of those 10 dealers will come in next year as one example of one market.

Nishant Vass: That is really heartening to hear. Siddhartha, if I do not know, I am trying my luck. A few years back here, you would put out an aspirational target for exports at 10%. And now you seem to be, I would say, a lot more positive about it. Do you think you would like to reassess the target and probably give us a time line?

Siddhartha Lal: Firstly, I have never made a target like that.

Nishant Vass: Aspirational, I mean.

Siddhartha Lal: I do not remember doing that either, in any case, but the only thing I have ever said is that I do not have a percentage target to export because that in fact limits us in our thinking, right? Why would I want to do that? The idea has always been to become a strong player in every market that we are in and not just a fringe player. So perhaps it was 10% market share in markets that we were talking about or something. But certainly, that is the intention, to become a strong player in the midsize market in Brazil, Thailand, in Europe and in U.S. And then to become a top 2 player in midsize, and then become a leader in midsize and then to grow the market of midsize. That is the intention and the direction we are going with. It is absolutely focused on becoming a relevant player, and then growing the size of the midsize segment. And therefore, having enough, I would say, scale in that market to be a relevant player, and therefore, to be able to invest in that market to grow. But I mean, honestly, right



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now, maybe after a business planning cycle, we will see if there is any change. But right now, I do not think we have a percentage target because India has come off. So the percentage has risen, but that is not the way we want to raise our percentage, right, of international sales.

Nishant Vass: Absolutely. If I can squeeze in one last question. This is on VECV. You highlighted the extensive benefits of BS-VI you will have from a manufacturing and learning perspective. So can you throw some light on any suggestive differences in terms of the fluid efficiency or TCO that you could see, that your customers could see between BS-IV and BS-VI?

Siddhartha Lal: It is a very complex question because it differs from vehicle to vehicle. We have now nearly 6 engines or categories, and it is really very difficult. Now traditionally, a lot of other players are having trouble in maintaining if you say, rather than fuel efficiency right now, you are talking about fluid efficiency because it means fuel plus, what you call...

Nishant Vass: Adblue.

Siddhartha Lal: Adblue, thank you that is the word I was looking for, Urea. So we are able to now maintain fluid efficiency, and even in some cases, increase it, because of all the advance work that we have been able to do on BS-VI. So I think firstly, we will have an enormous competitive advantage, just from that angle, which will help defray, let us say, some of the additional costs that will come into the BS-VI. Second, our product profile in heavy duty, for example, has changed tremendously. Whereas our Pro 5000 was the mainstay till last year, right now the weight of that has shifted to Pro 6000, which is a much higher value segment and which is much more futuristic. And therefore, our confidence that as the value segment grows, as opposed to the basic segment in heavy duty, we will emerge much stronger post-BS-VI when we expect that the value segment grows a lot more. And that has been a major shift in our portfolio. We have reduced our dependence on, let us say, some of the cowl models, et cetera, and we have increased our percentage of Pro 6000, which is the higher-value segment. And of course, the big one is Pro 2000, which is going to be our mainstay for light and medium duty trucks, which is still the majority of our sales. And that, for example, from a single cabin, which is a 2-meter cabin in Pro 1000, we will now have 2 cabins. A smaller, lighter cabin for Pro 2000, 1.8-meter, 4.9-tonne. That helps us get into segments and areas that we were not able to get into, or we did not have much success in, like, for example, in Kerala and the narrow roads, they are looking for a narrow 5-tonne tipper vehicle. We were just too wide for those roads. And we will have a much better segment in some of the hilly segments, we will be much better. So we are really able to with newer engines and better displacement engines. Again, the whole, I would say, product mix, we have been able to make much better. As a result, we expect market shares to grow because of better value being provided to customers and more segments that we are able to reach more efficiently. So we are very excited and bullish about our BS-VI plans for VECV.



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- Moderator:** Thank you. We will take the next question from the line of Binay Singh from Morgan Stanley. Please go ahead.
- Binay Singh:** Actually I joined the call a little late, so some of these questions may be already asked. Could you talk a little bit about the new platform? What is the timing? Will there be a price hike when you launch bikes on the new platform?
- Lalit Malik:** You are talking of Royal Enfield or truck?
- Binay Singh:** Royal Enfield.
- Lalit Malik:** The new platform, I think you know it better than we do. We have not spoken of the new platform. We right now, in the next few months, it will only be transitioning to BS-VI. A large part of it has been done.
- Binay Singh:** Anything on the new model that you want to talk about? Anything you are planning to do on that side?
- Lalit Malik:** Same question, different words - new products, new platforms.
- Siddhartha Lal:** The new products, the BS-VI products, they are not fully new, meeting BS VI is one thing, we meeting at the right cost with right performance with right refinement, that has been what we have been working on, so just meeting the emission norm that is still going. So the new products right now are all about refinement in BS VI.
- Binay Singh:** Any volume target that you would like to give for next year on domestics and exports because on exports also we had a very good year this year and how do you see that playing out and similarly any views on domestic next year for Royal Enfield?
- Siddhartha Lal:** You did miss a lot of the conversation, because we have said that we are not giving any forward-looking targets and directions. So sorry about that.
- Binay Singh:** Okay then, I will ask about the current thing only. Like I think I missed that point. Bullet X, when you said it is 10% of your volume, that is 10% of overall sales of Bullet X? Or 10% of Bullet sales is Bullet X?
- Lalit Malik:** No, no. This is like 10% of the Bullet franchise.
- Binay Singh:** Okay. And just lastly, what is the inventory now on the Royal Enfield side?



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- Lalit Malik:** Sorry?
- Binay Singh:** What is the inventory like? Sir, what is the BS-IV inventory that you have for Royal Enfield?
- Lalit Malik:** All put together, like in the plant, in transit, in depots, all put together is less than 10 days for BS-IV.
- Moderator:** Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Mr. Sonal Gupta for closing comments.
- Sonal Gupta:** Yes. On behalf of UBS Securities, I would like to thank the Eicher management team for taking out the time to discuss the quarterly performance, and thanks for giving us the opportunity. Thank you, everybody else, for joining. Thanks a lot.
- Lalit Malik:** All right. Thank you.
- Moderator:** Thank you. On behalf of UBS Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.