



**“Eicher Motor’s Q1 FY18 Earnings Conference Call  
hosted by IDFC Securities”**

**August 09, 2017**



**MANAGEMENT: MR. SIDDHARTHA LAL - MD AND CEO, EICHER  
MOTORS LIMITED  
MR. LALIT MALIK - CFO, EICHER MOTORS LIMITED**

**MODERATOR: MR. DEEPAK JAIN - IDFC SECURITIES**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Eicher Motor's Q1 FY18 Earnings Conference Call hosted by IDFC Securities. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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. Deepak Jain from IDFC Securities. Thank you and over to you.

**Deepak Jain:** Good evening everybody and sorry for the delay. We are delighted to have with us the Eicher management to discuss the Q1 FY18 earnings conference call. We have with us Mr. Siddhartha Lal, MD and CEO and Mr. Lalit Malik. I hand the call over to you sir.

**Lalit Malik:** Thanks a lot, Deepak. At the outset, apologies from my side, also Deepak apologized, but actually it is our fault. We were late in starting the call. Siddhartha is still finishing his last few things he had to do. So I will just start with a note and by the time Siddhartha will also join us. So thanks a lot for joining in and again sorry for pretty late.

I will start with the Q1 numbers. So at a consolidated level, even consolidated level we are reporting our best ever quarterly performance where we have just stepped over 2,000 crores as our topline. So our total income from operations is about 2,001 Cr. This is about 29% higher than same quarter last year when we did about 1,556 crores of topline. Our EBITDA is also the highest ever at consolidated level at 621 Cr compared to 470 Cr in Q1 of last year and that is a growth of 32%. In percentage terms, the EBITDA is 31% as opposed to 30.2% that we did in Q1 of last year. So therefore our PAT which is now of course being called as total comprehensive income is now at 458 Cr as against 378 Cr which is a growth of 22% over same quarter last year.

Moving on to VECV, our joint venture with the Volvo Group, for Q1 2017-2018 VECV has reported a total income from operations at 1,803 Cr. It is a bit of a drop of 15.7% as against same quarter last year when VECV did 2,139 Cr and we will talk more about that in our subsequent points. EBITDA was 149 Cr as opposed to 194 Cr in the corresponding period last year and that is a de-growth of 23%. Profit after tax which has included comprehensive income is at 65 Cr as opposed to 106 Cr in Q1 of last year.

Moving on to the business update on Royal Enfield, we recorded our highest ever quarterly sales in terms of sales volumes at 183,731 motor cycles in Q1 and that is about 25% higher than the same quarter last year. We continue like we have done for the last many years now, to expand our retail footprint and as of June end, we are present in about 700 locations. Overall, it has been a tough last few months and starting from few disruptive events like demonetization to transition to BS-III to BS-IV at March end and of course GST which happens towards the



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end of the June. Despite all these things, quite a large part of the industry has been affected adversely, but we have continued our march. We have been largely unscared by all these events and happy to note that we move from BS-III to BS-IV with zero stocks of BS-III in April.

One of our flagship events is the Himalayan Odyssey. The 14<sup>th</sup> edition of that was flagged off from India Gate in Delhi on July 8<sup>th</sup>. In this year's Himalayan Odyssey which has a participation of over 61 riders including 6 women considered as a holy grail of motorcycle ride across the world. The participants go to Delhi to all the way to Khardung-La pass which is the highest motorable road and that period of ride was about 18 days and covers about 2,300 KMs.

So Siddhartha has joined us. So I will just move the mike to him.

**Siddhartha Lal:**

Good evening, everyone and Siddhartha Lal here and thank you for taking the call so late for us. I will just continue where Lalit left off after the Himalayan Odyssey. We also competed one of our most important projects in May this year which is where we moved our UK based stuff from a rented premises into a new technical center located near Leicester in Bruntingthorpe airfield which gives us the advantage of having a Proving ground at our doorsteps. So we are able to take our motorcycle route through the week and take them to the Proving ground and test them, which really helps us in our development. In addition to that, the area of the office and testing is spread over 36,000 square feet and we currently have just over 100 employees working there and we are increasing that number as well as we are able to get lot of productivity out of that center. The second phase of the tech center which includes the testing validation equipment, the dynamometers, they will be operational by December of this year. So that is on our technical center in UK.

In international markets, we have increased the store count to 26 exclusive stores in international markets and 600 multibrand stores that we are present in. The business is shaping up well in key international markets that we are focused on including Brazil, Columbia, Indonesia, Thailand and of course North America and Europe, North America where we also have in addition to Brazil it is North America where we have market companies.

Our major business outlook as Lalit said earlier continues to remain strong and Royal Enfield continues to grow consistently, competitively and profitability and we continue to lead the midsized motorcycle segment globally now.

An update on our performance of our joint venture company with Volvo, VE commercial vehicles. The CV industry was enormously affected by all the changes that Lalit spoke off earlier; demonetization, transition to BS-IV and you could say even very last minute transition to BS-IV and last of which was the GST implementation, last one. The industry had enormous issues with GST inventory and was grappling, sort of trying to sort that out. In fact, actual



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impact of the CV industry will be known once the channel stocks normalize. So right now there is still specially from competitors there are lot of stocks of BS-III vehicles still in the channel in pipeline. And I am pleased to report that VECV's transition to BS-IV was relatively smooth with the least amount of BS-III stocks compared to our competitors and everything is by and large sorted out for us. So we were out of the woods as far as BS-III stocks are concerned whereas I think some of our competitors still have a huge problem to solve. In quarter one, VECV was close to the industry performance which was 26.5% fall in the industry and VECV also fell by 27%, so it is approximately in line with the industry. And when the industry sales volumes was 80,000 units compared to 106 of the same quarter last year. Eicher trucks and buses was 11,583 units versus 16,071 of last year. So there was a corresponding market share decline in CV industry from 15.1 to 14.4 for VECV.

Segment wise performance in, up to 5 tonnes with 3.5 to 5 tonnes, the industry was 2,400 units which was 16% higher and Eicher sold 578 units and our segment share has grown all the way to 24%. This is the industry that we growing or we had a product in only very recently. Then the 5 to 15 tonne, the industry was at 13,500 units which was 21% drop and Eicher brand sales was 4,490 units which is a 23.5% drop resulting in the market share of 33.3% from 34.2 last year. In heavy duty, it is 16 tonne and above and the industry was down by 31.5% which is at 36,000 units and Eicher's sales were at 1,400 units versus 3,200 of last year and correspondingly for the quarter, our market share was down to 3.9% from 6%.

In the Bus segment, the industry sales were at 16,400 plus units which is 22% lower and Eicher was at 3,400 units at 18% growth in last quarter. So there has been a market share increase from 20% to 21%, but generally there has been a reduction across the board in all the segments in this quarter largely because of BS-IV supply issues, BS-IV transitions and over billing in the previous quarter and supply issue from all the suppliers supplying BS-IV equipment it was down and exports also, the industry was down by 8% at 12,000 units and Eicher was down by 30% just under 1,600 units. In the quarter, Volvo trucks sold 82 units which is approximately half of that in the same quarter last year and our medium duty engines sales, only area with growth in the last quarter of 7,264 units, growth of 57% over the same quarter last year. And on our joint venture with Polaris which is Eicher Polaris Private Limited, we are continuing to expand our distribution footprint and try and replicate the success that we have had in couple of markets like Kerala, we are trying to replicate that now across the country.

So that is all from my side. Thank you all very much for listening and we can open for questions now.

**Moderator:**

Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from Ashish Nigam from Axis Capital. Please go ahead.



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- Ashish Nigam:** My first question was on GST, was any compensation that we have to pay to dealers for any inventory loss this quarter?
- Siddhartha Lal:** No.
- Ashish Nigam:** Okay. So no GST related financial impact in numbers?
- Siddhartha Lal:** No.
- Ashish Nigam:** Also on your capacity ramp up, I think you mentioned earlier that it is 60,000 a month right now and then it ramps up from September onwards to 85,000 in a matter of 6-9 months, is that correct?
- Siddhartha Lal:** Yes, that is approximately. Yes, absolutely that is the trajectory we are planning.
- Ashish Nigam:** So basically by FY19 or in FY19 we can do a million units of production?
- Siddhartha Lal:** Ashish, that we will speak about but what we will have is from a deliverable capacity assuming price adjustments between the new plant and TVT which is the first plant that we have and all the stuff. From a delivery standpoint it will be clearly about 900,000.
- Ashish Nigam:** Okay, understood. Also, on a related note, our capacity has been stagnant for a few months. So has our waiting period gone up in that time?
- Siddhartha Lal:** Nothing to write home about. I mean, we also had to dip into our order book a lot with all the issues that have been happening in the last few months. So it is a possibility, I mean it is not dramatically different right now.
- Ashish Nigam:** Currently at what two months on average?
- Siddhartha Lal:** For the Classic 350 model, Yes around that time and for the rest, it is much less, now it is around a month or even less in some models now. The Classic is still higher.
- Moderator:** Thank you. The next question is from Binay Singh from Morgan Stanley. Please go ahead.
- Binay Singh:** My first question is that when we look at the data across models of Royal Enfield, we notice that Classic brand is now almost 70% of the mix and the other brands are actually seeing decline on a Y-o-Y basis. So how do you look at this data like what is there, how do we read this thing? That will be the first question.
- Siddhartha Lal:** Basically the Classic franchise is extremely strong that is how we read it. The visibility is very high now in the market that drives in fact more sales. The equity of the brand is extremely



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high. So people feel very good on the Classic and very importantly, the residual value and the velocity of the residual market is extremely good in the case of Classics. I mean, it is holding its price so well that it is a no brainer for some people to buy also. And that is much more with Classic than our other models. So that is why it is a very easy purchase for people. They might be paying more than a bullet for example to buy a Classic, but the residual value is extremely good. After 2-3 years, you are getting very large part of your initial investment right back. So it is really the strength of the franchise that is why you are seeing even more mix to Classic brand.

**Binay Singh:**

But are you concerned about the brand concentrating, the concentration happening basically in one brand. And why do you think brands like thunderbird also, 350 cc and all which are marginally priced higher than Classic but there also we do not see growth happening. So there is no production issue over here, right? It is mainly the customer...

**Siddhartha Lal:**

It is not production in effect. As waiting periods are coming down, the Classic is becoming more easily available, therefore that franchise is going even further. So what it means is that some people who are buying other bikes just because Classic was not available. That is one. The other is, no, we are absolutely not concerned about it in the sense we are delighted that we have such a strong franchise and people are so interested in buying the Classic and we nurture that franchise and we do it properly. So obviously that is extremely important to us. The Bullet for example doesn't sell too much in cities anymore, that is more semi-urban and listed smaller town affair. On the other hand, the Thunderbird doesn't sell much in smaller towns. It is more of bigger city and in fact more Southern city's affair. Of course it is sold across the country, but you could say the propensity to buy is higher in Bangalore and let say in Maharashtra or Uttar Pradesh. So like that. So some of the brands are more cater to different types of people whereas Classic is ubiquitous. It caters to everybody. And like I said it is the easier purchase. So of course, we do a lot of work and we will continue to do a lot of work on other products, models, brands and build them up as well. And of course, some of our future product replenishments will also take that into account, which we always do, which is to change the product and improve it and make sure that this value another products. But as long as people are buying Royal Enfield, we do not mind if it is within the family which one it is that much.

**Binay Singh:**

Right sir. And my last question is when I look at the distribution, globally we have almost 600 touch points now, bulk of them are multi brand and very similar to what you have in India. So do you think the stage is now sort of being set for exports to ramp up, that our distribution at least is not a concern. How would you see that?

**Siddhartha Lal:**

I wouldn't compare it to the India distribution because number of points showed it is not very far. But it persists there in many different countries we are talking about and secondly like to say it is multi brand, often it is just 2 or 3 motorcycles in a store with 30-40 motorcycles. So it is nowhere else visible as standalone Royal Enfield store is. So when we have some reach, we



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are continuing to build our distribution in quantity and in quality. So within multi-brands, we are trying to get a better space for our brand, bigger corner, better space. So that is the qualitative part and we are increasing the quality of dealers that we are in, so if you have a dealer which is a small town dealer and relatively rural environment in some country, doesn't help you too much, then having one in a bigger city. So in the top 50 cities in USA for example we wanted a multiple stores in every one of those. So both in qualitative and quantitative measures, we are trying to increase our footprint. In the Western market as well as in emerging markets across the world and Yes that is certainly towards increasing international increase, the idea is to make products available closer with more reliable dealers and partners with partners that we can trust, customers can trust for service and for the long term. If you are going to own a bike for 5-10-15 years, we should know that dealer will be around. So it is basic stuff and of course in preparation for new models that will be coming in which will be more geared up for international market as well.

**Moderator:** Thank you. Next question is from Chirag Shah from Edelweiss. Please go ahead.

**Chirag Shah:** Lalit and Siddhartha, first question is actually on operating leverage and this vendorization that we are having. Where are we in this stage of dedicated vendors and when the benefits will start flowing in?

**Lalit Malik:** Some of the benefits have flown in. We cannot have benefits flowing in every quarter and all that. It takes time for the whole vendor piece to get aligned to the plants situation and all that stuff but you know a very strong **(Inaudible) 23:55** over there. All the 3 plants are in close vicinity within 30-40 KMs of each other. So then consolidation of the vendor, vendor affinity and all that stuff can happen. So the platform is there, over the next few years and all the stuff we will kind of fully juice it out.

**Chirag Shah:** Currently, how much of a vendor sourcing is happening from a vendor park and how big it can be in terms of internal sourcing?

**Lalit Malik:** Vendor park as in within a premises we have given places to the vendors. That is not what it is. It is about them being in say 5-10 KMs at least the bigger ones which are the fabricated parts and so and so forth where the freight cost tends to be little higher. So it is that kind of affinity that we are speaking about. There is no vendor park being built.

**Chirag Shah:** And second was on employees. Employees, the percentage of sales for RE to the standalone piece is around 5.5%-5.6% now for quite a few quarters. So it is also increasing the way our revenues are increasing.

**Lalit Malik:** Correct. Clearly, there were a whole lot of areas in the company, so one is just a scale from having 8 regions, now we have 12 regions we are having. So distribution about few years back



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was less than 400 points of sales, now it is like close to 700. To manage this whole piece, we clearly need on the frontline sales and sales support, something which we didn't really have at all places in the country. So that is part number one. And two, the backend cost. So as we are putting up the third plant that employees cost is kind of there. There is a level of benefit of course that we need to be closely watching and tracking and all that. But really right now is also trying to right source or right resource, right size our employee count versus the scale and the sizes of the business as of now and the way India needs to be over the next years. So there will be places that we were lagging in or we were not very strong within the company itself, where we have clearly resource there. Internationally, it is a very small part of the number by the way.

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

**Pramod Kumar:** Siddhartha, my first question pertains to the RE business, just wanted to understand from your perspective given the fact that we will be starting up a new plant and last time around we added a new facility or major capacity expansion, the margin is actually kind of stepped up because of the kind of sheer volume surge what you got. But given the current cost structures and the way you are looking at marketing and other expenses, how should one look at margins as a new plan kick in for say the second half of this fiscal, probably some part of that is addressed to Lalit as well.

**Siddhartha Lal:** So why don't we begin to answer that question during the next Board meeting yaar when you will actually know what volume is showing in. Pramod, sorry, I do not think I can give you future margin projection and impact yet. So it is usual, I mean let me put it in a more generic term. As we are growing obviously, on the one hand we have been getting more operating leverage over time. On the other hand, we are in fact making a concerted effort to improve the foundation of this company for both on many fronts. So on the domestic and international. In domestic, we are going deeper and deeper. And in international, we are spending more now on people little bit but on events, on market companies, on advertising and marketing and research because we are trying to get more international in nature and increase our footprint. But obviously the revenues are not coming in commensurately yet. That is more of an investment yet in international and same goes with product and other such things. So our costs are rising knowingly. It is not just randomly. It is an effort to increase various areas of competence and footprint and all that. So often this is resulted still in the hyper growth phase this has resulted in, you know our cost has not risen as fast as our revenues, but now our revenue growths are not as high as they used to be 2-3 years ago where it used to be above 50% and we still increasing our cost. So it is sort of matches now. I do not think there is a huge shift in that yet. It is sort of matching revenue growth and our cost growth right now.

**Pramod Kumar:** Thanks a lot, Siddhartha. And the second question pertains to VECV, I do understand the bit of dislocation because of our BS-III, BS-IV and then GST, but HCV market share in particular





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has been a fairly big picture and it is not just a one quarter trend. So just wanted to understand what is that which is missing. Is it like a portfolio gap which we are still having in a portfolio in terms of the product suite or is it got to do with some bit of distribution gap or on the marketing side. So where would you put the key drag on our HCV market share?

**Siddhartha Lal:**

There is no structural concern like you are thinking. The product portfolio is same is as robust and the distribution has in fact continued to improve. So there are no such issues. It has been more market situation right now. So we are extremely lean, VECV is extremely lean in stocks. There were huge fled of stocks in the markets for BS-III stocks. And that of course was previously, but that was some market share loss there because we do not even have those levels of stocks to push into the markets and sell and that has in fact depressed the market in next few quarters. In the last quarter, the market was quite depressed because there was such a huge push before in March, right? That was a push for BS-IV. So that was one. We have also suffered on supply side issues because our supplies were not ready with BS-IV parts as it were and also discounts have been extremely high. So it is not structural, so our progress into a Pro Series,, our progress in better customers, all of that is happening. I think this is more, I am not particularly worried, it is not structural issue that overwhelms, even we lost out on something else. So it is more of, I think it should come back reasonably well.

**Moderator:**

Thank you. The next question is from Pulkit Singhal from Motilal Oswal Asset Management. Please go ahead.

**Pulkit Singhal:**

Siddhartha, so as we see the global premium motorcycle landscape, we are seeing a globally well established brands with a great technology edge and higher power CC bikes tying up with Indian manufacturers which provide a low cost manufacturing to kind of target to meet motorcycle market. So whether it be a BMW with TVS or Triumph with Bajaj or KTM with Bajaj. So while you are obviously right now going solo in the space, how do you see yourself going ahead in this journey? Do you see a partnership required with someone or do you think going solo is the best way?

**Siddhartha Lal:**

There is certainly no partnership required. It is not from either technology or manufacturing or distribution. So if you look at the 3 aspects of the business, marketing distribution not really, manufacturing certainly not and technology also not now because we could argue that 5-7 years ago but today what we are doing in product technology and development and all which actually you haven't even seen yet because a lot of that happened over the last 2-3 years which will result in products later. But that is the reason we have been investing so much in PB and in our facilities and in our teams in UK and also in India. So right now actually there is no need for Royal Enfield to have a partner let us say for those purposes. And of course we evaluate things. We are always open to ideas. But we certainly do not want to dilute our focus. We are a very focused company. We take on other projects, partners all of that, to sort of sing and dance with them and work for in different situation. So there could be pros and cons, but for now, as



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you know we are a super focused company and we just stick to our **netting 34.45** and do stuff really well and it is not that we have put our head in the ground. We have a very interesting future product pipeline. We are a very brand led company. So all the stuff that we do in the ground in terms of rides, activities, events, marketing all that. So there are tonnes of great things going on and in the works. So, Yes it is not a desperate need. I mean, not even desperate, it is not even a real need, let us put it that way.

**Moderator:** Thank you. The next question is from Jay Kale from Elara Capital. Please go ahead.

**Jay Kale:** Sir my first question was regarding Royal Enfield. So if we see the 500 cc or 700 cc plus market, in the last 2-3 years it has seen a decline in volumes as well as certain big players having problems with their management as well, retaining the management. And we now incrementally are getting into that segment, domestic use. So how do you see that market whether it could help you in expanding that market introducing product there or you feel that, that kind of higher cc product would largely be catering to the export market?

**Lalit Malik:** We totally missed the first half of your...

**Siddhartha Lal:** Not one part, I think you said about some management something or the other, I do not know what you said about the other company's management?

**Jay Kale:** There has been a lot of churning in the top management of one of the competitors in the higher end segment and the volumes have also been under pressure in the last two years for that segment, the higher cc above your segment?

**Siddhartha Lal:** Okay. I understand that. All of that which you are talking about which is imports let us club them as imports, all of it put together is in thousands, it is not even in 10s or 1000s, like all other inputs put together. So frankly it is insignificant and irrelevant to any of our business. It is just there and I do not even know if it is growing or not. Even it is, it is not like you said is nothing substantial. So that is not any worry to us. That has no concern or bother for us. We continue to do what we do, which is to give extremely highly well designed and relevant in terms of performance. So these are not over fast bikes, people want a mix of low in torque and good fuel efficiency in India and any products that we make whether new platforms and all the details alluding to, we will all have lot of that in space. And of course the price points which we can grow the market. But to your second part of your question, we are very clear that every future model of Royal Enfield that we have currently planned over the next 5 years will always have a relevance in India. So no product will be export only. But if you think about it, India is where we have virtual cycle. India is where we have an extremely strong distribution brand, residual value, ecosystem, all of that. So if we can make any product which is relevant for India, it will get into scale. If we make any product for markets outside of India, you will struggle to get scale and if we can't get scale, we can't get cost; we can't get cost, eventually it



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will die the platform, what it will become is irrelevant. So every new product in a portfolio, every new platforms in a portfolio will have a relevance in India for sure.

**Jay Kale:**

Sir, my second question was in the VECV part. I mean what is the kind of discounting levels that you are seeing now, have that kind of moderated your outlook for FY18 for the commercial vehicle industry and your outlook on the ICV segment because there is one school of thought which states that with GST coming in, there will be movement towards demand for higher tonnage trucks and ICV could be vulnerable from that sort. Is that a consideration, or is that a talk internally and how to handle the situation or you do not think that, that could be a possibility?

**Siddhartha Lal:**

I think this type of question has come to us for at least it has been around over a decade. So first I do not think anyway it is drastic. If anything what you are saying, that is all theoretical, but practically, there is still a lot of distribution that happens in regional transportation, let us call it as opposed to national. So interstate is regional than national, so 300-400 KMs is perfectly suited for ICV right because in one day very quickly in B roads, you can get from one medium town to another medium town, right. So that is what they used for and they used for perishable, they used for quicker turnarounds rather than the more heavy duty trucks which are less agile in smaller roads and all of that. So, we do not think there is a major threat. If anything eventually it will result in slight, let us say growth rate deltas, but I do not think has gone to ICV market is going to collapse or anything of that sort. It may happen as you are saying that it will grow quicker than intermediate trucks but that still to be seen. So of course we are very strong in the medium let us say all the way from 5 to 10 tonnes is a great area of strength, but as you know we are very determined and we are progressing towards building a very strong heavy duty platform and portfolio as well so that we have a full range, I mean we have a full range already, but we have strength in across the range. So of course we are pursuing that with the same figure that we have in the last decade.

**Jay Kale:**

And outlook on the CV segment and discount situation currently?

**Siddhartha Lal:**

Right now, the CV segment does not have major state of flux because of all the discontinuities and all the changes and effect of GST for example, what was that happened on hopefully the discounts will start getting much less because it will all come on the invoice, otherwise you are paying a huge amount on. So all those things are in play right now. Let us see how it pans out. This is the time now where hopefully this quarter things will sort of pan out and sort themselves out, but the discounting till now is still it had not abated in any meaningful manner in the last few months.

**Jay Kale:**

And this last question, so at the end of June, we had extended some kind of discounts or subvention to clear out the GST stock or may be just bring the prices at par to the post GST prices? So just a thought that considering that we had a good order backlog and the inventory



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was not a problem, any specific reason why we extended that kind of benefit to the consumers in the last 15 days or it is just purely gesture to the consumers?

**Lalit Malik:** So I think we implemented the post-GST rates on 19<sup>th</sup> June or so, so about 10-12 days largely because also the fact that our channels are very clean in that sense between us and the dealer and the dealer and the customers. So the postponement of bikes by the customer perhaps could have resulted in dealer getting a little anxious and saying okay, I will give you a discount here and discount there or I will give you this free and that free and all the stuff. There are malpractices because they were not approved by us as such. If we have a scheme, then of course something can happen. We do not want for to creep into our channels. So just to remove any dealer angst more importantly customers anxiety or customers knowledge that really at the end of the day, on-road price of since there was a conversation around Classic 350, Chennai on-road price, the difference is just about 1.2%. So it is not some huge number that somebody who have been expected. So only on that count, that we announced about 10 days ahead of time.

**Moderator:** Thank you. The next question is from Kapil Singh from Nomura. Please go ahead.

**Kapil Singh:** Firstly, I wanted to check on the price hikes. In the recent months, what has been the price hike?

**Lalit Malik:** Nothing, there has been a price drop actually. If you are talking about Royal figure.

**Kapil Singh:** I thought in the quarter ending June, we had some price hike.

**Lalit Malik:** Nothing. It was BS-III to BS-IV which happened previous quarter that because of all those changes, very small price hike was taken, but that was Q4 of last year.

**Kapil Singh:** That was taken before 1<sup>st</sup> April itself.

**Lalit Malik:** Yes.

**Kapil Singh:** And secondly, this topic has been touched upon, but just wanted Siddhartha's thoughts on do the new or a different brand acquisition, does it fit in Royal Enfield strategy or it does not fit in your strategy, how do you think about that?

**Siddhartha Lal:** We are agnostic to it, let us put it that way right now. So what that means is this has been our position for long time. It is that we are not close to ideas, we are always open to ideas, but our bar is extremely high. We have as you know very high bar on return on capital employed, we have very high bar on margins, we have very high bar on all sort of things and we want to keep that level of quality in the company. So we reject hundreds and hundreds of opportunities that come our way and the simple reason is because we want to focus on our business and I think



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that is done very well for us. Again that does not mean we do not look at outside opportunities, but basically mean that we do not consider anything, we do not work towards anything. Unless we really feel that we can add a tremendous amount of value. So it is not yes or no answer really because it clearly means we are open to ideas, but there was a question earlier it is not required for Royal Enfield, right. So for our business to continue and for us because the thing is if we found that Royal Enfield had, I am talking about the long-term had very limited growth opportunities, then we say okay, while we have cash, we have understanding, maybe we can apply to some other businesses as well. But if we believe that the opportunity of global mid-sized market is 5X of what it is today, the market itself is much smaller and we can help create that 5X market and become, we are already the number one player in the world, but that is on the back of India only right now. And what we have done in India, we can do in other markets around the world and we truly believe that, then the opportunity itself is so huge for us that we do not want to divert our energies unless we think that something is super interesting. So our bar is very high for any such things, that is the main point.

**Kapil Singh:**

Thanks, that is quite helpful. And lastly, I also wanted to check on what are your thoughts on price elasticity, how do you think of pricing going ahead. Given the rating periods that you have, theoretically you could raise prices substantially from current levels as well. So is there such a thing as to high margins if I may ask that. How do you think of pricing?

**Siddhartha Lal:**

That is a good question to ask you guys. Is that such a thing is to high margins, there is. When we think it start impacting our sales, then there is something as to high margins. But may not let us say scrounging the products, our products are very fair priced. It is just that we are able to do it very affectionately because we have low cost base and that is pretty much where we are making our margins. So we do not want to keep increasing prices. It will be fine one day or while nobody interest in our bikes and then we have to reverse. So that is the game you have to play, but our price increase is of course we have a very strategic approach to price increase because of basically demand supply situation and but we use opportunities to take small price increases rather than huge one time price increase and which is in line with the market. By and large now, we are more in line with the market on price increases. In India, it is people's psyche outside of India, no one gives such price increases. It is only in Indian psyche because of our inflation situation that people expect every year you will increase maybe twice by 1%-2%, that kind of stuff. So that is acceptable in India, but if you start increasing by 5%-5% every quarter or two, then somebody is going to stop buying bikes very soon.

**Moderator:**

Thank you. The next question is from the line of Amyn Pirani from Deutsche Bank. Please go ahead.

**Amyn Pirani:**

Just a clarification. This may sound as a repetition. So have you maintained your guidance of around 825,000 for this year for Royal Enfield. I joined a bit late, so pardon if I am repeating.



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- Siddhartha Lal:** Yes, we have said that we will produce 825,000 in the order of that number and we are still tracking towards that production guidance, yes.
- Amyr Pirani:** And for FY19, you said that you will be in a position to produce and deliver 900,000. Is that correct?
- Siddhartha Lal:** Approximately, but we will confirm that number by the end of the year. So as we do our cycle, as Lalit said approximately, it should land at that. But we will have a rethink and relook from many different angles.
- Amyr Pirani:** The only reason that I asked is that because then it would mean that FY19 could have a significant deceleration in growth which anyway one can expect growth to slowdown because you achieve a certain scale, but it would be like, so that is the only reason why I was wanting some clarity on that?
- Siddhartha Lal:** Sure.
- Moderator:** Thank you. The next question is from Priya Ranjan from Systematix Shares & Stocks. Please go ahead.
- Priya Ranjan:** I have two questions. One on Royal Enfield, what is your sense on, I mean earlier people have migrated from 150 cc to 350 cc, now for last 2-3 years we are substantially selling 350 cc and all, so when do you see the market will be right to move to say 500 cc or so because there is a customer apprehension also that whether I will be able to directly move from 150 to 500. So one of the key reasons probably in my sense is why the 350 cc vehicle is selling more. And second part is on VECV. What I am hearing that probably you are also supposed to supply transmission parts for Volvo group from India. So what is the kind of opportunity we are thinking in that line?
- Siddhartha Lal:** Where have you heard that?
- Priya Ranjan:** I just heard.
- Siddhartha Lal:** I cannot confirm that. We are always looking at different opportunities. Volvo is extremely close to us and in the sense really even the new management of Volvo is extremely keen on working closely with VECV to exploit our cost advantages that we have in India, but we do not have any other than the engine right now and we do supply some small parts here and there. But other than that, there is no major product that I can tell you right now about. On RE, we agreed that you talked about is I think that the billion dollar, multibillion dollar question and everybody is I am sure thinking about it. Of course, we will have our answer to that question and it has been a progression over year from the executive 100 cc to 150 cc to 350 cc, that is when the progression in India and I am talking about the growth of the market. The 100



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cc market still exist and the 150 still exists and the 350 is there now and hopefully we will be there to stay and continue to grow. But what next is the very good question and certainly at RE, we spend a large part of our day working on, not only products but also the entire ecosystem around that. So the trick we think is not just making a bike and throwing it in the market, but it is actually like you said creating the environment for people to be able to ride that in a comfortable way. So accessible is one of the key words for us in creating the next big story and accessible does not mean only in price. When we say accessible, people think price. But it is not price actually, it is accessibility from many different angles. Does it feel comfortable to ride, does it respond in power the way I expected to respond in power, do I get intimidated by it. If he answers, yes, then maybe that is not the bike that is going to sell in tens of thousands a month, right, if it is extremely intimidating for people. So does it accessible means is my running cost, it is not just acquisition cost, that is more people will find the way of affording it. But is my running cost half way decent and reasonable, I know it will be more than 350, but is it sort of half way decent. So of course 500 answers some of those questions, and as much as we may **(Inaudible) 56.21** or there were some questions around it, we still have a franchise of 60,500 cc motorcycles year in India and it is not huge, but it is over 10 times bigger than any other import competitor, right, between 500 and 535 cc, it is 60,000 franchise. So we have that starting point, but of course our 500 cc is not extremely differentiated from 350 in looks and in everything else. So that also curtails to it because it is Rs. 15,000 more expensive than the 350, but it is only a little bit upgrade in power, it is not anything more than that. But it is a good question and so we will have an answer to it very soon.

**Priya Ranjan:**

And just on that, do we need a roadster probably to actually go for 500 cc?

**Siddhartha Lal:**

That is an excellent input. Of course, roadster what do you call it, definition right. When you say roadster if I may just ask.

**Priya Ranjan:**

So like it is more of an upright driving rather than laid back riding.

**Siddhartha Lal:**

Yes. So we call our bikes, this is not very imaginative, but we have standard bikes. So they are neither leaning back nor leaning forward and there is a market for all sort of bikes. There is market for **(Inaudible) 58.01** bikes, standard or street bikes and bigger market, generally we think is like you call the roadster or standard motor cycles. So generally that is the bigger market in India because in the end, the motorcycles we use for multipurpose and one of the purposes is commuting, one of the main purpose is always commuting in India.

**Moderator:**

We will take the next question from the line of Hitesh Goel from Kotak Securities. Please go ahead.



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- Hitesh Goel:** So just wanted to ask this question has been asked that if we see the quarterly trajectory, last 5 quarters we have not seen much improvement in gross margin. You did highlight that you have not taken much price increase over last one year, but if we look at the realization, actually realization is up 3% on a Y-on-Y basis. So just wanted to get some sense on this gross margin trajectory that why it has not improved despite makes improving and also operating level is playing out?
- Siddhartha Lal:** Some of the things that contribute the rise of ASP is of course in the last few quarters is of course the increase in the cost because of BS-III to BS-IV. So while the price went up, the cost also went up. So that was one reason for that. Apart from that, in the last few quarters there has been some inflationary pressures as well which we are battling, which everybody should be battling. So those are the things while ASU can be built up but they are not profitably building up in that sense because there is a cost rise also because of this, I would say one-off events. In this case, it was regulation.
- Hitesh Goel:** Sir have you taken any price hike in this quarter in July or August post GST?
- Lalit Malik:** We have not taken any price hike, like I said there has been a price decline. Price reduction because of GST.
- Hitesh Goel:** And sir my final one. I missed the EBITDA number for VECV. Can you just give that number again?
- Lalit Malik:** So EBITDA percentage was 8.3% and the EBITDA value for Q1 was 149 crores.
- Hitesh Goel:** And it was down 23% Y-on-Y?
- Lalit Malik:** Q1 last year, it was 194 crores.
- Hitesh Goel:** So sir if I look at consol minus the standalone operation, actually there is EBITDA loss. So that is happening because of what reason?
- Lalit Malik:** Largely because of the fact that we had a dividend from VECV in this quarter.
- Hitesh Goel:** I am talking about EBITDA. So if I look at EBITDA, VECV comes below in consol VECV comes as share of profit.
- Lalit Malik:** That is the difference between EML EBITDA right.
- Hitesh Goel:** So Polaris basically.





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- Lalit Malik:** There was a loss from subsidiaries as it was and of course composite is from the profit of VECV or the net sum is a decline of about 7 Cr.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question due to time constraints. I now hand the conference over to Mr. Jain for closing comments. Over to you, sir.
- Deepak Jain:** I would like to thank Mr. Lal and Mr. Malik for taking time out for this call. It was very useful for all of us. Thanks everybody else for being on the call as well.
- Siddhartha Lal:** Thank you very much.
- Moderator:** Thank you very much members of the management. Ladies and gentlemen on behalf of IDFC Securities, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.