



“Eicher Motors Limited Q1 FY-19 Earnings Conference Call”

August 09, 2018



MANAGEMENT: **MR. SIDDHARTHA LAL – MD & CEO, EICHER
MOTORS LIMITED**
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MODERATOR: **MR. CHIRAG SHAH – EDELWEISS SECURITIES**



*Eicher Motors Limited
August 09, 2018*

Moderator: Ladies and gentlemen good day and welcome to the Eicher Motors Limited Q1 FY19 Earnings Conference Call hosted by Edelweiss Securities Limited. We have with us today from the management Mr. Siddhartha Lal – MD and CEO, Eicher Motors and Mr. Lalit Malik – CFO, Eicher Motors. 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 the 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. Chirag Shah from Edelweiss Securities. Thank you and over to you sir.

Chirag Shah: Thank you, Lizzan. Good evening everyone and welcome to the Eicher Motors Conference Call and we also thank the management for giving us the opportunity to host the call. I would like to hand over the call to the management for the initial comments and then we can start with Q&A. Over to you Siddhartha.

Siddhartha Lal: Good evening everyone and thank you very much Chirag for hosting this call. So, this is the earnings for Eicher Motors Limited for quarter one of 2018-19 financial year and we are delighted to give our results of highest ever revenue at Eicher Motors of Rs. 2,548 Crores which is 27% up from the same quarter last year. Our EBITDA is at Rs. 810 Crores which is 30% up and our EBITDA margin is 31.8% which is up from 31% and overall our profit after tax is at Rs. 576 Crores which is up by 25% from the same quarter last year.

So, that is on the overall financials, moving on to our main business of motorcycles - Royal Enfield. We touched volumes of over 2,25,000 units which is a 23% increase over the last year. We have added 12 new stores in India with a total dealership count at the end of the quarter at 837. And we have added one new international store in Malaysia, taking the exclusive international store count to 37. So, we continued expansion of our distribution.

Some very big news from our side, we have got our twin cylinder motorcycles ready for primetime now and we have announced a global media ride in California, USA in the end of September so that is just a month and half from now. We are absolutely delighted about these motorcycles and it is a truly global event that we are having of a truly global product for Royal Enfield. So, that is a really big thing for us, it is the biggest launch in our history or certainly in our modern history. We expect bookings to begin by November or so and deliveries to start after that, that is across the world.

Then in addition to that, we have one more important product which was, basically it is a limited edition Classic 500 Pegasus launch which got an enormous amount interest around the world and gave a huge buzz to the brand. We launched it globally, and specifically in India and in UK we had a large event. It is inspired by Royal Enfield legacy and tribute to the World War II “Flying Flea”. We have made a 1,000 units of these which are available globally, 250 of them in India which got sold out in less than 3 minutes in our online sale so it was a huge amount of



*Eicher Motors Limited
August 09, 2018*

demand I believe we had 11-12,000 people 15,000 was it, inquiring or trying to get those 250 vehicles, so this shows a pent-up demand and for some of these limited edition type of motorcycles they have interest in our brand and of course we are able to convert some of these as our customers to our non-limited edition bikes as well.

We had a 15th edition of our very marquee and epic “Himalayan Odyssey” ride that we do every year. This was the 15th edition this year we had 60 participants, 10 women out of those and two of those ladies were officers of the Indian army so it was really interesting. They did 2,200 kilometers over extremely harsh terrain and I think the riders have an amazing time and there is always we had outstanding content coming out of this ride and enormous goodwill for Royal Enfield as always.

A very different format of ride, we did our “One Ride”, 8th edition of that. We did it in April as we do every year, we had 12,000 riders from 114 cities in India and from 28 countries globally joining on this one ride that we do and it is basically on the first Sunday of every April that we do this ride and our community starts meeting and going jointly it is a really nice format that we have built.

The construction for our phase 2 of our Vallam Vadagal which is the third plant in Chennai has begun, it is just starting actually, and the production will begin in the second half of next financial year so that is on track. Chennai Technical Center which we have been talking to you about is at Old Mahabalipuram Road where in fact I was there couple of days ago and reviewed the entire progress of that, it is doing extremely well. We will be moving in into the product development wing of this new building by the end of this calendar year and by early next financial year, we should be occupying all the administration blocks and basically the various offices that we have across Chennai, we have small offices now because we have grown out of our original Tiruvottiyur office. We will be consolidating a lot of those non-plant functions in this one location and in Old Mahabalipuram Road. That is the overview on Royal Enfield.

Our Commercial Vehicle business, VE Commercial Vehicles, our joint venture with Volvo. We have had a great quarter. Our volumes are at 16,327 units up by 41% driven by improved value trucks so that is. Then, we have had various launches. CNG sub-5 tons variants then further variants in our light and medium duty Pro 1,000 and 3,000 series, 5 of those and two new heavy-duty products that we have got that is in our Pro 6,000 range. So, these launches cater to a vast spectrum from last mile connectivity to e-commerce infrastructure across the board and of course in our bid to further driving modernization we have a 7-speed transmission which has been launched in the entire range of medium duty trucks following the launch of our electric bus which was “Skyline Pro E” in Feb 2018. So, that is all from us from at Eicher Motors Limited. To recap, best ever revenues at Rs 2,548 Crores and EBITDA margin at 31.8% for the quarter. Thank you very much. And we can have some questions now.



*Eicher Motors Limited
August 09, 2018*

- Moderator:** Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Binay Singh from Morgan Stanley. Please go ahead.
- Binay Singh:** My first question is on the domestic demand side. How are you seeing domestic demand trends playing. Do you maintain your guidance for the year because it roughly implies, run rate on the monthly side needs to now touch 80,000 or so to reach that so how would you see domestic demand environment and production ramp up in the coming month that is the first question?
- Siddhartha Lal:** Our production forecast was 950,000. We believe we will continue with that number of course there has been some pluses and minuses due to various small things here and there in the past month or so. But we expect of course now with all that we are doing and with the season sort of looking really strong. Domestic demand will continue to be strong in the coming quarters and mostly now second half coming up so, we are absolutely on track and we have got lots of interesting new products, launches, new stores so things have continued to move in the right direction.
- Binay Singh:** That is encouraging to know. Second question is on the ASP increase, is it predominantly driven by increased share of Thunderbird X and the Gunmetal Grey variant because I recall you guys have not taken any price hikes is that a fair conclusion it is mainly driven by mix.
- Lalit Malik:** Right, last across the board price hike we took was last quarter which was Q4 of last year. So, this time it is all driven by the better priced product mix.
- Binay Singh:** Great. And just to go one last thing when you say global bookings will start for the twins in November that includes India.
- Siddhartha Lal:** Yes. So, India and the rest of the world in a phase manner it just depends on our product ramp up and seasonality on various things but basically by the end of this financial year I believe we will be in most of the important markets around the world.
- 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 concern which is there in the market that why is the company producing and not dispatching as much because historically we have seen Eicher kind of literally very minimum gap between the production and dispatches and given the fact that we do have an order book and demand continues to kind of out pace supplies or dispatches just wanted to understand why would you kind of have increase in the plant level inventory or the company level inventory rather if you can share your thoughts around that Siddhartha.
- Lalit Malik:** This last month could be a bit of an exception because of the truckers strike but as such you know quite well whether the plant stock or whether the goods in transit kind of stock and those



*Eicher Motors Limited
August 09, 2018*

are only two stocks that we have right. It is all cash and carry it is all paid for number one. And nobody will pay for it till he sees which is the dealership in this case will see clear line of demand over there. Incrementally, what has happened was where the dispatches from the plant were not hurt but we had a bit of a problem on road in terms of trucks being on side of the road for a few days and all those stuffs so that was a bit of problem we had. But in any case, nothing was abnormally high, it was abnormal in the sense that normally overall stock in the plant we can't even hold more than a day's stock. So, plant plus roads and depots all put together typically we will have about 10 days of stock lying with us because that is the time it takes for the cycle to be completed and 10 could have become 12 that is all that it did.

Siddhartha Lal:

Yes, there is only a marginal misalignment in the month of July, but that is one off and I would say in the last 100 months or something it is not a big issue it is like you said of course but having said that of course the demand is getting much closer to our supply situation now which is what we have been working towards for many-many years so we are in that position. And it is a good point these are perhaps June, July, August are the softer months generally and now things do pick up after this so we are on track for entire pickup in the season and of course if there were to be any gaps in demand supply as you know we have no reason to produce more than the demand is in the market so that will never happen with us.

Pramod Kumar:

That is kind of comforting to hear and Siddhartha the second question is on premium variant because our checks clearly suggest that demand for the premium variants is massively outstripping demand for the base variant and probably much to the dealer surprise and probably to your surprise so if you can just share your thoughts as to how much of the current order backlog what you have kind of is tilted towards the premium variants because initially the expectation wouldn't have been more than 20% of a particular model being skewed towards the premium variant, but what we understand is much more higher. So, if you can share some color on the outstanding order book and is that a constraint on the capacity side for the premium variants.

Siddhartha Lal:

Very good question because actually there has been a bit of mismatch for us, the demand for example our Gunmetal Grey, new Classic 350, which has got a rear disc break and is a higher price variant so premium variant we are calling it. What we were expecting and what the actual let say demand was for that and for something like Thunderbird X is many folds. So, we had planned certain volumes and therefore at the backend at the supplier end for a rear disc break at the paint end or whatever it is, so the ramp up for us now of course we are ramping up on Thunderbird X and on Gunmetal Grey which are two of our premium variant so we are ramping up on those but that also caught us entirely were surprised because people wanted only the premium variant they were not even willing to pick up some of the other bikes. So, it is a good problem to have people want more of our premium variants, but it takes maybe sometime a month or two or more than that, maybe two, three months to sort of get the demand in the right.



*Eicher Motors Limited
August 09, 2018*

So, I get the supply in the right alignment to what the demand is so it does take a bit of time and we are on that, we are certainly on that.

Pramod Kumar: Will it be fair to say that more than half of the order backlog probably is for the premium variants which is a very good value mix what you have going forward.

Siddhartha Lal: Yes. It is certainly somewhere in that order it is not more.

Pramod Kumar: Okay. And last question on VECV I don't know if I missed it but can you just broadly share what has been the revenue and the EBITDA and the PAT performance for the joint venture.

Siddhartha Lal: I think I missed talking about it, but now revenue is, now Royal Enfield and VECV are neck to neck on revenue front. VECV has just picked ahead of Royal Enfield this quarter at Rs. 2,609 Crores so just 45% growth. The EBITDA is at 9.2% so unfortunately for VECV it is not neck to neck on the EBITDA front with Eicher Motors but still a good growth from 8.3% to 9.2% and the PAT is at Rs. 118 Crores versus Rs. 67 so 78% increase in PAT also, so generally pretty solid quarter for VECV.

Pramod Kumar: Both the twin cylinders are firing now.

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

Aryn Pirani: My question is on we keep talking about that some states are showing growth which is slower some states are showing somewhere growth. What is increasing is that.

Siddhartha Lal: Lot of background noise from where you are speaking so cannot hear you.

Aryn Pirani: My question was that, obviously different markets in the country, different states are showing different rates of growth obviously because some states are more penetrated but for some strange reason while Delhi and Kerala despite higher penetration and Tamil Nadu show a very strong growth even now. Maharashtra and Karnataka seem to be having some problem so is there something happening on the ground which is causing that demand pickup to be slow, are people waiting for the more premium products to come in the twins or can you help us understand what is happening specifically in those two thing because this doesn't seem to be happening in any other market even the highly penetration markets.

Siddhartha Lal: Maharashtra let say, the market for let say above simple commuters so 125 and above, 150 and above has been in serious decline. And we have actually honestly gained a little bit of share because we have declined less than others but really the whole market has been in decline and now what started happening is Royal Enfield has started moving closer with the synchronization of the market right. Three years ago, five years ago it did not matter what the market is doing



*Eicher Motors Limited
August 09, 2018*

we were just growing regardless right. Now we are sort of in some situations in some cases we are starting to fall a little bit in the rhythm of the market where in let say above 125cc which includes only the 150cc category and above we are over one fourth of the market so if you know we are not immune to the market let say we flow with the market a bit so that is what is happening in Maharashtra. Karnataka, of course, since the road tax situation the market has come down we have come down and it has been a bit sort of gloomy there but this sort of position has been in the last over a year now. So, if that one state it is a bit weak of course we are understanding, we are learning, we are trying to figure out what situation but it is a sentiment issue nearly as much as anything else, but it is just people are not buying that much as well.

Amyr Pirani: Okay.

Siddhartha Lal: But these are one off cases but other than that of course like you rightly said in another markets we are still largely growing ahead of the premium motorcycle segment so we continue to grow well. Of course where there is very high saturation or let say very high market share for Royal Enfield. Kerala we have 33% and where the installed base of motorcycle is very high Kerala, Punjab, Chandigarh, Delhi, Tamil Nadu and other such states, there of course we expect that the twins will do exceptionally well because there are lot of customers with lot of 350cc motorcycles from many years ago and honestly they want something a bit more and till now they have not found it from either us or any other brand really. So, the twins should come in handy there.

Amyr Pirani: And just lastly what is the broad increase in dealerships or network number that we should expect this year.

Lalit Malik: Overall guidance by the end of the year will be end of March will be around 950 point of sales. Will be around that number only.

Amyr Pirani: Compared to 840, okay.

Moderator: Thank you. The next question is from the line of Mihir Jhaveri from Avendus Capital. Please go ahead.

Mihir Jhaveri: Just wanted to ask clarify what would be your inventory at dealer and at the manufacturing base total right now at the end of June.

Lalit Malik: Like I said I will give you a broad principal right, that we will have all put together a stock our levels, goods in transit level, plant level like it is next to nothing over there at about 10-11 day. During really peak of the season and all it can kind of go up a bit. But that is what we generally maintain.

Mihir Jhaveri: Okay. And we continue to have higher order book then what, so we continue to have waiting period across at similar levels which we had last quarter.



*Eicher Motors Limited
August 09, 2018*

- Lalit Malik:** You guys have the biggest source to go to the channels and check. So I think that's what you should do. The premium demand is very strong, the premium bike as somebody coined the term on the call is extremely strong.
- Siddhartha Lal:** But let's put it in another way we are able to convert now increasingly variable to convert lot of our booking in the same month itself. Because it is a model to model issue, it is city and state level issue, so we are able to give delivery now very often in the same month that the chap has booked the bike.
- Moderator:** Thank you. The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.
- Shyam Sundar Sriram:** Sir my question is more on the VECV side. Sir given revised axle norms as per your understanding is it applicable on all existing vehicles, as in the existing vehicle park and b) if applicable on all vehicles do you see the revised norms leading to a softer new truck sales and just an addendum to that are you planning to launch new vehicles complying with these norms and what would be the timelines on that.
- Siddhartha Lal:** So, it is all a little bit ambiguous right now, the government has issued some clarifications and notifications and all of that and it seems like all existing vehicles will also be covered under the increased axle loads. But there is some confusion that has to be sorted out at the Government level that is something to do, then existing vehicles and existing models there is a notification that we can sell them with a higher tonnage but again there is some ambiguity around whether they need to be certified by ARAI or not because there is a process normally to increase tonnage which you have to go through certification and all of that. So, according to the notification we don't but everyone feels hesitant because that is the normally the route you have to take. So, we are just figuring out all these things but it should happen all quite soon, normally the notification comes with an effective date which is much later so all these issues can get resolved in the way but this happened immediately.
- We are working on the new models where there will be at minimum some fine tuning and adjustment to existing models where let say for axle loads, tyre rating changes may be required for example so at the minimum. Having said that at VECV we believe that we are exceptionally well placed to take advantage of this increased loading because the available power and torque of our new engines the five liter and eight liter engines that we have for our heavy duty truck range are much better than maybe others and therefore we are able to have better road speeds which we require because as the weight goes up the speed will come down for the same vehicles, but the Pro 6000 and 8000 series are value truck. We believe we can actually have much better offerings for the consumer. So, it is all in the sense going towards higher tonnage and that is where VECV will eventually have more advantage than maybe some of the incumbents there.



*Eicher Motors Limited
August 09, 2018*

- Shyam Sundar Sriram:** Sir just another part of that question was, so if given that it will be applicable on all existing vehicle park there was an understanding that probably the fleet operators may cut down on the new truck purchases all those leading to some softer new truck sales are you seeing any of these indications or ground during your interactions with large fleet operators.
- Siddhartha Lal:** Not yet, it is too early to say anything like that, I think right now it is just getting over the confusion of existing vehicles, new vehicles all of that and the tonnage but certainly there is no immediate effect that we are seeing right now of any tonnage change that we are talking about.
- Moderator:** Thank you. The next question is from the line Kapil Singh from Nomura Securities. Please go ahead.
- Kapil Singh:** I was curious that you mentioned that Karnataka market has seen effect over the last one year due to the impact of road tax changes. That would be roughly a 5% increase in price I would guess. Do you really think demand is that sensitive or it might be just some other factor?
- Siddhartha Lal:** Well it is difficult to say there are few markets where such changes are happening and you are right it is a correlation we do not know if it is a causality 100% but that certainly one indication that we have from our feel that, that has softened the demand for above Rs. 1 lakh so that certainly the indication but I cannot be sure if there are other factors in play or what it is.
- Kapil Singh:** Has this happened in any other markets where you have seen similar kind of impact?
- Siddhartha Lal:** We haven't really had such type of road tax increase on this category of motorcycle, so we cannot say if that has been the case anywhere else. It could be other thing, if you have some other knowledge we would love to know but we don't know anything offhand other than that, that was the only one trigger that we do know is different for other markets.
- Lalit Malik:** Talking about there in Karnataka we know that it was always a very strong market for our Thunderbird standard motorcycles so with the new Thunderbird Sport also it had a pretty strong demand out there so as the demand supply at the SKU levels kind of score is up in the next few months I think you should see Karnataka also kind of reacting very favorably to these Thunderbird. But we are not reacting to this 5% increase I mean we could have also managed the demand by saying let's cut the price, all that stuff we have not done.
- Kapil Singh:** Understood. Second, I just wanted to check how is your marketing evolving or is it going to evolve going ahead because now we are almost approaching a million bikes sales. Do you think there is a need to tap other mediums of marketing like digital or print or TV or you would largely continue doing what you have been doing?
- Siddhartha Lal:** I would say on the contrary we have been innovators in the digital area so we have been while our indexation on TV and Print has been lower than all other two wheeler manufacturers, our



*Eicher Motors Limited
August 09, 2018*

sophistication and let say weightage on digital has been much higher for the last 15 years now on digital compared to other people and our ability and our understanding of analytics and what works and what doesn't and how to make things work on digital has been very high so we continue to have more events, store, rides, local level rides, and social digital approach that is much more of what Royal Enfield does but having said that even for some of our new products when depending on what we are trying to accomplish we certainly use print and even television on a more event based and focused manner let's put it that way. Even for Himalayan launch we did use some television just to get the interest and to generate more interests for people to reach our website and to reach social media so the idea was to get them to come and explore us, so we are not closed to any mix we continue to look at different media mix if that is your basic question. But much more appropriate to what we are trying to accomplish and not just sort of have huge spends on TV and print which is in our view a bit of lazy marketing really at the end of the day.

Kapil Singh:

Okay. And lastly I wanted to check on capacity for the higher CC bikes that we are going to launch in November probably. You are already running at full capacity so how should we think about capacity for those bikes?

Siddhartha Lal:

Obviously, not obviously but sorry, but for there are some fungible machining processes and other things in the backend basically for engine assembly, vehicle assembly and at the supplier end we have separate lines by and large for the Twins so in Oragadam plant we have separate engine line and separate vehicle line for the assembly of these motorcycle, the paint shop is same, some of the machines, for Indian machining and all some of them are same so we will have additional capacity let's put it that way for these motorcycles. The limiting factor will be paint shop and all but I mean honestly producing 75, 80,000 or 80,000 motorcycles a month that will never be a constraint on for our Twins so we will by and large unless the demand goes absolutely through the roof which we will be delighted with, but by and large we should not have any serious capacity issue for the twins that is what, but it is more about ramp up we will certainly have to ramp up slowly and then as we get confidence ramp up better than that an over the course of this financial really. So, I would say by March 2019 we will be able to deliver what the market requires that is for sure.

Moderator:

Thank you. The next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel:

Sir can you just give us some sense in Delhi for like four markets where penetration is quite high for your bike but still it is growing like Delhi, Tami Nadu, Kerala and Punjab what is your share in the premium motorcycle bike like you gave the analysis on Maharashtra where the commuter segment is bigger and the premium segment is shrinking what is your analysis on these four markets where your share is growing or the premium motorcycle is also growing.



*Eicher Motors Limited
August 09, 2018*

- Lalit Malik:** We don't have these numbers now, everybody is speaking for a while now for Karnataka and Maharashtra for a while so we thought we kind of gave that answer to you, but generally everywhere else and why these four states everywhere else including the states that we have become a little more active in terms of distribution and all the other stuff over the last two years. I think everywhere our situation is still the same right. So, we are growing and there is no market like which we can say finally we have matured over there and there is no further growth possible at all. Kerala, Goa market share is so high that one can let say that we don't grow exponentially from here. But everywhere else there is sufficient opportunities to grow whether it is the North Indian state or whether it is South Indian state barring Kerala so I think the growth momentum, the demand and all still seems to be very strong. You can call me later on we can talk about these four states.
- Siddhartha Lal:** Yes, but by and large, all these big states our market share in 150cc and above is more than half of the motorcycles sales are Royal Enfield so approximately I don't have the numbers really offend but in Kerala, Chandigarh, Delhi, Punjab, Goa I don't know about Tamil Nadu and all. Give or take it is one in two of the premium motorcycles is Royal Enfield and in Kerala for example we know for sure that one in three of all motorcycles is Royal Enfield.
- Hitesh Goel:** That number I have just wanted to know what is the premium motorcycle share there, okay I will call you later no issues.
- Moderator:** Thank you. The next question is from the line of Arvind Sharma from Citigroup. Please go ahead.
- Arvind Sharma:** Sir my first question is on the capacity part, so as you said deliveries are being converted within a month so does this mean that order backlog is reducing and now next year the capacity will increase significantly with Vallam-2 plant, so could Royal Enfield arrive at a point where capacity is more than the demand or equal to the demand which could have some negative operating leverage.
- Siddhartha Lal:** Increasingly we are able to convert more of the booking same month and of course like we have pointed out earlier in fact there are some models for example where we are not able to do that at all like our newer and more premium models where we underestimated the demand of Gunmetal Grey Classic 350 and Thunderbird X and couple of other such ones. So, in these leaner months let's call them the last couple of months which have been leaner months we are tending to more demand-supply is getting much closer together. But of course as we and even though our supply is doing a little bit right now all the plants are at peak and they are running at peak capacity so as we get into let say good season in India that means September, October, November that demand should go up more and the supply will not go up anymore so that should be alright for us.



*Eicher Motors Limited
August 09, 2018*

- Arvind Sharma:** So, just a little bit more on this, as you go for the big capacity expansion with a new plant you think the demand will be commensurate to that?
- Siddhartha Lal:** Let's put this way. The new plant of Vallam Vadagal Phase-2 is coming on stream in the second half or well into the second half of next financial year right, so let's call it as peak season of 2019 that timeframe and of course it is impossible for us to predict what the situation will be then but as we see right now just from our distribution expansion, from the new products that we have got in, from the more improved penetration that we are having in the biggest motorcycling states like UP, Bihar, Odisha, West Bengal, Rajasthan where people are trading up to Royal Enfield, just through let say industry growth rates plus a little bit more that we expect to get. Even that will carry us through right to requiring more. But it is impossible to predict everything but and it may be the case that on day one of the new plant coming in we don't require every single motorcycle that we will be able to make but you have to create a bit of capacity ahead of demand sometimes. So, but the demand is there. It is certainly there already we can see that with all the activities we are doing and the markets that are opening up for us. There is no concern really.
- Arvind Sharma:** Right. And sir my second question is on the raw materials cost. As Enfield volumes go up when the economies of scale are expected to improve, so what is the headroom for further margin improvement that you foresee from current levels purely based on better vendors economies of scale?
- Lalit Malik:** So, it is very difficult to say all these things, because there is a commodity cost also which internationally and nationally is also kind of going up actually it has gone up a lot in the last six months. So, economy of scale is always there to be extracted but then you have to balance it off with the commodity price increase, you have to balance it out with your internal actions of value engineering and so on and so forth but as we have said many times in past is that we still believe that over a long period of time or in the medium-to long-term we still believe that there are existing opportunities for us to optimize our overall variable cost and material cost of course is a very large part of it. That opportunity is still there. The low-hanging fruits have all been plucked but the harder work now kind of started.
- Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.
- Jinesh Gandhi:** My question pertains to VECV this quarter we have seen almost 12% Q-o-Q increase in realization so what would you attribute this increase to?
- Lalit Malik:** Better product mix is clearly one. You see Volvo trucks within the VECV scheme of truck sales the Volvo trucks on a Y-o-Y basis I am reacting to it at this point in time grew almost 150% we did 82 trucks same quarter last year and we did 198 almost 200 trucks this quarter. And across



*Eicher Motors Limited
August 09, 2018*

the board that has been increased number one and number two I think in Q1 we did take up blended price increase of more than 1.5%.

Jinesh Gandhi: Okay. Secondly in Royal Enfield standalone numbers what kind of RM cost pressure we are seeing while it is not reflected in our RM as a percentage of sales but there would be some residual impact of higher steel and aluminum prices.

Lalit Malik: It is all live over there, we have been able to, to some extent, neutralize that through like I said value engineering efforts, vendor negotiation and the other but we clearly did feel the impact in Q1 for sure.

Jinesh Gandhi: And you expect further impact in second quarter?

Lalit Malik: Once we close those negotiations for second quarter which we only close with quarter lag only then things will be clear but I have to say that, beginning of the calendar year things were slightly more stable at this point in time but I don't think we are out of woods as this point but I am speculating now. But the raw materials pressure is there it has not gone away.

Jinesh Gandhi: Right. And couple of further questions on numbers, so on standalone basis the staff cost has increased quite substantially anything one-off there or that's normal staff cost over here.

Lalit Malik: It is normal only, headcount has gone up significantly if you are measuring on Y-o-Y, the wage increase the normal wage increase has been pretty normal nothing out of what other companies may have done so it is really the volume increase in that sense which is kind of driving it.

Siddhartha Lal: The way you have to look at the Royal Enfield business right now is that actually we are doing a lot of catch up on our headcount. We have grown so fast in the last many years and our let say our ambitions in the coming many years are so enormous whether it is on the, it is extremely focused our ambitions but very large so when you look at what we are trying to do on the international side what we are trying to do on the new product side on the retail side on the brand side is lot of things going on and we are able to attract very high caliber of people now at Royal Enfield in order to accomplish all of this. So, we are really beefing up our teams in order to be able to take Royal Enfield on the next wave of growth that is where the costs are coming in the cost come in a bit earlier and then the wave of growth comes in later I imagine but yes a wave-2 is what we are after now.

Lalit Malik: Yes, and this is about India of course and this is also about international subsidiaries of ours, we already have two of them and two of them we announced that we will open in the next two months. So there is nothing one-off, nothing abnormal out there it is all well-planned and well-cleared.



*Eicher Motors Limited
August 09, 2018*

- Jinesh Gandhi:** Understood. And lastly on international business if you can just update us on how is our network expansion going, how is the feedback in the recently entered markets that will be quite useful.
- Siddhartha Lal:** So, continues to go according to the plan. Again we are taking I would call it we are still at maybe earlier stages of our entire international program on an expansion plan so it is not like we are going crazy adding stores and all that, it is a very controlled expansion plan that we are doing. I think in some way that is actually conservative controlled expansion plant it is basically still learning phase. We are at very much learning phase understanding who is buying us, why they are buying us before we start expanding so we are still only two stores in Thailand for example. If we wanted we could have added many more stores but we do not want to go on a mindless expansions spree and then make mistakes and then have to sort of fix lots of issues around the country and dealers make losses, then you have problems you have to discount so all we don't go through that learning curve. We want to do it slow and steady, we want to get the right outcome, so we are really at that phase of international. Having said that we continue to grow in international markets we are growing well, we are adding dealers but it is not as much as we could if the drive was just to add dealers and get numbers. It is more from a long-term perspective of let say being able to really learn the market, make sure that people are perceiving the brand in the right way, they are buying the motorcycles for the right reason and then we can really press hard and expand. So, we are still on step one and moving towards step two of let say getting into five, ten stores in some of these important markets. In Colombia we have already, in Brazil, Thailand, Indonesia which are very important markets we are still at the one, two stores a state we are not at the 5-10 stores states. Then after 5-10 stores you may go to 50 stores but that is step three but that is still a couple of years away for any of our markets.
- Moderator:** Thank you. The next question is from the line of Kumar Rakesh from BNP Paribas. Please go ahead.
- Kumar Rakesh:** My first question was to Siddhartha couple of few quarters back you had talked about that because of your long waiting period you are not able to participate in some of the markets like wedding season or festive season, with your order book gradually the waiting gradually coming down with your production ramping up. Have you started seeing some initial signs of you participating in those markets?
- Siddhartha Lal:** Yes. And of course some of the wedding seasons it has come in UP only.
- Lalit Malik:** Yes.
- Siddhartha Lal:** In wedding seasons we are able to participate. So, yes that does happen because there are situations where people want instantaneously they want it next day or in couple of days they want a motorcycle they cannot wait for months. So, yes sure we are able to participate in those markets better and now we have to relearn how to participate in those markets because we have



*Eicher Motors Limited
August 09, 2018*

not been in there for many years. But yes, that is certainly we intended, now this festive season where people want to I don't know is it on Dussehra people want the vehicle immediately or like that, so all of that will certainly Onam, Dussehra, Diwali all those kinds. That's the idea.

Kumar Rakesh: And what was your same store sales growth during the quarter?

Lalit Malik: For the quarter it was around 10% pretty much in line what we did last year '17-18. Sales growth for us is equal to stores which have a vintage of 2 years plus since opening. All stores they have opened before, so broadly I am saying it is half is being covered over here. Because all the stores and all the staff then it is an overall wholesale number only for you.

Kumar Rakesh: So, you don't go by the definition of one year, you go by definition of two years?

Siddhartha Lal: Two years. The stores that were fully operational up to 24 months ago those we counted, those are matured stores. So, more than same store I think matured store sales growth is around 10%.

Kumar Rakesh: And did you have any internal target of same stores versus growth which you want to maintain?

Lalit Malik: Internal targets are our internal only it is very difficult to talk about all the internal numbers.

Siddhartha Lal: But generally we are well ahead of the industry right that is the general idea we want to be well ahead of the industry or even 2x of the industry growth is where we would like to be so now we can start looking at industry growth as a benchmark and starting point for us.

Moderator: Thank you. We will move on to the next question that is from the line of Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta: Most of my questions have been answered. But just couple of questions, so one in terms of financing what percentage of your sales would be on financing now?

Siddhartha Lal: It is closing around 50% so it is still around +45% and increasing.

Lalit Malik: Yes, year-on-year post-demon to now it is early 30% at that point in time, so it has gone up quite a bit. Also got to do with the fact that where are we expanding most of our distribution. So, in some of the Northern states the financing will be a bit higher.

Sonal Gupta: My understanding was typically in some of those interior areas, smaller towns and cities financing tends to be less so you are saying that in those areas also you have equally good share in financing is it.

Lalit Malik: I don't know what you mean by interior areas.



*Eicher Motors Limited
August 09, 2018*

- Sonal Gupta:** Tier-3
- Lalit Malik:** But you pick the top 5 towns of Eastern UP for example it is broadly in that order only 45-50%
- Sonal Gupta:** Okay. And just again, I think in terms of like you said your growth is sort of converging or synchronizing with how the abs and flows of the industry are in terms of demand and I know there is no intent to build inventory but clearly the nature of the market is that you do see spikes during the festive season and all. So, is there any plan on that front side do we want to build a little bit of inventory because just to cater to the demand because that is how the nature of the market is, but just your thoughts on that?
- Siddhartha Lal:** I will tell you our approach on this is very simple. Obviously, we will take calls on these based on true projections of demand and supply and all of that, so you will never see us doing anything sort of adding more inventory because or pushing dealers for more sales because we want to have a 10,000 more in a quarter so it is not from a financial perspective, we are not interested about making our books look any better. It is all 100% from a business-led perspective what is the best thing for the business in terms of what will help us in achieving what we want to achieve so if we find that the off-take may not be as such we will cut down on production or on inventory and all of that immediately no questions, doesn't matter if it reflects slightly worse on a quarterly performance that sort. So, that is the 100% approach at Royal Enfield.
- Sonal Gupta:** And just lastly on the production side given that Vallam Phase-2 will come in next year only so effectively your guidance for production implies that we should be able to debottleneck to about 85-90,000 a month from the existing plants itself right by end of the year?
- Lalit Malik:** At 9.5 Lakh it is not 90,000.
- Siddhartha Lal:** I don't have a number in front of me but it's mathematical it is certainly not 90 I don't think it comes to 90 but it is not far it is between 80-90 somewhere I imagine the blended rate but yes it would be somewhere in that region.
- Sonal Gupta:** That is what the maths would imply so you can sort of ramp it up further is what I am asking, you still see some scope for debottlenecking?
- Lalit Malik:** Right now, all we are saying is 9.5 Lakhs for the year. So, far there are some numbers which are left to be done for the part of the year.
- Siddhartha Lal:** Yes, if you do mathematically it will take us to well above 80 so 83,000-84,000 by the end of the year, if it is 100% linear of course when you look at days or months and all that kind of stuff but give or take we should be running at that pace. If we are running at 100% capacity and actually sometimes we still have plans to take our one week off for annual maintenance so that is going to come in at some point and we are also running some shifts more like 24x7 we can



*Eicher Motors Limited
August 09, 2018*

reduce those a little bit so just to keep it a bit more calm and moving forward so that may come down a little bit from 83 to 82 or something but generally those are kind of numbers that we should accomplish by the end of this year to achieve a 950,000 annual production.

Moderator: Thank you. Ladies and gentlemen, that is the last question. I now hand the conference over to Mr. Chirag Shah for his closing comments.

Chirag Shah: Thank you everyone for joining the call and thank you Siddhartha and Lalit for giving us the opportunity. Thank you very much everyone.

Moderator: Thank you. Ladies and gentlemen on behalf of Edelweiss Securities, that concludes today's conference. Thank you all for joining us and you may now disconnect your lines. Thank you.