



**“Eicher Motors Limited
Q1 FY21 Earnings Conference Call”**

August 13, 2020



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Raghunandhan NI: Good evening, everyone. Welcome to Eicher Motors' Q1 FY21 Earnings Call hosted by Emkay Global Financial Services. We thank the management for providing us this opportunity. From the management team we have with us Mr. Siddhartha Lal, MD and CEO Eicher Motors, Mr. Vinod K. Dasari, CEO Royal Enfield, Mr. Kaleeswaran Arunachalam, CFO Eicher Motors. I request the management to provide some opening remarks and then we can proceed to the Q&A session. Over to you, Sir.

Siddhartha Lal: A very good evening to all of you and thank you for joining us for the Q1 result of financial year 2020-21 for Eicher Motors Limited. I sincerely hope that you and your families are staying safe and healthy in this difficult period. Last quarter as you all know was extremely challenging for business activities and for businesses across India, across the world in most areas. In our case both production and sales were impacted on account of the nationwide lockdown in April and in parts of May. And towards the end of the quarter in June we saw a good recovery in demand in the motorcycle business however demand in commercial vehicles remain weak across the industry. And as you would realise the previous quarter is really not at all representative of the core business performance of Eicher Motors Limited. It was obviously impacted tremendously by Covid related lockdown etc. So in light of that, we have consolidated financials of the quarter endings in June 2020.

We had a revenue of Rs. 818 Crores which is down 66% from Rs. 2,382 Crores last year for the quarter. Our EBITDA was at Rs. 4 Crores, so we were just able to break even because of our strong business model that we have. We were able to break even at EBITDA level at Rs. 4 Crores of EBITDA versus Rs. 614 Crores for the same quarter last year. Our profit after tax, we made loss of Rs. 55 Crores against the profit of Rs. 452 Crores last year. This was largely due to the truck business, commercial vehicle business where we weren't seeing any uptick in demand at all. Because on a standalone basis, Eicher Motors Limited reported a profit after tax of Rs. 12 Crores. And, so that's the overall business and financial that we have. So I would like to hand over to Vinod. Vinod Dasari will take us through the Royal Enfield performance.

Vinod K. Dasari: Thank you, Siddhartha. In Q1 we had 58,400 motorcycles sold. It's down 68% over last year Q1 in the domestic market. In the export market we were 64% down and we sold 3,400 motorcycles. Latter half of the quarter saw a quick ramp up in demand. We are getting very good response mostly from tier 2 and tier 3 cities. Bookings are almost back at pre-Covid level. Enquiries are certainly at pre-Covid levels. And operational dealerships were as high as 90% by end of June. I think they had come down to about 75-80% because of some sporadic lockdowns here and there, but still doing pretty well. The motorcycle segment of 125cc and higher was down by 76% and Royal Enfield was down by 68% as I mentioned earlier. So our market share actually jumped from 22% to 30%. In UK, we are proud that



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Interceptor 650 won the best-selling motorcycle. It was the highest selling motorcycle for the last year as well as the Himalayan was the fourth highest selling motorcycle for the last one year from June 2019 to June 2020.

Production-wise, we are continuing to struggle a bit because of sporadic lockdowns in our supplier areas and some parts of Tamil Nadu also. So it's picking up of late with some improvements in the supply chain and all that, but I think we are still quite behind our booking rate. We could have easily done another 20-25% more in July but hopefully things will improve a bit.

We are continuing our expansion of our network. We added 38 Studio Stores in the last quarter taking our Studio Store tally now to 638. Overall now we have 1,559 touchpoints across India. We are also adding stores outside India. We have added five exclusive stores and 32 multi-branded outlets in several countries – in France, Brazil, Indonesia, Mexico, Germany, UK, Australia, New Zealand, Columbia. So all across the world.

To ensure maximum safety and convenience to our customer, we launched contactless purchase and service experience which included online booking and payment. It's doing quite well. Home test rides, service at your doorstep. We launched 800 motorcycles, custom-built motorcycles which is called 'Service on Wheels' and this can do almost 80% of the types of repair. It can change oil to do all kinds of stuff. It carries battery charges and all that, and it can do right at the doorstep of our customers. And we have been engaging quite a bit digitally with our customers, it's been significant campaigns that we ran. Compared to pre-lockdown to post-lockdown, we have about three to four times the amount of digital engagement. Our web visits are almost double from about two and a half million last year in FY20 to now about almost five million.

We won several awards, like I said the Interceptor in UK, but we also won it in Thailand. Himalayan also won the best touring category and most interesting things that we did is we launched India's first ever exclusive women's apparel range and riding gear range in India. Regarding our rides and events, we have cancelled quite a few of our rides in India, almost all of them including our marquee ride the Himalayan Odyssey and we hope to come back as soon as the situation improves. But in other parts of the world where it is still allowed like in Thailand, in Korea, we did some long distance rides that go as much as 500 kms at a stretch. In Europe, we continue to do fantastic brand building exercises, storytelling through 'Custom World Live'. This initiative that we launched during the lockdown period with Royal Enfield custom team along a few major customs puts on a series of weekly conversation, I think we did eight of them. So the custom houses actually build the motorcycle live for everybody. To nurture flat tracking in India, the Royal Enfield launched a slide school in November 2019. And to encourage the interest in flat tracking we launched another one in June and



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now we have tied up with American flat track and recently launched a slide school in US, so still continuing activities across the world and we will continue to do so. Over to you, Siddhartha.

Siddhartha Lal:

Thank you, Vinod. Just to make a small point, Interceptor was the best-selling motorcycle in UK for the month of June, not for the year in June I believe. But that's, but I think that's extremely significant just to, just to deliver the point a bit. Best-selling motorcycle, not midsize motorcycle, best-selling motorcycle in UK in June and we have been coming up to that. But what it really means is that our strategies and thoughts for international markets, you can see this as a lead indicator, is really panning out. You see the reviews. I have been recently sent, I mean of course throughout, but lots of reviews, pitting us against, Interceptor for example against other European American manufacturers and coming out on top. So we are really at that point where our products are making huge inroads into the markets and that's happening. I mean we are seeing this as UK, as number one motorcycle but happening across Europe, across US, across Latin America, Southeast Asia, the whole international strategy is spinning out. And the interesting thing you will note is that these are the new motorcycles. We will always keep talking about Interceptor, GT, Himalayan when we talk about international market because they are much more interested in the newer motorcycles which we are making which is a testament to all the work and development we have done for these newer motorcycles and gives us a lot of, let's say hope and for our newer motorcycles which are still to come out. So that's on, that's on the motorcycle side.

Over to the commercial vehicle side. VECV, our joint venture with Volvo, we had a revenue for Q1 at Rs. 640 Crores which is down 72%, from Rs. 2,255 Crores same quarter last year. We made an EBITDA loss of Rs 72 Crores versus EBITDA profit of Rs. 137 Crores last year. And profit after tax, we had a loss of Rs. 120 Crores against the profit of Rs. 38 Crores last year. So again all as a result of much lower sales due to Covid. Q1 sales were at 2,100 units which is down 84% from 13,300 units last year. So it's an enormous drop. However, we did fair slightly better than industry which declined at 91%. It's been really tough for the industry this first quarter.

Some positives and good news from VECV side. We have announced today the acquisition of Volvo Bus India by VECV. We have signed the agreement for the integrated VECV. It includes the entire business really of Volvo Bus in India. So the manufacturing, the assembly, the distribution and the sale of Volvo buses. We are already doing the service as VECV, we are already doing the service beforehand, so we were servicing the Volvo Trucks as well through the same distribution network. We are extremely excited about this. We believe that this gives us the best portfolio in the country from heavy duty and premium buses all the way to light, medium duty and more mass market, more value segment buses that Eicher brand has. So it gives us a huge variety of buses, it gives us a huge capability in buses. And I believe we will be able to strengthen both these positions due to synergies



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that we are looking at in product development, in purchasing, in manufacturing and with access to Volvo Group's world class technology. Volvo has an outstanding brand name in buses even in India, I mean it's really well known, the buses are really extremely well known in India. And we certainly aim to capitalize on that enormous brand salience in India with more buses which we will create jointly. And also to be able to filter that some of the technology into the Eicher side. And overall we have a very strong view on buses in the next 5, 10, 15, 20 years in India. Because of the mega trend of urbanization, e-mobility, connectivity, sustainability all those are going drive bus growth and I think we are extremely well placed with the two brands with the multiple plants now that we have, with the technology and we plan to invest tremendously in buses in the coming years.

We had a strong introduction across the range for BS-VI. It has been extremely well received our BS-VI offerings. We are able to provide extremely good fuel efficiency and refinement on BS-VI, I believe, compared to our competition. It's because we have been making lakhs, hundreds of thousands and even more Euro 6 offerings before this. So our capability of making such engines and putting together such vehicles is, capability and experience I would say is of many years and much higher than any of our major competitors in India. As a result, we have seen good offtake of Eicher BS-VI and I mean, it's of course, it's very small numbers right now because of Covid but our market shares are looking very healthy in those small numbers and we have seen a lot of interest from fleet owners and truck owners that we may not necessarily have been getting earlier. So it's a small starting point but we are very excited about what the trends are. In LMD, we launched the 16-foot haulage truck which is the longest 4-tyre offering in the country. We also launched India's first 54-tonne gross combination weight 4X2 tractor trailer. Again these are all different product segments that we are pioneering in some cases, entering in some cases and we have launched an all new wider Eicher Skyline bus which introduces Volvo Group's engine platform. So the new, the advanced engine platform, the four cylinder version of that which is the 5 litre engine has been introduced in this new wider Eicher skyline buses. We have also got 100% connectivity on our trucks. On our series, from 22nd of July onwards, I think it's an enormous step towards our objective of driving modernisation in commercial vehicles. That would open up the doors for absolute connectivity of advanced telematics solutions to our customers. We have all new vehicles come with a two-year subscription to this telematics which the company provides and free uptime services. We have got uptime centres which are monitoring vehicles on the road and giving feedback, calling in customers proactively so it's a whole new paradigm shift that we are doing in VECV for the Eicher brand in this case to bring modernisation and connectivity to our consumers and predictively analysing what will happen to keep their uptime extremely high.

As far as our plant and supply chain is concerned all nine units of facilities of VECV have resumed production activities now. We are at lower utilisation of around 25% right now largely because of



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lower demand at this point. But of course we can scale up as the demand scales up now. But we are operational, things are moving in the factories.

That's important. We have introduced a digital customer connect program. We are using a lot of new digital tools for sales and marketing. We are able to really make good inroads. We have learnt a lot from staying at home and meeting customers in video conferences and being able to make big deals and have exposure to senior people in the management making the deals, you know, across geographies by video. Of course, there is still a bit of travel required but in the large part we can, we are able to accommodate, we are really able to get our value proposition across very well, in this phase as well. And almost all of our dealers are now operational. Throughout lockdown, we had a 24X7 Eicher on road service support for essential services. So we continued that for sure and now of course the service centres are also back up and running and like I said we have a state of the art uptime centre which is supporting our customers in this time, so, well in future as well, so just to keep their vehicles up and running.

Again on commercial vehicle, it's really, of course we had a weak quarter. It's been a tough quarter. But having said that there's a lot of positive news and lot of progress. We continue to invest in different areas, like you see we acquired the Volvo Bus business which is very futuristic. BS-VI is doing extremely well. The connected vehicle concept has really come out strongly and the uptime centres that we are doing. So a lot of forward looking, modern techniques in order to pull CV industry up in India. And just to recap for EML we had a revenue of Rs. 818 Crores for the quarter. We just were able to make a profit at EBITDA level of Rs. 4 Crores and at PAT level we had a loss of Rs. 55 Crores for the quarter but not including CV. So just on a standalone basis EML reported a profit after tax of Rs. 12 Crores. So that's all from us right now. Looking forward to your question.

Raghunandhan NI:

Thank you, Sir. Going towards the question and answer session. Request to participants please use raise hand option to come into the question queues. We will wait for a few moments till the question queue assembles. Vinod Sir, I wanted to take this opportunity to ask couple of questions. Firstly, dealer checks indicate large waiting periods which is a very good situation to be in. How large is the pending order book and to meet this order book what are the expectation of production ramp up in August and September? Second question – exports has been a focus area. And congratulations on the overseas achievements. What is the expectations on exports in medium term on brand building and improving reach and what is the expected share of volumes from export markets over the medium term? Thank you, Sir.



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Vinod K. Dasari: So it's two sides of a coin if you say that waiting period is good. Well if you are a customer it's not good. If you are a company, you can argue that it's good but I would rather not have my customers waiting. If demand far outstrips capacity, then it's good. But capacity today is limited by supply chain, it is not limited by capacity that is invested into. So I would rather make more. We could have like I said at least 15-20% more. We have roughly 40,000-45,000 bookings that are still pending so we have a long way to go. This is not so much in our control, it's not like if it was only our production, that we were not making, we could have pushed it. But it's one supplier or another supplier, one day it is somebody in Pune, one day it is somebody in Chennai, one day somebody in Aurangabad. So we are struggling through it but fortunately we don't have the issue of China sourcing. We don't source anything from China so that issue is not there.

Regarding exports, we had focused on three areas. First is the developed markets which is US and Europe which I told you earlier that in Europe we are doing very well especially in UK and in other parts also. We are continuing to add network in US also. It's very small numbers we had 1% market share, now we have 2.5% market share. We now have crossed hundred outlets in US so we are doing quite well. Then we have emerging markets of APAC and LATAM which are very exciting, going quite well, we are investing quite. We had one dealership in Brazil two years ago, this year we will have more than 20 outlets. Similar kind of growth in APAC also. The third bucket is in longshot territories like Africa and all that which we are slow on. We are not in any hurry but we have picked two or three countries where we will focus on. To answer your questions specifically, exports used to make up about 2-4% of our sales, may be up to 5% of our sales. Long term our goal is to be at least 20% of our sales coming outside of India.

Raghunandhan NI: Thank you, Sir. Thank you very much. All the best there.

Vinod K. Dasari: Thank you.

Moderator: Our next question is from Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: Yeah hi, hi Vinod, hi Kalees, just wanted to ask on the gross margin side if you can just help us understand what exactly happened in the quarter for the gross margin because there was a substantial slippage. I wanted to understand how much of this can be recouped over a period of time over the next two to three quarters and how much of this is sticky cost increases because of BS-VI transition. That would be the first question Thank you.

Kaleeswaran A: Thanks Pramod. I think there are two-three parts to it in terms of gross margin drop that you have talked. So as you would recollect in the last earnings call we said our BS-VI migration is underway.



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Roughly 75% was through BS-VI in Q4. Now we have got that annualised in Q1. Second is, as a part of restart post-Covid, we had incentive scheme that was launched in which also had one percentage point impact in terms of gross margin and third, I would also say that from a pricing perspective the journey is still continuing so we have passed on the cost due to BS-VI transition that has happened but the pricing journey is still underway. So if you attribute the mix as of Q1, I would say 70-75% of this is due to the incentive that we ran and balance is largely on account of annualisation of our BS-VI into Q1 and inflation of PGM.

Pramod Kumar: I just want to know how much of this we will be able to recoup over the next quarter because I understand lot of companies are grappling with the rare earth metal content, what mix works well for the emission transition. It's still early days right? So I just want to understand how much of this can be recouped outside of the pricing action.

Kaleeswaran A: See outside of the pricing action the incentive we talked about is a one-off so that by and large should come back. Rest probably you will hear as we move into the respective quarters.

Pramod Kumar: And second question to Vinod. Vinod, on the cost side Covid has changed lot of stuff for lot of companies and we have had a pretty high growth in other expenditure over the years. So how are you looking at this line item over the next or in a post-Covid world? Is this fair to expect substantial focus on cost across every line item and hence a significant savings over a period of time. Is that a fair assessment?

Vinod K. Dasari: Absolutely. It sounds silly to say that Covid was a blessing but that gives you opportunity to question everything. Travel has obviously come to a zero but we are working just fine productivity levels are back up to where it used to be without people going to office. So why do we need regional offices. So we actually started to shut down some regional offices and save some money there. There are many other things we are looking at. Kaleesh brings a fresh perspective. He is new, hasn't attended office yet. Well that itself teaches you something. So there's lots of opportunity for us to reduce cost and more than just reducing cost, Pramod, I think what Kaleesh will be looking at is let's take a fresh look. We know our business to say, 'what models, what mix, what territories, what solutions, what aftermarket, how can we enhance the profitability even better than what we did before'— that's his goal and that's what he is looking at and in downtime like this it's best to take a look at a very stark mirror and question everything.

Pramod Kumar: And finally Vinod whatever you told on the production hurdle and catch up you need to do and the festive season is coming. What does it mean for our new launch schedule and also do we run the risk of missing out on the Diwali demand because of the, because your inventory is zero, you got order



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book backlog of 40,000-50,000 units there about. You had a wonderful season last year. So if you have to look at growth again that means the production run-rate has to be substantially larger going forward the next three months. So how are you looking at the festive season in light of all this and the new launch schedule, Vinod?

Vinod K. Dasari: So launch schedule is obviously delayed because what we were planning to launch in April we will now launched it in August and September but fortunately the festive season this year is in November and end October so by that time we will catchup and remember Pramod we are actually operating at about only 30-40-45% of our capacity. We have a plant capacity is 100,000 per month so the minute the supply chain starts, I have the man power, I have the machine capacity, I could ramp up very fast.

Pramod Kumar: Great, great to hear that and thanks a lot, and keep safe. Best of luck.

Vinod K. Dasari: You too, Pramod.

Pramod Kumar: Thank you.

Moderator: Next question is from Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: Yeah, hi. Am I audible?

Vinod K. Dasari: Yes.

Gunjan Prithyani: Okay, two questions from my side. Firstly, on this supply side challenges, do you anticipate that there is gonna to be any change in the new model launched back then?

Vinod K. Dasari: No, I think new model launch plan was anyway delayed, like I said original plan was to launch in April, now we are looking at September for launch. So it's about three to six-month delay. There is no delay in development so maybe the other models will come a bit faster rather than normal three to six months between models. We will bring more new models at a faster rate once we get going.

Gunjan Prithyani: But we're still sticking to the plan in terms of number of launches planned for this year?

Vinod K. Dasari: You know this is something we can't control. We are not stopping any of our product development activities. We will have series of new product launches starting from end of second quarter.

Gunjan Prithyani: Okay. Just one more question I sense there is an echo in my voice. Just on the booking cancellation if you can comment, has there been any change in trend because I have assumed the demand which is



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coming right now is an urgent demand and we are unable to service given the supply line challenge so any change in trend there?

Vinod K. Dasari: That's what we thought Gunjan that this is a pent-up demand or something. It is not because it continued through July and it is continuing through August so the bookings per day is still almost at pre-Covid level and it continued for the last 6-8 weeks so it's not like it was pent-up demand. Our enquiry rates continue to be higher than pre-Covid levels or at pre-Covid levels almost. So in that sense this is not just a pent-up demand or a one of kind of demand. I hope that it sustains itself and I believe it should sustain itself.

Gunjan Prithyani: Okay.

Siddhartha Lal: Yeah, the lead indicators are in the right direction also it's not that, so as Vinod said the enquiry levels are also continuing to go up still and I would say that in bigger cities we are still below the beat. It's the smallest cities and towns which have actually done better right now so there's still some headroom in the bigger cities.

Gunjan Prithyani: Okay. Got it, thank you.

Moderator: Next question is from Satyam Thakur from Credit Suisse.

Satyam Thakur: Hi, can you hear me?

Vinod K. Dasari: Yes.

Satyam Thakur: Hello, Sir. Thanks for taking my question. So my question is on VECV side. Couple of questions, first one on this Volvo bus business that we are getting with this deal. So does this come with debt as well? How much debt is that? And secondly on the VECV side, you know, in terms of the outlook for market share here for us because we have seen that some of the peers, larger peers in CVs have gone with different kinds of BS-VI solution. Some of them have come with modular platform that allows them to, you know, customise orders so what are we seeing on the ground in terms of impact of, you know, this, in a way how you are competing on the ground for market share?

Siddhartha Lal: Yeah, so to my knowledge there is no debt coming on the Volvo Bus side. There is the business coming and the asset of the business, so, and the people, it's a running business so there's no debts there. On the market shares side, I mean, honestly it's very difficult to say right now just because on VECV I am saying, on Eicher brand, just because it's very low sales, even on Volvo truck side we are over 90% but that's again very low sales. On the VECV side in fact we are much higher on the market



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shares in the last few months, so we, what should be around 30% in 5-15 ton we are around 36-37% I think in that order. What used to be 5-odd percent in heavy duty it's 10-12%. I am really happy about that but I won't take that as a future norm as just as yet because it could be because of other supply issues and others of from competitors. So we are certainly seeing the right direction as far as enquiries for our trucks are concerned, we are in a lot more deals than we used to be. Our customers are lot more interested in our BS-VI offering than earlier or than with competitor. So I think the credibility on BS-VI is very high for Eicher brand certainly and therefore we should see more and more traction on those front. So that's the general direction right now but we can't really comment much on the current market share just because the industry size has been so small.

Satyam Thakur: And has the BS-VI cost been passed on fully in VECV as well?

Siddhartha Lal: I can't say offhand Satyam exactly, I imagine a large chunk of it has been passed but I can't say offhand right now. Sorry about that.

Satyam Thakur: Okay. Thank you and all the best.

Moderator: Next question is from Venugopal Garre from Sanford C Bernstein. Please go ahead.

Venugopal Garre: Hi. Thanks a lot for the opportunity. You know, firstly, just wanted to confirm something around the booking side of things. So when you mentioned that, of course, your manufacturing run rate is lower than the booking run rate, so is it like every month you are accumulating something like 20,000 of backlog? So over the last three-four months you have anywhere over 60,000-80,000 sort of a backlog that you need to deliver? And also wanted to understand how does the bookings get impacted when your number of dealerships which are open changes. For example, you mentioned that earlier it was 90% now it is 75-80% range? That's my first question.

Vinod K. Dasari: Okay, so it wasn't 20,000 a month for the last several months. The booking started to go up from June onwards. Till May, almost the entire country was in lockdown so there was no dealership open. So the gap in booking to actual production started in June. It got expanded in July and as of now we are sitting at something 40,000-45,000, it changes on a daily basis. On average a dealer will sell 3-4 bikes per day so some are open some are not open. It's not a huge impact it depends on the city they are in, is he in a small store, large store, so on so. I can't put an exact figure as to how much will be the impact of 90% open versus 80% open. But it should not be a huge impact.

Venugopal Garre: Got it. You know, my second question is more on the manufacturing especially the supply constraint. I just wanted to understand what is the primary driver for the constraint? Is it that there are certain



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components where you have a single source and that particular supplier is in a location where there is a shut down and, and more so what it means is that going forward, you know, how are you actually then looking at your supply chain itself in order to ensure that such sort of challenges you don't face because you don't want a scenario where, you know, your competitors irrespective of which segment they operate in, they are in different geographies and then you eventually competitively end up losing share because you are unable to manufacture. So from a supply chain side not really a 3-4 month thing. Is there any thought process on how to deal with this?

Vinod K. Dasari: So this is not where one supplier is down. Let's say that one supplier had a fire or something else that could and if he were a single source that would cause problem. See the supply chain for two wheeler industry and for that matter most of the auto industry in India is in around four places. It's in Gurgaon area, the Aurangabad area, Pune area and Chennai and if one of these regions suddenly goes into a full lockdown which we had in July, we had a week or ten days full lockdown in Pune and Aurangabad so that obviously disrupted it for everybody not just for us. And it affected every supplier not just one. So it's not a question of having a single source or dual source even if you had dual sources and they were in two different areas which were under lockdown they would affect but I think most of the country is slowly but surely coming out of it.

Venugopal Garre: Alright, thank you so much.

Moderator: Next question is from Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Hello. Can you hear me Sir?

Vinod K. Dasari: Yes.

Kapil Singh: Okay. I just wanted to understand firstly in terms of your long term growth for the segment. What are your thoughts from the perspective that we have capacity of 100,000 per month, so you talked, you alluded to several new models. Can you give us the number in terms of how many new models can we expect over the next two to three years and what is the long term growth that you expect for your segment over next 4-5 years?

Vinod K. Dasari: You know to be perfectly honest with you I can't tell you how much I will sell in August but you are asking me next 4-5 years but broadly I will try to answer. I think I had earlier said that we have now lined up our product plan in a manner that almost every quarter we will have a new model or a new variant and we are sticking to that plan. The whole thing got shifted but we have continued to develop the products so we are readying the whole bunch of new products and we will continue to grow in



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there. Now if you look at Royal Enfield a decade ago we were selling 50,000 a year, now we are selling 50,000 in a month even in this downturn roughly and despite that we are only at about 6% of the motorcycles. More and more people, as India is becoming wealthy, more and more people are migrating up to the middle segment or the midsize segment which is 250 to 750cc segment and where we have a substantially higher market share. And so I think if that trend continues and we continue to bring in new models, continue to expand our reach, continue to do lot more digital stuff, continue to increase our international sales, I believe we can continue our growth path. I can't give you specific numbers or targets that we have for the next 3-4 years but we are doing all the key elements expanding our product range, expanding our geographies, expanding our solutions, expanding our digital and expanding our network. So hopefully these will all come together giving us a much better future.

Kapil Singh: Okay, thanks. And secondly I wanted to check on production. Just to understand this, you know, because several companies based out of Chennai have been able to operate at 70% even in July. So was there any specific issue in case of Eicher Motors that we were operating at 40% and added to that do we need to build stock for the festive season. I mean when we head into the festive season what kind of inventory would you like to have?

Vinod K. Dasari: So our inventory, I will answer it in reverse, our inventory is only about 10,000 vehicles total pipeline, okay, which is very low. We would like to keep it at least at three weeks. So, and we are down to less than a week and so that is not a good situation and we need to, and I told you the reasons for it. Even Chennai has two parts to it. Our plants are in Kanchipuram and a district in Oragadam. That was under lockdown. And Tamil Nadu government had refused transit between districts so that caused the problem. So every day there is a new kind of problem. I mean yesterday, for example, there was a transformer blow out in Oragadam. Now we are backup and things are okay. So, every day there is a new issue, we are dealing with it but if somebody operated at 70% maybe they were in Chennai, they didn't have much people movement issues. maybe their supply chains were within Chennai or within Tamil Nadu. I don't know. We were affected more by shutdowns in Pune and Aurangabad and a couple of times in Chennai. So we're doing things like sending our buses to help our suppliers' people come to the suppliers' factories. We will do whatever it takes. But the good news is you know our plant guys are finally under pressure to produce which is a good sign. The good news is that our enquiries continue to be good and our bookings continue to be good and it's not a one-time thing.

Kapil Singh: Okay, thanks Sir and I hope production is back now?

Moderator: Kapil can you join back the queue?



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Kapil Singh: Sure, sure.

Moderator: Next question is from Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: Hi Sir. First question to Kaleesh. You talked about gross margins being impacted by incentives. Almost 70-75%. The GC on RM cost basis in Q2 is down by about 540 basis points you are referring to 70-75% of 540 or you are working with some different number because there is also inventory change which would have influenced the number.

Kaleeswaran A: Jinesh, inventory change has got nothing to do with this. It's basically on account of the 70-75% at a gross margin level incentive is what you have to consider.

Jinesh Gandhi: So Sir 70-75% of 540 basis points?

Kaleeswaran A: Yeah.

Jinesh Gandhi: Okay, sure. And second question to Vinod. With respect to booking while it's a very good sign that we are seeing bookings going back to pre-Covid level. But how do we read this number? So this 100% of booking are back to pre-Covid with just 70-75% of dealership being open or how do you look at that?

Vinod K. Dasari: Well, we are almost at pre-Covid level. Enquiries are at pre-Covid level. Bookings are almost at pre-Covid level. So some days there are 90% dealers open, some days there are 80% dealers open, I think again today we are back to 90% so hopefully if it sustains then we should have a demand which is back to pre-Covid level or even higher.

Jinesh Gandhi: Okay, okay. And with respect to production where are we now in August?

Vinod K. Dasari: I don't know if we should be giving August numbers like this Kaleesh. Is that appropriate?

Kaleeswaran A: I don't think so for now we would be able to give that.

Jinesh Gandhi: Okay, great, thanks I'll come back in queue.

Vinod K. Dasari: It's less than bookings if that helps, Jinesh.

Moderator: Next question is from Yogesh from HSBC. Please go ahead.



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- Yogesh Aggarwal:** Yeah, hi. Good evening, just two quick questions from me. Firstly, we have seen some tough financing in cars so are you seeing loss of sales because the financing isn't available?
- Kaleeswaran A:** If you look at our financing trend Yogesh. I think pre-Covid we were at 52-55%, we are already going up to 45% and the gap is more due to some of the cities which are yet to open etc. So we don't see financing as a challenge for us.
- Yogesh Aggarwal:** Okay. And secondly, so obviously a lots of talk about the new platform, new launches and social media. Is it happening that how are the customer enquiries on the new bikes and can they delay purchase for the next one or two months just hoping for the new bike to come and then test out? Can that impact bookings or enquiries in the near term?
- Siddhartha Lal:** Yogesh that is always a concern. I mean anyone can answer that but that's always a concern but any brand with any category with any new product. It's not but it's not normally such a huge concern. That's not what we are facing right now in any case so the bookings are there, there is no, you know, there is no issue at this point in terms of people holding back or something you can see that in the booking numbers actually to be honest. So it's not a worry.
- Vinod K. Dasari:** And I could add Siddhartha to that that it's also because we have had such a good digital connect. As we are speaking Royal Enfield launched the first ever Royal Enfield mobile app on our website. So we did a prelaunch and there was so much interest that the Google connection crashed so we had to hold it back and re-launch it so now we are live again. So that's the amount of interest that our customers are seeing. You know I was saying earlier that the voice of, share of voice actually went up 2% percent compared to last quarter itself of Royal Enfield in the motorcycle segment so that interest is what is causing the bookings to be high.
- Yogesh Aggarwal:** Okay, thank you.
- Moderator:** Next question is from Chirag Shah from Edelman. Please go ahead.
- Chirag Shah:** Thanks for the opportunity. My first question is on new launches. Is it possible to indicate whether they will be in the same brand or you are looking to launch new brands? At least the new platform upgrade that you are doing. Because there's lot of media reports which indicate that there are lot of new brands being looked at over next three years.
- Siddhartha Lal:** To be very clear it's all Royal Enfield. So it's all within the umbrella brand. Of course, the models we can't talk about right now in terms of what model name it will be, whether some may be replacement,



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some may be new but we can't talk about that but certainly they are all within the Royal Enfield spectrum that we are looking at. It's not an altogether different brand as it were. But beyond that we can't really say at this point. Thanks Chirag.

Chirag Shah: Second was again on production, sorry to come back to that question again. So how much time do you think you will need to ramp it up to a normalised level of production, say pre-Covid level of production? Is it a 2-3 month process assuming there are no further hiccups because if it is a status quo scenario, how fast can you ramp it up?

Vinod K. Dasari: If there are no supply chain constraint we can reach that level in two weeks. Give me material, we have manpower, we have machines, we can reach that very fast.

Chirag Shah: And as of date are the supply chain constraints still existing or they have largely been addressed?

Vinod K. Dasari: No, they are still existing because there are parts of the country where there is lockdown there are suppliers who have got Covid problems inside so it is still continuing but it is getting better day by day.

Chirag Shah: And if I can slip in one last question and this is for Kaleesh. See other expenditure line item that we saw in the quarter, does it have any lumpy effect or we should assume this is the base fixed cost that we have in other expenditure? Because this seems to be slightly higher when compared to some of other companies who have reported the number. Is there any spend that you have chosen to continue or which is in the form of investment in the quarter?

Kaleeswaran A: From a quarter perspective if you look at it there are no lumpy costs that is there in that. Infact if you look at our marketing expenses etc, it is slightly lower than our previous quarter run rates.

Chirag Shah: But this is the element of fixed cost that we will continue, correct? That is the right way of looking at?

Kaleeswaran A: That's right. At the same point of time we'll also look at opportunities where we started the conversation by saying are there any opportunities to reduce cost across line items, that will be a continuous journey.

Chirag Shah: Okay, thanks Sir.

Moderator: Next question is from Jay Kale from Elara. Please go ahead.

Jay Kale: Can you hear me?



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Moderator: Yeah

Jay Kale: So my first question was regarding your customer profile. So the incremental bookings that you all are getting, if you can just throw some light on what kind of customers in terms of what is the percentage of first time buyers versus upgraders and has that changed materially versus pre-Covid levels. That would be my first question?

Kaleeswaran A: To early to look at that data right now. I think we would believe that there is a trend that we had of 85-15 continues at this point of time. Nothing specific to state any change in that.

Jay Kale: Okay and if you could talk about, Sir, little bit about the export markets as well how has that shaped post-Covid. We know you did mention that bookings are quite high for the domestic but how would the export market be shaping up see European, US markets as well as ASEAN markets.

Kaleeswaran A: Overall if you look at it. Our export markets are down by about 60% as compared to India which was about 68% and specific to RENA, I think RENA had a faster recovery. So RENA, the drop was only about 20% in terms of volume. Rest of the market is in line with the overall average. We see positive trend in RENA that has picked up faster, other markets are in line with the overall category drop in exports.

Jay Kale: But would you be facing supply issues over there as well I mean the demand being higher than supply there? Or you all will be able to meet or you all able to meet demand over there.

Vinod K. Dasari: No, we are not. Demand is still higher, even I mean even export markets are still clamouring for product.

Kaleeswaran A: That's right.

Jay Kale: Okay, sure, thanks and all the best.

Moderator: Next question is from Sonal Gupta, UBS. Please go ahead.

Sonal Gupta: Yeah, hi. Good evening, thanks for taking my question. Just one question I mean like currently you are operating with only sort of like two models right and you are still back to almost pre-Covid levels so once the new launch is there I mean how do you see, I mean do we see that once you have the full portfolio you should see a significant pick up from there as well.



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- Vinod K. Dasari:** I don't know why you say two models we have Bullet and Classic and you have Himalayan and you have the Interceptor and you have the Continental and you have several variants of this in several colours and we will be so, yes Classic is our number one selling model but we have backlog on Himalayan we have backlog on Twins we even have backlog on Bullet.
- Sonal Gupta:** No sorry, what I meant was like the top three Thunderbird is obviously not there so in that sense I mean is that leading to some amount of customers who are waiting for that product and...
- Vinod K. Dasari:** Well we had waiting for Royal Enfield product in the past and while we were adding capacity. So I don't think there is cancellations we watch that also. So customers are willing to wait, I don't want to keep them waiting for long. It's not in our control as much, as soon as the suppliers' situation gets better we will resolve that and I hope that we will certainly do that by this month end and if not sometime in the middle of next month. But definitely before festive season.
- Sonal Gupta:** Right, okay Sir, thank you so much.
- Vinod K. Dasari:** Thank you.
- Raghunandhan Nl:** We thank the management for the detailed explanations and insights. That was the last question. So over to the management. Sirs, would you like to add some closing comments?
- Vinod K. Dasari:** Siddhartha, you go ahead.
- Siddhartha Lal:** Just wanted to say thank you for attending this and to say that just want to reiterate our position as Eicher Motors, all of our businesses, that we really look at business in a very long-term perspective and of course this is extremely difficult time for everybody, but we look at this as a blip in the long-term. We continue to invest deeply in our long-term, we continue to look at the opportunities that arise during times like this either internally to look at our cost structures or externally to look at potential areas that we can acquire or do, you know, activities or enter markets or whatever it is. So it's very much business as usual with sharper lens, of course, from the current perspective and using these opportunities. We are certainly continuing that forward march that we have been overtime. All the spends and all the activities that we need to do are continuing as always. So there is no dramatic shift that way, of course, opportunities to reduce cost, to improve business operations, to manage situations, manage supply chain, all of that, that's of course there's a big focus there. But everything else is towards the long term aim of Royal Enfield becoming a global brand and towards Eicher becoming a modernising Indian commercial transportation. So that's our focus, continued focus in Eicher Motors Limited. Vinod any closing remark from your end and Kaleesh?



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- Vinod K. Dasari:** I wish I could give a better or more clear answer. I know that you guys want exact date and exact numbers, unfortunately we are in such times of uncertainty that I can't predict exactly when my supply chain situation will be over. But I will look at the positive side. I would rather have this problem than have a problem of demand. I have good demand. And on the back of our products, on the back of our networks, and on the back of our digital activity, so I am excited about this. Yes, it is a little frustrating on the supply side but we will manage, we will get over it soon. Thank you very much and all of you stay safe.
- Kaleeswaran A:** Thank you. I think as much as a challenge that we see on table we also see it as great opportunity for us across revenue and on the cost levers. We look forward to share updates as we move forward. Thank you.
- Siddhartha Lal:** Alright. Thank you very much, bye-bye.