



“Eicher Motors Limited  
Q4 FY2019 Results Conference Call”

May 10, 2019



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**Moderator:** Ladies and gentlemen, good day, and welcome to the Eicher Motors Limited Q4 FY2019 Earning Conference Call hosted by Antique Stock Broking Limited. 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 this conference, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Priya Ranjan from Antique Stock Broking. Thank you and over to you Sir!

**Priya Ranjan:** Thanks to you, it is our pleasure to host Eicher Motors Q4 FY2019 Conference Call and it is pleasure to host Mr. Siddhartha Lal as well as Mr. Lalit Malik. Both are here so now I would like to hand over the mic to Siddhartha for his result comment as well as his comment on the outlook etc., and then we can open it for the Q&A. Thank you very much and over to the management.

**Siddhartha Lal:** Thank you and good evening to all of you and thanks for joint in so late on Friday evening for our call. We concluded our Eicher Motors Limited Board Meeting earlier this evening and as a result, we have our results for Q4 of last year as well as for the full year of 2018-19.

I am going to go through some of the highlights of the financials and then the business highlights so for the consolidated Eicher Motor Limited financials for Q4 as well as FY2018-19, for the quarter we had revenue of around Rs. 2,500 Crores which was down around 1% from the same quarter last year and for the full year our revenue was close to Rs. 9,800 Crores which is up 9% from the previous year.

Our EBTIDA was at Rs. 685 Crores for the quarter with a 27.4% margin and Rs. 2,900 Crores approximately with a margin of 29.6% for the full year. Our profit after tax was Rs. 545 Crores down 16% from the same quarter last year and Rs. 2,220 Crores for the full year, which is up 2%.

Overall on the business side, Royal Enfield, our motorcycles sales for the quarter were down 13% to 1.97 lakhs and for the year we were marginally up from 8.2 to 8.23 lakhs for the full year that is 8.23 lakhs for last year.

We continued with dealer expansion last year. We added 90 dealers for the year, 37 for the quarter up to a total of 915 dealers. Internationally, we now have 42 exclusive stores across 19 countries and we recently entered the South Korean markets with the first exclusive store in Seoul. We had an outstanding response, last year was a big year for us from new product perspective because we had an absolutely amazing response to new Twins which have created interest in markets in India and around the world, so it is really revolutionary product in our opinion, which has had a great launch and initial phase in the first few months of the product being in the market and consumers riding the product.



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We have launched and commenced deliveries in various international markets and of course India was first and then after that US, UK, Europe, Thailand, Indonesia, Colombia, Argentina, Australia. We commenced in all of these countries and things are going very well with all the top accolades and awards in India and in some markets around the world for our new Twins so we are delighted about performance of our new Twins.

We have had other new product such Bullet Trials which we had as well more recently and also we had our entire portfolio which is a normal endeavor, was shifted to Anti-Lock Braking motorcycles well in time for the regulatory requirement so we were able to shift our entire portfolio motorcycles to ABS.

Other highlights for updates on Royal Enfield are - our Vallam Vadagal manufacturing plant Phase-2 construction is largely over and installation is commencing. Production will commence in second half of 2019-20. Our Chennai Technical Center is near completion. The PD team has partially moved in product development and the rest of the team will move in by next month and by the second half of this year, the admin block will be up and running and teams will move in, so that will be the full move to the Chennai Technical Center from various small and rented offices that we have across Chennai that the growth we had over the last many years and including of course in some of our old locations etc.

We also completed our very important ride, which is called 'One Ride', the 9<sup>th</sup> edition of that which is one of the largest motorcycle community rides in the world with participation from 305 cities across 35 countries. We have had 15,000 enthusiastic in India alone from 187 cities and towns in India so it is a big ride we conducted the same day around the world and it went off really well. To that's on Royal Enfield business.

On VECV, I will tell you both about the financials and the business. Our revenue for the quarter was just over Rs. 3,200 Crores and for the years was Rs. 11,600 Crores which is an all time high. The EBTIDA for the quarter was Rs. 274 Crores and for the year was Rs. 973 Crores giving an EBTIDA margin of 8.6% for Q4 against 9.5 last year largely because of very heavy discounting and some fall in volumes and for the full year, our EBTIDA margin was 8.4% as against 9% last year. That has resulted in a profit after tax of Rs. 139 Crores for the quarter and Rs. 475 Crores for the year.

Truck and buses sales for Q4 were at 21,000 units down 9% from the same quarter last year but for the full year, we closed at 73,000 units up 11% and an all-time high of 73,000 and the 11% growth last year was broadly in line with industry growth of 12%.

The second half of last year report was impacted by various issues such as the implementation of the axle load norms, which reduced demand for sometime and some liquidity constraints with NBFCs and margins were under pressure because of all-time high discounts and disruptive



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pricing and there we want to make sure that we continue our profitability as well as growth and market shares so we tried to have the optimum balance of all of these. We had excellent progress on our new products as well in trucks with the launch of new 2000 series of light and medium duty trucks, our new electric bus as well as the industry first 7-speed transmission and new products based on new axle norms of 48 tonnes and 55 tonnes, so all of that come in, in the recent past.

We have also successfully entered into two new international markets in Indonesia and in South Africa and these markets we have gone with UD brand which is owned by Volvo so Volvo is distributing our trucks in these markets under the UD brand and we see an enormous potential of good potential in these markets in the coming years. That is all from us from Eicher Motors for now. So over to you for questions now.

**Moderator:** Thank you very much Sir. We will now begin the question and answer session. Ladies and gentlemen we will wait for a movement while the question queue assembles. We have our first question from the line of Kapil Singh from Nomura Securities. Please go ahead.

**Kapil Singh:** Sir, thanks for the opportunity. Firstly, I wanted to check when you are looking at the sales currently what is that is impacting them, if you can give some color on both how enquires are moving and how the conversion rates are moving and top 2 or 3 reasons that you have assessed which is impacting them?

**Lalit Malik:** Nothing happened during the quarter but the larger trend we have seen for the last 3 to 4 quarters has been bit of a drop in enquires and largely this is post Diwali time for us at least while the Diwali retails went off extremely well, but after that we did sort off and you can attribute it to slowdown including the price hikes and so on and so forth and that continues for us. So you know overall you also had a bit of when you are large and when you are dependent on a few states than all these problems also begin to hit you till the state issues get repaired. Kerala went down for us after the floods. It has come back but certainly not to the extent that what it was doing for us in the past. Larger proportion for us as opposed to others CSD sales so I will give you all the answers now and without you having asked so that others do not have to repeat, CSD sales as a proportion of our overall sales is quite large, February and March the government did no CSD sales or CSD buying from their perspective. If we had all the Twins that the market needs both India and internationally, then the numbers and the ASPs would be very, very kind of different. So these are broad three or four things that I can speak about.

**Kapil Singh:** Is there a drop in conversion rates as well?

**Lalit Malik:** Conversion is largely the same, so enquiry to booking and booking to sales there is hardly any change. It is just the volume of folks who are coming in physically to the stores that is the lower number than the past.



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- Kapil Singh:** Just one more question on your material cost and other costs. We have seen a sharp increase for the quarter. Is there any one-time item there or this will be the normalized run rate for both of these?
- Lalit Malik:** The material cost is still stabilizing post the 100% conversion to ABS that happened in Q4 so there is a bit of stability factor over there. In the other expenses, other overheads line, Q4 had a lot of so if we see the international market there is a lot of activations being done because of bikes i.e. Twins were reaching there by end of March and first week of April, so between Europe and South East Asia, there is a whole lot of stuff being done. South Asia particularly, I have to say you know that, this is a trade show time also and we participated in few of those around Asia, so it is largely that one off but yeah that kind of stuff.
- Kapil Singh:** Thanks. I will join back in the queue.
- Moderator:** Thanks you, the next question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.
- Pramod Kumar:** Thanks a lot for the opportunity. Lalit, just a clarification on the CSD sales. Have they resumed in some April onwards or they are still continuing?
- Lalit Malik:** Yes they have, but we are in a very different process and absolutely not to the same level of buying that they were doing earlier.
- Pramod Kumar:** Is it a transmission issue in terms of the process changing or you see structurally demand incrementally from CSD to be lower?
- Lalit Malik:** I think, no it is not about the demand we have to go that level but it is the whole process, the new process that they have kind of moved into and got to do with some amount of government funds as well.
- Pramod Kumar:** My next question is basically on the demand outlook, now we know what is played out in terms of the slowdown and we have seen some of the improvement in the April trend in terms of retail versus wholesale trend but how do you see FY2020 as a year onwards and you guys have a fairly aggressive production target, so in that context I am assuming that demand should not be very far the way you look at it, so but if you can just talk a bit more the FY2020 outlook as a year as whole and probably also highlight factors which can decide the extent of the volume recovery.
- Lalit Malik:** Look generally speaking I mean given what we do believe the market should for us, the market should end up and you can call it optimism, you can call it stronger view and so and so forth, that view is equal to 9.5 lakhs production for the year, so that is a general view and as we have gone down the list and saying where it is going to come from, how is going to come from and all the stuffs, there are plans at play. We still believe 100% and time and again all metrics around the



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brand and the brand pull and all the stuff are still very, very secured with us. The Twins are doing their job exceedingly well, it is not about the volume and all the stuffs for the twins, it is with general halo they throw on the entire brand and like I said if the volumes are what the market needs then you will see a very different kind of franchise. The problem will be there. There is a general slowdown specially from the customers who are non-salaried class, there is a bit of a stretch at their end, their cash flows in their businesses and so on and so forth. So there are all these little events, not little events, there are these events especially on the BS VI nobody really knows as to what is going to happen, how is it going to happen, which month and so on and so forth, but generally the brand is receiving strong, generally speaking the premiumisation trends in the country are intact, quarter and a two here and there, is not going to change that too much, so we remain very bullish about the way the company is going.

**Pramod Kumar:** Second question, a final one on the commodity versus margin, because this is a unprecedented transition for the industry and especially for you guys because you have the full ABS impact and then the full injection impact coming in, so generally and the way the costs are going up and the demand environment definitely one cannot be expected to make margin on this cost, so would you in a way look, how should one look at margin versus EBITDA or the EBITDA per vehicle because if I look at this quarter Q4 y-o-y, your EBDITA per vehicle has actually not changed much at all, it is down 2% or thereabouts whereas volumes are fallen by like 14%, so is that how you look at it internally or is it like there is aspiration to kind of claw back some bit of a percentage margin as demand recovers?

**Lalit Malik:** You cannot ask both the question in the same breath, so when you think the demand is not so great and all the stuff and then you are talking about regaining the margin also. Like I said in the last call also the effort generally is to retain the margins but quarter-on-quarter you might not be able to do so. There will be other headwinds of the commodity prices and so on and so forth, so far right now they look a little benign because who knows when they start picking up kind of once again, and like I said for now at least ABS costs are settling in and hence largely we will be able to protect the margin on a happy note I have to say.

**Pramod Kumar:** Thanks a lot and best of luck. Thank you.

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

**Mihir Jhaveri:** I want to ask one question on demand as you really said if we look at our run rate right now it is around 63,000 odd vehicles and last year we have had an average near around 69,000 and given the scenario what Lalit just spoke, is it also a possibility that basically if we could have a flat to negative volumes this year given the environment we are in that is my first question with regard to the demand.



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- Siddhartha Lal:** We are working towards the growth in the business this year that is our objective. Honestly, we cannot say what it will be and how the market will pan out and beyond what we are saying as a production target we will be taking this year of 9.5 lakhs, we are not giving any further or beyond the fact that as Lalit said earlier we are working towards a growth objective this year. Like there is not much more we can say right now what our projections are for sale so we are certainly working towards changing the momentum right now and which certainly could happen over the next 6 to 8 months.
- Mihir Jhaveri:** But Siddhartha just one question given that the production guidance is also 950,000 for this year and it is the same next year as well, but there has been a huge gap between what we have sold and what the production target was, so that is why I asked this question. Secondly if the margins are also if you see gross margins there has been gross margin erosion this quarter, so would it be fair to assume or how should we look at it given that the 650CC had come into play whether 650CC have similar kind of margins or lower margins because we have seen the gross margins has come lower even the EBITDA which has obviously percolated in the EBITDA margins so how should we look at margins going ahead even with higher 650CC proportion being in the mix?
- Siddhartha Lal:** Yes, so generally every, I mean not always but generally a new product will start its life slightly lower on the margin scale and then it will overtime as traction builds up, it will and that happened with our Classic as well. I mean we started with perhaps 20% margin and it went to you known 40+ eventually, so that we start life cycle over once the volumes pickup, you get a double effect of being able to increase prices slightly higher than the cost increase and lower cost substantially which has happened in the past with us, so that is the game we are playing and eventually I would say the higher CC platform will have more potential for margin than a lower CC, this is relatively natural, but that will take a bit of time to get there.
- Mihir Jhaveri:** Lastly, just I want to check about the inventory level situation right now. What is our inventory level?
- Lalit Malik:** Dealers pay for what they ask for and what they get, so inventory cannot be out of control in that sense for us. Generally speaking, overall we still have about 30-32 days of stock across the dealers and the depots and all the stuffs so pretty much in control.
- Mihir Jhaveri:** Thank you.
- Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.



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- Jinesh Gandhi:** My question pertains to the margins communication made about protecting margins so we are looking as been new range at around 28% to 29% or we see some upside to this based on the cost cutting initiatives?
- Lalit Malik:** Right now that we are reporting a margin of 27.4% so you know it is in that range only. It is that range we are saying, now you can define the upper and lower limits of the range, but generally around the range it is strong brand which means that it is stronger margins, big margins and that is what it is, so like I said the some of the ABS cost is not stabilized yet so it will be in that 25 to 30 if you want a range from me, 25% to 30% kind of a thing.
- Jinesh Gandhi:** Actually what I meant is, is there scope of further cost cutting I mean I understand we have been under that process for sometime now and with quite a bit of benefit coming to, do we see substantial scope further from these levels of cost cutting or it would be hard to come now?
- Siddhartha Lal:** Right now the objective is for example to move to the new technology and to do it in time before regulation, so whether it is ABS, whether it is BS VI overtime really because of both of these technologies for example are new to the country. New in the sense that for scale manufacturing they were new, so overtime there could certainly be potential in reducing cost in the medium term especially in the new technology areas. On the other hand, there is also pressure to not perhaps pass on the entire cost increase to the consumer and you may not make margin on that amount you pass on, so there is a bit of give and take on both sides of this equation. In the short-term there may be some more squeezing of margin just because you may not pass on the entire price increase in one shot or cost increase in one shot, but we also expect some cost reduction to come in certainly on newer technologies which have not been made in scale in India, so ABS, fuel injection, they are very small numbers being made in India before the regulations actually came and now the production has started in India by the suppliers so there are more suppliers coming into the market and therefore the cost should comedown overtime as well.
- Jinesh Gandhi:** And for BS VI are we looking to launch it much ahead of the timeline or it would be trending towards January, February or March.
- Siddhartha Lal:** We are getting ready for BS VI well ahead of time, but we will take a call based on inventories and how we are going to flush out old inventory and be ready for the new product, so that is the tricky part, but certainly we are not going to go too far ahead of time either. We will manage from an inventory perspective really.
- Jinesh Gandhi:** Lastly with respect to the management additions which has happened and changes which are happening in the company, can you throw bit more light on it about what is the game plan now and with Mr. Dasari coming in, how does the role division happen, what to expect, that is it?





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**Siddhartha Lal:** Vinod Dasari has joined as CEO of Royal Enfield on the April 1, 2019 and he has been in that role for five to six weeks now and it is early days so he is still assimilating and like I said that is an excellent opportunity for him. Of course the role division is that he runs Royal Enfield entirely. He is CEO and fully responsible in charge and my role will be to support him in various areas including on the few specialized areas of product and brand where he has currently less experience whereas obviously as a CEO, he has got full experience on running a business etc., which he has taken full charge already, so I will support him in certain areas of course but other than that he is entire responsible in running the business, so that is already happened. It has already started. It is also a great time, there is a new CEO, there is let us say shift in the business in some form where the enormous growth trajectory that we have gone through is tapered off a bit so it is an opportune time to be able to look at Royal Enfield 2.0 and how we are going to take it forward, so that of course is work-in-progress. There are still lots of things that we are working on that and Vinod is leading so we will certainly hear about right more in the future when there are more plans that we can talk about.

**Jinesh Gandhi:** Sure and does Vinod also contribute or share his expertise on the VECV business side considering his background?

**Siddhartha Lal:** Vinod is CEO of Royal Enfield. So his primary focus is certainly in Royal Enfield. Of course he is also board member of Eicher Motors Limited, which is where we have the holding for VECV, so you know there is some support and influence that we can expect from him overtime, not yet, but his primary focus is certainly on running the Royal Enfield business.

**Jinesh Gandhi:** Thanks and all the best.

**Moderator:** Thank you. The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

**Gunjan Prithyani:** Thanks for taking my question. I have two questions, firstly on Twins that you did mention that you know the number would have looked very different if Twins would have been, if you would have delivered twins. Is there anything you can share on the order book or the capacity ramp up of Twins where we are and how we are looking at ramping it up through the year?

**Siddhartha Lal:** Yes. The twins like I said is they have got a very strong pull in the market. It has extremely strong reception. Again in context there had been the sales and I am talking about India first the sales of motorcycle above 500cc class or above Rs. 2.5 lakhs till Royal Enfield entered the segment were perhaps 100, 120 a month, since we entered we are doing maybe 2000, we should be doing in a month or more, so we have really expanded that segment ten-fold already. The segment of above 500cc or above Rs. 2.5 lakhs, so it is you know there is huge impact I think from an industry perspective and it is very early days because as you see in the automotive industry when a product is seen as successful and it has done well you know to a certain point,



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then even more people actually start following, so we believe that more and more and more people who are interested in upgrading the motorcycle will see the Twins as a very interesting proposition, so we are extremely hopeful of the Twins growing into a very strong franchise over the course of next few years. In the meanwhile, our production rate has gone up to I think around it should be around 4000 or 3000 last month give or take and increasing to 5000 in July so that is the overall Twins production. Currently, nearly half of that is being exported and the rest is for the Indian market, but beyond the point it will of course be based on orders in the different markets, but right now it is around 50-50 for international and Indian market which is a very high proportion going to international market as well right now. So, the waiting list in India is about four months right now for the Twins.

**Gunjan Prithyani:** And you mentioned this 2000 and this is 2000 units a month kind of booking run rate that you are seeing right now right?

**Siddhartha Lal:** I do not have exact number in my head right now, but the sales in India last month must have been around 1500 to 2000. In April, we did sell 2000 in India and that was the 2000 I was talking about and I was saying that the industry of above 500cc or above Rs. 2.5 lakhs was in the order of 150-200 before that, so we have increased the size of industry that is the 2000 number that is India sales last month.

**Gunjan Prithyani:** This is eventually the wholesale that you are talking about. I was trying to understand if you can give any sense on the retail side or is this similar number that you are seeing in terms of booking run rate?

**Siddhartha Lal:** There is four months waiting, so every wholesale is converted pretty much immediately to retail. There is no lag rate in wholesale to retail rate or minimal lag.

**Gunjan Prithyani:** The second question I had was on the dealer expansion. We continue to expand even until last quarter and clearly the sales run rate is come of pretty meaningfully, so I am just trying to understand how are we approaching the expansion because are the more expansion focus on existing market which will then cannibalize the existing set of stores or most of this expansion is in the newer market. If any sense you can give on how we are approaching this expansion?

**Lalit Malik:** Obviously, these are newer markets only, newer markets, smaller markets in slightly as we would like to say under-indexed markets. So the big developed markets where our market share is more than the national average, hardly any expansion is happening over there, so these are much smaller stores, much smaller catchments, we are not pulling in the same sale from value add perspective, that we are doing in Mumbai or Delhi, so this will be places like East UP, Bihar, Jharkhand and all that stuff, much smaller stores.



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- Gunjan Prithyani:** Last on the financing if you can give some sense as there any visible change in the last couple of months and is the Twins also seeing higher financing?
- Lalit Malik:** Generally, it has all been around 50%-55% in that range. No change is seen. Financiers are still eager to finance us, so I am not seeing any liquidity or any shyness in terms of offering finance to the customer, so no change to report.
- Gunjan Prithyani:** Thank you so much.
- Moderator:** Thank you. The next question is on the line of Venugopal Garre from Bernstein. Please go ahead.
- Venugopal Garre:** Thanks for the opportunity. I just have a small question on conversion rates. In the call you mentioned that it is about the footfalls reducing, but the conversion rates are fairly similar. I wanted to understand that from the dealer point of view is there any messaging to move to now push mode versus the pull mode that we have been in for the last 8 or 9 years and the reason I am asking that is when we visit stores, some of my friends who would be potential customers, they do not really get any phone calls after a test ride in a week or two weeks' timeframe, but we do see that from competition, I mean not just competition which is direct competition for you, but even for cars so is there any change in the marketing process at a dealer level that we think we need to do at this stage or is it dilutive to brand?
- Siddhartha Lal:** Not at all. I think what you talked about is not push versus pull perhaps these people are not just some of your friends are not getting a call back that is a failure on our part and that certainly is not our objective to be cold to potential customers that is not at all is the case. In fact on the contrary they are rolling out extremely strong processes on customer's engagement at dealers which goes well beyond handing them of price list, which is the norm in two wheeler industry, so it is really to engage in selling the right product to the customer and in understanding their needs in giving them test side, so we are totally committed to selling and selling well, but it is selling well rather than in fact selling shabbily and selling well does not include discounts at all, but it does include very good followup, very good customer engagement, relationships and support, so if there were some failures there, of course we are working hard to fix all of those, but it is not a push as much as engagement of intending buyers that we are trying to accomplish and then touching them at a right opportunity later after they have done at test side and to get them back into purchase, so we are certainly selling or let us say a strong sales idea, but in the right perspective of how a Royal Enfield should be bought.
- Venugopal Garre:** That's very clear. The second is again on the dealer side is more of a generic question. See essentially volumes have sort of decelerated fairly sharply even in the last couple of months, of course this is industry wide phenomenon, but just to put in the context of your own dealers since there is a wide dispersion in terms of volumes across dealerships. Is there any talk of any support the dealers would ask you at this stage given that their profitability would also be under pressure,



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or is it something, which is too early stage and not a bother at all. Eventually for me it is around any impact on margin for you, so that is the ultimate perspective, which I am asking?

**Siddhartha Lal:** There is no particular support or anything required, of course we are working closely with our dealers and certainly what happens when sales have fallen off a bit is in a period of excellent growth, all dealers are able to rise with the tide, but when it starts moving the other way, you are really able to see which are underperforming dealers and then we are working with them either to improve them or to change them or whatever it is, so it is more of an opportunity to see which are strong dealers and there are some dealers which are continuing to grow and hold their own and grow further, so others which are falling off more sharply, so it is an opportunity I see more to clean up some areas to certainly support dealers, I am not saying financially, but I am saying to basically our objective is to support them in doing better business, so it is in better selling skills, it is in better conversion ratios, better tools for them to be able to convert better, we have got a whole new, I would say very good in sophisticated dealer management system which is in implementation phase along with our the large amount of training and process that we are putting into dealers side for them to be able to improve conversions that is very much a part of our ratio and whereas dealers are not able to rise to the right level of customer experience then we can give them a lot of support and opportunity, but then we have to replace them as that is the case.

**Venugopal Garre:** Thanks a lot.

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

**Chirag Shah:** Thanks for the opportunity. First a housekeeping question on raw material cost for the quarter, if I look at RM to sales they are at 53.5 and which has not been seen in many quarters, so is it largely because of inventory correction that you would have taken or what are the drivers for this sharp jump in RM to sales, be it sequentially, be it y-o-y or even if look at earlier quarters, this is probably highest in terms of last 12 or 13 quarters?

**Lalit Malik:** Like I mentioned early in the call as the cost of new technologies in Q4 and the entire portfolio moved to ABS, and that the slight commodity cost going up and down largely are the two reasons, there is nothing else in there.

**Chirag Shah:** Is commodity pressure abating or is it neutral going ahead or how do we look at that?

**Lalit Malik:** Between March and now, it is a little better than it was two months prior to that.

**Chirag Shah:** Would it be a right statement that given the demand scenario your ability to markup this ABS cost would not be significant at least in the near term, would it be a right statement or you will not be looking? This ABS cost increase would it be difficult to do a markup on that in terms of margins at least in the near term till demand revives?



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- Lalit Malik:** Chirag, the numbers you are saying is despite the fact that we have done a markup on the cost.
- Chirag Shah:** Second was on this other expense, is it possible to indicate how much of this other expenses is attributable to your expansion, how big that part would be for us in this?
- Lalit Malik:** Nothing actually. Like I said this is all got to do with the various BTL activities some in India, but mostly in Europe and Southeast Asia. Primarily, this is a launch time for Twins, not now, but in April beginning was the launch time in Europe and a few countries in Asia as well and Thailand had this big trade show, and Thailand is a very promising market for us now and all the stuff. This is a long list, but all BTL largely.
- Chirag Shah:** One last question if I can ask you on the demand side again and on the product side rather, would it be a right statement to make that there is some kind of product fatigue and unless the new product cycle starts, the old following that we had for Royal Enfield brand is getting slight fatigued because of lack of engine upgrades or transmission upgrades over the period and that could be one of the reason of this slow down?
- Siddhartha Lal:** Well, we do not believe that. We look at our all the data and surveys and brand track and individual model level that we have and by and large in fact we are tracking very well and of course since the Twins have come in, we have got some bump in the brand and brand track, it is not like that, certainly on the one hand there is more ubiquity of Classic 350 in the market, as you know higher visibility also still drives higher growth. So there are both sides of that coin, so right now I believe we are still at the phase, so in more mature markets within India that means big cities and richer states, certainly the Classic 350 is not growing anymore and there we are going to see Himalayan, Interceptor, Continental GT are going to do the heavy lifting for us to grow the brand. As you get into smaller towns, the Classic 350 is still exceptionally aspirational and drives an extremely high level of aspiration because they are coming from a totally different point of view on perspective when there is no way close to that level of let us say ubiquity there. So, there is both sides to the coin and we believe that the Classic and Bullet have an enormous franchise as the bullet has been growing a bit in the last many months also so certainly as the percentage of our portfolio.
- Chirag Shah:** Why I was coming there, once you transition to BS VI and we presume that there would be a reasonable upgrade to the product capabilities also, would it bring that mojo for your Classic and the Bullet brand that is what I was trying to refer to in your assessment, in the matured market, I was referring to?
- Siddhartha Lal:** That is always the case but then the new product, the endeavor is always to and it is certainly for us to always take the best of what people like in a product and improve the areas where improvement is required and give a fresh outlook to a new product as of course, so that goes without saying as and when there is a new product, which replaces an existing one, the endeavor



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is certainly to give the franchise a shot in the arm so of course when any of our existing product is replaced that absolutely is the endeavor as you are saying.

**Chirag Shah:** Lalit, one clarification on tax rate, is it possible to indicate what kind of assumptions which we should go ahead for the next two years because this year our tax rate seems to be slightly on the higher side at 34.5% on average basis?

**Lalit Malik:** For your modeling please continue with the same assumption. I do not see that coming down significantly in the next one year. We keep talking about mature product, mature market, product fatigue and all those things, the general point is that 50% of our so called customers owned us for less than two years. So let the product be really old and really mature, and then you will say, your fatigue is coming in and setting in all the stuff, so people who use are I think slightly more loosely than what they intend to do, but we are still a very young company commercially speaking, to explain your question left and right, so there is a time of two years back we were seeing percentage rise less in 500cc bikes, then we were only at a 350cc or 500cc and this is all because we were entering into some of these markets of North India, East India and all these stuffs, we saw that the 500cc guys are not that many over there because they said, we are so new to Royal Enfield at this point of time, in terms of buying while we know brand for decades, but we are still buying it for first time, I will go with the 350cc bike, so the 500cc bikes over there were virtually zero, but now there is early trickle of those chaps who owned the bike for three years or some specs like that, so as those customers mature in terms of the riding behavior and riding habits and so on and so forth, there is a next upgrade when they look around, they may look at an Himalayan or present portfolio that we have and when we look at Himalayan or look at the Interceptor or the GT the time is not even come for us to call us some of these products as immature.

**Chirag Shah:** Thank you. This was helpful.

**Moderator:** Thank you. The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.

**Sonal Gupta:** Good evening. Thanks for taking my question. Sir, given that the BS VI is the major change, a full change in terms of your engine and products like would we see as sort of full makeover for the line up really speaking?

**Siddhartha Lal:** We have to wait and watch for that for the new product, we have to meet BS VI norms and then there is some level of new product, but you will have to see exactly, we are not announcing it, the level of changes in the product.

**Sonal Gupta:** So your existing engine range is upgradeable to BS VI or you will have a new engine ground up?



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- Siddhartha Lal:** Again, we have various engine platforms and I do not want to get into, we are not disclosing specifics, which engine, what we are doing, so we are not getting into that. The baseline is 100% meeting BS VI well in time for implementation and there is some new product also on the anvil, but we will have to tell you only when the time is right for making an announcement.
- Sonal Gupta:** My next question in terms of market share because if I look at the 150cc plus market, obviously this year there has been a bit of slowdown, so you seem to have lost a couple of percentage point in market share, but I am cognizant to the fact that the wholesale numbers are very divergent this year given the amount of inventory, a lot of other people have been stuffing in the channels. So in terms of when you look at the retail numbers, how do you see your market share has trended for the full year, is there that you have lost couple of percentage point or it is still pretty much closer to as much lesser than that?
- Siddhartha Lal:** We you look at 150cc plus, if you just because that is a very broad market in a sense. We have lost couple of percentage points even wholesale, retail if you look at it is similar, that is also because there was some very cut price 150cc bikes that have come to the market, so which is really lower price so the nearly like commuter which are 150cc in nature. So honestly not really our market, product coming at Rs. 70,000 to 75,000 if I am ready to give, it is not affecting us really, but because if you look into some segment perspective, so yes we have lost a bit of ground there from 150cc plus market from I would say 27% to 25%.
- Sonal Gupta:** But you do not see that at a broader level that there is some sort of a downtrading like consumer?
- Siddhartha Lal:** In the short-term, there could be anything. There could be something which pull certain consumers more, etc., and things will happen, but I do not see the concept existing in terms of downtrading and is really the majority of consumers, the direction is towards upgrading and that continues. So, we do not see anything in the market that is changing that at all.
- Sonal Gupta:** Lastly, could you tell us what is the capex for FY2020?
- Lalit Malik:** Around Rs. 700 Crores planned.
- Siddhartha Lal:** Rs. 700 Crores planned across our new Vallam Vadagal Phase-2, Chennai Technical Center, all of our new product and some commercial investments as well, so all of that put together in the order of Rs. 700 Crores.
- Moderator:** Thank you. The next question is from the line of Jay Kale from Elara Capital. Please go ahead.
- Jay Kale:** Thanks for the question. My first question is basically when you do two-three years of production and sales planning, how do you look at the market, your growth versus the market growth, would you be factoring in, you are outperforming the market and if that be so, then in the last 6-8 months we have seen some bit of market share loss for various reasons, if at all you all plan to



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outgrow the market, what according to you should change from the macroeconomic factors or from company specific factors, for you to start outperforming the market going forward if and when the industry revives. So is that your customer segment may be currently is more impacted because of certain macro factors which once reverse you could again start outperforming the market because we are seeing like the earlier question alluded we have still some bit of downgrading in the market as well. So what should change for you to start out performing the market?

**Siddhartha Lal:**

Well as and when the sentiment becomes better and the market starts growing and there is a host of things we are working on to do that. Our belief is that firstly the short-term anything can happen for a quarter or two, but certainly in the medium and long-term, we see no reason why there is a change in the overall shift where there is a premiumization in the market that we believe extremely strongly in. Again like I said that will always happen when the right value proposition is there for the product or for the customer, value proposition is not just in product price, but product size, place, availability all that put together, so with the right distribution, with the right product price point. So, therefore, we have plans on all of these fronts, we have lot of new products coming in, we have lot of very interesting things going on, apparel, accessories, moving more to experiential areas, rides, community, so we are ramping up all of that which is what draws and attracts and inspires people towards Royal Enfield, so it is really that rationale plus irrational let us say desires that we create and that is the thing that we continue to do when we believe with the combination of all these factors including an outstanding distribution, service and support we should certainly outpace the industry in the long term that is very much our ambition.

**Jay Kale:**

If you can help us with exports revenues and spares revenue for this quarter?

**Lalit Malik:**

Quarter wise we do not break it up, but very soon we will have the annual report out, you can see for sure how we have done last year.

**Jay Kale:**

Thanks and all the best.

**Moderator:**

Thank you very much. We will take that as the last question. I would now like to hand the conference back to Mr. Priya Ranjan for closing comments.

**Priya Ranjan:**

Thanks everyone for joining as well as management team for taking your time out for the conference call.

**Moderator:**

Thank you on behalf of Antique Stock Broking that concludes this conference. Thank you for joining us ladies and gentleman. You may now disconnect your lines.