



“Eicher Motors Limited
Q4 & FY 2019-20 Earnings Conference Call”

June 12, 2020



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Moderator: Ladies and gentlemen, good day and welcome to Eicher Motors Q4 FY20 and FY20 Earnings Conference Call hosted by ICICI Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishant Vass from ICICI Securities. Thank you and over to you Sir!

Nishant Vass: Thanks. Good day everyone and thanks for joining us today for this call. From the management side we are represented by Mr. Siddhartha Lal, MD and CEO, Eicher Motors Limited; Mr. Vinod K. Dasari, CEO, Royal Enfield; Mr. Lalit Malik, Chief Commercial Officer, Royal Enfield. Now I would like to hand over the call to the management for their initial remarks. Over to you Sir!

Siddhartha Lal: Yes. Hello and good afternoon everyone. Good evening. This is Siddhartha Lal here and thank you all for joining in for Eicher Motors Limited Q4 results and year-end results, so that is for year ending March 31, 2020.

Just of course to give you some background, the Coronavirus pandemic has of course severely affected our business and business activity and livelihoods around the globe, so Eicher Motors is equally affected and of course humanity is going through its worst crisis in recent decades and very sudden crisis and at the outset being committed to our responsibility, Eicher Motors towards society and towards the nation and as a group foundation we pledged Rs.50 Crores towards various relief efforts and support measures for Corona pandemic. These include providing food, provisions, sanitation, consumables as well as setting up sanitation facilities for underprivileged local communities in parts of several states across the country, so there is a lot of work we are doing towards supporting people and of course we will continue to extend support in even more ways and with any more capability that we have we will extend further support.

Now let me give you a quick update on the impact that Coronavirus pandemic has had on our business activities. Of course for both Royal Enfield and VECV, we had suspended all our operations at our offices, plants and dealerships in India from March 23, 2020 onwards. Operations outside of India were also interrupted in most cases and following government directives, we resumed business activities in May in a gradual manner. Therefore, for the quarter ended March 31, 2020 production and sales were impacted due to supply chain constraints and suspension of operations to a limited extent of course because this was



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towards the latter half of the quarter and hence of course the business performance of that quarter should be seen in light of these developments, so just to give you a consolidated financial of EML for fourth quarter and for the financial year ended March 31, 2020.

Our revenue for Q4 stood at Rs. 2,208 Crores, which is down 12% from Rs. 2,500 Crores same quarter last year and for the entire year our revenue was Rs. 9,154 Crores, which is down 7% from Rs. 9,797 Crores the previous year. Our EBITDA for Q4 was Rs. 432 Crores, down 37% from Rs. 685 Crores in the corresponding period previous year and for the financial year our EBITDA was at Rs. 2,180 Crores, which is down 25% from Rs. 2,903 Crores for 2018-19. The EBITDA margin stood at 19.6% against 27.4% and largely due to the decline in volumes with a 17% year-on-year decline in volume and for the full financial year our EBITDA was at 23.8% versus 29.6% for the previous year. Lastly the profit after tax for Q4 was Rs. 304 Crores, down 44% from Rs. 545 Crores and for the full year at Rs. 1,827 Crores, down 17% from Rs. 2,203 Crores last year so that is the overview of the fourth quarter and the financial year. Now I would like Vinod Dasari, the CEO of Royal Enfield to take us through the Royal Enfield performance and then I will come back with the VECV performance. Over to you Vinod!

Vinod K. Dasari:

Thanks Siddhartha. Well let me give you an update on the performance of Royal Enfield for Q4 and the fiscal year. For Q4 we sold close to 163,000 motorcycles, which is down 17% from about 198,000 last year, but the exports were up 23% at 8,000 motorcycles against 6,500 that we did last year and that was on the back of very strong response for our 650 Twins as well as network expansion in all our key markets.

In India, the motorcycle segment for more than 125cc was actually down 33% year-on-year, but Royal Enfield sales was down, well you can say only 18%. As a result, our market share improved from 25% to 30% in the greater than 125cc segment. For the full year, we did just about 700,000 motorcycles, 698,000 to be exact, down 15% from 823,000 the year before, but the good news again is that the exports almost doubled (up 96%) from 19,700 to 38,700 motorcycles and in India our market share in motorcycle segment of more than 125cc improved from 25% to 27%.

Some time ago when we chatted, we talked about the network expansion that we had taken on this year, we now have 921 large-format stores in India and we had added about 6 more during the year large-format ones, but the focus clearly was on the Studio Stores. In the last quarter alone despite March being largely hit we opened 100 stores taking the count to well past 600 till March for the year. We received very good response to both sales and service, we expanded our footprint in new geographies, truly at this COVID times it is really



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helping because the cities are closed, but the outside city there is a large degree of opening already and it helps us run focused marketing and sales activities at some of these outside city locations.

International distribution network was also expanded. We almost doubled the exclusive store count from 42 stores in 18 countries to 77 stores in 21 countries, in fact we added 10 stores during this quarter. Some of our key markets saw major expansions. Thailand stores continue to go from 3 stores to 14 stores. In Brazil, we went from 1 store to 7 stores and we entered new countries such as Korea, Italy and Belgium, so it is a matter of pride that Chennai where we make our motorcycles also has the largest Korean population and we actually export motorcycles from here directly to Korea.

Some of you had separately asked us about BS-VI transition and how that went. We very well managed. We successfully completed the BS-VI migration. We have already got the new variants of Classic and Himalayan that were done and they are received very well by customers. Our BS-VI share of Q4 retail was greater than 60% so almost two third of the vehicles that we sold or the bikes that we sold in Q4 were BS-VI and we were the first amongst the OEMs to completely sell off all of the BS-IV stock with no additional incentives and we did that well ahead of the deadline of March 31, 2020 and we had no inventory that we had to worry about towards the end, fortunately that helped us with the COVID-19 situation also.

We did do end-of-production limited edition motorcycle called Classic 500 Tribute Black. It was launched online, and I am one of the proud owners also. We sold over 300 motorcycles within 180 minutes of sale. We started and in 180 minutes we were done, 300 were sold.

So on the COVID stuff, taking the cue from what Siddhartha mentioned earlier, resuming operations, we are seeing our entire business activities returning to near normalcy. We did a press release just a day or 2 ago saying 85% to 90% of the dealerships are open and our bookings are now near pre-COVID levels. We have provided support to the entire ecosystem including customers, workforce, dealers and vendors. Some simple things that we did are we extended the free service and warranty till July, even if they expired during the lockdown. All the advanced payments from the dealers and any pending claims were cleared. We returned the advances to the dealers. We made payments to all the vendors as per the payment schedule.



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During this downturn, we significantly enhanced our digital engagement and we are now rated among the top 10 engaging brands in India higher than even Amazon Prime, which was surprising. We launched the Slide School just outside of Bengaluru and that is showing very good results in the short run. So I will hand it back over to Siddhartha Lal for now to talk about the VECV. Siddhartha over to you!

Siddhartha Lal:

Yes. Thank you Vinod and operator in case there is a problem one way or the other you can transfer it to the other person, so you can get Vinod or me to talk instead. On VECV, we had to give you the overall financial and business updates, the revenue for Q4 was at Rs. 2,101 Crores, which is down 35% and for the full year it was Rs. 8,524 Crores, down 27%. Of course some of this was due to COVID, but a lot of this was due to the general downturn in CV industry. The EBITDA for the quarter was at Rs. 38 Crores, which is down significantly 86% and for the year it is down 59% to Rs. 401 Crores, so that is the EBITDA for the year of 2019-20. Profit after tax in Q4 there was actually a loss of Rs. 26 Crores and for the full year there was a profit of Rs. 58 Crores, down 88% from the previous year. So we have just held our heads above water in VECV for the previous year. Total sales for Q4 was at 11,600 units, down 45%, for the full year we were close to 48,700 units, down 33% from 73,000 approximately last year. So we did slightly better than the 40% drop in the industry, so we were down 33%, but of course it is a huge industry drop also, which is the main reason for the drop here.

The CV industry was the worst hit in the entire automotive sector and the outbreak of Corona has further deteriorated the situation for CV industry, which was already reeling under the impact of economic slowdown and change in axle norms and other issues that had come up and there was also no meaningful additional demand or support to demand from pre-buying due to BS-VI transition, so we had expected some additional prebuying because the costs were scheduled to go up in BS-VI, but that did not happen either.

On the BS-VI transition, in line with our endeavors of VECV, we have a very firm idea of modernizing commercial transportation in India and developing countries, so our new BS-VI solutions, which is the EUTECH 6, is the most comprehensive and innovative solution for customers. We transitioned the entire portfolio from 4.9 tonnes to 55 tonnes, so our entire portfolio was transitioned to BS-VI and the new platform combines VECV's Euro 6 expertise with the most reliable engine technology and fuel-efficient guidelines. We are very excited about it. Our inventory of BS-IV was managed optimally even despite the Coronavirus issue we were still able to have smooth liquidation of the entire stock.



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In addition to that, in VECV we have introduced uptime centers to improve productivity and increase fuel efficiency of our vehicles. These uptime centers provided 24x7 support in service including remote diagnostics to offer superior uptime experience for Eicher customers. So we are using telematics, we are using remote sensing, etc., in order to do all this. We monitor vehicles and we are analyzing the data to suggest steps to improve the efficiency also and that really come in very handy and the customers are really happy with our support on these matters. So that is again in our bid to modernize commercial transportation in India, which we believe is very far behind in modernity.

Particular to the COVID update, VECV has provided support to all of our stakeholders in ways very similar to Royal Enfield. It includes extension of warranty, free service, annual maintenance contracts additional for 2 months across our product portfolio. We have provided support to dealers through the extension of credit period and suppliers by making payments on time to them so that they can survive really and of course the Eicher Group foundation, which I talked about in the beginning it is part of VECV and EML both contribute to Eicher Group foundation so that work we are doing is joint from VECV and EML.

To conclude, we remain optimistic and strong in the face of all the challenges that we have. We have built our business on extremely sound foundations. I am talking about now EML as a whole. EML as a whole we have always been asked about this cash position that we have, but this extremely strong balance sheet that we have held in many years now that has come to pay enormous dividends in times like crisis, which we have right now where we are able to weather the storm without any problems. We are able to get pass it, of course we will take a hit in profitability, etc., but at least there is no fundamental issues. There are no existential issues at all as far as EML is concerned. We can still pay all our bills and we can look forward and we can look at continuing investing in areas where I suspect some people are cutting investments and we feel long-term investments are continued to be necessary. We have an extremely robust and tight business model where cash is kept very tight and that helps us also tremendously in trouble times like this. We have an extremely focused approach in EML and I can certainly say the best management team in automotive in India, there is absolutely no question about it. So with all of that I think all these points have really helped us tremendously in being calm in these crazy times with these storms, which can really hurt other companies perhaps, but we have really been able to face these challenges well and get our head to the ground, make sure things happen, make sure that we respond well and quickly and it really gives us a lot of confidence that we will emerge extremely strong and much stronger from this crisis.



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So while there is enormous crisis we are looking at how to do well and the opportunity in that, but before we start the question and answer session I would also like to make a quick announcement and introduction. As all of you know Lalit Malik very well and you have talked to him many times. Lalit has spent now 10 years as CFO of EML and he has been by my side and really helped in the entire growth story that we have had over the last 10 years. In the last year, Lalit has actually been playing two roles as both CFO and as Chief Commercial Officer of Royal Enfield, so he has taken over that mantle over a year ago and that is a transition that we had planned and now Lalit as of today he assumes full responsibility of business marketing as Chief Commercial Officer and going forward he will be able to focus his energies on the commercial aspect of business development, marketing, sales, all the geographies come under him of course as they have been for a year now and while we are doing that we are really happy to welcome Kaleesh. Kaleeswaran Arunachalam is our new CFO of Eicher Motors, he has joined us recently and remotely been working, but we have all got very integrated with Kaleesh. He has worked with a variety of industries in the past many years from retail to lifestyle to automobile, food and beverage he has got a lot of width and he has got experience of over 17 years and he has been instrumental in transforming his last organization, Future Lifestyle Fashions Limited as a market leader in its segment and we believe it is a very exciting time for us at Eicher Motors and we are really happy to bring Kaleesh on Board. Kaleesh would you like to say a few words?

Kaleeswaran A: Thanks Sid. Thanks for the introduction. Hello and good evening to everyone. It is an absolute honor and a privilege in joining Eicher Motors as a CFO. I look forward to working with the entire Eicher leadership team and management and thereby contributing towards Eicher's journey in creating value for all the stakeholders. Thank you.

Moderator: Thank you. So shall we start with the Q&A?

Siddhartha Lal: Yes, please.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: My first question is directed towards Lalit and Kaleesh as it pertains to the quarterly financials. I was just watching that between the March and the September quarter, the volumes were more or less the same, the revenue, the topline was more or less the same, but the margins are like 420 bps apart with March being the much lower number and I understand the BS-VI transition and the 200 bps hit to gross margin in percentage terms, but



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just curious what is driving employee expenses up so much higher in a quarter like this and same as the case with other expenditure. If you can just talk about that and whether this is a new level of expenses for staff and other expenditure going forward.

Lalit Malik:

So Q4, Kaleesh had not joined, so I will take that Pramod. Not exactly the month of September, but pretty much after that we began the progression towards the BS-VI in terms of model by model, SKU by SKU and changeover began to happen. Now as opposed to the old UCE platform of BS-IV, the BS-VI yet, there are some of the pricing, the full impact of the BS-VI has not been transferred over here and going forward that will transfer over time so that was the reason number one. Q4 specifically had a few one-offs. So number one as you would have read over a few weeks back, we issued a press release talking about the recall of brake calipers in a few countries in Europe and US specifically and a bit in Korea as well and this is largely on account of Twins and Himalayan. So there is a bit of a provision over that. We do expect a large part of this coverage will come through insurance, but on our own we have taken a provision. We also in Q4 saw a lot of volatility in the foreign exchange in some of our existential geographies particularly in Latin America and particularly in that Latin America – Brazil, in which we have our own company and therefore these kind of exposures tend to be a little accentuated at times. So the impact of all these put together is about Rs. 50 odd Crores, both these things I put together and that is really one-off because foreign exchange will be moving up and down, but it moved quite sharply in Q4 of these. So both the things put together plus the general transition that we have graduated, we have decided to graduate the pricing impact of BS-VI in overtime and not like one go this is what we are looking at.

Pramod Kumar:

None of this would impact the employee expenses I guess right?

Lalit Malik:

So employee expense is a full-time impact of last year. We gave the ESOPs, there is a cost to it and so on and so forth. If you look at the number of employees, sheer number of employees, blue collar, white collar, these are all put together they are actually coming down.

Pramod Kumar:

Okay and the expenses, which you called out the provision for the recall and also the volatility on forex is all in other expenditure side is that understanding right?

Lalit Malik:

Yes, go ahead.



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Pramod Kumar: Because if I adjust for that then the margins look much, much better at 23.1% even with the under recovery on BS-VI, which I am pretty sure you took up prices up in April and if you can quantify that?

Lalit Malik: Yes. So we did about Rs. 3,000 price increase in April, but that is price to the customer so what we get will be slightly lower than that, so it does not fully cover for the cost all put together.

Pramod Kumar: Okay. Now my second question is to you again as a Chief Commercial Officer. If you can just help us understand on the demand situation because you did call out in your monthly release that towards the end of May, demand or in terms of booking run rates were as good as the pre-COVID levels, but I guess that would be also because of the extended or the higher elevated voucher scheme what you were running that has kind of come down now, so if you can just characterize how is demand looking post that and if you can quantify the order book what you are working with in the current environment and general other broad demand trends what you see with all your dealerships practically coming back online so if you can just share some color on these points, Lalit?

Lalit Malik: Give or take, as you see over 90% of the dealerships are like physically open. It does not mean everywhere the customer walk-in is happening like in the previous days. North zone and south zone are kind of back on track reasonably in these, but the west is still yet to pull-through. So Gujarat, Maharashtra and they are still lagging a bit, but India all put together we are doing I think reasonably well. Now how long the demand will last, pent-up demand is that, that is all speculative, but as we speak I think we are reasonably pleased about the flow of bookings that right now we are measuring so that is happening. The customer scheme is not really a giveaway. Basically large part of the scheme is built on extended warranty. So we want to give a double comfort to the customers on the buying of the product and all the stuff, so a few of them, all the platform moved to BS-VI, so that has of course been more than half now from June 1, 2020. So that scheme lasted only for like 10 days, 12 days, but even having more than half the scheme there is no dip in run rate and June is typically the weakest month of the year in terms of sales and so on and so forth, it is hot and all the stuff, so the walk-throughs are pretty low. Online inquiries and online fulfillment has begun to pick up reasonably well, in fact quite sharply, but even these are early trends, who know whether it will last, till the end of June or next month and so on and so forth, but for now I think it is something to be reasonably satisfied about.

Pramod Kumar: Thanks a lot and I will come back in the queue, I have a question for Siddhartha on the new platform and hope to be back in the queue and thanks a lot.



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

Gunjan Prithyani: Two questions from my side. Firstly, just clarification on the margin. So you did mention that around two third of the volumes are now coming from BS-VI models. So if I look into FY21, we still have some more impact from BS-VI yet to come. Is that a fair assumption?

Lalit Malik: No. The whole platform moved to BS-VI by the end of March. What Vinod was referring to is that 60% of the retails, but the wholesale number was slightly higher than that, but we moved entirely I don't think anybody in the country is selling any BS-IV now.

Gunjan Prithyani: No, I meant from the wholesale perspective the volumes that you would have done in this quarter let us say 70%, 75% would have been BS-VI so if there is still some more impact that you see when the full transition in wholesale is fully reflected in FY21, I am just trying to understand the...

Lalit Malik: These are moving trends. So the launch price of BS-VI was x. That launch price of BS-VI and this is through the Q4. The launch price is kind of we upped it by Rs. 3,000 at the end of March, basically April 1, 2020, so these are moving trends. So it will improve as time goes by is all I can say it is over the next few quarters and all. We are not too fussed about it because with all the price increases this that and the other also the demand has not ebbed a bit.

Gunjan Prithyani: Okay. Got it and the second question is more to get the color on the demand if you can share some sense on typically for RE what is the mix like upgrade replacement in first time because given that we are coming out of such an uncertain environment to see bookings going back to pre-COVID levels is actually quite pleasing the general perception would be that this is an upgrade demand, which would come after some time or would get deferred so what are your thoughts around and if you can share the mix of the demand?

Lalit Malik: So number one, our replacement demand is like the replacement numbers for all these years are very low they are not even 5%. We are an upgrading company, people upgrade from wherever they are into us, the first time motorcyclist that number is also shy of 10% it is in singles. So really the moving part of the company is coming from somewhere so pretty much all the chaps that you are speaking of right now the customers who are booking and buying since the lockdown opened, a very high percentage is upgraders.



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- Gunjan Prithyani:** Just one question to Mr. Dasari. Now given the whole environment being so uncertain is there any review to the distribution expansion on the Studio Stores that we have been looking at for the last two, three quarters, any review to that Studio Store expansion program?
- Vinod K. Dasari:** No. I think we will continue with that because those are relatively low cost. Studio Store costs about one tenth of what a large-format store would cost so at times like uncertainty if you can expand your network with relatively small investments that is the best way to do. So I think we will continue our journey of expansion of this.
- Gunjan Prithyani:** We are still looking at the similar numbers that we were guiding to and 600 is what we finished the year with right?
- Vinod K. Dasari:** Yes, we added 600 and so I believe Lalit is planning to add at least as many this year. Correct Lalit?
- Lalit Malik:** Thereabout. We will keep you posted each quarter end do not worry about it, but the plan is to expand them. We have not stopped or stalled it.
- Gunjan Prithyani:** Okay, got it. I will join back in the queue.
- Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.
- Jinesh K. Gandhi:** My question pertains to the demand environment, which you indicated has seen a good recovery post-COVID. First is what would be the status of our manufacturing operations in terms of the level of utilization you are operating and in turn would it mean that the supply side shortage will lead to a waiting period for the next few months?
- Lalit Malik:** While there is a sharp increase in the demand for the bike, demand as in the booking for the bike and the whole commercial demand cycle that is going on pretty well at this point in time and like I said no who knows what happens over the next few weeks. On the supply side things are all a little wobblier than this. The supply chain is still picking up it is I would not say there is any degree of strong robustness built behind it. All the major auto hubs, Pune-Aurangabad belt, the NCR belt, Hosur-Chennai belt, they are all shaping up, but it is not as strong. For a large part of the sales, we had to dip into our stocks, which in any case were not very high. I do not think it is happening in a hurry that will take time.



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- Jinesh K. Gandhi:** Okay. So we would be about 30%, 40% right now or lower than that?
- Lalit Malik:** We are about 40%, yes.
- Jinesh K. Gandhi:** Second question pertains to our capex for FY21 considering the product launches, which you plan over the next couple of years, so do you expect that number to be substantially lower than what you have done in FY20?
- Lalit Malik:** So you said about capex?
- Jinesh K. Gandhi:** Capex right.
- Lalit Malik:** It is not going to be substantially lower. All the big projects are physically done. The Vallam manufacturing facility, Oragadam of course we have done many years back, the UK Technology Centre and all that so there is nothing more to be in the big capacity planning, but then of course there is other things to be done on the product side, supporting the product, the manufacturing link costs with respect to the new products so some of that will come through. It will be marginally maybe lower than last year, but I think after that unless the demand goes through the roof by the end of the year and there is no need for new capacity to be built up unless that happens assuming that is not happening year after beyond 2021 so the year 2021-22 you can see the capex kind of going down.
- Siddhartha Lal:** Yes. So let us say, from a RE perspective the majority of the infrastructure work is now behind us there is some balancing stuff to be done this year to finish off some of that, but from a headquarter perspective in Chennai, from a PD center in our UKTC, from plants, I think we are by and large done except for some overflow, which has happened from last year and now it is really largely on the product side so the products is where the investments are going to come in, but the infrastructure part is largely over.
- Jinesh K. Gandhi:** So FY21 would be under Rs.500 Crores or thereabout?
- Lalit Malik:** It will be broadly in line with last year only, last year 2019-20.
- Jinesh K. Gandhi:** Understood and lastly the BS-VI related cost pass through have we entirely passed on the cost but without loading it to margins or how it is now?



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- Lalit Malik:** So barring a SKU here and a SKU there, largely the costs have been passed on. In most cases cost plus has been passed on, so it is all there, at a blended level I still think there are some more opportunities left to pass on the cost plus the margins.
- Jinesh K. Gandhi:** This is after the April price increase?
- Lalit Malik:** Yes.
- Jinesh K. Gandhi:** Thanks and all the best. I will come back in queue.
- Moderator:** Thank you. The next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.
- Binay Singh:** Just a clarification. When you said that sales are back to pre-COVID level that comment is for national level sales, not regional is that correct?
- Lalit Malik:** Yes.
- Vinod K. Dasari:** It is not sales it is bookings.
- Binay Singh:** Okay. Your bookings for June are similar to the bookings that you were having pre-COVID?
- Lalit Malik:** Correct. Give or take in the last many months pre-COVID and all our sales was about 60,000 give or take.
- Binay Singh:** Correct. So any comment on how the sales are?
- Lalit Malik:** There is no problem over there. There are no big cancellations on the bookings and all the stuff. So the sales is a reflection of whether the right SKU was there for the customer or was it somewhere else that had to be shipped from Chennai or some of the depots, those kind of things are kind of happening.
- Binay Singh:** In terms of the two expenses that you talked about, the recall and the currency impact, could you break that up into Rs. 50 Crores and how much was the recall and how much was the FX impact?
- Lalit Malik:** Rs. 50 Crores that should be fine since lot of breakup I do not think I need to do.



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- Binay Singh:** Only my line of thought was that as the business will expand more and more into international markets, currency exposure like we have seen with Bajaj, it sort of plays out every once in a year this always plays out whereas a recall kind of an expense is actually the more one-off expense for the business, but nonetheless moving on to the new platform launch that is targeted this year is that plan on track anything more that you can share about that?
- Vinod K. Dasari:** All the plans were slightly delayed, the first launch is slightly delayed, but that does not mean subsequent launches will be delayed. So it is delayed only because of the fact that of COVID so we will start launching them from next quarter onwards or this coming quarter onwards and we practically have a new product almost one every quarter.
- Binay Singh:** Right and typically like in autos and generally when we have seen that when a new platform comes in the cost of vehicle also ends up being higher, so any thoughts on how to think about margins for this year or EBITDA per unit, which I think is more relevant given all the changes this year?
- Vinod K. Dasari:** I do not agree that cost necessarily needs to be higher for new models.
- Binay Singh:** Okay, but any comments in general on EBITDA per unit for the year?
- Vinod K. Dasari:** Sorry, EBITDA per unit?
- Binay Singh:** Yes. In terms of profitability, anything that, now we have taken most of the cost hikes so to an extent shall we assume that your EBITDA per unit should go back to pre sort of March levels in the coming quarters if the volumes go back to the same level?
- Vinod K. Dasari:** If the volumes go back to that level, I would assume so and there are so many variables in that question, it is input cost, it is the volume levels, it is the mix, it is the pricing that if the demand is really good so several elements to it, but if the volumes do go back up to previous levels let us say to March levels then or just March quarter levels then we hope that our EBITDA will also come back to that level.
- Binay Singh:** Right. Thanks a lot for that.
- Lalit Malik:** So Binay, it may be boring for you, but this call was only for Q4 of last year. Q1, Q2, Q3 we will talk, hold on, just a year to move on.



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- Binay Singh:** Thanks.
- Moderator:** Thank you. The next question is from the line of Raghunandhan from Emkay Global. Please go ahead.
- Raghunandhan:** Sir, firstly, based on the initial booking trends, which customer segments are doing well, farmers, self-employed, business community, salaried class any color you can provide and also anything you can specify as to which regions are seeing the pickup and where there is a lag?
- Lalit Malik:** So let me discuss many times in the past we look at customer segments into just two, one is self-employed/ business clients/ this, that and the other and one is salaried class, now both of them are doing well in our case at least. On the regions we said mostly stores opening 90% have been opened now so it is just a matter of time where we reach our normal levels everywhere so there is nothing to differentiate and there is no point of view over there.
- Raghunandhan:** Just one clarification on your earlier comment. Within the employee cost like how much is the one-off and what is the sustainable rate there?
- Lalit Malik:** There is no one-off like I am saying our gross total of number of employees over the last year has come down obviously because there was slippage in the volume through the year more towards the end of the year and so on and so forth. So you will see improved employee costs and all the stuff in the quarters to come. I do not think there is one-off over there. The one-off I have already spoken to you they are more like in the overhead side.
- Raghunandhan:** Understood. Just one last question. In future product launches is one focus area and one product every quarter for the next three years is the kind of expectation. Can you give some color on the upcoming products?
- Vinod K. Dasari:** Like Lalit said this is about last quarter's discussion so I do not think I should be talking about future products. You will get to see them.
- Raghunandhan:** Sure Sir, we will wait for that. Thank you.
- Moderator:** Thank you. The next question is from the line of Kapil Singh from Nomura. Please go ahead.



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Kapil R. Singh: Just one question on if you do some crystal ball gazing over the next four, five years given you have talked about a lot of new launches coming up, if I were to talk of three broad segments, Bullet, Classic and more than 350cc, how do you think the portfolio evolves taking into account the products that you are going to launch over the next four, five years, will it broadly remain the same or do you expect some one particular part of it to get bigger in percentage terms?

Lalit Malik: So our profile is look these are what we are right. I mean the kind of motorcycles we make, we will stick to that. The larger the range that we have spoken about so many times in the past, mid-sized motorcycles 250cc and 750cc, in that 10 years back we had just one kind of motorcycle of course there was a Thunderbird and there was Bullet, right and so more commuter-oriented bike one was that launched and then we moved on to all the other categories of motorcycling. Just look at where we have come from where from being a largely Bullet company in 2009 and Thunderbird was also there, but it was in lesser numbers, to then having of course a revamped Thunderbird, Himalayan you can call it whatever you want to call it in terms of the category of motorcycle, but it is really created its own market that is the most important thing there. Is the product in terms of motorcycling, in terms of the cc of the engine, all these parameters put together, is it just one of the many or is it trying to create a break-through and create an opening for us in terms of the market. Who knew Himalayan will do so well outside of the country also, it was not even thought through that we will do it in mainland country. So we will cover all the stuff that we would possibly do over the four, five years because as you know the long period of time there is nothing over there in which our boundary, within the boundary condition that we have as a brand and of cc range and so on and so forth that we will not do and you will see that in the next two, three years I think we will give you a pretty good indication that we are not missing out on anything that we believe Royal Enfield bike platforms can do.

Siddhartha Lal: Let me add in here and this is so on the mid-size that is pretty much for certain for the next five, seven years that we will remain in mid-sized category, which is what we are in right now. Again all the other aspects as Lalit said are true, but in context the back-end context of that is that a business model is such that firstly in India we believe that people are moving up to mid-size and people will over time increasingly move up to bikes that can do more than just commuting for them, so we have tens of millions of commuters, maybe 50 million, 60 million, 70 million commuters in India on two wheelers they will want to move up to beyond just commuting and that is where we come in. So we are in the category, which is just beyond pure commuting so we will provide much more than that so that is what and then from a business model perspective, from our vision perspective where we say we want



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to become a global motorcycle manufacturer, it always comes back to that we will make motorcycles that will be globally relevant, but they will also have to be relevant in India. We will never make a motorcycle, so for example the Twins, they were 650cc and not 1000cc, for example, largely because we will show that in India 1000cc will not fly, it will not, in very small numbers maybe, but not in anything, which will give us scale, so we are always after scale in any platform that we enter and if you want scale, India has to be an important part for the next five, seven years for sure and that is why this whole product mix is geared there. It is also geared so that we create our own markets rather than trying to compete head on with other people because we like to move the market to where we are. So Himalayan is a case in point, which Lalit said where customers have moved to Himalayan because it was an open segment, which we created, so we are seeing opportunities across the board in many different aspects where they are underserved, where there is natural progression for people to come up and those are the markets we are serving and fortunately, for us those are working for us in India, they are working for us in developing countries, they are working for us in developed countries. So Himalayan is a case in point, Twins are a case in point, Classic was the original case in point where it had a relevance in multiple markets so that is the sort of general outlook that we have and it is a business-oriented outlook, but obviously with margins, with the brand and everything else put together.

Kapil R. Singh:

Thank you so much, it is very detailed. Thank you so much.

Moderator:

Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments.

Lalit Malik:

Thank you very much. I think Siddhartha and Vinod in the opening comments covered it all. Thanks a lot for joining in. Take care.

Siddhartha Lal:

Yes, thank you all so much for joining in and all the best to you and your families.

Vinod K. Dasari:

Thank you. Please stay safe.

Moderator:

Thank you very much Sir. Ladies and gentlemen, on behalf of ICICI Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.