



**“Eicher Motors Limited
Q4 & FY 2020-21 Earnings Conference Call”**

May 27, 2021



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Raghunandhan: Good evening. ladies and gentlemen. Regret the delay in commencement of the call. On behalf of Emkay Global Financial Services, I take the opportunity to welcome you all to Eicher Motors Q4 FY2021 and full year FY2021 Earnings Call Webinar. From the management team, we have Mr. Siddhartha Lal, MD of Eicher Motors, Mr. Vinod Dasari, CEO of Royal Enfield, Mr. Kaleeswaran Arunachalam, CFO of Eicher Motors. We thank the management for providing us the opportunity to host the call. We request the management for opening remarks which can be followed by Q&A session. Over to you, Sir.

Siddhartha Lal: Hello, good evening everybody and sorry for holding up this call. Thank you very much Emkay for having this call and I hope all of you are safe and healthy and your families too. And welcome to the Q4 and FY 2020-21 Earnings Call for Eicher Motors Limited. After soft start to the year, the automotive industry did witness a good pickup in demand as the economy started opening-up and the COVID situation began to ease during the latter part of the year. Buoying demand both from rural and urban segments, also supported by preference for personal mobility, helped the motorcycle industry register a strong growth of 20% in the second half of 2020-21 over the same period in 2019-20. A faster recovery in demand and excellent response to the launch of our all new Meteor 350 resulted in a very strong order book for Royal Enfield. Our international markets too showed good recovery as the Americas region recorded a double-digit growth in a very tough year. The truck industry also showed equal resilience with great recovery seen in the latter half of the year. VECV, our joint venture with Volvo, gained market share across segments. In the heavy duty segment, we grew by 6% in 2020-21, while the industry declined by 21% and we achieved our highest ever market share of 7% in the heavy-duty segment.

Now, in the wake of the emergence of the second wave of COVID in India, we expect the near-term demand and supply situation to be volatile in the industry. We continue to monitor the situation. Overall, we are confident of our strong business fundamentals to be able to withstand such headwinds.

Last year we committed Rs 50 crores for COVID relief and rehabilitation and we have committed an additional Rs 20 crores recently. We are working with state governments, district administrators and hospitals to provide medical equipment, medicines, and other medical consumables to aid quick response.

An update on the financials for the fourth quarter and for the financial year ended in March 2020-21. We are happy to report a good quarter with significant growth across key financials. Our revenue for Q4 was the highest ever revenue for EML at Rs 2,940 crores, up 33% from Rs 2,208 crores last year. For the full year, our revenue was Rs 8,720 crores, which was down 5% from Rs 9,154 crores last year, largely due to a very curtailed Q1 due to the first COVID situation. Our EBITDA for Q4 was at Rs 634



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crores up 47% from Rs 432 crores last year. And for the full year, our EBITDA was at Rs 1,781 crores, down 18% from Rs 2,180 crores last year. EBITDA margin for Q4 was at 21.6% against 19.6% last year and 25% YoY increase in volumes and for financial year, it was 20.4% against 23.8% last year, which was due to 13% decline in volumes. Overall, our profit after tax for Q4 was at Rs 526 crores, up 73% from Rs 304 crores. For the financial year, our profit after tax was Rs 1,347 crores, down 26% from Rs 1,827 crores last year. So that's the overall financials and update. I hand over to Mr. Vinod Dasari, the CEO of Royal Enfield to give an update on Royal Enfield.

Vinod Dasari:

Thank you, Siddhartha. Let me give you an update on Royal Enfield for Q4 and FY2021. In Q4, we sold 203,000 motorcycles which is up about 25% over last year. Our exports were up 72% at 13,700. It has got strong response from across the geographies. The launch of Meteor helped, as well as the network expansion. In India, the demand momentum continued to be strong across the country and Meteor significantly helped create an uplift in the market. For the full year, we sold 609,000 motorcycles, down 13% from 698,000 that we had done last year. Exports were down 8% at 35,700. America's region however performed extremely well. You will remember that there were lesser lockdowns in Americas, whereas there were significantly higher lockdowns in Europe. We had double-digit growth in Americas. Demand also swiftly came back in India as total bookings compared to year to year, we almost made up, actually exceeded the number of bookings for the full year. Our sales were little lower due to the gradual ramp-up and the supply chain constraints that we faced. Overall, though, in production in Q4, our production run rate remained quite steady. With the great demand that we were seeing for Meteor, we ramped up the production and it helped reduce the waiting period which had gone as high as six months; it has come down a bit. Supply situation of certain electronic parts which you have been reading across the industry in certain commodities remain quite volatile. Prices of some of the commodities including precious metals has put some pressure on the profitability for sure. We worked with suppliers to secure availability of parts to ensure continuity of production, continue to produce at a decent pitch, not where we want to be, but not completely shut down either. We have taken about 3-8% price hike across models since January. We will continue to look at that and if more needs to be done, more will be done.

In India, we expanded our network significantly. We added a total footprint, now it's about 1,500 stores in 1,200 cities. So now, we crossed over 2,056 stores. We added 104 large-sized stores. Large stores itself is more than a 1,000. If you recall, we launched the studio store concept just a year ago and happy that we have crossed a 1,000 overall. We have added 430 just in the last one year despite all the lockdowns. Outside India also we continued our rapid expansion in international markets with exclusive stores count now going from 77 stores in 21 countries to 132 stores in 26 countries. We saw a lot of expansion in France, Thailand, Brazil and Argentina. Equally we entered new markets. We became the



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first automobile company from India to have a store in the middle of Japan in Tokyo, Cambodia, Costa Rica, Dominican Republic and we opened a CKD facility in Argentina.

The biggest story of last year, of course, was Meteor, in line with our plans to expand our product portfolio in the global middle-weight segment. This was perfect for it. We launched it last November 2020. It has won almost every single award that is there that I can think of in the auto industry and it has won India's most prestigious award, 'The Motorcycle Of The Year'. We won the 'Best Classic Award' in Thailand, 'the Bike of the Year Awards'. It's truly a next-generation platform in the cruiser segments, redefines the riding experience. It has received fantastic response and feedback from customers and community and the level of refinement that we have done, the engine, as well as the riding comfort. It's launched now in US, UK, Europe and Asia-Pacific, now it's coming up in LATAM. It has truly helped us expand the cruiser segment in India and it's growing our presence in global markets as well.

But it's not just what we launched. It's also how we launched. With Make It Yours, that became an industry first or it was an industry first, became an industry leader, creating a paradigm shift in the customer purchased journey. It allows customers to personalize, expand and accessorize the motorcycle to their desire from hundreds of thousands of potential options. All of our 2,000 plus stores are now MiY enabled, as we call it, Make It Yours. Large part of our is now moving to MiY with Classic, Meteor, Himalayan and Twins. And slowly, we have seen the penetration of MiY, is now as high as 80% indicating that the customer loves these additional choices. The added advantage is because of this MiY, the accessory level that used to be at about 30%-40% penetration is now as high as 70% penetration of accessory sales.

Equally on the after-sales, we focused on providing a smooth and hassle-free riding experience. We created better access through service, series of service intervention through launch of Service On Wheels which has more than 800 of them, a new RE mechanic app that we talked about when we launched the Meteor, 13 mobile service trucks, tied up with a leading taxi-bike company so that we could offer pickup and drop. All these have really helped enhance customer satisfaction and give the customer a peace of mind.

We launched the Himalayan as a refresh, in 3 new colors, a host of upgrades including the Tripper Navigation. In the short span of 5 years, Himalayan has opened-up a whole new category in the Global Adventures Arena. It's now one of our top five selling models in Europe. Not just for us, it's among all top selling models in US and Europe. And pretty simple versatile bike, which is true of all Royal Enfield. It is authentic and simple and pure. Equally, we launched new colors on the 650 Twins. As we introduced the MiY, we launched it in 9 new colors on the Interceptor and the Continental. And



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along with that is a whole bunch of accessorizing options we provided so that it helps the customer personalize it as much as they can.

We continued our process of significant and substantial digital transformation. With the pandemic, I think it has really given this a boost. We have expedited some other work. We now have almost 8 million strong, vibrant online community. The share of online inquiry increased over 2.5 times and the share of online bookings has gone up over 5 times, given the conversion rate increase also that we see. Website visits have gone up to almost 66 million in 2021. Imagine that was 29 million just a year ago. Royal Enfield's share in the voice in the 125cc and higher segments has gone up by 6% to about 29%.

But nurturing the true spirit of pure motorcycling and self-expression that has been our constant endeavor and to celebrate the spirit of customization, we introduced new initiatives, especially the Build Your Own Legend and the Style Your Own initiatives that work for next generation of designers and motorcycle enthusiasts. And in our endeavor to build the riding culture globally, we launched our first ever Riders Club of Europe and this club shares programs, rides everywhere, brand experience.

But all in all, we were very focused on making sure that not only ours, but our entire community of riders and suppliers and dealers were supported well with the COVID-2 initiative. So, reiterating Siddhartha's point on the reoccurrence of COVID-led disruption, we will continue to monitor the situation as it evolves and try to mitigate its impact. We will continue to focus on providing the care and support to our employees, our dealers and our suppliers and our customers. The first half of this year is expected to be soft because there is lockdown everywhere in the country as you are aware. And the second half, hopefully I think, the curve will flatten out by June, middle of June or end of June, already you are seeing improvements in Delhi and Mumbai. So, hopefully from July onwards, the latter part of June, it should start to come back strongly. So, with that, I will handover to Siddhartha.

Siddhartha Lal:

Hi, again. I just want to cover the financials and business update of our joint venture with Volvo that's VE Commercial Vehicle Limited. The revenue for Q4 was at a high amount of Rs 3,602 crores so that's up 71% from Rs 2,100 plus crores last year. And for the full year, it was Rs 8,676 crores up 2% from last year. The EBITDA for Q4 was at Rs 320 crores which is up again substantially from Rs 37 crores last year. And for the financial year, the EBITDA was at Rs 592 crores up 43%. Overall, the EBITDA margin for the quarter was at 8.9% versus 1.8% last year and for the financial year it's 6.8% versus 4.9% in the previous year, largely due to improvement in realization and cost reduction measures. The profit after tax for Q4 was at Rs 127 crores against a loss of Rs 26 crores last year. And for the full year, profit after tax was at Rs 57 crores down 2% from Rs 58 crores last year.



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So, overall, the sales units for the quarters were at 18,200 trucks and buses, up 56% from last year. And for the full year, we were around 41,300 units, which is down 15% from the previous year. And that downturn, I'll say that the 15% decline in VECV was actually much better than the 30% decline in the industry. Thereby VECV gaining substantial market share in trucks and buses. VECV's export volume was up by 10% YoY as against the 29% drop in overall exports in 5 ton and above segment from India. So again increase in the export market share. The fourth quarter did start on a positive note, with more normalization of economic activities. We have witnessed significant recovery in the truck segment. We gained market share in FY21 across all segments in LMD from 29.8% that's light and medium duty trucks to 30.6%. In heavy duty segment, including Volvo trucks, so that's Eicher Plus Volvo trucks, from 5.9% to 7.9%, and that's getting to a very substantial or reasonable volume market share in India in heavy duty trucks. So, we are proud of that. In the bus segment from 14.1% to 19.9%. Our outperformance in market share was driven by successful introduction of BSVI range including industry leading product quality and focus on after-market, parts and availability. So, our BSVI range has really been an absolute standout range of products and we have managed that, I believe, much better than other manufacturers. And, as a result, we've been able to really gain share post BSVI introduction in India.

We have also significantly enhanced our customer connect through both digital platforms and physical meetings. So, there's been a lot of interaction happening now with our customers. We have got the industry's first Uptime Center and resulting in a much higher uptime of trucks and buses on the road. And that's been an enormous advantage now for VECV. The new range of trucks and buses is 100% connected. They're connected vehicles and connected to our servers. So, we are able to monitor on a real-time basis on what's going on all new BSVI trucks and buses. That's an enormous industry shift and change as well.

Well, again we currently experience the impact of the second wave of the pandemic with local lockdowns and increase in restrictions, we are confident that as the economy recovers, hopefully soon, the situation will normalize. Forecast of a good monsoon, government's focus on the infrastructure and positive policy stance should support the increased demand for commercial vehicles in the coming period. So that's all from us at EML. Back to you for questions. Thank you.

Raghunandhan:

Thank you Siddhartha. We will be opening the Q&A sessions for participants. Anyone who has a question, please use raise hand option. Participants request you to limit your questions to two per participant. Once the participant is called out, please unmute yourself to ask a question. As the question queue assembles, couple of questions from my side to Vinod.



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Firstly, can you give some color on current production situation? Easing of lockdown should drive a recovery, as you said from July onwards. Can you talk of ramp-up of production in the coming quarters? Whether it can move to over 80,000 per month in second half of the year? My second question is on the product pipeline, if you can provide some color, it will be helpful. Media reports highlight New Generation Classic, Hunter, Roadster, Shotgun, all of these seem extremely appealing. Thank you, Sir.

Vinod Dasari:

Thank you. I think there are 3 types of supply chain concerns that we are facing. One is that the global chip shortage that you heard about from other sources also which is slowly but surely improving. There are also lockdown related supply chain disruptions from Pune and Delhi belt that we were facing earlier. And third of course, was the sudden lockdown that was there in Tamil Nadu which was expected, not sudden, I should say. They still wanted auto industry to continue but suddenly they said two-wheelers are not allowed only buses are allowed. So, while we were able to handle it, some of our vendors were not able to handle it, and we also felt, it was the right thing to do, to shut down our plants. We shut it down for just three days - Thursday, Friday and Saturday. We will reopen on 31st May. As I mentioned earlier, we have enough backlog of demand, so the demand is not an issue. I think by the time production comes back, we will see a significant pent-up demand. So, I am hoping for much better things. Getting back to 80,000 is not an issue at all. I think we will easily get there as soon as some of the supply chain issues die down, I think we will get back to 80,000.

As far as new models are concerned, as I mentioned earlier, we have several new models being planned, once every quarter. I love the names that you are coming up with though. And the media keeps coming up with newer and newer names. Even before we name them, I think, we hear names from the media, so I can't exactly talk about which models and what names will come, but we have a very exciting pipeline. In fact, if I may say so, this year, will probably be the highest number of new models that you have ever seen from Royal Enfield being launched in a year and that's the beginning of the pipeline. There's a whole bunch that is happening and we are truly excited about it.

Raghunandhan:

Thank you, Vinod. Hoping to see those models. Next, we have a question from Kapil Singh from Nomura.

Kapil Singh:

Hi, Sir. I'll just pick on what you mentioned. You mentioned highest number of new models. You have been talking about one per quarter. So, what should we expect for this financial year and second, just from the production side, I mean, is there a thought here, because last year we were struggling all through to supply. During the period when we were not able to retail, we produced a bit extra and then sort of retailed it. So even if a retail network is not open you sort of produced more. And thirdly, just on the other expenses if you can give some comment because it is a bit on the higher side so if there is any one-off.



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- Vinod Dasari:** So, I captured three questions. One was on the product. Yes, we will continue to have one new model every quarter, just because there is a delay due to COVID right now, I don't think we will squeeze everything but there are some very big models coming in. We are very excited about it. We will have to do all the marketing and do all the market preparedness for that. As far as getting back to 80,000 per month, you just look at our Q4. We almost produced 210,000-220,000 at that point. And that was despite having some supply chain difficulties and all that. So getting back to that level or even higher is not an issue as far as I am concerned, especially in some of the other models where we used to have difficulties like Twins and Himalayans which do exceptionally well overseas, we've added capacities. Even on Meteor, our capacity was about 8,000-10,000, we upped it to around 15,000 and we were able to meet that quite well. So, I don't think once this lockdown is over the production constraints will be visible. We will be able to produce as much. And fortunately, we have a backlog, so we can continue to produce and by the time, just to get rid of the backlog or just to, not get rid, just to deliver as per the backlog it will take us at least two or three months, and by that time, I'm sure, there will be significant demand that will come back up. As far as overheads are concerned, Kaleesh you want to comment on it?
- Kaleeswaran A:** Yeah. Thanks, Vinod. So, as far as overheads are concerned, yes, there is about Rs 50 crores of one-off on that. On a steady state basis, you will see overheads to run around roughly Rs 290 crores which is in line with the Q3 run rate and lower than Q4 of last year, basis the cost initiatives that we have taken. Reason for the one-off largely is on account of one - we had a forex difference in Brazil. Going forward we are planning to set off this loan and pay off so that the forex difference will go away. Brazil was a volatile country for various reasons. And that's the call that we took by Q1 we should be able to pay that off. The second is a provision that we made for one of the vendors advances due to, on a conservative basis because the vendor has filed for NCLT. So, excluding that the run rate is pretty much in line with Q3 and slightly lower than Q4 of last year.
- Kapil Singh:** Okay, thank you. That's all from my side.
- Raghunandhan:** Thank you. Can we have the next question from Pramod?
- Pramod Kumar:** Hey, thanks a lot Raghu. And before I start the question, congratulations Siddhartha for the great turnaround of VECV. I think all the things you have been talking about the technology shift on BSVI is literally playing out both in terms of market share and margins. So, congrats on that count. And moving on, my question is pertaining to Royal Enfield largely. I just want to clarify Kaleesh, you said Rs 50 crores one-off in other expenditure line, I am right? Did I pick it up right?
- Kaleeswaran A:** Yeah, you picked it up right.



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Pramod Kumar: Okay. And most of them, kind of, should reverse out from next quarter onwards.

Kaleeswaran A: Yes. That's right.

Pramod Kumar: Okay, that's good to hear and Kaleesh, if you can just help us educate on the precious metal side. Because I believe, your precious metal intensity will be much higher than a conventional two-wheeler company or a small displacement company and prices have literally gone through the roof. So if you can just help us understand how is the precious metal situation for you and for Q4 perspective, how much of the current spot or where was Q4 in context of the current spot prices of precious metal and is there any scope for further optimization of precious metal where you can probably bring down Rhodium and make to do with other cheaper metals? So, if you can help us understand this precious metal bit Kaleesh.

Kaleeswaran A: Sure. Pramod to start with I think the journey of precious metal started via the transition that we made from the BSIV to BSVI. The consumption as such if you look at say a bike that is at 150cc or lower displacement compared to ours, we're about 30-35% more due to the segment that we operate, which is around 350cc to 650cc. So, there is one - 35% increase in consumption. And that 35% lion's share is attributable to one metal, which is Rhodium. And if you look at Rhodium specifically, the cost of Rhodium from where it was about a year back to now has notched up by almost 10x. So that's where you see the pressure on precious group of metals continues to be high in terms of cost, which is impacting the margins also. So, if you see from a Q4 perspective, the incremental trends have continued but not has been as severe as we have seen in Q2 or Q3 but at the same point of time, other base metals have caught up.

Vinod Dasari: Kaleeswaran A, can I add on the precious metals, please?

Kaleeswaran A: Sure, Vinod.

Vinod Dasari: I was just going to add while you're absolutely right that we were about 35% higher than the normal bike. Over the last nine months or so we worked significantly on our engine's emissions and how we place the exhaust, how we do the coating, how we do lots of other things. I don't want to get into the technical details. We did two projects, and together we were able to reduce the amount of Rhodium consumption by over 66%. And as a result, if you measure Rhodium usage by a Royal Enfield per cc. We are one of the industry's best, a global benchmark. So that's a recent achievement. It's not in the past but it will come in future engines, we will have lesser amount of Rhodium. Just, I thought I will add that.



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- Kaleeswaran A:** Thanks Vinod. That's the value engineering that I wanted to add in terms of what we have done on the precious group of metals. Price, from an industry perspective, we see it going northwards only at least from a near term perspective. So, if I look at say next 9-12 months, both base metals and precious group of metals would continue to go up. But having said that, if you look at a year that has been significantly tough from an external environment, we have been able to pass on the entire cost increase to the extent that is feasible. So, in the year, from an ASP to material cost, almost 12K increase on material cost has been passed on. On a like to like basis to where we were in YTD19-20 to where we are. Now coupled with the value engineering that we have done PGM, plus, in case, say for example, Q3, Q4 onwards, if there is a little bit of softening on commodity cost, we should be able to see benefits accruing, but that is something that we have to park it for another day to see, how does it move on.
- Pramod Kumar:** Thanks, Kaleesh. Second question is more for Siddhartha and Vinod. We have seen a substantial increase in the ASP of Royal Enfield. Lot of this has caused pressure right from ABS to EFI to precious metals now. But just wanted to think as to where do you think, you reach a point where pricing action incrementally could dent demand. The reason why I'm asking this is, that a lot of customers who buy Classic 350 which is our recruit brand, lot of them are probably moving from 150cc and the kind of price-gap, which is widening, right. And what we have seen is like the 650 Twins, for example, a phenomenal value proposition if you compare the pricing of those products with anything else in the market, but we are struggling to sell more than 1200-1300 units per month in this market with the phenomenal value proposition. So, I'm just trying to understand is there a point where you will have to probably start absorbing the cost inflation within so that you don't end up pushing the price too hard because part of this will reverse out with commodity easing eventually whereas reversal of price increases is not something which companies normally do. So, how do you think about this contrary and I'm personally, kind of, disappointed by the limited volumes success of what you see with the 650 Twins despite the phenomenal performance and the value proportion that they offer. Sorry for the long question, but if you can help us understand this, thank you.
- Vinod Dasari:** To answer your question directly, the 650 Twins reason you see lower volumes in India is because we exported a whole lot more. There is a seasonality of when you can export to US and Europe because of the winter months so we exported significantly more. So, we have a big backlog on Twins and I don't want to specifically comment on how much but the demand still continues to be there and once we get the refresh, and with MiY there seems to be continued interests in Twins. Sid, you want to add something to that.
- Siddhartha Lal:** So, Pramod, very wise question, of course, because that's obviously an enormous area of debate in company terms, in terms of what is the elasticity of price, right. And we are right now battling really unprecedented commodity cost increases and, that's an enormous question in a company and in all



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companies these days to see how much you can pass on, how much you can absorb, how much value engineering you can do. So, all of that is being dealt with in a very systematic, in a very scientific and in consumer understanding type of way to see that we can pass on the right amount of costs which the company has to bear. So that's really, you are absolutely right, that's a crucial thing. What that point is difficult to say, of course, we find ways to just try and proxy that and see whether we are breaking the back of demand. So, till now, I think we are progressing in the right way in terms of being able to balance, I say, the cost and the pricing. So, it's not substantially hurting us on a perspective that the customer himself says, 'Oh my God! This is now just way too much' and the demand falls off a cliff. And that's not happened at all.

On the 650s, Vinod has said it all, but I will just add one more point, is that we are long term players also. So, yes we are increasing and we are improving and we have got some order book but as you saw with the Himalayan, also, we had a couple of years, quite a few years, sort of, you know, let's say, it was not as per our expectations, the volumes, it was not much as we wanted, but we stuck with it, we did a lots of things. In that case, it was a lot of product improvement also. In Twins, that's not required. It's absolutely spot-on in every aspect required, but it takes time for consumers to rise up to a bigger capacity bike as well. So, we are going to continue to invest in the brand, we are going to continue to invest in becoming the absolute no questions asked biggest let's say, premium motorcycle. So, we're talking about Twins as premium, upper premium really. We have captured the entire market, entire means above 500cc. I think, we are most of the market already. So, all the international players who have come in, they're struggling. I think largely because of us, also because, we have just actually given such an amazing value, such an amazing motorcycle. So, more so we are going to continue to press on and continue to, and you know, we have 4-5 million customers on the roads and those customers are certainly going to, they're looking at upgrading. Now, sometimes the upgrade happens immediately, and we are seeing upgradation to 650s. But it will also take more time. But we have the consumer base. We have the brand. We are certainly on the right track.

Pramod Kumar: Thanks a lot Sir, take care. All the best.

Raghunandhan: Thanks, Pramod. Next, we have a question from Jinesh Gandhi. Jinesh can you go ahead?

Jinesh Gandhi: Yeah. Thanks. So, my first question is primarily on the price increases, which you have taken. So Kaleesh, can you clarify this Rs 12K increase which you are talking of is, this is January 2021 or this is for the financial year as a whole?

Kaleeswaran A: No, this is for the financial year as a whole, Jinesh.



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- Jinesh Gandhi:** Okay. And any sense on price increases since January?
- Kaleeswaran A:** So, we have done couple of increases between January to March also. And there has been more, there has been done in April too.
- Jinesh Gandhi:** Okay. And what will be quantum? That gets included in 12K right?
- Kaleeswaran A:** That's right. And 12K is not MRP. I was talking about the ASP so that has happened over a period of time in the last year.
- Jinesh Gandhi:** Right. Understood. Second question is for Vinod. So, you talked about auto-backlog of two-three months in the sense that you said it will be cleared in the next 2-3 months. Would it be fair to say this is largely for Meteor and the new models because Classic feedback from the ground is it was readily available or waiting of 7-10 days. Can you throw some color on what would this order backlog made up of?
- Vinod Dasari:** No. We don't like to give model-wise backlog. But I must at least tell you that this 2-3 month or more backlog that I said, it's spread across several models. I can't say any model which is not on backlog.
- Jinesh Gandhi:** Okay, right. And lastly with respect to the supply side issues. You talked about chip shortages. So, the supply side issues that you talked about chips shortage getting addressed slowly but some other issues coming in. So, would it be fair to say when you say supply, your new model launches are on track? This is after factoring in for the shortages or there could be some influence of shortages on your new launches?
- Vinod Dasari:** No, I think we will stick. New model launch development takes 3-5 years depending on the complexity of the vehicle. So, the models are ready, I want to be able to have a clear visibility of the supply chain so I can launch it in enough quantity and not be short of supply. So, may delay by a month or so but I don't see any massive changes because of that.
- Jinesh Gandhi:** Got it. Thanks, I'll come back in queue.
- Radhunandan:** Thanks, Jinesh. Can we have Pulkit Singhal next? Pulkit, please go ahead.
- Pulkit Singhal:** Yeah. Hi, thank you for taking my question. So the first question is just trying to understand the consumer sentiment impact that COVID could have this time, because it is lot more widespread and there have been lot more people that have passed away, and people have had to spend a lot more on medical expenditures also this time. So, can you help us understand whether this whole premiumization



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thing could get impacted because of COVID in your view. And have you seen any kind of regional variations in terms of, you know, either order cancellations in areas where there has been higher COVID impact etc?

Vinod Dasari:

First of all, it's absolutely terrible the kind of impact that COVID has had this time and even last time. This time it is for all of us, it seems like it hit home. Every one of us has lost a colleague or a family member or something like that or somebody we know. So, it's absolutely terrible, while it's a good thing that it's going away. People are getting vaccinated, even in Tamil Nadu, which was the last of the places where it was still growing. I think the curve as of this morning was that it's finally hit its peak and it's coming down. So hopefully in the next 2-3 weeks, it will go away. It's too early to say, what's the impact of COVID because markets have not opened-up. Maharashtra, Delhi, all of them, still continue to be in lock down. So, our dealerships are all closed. So, we don't know as of yet I don't think it will have that much of an impact, in the end. While there is a lot more grief and despair, there is lot more people who will continue to want to travel by motorcycles rather than take shared taxis or buses.

Pulkit Singhal:

Right, Sir. Second question and last one is on your distribution and expansion strategy. I mean, given your experience of the 2,000 stores currently, how do you look at expansion further on from here from next 2-3 years in terms of studio and large stores? And if you could share some of your learnings as well from the past expansion.

Vinod Dasari:

I think there is a combination of big stores and small stores depending on the capacity of that region to take it. Our focus is more on international expansion. The pace of expansion or the percentage growth is going to be happening much more internationally. So, if you see that, we had about 900 big stores and we went to order 1,000-1,056 or something. We had zero studio stores and we went to a 1,000. So now we have a good combination. And other than maybe one state, we have practically covered with our network expansion plan that we had. We will continue to do that as and when we create new models and there is more demand created from certain pockets, we will continue to add that. Equally, you know, slowly but surely there is a change happening that I see where people want to buy directly from the company, directly delivered to home. So, in the long run, I have to say we'll have to relook at the distribution strategy overall.

Pulkit Singhal:

Got it, Sir. Thank you. And all the best.

Raghunandhan:

Thanks Pulkit. Next, can we have Pramod Amthe?

Pramod Amthe:

Hi, thanks for the opportunity. First question is regard to the production challenge or the supply chain challenge. It looks like COVID 2 is much worse than COVID 1. So wanted to get your last 6 months



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experience, structurally what have you changed in terms of managing supply chain so that you can give confidence that this time you will be able to ramp up much faster than the last year issue as demand seems to be still better but the supply chain both domestically and internationally is much worse this year and the name of the game seems to be the quicker ramp up anybody can do. So can give more confidence and more color structurally or try to address it?

Vinod Dasari: The supply chain situation to put some jest on it, it's like 'Kabhi Khushi, Kabhi Gham'. But you deal with a new thing every day. Why do I have confidence that we will come back strongly, because we have experience from the past. Even last time, we came back very strongly because we know which suppliers are going to be affected more. We use the last one year to create alternate source. We used the last one year to move the suppliers closer to us. Yes, there are some structural problems like the global chip shortage and what not. But overall, I think we have de-risked our supply chain to some extent and brought them closer to us. And as and when it opens-up, we should be able to bounce back very fast. Also, I should add that over the last 5-10 years, there's a great deal of insourcing that Royal Enfield has also done, which has helped.

Pramod Amthe: Sure. Thanks. And the second one is with regard to the earlier question by somebody participated on Twins. Can you give some color in terms of is it the category itself has shrunk? Because it's a new territory you're embarking on. Or it's just a supply chain issue? And second, is there any...

Vinod Dasari: I'm sorry, I didn't understand the question.

Pramod Amthe: The Twin products.

Vinod Dasari: Yeah, the Twins. I had said earlier that it was merely the fact that we were allocating more international than the domestic market that had caused, that showed lower numbers in India.

Pramod Amthe: Or is there anything more to read for your new products? How you want to position them? How fast you want to refresh? Or is there a category related issue?

Vinod Dasari: No, I think Twins continues to win awards everywhere. It continues to do exceptionally well in overseas markets. There continues to be a good demand even in India which we are not able to meet. So, we're actually enhancing the capacity of Twins and Himalayan both of them have now achieved the top 10 models in most countries of the developed markets as well.

Siddhartha Lal: Sorry, just to add. Actually, you see the 500cc+ segment 3 years ago and today, it's grown tremendously as a percentage, it's still not a huge part of the Indian Motorcycle Industry, but it has grown a lot as a



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percentage and the entire growth has come from Royal Enfield and we are clear leaders, I don't know exact numbers offhand, but I would say, two-thirds of the market at least belongs to us. So, we have grown that segment and we'll continue to grow that segment. We are absolutely determined to grow that segment over the course of time. We know the market the same way, we know the market for 350s and also now the Himalayans, we know that segment will grow over the years. There is no question. We just want to continue to build the story, the brand, improve the products and make sure they're relevant to customers.

Pramod Amthe:

Sure, thanks a lot.

Raghunandhan:

Thanks, Pramod. Can we have the next question from Arvind Sharma? Arvind, please go ahead.

Arvind Sharma:

Hi, thank you so much for taking up my question. Two questions from my side. First, on the numbers. The installed capacity at Royal Enfield, I believe, is around 100,000 bikes a month or say 1.2 million bikes a year. But we are seeing numbers which are somewhere around 70-80,000 in the last few quarters, the value has been less because of the difference in the mix of demand and mix of produce. When do you think that the numbers will match up with the installed capacity or in other words, out of the 100,000 installed capacity, what is the maximum that Royal Enfield can produce and sell?

Vinod Dasari:

Well, I don't know when the supply chain issues will be resolved, but I hope sometime this year we will start to hit the run rate of something like a 100,000, even in one month, if the supply chain services, we should be able to hit. But remember 100,000 is an esoteric number. We never said that we have a capacity of 100,000 and hence 1.2million. This keeps coming back in the media and enough number of people say it, so it becomes like it's our capacity. I believe we can achieve 100,000 but that's 100,000 if I make only one model. Remember we have a limited capacity of Meteor. We have a limited capacity of Himalayan, so I can't just make something extra, even though the demand is here, or just because I have capacity there. So, I believe that combination of these we will be able to perfect or when everything lines up or all the stars align themselves, hopefully we'll hit that level of production sometime this year.

Arvind Sharma:

Sure, thank you so much, Sir. And the second question more on the 4Q numbers. This Rs 50 crores of one-off, is that captured in the standalone or in the consolidated numbers? Because that Rs 290 crores of steady state, it means that Rs 50 crores?

Vinod Dasari:

I believe consolidated, but Kaleeswaran A can answer that better.

Kaleeswaran A:

Yes, it's consolidated.



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- Arvind Sharma:** So how much would that be in the standalone numbers, Sir?
- Kaleeswaran A:** Standalone will be roughly about Rs 25 crores.
- Arvind Sharma:** Thank you, Sir. Thank you so much for answering my question. That's all from my side. Thank you.
- Raghunandhan:** Thank you. The next question is from Chirag Shah. Please go ahead. We will circle back to Chirag. The next question is from Hitesh Goel. Hitesh, can you please go ahead?
- Hitesh Goel:** Thank you. Thank you, Raghunandhan. So, my question is on this, sorry to harp more on the commodity cost front. But can you give us, what is the total commodity cost percentage of your ASP in a bike, including precious metals? And I just couldn't hear properly. You said you have taken a total of Rs 12K from April last year to April this year, in terms of price increase, right? Did I follow that right?
- Kaleeswaran A:** Yes Hitesh, you have followed it right. So, it is from April last year to March this year, so the financial year of FY21. So roughly if you look at our material cost, we are roughly at about say 55%.
- Hitesh Goel:** Yeah no, so that includes actually the vendor fixed cost, vendor margin, everything, right? I'm only talking about the metal part, which is precious metal, steel and aluminum as a percentage of ASP. Generally, in auto companies with varies between 15% to 25%, I believe in Royal Enfield, it will be slightly lower because of the ASP being higher. So, if you can give me the ballpark number.
- Kaleeswaran A:** I don't have that handy. If I can get back to you on that.
- Vinod Dasari:** We never look at it like that.
- Kaleeswaran A:** Yes, absolutely.
- Siddhartha Lal:** And honestly, we don't even give individual line item of commodity.
- Hitesh Goel:** So, let me ask the question again. Then, what kind of price hike is required to offset the commodity cost increase which has happened in the fourth quarter?
- Kaleeswaran A:** I don't think so it's a straight match to say, what is the cost increase that you will be able to convert it into price increase and pass on. So, it's going to be a combination of as we talked about, there is a pricing framework that we are offering. How much of price that we can pass on to the consumer. Second is, what are the cost projections that we have in terms of the metals and commodities and how will that do move in? And third is, what is the kind of value engineering that we need to do and net of that what



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is price increase that we need to take for the particular model or an SKU. That's how the model operates and also about specific price increases you will hear about it as and when the action comes in the respective quarter. So, allow us not to comment on the future on that.

Hitesh Goel: Okay, great. Thank you, guys. All the best.

Raghunandhan: Thanks, Hitesh. Next, we have a question from Chirag Shah.

Chirag Shah: Yeah, thanks for the opportunity. So, I have a question on price laddering. Given the way cost inflation that we have witnessed over the last few years, is there any thought internally on what should be the starting point as far as price laddering is concerned for the products? Are you rethinking or revisiting the thought process on price laddering for the entry point?

Vinod Dasari: No Chirag. We are trying to do something completely opposite to the typical concept of price laddering. We're putting the decision in the hands of the customer. I'm not saying I sell this, and this is at this price, then I sell this and this is at this price. Here is the base motorcycle. You choose the model. And on that you could have multiple additions, multiple options, like Meteor comes in three different base models, right? And you could choose up to 500,000 combinations and you choose your price laddering. You choose how you want it to be. So that the price is defined by the customer then.

Chirag Shah: And the second question of the 650cc size, do you think there is a need for an additional model or a product over there? The way we have in 350cc, where we have, I'm including 400cc also as part of 350cc, where we have 3-4 offerings. Do you think 650cc at this point of time needs more addition?

Vinod Dasari: Chirag, you are asking me a cleverly worded question to try and eke out of me what is our product plan on 650cc? I know you for many years, you are too intelligent a guy for me. But the answer is yes.

Chirag Shah: Okay.

Vinod Dasari: Yes, there is a need to think about every platform, Chirag. Why shouldn't we be thinking about other why only on Twins? Why not Himalayan, why not Meteor and Classic or whatever. So, every platform we should think about, you know, how we can meet other kinds of customer requirements.

Chirag Shah: Okay, thank you. And all the best.

Vinod Dasari: Sid, you want to add something to that?



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- Siddhartha Lal:** No, I was saying, well said, that's what, we think of them as platforms, and to exploit as much as possible and in as many ways as possible. But of course, there is a business case for everyone. So, if there's just very small incremental sales, you know, that's not interesting for us, but if we find that there is a potential of much larger incremental sales, of course, we try to exploit a platform to the maximum. Having said that to the earlier point while we are launching a lot of new products, we are also very controlled. As Vinod said earlier, that product development process is 3-5 years. And we are very, very rigorous. And, for a full new product, it could be even 4 years or and beyond. So, we are extremely rigorous, we don't launch just off the cuff, something interesting, let's quickly try and do something, no shortcuts. Nothing. And that's what you have seen. I think all of you have seen and hopefully appreciated that all the new products that have come out of Royal Enfield are seen and are absolutely world-class. They are equivalent to Japanese, German offerings. And that's our ambition, to get to that level of product finesse, product quality and I believe that's where we have gotten to our last couple of products and therefore it is, while we are coming out with quite a few new products, it is still very deliberate and not an over-proliferation. Let me put it that way.
- Vinod Dasari:** One second, Siddhartha, if you permit me, I think you compared us to Japanese and European, somebody made a video comparing our 650 Twin engine and we were actually better than them.
- Siddhartha Lal:** We have to try harder because we are starting from behind, so we have to try harder and we are better. I think in many ways now, for the kind of offering. Lot of them look at the mid-size segments as not so important, they are much more focused on heavy-duty segments. So, as a result their effort and focus on these areas are much less. Our products you are absolutely right. I believe we are way better and that's why we're outselling even Europeans and Japanese and all of those. Absolutely, well said.
- Vinod Dasari:** Any other questions, Raghu?
- Raghunandhan:** Yeah, we have many more, I'll take the last few. Next, we have Satyam Thakur. Satyam, can you go ahead?
- Satyam Thakur:** Yeah, thank you. Good evening, everyone, thanks for the opportunity. So, could you please share, you know, how the situation on financing is like one gathers from channel checks that there is probably a meaningful drop in the collection efficiency of lenders in the rural industry in April and May. So, would you have a sense of, you know, how our customers are faring and how much of a drop in collection efficiency lenders would have seen, our lending partners would have seen?
- Vinod Dasari:** We have not heard anything like that Satyam and in fact, Royal Enfield is probably the best customer in anybody's portfolio. So, we've have not heard of any such thing.



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- Satyam Thakur:** Okay, that's great to hear.
- Siddhartha Lal:** In terms of delinquency, I don't know, the latest numbers, I have not talked to in the last few months. But typically, our delinquencies are a fraction of other two-wheelers.
- Kaleeswaran A:** Yes, it is the lowest in the industry.
- Satyam Thakur:** Okay. That's great to hear. April-May has been decent as well. And the second question on CV side, could you share, you know what the industry has seen in terms of discounting in the CV industry in the March quarter, compared to say, the December quarter, what would have been the trend?
- Siddhartha Lal:** I can't say offhand really, to be honest, I mean, it continues. There's no serious abatement of discounts. But I can't say offhand whether it's marginally higher or lower but it's similar levels, I am assuming right now.
- Vinod Dasari:** But, I think, VECV has actually not only increased market share, but also increased margins, because they didn't play the discounting game.
- Siddhartha Lal:** Yeah. So, the general market is still suffering from that. But yes you are absolutely right. We have really been able to claw back and sell based on total value, as Vinod was saying. And I think we have succeeded. And specially in heavy duty where we were much smaller player, we were able to grow and do well and profitably as well.
- Satyam Thakur:** Okay, thank you and all the best.
- Raghunandhan:** Given the paucity of time, we come to the end of the call. On behalf of Emkay Global, we thank the management for the opportunity and request the management for closing remarks.
- Vinod Dasari:** Thank you, all. Stay safe. I think while everybody thinks that this COVID is over and things are back to normal. You know, my wife is a doctor and she tells me it's not over. I know of people and friends who have taken two doses of Covishield and still getting it. So please stay safe, don't relax, mask up, keep social distancing. I think the supply chain problem, these are all short-term, they will all go away. Once we put this COVID behind us, and I think if we stay safe for at least another 2-3 weeks, we will put this largely behind us. And then we use that window before Wave 3 for vaccination, I think India will be safe. That's the message that I want to leave for all my team members everywhere and for all the well-wisher as well. So, wish you all the best. Thank you.



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Siddhartha Lal: Likewise, thank you very much and stay safe. And as Vinod said all of that, which is still short-term in nature. And, just to be sure that at Eicher Motors, whether its VECV and Royal Enfield, we continue to stay exceedingly focused. There is a huge amount of management attention on the tiniest of details. And that's what really makes this company what it is. It's all about focus. It's all about therefore being able to react quickly because we are sharp, we've got a small product portfolio. We've got a small footprint and we can really move things where we need to. So, that trend absolutely continues even now. Thank you very much.

Kaleeswaran A: Thank you folks, stay safe.