



“Eicher Motors Limited Q2 FY18 Earnings Conference Call”

November 14, 2017



MANAGEMENT: **MR. SIDDHARTHA LAL - MD & CEO, EICHER MOTORS LIMITED**
MR. LALIT MALIK - CFO, EICHER MOTORS LIMITED

MODERATOR: **MR. VENIL SHAH - ICICI SECURITIES**



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Moderator: Ladies and gentlemen, good day and welcome to the Eicher Motors Limited Q2 FY18 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Venil Shah from ICICI Securities. Thank you, and over to you, sir.

Venil Shah: Good afternoon, everyone. Thank you for joining us today on Eicher Motors Q2 FY18 Earnings Call. From the management, we are represented by Mr. Siddhartha Lal, MD and CEO; and Mr. Lalit Malik, the CFO. Now I would like to hand the call over to the management for their initial remarks. Over to you, sir.

Siddhartha Lal: Thank you very much and thanks to ICICI for arranging this call. We are very happy to join and to tell you about our financial and sales performance for the quarter ended September 30, 2017, so that is Q2 for FY2017-18. I will start with an update on EML consolidated performance. Once again, at EML, we had an extremely strong quarter. We recorded our best ever net quarterly income from operations at Rs. 2,167 crores, which is a growth of 24%; our EBITDA was at Rs. 683 crores, which is a growth of 26%; and our EBITDA margins are industry-leading at 31.5%, which is a growth of over last quarter or same quarter last year where it was 30.9%. And our net profit also touched a new high at Rs. 518 crores for the quarter.

Moving on to the financial performance of our joint venture with Volvo, that's VE Commercial Vehicles Limited, we had a good quarter there too with the strong growth in sales and profitability. Our total income grew to Rs. 2,339 crores, which is a growth of 19%; our EBITDA was at Rs. 215 crores, which is a growth of 50%; and EBITDA margin was at 9.2% versus 7.2% same quarter last year; and the net profit stands at Rs. 95 crores for the quarter, which is a growth of 45%.

Moving onto our business update. We had our highest ever quarterly unit sales of Royal Enfield of over 2 lakh motorcycles, so that's 202,744 motorcycles. So that's again our absolute highest ever and the growth of 22% over same quarter last year. And I'm very pleased to share with you all that very recently, last week we unveiled our two new motorcycles, to absolutely ground up new platform of 650 twins, the Interceptor and the Continental GT with the new ones. These are powered by full new engine, full new chassis and been developed in our U.K. Tech Center along with our Chennai Tech Center. We believe these will absolutely mark a new beginning and a new chapter at Royal Enfield altogether. The new twins will augment of course our singles, that's our 350, 410 and 500 singles. The new twins will absolutely augment these towards and should help us significantly in our steps towards achieving dominance in



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global mid-size motorcycles. And this will work differently for us in different markets. In India where we already have a population of 2.5 million users, our customers with our UCE, so that's our 350, 500 singles since the launch in 2009 of the new product entry of 2.5 million of those motorcycles on the road. We expect this will be an absolutely compelling upgrade for those who are looking for something bigger and more interesting. And it's the same way that we were able to make a step up for people coming from 100 and 150 CC to 350 CC product. We believe that this will also be one step up, so it'll be a great step up in performance and other things, but also from an ability, from an ownership perspective, from accessibility, it will also be one step up the same way that people step up in growth from commuter motorcycles to Royal Enfield in the first place. So that's our intention in any case. Also in slightly in other developing markets where the speeds are slightly higher, markets like Southeast Asia and Latin America, where the road speeds are slightly higher, we believe this will be absolutely sweet spot. So this motorcycles should do approximately what the classic 350 did for India. We think the Interceptor 650 should do for us in developing markets around the world where it should encourage lot of the commuters who are riding 100 CC, 200 CC, 250 CC motorcycle in lot of these markets. It should encourage them to upgrade to a Royal Enfield. And of course in developed countries also, where we have a strong multi-brand distribution in a lot of countries, we expect that this will be a very compelling offer with the characteristics of, a very differentiated offer also, but with very good character and also of course, quite acceptable. So it should spur people into really taking a very long hard look into thinking why they're buying a bigger motorcycle and because this does a very similar job, but is a very engaging motorcycle. And so we expect people will stay down to Royal Enfield in these markets. Commercial launch of the new twins will start in April of 2018, and of course, increasingly over the course of 2018, will be available in different markets around the world. So that's on the new motorcycle.

In last quarter, we commissioned our new manufacturing facility, which is at Vallam Vadagal, so that's our third plant now and we started production in August of 2017. And this is, of course, an absolute state-of-the-art plant, which will help us tremendously meeting the rising demand in markets such as India and around the world.

We have been expanding in markets around the world as well. So in ASEAN region, we launched our first store in Vietnam last month, in Ho Chi Minh City, in a lovely neighbored in Ho Chi Minh City, and that's the fourth largest 2-wheeler market in the world, Vietnam, and so that's our first store there. In Indonesia, in the meanwhile we've added our third store. This time we've added one in Bali, so we have two stores in Jakarta, now we have one in Bali. So we're expanding our footprint in ASEAN, but we're also expanding our footprint in the other markets. We added two new stores; one in Austria, one in France, which takes our exclusive store count in international markets to now 30 stores and of course hundreds of multi-brand stores that we have in international markets.



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We also expanded our rider community engagement and conducted a reunion ride at Columbia that went very well in market where we've been present only for around just over two years. So we had 120 riders riding along with us to Pereira from across Colombia. And it had a huge amount of engagement with consumers and we were able to reach a lot of intending purchases also through this kind of activity.

Overall, we've had a very busy quarter that the unveiling of course of the 650 twins, which by some accounts, absolutely stole the show at EICMA. I mean, there were trade journalists and customers and it got much more interest than people had originally expected. So again, this is at early interest level. We have to, of course, do a lot of work to make it in an enormous success that we would like to make this new motorcycle, but at least there is a tremendous amount of interest across the world for our 650 twins.

Moving onto our joint ventures Volvo, that's VE Commercial Vehicles. The industry has grown well this quarter, which is a 17% growth, and at an overall level, we have lost a bit of market share from 13.6% to 13%, even though we've grown in volumes in the last quarter. In the new segment that we entered a year and a half, 2 years ago, which was sub-5-tonne, that's 4.9 tonne truck. There we've continued to have very good success and we've got a market share now of 23.4% versus 21% last year. So we have good market share growth there. And we have lost some share in 5 tonne-15 tonne. We've lost a bit of share in heavy-duty this quarter also from 5% to 4.5%. We've gained some share in buses from 15% to 15.8% and we've gained share in exports. But overall, it's been a good quarter for us, because we've been trading off a bit of market share for profitability but we've had an excellent run on medium-duty engines, where for the quarter, we've sold over 9,000 units, so it's an average of over 3,000 units a month as opposed to 2,000 units a month in same quarter last year. So the medium-duty engine is going well.

And moving on to our joint venture with Polaris, that's Eicher Polaris Private Limited. We've had a steady performance in the last quarter, but we've also entered into two new markets, which are Nepal and Bangladesh, where we are working a way up to get good traction in these markets.

That's all from my side, and overall, we had a best ever quarter once again, and the strong margin that's 31.5% EBITDA margin and two new products, which will be instrumental in the future of Royal Enfield. So that's it from me now and we will get some questions.

Moderator:

Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Kapil Singh from Nomura Securities.

Kapil Singh:

My first question is obviously about the two new products we have launched; fabulous looking products. What is the kind of capacity we have initially for these products?



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Lalit Malik: So the capacity, I mean, is still being worked out. As you know, the product launch is still few months away. And quite a large part of the manufacturing process, the capacity tends to be fungible also, so we set up a new paint shop for this one. Because engine shop will be new, it should not be a concern.

Kapil Singh: Sir, my question was because, next year, we had talked about around 900,000 kind of production in FY 18-19. So with these new products coming, is there a room to stretch that and what is the kind of volume contribution we should expect in maybe next say 2 to 3 years? Maybe you can also throw some light on the fact that whatever products we've had so far in greater than 350 CC and the 500 CC segment so far they have not contributed much as far as volumes are concerned. So your thoughts on what may be different here compared to those products and is there a scope to look at segments below 350 CC also or that's not on your list for next few years?

Siddhartha Lal: So we're not giving any forward statements on percentage of sales or growth in this or for the twins. Again our 500 CC motorcycles put together are not insignificant. I mean, on its own we are selling around 5,000 units a month of the 500 CC franchise. Of course, compared to the 70,000 total, it's not a very large number, but if you look at any other model of any other brand in above 250 CC, our 500 CC is bigger than any other model of any other brand. So it's still a strong franchise, so there is a franchise that we have already in 500 CC. Again, we are not breaking out future numbers or our expectations of this model etc. Maybe it'll be exceedingly well accepted immediately and have great growth and of course we will work towards that. But it may also be a product range, it is a product range which is at least for the Indian market, it's still a big step up for consumers. It may take time for people to warm up to this new idea for bigger motorcycles, but it's okay. On the positive side, of course, there is a huge potential for us. So we are working towards that. But we don't have numbers right now to say look in first year we expect X or Y or Z. That's not, how we are doing this.

Kapil Singh: And secondly on the production side, when do we expect to hit from the new plant around 25,000 per month kind of or peak capacity?

Lalit Malik: We said around Q1 of next financial year. Actually 25,000 by end of this FY, by in large. So Kapil, just one perspective on greater than 350 sales, in the last 1.5 years or so, most of our distribution has been biased towards going into the Tier C, Tier D kind of towns, that was income levels, spending power and all those stuff, is very different from a typical Delhi and Mumbai. As we go over there, the first obvious bike over there to be purchased is not a Classic 500 or a Bullet 500. It will be a 350 CC bike, just because of the pricing difference between the two of them. So once that settles in, that in time, and I have to emphasize in time, it will trigger the next level of buying, the next level of upgrade and replacement, which may not be 350 CC, which could be when we are buying more than 350 CC. That time has not come in now. So as long as people are accepting a 350 CC in the smaller towns, I think, that's



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wonderful news for us. And clearly, I know somebody will also have the question on Thunderbird. Thunderbird, in its so called traditional markets, racers and bikers, who do not just commuting but also do slightly longer range riding, those markets and that franchise is extremely intact in Bangalore, in Pune, in Hyderabad and so on and so forth. It's only in the smaller towns as you go where the inclination towards long distance biking is not there. They are still very commuter-driven markets. So this is one perspective I just wanted to share with you.

Kapil Singh: And below 350 CC, you are not looking at right now?

Lalit Malik: No. We just have gone above 350 CC.

Moderator: Thank you. Our next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: My question is on these two ventures only. Clearly, these are export focused bikes from your end. So ahead of the launch, in terms of brand awareness, in terms of dealership reach, how much work is done like, do you think that the stage is set that these bikes will have a reasonable sort of reach in terms of dealership and brand awareness and then it can pick up or do you think it's going to be a much slower progression and you would actually be investing a lot over the next one year into that? So how prepared are you as you would launch in these bikes?

Siddhartha Lal: Of course, we expect that, as Lalit said about the difference between 350 and 500, we expect that bigger cities and richer states, let's call it, will have much higher acceptance of these motorcycles or interest in these motorcycles, to start with. So having said that, eventually when we do sell these motorcycles in India, they will be nationally available. So we will have them out of all what is existing at 750 stores of ours, all our stores will carry these motorcycles, I believe or at least in vast majority.

Binay Singh: Next question is with regard to the international market, that in terms of distribution strength that you have now internationally, so in terms of brand awareness and in terms of distributions outside India?

Siddhartha Lal: In fact, we were there right now in Milan; we had our international distributor conference. We also called a lot of our big international dealers. We spent time with all of them there. So firstly, there is enormous interest and excitement about these motorcycles there. Obviously, every single one of our stores internationally will carry these, because this will in fact probably become the main stage in developed markets for sure. This will become the main stage for the Royal Enfield. On the one hand, we already have in markets, like European market, the big ones U.K., Germany, France, Italy, Spain, in each of these markets we have 40 to 60 multi-



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brand outlets already available. In U.S., we've been building from scratch over the last 2 years, so we have around 50 stores and it's growing. So we have a few hundred multi brand stores where dealer stock in addition to the other models, other brands, they also stock Royal Enfield. So there is a huge amount of work we have done, I think more preparation than ever by in order of magnitude in terms of preparing, training for sales, training our dealers, training the service staff, having the right parts availabilities, all of that. So all that work, a lot of it has happened, some of it is happening over the next few months till the motorcycles become available. So certainly in developed markets, this will be I believe very soon our #1 selling product. In emerging markets, where actually our footprint is a bit smaller right now, so if you look at ASEAN and Latin America, where we are just entering over the last 2 years. In Indonesia, we have only 3 stores even though the first store, which has done a full one year now, is doing really well. Our first store in Jakarta and our first store in Bangkok, they're doing superbly well. But we only have one-one store, which has been running for over a year. Now, we're adding the second store and the third stores, but it's really only very small numbers. In Vietnam, we've added only one store; in Philippines, there is one store. So it's all single stores, two stores that kind of thing right now. Brazil, we have one store; Colombia, we have 5-6 stores, because we entered a couple of years ago, so we've been able to expand the footprint. So of course we expect the 650 twins to be selling there in good numbers, but it still a small footprint in these markets. But also what we're getting the feeling from our international partners and our international teams is that these motorcycles will also help us in expanding our distribution when we want to add more dealers and we'll have a wide range, because in some markets we have a 350, not in all markets. But then we have a 410, we have a 500, we'll have a 650, so that gives a good range of, and I am talking the engine size, of course, we have various different models; it give us a good range of models, which gives the dealer enough variety and they will be stocking us. So we are confident that in international markets certainly it will be an important product range for us.

Binay Singh: The distribution reach for us globally, will that be closer to 600 now, including our standalone stores and shared stores?

Lalit Malik: No. It will be more than that.

Siddhartha Lal: No, no. In India it's 750.

Binay Singh: Outside India.

Lalit Malik: 40 countries into 30, 40 places.

Siddhartha Lal: We don't have a number honestly offhand. I don't want to do an arithmetic thing here, but we don't have a number offhand, it's many hundred stores, but we don't have the exact number here. But other than 30 of them, they're all multi brand outlets right now.



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- Moderator:** Thank you. We'll take the next question from the line of Amyn Pirani from Deutsche Bank. Please go ahead.
- Amyn Pirani:** Sir, first of all, just wanted to confirm, so for this year 825,000, is that the production capacity we are continuing to hold on to in terms of guidance?
- Siddhartha Lal:** Yes, that's the production target that we have 825,000 for this year.
- Amyn Pirani:** And next year we can do 75,000 a month and that's the maximum or?
- Siddhartha Lal:** That's the current position that we have, that we are confident of 75. Actual we are still working on our business plan and seeing how we will be able to set that production target. We don't have a honestly a defined number right now in terms of next year, but certainly 75,000 is something that we will be doing for sure by the end of this financial year.
- Amyn Pirani:** Sir, in terms of Vallam Vadagal, I mean, in terms of the space available, what is the potential second phase or whatever, which is possible sale whenever you decide to do it?
- Siddhartha Lal:** The land is good for the second phase like Oragadam. So Oragadam, we did a Phase 1 and Phase 2. In Vallam also we've done a Phase 1 and potentially we can do Phase 2, but we've not triggered that as yet.
- Amyn Pirani:** And any broad timeline, how much time it takes after you trigger, I mean...?
- Siddhartha Lal:** Because this is the Phase 2, the Phase 1 takes closer to 18 months, because you've to prepare the land, you've to do the utilities and the infrastructure work, roads and all of that. So the Phase 2 will take less than 18 months, so may be closer to 12 months. From the day we trigger it, it should take 12 months, but it also depends on the longest retail item which is typically the paint shops. So depending on the order cycle of paint shop manufacturers, it would be slightly more or less, but basically it's within 12 months it should have.
- Amyn Pirani:** And secondly, like you completely revamped your sales network, and you had a new identity over the last 2-3 years, you transformed all your existing retails. Is there something on the service side that also you are already doing differently, we know that you've been expanding your service network but something that you're doing differently. Can you share some thoughts on that?
- Siddhartha Lal:** So, on the service side, as you rightly said, we've expanded our footprint tremendously. We have over 7,500 service base now across the country, and I'm talking about India alone. And we're continuing to expand that. We have the similar service identity, which is also rolling out with the relevant service workshops where the look, feel customer lounge, accessory sales...



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- Lalit Malik:** The pilot for rolling.
- Siddhartha Lal:** Yes, we're piloting that and we're rolling that over the course of the next couple of years with the same that we did for our retail outlets. But I think most importantly it's about the service experience and parts availability and training and the software which are dealer management system and all of that, so all of that is now really coming on very strongly. We are upgrading all the systems, we've been investing a lot on our parts, backend systems on all of that. So really, we track all the metrics, like our parts market share, our parts availability, our service market share, our first time rides and all the metrics are trending very good. So we're getting world class in a lot of areas now in after-market and this is reflecting in our customer satisfaction in our J.D. Power survey, where we have been #1. What do you call that, what is that term that they...
- Lalit Malik:** Customer satisfaction.
- Siddhartha Lal:** Customer satisfaction index is better. So we've been doing well in the service front now but we've still got a lot of areas of service excellence that we're investing in now.
- Moderator:** Thank you. Our next question is from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** One question I had was, what will drive you to start Phase 2 of the third plant, so what is the trigger point that you look at to start the second phase of the third plant?
- Siddhartha Lal:** That exercise, Chirag, thanks for the question, we're going through now in our planning cycle. So we've started our planning cycle for our next financial year. And of course, the trigger is, we look at our bookings, we look at our volumes, we look at other such metrics which are related to future sales potential and we take a call based on that. So yes, it's a demand-led picture, so we expect demand to be much higher basically for 2019-20, that's the timeframe that we're going to look at. For 2018-2019, we are, by in large we are set right now.
- Chirag Shah:** And second question on the new platform that you have developed, can it be downsized to a smaller engine, so can it from 650, can you bring it down or not, even with twin cylinder and 650 is going to be the range of this platform?
- Siddhartha Lal:** Chirag, that's not the intention. There is no intention to bring it down. Why do you ask that?
- Chirag Shah:** I was just wondering that are you looking to increase the output for a 400 CC or 450 CC because our current 350 CC or 400 CC horsepower or the metrics are far inferior to the twin cylinders that we are launching. This is truly a global benchmark in that sense. So is there a way to build a bridge between the 650 CC and the existing products in terms of the output that you generate?



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- Siddhartha Lal:** We have a 500 CC for that. That's the bridge.
- Chirag Shah:** And a housekeeping question on the commodity costs. So is there any pressure that we have already seen in the quarter and outlook on the commodity cost inside?
- Lalit Malik:** There is some pressure you'll see in the numbers that we have reported for September and yes there is some pressure clearly on commodity prices continuing.
- Chirag Shah:** And any price hikes that you have taken or you are looking to take any price hikes to mitigate commodity cost pressures?
- Lalit Malik:** No, we've not taken any price hikes. We've not taken price hikes in more than a year actually, to be honest with you. I think the last price hike we took was in the middle of August last year. Since then we've not taken price hikes. There was a price adjustment clearly for BS4, so we are not counting that. And of course post GST there was a price decrease. So we've managed all these numbers without taking any price hikes.
- Chirag Shah:** And any outlook on any price hikes, you've not taken any price hikes even after September right? So not in last one month also, no price hikes recently also?
- Lalit Malik:** No nothing. No price hikes.
- Moderator:** Thank you. Our next question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.
- Pramod Kumar:** Siddhartha, my first question however, is on the order backlog on the demand situation in India. Just want to understand how is the gap between the monthly order intake and dispatches on a pan-India basis? And if you can help us get more color on how's the demand incrementally shaping up in the west and the south part of the country which is like closer to 50% of your volumes, but there have been some concerns on slippage in these markets because of either tax increases or economic impact. So just wanted some color on this. Then I have a second question on twins.
- Siddhartha Lal:** Thanks Pramod, we still have an order intake which is well higher than our monthly dispatches and so our order book is strong. And of course, basically we have some waiting for quite a few of our models but the biggest one is still in Classic, which is 1.5-2 months in certain markets. We did have some fluctuations in certain markets in west and south like you said because of higher, was it road tax or..?
- Lalit Malik:** Karnataka had a road tax hike
- Pramod Kumar:** Karnataka had a road tax hike; they were up 50%.



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- Siddhartha Lal:** But we are dealing with that. I think the orders are still relatively healthy. I mean, there was a dip but that's other markets are also making up for those losses, the new dealers are being added. So it's all moving forward still.
- Lalit Malik:** Our same store sales excluding the new stores that are the stores which we opened in the last one year. So if you exclude that, in the top 25 cities of the country, it is still in early teens. That's still very strong. And I am not even counting out the recent stores. I am counting out the slightly more established stores.
- Pramod Kumar:** And this is dispatch growth or is this order growth, Lalit, just to clarify?
- Lalit Malik:** This is bookings.
- Pramod Kumar:** This is booking numbers, so still growing double-digit and I'm pretty sure the dispatches to these cities will not be at the same pace because you have to supply to the newer dealerships which are coming up across the country, which are less than one year...
- Lalit Malik:** We have to manage that. We have to manage both these things, new as well as old ones. So, yes.
- Pramod Kumar:** So in a way, if my understanding is right, because top 25 cities would be largely in west and south. So even in those markets you continue to take more orders than what you dispatch at the current level. Is that right?
- Lalit Malik:** That's true at a macro level and that is true pretty much for all the geographies. We still continue to take in more bookings than we have the capacity.
- Pramod Kumar:** The northern markets driving demand is one bit of that, but I think the concern has been whether demand in these states is kind of reaching a fatigue, so that clearly doesn't seem to be the case given the data point what you've given us, right?
- Lalit Malik:** Yes.
- Pramod Kumar:** So because I do understand that UP and all is still pretty nascent in terms of where your market share can be and given where the south and west market share is. So but it is good to hear that south you're still taking more orders than what you are dispatching. That's actually very good to hear. And the second question is actually on the twins, Siddhartha. You did say that it's a chapter for RE and I kind of totally agree with that. But I just want to understand what does it mean from a product capability perspective for Royal Enfield going forward because I hope when you talk about a new chapter you're referring to the product capability as well. And just



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want to understand whether the twins are kind of a shape of things to come for the rest of the portfolio as in when it gets upgraded and so in a way it kind of moves to a totally new paradigm in terms of product development and quality and competition benchmarking?

Siddhartha Lal:

So this is the first product which we have, I would say, developed jointly in our U.K. and India tech centers. In fact initially there was meant to be some carryover from Continental GT which never really happened much, the old Continental GT, but it's still been also the new process. We have an absolutely new ground, let's say, new product introduction process. So we followed the large part of that in this product. And therefore the thoroughness, the development, the testing, the validation again has been at a totally different level for us, the kind of work we've been doing in the backend, the supplier selection. Also, if you read between the lines, what we've for example said is that both these models have the identical rolling chassis. So the Interceptor and the Continental GT are actually the same motorcycle; they just have different trim, let's call it. So the ergonomics are different and the styling is different. So handlebar, feet and foot pegs determine the ergonomics, and the fuel tank, seat and mud guards, by in large, determine the styling. So these aspects are different but the rolling chassis is identical. The same spec of motorcycle will be used, one single spec will be used around the world with no changes. So which means that in fact, other than color and trim and other such things, we will have no variants of this motorcycle. So we'll be procuring one part, I mean, the same part for every single motorcycle we will be procuring, we will be manufacturing the same thing for every single market and therefore that gives us a huge amount of consistency and ability to be able to deliver absolutely accurate because the chassis is identical, everything. So it's really been thought through in a very different way. It perhaps for some markets, we are adding some features or some regulation, which we don't necessarily need to, but it doesn't matter; we will take that little bit, but that's the cost of, let's say, being able to minimize the number of variants and maximize the efficiency of this model. Anyway, so it's really the case of new things to come or hopefully when the media also was able to see the motorcycles in EICMA at the first glance, you see that these are absolutely of a different level because the kind of investments we've done, the kind of fixtures and tooling and machines and all of that. So it's all of course the concept is a new way working for us at Royal Enfield and this is the starting point of that. And of course, we expect to continually improve that how everyone does it these days, but this is certainly a step change in our opinion of motorcycles to come and we're super excited about the point we are at right now on these motorcycles. And we think it will generally shift the perception of Royal Enfield in global markets. People will be, I believe, delighted about this product in global markets.

Pramod Kumar:

And asking on behalf of interested friend, India launch shouldn't be far behind the export rollout, is our understanding right or will they be a meaningful gap, because you said capacity is not going to be a constrain for this product. So is it right to estimate that?



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Siddhartha Lal:

Yes, but ramp up will be slow, capacity eventually will not be a constraint, but ramp up will be very controlled. We have no rush in the larger scheme of things in the 5-year horizon, it doesn't matter, we're 2 months ahead of that, but what's most important is that we have a very controlled approach to ramping up because that's when potential failures and issues come. It is a new product, new process all of that. So we think the slow approach to ramping up, we're serving Europe, U.K. type of markets first. Because, firstly, there demand I believe will be slightly less than Indian requirements and also the season is now in summer. So the selling season in Europe and U.K. starts actually in March, April, May, June; those are the selling months. We will actually miss some of those months now, but at least we will catch that deal end of the selling season in Europe, if we are able to meet our targets now. But if we do, India launch first, then we will certainly not meet the selling season in Europe. So that's the reason we are doing Europe first and then eventually we will sell in India. But that will certainly be 2H only, in calendar 2H at least.

Pramod Kumar:

In terms of the U.K. development center, given the kind of investments what you've done and the kind of global talent pool what you have there, is it only fair to assume that going forward whatever major upgrades which have to come for the Indian existing portfolio be it the Euro VI or any major chassis change or Indian rolling chassis change, it will be largely driven by the European tech center and the testing and validation hence will also follow the European cycle like what have done for the twins, where you said you've done almost a million kilometers of testing and validation. So is it right to assume that kind of development cycle going forward or product cycle going forward for the existing portfolio as well?

Siddhartha Lal:

So the new product introduction process and the validation process are identical across now, and in fact, even from this product, we learn and will improve. So it's certainly the same and we will continue to be better for every product henceforth. Our U.K tech center works exceedingly closely with Chennai and actually they happened to be two physical locations, and of course, but they're really one team. So the PD head does sit in U.K., the engine and chassis and program head also sit in U.K., but they have teams in U.K. and in fact larger teams in Chennai, so engine team has a much larger workforce in Chennai. They will work seamlessly across the geographies. Obviously, the supplier development and manufacturing teams, all of those are sitting in Chennai, by in large. Of course, we have some representatives in U.K. but that's how it works. And the entire regime of new product introduction and the gate process that we follow, the new gate process, the new validation process, all of that is now been determined and is also much higher level and will of course be followed for every single product, which means that actually now our end-to-end new product cycle is over 40 months now, from start to delivery of products. So it's much longer than we had previously but in the end it's more fulfilling I think because we are much happier about the end product.

Moderator:

Thank you. Our next question is from the line of Pulkit Singhal from Motilal Oswal Asset Management. Please go ahead.



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- Pulkit Singhal:** Just to understand, for the 7 months of this financial year, the company has grown 22% for the volumes of Enfield. Can you help me understand the breakup of that based on the same-store sales versus the new dealer addition in last one year?
- Lalit Malik:** That we don't have right now. Like I said, there is apex number which we try to see and look at, which like I discussed the top 25 same-store sales. The breakup, I do not have at this point in time.
- Siddhartha Lal:** They are in double-digit
- Pulkit Singhal:** So what I'm trying to understand is, are the new dealers, I mean, the run rate has been 100 to 150 dealers per year, if I understand correct?
- Siddhartha Lal:** Yes.
- Pulkit Singhal:** So, is the average dealer requirement per month, I mean, not too far from the system average, I mean, because that's what it seems to service?
- Siddhartha Lal:** No. The new dealers are pulling in much less motorcycles than existing dealers because they are, by in large, not entirely, but we are, by in large, saturated in A+, A, B, C towns. So it's basically in our classification D and E towns, so the much smaller towns where we are adding dealers now, and therefore the average number of sales at when they reach their, let's say, their what you call it, their standard level, is much lower than our national average, let's call it. So the new dealers are pulling in much less volume than existing dealers
- Lalit Malik:** They are from smaller towns.
- Pulkit Singhal:** So they must be contributing some 5% to 6% of growth broadly, the new dealer addition?
- Lalit Malik:** We don't have any numbers of this point in time.
- Pulkit Singhal:** And what's the plan on that. I mean, from 750 where do you plan to take it to next 2, 3 years?
- Siddhartha Lal:** Currently, it's continuing at around that pace, so 2 to 3 dealers a week, we are adding right now. So there is no shift in plan currently for the near to medium term, it seems to be continuing in that pace. Of course, as we go through our planning cycle this year, we will see whether there's a need to step that up, step that down, change it any form that clarification has to be done, because we do that annually, we don't do that on a monthly basis. We don't consider changing the pace of dealer addition, but the point is wherever we want to add a dealer, wherever we have an intention to add a dealer, we have excellent candidates available and there is always a lot of choice for us to be able to add good dealers. So there are lots of interested parties. It is just that we want to make sure that there is good profitability at every



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store that we enter into. And therefore, we do not over-saturate but at this pace, we seem to be comfortable for now.

Pulkit Singhal: Sure. So going ahead, I mean, given that you have new launches planned up, you are adding new dealers and even, I mean, finally, this year the motorcycle market has also kind of turned around. I mean, from a 3-year perspective, do you feel confident of 20%-25% kind of growth rates and volumes of 15%-20%, what is it that you feel more comfortable with or confident of rather?

Siddhartha Lal: I am sorry we are not able to answer forward-looking growth rates and all right now. I mean, we don't do that. So it's not just right now. We won't be giving you future growth rates and volume predictions. Other than at the end of our planning cycle, we will give you the capacity expansion or our capacity for the coming year. That's all I'll be able to give you may be close to end of this FY. But we won't be able to give you growth rates and all of that.

Pulkit Singhal: Last small question, out of the 70,000 volumes, how much is from the new plant?

Lalit Malik: Right now very small. So last month, it was just about 10% or even lower than that.

Pulkit Singhal: And you mentioned that you can take it to 25,000 by the end of the financial year.

Lalit Malik: That's in the ramp-up stage, you know, so the capacity is there in the plant, but of course then the whole vendor management process, the sourcing process, all that has to fall in place.

Siddhartha Lal: But again, what Lalit was talking about, is rolling out new motorcycles from the plant. But there is a lot more to it. The capacity is all a signal capacity across the plants because we have our plating shops are all at Thiruvottiyur plant and we are adding more and more plating capacity there. So it's not arithmetic.

Pulkit Singhal: Got it. We will have to shift some, yes.

Siddhartha Lal: Yes, so it's not like, so we may have to lose some capacity or assembly within the Thiruvottiyur plant in order to add plating capacity for Vallam plant and all of that. So all that is being worked out. So it's not like today if we're at 7,000-8,000 in Vallam, that we will still be able to add 20,000 more, that's not how it works or 15,000 more, that's not how it works. We will have to shed some capacity also in the older plants is what I am saying.

Moderator: Thank you. Our next question is from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.



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- Jinesh Gandhi:** With respect to realizations of Royal Enfield, it seems there is some accounting impact in this quarter. Can you share what could have been realization change for Royal Enfield in this quarter on quarter-on-quarter basis or Y-o-Y whatever you have?
- Siddhartha Lal:** The biggest one is GST, right, because we've reduced our prices...
- Jinesh Gandhi:** I'm looking in net of GST, so...?
- Siddhartha Lal:** Net of GST, okay, that's the one I could think of.
- Lalit Malik:** Yes, I mean apart from the usual product mix, there is no special thing which is there in this quarter.
- Siddhartha Lal:** What is the change in realization you've got sir, in terms of per unit?
- Jinesh Gandhi:** Per unit, yes, about 2% drop Q-o-Q?
- Lalit Malik:** The drop is because of GST only.
- Jinesh Gandhi:** That would be the spare part?
- Lalit Malik:** Around 1.2%-1.3% was the ultimate customer's kind of benefit. So at our level, which is ASP level, it would have been about 2%.
- Jinesh Gandhi:** Secondly, with respect to the RM cost pressure you indicated, we saw RM cost pressure in this quarter, but our RM cost as a percentage of sales has reduced again on Q-o-Q basis. Again, is there any accounting issue over here?
- Lalit Malik:** There is a continuous engine on cost management, on value engineering, sourcing and so on and so forth. So that continues to be at work.
- Jinesh Gandhi:** So the efficiency...
- Siddhartha Lal:** We've had input costs increases, but we've also had benefits on other costs that we're still able to squeeze out, because of our increasing volumes and better cost management.
- Jinesh Gandhi:** And when we compare our third plant, Vallam plant with the second plant, is it of similar efficiencies and automation or the third plant is even more efficient than the second one?
- Siddhartha Lal:** The second one is in fact in two phases, Phase 1, Phase 2, and Vallam is merely Phase 3 of a modern plant that we have, right. So these are the 3 modern phases that we have. Every single time we've made obviously learnings and improvements on the plant, but conceptually, it's the



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same, Jinesh, conceptually it's the same modular sort of, let's call it, as nearly 1,000 a day type of line and that's what we've modularly taken up. But of course, in every area we've made continuous improvements, learning, changes and all of that. So, but it's, I mean I would say it's incremental steps, it's not a dramatic change in what we're trying to do in plant 3.

Jinesh Gandhi: And lastly on VECV, did we take any price increase in VECV as well or there are no price increases there?

Lalit Malik: So in middle September, there was a price increase, but it was a very small price increase there, blended across all the categories of trucks and buses, was less than 1%.

Jinesh Gandhi: So the large part of margin improvement in...?

Lalit Malik: But you know in VECV, I think the discounting pressure in this whole industry continues to be so heavy that any price increase doesn't really fall into profits.

Jinesh Gandhi: So, exactly, I mean given the discounting pressure, it's quite commendable that our margins have improved despite that. So is that the reason...?

Lalit Malik: There is a lot of cost management work being done over there.

Moderator: Thank you. Ladies and gentlemen, that was the last question. On behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us. And you may now disconnect your lines.