



## “Eicher Motors Limited Q2 FY 2019 Earnings Conference Call”

**November 12, 2018**



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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to Eicher Motors Limited Q2 FY 2019 Post Results Conference Call hosted by Batlivala & Karani Securities India Private 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 “\*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Annamalai Jayaraj from B&K Securities. Thank you and over to you, Sir!

**Annamalai Jayaraj:** Thank you, Stanford. Good Evening, everyone. Sorry for the delay in starting the concall. On behalf of B&K Securities, we welcome you all to 2Q FY 2019 Post Results Conference Call of Eicher Motors Limited.

We are delighted to have with us today Mr. Siddhartha Lal, MD and CEO; and Mr. Lalit Malik, CFO.

I would now hand over the call to the management for the opening remarks which will be followed by the Question-and-Answer Session. Over to you, Sir!

**Siddhartha Lal:** Yes, Good Evening, everyone. Siddhartha Lal here and I have Lalit Malik with me as well. And we are just going to go through a quick overview of the quarter that is Q2 2018-19, so that is ending 30th September and yes, and then we will have some questions.

So, overall, from our consolidated financials, we have a revenue of just over Rs. 2,400 crores, which is 11% up from the same quarter last year; and EBITDA of Rs. 729 crores, which is 7% higher than the same quarter last year. And the EBITDA margin is at 30.3%, which is down from 31.5% largely due to increased expenses incurred on our 650 Twin launch last quarter. Profit after tax is at Rs. 549 crores, up by 6% from the same quarter last year.

In Royal Enfield, the sales volumes are at just shy of Rs. 210,000 or 2.1 lakh Motorcycles, which is 4% higher than the same quarter last year. A big news of course, in the last quarter, was the launch of Twins, the 650 Twins. We had a global media ride of the 650 Twins in Santa Cruz, with around 120 journalists from 13 countries which participated in a weeklong event, and we had unprecedented and outstanding response from the global press on the overall Motorcycle and on all the individual areas, the ride quality, performance, look, design and also very much the prices at a very good spot. Our US MSRP, the suggested retail price for Interceptor starts at US\$ 5,800 and for the GT 650 at US\$ 6,000.

These were also launched in UK and Europe at the EICMA Motor show last week in Milan. The UK on-road price for the Interceptor is £5,500 and the European recommended retail price for the Interceptor is at Euro 6,200. So, again, extremely sharp pricing that we have got for these



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markets to make it true middle weight pricing for these middle weight Motorcycles and with the performance and feedback that we have got in, I think we are off to a very good start on the Twins.

Again, just to recollect, these are Motorcycles which have been under development for the last 4 years. Our UK Tech Center has been leading the development of these Motorcycles and we have got a full new product introduction process and the way this is coming out, so it is a totally different generation of Motorcycles from Royal Enfield and has been ever seen before and a testament to that is the reviews that we have gotten from the global media.

The India media ride starts actually from tomorrow in Goa. We will have a price announcement day after tomorrow for India and in addition to the Interceptor and GT, we have also been doing lots of other interesting things on the platforms of Interceptor and GT, one of the examples is a custom built Bonneville racer which we had time record and we are able to achieve a top speed of 157 miles an hour which is obviously a Super Motorcycle of ours. So, that is to demonstrate the type of performance on these Twins as well.

In addition to that at EICMA, we showcased a new concept called the Concept KX, which is an absolute concept bike. This is not meant for production but it is a new V-Twin inspired by Royal Enfield's original model KX which is an 1140 CC Motorcycle which is a pinnacle of Luxury Motorcycling in the 1930's and this was appreciated tremendously again by global media and all the influencers and all the participants in EICMA. How to read into this model, is to see the future design direction of Royal Enfield and the kind exquisite work that we are able to do on a Motorcycle. This particular bike is not intended for production as yet. But of course, if we get an amazing response, we can see what elements of risk to take into our future production Motorcycles.

We have the Classic Signals which was launched in August which is a tribute to our 65-year-old association with the Indian Armed Forces. We have two colors "Airborne Blue" and "Stormrider Sand" and these are the first Motorcycles in India to have Dual Channel Anti-Lock Braking System from Royal Enfield. We had very encouraging initial response and we also have a strong collection of gear and accessories of over 40 different SKUs for the Classic Singles 350 which has gone down really well.

Further business update, we have started the transition to Anti-Lock Braking System, with the launch of our Classic Signals as I said and we are on track to shift our entire portfolio to Anti-Lock Braking System well ahead of the regulatory timeline for Anti-Lock Braking System. All our models are already shifted to Rear Disc Brake except for the Bullet 350 which retains the Rear Drum Brake.



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The Vallam Vadagal Phase-2 is on track. Construction of Assembly Line and Paint Shop is continuing and we expect production to commence by the end of the financial year 2019-20.

The Chennai Technical Center is on track. Civil work is almost complete. Installation and commissioning of testing and validation equipment to be completed in a phased manner and the center will be operational by the end of first quarter 2019-20, so that is let us say around 6 months from now. Having said that, some of the dynamometers, and various other elements of the first phase of the Technical Center are ready and in fact, this quarter itself we will have some of our staff moving in.

We had a reunion event in Columbia. So, this is the second edition. Over 130 people participated through Montenegro, Quindío, over the weekend. So, again, we are doing lots of events and rides in high potential markets like Columbia. We had a tour of Bhutan, which is our 7th edition. It is one of the most beautiful rides that we have. We had 35 rides, 1,400 kilometers. So, again, beautiful content, beautiful rides and again taking Royal Enfield in the mind space as the thought leader in leisure and motorcycling, adventure motorcycling, long trips, which is what people really come to Royal Enfield for.

As you all know, we had a strike at Oragadam which continuous, unfortunately. So, it started on the 24th of September, it is now 6 weeks and counting. We have had a production loss of 25,000 units already in September and October months and yes, it is an unfortunate situation. We are in consent touch with the striking employees and trying to resolve the issues but there are some principal issues so, therefore, we believe we are doing everything right and we are urging them to come back to their roles. So, yes, that is continuous to be attained to get our employees back on the production line. Till then, we have already improved our production rates since the strike started. But of course, we are not producing at full rate even now.

Our India distribution, the dealer count by the end of Q2 is at 858, so we added 21 dealers in the last quarter and in the international update, we have one new store in Chiang Mai in Thailand taking exclusive store count to 3 in Thailand and to 38 exclusive stores outside of India. So, that is the overall update on Royal Enfield.

On VECV, our joint venture with Volvo, we had total volume for the quarter at 18,696 units which is 24% higher than the 15,000 plus and a lot of this increase has been driven by value truck, so it is a high-value truck that we are selling. We have commenced our design and soon the work will start on the new plant. The setting up of the new plant has started which will be of 40,000 capacity in Bhopal. The new capacity will come on-stream approximately 24 months from now and the proposed investment in this new plant in Bhopal is Rs. 400 crores and of course, we also had the AB Volvo Board over in India last month with a celebration of our 10 years of successful partnership with Volvo - between Eicher and Volvo, so it was an enormous moment for us and we have been driving the modernization in commercial transport in India and



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yes, we believe that we are tremendously well prepared for the future with more focus on our Pro Series and our Value Trucks that we are continuing to sell. We are certainly on track and certainly ahead of all other manufacturers on Euro-6 or BS-VI compliant engines because we have been making them for so long now and these are the things that we celebrated with a 10 year compounded annual growth rate of around 8% from the year we started as supposed to industry growth of 3%.

So, this is an overview. And yes, so that is it from me. And over to you for some questions, please.

**Moderator:** Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

**Pramod Kumar:** Siddhartha, my question pertains to the strike at Oragadam. Just wanted to understand you referred to some principal issues which are kind of preventing the situation being resolved. So, if you can just highlight for the benefit of the audience as to what exactly is the issue because it is not exactly only with you, it is also continuing with Yamaha and also with the component suppliers Myoung Shin, if I am not wrong. So, it not only RE specific issue, it seems to be an issue across, but if you can just help us understand what is the principal issue, we are talking about. And also, if you have any visibility as to is there any kind of hit which you are willing to take because it clearly has already hurt you a lot. So, I am just trying to think about how should one look at FY 2019 as remainder of the year in terms of production and how much you can recoup from ramping up production of the existing plant, so expediting Vallam Phase-2?

**Siddhartha Lal:** Yes, Pramod, sure. The main principal issue at the strike in Oragadam is that we, of course, support the formation of an union which legally employees are allowed to do and we absolutely support that. In fact, we have an elected committee within our plant, so that is what we absolutely support. What we do not recognize is external political leadership which is or external leadership, it is political or non-political, it is a leadership which is at odds with the company's objective and at odds with even the employee's objectives in the long-term. So, these third-parties who do not necessarily have the best interest of employees or company in mind. Often have their own axe to grind as well. And being on the receiving end of that, we are clear that we do not want to deal with the third-party and there is no law by which we need to deal with the third-party. Of course, we will deal with our employees and we will talk to them on everything. So, it is really third-party leadership which we are opposed to and not recognizing. So, that is the principal issue that we are facing. We have been clawing back our capacity. Of course, when the strike first started it was a big blow and then we had a few days of full stoppage at the plant, quite a few days. Since then, we have improved our positioned. We have continued to improve our production rates with the existing work force. We are up to give or take maybe at 70% beyond now for daily production hit rates. So, we are able to still get a reasonable amount of



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production which of course, puts pressure back on the union as well to come back to work. So, that is our objective is to get our all our employees back on the production lines. And like I had said, we have taken a hit of 25,000 to date of production and before I think we start talking about recoup in production, that is the next step. But the first step before that is to end the strike because till the strike continues, we still loose production. So, recouping is really not the current strategy, so the current strategy is to end the strike and then we will see if we can recoup a little bit after that.

**Pramod Kumar:** Okay. So, just to put a number to that, you are roughly doing around 2,500 a day now between Vallam and one shift of Oragadam.

**Siddhartha Lal:** It would be slightly less than that, it is like 2,300 to 2,400 kind of number, all put together.

**Pramod Kumar:** Daily basis, okay. And the second question is on demand Siddhartha. There have been concerns in the recent past about whether we are seeing some bit of demand fatigue and also the massive spike-up in regulatory cost led by insurance person. Now the transition to ABS and you guys have also done a lot of premium variants which are much more expensive. So, just want to understand, how has the demand scenario has been for RE and also the two-wheeler industry has seen some or automobile industry, in general, has seen a lot of headwinds on festive demand. So, if you can just provide some update on how is demand in the last few weeks and the months and how is waiting period kind of shaping up and also given the production cut back and supply issues. Is that resulting in any lost sales and how is the channel inventory looking right now after the festive period?

**Siddhartha Lal:** So, I think we had a pretty good in fact festive period, so October went pretty well for us. Let us say despite all the issues that we have been facing. So, I believe our wholesale was in the order of 70,000 units and of course, I mean there are some few issues or clouds that we have been facing and of course, the big one is the huge jump in price and therefore, the premium variants and the regulatory changes which have happened and all of that. So, that has I think taken a bit of shock in the market. So, I think, in October people have started coming back a bit. So, it is very nice to see that. We had SKU mismatches. Now, again like I said previously, if we had geographical, regional issues which we had in the past, in the last many years we had, one state is down one month or you have SKU issue or you have a certain issue, we are able to dig deep into order book. That is of course, less so now. So, we are not able to dig very deep because the order book is also now narrowed, some Bikes are getting available closer to on demand. And of course, for some of the new variants, we have a longer waiting. So, there is a bit of mismatch in that. So, if you are fixing because of production gaps and other issues. So, I am just saying is that we are now normalizing these situations and some of the let us say SKU mismatches we are normalizing and I think people are getting over the sticker price shock of the increase that has happened. So, people are coming back to the stores. Personally, I am not like you said there has been talk about this kind of thing, I am personally not particularly I mean we follow everything



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very closely but I am not particularly concerned. I think, the basic idea of premiumization is continuing very strongly everywhere. So, there is no concern about the premiumization trend that is happening. It is more let us say jitters which happen which now reflects in our monthly sales and in our quarterly sales, right because there is less of flat order book to dip into. But other than that we are absolutely continuing on a forward much as far as I am concerned.

**Pramod Kumar:** Siddhartha, just to put some numbers, can you just quantify how much has been the retail performance in terms of either the growth or the absolute number for the season versus last year same time? If you can share that?

**Siddhartha Lal:** No, I cannot. Sorry, about that.

**Moderator:** Thank you. The next question is from the line of Atul Singh from Nomura Securities. Please go ahead.

**Kapil Singh:** Sir, hi, this is Kapil. If you remember, during the last call, we had discussed that a sharp tax increase in Karnataka had resulted in the significant dent to demand. Now because of the insurance cost and then Disc Brake and then the ABS will come up, we will see more cost increases and some of that is already visible. Is a similar kind of impact visible on demand, do you see that? And related to that, how do you think about navigating the pricing and margins dynamic because in case, there is some sensitivity, would you look to maintain margins around these levels even if there is a period of soft growth that continues or would you be comfortable with margins even if they were to come down a bit but that sort of helps growth that would give a more comfortable scenario. So, I just wanted your thoughts on this.

**Siddhartha Lal:** Yes, certainly like you said all these areas like tax, insurance, Disc Brake, ABS, regulatory stuff are continuing to increase let us say either material cost or cost to the customer, right. So, all this is happening. Of course, this is not Royal Enfield alone I think others are also in different ways may be slightly are getting affected by this and yes, that is what we are in the process of doing is, we are also now doing more value selling as it were to customers, we are sort of working with them, we are putting a lot more efforts behind financing and other areas, so that we make it more accessible because you know Rs. 10,000 - 15,000 increase or Rs. 20,000 increase in sticker price is a lot but if you can convert that from a direct purchase to a finance purchase, it is sort of that number comes down a bit or quite substantially, the shock value is not so high, if it is on the EMI basis. So, these are all the efforts that are going on and I think it takes some time for people to normalize. Honestly, we do not talk about forward stuff so I cannot really be telling you about our approach towards margin and volume I think that is what you are talking about I mean very generally of course, I can say we will optimize at the best level that we find what we find is the best level through all the experiments and work that we do. But I cannot tell you specifically what are margin objective or how we trade off particularly on margin versus volume.



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- Lalit Malik:** One more thing. Sorry, this is Lalit here. One more thing, of course, is the other thing, the commodity prices as well which really have not shown any signs of abating. I mean they could be softened now as opposed to 6 months back but that is still the concern is very high. I think that we have been able to largely deflect in terms of cost management programs. So, those often we have to press them really hard now to make sure that the gross contribution level at least the margins are kind of same. But there could be things up and down here, who knows. But generally, in the long-term I think, we are well positioned given the product pipeline and given the way we are and given fondness of the brand spread in the international market. So, all put together I think, we are still in a strong position to have a strong margin business in time.
- Kapil Singh:** Okay. And sir, the second question is on the other cost I believe you alluded to the fact that the launch of 650 CC Twins also resulted in higher cost. Anything you can quantify or how should we think about it going ahead because staff cost and other cost have been growing at close to 30%, which is well in excess of revenue growth for this quarter?
- Lalit Malik:** So, two things over there. So, the big item here, of course, is a 650 CC Twins launch. The other thing is that if you see y-o-y, the growth has been about 4% to 5% in volumes. So, therefore, the operating leverage was also a little weaker this quarter. But our cost, the fixed cost, it has gone up based on certain thoughts, certain budgets as to where we want to take the company. So, we will not cut them but if the volume for the quarter is not fully supportive in that sense then we will see a bit of dip in the margins.
- Kapil Singh:** Okay. Any one-time item is there or excessive item that you would like to quantify for the 650 CC launch or you know this kind of cost may continue in the second-half also?
- Lalit Malik:** No, the launch is a part of life now. I mean, of course, 650 is a huge launch for us but there would be smaller launches in quarters to come.
- Siddhartha Lal:** So I would say last quarter and this quarter there will be of course, sorry, coming quarter. So, the quarter ended and the coming quarter we will have because now we have EICMA, we have India launch happening all of that. So, in October to December quarter also. Of course, there is some spike of 650 Twins launch, some of that will come down of course, because it is one-time but there will be other things which will not be as big. But yes, actually when we move on, we will have what you call it media spends and all of that mix, so it will be at a higher level. So, generally, we think that it is a good point I mean basically, we continue to invest, really heavily in various areas. So, in new products, in new markets, all of that, so there is that part and which is still continuing. So, we are right now still on an investment phase let us call it. But you know some cost will, of course, should come down at some point.
- Moderator:** Thank you. The next question is from the line of Kumar Rakesh from BNP Paribas. Please go ahead.





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**Kumar Rakesh:** My first question was to Siddhartha. We have been seeing strong revenue per unit growth for the last few quarters and this quarter also, it was north of 7% y-o-y growth. I believe that is largely because of (a) the new Disc Brake and all and also your spare parts and merchandise strategy. Can you just take us through what is your strategy around the spare part sales and merchandise and accessory sales?

**Siddhartha Lal:** So, on spare parts, of course, it is better penetration, right, so we are working towards better service market share, better parts availability, better penetration, and we have a very strong focus on aftermarket and customer retention, so, therefore, service market share. So, these are areas we are working very strongly on and we are seeing the benefits of that in better spare parts revenue. On apparel, accessories, these are still I would call them a relatively low business which we are working on experimenting. We have had some big hits like helmets, engine guards and on the back of those, we are improving our distribution. So, of course, through our existing dealers, through other formats and as we get into new categories, we are able to wean our dealers off let us say third-party manufacturers where they are dependent on right now. So, we are able to give them very good Royal Enfield branded product and ask them to leave or support them in doing that and they sort of reduce their dependence on other things. So, yes, that is a way they are headed now. It is certainly in the right direction. In fact, these help not only company margins, they help dealer margins, they also help customer retention through better personalization of product, and we also have for example on our Motorcycle accessories, we have 2 year warranties and other such things. So, that is a direction we are going in and it seems to be working and in the right direction towards better known Motorcycle sales contributing to our portfolio.

**Kumar Rakesh:** That is helpful. Can you help us quantify what would be your two-wheeler revenue in the top-line and what spare parts and others would be in that?

**Lalit Malik:** Yes, we do it once in a year in the Annual Report. You can look at the last March numbers and extrapolate our non-motorcycle sales vs new sales from Motorcycles which is growing at a slower rate. But this is a smaller business, so it will grow faster, the accessories business. And the spare business, like Siddhartha said it is a matter of time, penetration, a number of the bike coming out of warranty and so on and so forth. But right now, all put together is not more than 10%.

**Kumar Rakesh:** Okay. And you talked about the model launch cost this quarter, how much was that for the quarter?

**Lalit Malik:** We cannot break out the numbers because we do not. But like I said, this is a one-off that we have in our financials.



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**Kumar Rakesh:**

Okay. And my second question Siddhartha, so we have been having some strikes and because of that the production and wholesale numbers in itself are not a reflection and we do not exactly understand, how long it will be prolonging. And at the same time, we do not have much visibility on the retail sales part because we do not have an order book or any quantifiable data. So, how should as investors and analyst, we should be looking at your growth right now on the volume part. What is the best reflection of your business right now in this environment? Can you help us with I mean some metrics that makes us analyze your business?

**Siddhartha Lal:**

Yes. So, I mean overtime our wholesale equals to our retail I mean there might be a slight blip here and there but we are not pushing the channel heavily or we are not playing that game at all. So, as a lag indicator, you have sales volumes very clearly in front of you and of course, our approach I mean maybe this is a philosophical question because our approach is not on a quarterly basis. So, therefore, we are cannot and therefore, we are not giving guidance and then trying to meet guidance and then you know the usual sort of rat race we do not want to be in. So, if you are investing for very long-term, I can tell you exactly where we are heading to and what we are doing. But for 3 months here and 6 months there you will have to just take the best estimate that you can pull out of yourselves because really, honestly, the real thing about this about Royal Enfield is now what we are doing in Phase-2 which is our next 5 years - 7 years, international strategy and getting into twins and other such platforms. So, that is really where you got to see it. If you want to see other lead indicators look at our brand track stores, look at how our brand is doing in the young consumers mind, so that is what we look at. And that's what we gauge in terms of how people want us to look at our conversion ratios all of that. So, really, I cannot tell you beyond that in terms of guidance or anything else if that is what you are interested in.

**Moderator:**

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

**Gunjan Prithyani:**

I had 2 questions, firstly, on this SKU mismatches which you mentioned, could you give us some sense on what the models on which the mismatches are? And what would be the proportion in terms of overall retails where you are running the wait period of order book on these models? Any sense on what proportion it would be on the overall retails? And second, you also mentioned on the pricing, that financing clearly is somewhere taking care of this increase. Has the share of financing increased in the recent past and how has been the trend off late?

**Lalit Malik:**

So, quick information data to what you are saying is that the mismatches that we are seeing is actually on the higher premium products. So, the new Thunderbird X that we launched 6-7 months back, that is seeing better traction than the "older version". Classic Signals is seeing a tremendous amount of traction but we are bound over there because of the suppliers of Disc Brakes and so on and so forth. But those are all about to square up in the next 2 to 3 months to come. So, this is just a temporary thing.



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- Gunjan Prithyani:** We are clearly seeing 2-3 months kind of a wait period or maybe 2 months kind of wait period on the new model.
- Lalit Malik:** For some of the SKUs.
- Gunjan Prithyani:** Yes, if we were just to think, how much of these SKUs would account for how much of the total retail for you, so that we have a sense this is an order book that would be available when the supply side constraint gets normalized.
- Lalit Malik:** Well, you should not worry too much. Let me give you order book number right away. We are still like in the last couple of quarters odd, we are still at 2 to 3 weeks at an aggregate company level order book that we are carrying at this point in time and it is pretty much is driven by these 2 - 3 models that I spoke about.
- Gunjan Prithyani:** Sir, I missed how much is the aggregate order book?
- Lalit Malik:** 2 to 3 weeks
- Gunjan Prithyani:** 2 to 3 weeks, okay. And on the financing, what has been the trend, have you seen any issues in?
- Lalit Malik:** We have seen a gradual increase in financing, number one because we are entering into parts which maybe need more financing, parts of the country, number one. Number two, we are ourselves are becoming more sharper along with the financials of course, into offering the kind of terms, offering the kind of financings deals, it is the wrong word but I am saying financial packages, tailor made in some sense to what the customers want. So, we have become a little financing friendly in some sense and the need into from where we are selling over the last 1 year - 1.5 years is also indicated towards that. About 1 year and a half back we were doing no more than one-third of our sales were financed. Right now, the latest number for October which is a little higher than the past trend that we have seen is more than 50%. But that is just one month I am quoting but most of the year, April through September it was around 45% - 46%.
- Gunjan Prithyani:** October is more around...
- Lalit Malik:** This is one month only, the festival month and all that. So, maybe that was... But let us see the trend in the next months to come, it really crossed 50% in October.
- Gunjan Prithyani:** Okay. And just last question from me. Typically you share this number of same-store volumes that you see, if we were to just there have been a couple of one-off in states like Karnataka, Maharashtra, if you were to think to keep these states aside but what is the underlying trend in some of the other bigger markets like UP what is the growth that you are seeing in these markets?



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- Lalit Malik:** Keeping these states out, if we keep these 2 states out, then actually you need to keep Kerala also out because that also suffered a bit one-off due to the floods over there. I do not know the exact number, overall number but basically, it is a single-digit decline actually we have seen in this quarter.
- Gunjan Prithyani:** Single-digit decline you have seen in this quarter?
- Lalit Malik:** That is aggregate. That is including all the... that is an aggregate. But if you remove all the states then it could be a little positive number also. But I do not have that number with me knock of these 2 - 3 states.
- Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.
- Jinesh Gandhi:** My question pertains to Kerala market, so has it now normalized in terms of business as usual or we are still seeing some stress there?
- Siddhartha Lal:** Kerala is back to normal. Of course, we are not able to pull back some of the losses on the past. But it is largely back to normal not 100% but it is, yes.
- Jinesh Gandhi:** Sure. And the second question pertains to 650 Twins which you will be launching in India in the next couple of days. What are your expectations from this model, what it is supposed to, what is the role of the Indian market?
- Siddhartha Lal:** So, we certainly expect India to be the biggest market for this Motorcycle, just because of our sheer brand salience and distribution, our installed base all of that. But we certainly expect exports percentage of 650 to be much higher than our existing models. In India of course, what we are seeing and what we believe is that the large base of Royal Enfield riders, they are the ones who have been extremely interested in this Motorcycle from us that is who we have essentially built it for also. So, that is really the big base that we are looking at. Over time as they are looking at a bigger Motorcycle, we expect that they will be coming to us for the 650 so I mean that is in a very rudimentary sense of course, there is a much wider audience also which could be interested. So, there are two things, one is, of course, we actually expect good sales of these Motorcycles over time because these things take some time to mature and develop. And secondly, it also refreshes and acts as a halo for the brand. I think that is the other very important thing. So, with so much interest around the Twins, we expect a lot more people to come into our stores and of course, some of them will buy the Twins but some of them will just buy any of our singles as well. So, that happened in the past, that has happened when we launched our Continental GT for the first time in 2013. We got a huge number of people walking into stores and maybe they bought the Classic 350 but they were walking to stores. So, it does dual things of halo bike and of course, and also upgrade sales.



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- Jinesh Gandhi:** Okay. And do we see risk of cannibalization with Classic 500 or Thunderbird 500 or that is unlikely to happen?
- Siddhartha Lal:** Well, our general view on this matter is that overall, it is what grows that works for us, impossible really to say about cannibalization. It is not impossible to say but it is impossible to predict, let us put it that way cannibalization. And of course, there may be some element of that but yes, overall if the whole pie grows, which we certainly believe it should then we are okay with that.
- Jinesh Gandhi:** Understood. And the last question on VECV. So, are we seeing any impact of an increase in rated load so far on the mix or volumes?
- Siddhartha Lal:** Not just yet my understanding I mean we have upgraded our portfolio by in large to the increase rated load. I mean, you have seen the numbers it has not dramatically changed as yet. We will see if that has any effect, I cannot say immediately that there is an effect.
- Jinesh Gandhi:** Understood. And on the financing side, any issues are we facing or customers facing on VECV?
- Siddhartha Lal:** As in?
- Jinesh Gandhi:** Availability of finance particularly from NBFCs?
- Lalit Malik:** Nothing like that has hurt the business actually but I think the next few months will be a little clearer as to how the NBFC part of the business is. So, concerns are there but we are not seeing any, anything dramatic which is hurting the sales.
- Moderator:** Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** My first question is a housekeeping one, on the gross margin we have seen a very strong improvement. Is it largely driven by the revenue mix profiling that you indicated or there is something else into it? And also, the commodity cost pressures are they visible and when can we expect the further pressure?
- Lalit Malik:** So, both the things yes, the mix was clearly better. And like we said the premium products are fetching us decent traction and that is helping the gross margins clearly that is point number one. And number two like I said, it is not only us, every company which has a very strong VAVE, cost management kind of programs and their engineering and manufacturing shops to manage the commodity price. Commodity price are still, the pressure is still strong.
- Chirag Shah:** Is it possible to give some indication when you say strong, how much was the impact in the quarter? Other things in equal, how much your cost basket would have gone up because of commodity pressure?



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- Lalit Malik:** I am not prepared for that but yes, I mean...
- Chirag Shah:** Broad indication because... And the second question I had was on capacity, so you indicated that current production capacity is at 2,300 to 2,400 per day and what are the loss of production because of a strike that we are facing right now?
- Lalit Malik:** So, for the one week of September it began at 24th September. So, one week of September plus October both put together is about 25,000 bikes.
- Chirag Shah:** But currently, would it be 800 unit to 900 units fair assumption?
- Lalit Malik:** Sorry.
- Chirag Shah:** Is 800 odd units a day a fair assumption to look at?
- Lalit Malik:** Correct.
- Chirag Shah:** And the ramp-up of this current Vallam phase, so when in case you enter quarter four, how much will be the production capacity available?
- Lalit Malik:** Vallam Phase-2 is more than a year away.
- Chirag Shah:** No, Phase-1, have we fully ramped-up the Vallam Phase-1.
- Lalit Malik:** Yes, we fully ramped-up. Phase-1 all completed.
- Chirag Shah:** All completed, okay. And just one last question on the Twins, if you can indicate when the production would really meaningfully start because whatever I read about it, you are still entering newer markets and the availability, the dispatches would start actually somewhere 2 - 3 months down the line around February - March. Is it the right understanding that February - March would be the beginning of dispatches of 650cc Twins?
- Siddhartha Lal:** No, we have already started series production. But in our new process, let's say we ramp-up slowly, so we do not ramp-up very quickly. So, yes, production has very much started for sale to consumers. So, this is not just for display bikes, test ride bikes, media bikes, this is actually for sales to consumers, the production has begun. And depending on logistics, on timeliness, on other such things, shipments will start relatively soon. So, for example, right now bikes are already moving around the country for display and test ride requirement, right. So, we are quite a bit to fill for display and test ride itself. Soon bikes will be moving outside of India again for display and test ride, and then shortly after that bikes will start moving for the initial consumer deliveries. So, this is all happening this quarter itself actually and of course, for international, it will be bit more next quarter.



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- Chirag Shah:** Okay. And just a clarification, on the inventory in the system, so because your production capacity right now is around 60,000 odd units. So, what kind of inventory you have or what kind of room you are having as of now to keep on building slightly higher than the production rate?
- Lalit Malik:** Chirag, this is the great question for next quarter, we will tell you exact wholesale and other stuff.
- Moderator:** Thank you. The next question is from the line of Raghu Nandan from Emkay Global. Please go ahead.
- Raghu Nandan:** Sir, just a couple of queries. Firstly, on the Disc Brake availability, the issues you said will get sorted in the next 2 months, is that right?
- Lalit Malik:** Yes, by in large, yes.
- Raghu Nandan:** And sir, the second thing is on the Vallam Vadagal Phase-2 you have said that will be coming on stream only by end of FY 2020?
- Lalit Malik:** Yes.
- Raghu Nandan:** Okay. Just one data point I wanted. On the engine volume in VECV, Medium Duty Engine Project?
- Siddhartha Lal:** So, Vallam Phase-2 will be from second-half of 2019-20
- Raghu Nandan:** So, it will contribute to the FY 2020 volumes, correct, sir?
- Siddhartha Lal:** It will. But to a minor extent because we take time in ramping-up, right. So, first 2 - 3 months will be slow production and then it will start moving upwards. So, of course, it will have some benefit on FY 2020 but not an enormous amount. You cannot say 6 months benefit. I would say more like one quarter, 3 months benefit you would have because of the ramp-up speed and the Medium Duty Engines, we have grown by 23% last quarter to 11,362 units. So, that is yes, 11,362 units.
- Raghu Nandan:** Sir, just one last question, on the Thunderbird X that model volumes and dispatches have been ramping-up well. Just wanted to understand, how far can it go and what is the production capacity there?
- Siddhartha Lal:** There is not a major production capacity issue, we cannot tell you exact model potential, we are not talking about that. But of course, the reception has been excellent, it has given a whole shot in the arm to entire Thunderbird franchise. So, Thunderbird franchise has grown tremendously because of the Thunderbird X and what was the other part?



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- Raghu Nandan:** That was it, sir. Like I just wanted to understand what was the potential there and I mean, on Karnataka and Maharashtra any comments on how you are looking at these states and given that you know like these are states where the acceptance for new products has always been on the stronger side, how do you expect the 650 Twins to be accepted in these states?
- Siddhartha Lal:** Very well. Fairly we do, I mean we expect, basically in bigger cities to start with and then going down to other places. I think, there is a lot of pent up demand and there is a huge amount of interest and especially, with the first media reviews which have come out which have been exceptionally good, the interest is even higher. So, yes,
- Lalit Malik:** Moderator, we will make this the last question.
- Moderator:** Okay, sir. The next question is from the line of Amyn Pirani from Deutsche Bank. Please go ahead.
- Amyn Pirani:** My first question was on the Himalayan you know in its second launch or second coming, this model has ramped up to something 1,000 a month and it looks like it is being used not just as an enthusiast but also for commuting. So, can you just help us understand because now going forward you will have a lot more launches, the Classic 350, the share is slowly but steadily coming down, so what has been learning from the Himalayan, it was launched first but then it got discontinued, it got re-launched again and seems to be successful. So, I mean what are the internally learnings and which we should see in the other models as well.
- Siddhartha Lal:** So, first and foremost on the new product introduction process, we had an entire ground-up upgrade for our Twins. So, you are seeing that we are doing, we are basically testing the hundreds or thousands, in fact, more than that even millions of kilometers of equivalent testing that we are doing on the Twins helping bike's full tooling, right? So, that helps us in full very different level, global level of validation. In fact, some of the mileage requirements that we have for the engine and other things are even beyond let us say typical European, American requirements. Also because in India people use the bike more than they do in European, American conditions, right? So, yes, basically the level of validation, the level of finesse the number of people we have put on the project is 5x in terms of any other project before this, I am talking about the Twins again. So, the finesse is visible. The type of talent we have put in is also of much higher caliber now. So, that is what you are going to see in the future. So, already in the Himalayan like you said BS-4 has had an extremely strong reception and in fact, we do not even push very hard the Himalayan because we just want people to realize how amazing the model is and then nurture the brand which we are doing right now and it continues to grow for us. So, yes, you are absolutely right, the idea is to have products like Himalayan, to have products like TBX, Thunderbird X to have products like the Twins, which will diversify our franchise a lot more and then in order to sustain and grow our Classic franchise, we have things like Signals and other





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interesting things which are also happening on the time, Gunmetal Grey, Stealth Black, all those ideas that we have which will set them the core as well. So, that's the general direction for sure.

**Amyr Pirani:** Thanks, that is helpful. And just lastly, one clarification. On your capacity, so leaving the strike aside, this year you had mentioned that you could do a production of 950,000. So, given what we already know today, what is the numbers like potential production capacity for FY 2020?

**Siddhartha Lal:** So, yes, I think you have said it very well. Our production target for the year was always 950,000 and normally with so much increase in production, the sales is typically less than that because you have to add more in the if you have so many numbers of days of finished goods, stocks required for inventory then those numbers go up. So, notwithstanding that we have to-date we have lost 25,000 of this 950,000 of production capacity. And as we speak, we are still losing a little bit. There were talks, I think the first question, I had some questions about recouping. And like I said, right now in fact we are still losing production. The recouping, we can only start thinking once we have ended the strike and then we can consider ideas and ways to recoup. I mean right now clearly I would say 925,000 is the current production I mean we cannot be much better than that. It would not be much better than that for sure.

**Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Annamalai Jayaraj from B&K Securities for closing comments.

**Annamalai Jayaraj:** Yes. On behalf of B&K Securities, I thank all the participants. I would also like to thank Mr. Siddhartha Lal and Mr. Lalit Malik for taking time out to discuss the quarterly results. Thanks to all.

**Siddhartha Lal:** Thank you, Jayaraj. Thank you, everybody.

**Lalit Malik:** Thank you. Thank you so much.

**Moderator:** Thank you very much, Ladies and Gentlemen, on behalf of Batlivala & Karani Securities, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.