



“Eicher Motors  
Q2 FY20 Earnings Conference Call”

November 08, 2019



Jefferies



**MANAGEMENT:** **MR. SIDDHARTHA LAL – MANAGING DIRECTOR AND CEO – EICHER MOTORS LIMITED**  
**MR. VINOD K DASARI – CHIEF EXECUTIVE OFFICER – ROYAL ENFIELD**  
**MR. LALIT MALIK – CHIEF FINANCIAL OFFICER & CHIEF COMMERCIAL OFFICER – EICHER MOTORS LIMITED**

**MODERATOR:** **MR. ARYA SEN – ANALYST – JEFFERIES INDIA**



*Eicher Motors  
November 08, 2019*

**Moderator:** Ladies and gentlemen, good day and welcome to Eicher Motors Limited Q2 FY20 Earnings Conference Call hosted by Jefferies. 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. Arya Sen from Jefferies. Thank you, and over to you, Sir!

**Arya Sen:** Good afternoon, everyone. On behalf of Jefferies, I welcome you to the post results Conference Call of Eicher Motors. We are joined today by Mr. Siddhartha Lal, MD; Mr. Vinod Dasari, CEO Royal Enfield; and Mr. Lalit Malik, CFO and Chief Commercial Officer. I will now hand it over to the management for their opening remarks, which will be followed by the Q&A session.

**Siddhartha Lal:** Very good afternoon to you all. I am Siddhartha Lal, Managing Director of Eicher Motor Limited, and welcome to the earnings call for Eicher Motors Limited Q2 2019-20 so that is quarter ending September 2019. I am going to give you an update on the financials first for Eicher Motors Limited. Overall, due to the general downturn in the industry, our revenue has been down 9% to Rs. 2,192 Crores for the quarter. Our EBITDA is down 26% to Rs. 541 Crores and our EBITDA margin stands at 24.7% for the quarter versus 30.3% quarter last year. However, our profit after tax has actually increased 4% from Rs. 549 Crores to Rs. 573 Crores so that is the overall consolidated financials for Eicher Motors Limited for the second quarter. I now hand it over to Vinod Dasari, the CEO of Royal Enfield to give us the update on Royal Enfield.

**Vinod Kumar Dasari:** Thanks Siddhartha. Good afternoon. Just like the entire market, the volumes were low for everybody, even for RE. For Q2, we sold close to 163,000 motorcycles. It is down about 22%, but exports were fantastic. It grew by 161%. We now did 12,700 bikes in the quarter as against 4,900 last year on account of a very strong response that we are getting from the 650cc Twins and Himalayan.

The 650 Twin, by the way, continues to get a strong response, both in India and international markets. In India, for example, the 500cc-plus market, because of the Twins, have grown by 4x. And I would be happy to note that Royal Enfield became the second largest selling brand in the midsize motorcycle in the UK, and we won the Best Retro Motorcycle award by MCN. We continue to win many awards for this, and leveraging this and also been expanding our international reach.

We now have 57 exclusive stores across 20 countries. We added 9 new international stores during the quarter. We added 3 stores, each in France and Thailand, also and then one store, each in Italy, Brazil and Argentina.



*Eicher Motors*  
*November 08, 2019*

So while there was all those downturn going on, we looked at the Royal Enfield over the last 6 to 8 months to see how we can do lot more innovative stuff and focus a lot more on the efficiency so when we looked at the innovation, we looked at innovation at 3 parts. One was on products, one was on reach and one was on how we do our rides.

The products, we said that we have to make them more accessible and give the customers a lot more options because our customers are unique. And they are not just using it for daily commute. It is not a commodity product. A product defines the customer's personality many times. So we are giving them a lot more color options and lot more options on some of the functionalities of the bike. So we launched the Bullet X, then we launched the single-channel Classic S. We offered many colors, so that has helped us.

We also looked at the reach. Our stores, large-format stores, we have 932 of them, and we had added about 4 this last quarter. But we said that we need to get into a lot more into the rural areas also. And we came up with this unique concept called the Studio Store, and we piloted it early in April or so. It was so successful in few areas that we did, that by August we added 250 of them. And by October, we launched another 250 and we have now 500 of them, fantastic response for these.

Equally, we did a lot of innovation on rides, not just have a ride from any dealer going outside the city and coming back after a breakfast or something. It is very good for camaraderie and good for those who like the free spirit of motorcycling. But how do we take that and make that into a truly exciting experience? So we looked at riders who not only had fantastic riding experience requirement but also had hobbies that they wanted to participate or partake in. So we did something what is called as the 'Astral Ride' for those who are interested in astrophotography, and did a ride with 12 riders, went to the Himalayas. They had fantastic pictures of the Milky Way and truly captured the essence of the free spirit of riding and combining it with the spirit of photography.

Equally, we did a Himalayan adventure, first-of-its-kind, where we took riders to the Everest base camp. 11 riders completing 1,100 kilometers in 10 days, so it is fantastic performance there. Equally, we did this outside of India by competing in the 'Bike Shed Festival' in the UK. We unveiled a Nought Tea GT, and even to our surprise a bit, we claimed the top 2 places in the race.

So we are looking at this downturn as not just something where we need to cut costs and find efficiency that we are doing anyway. We are doing that too quite well, but equally, how do we build in a lot more excitement about the brand and do things in a more innovative manner. And that has resulted, as you know, in fantastic retail in October. And I hope that the excitement continues beyond this also.



*Eicher Motors*  
*November 08, 2019*

Some of you might be wondering about our BS-VI readiness. We are 100% ready. We can start commercial production pretty soon. We are yet to figure out the pricing strategy for that, but we will be ready completely with our BS-VI.

In terms of the capital expense, we have now finished the final phase of the Vallam plant. We are done with that. Our India technology center is ready, and we have new Royal Enfield global headquarters in Chennai, and all the teams have moved in. So all that part of transition is completely done and ready to go. That is about all from the Royal Enfield side. Would you take it back, Siddhartha, and talk a little bit about the VECV part.

**Siddhartha Lal:**

Yes, Sure. So on the commercial vehicles, first, the financials, and then I will give you the business update. So on VECV, there was a revenue last quarter of just over Rs. 2,000 Crores, Rs. 2,004 Crores, down 32%, so that is the result of a very sharp downturn which is going on in commercial vehicles. The EBITDA, as a result, was down 61% to Rs. 105 Crores. So that is the quarter two again and the EBITDA margin was down to 5.2% versus 9% the same quarter last year. Overall, the profit after tax is at Rs. 15 Crores, which is down nearly 90% from the same quarter last year. So while it's been a very tough period and tough quarter, we just about managed to hold our head above water from a profitability perspective. And so, therefore, coming to the numbers, the overall sales for quarter two for trucks and buses, India and international put together, were at 11,400 units, which is down nearly 40% from the same quarter last year. But the industry is down nearly 50%, so as a result, we have gained a little bit of share. It does not add up to that much in numbers because in numbers that is still quite 40% down, but slightly better than the industry. Let us put it that way.

Again, the industry's sentiments continued to be weak due to the economic slowdown, which is happening, and the general down cycle from a commercial vehicle perspective. There are liquidity constraints. There is surplus freight capacity in the market, so the buying continues to be low. Of course, there may be some prebuying before the BS-VI comes in over the next few months, but then again, the fundamentals are still not strong from a freight rate and other perspective, so it may still be a while before the CV industry starts coming back into reasonable shape. So that may still be a while.

Overall, we continued to put new vehicles in the market. So we have two new tippers in the heavy-duty category, both in the higher end value segment, as we call it, of trucks and in construction and mining segments these two are. With very strong fuel efficiency and host of new generation features that we have started to put in more of our vehicles such as Intelligent Driver Information System, Eicher Live, advanced telematics and Fuel Coaching. We have also got India's first 9-ton payload CNG truck, which we believe will serve some niche categories very well.



*Eicher Motors*  
*November 08, 2019*

More so, we have had an excellent response now to our Pro 2000 series, which is our new light duty truck platform that we have. We now have 1.8 meter with cabin which is getting us into, let us say, the narrower roads and spaces and as a result of this new product which has come out, we have actually gained market share in the sub-5 tonnes so this is a 3.5- to 5-ton category we are talking about. We have gained market share from 25% to 31% and we continue to make further inroads by improving our distribution for these smaller levels of trucks in cities where they sell more than in the outskirts. So that is the direction of going into the Pro 2000.

Overall, we have worked very hard towards readiness of BS-VI and we believe we already have a large majority of our vehicles certified, and the rest of them are being in the process of certification for BS-VI. So it is absolutely on track. We have dramatically improved stock levels to a very strong point in already 5 months before BS-VI comes in. So now we are in a good position in order to make the transition in the first place from BS-IV to BS-VI over the next few months, as well as take advantage of our inherent strength in BS-VI because we have been making Euro 6 base engines for Volvo for many years now. And that is expertise that we have gained over the last many years, will certainly come in to benefit us for much better quality, much better product in BS-VI starting April 1.

So yes, overall, tough conditions in commercial vehicles and also slowdown continues in motorcycles, but some green shoots and strong preparedness from Eicher Motors Limited in all of these areas, giving us a strong position as we move forward despite the downturn. So that is it from me right now. And then over for questions. We have got Lalit Malik as well and Vinod Dasari to answer the questions.

**Moderator:** Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

**Binay Singh:** Firstly, on the ASP side, we have seen ASP expansion of almost 2.1% on a quarter-to-quarter basis. Could you expand a little bit on that? And if possible, share the breakup between exports, domestic and spares.

**Lalit Malik:** You are talking about Royal Enfield, right?

**Binay Singh:** Yes.

**Lalit Malik:** So spares numbers, of course, we will give towards end of the year because that is when the annual report will cover the whole thing. Offhand I can tell that just a sec, let me pull out the number. For the quarter, the overall sales for domestic plus international were 164,000 out of that, 12,700 were exports.



*Eicher Motors*  
*November 08, 2019*

- Binay Singh:** The volume number we know, just to, you know, like in terms of revenue number.
- Lalit Malik:** Yes, that again. So you have what you have right in front of you in terms of the numbers. The split between domestic and exports and spares and other services, basically once in a year disclosure from us.
- Binay Singh:** Okay. Then just on the ASP expansion that we have seen on the sequential basis. What can you tell about that?
- Lalit Malik:** Yes. So clearly the higher cc vehicles are doing well. So there is a whole lot of, let me share the exports number, 12700, I think really is the highest ever. So there is a better ASP realization when it comes to exports. So in India also, the Himalayan and the Twin variants are doing extremely well. It is really driven by that.
- Binay Singh:** Right. Secondly, on the earlier, we had talked about a new plan, the Classic moving to the new platform. When do we see that?
- Lalit Malik:** We have never spoken about it and press reports aside, the only change in Classic that you will see right now is the Classic S which we have launched in a few states at this point in time and we will go pan India over the next couple of weeks. And then of course there is BS-VI, which will happen in Q4.
- Binay Singh:** Right. And just last question. Any number you would share about how much of sales are coming from the studio format of stores?
- Lalit Malik:** So they were set up with the idea that, depending on location to location, they would do anywhere between 8 to 10 motorcycles a month. And it is not about sales only, it is about service also. So it is a full, smaller size, but a full Royal Enfield store. It is a proper dealership in that sense. So all put together, from a motorcycle sales perspective, they were to do 8 to 10. Early days, some of them were just a few weeks old already. But right now, I have to say, the start has been extremely promising. Pretty much everyone is doing that kind of a number. So then we are also talking about October, where things are slightly, not slightly, for us actually it is quite better than the last few quarters of retail.
- Moderator:** Thank you. The next question is from the line of Venugopal Garre from Bernstein. Please go ahead.
- Venugopal Garre:** Just following up on the first question that was asked on the BS-VI transition in the new platform so I mean, rather ignoring the construct of a new platform itself, I just wanted to understand that since there will be a few thousand rupees of increase in terms of cost on account of BS-VI implementation,



*Eicher Motors*  
*November 08, 2019*

but is there a way in which you would have reviewed the entire cost structure in which you could actually launch products where you do not even have to increase pricing? And the way you've done 350S and 350 X for Bullet, so is that something that is a possibility or has been too wishful to think for?

**Lalit Malik:** Like Vinod said in his opening comments, the BS-VI price. You will come about the pricing as and when we launch the various models in BS-VI regime so just hold on for a few more months.

**Venugopal Garre:** Okay. Fair enough. The second thing is we wanted to understand, on the retail side, the industry has seen a good pickup both PV and 2-wheelers. I just wanted to understand if you could give us some peek into how things have been post-Diwali in the last couple of days? I know it's been just a few days, but the idea is to figure out how sustainable that you are seeing a demand anyways linked to the economy? And also, if you could tell us financing levels, festive-to-festive, that would probably be my second question.

**Lalit Malik:** So last few days, frankly speaking it has been I mean, I would say we are positively surprised. I would not say we are hitting the October number and all, but it is still a strong number, that retailing, over last few days. But this is still like some festivals are going on somewhere in the country, so maybe that is reflecting that. Too early to call any trends whatsoever for the month for this month. The other question was on festival-to-festival, how much so?

**Venugopal Garre:** Financing levels, yes.

**Lalit Malik:** Financing levels was higher because of the banks also are kind of a little more aggressive in making attractive customer schemes. And they do it on their own, like in the past, they do not get any support from us so Q2, the financing was 59% as opposed to the usual 53%, 54% that we see, month-on-month basis.

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

**Jinesh Gandhi:** Sir, my question pertains to RE studio. So how has been our experience with RE studio with respect to the customer profile? Are we seeing any cannibalization from the mainstream? And can we get some light on that?

**Lalit Malik:** So 500 stores were launched in the last 3 months, so, too early to call for any trends, but performance-wise, we are very happy. They are doing their job. They are pretty much 20 kilometers to 40 kilometers, depending on location to location, away from the main dealership. And as we have told you in the past that all these studio stores are being given as a first option and everybody has taken it



*Eicher Motors*  
*November 08, 2019*

to the existing dealership. So the catchment that he used to struggle to get in the past, he will put some canopies and some temporary staff would work over there and all. So it was happening in a very handmade kind of a manner. Nothing to reflect the brand the way we want to position the brand so all of that have got changed. Now was he doing 8 to 10 per month in the past, the answer is clearly no because he could not do it for the whole month. Now there is a permanent structure, he could do it on his on the month, pull in the existing staff from the dealership over there, so the level of staff itself is a very different kind of staff that is always there in terms of sales. The breakeven, generally speaking, is about 8 bikes a month, and that is only on bike only because service income will start in some period of time. Right now, everybody is over that. But it is too early.

**Jinesh Gandhi:** True and given that you have already attained 500 RE studios by October, do we expand this further or wait for this to stabilize and modify our approach if need be?

**Lalit Malik:** No. The model is proven because while officially these are called studio stores for the last few months, but experimentally as pilots we have been running these stores for more than a year now in a few locations so the model is proven, on the cost structure, investment patterns, is that everything is in place so I do not think there is a call for any modification. Dealers are happy. We are happy and I am sure customers are happy too because they are buying from these stores. So we will add more stores. We will add 200, 300 store more between now and March.

**Vinod Kumar Dasari:** This gives us a lot more penetration in upcountry.

**Lalit Malik:** Yes.

**Jinesh Gandhi:** Sure. That makes sense, clearly. Second question pertains to our price ladder, which we have done in with Classic and Bullet X, primarily. Again, any trend which we are seeing about how these new lower price variants are doing vis-à-vis single-model available earlier, any insights on that?

**Lalit Malik:** Bullet X is of course a couple of months that we were into the market so the strong Bullet markets showed an extremely strong reception and I am particularly referring to Kerala now. This is the single biggest Bullet market for us. Punjab, NCR, all these places have shown extremely strong interest. Bullet S is still early days into introduction. Sorry, Classic S, the few states in south that we have launched, clearly it has given us incremental volumes. So we will see how pan India works like. But we are hopeful, optimistic that given the initial reaction of the customer to the bike and the color variants, and all that, it will be accepted well.

**Jinesh Gandhi:** Okay understood and last question pertains to our competition. Given that you are looking at our success here and seeing a couple of new entrants, Jawa being one and Benelli being second, does it





*Eicher Motors*  
*November 08, 2019*

call for any change in our approach to market now given there is I think, people are trying to nibble into our volumes. In the past, it was not that concentrated, but with the new launch or new competition, are we looking at any change in our stance in terms of marketing?

**Lalit Malik:** You ask this question every year. I think that every year, the brands change. So some come, some do not come. So right now, absolutely no. We are into our own space. Royal Enfield with all the brand attributes, and that is what the marketing team is doing to permeate those attributes to the world. Product X cum brand, do not really matter in the scheme of things.

**Jinesh Gandhi:** Understood, understood. And lastly, can you spell your capex for Royal Enfield or Eicher standalone for this year and next year?

**Lalit Malik:** Sorry?

**Jinesh Gandhi:** Capex for standalone entity, for FY20 and FY21?

**Lalit Malik:** FY21 will be out in FY21 only so once we are done with our planning for the year or next year I am saying all that stuff, but clearly, the big capex that you have seen from us over the last few years, when we were building up capacity in the tech centers and product development and all that stuff, now it will be clearly lower than what we have done so far.

**Vinod Kumar Dasari:** Most of the capex going forward will be on new products. I do not think we will need to add more capacity or more new centers.

**Jinesh Gandhi:** Right. So for this year, it would be about Rs. 700 Crores as indicated at the year?

**Lalit Malik:** Yes. That is what we said at the beginning of the year. Yes.

**Moderator:** Thank you. The next question is from the line of Ruchit Mehta from SBI Mutual Fund. Please go ahead.

**Ruchit Mehta:** Just a couple of questions. One is that, could you give us a sense that what was the retails during the 32, 33 days of festive period this time around versus what happened last time? And did we see what kind of movement on a year-on-year basis? And the second is that, you spoke about having very great response to all these new launches, to Bullet X, in the certain markets that you've launched, would you say that, that it reflects that the market is fairly price-sensitive at this point, and therefore, getting a product at a particular price point is crucial to sort of stimulate demand again?



*Eicher Motors*  
*November 08, 2019*

**Vinod Kumar Dasari:** I can answer the second part of the question. I will ask Lalit to see if he can get the data on last year to this year. So Bullet X was not just about price, it was about giving a lot more options on colors, letting the customer choose what he wants the bike to look like. Even with Classic, if he wants only a single-channel ABS, then he gets it. If he wants a different color on it or change the fuel-tank, he gets it so the personalization options, the customization options that we offer with Bullet X and Classic S has gone up substantially. So it is not just a cost reduction exercise. And by the way, we actually limited the Bullet X production because it was a way to get the customer into our stores. And then give them all the options that we offer. And so because if you look at just the Bullet X sales, I mean, they have gone up, of course, from 0 to whatever they were, but equally, Bullet sales have gone up, Classic sales in some parts have also gone up. So I hope that helps.

**Ruchit Mehta:** So is there, in some sense, that the variety or broad pricing is drawing in the customer, and therefore, you may have come thinking that I want a Bullet X but you could have ended up buying, say a Classic 350 S or something completely different, will the customer do that?

**Vinod Kumar Dasari:** Yes. The first thing that our salespeople should do is when a customer walks in is to understand the customer very, very closely and then suggest to him, what would be the best bike for them. Many a times, the customers made up his mind before he walks up the store but when he comes in, we can show them all the products that we have. We can tell him the attributes of the other products, how he can get something better if he wants or a higher model. So it is not like a cost reduction exercise, but an exercise to do 2 things. One is to bring the customer in and regenerate or reignite the interest in Royal Enfield brand, but more importantly, giving fantastic options to the customers in terms of the ability to personalize. In my few months, best sentence that I heard from one of our customers was “Hum Bike nahin chalte hain, Hum Bullet chalte hain.” I mean, that is in one sentence, that defines my customer base that is so proud of their ownership. But he just wants slightly more color or slightly more personalization, and this offers them the opportunity to do so.

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

**Gunjan Prithyani:** Thanks for taking my question. I had the same question on the festive, if you can share how has been the festive retail versus last year or similar days?

**Lalit Malik:** Whichever way you cut it, it is the highest ever so whether you take a calendar month or you take from X period, end of Shradh to this, that and the other so all I can say, this is our best ever time in terms of retails that we have ever clocked.



*Eicher Motors*  
*November 08, 2019*

- Gunjan Prithyani:** Sure. So what I am just essentially trying to understand is it like a really double-digit growth versus last year retail, mid-single digit. Any sense, of course, it has been record sales but just getting a sense would be good?
- Lalit Malik:** So double-digit over last year. But you do not know the last year numbers, so let us say you figure it out.
- Gunjan Prithyani:** Okay. And could you talk about the inventory levels now at the channel as well as the factory? And did we see wait period on any of the variants. So how will we be approaching the inventory now, here on, given that the BS-VI also comes through from early next year?
- Lalit Malik:** I am sure your channel checks would have given you some sense that inventory is really, really low, in fact, during this in the last rush of the festival time, last week or so, in October, there were many stores in Bombay and Delhi which were having stock outs. And we got desperate calls from dealers asking for more stocks and all that stuff. So it is very, very low and now it is going to be the retail and wholesale are closely going to follow each other as we move into the BS-VI, because we do not want any kind of a buildup anywhere on BS-IV stocks.
- Gunjan Prithyani:** Will it be below 2 weeks now?
- Lalit Malik:** It is slightly above.
- Vinod Kumar Dasari:** That is the pipeline.
- Lalit Malik:** Yes, dealer plus company plus goods-in-transit all put together is less than 3 weeks.
- Gunjan Prithyani:** Less than 3 weeks, okay. And on the festive, I just had another follow-up. Have you seen any divergent trends that as you said, Mumbai and Delhi had a stock out? Kerala did good for you. Was it that the mature markets are coming back more strongly, or you saw the similar trends across less penetrated as well as the mature markets?
- Lalit Malik:** India is all about festivals, but this festival time was more about north and west. The south will happen in January. But strong tides came in, everything went up. There is nothing to pick and choose. Every market, especially north, west and east did well.
- Gunjan Prithyani:** Okay and lastly, on Twins, if you can share where are we in terms of because it was available only in limited dealerships. Where are we in terms of the availability of Twins? And what is the kind of



*Eicher Motors*  
*November 08, 2019*

running book or run rate of bookings we have seen or any back book that you can share on the Twins in the domestic market?

**Lalit Malik:** Sorry. What was the last line?

**Gunjan Prithyani:** The order book in the domestic market.

**Lalit Malik:** So it is still doing very well. We are clearly at the same level as we were in Q1. So Q2 was interesting. We had to cut down domestic sales. We still have to ration a bit because international demand from Europe, from US, from Americas and from ASEAN were extremely strong. So as you know, some of these countries are also 12 months retail countries as well. And we are opening up new stuff in Japan, Korea and so on and so forth. So it is a very, very strong demand for us. So nothing exceptional to report apart from rise of the Twin exports internationally. And domestically, we held our Q1 kind of numbers largely.

**Gunjan Prithyani:** Sir, booking is holding on to so your back book largely running still at the same because your production has largely been stable month-on-month in the domestic market, I mean wholesales in domestic markets. So essentially, we are continuing to see similar run rate on Twins in terms of booking.

**Lalit Malik:** Yes. Production right now is not a constraint for us. So we have upped internal capacity a bit. More will come in next year. So that is not a constraint for us at this moment in time.

**Moderator:** Thank you. The next question is from the line of Chirag Jain from SBICAP Securities. Please go ahead.

**Chirag Jain:** So my question is on gross margins. We have seen a sequential decline in margins whereas the other 2-wheeler companies have reported almost 150 to 200 basis points sequential improvement, largely led by commodity cost benefit. So how has commodity played out for us in this quarter and probably, what could be the outlook going forward?

**Lalit Malik:** There wasn't a lot to extract between Q2 and Q1. So I am not comparing with others, I am talking about our own company. So we reported what we reported and the slight decline, as you see, is a 0.3%, 0.4% decline at that level was largely because of the product mix. So some of the countries, especially in exports that we are now exporting too, are not the high-margin countries for us at this point in time because of high tariffs and all the stuff and we still want to be very competitive. So the pricing is linked to the market. But the cost is not because that is in some of the other things that will play up, so nothing much over there.



*Eicher Motors*  
*November 08, 2019*

- Chirag Jain:** Okay. And our margins have been declining over the last 4, 5 quarters. So any guidance would you like to give where our margins can stabilize?
- Lalit Malik:** Just dial to the next call, and we will have further updates.
- Chirag Jain:** Okay. And just last thing, on pre-buying ahead of BS-VI, do you think that our customer profile or first of all, are we expecting any major pre-buy in our segment of Motorcycles? And are we preparing for that? Or do you think that our customer profile may actually prefer to buy BS-VI, let's say, fuel-injection motorcycles?
- Lalit Malik:** Very hard to say till you actually we put those bikes out there. And of course it depends on pricing as well, whatever pricing of BS-VI Motorcycles, but propensity for the customer to inch up a bit, in terms of pricing, I think that is there for a Royal customer that we have seen in the past. So really the function of how the pricing plays itself out initially, which will determine the BS-VI. But does he want a better vehicle in terms of fuel efficiency and EFI and all this systems? I think the answer is yes. EFI is not new to us. We have been doing EFI for a while in some of the other variants, and we are very happy to give out a pay for the larger pricing that is charged on that.
- Chirag Jain:** But we are not expecting any major pre-buy or probably we are not even preparing for a major pre-buy ahead of BS-VI? In terms of pushing up inventory and probably clearing out in fourth quarter?
- Lalit Malik:** Inventory, I do not think will be the trigger for us to take any action because the pipeline inventory itself is quite low at this point in time and from here on, we are just about managing the wholesale and the retail quite closely. So we would not allow any build-up of stocks anywhere so last time also but there was no pre-buying and I am speaking of bikes now because this whole inventory that was piled up with so many people, brands. That they also have to offer massive cuts and all this stuff just to clear all the stock. So that looks like a pre-buying but actually it was a price discounting just to clear up the stock. We were never in that position then, and I do not think, it is from the way we are thinking and planning internally, we would not be in a position now. So in the past, the emission regime had not triggered any pre-buying, whether this one will or not, we will have to just wait and see. But one should be prepared for it. I am not saying that one should not be prepared for it.
- Moderator:** Thank you. The next question is from the line of Kumar Rakesh from BNP Paribas. Please go ahead.
- Kumar Rakesh:** My first question is in continuation to what Binay was asking earlier. So over the last 3 quarters, we have seen revenue per unit growing continuously by around 13%, 14%, now without getting into any specific details on that. Can you give a broad sense as in this 13%, 14% split across price increases,



*Eicher Motors*  
*November 08, 2019*

mix and other sources like accessories, merchandise and spares. What would be this 13%, 14% is getting driven from?

**Lalit Malik:** It is actually none of those. It is a fact that we have added many features of the bike largely led by regulations. So about a year and half back, we introduced the rear disc brake, then came ABS, especially in April 1st when all the bikes had to be ABS compliant. So this added to the cost and hence to the price, and therefore, you are seeing the upturn. Of course, on all the things that you mentioned that apparel, accessories and so on and so forth, there has been an uptick in the top line as well. But as opposed to the big feature introduction regulation led they were much smaller.

**Kumar Rakesh:** Understood. And on the Twins part. So we understand that it is running in order book, especially in the domestic market, so what is your production capacity expansion plan, especially for Twins in the coming months?

**Lalit Malik:** Production does not matter. Demand matters. So like I said, we are prepared for higher supplies. The demand will improve to some extent. And like I said, the slightly bigger production ramp up will happen early next year. Right now we are in good shape in terms of Twins' supplies.

**Kumar Rakesh:** Okay and finally, you had earlier guided for margin to be in the band of 25% to 30% in the standalone business. This quarter, we were at 25%. So you would still hold to that range of margin guidance, right?

**Lalit Malik:** Within the framework, yes, this is a framework there is always a margin range, but frankly speaking when I made the comment, I had no idea that the industry will fall down by 22%, and we will also fall down by 22%. We are doing slightly better, industry and Royal Enfield kind of performance.

**Kumar Rakesh:** Is it fair to interpret that this should be the bottom from the margin perspective?

**Lalit Malik:** Like I told Chirag, dial in for the next call, and you will have better answer from us then speculative answer for the time.

**Kumar Rakesh:** Sure, I will do that.

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

**Sonal Gupta:** So one question was again I mean, like you said, we are seeing a very good ramp-up on the export side in terms of the 650cc demand. I understand there is a seasonality also on the international side.



*Eicher Motors*  
*November 08, 2019*

So do we see these sorts of levels at 3,000, 4,000 sort of sustaining going forward or do you think there is a seasonality, which could sort of impact that?

**Lalit Malik:** So, from 12,700 that we did in Q2, seasonality will definitely impact that number in Q3 and Q4 but we are slightly more hedged than in the past. We are still exporting. We will start some exports to Latin America, which is not a 6-month riding market. It is more than that. Asia-Pac, a large part of Asia-Pac is also a longer kind of markets. So a little bit of a hedging is there. So some amount of hedge is there but for the next few months, it will also come down a bit from 3,000, 4,000.

**Sonal Gupta:** Right, but in terms of the longer term, like Thailand, you are expanding significantly. You have opened, like this year, I think the target was to scale up to about 10 stores. So are there any other markets in the next year, which you could see a similar sort of significant rollout?

**Lalit Malik:** The markets that we entered over 2, 3 years back and we kind of tested those markets out in terms of the brand, the products, the customers, how do they see the brand and everything else that we do was actually marketing activities and all those stuff. That is 2, 3 years. So Thailand has crossed that time. So hence, the expansion starts. Brazil also, we used to be one store for 2 years and now it is going to 8-9 stores towards the end of the end of the year, so nothing new at this point in time. Actually, nothing new at all in terms of markets that we may be interested in. It's just sensing the presence in these markets alone is quite a task.

**Sonal Gupta:** Right. No, what I was trying to understand is, like, I mean, obviously, there is a big jump because the portfolio has been significantly enhanced with the Twins coming in. But beyond this, do we see this momentum continuing? Or, I mean, like the growth could slow down very substantially next year?

**Lalit Malik:** No, I do not think that this will come down substantially. There was a lot of work. While we say we are in Europe, but we are still a very small player over there in terms of distribution. We have done very well over the last few quarters in Europe. You cannot call us that we have the distribution that we ought to have. We are far away from them. So entering the market and being present in the market versus growing the market. In some of these markets, in US for example, I think we have about 100 touch points, but the US does not deserve 100 touch points, it deserves many hundreds of touch points. So entering, establishing and now looking at growth. I think we are in the beginning of the growth stage in some of these markets that we have been there for a while.

**Sonal Gupta:** My second question was, if I look at the 150cc and above market share? And I mean, even though you had a pretty sharp decline. You are actually gained market share in the second quarter. Now we are looking at wholesale numbers. I mean, your decline also started earlier there because, I mean, do you think that was because you moved to ABS and rear disc earlier? And then people effectively moved to



*Eicher Motors*  
*November 08, 2019*

ABS, etc., only like because they had so much of stock in the inventory in the channel that effectively May-June is when people really started shifting to ABS for the 150 to 250cc guys. So as the relative price gap has closed, your market share is improving there? Or am I just reading too much into the data?

**Lalit Malik:** So at very least, you are partially right, if not completely right over there.

**Sonal Gupta:** No. What are your thoughts on how it is that? Is that really I mean, is that the case?

**Lalit Malik:** I do not know how you want to place brand like Royal Enfield in your larger scheme of things, but when there is a slowdown the consumer sentiments begin to weaken up and all the stuff, maybe then the brand Royal Enfield are the first ones to feel the headwind because we are right up there. And when it begins to reverse out, maybe we will be the first persons to gain. I mean, this is all speculative now. It is a very casual conversation. Then, of course, there is a channel problem. We have less channel and others have more and all of that stuff. So that, of course, adds as I said you are partially right over there.

**Sonal Gupta:** Okay. Thanks a lot. Thank so much Sir.

**Moderator:** Thank you. The next question is from the line of Yogesh Aggarwal from HSBC. Please go ahead.

**Yogesh Aggarwal:** Just a couple of questions on the Domestic RE business. Firstly, any color you have on the profile of people who came back to buy RE in October and in November. So the pickup, was it driven by salaried class, self-employed or the business guys? And then secondly, a few months back, you changed the service intervals and also authorized service stations to use semi-synthetic oil. Any early feedback of that, anything which is helping dealers to pull more customers and expand the kind of addressable market?

**Vinod Kumar Dasari:** So as far as the profile of customers is going, we did, as Lalit pointed out, sold a lot more in North and West and because of the studio stores, we had a lot more upcountry sales. So there was some change in profile. In fact, states like UP did far better than states like Maharashtra. So there is some bit of change happening there. The second question you had was pertaining to the oil change and all of that. Yes, that has gone up very well. It has already been proven the same semi-synthetic oil we were using on other stuff. But as far as the dealers go, their profitability has improved because there is a much higher penetration of extended warranty programs that we launched recently in the AMC program. So the service market share, which is the paid service after our warranty has gone up for all our dealers. So that is helping the dealers enhance the profitability also.





*Eicher Motors*  
*November 08, 2019*

- Moderator:** Thank you. The next question is from the line of Kapil Singh from Nomura. Please go ahead.
- Kapil Singh:** Yes. Just wanted to check has the spares and accessories revenue for the year, do we expect it to grow in double digits. In the past, we talked about initiatives, which are being taken on accessories front as well. Is there a broad direction on how is it trending?
- Vinod Kumar Dasari:** It is growing at double digits, and I hope that it will continue at that trend.
- Kapil Singh:** Okay, that is helpful. And secondly, on the commodity side, should we expect some benefit to flow in now that we are hearing that there has been some reduction in steel prices, particularly?
- Vinod Kumar Dasari:** If there is a reduction in steel prices, I'm sure we will also get the benefit of it. But I do not want to project a certain margin increase or something as a result of it as of now.
- Kapil Singh:** Okay and Sir, you also talked about the kind of initiatives you are taking on various types of rides. Could you give us a sense of what is your estimate of how many customers of ours are doing rides every year? So out of, let us say, 4 million or so people who own the vehicle, how many of them do ride every year?
- Vinod Kumar Dasari:** Dealer does 1 or 2 rides every month. So that is thousands of rides per month and each ride might have anywhere from 10 people to may be 30 people. So we have 3 types of rides. That is just one. The second is where we have marquee rides like the fantastic ones like we have the ride to Mustang. And these are what I was talking about earlier, not just going to some fantastic place, but also combining it with people's interest like photography and all that and it is also about how we are doing this ride. For example, we have been doing the Himalayan Odyssey now for 14 years. This time around, we made one simple change, we said 'No Plastic'. So along the entire route, we set up water treatment facilities and gave water cans for people to carry along with them. And we left those water treatment things there for the community to use. What is interesting that we have brought in, which is causing quite a bit of excitement in our riding communities that recently we launched something where every dealer is being asked to do something where he promotes riding with a cause. So whether it is cleanup of a beach or whether it is planting some trees or cleaning up some garbage or something like that the goal being that every ride should leave the place better. And that is catching on, especially with the younger generation to do something very positive. Riding and the interest in Royal Enfield, if you want to see there is a metric we have, every year, what is called as Rider Mania. It is a paid event where customers come after paying and they drive their bikes all the way to Goa and we were thinking we will get some 5,000 people. I think we had to shut it down because it has crossed 7,000 people. Now it is 8,000 people who are coming to Rider Mania. So that shows the interest is only growing in Royal Enfield. I hope that helps.



*Eicher Motors*  
*November 08, 2019*

- Moderator:** Thank you. The next question is from the line of Basudeb Banerjee from Ambit Capital. Please go ahead.
- Basudeb Banerjee:** A couple of questions. First one, if we see in this quarter, each and every auto OEM has improved their gross margin sequentially; most of them cited favorable raw material prices as a prime driver. For you, we are almost seeing sequentially flattish RM to sales. Should we expect some scope for reduction on that front in forthcoming quarters?
- Lalit Malik:** You have to wait for the fourth quarterly concall to happen. Like I said, the raw material expectation from our perspective is not that heavy for the quarter plus also the fact that I think most of the other brands, most of it, if not all of them, have taken some price increases, and we have taken just a Rs. 350 bucks price increase at the NSP level in mid-August. So just not raw material, we also had support of I mean, that what I could gather from what I read. Also the advantage of price increases, which were far bigger than the price increase we took.
- Basudeb Banerjee:** Second question, Sir, like from some thousand units of exports a year back. As Dasari Sir said, you have ramped up almost 4x. So how much of that wholesale jump in exports is actual retail and actual, from a distribution enhancement perspective, just to understand, Sir?
- Lalit Malik:** So in international sales, all the bikes are made in Chennai, there is clearly a bit of a lag between wholesale and retail. Because first the bike has to reach U.S., which is a 2, 3-month process and then go to RENA that is our distributor market company. And then to the dealer also there are 2, 3 steps, including a long sea journey which is involved over there. So on an average, anywhere between 2 months, 2.5 months, counting the shorter sea routes like Asia-PAC and the longer sea routes like U. S. and all two months is minimum clearly before it shows up as kind of retail.
- Basudeb Banerjee:** Just from a positive perspective that the export momentum continues. But just to be on the safer side, hope that we do not see after 4-5 months that the certain surge in exports was more of inventory pile up at the foreign dealerships and then the supply starts contracting so just to understand from that angle?
- Lalit Malik:** Thanks for reminding us, we will keep a watch.
- Basudeb Banerjee:** I hope for the best.
- Moderator:** Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.



*Eicher Motors*  
*November 08, 2019*

- Chirag Shah:** My first question is on other expenses and staff costs. We have seen a considerable slowdown in the growth that we used to see in the past, a few quarters back, so is there a change because you were in expansion more hiring mode and you are in different locations and spending on development as well as marketing in the export markets. So this activity, how should we look at going ahead? Now the pace would be more aligned to the revenue growth? Or is that a certain investment phase behind us?
- Vinod Kumar Dasari:** I think, like you said, I think most of the investment, whether it is in capital investment or in human resource investment, most of it is done. But at the same time, there are a few areas that critical skill sets are required, and we are hiring in those. It is not like we shut down hiring or we are laying off people or anything like that. But as we mentioned right at the beginning, capacity enhancement, whether it is of production or of human, I think it is now going to go at the same pace as other growth that we are seeing.
- Chirag Shah:** So why I was asking this because in the past, when we were seeing a strong gross margin expansion, our EBITDA margins were not expanding, primarily because of investments that we are doing in employees and there are just marketing spend and there are other expenses or line items. So can we see some support coming to margins because of reduction in those activities or we have achieved the desired scale so the reinvestment requirement is on the lower side?
- Vinod Kumar Dasari:** I think the investments will be lower. I do not think it will come down, but I think the growth at which it was happening will probably be slower.
- Lalit Malik:** For example, we set up a market company. You cannot set it up with 1 person, you have to have at least a team of 5, 6, 7 people to start a market company because you want to man all the critical functions over there. For example, in the US If you look at the disclosed number also between 2015, when the RENA, which is the US market company started operations, to now at the end of March it was very close to breakeven. So there was an initial investment, whether it was marketing expenses, or the employee costs that had to be supported in some sense, but now it is all squaring off, and you will see that happening more and more over the next few years. I am not talking about RENA but all the market expansion that we have done, will take about 3, 4, 5 years to kind of square off. And then of course, the returns are positive and contribution to the P&L begins to happen.
- Chirag Shah:** Second question was on this financing intensity. So you indicated that during festive, there was an unusual financing intensity from the financier. Has the intensity continued or it was more of a festive period where they were more accommodative on various aspects?
- Lalit Malik:** There has been only 5, 6 days for the month's start, so not much I can say at this point in time, but there were schemes and I do not think most of the schemes were not festival linked. I do not know



*Eicher Motors*  
*November 08, 2019*

about others, but in our case there have been maybe 1 or 2 schemes which was festival-linked and this is a short duration only and all that stuff so most of it will go through to the months. But as of now, what is happening over the last 5 days, I do not have the numbers for the last 5 days of financing levels.

**Chirag Shah:** On the capacity side. So what would be our manned capacity right now because our installed capacity is far higher than what we are producing, so what is the installed and the manned capacity if you can just indicate that?

**Vinod Kumar Dasari:** Manned capacity is mapped exactly based on whatever is the indent. So we do have some flexibility, not complete flexibility with manpower, but I think in the last few months, we have reduced the temporary manpower by about 1,800 numbers or something.

**Chirag Shah:** And our installed capacity would be based on all the 3 plants that we have?

**Lalit Malik:** Chirag, suffice to say, if you order a bike you will get a bike very, very soon. How does it matter? We will take the last question now.

**Moderator:** Sure, Sir, this was the last question. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

**Siddhartha Lal:** Thank you very much for attending the call, and all the best. Happy New Year. It is going to be in a while. Thank you. Bye-bye.

**Moderator:** Thank you very much, Sir. Ladies and gentlemen, on behalf of Jefferies that concludes this conference. Thank you for joining us. You may now disconnect your lines.