



**“Eicher Motors Limited
Q2 FY21 Earnings Conference Call”**

November 12, 2020



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

**COORDINATOR: MR. KUMAR RAKESH, ANALYST – INDIA AUTOS,
TECHNOLOGY, BNP PARIBAS SECURITIES INDIA**



Eicher Motors
November 12, 2020

Kumar Rakesh: Good evening everyone. On behalf of BNP Paribas, it's my pleasure to welcome all of you to the 2QFY21 earnings conference call of Eicher Motors. I wish all the participants a happy and safe Diwali. To discuss the results, we are joined today by Mr. Siddhartha Lal, MD & CEO - Eicher Motors, Mr. Vinod Dasari, CEO - Royal Enfield and Mr. Kaleeswaran Arunachalam, CFO - Eicher Motors. I will now hand over the call to Siddhartha for his opening remarks. Siddhartha, wish you a very Happy Diwali and over to you.

Siddhartha Lal: Thank you Kumar and a very Happy Diwali to all of you as well and welcome to the quarter two FY21 earnings conference call by Eicher Motors Ltd. The September quarter had an actually healthy demand after a while and there was a pick-up in business activity in the automotive industry in most segments. We saw a pretty quick demand recovery in our motorcycle business which was supported by the opening of metro/tier 1 cities. Commercial vehicle industry also saw some signs of improvement and we did manage to gain market share across segments though it's at a lower level still. Of course, during the very tough times of Covid, we ensured health and safety for our employees by taking appropriate measures, providing medical support and all of that has added logistics and costs but of course we have borne all of that. We have also added over 50 buses for the staff and re-designed the plant layout. We practiced social distancing and almost 8,000 tests were done for the detection of Covid, so lot of areas were done. In line with the pick-up in production activities, we also hired more than 5,000 people at the plant. And productivity perhaps is also little bit lower because of the stringent requirement, stay at home for some people and various other things. But we have managed all of that by and large.

Overall to give you an update on our results, the consolidated financials for the second quarter ended Sep 2020. Revenue from EML stood at Rs. 2,134 crores which is down 3% from the same quarter last year, of course this is consolidated but it doesn't include VECV. EBITDA was at Rs. 471 crores which is down 13% from same quarter last year. EBITDA margin stood at 22.1% against 24.7% last year, mainly because of the decline of volumes and BS VI transition. Our profit after tax was Rs. 343 crores, which is down 40% and from Rs. 573 crores last year, the reported profit last year was higher because of corporate tax cut, so there was a one-time impact of Rs. 115 crores. Excluding that one-time impact, our profit is down by 24%.

In this period, we're also extremely excited to have launched the new Royal Enfield Meteor 350 which was actually last week. It is an exceedingly refined and easily accessible cruiser for the Indian market and of course for the global market as well. It's an all-new motorcycle. Every part is new with a ground up new engine and chassis, which makes it absolutely smooth, very refined, very accessible to ride it on the open highways and even within the city. It's truly an easy, refined cruiser and next generation from our previous Thunderbird. It was inspired of course by the long distance riding legacy that we have from CityBike Lightning and Thunderbird which has been India's number one highway cruiser



*Eicher Motors
November 12, 2020*

for around two decades. The Meteor does take all this learning and capability to the next level and brings a fabulous new motorcycle, with a great new story right now and especially in times when people are emerging from Covid and want to go out and explore more. This is an outstanding new product, new refresh to the brand which has come in and people have really taken to it extremely well in the first few days of the launch. We are delighted about the Meteor 350. Now I would like handover to Vinod Dasari for an update on Royal Enfield. Over to you Vinod.

Vinod K. Dasari:

Thank you Siddhartha. In the quarter we sold about 149,000 motorcycles, down about 9% compared to 163,000 last year. Exports were down 39% at 7,700 against 12,700 last year. In India the demand recovery has actually been quite strong and the overall bookings in the quarter were more than last year. As production continue to ramp up, strong demand resulted in a waiting period of more than one month. We are ramping up production every month from 30,000 in July to 40,000 in July to 50,000 in August to 60,000 in September and 70,000 in October and even after that the demand is healthy across the tier 2 tier 3 cities and now with opening of the metros we are seeing even more momentum. As I speak to you we have a backlog of more than 125,000 motorcycles in bookings. Now that all are dealerships are also open I think we are seeing very good demand.

Production has seen sporadic lockdowns, caused lot of issues from supplies from vendors especially Pune, Aurangabad side, and had some issues with the availability of workers impacted our production a bit, but by the end of the quarter like I gave you the numbers we got it up to almost pre-Covid levels.

We continue our network expansion we opened 25 regular stores and 133 Studio stores during the quarter, taking my count to 1,717 across about 1,400 cities till September. Internationally, we opened 6 exclusive stores during the quarter taking the total count to 85. We entered countries like Cambodia, Costa Rica and added two more stores in Mexico and one in UK and Thailand.

As Siddhartha mentioned, we have this fabulous motorcycle Meteor and first time ever we did a digital launch, a unique way to reach out to a large number of enthusiasts. It's all new, very refined motorcycle, ground up that we believe that it will completely enhance the riding experience in the middle weight segment and continue to expand the portfolio. Simply speaking it's a very easy cruiser with a smooth and a refined engine and great potential in India and India like markets and even in evolved countries it will be a very good entry level product. Meteor actually comes with the Royal Enfield tripper for the first time, a very easy and convenient navigation part that we developed using google maps. And displays directions in simple and un-intrusive manner, gives you turn by turn real time directions and connects to the Royal Enfield app that is built with the google maps platform, superb response so far. We launched it on the 6th Nov and we are on 12th today and we have more than 8,000 bookings already. So we are enhancing the production of that. We have launched the Royal Enfield app as well as the



Eicher Motors
November 12, 2020

“Make It Yours” initiatives under the Royal Enfield app. With Meteor 350 we wanted to build not just a fabulous motorcycle but also create a whole new way for people to engage with the brand and transform their purchase experience. This initiative both the RE app and the “Make It Yours” initiative provides a whole new way to discover, purchase, own and engage with Royal Enfield. MIY is a huge step to enhance motorcycle personalization. Fabulous, world class digital solution where you can use your mobile phone to decide what you want. It is interesting to note that more than 90% of the bookings now that we’re getting are on MIY for Meteor, balance are places where we don’t yet have the right dealer management software, we are almost at the final leg of finishing it. Truly world class 3D configurator and it’s not just a front end tool, the entire manufacturing operations, dealerships, logistics and software, and everything had to be redone. So literally, somebody orders something with particular degree of personalization, inputs the customer’s name on it. And we promise that we will make it within 24 to 48 hours and then ship it out. So it’s a paradigm shift in manufacturing, we launched it across the 650 Twins a month ago and now on Meteor. Just to put it in perspective, because now the customer can choose multiple permutation combinations. The Thunderbird had roughly around 50 permutation and combination that were available in stock, now to the Meteor the customer can now pick and choose so many different accessories that we have created, so many colour options that we have created, 14 or 15 different colour options. There are 500,000 permutation and combinations that the customer can choose from. So ever since we launched the MIY on the RE app, the usership has doubled. On website, on average, at least 20,000 users have been landing on Twins MIY page since its launch. And all our new models will come with this MIY on all our future launches, is not just a one off kind of a thing but a complete company transformation.

Equally on the service side, we wanted to make sure that our customers who were reluctant to visit the dealership during the pandemic time, we launched the new initiative called the ‘Service on Wheels’ which we talked about earlier. It has taken off very well, we now have more than 800 motorcycles across the country and roughly more than 10% of our job cards are now handled by Service on Wheels.

We opened CKD operations in Argentina and doing very well and we have plans in future to look at Thailand and Brazil as we have mentioned before.

As far as the digital engagement goes, we have leveraged the downturn or the pandemic to significantly enhance the digital engagement. Our online enquiries have gone up 700%, to the point that two of the three inquiries that we get today comes online and the conversion rate, which used to be very low for online has nearly tripled so we are almost at like 13% - 14% now compared to 2-3%.

On the apparel front, we have tied up with Levis for the first time and our partnership is doing very well. Both our apparel and accessories business despite the downturn continue to grow at 20-30%.



Eicher Motors
November 12, 2020

As far as our rides and events go, we have been holding them back given the situation, our marque ride like the Himalayan Odyssey and Rider Mania were cancelled. But we hope to come back really soon as the situation improves. We did reach out to new audiences through our customization program in the UK and Asia Pacific and collaborated with a company called 'Bike Shed' in London to leverage on its reputation to build a customise Royal Enfield motorcycle. We organised "Bolt on Bike" customisation program in Australia, Thailand and Indonesia. Interestingly, we also participated for the first time in two of the American flat track competitions using a bike that was modified by our team for our riders and in our very first participation itself we won the American flat track championship, first time we came second and the second time we participated we came first, we are very proud of that. We continue to build a riding culture in Asia Pacific like Indonesia with over 500 customers from our various Royal Enfield communities rode together in various cities in Indonesia on their Independence Day. Now, I am handing back to Siddhartha to talk about VECV.

Siddhartha Lal:

Thank you, Vinod. Just want to highlight a few points that Vinod made. It's been obviously a very tough time from Covid perspective, but post that we have really really pivoted on Royal Enfield and we have always been savvy on the digital front on social media and marketing in those areas. But now it's gone much much deeper. So whether it's the app that Vinod talked about, or whether it's Make It Yours, or service or all the different aspects on the app on one hand, and on the other hand, our sophistication on enquiries and conversions digitally, so that's gone up multifold and it's become an important part. Even this launch that Vinod talked about was extremely successful and on the 6th of November we were really trending all over the internet, on all the social media channel on Youtube, Instagram and Twitter. Basically because we were able to use all our leverage and knowledge of how to work online and bring it to a particular level and Meteor as a result an online only launch I would say was extremely successful and the reach that we got and our ability from the media and influencers, and also now post that from enquires and bookings all of that. So we are very proud of all that we have accomplished particularly during these tough times.

Over to commercial vehicles, our joint venture with Volvo VE Commercial Vehicles Limited. We had revenue of Rs. 1,703 crores in that business which is down 13% in same quarter last year. The EBITDA was Rs. 118 crores, up 11% as result of a lot of cost reductions that we've been able to accomplish. EBITDA margin was as much as 6.9% in this relatively low quarter. And at the PAT level, we made a loss of Rs. 7 crores compared to profit of Rs. 15 crore last year. The total sales for VECV were at 8,200 units, which is down 28% from 11,400 last year. So despite that enormous fall we were able to hold our EBITDA level by and large and even increased the margin. But our 28% decline was better than the 46% decline of the industry, so we actually gained market share across segments from light, medium, heavy duty and buses. Our export volumes are slightly higher year on year against more than 50% drop in the overall exports by the industry.



Eicher Motors
November 12, 2020

And in line with our objective to drive modernisation, which is really our core objective at VECV, modernisation in the CV industry, we became the first and only CV player to introduce 100% connected trucks and buses with advanced telematics solutions called 'Eicher Live'. So that's been a huge move with all factory fitted telematics with two years of free subscription and an access to our very, very sound Uptime Centre, which ensures people keep their truck on the road or bus on the road. So the connectivity, the forward lookingness, the telematics and uptime is all very big breakthrough stuff that we are doing for the aftermarket commercial usership area for our customers.

In the meanwhile, we also signed in this quarter definitely agreement for the integration of Volvo Bus India into VECV, which really strengthens VECV's position in the bus segment through synergies in product development, purchasing, manufacturing and of course access to Volvo Groups' world class technologies. Volvo bus is an extremely well-known brand in India and certainly the most premium bus experience in India. And now with VECV's muscles, we are certainly looking to expanding that and also bringing the technology into other products.

Our BS VI range has made very strong inroads, in areas such as construction, mining, ecommerce, with growth in market share across segments. So we've also had got CNG trucks which has gained significant momentum due to a pickup in ecommerce segment. So overall, our whole BS VI move has really helped us we're able to offer our customers much better productivity and profitability and as a result we are gaining share and that is absolutely our objective.

In the previous half, we've also added 38 touch points during this entire Covid period, it was a key objective of ours at the start of the year and despite all the problems that we've all been facing, we've actually managed to add 38 more touch points across the first half. And we're trying to add 100 touch points in this current year in Eicher truck and bus network and in the Volvo network. In exports, we are planning to add five new markets to the existing 35 that we already are exporting to and we are also starting expansion in new markets which are Latin America and North Africa, so these are all with our newer product ranges, for example Pro 2000, which is an extremely modern, light, medium duty platform and it's done superbly well and is shoulder to shoulder with all the international brands now and doing very well. That's all from EML quarter two, so now we are open to questions. Thank you very much.

Moderator:

Thanks Siddharth. We will now begin the Q&A session. We request all the participants to use the raise hand option at the bottom right side of your screen if you want to ask a question. Please limit your questions to two per participant. We will wait for the question queue to assemble.



Eicher Motors
November 12, 2020

The first question is from Venugopal Garre from Bernstein. Venugopal your line has been unmuted. Please go ahead.

Venugopal Garre: Thank you. Two questions from me. Firstly, on the production side of things. What is the run-rate, can you really expand due to factory supply constraint that you have at this juncture on the vendor side?

Vinod Dasari: So the supply chain constraints are sometimes model specific. We have higher backlog on some models, but it's not a generic supply chain problem. We are now producing at the rate of, last month was 72,000 vehicles. We are up there in production, supply chain issues have largely been resolved. And we continue to work through trying to see how to debottleneck some of the specific problems.

Venugopal Garre: Just to follow up on this. So depending on and based on the demand that you are getting for specific models, the 70,000 odd run rate that you can still produce without any capacity constraints. Is this this right way to look at it?

Vinod Dasari: Yes, I think so.

Venugopal Garre: Ok. My second question is, you know, slightly more longer term, rather medium term. Now that the first launch is done, of course we have seen some delay in this launch also, even after the scheduling the one or one and half month delay. Want to understand two things - one is what was the reason for the delay? Is it something specific to production side thing or specific to the model itself? And within that the next set of models as to what the timelines will be?

Vinod Dasari: So the delay was not related to production of the product it was purely because of Covid and we were trying to see if there was way to launch it, so this was our first digital launch. We had planned the launch in April and we kept on delaying it thinking that we will find a way to do it properly. And in the end we found it to be a blessing that we were able to do such a fabulous launch. Like we have said in previous discussions all our products are still lined up. None of our product plan portfolio has changed, product development programme continues. So you can expect more and more new models every quarter.

Venugopal Garre: Thank you so much.

Moderator: Thank you Venugopal. Next question is from Jinesh Gandhi from Motilal Oswal. Jinesh your line has been unmuted. Please go ahead

Jinesh Gandhi: Can you hear me?



Eicher Motors
November 12, 2020

Moderator: Yes, Jinesh. Go ahead.

Jinesh Gandhi: Congrats on the Meteor launch and a reasonable performance in a tough quarter. I have two questions. One is on the new product launches. In one of the media interviews Mr. Dasari had indicated about one new model launch every quarter, without colours/variants. Can you throw more light on that? So are you referring to one new brand launch per quarter? How do we read that?

Vinod Dasari: When I said new model. I don't mean new colour option. That colour option is available on MIY. For example, the Meteor comes with 14 colour or maybe 16 different badges and graphics and all of that. So when I say a new model, it's fundamentally a different vehicle. It may share some aggregates from here and there, but it's not the same vehicle.

Jinesh Gandhi: Okay, different models is what you're referring to. Great. Second question pertains to Make It Yours initiative. As you indicated almost 90% of new bookings of Meteor are on MIY. Now any sense on the level of customization that customers are doing on that. I mean if the base price of a model is X, what kind of customization or value addition you are seeing on that front.

Vinod Dasari: We don't want to share exact data on the level of customisation. If somebody changes colour, we don't charge anything extra on that. But if they add stuff, let's say they want a different kind of accessories like bags or something like that. Now, the purchases of these accessories have gone up as well as purchases of our own extended warranties that has significantly jumped.

Siddhartha Lal: I would look at it as personalization as opposed to customization so you're not customising your bike. You have got a wider variety of colours or seat options. These are not deeply customised. These are more personalised so but you have a huge variety of personalization options. You have to look at it like that. And then of course, the upselling opportunity will become that much more, because it is easier for customer to consider a different seat, different accessories, different add-ons and all of that.

Jinesh Gandhi: Got it. And one last question if I may ask. On standalone, RE realizations have gone up 5% QoQ basis. Is it do with spare revenues growing faster or is there any prices increases which you've taken?

Kaleeswaran A: It's a combination, Jinesh. It's on account of a better mix. Also price increases that we took in September, at a consumer level it was about Rs. 3,000 on bullet and Rs. 2,000 on other variants.

Jinesh Gandhi: Thanks you. I'll come back in queue.

Moderator: Thank you Jinesh. The next question is from Kapil Singh from Nomura. Kapil your line has been unmuted. You can go ahead.



Eicher Motors
November 12, 2020

- Kapil Singh:** Hello, can you hear me sir?
- Moderator:** Yes Kapil. Please go ahead.
- Kapil Singh:** Ok, thanks. Could you please repeat the booking numbers that you have on hand and on Meteor as well? I just missed that.
- Vinod Dasari:** It's 125,000 overall and Meteor more than 8,000.
- Kapil Singh:** Ok, thanks. So just one question I had on longer term. We have talked about having four models per year or one every quarter or more than that. What does this entail in terms of the price segment which you want to straddle over the next few years? Will it be between Rs. 1.5-2.5 lakh or above that? Or will it be some broader range. Some color on that? And on the capex front if you can give some indication what kind of capex will this entail. Will it broadly remain at Rs. 350 crores range that we have been doing on the R&D side? And overall capex. Also, what kind of expenditure do you need to incur on the marketing and A&P side in export market? Because in India, given the strong brand, we have it very low. Is it the same way in the exports markets as well or if we need to develop those?
- Vinod Dasari:** First and foremost, I think you asked about new models and pricing?
- Kapil Singh:** Yes, basically the price range that you want to straddle over the next 3-4 years.
- Vinod Dasari:** We don't look at the price range we want to straddle over. We look at the mid-size segment where we are focussed on, which is from 250cc to 750cc. So we have a Bullet starting at an ex showroom price of Rs. 1.10 lakh as a base model and it goes up all the way to fully loaded Twins may be up to Rs. 3.5 lakh. That's the price range we are in today. Doesn't mean we can't go higher or lower but what our intent is to go in a manner in which we can occupy the full range. We are quite clearly well focused in the segment but much deeper into the segment.
- Kaleeswaran A:** May be I will take the next question you had on capex. Capex what we have incurred so far in the first half of around Rs. 200 odd crore and the past trend has been say around Rs. 400 – Rs. 450 crore. We don't see that going up significantly from that levels from a capacity perspective or any other new investment that is required. So it would be around that range.
- Kapil Singh:** Wanted to ask about the R&D side actually? Because we are launching for you know one new model every quarter and we have been incurring Rs. 300 crores of R&D expense every year. So just wanted some colour on that, that will it remain in the same range or should we expect it to go up, substantially higher.



Eicher Motors
November 12, 2020

- Kaleeswaran A:** From overall capex budget perspective, it will still remain in the same range. We are not looking at it to go up substantially higher.
- Kapil Singh:** Okay.
- Siddhartha Lal:** And to answer your last question, as much as I can. On the international markets, generally the percentage of marketing spend will be higher just because the base is much smaller in international markets. Generally, our marketing efforts are more on rides, events, digital based which is more focused I would say than the very widespread mass media type of advertising even in marketing in the international market. So it is higher, having said that, of course the margins also in developed countries is also higher, so you can afford that levels. And as we get into more and more assembly jobs in difference markets, our margins there will also slowly rise. So but it's a strong business model internationally, we have good revenue internationally and we can afford to spend a little bit more on marketing cost there.
- Kapil Agarwal:** Thank you, thanks a lot.
- Moderator:** Next question is from Pulkit Singhal from Motilal Oswal Asset Management Company. Pulkit your line has been unmuted. Please go ahead.
- Pulkit Singhal:** Hi. Thank you for taking my question. I mean an impressive set of numbers on the bookings front. I just wanted the management's sense of what is really driving this kind of strong demand for the bike and obviously, the kind of economic environment we are in. Why should Premium bikes should have such high bookings? so I just thought that it could be some consumer insights or something that you could share, which would help us understand which segment in which area is kind of driving demand?
- Vinod Dasari:** I don't want to sound immodest by saying that we produce a great brand and sell products under a great brand. We just don't sell a product, I don't think people buy our product just to commute from point A to point B. It defines their personality. It allows them to be part of a larger cohesive group or the camaraderie there. I think the initial growth has come largely from tier 2/3 areas and our significant expansion of studio stores over the last 18 months or so has given us quite a bit of penetration in tier 2/3 cities, now as pandemic is getting slowly over, we are seeing much more penetration increase in urban markets as well.
- Siddhartha Lal:** Just to add to that. I think the team has done well on digital enquiries and conversions has been second to none, it's been absolutely fantastic. So our ability to be able to now sit through all types of enquiries and get it right, so our hit rate has become much better. We have become much more analytical. We've



Eicher Motors
November 12, 2020

got much better capabilities in narrowing down and timing large number of enquiries how to get the bookings. So I think that's been over the last six months also in processing much better information and capability in these areas, which helps and has helped to sell more bikes at the end.

Pulkit Singhal: Given this kind of demand, how do you think about capacity planning? Obviously in the past Royal Enfield has had many years of waiting periods, and we presume we don't want to end up being there two-three years down the line as well. So I mean, how do you think about capacity planning? When do you say we need go slightly more than 1 or 1.2 million bikes per year?

Vinod Dasari: So we're doing minor debottlenecking specific to few models to help enhance the capacity there. Otherwise, you know, we are at one million today. I believe that we are constrained by some supplier and some specific models. So we are doing some de-bottlenecking and minor capex here and there, but not major. I think the productivity gain sees continuous improvement and we see plant capacity increase by 5% per year.

Siddhartha Lal: I look at this as plant capacity is actually higher. It's just that right now there are other bottlenecks which are stopping us from getting there. So our plant capacity is already relatively higher than where we are at right now with a 70,000 production right now I think, within this current planned scheme of things, what's the number Vinod is it 100,000 in a few years, we could certainly get without huge new capital investment or new plant.

Vinod Dasari: Yeah, if we had one single product, we could easily make 100,000. And predictability of demand is much better now. I didn't talk about this much before but with MIY it becomes better, because we know what's coming up, rather than make the stock and then have the ups and downs now it's much more stable.

Pulkit Singhal: So I think that was the last question. customization aspect, which we've been talking about, and is finally kind of given us an option..

Vinod Dasari: Pulkit personalization.

Pulkit Singhal: Personalization. Which is there. And it is quite interesting as a concept as well, I don't know, how many areas in auto that this is already present, globally, and to that extent, I just wanted to get some sense of the people who have this personalization for you? How many are actually, what percentage are actually opting for? And so, you know, what is the kind of demand for this personalisation?



Eicher Motors
November 12, 2020

Vinod Dasari: I didn't understand your question, I mean, all the orders are now through the MIY software itself, as I said 90% are going through that. There are people who choose different models and there are people who will add some not add colours, in fact choose from a variety of colours, choose the graphics, choose the trims, and choose the accessories – so multiple options. So just by changing the colour we won't change the price but if they add on something, some of it can be added at the dealer, some at the depot and some of it at the plant. We have level 1, 2, 3 kind of changes, and even if it's a level three changes, we can do it within 24 hours.

Pulkit Singhal: So that's what I'm trying to get a sense of is it's like 60-70% of consumers are actually opted for various kind of personalization things, which may or may not have had? And to that extent, a large chunk of people are opting for personalisation?

Siddhartha Lal: I think, Pulkit if I may answer that. It's extremely early days because we have just launched. So it's like we have a wide variety right now. But we can do 10x of variety in terms of options, or give customers and all of that, and learning because we see web customers, you know, now it's, it's on an app or on a website. So now on website or an app, you see where they are clicking, what they are seeing, what they like and what they don't like. We have all the information and data and that's now Royal Enfield's real strength to be able to analyse all the data, give more option and understand where they are dropping off. So for example, the seat is Rs. 2,000 more and lot of people are seeing but not going for it. But then you can do pricing corrections if you do lots of things. So analytics is huge because now we are within the game. And I would also add that what Vinod and team have done is absolutely exceptional because this whole personalization thing is a game changer for the company. Because one it gives enormous delight to the customer that's most important in becoming and they get something they want to get a name on it if they want to get exactly what they want to get, you know, the type of wheels they want, everything I mean it's really, all absolutely personalised. Secondly, from the company perspective, we can upsell, accessorize, the ticket price can go up a little bit and third is the enormous supply chain benefits and we don't have to guess what the requirement will be from the dealers or customers. So, you know what the requirement is. What Vinod attempted to say is that our vision is to get 100%, maybe a little less, but over the years, it will get to a very large level where customers will only want to order through personalization.

Vinod Dasari: I would like to add two things to what Sid said. Pulkit I was saying that we have, for example there are 14 colours there is no one top color, right? So if you choose something of any colour, there is no extra charge and that is still personalised to what you want. If you look at it that way everything is personalised, there is no such thing that is not personalised. The other thing that I would just add to Sid is the benefit to the customer is also let's say I was offering something with a spoked wheel and he wanted a cast wheel, he would have to throw away the spoked wheel and buy the cast wheel in the



Eicher Motors
November 12, 2020

market and then put those on with an additional cost to him. Now he could simply order it directly with the cast wheel from the factory. Two things happen, he gets to save money and Royal Enfield gets to capture the benefits which we were losing because he was buying the cast wheel somewhere else.

Pulkit Singhal: Got it. Very interesting initiative and all the best.

Moderator: Thanks Pulkit. The next question is from Pramod Kumar from Goldman Sachs. Pramod please go ahead.

Pramod Kumar: Hi everyone, good evening. Thanks a lot for the opportunity. My questions are actually on the Meteor and the 350cc new platform and what it kind of do to your domestic demand and exports? And then on the domestic side, if I am not wrong your repeat customer percentage is pretty low in low to mid-single digit. And what I want to understand Siddhartha according to you, you yourself being a rider/ biker, how would you see the new platform kind of capitalizing the replacement of the repeat purchases from existing Royal Enfield customers because you have got customer base of four million plus in the market out of which two million are over three years old. And given the upgrade the product is offering in terms of top speed, handling and everything. Do you think there's an opportunity here to kind of kickstart the repeat purchase or upgrade ladder within the RE family from the existing 350cc customers?

Siddhartha Lal: Thanks Pramod. Look, it's an extremely refined vehicle. And it's really something that's very next level in every aspect. The touch, feel and details are very premium. The tripper, navigation all that is extremely premium. The core idea if I may is still this motorcycle is going to appeal to upgraders from other brands who are already riding a 100-150cc, that is still the absolute core idea of the Meteor 350. Of course, you will still see some customers upgrade or switch over from existing Royal Enfield, and there's no question, there's always a percentage like that. We expect our Himalayan, our Twins and other such products, either current or in the pipeline, which will be more of the upgradation options for existing RE customers. But the 350s has largely been made in mind for other brands to upgrade to RE, that is largely I am saying and it's not obviously that we'd love to have our own customers back in the Meteor. But we expect more of other brands to still be coming in and in a much larger way. Is that right Vinod? Or do you have some other perspective on that?

Vinod Dasari: You are right. It will come from other brands but equally as more and more bikes of existing Royal Enfield customers, we see this as a potential chance for upgrade also.

Pramod Kumar: And actually, it would be interesting to track booking number over a period of time to see how many of them are actually existing Royal Enfield customers. I know it is still early days, because for someone who is using it for commuting, for him 650 may be a bit of overkill, in terms of daily commuting. So



Eicher Motors
November 12, 2020

for him the 350, the new 350 will do the job of a 500 in terms of performance. Right. So that was the line of thinking what I had. But happy to wait for the data to come. Hello, can you hear me?

Moderator: Yes Pramod.

Pramod Kumar: Yeah, so second question is on the exports side, was Siddhartha trying to say something? If not, I would move on the second part of the question, that is on the export side, 350cc is your bread and butter in the domestic market, close to 90% of the demand in the domestic market is 350cc but for exports it is just 13-14%. Is it fair to assume that the new platform, the world class platform, one rolling chassis for the global market, is there a significant potential for export share of the 350cc to increase because the price is clearly far more accessible for many other emerging markets. So how should one think about the 350cc new platform opportunity on the export side?

Vinod Dasari: It will certainly have a positive impact. You are right, 350cc is very less. It depends on the market too, in some markets it was doing ok, in very evolved market, 350cc was less. But this can serve, the Meteor can serve as an entry level commuter in the evolved market it's well refined. So, we are hoping it will do well in the export markets for us, not just this but the entire platform.

Pramod Kumar: Thanks sir. Thanks.

Siddhartha Lal: There is certainly, absolutely, and as the product strategy team and the chaps in UK and when we discussed this, it is very much an untapped opportunity even in advanced markets. Firstly, there is no question that in developing countries like Latin America, South East Asia this is very much going to be one of our main stream products, the 350 Meteor. Even for developing countries, there is a lot of in-city riding, this is not going to be an out-of-city rider for most people, the Meteor. But in more in-city there is a cruiser market and there isn't anything like this, that is so advanced, so beautiful with the features. For example, in developed countries, the need for navigation is 10x, people are using navigation much more than anywhere else. So now with a navigation pod people are thinking this is a game changer in developed countries, because they don't need to strap around putting their phone on top and doing silly things and all of that, it is Google maps navigation that works better than your phone to that extent. I know that is one small feature but these are all game changers and this is absolutely for global market for us, the Meteor 350.

Pramod Kumar: And final question targeted towards Kaleesh on the financials. I think it was a good quarter because we had a flat EBITDA per vehicles, despite the pretty adverse cost base and volume decline. So Kaleesh, how should one think about the margin profile going forward as volumes pick up because clearly, your second half of this year is going to be much more better than the second quarter in terms of the monthly



Eicher Motors
November 12, 2020

volume run rate and all of that. So how should one look at the margin profile going forward? And if you if you can really explain what are the headwinds and tailwinds the way you see it from a margin outlook perspective for the next couple of quarters Kaleesh. And that will be my last question. Thank you.

Kaleeswaran A: Thanks Pramod. As you know we will not be making forward looking statements in terms of margin profile. But if we can look at how is that going to trend and what are the initiatives that we are looking at, we would see that from a margin journey perspective, we see Q3 being a better quarter than Q2. You would see leverage happening, that is one think we need to watch out. Second is as we called out in past calls also our pricing journey is something that we are watchful of, considering BS VI transition and how should we feel the pricing journey move forward, that's something an action plan we are looking forward to. And third in terms of cost I think the precious group of metals continues to harden, we see that is something we need to look at as a headwind. Commodity prices do go up, after Covid we are seeing that slightly going up. But then there are value engineering projects, that we're lining up to see how much of this can be offset. Base commodities could be temporary in nature, we have to see how do they move after say three to four months.

Moderator: Thanks Pramod. The next question is from Jay Kale from Elara.

Jay Kale: Thanks for taking my question, so my first question is regarding your capacity. You did mention that you could potentially reach 100,000 units in volume. You also mentioned that you have 125,000 odd bookings. So what is kind of stopping you from expediting the production ramp up to cater to these bookings? Especially given that this is festive season and the customers typically want it during the festive. So could you see going forward in the next 2-3 months, the capacity on a per month basis also getting ramped-up to 100,000 to close 125,000 and rising, booking numbers?

Vinod Dasari: I don't think we will do some immediate capacity addition or something like that. I told earlier, we are doing debottlenecking, those problems are either model specific or largely supply chain related. So it's not something we can do internally, we are working on the vendors to see how we can ramp it up.

Siddhartha Lal: If we have a capacity of X for Himalayan which is certainly on the uptick that can't be solved because we have larger capacity available. So the tooling that we have for a particular model is for a particular number. So if you invest more and it takes many months, I would say a cycle time to upgrade suppliers across the supply chain to be able to produce that model in higher numbers. So our factory can largely of course we still need to add more people and so some more, let's say a balancing as Vinod said but lot of it could be different as well, which means model based or something.



Eicher Motors
November 12, 2020

- Jay Kale:** My next question is regarding Meteor. You have got interesting bookings of around 8,000. Can you throw some light on the kind of bookings and the customer profile? I mean would you have gotten additional kind of customers in terms of, you know, getting exposure to the RE stable just because of the type of vehicle that is maybe a lower seating or a kind of cruiser where you will be getting more first time buyers coming into the stable. If you could just throw some light on customer profile of Meteor. Would it have expanded your market meaningfully versus the other models?
- Vinod Dasari:** It is too early to say that. We don't know the analysis on the side of customer and all that. We can come back to you next quarter.
- Siddhartha Lal:** But there was certainly a void in our portfolio with Thunderbird moving out. So first and foremost we are filling that void. There was a void of customers who wanted a Thunderbird or Thunderbird like product. We didn't have one in our portfolio and there was a gap there. That is the first gap being filled. With what was existing Thunderbird customer, then we are working on areas how to increase that franchise lot more, but you have a set of people who used to buy Thunderbird, that's the set which it is first catering to for sure.
- Jay Kale:** Sure. Thanks and all the best
- Moderator:** Thanks Jay. Due to paucity of time we will take one last question. The next question comes from Chirag Shah from Edelweiss. Chirag please go ahead.
- Chirag Shah:** Thanks for the opportunity and congrats on a good set of numbers. I have a question again on Meteor; sorry for coming back to that. Any thoughts on the risk of cannibalisation with Classic, it would be beneficial in a sense because of higher price. Are you thinking Classic customers could shift to Meteor? Is there a thought process around that because ultimately you would like to out do your own brand in that sense and bring in a much bigger and a better brand.
- Vinod Dasari:** When Classic was there and Thunderbird was there. Thunderbird was still selling. Thunderbird was not brought into BS VI and hence we had a gap so that gap is what we are filling now. I don't think it should have any impact on Classic.
- Siddhartha Lal:** Fortunately it's a very different profiles. Infact we were recollecting when we were finding stories for Thunderbird and all that, but initially, when we were doing market research for thunderbird about 20 years ago when we showed it to customers they said, new people they say this is wonderful, I was not a Royal Enfield customer but I would like this bike. And that is also for Meteor. People who are not thinking about Royal Enfield. So a chap who used to own a RE, we showed him this Thunderbird, he



Eicher Motors
November 12, 2020

said yeh toh Bullet nahi hai, yeh to hamari gaadi nahi hai (This is not Bullet, this is not our bike). That's great because it is a different customer all together. So the person who is looking at a cruiser in the Indian context is very different from a person who is looking at a Classic. Of course, on the margin there will be a little bit of overlap. There's no question when somebody's choosing between one or two, but largely it's quite wide and we keep it also quite wide apart as much as we can.

Chirag Shah: Second, was on the capacity side as you move on to new platform, the J platform and as all the models roll out, is the fungibility issue sortable? As you indicated that platforms may not necessarily be fungible. Demand for Himalayan goes up you cannot compensate it from other platforms. Is that issue resolved? There are three different platforms and it will stay like that. Let's say over next 12 months you roll over to the new platform, does the fungibility issue get sorted out?

Vinod Dasari: I am not sure I understood the question. The capacity is not 100% fungible. There are certain tooling which are specific to a model. But I am not sure I understand your question.

Chirag Shah: I am saying once you launch more models on the new platform, as you transition to the new platform this issue of fungibility, you have a capacity of 100,000 units of which you do 70,000 units today, is it fungibility issue?

Siddhartha Lal: No, no. It is not a fungibility issue. If I may, we are not going to talk about future products, Chirag. But by and large the way we have structured our capacity is to make it more fungible like you are saying. Let's take it from the most fungible part the paint shop is most fungible it can paint anything. Assembly lines are largely fungible and it is not like they are very dedicated assembly line so there are some you know but largely they are more fungible than other things. Engines, the machining is largely fungible, we have got machining centers that are largely fungible, there will be some special purpose machines which are not but the main machines are fungible. And when you go to engine assemble is for example is less fungible. So it's, I would say 80% of our lines or our investment 70%-80% of our investment is, is available for multi models, there is and within our company. I am talking about, and 20%-30% will have to invest a little bit more than one model goes through the roof, we'll have to invest a little bit more with a little bit of lead time. Of course, when you go outside, that means to vendors, obviously the fuel tanks are different, so the pressings have to be different, the castings are different for totally different platforms. But within our own facility, giving a general idea, within our own facility I would say 70% of our facilities is largely fungible for other models.

Moderator: That concludes the call. We thank the EML management and all the participants for joining the call. You may disconnect your lines now.