



“Eicher Motors Limited  
Q2 FY22 Earnings Conference Call”

November 3, 2021



**MANAGEMENT: MR. SIDDHARTHA LAL – MANAGING DIRECTOR – EICHER  
MOTORS LIMITED  
MR. B GOVINDARAJAN – EXECUTIVE DIRECTOR – ROYAL  
ENFIELD  
MR. KALEESWARAN ARUNACHALAM – CHIEF FINANCIAL  
OFFICER – EICHER MOTORS LIMITED**

**COORDINATOR: MR. RAGHUNANDAN, RESEARCH ANALYST – EMKAY GLOBAL**



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**Raghunandan:**

Good evening ladies and gentlemen on behalf of Emkay Global Financial Services, I take the opportunity to welcome you all to Eicher Motors Q2 FY22 Earnings Webinar. We regret the delay in the commencement of the call. From the management team, we have Mr. Siddhartha Lal, MD of Eicher Motors, Mr. B Govindarajan ED of Royal Enfield, Mr. Kaleeswaran Arunachalam CFO of Eicher Motors. We thank the management for providing us the opportunity to host the call. We request the management for opening remarks which can be followed by a Q&A session. Over to you, Sir.

**Siddhartha Lal:**

Hi, good evening everyone and thank you for joining the Eicher Motors Limited Q2 FY22 call. We are discussing the financial and business performance of the quarter ended September 30th, 2021. Through this quarter, we remained committed to our long-term strategic objective of becoming the premium global consumer brand from India. While, there have been a lot of disruptions and lots of things going on in the world, things are starting to look up a little bit at this point, but especially so for us in the international markets which we have been working on for many years, we registered our strongest ever performance in the international markets for the second successive quarter this year with more than 132% year-on-year increase. Our international sales and retail network have been consistently growing at a very good pace indicating a growing resonance and preference for the Royal Enfield brand in global markets. So, we have really started establishing the brand, our distribution, our proposition and growing in many international markets around the world.

This quarter was also very important for Royal Enfield because of the introduction of several new initiatives, and most importantly for the launch of the all new Royal Enfield Classic 350. The Classic, launched originally over a decade ago has been the main product of Royal Enfield's huge growth over the last decade and this was an enormous endeavor for us to replace our most important product in our portfolio and I can tell you that through the launch in September, the Classic has had an exceptional launch, and exceptional success from the launch. It is based on the new J-series platform, and of course it combines the timeless design and legendary characteristics of the Classic motorcycle which has been loved by so many people in India and around the world. But we bring an entirely new refinement to the Classic experience with the all-New Classic 350 and that's been appreciated tremendously. We had tremendous reviews from customers, dealers, media and around the community of Royal Enfield. And we have seen a really good response. We are delighted that the most important product in our portfolio has been overhauled and relaunched entirely new from scratch and we're seeing the benefits of that now with increased interest from consumers, increased enquiries which are picking up for Royal Enfield.

On our commercial vehicle side, that is VECV, our joint venture with Volvo, with the second wave of the pandemic subsiding now and business picking up, the CV industry is seeing a recovery and did grow significantly as compared to Q1. We also marked the quarter with a strong performance



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in the light and medium duty, so that's 5–15-ton segment with a market share of 34%, which is a very high share for the Eicher brand now. Our overall production, both for motorcycles and commercial vehicles continues to be impacted in the last quarter due to ongoing global shortage of semiconductor chips. Recent lockdowns in certain source markets have impacted September volumes. However, slowly the situation is improving. By the end of September and through October we have seen the situation has improved marginally and we expect continued improvement in supply situation over the course of the next couple of quarters. But it's a step-by-step improvement, it's not a dramatic improvement, so we are working hard with the supplier base and others to continue to improve the supply side.

An update on our financials - the consolidated financials for Eicher Motors Limited for the second quarter, the revenue which relates only to the Royal Enfield business as opposed to VECV which is separate, so those results will be separate. The revenue for EML consolidated is Rs 2,250 crore which is up 5.4% from the same quarter last year. We managed to maintain a Rs 470 crore EBITDA versus Rs 471 crore last year, so approximately at the same level. While the sequential growth of EBITDA was at 29% and the EBITDA margin is at 20.9% now as compared to 22.1% last year and sequentially, it has grown compared to 18.4% resulting in a profit after tax of Rs 373 crores.

With this, I would like to invite B Govindarajan, Executive Director at Royal Enfield to take us through the quarter's highlights for Royal Enfield. As Govind joins us now for the first time in this meeting and since he has taken over the new role as the Executive Director of Royal Enfield. Govindarajan doesn't need much introduction because he has been with Royal Enfield for around two decades now, and in his previous role Govindarajan was the Chief Operating Officer at Royal Enfield, where he was leading the entire technical areas including product development, manufacturing, sourcing quality, all of those areas and has enormous success in establishing the technology centers in UK and India and in all the fantastic new products that have been rolling out of Royal Enfield. His new role includes the entire commercial areas of sales and revenue including this staff functions. So, Govind with that, over to you to give us an update on Royal Enfield performance.

**B Govindarajan:**

Thanks Siddhartha. Hello everyone, delighted to join in this call with all of you. I am extremely happy at this stage in leading Royal Enfield when we are charting the new growth and the success story for next one decade. As Siddhartha mentioned, we continued to work towards our mission of becoming the first premium global consumer brand from India and all our efforts are focused towards achieving that. We have a fantastic strategic business plan, passionate people, and the full lineup of new products as he mentioned, all those things are intact and now what we are looking at is in executing it to take it to the next level. Specifically coming to this quarter's performance. As Siddhartha mentioned, we sold about 1,24,000 motorcycles which is down about 17% compared to



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the last year in the same quarter. You all know, production has been impacted, not alone for Royal Enfield but for everybody in the automobile industry, it is primarily because of the global shortage of the semiconductor chips. Personally, if you ask me, what the situation is, how is it there? It is improving from the last week of September itself, the situation is actually improving. As mentioned, it's not a drastic improvement which was there in September but October we could see the improvement have been slightly better and in November and December it is continues to grow in terms of supplies. So that gives us confidence that in H2 we will be doing better but the supply situation has to be seen continuously in an agile way because it keeps varying depending upon the situations in various countries. But the positive news is, the supplies started coming in a linear form and the countries where it was having major issues because of the Covid, all those things are opened up and the supply is also ramping up. As OE, we have also started looking at other ways of getting more semiconductor chips, through working with other suppliers, so to that extent the quantity is going to be going up. So, all the actions which are required to increase production are on the way, and we are all on the job continuously. So that's about the domestic market.

International market we have a great success, as Siddhartha was mentioning. We have grown by almost 132%. Last quarter, we sold around 18,000 motorcycles compared to last year in which we sold only about 7,800 motorcycles. That is what we are looking at. We were selling around 18,000-19,000 vehicles almost two years back, so that's the full year volume which we actually started selling in one quarter. Our international market is starting as a great success story which is going to be there for us. As far as the next network expansion, we are continuing that. In India the network expansion is to the deeper penetration into India, via the studio stores format. In this quarter, we actually added 14 new studio stores and 20 large dealership formats has been added into this. And in the international market during this quarter, we have added new exclusive stores in Columbia, Philippines, Brazil, Mexico and LATAM markets, and three multi-brand outlets, and as of now we have almost about 150 exclusive stores and more than 650 multi-brand outlets outside India. So, our growth story for the international markets with the fantastic new products which have been launched and the expansions which have been going systematically and the acceptance of the product and the brand actually is showing us the path for the growth in the international market. As Siddhartha was mentioning, during this quarter we launched the all New Classic 350, fantastic reception, product has been doing outstandingly well, the enquiry levels are very high. And this product, in fact, one such thing is the higher end of this particular vehicle, the Chrome version which is getting accepted more and more, which also in the vehicle we are giving the Tripper as the MIY option into that vehicle. Overall, when we are launching this product, one is about the product, a level with which we have to launch the product, which is an acceptance which is there. Along with that we also came out with accessories, about 35 genuine motorcycle accessories which we also launched, which is also giving the motorcycle experience which has a very high traction. The earlier product which we launched



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compared to Classic is the Meteor, that's the J-series transition work starting off, Meteor is, actually was the product, like Thunderbird when we actually wanted to move on in the J-series from the UCE engine, that's what is Meteor. Meteor has continued to impress us in terms of numbers, it is growing, internationally also it has got accepted very well. In fact, it has received the most prestigious MCN award for the retro motorcycle category. In every market where we are entering with this particular motorcycle Meteor, the acceptance from the consumer and enthusiasm with which people are actually wanting to ride the motorcycle has been very good and it continues to garner and more people are coming into this. That's about the motorcycle which we talked about and I'll talk about the apparel, I'll tell you about the initiatives which we have done. We have extended the MIY program to a range of riding jackets with the focus on safety, comfort, and fostering spirit of self-expression. We joined hands with the TCX, the world's best riding boots manufacturing company, in offering a range of C-certified riding and the life cycle shoes. In celebration of 120<sup>th</sup> year, which is this year, we unveiled an exclusive range of helmets consisting of 12 designs, one for each decade of the brand legacy. These helmets re-tell the stories of the brand and the customers and now have an opportunity to own a chapter from the Royal Enfield history. It's been a good success; it's been received very well.

About the motorcycle rides and events, in this 120<sup>th</sup> year celebration, we are set to undertake a first of its kind motorcycle expedition this year which is 90° South. With two Royal Enfield riders on our Himalayan motorcycle, they will be riding on to the South Pole which is in the month of November, in the flag end of November from Cape Town. This marked a foray into the major expedition which is going to be there. We also marked a foray into track racing with the launch of Continental GT Cup 2021 in partnership with the JK Motor Sports. We have concluded the Round 1 and conducted the 10<sup>th</sup> edition of One Ride which is one of the world's largest curated single day ride across 35 countries with the focus on encouraging responsible travel amidst the global rider community in a bid to leave every place better.

With all the recent launches and the platform changes which has already been done and the expansions footprints which we have talked about and our continued focus on all the other initiatives which we have put in our strategic business plans, we are very excited about our growth journey which is going to be there in time to come. As I mentioned, compared to Q1-Q2, the next quarters are going to be better because of the supply situation becoming better. Now, I will handover to Siddhartha Lal to take you through the VECV performance. Over to you, Siddhartha.

**Siddhartha Lal:**

The CV industry is looking up somewhat since all the pandemic related issues and from a financial perspective the revenue of VECV which is our joint venture with Volvo, the revenues were at Rs 3,153 crores for the quarter, up around 80% from same quarter last year. EBITDA was at Rs 170 crores, up 44% and EBITDA margin at 5.4% of sales versus 6.7% last year. There is a minor Profit After Tax of Rs 18 crores up from a loss of Rs 7.2 crores in the same quarter last year. Overall sales



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were at over 15,000 units, up 85%. The economic recovery from Covid wave 2 is under way and sectors like construction, mining, e-commerce, CNG have witnessed growth in the last quarter so there is a general improvement in a lot of segments. Industrial goods segment has also picked up now. We had particular success in CNG trucks which have been growing rapidly and therefore our light and medium duty trucks, we have witnessed a shift of almost 50% to CNG because of rising diesel prices and the Eicher Trucks and Buses brand is very strong in CNG as well and we have been benefitting from that. In the last quarter, we expanded the network and have 26 new aftermarket touchpoints. We have expanded and been addressing a lot of under-represented territories including the east of India and some other parts and we continue to build a strong and agile network which is certainly aided by our own company-owned, company operated establishments as well which have been growing in numbers. VECV did record a strong growth in the quarter outperforming the industry. The industry grew by around 85% and we had a stronger growth than that resulting in a market share of 34% for light and medium duty segment, which is a very strong share for VECV. We have had some strong new introductions. We launched a new range of six heavy duty Volvo FM and FMX trucks which are the very high-end trucks mainly for mining and other similar applications. These were launched in September. They come loaded with top-of-the-line world class features to boost productivity, safety and enhance driver comfort. The trucks address demanding applications like mining, road constructions, infrastructure projects, so very large projects, and over-dimensional cargo. Our relatively new plant for commercial vehicles in Bhopal which caters largely to light and medium duty trucks was declared the winner in supply chain management category by the Machinist magazine and the bus plant, our Bagdad bus plant was awarded the Smart Factory of the year by Manufacturing Today magazine. So, lots of accolades reflecting the quality and the supply chain improvements in VECV which are absolutely top of the Indian leagues. Looking ahead, VECV continues to develop alternate fuel powered vehicles, investing in electric vehicles where we have a very strong 9-meter electric bus offering and we have other products in the pipeline, in fuel cell and other related technologies. The production-linked incentives scheme announced by the government supports investment in the new technology areas. The incentives announced will support use of advanced technologies by mitigating some of the initial costs of implementing such technologies and by aligning with existing schemes such as the Atmanirbhar Bharat and Make In India, the PLI scheme will support investments and growth in the Indian auto industry, particularly in the commercial vehicle segments which is recovering from the pandemic.

So, with that I would like to thank you very much for joining Eicher Motors Limited's Earning Call Q2 FY22 today. So, thank you very much. Wish you all a very happy, prosperous, and safe Diwali. But we're still here some questions which you may have. So, thank you very much and over to you for questions and answers.



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**Raghunandhan:** Thank you, Sir, for the comprehensive opening remarks. We will be opening the Q&A session for the participants. Anyone who has a question, please use raise hand option. Participants request you to limit your questions to two per participant. Once the participant's name is called out, please unmute yourself to ask a question. As the question queue assembles, a couple of questions from my side.

Congratulations Sir, on good results. Firstly, can you provide some colour on the order book considering the New Classic 350 and also considering that supplies were lower than that of the demand. If you can give a direction as to how strong the order book is and what kind of strong visibility it provides for the future. Secondly, can you provide some more colour on the level of penetration of MIY app, by how much has the accessories revenue increased for New Classic in comparison to earlier version. For Meteor, I recall that it was 1.7X compared to the earlier version which was Thunderbird. That's all from my side, Sir. Thank you.

**Kaleeswaran Arunachalam:** Thanks, Raghu. As a practice we don't release the numbers on order books but at the same point of time the response for Classic has been phenomenal. I think it has been a bottoms-up built-up product, the all New Classic has been very well received across. The initial bookings that we have received has been pretty encouraging and the transition planning that we did amidst the semiconductor shortage has helped us to ensure that good amount of retails are being completed and there are vehicles on road for the customers to come out with the review, so that has been pretty well received in terms of the Classic launch.

Sorry, what was the second question you had. It is in terms of GMA, right? So, the overall MIY penetration at this point of time is about 90% plus and our GMA penetration has already reached about 80% plus in H1. In terms of absolute revenue per bike on overall basis Meteor and other products put together, we are seeing close to 2X increase in terms of the value per bike that has gone up. Classic is in pretty early days to right now. Maybe, we should wait for one more quarter to see as to how much we can do in Classic also but the success has been similar.

**Raghunandhan:** Thank you sir. Moving on to the participants now, first we have a question from Chirag Shah. Chirag can you please unmute yourself and go ahead?

**Chirag Shah:** Thanks a lot for the opportunity. Good evening everyone and wishing you all a Happy Diwali. So, my first question is to Kaleeswaran, on the ASP, there is a significant jump on the realisation. If you can throw some light because it's a strong Q-on-Q 25% jump. I presume there is a spare part revenue angle also.

**Kaleeswaran Arunachalam:** Yeah, thanks Chirag. I think it's been a combination of multiple factors for the ASP increase. I think over the last few earnings calls we have been consistently talking about the pricing journey and the pricing increase that we need to pass on considering the impact that we had on the material cost and



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commodity cost increases. So, about two-third of the ASP increase that you see is on account of pricing increase, the balance one third is a combination of increase in international mix. We talked about the movement in international mix that we have seen and it also includes increase on account of GMA and spares business also.

**Chirag Shah:** I was referring more from a Q-on-Q perspective because there's a 14% sequential jump and our international mix is largely stable, a little bit here and there.

**Kaleeswaran Arunachalam:** On a Q-on-Q it is largely the pricing action, Chirag. So between July to September, we have taken a pricing action in July across all models and September along with New Classic launch we have done one more round of price increase.

**Chirag Shah:** Okay, this is helpful and if I can squeeze in one more question, to understand on the demand side. So, looking at the tailwinds that we have, it should not be difficult for us to have an annualized volume number of 8.5-9 lakhs which we used to do earlier. Is it a right approach to look at, assuming the supply bottlenecks get sorted out in the next three months or four months, let's hope for that. We can achieve that 70,000-75,000 kind of a run rate. Is it a doable run rate, on a sustainable basis?

**B Govindarajan:** Chirag the capacity built of Royal Enfield is known to you and today there is no more investment requirement or realisation & delivery wait, is all about the availability of the chips. That's the only thing which is holding. As I mentioned from the September third week onwards, the supply situation seems to be easing out and any amount of the chips which are coming up we are only ensuring an agile supply chain, we will not hold any inventory and we will convert it immediately and take it to the market because we have a healthy order book.

**Chirag Shah:** I was referring more from next year's perspective. FY23 onwards what kind of volumes we should be able to do.

**Kaleeswaran Arunachalam:** Chirag, we don't give absolute forward projections in terms of what is the number that we would land on but the gradual progress on ramp up of production is something you would have seen, to where we were in August-September and how we have landed in October. So, we are slowly coming out of semiconductor shortage, you'll see gradual progress happening and we will move towards the run rate that we were delivering in Q3 last year.

**Siddhartha Lal:** I was adding that Chirag, of course, the size of the market is important in terms of how the motorcycle market develops and now we are a reasonable part of it, specifically the premium bike market. As long as some growth in the Royal Enfield continues to hold an increased share, by that rationale we should certainly grow. Also without talking about any particular numbers, now I can say it because they used to always ask, there is certainly a bit of fatigue in the Old Classic 350 and there was a bit





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of waiting, so people knew that there was a New Classic 350 coming. We couldn't say anything in the last quarter but it's true that does happen that after motorcycles have been around for 10-12 years in our case is Classic 350. Certainly, we are seeing a renewed interest in enquiries. So how that translates? That is our work to be able to translate that into good volume but there is still certainly tailwinds or good thought process from that side and there is no question about it. We have seen that with Meteor as well, uptick compared to Thunderbird.

**Chirag Shah:** Thank you very much. I will come back on this.

**Raghunandhan:** Thank you. Next question is from Binay Singh.

**Binay Singh:** Hi team, thanks for the opportunity. I just want to reconfirm what Chirag asked. So is it fair to assume you took a 14% price hike because you are saying that the entire ASP sequentially increase is driven by price rise, because our checks don't point to that level of price hike. So, could you just confirm that this is all price hike?

**Kaleeswaran Arunachalam:** So, 70% of that is about the price hike and the balance is about non-motorcycle mix.

**Siddhartha Lal:** Also, I would add Binay, that with the constraints we were able to sell better, for example, with Meteor we are able to sell higher value products. So, that also gives us better margins. So, product mix has helped a lot, within the model and also of higher margin models.

**Binay Singh:** That is helpful. Secondly, if you see the start of the slowdown was in a way marked by the insurance cost hike that happened in 2018 towards the end. So, how do you see the customer acceptance of these price hikes because with emission changes and now with commodities, we are seeing prices inching up across two wheelers. So, do you think this could have a dampening impact on demand or any anecdotal trends you have seen on the order books, coming off after the hike?

**Siddhartha Lal:** Very good question, Binay. It's very difficult to respond to that. I mean, due the suddenness of commodity cost increases and therefore price increases has been difficult for consumers to bear, there is no question about that. And it does affect the market, it does affect us, there is no question about that. We are assessing in many different ways but it's very difficult to assess the exact elasticity because there is a supply constraint right now for most of the segment, so there will be some elasticity, not inelastic demand. There will be some of that but having said that right now for us the indicators are reasonably good, in terms of fresh enquiries, fresh bookings and other such things, so there is no question. If we were at older prices, maybe enquiries in booking would have been even higher, that is very much possible but we will never know, but it is still at a good level. When you balance profitability and growth, we are hopefully at the right level where we got a bit of growth, but we are still making money; potential growth once we are able to make enough motorcycles.



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- Binay Singh:** Thanks team. I will come back in the question queue.
- Raghunandhan:** Thank you. Next we have a question from Nitin Arora from Axis MF.
- Nitin Arora:** Hi, thanks for taking my question. Sorry for asking the Classic response, in the last year when we actually revealed our order book number during the same Diwali time and the order book implied that we were going to cross huge numbers, but I think we never crossed 50,000-55,000 on average. I am trying to understand, as Siddhartha you said, the response has been spectacular, the bike looks amazing but the response what we are trying to understand from the market is either it's replacing the Meteor, because the engine is the same, it's just that styling is different and the response has been okay-ish, it's not that great, it's not that bad. I understand you said the picture is very coloured because of the supply chain part. So just wanted your sense, on how confident are we this time given there has been an overall slowdown on Dhanteras, even Dussehra went bad and then in December, even if the bookings are very high but nobody will take the 2021 model. Everyone wants a new model. So, you or any company would have a higher chance of cancellations coming in. So just to dwell a little bit more on it, you always guide us in the right way, so if you can dwell us more on how to look at this aspect? Thank you very much.
- Siddhartha Lal:** Honestly Nitin, a lot of it is very tough to answer in this situation of limited supplies because even though we have very strong order intake, even that is limited because our delivery promise is a bit far out. So, for people who want deliveries for the festive season we are not be able to give it to them,. So, there is some postponement and people say we will look at it later because the availability is weak, there are lots of other issues. As availability goes up we will see how things evolve. What you said about the short-term situation that will apply on a every year basis, but even if there are usual blip in December which happens, we still have a very strong order book. There are some people who care about December bike, there are a lot of people who don't as well. So, I am not worried about these short term issues because that will even out, that always does. In the larger scheme, what you are absolutely right in trying to understand where do things land at once things stabilize. I think for Classic, the crucial thing is that, it's accepted and understood very well, what we are offering, what we are giving. Of course, we need to continue to build on that. Nothing is going to happen on day one, so we have very strong order intake, but it doesn't mean we can't continue to improve it but we are approaching improvement on order intake of Classic 350 from the front foot, not from the back foot. Also, we are not driving as hard as we could possibly, in terms of marketing investments and other such things because we have a lot of people who are enquiring but they are just not coming in because of the dealing in terms of delivery. So, all the things need to be ironed out and hopefully I think, it will take H2, for some of these things to get ironed out and hopefully going into FY 23, that is in six months timeframe things should steady up a bit. Govind any further reflections from your side?



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- B Govindarajan:** The question was also like what was that after Meteor, now Classic what's happening between those. Very clearly, the Meteor consumer profiles and Classic consumer profiles are different. The Meteor which has in a way evolved and replaced the Thunderbird, the franchise has actually, from the thunderbird to now and once we launched Classic, we were looking at how Meteor is behaving because the new engine which is there in that, is the engine getting accepted at all? The enquiry levels of both the products are continuing to grow and the booking rates are also going up, so it is not a concern at this stage. As Siddhartha is mentioning, the colouring is fundamentally because of the chip situation. What comes first and how is that and all these things and so hopefully within a quarter of time this will all get settled. It is not, if you are looking at it is as not because of Classic coming in Meteor volume is coming down, no. The good news is both our enquiry levels are going up and booking levels are going up.
- Nitin Arora:** And one question to you only. Why is the staff cost down so sharply? If you can help us let us know about this?
- Kaleeswaran Arunachalam:** Nitin, staff cost includes one off of unvested ESOPs of Rs 40 crores.
- Nitin Arora:** Ok getting it. I have a few more questions. I think that there are more participants. I will get back in the queue. All the best to you, as always.
- Raghunandhan:** Thank you. Next we have a question from Pramod Kumar, UBS.
- Pramod Kumar:** Thanks Raghu, thanks a lot. First of all, season's greetings to everyone. Siddhartha, kind of continuing with the questions on demand and what's happening with the broader industry. We are looking at the double-digit decline for the broader industry in the festive demand so far. Flushed with inventory, they are not able to sell and especially given the pricing increases that you guys have taken, if you can just help us understand how you are seeing ordering things at the dealership level? Because, festive season, I think a lot of customers may not get the bike but they still may put down the booking on the official ?? So Govind or you can help us understand how the booking is on the ground so far for you and how does it compare to say last year or the year before because if there is great demand and customers are waiting, I am pretty sure, there are many more who are waiting to put down the booking especially given how meaningful improvement is there. So, if you can help us understand that and also is there an increasing fallout rate or a drop in conversion rate due to the price escalation as well because that's also been quite sharp right?
- Siddhartha Lal:** Thanks Pramod, but Govind you are the best person to answer the question.
- B Govindarajan:** So the first question which Pramod asked is about the festive time. How is that? I am sure more than us you all will be tracking, the two-wheeler is down by almost about 17 % so that is the first time



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this particular area which has happened I suppose. During this time, what has happened to Royal Enfield per se in case if we look at, the enquiry level which we are talking about and the booking rate is not the same draw. So that gives us a positive indication that if in case a vehicle availability is there, we can convert more, so that's a positive sign which is coming up into those. What was the second question that Pramod was asking? Pramod what was the second question you were asking?

**Pramod Kumar:**

In terms of the booking, overall on the Y-on-Y and also price increase any if there's any pushback we were getting from customers?

**B Govindarajan:**

From the customer, generally Pramod, as Siddhartha was mentioning, there is a concern about the price increase because the price increases happened because of statutory compliances and because of the commodity increase. If it's a feature driven price increase, consumer looks at it at a different lens and these are all the things which structurally gets in but with the right level of the price increase and the demand which is continuing to grow if we feel that it is OK it is not hurting us at this stage but that's not a proxy to tell you that the whether it is really an issue or not because of the pricing which will take some time for us. I think this has to be looked at is from that financing which has also been an enabler for this. If the financing has been made an around as an enabler to look at an EMI term, that's what the consumers look at it, if we can work around and engineer a way we make him feel on the total cost of ownership, maybe the number of months are increased so that the monthly EMIs are dropped off. These are all the things which will help him to see that the cost of acquisition is not very high. But this all one will like to go and spend more energy and all those things provided you have more motorcycles in hand. Post Covid, if I have to tell you, because all of us have been looking at what's happening between enquiry levels and walk-in enquiry is going up. For us, the walk-in enquiry goes up, the conversion ratio is also very high equally, so the velocity is very high so when that shift is happening we are just waiting, yes, the supply situation is easy, it is going to help us and that will take us to a higher number and we'll be back to the higher run rate, that's what we thought as of now.

**Pramod Kumar:**

And Govind related to that, how is the first time buyer spends for Classic booking because that is your recruit brand primarily, that's a brand which got the story going, right, to where we are. Are we seeing some bit of a replacement demand from existing Royal Enfield customers given how significant the improvement is versus old platform versus new platform. It's the same specs, the same CC, but the performances are of much higher level right? So are you seeing that bit as well?

**B Govindarajan:**

It is too early Pramod, to be honest because for a consumer, because our Classic UCE which we have been adding volume in the last 4-5 years, for him to have a replacement cycle which kicks in maybe in another 1-2 years' time, that's the time probably they will be looking at this particular vehicle as a replacement because it's refined in a very different kind of a version which will give him an outstanding experience. Whereas, this is also helping us to reach out to our CRM to the older



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consumers and the first time consumers' percentage is actually coming up even in the Classic 350, the New Classic 350.

**Pramod Kumar:**

The reason I asked that Govind was that the increased prices of the product will generally have a positive impact on the resale value of the existing motorcycle. So that can be used as a way to kind of get some of the replacement customers thinking about probably the value what they are getting is probably more than what they bought 7-8 years back. So that itself could be a good trigger for them to relook. But thanks for that and the final question from my side on export, the momentum seems to be very strong given that we are approaching the winter season in many of the end markets. So, what explains the strong momentum in exports and given the momentum going into December, should we expect once the riding season opens up especially in North America by March or second quarter of the next calendar year, are we looking at a much higher export run rate for us as a company on a sustainable basis?

**B Govindarajan:**

It is Pramod, as I mentioned compared to last year, two years back as I mentioned, we were selling 19,000 for a full year, now we are talking to 19,000 in one quarter level. That's how the exports business is coming up and that doesn't come up just because some or not right? Because systemically Royal Enfield has been working on it. As we were just talking about, on that, if you look at what we have done as a team, first we brought in the Continental GT and Interceptor at 650 CC, at a global product level and the quality level got established, then we brought in Meteor and now the Classic 350 and the J-series products, the lineup is very strong. Second is, all these products, when we are launching, the acceptance is very well. There are also other countries' statutory requirements-wise environmentally, Euro-5 compliant motorcycles which are readily available when you get into this. So our establishment of the multi-brand outlets, our own exclusive stores, which I mentioned, as good as 750 overall multi-brand outlets and other stores outside India. The brand pull, excellent product, so we have the prescription to create a success stories. So from here what we are looking at is our export story is going to have a big success story which is what we can create, is what our thought, Pramod.

**Siddhartha Lal:**

Of course, there is a large seasonality for exports but that's also we are able to manage that somewhat because we have enough warm countries we are exporting to also, it's not only just very cold countries where there is very high seasonality. Having said that, actually starting December, January, February is where the most amount of shipments need to go to the cold countries. So in North America, Europe the buying season is actually April, May, maybe June, that's it. So you will see, it's really the last quarter where we will have to ship out all the vehicles for these countries, so there will be a pressure on us to get that because if you don't do that you miss the entire summer season, the summer season selling is April-June, that's it.



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**Pramod Kumar:** Fair enough, Siddhartha, thanks a lot and wish you all the best.

**Raghunandhan:** Next we have a question from Arvind Sharma. Please limit to two questions per participant.

**Arvind Sharma:** Thank you Raghu. And good evening, Sir. Thank you for taking my question. First question would be on the platform now that the bulk of your volumes are on the J-platform. Is there an inherent increase in efficiency as you move from the older platform to the new platform. Just asking this question because as we have been hearing about the margins part. Is the platform shift and a better use of the new platform have a part to play in this profitability?

**B Govindarajan:** Arvind, new platforms are not to be always looked at like that, you know, when we sign up a new platform, we look at what is that - because any platform the actual product coming out is at least about say three and a half years - four years' time period. When you do that, at that point of time when we sign up, we start looking at it down the road three years-four years what the consumer wants to have a real experience. So sometimes a platform actually comes from there. When we are doing it, what is the required is some of the positive points have to be enhanced, some of the negative of the existing ones have to be knocked off. So, net-net on a total cost of ownership, it has to be looked at from a cost perspective, scale perspective, quality perspective, what experience we will give it to him, what performance we have to give to the consumers. So that's how the packages of any platform is done. If you are talking about is there any efficiency which will come up, yes at every stage when we are bringing in a new platform, actually we also go through what is the efficiency we can extract. Efficiency need not always be from cost angle, it can be from any angle as an experience which we have to give it to the consumer.

**Arvind Sharma:** Sure Sir, thanks for that. And second, on the order book that you had. Given lot of this orders could also be because of the festive season, could there be some cancellations, in case, as you said if Royal Enfield is not able to supply to all those orders? Do you foresee any cancellations?

**B Govindarajan:** The indication as of now is not so. So, the percentage of cancellations which we have to track it. You know, cancellation is, in my opinion, which comes at a later point right? If there is a shortage in the situation, the enquiries and bookings will be the first point of a question and there we see a lot of positive traction. So, when somebody is seeing that yes that is a supply situations there is a waiting period but still the enquiries and the bookings are going up, it does mean consumers are willing to come and then look at Royal Enfield motorcycles and experience what the product can offer. So cancellation once they come into us, the way we will engage with them, the way we will convert with them and all those things, it's a journey, the consumer journey, there we have to look at it. But as of now it doesn't show that there will be a huge cancellations.

**Arvind Sharma:** Sure Sir, thanks a lot for taking my question. That's all from my side. Thanks so much.



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**Raghunandhan:** Next we have Gunjan Prithyani. Please note that this would be the last question for the day due to paucity of time. Gunjan please go ahead.

**Gunjan Prithyani:** Sure, thank you. Thanks for taking my question. Just two follow-ups. Going back to the whole margin, you know, margin performance this quarter. If I look at gross margin per unit, this is the highest that we have done. Even if I were to look at the price increases that Kaleesh spoke about, it seems we have taken more than what the cost impact has been. I am just trying to understand the sustainability of this Rs. 72,000 gross margin per unit. I mean how should we think about it? Is it because there was a shortage in this quarter, we tried to service more of premium products, I mean, or this kind of makes its sustainable? Just some colour on that will help.

**Kaleeswaran Arunachalam:** See, let's take it in two or three parts, Gunjan. Let's start with first the international mix. I think we have seen a sustainable international run rate now for the last two or three quarters, clocking about 18-20K. So that mix is only positively improving and therefore the ASP and the gross margin realisation that needs to have on that, will continue. Next comes the non-motorcycle part of it, so we talked about the investment around the MIY, the results we are getting on account of MIY and the average ASP increase on account of MIY and the penetration more importantly has gone up. So, any activity that is going to help us increase the ASP and GC on that also is permanent, so that's nothing is going to change, if not we will only see a similar traction on what we have seen in other products across the portfolio on MIY. Then comes the mix, I think some of the product-mix that we have, largely if you look at it, say about last year we did not have a Meteor. It was largely a Classic mix which was significantly higher. Now we have a Meteor, now we have a Classic and the mix is only averaging note. I don't see any aberration in terms of how the mix can see change. Yes, there could be a supply led concern here and there which could have helped us to move onto a premium line within the same model, but that I would see that it as pretty minimal and short-term in nature but in long-term the mix should continue to where we are.

**Gunjan Prithyani:** Okay, this is very helpful. Just, second question, on the product pipeline. you know, should we assume the most of the big action that were to happen this year have happened. Now the focus is going to be on getting the supply in place. I know you don't talk about models but generally, broad commentary will help us think about the product pipeline.

**B Govindarajan:** Gunjan, product pipeline is not to be seen in short-term right? Any pipeline for an organisation has to have at least for five years, what's the thought process. Specifically, if you are looking at all our actions are done, our major platform, the changeover which has to be done, that's completed. We are into an execution path. Having said that, any products in the adjacencies which we have to come up with and any new products which we have to come up with for a specific set of consumers which is possible for us to exploit that also we're continuing. So, our product pipeline is a continuous activity.



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There is nothing called it is all done and dusted, now it's only in execution. No. We have to continuously keep coming up with new products, which, which we are very clear, what it is, how it is and at what point of time we have to come up with it.

**Siddhartha Lal:** Obviously, one is of course from Covid perspective there was some changes and second even from a supply constraint perspective now, we have to consider when to launch, what to launch. So, there are some evolutions to our original plans which will always be there in situations where, you know, parts are not available, etc, but we do have a strong pipeline of products for the next few years coming up so that's all baked-in already.

**Gunjan Prithyani:** Just Kaleesh, one clarification, you mentioned that the ASP because of MIY has been almost two times. Is that understanding correct?

**Kaleeswaran Arunachalam:** The overall bill value is about two times increase.

**Siddhartha Lal:** Two times increase for accessories only, not for the bike.

**Kaleeswaran Arunachalam:** Correct.

**Siddhartha Lal:** Because people are buying through MIY, they are purchasing more accessories, that is hundred percent more.

**Gunjan Prithyani:** Okay, got it, thank you so much.

**Raghunandhan:** Okay, thank you. That brings us to the end of this session. Over to the management for the closing remarks.

**Siddhartha Lal:** Thank you Emkay and thank you Raghu for hosting this and wishing you all a very happy Diwali. Thank you very much.

**B Govindarajan:** Thank you very much. Wish you all a very happy Diwali.

**Kaleeswaran Arunachalam:** Thanks everyone. Wishing you a very happy and safe Diwali

**Raghunandhan:** Thank you. Thank you everyone. Wishing you a very wonderful diwali. Ending the session.