“Eicher Motors Limited
Conference Call”

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MODERATORS: MR. SONAL GUPTA
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MR. LALIT MALIK

Moderator : Ladies and gentlemen good day and welcome to the Q3 FY'11 results conference call of Eicher Motors hosted by UBS Securities. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing "*" and then "0"on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sonal Gupta for UBS Securities, thank you and over to you, Sir.

Sonal Gupta: Thank you Marina. Good morning everyone I am Sonal Gupta from UBS Equity Research team. We are delighted to have with us today the Senior Management team from Eicher Motors to take us through the Q3 2011 results. We have with us today Mr. Siddhartha Lal, CEO and Managing Director of Eicher Motors and Mr. Lalit Malik, CFO of Eicher Motors. So I will now pass this conference on to Mr. Siddhartha Lal for his opening comments on the quarter post, which we can take the Q&A. Over to you Sir.

Siddhartha Lal: Thank you very much and I want to just talk for a few minutes about the performance and move to questions. Firstly thank you for hosting this call and thank you all for attending. I am happy to share our Q3 performance, which has actually been another very good quarter for Eicher. We have got record revenues in this quarter and we have also had very good performance in the bottomline. Well the commercial vehicle industry has been generally let us say relatively muted I think Eicher Motors have showed in a very strong performance.

If you look at the larger industry for which is the segment we operate in, which is 5 Tonne and above including light, medium and heavy duty, trucks and buses the industry grew 10% over in this quarter over last year quarter and at Eicher Motors we have grown by 27% so we have outpaced the industry dramatically once again. In particular in 5-12 tonne we did 7600 plus vehicles, which resulted in 18.6% growth and market share of close to 30%, but of course very significantly we continued to make enormous progress in the heavy duty segment and we have been discussing with heavy duty as really the future of this company in terms of our ambitions and there we have made very good progress so we sold 1841 unit is which is a 57% growth over last year. Whereas the industry only grew by 4.6% and of course our market share therefore has improved from 2.1% last year to 3.2%.

Of course the 3.2% is still small but it is extremely significant because we are making enormous inroads in certain geographies, enormous inroads in certain end user segments and given that we are very focused in long-term play, we are actually delighted about our progress. We are now starting to clock 700 heavy duties a month, which is actually pretty significant. We have always been maintaining that our ambition is to get towards 1000 vehicles a month. So whether it is the cost side, whether it is the distribution side, the finance side, the dealers side, the customer side all of those start actually working much better. So our ambition is still as soon as possible within the next one or two quarters to try and achieve a 1000 but achieving 1000 numbers a month is not purely thing it is scaling and improving on the 1000 is more important for us. So I believe we are on track towards doing that.

Overall in the heavy-duty industry we are witnessing some slowdown because even though the entire segment has grown by nearly 5% within that the cargo space is actually degrowing and the tipper space is growing very fast. So there are some challenges moving forward specially in the cargo area of heavy duty, but it does not worry particularly as we are continuing to make inroads and continuing to be push forward. Of course the positive market helps us also gaining better share, but nevertheless things are going pretty well.

The next segment is the bus segment where we continue to carry a strong momentum, which we have built over the last few quarters. In Q3, which has just passed, which is the July to September quarter we sold 1991 unit is, which is an increase of 36%. When the market declined by 2.2% so it has been another area of growth. In all segments we have been able to outpace the industry substantially and our market share in 5 Tonne and above buses has grown from 7.3% to above the 10.2%.

In exports also we had a strong performance and we exported nearly a 1000 units with a 38% growth. So overall there was one area where we not been able to grown is Volvo truck business. So there we are down by around 36% over last year and that is mainly because our largest exposure in the Volvo truck business is towards the mining segment and this is mainly in coal and such mines and as you know about the political environment and legal issues around mining the entire segment has nearly collapsed at this point in terms of vehicle sales and we are in the brunt of it being the leader in that mining segment and there are some issues right now in the Volvo trucks so we have diversified, we have started selling a lot more tractor trailers, we have started selling to other segments but considering over 70% of our business is coming from the coal mining sector we obviously have some hit on our sales.

So that is entire commentary, which I just talked about was of course for our substantially, which is the Volvo Eicher Commercial Vehicle Joint Venture. On the standalone part we have a Royal Enfield Motor Cycle business, which continues to perform extremely well. The main news is that we have completed the planning for a new plant and we are waiting for Government approvals etc. to actually start work. Our stated intention is that by Q1of 2013 we should be up in running with the new plant and that continues that remains our target.

In the meanwhile for the current quarters we sold for the first time over 20000 motorcycles in one quarter. So it is up 57% over the same quarter last year, so we had phenomenal growth. Our production has increased tremendously. In the nine months ending September 2011 we sold 55615 bikes, ie, in the nine months we sold more than what we sold in the whole of 2010 so great growth has been in Royal Enfield business. So production is ramping up. We are starting to produce - in both the months of September and October we produced more than 7000 motorcycles and therefore sold more than 7000 motorcycles.

The good news continues that the demand position is excellent so the demand is for every single month is we out stepping our supply - so if we are supplying in the tune of 7000 motor cycles the demand is may be in any given month is 3 or 4 or 5000 sometimes even more than that- in excess of other supply so it gives us confidence about our new plant, which is we should be getting into capacity very soon actually in our new plant. So given on these revenue and volume figures the financial outcome is also extremely satisfying for the quarter.

As you know our total net income for Q3 was Rs.1451Crores, which is a growth of 32% over last year. Our EBITDA was 151 Crores which is the growth of 80% over the same period last year which is the margin of 10.4% and it has taking highest EBITDA ever and this is apparently a slightly weaker quarter because the good quarters particularly in the years are still to come. So October to December quarter and January to March quarter, I see the best quarters for the industry. So we hope to continue the good performance but as you can see the difference between the topline growth keeps trend with EBITDA growth of 80% so that of course there are many factors in that but the main factor of course is operating leverage so we are able to really leverage our skills without increasing our fixed cost to that extent.

We have also had substantial improvements in the material cost some of it is because of product mix but some of it is genuine improvement in the realization and in price saving and in lower discounts and all of that so that continues.

Our PAT for the quarter is Rs.120 Crores, which is the growth of nearly 88% over the same period last year, and operating working capital continues to be negative at a consolidated basis for eight consecutive quarters now. So we continue very tight cash management for working capital management. We have also talked about many plants for a capacity enhancement so I will go through some of those. In VECV and Eicher Trucks and Bus plant we are enhancing our capacity from which is 4000 plus right now we have already reaching 4000 every month to 55000 by the end of 2012. So that capacity expansion is underway and of course eventually we should be going to around 85000 in the next three quarters. So the work and the investments for all of that is happening and it will continue in 2012.

Again in VECV, we are also creating and we are absolutely on track working on cost and on technology to achieve our medium duty as in project which is going to be the plant will be ready by end of 2012 rolling out engines and the full SOP, the fully start of production will happen in early 2013 and of course in Royal Enfield our new plant is as I said is underway we should give a capacity of 150000 in starting early 2013.

So that is all on underway. So overall I am extremely happy with the results. We continue to outperform the commercial vehicle market and on track to achieving we are over 70000 in the motorcycle business and continue to demonstrate progressively in all dimensions whether it is on the revenue side, whether it is on the cost side or on the cash side. So that is all from me right now and thank and over back to you Sonal.

Sonal Gupta: Thanks Siddhartha and Marina can we now open and up for questions and answers?

Moderator : Thank you very much. Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and then "1" on your touchtone telephone. Participants are requested to use only handsets while asking a question. Anyone who has a question at this time may press "*" and then "1". The first question is from Raghunandan from Avendus Securities. Please go ahead.

Raghunandan: Congratulations on a good set of numbers and thank you for taking my questions. On the two-wheeler business though the volume growth was so strong the raw material cost as a percentage of sales has increased QOQ from 65.7% or 66.5% is there any reason for that?

Lalit Malik: It is around 66% but you know these are all quarterly fluctuation that we keep adjusting to the spike in the raw material prices that we saw a couple of quarters ago so some of that is this kind of passing through. But it is our intent is to hold the raw material prices to between 65 and 66 despite any quarterly aberration that you might see.

Raghunandan: But raw material prices actually had especially I think the steel price hardly went up at the starting of the quarter. I assume you enter into quarterly contracts. So that is a point was it?

Lalit Malik: It is not about steel only I mean our major commodities ie, around aluminum, rubber and the others. Prices have not come down they are still stable so as I said some of the residual effect of the last few quarters was still seen in Q3.

Raghunandan: Can you elaborate on that residual effect?

Lalit Malik: See the pricing contract that we have with the suppliers they come and hit the financials with the lag of a quarter so the Q1 consumption the entire cost increase in these would have been kind of seen through Q2 and part of it in Q3 and similarly on Q2 part of it was seen in Q3 number which you is seeing is right now and part kind of moves ahead. Most of the price cost in these of course we have already absorbed so in future we will see some moderation in the raw material prices.

Raghunandan: Okay, so the lower prices in Q3 that benefit will be seen in the fourth quarter?

Lalit Malik: The prices have lowered they are stable to where they were in Q2 so the pressure to increase the prices may not be be that high as it was a few quarters back, but the prices have not really come down.

Raghunandan: Just to continue on that there is a reverse of the same effect in the commercial vehicle that is VECV where actually the raw materials as a percentage of sales had actually gone down so can you explain?

Lalit Malik: That is a different reason. There because of the Volvo sales which was down almost 36% over same time last year and the Volvo sales has you know it is a trading business for a us it does not include the manufacturing element in it..

Siddhartha Lal: In VECV it is basically a function of last year a function of product mix even though there have been some pricing in the improvements and some other slippage and people cost improvement but generally it is a product mix improvement, which has happened.

Raghunandan: By product mix would you refer there was a lower contribution of LCV sales?

Lalit Malik: No the product mix would refer to only the fact that one of the large revenue drivers in our VECV business is Volvo trucks and Volvo trucks is a trading margin so it is relatively low margin.

Raghunandan: Have you taken any price hikes post September?

Lalit Malik: Yes we had one in October.

Raghunandan: Okay, how much Sir?

Lalit Malik: It was around 1.2% at a blended level.

Raghunandan: Okay sir this is for commercial vehicles?

Lalit Malik: Commercial vehicles.

Raghunandan: Okay, and none in two wheelers side?

Lalit Malik: No, not post September.

Raghunandan: Okay, and the trading margins for Volvo trucks would be in the range of 5% to 6% would that be a fair assumption?

Lalit Malik: We do not give out the numbers but it is a trading margin. It is certainly lower than the margin we get on our other trucks and buses.

Raghunandan: For the year would it be fair to assume 14% effective tax rate for standalone and say 27% for VECV?

Lalit Malik: See for the tax rate in VECV it is largely a function of R&D expenditure of course in a standalone it is function of the R&D expenditure at Royal Enfield and also from the FMB related income that we get. So on FMP related income is not regular each quarter that tends to kind of its peaks and troughs. So in VECV side we have any way between 26% and 28% safe assumption to have for the next quarter in terms of the tax rate. But for the standalone business it will change with the FMP income.

Raghunandan: If I can ask one last question the CapEx would it be fair to assume over the next three years Rs.500 Crores on commercial vehicles, Rs.400 Crores on Engine and Rs.150 Crores on two-wheelers?

Lalit Malik: Yes broadly yes engine may not be Rs.400 Crores it may be little higher.

Raghunandan: That is all from my side and all the best.

Moderator : Thank you. The next question is from Pramod Kumar from JM Financial. Please go ahead.

Pramod Kumar: On the non-vehicle side, Mr. Siddhartha if you can just throw some light for Volvo business how is that shaping up because the realization despite a 36% fall in VECV seems to be doing pretty well. Of course price increase of Eicher branded trucks is also a factor but generally wanted to get a sense on the non-vehicle Volvo business actually?

Siddhartha Lal: Which means parts you are talking about?

Pramod Kumar: The non-vehicle the service and spare aftermarket?

Siddhartha Lal: Generally we see the aftermarket business is more it does not move as sharply as the vehicle business so the revenues are bit let us say more predictable there but the issue of course is that if there are lot of vehicles which happens in last year also if there are lot of vehicles which are actually not in use because of the mining ban so the vehicles which are not in use should not consume parts they will not consume labour and therefore the consumption of parts and labour also comes down in the field so there is some effect of lower spare part and services but it is not alarming or anything but it is certainly lower than what one would expect if mining is going with full tilt.

Pramod Kumar: Generally on the HCV discounts how is the trend there in terms of vis-à-vis the other big players?

Siddhartha Lal: Overall as a direction in VECV we have been extremely sharp over the last two three years on reducing discounts and marketing variable cost tremendously and that has resulted in very good position for us in terms of margin improvement it has been one of the margin drivers I would say. As such in light and medium duty it is now at a very reasonable level. On heavy duty side which is there is still some larger discounting then it is one would like is also because we are newer entrants in that business and also because the incumbents in that business largely like to play the price card so when there is a big deal going on they will throw a lot of discount in the table. That typically is how incumbents actually work. So we have to certainly fight that to some extent and we are certainly able to do that so in current scenario there is still reasonably high level of discounting in the heavy duty truck business for us also but it is in line with the industry but overtime we believe that we should be able to get a grip on this but overtime when I say it means over the next two threes years timeframe.

Pramod Kumar: What would be a HCV footprint now? Given the total network what we have how many dealers of ours have already started selling HCVs and how has been the certain pockets like this tipper segment doing for us in terms of market share because you did share some market share numbers earlier on the 16-tonner tipper side, so how has that evolved over the last two three quarter, Siddhartha, if you have that data handy?

Siddhartha Lal: The tippers are doing 16-tonner tippers in particular doing exceeding well. I believe I do not have all the data I believe that we have now 10% market share and 15% in last quarter are certainly so give or take is around 10% market share which is substantially better than last year and that is despite the fact that we are only present in the less than 50% of TIV well less than that, so as soon as we continue to expand our footprint in terms of selling dealers or dealers who are actually selling the 16-tonne tipper we believe we continue to improve the market share tremendously so that one very focused area that we are talking about 16 tonne tipper but in the larger sense we have now large number of dealers are out let us say 210 dealers that we have in the Eicher network I would say more than half of them are effectively selling heavy duty and that number is rising on a monthly basis where we are able to get more and more dealers to be very effective on heavy duty sales. So yes, the network effect is coming in very strongly on the heavy duty side and we have seen very good traction on 16 tonne tippers but now also our 25 tonne has also hit is the market and is also doing well so our 25 tonne tipper is poised to grow and take some good market share in the next few quarter hopefully.

Pramod Kumar: The buses any traction in that on the semi-low floor rear engine bus what we have introduced in the market anything to share there in terms of any wins on the STU side?

Siddhartha Lal: It was not pertaining to the last quarter because I think it was in October that we got this order from Gujarat Government. We got an order of 20. For us, it is a very big deal because we are very bullish about as our semi-low floor product, excellently design and tested product so Gujarat Government I mean the first deployment will be in Gujarat in any scale which is in 20 numbers and this is our vehicle for future for urban sector. So we are working very closely with lot of governments the cycle time for getting orders in this business is slightly longer but we are working on it.

Pramod Kumar: Also coming back to results VECV this quarter there was 20-odd percent increase in other expenditure on a sequential basis over the June quarter and September quarter as compared to 12% revenue growth I was just wondering whether is it again a lead and lag effect or what exactly is driving such high other expenditure increase if you can just throw explain that to an extent that will be really great?

Lalit Malik: Yes, largely lead and lag effect you cannot necessarily attribute everything that happens in quarter in term of expenditure to the sales of that particular quarter. So they were a little higher on the manufacturing and marketing variables but this is all planned for number one and number two there is no exceptional hit over here. It was all planned expenditure.

Pramod Kumar: So in a way you can expect such elevated level of other expenditure to continue in the future?

Lalit Malik: See but in the ballpark Pramod if you look at other expenditure for EML consolidated in large part of it which pertains to VECV is all of in the ballpark in the last 2010 onwards in the region of 10% to 11% so I think it is safe to assume broadly the same range will continue but if there is any heightened expenditure to be made in any particular quarter that will kind of show up but there is no exceptional one of hit that we have had it is all planned expenditure specifically in a few areas of R&D and stuff like that.

Pramod Kumar: Have we started setting a Desert Storm and the Chrome in the last quarter in our Royal Enfield operation?

Lalit Malik: We should go and book one for yourself when you see.

Pramod Kumar: No because that can have an impact on overall possibility, because I think that very attractively priced in that sense?

Lalit Malik: It has started from October onwards.

Pramod Kumar: It is started from October so that is yet to show up in the Royal Enfield in the quarter.

Lalit Malik: Yes.

Pramod Kumar: Thanks a lot and best of luck for the future. Thank you.

Moderator : Thank you. The next question is from Chirag Jain from B & K Securities. Please go ahead.

Chirag Jain: Just had a couple of questions on the Royal Enfield business we are doing 7000 run rate for the last few months is there a possibility of touching this to 7500 or 8000 in CY'12 itself before the new capacity comes on stream?

Siddhartha Lal: Yes, that is certainly the attempt always and we have been able to up our production tremendously from last year to this year so we are 50% up. We are working on other products with improvements, we are working on outsourcing of certain other components so that we can increase our capacity so yes we certainly are working towards increasing our capacity we do not have a number yet, but we are still working towards increasing our capacity for calendar year 2012 absolutely.

Chirag Jain: Sir other question pertains to your export business once the new capacity comes on stream and the new product launches like Desert Strom and Chrome bikes how do you see the exports business shaping up for Royal Enfield over the next three years or five year time frame? As of now export share is 5% to 6%?

Siddhartha Lal : I personally do not expect to see that change tremendously over the three-year timeframe because we have a very strong growth in the Indian context and even though we are exporting to 30-odd countries now in Royal Enfield we do not have that sort of traction in any other markets as we have in India right now. We have actually in addition to being present in the Americas and the developed markets over the next two three years, our ambition is to actually start moving to developing markets such as in Latin America and South East Asia and some African markets so where there are volume markets for motorcycles so we are looking at following some of the India players who have made good inroads into these markets and we believe that in any market where Indian motorcycles are selling well, Royal Enfield will always have an opportunity of 1 to 5% of these market.. So that is all Chirag, is going to be I would say 2014-2015 onwards so currently in the next two three have horizon would not see a sharp increase in exports as a percentage of revenue.

Chirag Jain: Thank you Sir. This was useful.

Moderator : Thank you ladies and gentlemen, in order to ensure that the management is able to address questions from all the participants please limit your questions to two per participants. The next question is from Basudab Banerjee from Quant Capital. Please go ahead.

Basudeb Banerjee: Thanks for taking my question. Sir, last year in fourth quarter in the concall you have said that generally majority of the two-wheeler exports have been in Q4 where the margins is relatively lower so this year where your scale up has happened and monthly volume has moved up to 7000, can we expect some kind of margin surprise negatives in Q4 using that logic?

Siddhartha Lal: No I do not remember saying anything like that and it is not a Q4 phenomena in the first place, even though we expect a good exports in this quarter and actually exports is positive driver of margins in our business in Royal Enfield business, so I do not know either I said it wrong or you heard me wrong but I do not know how that impression came out. So yes in general, exports improves our margins for a given quarter in case our exports as a percentage of sales improves.

Basudeb Banerjee: Sir can you give me the original breakup of the overall CV volume that is north, south, east, and west in percentage terms of different geographies?

Siddhartha Lal: Sorry I do not have that off-hand in terms of percentage terms between different geographies but of course our strongest market continues to be in the South of India, so the southern four states are typically extremely strong markets. Second you can say that average market for us would be west and north, even the north is now improving tremendously especially in heavy duty and the weaker markets for us would be central and east, but I do not have any numbers unfortunately about the distribution at this point. Lalit do you have it now?

Lalit Malik: We don’t have it right now but Basudeb, we can send it later to you.

Siddhartha Lal: We can send it through a mail you later.

Basudeb Banerjee: Thank you sir and congratulations on another set of good numbers in this quarter and best of luck Sir.

Siddhartha Lal: Thank you.

Moderator : Thank you. The next question is from Chirag Shah from Emkay Global. Please go ahead.

Chirag Shah: Thank you for the opportunity. Siddhartha first on the capacity side of the two-wheelers what is kind of exact capacity that we are looking for CY12, I know your new plant is coming somewhere on CY13, so for two-wheelers what is the kind of capacity you would exist from the existing plant? What are the thought processes over there?

Siddhartha Lal: Chirag, as I just mentioned a little time earlier, we are currently pacing 7000 is what we are able to achieve on a monthly basis, we do not have a fixed number yet, we have not given out a number yet or anything for 2012, it will of course be entirely from the current plant, it is something that we will settle and want to achieve in a month, but there is opportunities we are looking on increasing beyond 7000 now whether we are able to upgrade to 7.5 or even to 8000 - cannot say exactly right now but our attempt is obviously considering a long waiting period to target as much as possible. So we are working on the plans, our planning process is on right now, we are looking at product improvements, we are looking at outsourcing, we are looking at all the different areas that we can turn sort of before 2013 we can actually have a good 2012 also in terms of growth, so it is all in the plans, and we will tell you as and when we have the better idea.

Chirag Shah: Also if I can ask you where are the bottlenecks existing for you for increasing the capacity to say from 7000 to 7500 or 8000?

Siddhartha Lal: That can be a very long discussion.

Chirag Shah: Some of the key bottlenecks?

Siddhartha Lal Some of the key ones, one of course has been on the painting side, so in fact we have started outsourcing painting business because our paint shop factory which is the first important thing that is coming up in our new plant, is the Paint Shop, so that is one of the key ones, but we have also some quite a few of I would say supply related capacity issues, but in house I do not think there is anything more than paint shop, which is the biggest capacity issue, but we have a quite a few supplier related issues, and some of the key components like frame and tanks I would say are areas where we need to ramp up. So there is a lot of work happening, there are some new suppliers in the pipeline and lot of work happening on that, so if we can have those then certainly we should be able to get good monthly production numbers out in 2012 results.

Chirag Shah: The question I had on your regional mix how has the share of South moving for you, is it coming down because of the issues that are happening on the southern markets or can you throw some light t over there?

Siddhartha Lal: You mean on the commercial vehicles?

Chirag Shah: Yes, commercial vehicles.

Siddhartha Lal: There is no particular issue right now in terms of southern states, as market share obviously there is absolutely no concern. In terms of retail distribution it is marginal effort, I do not think south is performing much worse than the others, so there is no particular concern at this point, but of course in the particular areas like mining certainly there is some area, but in the overall level it does not affect much.

Chirag Shah: You made an interesting observation that you are saying a slowdown in the cargo and strong uptake in tipper how would you look at this situation especially whether you enter into a new calendar year are you saying signs of slight concern due to given the macroeconomic on the demand side?

Siddhartha Lal: Again it is a very tricky situation, there is some slowdown like I said earlier on the rigid segments, the cargo segments. And fortunately when you look at the tipper segment has taken care of that, the tipper segment has taken care of that overall, I do not know and it is difficult to comment on the slowdown a bit more, is it more difficult like improve, basically it is about a economic growth and about sentiment about our transporters. So if the transporters were able to get a freight rate they will continue to buy but there is no question about it, but I do not think we have reached a point whether there is a glut in the market of transportation, so I think it should hopefully be over at least the reason that it will not be good growth at least it will be a flat in the cargo market, but I do not see a very sharp down turn in the market right now.

Chirag Shah: Is this slowdown visible across geographies or is it more concentrated on few geographies, which is affecting the overall numbers, any data you have on that side?

Siddhartha Lal: Not of hand, sorry.

Chirag Shah: Last thing on the margin front is it safe to assume that there is still operating levers left for you and your margins would actually expand given other things being constant purely on operating leverage because you have not yet spoken about increasing your capacity would that add to your fixed cost?

Siddhartha Lal: It will certainly add to our fixed cost to some level and we are also aggressively increasing our employee rate right now to look at opportunities whether it is our new product whether it is new geographies over the next two three years, so we are certainly increasing the cost as well but hopefully our revenue should improve. Now the basic thing which we also look at is I think the larger parameter here would be the product mix, so currently we have a reasonably good positive product base but overtime there will certainly be some pressures I would say margins as our heavy duty rises to a particular level after which heavy duty should also actually start improving our margins but I think there will be a product in the next 12 to 18 months but as heavy duty becomes the largest proportion of the overall sales.

Chirag Shah: Just a follow up on this capacity expansion on the CV side, by when can see that to happen, when can we see that happening in a production numbers, you are indicating going from 4500 units you are taking it to 5500 units. By when you would be ready to produce those numbers, the demand is there?

Siddhartha Lal: So the 5500 will be the end of 2012 that is the program so that the largest quarter, which is going to be January, we will be ready for 5500 plus for that quarter. Now for the quarter of January to March 2012 we should be ready for 4500, right now already reaching 4000 which is our current capacity but within the next one or two months we should have added all the balancing requirements so that we can probably produce 4500 per month if required for the January to March 2012 quarter.

Chirag Shah: Further expansion to 5500?

Siddhartha Lal: By the end of 2012 we will be.

Chirag Shah: End of 2012?

Siddhartha Lal: By the end of calendar year 2012. I am trying for the first quarter of 2013, which is peak quarter.

Chirag Shah: Fair enough. That was helpful. I will come back for more questions.

Moderator: Thank you. Ladies and gentlemen, participants are requested to limit their questions to two per participant. The next question is from Hitesh Goyal from Kotak Securities. Please go ahead.

Hitesh Goyal: Thanks for taking my question, I just have a question on dealership ramp up, you said now you have 210 dealers, so over the last half, how many dealers have you added?

Siddhartha Lal: Our current dealership base actually is 213. In the year 2011 we have added 14 so far and that is the current number and we are still on track to adding another maybe 10-12 dealerships by the end of 2011. There is a lot of LOIs that has gone up and a lot of dealership in the pipeline so in the next, I would say between this and the next quarter we will add another 10-12 dealerships.

Hitesh Goyal: Thank you.

Moderator: Thank you. The next question is from Shivani Kadam from India Nivesh Securities. Please go ahead.

Shivani Kadam: Good morning and congratulations on good set of numbers. I just noticed that on standalone basis the raw material stock adjusted has increased by 65% whereas if we take it in CV business it has increased only by 23%, any particular reason for that, I mean can you put us light, do you import some items that have created this hike in raw material prices?

Siddhartha Lal: I imagine that you missed out the beginning of this conference, the exact question same question was asked. I think the first question asked about.

Shivani Kadam: Yes, I know, but I just want to know is there any effect on imports?

Siddhartha Lal: Not particularly, we have a very small percentage of imports, so there is no real impact on imports in my understanding.

Shivani Kadam: Sir my next question is related with the engine business I suppose that your full production will start in the year 2013 and as I read that 70% would be supplied to Volvo and the rest will be absorbed by the Eicher and how do you see the initial stage going on and what would be the percentage of this in the total revenue, can you put some light on that?

Siddhartha Lal: We are not giving out exact numbers of revenues of this project and therefore we do not have those kinds of details. These are of course four cylinders and six cylinders, relating to five or eight liter engines, which are for Volvo global requirements and of course we can start estimating the price of this but the general idea is that in the year 2013 will be the ramp up years, so we are not planning to reach 85000 production for the year 2013, it would be more gradual ramp up in the year 2013 also as you can imagine there is a lot of installation process which happens. So when new engines come alive, basically the old engine has to be replaced in an existing vehicle. So what happens is you do not at least in Volvo world and Eicher world we do not change the entire installation in one go. We will change for one model at a time, so it also helps in ramping the engine sale. So we believe that it will take us I would say 12-18 months to get to full capacity but to get to higher capacity of utilization in this engine business, on the business captive sale, in the sense that in these existing vehicles which will be converted in to our engines so there is no risk attached any unless there is a downturn in the industry, there is no risk of reducing the engine numbers really.

Shivani Kadam: Sir my next question is related with Royal Enfield and there is the volume that they enjoy a very good brand image and the demand is more demand than supply, so have you observed any particular growth of people or age group or target audience that is coming for Royal Enfield?

Siddhartha Lal: Well I think I can answer this in two parts, I mean we should have some more audience lets say upgrading customers so people who have already owned a motorcycle let us say an effective motorcycle and then we want to upgrade to certain difference, on the leisure category that is the core segment and that continues extremely strong but of course the Classic Motorcycle also helped us to attract a very interesting new set of customers which a much more affluent than other customers. So it is not just young guys who start as early part of the career it also now a lot of executives or business owners who are very high in terms of their earnings power and they are also buying a vehicle now.

Shivani Kadam: Thank you.

Moderator : Thank you. The next question is from Ragunandan from Avendus Securities. Please go ahead.

Ragunandan: Thanks again for taking my questions. I just had one question. On the other expenditure, how much was the impact of increase in sales promotion expenditure. I believe even interest subventions have started in the last quarter?

Lalit Malik : The full breakup of all that as I said earlier also Ragunandan, is that it is a mixture of marketing as well as manufacturing overheads. So it is not just sales subvention scheme or anything like that it is much higher, it is distributed across many heads. So we did some additional expenses that we did on R&D, which was planned, for and so on so specific account wise details of course we do not have right now.

Ragunandan: Just one small clarification like last quarter in the conference call you had mentioned that the dealers were 145, am I missing something because this time you are saying 213?

Siddhartha Lal: I think we might have has some mix up with 3S and 2S level. So we have a category, which is sales, service and spare parts, that would be 145 to 150, but overall looking at 2T plus 3S dealers that is around 213.

Ragunandan: Yes sir you were right on that answer. Thank you very much Sir. It was very useful.

Marina: Thank you. The next question is from Nayan Mehta from Twenty first Century Shares and Securities Limited. Please go ahead.

Nayan Mehta: Sir Congratulations on very good set of numbers and I just had a couple of questions. What is the total cash and investments as of September 30?

Siddhartha Lal: Well in the subsidiary books we have about 1200 Crore of cash and in the standalone books of Eicher Motors we have 490-500 Crore.

Nayan Mehta: 490-500 and what about investments I believe we have about 400-500 Crore in mutual funds this is over and above this 1200 Crores I believe?

Lalit Malik : So there are two different things this 1200 Crores is all invested in bank term deposits and the 500 Crore which is separate in the standalone books, the investments are in fixed maturity plans and debt mutual funds.

Nayan Mehta: So overall it comes to about 1700 Crores is that correct is it fair to assume?

Siddhartha Lal: Yes, around that number.

Nayan Mehta: Just what kind of yield would we be happy with on that 1700 Crore?

Lalit Malik : Well this is all in the much lower risks the returns are of course correspondingly you need to adjust if you look at in the last three quarters the numbers that we have and returns we have made I think we will get a fair idea.

Nayan Mehta: About 95 odd Crore I think is the other income.

Siddhartha Lal: Yes.

Nayan Mehta: What is the status of the upcoming engine production facility if you can just throw some light on that?

Siddhartha Lal: Engine production is absolutely on track on tracking on buying costs and qualities so it is we are going to the plant will rollout its first engine at the end of 2012 and the full start of production will happen in 2013 so it is absolutely 100% on track.

Nayan Mehta: Our existing engines are of 3.4 and 4.9 liter capacity and they are being upgraded to take care of various requirements in LMCV and HD vehicles as well and non automotive applications?

Siddhartha Lal: So our existing engines core of it is of course our 3.3 liters engines that is also being upgraded in various ways and for the BS-IV requirements so that will continue to serve as on light and medium duties and eventually new platforms that is being created along with Volvo will serve on our heavy duty requirements.

Nayan Mehta: We shall produce 5 and 8 liters engine as well in the 180-320 HD bracket?

Siddhartha Lal: Well that is absolutely the great news.

Nayan Mehta: This will come up by CY'13 by the end of 2013 or in the beginning of CY13?

Siddhartha Lal: The rollout will happen starting early by 2013 but the installation on different models will happen in fact in the beginning of 2013 and by the end of 2014. So it will take us two full years to completely install it in all our products so you will first see it in the one model, then you will see it in may be three months later in the second model and three months later in the third model so that was the rollout will happen.

Nayan Mehta: So this will cater entirely to our expanded capacity of all the various vehicle segments?

Siddhartha Lal: Our current engine capacity of let us say the existing engine is 50000 already approximately and that is also expanded to some extent and then to cater to light engine and heavy duty requirements and then we will have additional capacity of 85000 of the new engine, so we will have more than enough on the engine side. That is what you are referring to. I do not know if it was the question.

Nayan Mehta: Correct and in terms of heavy commercial vehicles, what is our average, if you can give the average what are we selling the average monthly basis?

Siddhartha Lal: In the last two months the last month in October we have done 700 numbers and it was similar like that in September so it has grown substantially. Last year we were averaging around 300 numbers and the year before that was 150 numbers so we had substantial improvement in heavy duty sales and hopefully in the peak season you know the heavy duty continues its traction it does not sort of degrow dramatically then by January to March we should hopefully see a further uptick on 700 numbers.

Nayan Mehta: By what time can we reach about 1000 units a month in the HCV and what time do we reach the higher market share and what is the current market share in the HCV, if you can share on that?

Siddhartha Lal: The last quarter we had a market share of 3.2%. Certainly the ambition is sometime in the next two quarters we are trying to achieve 1000 numbers a month but we do not push the sales so it is you will see the numbers only in the Eicher Motors only. So we will never push sales to have one month a 1000 number the idea is to sell sustainable 1000 a month so if it does not, so we will only do it when the actual demand is 1000 a month and then only we will start manufacturing and selling that level of numbers so hopefully it will happen in the next few quarters but only time can tell that.

Nayan Mehta: Is it possible to give us the breakup of bus, trucks and two wheelers volume numbers and you know the revenue numbers separately?

Siddhartha Lal: Absolutely it is all available in the presentation. I am not going to go through all the numbers here, because it does not make any sense but it is all in the data which is released on a monthly basis which is like to look at that if you want us to email it to you this data.

Nayan Mehta: Thanks for taking all my questions. I will come back if I have more. Thank you.

Moderator : Sure sir. The next question is from Kiran Chedda from Value Quest. Please go ahead.

Kiran Chedda: Hello sir. This is more about the industry rather than the company has such, so we are seeing a slowdown in the GDP growth and many of the sectors and even the mining almost at a virtual standstill so in this scenario, how do you see the CV industry doing well and what is you see the goal going forward?

Siddhartha Lal: It is a good question and well I do not certainly do not know all the answers but of course if it continues to be a strong problem in mining and if it continues to slow eventually you know transportation in the truck industry will slowdown at some point and also we should remember that truck industries right now doing well I do not know if the cycle will hit us in six months or one year or two years but at some point there is going to be a down cycle, it could be triggered by some of the issues that we talked about. As of now it is I think it is slightly more tender the entire the CV growth is and we will be quite happy if it keeps sticking at this point rather than having a shortfall but it is very difficult to say once the fall starts it is based on that but I think hopefully we should be sustain over the next quarters which will be actually supposed to be good quarters for the commercial vehicles.

Kiran Chedda: Sir these tippers that we are talking about excuse my lack about the knowledge of the products, but what is the exactly a tipper is used and in which industry Sir?

Siddhartha Lal: Well tippers are used across industries but our largest tippers which are the Volvo truck which is about very expensive which is about 60-70 lakhs per unit type of vehicles, they are used mainly for deep mining. So deep mining application of coal and lignite and all of these then other tippers it is 6 x 4 tippers or 4 x 2 tippers which is more mass market tippers produced by us and by other players they are used for constructions other for looking some which is surface areas or some transportation areas, for bad roads, for sand, for bricks they are used for many other applications mainly around constructions and light mining.

Kiran Chedda: All right sir. Thanks a lot.

Moderator : Ladies and gentlemen that was the last question. I would like to hand the conference back over to Mr. Sonal Gupta for his closing comments.

Sonal Gupta: Thank you Marina. I would like to thank on behalf of UBS Securities the senior management team from Eicher Motors for taking out their time and discussing their thoughts on the company’s performance and thank you all for joining in today. Thank you very much.

Siddhartha Lal: Thank you.

Moderator : On behalf of UBS Securities that concludes this conference call. Thank you for joining us you may now disconnect your lines. Thank you.