



“Eicher Motors Limited
Conference Call”

August 8, 2013



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*Eicher Motors Limited
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Moderator: Ladies and gentlemen good day and welcome to the Q2 CY'13 results conference call of Eicher Motors hosted by Edelweiss Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nirav Sheth, Head of Sales, Institutional Equities, at Edelweiss Securities. Thank you and over to you sir!

Nirav Sheth: Thank you. Good morning everyone. Thank you for joining us today. On behalf of Edelweiss Securities I welcome the team of Eicher Motors and thank the management for giving us the opportunity to host this call. Representing the management, we have with us Mr. Siddharth Lal, MD and CEO and Mr. Lalit Malik, CFO. I would now like to invite Mr. Lal. Over to you sir!

Siddhartha Lal: Thank you Nirav for introducing this teleconference and good morning to everybody and I am very happy to join this call and to share with all of you the updates on Eicher Motors Limited Q2, from April to June of 2013. I will start with an update on our sales numbers and the industry trend in our businesses which is the commercial vehicles and motorcycles business and then move on to financial performance.

The commercial vehicle industry as you know is continuing to trend downwards and it has been doing that now for 18 months and therefore we continue to see a significant pressure on the sales volume in the 5 tonne and above segment of the industry, which is Trucks & Buses. In Q2, which is April to June 2013, the segment itself recorded a sale volume of just over 77,000 units, which is a decline of 12.5% over the same period last year. In Q1 for your reference i.e. in January to March it had declined by over 31%, so the decline is very deep especially because it is on a lower base from last year as well. Eicher Trucks & Buses in contrast continues to perform better than industry, so our overall sale volume for the entire segment put together was just over 10,900 units which is an 8.1% decline over the same quarter last year versus industry decline of 12.5%. So we are just marginally ahead of the industry.

Coming to segment wise performance of commercial vehicles in light and medium duty trucks - 5 to 14 tonnes - we sold 5,724 units which is 11.6% less than the same quarter last year and the industry was down by 2.4%, so we have had a slight decline in our market share to 29%. In the 16-tonne and above segment, which is the heavy duties segment, we sold 1,289 units in this quarter. This was 32% lower than the same quarter

last year, and the industry decline was 19%, so here also we lost little bit of market share down to 4%. However in the bus segment we continue to significantly outperform the industry. In Q2 2013 we sold 3,331 units, which is a growth of nearly 20% over the same quarter last year while the industry declined by 2.9% and our market share as a result was an all time high of 16.6% compared to 13.5% last year, so that is going well for us. The exports also continue to be very sluggish for the industry and for us. We did only 562 units in this quarter which is 20% lower than last year whereas the industry declined by 30%.

On our Volvo trucks division we continue to lead the European truck segment but the segment itself continues to underperform and we sold 121 units in Q2 which is a decline of 20% over the same quarter last year. Overall in some of the segments in trucks we lost a bit of market share. I think we have brought it to notice that we have been able to maintain a very good price realization on the vehicles that we have actually sold and therefore we have been able to maintain very strong profitability, which we will come to subsequently but however I would like to reiterate that we have on July 1 crossed the 5-year mark of the VECV Volvo Eicher Commercial Vehicle Limited joint venture and I would like to reiterate that there is a complete alignment between Eicher Motors Limited and AB Volvo about the direction of the company. Of course we would have been happier if the industry was more favorable but that absolutely does not influence our commitment to make VECV a very significant player in the commercial transportation in India and by driving modernization, so we are firmly committed to our long-term plans and our orientation of the company. We have been continuing to invest tremendously over the last many years including the entire period of this downturn, and as a result in the JV, up till the end of 2012. We had invested Rs. 1,300 crores since the inception and we are investing another Rs. 1,200 crores over these coming two calendar years 2013 and 2014 which will take our investment in the first six and a half years of the joint venture to Rs. 2,500 crores. These investments have gone into every single part of the business starting with the industrial side which is by and large been built out. The product site is continuing to be built out and the new product range will be coming in starting end of this year to renew the entire products in Trucks & Buses from 5 tonnes upwards, including heavy duty. Of course the big investments in the market side on distribution on marked-to-market and spare parts that is also going on at this point, so there is significant investments going on and we believe that as and when the industry emerges from this long slump that it has been VCEV will certainly be the frontrunner in gaining share and frontrunner in profitability and of course in driving modernization, so we are extremely prepared for the time when the industry comes back and we are continuing to invest so that we are best prepared at that point. In addition to that at the VCEV level we have had another

enormous milestone very recently. We inaugurated the new medium duty engine plant at Pithampur. It is certainly the most advanced engine manufacturing plant in the country and perhaps even amongst the most advanced engine manufacturing plants in the world today. It is the only one of course in the country which is already making Euro 6 compliant base engines and this plant is producing 5 and 8 litre Euro 6 engines. For Volvo's global requirement, the starter production has started, the engines are being shipped to France already and they are already being installed in trucks in Europe and other markets, so the chain has truly started. Of course in addition the biggest advantage for the Indian market is that the same base engine which is of extremely high quality and accuracy etc, will be used to produce certainly the most advanced BS III and BS IV compliant engines which will be used for Eicher's heavy duty truck and buses for Indian and export market. So it will give us an enormous competitive advantage from all of our competitors in India and it is a real technological leapfrog for VECV and the Indian market. We have a bus body plant, and you have seen our bus numbers have been increasing rapidly and our bus market share has been growing tremendously. We believe in fact it is only the start of things as far as our bus strategy is concerned because very soon our full new state-of-the-art bus plant is getting commissioned which according to me will also be possibly one of the best bus plants in the entire world. We are really now getting in to absolute world class product manufacturing and it will certainly continue to show in our long-term orientation in the business.

Moving on to Royal Enfield which is of course continuing its enormous success story, Q2 which is April to June 2013 has again been the best ever quarter with a record sale of over 40,000 units at 40,040 and unit growth of 45.5% over the same quarter last year. We recorded an EBIT of 15.9% which is again a record for Eicher Motors standalone and growth of over 14% over the previous quarter and the EBIT growth is around 73% over Q2 of 2012, so operating leverages is certainly kicking in a strong fashion at Royal Enfield. We are continuing to invest heavily in the Royal Enfield business. We are already looking at further capacity enhancement even though our plant at Oragadam has only just begun. The new plant in Oragadam is starting to pull its weight in Royal Enfield with the latest production in the month of July of over 3,000 units and that ramp up is continuing strongly. In September now we will be having an international launch of our all new model the Continental GT, which is a ground up different model for Royal Enfield and is earmarked for a global audience. It has therefore been designed with a global audience in mind. It has got a tremendous build up in international markets as well and we expect that it will certainly have a tremendous flagship appeal, which means the product will sell but it will also help us in continuing to improve and increase the Royal Enfield Brand which is extremely

important for us. So Royal Enfield continues on a very strong wicket and of course as we have announced we are starting our ambition of working at a global level. From product side the Continental GT is the first big global product but from a market side we are also now studying and working on different markets. That is more of a 3 to 5 year plan in terms of where we will actually see serious volume increase or a significant portion of our revenue we believe should start coming from international markets. So that is still many years away but it is a commitment from the team at Royal Enfield and from all of us that we are working towards a global plane in mid-sized motorcycling.

On the third business area that we have which is another joint venture, the joint venture with Polaris that partnership is also progressing extremely well. We are on track on our project. The management team is in place and the project timelines are being met and at the announcement of the project we had said that we will have a starter production in 2015 and that date and timeline is very much intact and we plan to have starter production and starter sales in 2015. So that is on track as well.

Moving to financials it is certainly a point to note that in the entire automotive industry where the financials have been looking pretty weak for most companies, we at Eicher Motors are managing to continue to show growth in both topline and bottom-line. So from a Q2 perspective, which is again April to June of 2013, we had a total income from operations of Rs. 1,670 crores, which is a 5.4% growth over last year. Also, very importantly, we have Rs. 136.6 crores EBIT which is a 13% growth over the last year. So EBIT margin is actually increased from 7.6% last year to 8.2% and our PAT has consequently also increased from Rs. 113 to Rs. 126 crores, which is around a 12% increase. We are very pleased with the performance of our businesses where we have had the topline and bottomline growth and we continue to, even in this tough time, extract a little bit of operating leverages of our business. That is all from me right now. Thank you all for joining the call and over to you Nirav to lead with the questions.

Moderator:

Our first question is from Pramod Kumar of IDFC Securities; please go ahead.

Pramod Kumar:

Thanks a lot. Hi, Siddharth, hi Lalit, first of all Congratulations, I think, an excellent set of numbers specially compared to what is happening in the industry and Siddharth, my first question pertains to the engine business, because as you said, you have started selling these engines, so just wanted if you could share what are the volume contributions or revenue contributions from this business in the last quarter and what would be the objective for the rest of the year because we are done with six months for this calendar, so how do you see this going forward?

Siddhartha Lal: Thank you very much Pramod for the compliments and as far as the engine business is concerned it is currently in the start-up phase, last quarter only a few trial engines were being shipped to France and installed. So there is absolutely nothing significant to get in terms of volumes or revenues or profits, which has come in last quarter. But having said that in any case we do not reveal the segment, or let us say, at the VECV level we are not giving you full numbers of all the business areas put together, so we are not disclosing any individual numbers on engine sales or profitability but in any case like as I said as a matter of information it is only marginal right now, the real production is starting and to be fair, the ramp up is not going to be an extremely sharp ramp up because it is a slow ramp up which is going to happen over the next couple of quarters because the factory needs to have that type of pace in order to make sure that the quality is perfect and the installation on different vehicles in international markets is also going to happen at a relatively slow pace which has always been known, so there is no departure from our plans but we do not expect suddenly the entire capacity to be working in the next few quarters, so it will be a measured ramp up let us put it that way.

Pramod Kumar: But these revenues are decided by the joint venture and just wanted to understand is it rupee revenue what you decide or the billing happens in dollar?

Lalit Malik: Billing has to happen in dollars only because this operation is encoded.

Pramod Kumar: I was just looking at the currency benefits because if it is rupee terms we do not participate in the currency benefit, so I just thought I will capture that and my second question pertains to Royal Enfield because we have now started seeing even consumer staple have started to report slowdown, just wondering how are you looking at the demand momentum for Royal Enfield as you are increasing production, rolling out the network and bringing in new products as well, how do you see the incremental demand on a monthly basis, as in, any trend which makes you worry or is it like still holding on pretty well?

Siddhartha Lal: Pramod, it is a good question. Royal Enfield is continuing on an extremely strong wicket right now so we are continuing to take in much more orders than even our new production that we are doing. For example, in July we have actually crossed 16,000 production but we are continuing to take in much more orders than that already, so the order book is continuing to grow. It basically continues to be fueled by our strong network expansion in the Indian market. We have been adding many dealers every month and existing dealers are also growing because the demand continues, that is number one. Then of course we expect that when we launch the Continental GT in India that should create another spurt of demand as well. It is a higher end product. It is

going to be our most high end product at the Royal Enfield stable, but having said that of course in itself it will have appeal and it will have a halo effect. We also have complete faith on the rest of our product range. So we are quite bullish over the next at least visible future of 12 months that we will continue to have. The demand cycle certainly does not seem to be letting up for the next twelve horizon then of course we will have to do a lot more work on newer products in international markets and further network expansion to continue this type of scorching growth base that we have had, so I cannot say anything beyond the next 12 months, but I feel in the next 12 months at let the growth should hold up.

Pramod Kumar: Excellent Sir, I just had one question which our investor messaged me because he cannot be on the call if can I take that up. The question pertains to your recent comments on the new product platform what you are talking about starting from this calendar and what he wanted to know was because I think the comments were pretty positive, I just wanted to understand what are the aspects you expect that you would be significantly better than competition. For example, is it like the engine, the cabin, just some more qualitative light on that, which is what he was interested at.

Siddhartha Lal: Of course we want to keep the punch line first when we actually launch the new product so I do not want to get into any details that we have not talked about before really. Of course, the first is known that on the heavy duty range over time, it is not going to happen at one instant, but over time we are going to start deploying our new 5 and 8 litre engines, which are, like I said in the past, absolutely the best engines one can buy in India, in terms of reliability, fuel efficiency, and various other parameters. We are extremely convinced that this will be an enormous factor in our heavy duty vehicles. We have also talked about the fact that we do have a full new range of cabins which is going to be coming in. We have talked about our agreements with Volvo on that in terms of the new cabin so that is also kicking in. Again, I wanted to just caution you that all of this is not happening on day one. The entire reveal will be there, but over the course of two years the installation will happen on different vehicles because we are talking about vehicles from 5 tonnes all the way to 50 tonnes and buses, so it is impossible to install it all and in one go, it happens over a period of time, but with the changes of course in the engine and cabin, and of course consequently various changes in the rest of the vehicle as well, which is a ground up, new platform, new products that we have and they are totally tailored for the current Indian scenario. But with an eye to the future, so they will have better performance, they will have better turnaround time, and basically if you know that what Eicher vehicles are known for in the market which is better performance, better payload, better turnaround time. We certainly plan to maintain and improve on all of these parameters.



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Pramod Kumar: Excelled and I hope when you said India specific or India scenario I hope the pricing is not going to be at a premium either. Thanks a lot, best of luck.

Moderator: Thank you. Our next question is from Chirag Shah of Axis Capital. Please go ahead.

Chirag Shah: Thanks for the opportunity. The first question I had on two-wheeler ramp up program. You have highlighted we have touched 16,000 units production in the July month so how one should look at the ramp-up program for current year as well as, as we enter next year what could be your monthly production capacity?

Siddhartha Lal: You guys are great at mathematics so you will figure it out exactly. Our stated intent means if you count in Q1 plus Q2 we have achieved just shy of 75,000 and our stated ambition for this year is to produce 175,000 so we continue to be on track to doing 175,000 production for this year, and of course if you see the 16,000 number of July it shows that we are certainly on track to accomplish because we will continue to improve on that 16,000 as well over time. Of course, based on the mathematics whatever the exit number in December, it will be the starting number for January for 2014, so that should give us another leg up. Having said that, our ambition is to keep increasing production. I think over the last 30 months we have pretty much been increasing production by 50% on a 12-month basis, so every quarter over the previous quarter has been around 40% to 50% and we have been largely continuing with that pace right now and now of course that the new plants kicking in that should help us continue on that kind of pace. I think over time in our type of industry, in these question and answer sessions we will stop talking about capacity because we will eventually be able to have the right amount of capacity to serve the market then of course the focus of any company in the automotive world should be in the market front and I think the important thing here is that we are not letting up for the second on the market side. Our focus on market is 100% and our focus on demand generation is really we know that in the long-term that the is only thing that really matters in an automotive company so you have to meet the demand generation, on product quality which is absolutely outstanding now, particularly in the products from where the new plant is seen is absolutely top of the line. New products on distribution, our entire focus is really on that and we have to make sure that we have the right capacity. So the capacity is continuing and I do not see any long-term issues on capacity.

Chirag Shah: To put it other way, this kind of expansion can also continue in CY' 14, is that right way of looking at it, because you can go up to 500,000 units of capacity over a period of time and you are aiming to achieve that number that is the right way of looking at it subject to demand?

Siddhartha Lal: Yes the way of looking at it is that as you know in motor cycle incremental capacity is not very expensive so, having said that I think we found our maximum pace. I do not think it is plausible or possible for us to grow at more than 40% to 50% in terms of capacity so you would not see that in 2014 it is going to double. The entire organization needs to move up to that type of pace and we found our limits, I am not saying it's 100% limit, but generally right now the type of pace that we find is the extreme high end of the pace which we are sort of comfortable with right now. We will try and continue to grow at this pace in terms of production, I am only talking about production right now, over some time period and of course we expect that over time the supply should be equal to or slightly greater than the demand and then of course our focus like I said continues to be on the demand generation. So in 2014, we have said that our ambition is to make 250,000, which is around 40% increase over the proposed 25,000.

Chirag Shah: But that also mean to that you will not expand your capacity in CY'14 at all, after December, January you will stop expansion?

Siddhartha Lal: No, it does not mean that. We are already looking at the next phases; we are discussing that and all of that.

Chirag Shah: No, I am just saying we have stated ambition of 250,000 units, which means you will not necessarily further increase your capacity.

Siddhartha Lal: I am not saying one thing or the other. Our physical ability in this Oragadam is to grow to 500,000, so if we see market growing which we are seeing growing, we are going to trigger the next phase of investment that might start kicking in at some other point in 2014, but we have plans for 2015 as well.

Chirag Shah: Fair point. My second question was on commercial vehicles. One is I wanted to understand the thought process of your investment in Sri Lanka, where you have such big opportunities in India, how are you looking at the export markets at this point of time, any thought process over there? Second is, there is increasing competition in your bread and butter segment, the ICV segment. Both Ashok Leyland and Tata Motors have stated that they are aggressive looking at product portfolios coming into this segment. Are we indulging new products, how are you looking at rising competition in that segment? These are the two questions to share your thoughts on, it would be helpful.

Siddhartha Lal: In Sri Lanka of course we see the market has grown tremendously since the last couple of years. Sri Lanka, like other markets in South Asia, we see as a national extension of the Indian market. So there is no contradiction because the product is really the same product. Conceptually you need to look at Nepal, Bangladesh, Sri Lanka, etc. as

extension of the Indian market in some sense. It is really to capture an additional market there. There is no defocus on the Indian market to that extent. On exports of course our aim, as we have talked about earlier, is emerging markets, and particularly within that it is Africa, Middle East, and Southeast Asia. Those are our medium-term markets that we are focusing on. We are working very closely with Volvo group and Volvo group's distribution network. We have got projects going on to get into these markets. We find that going into them in the right manner, which is probably different from what other Indian and Chinese companies have done so far, and the right manner means to really establish a very strong distribution, aftermarket network, to focus tremendously on the brand and then start getting filled as a premium mass market product. That is our absolute ambition in international markets. It is not about one quarter or the next. It is really about a meaningful long-term entry into a market, so we are setting up ground in the focus-relevant international market to make a lasting play which is again a premium mass market brand lately. In light and medium duty in India, of course there is, as you said, increased competitive pressure. Again, our focus here and we believe what will give us the winning strategy at the end is again our long-term brand-led and value-led place. We are not a ticket price seller and of course we have to participate in some of the discounting which is done, which is primarily led by competition, but that is certainly not the way we like to play the game. Even now as you can see very clearly from the numbers, we might have slightly lost a bit on share in the last quarter in light and medium duty, but that does not trouble us. We have maintained a very strong profitability which is more than you can say for any other manufacturers. When the time comes back, it is the strong brand which wins, and we believe we are playing into making a very strong brand. In light and medium duty particularly in India in addition to value play and a brand-led premium product play, premium mass market, the next game for us which is being played out right now is much stronger distribution. While are we extremely strong in some markets in light and medium duty, particularly you can say south then of course we are also reasonably quite strong in west and north, but there are some other markets in central and east, and some pockets in west and north where we are expanding our distribution extremely well because in perceived terms, our brand is No.1 in light and medium duty in India. So we need to make sure that in some of the markets where we do not have very strong distribution, we need to improve our distribution and the market shares will come in those markets as well. There is a very strong improved distribution play which is going on right now in the markets where we are relatively weaker. The next thing of course, which we have been talking about a lot, is our new products which will start coming at end of this year, so we have a full range of products which include light and medium duty of course, in terms of every aspect of the product, and of course we are very

conscious of pricing and other such areas. We are confident that what we are doing on the product front will certainly take our advantage to the next level and value selling ability to the next level, so we are extremely confident of the light and medium duty place for sure.

Chirag Shah: Thank you very much.

Moderator: Thank you. Our next question is from Pulkit Singhal of Treeline. Please go ahead.

Pulkit Singhal: Congratulations on the good set of numbers. My questions are related to Royal Enfield. Last time you mentioned you had 260 numbers of dealership. How many dealers do you have currently and also what would be the order book like, given that you mentioned you would add six dealers per month?

Siddhartha Lal: It is pacing approximately that much. There is always a bit of plus/minus on the dealerships, but now I believe in the last quarter we would have added another 15 odd dealerships, so it is probably up to around 275 right now in terms of number of dealers.

Pulkit Singhal: The order book?

Siddhartha Lal: Order book, like I said, is continuing to grow, so we are continuing to take in significantly higher net inflow than the sales that we are having every month, so the order book is continuing to grow very well.

Pulkit Singhal: Has it been lower than six months, because till the previous quarter you have been maintaining a six-month backlog, has that come down, has it gone up or is it the same?

Siddhartha Lal: In unit terms it has gone up, but because our denominator has increased our production has gone up to 16,000 last month. I would say, in number of months, it is probably marginally down because three months ago we were talking about 12,000 as a denominator, now it is 16,000, so I would say that in number of months it is starting to trend slightly downwards, but in absolute terms it is still going upwards.

Pulkit Singhal: My second question is, if you could share with us what the spare parts business has contributed this year and warranty cost for bikes?

Siddhartha Lal: At the annual results, we will disclose that, but during the year we do not disclose these numbers, sorry about that.

Pulkit Singhal: No problem, when you plan to launch the Cafe Racer?

Siddhartha Lal: We have just announced that in September itself we are going to have an international launch of the Cafe Racer.

Pulkit Singhal: Okay, thanks a lot.

Moderator: Thank you. Our next question is from Pramod Amte of CIMB. Please go ahead.

Pramod Amte: I just needed guidance on the tax rate, because if you see tax rate has been pretty high this quarter. So if you can just give us a guidance of what would be your full-year tax rate, if you can give me a trend on the consol basis?

Lalit Malik: Guidance as such we cannot give and we do not give for any of our revenue. As far as standalone is concerned, it is really a function of three things. It is a function of the kind of product development spend that we have done. It is a function of accelerated depreciation based on the income tax rates, and the third will be the quantum of income that we get from our investments, you can classify them as quasi investments because we only do debt-oriented mutual fund investments. Last part of that investment is tax free. So in the quarter if you notice, that number was very low, around 7 Crores. So the tax provision that we had to do was a bit higher, but as the year picks up and these are all based on tax year, when we follow the financial year, as the tax year picks up and this is the first quarter of that, in terms of R&D spends and further capitalization planned for us, you will see the number trending down. The number is quite okay I think, there is nothing much to comment over there, except that it is dependent on all the things which I just described to you, except that there is no steady income over there in debt-oriented schemes, so that element is not there, but the rest is just based on our industrial and product spend.

Pramod Amte: Okay. One more question on our engine business, if you can just tell us over the next few years what would be the internal sourcing of engines. If we produce 100, how many would be internally sourced and how many would be given to Volvo?

Siddhartha Lal: We do not have an exact number and of course things will change dramatically based on market conditions, how the markets are growing, how the markets are evolving, etc. It is really very difficult to say, but the fist cut what we have out of long-term 100,000 number is that 30,000 plus will be for Euro-6 base engines, which is basically for European requirements. Please take these as approximate, these are not guidance, these are just potential numbers which are out there and they could change quite a bit based on the how the markets are evolving. Greater than 20,000, maybe close to 20,000 to 25,000 plus even up to 30,000 is for exports back to Volvo but for non-Euro-6 markets, so Euro-3, Euro-4 type of markets, so that will be full engines, not base engines. The

Euro-5 and Euro-6 are just base engines. These will be full engines which are similar to our BS-3 and BS-4 engines, in fact same as our BS-3 and BS-4 engines, which will be exported. The additional amount may be a bit more than a third what is slated for the Eicher brand which is for the India and Eicher brand export markets. That is a very broad brush on where these numbers are going to be going.

Pramod Amte:

Okay. Thank you very much Sir.

Moderator:

Thank you. Our next question is from Hitesh Goyal of Kotak. Please go ahead.

Hitesh Goyal:

Thank you for taking my question. I was looking at VECV numbers, actually for the last two quarters your gross margin has improved. Is it related to mix or the discount levels in the market has come down because we are hearing in July again the discounts have started to grow up, so some color on that please?

Lalit Malik:

It is largely a function of mix of course, not in Q2 but in Q1 we took almost a 1% plus price hike on all our products.

Hitesh Goyal:

Actually the gross margins were quite a bit from fourth quarter levels, it is around 300 basis points.

Lalit Malik:

These are the things only; there is no other (indiscernible) 44:14.

Hitesh Goyal:

But are you seeing discount levels going up this quarter, basically from the last quarter on the commercial vehicle side?

Siddhartha Lal:

It has been a terrible last quarter and it continues to be bad. The discounts are at the peak you can call it or price realization is at the bottom level, but we continue to say that as you can see from our margins that clearly we are just marginally more picky on giving these kinds of discounts, therefore we are able to get slightly better price realization than some of the competitors who are probably going over the top in terms of discounting the market and doing that, so that is not our game really as you can see, a profitable growth is our mantra, so we will continue to grow, but we want to grow profitably.

Hitesh Goyal:

Okay. Final question is on, last quarter you had given this number that top 12 cities would form 50% of sales, how do you see this changing materially over the next two to three years; I am talking about Royal Enfield?

Siddhartha Lal: That of course is approximate and there is no change on a quarter basis on that at all. Basically what is happening is that our, as you can see from the growth rate, our city markets are growing very well, but also we are having strong traction in tier-II and tier-III markets, so basically it is all adding up to the type of growth that we are having, but it is coming from all over the place therefore the relative importance is not changing much. The top 10 to 12 cities are still contributing around half of our sales.

Hitesh Goyal: Okay. Thank you, very good set of numbers.

Moderator: Thank you. Our next question is from Srinivas Rao of Deutsche Bank. Please go ahead.

Srinivas Rao: Thank you very much Sir, two questions actually, both on the RE side, what would be your sense on the average age of the RE buyer, that would be my first question. Secondly, you have mentioned that there has been an improvement in the product quality of RE. Is there any data which you would like to highlight or throw some more light on this issue, has warranty costs per bike come down or the visits per bike to the dealership or whatever has come down something like that?

Siddhartha Lal: Average age is a bit difficult, but it is also a bit misleading, I would say maybe median age is something we can talk about. Really we have a good spread of age, we have a very large number of younger customers up to 25 age bracket also who are coming in, but we also have older customers, so if you average it out, it should be 30 or plus/minus here and there, but average does not really sort of the tell the picture to be very honest because it spread out. I would say that the peak mid 20s would be the median age. On the quality side what has happened is that in the buildup to the new plant, we did not look at the new plant only as a capacity project, we looked at it as a full upgrade project. So we worked extremely closely with all of our suppliers. We tooled up everything from scratch, so our frames, which is the skeleton of the vehicle, have been tooled up from scratch. They are now extremely precise and therefore the fitment of products on the frame, therefore the ride and handling, and everything has improved tremendously. All the A class surfaces and products such as the tanks, mudguards, and all have been totally retooled and that of course goes to both the plants, so the overall quality emerging now. It is too early to see warranty trend from this, but despite that our warranty is trending well downwards and at the end of the year you will see the actual numbers also coming up, but the warranty is trending downwards. Of course, now we are getting extremely good plane quality and other such things also from the new plant. Overall, qualitatively having met all the distributors and customers and dealers in international markets, to be honest, we are even more picky and conscious of initial quality, so there we got extremely strong responses. Even the quantitative and

qualitative numbers are all trending downwards. Our fault frequency numbers have improved tremendously. Our top priority items in terms of the magnitude of issues or the type of issues is down tremendously, so all these parameters we track very closely, we are improving by leaps and bounds now, and we are now getting to a global standard in terms of how other manufacturers are in terms of quality.

Srinivas Rao: Thanks. Just one small clarification, what is the production breakdown right now from the new and the old plant? I know the new plan is just probably ramping up.

Siddhartha Lal: In July we did 3000 from Oragadam, which is the new plant, and 13,000 from the old plant, but that continues to evolve sharply as we are able to ramp up the new plant.

Srinivas Rao: Understood Sir, very helpful, thank you so much.

Moderator: Thank you. Our next question is from Jinesh Gandhi of Motilal Oswal Securities. Please go ahead.

Jinesh Gandhi: I just wanted to check, have we taken any price increase on Royal Enfield side?

Siddhartha Lal: In Q2, we did not.

Jinesh Gandhi: Second question pertains to the commercial vehicle business, in VECV we already started seeing step up in cost because of MDE project or that is yet to contribute to cost?

Lalit Malik: Some cost will always be there because you will begin to see the cost falling into the P&L, when you start the trial production. The trial began in Q4 last year. Part of the cost is already over there, but our growth in our investments and therefore the (indiscernible) 52:02 you will get to see in our P&L for VECV, it will always be much calibrated. It will not be much ahead of whatever demand that we have. There is a rise in the cost, but I think very soon when the production picks up, it will all be squared up. The entire cost of the MDE plant is coming into our P&L today, last two quarters that has been the case.

Jinesh Gandhi: Okay, one should not expect meaningful step up as we start commercial production in coming quarters?

Lalit Malik: No, as you increase (indiscernible)52:40 and as you increase other things more on a commensurate level, right now we are charging all the cost of the MDE plant as we

stand today, I am talking about the depreciation and in the overhead and employee costs, which are coming in.

Jinesh Gandhi: Okay Sir, got it. Thanks a lot.

Moderator: Thank you. Our next question is from Mukesh Saraf of Spark Capital. Please note due to time constraints this is our last question. Mr. Mukesh Saraf please go ahead.

Mukesh Saraf: Thank you for taking my question. First thing is again just touching upon on the engine side of it. If I look at Volvo's global sales on the medium-duty side, they have done about 7800 in the first six months, even assuming about 20,000 for the full year in CY'13, so we have a 25,000 unit capacity for the engines in this medium-duty side. So I am just trying to understand when would we start expanding this capacity, because I guess given that Volvo is doing only 20,000 odd and only a portion of this would be Euro-6 in Europe, I just wanted to know would the 1 lakh expansion only takes place in CY'15-16?

Siddhartha Lal: Sorry Mukesh, I am not 100% aware. Are you talking about Volvo truck brand?

Mukesh Saraf: I have looked at Volvo plus Renault, the complete Volvo group sales, the medium duty 7 to 16-ton segment, so that volume in the first six months they have done about just 8000 units.

Siddhartha Lal: I do not have exact numbers, but if you are doing the analysis you can add the Volvo bus numbers because buses also normally take medium-duty engines, even the big buses, that is one more thing. One is the trucks and buses, but we are also potentially selling to other parts and divisions of Volvo group, and you have to note that even in 2013, it is a down year globally. As the market picks up this should happen. Of course, the important factor is that with this new engine and with platforms, etc. that the Volvo group has and with the good cost structure that we have, and this engine enables Volvo to actually increase their market share and penetration in the medium duty over the medium term, so apart from the upswing in the market there is also potential for further improvement due to this. Like I said, in the longer term we are looking at 30,000 to come from the Euro-6 requirements for Volvo group including trucks, buses, and other segments of theirs. Like I said, another 20,000 to 25,000 plus from Volvo group requirements of Euro-3 and Euro-4 and the rest from the Indian requirements of Eicher brand for BS-3 and BS-4 for India and exports. That is like I said in a downturn year will be different, in the peak year it will be higher, but that is approximately what we are doing. Currently, we see that 25,000 capacity based on replacement cycle of the engines, based on the buildup of heavy duty truck demand in India for Eicher brand,

based on various other parameters, we think that the 25,000 phase 1 continues right now. As we see for the next period, we are going to have this stable. Then of course as soon as we start hitting 2000 units per month then we know that it is time to expand and expansion for entire plant is up, most of the machines are up. Some of the high-value machining sectors etc, need to be added, which does not require a very long lead time. You can see from the numbers, we have spent 375 Crores on 25,000 capacity and for the additional 75,000 capacity we need only 125 Crores. As you can see most of the investment has been done upfront, so the incremental investment is not that much and it will be done as soon as the requirement kicks in, so we are not worried about that all.

Mukesh Saraf: My second question is just to understand on the Royal Enfield side, the increase in dealerships. If you could give us the broad breakup of proportion of dealers in tier-1 versus the non tier-1 cities, and how do you see that one year or two years down the line after your addition?

Siddhartha Lal: I actually do not have the number with me, but if you can go to our website and see every single dealer in every single market, so it is easy to get those numbers out. Typically in Delhi we have 8 or 10 dealers, in Bangalore we have 7 to 8 dealers, I do not have the exact number with me.

Mukesh Saraf: But once you add dealerships also, you think the proportion will remain same or you are looking to concentrate more on the non tier-1 in your dealer addition?

Siddhartha Lal: Proportion does not drive us. Whether the gap in the market, whether the gap in the catchment area, we have to add a new dealer, so we have an issue in some pockets of Chennai then we will add a dealer there, but basically we are having good growth in same sources as well. Of course, over time the big markets will be covered from distribution. There are not enormous gaps anymore. There are only small catchment areas which are not served properly and which we are serving better. So over time, of course the delta in dealerships is going to be in tier-2 and tier-3 that means the increase of dealerships is largely going to be tier-2 and tier-3, but that does not mean that increase in volume is going to be only from tier-2 and tier-3, because we have very strong sale improvements happening because big bookings are in big cities right now. As soon as we can reduce the numbers, we expect that the bookings will continue to rise, because then people will get their bike quicker. That is all we look at it.

Mukesh Saraf: Thanks a lot for taking time to answer my questions.

Moderator: Thank you. I would now like to hand the floor back to Mr. Ashish Agarwal of Edelweiss Securities for closing comments.



Eicher Motors Limited
August 8, 2013

Ashish Agarwal: Thank you everyone for participating in Eicher Q2 CY'13 results call today. A very special thanks to the management of Eicher, Mr. Siddhartha Lal and Mr. Lalit Malik for allowing us to host this call. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Edelweiss Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.