



“The Eicher Motors Limited Q3CY12 Earnings  
conference call”

**November 12, 2012**



**MODERATORS: MR. SIDDHARTHA LAL – MD & CEO, EICHER  
MOTORS LIMITED  
MR. LALIT MALIK – CFO, EICHER MOTORS LIMITED  
MR. PRAMOD KUMAR – ANALYST, IDFC SECURITIES  
LIMITED**



*Eicher Motors Ltd  
November 12, 2012*

**Moderator:** Ladies and gentlemen good day and welcome to the Eicher Motors Limited's Q3CY12 earnings conference call hosted by IDFC Securities Limited. 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. Should you 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. At this time, I would like to hand the conference to Mr. Pramod Kumar from IDFC Securities. Thank you, and over to you sir.

**Pramod Kumar:** Thanks a lot Inba. Good morning all of you. On behalf of IDFC Securities, I would like to welcome you all to this post results conference call of Eicher Motors. We have with us today Mr. Siddhartha Lal, Managing Director & Chief Executive Officer of Eicher Motors and Mr. Lalit Malik, our Chief Financial Officer and we would begin the call with brief opening remarks from Siddhartha and then we will have the Q&A session. Over to you, Siddhartha.

**Siddhartha Lal:** Thank you. Thanks Pramod for leading this interaction and happy to join this call and take all of you on Eicher Motor's quarter 3 performance for 2012. What I am going to do is start with an update of the sales volumes for the various segments of our commercial vehicle industry and motorcycle business that is VECV and Royal Enfield and then provide a brief update on the financial performance of the quarter as well.

On the commercial vehicle business as you know, we have been witnessing a volume traction on the industry which is 5 ton and above commercial vehicle industry in India and for quarter 3, which is we are calling it quarter 3, talking about July, August, September quarter, the industry recorded a sale volume of 96,538 units which is a decline of around 14.4% over the same period last year and on year-to-year comparison, this is one of the steepest declines in the recent past. So as opposed to that in Eicher Trucks and Buses which is a division of VECV, we have also had a softer quarter with compared to last year quarter and the volume for this quarter was 10,661 which is a decline of 16.5% as compared to Q3 2011. So it is similar to the decline in the industry as it were.

Coming to segment wise performance; in the light and medium duty segments of 5 to 14 tonne, we did 6289 units which is slightly less than 6472 in quarter 3 2012 and we continue to hold our market share to 29.5% in the segment. On an YTD basis, the light and medium duty segment has declined by 3.9% as has Eicher. So we have been along with the market for the last 9 months now. In heavy duty, we have actually sold 1615 units in quarter 3 which is a 12.3% decline over the same period last year whereas the industry has declined by 14.1%; so again a very similar performance in line with the industry even in heavy duty. In bus segment, we have actually had a very good quarter where we have sold 2326 units which is a growth of 16.8% over last year quarter and our market share had gone up from 11.2% last year to 13.7% this year and the market share for the quarter is highest ever in any quarters. So that is the great improvement. Exports is weak once again particularly with issues in the Bangladesh market and they are down at 431 units which is 41.1% decline than the same quarter last year and the European truck segment also

is continuing to be affected by mining issues. So Volvo trucks continue to be the market leader here, but again we sold 130 trucks which is 6.5% lower than the same quarter last year.

Commenting on the volumes; after a soft September where Eicher truck and bus market share in the month of September was 9.8%, we have actually had an excellent October where we recorded a 15.3% market share which is an all-time high for any month ever. So we have been able to bounce back and if 15.3% is compared to 13% over October last year and while the market conditions continue to be very tough, we are focused on ensuring that we maintain and grow market shares in this weak market period and we continue to invest strongly for our future product and commercial plans moving forward. So that is the overview on commercial vehicle sales and market share.

Moving onto the motorcycle business, Royal Enfield, we have had an outstanding quarter once again where we continue to be constrained by production as it were and by supply. So the results have been nevertheless outstanding. After touching 10,000 units per month production and sales in July 2012, we have continued to exceed 10,000 units every single month in the previous quarter. In fact in October, the month has just got over, we had a shade less than 11,000 units and that is because we lost almost a day's production during the cyclone in the last day of the month. But nevertheless in the last quarter, we recorded 30,046 units which are 49.7% higher than Q3 of last year, so it has been a great growth in unit sales and it has been the best ever quarter for Royal Enfield clearly. Overall on projects for both VECV and Royal Enfield, we continue to like I said invest for the long-term and we have not slowed down at all any of our investment plans anywhere even in CV's despite slight downturn effect. We still pushing forward very hard on all of our projects which is medium duty engine project, bus body plant, our new paint shop, and the capacity enhancements and of course extremely importantly the entire new product platforms which are going to come into force from the end of 2013, through 2014 and into 2015. So the 2-year period is going to be filled with product pipelines from Eicher truck and bus division. We also continue to push forward on our motorcycle division, Royal Enfield new plant and our new product lines. So, all of that is very much on track.

Moving onto financials, for the quarter we had a marginal growth overall in total income which is from Rs. 1436.9 crores to Rs. 1483.1 crore with 3.2% plus, improvement. The operating margin, however, at a consolidated basis has taken a downturn for by 25.2%. So from around Rs. 148.9 crores last year same quarter, we had at around Rs. 111.4 crores. That is a pretty sharp drop; however, the EBITDA margin is down from 10.4% to 7.5%. All in all, 7.5% is EBITDA margin is in our opinion still reasonable for the type of market conditions that are playing out at this point. So, overall that quarter for CVs that partially made up by motorcycle, but we continue to have a very strong market position across the board and particularly in CVs we are gaining shares and we are setting ourselves up for a strong future. So, that is all from me at this point and over to you Pramod.

**Pramod Kumar:**

Inba, can we start the Q&A please?

**Moderator:** Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session for this call hosted by IDFC Securities. Our first question is from H. R. Gala of Quest Investment. Please go ahead.

**H. R. Gala:** **Sir, we appreciate the macro condition under which our company operates. Can you give broader outlook in the near term and how do you see the next few quarters for the trucks and buses segment?**

**Siddhartha Lal:** Firstly, it is very difficult to say what the next few quarters will be like for the overall CV industry. Having said that, really CV industry is known to be a cyclical industry; every 3 to 5 years, there is some level for down-cycle. In 2008-09, there was a very sharp downturn. This time, it is certainly not as sharp, but it is certainly there. Normally, the downturn is precipitated by some sort of economic condition and again this time, the slight slowdown in the GDP growth and other issues in the Indian economy, we have seen that effect coming into the CV industry, but to me absolutely nothing alarming from a long-term point of view. This is how our industry operates and this is how it is going to operate possibly for time to come. So from our perspective, what we just do is really put our head down, make sure that all the short-term initiatives that we need to accomplish in terms of production corrections and other cost corrections, we do those, but in our case like I said we plowing ahead extremely strongly on our investments. If you look at it in the coming few quarters, I do not expect great bounce back at least in this quarter, but I cannot say from January onwards, how the market will be.

**H. R. Gala:** **Sir, you said that you are going ahead with your investment plan, so can you just tell that in the standalone entity and in the JV, what are our CAPEX plans for 12 and 13?**

**Siddhartha Lal:** Well in the JV first, in the calendar years 12, 13, and 14, we are expecting Capex in the order of Rs 1500 crores.

**H. R. Gala:** **All 3 years put together?**

**Siddhartha Lal:** Yes and in Royal Enfield what we have announced at this point which is the standalone area, we have announced in the order of 150 crores for the new plant actually. So, we are not giving a longer term projection for Royal Enfield at this point. It is anyway not an extremely capital intensive business, but as of right now it is 150 crores for the new plant is what we have announced.

**H. R. Gala:** **So this will be spent over how many years?**

**Siddhartha Lal:** The 150 crores will be completed within Q1 of 2013.

**H. R. Gala:** Sir, just on the taxation aspect wanted to know is there any special thing why the income tax, effective tax rate in the consolidated subsidiary has substantially come down from 25% type to 17%?

**Siddhartha Lal:** Largely, it has got to do with the mix, so there are 3 or 4 drivers that we have in the overall consolidated financial which governs the taxation rate. So as far as standalone is considered it is really a function of R&D spend happening in Royal Enfield and of course the other income that we get, which is the treasury income, which is largely tax free, largely I would say. And in the VECV business, of course is largely because of R&D and depreciations. So, as the plans move up and down as far as the Capex spend is concerned and how much of R&D we can claim, this rate will change.

**H. R. Gala:** **So overall we can expect around 23-24% type, effective tax rate?**

**Siddhartha Lal:** In the ballpark of 25%. Give or take couple of points here and there.

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

**Pulkit Singhal:** **My question is more focused on the medium duty engine technology, the production. In what ways is it superior to the existing engines being used by our competitors, any kind of quantitative matrix on say fuel efficiency etc. could be helpful and also like we have a target of 100,000 CVs by 2015. What percentage of them will be using this technology?**

**Siddhartha Lal:** So the medium duty engine platform that we are now productionizing and will be ready by mid 2013. The specialty which you are asking first at an overall level is that it is extremely advanced engine. While we are making it for the Indian requirements, it will serve Euro-III, Euro-IV as well, but that same base engine is going to serve Euro-VI as well in international markets; so Euro-V and Euro-VI. So firstly future proofs VECV and Eicher trucks and buses from a very long-term perspective; while its medium duty for some of the European markets because its 5 and 8 liters going up to around 350 odd horsepower, in the Indian market it is a heavy duty requirement, so it will power all of our heavy duty trucks. So what we have done is taken a medium duty platform which is power and heavy duty trucks. So that is an interesting sort of position that we have been able to take. I think the most important part about this engine like I said is that it is totally future proof, but the level of let us say because this engine is going to be the exact same engine, the base engine is going to serve the European markets. The level of sophistication in terms of design in terms of manufacturing control everything else is of an absolutely higher nature. So you want to see much more consistent engine, it has been designed in the manner where it will be in the right application, it will be more fuel efficient, we don't have an exact number on the fuel efficiency, that's the strength which we have had and we focused on tremendously for this new engine. So all in all we are convinced that it leap frog in the entire competition from many different perspective. Unfortunately, I can't, because it is still under trials. We have not released any numbers, I cannot give you any quantitative numbers on the exact fuel efficiencies and other such parameters, but in any case fuel efficiency is difficult to say always at an engine level, it is normally at a vehicle level that it is important to understand. So as and when our new product come out we shall be telling you more about that. As far as adopting in our truck strategy is concerned, we are certainly looking at 100,000 truck and bus sales in by 2015, of which we expect a pretty large number as lets say our target market level is

around 15% in heavy duty. So pretty large number of that 100,000 will come out of heavy duty and most if not all of our heavy duty trucks will carry this new engine. So, it will be very important part for new truck platform coming 2013-14-15.

**Pulkit Singhal:** **Right, so I mean this would be used for heavy duty as well as the medium duty one side, light and medium duty I mean, it is all overall.**

**Siddhartha Lal:** As far as VECV is concerned this new engine platform will be used only for heavy duty trucks. Our light and medium duty will continue with an upgraded engine from our existing platform.

**Pulkit Singhal:** **Right, sir one more question if you were to try and produce say heavy duty engine from the same plant, would it possible if you ever had a mandate. So would it require completely new plant and new investment or you can do it from the existing plants itself say in three or six months time. I am talking about hypothetical scenario.**

**Siddhartha Lal:** Look what we got is 5 and 8 liter medium duty engine which is going to be produced from these new plants and what we foresee is that in the future of Indian requirement anything above 8 liters is not going to be required in India. Maximum up to 1% or 2% of heavy duty population will require something bigger than an 8 liter engine. In that case it does not even make sense to produce it in India; it makes sense to import it because you don't set up full shop for 1-2% of the volumes. So in our estimation we are not going to get into anything above 8 liters engine for India for the next foreseeable future, 10 years odd. So really that question doesn't even play-out. The potential of the medium duty engine in itself is so enormous that it could, currently we are setting it up for about 80-100,000 engine production, but even that number could go up drastically because of the global requirements of Volvo in the long term. So really this is not envisaged us, not going to take heavy duty engine, beyond 8 liters at any point in foreseeable future.

**Pulkit Singhal:** **Sir Volvo buses, do all of the use these medium duty engines. Do all of Volvo buses use this particular engine?**

**Siddhartha Lal:** I am not qualified to talk about the individual Volvo Group entities. That is I think a question better asked to the Volvo group sort of investor relations that we may be better placed to answer that. I don't know their operations across the world and what engines they use or don't use.

**Moderator:** Thank you very much. Our next question is from Kaushal Maroo of Emkay Global. Please go ahead.

**Kaushal Maroo:** **I just wanted to know on the competition side on ICV range are you seeing higher discount incentive and in percentage term is it very similar to the kind of discounting which are seeing on the heavy duty side?**

- Siddhartha Lal:** Yes, we are certainly seeing some people trying enter the medium duty range and the incentives are at a much higher level right now. It is difficult to say exactly because it is all case to case and it is spread across, but certainly the incentives have increased to some extent even in the medium duty segment.
- Kaushal Maroo:** **Which you would expect to continue for the next year and a half sir give increasing number of players coming into that segment?**
- Siddhartha Lal:** I don't expect anything like that. I mean really these depends on many different factors and certainly mostly I mean people come back to the sense in terms of these kinds of things I don't think we expect very long term issues like this, but that is part of competition, that is part of life, we are able to and we will take all these things head on and don't see it affecting us beyond a point.
- Kaushal Maroo:** **And sir next question is on your capacities. Would it be fair to assume that the new motorcycle plant from day one you would be able to produce like on a full year average basis on a full year basis, 50,000 on a full year basis or it will take time to ramp up to the full utilization level and even on the trucks and what kind of capacities we can expect on an next year full year basis?**
- Siddhartha Lal:** On the trucks front the capacities are more incremental as it were, so it is not a step function like in motorcycle business. So, we currently we are around 5500 capacity in commercial vehicle and we should see that drive by another 1000 or so by the end of next year. So for the season of 20-13-14 that should go up one further step of around 1000 units. In motorcycles we are looking at an overall capacity including old plant and new plant of 150,000 in the calendar year 2013, absolutely there will be a ramp up phase in the new plant; it is not going to happen from day one in fact first month or two will be much slower and then once we get confidence on all the parameters we will start ramping up more steadily but there will be a ramp up phase through the year and only by the end of the year we expect to be at full capacity in the new plant. Similarly there will be a ramp down phase in the old plants so they will sort of cross each other at some point during 2013.
- Kaushal Maroo:** **And sir one last question on your motorcycle business what kind of average waiting periods are there at this point in time and how has been the response for the new launches that you have done?**
- Siddhartha Lal:** Well, the response to the launch of new Thunderbird 500 and the new Thunderbird 350 have been absolutely phenomenon. So, we had very strong showing there and we have lot of enquiries and orders all of that. So, it is certainly the next big growth avenue for us for the Thunderbird. Our waiting period continues to be around despite let us say growth in production our waiting period continues to be in the region of 6-8 months. It varies from model to model and from region to region, but 6-8 months is a good sort of rule of thumb in our case.

- Kaushal Maroo:** Sir even these new models are in the 6-8 months range sir?
- Siddhartha Lal:** The new model is being introduced in different markets, so it is not yet at that level of waiting but it is getting there, it is already a few months waiting in the Thunderbird already.
- Moderator:** Thank you very much. Our next question is from Ashish Nigam of Antique Stock Broking. Please go ahead.
- Ashish Nigam:** **Just few house keeping questions. Your other income has trended lower for the last two quarter I think you have mentioned in the last call that it was due to some staggered maturity of FMPs. So was it the case this quarter as well?**
- Siddhartha Lal:** Yes Ashish, this was the case this quarter also. It all depends on when we have placed the FMP and when are the maturities so it won't be evened out through the year.
- Ashish Nigam:** **Okay fair enough and what are the cash and the equivalents on the books as of right now for both VECV and standalone?**
- Siddhartha Lal:** Particularly, we report the cash and cash balance in the middle of the year and for the end of the year but just a ballpark in the same region as it was Q2 for standalone business.
- Ashish Nigam:** **And also of this 1500 crores CAPEX in VECV, does this include the 400 odd crores for the engine project as well?**
- Siddhartha Lal:** Yes absolutely, it is inclusive of that.
- Ashish Nigam:** **And this you mentioned for CY12, 13, and 14. So how much has already been done in CY12?**
- Siddhartha Lal:** I am not getting the exact numbers right now Ashish, but reasonable amount is spent, I would say depending on how you look at it we have pretty healthy burn rate at this point in all our projects and all, so the projects are in full swing. So, there has been a reasonable amount of spend already happening, but it is going to continue into 2013 as well and also in 2014.
- Moderator:** Thank you very much. Our next question is from Sonal Gupta of UBS. Please go ahead.
- Sonal Gupta:** **I just wanted to understand on the heavy duty truck performance because you said you grown in line with industry for the quarter and given the fact that you are expanding geographically and as well in terms of some of your projects, product range is still coming up. Is it good enough performance and how do you see this sort of shaping up even assuming that the industry continues to be weak in the next 6 months or so. So how do you see this really performing for the next 6 months? Thanks.**



**Siddhartha Lal:**

First the heavy duty truck performance of course, our ambitions are really high in the heavy duty truck segment and the last quarter was weak. So weak means it was in line with industry and for us that is weak because we have traditionally been even growing well ahead of the industry for the last two odd years in heavy duty segment. Having said that, on YTD basis, we are around 12% odd plus for the 9 months whereas the industry is down by around 12 odd percent. So we have a delta of 20 plus percent give or take for the 9-month period. October in particular we have had a very good run as well particularly from a market share point of view where we have crossed 5%. I believe it is an all-time high market share we have been able to accomplish in October. So, really we know that there will be months and periods when we have pushed back by competition to some extent because they have seen us gaining on them. Q2 was 4.8% market share. It was a very strong showing from us and it certainly affected some of the big competition out there who is trying to sort of hold us back, but again we bounce back in October. So if you look at it for the year basis, we are well ahead of last year in terms of market share particularly and we are gaining. So in segments where we are putting our efforts, in geographies where we are putting our efforts, we have very good market share. So, there are double market shares in most of the segments and geographies where we are actually focused. So as we see it looking forward, it is a very long-term gain that we are playing with the heavy duty game; it is a consistent effort we are putting forward. We are putting a lot of emphasis on after market. Our product is great already, so that continues to improve, but after market is an enormous focus. Lot of the investments we are talking about has been we put up state-of-the-art world class parts distribution center in Indore which is absolutely anything like anywhere else in the world in terms of the infrastructure, but also in terms of software to be able to distribute any part anywhere in the country at a very short notice. So we are putting up a lot of facilities, one is at the central level, but then at regional level, at local level in terms of being able to service our trucks in a manner which has not been done in India so far and that is what the customer really wants. So lot of efforts, no effort is being spared let us put it that way to ensure that the fundamentals of our heavy duty business are extremely strong. At a commercial or at a competitive level, there will be ups and downs that is part of the business. I do not get too worried about that as long as the fundamentals are strong.

**Sonal Gupta:**

**Sir my question was partly is it because of the higher discounting in the industry that is forcing you to sort of step back a little bit, is that one of few things?**

**Siddhartha Lal:**

Yes in particular September, we stepped back a little bit. We are testing the market in terms of what exactly the discount levels are at. They are high. So we did miss out a little bit on September in that quarter. So certainly there is a high discounting going on in the market, but I guess that is part of the game at this point. So we are playing the game as well, it is not that we are not going to allow our market share to slip in fact we are still growing our market share.

**Sonal Gupta:**

**Right and just my second question on the bus side of course you have been doing well and the industry is sort of doing well, but any thoughts in terms of the next 6 months on how do you see this progressing? You did win some of the big orders as well. I guess they have**

**contributed the growth. So do you talk about outlook for the next 6 months for the bus segment?**

**Siddhartha Lal:** So the next 6 months we see a lot of activity going on the bus segment. Recently we got a 1000 plus order from Gujarat for state transport undertaking where we are competing in a lot of the other state transport orders and we have finally been able to make some big.... So of course that extends to our business in private operators and other such people as well. The other, of course big things that we are accomplishing at this point is that our new bus body plant is coming into stream. So that will be by the end of Q1 or so or beginning of Q2 I believe next year and that is a great step up in terms of quality that we have been able to offer, in terms of product we are able to offer to our customers and in terms of the business and margin potential back at VECV we see that the new bus body plant has been enormous step forward. Again that will take some time to ramp up and all of that, but we are putting a lot of energies in our bus business for sure.

**Sonal Gupta:** **This is my last question, when do we really see a step up in exports happening for you, when do you see the benefit of the Volvo tie up and the distribution sort of start making an impact for you. What is the plan on the export side I think do you see a 12 months from now, 2 years from now?**

**Siddhartha Lal:** Exports of course, our biggest exposure currently is to South Asia and that is you can say nearly the domestic market situation. Moving forward, what we see is that of course we are working very closely with Volvo group in terms of distribution and in terms of all other aspects to the business. What we expect is that lot of the ground work that we are doing in terms of with the distributors, with the relevant retail organizations on Volvo Group and the distributors, basically in Africa, Middle East, South East Asia, these are the type of geographies that we are extremely interested in and where we have seen our products should be very relevant. So in these type of geographies, we are doing a lot of backend work now, what we see is that the big increase should come, I should say 18-24 months from now as when we expect that to sort of kick in because of the new product which will start flowing into those markets as well. So, there are some markets which we are not entering in a big way with our current product range and we are waiting for the new product range. Some of course we are already in. So I think in terms of effect on volumes, I think it is still a medium-term horizon that means 24-36 months the way that we should start seeing some pull, but again it is a long-term game. I mean you enter a market; we will have to correct something; we will have to improve products; we will have to do other things. So it is now going to be one way street clearly but basically internally our efforts have moved from more in an opportunistic approach to exports to now a long-term strategic approach on exports. It is very much in the execution phase right now.

**Moderator:** **Thank you very much. Our next question is from Shomin Chaudhary of Jet Age Securities. Please go ahead.**

**Shomin Chaudhary:** Sir, I had a question on the intermediate commercial vehicle segment again, like we have done very well in the segment over the last few years partly because of lack of competition in this

segment also. Large player in the CV segment did not have any presence here and they are coming up with their ICVs soon and they would want to have a reasonable market share here also. So, do we see that impacting our sales and would that be impacting margins overall for all the players in this segment?

**Siddhartha Lal:** The medium duty segment is of course very important for us and we have been doing very well typically well over 35% market share in the segment. As everywhere else, we expect competition; we expect people to enter and there is no surprise there and of course the Eicher brand is extremely strong in this medium duty segment. We command a premium on our products, we command a very good resale value and we are doing a lot of things in order to reinforce that. So we have full new product portfolio pipeline coming through. We have a lot of work which we are doing in distribution. So yes we expect increased competition over the next coming years, but we believe that there is further potential for us to grow even in our market shares because of further low hanging fruit. So we believe that some of the other competition which is present today is certainly weaker than us. Our mindset in this market is absolutely number one and we plan to exploit that to become even bigger than what we are. So that is how we are looking at, but we the feel of the fact is that there will certainly be more competition as well.

**Shomin Chaudhary:** **You do not see a temporary problem here also, say in a year or two?**

**Siddhartha Lal:** I do not see that anywhere, no temporary problem. Apart from the downturn in any case, but I am just saying from a market share perspective, I do not see any temporary issues or anything.

**Moderator:** Thank you very much. Our next question is from Ameen Pirani of Deutsche Bank. Please go ahead.

**Ameen Pirani:** **Sir, my question was again on the competition and the impact it is having on discounts and pricing. My first question is that would you be able to give us a sense as to what is the extent of the discounting?; as in we have heard numbers like 8 to 10% or discounts raising up to Rs. 80,000 per truck on an average. Are these numbers like in the range which you are seeing in the market or are we getting these numbers wrong?**

**Siddhartha Lal:** No, the discount levels are certainly high, but like I said it varies from market to market is very strong. It varies from market to market; it varies from customer to customer. Some people discount more to some customers and less to certain customers. So what you are saying is we do not give out the ballpark but I don't want to put one number on it in terms of what percentage of discounting level.

**Ameen Pirani:** **My second question is that given that like structure of the industry is undergoing a change in the sense like you are competing more aggressively on heavy duty side, another competition is trying to make in the intermediate side, we have new competition coming in the form of Daimler. So is there a fear, or is there a possibility that these discounts which**

**were more of a cyclical phenomena in the past could become more structural in nature, just trying to understand how you are looking at the market going forward given that changing nature of the structure of the industry?**

**Siddhartha Lal:** It is impossible to say really, but like I said earlier I think everybody has an intention to get some returns of the business also. I do not see there is a structural issue, I do not see that anywhere in the world and I do not see why it should happen here. There will certainly be increased level of competition but every one has sort of eventually fall into place and anyone making a particular push sometimes increases the levels out of that, but that is not a structural issue really, that is market entry, that is cyclical. So I think structurally it is reasonably profitable industry to be in, in terms of how we move forward, I am not particularly worried in the long-term.

**Ameen Pirani:** **And sir lastly obviously freight volumes have not picked up obviously and that puts pressure on operator profitability, but given that I think freight rates have moved slightly and given that there are discounts in the markets, so the purchase cost has come down. What is your sense of operator profitability is there a lot of stress in the system in terms of operators or they are just about managing their finances for now?**

**Lalit Malik:** Siddhartha just had to step out, so this is Lalit here. Is there a stress in the operator profitability? Possibly of course there is stress, but if you look at the last 12 months kind of trend there has been spurt as far as the operative P&L is concern so there have been occasions and times and moments depending on what is happening in the industry at various points in time, whether operator has been able to improve his profitability. So I think that will continue for, there is a time that market continues to be a little volatile. So I think that will just mirror it self as far as operator profitability is also concerned. The market volatility will decide the operator profitability. As the volatility goes down the profitability will go up.

**Moderator:** **Our next question is from Amrish Mishra of JM Financial. Please go ahead.**

**Amrish Mishra:** **Sir just two things. One directionally how has been the December quarter so far in terms of discounting whether it has gone up, gone down or it has remained stable and sir second would be on depreciation. For this quarter, the depreciation sequentially has been higher by about 15% odd. Can you just throw some light on that?**

**Lalit Malik:** First of all on the level of discounting month-on-month it is very difficult to find out here and the month really starts after the middle of the month in terms of sales. So answer for how December has gone by, we can only have by the end of month only.

**Amrish Mishra:** **Sir my question was compared to when we entered the September quarter, from there whether this quarter has started on a better note as far as discounting concerned or the trend in September quarter remains the same as in December quarter so far?**

- Lalit Malik:** Sir, it has been largely the same. There is no depository of data which has how the discounting happening, it is just happening at a very micro level at an individual level, at our invoice level and all the stuff, but there is no great relief as far as December is concerned so far at least.
- Amrish Mishra:** **And so; on depreciation?**
- Siddhartha Lal:** The depreciation again, for all the CAPEX that we are doing in terms of all the projects that we are doing, it is really a reflection of that only. So nothing, that is all I can answer you.
- Moderator:** Thank you very much. Our next question is from Ashish Poddar of Edelweiss Securities. Please go ahead.
- Ashish Agarwal:** **This is Ashish Agarwal, couple of bookkeeping questions. This is on your RMC cost in the standalone where it has seen a sequential decline of about 400 basis points and on your staff cost which appears to be little higher if you could explain or throw some light on these and whether these will be sustainable in your opinion.**
- Lalit Malik:** This is only pertains to our standalone numbers right?
- Ashish Agarwal:** Standalone, the RMC cost and subsidiary on the employee cost.
- Lalit Malik:** As I said in previous calls, the size of the scale and the level of the operations, the company has to go up and it is going up and our CAPEX plans and all the volume numbers that we have seen really are a reflection of that. So as we scale up, I think you will see a lot of cost being added at various levels in terms of staff and OPEX. Month-on-month, we can continue to hold to the numbers and so on and so forth, but that only a quarterly or a monthly stuff that you are seeing over here. So we really knew that there is a bit of softening which is happening in the market. So we tried to control our staff cost over the middle of last quarter and that is showing up now, but on a sustained basis we will continue to hold on to our overall numbers that we had in last year when the market was good and our performance in that year was a little better. So this year so far you have seen a bit of degradation as far as OPEX and staff is concerned. We have to go back on the extent of volumes till such time we continue to operate tactically as to defer some extent, defer a staff expense that we got which does not affect our overall plan of course, but the standalone level is really a function of how we are doing in terms of exports and how the new models we have done in terms of price potential. So it is a really reflection of that. We have not taken any price increase in Q3. So all this stuff that you are seeing right now is all because of the price increases that we took in the past and I think last only we took in standalone in June of about 1-1.2%. Perhaps the movement from the numbers can come through when we have the full quarter to see how this Thunderbird performance, but that has not happened so far in Q3 because that launched itself in middle of October. Our sales by the way continue to do well, but that will increase the overall RM cost. After market performance as far as standalone is concerned, continues to be pretty decent. So that also contributes to lower RM.

- Moderator:** Thank you. Our next question is from Rahul Agarwal of Systematix Shares & Stocks. Please go ahead.
- Rahul Agarwal:** **Sir the question on your upcoming engine plant, what kind of understanding you have with Volvo for offtake of engines from that plant?**
- Lalit Malik:** The understanding I think we can talk the best and we talk more about it is when the plant is getting operational towards the middle of next year, but suffice to say that a large part of what we are going to make from the plant and the first it is going to be very small because it is just a startup sales we are going to have. A large part of the offtake will be for the Volvo system.
- Rahul Agarwal:** **Sir again question on depreciation, when you say that because of ongoing CAPEX, depreciation increasing. Does this mean that we keep on capitalizing the plant whether in capitalizing at the end of..?**
- Siddhartha Lal:** There are various projects. So you hear from us the bigger ones like new plant, the bus body plant and so on and so forth, but there are a lot of other smaller things are happening as we continue to scale up. So clearly for the bus body plant for example, the depreciation will only activate which is Q2 of next year. As far as medium duty engine plant is concerned, that will be from Q2 of next year. So the bigger stuff will happen when it gets schedule to happen but there is a lot of smaller stuff in terms of capacity, in terms of improvement and so on and so forth that continues to happen and that effect you are seeing now.
- Rahul Agarwal:** **And for the two-wheeler, the new two-wheeler plant that will come in only Q1CY13?**
- Lalit Malik:** Q1CY13 right, but there is a bit of capitalization that has happened for the old plant also because if the capacity has to go up in the old plant, we have to spend that kind of money on CAPEX. So some of that you will see now and for the next quarter.
- Moderator:** Thank you very much. We will take our last question from Basudeb Banerjee of Quant Capital. Please go ahead.
- Basudeb Banerjee:** **Just a few ones, what is your view on working capital movement quarter-on-quarter, this quarter?**
- Lalit Malik:** Well, volume continues to be very strong. I think I don't have the numbers right in front of me, but it is one of the strongest in the last few quarters; clearly the strain in VECV. So VECV from being negative on the working capital, I think this quarter was positive. So there is a bit of a strain on the working capital.
- Basudeb Banerjee:** **Because I was asking because last quarter as we discussed because of working capital, the cash on books deteriorated a bit, what was the scenario there and sir one more thing I**



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**observed that if you see MHCV volume, Volvo volume both have declined quarter-on-quarter, but your blended realization for VECV is slightly up, so any reason for that sir?**

**Lalit Malik:** So it is really a mixed story. The buses are doing very well. There is a bit of a discount also happened at various different levels. So some of course are netted off against top-line; some of that fall into OPEX. It is only that mix, mix change that you are seeing over here.

**Moderator:** Thank you very much. I would now like to hand the floor back to Mr. Pramod Kumar from IDFC Securities for closing comments.

**Pramod Kumar:** Thanks a lot Inba. I would like to thank the management and all the participants for taking time out and wish you all a great Diwali ahead. Thanks a lot.

**Moderator:** Thank you very much. On behalf of IDFC Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.