



“Eicher Motors Limited Q1 CY12 Results Conference  
call”

**May 15, 2012**



**MODERATORS: MR. SIDDHARTHA LAL – MD & CEO, EICHER  
MOTORS LIMITED  
MR. LALIT MALIK – CFO, EICHER MOTORS LIMITED  
MR. BASUDEB BANERJEE – ANALYST, QUANT  
BROKING PRIVATE LIMITED**



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**Moderator**

Ladies and gentlemen good day and welcome to Q1 CY12 Results Conference Call of Eicher Motors Limited hosted by Quant Broking Private 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. If you should need assistance during this conference, 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. Basudeb Banerjee of Quant Broking. Thank you and over to you sir.

**Basudeb Banerjee**

First of all thanks to the senior management of Eicher Motors, Mr. Siddhartha Lal, MD & CEO and Mr. Lalit Malik, CFO, for giving us the opportunity to host the call and congratulate them for the great set of numbers this quarter. Without wasting any time I would like to hand over the call to the management for initial remarks post that we can take up the Q&A session.

**Siddhartha Lal**

Thank you Basudeb, this is Siddhartha Lal here, I'm the Managing Director of Eicher Motors Limited and I would like to start by saying that we once again had an excellent quarter. This quarter, Q1, that means January to March 2012 has been actually the highest ever the record quarter gain for Eicher Motors with highest ever revenue and profits but I will come to the financial performance of bit later. Before that I will get into the update on sales volumes on the various segments and for Q1.

To start with in commercial vehicles in Q1 2012, the 5 ton and above segment grew by 5.2% over the same period last year so it is been slightly muted growth and the total industry volume for the quarter was 1,33,000 and as has been in the past, our performance has been better than the industry so we have again beaten the industry where Eicher Trucks and Buses, which is a division of VECV, our joint venture with Volvo, that division grew by 13.5% in volume terms and when we look at each of the segments. In the 5 to 12 ton segment we did 9189 units which is a 7.5% growth and in that segment we continue to maintain our very strong 30% market share.

In the heavy-duty segment is where we may have made and we continue to make excellent progress. In Q1 we sold 2291 units which is a 19.4% growth over the same period last year. It is our highest ever quarterly sales in terms of volumes and we were able to get the market share of 3.3% for the quarter which is a significant jump over last year. This is despite a slight de-growth in the industry of 2.2% in heavy-duty segment and particularly in the month of March 2012, we recorded our highest ever heavy-duty volumes of 1100 plus and as a result our heavy duty market share was 4.2% for the month. So it is our highest ever market share for heavy duty and we are clearly on the rise as far as the heavy duty ambitions are concerned. And for our entire product range of Eicher trucks and buses, in fact, March was absolutely the best month ever. We accomplished over 6000 units which is 6051 and for the first time we actually crossed 6000 units in the month.

Recently we have also opened the new segment in commercial vehicles which is been our strength in the past. We have launched the Eicher's 11.14 as we call it which is very fuel



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efficient 14.5 ton GVW truck with the payload of 9.5 tons. So it is by and large the same payload of 16 ton truck. So in trucking parlance it is called a 9 ton passing which means that a load of 9 ton can be taken on this truck. But since it is a 14 ton truck it is at a better price so for the lot of the segments where the 16 ton is currently plying we find that we will be able to position this product extremely well and we will be able to take a lot of share from the 16 ton segment and upgrades from the 12 ton segments so we are very bullish about this new segment as well. In buses we had an excellent run as well. In Q1 we sold over 2000 which is 2043 units which is a growth of 60% plus over Q1 of 2011, a market share has gone up from 7.2% in Q1 2011 to 9.3% in Q1 2012 so good jump in market shares as well.

Exports in commercial vehicles were comparatively were softer. We exported 672 units resulting in a de-growth of around 12% over Q1, while we continue to work on a long-term export strategy which includes developing relevant products for export markets. From an operational stand point we expect the exports to sort of comeback in the coming quarters but in the long term of course, we are putting a lot of emphasis on international markets as well. As in the past few quarters due to issues relating with the mining sectors which all of you know, Volvo truck division sales were lower than the last year so this time this quarter Q1 we did 94 units which is down 52% over the same period last year so it is been a very weak quarter for Volvo trucks largely because of the mining sale issues or let due to issues in the mining segments. All key VECV projects that is the medium duty engine plant, capacity expansion at Eicher trucks and bus, bus body plants and everything else progressing extremely well and schedule for. So that is the sales and outlook on the on the commercial vehicle side.

In the motorcycle business in the Royal Enfield, we continue to have great run where we have been able to continue to up our production in our existing plant by working very closely with our suppliers and ensure ng timely supplies. So for Q1 we actually accomplished 23,899 units which is a 41% jump over Q1 of 2011 so we have been able to really ramp up the production tremendously. A monthly sales has moved now to 9000 plus units which we did in March as well as now in April where the numbers are out. So that part of the business is of course doing very well. The construction of the new facility at Oragadam, Chennai is underway and we plan to start production by the end of Q1, 2013 so it is all on track.

Moving to financial outcome – on a consolidated basis we had a revenue and total income from operations at 1695 crores that is net sales of 1695 crores which is a growth of around 22% over last year. Our operating profit or EBITDA is 180 crores which is 10.6% which is an 11.2% growth over last year and our profit after tax is 163 crores which is a 33% growth over last year. So we continue to maintain a tight control on our cash management. Operating working capital was negative at a consolidated basis for the 10th consecutive quarter. We also achieved a few new heights this quarter. We had our highest ever CV volumes at 14,195 units for the quarter and highest ever bike volumes at 23,899 for the quarter and of course, our highest ever revenue at 1695 crores and our highest ever quarterly PAT at 163 crores. So overall a very satisfying quarter in my opinion despite many challenges, we continue to work to realise our ambitions in the commercial vehicle segments to drive modernization and work



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very closely with suppliers and dealers to be a very strong customer oriented organization. So that's what I have now and back over to you Basudeb for question and answers.

**Moderator** Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer session. Anyone who wishes to ask a question may press "\*" and then "1" on the touchtone phone. Participants are also requested to use only handsets while asking a question. Anyone who has a question at this time may press "\*" and "1". Our first question is from the line of Raghu Nandan of Avendus Securities, please go ahead.

**Raghu Nandan** Many thanks for the opportunity sir and congratulations for a good set of numbers. My first question is on the motorcycle side, there has been a strong jump in realization quarter-on-quarter about 6%. Would that be because of like strong response and demand for 500 cc vehicles such as Chrome and Storm and increasing contribution of 500 cc vehicles overall?

**Lalit Malik** So one of the reasons as far as what we have really mentioned it is the mix which we really have over a quarter- on-quarter even on YoY basis of much better mix as far as 500 cc or the 350 cc is concerned. And apart from that we took up price increase also in the month of January which was around 3.2% or 3.3% on a blended basis so both the reasons are there.

**Raghu Nandan** Thank you sir. Can you give me a sense, if you have the numbers on hand as to what would be the mix between 350 and 500 cc if you track it that way?

**Lalit Malik** Both of these we don't have right now, maybe on a separate call we can talk about it.

**Raghu Nandan** Sure sir, thank you very much and one more thing, on the other expenditure side in VECV there has been a hike, it is standing at 10.9% of total income. Has there been any increase in marketing expenditure or anything like that which is led to higher other expenditure?

**Siddhartha Lal** Yeah, Siddhartha here. Clearly there is some increase in the other expenses at commercial vehicle side and that is largely due to our enormously expanded efforts now across the board on various fronts. So it is basically increase in R&D expenses, in marketing expenses various other expenses because as we doing right now we are again preparing ourselves for our next level of growth, for our next to meet our ambitions of 100,000 plus so towards that actually we are continuing invest strongly in our business and of course, we talked about our CapEx investments but we are also now incurring reasonable generic expenditure in the business to ensure that we are able to rise up to the increased task. So it is basically all general over head categories if you see, in the other expenses.

**Raghu Nandan** Thank you sir. Would it be fair to assume that this would continue going forward?

**Siddhartha Lal** Well, we are saying this, this is all, there is one - time in this so yes, this will continue to go forward. Of course in some points we will also want to get operating leverage out of this, that time will come and there is no question about it but for the time being we are investing into the business quite a bit.



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- Raghu Nandan** Thank you sir. Just one more last question, usually other income is strong on the 2<sup>nd</sup> and 4<sup>th</sup> Quarter. This time in the 1<sup>st</sup> Quarter other income is on the higher side, is there any capital gains or anything like that?
- Siddhartha Lal** No-no, again there is no one off or any capital gains as such but it all depends on the maturity of the FMPs so as you know our basic investment profile is FMP which is backed by 100% backed CDs and of course a debt mutual funds so we are really invested into a low risk investments over here. Now depending on when they mature will you have incomes in a particular quarter.
- Raghu Nandan** Thank you very much sir. This was very useful.
- Moderator** Thank you very much our next question is from the line of Srinivas Rao of Deutsche Bank, go ahead.
- Srinivas Rao** My first question is on commercial vehicles, wanted to understand your outlook for next 12 to 13 months and of course, coming off a very strong performance, that is the first question. The second if you can throw some light any disparity between the various regions and within the product profile I know that you do operate in not in all segments so that will be helpful?
- Siddhartha Lal** It is very difficult question Srinivas, on this outlook for 12 to 18 months because frankly, nobody really knows. So the way we look at it in Eicher is always that we keep our ear very close to ground. We are not pumping up the channel with inventory. Everything that we sell is, is the real sale and it is towards a real sale in the retail side and that helps us keep a very close check on actual ground happening. So what we see currently the facts are that in one part of heavy duty, the largest part of heavy duty which is haulage segment is falling right now, in the month of April let us put it that way. It is a factor of a lot of pushing by some of the other commercial vehicle players in the month of March and therefore a weak April that is extremely possible because it happens pretty much every year. The other factors that is also possible which is some softening of the market that is also certainly possible. Then again other than that the tipper markets the much smaller, tractors trailer market and then of course the light and medium duty market, the bus market they are all still growing but of course haulage is the starting point of any potential problem. So I'm not saying there is a problem yet in terms of de-growth but we have to keep our ears very close to ground to see that how things progress. So I guess that as much as I can say for the time being. As far as geographical breakup is concerned I don't see anything very significant, it is not untowardly that there are some regions which are sort of totally taking off there are some which are not of course the regions which were much more mining oriented have suffered but that is not a geographical that's the other reasons that has happened. So other than that there is nothing of materiality which is out there in terms of geographies which are doing much better or much worse than the others.
- Srinivas Rao** The commentary which we heard in the last couple of months and even yesterday, is that the South which was relatively weak for the better part of last year. It is showing some signs of



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coming back, I mean, south obviously impacted more in mining and probably political issues. Is that something which is also reflected in your experience?

**Siddhartha Lal** Like I said, nothing to report back about, to be honest.

**Srinivas Rao** Thank you sir, I will come back for more questions.

**Moderator** Thank you very much. Our next question is from the line of Saurabh Das of Tata Mutual Fund, please go ahead.

**Saurabh Das** Hi and thanks for the opportunity. My first question pertains to, if you can give us a sense on the discount levels in the market and if you can segregate that into the heavy duty part where you are looking to gain market share and looking at an increasing traction and your existing portfolio which has been there for years, if you can segregate your comments on both of them?

**Siddhartha Lal** In general, discount levels in the market continue. Also as the industry in some areas has started to weaken, we are seeing some more discount being put on the table from various manufacturers. In general, the approach for Eicher on discounts is to try and reduce them. We are not discount players that's not in the DNA of Eicher trucks and buses. Of course, it doesn't mean we don't participate in it because that may mean erosion of market share but we are very conservative on discounts by and large. We have seen a good expansion in our margins in the last few years, one of the main reasons has been control over the discounts in other variable cost vehicles. So on the first hand, in light and medium duty we have been able to keep it very tight in terms of discounts. On heavy duty, there is of course a larger discounting going on in the market and we are also participating in that. The levels vary from geographies, from products and there is not one number that I can talk you about, that is best that you go and find out from the market in terms of how that is happening but there is certainly a much higher level of discounts continuing right now in the heavy duty market which is defined by some of our competitors still at this point and we continue to participate in that. So that is the overall outlook on this

**Saurabh Das** And just in terms of the trend how has been the change over the last one quarter?

**Siddhartha Lal** The discounts have like I said, they have increased in the last one quarter because of slight softening of sales but I'm talking about heavy duty right now. It doesn't by and large is not affecting light and medium duty.

**Saurabh Das** Right because if I just see your YoY margins because I think in this business that is the right way to look at it, that has slipped in the VECV part of the business so I'm sure that is the function of your other expenses as you highlighted some time back going up but do you see things getting implementally worsening from here or they are kind of stable from March quarter level?



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- Siddhartha Lal** This is business as usual frankly I mean there is no triggers which has been pressed right now that there is a downturn or anything else. There is nothing untowardly, this is just the April flows of regular business cycle so I don't see it is anything outstanding. Of course, we continue because their entrance in some segments especially in heavy duty we continue to gain share and our basic outlook is the look whatever the market is we must grow better than the market that is our outlook there.
- Saurabh Das** A few housekeeping questions, what is the dealer count currently and how has that increased over last one year?
- Lalit Malik** Saurabh, this is Lalit here. In VECVs the dealer count right now is about 225 odd year back it would have been maybe 200 odd so you have added about 20 to 25 dealers this year. In Royal Enfield it is about 230 now and again about a year back it would have been 180.
- Saurabh Das** And what is the outlook on VECV addition of dealers. Would you go a little slower this year consolidating the dealership?
- Siddhartha Lal** There is no reason for us to slow down in the dealer expense or dealer addition. Again it is a usual process, we are adding more dealers, in weaker areas we are removing some dealers where required. So it is not that we are adding hundreds of dealers but I think it is 10 to 15% in a year in the next 2-3 years is probably where we are going to be in our dealership horizon.
- Saurabh Das** And cash levels on the standalone entity and VECV?
- Lalit Malik** Yeah, they have remain largely in the range like in the last quarter as well so it is about 1100 odd crores in VECV and about 550 odd crores in Eicher Motors Standalone.
- Saurabh Das** Okay thanks sir, I will come back for more questions.
- Moderator** Thank you very much. Our next question is from the line of Vivek Singh of CIMB-Principles Asset Management, please go ahead.
- Vivek Singh** Hi, congratulations on a good set of numbers. Actually my questions have been already answered so I will pass, thank you.
- Moderator** Thank you very much. Our next question is from Pramod Kumar of IDFC, please go ahead.
- Pramod Kumar** Thanks a lot. Good morning Siddhartha, good morning Lalit. And thanks for the opportunity. My question pertains to the non-vehicle revenue in terms of both Eicher brand of trucks and sales, trucks and buses and also on VECV on the Volvo branded side. So, how they have been trending considering slight moderation in demand on the general trucking side and also on the Volvo where we are continue to see a prolong pain. So how has the non-vehicle revenue move during this time?



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- Lalit Malik** Well, the spare parts revenue is disclosed when our financial year ends but broadly again its keeping track of the overall performance.
- Pramod Kumar** Okay Lalit, on VECV previously there has been a price hike, which has been done by competition in May have you also followed so and if yes, what is the range of price increase that you have taken?
- Lalit Malik** Yeah so in the last 3 months there has been two rounds of price increases, one of course on account of increase in the excise duty which was in the first week of March. That is the rate which was around 2% and in April and May it was it was around 1.5 or 1.6% at a blended level.
- Pramod Kumar** But how is the market reacting to this Siddhartha because we have seen an excise duty hike and then probably an additional excise duty hike for the coach building side of the business and then now the industry has taken a price by 1 to 1.5% at the same time we are hearing that discounts in HCV's are pending up so what explains this kind of price increase every quarter by the industry side or is it just counters the discounts which are increasing. So in a way, the price increase negates the discount?
- Siddhartha Lal** Price increases are governed by different things in the sense price increase are governed normally by your material cost and other such things, discounts are governed slightly this differently in terms of buy market share and buy volume requirement. So I do not think you can equate those two really because when there is an opportunity to take a price increase one takes a price increase and when there is an opportunity to reduce discounts one reduces discount so these opportunities come at different times and you have to take all of the opportunities and that stands with us also. We take price increases across the board, wherever it is possible and then of course if in some segments like in heavy duty right now the discounts are higher and we will continue to push to trying to reduce them over a period of time.
- Pramod Kumar** Fair enough Siddhartha and another thing which I wanted to understand was how much of our overall VECV sales actually come from fully built or which are not exactly bare chassis sales how much of our sales are actually value added sales in that sense?
- Siddhartha Lal** Trucks are by and large, fully built trucks we are not selling any trucks which are they are all fully built by and large. In buses, also we have now, I believe more than 50% are body-build buses so by and large, we are if you look at the overall revenue, certainly over 80 to 85% would be fully built type of vehicles.
- Pramod Kumar** And if you wrote to take up guess on the industry side, how will this compared with the industry?
- Siddhartha Lal** I cannot tell you about the industry.





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- Pramod Kumar** And another thing was on the Royal Enfield side because you said that you just expanded from around 230 dealers in Royal Enfield, how is your rating of demand in this as you get into this most smaller cities? Is it pretty much in line with what you have seen in the bigger cities or the kind of potential that you see in smaller cities is basically how do you read that in a way because we planned to hit 300 dealers by the end of this calendar year or the next year so I just wanted to understand what is the incremental expansion how attractive it is going to be in terms of the kind of demand what it can generate?
- Siddhartha Lal** Currently it is a very good time for Royal Enfield because there is an enormous demand situation. It is a very good time to be able to get dealers for every dealership position that we are looking for we have multitude of applicants who want to take up franchise so that is helping us get into smaller towns and cities. Wherever we see there is a potential we have a certain number in mind when we are getting into it where a certain number per month makes it a dealership move forward and we are able to hit that without a problem right now, so the minimum requirement, as it were, is we find it reasonably easy to accomplish those volumes in these markets. There is a lot of disposable income out there, even in smaller towns and if there is a market of let us say, for example a 100cc? motorcycles there is a certain market for 3 to 5 Royal Enfield's in general. So we are able to slightly more prosperous towns where the income distribution, there is reasonably number of people with better disposable income out of that. So we will look at various different metrics, but I see no stop to the dealership expansion right now because there is enormous potential at the next level of towns and cities which you are seeing right now.
- Pramod Kumar** And any plans of price increase on the Royal Enfield side, because even two wheeler industry we have seen a price round in May, wherein everyone has hiked up the prices across the range?
- Siddhartha Lal** Right now. Immediately we do not have a plan of price increase but we will see as to how the whole environment goes, how the whole commodity prices go, so all these factors, we will take into account but nothing immediately planned.
- Pramod Kumar** And Lalit, discounts on whatever on the product side, is it like it generally netted off against the net sales, right?
- Lalit Malik** Yes, the trade discount is suppose netted off at the invoice level itself. So, the sales number that you see does adjust for the trade discount.
- Pramod kumar** So in a way despite that our gross margins have actually improved at VECV on a YoY basis?
- Siddhartha Lal** Yes you are right our gross margins have increased.
- Pramod kumar** Thanks a lot. And best of luck.
- Siddhartha Lal** Thank you Pramod.



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**Moderator** Thank you very much. Our next question is from the line of Pankaj Murarka of Axis Asset Management, please go ahead.

**Pankaj Murarka** Hi morning, on the Royal Enfield side last quarter we had guided for reaching a capacity of 8500 by the end of the year we are already doing higher than that. So what I wanted to understand is like what is the kind of volume, we should be looking for it this year in terms of our capacity and secondly with new capacity is coming up early part of next year. If you could give some sense what is the latent demand for RE?

**Siddhartha Lal** Yeah Pankaj what we said last call that we will I believe we said that we will accomplish a lakh volumes for the year and we still very much on track to accomplishing that. You could argue that like you're saying is that we might be slightly ahead of the pace but it will be a lakh maybe plus a little bit, but we are not getting into that number game at this point, but really our ambition is to exceed the one lakh now this year in terms of production and of course sales which will bring us into a very good level in next year when we start by the end of quarter one when our plan come on stream. Of course there will be also ramp up time, but given all of that very soon we will be hitting 12,000 to 13,000 volumes from the combined facilities as well. We want to take it on a let's say on a reasonable ramp from various reasons, quality, from distribution, from various other things, so that ramp then of course if the demand continues to still be higher now that we will have a new plant the ability of us to be able to increase our production is extremely strong. We are already working with our suppliers to be able to look at the next level of production. So there is a lot of work going on, but everyone has to rise jointly so our existing plant, which is going to continue make engines that there is also to rise up to the challenge of making 12,000 to 13,000+ so everything is in the works certainly. Like I said the new capacity, of course, will allow us to rise much faster, much quicker. So in the last few years, even though I think the team has done outstanding in terms of actually been able to add capacity, it is still maybe 2000 we have been able to add from last year to this year or 2500 per month. So of course we will be able to ramp up even faster than that in the coming year. As far as the latent demand it is very difficult again to gauge what is latent demand, I think the question which was being asked previously in terms of our distribution that is really the important thing as far as the demand is concerned so at the time, right now when we are doing extremely well. We are actually adding tremendous amount of distribution and all these new distributors, all these new dealers which are coming on stream each of them is going to sell certain amount of motorcycle a month and there is a demand in each of these geographies, in each of these towns and cities for a certain level of sales, so it is rarely the distribution strength which we are putting into place right now which will help us again. Of course clearly a huge number of sales will come from the top 15 to 20 cities because that is really where Royal Enfield is flourishing these days, but we see an enormous expansion in the next level cities which we are focusing on now that should help us. Then of course the good thing is that as you see more visibility in the market of Royal Enfield bikes that increases up to a point, it increases the demand also that much more so there is more visibility now which is spurring demand, there is more disposable income, there is more let us say tendency towards more



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premium products, so some somebody who is being owning 100 or 150 cc for a few years wants to upgrade so I think we are on the right side of the demographic curve.

**Pankaj Murarka**

And if you could just give some perspective on what is the real competition for Royal Enfield meaning as some of these new launches though I understand that at different price points, be a Pulsar 200 or some of the other things similar kind of things are they a real competition?

**Siddhartha Lal**

Well, we can put that in 2 to 3 ways. One is that there is no absolute immediate direct competition in terms of very like to like, but that absolutely does not mean that we do not have competition so yes from a share of wallet prospective we have got lots of competition, anything which is ranging from 50,000 and above is in a good deal in consideration set of customers. The way we try and work things is that if a guy wants a Royal Enfield he wants a Royal Enfield, so we are trying to sort of the type of customers that we have, they're probably decided many months ago that looks I just want this bike so they are not going into the market and saying look this bike is Rs. 2000 more or this is five less or this has got this feature an extra or less and we're not in that game, we are not in that features game, we're not in the pricing game that is not where we play. We play in the customer's mind and we try and win it much earlier on so that prospective of course all these other bikes that you mentioned which has at premium level in terms of pricing are to some extent certain competition and if you're not able to rise up to the task of delivering bikes quickly enough to our customer. We are waiting for many months they will some of them will follow up and go to other brands. So we are very cognizant of that we are pushing very hard to make sure that our production raises very fast, so yes that is our competitive landscape.

**Pankaj Murarka**

Where are we on the Rajasthan plant for RE?

**Siddhartha Lal**

We do not have our Rajasthan plant for RE, we have a defunct plant, which has been lying idle for over 10 years and there is no plans to revive that plants at this point.

**Pankaj Murarka**

So in terms of expansion beyond this Chennai facility I understand it will take us 250,000 I think we are looking at Rajasthan as an alternative so are there any plans?

**Siddhartha Lal**

We're not looking at Rajasthan as an alternative Chennai Phase-1 will take us to 150. Frankly, Chennai, we can have a Phase-2 or Phase-3 and beyond, in the same original plant because we have chosen to get 50 acres and we can expand tremendously. So frankly for the next 5-7 years, even with a very strong growth rate. I do not see us needing to go anywhere else at this point.

**Pankaj Murarka**

Thanks a lot and all the best.

**Moderator**

Thank you very much. Our next question is from the line of Sanjay Doshi of Reliance, please go ahead.



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**Sanjay Doshi** Good morning, sir. And thanks for the opportunity. Couple of questions, the first on the two wheeler business, you are seeing a very strong margin improvement over the last 2 to quarter if you can help us understand do we have further levers we believe margins are close to peak?

**Siddhartha Lal** Well Sanjay, obviously it is a case of operating leverages that we have been able to accomplish and some pricing power, some product mix all of that put together is allowed us this we're extremely bullish on this business we are also investing tremendously in this business we are also going to see cost coming into this business over time. There is no question about that whether it is employee or overhead, but on the other hand, of course, our revenues are also rising extremely fast. At this point, so the increase in costs are of much slower pace than the increase in revenue at this time. Obviously, as things go, of course if in the same plant if we continue to increase the production we are going to continue to get better operating leverage as there are no questions about it. Then of course there will be a switch to the new plant to some extent where some cost will come in but then there will also be benefits of better scale, of better buying, lesser rejections, etc., so there will be some churn in our entire let us say P&L. I guess the profitability profile when the new plant comes in, but it will all be towards the positive I cannot say where the exactly this is headed to because we have our internal ambition but we cannot share them with you right now, but certainly we are in the profitability game here we're not in the volume game as you know, in the sense we have never talked to you about market share. I doubt we will so rarely for us the game is much more about the market growth and penetration and it is about aftermarket evolution which also we are looking at closely in the coming years.

**Sanjay Doshi** My second and my last question is on the commercial vehicle side more from the competition point of view we have seen I am asking this particularly in reference to BharatBenz, particularly to you because you have a very strong partner in Volvo who understands them better than others. Given that they compete them globally so what is the feedback in terms of their strategy in India and in terms of products and in terms of pricing and brand that Volvo has noticed?

**Siddhartha Lal** Sanjay, I'm sorry, we do not comment on our competitors. I will give you whatever you want to know about ask but I cannot talk to you about our competition.

**Sanjay Doshi** No, if you can just take me a minute, whether we see any change in our strategy required considering what we are seeing from BharatBenz?

**Siddhartha Lal** Sure, what we are seeing is on a larger landscape in a more generic sense what we have obviously some incumbent heavy duty players in the market and we have many let us say upcoming you can say people who are entering into the market. Overall, I think at the end the Indian market the fundamentals are I mean this is a commercial market. this is an asset purchased which customers are making so at the end, it is still going to boil down to returns on that assets for all the competitions, let us say who are entering or let us say who are more trying to get into the market. There is going to be a cycle which is going to happen. So

customers are going to test you, customers are going to like or not like for certain segments, for certain geographies, for certain road conditions, for certain haulage areas, so it is a very deep and complex market we are embracing the complexities to the highest level as far as VECV is concerned we have products of very very fine segments of the market now, we have different products for better road conditions and worst road conditions its variants, its longer wheelbase. So our basic approach is that on one hand, to have a very very individual and detailed strategy for end use, for geography and that is what it is helping us in gaining all the shares that we are doing. Of course, at the end it is also winning over the customers minds and their of course, let us say the progress that we have been making in terms of our ambition of being customer satisfaction, number one from quality and from mark-to-market that is helping tremendously. So product wise certainly in our side we believe that we are doing an excellent job, largely because our products are very focused on fuel efficiency and on turnaround time and on driver comfort so that is our basic strength of that we continue to give which will result in better returns to the customer, but most importantly our focus is on product quality, which is become exceedingly good in the last 3 to 4 years we have been able to deliver extremely good product quality and extremely good aftermarket so that is our focus. So if you want to know our strategy it is, right down there.

**Sanjay Doshi**

Basically no change in terms of pricing or products strategy that we see in terms of market?

**Siddhartha Lal**

Product strategy, you are going to see obviously are a few of new products coming out from our range also so coinciding with our new engine which is coming out end of next year after that we are also going to have new products which are going to be across the board. So there is a full product line up but that is not going to deter us from the current product lineup which is obviously going to take us all the way up to that trying point and our current product lineup is also going very well. So there are product changes and there are products overall let us say new platforms and all which are coming out with but more those are more off a medium term horizon.

**Sanjay Doshi**

Thank you very much.

**Siddhartha Lal**

Thank you.

**Moderator**

Thank you very much. Our next question is from the line of Sonal Gupta of UBS Securities, please go ahead.

**Sonal Gupta**

Hi, good morning everyone. Thanks for taking my question. First question had was Siddhartha I think if I'm not wrong your market share last quarter in HD was 3.8%, it has gone down to 3.3 of course I understand it is a small thing, but just wanted to understand as to where has been the weakness, etc.?

**Siddhartha Lal**

There is absolutely no weakness you were talking about last quarter as in?

**Sonal Gupta**

Q4 '11?



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**Siddhartha Lal**

Well, I will just have a look at that, but yes you are right, it was higher in Q4. There is absolutely no concern. If you look at it from quarter-on-quarter we have actually improved tremendously. If you look at April we have crossed 5% in the market share so cumulatively we will be higher than that. So the one thing that certainly has hit us unfortunately in our heavy duty is that where we were going extremely well in some parts of last year on 16 ton tipper product which is basically for mining we were getting 200 to 250 vehicles per month especially in Goa and in some other coastal belts in the West that market has absolutely dried up because especially in Goa, where we had an extremely strong presence and also in other markets. So while some of the markets for us is unfortunately dried up on a temporary basis, we will be able to actually come back extremely strongly in some of the other markets. So we are doing very well on the 8X2 the 31 tons trucks where we had actually I think, over 5% now in terms of market share, and we have had a very good run in our 16 ton haulage trucks which is well over 5% now, I think I cannot remember exactly but it is closer to 8% perhaps, so the 3.3 actually we are very happy with. In fact, the first two months in January and February it was slightly slow but in March, we have picked up to 1100 and in April we have had over 5% market share so absolutely no concern in our opinion on heavy duty at this point.

**Sonal Gupta**

Okay thanks, that is helpful in terms of just a general understanding what is a typical inventory days that typically you have or your dealers have and what is the inventory that you keep at the plant?

**Siddhartha Lal**

Typically, across the board because it really depends seasonally because we try and keep more inventory in this season right now because for buses this is peak bus selling season we are selling over 1000 buses are months, the bus production takes time so we are keeping our lot of buses these days, but generally I think, as a rule, each is going to keep around 15 to 21 days. That means within the company it is 15 to 21 days, with the dealers it is 15 to 21 days it has ebbs and flows, but that is approximately we are not going any higher than that.

**Sonal Gupta**

And my last question is on a sequential basis, the RM cost improvement on the VECV side that we are seeing, is this primarily because of the lower volume of Volvo trucks is that the reason or have we seen any improvement on the material cost side as well in terms of mix?

**Siddhartha Lal**

Yes, there is certainly a product mix effect like what you have mentioned, but there is also we have also been aggressive on our price increases, on our cost reduction, on our discount reduction in especially in light and medium duty so it has been a factor across the board, I mean, various different factors, but yeah.

**Sonal Gupta**

Okay on the light and medium duty side, it seems to slow down significantly compared to last year, so what is your outlook for the light and medium duty segment specifically?

**Siddhartha Lal**

Well, we have again shown 7.5% increase in the quarter on the LMV side. So it is not extremely substantial, but it is not negligible either. The way we look forward as far as Eicher is concerned from a numbers perspective there has been a reasonable growth over the quarter but the way we are looking at is that on the one hand on the market front, I do not think one is



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expecting miracles in terms of huge growth at this point. It is continuing at a reasonable clip and we are not thoroughly disturbed about it 5-10 maybe, hopefully 15% some months the growth should happen. The important thing that we have done to test this market and to improve our market share is that the one we have like we said a full new 14 ton product which is based on our 12 ton platform, but it gives a higher payload of 9.5 tons which is extremely interesting because the passing payload for a 16 ton truck is also 9.5 tons so that just absolutely we will be able to hopefully take a interesting chunk of the 16 ton market away from us. Then we have added a new product into a pipeline which is also called 11-12 XP which is a higher longer wheelbase version of our 12 ton product which we expect to gain some market share in the 12 ton, 12 ton is the largest single market in 5 to 12 segment so there is a lot of action that we are doing in terms of product, in terms of distribution and geography which will certainly help us sore up our market shares in the coming years.

**Sonal Gupta**

Great. Thank you so much.

**Moderator**

Thank you very much. Our next question is from the line of Chirag Shah of Emkay Global, please go ahead.

**Chirag Shah**

Thanks for the opportunity and good morning everyone. My first question would be a follow-up on VECV gross margin. Would it be right to assume that your gross margins excluding the Volvo trade business would have been up by some 100 odd bps because of the higher discounting activity that we have seen on a YoY basis? The Volvo business RM-to-sales ratio would have been up by some 100 odd bps on a YoY basis?

**Siddhartha Lal**

That kind of cuts we do not speak about at least in the quarterly..

**Chirag Shah**

But directionally how it would have behaved if you can help us understand it would be...?

**Lalit Malik**

RM-to-net sales has dropped from last quarter, 73.6 to 72.1 so that is 1.5% reduction quarter-on-quarter. Year-on-year it is dropped from 73.4 to 72.1 so that is 1.3%. We are not going to be able to deduct the Volvo effect from this and be able to tell you. But there is certainly I mean, we can confirm because of lower Volvo sales there is some product mix effect

**Chirag Shah**

I wanted to understand on the bus side. We have been seeing good traction on the bus volumes even at industry level also as well as you have been doing very well. What would drive this and how long can we expect this kind of momentum on the bus. I presume this is more to do with the demand from school buses. Large part of the growth has come largely from school buses that is the right way of understanding?

**Siddhartha Lal**

We had an excellent run in buses you are right. We had a great growth but actually last year also we had a great growth over the previous year. So the run in the buses division has actually come along really very well in the last 2 to 3 years apart, you are right school has been a good factor in this but we are also now becoming in the light and medium duty side we are actually penetrating pretty well into the corporate segment and into the other segments so we are able



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to make a good penetration there and also, of course now our heavy duty is starting to kick in certain segments we have got some STU orders, we are looking at battling out further STO orders right now which are in tenders as we cannot talk of those but they are in progress and of course apart from other things it is also the quality and other things of our fully built-up solutions. So fully built Eichers Skylines and Eichers Starline products have actually increased tremendously, and those are the ones that are getting us are lots of gains and there we have been able to make significant progress and the customer is accepting those. We also have newer products in the pipeline which should further bolster our efforts. So the bus market is going to be enormous for us. We believe it is great segment for us in the coming years.

**Chirag Shah** What would be driving the business is it the Startline buses or the Skyline buses if you can help us understand how do you how are you positioned them to take things ahead in terms of growth story?

**Siddhartha Lal** Yeah, Skyline is of course our premium bus that has been showing a very good progress and I think the volumes is still tipped in favor of Starline and that has also been going very well so there is really not much between them in terms of where the growth is happening. It is on both ends, which is the value side and the premium side we are growing pretty well.

**Chirag Shah** And if I can take it ahead, can you share some indicated mix between Starline and Skyline in terms of volumes, how they would be?

**Siddhartha Lal** No I can't, sorry.

**Chirag Shah** And second was on, if I was looking at your performance in the rigid segment 25 ton and above lets in 25 ton segment, you have shown some mark improvement over there in terms of market share? On the 25 tonner we have seen a marked improvement in performance. Can you also throw some light over there what the initiatives are lined up over there?

**Siddhartha Lal** I think you are talking about 25 plus which includes 25 and 31 ton.

**Chirag Shah** Fair enough, 21 and 31 broadly these two segments.

**Siddhartha Lal** Yeah, so these two segments products are very good, we had very good response from the customers. All these things take time. The products being there in the market, there is a cycle of purchase, the customers wanted for one year, for one and half years and he is able to see the returns on this products and he is buying more. So we are able to then go more aggressively with the references to more customers, expand our geographies, and expand our customer base. So it is really organic stuff Chirag, there is nothing untowardly in terms of what we are doing. That's where our growth is happening.

**Chirag Shah** Fair enough, I will come back for more questions. Thanks.





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- Moderator** Thank you very much. Our next question is from Ashish Nigam of Antique, please go ahead. Participants due to time constraint this would be the last question.
- Ashish Nigam** Hi Siddhartha and Lalit, congrats of good set of numbers. Just on the existing Enfield Plant. Is this 9000 a month the peak production or is there headroom for more bottlenecks and for it to increase further from here?
- Siddhartha Lal** Ashish, we thought that 8000 was peak and before that we thought 7000 and before that we thought 6000 so I'm not going to put it on record as to say that 9000 is our peak but it is getting tougher, I mean, we don't have a place to park bikes any more, we don't have place to put incoming parts any more. It is getting extremely tight there. So there are logistical constraints beyond a point but of course there is absolutely no question, we can produce one more bike we will produce one more bike. Our ambition to keep pushing that, we can push 9000 further will push it further.
- Ashish Nigam** Also on the new plant that is coming up on stream any margin benefit that will come when the new plant comes on shape because I believe that certain costly jobs have been outsourced right now and the new plant will be done in-house, so can you just quantify there could be any margin improvement that could come?
- Lalit Malik** Initially there will be a mix effect Ashish clearly because there are going to be costs also incurred for the new plant and we will be continuing to run two plants for the time being so there will be that additional cost but of course with the changes that we are planning with the cost structure, with the employee cost, with the input material and like you said with a further balance of our make versus buy decision what we are doing, we certainly expect some margins improvement also at some level and then of course we can scale up and every incremental bike gives us great improvement. So immediately of course, there will be some increase in cost and some improvement in margins as well at the same time.
- Ashish Nigam** Just one last housekeeping question, what is the CAPEX for the next two years?
- Lalit Malik** In the next two years horizon 2012-13, in VECV in the joint venture we are expecting 1000 crores CAPEX which across various projects. In Royal Enfield what we are currently talking about is 150 crores for the new plant and there might be some other of course balancing investments in the existing plant as well to take us to the higher volumes but that we generally ballpark in investments side.
- Ashish Nigam** Okay this 1000 crore of VECV includes 400 crores of engine, is that right?
- Lalit Malik** Out of 400 crores some part has already been spent and invested so the balance will be there. Balance of that will be coming in 2012-13.
- Ashish Nigam** Okay, that's all from my side. Thank you very much.
- Moderator** Thank you very much. Due to time constraints this was the last question.
- Basudeb Banerjee** We just like to thank all the participants for attending the call. Thank you very much.
- Moderator** Thank you very much. On the half of Quant Broking Private Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.