



## “Eicher Motors Post Results Conference Call”

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**Moderator**

Ladies and gentlemen good morning and welcome to the Eicher Motors Q1CY11 Post Results Conference Call hosted by JM Financial Institutional Securities Private Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference call, you may signal an operator by pressing \* and then 0 on your touchtone telephone. At this time, I would like to hand the conference over to Mr. Pramod Kumar of JM Financial Institutional Securities Private Limited. Thank you and over to you, sir.

**Pramod Kumar**

Thank you Farah. Good morning to all of you, on behalf of JM Financial Institutional Securities, I welcome you all to the Q1 CY-11 post results conference call of Eicher Motors India. Also take this opportunity to welcome Mr. Siddhartha Lal – MD and CEO and Mr. Lalit Malik – CFO, Eicher Motors. And now I would like to hand over the call to Mr. Siddhartha Lal, who will make pre-opening remarks, which will be followed by the Q&A session. Over to you Siddhartha, thank you.

**Siddhartha Lal**

Good morning everyone and thanks for being on this call. Of course I am very happy to join you again this quarter. We had, as you have seen, an excellent quarter, a quarter of lot of growth in Eicher but also in the industry. The commercial vehicle industry grew in the 5-ton plus by over 12% while Eicher grew by around 30%. So we have gained market share in this quarter.

Again, particularly in the heavy-duty also we were actually able to get some good gains. And of course with each passing month, I feel increasingly satisfied with our trajectory in heavy-duty and more optimistic about being able to sustain that growth in the coming quarters. We have continued to build on the volumes; we have done nearly 2000 volumes in Q1 with nearly 1000 in March itself so that is 96% improvement over last year. Our market share improved from 1.7% in Q1 2010 to 2.7% Q1 2011 and further if you just look at the month of April we have increased to 3.2%. So market share is certainly on the rise even in heavy-duty. We have a pretty complete product suite now. Of course we are still entering in some of the segments but we have got a very good portfolio of products. Geographically also we are now covering over 50% of the geographical market. So all of it is panning out in exactly in the fashion that we wanted to. For the past many quarters, we have maintained that in 2011, our target is to try and accomplish 1000 a month consistently. We are still working towards the target and we are still trying and plan that by the end of this calendar year, we will hit 1000 a month consistently in heavy duty.

Of course light and medium duty continues to be the big story as far as our base is concerned and there of course in the 5 to 12 ton segment, we actually increased our market share to well beyond 30% also from 28.1% last year to 30.7%. So there has been great growth all around in the commercial vehicles space.

In exports also we have grown by around over 100% in this quarter and we are continuing to work with the group and leverage spare distribution network in Asia, Africa and other

markets, so that is another point which should hopefully help us in the coming years certainly. We had a very good quarter in buses as well. We did 1273 units which is around a 30% increase over the last quarter. Even though the markets actually shrunk by nearly 15% so our market share has grown there as well. In the larger commercial vehicles we had a slight dip only in one segment which is the Volvo trucks, segment which we operate. There of course there have been issues as far as mining contracts are concerned. The government is not been giving out mining contracts, Coal India and all have held back because of various issues, there have been some environmental concerns and all of that. But with India's electricity scene still being largely coal powered, we expect that is going to come back on the track quite soon and our drop in sales of around 35% in that segment should hopefully come back in the coming couple of quarters.

Moving over to our motorcycle division the interest in Royal Enfield from the market continues to be extremely high. We have improved our supplies tremendously in the last quarter from a monthly run rate of around 4,500 last year, we are now running at a rate of over 6000. So we have increased substantially by over around 40% in terms of production. We have sold just shy of 17,000 units in Q1, which is growth of 36% on unit sales, revenue sales would of course be high. And we continue to work on improving our capacity in existing plants. We have a new lacquer plant which is up and running in this month itself, in the end of May. We hope to achieve a monthly run rate of over 6500 by the second half of this year and we continue to have very strong order book. So we have around six months plus of waiting list in most of the models. And we expect that to grow on a monthly basis so we are just focusing in getting our supplies up and running.

So given all of these volumes and other things we also had a very good financial performance this year on a consolidated basis our total income has been just higher than Rs.1400 crores growth of around 33% over the last year quarter. And our EBDITA was just over Rs. 162 crores, which is a great increase of 78% over the last quarter and an EBIDTA margin of 11.7%. I believe historically it is our best ever, much better than even our previous best of 9.7% in Q4 of last year. And with all of that, PAT has been at Rs. 123 crores approximately, which is a growth of 85%. And we have had excellent cash flows and our working capital continues to be negative again and so all of this is pointing mainly in the directions of what we have been talking to you about over the last many quarters, that there have been lots of underlying work which has been happening in Eicher Motors, VECV and Royal Enfield. Some of the dividends or results are being seen today. There is a lot of fundamental work that we are doing whether it is in our quality, whether it is in our production, whether it is in our price realization, in our cost management, in our distribution so all of these things are now and certainly an aftermarket. So all these things are playing out pretty well. We continue to be reasonably positive about the growth in sales and profitability coming up, in the coming quarters, of course there is a quarter to quarter variation because of seasonal effect. Q1 which is the quarter which has just passed, the January to March quarter, is in many cases exceptionally good as we all know in the commercial vehicle business from a sales perspective. So but quarter and quarter sales still seems to be positive, we have had a good

month in April where we have again gained 30% over the last few quarter. And even though there are issues as far as RBI monetary policy, inflation and all of these issues are concerned, I believe that there is still scope for continued growth in the market. The growth may not be as much as it has been in the last many quarters. It may start flattening out a lot more than but reasonable level of CV sales can still be achieved. So we are confident that things should continue to be reasonably good in the market. And off course at Eicher Motors, our objective continues to beat the market every quarter in terms of revenue and also volume growth and thus gain market share.

On the commodity prices, the good news is that they have leveled off at least for now and even in some cases has slightly started declining as of, I would say end of March and end April. That is a good sign because, even though we have been able to get extremely good price realization, still there is a little bit of toll which gets taken in the marketplace because of so many price increases. So we believe that should help out little bit in the coming time.

On our initiatives, we continue to make excellent progress. We continue to be on track for our medium duty engine project which is Volvo Group's, global engine project which VECV, our subsidiary, is executing. We are on track for SOP of December of 2012. The Royal Enfield expansion continues, we have not yet finalized the land selection but we are in the last stages of doing that, trying to get the best deal possible. And we're working very closely with different agencies in different states to expedite that.

We have a lot of products in the pipeline, slated for 2012 and 2013.

So overall we have had an extremely satisfying Q1. Broken all records, created new heights and we certainly hope to continue to do extremely well this year. So over to you, Pramod, back to you and for some questions.

**Moderator**

Ladies and gentlemen we will now begin the question and answers session. Our first question is from the line of Grishma Shah from Envision Capitals. Please go ahead.

**Grishma Shah**

The first question as I observe from your margins break up you had a fairly lower RM to sales during the quarter, compared to all the other 8 quarters as I look at it. Give us a sense of how margins would then pan out for us and what is our raw materials sourcing policy?

**Siddhartha Lal**

Our RM to sales is slightly skewed at Eicher Motors because of a pretty large impact of Volvo truck sales. So in the last quarter where we had lower Volvo truck sales and Volvo truck sales are as you know is a trading business – sales and distribution business for us. So the raw material price as it were for Volvo truck is extremely high, compared to for Eicher trucks and buses or for our motorcycles. As the actual sales were lower, product mix actually comes better in RM to sales. So on the one hand if Volvo trucks is lower it affects us, it lowers our RM to sales on the other hand if heavy duty is much higher it goes up slightly because our margins are still not the same as in light and medium duty. So it is difficult to say this on a RM to sales basis how margins are going to go. I think what we work on is much more an absolute

levels of margin, that is really what we are concerned about right now because we are having a lot of growth and we want to maintain significant growth and absolute levels of. Profitability. Now I'm not saying that Q1 will be replicated every quarter because of course the operating leverage of Q1 was exceedingly high because of exceptionally good quarter in terms of revenue. So if revenues maintain that level I do not see a reason why margin should not maintain that level.

**Grishma Shah**

Also since you have spoken about a lot of your CAPEX plan, could you highlight the absolute amount of CAPEX that has been already deployed in CY 11 and CY 12?

**Siddhartha Lal**

We have talked about earlier. The overall CAPEX that we are doing in 2010-2012, which is three years horizon, is in the tune of Rs. 500 crores for the commercial vehicle division. And I would say certainly Rs. 120 plus for the motorcycle division with a new plant and a new capacity that we are looking at. The commercial vehicle division excludes the amounts which is basically around Rs. 300 plus crores for the engine project, so overall it is Rs. 500 plus 300 plus 120 plus, that becomes a sort of three years 2010-2011-2012 type of CAPEX that we have looking out for.

**Grishma Shah**

Thanks and good luck.

**Moderator**

Thank you. The next question is from the line of Saurabh Das from Sundaram Mutual Funds. Please go ahead.

**Saurabh Das**

My first question pertains to the commercial vehicles segment and if you can just highlight because you just mention in your opening remarks that you do see headwinds for the sector which of course all of us are aware of. But being on the ground, do you see any particular segments within the CV segment which are more vulnerable to this downturn, and whether be it mining, whether be it the tractor-trailer segment, and whether it be the haulage segment? Second that in terms of your market share improvements, where have you gained market share in product categories per say, because I believe attacking the mining segment is typically a easier one, among the other segments so if that is the case if you can just elaborate on that?

**Siddhartha Lal**

What we have seen in the past is that when there is a downturn transporters moving to their familiar bastion, which is less than 25 ton. So in the past we have seen tractor-trailer being hurt when there is a downturn. But it is very difficult to say really how it is going to pan out this time around. So it is very difficult to assess. I think there is a good space for different segments. In the sense, it certainly continues to be a movement away from 16 ton towards 25 ton, but even 25 actually, sorry there has been a movement away from 25 towards 31. So that seems to be the new main haulage segment which is 8x2 trucks. I cannot say quarter to quarter what is going to happen as it is very difficult to predict. As far as our own market improvements in light and medium duty are concerned, clearly penetration is due to better distribution, due to finer tuning of products which we continue to do. We have an enormous advantage as we have been able to give for our Euro III products for fuel efficiency and that is really drawing people towards us a lot more. Some of these factors are of course very

important like in medium duty. In heavy-duty, we are now getting pretty entrenched in the 16 ton segment. So we have been able to cross 5- 6% in the 16 ton haulage segment. I believe we are ahead of 10% in 16 ton tipper segment that answers your question as to if it mining, but actually our tippers are not going to mining at all, they are all going to be infrastructure segments. So the road building and the other infrastructure segments, because these are I would say still require more lightweight tippers. The 25 ton tipper segment is what we are targeting now. We do not have the very heavy-duty boggy suspension that are which is going to go into mining. So that is there and of course now we are making progress and breaking through in the other heavy-duty segments. So market share is coming across the board but we are very focused on geographies. We are also very focused on some end use segments so it is actually very different for every geography. Certainly it is 16 ton which has got us to be 3% odd market share in heavy-duty right now. Moving forward to get us to the 5% and the 7%, it should be the 25 ton and the 31 ton which should be pulling the weight in our segmental share.

**Saurabh Das**

One follow-up question on, if you could just give us the sense on the pricing environment how, were there any pricing actions we took in the quarter and to we envisage anything to offset commodity headwinds of course you mentioned commodities are cooling off but in case anything is on the cards?

**Siddhartha Lal**

I would say positive and aggressive price increases which have paid off. We have been able to continue good growth and improve the margins. So we have had a 2.5% increase in commercial vehicles in January to another 2.3 to 2.5% increase in April. That was an average of course it varies from model to model, but on a weighted average it is around that much, 2.5 % twice in this calendar year now. In addition to that, we have been able to also reduce discounts substantially. So that further helps in price realization. So that is our pricing situation. I do not see commodities at least in this quarter flaring up again because they are already flattening out, so that should not be a major concern for April to June quarter.

**Saurabh Das**

So is it fair to read across that given commodities are not going to create further trouble and you have taken a 2.5% increase in April so gross margins, leaving aside operating deal in which should pick up in the coming quarters?

**Siddhartha Lal**

I do not know about the pickup really because there have been demands of pending settlements with suppliers to increase this so I would say that our ambition is to at least being on even keel as far as material prices are concerned.

**Saurabh Das**

That is right. One very quick question on the engine project update. Have we started construction and anything on the, you mentioned the prototypes but apart from that anything on the ground?

**Siddhartha Lal**

Construction is in absolute full swing in the plant in Pithampur, we finished a lot of negotiation for all the equipments which is to be ordered for the plant. So now it is just hard-core execution phase on the plant and machinery side which is happening right now. There is an execution phase happening on the R&D side because all the specifications are 100% sorted

out. We have got our first samples; we have got the engines running, for example, in the Japan already. We have not lost a minute on that thing. Even though a lot of work was happening in Japan and even due to the Japan crisis we have really not lost any significant time. We are working full on the engine project.

**Saurabh Das** One last question on the cash on the books on the standalone business and on the VCV business?

**Siddhartha Lal** And the question is?

**Saurabh Das** What is the cash on the books?

**Siddhartha Lal** Lalit, would you like to take that?

**Lalit Malik** On the VECVs books the cash right now is about Rs. 1200 crores and on the standalone books, it is in the region of Rs. 470-480 crores.

**Saurabh Das** Thanks and all the very best.

**Moderator** Thank you. The next question is from the line of Mitul Metha from Lucky Securities. Please go ahead.

**Mitul Metha** My question pertains to your earlier answer to capital expenditure program. One is on the CV side, can you elaborate in terms of the capacity where we will be for commercial vehicle and for heavy duty?

**Siddhartha Lal** Currently we have a capacity of 4000 per month. We were able to breach that in the last two quarters, in December at least we have been able to breach that to some extent in March as well. But overall it continues to be just over 4000 levels. By the end of this year we should be hitting say, closer to 5000 levels in production, that is what our target at least. But 2012 is when a big step increase in paint shop happens which is currently the bottleneck, so the capacity goes up all the way through close to 100,000, I would say, 85,000 plus trucks and busses. Then by the end of 2012 when our new engines capacity comes into play because the engine project that we are doing will of course be for Volvo group's global requirement which will also serve Eicher's trucks and buses local requirement. So that will add another very large capacity for us. Also, in the same time frame we are building a third line etc. for building our trucks. So eventually I would say these are all step increases which we are doing. We are doing it extremely thoughtfully, extremely solidly planned all in the same facility and I would say by 2013 odd we should be certainly looking towards 7000-8000 2013 plus, 8000 trucks and busses a month.

**Mitul Metha** If you could also throw light on the motor cycle space?

**Siddhartha Lal**

Currently in motorcycles we have had very good breakthroughs on the capacity front. By last year we were switching over our engine platform, we have come down all the way to 2000 motorcycles a month in September - October. We have been producing 6000 pretty much every month this year. This calendar year already, probably ahead of 6200-6250. With the new paint facility, a small lacquer facility, which should be operational by the end of this month, we should be achieving 6500 plus in our capacity. And now we are in the process of putting up a new plant. So I imagine it is the new plant which will take us through let us say 10,000 and beyond, we are certainly adding capacity for well over 10,000. I mean in the first phase itself it should be around 12,000 motorcycles a month in the new plant which should be should be operational depending on how things go. We do not have a firm timeline right now because we have not started the project but certainly by the end of 2012 we should have the new plant up and running. So that is the general outlook but once the new plant is up by the second half of next year then hopefully capacity should not be a constraint anymore. We should be if you want even rise to, eventually to 20,000 plus in the plant, they should be able to do that without a problem.

**Mitul Metha**

In your Volvo truck trading business, what are the current numbers that we are doing so far?

**Siddhartha Lal**

We have got 196 sales in the last quarter versus 298 last year. So it is a drop in sales of around 34%, even April was pretty weak, 28 numbers. Like I've said, the market has absolutely shrunk in the last four months because of contracts for coal have not come out yet. As soon as the contract start coming out, there is going to be a huge spurt in sales. So we are looking out for that and we're waiting for that opportunity in Volvo trucks.

**Mitul Metha**

Great and all the best sir.

**Moderator**

Thank you. The next question is from the line of Saianjali Nair from Capital Markets. Please go ahead.

**Saianjali Nair**

I just wanted to confirm that you had on new plant for the commercial vehicle which would come up in 2012 end, the capacity is 10,000, is it?

**Siddhartha Lal**

There is no new plant for commercial vehicle. May be what you are referring to is the engine project which I was talking about which is a Volvo global engine project which we are catering to. New plant in our current Pithampur premises itself and that will be operational by December 2012 which will actually run into 2013 where we start our full sales and the capacity of that which we are talking about right now is also around 85,000 engines for the global requirement. So some of them, of course will come to our Eicher truck and bus requirements in the same plant and some will go for Euro 6 requirements for Europe and other markets.

**Saianjali Nair**

Thanks.

**Moderator**

Thank you. Our next question is from the line of Samantha Khan from ICICI Prudential. Please go ahead.

**Samantha Khan**

My question is regarding your capacity expansion plans. You are already at 5000 per month, you are planning to go to something like 8000-9000 per month by 2013 and currently we are hearing news items which say that there are possibilities of slowdown in the shorter term for sure. Is it reflecting some kind of an internal belief that if at all there is a slowdown in the CV market, it would not be severe and it will be short-term and probably Eicher Motors will do better than the industry?

**Siddhartha Lal**

Well I would like to put it slightly differently; that we of course have a very bullish view on long term CV industry and the investments which we are making is certainly towards the long-term. There will be blips, there will be a downturn I do not know when it'll come, it is cyclical industry. So every 3 to 5 years downturn may happen – will it be as big as 2008 or is it 20% 30% reduction, it is difficult to say. But we believe that there is not only a significant potential in the CV industry of growth, but we believe there is a breakout opportunity also in the CV industry. So we are looking at that idea as well. Because if you see the China market it broke out from 20,000 a month which they were doing to nearly 100,000 a month, its heavy-duty sales alone I am talking about, not even light and medium duty. I am not saying that will happen in India but I am saying that we need to be aware that there are possibilities of breakout growth. Now if you break down our capacity increases and where our costs are, as you know we are extremely prudent on capital investments in Eicher Motors and VECV. Our peer's capital to turn over ratio as you know last year was maybe around 1.5-2 times. Eicher Motors consolidated; we have clocked something like 13.5 times capital to turn over ratio. We believe in that tremendously. If you break it down to our capacity investment in Pithampur it is actually pretty well hedged from future expansion front. So we are going to expand, even if there is a slight downturn we are not going to slow down because one, we have already committed to the biggest expenditure which is our paint shop. We have our 25 year old +paint shop. Now in engine capacity, we have already committed to a large engine capacity but the great news here is it that we will supply to Volvo globally. So that it is exclusively for us. For example, there is a slight slowdown and pace and all of that, it really does not affect us that much because we are also going to be supplying to Volvo globally from our new engine plant. So the last thing is our vehicle assembly line which frankly is not the biggest expenditure when it comes to setting up new capacity for vehicles - trucks. So if you look at all of this really most of our capacity expansion is pretty much de-risked and therefore if there is a slight slowdown, it is not going to affect our plans. On the sales side, we believe extremely strongly about our heavy-duty plan. If we are going to get from the type of numbers that we are at right now which is at 3500 to 4500 a month, if we are to get to 8500 to 10,000 a month, which is our midterm goal of 2015, as you know a lot of that is going to happen through heavy duty, because that is where we are low in market share, that is where we are making a huge gain and that is where we are going to grow. So even if the industry slows down to some extent certainly beyond a point we cannot affect a slowdown in our light and medium duty sales because we are a large player there already but certainly we will continue try and

breakthrough in the heavy-duty segment. So I think we are into reasonably well de-risked on most fronts. The biggest challenge for us continues to be breakthrough in heavy-duty and that is where the entire company is fully focused.

**Samantha khan** Second question is on your margins in the 1<sup>st</sup> Quarter was around 11.7 and you said that part of it is because of the Volvo trading business. If I exclude that on a year-on-year basis how will your margins look? You do not give me any numbers but the trend, how severe is the raw material to sales hike in raw material cost at this point?

**Siddhartha Lal** As I said the hike in raw material cost has by and large been already covered by our two price increases, our discount reductions etc. With how things are going in India and globally I do not see an enormous spurt from here in commodity prices. So I do not think that it is going to be a huge concern for the coming year. As far as effect of our different product mix is concerned, it is extremely complicated because it is not just Volvo trucks, it is our entire product mix which affects our margins. So it is complex because we have different lines of business, but it is easy for you to have a look at the past and see when we had good Volvo trucks sales, all of that. So I would go to the extent of saying that these are part and parcel of the business but I certainly do not see any major concerns in the horizon. On the absolute levels and I frankly look at not more than the absolute levels of margin or absolute level of profitability in our business, we continue to do exceedingly well and that is really what counts in the growth oriented business that we have got right now.

**Samantha khan** Thanks a lot.

**Moderator** Thank you. The next question is from the line of Chirag Shah from Emkay Global. Please go ahead.

**Chirag Shah** First a follow-up question on the raw material. Is it right that if I exclude the Volvo truck business from your purchases giving a distribution margin your RM to sales actually moved up for VCVs sequentially by 120 odd bps? If it a right way of looking at it?

**Siddhartha Lal** Chirag, I cannot get into that level of detail here. ....

**Chirag Shah** Fair enough but sequentially has there been raw material pressure for you on your manufacturing business?

**Siddhartha Lal** Of course, there has been enormous raw material pressure for every commercial vehicle manufacturer. We are not different from any one else in that fashion. So all the pressures whether it is rubber, metals, etc., we have been affected as much. I believe, the worst is behind us as far as raw material inflation is concerned.

**Chirag Shah** What I was trying to understand was also is it right to presume that a large part of the cost which has already come in P&L and a very small portion of negotiation which you have a spillover effect as of now from a quarterly perspective that is how your cost pressure would

look at the gross margin level? Because we have had a superb increase in steel prices and aluminum prices if I look last six months ending March when I say last six months? So is there a large part of that coming to your P&L and not much of an impact is going to be in the follow-up quarters?

**Siddhartha Lal**

Chirag, I believe most of it is accounted for and we do not keep too many things pending beyond a point, of course, there are some negotiations still here and there which are to be done, but these things do not last exceptionally long and in any case if you factor-in the fact that some of the metals etc. prices are actually coming down now, I don't see enormous concern.

**Chirag Shah**

If can I also touch base further, you have a quarterly contract scenario or your contracts are generally three months for price negotiations or how does it work, if you can help us understand that?

**Siddhartha Lal**

It works case to case supplier guys look at it differently, commodity guys look at it very differently. We try and keep in-between spot which is for us nearly one month type of time horizon and three months. There are very few cases which are going to be six months plus time horizon.

**Chirag Shah**

Second thing was, I understand that trading business we have two parts of business. One is the truck distribution and one is the spare parts distribution. Is it also correct that this spare distribution business of Volvo is mirroring the volumes or it is more of a steady state and there is a disconnect in the volume sales that you report for Volvo truck and spare parts business of Volvo?

**Siddhartha Lal**

Largely the spare parts and service business that we do, it is certainly not affected as much. It is more of an annuity business really because this business is five years old. So it does not fluctuate at all like the truck sales business.

**Chirag Shah**

Will it be possible for you to share the combine trading portfolio size on an annual basis, say, what it was last year if possible? We have the truck numbers but we do not have the other leg of your overall scheme of things. It will be really helpful if you can give us the annual number at least, if not quarterly. I understand quarterly number is a slightly tricky issue. So is it possible to help us understand how it has been behaving on annualized basis?

**Siddhartha Lal**

Let us think about that. We have not been talking about that till now. So let us think about that and get back to you, in case you would like to talk about the annualized figures. But basically you know the list price in the market so at least from a number of trucks perspective it is simple to get and I think we have talked in the past about our aftermarket business which is, I cannot again tell you exactly, but last year in 2010 it has been in the tune of 300 crores spare parts business in Volvo area. So that I hope gives you a good idea about what I am talking about.

**Chirag Shah**

You also touched base in your opening remarks that you have now covered 50% of the market for HD trucks. How has been the expansion in markets in last quarter or last six months? How are you progressing over there? When you say 50%, if you can help us understand that side of the business and what can we expect over the next six months in terms of your geographical coverage?

**Siddhartha Lal**

We have many different factors that we put into place when we are saying we are effectively covering a certain percentage of the market and I am talking about effective covenants. Do we have a very strong dealer there? Do we have a very strong aftermarket there and in the surrounding areas where the trucks normally ply? Do we have all the right financier backing in that area? Will we be able to finance all the trucks? Do we have the right type of segments in that area? So we map these 5-6 parameters and we find which are the markets we want to open out and when. So with all that in account we continue to be selective in how many markets we are opening out. We do not want to open out in the whole country and then have any potential problems later because of aftermarket or other issues. So it is difficult to say on a phone where exactly, it is better to show on a map in some sense which is the markets which we have opened out but there are different markets all over the country. We have opened out a lot of markets in south, some in Kerala, some in Tamil Nadu, some in Andhra there are different markets which we are opened out. Goa is going doing very well in super market front, we have some markets in Himachal, in Delhi we have strong markets now in heavy duty which have opened out. Calcutta is also doing well. So it is very difficult to explain here, but I would from an industry's perspective if the industry is selling 'x' number of vehicles we are effectively present in at least x/2 of those markets, that is what we are trying to say from a volume perspective.

**Chirag Shah**

Is it right that you are looking to take it to something like 60% effective coverage by end of the year or it depends upon how you ramp up in these areas?

**Siddhartha Lal**

We certainly have targets we want to get to. I would say in the medium term, from 20, 30 odd, we want to certainly get to 80-85% and we have to get to that level if we want 15% odd market share in an all-India level. So we have to get to that type of coverage on geographies and on 90% plus on products. So right now we would have around 80-85% plus coverage on products also because we do not have all the products in place right now.

**Chirag Shah**

You touched base on the freight operator's economics as of now. What we understand is that the freight operator's cash flows are not really under strain. Are you actually observing cash flows under strain in any part of the countries except for say a few pockets or smaller areas in particular region? We have not come across any such instances where freight operators are really saying that my cash flows are affected because of higher capital cost or interest cost. We are getting a feedback that freight rates have actually moved up for them by 7% to 8% in many cases.

**Siddhartha Lal**

Actually if you remember I said that we have got conflicting reports. So some of the reports have shown that the freight rates have not been very progressive but some of the reports

suggest that the freight rates have been reasonably progressive. So like you said it is again not of enormous concern. Look, we are still positive about the market in the coming few quarters. We do not think there is going to be a major crisis but we also do not think that we are going to have huge gains like 30% to 40% quarter-on-quarter type of gains like we have had in the past. It is going to be a bit more muted but we still see some gains.

**Chirag Shah** One last thing if I can ask is, were you actually able to implement your last price hike in the month of April because some of your competition has said that they lost out volumes because competition has not implemented price hike? So were you able to implement your price hike or it is now getting implemented slow and steadily, the last 2.5% that you announced in April?

**Siddhartha Lal** I believe we implemented it in April and I think certainly in some cases we might have pushed it back by a week or so but now it is implemented and everything is fully....

**Chirag Shah** So there are no major worries at the ground level that is how one should look at?

**Siddhartha Lal** Absolutely not, we have implemented this and as you can see in our track record we have become extremely aggressive on pricing now. So we have been pushing very hard on price increases, we have been very forward and like I said, price increases what you see but we have also been extremely aggressive on reducing discounts from the market and all of that. So we have been pushing the envelope even as far as the competitors are concerned on discount reduction and I think they are now following our trend and also they are reducing discounts somewhat.

**Lalit Malik** I have a couple of add-on points. As far as the price increase is concerned specifically we were done by the middle of April. This whole thing about EBITDA margins, if you look at our spare sales calendar year 2010 versus calendar year 2009, for consolidated VECV, we have grown by almost I think 70%. I do not have the number right now but I think that was the broad number. That growth continues. So it is important to note that strength in the spare parts sales continues.

**Chirag Shah** If I can touch base on this, is it correct to presume that your trading margins or distribution margins for the spare parts business is much superior than your vehicle business of Volvo?

**Lalit Malik** Surely

**Chirag Shah** And it could be as high as 2x or something like that? Is it the right way of analyzing the business?

**Siddhartha Lal** Spare parts margins are very good. And you can look at different markets of spare parts you can look us at as distributors. Spare part margins are good.

**Chirag Shah** For the Volvo spare part business, I am talking about?

- Siddhartha Lal** That's where we make the money.
- Chirag Shah** Yeah, fair enough, great. This was helpful. I will come back for some more questions.
- Moderator** Thank you. Our next question is from the line of Nilesh Dhamnaskar from Religare AMC. Please go ahead.
- Nilesh Dhamnaskar** Sir, I have two questions. Firstly, could you give us a sense on what is the pricing differential between the product prices charged by VECV as compared to the competitors? And by giving some certain examples, could you throw some light?
- Siddhartha Lal** Sure. I do not have all these figures actually in front of me. I can only give you general ideas. Typically the way we look at it is that in light and medium duty, we offer more for our products in terms of reliability, in terms of turnaround time, in terms of efficiency particularly, fuel efficiency and by large particularly we are able to charge 3 to 5% higher on our light and medium duty range. So all the way from 5 ton to 12 ton I would say 3 to 5% that is how much we charge more than competition in that segment. On heavy duty, on list price we are often I would say similar or even slightly higher but I would argue that on the net level we probably are at par right now and even in some cases slightly lower in heavy duty because of resale price gap is still there. So that becomes a negotiating point from the customer's perspective. But resale gap has improved tremendously. It has grown up by around 40-50% in the last year. We are still not at the same level as the competitors but we are catching up very sharply in the retail price on heavy duty. So I would argue that there we would be closer to par. Though our objective of course even in the heavy duty is to be similar as medium duty which is 3-5% higher but that still is good for couple of years for us to be able to flex our pricing muscle with the competitors in the heavy duty.
- Nilesh Dhamnaskar** So improvement if you just mentioned it has improved 40% but in terms of this differential alone what was this differential in CY08 which was again a good year CY08 or CY07, which was the good year for CV cycle whereby your gross margin levels were also similar at similar levels at what you are currently achieving? So what was the differential at that point of time?
- Siddhartha Lal** For quite a few years now, in light and medium duty we have maintained a similar differential of 3-5%. It is sort of little bit up and down but not substantially so that continues to be our position and that continues to be our premium.
- Nilesh Dhamnaskar** But in the HCV side, what was the differential at that point of time?
- Siddhartha Lal** You are talking about the resale price. I am very sorry. On the HCV side it was substantially more in some cases it depends from case-to-case and region-to-region. Our resale price, we have cycle of a truck which is after payment cycle was nearly half of what the competitive truck would be. Now it is closer to say 80% of what a competitive truck would be.

- Nilesh Dhamnaskar** Right. And my second question pertains to again on the sale of spares. The gentleman before me had asked the question. In terms of the proportion of spare as a percentage of sales on a rough basis how as this moved over the last five to six quarters because I presume that it has been one of the major reasons for your margin improvement?
- Siddhartha Lal** I imagine Lalit will give a better answer to that. So I will hand it over to him and just one second but really we were in no more focused on spare part aftermarket revenue and for our growth. But what has actually happened is that because of extremely good demand in the last six odd quarters as you talked about there has not been a substantial change in our spare part percentage to overall sales. In case the market flattens out hopefully at least our spare parts will continue that positive strength and only then we will start gaining on our spare part sales as a percentage of our next sales. Lalit, would you like to add to that
- Lalit Malik** As I just pointed out to Chirag earlier that if we look at our annual accounts from the spare business for VECV consolidated - 2010 over 2009 we have grown by almost I think 70%.
- Nilesh Dhamnaskar** How much ??
- Lalit Malik** 70%. So was year ended Dec 31. So if you extend same to Q1, the same strong performance continues.
- Nilesh Dhamnaskar** So, again the growth was 70%.
- Lalit Malik** No we do not split out the numbers on the quarterly basis. I am saying that the same strong trend continues.
- Nilesh Dhamnaskar** In terms of the potential whereby you can read in terms of what your competitors are selling in terms of absolute amount of your revenue coming from the spares. I mean the gap I presume would be very huge so any light on that? Potentially how much revenue can you reach from this segment alone?
- Siddhartha Lal** In India frankly I would argue that most competitors in the CV space are pretty weak on spare parts to net sales. So really it has to come from the global levels where spare parts is typically or if I do not look at spare parts and if I look at all soft products other than the truck sales people are working towards 30, 35, 40% of their entire revenue coming from that side. Not that the company is there yet but that has to be the future.
- Nilesh Dhamnaskar** In your case you are less than 10% I mean that is the kind of potential if not 35 to 40% may be around 25 to 30%?
- Siddhartha Lal** That's the kind of growth that we should do in coming years. .
- Nilesh Dhamnaskar** And one last question is, what is happening on the export front especially the exports initiatives which are going to happen through Volvo's sales network?

- Siddhartha Lal** These things again all in the works and we are working towards getting the understanding of the markets, understanding the products requirements, access to full network and the full product availability. We have the product in some of these export markets which we have been piloting in. We do find that these requirements different from our Indian product requirements. We had some fit and finish levels whether it is the engine power levels we have seen that requirements are actually quite different. So I suspect there is going to be a still while our export sales have grown reasonably well in the last quarter I suspect the acquisition synergies in terms of breakthrough growth in exports is still a while way. It is still a lot of work in progress, a lot of stuff to be done before we can see some traction there. So as a percentage of our overall sales I do not extremely see significant movement right now because anyway our overall sales, domestically we are also growing pretty well.
- Nilesh Dhamnaskar** That is right. So I mean it is probably a year way or something of that sort.
- Siddhartha Lal** Yeah certainly in that time but the point I am trying to make is that huge amount of work we are doing right now in order to make sure that whether it is a year or year-and-a-half or two away when the breakthrough growth is there. We will actually work towards that.
- Nilesh Dhamnaskar** Thanks and all the best.
- Moderator** Thank you. Our next question is from the line of HR Gala from Quest Investment. Please go ahead.
- HR Gala** Sir just a suggestion that in your press release will it be possible for you to give the quantitative numbers of different segments of commercial vehicles. Like what has happened that you mentioned only about 5 tons and above one number but you are not giving the breakup of other. So can you tell us what was the per quarter total sale of commercial vehicles?
- Siddhartha Lal** Sorry, the per for the industry?
- HR Gala** No not for the industry for Eicher Motors.
- Siddhartha Lal** For Eicher Motors for 2011 we sold 8,545 trucks in the 5 to12 range. We sold 1,924 trucks heavy duty 16 T and above. We sold 1,273 buses across all ranges and we had 763 exports.
- HR Gala** 763 exports. Okay. That was in Q1.
- Siddhartha Lal** Yes indeed.
- HR Gala** Can you give the corresponding figure of Q1CY10 if you have readily available?
- Siddhartha Lal** I do, I can give that quickly, 7242 the first segment 979 for heavy duty, 991 for buses, and 374 for exports.

**HR Gala** Okay. My earnest request will be if this kind of numbers if you can give in your press release it would be very helpful to us.

**Siddhartha Lal** Sure. I do not think it should be a problem. We can certainly do that if you request.

**HR Gala** Sir just one question. A lot has been discussed in this conference call by different people. Will it be possible for us to sustain the kind of growth that we have achieved in this year which as you rightly said has mainly come from the manufacturing side because the Volvo truck business was down like 33% type of sales growth?

**Siddhartha Lal** Well there are different aspects to it. Let us see if the market continues to be strong and issues around inflation or interest rates and all of that get eased out, then certainly we will continue to hit those type numbers. If the market flattens out as it were then frankly we will still work towards the gains in light and medium duty but that still going to be I would say limited I mean we will have market share gain but I do not think we can have breakthrough market share gains in this point in light and medium duty.

**HR Gala** Okay.

**Siddhartha Lal** It is heavy duty which really will, you can follow our monthly numbers and you can feel how heavy duty is performing. As and when the breakthrough start happening in heavy duty that is going to drive if there is a flattening of truck volumes all India then it is only our heavy duty sales which can actually drive the growth in the fashion that you are asking about.

**HR Gala** Okay. My next question is the CAPEX numbers which you had given do they pertain to the year 2010-11 or 2011-12 or 2012-13?

**Siddhartha Lal** They pertain to three calendar years which we talked about. They pertain to 2010, 2011, and 2012. So within these years we expect to complete 500 Crores in the four wheeler business, 300 in the engine business and around 120 plus in the motor cycle.

**HR Gala** Okay. Sir how much was completed out of that in 2010?

**Siddhartha Lal** We do not have the ready numbers. Do you have ready numbers with you Lalit, right now?

**Lalith** Yeah. Broadly in 2010, about 60-70 odd crores was done in the VECV and in MDEP of course we are still in the preoperative stage, a very small amount has gone as I said it is only after the second half of this year and next year we will see major amount being capitalized or being moved into the preoperative line of the fixed asset. 3 to 4 crores were done for MDEP. 20 crores or so was capitalized in Royal Enfield last year. Of course Royal Enfield expansion is yet to start so capitalization related to that will only happen in the next few months.

**HR Gala** Yeah because I think the total amount expended on capital expenditure is stated at 135 Crores last year in our consolidated accounts?

- Siddhartha Lal** Right.
- HR Gala** Okay so that should be the type we should consider. So I think the major part will come now between 2011-12.
- Siddhartha Lal** Correct.
- HR Gala** Okay. Sir the last question from my side. You still have a lot of cash and you know every year we generate a very comfortable level of cash. So what are the future plans for the usage of that sir?
- Siddhartha Lal** There are two parts to it. One is in our subsidiary joint venture with Volvo which is VECV where we have approximately 1200 Crores of net cash so without debt and then in Eicher Motors Limited where we have around give or take, 500 Crores of net cash. On the joint venture side as you know some of it is going into our new engine product where we are looking at it working towards various other projects which will always be in the commercial vehicle and contiguous spaces. It is certainly in the commercial side of things that we are talking about and we are working towards different projects. As and when they come through we will of course be able to talk to you about them.
- HR Gala** But you do not have any plan to return this surplus cash to all the share holders by the way of enhanced dividend or something like that?
- Siddhartha Lal** At this point certainly not because we are working towards different projects. That is only we feel that in any case if the money does not come directly to the share holders. Then only EML front we have also various different projects so as I have been telling you that now we have a full time team which earlier all put hands on deck on our joint ventures so we were all focused on getting that done. As of these six to eight months we focused on the EML, we have Lalit who is coming in the EML side so now we are working on different projects so we are in no rush to spend this money immediately.
- HR Gala** The entire CAPEX which we are talking about is going to be spent in standalone entity, right?
- Siddhartha Lal** No. The CAPEX out of that the largest chunk of course will be in the JV.
- HR Gala** So how much will that be in JV?
- Siddhartha Lal** In JV it will be 500 plus 300.
- HR Gala** Okay I understand. Thank you very much sir and wish you all the best.
- Moderator** Thank you. Our next question is from the line of Yogesh Nagaonkar from Indiabulls Securities. Please go ahead.

**Yogesh Nagaonkar**

Sir my only question is if you see the competition the only difference I make out is that most of your players have captive financing, the top 2 basically. So are we looking something called as captive financing? Is there any plan because I feel that this insulates the business during the down turn?

**Siddhartha Lal**

We have looked at different concepts in this in terms of captive financing. And we have announced earlier. We have talked about it earlier that we are still looking at the potential of doing that but we have not decided yet with Volvo Finance which is global player in vehicle financing. But we have not taken the decision yet. There are certainly some positives but there are also certainly some negatives. In terms of availability of financing in India whether it is through private banks, whether it is available through NBFCs, and whether it is available through public sector banks there is enormous competition for financing which is there in the market today. And lot of them are looking very positively at the commercial vehicle segment. So really there is no of lack of finance in the market. I understand where you are coming from that there are some benefits to having it but we are actually working very closely with all the different finance companies we are ensuring that the deliquescences are exceedingly low if not zero in some cases for our vehicles. And when they get such excellent business from Eicher's and Volvo vehicles in the market they continue to come back to us. So yes we are looking at it but I do not think we are severely affected by the lack of it at all. In fact a lot of the financiers prefer to finance us because we get the best of the customers as well otherwise some of the captive financing companies tend to take either the best or the worst and leave the middle for the others.

**Yogesh Nagaonkar**

Sir I just wanted to know like geography-wise where we have expanded market share in fourth quarter? Have we seen some traction in some of the markets? This is purely on geography.

**Siddhartha Lal**

I do not actually have the exact figures in front of me right now so I cannot tell you exactly but by and large will across the board our market share increases. We have had in light and medium duty we are extremely sound in South market that continue to do better. Our West is improving. Our North is improving. So the bigger markets are improving. Even the East has starting to look reasonably good. So across the board I think there has not been any major geographical bias towards our market share gain let us put it in that way.

**Yogesh Nagaonkar**

Okay and just in one of your conversations you said that you concentrate on capital-to-turnover ratio. Is there any benchmark that you set when finalizing new products or new projects?

**Siddhartha Lal**

Well benchmarks as usual on IRR or ROCE are used but I cannot say that there is any particular benchmark. Of course we do benchmark with capital-to-turnover but of course there are some projects which are much higher in capital requirement and some projects are much lower so I cannot say that because it also depends on the working capital. It was the operating capital which I was talking about. I suspect in India and globally, EML would be either at the top or close to the top in terms of these ratios. I cannot say anyone who is better than 13.5 in capital-to-turnover ratio really globally.

- Yogesh Nagaonkar** Okay and sir new product launches for current year?
- Siddhartha Lal** In trucks by and large we have exhausted our new product launches. We have our New City Bus already in the market. We have our 25 ton tipper already in the market. We have the upgrades of all the products available. We have some new variants in the light and medium duty. There are no new major launches either in CV or in motorcycles. So there will be some in 2012 and let's say much larger proportion in 2013.
- Yogesh Nagaonkar** Sir your 16 ton tipper did well and you say this is back on construction and infra activities. Do you feel that this 25 ton tipper will do well basically when the coal contracts open up and do you see that it will repeat the success of 16 ton tipper going forward?
- Siddhartha Lal** That is certainly our ambition. Again with our first phase of 25 ton tipper which are out in the market today. We are again focusing primarily on construction and lighter activities so certainly not on deep mining activities. But the construction side of it is more than half the market so that is our focus right now in the 25 ton tipper space. Our ambition is to replicate the success of 16 ton tipper.
- Yogesh Nagaonkar** Okay sir thanks a lot
- Moderator** The last question is from the line of Basu Dev Banerjee from Quant Broking. Please go ahead.
- Basu Dev Banerjee** Just had a small query that you are ramping up your two wheeler capacity from current levels of you said 6,000-6,500 to almost 20,000 in next 24 months and till date your waiting period for all those Enfield models were varying between three to six months. Where do you see the ability of the market to absorb the supply of 20,000 per month on the back of this kind of demand from current levels of 6,000?
- Siddhartha Lal** Sorry Basu Dev I might have said slightly incorrectly earlier. Let me correct that. We are at 6,000 plus may be pushing towards 7,000 hopefully by next year. The project is not live yet. It is still in the final stages of working. Our first phase of the new project will be a round about 150,000 trucks per annum which relates to around 12,000 per month. Two wheelers Phase-I is 12,000 per month by the end of 2012. Actually 200,000 to 250,000 which is phase II we are not putting any money right now. We are not considering that at all in fact. So that is the only future potential of this as and when the requirement comes up but the plant will have the capacity to rise up to that. Let us not focus on that. Let us focus on the 12,000 per month that we are looking at putting into place by the end of 2012. Today our demand on a reasonable basis would be if we are able to deliver I am sure we can sell 8,000 plus a month. We are not able to deliver that much and that is why our waiting period is growing. We believe that 8,000 plus a month would be motorcycle market growing with the franchisee of Royal Enfield it is doing extremely well with a much stronger distribution. We are now getting down to much smaller locations where it becomes extremely viable to have a distribution point. So if we have a market potential of 8,000 today we do not want to make the plan for 8,000. We want to have

some potential to grow in the initial phase. So that is where what we are working towards which is around 12,000 a month in the one-and-half-year horizon.

**Basu Dev Banerjee** Now out of these 12,000 per month the new plant will contribute somewhere around 5000 per month in the next one to two years time that means with the existing debottleneck plant contributing around 7,000 per month?

**Siddhartha Lal** Basu Dev it may not actually be like that. We are looking at different ways. Also, we are on actually on a huge profitability and efficiency drive as well. Our current plant is extremely old - it is a 55-year old plant, so I cannot tell you right now as to how we will break up the volume. We might actually ramp up our current plant also. In fact our current plant the base capacity is there but I cannot call it as the state-of-the-art paint capacity. So the new plant is the state-of-the-art paint capacity and we might migrate a lot more activities to the new plant. All that is still under discussion.

**Basu Dev Banerjee** That is very rightly said, because in the earlier part of the call, you said that the capacity might move up to 20,000 plus in next two years' time. Other than that regarding the rising volume in this high cost niche category two wheeler segment when the volumes will move up to 10,000 plus a month do you see any incremental requirement for financing tie-ups?

**Siddhartha Lal** Two-wheeler is really not a concern. I believe more than 50% of our sales now are on full down payment. And a large chunk people finance through any means. It is not a very large amount these days for the type of customers that we have. We have customers who swipe it on their credit cards. So it is really not a big issue and we have enough number of financiers who are willing to finance the product. So it is absolutely not a concern in the motorcycle space.

**Basu Dev Banerjee** Sure sir because actually if I am not wrong while calculating I saw that your standalone PAT as a percentage of consolidated PAT after minority interest can give you a significant cushion when the CV cycle is against the economy so somewhere these rising two wheeler volumes in times when the CV business is in a threat that will give you a huge comfort to the investors.

**Siddhartha Lal** Yes, we are absolutely hopeful.

**Basu Dev Banerjee** Thanks sir.

**Moderator** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Pramod Kumar for closing comments.

**Pramod Kumar** Thank you Farah. I would like to thank all the participants especially Siddhartha and Lalit for taking the time out and being patient with the questions. Thank you all of you and have a great day. Take care. Bye.

**Siddhartha Lal** Thank you very much.



*Eicher Motors*  
*May 9, 2011*

**Moderator**

On behalf of JM Financial Institutional Securities Pvt. Ltd that concludes this conference call.  
Thank you for joining us. You may now disconnect your lines. Thank you.