



“Eicher Motors Limited Q2 2015 Earnings Conference Call”

**July 22, 2015**



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*Eicher Motors Limited*  
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**Moderator:** Ladies and gentlemen good day and welcome to the Eicher Motor Q2 2015 Earnings Conference Call hosted by Macquarie Capital Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Mishra. Thank you and over to you Sir!

**Amit Mishra:** Thanks. Good morning everyone. On behalf of Macquarie I welcome you all to second quarter 2015 post results conference call of Eicher Motors. Company is represented by Mr. Siddhartha Lal – Managing Director and CEO and Mr. Lalit Malik – Chief Financial Officer. I would now like to handover the call to Mr. Lal for his opening comments and then we can start Q&A. Over to you Sir!

**Siddhartha Lal:** Good morning everyone and thank you for joining the Eicher Motors conference call for Q2 results, Q2 which is in our case April to June 2015. I am happy to have you all over and to tell you that we have had our best ever quarter once again. I am going to start with the EML's consolidated financial performance for Q2 2015, so that EML's plus, the single subsidiary right now or both the subsidiaries, but there is not much activity yet on the Eicher Polaris subsidiary so mainly the subsidiary pertains to the consolidated results pertaining to the standalone performance and VECV performance, that is the joint venture with Volvo.

We posted highest ever net income of around Rs.2917 Crores with a 30% growth over last year. We posted an EBIT of Rs.352 Crores which is 54% growth over last year and an EBIT margin of 12.1% which is also the best of any quarter for our consolidated performance. For standalone level that is pertaining standalone Eicher Motors pertaining entirely to the Royal Enfield business we have had our best ever quarter once again with the total income from operations at just under Rs.1097 Crores which is an increase of 47% so first time Eicher Motor standalone has crossed 1000 Crores in quarterly revenue.

We posted our best ever EBIT of Rs.267.4 Crores which is a 53% growth over Q2 of last year and it translates into an EBIT operating margin of 24.4% which is also once again our highest ever operating margin. Royal Enfield continues to grow profitably. On the business side, we sold 106,613 motorcycles so that is crossing one lakh units for the quarter once

again for the first time in Royal Enfield that is a 44% growth over Q2 of last year where we sold just over 74,000 so that 74000 last year growing to 106,000 motor cycles this year. Our order book remains strong, we continue to take in more orders every month than our monthly supply, so we are growing our order books as we speak. The key projects are on track. We have two technology centers which are underway, the larger one in Chennai and a satellite one in UK, they are all progressing well. Our new product project is also progressing as per plan and we are working on two new platforms, the work is going on steadily. We have been expanding our footprint in India and also offering new forms of retail experience such as our online store and such as our new flagship gear store which is selling our accessories in Khan Market in New Delhi which is one of the top retail locations in the country so that is going on very well.

In the new store in Khan Market we also previewed our latest gear collection which is inspired by the dispatch riders of world war and that had a very good reception and the sales are also now picking up of that collection which is basically our proper entry I would say into accessories business. We also had on the July 15 we had a limited edition motorcycle which was based on the despatch rider collection, it was a limited edition where we had 200 motorcycles in camouflage colors with leather trim and genuine leather seat and all of that. We experimented with that. For the first time ever we had such a limited edition model at a higher price and of course in the current models we had exclusively we were selling it through our on-line store. On July 15 we opened sales and within the first 26 minutes actually our entire inventory of 200 motorcycles which was meant for India was sold out so that was an exceedingly good response that we had to this new idea of limited edition motorcycles. In June we also opened our first exclusive store in Dubai which is of course an important and influential market for Middle East and also for visiting South Asians etc., so it opened with much fanfare in Dubai in June. We continue to invest in emerging markets like Colombia and in heritage markets like Europe, US and Australia, US in particular now we have got a sizable team which is going to run our market company so we are going to directly distribute in the US, so all the plans are coming into place for our international operations as well. In May we had announced that we had acquired the business of the assets and employees of UK based Harris Performance and Harris Performance Team has deep expertise in chassis development and various other areas for motorcycle. They have been working for Royal Enfield for a number of years as a technical partner and now they are part of our team and they are already working on a future motorcycle projects, so it is a great asset to Royal Enfield and we continue to make all these

investments in our front end in international markets. In capacity our new capacity in Phase II of Oragadam plant is just coming on stream now, so we are positive about meeting our target of, in the beginning of the year we plan to accomplish 50,000 units by December of 2015 so that is six months from now and we believe we can accomplish that goal of producing 50,000 units in December, so that is compared to 30,000 units in the start of the year, the 50,000 units by the end of this year per month will come as an outcome of the phase II of Oragadam which is now coming on stream, so in Q3 and Q4 it will come fully on stream.

And then to give an update on our performance of our joint venture with Volvo, which is the VE Commercial Vehicles Limited. The commercial vehicle industry has started showing some signs of recovery in this year. The overall industry in Q2 was over 90,000 units which is a growth of 19%. In Eicher trucks and buses we sold over 12,000 units in the quarter which is 5.5% higher than the same quarter last year.

Segment wise performance we continue to do exceptionally well in our light and medium duty 5 to 15 tonne trucks, industry sold nearly 15,000 units for the quarter so that is still quite low which is only a 3% increase over same quarter last year. So the industry sold light and medium duty is not growing as yet as opposed to heavy duty, but Eicher grew at 6% which is slightly higher than the industry selling over 4800 units, as a result our market share has increased from 32% same quarter last year to 33%.

In heavy duty trucks the industry has grown by 28% to nearly 45,000 units for the quarter which is very good, definitely heavy duty industry is growing. Eicher on the other hand grew by 21% so that is slightly lower than the industry and we sold 1734 units. Our market share is 3.9% for the quarter versus 4.1% for the same quarter last year. In buses, the industry grew by 16% to nearly 20,000 units, we grew by 23% to over 4000 units resulting in a market share gain from 19.5% to 20.5%, so that is on buses. In exports our numbers came down in this quarter so from nearly 2000 units same quarter last year to 1200 units so that is a 39% drop versus an 18.4% increase in industry to nearly 11,000 units.

On Volvo truck which is our heavy expensive truck largely, which is going to the mining segment our sales grew by 40% from 189 units to 265 units. On the medium duty engines which is our engine supplies to Volvo group's global requirements, we grew by 35% so that is from last year same quarter 3225 units to this year's 4353 units so that progressing well.



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Overall our Pro series range of trucks and buses are doing exceptionally well, particularly in heavy duty we have got a very, very good response from our customers for our new Pro series, 6000 series particularly is right now in the market so the numbers are still small and therefore we are not seeing any major delta in the market share but the qualitative response is exceptionally really good and we expect that over time as we expand our distribution and as we make the product more freely available, we expect some further improvement in heavy duty to happen as a result of our Pro series.

Moving on to our joint venture with Polaris which is Eicher Polaris Private Limited, since the formation of the joint venture, the JV team has been working relentlessly to develop a very unique and innovative mobility solutions. Last month that is in June we actually launched the much-awaited product. The product which is branded as Multix is a purpose built four-wheeler personal vehicle. It is a first personal utility vehicle as such in the country. It is going to be manufactured in our plant in Kukas in Rajasthan near Jaipur. The Multix is a three-in-one vehicle we call it because it is extremely adaptable, it has space for five people very comfortably to sit, it has boot space as well, cargo space and luggage space and also it has an ability to transform the rear seat into much more luggage space giving nearly 2000 liters or 1900 plus liters of space which is very beneficial for our intended target audience which is the independent businessman in India and the most interesting feature of course is the unique X-Ports feature we call it, it is a power take off point, which can give mechanical power for any use but also if you add a small generator it can generate up to 3 kilowatts of power as well. So that is something which is very interesting for our intended target audience where electricity is very sporadic and they would require some power backup source, so the vehicle has been unveiled, it is getting into series production as we speak and the sales begin approximately first of August so it is a week or so from now, we will actually start sales through approximately 30 dealers which will come on line by them. We are very excited about business products, we have already got a lot of curiosity, a lot of good coverage and a lot of enquiries already and there is a good buzz in the market for this product as we speak. So that is the overall results and the performance of Eicher Motors Limited for the quarter. So now open to some questions.

**Moderator:**

Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Pramod Amte from CIMB Securities. Please go ahead.

**Pramod Amte:** Hi, congrats for great set of numbers. This is with regard to your Polaris JV, can you give some timelines in terms of your production ramp up and also the type of spending you have done for the product development and the breakeven point for the same?

**Siddhartha Lal:** Sure, we have built a capacity for 5000 units a month or 60,000 units a year in phase I in Jaipur and we will be able to double that capacity at some notice, so when we see traction towards the 5000 mark, we will be able to double that capacity. We are not giving out numbers right now in terms of what our production or sales estimates are for the coming time but of course eventually the idea will be to fill the 5000 to start with. The other question was on numbers on capex, the joint venture has brought 400 Crores of equity till date of which Eicher Motors Limited portion is 200 Crores.

**Pramod Amte:** And of which how much is towards product development and how much for capex?

**Siddhartha Lal:** We are not making out individual numbers Pramod, it is a comprehensive, of course as you can imagine a large chunk of the investment is I would say number one is towards the plant and machinery which is coming in Jaipur plant and closely following and the two big heads really are that and product development so the others are relatively minor in nature. Of course 400 Crores will also go to funding the initial investments in market and losses which is a cash bound that we are incurring immediately before we have any sale, but the two big heads are manufacturing and the product development.

**Pramod Amte:** And also can you give some thoughts in terms of considering the ROCs on the three-wheeler or the entry level small commercial vehicles are relatively pretty fast to come through, what is your thought on this project to achieve a breakeven point or ROC to be generated from this?

**Siddhartha Lal:** We want to frame this actually quite differently, from what you are talking about as in three-wheelers or small trucks etc., this is really a personal utility vehicle and we will be able to accomplish whatever we have set out to do if we are able to position it truly as a personal utility vehicle in that market and I think we are very much on track to doing it based on our launch that we will accomplish so once it is recognized and used as a personal vehicle which is also providing great utility for the independent businessman we believe we can get good pricing power out of this kind of a vehicle, so therefore we do not like to compare it with the three wheelers and the small trucks which are outside in the market but honestly beyond that general type of statements I cannot give you any specifics on numbers

of it. We are not breaking out any details on breakeven levels or margins or anything else at this point. You will of course eventually get access to the financials of this business so that will be available when the annual report is published.

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

**Chirag Shah:** Thanks for the opportunity. A clarificatory question on your capacity so you would be hitting 50,000 units a month say right from December – January, you also have bought another piece of land, a land to expand the capacity further, can you throw some light over there when can that leg of capacity come in, so what are thoughts over there and how big that capacity can be?

**Siddhartha Lal:** Sure Chirag. You are right, we will be hitting 50,000 per month by the end of this year and we have not yet triggered the new plant which is plant number 3 let us call it so that is called Vallam Vadagal. Typically once we take a decision it will take somewhere between in the range of 18 months for us to get proper capacity out of the new plant so even the 50,000 that you are seeing right now is of course the capacity of all of our plants put together that means Thirovottiyur and Oragadam by the end of 2015, but phase II of Oragadam will still be able to set more than that in 2015, but even if we pull the trigger today the third plant, plant C will not see production till 2017. So once we get closer to the end of this year, we will give you an outlook on what our capacity for 2016 are going to be and therefore 2017 also we will get a hint based on our terminal level in 2016. But we are still to come back to you on those kind of numbers and we are still to trigger off investments in the new plant.

**Chirag Shah:** And let us say the plant II if I have to look at what further stretching you can do Sir, from 50,000 units between these two plants how much you can take it by another 20%-30% at least?

**Siddhartha Lal:** Chirag as of now the estimate is that with Oragadam and Thirovottiyur in full swing, we should certainly be able to take the combined capacities up to 60,000 order, the order is around 60,000 units per month.

**Chirag Shah:** And just a very longer term question in terms of your international foray base, you have been highlighting that things are stabilizing in some of the markets for you in terms of your

pre-work that you are doing before you start putting vehicles so on and so forth, what would be your internal evaluation metrics that you are looking at to take a call, how good you success are. If I put it differently what are the key parameters in the initial phase we are looking at to determine or to build your own confidence so that we can really explore the export business in a very big manner, so that we understand over here we do not have a clear idea how big the opportunity seems to be, whether it could be 2000 units a month or a 20,000 units a month or so on and so forth, so how are you evaluating the opportunity over next five – seven years or what are the initial metrics you are keeping track off to take a call, how successful you are?

**Siddhartha Lal:**

Yes Chirag, the answer differs in different geographies, so it is a slightly different take in emerging market and it is a slightly different take in developed market. In emerging market our ambition is eventually to have an India like performance in terms of let us call it as market share in motorcycle right, so today if we look at our market share in India, if you take all motorcycles because that is the simplest way of looking at it we are in the range of 4%. So that is something that we should certainly be gunning for, obviously it has taken us two decades to do it in India, we would like to do it sooner in other markets but conceptually we should be, we have different stages, we want to first become a significant player in the middle weight market, second we want to become a leader in the middle weight market, in the new market I am talking about, so let us say in the emerging market. Third is we want to grow the size of the middle weight market, our belief is that in markets like Latin America, the opportunity to grow the middle weight market is very high and the fourth is to actually become a significant player in the motorcycle market itself where we are right now only 4% in India, we plan to grow further in India as well. So similarly we want to look at the metrics in emerging market so that eventually we can become a sizable here so we do not look at it in terms of percentage of our sales etc., in global terms so we look at it as significance in international market so that one level of metrics I am talking about the market share etc. The second one is you look at it is qualitative, which is that as in India we want to be a pull brand, a brand where people are very excited and engaged and interested in so therefore our retail strategy also plays a very important role there. Another metric is that at a dealership level we must see good profitability in any of these markets so at an individual dealer level he is making good money that means that the retail model is also viable that means you can expand the retail model manifold, but at a very macro level it is still eventually penetration into the market of two wheelers or motorcycle.

**Chirag Shah:** Fair point. Just last question just a clarification on other income, if you can just Lalit this is for you actually, if you can just share some thoughts how your FMP income in standalone in the sense in the Royal Enfield business will look, how FY'16 and FY'17 will look because of the lumpy impact? If you could just share some light so over there, is there a large rollover happen to FY'17 other income or rather FY'18?

**Lalit Malik:** Yes. So basically all the stuff that got distributed in February-March last year which was the result of the new taxation regime about FMP, so that of course is there in the Q1 numbers or Q2 numbers a part of it last year. Most of the stuff that is happening right now is being deferred although 70% of our cash is being deferred over three years. You do not expect to be much of a FMP happening over the next 18 months at least in terms of definition of other income because it is **(indiscernible) 29.07** more importantly as to how we will need to keep in the liquid funds and how we will need to target FMPs. **(Indiscernible) 29.16.**

**Chirag Shah:** So is it possible to give you some number around 50-55% of your treasury would be in those long dated instrument, would it be a right assumption?

**Lalit Malik:** As of now yes but that can change based on interest rate outgo so on and so forth.

**Moderator:** The next question is from the line of Ashish Nigam from Axis Capital. Please go ahead.

**Ashish Nigam:** Can you share how the profile of the Royal Enfield buyer has changed over the last few years in terms of age, students, professionals etc., would you have that number?

**Siddhartha Lal:** I don't have any hard numbers with me right now but I can give you an overview of what has been going on, one is that of course we are seeing a very urban population, we had a top down approach of bigger cities and the seven metros and then further down and that is panning out very well, so the profile is very city centric these days. Second is that from let us say business people which was a big profile earlier, now a very large chunk, the majority, certainly the majority of our buyers are salaried profile, so they are not business owners or anything, so and it has become much younger over the last five six years. When we are talking about median age of sub 25 years, so it is the guys who are in a job and earning reasonably well now after three, four years of being in a job, that is a median profile and there continues to be a reasonable number of students reasonable number of business people etc., but our main profile is now salaried fellow in typical Bangalore and

Chennai and Pune and in Gurgaon, NCR, Bombay, it is still the big cities which are the main volumes for us.

**Ashish Nigam:** Typically the Royal Enfield brand appeals more to let us say middle aged men who used to ride only on weekends but now you are saying that obviously the median age is 25 vicinity, can you just highlight all the initiatives that you taken to make the product more attractive for a younger crowd?

**Siddhartha Lal:** Actually that has been done over the last many, many years now. On the one hand of course we have done lot of things in terms of models and the big change happened when we came out with the classic model and you will see engine platforms in 2009 and 2010 that gave access to a motorcycle to a lot of people. Things like electric start, disc break, gear shifting etc., so all of those hurdles that was there for us, customers was on and then of course lot of focus on distribution in cities etc., so all of that has encouraged people to come in but the demographic or let us say the income profile changed over the last decade and entry level jobs and then after three, four years he is being paid reasonably well so there the affordability or disposable income of our target audience has also improved a lot, so both these factors have really collided in order to give us this kind of a growth and age profile.

**Ashish Nigam:** Can you just highlight the dealer expansion plan in India and overseas, if you can share number of how India dealers would trend over the next two years and even the overseas numbers if you can share?

**Siddhartha Lal:** We closed end of calendar year 2014 with around 400 dealers. We are working towards 500 dealers by the end of this year and approximately that pace, it could be less than a 100 or around the 100 numbers. We may continue that phase over the next couple of years but it is not mindless dealer expansion, by the end of this year we are going to review again in terms of how we would like to proceed, but as of now it is probably going to slow down the percentage growth in dealers but give or take 70, 80, 90 dealers may be 100 dealers I can still see for the next two three years in terms of still white spots in our overall geographic spread that is in India. In international market that you asked right now it is not about dealer expansion as such, it is about focused market entry, so every individual market I can't go through all of them, we are going through different strategy, so for example, just to give you one example in a more virgin market and in a more high potential market for us like Colombia we initially started with two standalone exclusive dealers, it is not just number of

dealers because in a lot of international markets we have a reasonable number of dealers but these are all multibrand outlets which stores just two three of our motorcycles in their shop, so while on paper it is a dealer it is not a full experience center as such, so in Columbia for example right now we are going for full standalone dealers like we have in India and we started off with two dealers one in Bogota and one in Medellin and by the end of this year we expect another three four dealers to come on stream in the next three four cities and so on and so forth, so it is not a huge country geographically, eventually 12 or 15 dealers should cover it for us in the first phase but that over the next let us say 18 to 24 months we should have that kind of dealer numbers because we are making sure like I said in the previous question we are making sure that dealer viability is very strong. So in the top two, three cities where we go we are seeing that the dealer is making money then subsequently the dealers are able to invest and want to enter a franchise, so in addition to making a very popular motorcycle for consumer we trying to create a profitable franchise for dealers so that they put up the investments to make a standalone store. So that is just a glimpse of the type of work that we are doing. In markets like UK, Germany we have distributors who are doing the heavy lifting for us but we are also working with that distributors and then supporting in some ways in the right cities to get some standalone dealers. So like for example in the first one we got was in London which was one standalone dealer, there is a potential for may be three or four standalone dealers in London and may be six or eight in the UK over the next 12 to 18 months and so on and so forth, so while in some of these markets we will continue with multi-brand dealers, in the bigger cities we will also start making sure that we have a few standalone Royal Enfield dealers which gives the full experience as well.

**Ashish Nigam:** One related note, you all have been very aggressive on expanded the accessories portfolio, jackets, helmets etc., so is there any internal target of what this division should contribute of your revenue?

**Siddhartha Lal:** There is but I cannot share it with you. Ashish where we are doing in terms of revenue we had over a 1000 Crores now last quarter and since trending upwards so right now accessories and all are still a small part and this is still a new business and we are not putting that kind of pressure in terms of trying to make it very big very fast, that is not the intention, the intention is to make sure that we do it extremely well so that it gives the brand another avenue of expression, it gives the customers different way of entering the Royal Enfield brand, it gives our dealers a very good additional line of business that we can do to

augment the margins and their profitability. It expresses the Royal Enfield brand in different ways plus it has to make good revenues and margin for us but that revenue and margin will come once we strategize the business and we are still working on, it is a new business area for us entirely. We do not know honestly garments and all these things that well in the past so we have been learning over the last few years we have a reasonable idea of it now. So it is a controlled expansion I would say and over time I would say over the next five years we should look at it becoming an interesting part of our business, I do not expect it to have a material impact or profitability at least in the next year or year and half for sure.

**Ashish Nigam:** Your engine production for this quarter and how that will ramp up over the next few years?

**Siddhartha Lal:** I believe it will be closer to 4353, this is a good growth, there is 35% growth over last year in the same quarter and we have a growth path and a growth momentum for this, again we don't have future numbers that I can share with you in terms of what our targets are for the next few years but certainly in the long term there is the potential to grow a lot in this business, so we are continuing to grow, so there is not much more I can say about numbers on this.

**Ashish Nigam:** This 4500 off is primarily export it or it is a more of a captive for Eicher series?

**Siddhartha Lal:** This is the export number. The sale volume I believe that is the export number that we have. Captive is still small because it is basically only going into approve 6000 and 8000 in India but the numbers are still relatively small. Overtime the captive production should increase but right now the majority of our sales is export and all of this number which is reflected here is export sales.

**Ashish Nigam:** Thanks a lot and all the best.

**Moderator:** Thank you. The next question is from the line of Aditya Ahluwalia from Invesco. Please go ahead.

**Aditya Ahluwalia:** Thanks for taking my question. You mentioned that you are 4% of the India motorcycle market today you have grown that over many decades, so where do you see this going ahead? I mean, you said that in other markets you want to become here but where do you

see India stabilizing or you know for how many years can we expect these kinds of growth rates to continue?

**Siddhartha Lal:** That is a very good question for which I do not have a very direct answer to because, I mean the size if you look at middle weight cars or you look at any proxy in durables etc., the potential of the market is very large. I mean the market could go to 20%-30% of the overall motorcycle market as it was so I am saving a little bit market, so it is really matter of within the next decade I am taking it could go to 10%-15% perhaps in a decade sense so that I am talking about the market and we certainly plan to be a very large part of that market going forward. So again very difficult to give numbers also because we do not really have numbers on this and it is any of our guess really including my knowledge so but yes, the point is that because the adoption of the motorcycle is happening by it is not someone who is keeping it in his garage for recreational use, very, very few of our customers are doing that, most of them when they know it is a touring bike, etc., and a leisure motorcycle most of them use if for their daily commute and that is the interesting part because then that means that the potential market size is a large part of the entire universe for two wheelers really.

**Aditya Ahluwalia:** Sir just one more question. We have seen our margins improve consistently quarter-after-quarter and I just want to understand the thought process here like in many businesses we see that after a point management's guide that any further margin levers will be re-invested into the business in terms of aggressive expansions or investments in other geographies etc., so do we have a mindset like that that to be on the particular point we do not be satisfied with the margins and we just re-invest rather than expand them further?

**Siddhartha Lal:** There is no mindset like that. In terms of we want to cut-off our margins at some level, the point only is as you can see in our cost structure we certainly are investing heavily now in other areas which is new products, in R&D, in market activities, in distribution followed us, there is cost coming in we are adding capabilities and people within our organisation so the cost are going up, we are very, very conscious of where the costs are going up, we are very calculated on that but obviously in order to continue our growth we have to add more costs to keep the company moving forward, but we are not putting any limit on the margins as such, I mean we are getting strong operating leverage even now and we plan to continue to get so as to how we can have some place to grow.

- Aditya Ahluwalia:** Thank you so much Sir and very helpful. All the best.
- Moderator:** The next question is from the line of Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.
- Srinath Krishnan:** Thank you for taking my question. Historically we have seen the Southwest Maharashtra have contributed to more than 50% of our sales, so in the next year there is opening up of dealerships do you think the mix will change? Secondly you know you mentioned about the domestic markets, so domestic markets would have about 500 dealerships by this year-end so how is the geography mix of dealership be compared to how it was couple of years back? Lastly what would be the proportion of institutional sales like army in RE?
- Siddhartha Lal:** Institutional sales is marginal, I do not have number again but I expect this less than a percent, in the order of a percent let us say. So it is not really material. The dealers by and large what has happened in this, in the metros and tier I towns I would say they are 80% to 90% sort of saturated. So there are still some pockets where we are adding some dealers but largely in that way I would say in 2016-2017 the growth in number of dealers are going to come from smaller towns. So the motorcycles should continue to grow in even in cities of course, but the numbers of dealers we will be adding more in tier II is also over time is going to get sort of saturated then in tier III, tier IV markets which are smaller towns we will call it. Those are the ones were we going to add the bigger numbers over the course of 2016 and 2017. So 2015 we should be by and large I would say 95% saturating at metros and tier I markets. So that is on the distribution front. You had one more question.
- Srinath Krishnan:** Sorry, I will rephrase that question. Since the Southwest Maharashtra is pretty high so how would the dealership mix be ex-south plus Maharashtra in this 500 and how would that have been two years back?
- Siddhartha Lal:** Question is not yet clear.
- Srinath Krishnan:** Like South that is Karnataka, Andhra, Tamil Nadu and Kerala plus Maharashtra is your main market now , like it will be more than 50% of the sales so just wanted to understand in terms of dealership mix how many would be from these five states and how it would have been a couple of years back?

**Siddhartha Lal:** I do not have numbers with me Srinath, but obviously, but in the states we are doing well, we have a pretty strong presentation of dealers. I mean all the metros, tier I, tier II cities now even in tier III cities in the five states it is almost we have a very good traction, we have very good dealers but I cannot give you a number in overall percentage coverage off hand like this. I mean really our dealership now network is very strong. It is that that every location where we are going to scout for a dealer we are I would say dozens of very strong candidates who are coming forward and who are very interested in our network and it is in fact the big source of pride and to also to have a dealership in these sets of towns. So frankly we are expanding at the pace we want if we wanted to grow faster and so we could, but we have other considerations as well in terms of expanding our dealer network.

**Srinath Krishnan:** Thanks.

**Moderator:** Thank you. The next question is from the line of Kapil Singh from Nomura Securities. Please go ahead.

**Kapil Singh:** My question is related to VECV. Do you see the new Pro Series hitting an inflection point at sometime in the next one to one and a half years and that confidence comes and sales really take off?

**Siddhartha Lal:** Certainly Kapil. The confidence comes from the fact that that if you look at all the macro indicators and all the factors that go into a truck purchase what is happening is that the highways are becoming easier to navigate so the number of stops are becoming less therefore the utilization of the truck is becoming better. The logistic companies are becoming more professionals. The end consumers are becoming much more demanding on their inventory that means they want to keep less inventory and then they want to more certainty on the inventory. We see for example and of course with GST, road infrastructure if these two things do happen and improve it should encourage again let us say more modern vehicles. So, you know we look at the factors which wherein China over the course of 2008 and 2009 the market entirely shifted from traditional trucks to very new style of modern trucks and we believe that the Pro Series of heavy duty trucks really reflects the attitude of what will be required when the country moves to a modern style of trucking. So what we are already seeing in trials and in early sales is that more open routes where there is less let us say stoppages and congestion, our Pro Series trucks are being able to or being run for about 15000 to 20000 kilometers a month versus a legacy truck of a bigger

competitors running around 10000 kilometers. So we are talking about how much increase in revenue actually because every kilometer is revenue for the truck owner we are seeing based on different brands depending on different brands we are seeing a 7.5% to 15% improvement on fuel efficiency by the Pro Series. So there is an enormous number of benefits that the Pro Series is able to give away and certainly when the customers do start realizing the benefit in the bottomline they are going to move to modern trucks and we are at the forefront of the modern truck evolution in India so we could certainly see the inflection coming in, but again it is very difficult to see what is the timeframe of that inflection is. So we are working towards it. It could happen in six months or in 18 months or longer as you know.

**Kapil Singh:** Secondly I had a few questions on the reported numbers you know for VECV we saw a much stronger growth in revenues than the volumes of course one part is the engine revenues there but is there anything else happening in terms of mix which is driving a higher growth in revenues or some discounting come off any thoughts on that?

**Lalit Malik:** On a YoY basis of course we have sold more Volvo trucks so the topline kind of gets impacted positively in that sense. From a discounting pressure well not much of a change really, pretty much in line what we are seeing in the last few months.

**Kapil Singh:** Sir, if I look at the raw material cost to sales it has seen a slight increase in the second quarter I mean this quarter, so could you throw some light over there that what may have caused this and do you expect it to come off again?

**Siddhartha Lal:** Yes, both of these are what you asked earlier and this also related to the fact that our growth in heavy duty is faster than a growth in light and medium duty right now, so therefore of course revenue of a heavy duty truck is also higher and the material cost percentage of a heavy duty truck is also higher than a light and medium duty. So it is more a mix, it is again both of these answers are both of these are mix issue. As even for example as Lalit said on Volvo trucks where we had actually not doing the manufacturing we are doing the trading and the distribution of Volvo trucks so of course the fuel cost is much higher than even in another portfolio, so I think both the answers are basically mix issue.

**Kapil Singh:** Sir if I look at the tax rate it has been quite volatile so any guidance you can give for full year tax rate for next one or two years for VECV in particular?

- Lalit Malik:** So VECV over the next at least one year cannot say about two years and all but one year itself is we can reap the benefit of the matters R&D investment that we have made so once the R&D in terms of infrastructure investment as well as on the product development in fact, for VECV as of now it is more of a PD investment which is kind of giving the complete the tax break.
- Kapil Singh:** Any guidance on the rate?
- Lalit Malik:** On the full year basis I think VECV would still be less than 20%.
- Kapil Singh:** Sir last question on capex, is there any break down available between VECV and RE how much capex we are planning to do and will it be for a calendar year or financial year because now we are five quarters?
- Lalit Malik:** I think last call we did announce that for Royal Enfield the capex the investment spends that we see on manufacturing capacity and PD will be the tune of Rs 500 Crores for calendar year 2015. I think next time on all we will do this three months addition to make it for 15 month period that will have this time around and for VECV also it was a similar amount was there, Rs 500 Crores for calendar year 2015.
- Kapil Singh:** Any trend like in this 500 Crores will continue or it will come off in your view?
- Lalit Malik:** Yes, that we will talk when we have are in the next year capex plan.
- Kapil Singh:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.
- Sonal Gupta:** Thanks for taking my question. Sir just one is just coming back to the Royal Enfield side in terms of the buyer profile, I mean any sense I mean the last number that I have is like 7% to 8% is now first time buyers from Hero like a few years back, has that number moved? Secondly again on this thing I mean what percentage of the market would you have in some of the bigger like top 10 cities, I mean what percentage of motorcycle sales would Royal Enfield be in say NCR or Bangalore?

- Siddhartha Lal:** I do not have the number again either of these questions that you asked Sonal but the first time buyers is certainly higher than 7%-8% now. It is in the range of 15% so that is increasing. The second question was regarding our market shares in larger market for us, again I do not have the number on this off hand, but it is certainly in some markets are even hitting double-digits in terms of entire motorcycle markets share. So while it is around 4% for the country there will be some cities where it will be certainly above 10%.
- Sonal Gupta:** Just on the R&D side, I mean just to understand, I mean R&D how big, what sort of run rate of investments do you see R&D goes up to 1% to 2% of sales and stays there and just to in terms of if you can give some sense on how much does it cost for you to sort of develop a platform on the motorcycle side if you can give some sense on R&D fairly speaking?
- Siddhartha Lal:** On an annual basis last year it was just around the 1% mark of the net sales and it is I do not think it is going to substantially change this year either so it is still running in that sort of gain of between 1 and 1.2 of plus minus percent so it is not significantly different at this point and even the investments that we are doing could take it up by two basis points so it is not that we are not going to see a huge jump in the R&D spend in the foreseeable future even our revenues have gone up a lot so that should couple for most of the increase in the R&D cost that we are planning.
- Sonal Gupta:** Any thoughts on, I mean how much of the cost to develop the motorcycle platform or something of that?
- Siddhartha Lal:** We do not break out all these numbers of platform developments and all, but it is all happening within this cost structure that we are able to retain including our UK side sectors and all of that will all come within this R&D structure.
- Sonal Gupta:** Just lastly, in terms of export market any thoughts on Sri Lanka because that seems to be like a large market and pretty close to India so I mean are you exploring that as an export market?
- Siddhartha Lal:** The last I remember and sorry I do not have the full information again, but the last year I remember Sonal, is that there was some restriction on sales of motorcycles above 250CC in Sri Lanka. I might not be right, but that is what I have said, so the last time I talked to you like that, right now I will also sell but the it might be opening up the markets so of course if

it opens up you know it is a hop skip and jump, we are from Chennai we can just sort of have faith so it should not be much of a problem to sell to Sri Lanka but I believe there is a problem, I believe now they were talking about restriction on 400CC so may be we can sell 350CC is there but I will have to study it and get back to you but of course if it open we likely to sell in Sri Lanka.

**Sonal Gupta:** Great thank you so much for the information.

**Moderator:** Thank you. Ladies and gentlemen due to time constraint this will be the last question. It is from the line of Binay Singh from Morgan Stanley. Please go ahead.

**Binay Singh:** Thanks for the opportunity. My first question is what is the order backlog now in India if you could quantify it in absolute amount?

**Siddhartha Lal:** We have not been giving absolute numbers, but are within the order of four to five months now for our various models so some models are available sooner, some later but the order of five months we have an approximate number based on over 35000 sales that we do in a month we are also taking in more orders I think that is important every month than our sales. So that continues even today. So our future order booking is that means our absolute order book is continuing to grow even now, even though 400, on a number of month's wait it is starting to trend down because the nominators increased dramatically over the last couple of years.

**Binay Singh:** What will be your cancellation rate like do you have any cancellations? Is it around 10% or so? I was just trying to think that by the end of the year if you reach 50000 then is it pretty likely to assume that the order backlog will go away?

**Siddhartha Lal:** Sorry we do not breakout individual numbers and all these things, we will talk about the gross numbers of backlog, of course there will be a few cancellations etc., here and there or postponements also which happens once in a while of our big order book but I do not have the numbers to give you right now on the rates and all that.

**Binay Singh:** Secondly on the export side, I was just looking at the investment that you will do relating exports, which line items will we see most of the thing, like you mentioned R&D not much change, I believe on the staff side we already have started hiring so that is in a way

reflected in the current cost structure, which line items do we see sort of cost inching up because of the global initiative that you are undertaking?

**Siddhartha Lal:** There are other expenses also, so that will not change at all. So staff obviously is going up but in some markets where we are doing market company like USA there is I would say some level of staff cost really, but again we are talking about a team of 10-odd people right now may be growing to 15-18 people so that is the kind of size in an enormous market like USA. In most other markets it is basically may be just a lesser number of people so two three people five people so that is the kind of numbers we are talking about so there will be increased staff costs, but not in a gigantic scale, it is as Lalit said it is basically other expenses in the line item because that is relating to marketing, market development, branding, sales overhead all the kind of a stuff, travel and other things. So launch functions that we do in market so those kinds of SG&A kind of expenses.

**Binay Singh:** Can these other expenses due to expectation to accelerate fast, sharply in the coming quarters or it will be more closer to your platform launches that you are planning next year. I was just trying to see that what kind of like if you could quantify it or do we see acceleration or it has already started into your numbers?

**Lalit Malik:** No it is essentially like people are already there for them for the US staff costs. The staff costs that we are carrying of our own market company who are already in the part of the team may be not all of it but that has begun to happen now and we are not in a great mood to capitalize most of these costs because some of them are going to start in one month's time, two month's time, five months time so most of the costs will be there in the P&L, point No.1. Point No.2 is very difficult to time them. It depends on when we launch the market or when we launch a new product of course there will be a bit of a bump in expenses and in that quarter will the sales also rise in that proportion now that is impossible to tell or predict, but that is the general nature so we will continue to grow on the sales because as of now that we see near term we are still okay in terms of the order book and all that but expenses will also kind of drive new capacities in cost. Oragadam will take some much higher and some of SG&A kind of a stuff will continue to happen, but we cannot time it and match it in a quarter all the time that will never going to be a tax kind.

**Binay Singh:** Any timeline on the first platform launch?

**Siddhartha Lal:** Yes, in about six to eight months time we will see the first, next year, not this year..



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- Binay Singh:** Thank you so much and best of luck for the future.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Amit Mishra for closing comments.
- Amit Mishra:** On behalf of Macquaire Securities, I thank all the participants for joining in the call. Also I thank the management for giving us the opportunity to host the call. Thank you.
- Siddhartha Lal:** Thank you.
- Moderator:** Ladies and gentlemen, on behalf of Macquaire Capital Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.