



“Eicher Motors Q4 FY 2016  
Earnings Conference Call”

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**Moderator:** Good day ladies and gentlemen and welcome to the Q4 FY 2016 Earnings Conference call for Eicher Motors hosted by IDFC Securities. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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. Deepak Jain from IDFC Securities. Thank you and over to you Sir!

**Deepak Jain:** Thank you. Good afternoon everybody. We are delighted to have with us the senior management of Eicher Motors to discuss the Q4 FY16 Earnings call. The Eicher Management is represented by Mr. Siddhartha Lal, M.D. and Mr. Lalit Malik, the CFO. Over to you sir!

**Siddhartha Lal:** Very good afternoon to all of you and thank you for joining our call. Thank you Deepak for arranging the call with all the investors and analysts and I am happy to share updates on our financial and sales performance for Eicher Motor Limited.

We are still working on the calendar year financial so this for Q4 2015 which is October to December. We will be having a 15-month financial year ending in March 31, 2016 after which we will follow the regular financial year of April 1, 2016 to March 31, 2017.

I will start with an update on EMLs consolidated financial performance for Q4 2015. We posted our highest ever net income of 3317 Crores registering around 45% growth over the same quarter last year. We posted a highest ever EBIT of 418 Crores increase of 72% over same quarter last year. This once again reinforces the extremely strong and resilient businesses both at Volvo Eicher Commercial Vehicles and Royal Enfield Motorcycles.

On financial performance for standalone Eicher Motors Limited for last quarter that is Q4 2015 we also had a very good results and all of this is despite the fact that we had 11200 approximately production and sales loss in the last quarter due to the enormous Chennai floods which in fact with we did extremely well at Eicher Motors but we still had shut down for many days and we had loss of production and therefore loss of sales, but despite that we have reported our quarterly total income of 1284 Crores, which is 55% over same quarter last year and just a shade less than the sequential quarter for Q3, that is because of the loss of production and sales. Despite that we have posted our best ever EBIT of 334.5 Crores which is an 85% increase over same quarter last year and translating into an EBIT margin of 26.1% which is our highest ever, so that is in a quarter where actually we had a large loss of production and sales.

On units for motorcycle we sold 125690 motorcycles so that 1.25 lakh plus motorcycles, which is 53% greater than the same quarter last year and like I said from a sequential quarter basis we had a decline of 1.5% because of the loss of production of 11200 units between November and December of 2015.

Our order book in Royal Enfield remains very strong; we continue to take in more orders every month than our monthly supplies, so the order book is continuing to grow. In India we have continued to increase our retail footprint in a systematic manner, where we have now over 500 dealerships as of December 31, 2015 and most of the stores have a large majority well over 80% I believe close to 90% will have our new global retail identity, which has given us outstanding results actually in the stores already.

In same quarter we have continue to push forward on our global plans with our vision of becoming a global leader in midsize motorcycles, which is from 250cc to 750cc, we continue to expand our footprint in nodal cities across the world. In October 2015 we opened two exclusive stores which is Royal Enfield standalone stores in Paris and Madrid to a lot of interest and franchise in these cities from motorcycle and two-wheeler.

In December 2015, we announced our entry into Thailand that is a Thailand motor show in Bangkok and we are starting our store very soon, the first store in Thailand. In January of this year we have also opened our first exclusive store in Jakarta which is the largest motorcycle market after India and China, the third largest motorcycle market in the world and Thailand is also very large so we expect with the large commuter base that both these countries have we expect a lot of upgrade potentials of motor cyclists over the year and Royal Enfield is coming into fill that mid space category with our classic style of motorcycles.

In December 2015, we also completed a transition in North America from our distributor led approach to our first ever market company outside of India that is going on extremely well and we have got a very strong team which has taken over the sales, marketing, distribution in North America.

Earlier this week, we introduced our first all new ground up Royal Enfield in a very longtime which is called the Himalayan, the Himalayan is a purpose built adventure-tourer, purpose built to take on the Himalayas and while it is purpose built and I can talk to you as much as you want about the details of the Himalayan. It is not extreme it has also been designed to be your only motorcycle. So the idea is that for upgraders we can use this motorcycle extremely comfortably and in fact in the city so all the benefits of the way we have designed this motorcycle for off-road performance with increased better suspension and increased down clearance and very good comfort that actually helps them tremendously

in cities as well, but essentially an excellent tourer, highway tourer, off road motorcycle as well. It has a all new 411cc engine which we call as the long stroke 410 (LS 410) and it is truly purpose built for the Himalayan atmosphere and we are excited about it so I encourage you all to go to our website to look at the Himalayan tab to look at all the different videos that we have to understand more about the motorcycle and it's an important part of our future and we are starting bookings and test rides in the middle of March onwards so the motorcycle is for display and it is increasingly getting put in to our stores over the next six weeks and it will be available for test rides from middle of March onwards.

So that is the update on Royal Enfield. On our joint venture with Volvo, V.E. commercial vehicles, we have had the commercial vehicle industry has grown strongly in 2015 over 2014 so that is a 24% growth for the entire 5 ton and above industry. In Q4 the industry grew by 19% to over 93000 units and Eicher trucks and busses grew by 33.7% to 12687 units and therefore our market share of 5 ton and above has grown from 12.1% to 13.6%. In light and medium duty trucks which is 5 to 14 ton segment, we had an absolutely exceptional performance with while the industry grew by 20%, Eicher brand of trucks and busses grew by over 29% to 6745 units, giving us the light and medium duty market share of 35.5% compared to 33% same quarter last year, which is also a large growth over the same quarter in the year previous, so continuous growth in light and medium duty. In heavy duty which is 16 ton and above the market grew by 25% to 53000 units, we sold 2228 units with a 55% growth our Eicher's market share has consequently grown from 3.4% to 4.2% that is Eicher brand alone on top of that is Volvo trucks brand, VECV.

In Eicher buses, the industry grew by 8.5% in the bus segment and Eicher brand grew by 39% giving us a market share of 14% compared to 10.9% in the previous year quarter. In exports the industry grew by 2.8% in the quarter and Eicher brand grew by 24.6% at 1854 units which is again beating the industry and in Volvo trucks which is our high-end trucks which are mainly used for the mining segment we grew by nearly 34% to 353 units.

The medium duty engine plants that we put up a couple of years ago continue to grow well. We had sales volumes of 4728 units for the quarter which is a growth of 77% over the same quarter last year, so adoption of these high-end base engines for Euro 6 requirements from Volvo group brand is being met by our engine plant here in Pitampur and has had very good growth.

Moving onto our joint venture with Polaris which is Eicher Polaris Private Limited, we commenced commercial production in the second half of last year of India's first 3 in 1 personal utility vehicle from our plant in Jaipur. We have to date or till December 2015 we have sold 650 units of these vehicles the markets have received a tremendous amount of interest from its target customers and we have a strong funnel of potential customers, we are

increasingly being available in more markets so it's 33 locations now across seven states and by the end of 2016 we will also be available in some BS4 market.

So all in all I believe a very good quarter for Eicher Motors Limited despite the Chennai floods which of course held us back to the extent of over 11000 units of production and sales but despite that we have had an excellent quarter I believe. So that is all from my side for now and over to you Deepak to manage the questions and answers, **while we do the answer we guess.**

**Deepak Jain:** Sure sir. Mallika can you take the questions please.

**Moderator:** Certainly. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of **Chirag Shah** from **Edelweiss**. Please go ahead.

**Chirag Shah:** Thanks for the opportunity and congrats for good set of numbers. Sir my first question is on Himalayan, what kind of positioning you are looking at and what kind of volumes you are looking at, are you looking at upgrading your Classic customers and Bullet customers, is that the thought process for launching Himalayan and a related question is, is this the part of the new platform that you have been talking about two new platforms or it is not?

**Siddhartha Lal:** Hi Chirag, thank you for the question. We cannot tell you, we are not giving any forward numbers on sales expectations or pricing right now, pricing will be disclosed of course in middle of March. On the positioning of course it is all new segment that does not exist in India that is in middle weight adventure touring segment absolutely does not exist. So therefore, the adoption rate also we will find out as we start selling it, we believe it will be positioned really well. It is one of the new platforms that we talked to you about; it is an all new ground-up engine, all new ground-up motorcycle. So it is one of the two new platforms that we had been talking to you about and the engine is first on the Himalayan here, while of course we expect, Chirag, some customers to upgrade or switch over from our existing motorcycles. We believe and our target is to the majority of the customers should be coming from other brands so, upgrade customers. So we expect from understanding of our potential audience people who are interested in Royal Enfield but not interested in our classic style of motorcycles, which is Bullet, Classic etc., there is a large audience like that and we believe a good slice of that large audience who likes the brand but does not want, let us say a period style of motorcycle that we currently our entire range is only that, we expect a lot of customers to upgrade from 100cc-150cc to the Himalayan, we expect that will be more in the line of the one who are more interested in adventure and cross country and long distance travel. What we also did very particularly we designed this motorcycle so that it is extremely usable for your daily use as well as I described earlier. So while it is a 410cc we have kept the main, we believe the main operating range of this motorcycle will be between

2000 and 4000 RPM even though the max power delivered at 6500 which is much more than our previous motorcycles or let us say our other range of motorcycles, which basically means that while our fuel efficiency on an IDC so that is the official fuel efficiency is extremely high at 41 kilometers per liter, we do expect that with the tank of 15 liters, a normal consumer will get up to 450 kilometers out of this motorcycle, which means that it will also be relatively economical to run on a daily basis now that is relative of course to bigger motorcycles, but it still works as your... from an access point of view it is only 800 millimeters seat height with all the increased suspension travel and everything else we put in, so we believe all in all it is a great all-round motorcycle which is geared towards more adventure.

**Chirag Shah:** And any update on this production capacity of expand to that you had guided earlier, any change in that number and...

**Siddhartha Lal:** Come again please.

**Chirag Shah:** For Royal Enfield you had guided for a production capacity of 6.2 lakh units for calendar 2016 any update or there any change in that production capacity?

**Siddhartha Lal:** None whatsoever, but what we will surely do is that when we have a next board meeting which will be after we have booked into a new planning cycle which will be April 2016 to March 2017 we will announce the production capacity for the financial year also.

**Chirag Shah:** Yes that would be really helpful.

**Siddhartha Lal:** We are three months away, so we are going to give you revised production capacity for Royal Enfield so that will be revised means that will be for the financial year April 2016 to March 2017, we will do that.

**Chirag Shah:** And if I can squeeze in one housekeeping question on, if I look at your raw materials in Royal Enfield RM to sales there is a significant drop over there, so is it more of a product mix issue or commodity benefits, how should one look at they are most of them are being encashed or it is likely to follow from here also?

**Siddhartha Lal:** It is ongoing I mean like we have said in the past between volumes and commodities the whole effort is to maximize and lower the vertical cost, this time particularly I think it was more got to do with our negotiations on volume and commodity prices and not a loss there is no one-off there and it is not about product mix so much this point in time, product mix is largest in Q3.

- Chirag Shah:** And any one-off expenditure on account of this Chennai flood that you would have in your expenses provisions or any of that sort.
- Siddhartha Lal:** On account of floods so there were couple of programs that we have rolled out one was our employees who were kind of affected quite badly and one was on account of our customers for whom we will roll out further camps so all that put together was in the tune of 2 Crores. So additionally, I mean it is a one-off... it is not very large, the bonus act changed in September end to additional provision also which also is about 1.5Cr.
- Chirag Shah:** Thank you I will come back for more questions.
- Moderator:** Thank you. Next question is from the line of Raghunandan from Quant Capital. Please go ahead.
- Raghunandan:** Thank you sir for the opportunity. One on the Royal Enfield Himalayan how do you see the export opportunity. Secondly on the provision under the new bonus act in the subsidiaries that is at the consolidated level how would be the impact and finally on the export side, CV export side we had been entering new markets such as Indonesia or we had plans of entering, so if you can update on that it will be helpful. Thank you, sir.
- Siddhartha Lal:** Our Himalayan export, as of immediate we are rolling it out, we have got an enormous exercise to roll it out within India itself and I would say the last part of this year we are focused only on serving the Indian market for the Himalayan and making it successful in India so it is very important to establish that. What we are doing in the meanwhile is of course in the larger scheme of things this will be slated for exports in the future, but because we have the motorcycle ready we are going to be sending some out to different markets to gauge the feedback and reaction of this kind of motorcycle again from every market in the world there is not really a lower midsize single cylinder adventurer tourer like ours. The adventure tourer category is only much bigger capacity motorcycles across the world. So we believe in emerging markets, in fact there is more potential for this. So currently these are all ideas in the works that will pan out perhaps in the next season as it works so for the coming year we would largely focus in India while establishing where all we could possibly sell it. So, in the design side of course we have taken into account of the market so it is not like the design only for India but we are focusing on India first. On CV exports we have actually had an extremely good year, so our exports to Africa have been very strong in 2015 because we have a very large exposure in Bangladesh which had so the market had come down quite a bit last year so despite that we will be able to cover the lower sales in Bangladesh with much better sales in parts of Africa, we continue to work on... we are still in progress on let us say entry into some of the larger markets that you described such as

Indonesia, South Africa there is still a lot of work going on there but the actual sales have not get figured in those markets it is still work in progress.

**Raghunandan:** On bonus level?

**Siddhartha Lal:** Bonus like I said for CML standalone there is a package for 1.5Cr in the consolidated also reflected largely VCV impact will be around 3 to 4 Crores.

**Raghunandan:** Sir on a related note, on the CV exports, African countries are facing the problem of currency depreciation, availability of dollars and of course macroeconomic uncertainties, so do you see any impact for our exports in Africa in the short-term.

**Siddhartha Lal:** Immediately, we are not seeing any major impact, our exposure is also not extremely high and in most markets we are still a very small player so we are still working on entry, we are working on expanding our distribution so at the moment, we do not see a big impact from that.

**Raghunandan:** Thank you sir, if I can squeeze in one last question. How would be the broad export mix for us Sir, region wise on the CV side?

**Siddhartha Lal:** I think it is better you talk to the VCV communication team for that or I do not have a number offhand on-stream here. Basically actually the larger part of the export is South Asia so between Nepal, Bangladesh, Sri Lanka and I believe it accounts to more than half and now Africa and Middle East is probably the other, most of the other half that is the current breakup. I do not have exact number, don't quote me. This is only approximate you can get whatever detail numbers we provide, you can certainly make that accessible.

**Raghunandan:** Thanks a lot sir for answering the queries.

**Moderator:** Thank you. The next question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

**Pramod Kumar:** Thanks a lot. Congrats Siddhartha for excellent set of numbers. Siddhartha, my first question pertains to the new engine, forgive me if I have missed out this because we are in Delhi on auto expo, but I want to understand you have increased the warranty or service gap to 10,000 kilometers on the Himalayan, so I just want to understand because it speaks volumes about the confidence of the product and the quality going forward, I just want to understand by when do we start seeing the engine flowing to the existing portfolio and what it can do to your existing product quality parameters and how customers track it and how you track it yourself and what can it mean for the existing models in terms of incremental demand?



**Siddhartha Lal:** Hi Pramod. Thanks for that. Because it is a ground up new engine, in fact on the outside we have told you about 10000 kilometers of oil free interval, 5000 kilometers of service interval which is much higher than our previous and certainly at par, it is not better than the market as well so we worked tremendously not only that, but on many other aspects, durability, reliability, service access, so the service team was involved from day one in the program so servicing of this engine becomes immaterial, currently we have focused on establishing the Himalayan on this engine platform and that is like you said the course of this year is really focused on making that a great success, that is a big job out there and of course this engine is available but we are not currently talking about future models and how we are going to program them or when they coming, so I cannot answer your second part of the question directly but for sure it is an very important new platform for us.

**Pramod Kumar:** My second question pertains to the roll out at the global level. Just want to understand by when do we see US having the threshold of the hundred stores or something like that and by when do you start, by when can we expect the hundred stores to be up and running and also on the European side or in LatAm side if you can see especially on LatAm as to how has been demand incrementally given that dollar availability has been an issue, it has been at least two, three quarters now you have been in Colombia so I just want to understand how is the customer response there what are the dealer feedback and how do we see that market evolving?

**Siddhartha Lal:** Colombia has been exceptionally strong. I do not have exact numbers with me right now but it is probably the highest market already last year for us, the first full year of sales with the type of efforts that we have put into distribution marketing, positioning and all of that it is already emerged as our number one export market. Having said that we are still small in exports so it is not like it is an enormous market for us but at least it shows that with a right type of approach we can make inroads into emerging markets which have not seen our brand really in the past so, extremely strong stuff there. The question asked on USA for example on number of stores the number of stores can and will happen in time, in a year we should have relevant number of stores but right now that discussion is more about multibrand stores, so our distributor who now has been superseded by our market company we inherit some of this stores which we believe were appropriate for us and overtime we will add them but that is the addition of multi brand stores, many stores that we are going to add in USA are multi brand stores, in addition to that in some of the significant cities we will start looking at exclusive stores in the US as well. So exclusive stores would not be in the hundreds, exclusive stores will be in single digits in the coming time, like in Europe... in the European market but we will have availability so even within the multi brand outlets in USA the way we are planning it is that we will have special section for Royal Enfield, we'll have a whole multi brand retailing idea of what the interior of the detail should look like for our section et cetera. So it is not the old style where the chap used to just throw in

one motor cycle with a banner and that is it, so we are doing a hell of a lot more but largely we are still going to have multibrand stores in markets like US and Europe whereas in emerging markets like Colombia, Indonesia, Thailand where from start only we are going in for exclusive stores. I hope that answers your question to some extent.

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

**Chirag Shah:** I had a question on VCV, again a housekeeping question. If I look at your gross margins over there, there seems to be slight disappointment, is it again due to mix because we are selling more HD in the quarter it has affected us, is it the right way of looking at it.

**Siddhartha Lal:** Yes that is right so between HD and Volvo trucks as opposed to LMD, the low margin carrying provide for us as of now, that is largely the case.

**Chirag Shah:** Can you comment on how discounts are behaving, are we seeing some kinds of reduction in discounts given the uptake in the replacement demand over Supreme Court decision in Delhi are we seeing signs of reduction in discounts or it stays still high.

**Siddhartha Lal:** The discount particularly on heavy duty is still very high and there is not a material abatement in discounts in the market as of now, hopefully as the market continues to improve, we had an excellent month, January is 22000 heavy duty trucks, I imagine at some point it is coming down but there is no sign of it yet.

**Chirag Shah:** And on the Capex side if you can just give us an update what kind of spend you are looking for FY17 across both the businesses?

**Lalit Malik:** Chirag as I said to an earlier question that once we do up the business plan for the next fiscal we will come up with that. As you can see from our disclosures that we have put out VCV last year which is CY 2015 that is about 350Cr, this year it is about 500.

**Chirag Shah:** And just one clarification in Royal Enfield or in standalone this RM to sale that we have seen a gross margin improvement so there is no backward adjustments of the negotiation right, for the full year the negotiations have concluded now and there is slightly higher impact over there. So there is nothing lumpy of that nature at least in this quarter.

**Lalit Malik:** The negotiation have to be back-end oriented only given the supplies we have had from each of the vendors given the commodity cost benefit that the vendors have had the other thing you go back with actual data. So the pricing is largely retrospective in that sense, as per for the quarter gone by, for the next quarter we will in any case do negotiations.

- Chirag Shah:** So what I understood it is pertains to even the earlier two quarters, earlier three quarters also it is nothing like that.
- Lalit Malik:** No some of that could be there also but largely is Q4.
- Chirag Shah:** This was helpful, thank you very much and all the best.
- Moderator:** Thank you. The next question is from the line of Akshay Saxena from Credit Suisse. Please go ahead.
- Akshay Saxena:** My first question is that you have mentioned that your order book continues to grow so what is your current order book in the domestic motorcycle market and secondly you also mentioned that with the new identity stores it has been very beneficial to you so since what way is it helping is it in more footfalls or is it resulting in higher accessory revenues, how has the share of accessory revenues grown with these new identity stores coming in?
- Siddhartha Lal:** The order book is in the order of three to four months right now of our production so that is the general direction that our order book is in and the new stores, very good question, we have had right now it is still qualitative but we are working on more quantitative outcome of what the stores have done but qualitatively we have had some increased footfalls and certainly increased conversions as well which is what we are hearing from dealers and our regional team and all of that so we do not have hard data but our customers have been extremely delighted by the new stores. So if you think about it, the stores typically took a month to two months to upgrade so in this entire year while 500 stores were been upgraded where in fact, to some extent operations for the dealers were difficult during that 45 days to 60 days period by use upgrading store. Despite that the dealers have sold their numbers and in fact believe that they had much better conversions after the store has been upgraded so we are still trying to quantify it but we have had good qualitative points on that.
- Akshay Saxena:** Okay. And just one more clarification, this is for Lalit you said that 3 Crores to 4 Crores is the bonus impact that is for VECV or that is for the consolidated business.
- Lalit Malik:** No first EML is 1.5 Crores for VECV it is about 3.5 Crores.
- Akshay Saxena:** Thank you. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.
- Jinesh Gandhi:** Just clarification on this bonus thing 3.5 Crores or 1.5 Crores is for the prior period right?

- Siddhartha Lal:** Yes.
- Jinesh Gandhi:** And secondly in VECV we have seen significant increase in other expenses almost on Q-o-Q basis it is up by 25% or so, any particular reason for that?
- Siddhartha Lal:** My understanding is that it is just regular activities and nothing special to report on other expenses...
- Lalit Malik:** But while you are saying they have gone up but as a proportion to the net sales it is still exactly the same right.
- Jinesh Gandhi:** Yes, marginally higher, I was looking from an absolute perspective?
- Lalit Malik:** No, in consolidated you also have EPPL that will have to be separated out while looking at it from VECV consolidated perspective all I can say is that it is exactly the same as in percentage terms from a Q-on-Q perspective in fact from a Y-o-Y perspective to Q4 of this year they are actually down by 2.5%.
- Jinesh Gandhi:** That is a fair point, and sir continuing on that retail format thing are we seeing some improvement in accessory sales happening now with much more focus also on accessories being displayed much more visually it is much more visible now than earlier? are we seeing some benefit on accessory sales as well?
- Siddhartha Lal:** Yes absolutely, our accessories business is still at early stages, you can say we are learning the ropes of what is actually a very different business for Royal Enfield even though it is contiguous in terms of brand and customer but the business itself is an extremely different rhythm and nature. While we are doing that we have had very good growth and we have spread into lot more of our stores and into other format so the accessories business is doing good, it is difficult to say as a result of the new retail identify because last year it was much lower sales so in any case it is probably much more to do with the increased variety of products and the better range of products that we have now in our accessories that we are actually selling a lot more.
- Jinesh Gandhi:** Couple of other housekeeping questions with respect to price increases which would have taken in both Royal Enfield and the VECV.
- Siddhartha Lal:** Royal Enfield last quarter, Q4 there was no price increase. This quarter since we already have announced a price increase in January '15 actually from a customer perspective the

price goes up by 1.5% but from a NSE perspective it goes up by almost 1%. VECV with a price increase in November, December for the LMV range, which was almost 1.2%, 1.3%.

**Jinesh Gandhi:** From January we have not taken any price increase?

**Siddhartha Lal:** January so far no price increases.

**Jinesh Gandhi:** Can you throw some light on how the rollout for Pro 6000 and 8000 is happening now, is it available across all dealerships or it is still going in calibrated manner there?

**Siddhartha Lal:** Very much in calibrated manner, we are opening out only dealerships and routes and segments where we see that the customer will get inordinate returns from his investment. So it is doing very well, Pro 6000 that option is still higher than the pro 8000 and we have had good run rate I do not think we are breaking out individual numbers right now on pro 6000, 8000 but it is continuing to grow every month and doing well.

**Jinesh Gandhi:** But at least in terms of availability would it be right to say that will be covering more than half of the addressable market, addressable dealerships for us.

**Siddhartha Lal:** Actually I do not have the numbers, sorry on that right now, but it could be slightly lower than that, it has become quite fast.

**Jinesh Gandhi:** On debt, while we have seen a good ramp up of about 4700 odd units now this would be almost 70% to 75% of the Volvo requirement right now would it be fair to say that?

**Siddhartha Lal:** Again, we do not have a number on Volvo's requirement which means that your understanding of overall sales of medium duty products divided by the number that they are buying from us that I am sorry they do not even give us the number directly on that, but it is increasingly being installed on more and more products, the installation process of replacing on existing engine and putting an MDE is an elaborate process in the Volvo scheme of things, it is not just chucking out one engine and replacing it with other because it is a very large Capex of replacing engine so as product cycles are getting renewed so that is the opportunity they take to replace the old engine with the MDE so I do not have a number on that but of course the long-term opportunities are much larger because the overall potential capacity of the plant is in the order of 8000 per month that of course we will have to make some further investments to do well but that is in a long-term state.

**Jinesh Gandhi:** Thanks and all the best.

**Moderator:** Thank you. Next question is from the line of Arvind Sharma from Citi Group. Please go ahead.

- Arvind Sharma:** On the new launches side for Royal Enfield, apart from Himalayan the new platform you are talking about, are there any new launches proposed in the existing line up.
- Siddhartha Lal:** The only thing we have announced is the only thing we are talking about right now is that of course the big one is Himalayan which is just launched now and we will have one more big launch in 27th but we are not right now talking much more or anything more about future products.
- Arvind Sharma:** Sir secondly if you could just throw some more light on the current capacity that Royal Enfield has including both the plants as of now?
- Siddhartha Lal:** We are running at capacity Arvind, of course we have lost a little bit like we said in December but we are nearing the order of 50,000 right now production a month. By stabilizing at that number before we sort of start making use of Oragadam Phase II which is going to maybe later in the year accelerate our numbers a little bit more but right now for the last quarter this quarter we are sort of stabilizing that 50,000 because stabilization takes all the different plants all the suppliers all the different processes. We got new products. We got lot of things going on so right now we are in the give or take in the 50,000 a month type of range, could be a few thousand less in January. In January few thousand less but we have achieved stability first and then kind of move ahead.
- Arvind Sharma:** Sir just one question on the quarter specific side, other income in Royal Enfield has been like I had so anything on that part.
- Lalit Malik:** No it is just those debt oriented funds maturity so whatever mature in a quarter we book it.
- Arvind Sharma:** Thanks a lot for taking my questions.
- Moderator:** Thank you. Next question is from the line of Pulkit Singhal from Motilal Oswal. Please go ahead.
- Pulkit Singhal:** This is Pulkit Singhal from the asset management of Motilal Oswal. Congrats on a great set of numbers Siddhartha and Lalit. My question is just from next three year perspective it seems that we primarily have been in city or maybe say Tier 1, Tier 2, Tier 3 city kind of play but out of the 10 million motorcycles that are in the country, what kind of market are you currently addressing with the 500 dealers?
- Siddhartha Lal:** That is a good point Pulkit. Our strategy around a decade ago was to focus tremendously on our top seven cities, the seven metros and smaller metros to get traction there and then it has been a sustained top-down strategy for the last decade and today we can say, as we call it category A+, category A, category B, category C cities we are 95% covered and I am not

just talking about in terms of number of cities but in terms of catchment areas within these cities as well so if a city demands two dealerships then we have two in there as opposed to just saying that we have covered that city with one dealership. So we are pretty well covered now in top 60, 80 or 100 cities now in the country in that order and as you pointed out now we are getting in to what is called as category D and there we have may be 50% coverage so we are increasing that, all of this is dynamic, even category A, B, C also continue to grow and expand. The cities get new neighborhood and new catchment areas so we continue to add incrementally in category A and B, so there is some additional dealerships happening there all the time but the big ones are in C&D where the opportunity is much larger. What has happened is that over the course of the last few years a dealership in a small town has become viable and Royal Enfield is an extremely prestigious franchise to own so we have any city that we would like to enter we normally have a very good line up of potential franchisees to choose from, so the expansion, because it is being top down the smaller towns are really interested in getting our motorcycle, so demand pull is there. By and large we have noticed that any new dealership in a small town that comes up it does not impinge at all, in fact it is nearly zero on the sales of the next closest large town, so it is pretty much incremental sales that we are getting on all of these occasions, so the downward spread of our brand into smaller towns is continuing and of course we can benchmark other motorcycle manufacturers to that extent and wherever we see there is a viability which is normally in the order of 20 motorcycles a month then we say that if the potential of next year or two to get to 20 motorcycles a month is there that means there is a viable franchise and then we go and set up shop there with a third party.

**Pulkit Singhal:**

Just an observation. In the last two or three years I do not know what kind of demand has been there but at least towns or the areas connected to the rural side may have not seen that kind of demand because of monsoons or others but over the next three years if that was to revive and income was to revive this is not an inflection that can happen right out there and provided the financing as well is attractive to kind of create that pool, to that extent where do we see this 500 dealers going to in three years.

**Siddhartha Lal:**

For now, we are actually seeing it as 100 a year increase now I do not know for how long that is going to continue or if it is going to increase or decrease after a year or two, we have not totally sorted that out but you can say within the order of one more 100 and another 100 dealership in 2016 have the similar amount data but we do not know yet.

**Pulkit Singhal:**

During the Chennai Day you shared a very interesting data point of the kind of benign share versus the actual market share so that the online motorcycle share you have somewhere around 18% of it and online services in motorcycle versus an actual market share of 4% to that extent it seems to be catering only to the population who can go online or who are kind

of searching online, do you have any such other metric to share for people who are not online?

**Pulkit Singhal:** I do not have a number here right now. I do not have it offhand, but we do brand track studies which gives salience of our brand in any type of city or town and that gives us an estimate of the number of people who top of mind recall the salience to the brand etcetera and that is always higher than our market share, there is not one place where it is not the case and it is in fact, significantly higher than the market share so which means the brand is continuing to be way ahead of where the market is for us so which means there is potential of headroom obviously because it is a premium brand, the fallout is also that much more **(inaudible) 51.51** in a motorcycle but can only afford Rs.50000 motorcycle, he is not a customer today but if tomorrow he is earning enough he might become a customer in any case because he is interested in the brand as long as we continue to stay relevant for him.

**Pulkit Singhal:** Due to financing Triumph motorcycles are kind of affordable to an urban customer so that logic could actually work even for a rural one if you have a proper level of financing it becomes affordable even to them.

**Lalit Malik:** Financing. One is of course the company will do financing but I think it is a very conscious decision we took many years back not to get in the field but financing for a customer I do not believe we have heard any reports where there is a problem, I think bankers and NBFCs for the matter are very willing to finance vehicles at very reasonable costs and also from operational giving the loan out it is quite reasonable. I do not think because of company not financing there has been single fallout in terms of customer acquisition.

**Pulkit Singhal:** Okay thanks a lot.

**Moderator:** Thank you. The next question is from the line of Mukesh Shroff from Spark Capital. Please go ahead.

**Mukesh Shroff:** I just have one question, basically just trying to understand, in one of the calls you had mentioned that about 10% of your customers are first time buyers so just trying to look at it with now Bajaj Avenger sales actually increasing significantly. Do you see some kind of an impact because probably customers might not be willing to wait for three, four months and also first time buyer, Avenger being slightly priced lower could you just give your thoughts on this?

**Siddhartha Lal:** Well for one the market for us has not changed, it continues to improve in terms of interest for the brand. Of course there continues to be new products, new brands and new launches from other manufacturers and there is largely a different need. I do not think they are



addressing our customer base at all so till now there is no impact of any new brands as it were on our core demand at motorcycles.

**Mukesh Shroff:** You do continue to expect these first time buyers to kind of keep improving, why I am asking this is if I look at your new launch Himalayan and probably the one that you will be launching next year probably does not actually cater to our first time buyers requirement. How do you see that going forward?

**Siddhartha Lal:** Look first time buyers for us is a bit more... we are happy to have lot of first time buyers but it is a bit more incidental in the sense that normally that means a youngster who is interested and can afford to get our motorcycle he is our first time buyer but largely our focus is on the population of 60 million two wheelers who are already out there and the replacement cycle means that at any given point there is 10 odd, the numbers are wrong obviously because the whole market is around 13%, 14% but the replacement is a large chunk of it. Just quick mathematics, if there is around 50-60 million motorcycles out there and the replacement is every five years then you have around 10 odd million chaps looking at replacement so that is more than enough market for us to work on. Having said that, it is all quite fungible. We work on replacement motorcycle market or upgrade motorcycle market. We continue to get fresh chaps in as well, but I would say the strategy is still more biased towards upgrade motorcycle.

**Mukesh Shroff:** So even in the last say month or so when we have seen competition product go up significantly in terms of volumes your orders as such have not come off you still are able to get more orders than what you are producing.

**Siddhartha Lal:** That is right.

**Mukesh Shroff:** Thanks a lot sir that is it from my side.

**Moderator:** Last question is from the line of Sameer Kulkarni from Vantage Securities. Please go ahead.

**Sameer Kulkarni:** Good afternoon and congratulations on strong set of numbers. I have one question on the heavy duty and light and medium commercial vehicles you have gained market share this quarter from 3.4% to 4.2% so over a normal period of time for three years what are your targets for market share sir?

**Siddhartha Lal:** I think we are a bit shy about talking about that right now. Generally with the type of pace that we are growing at is absolutely acceptable to us, the basic thing now for us is to continue to grow market share in a growing market, so this pace of let us say give or take 1% is absolutely good and acceptable as the pace of growth of market share. Of course our long-term aim still continues to hit the benchmark which is not very far from 1000 heavy

duties a month and then beyond that to hit 10% market share, 15% market share but that is still I am talking about the more medium and long-term horizon. In the current time, the more important thing for us now is to establish our Pro series of trucks in the heavy duty because that really represent the modernization of transportation and trucking for the fleet, so our focus is of course quantitative, things that we are looking at and what we are getting is very much in the line of what we want but it is also qualitative on establishing the Pro series.

**Sameer Kulkarni:** And on the medium duty inside sir, when do you see this 8000 per month capacity we would be able to hit in the engines?

**Siddhartha Lal:** That is still a while way, like I said the absorption rate is continuing for the engines in the Volvo system so we do not have a date on when the capacity utilization will happen. In fact while we spent large part of the capex there will be a point when we reach half the capacity that we will have to spend some additional capex on some machines most of it is already in place to increase it, so that is still a while out but it is going at a good pace and expect it to continue to grow in the coming quarter.

**Sameer Kulkarni:** Thank you very much.

**Moderator:** Thank you. I now hand the conference over to Mr. Deepak Jain for his closing comments.

**Deepak Jain:** Thank you Mr. Lal and the management for taking time off this call, really helpful. Thanks everybody else for being on the call. Thank you.

**Moderator:** Thank you very much members of the management. Ladies and gentlemen on behalf of IDFC Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.