



“Eicher Motors 3QCY10 Post Result Conference Call”

November 09, 2010



**MODERATORS: MR. SIDDHARTHA LAL – MD & CEO, EICHER MOTORS.
MR. VINOD AGGARWAL – CEO, VE COMMERCIAL
VEHICLES, EICHER MOTORS.
MR. LALIT MALIK – CFO, EICHER MOTORS.**



*Eicher Motors
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Moderator

Ladies and gentlemen good morning and welcome to Eicher Motors Q3CY10 post results conference call hosted by JM Financial Institutional Securities Pvt Ltd. We have with us Mr. Siddharth Lal MD and CEO Eicher Motors, Mr. Vinod Agarwal, CEO VE Commercial Vehicles and Mr. Lalit Malik CFO Eicher Motors. As a reminder all participants lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need any assistance during this conference please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Pramod Kumar from JM Financial Institutional Securities Pvt Ltd. Thank you and over to you sir.

Pramod Kumar

Thanks Farah, Good morning Ladies and gentlemen. On behalf of JM Financial, I welcome to the Q3 CY10 post results conference call of Eicher Motors and also take this opportunity to welcome Mr. Siddharth Lal MD and CEO Eicher Motors, Mr. Vinod Agarwal, CEO VE Commercial Vehicles and Mr. Lalit Malik CFO Eicher Motors. Now I would like to hand over the call to Mr. Siddhartha who will take it from here with the quick opening remarks followed by Q&A session. Over to you Siddhartha.

Siddhartha Lal

Good morning everyone and thank you for coming to this call. Before I start, I want to introduce our new CFO at Eicher Motors Ltd., Mr. Lalit Malik who is also joining us in this call and he just joined us so he won't be taking too many questions this point and of course we have our outgoing CFO, EML as well who is now the CEO of the joint-venture company VE Commercial Vehicles Limited Mr. Vinod Agarwal who has been with us for the past many conferences so he's also joining us this time.

Just to give you a quick update on Eicher Motors performance for the quarter. Overall, we've had another very good quarter. At consolidated level, this is the best ever revenues for Eicher Motors Ltd in any quarter and it's also been the best ever profit for Eicher Motors Limited barring some extraordinary income in some other quarters. We had some margin pressures this quarter with the margins dropping on a sequential basis even though on a quarter on quarter basis from last year it is shown good healthy improvement. The loss in margin on a sequential basis is largely due to increased material cost.

There has been some increase in employee cost in the last few quarters which is as a result of the few factors including costs associated with medium duty engine project. While we have started full work on the medium duty engine project, there is no associated revenue and profitability yet and there is only costs being associated with that project at this point. We have also seen changes the material costs ratio driven by change in product mix.. As regards the general outlook on margins, there is a reasonable pricing potential and pricing power that we have in all our segments. As far as costs associated with the changes in emission norms is concerned, we've been able to pass on the costs and more in the price revision effective October 1st. So we will start seeing an improved margins from now.



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On the operational side, we have had an extremely good performance in most of the divisions in Eicher Trucks and Buses. We have had very good market share improvement with a YoY market share improving to 28% in 5 to 12 tons segments. Performance in October '10 is even better @30% market share. The heavy-duty trucks division in Eicher Trucks and Buses has also started to go in full gear. In Q3, we sold 1312 trucks with a September sales of over 600. So that is extremely encouraging in our endeavor to become a significant heavy-duty player. We've also had a good quarter and good first nine months for our buses division.

In our Volvo truck division, we've also had a good growth of over 23% in vehicle sales in the first nine-months and with the mining sector growing, we expect continued growth.

We had some issues in supplies in Royal Enfield Motorcycles. We've had a changeover to full new engine and certain other issues that caused a shut down. We have taken two add a new components to our paint shop. So we've had a few weak months in the last quarter which has actually brought our supply situation down. Our demand still is as robust as ever if not better. We have waiting list on motorcycles. So with production getting back on track, we expect to start building at least 5000 motorcycles a month, during November-December. We expect 2011 to have better sales. So that seems to be well on track as well.

So, in all, we've had overall great quarter from our perspective and we expect things to continue strongly in the coming months and quarters. Back to you for some question-and-answers.

Moderator

Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer session. At this time if you would like to ask a question you may please enter * followed by 1 on your touchtone telephone. If you wish to withdraw your question from the queue you may press * then 2. Participants are requested to use only handsets while asking a question. The first question comes from the line of Chirag Shah from Emkay Global. Please go ahead.

Chirag Shah

There is a sharp jump in staff cost in this standalone business, so is there any one of item in the staff cost or it's just a kind of trend at which you look at?

Vinod Agarwal

No there is no specific reasons for that.

Chirag Shah

Okay its general inflationary pressure that you are witnessing?

Siddhartha Lal

We've had few new hires in the corporate division so that has changed the outlook but yes that's nothing exceptional in that.

Chirag Shah

So this is the broadly the run rate that we should look at, right, that is the way of looking at it. Second was another again on the standalone business, if I look at the other income it varied significantly from quarter to quarter. So if you can throw light in this to help us understand how it generally moves because say for example in the last December you had pretty good

other income. So is it that we can also expect a similar kind of good other income or it was more to do the maturity of FMPs and other fixed securities?

Siddhartha Lal No it's on account of the FMPs only. Income from FMP comes once in a year. We got large income in April this year ~ Rs 18 cr.

Chirag Shah 18 crores in the last quarter fair enough.

Siddhartha Lal Again now we have the money invested in FMPs and that income will again come in April next year.

Chirag Shah And another question I had on a slightly on a strategic side, just wanted to understand on your VECV business. You are doing extremely well in terms of increasing share of your higher tonnage vehicles. If I look at 7 to 12 tonne segment on the good side has gone down from almost 90% to almost 81% now. But it is not reflecting in margins, is it more to do with the mismatching in terms of revenues and costs in the initial period?

Siddhartha Lal No your question is not clear, can you ask again?

Chirag Shah What I was saying is that if I look at your product portfolio Eicher product portfolio the share of higher tonnage vehicle is actually improving, it has moved up from something like in the good side from 10% to something like 18%. But your margins are not really reflecting that, is it more to do with some mismatch that you may have been facing because of promoting the products? Is it the right way of looking at it and it's more to do with temporary phase over next two quarters we can start seeing good margins coming in?

Siddhartha Lal No the right way of looking at it is that this year in 7-12 tonne segment, we have the best margins in our business because that's an old established segment and that's where we have scale also and market share is very high. As we increase proportionately, to that extent the overall margins of the company should increase. On the other hand on the 16 tonne and above, we are at entry stage, so we're certainly not at the same level of margins there. So as we start improving our 16 tonne and above, we will have a slight drag on the margins till time the margins come upto speed.

Vinod Agarwal Overall if you look at our material costs, we should to net sales in this quarter it is 75.5% and last quarter it was 75.1% and a quarter before that it was 75 .2%.

Chirag Shah Sir it's marginally up so it's not significant.

Vinod Agarwal It is important to note that despite our overall percentage of heavier trucks going up, the margin has not moved adversely.

Chirag Shah Sir if I can also ask one more question is that what is it kind of price hikes that you have announced in October to pass on the emissions costs, if you can you share that?

- Vinod Agarwal** It's ranging from 2-4% and depending on the model.
- Chirag Shah** Okay great I will come back for more questions.
- Moderator** Thank you, a next question is from the line of Saurabh Das from Sundaram Mutual Fund. Please go ahead.
- Saurabh Das** My first question is regarding the non-vehicle sales revenue if you can just share numbers for the quarter and how has it moved on year-on-year basis?
- Siddhartha Lal** When you say non vehicle sales revenue what exactly do you mean?
- Saurabh Das** Spares, sales and service all inclusive.
- Siddhartha Lal** There is no significant difference in that, it's continuing as a normal and usual thing.
- Saurabh Das** So if I can conclude that the growth which we have seen on the vehicle side in terms of volumes and hence in terms of revenues that is much higher than what we've seen on this is spares and other segments, non-vehicle segments in the business.
- Siddhartha Lal** No both have grown, if you look at the vehicle sales also have grown and spare sales would have grown in the same proportion.
- Saurabh Das** The reason being that if I see the net realization of the company that has fallen at the same time see that the overall higher tonnage segment has grown faster so that should have resulted in a higher net realization. The only explanation which I can think of is that this spares proportion has comedown.
- Vinod Agarwal** No if you look at the overall net sales of EML, last quarter it was Rs. 1033 cr and this quarter it is Rs. 1092 cr. In this there is a mix of various streams of income - Volvo trucks, Eicher trucks, components, design services and Royal Enfield. There being such a mix, it will not be right to conclude that this change has happened because of drop in some particular segment. If you look at Volvo trucks specifically in this quarter, the sales were down. I will give you the numbers, for this quarter because they have sold in good numbers in the first two quarters. Volvo truck sales in Q3'10 were 219 as against 305 in same quarter in 2009 and as against 250 in Q2'10. Sales of this product depends on when the tenders open because this mostly sells in the very high end segments like Tippers. Demand here depends on the various things like performance of coal mining sector. There have been some environmental concerns which delayed the tender process. So in Q3, the sales of Volvo trucks were slightly less as compared to 2009.
- Siddhartha Lal** But ticket price per Volvo is extremely high. It is top of the line.

Saurabh Das And any indicative number as to the non vehicle sales, how much is that of the revenues, is it around 15% for much higher than that?

Vinod Agarwal I don't have the exact number at the moment, we will share it later on.

Saurabh Das Sure, you just mentioned some start up cost for the heavy duty engine project that resulted in some increase in your employee cost, if you can just share that numbers that would be very helpful?

Vinod Agarwal You are asking for the engine . . .

Saurabh Das Yes, how much has that led to an increase in employee cost?

Vinod Agarwal As of now it is little marginal however as we move along it will start increasing. As of now you can say it will be around 0.1%.

Saurabh Das 0.1% of sales?

Vinod Agarwal As of now it will be very marginal.

Saurabh Das Okay, the next issue which I wanted to check with you is in terms of the overall CAPEX in the first nine months and is it going on schedule and what is the likely CAPEX number for CY11?

Vinod Agarwal First nine-month we would have incurred around Rs. 50 cr and of course we could go at a similar pace.

Saurabh Das So for CY11 what is the number which one can look at?

Vinod Agarwal That will be somewhere between around Rs. 75 cr plus.

Saurabh Das Are these consolidated numbers?

Vinod Agarwal These are consolidated numbers, yes.

Saurabh Das Okay so CY11 would see a lower Capex number than CY10?

Vinod Agarwal CY11 of course will be next year? We are in CY10.

Saurabh Das That's right sir, CY11 you mentioned was will be how much?

Vinod Agarwal CY11 of course we have not given the figure.

Saurabh Das Okay so last quarter of CY10 if you just can repeat, how much is it?

Vinod Agarwal Total till date we would have spent 50 crores plus.

Saurabh Das Okay so can you give us an indicative number of how much would be CY11 CAPEX for you?

Vinod Agarwal As mentioned earlier also, in next three years we would be spending roughly around Rs. 500 cr plus

Saurabh Das That's right and can you share the quantum of price hike which have taken on 1st of October?

Vinod Agarwal That's around 2-4%.

Saurabh Das And if you can just single out the LCV part of the portfolio how much was that and on the VECV?

Vinod Agarwal LCV will also be around 2-3%.

Saurabh Das And heavy duty vehicle will have similar also?

Vinod Agarwal Yes. Similar.

Saurabh Das Okay, except for the new trucks which you have introduced from the MCV range?

Vinod Agarwal No last quarter we did not introduce any new truck.

Saurabh Das Okay. The 1312 trucks which we sold that also have seen a similar 2-3% increase?

Vinod Agarwal They also have seen the similar increase.

Saurabh Das Okay and if you can share the total net cash on the books?

Vinod Agarwal Net cash continue to be on the in VECV and EML put together it is around 1475 crores.

Saurabh Das And VECV alone?

Vinod Agarwal VECV alone would-be around 1050 crores and maybe 420-425 crores would be on the EML.

Saurabh Das And what's the approximate yield we are getting on these cash?

Vinod Agarwal Pre-tax it would be around 6-6.5%.

Saurabh Das And we see it remaining at this for the next few quarters?

Vinod Agarwal The interest rates are slightly moving up. So yields on FMPs are likely to improve in line with market.

Saurabh Das Thanks I will come by for more questions and all the best.

Moderator: Thank you, a next question is from the line of Jinesh Gandhi from Motilal Oswal Securities Ltd. Please go ahead.

Jinesh Gandhi Hi my question is on the demand scenario now since BS3 implementation is now fully through, what's your sense on the demand ground level post BS3 implementation?

Siddhartha Lal The demand continues to be very good. If you see the October numbers which are already out, we had a very good month in October too. 3279 trucks and buses in Eicher Trucks and Bus and 44 in Volvo trucks. So it's a very good October even compared to last year where it was 2250 or so. So we expect and we see the trend continuing in November and December, that's very extremely good news for us that despite new emission norms and the price increase, the demand situation is still very good.

Jinesh Gandhi Okay and on the cost front while we have seen steel prices stabilizing, we have seen further cost push on other commodities, what's your take on that and secondly on the ability to further on pass on any cost push considering 2-3 prices hike taken since 1st Jan so you have taken that as well ?

Siddhartha Lal We have increased prices in October and before that we had increased in July also. So I don't see any further possibility in this year. Also, inflation in steel prices has stabilized little bit. This year we will not see any further price increase.

Jinesh Gandhi Okay, so any further cost inflation can eat into our margins?

Siddhartha Lal But since we've already taken the price increase in October.

Jinesh Gandhi That would be pertaining to BS3 compliance cost?

Siddhartha Lal Yes BS3 plus overall price increase that we made, that will also take care of some inflation.

Jinesh Gandhi Okay and last question on our plans for new product launches considering that quite a few new generation trucks are being launched by your competitors, what are your plans on that front?

Siddhartha Lal Currently we have our Terra-25 which is 6 x 4 tipper which is coming in the markets in this quarter. So that is a very good start and we have our RESL FR new bus which is also coming in the market, which is already being piloted and which is already being run in some cities. So new launches and of course working on the new engine development program which has started will hit production around end of 2012 early or 2013. Of course we have new products ideas around the new engine in the same timeframe. So improving products from our existing product suite is our current strategy. But in the medium term of course we will have few of new products coming out.

Jinesh Gandhi Okay, any plans for CY11, what do you plan to launch and what segment he will be catering to in terms of the new launches?

- Siddhartha Lal** We have solid line up now in both trucks and buses. Our basic aim is to consolidate and improve. Of course there are some new products launches but none are of extremely significant level that I need to talk to you about here. Apart from new products, there are various variants to existing products being planned. But the important thing is that we've started seeing excellent traction for our vehicles now. Because of our solid improvement in quality and after market, we are really now fully ahead of the entire pack in this area. And if you slide to market in heavy duty, you will see that in the 16 tonnes segment we are actually doing very well now. We've started pulling ahead in market share in 16 tonnes. We have an excellent line up and now we just focussed on getting the right market position for each of the trucks that we have.
- Jinesh Gandhi** Okay. So that's quite helpful. Thanks a lot and all the best.
- Moderator:** Thank you, a next question is from the line of Basudev Banerjee from Quant Broking. Please go ahead.
- Basudev Banerjee** In line with what was asked previously one thing confused me in a big way, if I see the sequential product mix VECV volumes were up by almost 14%, LCV volumes were flat and as you said Volvo volumes were down from 245 to 220 and just because of this 25 lower-volume from Volvo your net realization per vehicle just in VECV dropped sequentially almost by 5%. So that's a big surprise, can you elaborate on this, and is there any other reasons for that?
- Siddhartha Lal** No I can give you the segments wise volumes. I don't see there is any other reason, if you look at 5 tonne Q3 volumes are 922 and Q2 was 726. And 7 tonne Q3 volumes are 1359 and Q2 was 975. 9 tonne Q3 is 1864 and Q2 was 1477. 12 tonne Q3 is 2446 and Q2 was 2340 and total 5-12 tonnes Q3 is 6591 and Q2 is 5518. So that's the breakup. Now there is a growth in each of this 5-12 tonne segment. If you take the heavy duty also, in heavy duty Q3 we had sold in trucks 1175 and Q2 was 876. So there is growth here too.
- Basudev Banerjee** Sir that is why I'm saying that in each of the segments day's higher realization product volumes have in fact grown in Q3 compared to Q2. But in spite of that the overall net realization per vehicle in VECV only after deducting the standalone revenue corrected significantly quarter on quarter.
- Siddhartha Lal** No I think we need to understand in more detail. I don't think there is any other reason.
- Basudev Banerjee** Okay may be this fall in 25 Volvo goods carrier has that significant impact on the overall realization?
- Siddhartha Lal** It will....
- Basudev Banerjee** Okay and what about the same case in the motorcycle segment also, there was a sharp decline in realization per vehicle?

- Siddhartha Lal** In motorcycle of course it is just revenues which have fallen in Q3 because we had actually lower than expected production quarter. We took a long shutdown for improving a paint shop. We had changeover from 50 year old engine platform to our new engine platform. This resulted in poor production falling to around 4000 in a couple of months in Q3 whereas our numbers have been over 5000 previously. But now in Q4 it's starting to improve already.
- Basudev Banerjee** Okay and one more question you said that overall 1475 cash on balance sheet with a breakup of 1050 and 425 and the overall Pre-Tax yield of 6.5%, is it same yield on both VECV cash and standalone cash or they are different?
- Siddhartha Lal** By and large it is the same because in VECV, 100% is invested in fixed deposits and in Eicher Motors, it is partly in FMPs and partly in other mutual funds. So relatively, Eicher Motors returns are slightly better.
- Basudev Banerjee** Going through the other income across quarters, in last eight quarters I can see this is the lowest other income reported whereas the cash on balance sheet has been gradually increasing every quarter. Last quarter was an exception as you said that there was some redemption. But in spite of that it's almost eight quarters low.
- Vinod Agarwal** One is that in VECV in earlier quarters; we had placed the yearly fixed deposits which were at 7-8% returns, so our overall yield has been dropping quarter on quarter because fixed deposits now maturing are being renewed at current rates. And the second is that in Eicher Motors, we have put more money in the fixed maturity plans. Now it is almost Rs. 395 cr – with varying maturities between 3 to 12 months. Income from yearly fixed maturity plan will be received in April. Income from less than 1 year FMPs, we will get in some quarters and may not get in others.
- Basudev Banerjee:** And just now you said year-to-date CAPEX is Rs. 50 cr and what are the plans for the full year?
- Vinod Agarwal:** Around Rs. 75 cr plus.
- Basudev Banerjee:** And any CAPEX on that engine project yet?
- Vinod Agarwal:** Not yet, we are finalizing the plan now. This will happen mostly in 2011.
- Basudev Banerjee:** Okay sir, thank you.
- Moderator:** Thank you. Our next question is from the line of Nilesh Dhamnaskar from Religare AMC. Please go ahead.
- Nilesh Dhamnaskar:** If I were to just see the interest element in the VECV, this has gone up to 2.8 crores this quarter from 1.6 crores in the earlier quarter, any particular reason for this?
- Vinod Agarwal:** There is no particular reason. There is some mismatch in working capital.

- Nilesh Dhamnaskar:** No increase or decrease in the debt amount either?
- Vinod Agarwal:** If you take the debt on a consolidated basis, we are debt free.
- Nilesh Dhamnaskar:** Because last time I remember 165 crores was the debt right?
- Vinod Agarwal:** Last time it was like that. In the last quarter, we repaid large amount to one of the lenders.
- Nilesh Dhamnaskar:** Fair enough and in your earlier communications, you have been saying that by 2015, you wish to have a market share of 15% in the HCV side, so vis-à-vis that could you throw some light on the current market shares and which area you would like to grow where do you see traction within the HCV space so that incrementally how are you going to achieve this 15% market share, some light on that?
- Vinod Agarwal:** If you look at certain segments in HCV e.g., in 4 x 2 rigid segments both truck and tippers, our current market share is already more than 5%. But we still have marginal market share in 6 x 2, 25 ton and 8 x 2, 31 ton and such others. Now these are the segments where we have to grow in market share because 6 x 2 and 8 x 2 put together accounts for almost 40% of the total heavy duty market. In tippers, we are going to introduce now 6 x 4, 25 ton tipper in December. In 4 x 2 Tipper as I mentioned, already, we are 5% plus market share. So as and when we grow in each of these segments, I think we will consistently keep on improving our market share and of course our aspirational target is 13 to 15% by 2015..
- Nilesh Dhamnaskar:** And currently if you were to see the last quarter's HCV market share, what is that?
- Vinod Agarwal:** If you look in the month of September, we had the highest sale of 660 heavy duty trucks and in September, we had the market share of 2.7% in heavy duty and in October, we had market share of 3%. Earlier months, it was close to 2%. So roughly for this quarter, it should be somewhere between 2% to 2.5% .
- Nilesh Dhamnaskar:** The trend is visible.
- Vinod Agarwal:** And trend is very positive for two of our products which are in 4 x 2 rigid segments where we have as I mentioned 5% plus. Now we had to put our act together in the other segments.
- Nilesh Dhamnaskar:** And just one last question. On the export fronts, any good traction that we would be able to see going forward, earlier quarter back there was some news or rather announcement from the Volvo that the Volvo's network would be getting you to sell many of your products in the Asian countries as well as SARC nation so any traction on that?
- Siddhartha Lal:** The work on this is continuing and we have formed the teams and they are currently evaluating each market and of course we will have to make the required changes in the product and so you will see the results in may be next one or two years because that takes time.

- Nilesh Dhamnaskar:** So basically whatever exports you are doing currently, those does not include any of those developments and that is yet to come which will take a year or so?
- Siddhartha Lal:** Yes.
- Nilesh Dhamnaskar:** Thanks a lot. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Chetan Gupta from Samena Capital. Please go ahead.
- Chetan Gupta:** Just a couple of questions. First in VECV also, record revenue from after sales services of all Volvo trucks and buses right?
- Siddhartha Lal:** For Volvo, after sales are for trucks and buses.
- Chetan Gupta:** Trucks and buses, so I am just trying to understand how that revenue line is, does it fluctuate seasonally, is it consistent through the year, how have you seen the trend?
- Siddhartha Lal:** If you look at Volvo trucks, it is consistently growing. It may be 15-20% growth in the past and our total annual parts revenue should be in the range of Rs. 450 crores or around that. So that is what it is and it is growing every year.
- Chetan Gupta:** I mean quarterly fluctuations so in terms of rates in quarters, so does it increase I am just trying to understand that?
- Vinod Agarwal:** By and large, yes. In fact after market revenue is a very steady type of revenue. So the truck sales can fluctuate a lot more based on various parameters. But by and large when the trucks are on the road, these are being serviced. Of course when there was downturn and mining had come down, while spare revenue fell to some extent, but certainly not to the same extent as the trucks had fallen. So in fact you can call it more of an annuity business rather than trucks which are more fluctuating.
- Chetan Gupta:** That was one. The other was that in Eicher Motors, there was this MoU that was signed in terms of design, exchange, ideas etc. with Volvo, what is the progress on that, where are we on that now? The design initiative that was done with Volvo I think 3 quarters back there was something signed .
- Siddhartha Lal:** It was not with Volvo. It was a separate company called VIL that actually was in the works till recently, but now we are no longer going ahead. We have been working with these teams for while now in Sweden and they were also part owned the Volvo.. We are continuing with our standalone independent strategy on engineering solutions which is what this discussion is about. Actually, it is being executed quite well now. We have got traction from some Volvo divisions and other places where we are looking at providing engineering solutions in the coming years.

- Chetan Gupta:** Okay that is it, thank you.
- Moderator:** Thank you. The next question is from the line of Chirag Shah from MK Global. Please go ahead.
- Chirag Shah:** I just wanted to understand in terms of your geographical mix for the heavy duty vehicles, have you increased the area of presence and also is there any specific product that you are looking at in terms of line segment, if you can just update on that it would be helpful because I understand your business correctly looking at your overall market share may not necessary the right way of looking at your business of 3%, you have pretty decent market shares on select routes on select products. How has that been moving if you can throw some light on that?
- Siddhartha Lal:** Generally what we are doing is as you have rightly pointed out is a much more focused strategy. So we are not spreading ourselves too thin. We are focusing on certain; you can call it, routes. So out of lets say 10 end-use segments in a particular category, we will focus on 5 of those which we believe we can give better returns to the owner. So we would have moved well over double digit market shares in some geographies in some end-use segments. We have of course spread a little bit more than what we were a year ago. We are opening our new dealerships where the service is up to the mark where the financing position is available etc. So we look at various parameters before we open out a location for selling our particular lines of heavy duty trucks.
- Chirag Shah:** Is it possible for you to give some indicative idea on what is the new addition that you have done in terms of geographies or something, is it possible for you to share in last 3 months or 6 months how it has panned out?
- Siddhartha Lal:** Not offhand. May be we can take this offline. We opened in 15-20 markets. It is a very specific approach which means that means for 16-ton tippers for the stand segment, we may have opened out some markets in Kerala or some markets in Himachal; for long-wheel based segment, we have opened out some markets in Haryana.
- Chirag Shah:** But that the progress is as per your expectation or it is slightly slow, slightly fast, how is it if you can just help us understand that?
- Siddhartha Lal:** We are extremely ambitious and it is certainly panning out that way. Our absolute aim is that the first point where we think that where our heavy duty product is really on good course when we can consistently start doing 1000 vehicles a month. So our ambition is to try and achieve that target in the coming months or quarters is to achieve consistent 1000 vehicles a month, then the next target is 10% market share and then after that is 15. So you can take these as a three steps that we need to step on over the next 5 years.
- Chirag Shah:** And lastly on the raw material cost, you have a spot basis of contract or you enter into contracts or your costs have pure more of volume driven contracts that you have for metals.
- Siddhartha Lal:** It is a mix.

- Chirag Shah:** Generally, what is the tenure of your contracts and when are they due for renewal if you can throw some light?
- Siddhartha Lal:** That is for 3 months and some are for 6 months, but maximum is for 6 months.
- Chirag Shah:** So this cost increases takes care of next 3 to 6 months kind of requirement, is it a right way of looking at it?
- Vinod Agarwal:** Yes, when we enter into any contract for 6 months, then it will take care of it for next 6 months.
- Chirag Shah:** No the price increases that you have taken would take care of the cost pressures that you must have witnessed for the next quarter or two quarters that is the right way of looking at it?
- Vinod Agarwal:** Inflation of course is one of the factors but price increase is also takes into account various other factors. How the competition is doing, how is it going in the market.
- Siddhartha Lal:** The idea is certainly what we always endeavor to do is to try and cover the material cost increase plus earn some more margins on it so that is always the attempt.
- Chirag Shah:** Fair enough. Thanks a lot.
- Moderator:** Thank you. Our next question is from the line of Ashish Nigam from Antique. Please go ahead.
- Ashish Nigam:** Just wanted to get one thing, you guys service and distribute Volvo trucks, but only service Volvo buses, is that correct?
- Siddhartha Lal:** Yes.
- Ashish Nigam:** Any plans of getting into distribution of Volvo buses?
- Siddhartha Lal:** No.
- Ashish Nigam:** Just one more thing, this high waiting period on the Enfield bikes, when do they come down? I am asking not only as analyst, but also as a customer.
- Siddhartha Lal:** Like I said earlier, we had a couple of low production months because our paint shop was going through big breakdown so we shut down our entire plant for over 10 days and then we had the new engine which is now on all bikes as of September. So that also took us some doing because there was a huge change after 50 years in some sense. Now all that is under reasonable control. From what we have come down to around 4000 odd motorcycles a month in the last quarter, we now shooting for 5000 per month plus in this quarter and certainly in the next year, we would like to go up to beyond 6000 and that is before what we are looking at a much larger capacity increase by the second half of 2012 which will allow us to go up to 8500 a month which is close

to around a lakh capacity per year. So that will only be by the end of 2012, but even in 2011 we should increase certainly by around 20-25% capacity.

Ashish Nigam: Okay that is it from my side. Thanks.

Moderator: Thank you. Our next question comes from the line of Saurabh Das from Sundaram Mutual Fund. Please go ahead.

Saurabh Das: Just two questions. One is on the distribution, Chirag sometime back asked you on that, just wanted to check what is the total dealer count on the VECV distribution chain right now and how many have we added in the last one year?

Siddhartha Lal: Last one year, we would have added 20-25, but then we have also done lot of rationalization of redundant dealers. So our overall numbers still continue to be around 200.

Saurabh Das: And what is our envisaged number for the next year?

Siddhartha Lal: Next year, I think overall count for Eicher trucks and buses should go up to 232-235.

Saurabh Das: And do all our Eicher trucks and bus dealers also sell the HTV range or that has been launched only on specific dealer locations?

Siddhartha Lal: Most of them sell it, but then are some 2 or 3 HTV dealers also.

Saurabh Das: And that is a part of these 200 numbers which you shared?

Siddhartha Lal: Yes.

Saurabh Das: And one thing on the cost side, does this 2 to 3% cost increase which we took in October cover completely for the emission cost increase as well as whatever raw material price pressures which we have seen in this quarter?

Siddhartha Lal: We have tried to pass on emission related costs. However, raw material costs are very difficult to pass on completely. So we always have to make up from the cost reduction and from value engineering efficiency improvements and productivity improvements. So it is a mix of various things.

Saurabh Das: As things stand today on a like-to-like product basis, is there likelihood that margins can come under pressure little more in this quarter?

Siddhartha Lal: It is very difficult to answer this question at this moment even though we have got a good price increase, so let us see how the commodity prices behave in this quarter.

Saurabh Das: And regarding discounting deals do you see that is there in the market in this quarter or?

- Siddhartha Lal:** Per se, no one wants to do discounting. It continues due to competitive pressures.
- Saurabh Das:** But has there been an increased level of discounting in the quarter or it is not?
- Siddhartha Lal:** If anything it has come down because there are perhaps some supply side constraints. So there is some hope certainly.
- Saurabh Das:** And one of the competitors was indicating that they have stopped BS II vehicles to take advantage of the common regulation that whatever is produced pre-October 1st can be sold. So is that a strategy which we have also adopted or if not then why?
- Siddhartha Lal:** As far as we are concerned from 1st of October, we have moved to BS III full 100%.
- Saurabh Das:** But do we have an inventory of BS II vehicles?
- Siddhartha Lal:** Obviously, pipeline is there. But it is very low.
- Saurabh Das:** But we did not take conscious effort to increase the BS II inventory?
- Siddhartha Lal:** Not at all. We did not have much stock.
- Saurabh Das:** Great, thanks for answering the questions.
- Pramod Kumar:** Siddhartha, just wanted to understand on the engine deal because you said that you have started providing for some expenses on the outsourcing contract. So is it like there will be fair bit of value addition done by the Indian entity when it comes to development of the engine, is that right or it is going to more like a technology which will be given by Volvo and we just productionize that?
- Siddhartha Lal:** There will be a lot of technology added in India as well. First, the sourcing will largely be done in India. Surely, there will be some parts bought from outside. The Volvo Powertrain and the VECV sourcing team are working very closely together on this and therefore that is a huge value addition that we bring on the table. Then is manufacturing which means the entire plant putting up the plant, putting up the machines, and engineering. Here too, while the entire plant is something which is what VECV is doing; is being done closely with the Volvo Powertrain. And then the entire development of the Euro 3 and Euro 4 engine requirement is going to be done also by us in India by VECV. So for the base engine, long block as we call it, the design is largely provided by Volvo Powertrain, but the Euro 4 and Euro 3 development which is a significant development in any case is being done by us.
- Pramod Kumar:** So it is not going to be just like contract manufacturing kind of a process. It is going to be quite a lot of value added being done by the Indian partner. So to that extent it is going to be a pretty good profitable product. It is not going to be another like a contract manufacturing where margins are really low.

- Vinod Aggarwal:** Yes.
- Pramod Kumar:** No, but what I can understand from whatever you have said that there will be fair bit of value addition being done by VECV. So to that extent of course it takes away the concern that it might be.....
- Vinod Aggarwal:** Value addition will be in setting up the machine shop in-house. We will have machine cylinder head and cylinder blocks and we are going to procure all the parts here in India and then we will have the complete assembly shop. This fairly large value addition as far as the engine is concerned.
- Pramod Kumar:** And I think you will be expensive of all this expenses when it be in terms of manpower and it terms of development straight away to the P&L. You are not capitalizing any significant chunk of these expenses till 2012.
- Vinod Aggarwal:** Some expenses will continue to be expensed off and some of the expenses which are long term in nature or which are directly linked to the project that my get capitalize and this would be a mix of capitalization and the expensing off.
- Pramod Kumar:** And another thing related to this was any further indications on non engine parts getting outsourced because ideally it should happen given that the most critical part is given to the joint venture. So any timeline which you can indicate on that or probably what could be the long term potential of such outsourcing from Volvo globally?
- Vinod Aggarwal:** Very difficult to put any figure on it, but of course we are working on other parts from our components region also to supply more parts to Volvo.
- Pramod Kumar:** And Siddhartha this question for you or rather Vinod sir. Last quarter you had said that your market share in for HCV in states like Gujarat is somewhere like 5-10%. So how has the market share moved in these states and whether the HCV range is entirely PAN India now or is there still some pockets or regions which we have not tapped yet?
- Vinod Aggarwal:** We are still not covering the geography entirely. We still have to add more locations.
- Pramod Kumar:** But if you were to say how much of the addressable market is already being tapped. If you can just broadly put a number so that we know what can be the further potential or what can be the ramp up in volumes for instance?
- Vinod Aggarwal:** You know it will be very-very rough calculation. I don't have the exact figure with me. We are still covering around 50-60% of the market.
- Pramod Kumar:** A fair bit of the market is still not covered.



*Eicher Motors
November 9, 2010*

- Vinod Agarwal:** No, we are still not playing in all the segments. We are not there in the tractor segment. We are not there in 6 x 4 tipper segment. We have marginal presence in 6 x 2, 25-ton, 4 x 2 rigid and 4 x 2 tippers also, we are not there in all the applications.
- Pramod Kumar:** Okay so to that extent, there is lot of potential there and another thing was that we have seen recently that one of the competitors who started up financing arm they have been extremely positive with response and they have managed to increase the market share in North East as well. So any chance or any talks which may result in Volvo's global financing arm coming to India and that helping our endeavor to take up the market share to like 10% in the longer term because we do have sufficient cash and it has been like a two wheeler company in the commercial vehicle sector which keeps on throwing up cash. So is there any thought process on that in terms of bringing in financing arm?
- Vinod Agarwal:** Yes, definitely there is a thought process. But there is no decision on that as of now.
- Pramod Kumar:** Because if that comes through, it can only add to our market share, it can capitalize the entire process of market share again.
- Vinod Agarwal:** As of now, there is no scarcity of financing. Financing is available.
- Pramod Kumar:** Okay great. Sounds good. Thanks a lot sir and Farah are there any more questions. I think we covered quite a lot already.
- Moderator:** Sir, there are no further questions from this end.
- Pramod Kumar:** Okay, so please can you just conclude the call please.
- Siddhartha Lal:** Thank you all for coming for this call and thank you to JM also for hosting this call and overall I believe we had a good quarter. Like I said, we see some margin pressures, but I believe the future is optimistic in the sense that all the markets are behaving well and we expect good growth and good improvement in the entire business. So thank you all for joining us and see you next quarter. Talk to you next quarter.
- Pramod Kumar:** Thanks a lot, have a great day.
- Moderator:** Thank you very much. On behalf of JM Financial Institutional Securities Private Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.