"Eicher Motors Conference Call."

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MR. LALIT MALIK, CFO, EICHER MOTORS

Moderator: Ladies and gentlemen good morning and welcome to the Eicher Motors CY10 post results conference call hosted by JM Financial Institutional Securities Private Limited. We have with us Mr. Siddhartha Lal, MD & CEO 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 of JM Financial Institutional Securities Private Limited. Thank you and over to you sir.

Pramod Kumar: Yeah, thank you very much Farah, good morning to all of you. On behalf of JM Financial Institutional Securities I welcome you all to the CY10 result conference call of Eicher Motors. I also take this opportunity to thank and welcome Mr. Siddhartha Lal, MD & CEO, Eicher and Mr. Lalit Malik, CFO and now I would like to hand over the call to Mr. Siddhartha who will give a brief opening remark on the results and outlook and then we will begin with the Q&A session, Siddhartha over to you.

Siddhartha Lal: Thank you Pramod and good morning everyone. Overall I would like to start by stating that we have had an absolutely fabulous and a record year at Eicher Motors Limited. The overall industry performance has been very good and for the industry too, it has been a record year. In particular, our very good performance has been because of improved efficiencies and improved capability of meeting the market requirements. As you know, the commercial vehicle industry, the 5 ton + segment has had the best year ever in 2010 where the total sales numbers were around 4,12,000 with the growth of over 51% from last year. Within that, Eicher Truck and Bus Division of our subsidiary VECV had an extremely good year and sold 38181 vehicles in the 5 ton + segment and our Volvo Truck Division sold around 1100 trucks which is also significant. We have gained market share across the board. In Eicher Trucks and Bus, our traditional area of strength of 5 to 12 ton segment we grew by 56% to 26000 + commercial vehicles and better than the industry growth of 42%. In particular in the 7 to 12 ton segment where we have 38.5% market share this year compared to 35.8 last year, we actually grew by 54% versus the market growth of 43%. I think apart from these areas, the most significant breakthrough in 2010 has been our much improved performance in heavy-duty segment. Since our joint venture started with Volvo, couple of years back, we have been working extremely hard in the background trying to get the entire heavy-duty story right because we absolutely believe in HD being large part of VECV's future and therefore a huge part of Eicher Motors future. We have worked hard in improving our product range, quality, manufacturing, after market offering, our customer interaction and satisfaction, and thus, we have improved from just over 1% market share of the heavy-duty market in 2009 to 2% market share in 2010. And that of course does not tell the whole story because in certain segments we have done exceedingly well in the 16-ton segment which is the entry level of heavy-duty we have now over 5% market and I would add that in the latter half of 2010, our market share has been improving. In particular, in 16-ton tipper market, we have had huge success – our market share is 7.5% in second half. In addition to that, we are launching more products where we are getting new value proposition products in new markets. We have a 25 ton tipper which is already launched in January this year and is commercially available. We have a 31 ton 8 x 2 which is performing very well and that is the highest growth segment in the HD market today. So, all in all, heavy-duty is becoming a larger part of our future, we are becoming better and more confident in the heavy-duty market and it is a matter of time that becomes a very significant part of our revenue and more importantly Eicher brand becomes a very significant part of the heavy-duty landscape in India. To move on, in the exports we grew at a modest 2% but that is because Middle East has not really recovered from the downturn. On the other hand, we have improved our performance in South Asia and African markets. In particular, we have tied up with Volvo group formally in some of their different business areas to work on export markets directly with them. So work is going on - it started in 2010 and going into 2011 which is joint distribution with Volvo group. Buses also grew extremely well last year, we grew at around 47% to close the year at over 4,800 units and that is to do with our improved offerings and products like skyline which is a core light and medium duty buildup bus which is doing very well. In addition we are now fully ready with our city bus which we have been talking about - our semi low floor city bus. We are actively bidding for various tenders now, whichever tenders are out there for these types of buses we are actively bidding for them. As you know we had actually stayed out of the bids during the JNNURM processes last year and the year before but that is because we felt that our product was not fully ready but now we are fully ready. Volvo trucks India grew well again and we expect further improvement this year because of the increase in the coal requirement. We grew up by around 22% to 1100+ trucks and held onto our market share of 70% in the European truck segment even though there are two more players who are also trying to enter this market better. That is largely on the VECV side in terms of volumes and performance in 2010. In the standalone company, we have a division - Royal Enfield Motorcycles. The interest in that division continues to be extremely high, the market is extremely buoyant, our waiting lists are growing, it is 6-7 months. We had a very modest growth of just about 1% in 2010 over 2009 that was only because of capacity constraints. The capacity constraints were in many forms but one of the main reasons and a very significant event in Royal Enfield was that on the 1st of October we did a full switchover from the old bullet platform which used to be our mainstay and used to be 80% of our sales in previous years to a full new unit construction platform which is now 100% of our sales from September of 2010. The changeover cost us reduced production during the months of August, September and October but since then we have certainly recovered and we have been able to produce 5000 plus now for the last two months consistently and we expect that should grow towards the 6000 mark in the second half or even beyond the 6000 mark in the second half of 2011. So that is on the Royal Enfield side. Given all of that,. I would just spend a minute or two on the financial performance. On the consolidated basis, we had a net sales top line for the year which has just reached a billion dollar revenue of around 4400 crores which is a growth of over 50% from last year. Our profit after tax at the consolidated level and before minority interest is 307 crores which is a growth of 137% over last year. Full year margin was at 8.6% that was another high. That was for the year. We have had a very strong Q4 which is the October to December quarter, we did a top line net sales of 1243 crores which is 41% growth over last year and the PAT of 93 crores which is more than three times of last year with an operating margin in Q4 of nearly 10%, it was 9.7 %. So as we move into 2011 we plan to continue to work hard to really improve our fundamentals - quality, after market, cost management, and distribution and that is really in all the divisions in the VECV division, in the motorcycle division that was going to help us a fully exploit our operating leverage which as we have started showing now in 2010 and particularly in quarter four. It allows us a deeper play in more profitable segments of the market and it really makes the company much more efficient because we have been improving productivity on a regular basis thereby reducing warranty costs, we are reducing our discounts, so there is a lot of positive effects other than just core operating leverage which are also playing into our efficiency improvement and that gives us cause to be continue to be very bullish about 2011. We find that there are some clouds ahead in terms of interest rates and other such things but as a company and in particularly both our divisions we have reason to be extremely positive looking into 2011, we have had the ability to put strong price increases in the market in 2010 and in 2011 January as we have without any dent on sales. Our January performance, for example, in Eicher Truck and Bus division was also extremely strong which shows that there was no prebuying or anything of the sort in December. We expect that we will continue our good performance, we will continue pushing hard on heavy-duty and getting better traction there, we have significantly improved our margins in all areas particularly in light and medium duty and we are looking at much better penetration in light and medium duty which is continuing to give us better market share numbers, and our extreme focus on after market actually is helping us tremendously in both customer satisfaction and in profitability. Other initiatives in 2011, MDEP project which we have been working with Volvo is progressing extremely well for SOP (start of production) by the end of 2012. In Royal Enfield we are working on the expansion now, we are looking at new plant , we are considering the exact location, we have already started working on contracts for all aggregates like paint shop and other such things. We will also continue to have strong growth because of new products such as the new city bus and the new 25 ton tipper which are very timely, especially the tipper because of the enormous construction and the requirements for such products, so all and all I would say that we have had an extremely satisfying quarter four in 2010. We have had a very satisfying full year as well and we believe that we are well poised to take advantage of anything which happens in 2011, so that is the outlook from Eicher Motors' side so Pramod I hand it back to you so that you can start the question-answer session.

Pramod Kumar: Yeah, thanks a lot Siddhartha. Farah can we start the Q&A, please?

Moderator: Sure sir. Ladies and gentlemen, we will now begin with the question and answer session. Our first question is from the line of Kiran Chedda from Valuequest. Please go ahead.

Kiran Chedda: Sir, in 2011 what is your outlook in terms of the production especially in heavy commercial vehicles, considering that we have been hearing on and off about the shortage of components that are required.

Management: Certainly 2010 had issues of shortages but as you know probably we can say that Eicher did better than others in terms of getting supplies. That is because of many things - one is our extremely consistent policies with suppliers is that we give schedules way in advance, we work with them extremely closely in times of hardship like for example in 2008 we supported our suppliers extremely well versus maybe some other companies which gave them a very tough time. So the suppliers actually respond extremely well to us to the way we work. Hence, we believe that we should get better supplies, we have already given our schedules for the year, we are having a vendor conference in a couple of weeks to sort out all the others smaller issues. So we believe have a very strong vendor strategy going forward, we are also working with Volvo's global supply chain support to see where they can augment our strategies in terms of working with suppliers and getting the right volumes. In particular in heavy-duty, as you have asked, we have no real constraint as far as capacity is concerned. We have a 1000 vehicle capacity for heavy-duty. If we can achieve 1000 number of sales in a month on an average in 2011, we will be absolutely delighted, So at this point we do not need to expand on heavy-duty just yet for 2011. However, for light and medium duty we have been able to expand our capacity reasonably well so we have demonstrated couple of months in a row of overall production of light and medium duty and heavy-duty put together of excess of 4000 unit which basically means that because our heavy-duty sales of ~ 500, we have actually been able to achieve three and a half thousand odd light and medium duty sales. Certainly the plan is that by the end of 2011 we should be pushing towards 5000 production as for light, medium and heavy-duty together.

Kiran Chedda: Thank you and what about the price increase of all the raw materials, the commodities have been going through the roof, so how does that effect the pricing especially of the components that we get?

Management: Yeah, of course at the one level on commodity prices we have clearly obviously no influence whatsoever. The only thing that we can do is try and ensure that our suppliers still get the best prices of whatever is available which is what we try and do at least for the smaller and medium supplier but apart from that we are working extremely hard on cost reductions, on improvements, on trying and finding the best avenues for let's say using the commodities which have less impact on this price fluctuation and in particular we have been able to frankly even pass on quite a bit of the cost so if you have seen that even though in the second half of last year there was strong commodity price increase in divisions we have been able to pass on that and even more clearly because we have had increase in margins then, so again we have increased our prices in January which goes to show that we are actually ensuring that we cover all of our costs if not more.

Kiran Chedda: Thank you sir and all the best for the future.

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

Chirag Shah: If you can just help us with what kind of price hike you have done in this quarter, and when I say quarter, December quarter you had a 2% to 4% in October, what are the price hikes done thereafter?

Management: Yeah, so for VECV we have done a price hike which is in the similar range - between 2 and 4%.

Chirag Shah: It was done when?

Management: January, in the first half of January. Royal Enfield again in the first week of January also we did a price hike which was at a blended level of about 3%.

Chirag Shah: 3%, and in October you did a price hike in Royal Enfield?

Management: Yes.

Chirag Shah: That would be how much?

Management: It was 2.7% at a blended level.

Chirag Shah: Okay. Second thing is you indicated that on the capacity side it seems that you have a peak production rate in terms of, I am talking about the MH series side, peak production rate capacity seems to be at 48000-50000 units annualized, so if there is a sudden jump in demand can you touch a run rate of 4500-5000 vehicles in the next three to four months or it will take time for you to rush the target run rate of 5000 odd numbers on the medium duty side?

Management: Yeah, like I said our plans are to achieve 5000 by the end of this year, on a regular basis. Just to give an example last year, you could say our capacity was theoretical capacity, not even practically delivered capacity, our theoretical capacity was 3000 light and medium duty and 1000 HD, but by the end of this year we were able to deliver 3500 light and medium duty because that is what the market demanded so we believe that we are certainly running tight but we believe that with certain other maneuvers which is like - if you know there is a big month coming up which we normally predict well, we bump up our capacity, so you might see that our production- if you see the SIAM numbers I do not have them in front of me right now but SIAM numbers production for January would be approximately 500 numbers higher than our sales, so basically we have got some elbow room to be able to sell extra in months where we find that the production will be higher, so we are slightly going up on the inventory internally not at the dealer end but in the company end to ensure that we can tide over big months because the big months give us enormous operating levels and we make sure that we attack the entire opportunity.

Chirag Shah: Okay, and you indicated this increase in capacity to 5000 odd units, how do you intend to do it if you can just throw some light, is it a huge amount of Capex that you will need or it is more of a debottlenecking kind of a thing and where are these debottlenecks if at all?

Management: Yeah, overall there is a reasonable capex spend that we are looking at over the next three years in order to increase the capacity substantially, so certainly there is a capex plan over the next three years that we are doing. We have talked about around 500 crores in the next 3 year horizon but in particular I cannot tell you extremely sharply in 2011 what are the five things that we are doing but for example the new paint shop is only for to commence in 2012 so we found different alternatives for how to manage on paint front for example in 2011 so that should not be a constraint beyond a particular point and then you can go line by line in terms of engine line and build line and all of that. We rebalancing our entire lines, we changing our light and medium duty line entirely by the end of the year to a new line and a lot of balancing stuff, so overall you can say that 2011 is the starting point of a larger three year play into capacity increase.

Chirag Shah: Okay, great. This was really helpful. Second was on the distribution side or the dealer network, if you can just touch base on that, how you are positioned and what is the increase you are planning to do over the next 12 months?

Management: Okay, yeah so at the VECV...

Chirag Shah: Yeah, it is the VECV end.

Management: So, right now we are at around 180 dealers in ETB, this is Eicher Trucks and Buses, and 2011 we plan to add between 20 to 25 dealers.

Chirag Shah: And where would this addition be, not exactly in terms of locations or geographies but how are you positioning this 20-25 additional dealers, they are in the existing areas or you are targeting completely new routes or new areas, how it is strategically?

Management: Chirag, it is a full mix of things, in fact some of these numbers-, we have actually been reducing some and increasing even more but really in some markets we have nearly saturated like in lot of the southern markets where we are in fact ensuring that the incumbent dealers are able to expand so we do not need to add many more points there but a lot of these are now focused towards heavy-duty for example like Rajasthan or some of eastern markets which are largely heavy-duty markets, these are probably where you will see more of our dealership expansions coming in but there are other markets as been, we have good dealership expansion in the north and the central, all of that and in addition we have very strong plans and we have very strong initiatives for even further than this increasing our after market penetration so that means our service and spare parts so you have many different ways in which we are making sure that all routes in terms of spares and service are totally taken care of and that is an enormous initiative decision. Apart from this let's say physical point addition which we are in any case doing.

Chirag Shah: Okay, and how is the competition shaping up because a lot of new players are coming in and suddenly it seems the industry is having some suppressed capacity, are you seeing some signs of discounting happening by the new players at the ground level or not really that is not a point of worry as of now?

Management: No that is not a particular point of worry at this point I do not think, of course we expect and we believe that the market needs more players than what are there today in the heavy-duty market particularly and we will see influx of more and more players and that is not only good for the consumers but it is also good for the industry because we believe that if more players are in the mode of driving modernization which is what we are out after, if the value proposition to customers starts changing and they value better products which gives them more efficiency rather than cheaper products as such we believe that that in itself is a movement which is waiting to happen and we believe we are in the forefront of that movement. So really, we are out to change the market and that is our definite approach. And if there are a couple of more players who have such value proposition, it helps us in the long term to give a very strongly differentiated value proposition to the incumbents who control 95% of the HD market.

Chirag Shah: Okay, and just to touch base on the point you mentioned on the exports tying up with Volvo if you can just elaborate on that, what interactions or discussions you have probably and when can we expect something materializing on that side, you indicated 2011 could be a beginning point, what exactly are you looking at from that side?

Management: Yeah, Volvo group has various distribution avenues so they have different truck brands. We are aligning with some of these organizations. For example, in UD organization, we are speaking to Nissan diesel brand to jointly sell trucks and buses. Eicher brand continues, so there is no brand conflict ever but we are looking at aligning that so now we have started on some pilot locations so right now it still work in progress I would still say but this is more of a medium term plan where we will be jointly entering markets when we are ready we will announce the first market which we jointly and then subsequently we will be entering more and more markets jointly and that will help us tremendously in learning from the experience in piggybacking let's say on an aftermarket setup, on a distribution setup which is extremely well tuned for international markets.

Chirag Shah: So, is it a three or a four year kind of a horizon where you can actually see benefits materializing? You may have initial benefits but the key triggers internally you are looking at a two year horizon for this to be a big event for you, is it a right way of looking at this particular opportunity?

Management: Look, I would still say that our growth over the next two-three years will be mostly accomplished through a domestic growth, that is really the story that is enormous as we see it forward. But for our next phase of growth like you said beyond two years or two and a half, three years, I would say certainly in the next 18-24 months you will see some improvement from small exports in region of 2700, you will see reasonable improvement but it is not going to become 10% of our sales in the next two to three years, that should only happen over the three year horizon.

Chirag Shah: Okay, if I can continue with one more question, it was on the two wheeler business there is a sharp drop in margins and RM to sales have actually gone up significantly, is it any particular reason that cost pressures have built up, you are not been able to pass on…

Management: See, the cost issue is always there. Specifically, on Q4, it has essentially got to do with the fact that there we were little soft in the exports in Q4, it also has been a historical kind of a trend, so nothing exceptional over here.

Chirag Shah: Your profitably has also gone down, this is a trend, but this increase on sequential basis is pretty sharp, it was also there last year if I look at calendar year 2009 even there the increase was pretty sharp, it is a quarterly event.

Management: Quarterly event as exports tends to be lower in Q4.

Chirag Shah: Okay great, thanks a lot.

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

Saurabh Das: My first question pertains to operating performance in the quarter especially in VECV, while along with our RE business across the industry we are seeing exceptional headwinds in terms of commodity pressures but we seem to have reversed the trend, so if you can just elaborate what has led to this sharp drop in RM to sales on a sequential basis?

Management: Yeah Saurabh, I think that a couple reasons, on 1st October we took a price hike of at the blended level close to 2% so that kind of came to the year through the quarter and secondly in December our sales, our volumes were extremely high, we actually crossed our stated capacity also and it is the first time we did that so full impact of operating leverage for the month of December was visible in Q4 apart from the price hike.

Saurabh Das: Sorry sir, may I interrupt, when we are talking about a price hike there was a commensurate increase in cost in terms of passing on the emission cost as well so I presume that we have passed on a hike to compensate for that and when you are talking about operating leverage of course it becomes evident in below the RM to sales items but I was only focusing on RM to sales and that seems to have dropped off very substantially so I was just wondering are there a year end scrap sales or higher service income from Volvo which might have resulted in this?

Management: No, there was nothing one-off over here, and just on the price increase of 1st October that we took the price increase was a little better than the emission norm cost that we had incurred.

Saurabh Das: Okay, so after the price hike which we took in January again of around 2 to 4% is it fair to conclude that it again compensates more than enough for the commodity price headwinds we are facing in the quarter?

Management: No, the price hike will always function of a couple of things, I mean can we always pass on the entire commodity increase to the customers, I believe always no, and nor does it always have to be a mixture of the internal value edges that we have happening over there but it is fair to say that a substantial part of the price increase has been made there

Saurabh Das: Right, because we are heading towards a quarter where operating leverage should again benefit us because traditionally this is the strongest CV quarter so given all of that can we expect that we can hold on to the margins we have locked in the quarter?

Management: Well we are trying our best, we would not like to kind of stretch ahead and talk about margins for Q1 and so on.

Saurabh Das: No, I mean my interest lies because historically we have not ever clocked this kind of a margin so that brings into the question that it is again very contrary to the industry trends as well so just looking at the sustainability of it.

Management: Yeah as Lalit said there is no one-off here, I would add that this is also the result of a huge amount of efforts on operational improvement so whether it is on cost reductions particularly on discount reductions which we have been able to accomplish tremendously so all of that is helping our margins as you have said and in addition our warranty costs and all of that, so is it is not just one factor but actually you can see that in addition to operating leverage we have been able to do fundamental improvements in a lot of areas and those improvements are continuing, we will certainly continue to push harder on those improvements.

Saurabh Das: Great, that was helpful. My next question is on the number of HD trucks which we sold in the quarter.

Management: Yeah, just a sec.

Saurabh Das: Yeah sure, and in the meantime we had set ourselves on clocking a thousand per month and possibly somewhere in the middle of this year, are we broadly looking at that and second that you mentioned significant market share gains especially in the 16-ton segment. Historically we have been very strong in south so is it fair to assume that a large part of our market share gains have been from south?

Management: I do not believe so as we have actually been performing well in other markets as well like such as north and west in terms of heavy-duty so south is of course is doing reasonably well but that is not the driving factor of our growth in heavy-duty as of now. In heavy-duty trucks and I am not including any bus numbers but in heavy-duty trucks we sold 1339 in the quarter four as opposed to 669 the year prior. So as we said in the past and you pointed out that we had an ambition to achieve 1000, more than anything else that is an ambition which still remains and the basis of that ambition is that we believe that once we can consistently hit a thousand number which we are still working towards that we will be able to do sometime by the end of this year. A 1000 number really gives and it puts you in the other side of the curve and all things start coming together.

Saurabh Das: Absolutely, as we mentioned over few cycles.

Management: Over the last few cycles, so that is really where our entire efforts or constant discussions or day or night everything is all about trying to accomplish 1000 HD a month on a consistent basis.

Saurabh Das: Right, is it also clear to conclude that at that level of volumes we will broadly break even on the HD truck business?

Management: Look, we do not have separate numbers and we do not show a separate numbers for HD, LMD etc. In any case after the gross income level you can say the organization is all joint whether it is the R&D organization, sales and marketing organization, manufacturing organization, it is all one organization which cannot be split up further, but at this level, things start improving we are starting to pull ahead even on the margins.

Saurabh Das: Right, just a housekeeping question on the other income I could not reconcile the fact that overall consolidated other income is lower than the standalone, if you can just explain that part?

Management: Are you talking of other operating income or…

Saurabh Das: The other income which is 24 crores if I can see on the console whereas it is 30 on the standalone, have I got the numbers right?

Management: Yeah, so this is the dividend declared for the current year 2010 by VECV which has moved into EML - about 27 crores.

Saurabh Das: Right, so VECV other income in the quarter if you can give me that number it comes as -7 by a simple arithmetic but.

Management: No, you cannot add it like that.

Management: Saurabh, on this we can have a separate call.

Saurabh Das: Sure, we will do that. And just one final question on the average yield on investment we can expect in the current calendar year given that interest rates have moved up.

Management: Yeah, as far as VECV is concerned the entire money is always put in fixed deposits and this year in the last couple of months all the rollovers that are happening at 9% plus so.

Saurabh Das: Great. Thanks a ton for this, I will come back for more questions.

Moderator: Thank you. Our next question is from the line of Vaishali Jajoo from Aegon Religare. Please go ahead.

Vaishali Jajoo: Just a macro question, looking at the interest rate going up and some of the production industrial production is expected to show a little bit of neutral numbers going forward. How are we seeing the CV demand going forward, are we seeing that robust demand in current year as well or it will be a little bit of slower growth we have?

Management: That is a million dollar much more than that question. We are prepared for all eventualities. But fundamentally, there is good industrial growth, there is certainly infrastructural and mining investments which are happening and all these are going to aid further increase in transportation. There is also a very healthy movement of goods. I can say pretty much certainly that growth will not be of the same pace that it was in 2010 but that there will be growth. These things are very difficult to predict. So we are prepared for all eventualities. We watch the ground to make sure that we do not over produce or under produce. From an Eicher perspective, in heavy-duty we will continue to continue our strong push because it is still, you can say really, virgin territory and still there is still a lot of growth potential because of the market out there, so I expect that we should still continue to beat the market as we did last year.

Vaishali Jajoo: Another thing is about financing, CV financing if you can explain me more, how is the market right now shaping off after the increase in interest rate and how do you see it going forward?

Management: I do not see a fundamental change in the market really, in the financing market, the delinquencies are all I believe are still reasonable and in fact they are particularly good as far as the Eicher products are concerned. We work very closely with all our financing partners, all the banks, and all the NBFCs, so we have had a very good tracking, very good performance in delinquency levels which obviously encourages the financiers to give good treatment to Eicher customers in the coming times. We find that the customers are able to pay for that extra interest because the end consumer of transportation is willing to pay a slightly higher freight rate right now. So because of that we do not see an enormous impact but of course sometimes the impact comes from sentiment rather than facts also so right now the financiers are being able to pass on the additional interest costs let’s put it that way.

Vaishali Jajoo: Okay, and the last one is how have you maintained your inventories I just want to know what is the policy or the procedure how you track the inventory levels at both raw material front as well as on the supply front?

Management: Can you elaborate tracking, we do have our internal policies and internal norms to track both at the plant level as well as at the dealer level, I am not sure I understand...

Vaishali Jajoo: The dealer level if you can explain me right now?

Management: See at dealer level our tracking means we have a very close understanding, and certainly on a monthly level we have an exact number of what the dealer levels are but typically I do not think- I would say dealer inventory would still be normally between 15 and

21 days, so between two and three weeks is what we normally keep at the dealer level, and I would say a similar amount at the company level, so we are a very lean operation that way, and for example, we might have increased our company inventory of finished goods marginally by a few days at the end of January only because we expect that we should be able to sell more in February and March, but we are talking about four-five days of inventory on a whole, but generally we are extremely lean on inventories that we continue to be.

Vaishali Jajoo: So it does not cross more than 21 days around maybe or at the most 25 days if we are looking at the end of year.

Management: At our books, and again on the dealer books probably 15 to 21 days, yeah.

Vaishali Jajoo: Okay, thank you sir.

Moderator: Thank you. Our next question is from the line of Nilesh Dhamnaskar from Religare AMC. Please go ahead.

Nilesh Dhamnaskar: Coming back to the margins which you achieved during this quarter they again seem to be exceptionally high, you just mentioned that there is no one-off during this quarter, but is it then on an account of the change in the product mix especially the sale of the Volvo vehicles which you sell through your distribution network, could I get the numbers for that during this quarter?

Management: Sure, we sold 337 Volvo trucks this quarter versus 276, so certainly in fact it is good point, there would be some positive and some negative impact from product mix this quarter because of various different things which I cannot get into every detail about, but overall I do not think that can be described as a major factor really, as we said it is more about efficiency improvements and other such things which have come into place.

Nilesh Dhamnaskar: Right, fair enough, so but has there been a change in the commission structure which you have been receiving so far?

Management: No, absolutely not, no change in any commission. We have received the same amount of commission, and our performance is likewise is its obviously Q4 has been relatively good as far as Volvo trucks is concerned, but it is all in the similar ballpark of growth, we have grown you can say by around 50 numbers from last year same quarter, that is around 20 odd percent, 25% improvement.

Nilesh Dhamnaskar: Fair enough, and can you just tell us about the progress of the engine outsourcing business, plans at least any major development post the announcement?

Management: No everything is according to plan, that is the major development really, and now all those contracts for different parts of the engine project are going out you know whether it is the building has started, the machining, the assembly all of that is in either the contracts have been gone out or they are in final stages of negotiations and the contracts are going out, so that is on the industrial side, the development side everything is as per plan in terms of- we have got all the first set of parts in and we have measured all of them everything else, on the supplier side everything is also going strong, so it is very much in fact according to plan at this point.

Nilesh Dhamnaskar: Okay, and what are the timelines if you were to reiterate the timelines in terms of commissioning of the plant and production, start of production?

Management: Start of production is slated for December of 2012 at this point. So, commissioning would be well before that, it would be in the, I would say, in the end of the first half of 2012 would be the full commissioning of the plant.

Nilesh Dhamnaskar: Okay, yeah fair enough, yeah thanks a lot, and all the best.

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

Chirag Shah: Just one thing I wanted to understand you touch based at gross profit margins on the HD truck business have been improving. If you can throw some light what would be your gross profit margins broadly and what has driven the improvement. It has more to do with pricing; it has more to do with volumes, how has it helped you if you can share some light over there?

Management: Yeah, sorry Chirag I cannot help you in detail on our GP margin on trucks, it is just to say that that is the level at which we can track it, and that is what we were talking about. Certainly the same trends that have happened that have helped us everywhere else, we have had good price increases, we have had efficiency improvements, we have talked about all that as foreseen, and those are the same things which are helping us here, I mean in HD, LMD everywhere in buses.

Chirag Shah: And is it possible for you to share revenue details of Volvo truck business that stands in the VECV the trading part of the business, and the spare parts, Volvo spare parts business?

Management: We do not share exact revenue details there but you have the numbers there very clearly. The retail price is well known; I mean our retail price on an average I believe is 65 lakhs for a truck, so that is the general idea which I can give you.

Chirag Shah: Okay, and on the two wheeler side, you indicated you can, you have a capacity of 6000 odd units, would you be touching that capacity in the second half, correct?

Management: Yeah, we are now growing our capacity to 6000 odd units at the second half, so that is what we are trying to accomplish in second half of this year.

Chirag Shah: And you had also indicated that you may need a new Capex looking at a new site for 1 lakh odd units in some other earlier interactions, through media also you indicated this, so any update on that side how has been the business plant development over there?

Management: Yeah, in fact that development still stands in terms of the fact that we are strongly considering and now working on that development. We have not yet signed on the last dotted line or pushed the button to actually commit the money yet, but all the background work is in shape right now to give us an idea of that, so right now all I can say is that we are in the throes of planning on a new plant. As soon as we commit to it, we can give some more details in terms of what and how, and what is the cost and everything else.

Chirag Shah: Is the location finalized where you would like to set up because it will be a green field, right?

Management: Yeah, we are looking at a freenfield, we have no place of expansion in our current factory. On location, it is only within the last stages of discussion. There are some options we have.

Chirag Shah: Okay, great this is helpful, thank you.

Pramod Kumar: Siddharth, if I may squeeze in a few questions here.

Management: Yeah, please.

Pramod Kumar: Yeah, on the industry side on the commercial vehicle considering all the headwinds which you are facing currently, what would be a fair assumption for growth for CY11 for the industry as a whole I mean at CV especially?

Management: Pramod it is anyone's guess. How we look at it as scenarios rather than one number, right, because different things can trigger off different growth. As you know, whoever tracks the global industry, 4 years ago when the Chinese market was at whatever 250-300 k heavy duty units, everyone said okay there will be growth of 15-20% a year etc., and by 2011, they were expected to be at let us say 350,000. Today it is at 1 million level. So it is very difficult to say what triggers will increase or decrease, but we are trying to get closer to tracking all these triggers to say that what will actually exponentially grow or what will suddenly cave the market and that is why we do not like averages, we could average on that and say okay there will be 10-15% growth but actually there are scenarios with different possibilities and some scenarios could give you continued 50% growth, some scenarios could give you a flat market, so what we do is we like to track all of these, see what triggers – is it extra investment in the economy which could trigger a lot of growth in terms of infrastructural investment, is it to do with industrial output, is it to do with-, and you normally track the actual part, and you can call it the number of installed vehicles in the markets so it's pretty complex, but at the end of it we expect growth in 2011 to be lower level double digits.

Pramod Kumar: Lower double digits, okay.

Pramod Kumar: And Siddharth on the Royal Enfield side, how did you see the profitability shaping up because see one thing is for sure that demand is extremely robust, so whatever you can manufacture at this point of time or fairly even on the one year basis you should be able to sell, and with the new plant coming in how do you see the efficiencies kicking in because what we are talking about on the current facilities are five decade old plant in the way, so do you see a lot of improvement in operational efficiency at Royal Enfield with the new plant kicking in?

Management: I am actually not even going to talk about the new plant only because it is beyond the current time horizon, and we will talk about that when the time comes. In 2011, clearly we do not get a new plant, so in our focus in 2011 is how we can accomplish the efficiencies here. So in the first cut, honestly, I will just add on the new plant that obviously the intention there would be to have a scale plant which would certainly give better efficiencies, but that is not going to affect us this year. Last year we suffered as we said from a lot of issues and despite that we were able to get very respectable margins, not superlative, but certainly very reasonable margins in Royal Enfield business. This year we certainly expect that of what is it, overall 10.3% would be for the full year so I believe that is getting into the respectable zone. I believe we still carry a lot of inefficiencies in Royal Enfield. So you can say the type of efficiency, productivity, quality, warranty reductions etc - all that we talked about in the VECV side, these certainly have not kicked in on the Royal Enfield side as yet. And there is potential, it will still take some time for us to meet that potential, but that is one and certainly we expect that we would improve production from what we are today to of 52,000 in 2010. We certainly plan to increase that substantially, operating leverage should be in our hand in any case in the Royal Enfield.

Pramod Kumar: Great. Farah, are there any more questions to be, as in any more participants who want to ask questions?

Moderator: There are no further questions.

Pramod Kumar: So can we close the call then please?

Moderator: Sure sir, would you like to add any closing comments?

Pramod Kumar: No, I think it is fine from me, and as in basically I would like to thank all of you for taking time and participating in the call, and of course Siddhartha and Lalit thanks a lot and wish you best of luck.

Siddhartha Lal: Thank you very much.

Lalit Malik: Thank you.

Pramod Kumar: Take care, bye.

Moderator: Thank you. 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.