



“Eicher Motors Post Results Conference Call”

August 1, 2011

Moderator

Ladies and gentlemen good day and welcome to the Q2 CY11 post results conference call of Eicher Motors hosted by Emkay Global Financial Services Limited. We have with us on the call today Mr. Siddhartha Lal, MD and CEO of Eicher Motors and Mr. Lalit Malik, CFO Eicher Motors. As a reminder all participants will be in the listen-only mode and there would be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference call 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. Chirag Shah from Emkay Global, thank you and over to you sir.

Chirag Shah

Thank you Marina. We would like to welcome the management of Eicher Motors Limited and also thank them for giving us the opportunity. I would now like to hand over the call to Mr. Lal for initial remarks and then we can start the Q&A, over to you sir.

Siddhartha Lal

Thank you Chirag .As you can see we had another quarter of growth both for the industry and particularly for our company Eicher Motors Limited. I will start with the update on our sales volumes in various segments of the industry and then provide a brief update on the financial performance.

The CV industry this quarter, if you are looking at the 5ton above segment which is the segment that Eicher Motors represents, grew by around 7.8% over the same period last year. And like the last many quarters, we have continued to beat the industry growth rate and we have grown by 23.8% which is of course very heartening. In our Q2 which is April to June 2011, which is this quarter just ended, we had a good growth in the 5-12 ton segment which is our traditional strong hold. We sold 6641 units and grew by around 20.4%, which is similar to that of the industry growth and therefore we held on to our market share of 30.4% same as Q2 of 2010. So there we held on to those market shares, of course for the half year we have had a better market share than last year. So we continue to stay strong in our traditional segment. Then we move on to obviously what is the most crucial segment for us in the coming years, which is the heavy duty segment. There we continue to build on our strength and to build on lets say our starting point which we got in and we continue to build volumes.

In the quarter, we sold 1407 units, which is 60% improvement over last year and of course 60% versus market growth of 5%. Of course our base is very small, so that helps. Our market share as a result has improved from 1.8% to 2.8% over last year and now we are increasingly gaining presence in both more segments and more geographies in the heavy duty truck segment. We continue to receive also a very positive feedback from our channel partners and customers on product reliability, performance and features. Although we are not spreading ourselves too thin at this point, we continue to stay focused on the product segments in the location in areas where we are providing better value propositions. So we are not going, let's say, pan-India, pan product range at this point, so it is a very focused approach- it continues to be. As you can see, we have pushed hard now on the 16 ton segment, which is even an area which we are going strong in, we have a market share of 5.9% which is up from 3.4% last year so in 16 ton cargo, in 16 ton tipper, our market share is up to 9.1% actually. So that is a very good market share close to 10% now. And of course in some geographies where we are present our 16 tons tipper is well over 15-20% ,also in some cases. So we are not present pan-India yet, we are taking it slowly but we are making sure that wherever we are present we try and get a higher market share.

As far as bus segment is concerned, we had a very good quarter as well we capitalized on the momentum that we built in Quarter one. In Quarter two, we actually sold 2127 units which is an increase of 22%, where as the market declined by 8.1%. So here we gained very good market share from 9.3 to 12.3% in the bus segment and in export also we have grown to 732 units which is an 8.5% growth. The only area where we have seen a dip is, our European trucks segment which is where Volvo truck operates. As all of us know that there have been issues relating to mining sectors and 80% of our exposure is the mining sector whether it is coal or iron ore, lignite all these other areas. So we had problems there in quarter two, we sold only 122 units, which is a drop of over 50% from last year. But we still have market leadership here and we continue to have a market share. We remain hopeful that if as and when the mining comes back on stream ,we will continue to have very good growth in this segment as well.

We move to our projects, main project is medium-duty engine project which we are manufacturing the engine for Volvo Groups global requirements. The project is going extremely well, we are really on track to make absolute global quality engines of course ranging from Euro 3 upto Euro 6 standard engines. The production will

start by the end of 2012. So that project is going exceedingly well and I am very satisfied with that. Then moving on from a joint venture, to our motorcycle division Royal Enfield. As we have been discussing, lately we have been in the process of expanding our capacities in Royal Enfield. There are two parts, one is our standalone capacities in our current plant and the other is new capacities which we are looking at.

As far as new capacity is concern which will be ready also let's say around first quarter 2013, we have procured finally a land in Chennai for 50 acres in Oragadam which is right in the heart of Chennai automotive area ,that has been handed over to us recently. We are now working on the final paper work, so it will take around 18 months or so to get the plant up and running. So the project is on, it is live and we have just started moving forward, so we will continue Chennai as our next location. This allotment was done actually on July 12th, so just over two weeks ago.

As far as the current plant is concerned , last year we produced 54,000 motorcycles approximately. This year we are on track to producing just over 70,000 motorcycles and we should continue to push that forward even next year and exceed 70,000 next year. And of course, as and when the new plant will be up and running, our capacities in the new plants will be 150,000. So we will have that capacity to look forward to in the coming years. So the good news of course is in the first half we had a very good performance in motorcycle production. In the last quarter too, we have actually produced 18,581 motorcycles, sorry that is our sale number but it corresponds exactly or very closely to our production number and in that quarter, we produced over 6000 motorcycles per month and which is a growth of nearly 50% over last year. So we produced just over 12,000 last year, we produce over 18,000 this year, so it is very strong growth that we saw and we see no reason why we should do anything but 6000 plus to the coming year as well for the rest of the year.

Now given these volumes and I guess there is a price increase we have done, we have done price increases twice this year for both our businesses that is, I believe in January and July we have done prices increases. So given all of that we have, actually our financial performances is also very satisfying. We had our overall sales net sales nearly touching 1300 crores, so 1298 crores with a growth of 25% over the same period last year

Our EBITDA was at 126 crores, which is a growth of 47% over last year and it translates from operating margin of 9.7%. This 9.7% is incidentally the second highest ever percentage margin that we have achieved in a year and this is in a quarter which is regarded normally in automotive terms as slightly sluggish, of course the coming quarters will be hopefully increasingly better. We had a profit after tax for the quarter at 116 crores which is at 8.9%, I believe it is a highest ever other than when we have had extraordinary income and it is a growth of 40% over the same period later year. So, in the working capital domain we continue to have negative working capital now for the seventh consecutive quarter, so it continues to grow strongly for us and overall I believe a satisfying financial performance as well for Eicher Motors this quarter, as again laying a good foundation for the coming quarters which look to be quite interesting. Before I end may be a small point on the industry outlook in the rest of the calendar year 2011. Given the recent hike in rates etc I believe that is in everybody's mind, the organization continues to be cautiously optimistic about the industry's volume growth plan over the medium term and extremely optimistic, I would say, over the long term. I believe in the next 2, 3, 4, 5 year horizon, there is a lot of growth potential in the industry and from my interaction with channel partners and customers, we find that they have been till now able to pass on the price increases to the customer and the customer has been able to pass it on to the end customer of the trade. So there is of course some sentiment issue right now since it is going on, the sentiment is slightly weaker at this point but the fundamental seems to be reasonably good.

I don't see as yet a down turn or anything of that sort. There is a little bit of flattening out which is happening, so the growth rates may not be in high double digits certainly, it could be in single digits or low double digits we don't know but certainly we don't see a normal growth rates in the industry for the next few months but that is more sentimental related. The underlying business is still reasonably good. The pricing power of truck owners is also reasonably good. Actually the momentum is reasonable to give us a good run into the next couple of quarters, which are the better quarters especially October-November-December and beyond. So we are reasonably optimistic notwithstanding obviously one or two smaller issues which may happen on a monthly basis at the industry level, one doesn't know exactly month-to-month what can happen but overall I believe it is reasonably good.

Yeah, that is it from my side at this point so Chirag may be back to you and on for question and answer.

Moderator Sure sir, we will now begin the question and answer session. The first question is from Kunal Bhatia from Dalal & Broacha, please go ahead.

Kunal Bhatia Sir just with regards to the last year closing comments, you did mention that on a long term basis, you see that growth could be in a positive figure, so just wanted to understand what factors are you looking for as in, I am not talking about six or one year down the line but on a long term basis ,what factors do you see that would lead to another growth phase in this industry.

Siddhartha Lal There is transportation which is closely linked and especially to commercial transportation and GDP. So as long as there is good GDP growth in the sustained manner in the long term ,there will be huge requirement for the freight movement and obviously there is a multiplier effect actually on GDP growth. So GDP growth is 7 or 8, there should be good multiplier effect on that for freight movement in terms of ton kilometer which are required to move. Our industry is cyclical by nature, so at some point there will be some downturn, there will be some upturn but on a compounded growth rate we should see it as a multiplier of GDP. The other of course important factor is that in India logistics, if you see as a percentage of GDP is actually quite high. Whereas the actual truck transportation, in individual truck transportation is low but logistic cost is very high because of the higher inventory cost, very slow timing, very slow travel all of that. So over time, if the logistic cost as in percentage of GDP starts coming down much more, it becomes much easier to do transportation. So people start having one hub or let's say one plant in the country rather than having multiple plants and therefore they do a lot more transportation. So obviously we track a lot of things but I would say GDP and you know the opening out of logistics are the two main factors that we believe in the long term will affect the industry growth.

Moderator Thank you. The question is from Pramod Kumar from JM Financial, please go ahead.

Pramod Kumar I had just one query on this semi-low floor bus launch as in, I believe that you have done an introduction of the product. So just wanted to understand, how is the experience so far in terms of response from **STUs** and any number visibility as to when this particular segment will start ,what do you say adding to the numbers on a

monthly basis and I think probably after this I have further questions on the HCV side so.

Siddhartha Lal

As you know, we have launched the semi-low floor bus which we are extremely excited about. It is a scene of the urban transportation in India. There is I believe an enormous potential and we really tried to hit the middle of the market which is a very value conscious and good area of the market. We are going after second tier town and cities right now and while the bus is ready, we are really now on the marketing phase of the bus. As you know sales to government have long gestation period, so we have participated in tenders, we have been showing around our bus to many different cities, we have them on trials in different cities. So we have got one order of 20 buses I believe at this point from Gujarat, I can't remember where exactly but is in Gujarat. Let's say having our first full commercial running of our buses, currently there are running on semi commercial bases in the sense they more on trial in different places. So it is not an extremely fast start because these things do take some time to get going but the bus is good, it is ready and now we are actively marketing it. So we are looking at it ,we are bidding for every single tender which comes in for semi-low floor buses and hopefully we should start winning more and more as time goes by.

Pramod Kumar

And this is the product which has been in a way tested and validated by Volvo, right?

Siddhartha Lal

Now of course it is part of our joint venture, which is the Volvo Eicher Joint Venture, so we got lot of support from Volvo Group in validating this. Yes we have got their support in the validation process.

Pramod Kumar

No it helps a lot in terms of the perfection of the product especially given the fact that the other two companies are struggling with lot of complaints and suites from STUs. So I think that is good to hear. And Siddhartha generally on the HCV side how has this increased acceptance for the product helped in whether the discounting vis-à-vis, say the main stream players are the No.1 and No.2, it is narrowing or in way are we seeing better realization coming out this business and specially considering the fact that discounts I believe are generally higher now because of the slackness which has come into the sales. So how that is having an impact on our whole HCV game plan in terms of hitting the 1000 volume mark and also on the pricing side and the profitability of the segment?

Siddhartha Lal As you know, generally we not big discounters and we don't like to be seen or we don't like to position our brand as giving much discount but clearly the only reason why we do have to discount a little bit these days, more in HCV than we do in other segments, is purely because of a slightly lower resale price that we have of our product at this point, which is because it is new product.

Pramod Kumar Exactly.

Siddhartha Lal So in order to counter that we do offer some slightly low price today. I think there is a enormous potential. Obviously once we gain good traction in heavy duty of good volumes and of sustainable volumes then of course we see a huge possibility in increasing margins as time goes by. But that still I would say is step 2, right now we are still on step 1 which we have talked about, which is to get to a consistent 1000 volumes a month. So we are starting to hit 500, 600 plus which is excellent compared to may be 100, 200 we were doing around 12, 18 months ago or may be 300. So the volumes have picked up a lot we have not reached a 1000 volume. At 1000 we believe it's the right time when all the good situations are ticking in. So we will be able to get some better cost from our vendors, we will be able to get better cost from internally in our manufacturing and we will be able to lower our discounts. So I would say we all plan for the second phase which is post regular 1000 a month, which hopefully we should see sometime soon. So that is really the situation on our heavy duty pricing and number situation.

Pramod Kumar And generally the 1000 mark, would you expect that will it be achievable by this calendar year or ideally the first quarter of the next calendar year?

Siddhartha Lal Unfortunately I can't predict that. We have never given any guarantee on this but we have always said that we would love to see it happen within 2011 itself ,to try to hit a 1000 number. But we are not going to just push it just to prove everyone that we hit a 1000, we will only do it when we find it sustainable and when there is a proper pull for it. So a month a two here and there doesn't matter to us as much as the sustainability of it. We have had in the past in 2006-07, we have gone up on numbers in heavy duty but we weren't able to sustain it. So we know that sustenance is the most important thing. Once reaching a 1000 so we are going to do it, when we do it, it is going to be sustainably.

Pramod Kumar And finally on the non-vehicle business with others, if you guys can just throw some light as to how has been the performance there during the quarter, if not exactly in

terms of absolute revenue but if not that actually is the growth how it has panned out in this particular segment.

Siddhartha Lal

Are you talking about spare parts?

Pramod Kumar

Yes spare parts, as in generally the non-vehicle spare parts services.

Siddhartha Lal

I don't even have the numbers of that in front of me but it continues to grow very well. We have put lot of emphasis as aftermarket business because we believe there is enormous potential. It tends to grow slightly higher than the volume growth in vehicles but sometimes it is plus/minus you cannot say exactly but certainly, it is going at pace with everything else right now.

Pramod Kumar

And any price increases plan in the CV side or you are looking at this particular quarter?

Lalit Malik

Yeah so Pramod, in July we did announce a price increase ranging between 1-2% across the board for various models. So no price increase in the near future so far.

Moderator

Thank you. The question is from Pritesh Vora from Equanam, please go ahead.

Pritesh Vora

Sir can you elaborate on your engine, you have some engine manufacturing plant?

Siddhartha Lal

Volvo has chosen, this joint venture to be its manufacturing base for a new medium duty engine platform, which Volvo Group is in the process of developing right now. So it is an extremely prestigious project for us. Traditionally they only manufactured engines of this nature especially of Euro 6 truck requirements in Europe, so this is the first time, in fact globally that such an engine is going to be made in a country like India whether from Volvo Group or anywhere else. So in that way it is extremely forward, extremely prestigious, we will be supplying engines from our Pithampur factory, where it is being set up, to Europe. So they will actually be installed in Euro 6, European engines from 2013 and 2014 onwards. The plant is coming up - the factory shed is now getting made. The orders for all the equipment has sort of come through, lot of the purchase orders have gone out. We are in the first phase, we are making 85,000 engine capacities, this includes of engines from Euro 3 all the way to Euro 6 but basically it is four cylinder and a six cylinder engine. So the four cylinders is 5 liter and the six cylinder is an 8 liter engine. The Capex on the plant itself is approximately 300 crores for phase 1. So that is the sort of general layout. The start

of production will happen by December of 2012, so we should have a full year in 2013. Of course there will be ramp up in 2013 and that is when we will have a year of full production of diesel engine.

Pritesh Vora And what can be the approximate value of this 85,000 engine annually?

Siddhartha Lal I don't have an approximate value at point Pritesh. Of course these are very high end engines so, you can look at comparative figures in the market but we are not giving out the number on value at this point.

Pritesh Vora And this year say calendar year 13 is it?

Siddhartha Lal Yeah calendar year 13.

Pritesh Vora And when does it start in calendar year 12?

Siddhartha Lal Yeah December 2012 is the current start of production date.

Pritesh Vora And this is for all of the Volvo requirement in Europe for four and six cylinder?

Siddhartha Lal Currently Volvo is making their medium duty engine in collaboration with a company called Deutz which is a German company. It is not going to happen in one shot but over time our engines with the Euro-VI engines will be replacing a lot of the engines which are being made by Deutz currently. So it is not for all the requirement of four and six cylinders, in fact it is for the medium duty requirement they also make, I mean all their heavy duty is also six cylinders but that they make in Sweden itself. So we will be catering to the medium duty requirement for Europe, Asia and quite a few other markets.

Pritesh Vora Correct and is it what kind of JV it is? Is it an equal equity partner?

Siddhartha Lal The engine plant falls within our joint ventures, which were set up in 2008. So the joint venture its run as 50:50. Eicher Motor Limited owns actually in real terms it owns 54.4%, AB Volvo and in real terms it owns 45.6% of this joint venture but the agreements the understanding everything is 50:50 down the line. So the economic interest if you buy into Eicher Motor is 54.4% of the engine company.

Pritesh Vora One more question, this regarding the larger CV industry. once the GST comes in a line there will be lot of rationalization happening in terms of logistic center and

transportation hubs and all that. So how do you see this development affecting your company.

Siddhartha Lal

When GST comes on line, of course it changes a lot of things, you are very right to say from the logistics stand point of view and in fact it, what happens is that if you remember the first question which I believe Kunal Bhatia asked about the factors of GDP, I said two points GDP and opening out of logistics. So basically what GST does is, it opens out logistics. It becomes much easier to do logistics, logistics as a percentage of GDP comes down dramatically hopefully. It encourages transportation a lot more. So, people find it cheaper to transport than to set up multiple plants, other such things. So we see it as an extremely positive effect on the commercial heavy duty.

Pritesh Vohra

I am just curious to understand that, is there any study which you have done like say if they go for hub and spoke model regarding logistics there will be more heavy duty truck plying rather than medium, so is there any impact on your business model in terms of product chosen by the logistic operator or it is too early to determine all that?

Siddhartha Lal

There is lots of modeling done but India is a peculiar country, we will never have a very sort of formal and well defined hub and spoke model, only because it's so large and the distance and the travel time, the numbers of days taken are 5-6 days between certain type or even 7-8 days. So if you see of course for the long distances more and more obviously only heavy duty trucks are going to be used, so there is huge growth in that. But in all the regional transportation that means south to south, that means within four south states, from west to west, from west to central or central to central and north to north, we see very large medium duty requirements. So these will be all point to point, there will be no hub and spoke in these. So you want to travel 400 km, it will be done on medium duty trucks. So we see an increased, a very good potential and growth for medium duty truck, we are continuing to invest heavily in medium duty as well, a new platform for medium duty because basically people want to get instead of 300-350 kilometers, they want to get 500 kilometers in one day out of the medium duty truck and that covers all regional transportations. It makes it extremely efficient to do regional transportation. With the economy, we see a growth in all segments, in small, medium, and heavy. Of course there will be different growth rates but we see no concern to our business model at this point.

Pritesh Vohra

And my last question if you look in horizon of 3 to 5 years, where do you like to place Eicher Motors in a longer-term horizon, would you continue to do the product segment which you continue to do, where do you see yourself fitting into the entire product structure because you do MHCV, LCV, motorcycle, and also mining trucks, so wide variety of the products which you do?

Siddhartha Lal

Obviously you can take Eicher Motors as two very distinct parts; one is the joint-venture Volvo-Eicher with Volvo, so that is entirely to do with commercial vehicles and one is Royal Enfield. So we keep those two aside there is nothing much in common. The truck joint-venture, we will focus entirely on trucks and commercial transportation of all types, buses all other commercial areas, engines other such things. At this, where we see ourselves in 2015 time horizon because that timeframe you asked about is, that our ambition is to get 15% market share in heavy duty. It is very large ambition but we believe we have the wherewithal to get us there and that will be the one that will be a huge multiplier affect on our top-line and grow our top-line to the next multiples that we are looking at. We plan to be in every segment of the commercial vehicles of course our focus is right now on 5 ton and above and for the foreseeable future for the next 3-4 years horizon I don't see any change in that focus of 5 ton and above. We plan to get much stronger in buses, much stronger in heavy duty, continue our strong platform in light and medium duty but also we are looking at getting into increasing our soft product or non truck business as well. So it means after market, it means various other areas that we are looking at in order to ensure that we have a non-cyclical business also which is very strong. So that is what we are growing in the CV side of it and we feel confident that we should achieve our targets. So maybe well over 30% in light and medium duty and certainly 15% in our heavy duty and ahead of that in our bus as well. And of course motorcycle as we said, we are now putting another plant to at least produce 150,000 motorcycles but if things go as they are in the current trajectory, we should probably looking at increasing that also by 2015. And there as you can see, if you look at the standalone number, we had very strong margin growth in the motorcycle business and we believe that the peer level in motorcycle is even higher than what we have today in EBITDA level. So we should certainly be targeting to get closer to our peer levels a best-in-class for margins in motorcycles.

Moderator

Thank you. The next question is from Vikram Mahajan from Bay Capital. Please go ahead.

- Nikunj Doshi** Hi this is Nikunj Doshi from Bay Capital. just wanted to understand this engine plant once it starts production do you need to go through a cycle of approval from parent and will it take some time or you can straightaway start selling it?
- Siddhartha Lal** Approval of what nature?
- Nikunj Doshi** Engines projects, once it starts and when we start exporting engines to Europe is there a cycle of approval which takes time or you can straightaway start selling?
- Siddhartha Lal** The engine project is being handled of course by the joint-venture and because it is of such high strategic importance to Volvo group because it is not only going for some output engines in Asia and all of that, it actually been used for the European trucks. Volvo Powertrain, which is a very strong organization within Volvo group is hands on working with us. They are in fact leading a lot of projects which go into a manufacturing of this. So it is not that they have just given us the project and say now you complete it, they are working with us very closely, we work extremely closely with each of their people, their engineers, their team members to get this project on so. The approval is all in-line. I don't know any other approvals stage. It is not like there is any option but to buy this. It is not like they have a second plant also which they could lean on. So there is no question but the engines will have to come to this plant for their global requirement.
- Nikunj Doshi** And in terms of CapEx, what is the CapEx plan say in Eicher standalone and in JV over next two years?
- Lalit Malik** In the standalone business the plan is to invest in the new plant which Siddhartha has just spoke about. With the land we have got, there will be an investment to the tune of 120 to 140 crores, the plans have not finalized yet in terms of the exact size of investment but it will be in that range. As far as the joint-venture is concerned over the next two and half to three years there will be an investment of close to about 500 crores in capacity expansion, parts of which are already going on including the new paint shop which is coming up and the medium duty engine of course the first phase will consume about 300-350 crores. So these are the three large CapEx plans that we have right now.
- Moderator** Thank you. The next question is from Sanjay Doshi from Reliance Mutual Fund. Please go ahead.

Sanjay Doshi Just wanted to understand what efforts are we putting on the distribution and servicing areas, we are not yet at 15% market share, if you can talk about the 3 to 5 years perspective?

Siddhartha Lal Very good question Sanjay because distribution I would say one of the enabling or constraining factors whichever way you look at it, for us to achieve the 15% and it's a extremely crucial aspect of our future where we have a huge focus on getting our distribution right and we already have a very strong distribution for light and medium duty. But obviously there is an enormous upgrade, which we have been doing in order to make sure that it is ready for heavy duty. So firstly on the qualitative side what we do is ,we have a very strong process by which we actually put a green signal for any dealer that he is ready to sell heavy duty. So one is his own financials and other readiness then is the screening, facilities, the base, the spare parts availability, the service, the technicians, the sales people all of that availability, we do at a very good level. Then of course it is the routes which the heavy duty truck will take from this particular dealership area or the catchments area of the dealership. So if there are 15 identified routes which are of high frequency, then we need to make sure that their service availability on all those routes. so all that work we do at every single dealership basis. We have currently 145 commercial vehicle dealers of which more than half or around half are now heavy duty ready and what we are obviously attempting to do is, one is we are increasing the number of dealers themselves at a total level so from 145 we are planning to go to 155 dealers this year and the goal let us say in a 2 years' horizon is around 200 odd numbers for dealers. But very importantly it is the readiness as for the heavy duty that we are now on the monthly basis we are adding 3-4 dealers to become heavy duty ready. So that work which is happening because it is not as dealer points, it is actually interim points of service which we are also putting up, we have many different models of either AFCs offering service points or we have our own points which we are also looking at putting up. We also have container workshops for very quick band-aid type of job. So this is not only service points that we are putting up. We wanted to make sure that the service and spare parts is available and all the routes that we want to follow.

Sanjay Doshi And in terms of region, if we have to look at is there any particular region that we are focused on in the near term?

Siddhartha Lal It's very difficult to describe again on the phone because there are lots of different pockets that we are focusing on. It's not a general region like South or West but you can say within that we look at each individual area. So within that also we look at different products .so

for example some parts of West are very strong now in tippers so Goa and maybe Kerala and other places are very strong in tippers. But other parts in between Hyderabad and other places, we are very strong in another segment. So it's not a very easy picture to look at but actually now North has also picked up very good on heavy duties - North, West and South maybe but general area, I would say if anything which is slightly weaker in Central and East at this point but that's why we are focusing on to the north, west and south but overtime we are also building up our presence in Central and East.

Moderator Thank you. The next question is from Vaishali Jajoo from Aegon Religare. Please go ahead.

Vaishali Jajoo This is the broader question on how the trend in buying, in the fleet operators side. Is it small operators right now buying more or larger one that is first and how is the financing trend in the CV market going?

Siddhartha Lal It is very difficult to answer, since I don't have any information, since the rate hike the very reason .So I don't know the if there is any change from earlier but certainly there has been across the board buying till now. In fact we have seen from all levels of operators that have been buying. So I don't see in the particular difference at this point of course, it is now really the right time to see after the rate hike that what's going to be a change in terms of the mix of operators who are buying. As far as financing is concerned the general availability of financing has not been a problem since the downturn in 2008-09, financing is available. There are public sector banks, there are private banks, and there are NBFCs, so a huge amount of financing is still available. The rates have gone up, we are seeing rates of maybe 13% have started for prime customers going up to maybe 17% for the retail smaller customers, that of course is getting high now and there are some questions also around it for some of the customers. But as long as we're able to pass the price on they will still be buying but that is the only concern right now, it could be a sentiment issue that maybe we will postpone our purchases.

Vaishali Jajoo Because there are couple of announcement of LTV going down from financiers side, so that could be a concern for the fleet operators who usually have more of financing in the 80%-90% coming down to suppose 70%. it will be an issue for industry and second in the long run, it is fine 7%-8% GDP growth will have a multiplier effect on the commercial vehicle but I think the deceleration in the growth of GDP itself has a little bit higher effect on the CV industry if I'm not wrong?

Siddhartha Lal I am not worried about the LTV issue at all because actually if it is at the slightly lower level, I would say 70 or 80 or whatever you say as it goes to 90. I think long term it

provides us a much more stable industry rather than a much more cyclical industry. Because when finance is too easily available too many people buy in the upturn and then suddenly there is lots of repossession and other problem in the downturn because we have very little equity invest in the truck. Of course short-term there could be some volume if the LTV goes down but I'm actually extremely happy in the long-term you say that the LTV is at 70% ,all players are playing by that and it helps the industry actually a lot and then you see the right type of people coming into these business, who are really logistic people rather than opportunistic people who just want to try and make big bucks. So we are happy with the LTV situation actually.

Vaishali Jajoo

I am just asking about it, it is 70 or not but there are couple of announcements which have come in from the financiers side. I'm just confirming on that whether it will have depreciation or not?

Siddhartha Lal

It will very well could. Some of the retail buyers will not be able to afford 30% equity, so it will cut out retail buyers certainly. Of course, we look at but I am not concerned too much about smaller cycles which happens within the scheme of things but it is the medium term that we are really concerned about and there we see reasonable growth potential.

Moderator

Thank you. The next question is from Vasudev Banerjee form Quant Capital. Please go ahead.

Vasudev Banerjee

Your employee expense on a consol level, seemed to move up by almost 12 crores sequentially, whereas on the volumes front everything was seasonal. So was there any one-time outgo in the employee expense or there has been wage inflation, so one can take current levels to be sustainable?

Siddhartha Lal

Obviously with the type of activities and growth that's happening in all of our divisions, we have also been hiring quite aggressively in last 6 to 12 months but you are right in April we have done all the salary increases, which have been reasonably large this year because of the inflation and that has hit us a little bit more in April to June quarter. So there has been some of that.

Lalit Malik

No this is it. It was largely due to wage inflation, because of the annual increment cycle and we have also added people every quarter.

Vasudev Banerjee

So nothing related to one-off bonus outgo as such?

- Lalit Malik** Nothing.
- Vasudev Banerjee** And secondly sir this tax rate coming down primarily because of the higher other income?
- Lalit Malik** Higher other income from FMPs yes.
- Moderator** Thank you. The next question is from Bharat Gianani from Asit C Mehta Investments. Please go ahead.
- Bharat Gianani** I just wanted to ask a question regarding the two-wheeler business. In this quarter, we have seen a realization go up. so is it more to do with the better product mix that we have seen?
- Siddhartha Lal** Yes I imagine it would be because of a better product mix yes, since our capacities have come more on stream, we have been selling more classic motorcycles and more 500 cc motorcycles both of those command substantially a higher price than other models and specially the 500. So yes it would happen from that.
- Moderator** Thank you. The next question is from Viraj Choksey from ARM Research. Please go ahead.
- Viraj Choksey** How do you plan to utilize your 1200 crores cash on the books?
- Siddhartha Lal** It is on the VECV books and on the standalone books, it is around 500 crores of cash. So Viraj ,cash utilization you can split it up mentally at least into two buckets, one is in the joint-venture and one is in the standalone. In the joint-ventures our aim and purposes furthering of commercial vehicles interest in India and emerging markets, so we're looking at all sorts of different opportunities where we can invest this fund. So we got a big break when we got to medium duty engine projects, we're looking at other investments which can further improve our for commercial vehicles interest. So there are a lot of things, which we were discussing, which are in pipeline. We are in no hurry to spend the cash which is lying around because we believe that there are always opportunities which will come up. There are always strategic opportunities which could be there. So we are working on many of them, out of every 10 opportunities if you look at 9 go off the site, so where thing fructify we will of course we will talk to you about it. Like I said we're looking at many other strategic projects, one which we have got in recently the medium duty engine project. On the standalone front, of course the way things are going now in the motorcycle business, we are also looking at how things moves in that project. Some of this

cash is going into the new plants but we are very strong cash generation also from our Royal Enfield business and again there could be different opportunities which are either to do with motorcycle or within contribute areas that will help us for this. We're looking at different opportunities. In fact Lalit and I have been spending a lot of time now to look it at but there is nothing concrete at this point to talk about.

Chirag Shah

One was other income, it's just for housekeeping, you said there were some FMP maturities but is it slightly on the higher side and that kind of a run rate would not be there going ahead, is there a right way of looking at it, if the treasury income matured in this particular quarter?

Lalit Malik

If you look at the consolidated accounts, the other income comprises of 2-3 different things, one is the fixed deposits that are lying in the VECV books. Entire money over there is invested in fixed deposits. So there the flow of other income is regular and little predictable every month but on standalone books about 70%-80% of cash is tied up with FMPs. There the income tends to be a little irregular, the last quarter that has gone by Q2, clearly we had large sum of FMPs maturing and hence the large part of other income may not happen next quarter.

Chirag Shah

This was helpful and I also had one question, you indicated that you have developed some strength on select routes and different routes your strengths lies in different products. One question was how are you geographically spread in terms of ensuring the downtime time ,compared to Ashok Leyland or Tata Motors, how that geographic spread has increased for you and also if I'm correct, you are right now a large player in 16 tonner in the HD, if I look at your portfolio 16 tonner accounts for a very big chunk in the HD segment. How and when can we expect ramp up to happen on the higher tonnage side in next 3 years or 4 years' timeframe?

Siddhartha Lal

On the geography points being a discussion on heavy duty right now, heavy duty goes to every nook and corner of the country, so we have no choice but to be present in every is single nook and corner of the country. The only discussion we are having right now, we do is about the prioritization of that because you can't do everything in one go. So the end outcome has to be you have to be present in every single part of the country, there is absolutely no debate or question about that. What we're doing is that we are looking at the high-density routes where our trucks will go to and we are predicting that and therefore we are putting more service points there and what we're doing is that when we lack in certain areas service for maybe over 100 kms or 200 kms. so in those places we are

putting up either third-party service points or only service and spare part points not a full dealership. When it is required we are even investing ourselves because we think that the small call investments in service points are certainly worthwhile for the larger aim of becoming big in heavy duty. So whatever is required we are doing in order to put these service points along and to get the geographic spread. So there can be more geography in the country where we are fully absent, that cannot be the case and that's not the case anymore. But we are now progressively making it more dense., that's what we're doing. In heavy duty yes, we are now reasonably successful and in the geography where we are present we have been quite successful in 16 ton now and it is becoming more and more interesting from a value proposition, customers are liking the value proposition that we offer so therefore they are buying more and more of our trucks. Already in the 25 and 31 ton if you look at the breakup of stand numbers, we have already seen some increase. So from sub 1% we are now, in last few months we have been well over 1% going to 2% plus. So the battle for the higher tonnage is also very much on, it's not in a 3-4 years' time horizon. It is certainly happening in the next, for us to reach 1000 numbers per month on a regular basis and for us to reach 10% on a 2-3 years' horizon on a regular basis we have to be present in the 25 and 31 ton as well. So that is also ongoing. We're already some traction in the 16 ton, we are now going strongly after 25 and 31 ton as well.

Chirag Shah

But you must be putting the proposal to the same customer who are taking the 16 ton, right?

Siddhartha Lal

It is to all type of customers, the guys who buy 16 ton but sometimes it's quite a different customer who buy 16 and 25. Because the end use is very different ,16 goes a lot to the volume market for us, with the scooter carrier and other such markets but 25 goes a lot more to the general haulage and other categories..

Chirag Shah

This was helpful, Siddhartha if you would like to have some closing comments.

Siddhartha Lal

Firstly thank you Chirag for hosting this for us and thank you all for participating and I would just add in the closing that to please remember everyone, that we are extremely long-term focused company. We have no intention and no need to show anything, we make sure that everything we do is towards our long-term objective, the pie that we are looking at or the price that we are looking at ,is not month a number or quarterly number ,the price that we are looking at is becoming very strong across the boards commercial vehicle player, becoming a global major motorcycle brand . So these two are the prices that we are looking at in 3 to 5 year horizon. There is a lot of background work which we



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are doing in all of our divisions right now, so whether it is from quality, aftermarket and becoming absolute India number-one in all the areas such as aftermarket and quality and all that. So lot of work is going on, our customers, our dealers have extremely good responses. So we are really setting the right foundations I believe to becoming a long-term, extremely successful player and there is a potential to differentiate in the Indian market. The Indian market is not so mature that the game is won and lost already, there is a huge potential for new players or emerging players to do extremely well and we want to make sure that we are one of those emerging players which actually captures the market. So a lot of work being done in the background and hopefully the company will see good progress in the numbers because of that.

Chirag Shah

Great, thanks a lot Siddhartha and Mr. Malik for your time and on behalf of Emkay I would also like to thank everybody for joining us today. Have a great day.

Moderator

Thank you. On behalf of Emkay Global Financial Services Ltd that concludes this conference call.