



“Eicher Motors Limited 4Q CY11 Results Conference
call”

February 13, 2012



**MODERATORS: MR. SIDDHARTHA LAL – MD & CEO, EICHER
MOTORS LIMITED
MR. LALIT MALIK – CFO, EICHER MOTORS LIMITED
MR. CHIRAG SHAH - SENIOR RESEARCH ANALYST OF
EMKAY GLOBAL**



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Moderator

Ladies and gentlemen good day and welcome to 4Q CY11 Results Call of Eicher Motors Limited hosted by Emkay Global Financial Services. We have today with us Mr. Siddhartha Lal – MD and CEO, Mr. Lalit Malik – CFO. As a reminder for the duration of this conference 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. If you should need 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. Chirag Shah, Senior Research Analyst of Emkay Global. Thank you and over to you sir.

Chirag Shah

Thank you Brinda. Good morning everyone. Thank you for joining us today. We would like to welcome the Management of Eicher Motors Limited and thank them for giving us the opportunity to host this call. I would like to hand over the call to Mr. Lal for initial comments and then we can start with the Q&A. Over to you sir.

Siddhartha Lal

Thank you Chirag for arranging this conference call and we are delighted to join this call. I will start with an update on the industry sales volumes and then get into the Eicher volumes for Q4 and for the year because this is the end of our financial year as well.

I will start with the commercial vehicles. For the year CY2011, the industry of 5 ton and above grew by about 10% over 2010 and the total volume was 4.5 lakhs approximately which is the new high for the CV industry. And it is the third successive year of growth so it has been positive year for the CV industry. Most of the segments have grown except buses which did not grow so quickly. In 5 to 12 ton segment which grew by 19%. Heavy duty grew by 12% and exports has also grown. In Q4 the industry also grew by around 10.6% and as in the past at Eicher we have outperformed the industry by a good margin so for the year we grew at 26.6% over 2010 and for Q4 we grew by a 25% so we have beaten the industry by 15% and that has resulted in market share gains. In 5 to 12 ton, if you've looked at it more specifically, we did 8533 units in Q4 which is 18% growth and for the year we did 31,381 units which is again a 18% growth and we have retained the 2010 market share of over 30%.

Of course it is in heavy-duty where we have continued to make the strongest progress and that is the area we have been talking about for the last 3 to 4 years since the joint venture with Volvo started as the most important part of our future. There in Q4 we have actually sold 2180 units which is a 83% improvement over the same period last year so that is a very substantial improvement it has been highest ever quarter in sales volumes and we have been able to get a market share of 3.8% for the quarter. So that is a significant increase in the market share as well. For the year we did 7352 heavy-duty trucks which is a 74% growth over the previous year. So our heavy-duty program is performing extremely well and is moving sharply forward. Our market share for the entire year of 2011 was 3.1% as opposed to 2% for 2010. But if you look at in particular for the month of December we had the market share of 4.8% so that just shows the increasing trend and the improving trend of the heavy-duty program and I think



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most importantly the thing to note is that what we have talked about even in 2008 which was our ambition by the end of 2011 to clock 1000 units of heavy-duty sales, we clocked over 900 in heavy-duty trucks and if you include busses which means heavy-duty platforms we have clocked over 1100 heavy-duty sale in the month of December alone. So we have been actually able to meet that benchmark or the target which we've set a few years ago and we are certainly on track in our heavy-duty program now.

In the bus segment continue to carry out a very strong momentum that we have built over the last few years. We grew by 35% during 2011 and ended the year with around 6500 units and in Q4 we sold 1100 units which is a 78% growth over Q4 2010. Our market share for the whole year has had an enormous improvement so in 2010 we were at 6.7% but for 2011 we have been able to rise to 9.7% so that is a 3% improvement in market share in buses and that is despite a shrinking market in the buses in itself which is fallen by 6%.we have been able to add capacity but we have been able to improve in our entire value proposition and our offering to the customers so that has been very-very strong improvement in buses and we have also now recently announced an investment of 125 crores in the new bus plant which is also in the vicinity of Indore which will start by early next year. So that is on the commercial buses.

And exports we have continued to have strong performance. We exported 3108 units in 2011 with the growth of 14.5% and in Q4 we have exported 686 units.

In the past few quarters we had a bit of difficulty around the Volvo truck sales which is largely due to the political environment and legal issues around mining so for the year we did 706 units which is down 36% over 2010 and for the quarter we did 249 units which is down 26% over the last year's quarter. So things have not yet fully come back to shape as far as the Volvo truck segment is concerned and that is purely because of the market conditions. The market share in the high end European truck segment is still very high. Of course we expect now that with all the pressure in the industry and all the pressure in the economy that mining will return and when mining returns we will have very good sales of Volvo trucks but for that we have to wait before the mining sector starts improving. So the entire discussion till now has been regarding VECV, our joint venture with Volvo for commercial vehicles. .

Now we move onto our standalone business which is Royal Enfield motorcycles. As you know we have had an outstanding run over the last 3 to 4 years in Royal Enfield where we have been growing rapidly and the bottleneck to our growth over the last two years at least has been our capacity. So we are now on track to building our new capacity the government approval is just coming through hopefully and we are targeting to start productions in Q1 2013 as we have announced earlier so that is on track. That will of course improve our capacity tremendously to beyond 1.5 lakhs. And as planned in the beginning of this year we have in 2011 we have actually reached 7000+ production capacity since September and for the year we have sold 74,626 motorcycles which is 42% growth over 2010. So we have already shown a very strong growth in the production and in the sales but of course it is not enough because we still have a long waiting period. For Q4 we did over 19,000 motorcycles and the Q4 sales



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were slightly lower than Q3 because we actually had a shutdown for a few days in annual maintenance and we have also done some corrections so that our stock deliveries become linear over the month in the coming year. But apart from that everything is absolutely good and we are looking at now improving our production in 2012 in the existing plant pending the new plan. That improvement is also on track and we are targeting by the end of the year to start hitting 8500 per month but that is by the end of this 2012.

A quick update for you on the Auto Expo – We previewed our new bike so we are continuing to push forward on products even though the demand is very strong. We continue to push forward strongly our new models. We have the Thunderbird 500 which is fully new, it is fitted with unit construction engine and host of new designs. That is on track and coming out by the end of Q2 and we have of course showcased new accessories, bike apparel and we have also showcased our Café Racer which had a phenomenal response and that is due out in 2013 so we have strong pipeline of products also in the coming one or two years. So that is on the Royal Enfield performance.

Moving on to our financial outcomes at a consolidated basis we have had the best ever year once again. Our total income from operations is stands at 5716 crores so that is 29% growth over the previous year. Our operating margins for the year are at 10.4% which is another all-time high in the recent past. And our profit after tax is at just shy of 500 crores which is a 62% improvement over the year previous so an absolute stellar year for us and we are very excited about what is happened last year, we have had continued to have very good performance even in our working capital which has been negative for the last over two years. The highlight for the year the commercial vehicle volumes were at 49,000+ which is our highest ever CV volumes, the highest ever motorcycle volumes are off nearly 75,000 and highest ever sales, EBITDA and PAT. It has been an extremely satisfying year even though there has been a lot of challenges we have been able to pull through and we have had very good and we have been able to do very good pricing in the market we have been able to command excellent pricing for all our products which goes to show the extent of the brands as far as Eicher is concerned in the truck side and as far as the Royal Enfield is concerned in the motorcycles side and the entire efforts that we are putting in now continuing to put in all our businesses let us say especially in the commercial vehicle business on the aftermarket, distribution, new products, quality and that stands true for our motorcycle business also. We expect strong growth to come in the next 2012 and the years coming so that is all for me at this point so I thank you all for listening in and hand it back to you Chirag for question and answers.

Moderator

Thank you very much sir. We will now begin with the question and answer session. Our first question is from the line of Basudev Banerjee from Quant Capital, please go ahead.

Basudev Banerjee

Congrats for a good set of numbers. Just a question what was the revenues from spare parts and services for the full CY11?

Siddhartha Lal

We do not actually give separate numbers for spare parts and services I am sorry about that.



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- Basudev Banerjee** But you disclose that in annual reports?
- Siddhartha Lal** Let it come out.
- Lalit Malik** Basu as it is not out as yet so just wait out for a month or so and you can have all the numbers that are there.
- Basudev Banerjee** But what is the CapEx guidance for CY12 what is the total CapEx was there this year on the consolidated basis?
- Siddhartha Lal** At the consolidated level, we capitalized about 450 crores across the two businesses. And for the next three years, we do not give it year by year kind of capital number. Over the next three years, we intend to put in another 1000 odd crores into the various CapEx programs of VECV.
- Basudev Banerjee** So that is CY12-13-14 only for VCV 1000 crores?
- Siddhartha Lal** Yes.
- Basudev Banerjee** And somewhere around 150-200 for the two wheelers?
- Siddhartha Lal** Yeah 150 to 200 broadly.
- Basudev Banerjee** And one more thing what is your view on this proposed launch of Pulsar 350 by Bajaj down the line, will it give competition to your two wheeler products in a big way?
- Siddhartha Lal** We have no view on individual products which are being launched and we can only comment on what we are doing which is at certainly the upper end of the motorcycle domain. You are going to see lots of new players and we are shoring up tremendously our investments in new products, in distribution to ensure that we are brand led. So we have a very different view of selling and looking at vehicles. So there is no one particular competition that I would like to comment on.
- Basudev Banerjee** Okay thanks that is all for my side.
- Siddhartha Lal** Thank you.
- Moderator** Thank you very much. Our next question is from the line of Bharat Gianani from Share Khan, please go ahead.
- Bharat Gianani** Good morning sir. Congratulation on posting good set of numbers. I just wanted to ask like if I see the other income in this quarter at the consolidation level it is less than the two wheeler business so can you explain what you have for that?



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- Lalit Malik** What happens is that the dividend which VECV declared this year, at the consol level, gets cancelled out between VECV and EML. But at the standalone level it is of course recognized and the amount is almost 41 crores.
- Bharat Gianani** And sir my next question is like also that this particular quarter the minority interest proportion has gone up so if I see the minority interest like before adjusting for the minority interest in the PAT was 75 crores and minority interest comes out to be 53 crores so like can you explain the reason for that?
- Lalit Malik** There is no one off or no adjustment being made over there it is just that the way MI is calculated as per the norms of the accounting standards and there is no change in the shareholdings if that is so if you are referring to.
- Bharat Gianani** Okay so for a full-year basis the MI works out at 51% so that is broadly how we calculate that?
- Siddhartha Lal** 45.6% I would imagine, yes the MI.
- Bharat Gianani** But sir in Q4 that number comes out to be 70.2% so I was just wondering?
- Lalit Malik** Bharat after this conference could give me a call we can explain the numbers but there is no adjustment or any change over last year in the MI.
- Bharat Gianani** Okay thanks.
- Moderator** Thank you very much. Our next question is from the line of Jinesh Gandhi from Motilal Oswal Securities, please go ahead.
- Jinesh Gandhi** Hi good morning. My question is on your expectation for CV industry growth in CY12 and what kind of growth to use see for these VECV?
- Siddhartha Lal** We do not really have a particular number for the CV industry growth even though we expect, may be late single-digit or early double-digit type of growth but that is very difficult to say really at this point how things are going to go up. We are going to hit a part of the flattening out in terms of the cycle effect or are the effects of improved industrial output and all going to kick in. It is very difficult to say but the important thing it is twofold from a VECV perspective, one we are extremely close to the market and be absolutely never push any vehicles or anything of that sort for you we are going to see a very consistent performance from us and as soon as there is a downturn or if there is any problem you will see that immediately in our numbers, so you will not ever see any issue of that whereof overstocking and all of that so number one, number two as far as the our objective is concerned is to continue to outpace the industry and we have been able to do that consistently over the years. We are entering into new segments heavy-duty is an area where we are pushing hard on and we expect to continue to gain share in light and medium duty as well so therefore we expect to beat the industry. So our objective is to always to continue to gain market shares in the 5 ton and above industry.



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- Jinesh Gandhi** Okay and second question is on the discounts, we believe discounts have gone up in the fourth quarter can you throw some light on what were the discounts in the fourth quarter vis-à-vis Q3?
- Siddhartha Lal** We do not give specific information on discounts. The only thing there I can say is that we have had a very strong performance over the last 2 to 3 years on price management so we have actually slashed discounts we are giving much lower discounts than we were earlier and much lower discounts than the market. And that is basically because we are doing a lot more value selling in the market.
- Jinesh Gandhi** But would it have gone up and the Q4 vis-a-vie third-quarter?
- Lalit Malik** We do not give specific discounts information. Overall, as Siddhartha was saying, the trend in 2011 discounting levels over 2010 has come down.
- Jinesh Gandhi** And lastly on two wheelers for our Royal Enfield what would be the waiting now after increase in throughput?
- Siddhartha Lal** There is good news and bad news. The good news is that we have increase production and the bad news is of course it not bad news, it is very good news you can say, is the demand also has gone up much more than we had expected so we have depending on the model we have 6 to 12 months waiting and in fact it some models it has gone well beyond 12 months also. So there is a very large waiting period at this point so we are ramping up our capacity as much as we can in our existing plant we want to get it beyond 8000 and 8500 by the end of this year. But really in 2013 we will be able to make the major up shift in our volumes with the new plant kicking in by the Q1 of 2013.
- Jinesh Gandhi** But this 8000 to 8500 which we expect by end of CY12 would be much before first half or we expect it to closer to end of CY12?
- Siddhartha Lal** I cannot tell you. We are right now pushing very hard on the plans - it is very old plant and there are lots of other variables also to look at if we can do it in the month of February we can do it in the month of February if you can do it in the month of March we will push hard in March but currently what we are talking about is that by the end of the year and we will certainly be expecting to do 8500 but if we can we'll try and do it much earlier of course.
- Jinesh Gandhi** Okay lastly what would be the order book which would be carrying for two wheelers for Royal Enfield?
- Siddhartha Lal** Like I said it is around 6 to 12 months is our waiting period we do not have our particular order book, do not give out a number for an order book but it is 6 to 12 months.
- Jinesh Gandhi** Okay thanks and all the best.
- Siddhartha Lal** Thank you.



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- Moderator** Thank you very much. Our next question is from the line of Pratik Mehta from Bajaj Allianz, please go ahead.
- Pratik Mehta** Good set of numbers and thank you for the opportunity. Most of my questions have been answered just one question did you quantify the amount of dividend that stand-alone business received from the VECV, can you help me with that number?
- Lalit Malik** Yes VECV declared a dividend of 750% and which translates to a dividend of 41 crores to EML.
- Pratik Mehta** 41 crores in this quarter?
- Lalit Malik** For the year.
- Pratik Mehta** That is in this quarter?
- Lalit Malik** Yes.
- Pratik Mehta** Okay that is it from my side. Thank you.
- Moderator** Thank you very much. Ladies and gentlemen in order to ensure that the management is able to address questions from all the participants in the conference, please limit your questions to two questions per participant. Our next question is from the line of Himanshu Sharma from JM Financials, please go ahead.
- Himanshu Sharma** Hi, thank you sir for this opportunity. Just a small question can you give us more color on RM cost, raw-material cost as and how it trended during the quarter?
- Lalit Malik** Which business are you talking of?
- Himanshu Sharma** Both of them really if you can?
- Siddhartha Lal** If you look at the trend of the raw material in terms of let us say in terms of input prices, we have been paying that as much as the rest of the industry. What we have been able to do is as you can see is largely negates all of that through better price management whether it means improved prices or lower discounts or other things, so that is by and large been taken care of. Now there will always be in our business product mix issues which we cannot talk to you about. So that will always be a large factor in our business because we have different products with different profitability levels. So apart from that there is no major concerns. Last year on as far as the input prices in raw material is concerned because what are the numbers, we have been largely consistent as far as that is concerned at a consolidated level we are at 73.2% for the year, which is better than the last year at 75% and it has been around flat for the entire year at 73+ minus.
- Himanshu Sharma** Okay thank you sir.



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- Moderator** Thank you very much. Our next question is from the line of Kaushal Maru from Religare, please go ahead.
- Kaushal Maru** Good morning just wanted to know what the pricing actions you have taken on both the businesses in the last six months?
- Lalit Malik** On the VECV side in October we had a price increase of roughly 1.2% at the blended level and again in the month of January, same range of percentages. In the Royal Enfield business in January we took a price increase again at a blended level of about 3.2% in January and before that in Royal Enfield the price increase was in July which was on selected models only so it was around 1%.
- Kaushal Maru** Can you give the worst in terms of commodity prices now in the numbers and going forward after this pricing action on the motorcycle business margins are likely to improve from this quarter?
- Siddhartha Lal** That you'll have to wait and see, what happens to the margins but clearly attempt is always is to cover raw material increases through pricing actions and also through efficiency improvements. So that is always an attempt and of course we can always get a little bit more out of the market that is always possible attempt so we're pushing hard on the pricing front so generally we should be able to cover the RM cost increases.
- Kaushal Maru** Sir this quarter's standalone margins were slightly on our quarter-on-quarter basis lower, was there any one times in this quarter?
- Siddhartha Lal** As we discussed earlier basically there was, we had maintenance shutdown and therefore the production was lower because of that also we were low on stocks which led to a very skewed distribution through the month, so we decided at the end of December to actually correct our stock and actually keep some more stock of finished goods. Therefore we were able to bill it evenly throughout the next month. So actually we had lower sales for the quarter than we should have and that affected our margins but that is a one-time correction that we have done this so that we have linearity in our sales and distribution in 2012.
- Kaushal Maru** Okay so the last question is on the January truck sales which was likely on the weaker side was there any maintenance shutdown there as well in January?
- Siddhartha Lal** There was no supply-side issue in January it was slightly weaker pickup from the market as far as we're concerned but we do expect that things will be good for the rest of the quarters so I do not have any particular concerns.
- Kaushal Maru** Okay thank you sir.
- Moderator** Thank you very much. Our next question is from Navin Matta from Daiwa Capital, please go ahead.



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Navin Matta Thank you for this opportunity. Just couple of questions firstly on the VECV side or the consol business we see the staff cost has gone up significantly on the year-on-year and sequentially also so just wanted to check if there is a one-off item in there?

Siddhartha Lal No one-off item in the staff cost, that is a general staff cost increase in terms of increased to existing staff and addition of new staff, so we are also expanding the business aggressively we have got a lot of programs going on in our distribution side, on our product development side, on our new projects and our new products so there are a lot of projects going on at this point and we are adding staff at a good pace in 2011.

Navin Matta Okay this would be the sustainable kind of quarterly run rate that we should be looking at?

Siddhartha Lal We continued to add staff so it should continue to increase actually to some level but our top line is also holding on so, yes, certainly there is no one-time issue or effect which is embedded in these results.

Navin Matta And second thing is qualitatively I think you had given us some sense on how the HD segment is performing in terms of the product reach is around 50% and so is the market reach. Can you just give us some qualitative sense as to how directionally that is moving if any color would be useful sir?

Siddhartha Lal In 2012 now that we have been able to consolidate our position in heavy duty which means there are products actually performing like they supposed to. We have had excellent products feedback. We had zero defaults on our financed products in the recent past - in the last 12 to 24 months. So therefore, now we are looking at pushing on further expansion as far as heavy duty is concerned. So the biggest area that we are focusing on in 2012 is geographical expansion, especially for the products which are very strong at. Our 16 ton tippers is doing very well, we are expanding that across the board. I think we have over 10% market share now in our 16 ton tipper. Our 25 ton tipper which has got an excellent response. There is huge market for 25 ton tippers of over 30,000, I believe, per year, so we are pushing on that also. We are going to get good reach for that so overall it is really a question of improved geographical reach which is what we are now after, on a strong way. And of course, continue to apart from these two projects which I talked to you about we have 8x2 which is also now doing well and now has got a good pull in the market and that is the single largest market in heavy duty now. So all in all, we are expanding on all fronts as far as heavy duty is concerned in 2012.

Navin Matta Any sense on the regional mix as to which regions are we seeing better traction than the others. Can you just comment on that?

Siddhartha Lal We had very good traction in the North as far as heavy duty is concerned, and then of course, it gets complicated after that because in some pockets we are doing tremendously well. For certain products like in Goa and Western belt and Western Coastal belt we are doing tremendously well in tipper market. In some other areas like Vijayawada and Gujarat we are doing well in haulage markets but there is actually very interspersed. So it is difficult to say on



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the phone because we have may be mapped out all 100 markets, the largest markets along with the different products which they are consuming. But yeah, overall, I can say that it is very specific, we are going individual market wise we are not looking at large broader region wise in general.

Navin Matta

Right. Sir, lastly on the financing tie up, I think something was probably in store. Are we looking at formalizing something on that side, our own captive financing?

Siddhartha Lal

Nothing at this point, we have no plans right now. Just to say that we have actually a very strong internal team, which looks after financing. It is a dedicated team, which works at financing. Their entire objective is to make sure that the financing which is provided by banks and institutions and NBFCs is actually going very well according to plan. I would say that at least 5 and up to 10-12 financiers available. So really, our objective is to work closely with financiers to make sure that there are no delinquencies and in heavy duty we have absolutely tremendous track record over the last 24 months since we have launched our VECV of having zero delinquency. That, let us say is short in the arm for our heavy duty program, it has encouraged our financiers to do extremely well and to be very aggressive on our products. So our basic approach is to go with third-party financiers.

Navin Matta

Got it. Thank you so much sir.

Moderator

Thank you very much. Our next question is from the line of Aryn Pirani from Deutsche Bank. Please go ahead.

Aryn Pirani

Hi sir. Thanks for taking my question. My question is on the pricing environment going forward. Over the last one and one and half years the pricing environment has been quite benign and all manufacturers had been taking frequent price hikes to offset raw material cost. Now given that the competition is increasing in truck segment with Mahindra coming in and being pending launch of Bharat Benz by Daimler, do you feel that the price competition could come into the sector and it may not be as easy to pass on the higher commodity cost going forward?

Siddhartha Lal

I mean, in the larger scheme of things when there is going to be more competition, there will be potentially more pricing issues as it were, but I would also say specifically that most of the new manufacturers who are coming in and including ourselves, we still count ourselves as if coming into the market more especially in heavy duty. I think, people will be always have to be focused more on the value selling approach than on the price cutting approach. Of course, price is important for Indian consumers, but none of the new manufacturers who are coming in have the sort of let's say the low or depreciated asset base that some of the existing manufacturers have. So they will have to look at value selling. So yes, there will be some price competition but I don't think it is going to be so cutthroat and so bad that it is going to affect us tremendously. In fact, I think, everyone is going to be moving a lot more towards value selling and that is really where our company excels. We are the best value sellers and we are



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looking for an environment where actually people are buying much more value than only price which is really the domain of the some of the larger players in the heavy duty segment today.

Amyr Pirani Sir, just one more question, you mentioned that obviously in the heavy duty side there were some problems in demand due to the mining ban and I guess there were a lot of vehicles say in the Goa belt and the Karnataka belt that were taken over by banks because of delinquency. So at the margins are you seeing demands picking up in that segment because I think there has been some relaxation in the ban in Karnataka at least?

Siddhartha Lal The signals are there but I think, the vehicles will start picking up soon, but right now the real pickup for the type of vehicle, which go into deep mining and all has not yet happened, but it could happen soon in our estimation.

Amyr Pirani Okay sir. Thanks for taking my question.

Moderator Thank you very much. Our next question is from the line of Sachin Relekar from Tata Mutual Fund. Please go ahead.

Sachin Relekar Good morning sir. Just one query, do you give us breakup of 1000 crores CapEx in the VE CV as to how much is going in engine program, how much is going on capacity utilization?

Siddhartha Lal In **VECV**, what we have talked about till now is that approximately 300 crores goes into our new MDEP engine program. Approximately 125 crores goes into our bus program. So there is around 575 leftover, of that a large chunk goes into our new paint shops and capacity enhancement. We haven't given exact numbers for that but large chunk of that goes there and the rest of it really in terms of new products and PD facilities which we are developing. So there are lot of new products which we are planning and in heavy duty, light and medium duty buses which will start from mid 2013 onwards, we will have a slew of new products coming out and will go all the way into late 2014, early 2015. So that is the distribution of our 1000 crores CapEx is coming from.

Sachin Relekar Okay, thank you sir.

Moderator Thank you very much. Our next question is from the line of Neelesh Dhamnaskar from Religare Asset Management. Please go ahead.

Neelesh Dhamnaskar Hi sir, thanks for the opportunity. Sir, my question pertains to your exports segment. So, could you elaborate on the export market strategy going forward? You have touched upon the domestic heavy vehicle strategy. Could you also touch upon the export strategy?

Siddhartha Lal Sure. We exported over 3100 vehicles in 2011 and a large chunk of this, I would say, around half or more is going into South Asia which is very like market so Nepal, Bangladesh, Sri Lanka type of markets and the other half is going into some into Middle East and some into Africa. So currently we are let's say around 6% to 8% of our total volumes are coming from



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exports and really the way I look at it is that for the next 2 to 3 years horizon it is still going to be around sub-10% as far as exports is concerned. So we are building up a lot of more capability in export markets. We are looking at aggressively entering non-SAARC areas also such as Africa, Middle East and potentially other markets in Asia, potentially other markets around the world all developing markets, we have no intention to get into developed markets which is North America, Europe, Australia, Japan, but there is a lot of groundwork happening for us in exports, we are working very closely with Volvo group, our partners to get into export markets in Africa and beyond but all that is going to take us some time. All of that is going to kick in even more strongly when we get a new product ranges from middle of 2013 onwards, 2014, 2015. So, I expect that the next 3-4 years still the focus is or let's say the bulk of the growth will still come from India and exports will continue to form may be 8% or 10% of our revenue, but I think beyond 2015 time horizon, we will get to see a lot of more growth coming from exports because we would have sorted out our distribution and our understanding of markets and our new products for those markets in the next 3 to 4 years.

Neelesh Dhamnaskar And a question pertains to this only, currently in how many countries the Eicher products homologated by Volvo? Earlier I think it was 9 or 10 so now how many countries they approved?

Siddhartha Lal It is not by Volvo, Volvo doesn't homologate our products. VECV as a company itself goes through the homologation process and I believe, we are exporting to nearly 30 countries, including the SAARC countries now as far as our trucks are concerned.

Neelesh Dhamnaskar Okay and the same numbers two years back would have been?

Siddhartha Lal Sorry, I don't have a number offhand. It's been growing, we have been adding may be one or two markets may be three markets in some years, so 2 to 3 years back, it would have been 20 plus, 23 plus, I imagine.

Neelesh Dhamnaskar Fair enough. Thanks a lot. That's all from my side.

Moderator Thank you very much. Our next question is from the line of Kaushal Maru from Religare Capital Markets. Please go ahead.

Kaushal Maru Hi sir, I just want to check if you have mapped the sales to different segments of the markets, large fleet operators, small fleet operators and FTUs and is it different from the industry average in any way?

Siddhartha Lal Yeah, good question, it is very different from the industry average and I'm talking about heavy duty now. Light and medium duty is largely to smaller fleet operators, there are some captive users but by in large, it is for smaller fleet operators. In heavy duty, because we were on more conservative strategy to start with because we wanted to make sure that there are no delinquencies in our products, we have focused entirely on strategic and super strategic and larger fleet owners so approximately 50% of the market is where our focus has been. We have



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been selling a little bit to the smaller road transport operators but we have virtually been absent from the smallest side of the industry, which is the single owner or the guy who wants 2-3 trucks, we have been absolutely absent in the last two years from the market because we were focusing our efforts on the larger markets, on the larger fleet owners. So, now of course, we are getting more confidence to enter these markets for the much smaller fleet owners and for the single operators. So that is our current trend I would say 90% of our sales are coming from the top 50% of the customers.

Kaushal Maru

Sir, on follow-up on this, you have already in the past con call said that on a key or trunk route after sales network is very strong. So now to get into these smaller fleet operators and the FTU side, how are we ramping up our after sales on the non-trunk routes in the country?

Siddhartha Lal

The way of getting the smaller fleet operators is not about trunk on non-trunk routes really. They will be operating on similar routes by in large as the larger operators. The issue is largely on their capital availability, on their ability to hold out some, let's say one or two months of lower revenue on their side. So typically what used to happen was if a small road operator or a single truck owner has two months of lower revenue, he gives up his trucks and that cause delinquency and other issues in the market. We have not been wanting to sell to these guys because they don't have any holding power as it is. As far as often market is concerned, I don't see, that is an issue from addressing the smaller road transport operators but having said that, it is anyway good point to discuss which is that we are going extremely aggressive on entering to expanding our aftermarket reach. We have got all sorts of programs, lets say, in incentivizing our smaller service providers and other people to hold more stocks for spare parts all of that. So there are a lot of programs going on, lots of training programs, lots of expansion programs, lots of investments from a side to expand our reach and we have a very-very strong heavy duty reach now as far as aftermarket is concerned.

Kaushal Maru

Thank you very much.

Moderator

Thank you very much. Our next question is from the line of Deepa Mirchandani from UBS. Please go ahead.

Deepa Mirchandani

Hi sir. I wanted to ask you about the current production at VECV level?

Siddhartha Lal

We have produced just over 4500 in December 2011, which is a very strong performance, we were targeting to hit 4500 so we have been able to achieve that.

Deepa Mirchandani

And what about 2012, what is our target?

Siddhartha Lal

2012, we are expanding our capacity, our new paint shop will be in line by the second half of this year, and we will increase the capacity to 5500 and beyond by the end of 2012.

Deepa Mirchandani

Okay and one more thing I wanted to ask about the volumes on HD in Q4. Can you tell me the number, sir?



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- Siddhartha Lal** In Q4, 2011, we sold 2180 heavy duty trucks alone.
- Deepa Mirchandani** Okay and another 2011 number would be?
- Siddhartha Lal** I am talking about 2011 number which was the growth of around 83% over last year. We sold 1189 in Q4 2010.
- Deepa Mirchandani** Okay and the industry wise growth in this segment would be?
- Siddhartha Lal** Industry, I can give you for the year, for the year industry grew by 12% and for the year VECV grew by 74% for the year so we have gained good market share.
- Deepa Mirchandani** Okay and in Q4 the industry growth?
- Siddhartha Lal** Overall industry growth in Q4 is 10.6% I do not have HD separately for Q4.
- Deepa Mirchandani** And how many dealers did you have as at the end of December?
- Siddhartha Lal** In VECV we have 226 dealers by December end 2011.
- Deepa Mirchandani** Okay and some of the new products, you are expected to launch in the VECV, you mentioned about the Royal Enfield side but products at VECV?
- Siddhartha Lal** In VECV in the year of 2012 by and large, we got variants and not new products, because our slew of new products in VECV is coming out from mid 2013 onwards, but we have a very strong range already available in VECV, so our growth in the next 18 months is not going to come from new products, is going to come from all the other factors we talked about which is geographic, customers segment expansion and actually even establishing some of the new products which are already there, such as our 25 ton tipper, such as our new buses which we have launched including, the semi-low floor city bus and including 8x2 truck which is relatively new it is three and half old, so all those are which the one we are establishing much stronger in the market.
- Deepa Mirchandani** Any light on those new products which would be coming out like one year from now?
- Siddhartha Lal** Like I said, we have got a new generation of our entire truck range which is coming out 2013 onwards and of course the basis and the background and the starting point of that is we have got a new engine platform which is in medium-duty engine which we have launched with Volvo group which is going to be used for a heavy duty trucks so that is 5L and 8L engine which is coming out again at the same timeframe so that is really the nucleus of our new product launch, which is based on the new engine platform.
- Deepa Mirchandani** Okay, thank you so much sir.



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- Moderator** Thank you very much. Our next question is from the line of Mr. Chirag Shah. Please go ahead sir.
- Chirag Shah** Sir, I had a question in capacity, on the two wheeler side you have indicated that you are looking at ramping at 8500 units. Any color on the new plant, what is happening with the new plant?
- Siddhartha Lal** We are on track to have start of production in Q1 of 2013 so we are working hard on figuring out, on getting the construction all of that so it is all in the works and we will have a SOP by Q1 2013.
- Chirag Shah** Is it the earliest timeline or it can happen earlier also, if things turn out. How it is because the way the demand seems or the waiting list keeps on increasing you are running behind schedule in terms of getting capacities?
- Siddhartha Lal** Yes, of course, if it can happen earlier we will do it earlier, we are trying to do it as soon as possible but currently what we are confident about is Q1 2013.
- Chirag Shah** Sir, the existing plan capacity of 8500 units, is it the peak or it can further be stretched?
- Siddhartha Lal** You can never say never. Because you said peak at 4000, at 6000 and now, of course, at 8000 but really, even if when we do see 8500 from the new plant we will be outsourcing a lot in terms of lot of areas because we just don't have the capacity like paint shop even for 7000 we are doing some outsourcing already of painted parts. So for 8500 we will have to do basically all the incremental painted parts should be outsourced and other parts like there are some machinery parts, or some other parts. And also because 10 acres we have absolutely no capacity to even park any bikes there and all that. So it is really bursting as it seems, we are going to have other issues because much more of our parts would be outsourced to reach that level, so therefore we will of course start in-loading a lot of those once again when we start a new plant because the basic bottleneck that we have is the paint shop and the new plant has a full new paint shop which will cater to much higher number.
- Chirag Shah** And any color on how your cost pressures on raw materials side are behaving in terms of contracts? Somebody asked this question earlier is that the cost pressures are not yet fully factored in the P&L on the raw material side?
- Siddhartha Lal** Chirag, most of the raw material pressures that we saw for the last year they are in the P&L now and the raw material prices in the last few months and hopefully for the next few months the way they are behaving, it will be reasonably stable.
- Chirag Shah** Okay, at least for the time being, at least for a quarter or so the cost pressures are kind of in the numbers?
- Siddhartha Lal** Yeah.



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- Chirag Shah** If I can ask for industry outlook, how we are looking at the CV industry, can we expect 8% odd kind of growth next year at the industry level? How you are looking at the industry growth on the MHCV side?
- Siddhartha Lal** Actually I don't want to comment on it frankly, because there are so many different factors. Like I said we are going to stay very close to the ground in terms of anticipating the demand, but yeah, if I were to give one number, it would be around that level so high single digit is what we would hope, not expect I would say.
- Chirag Shah** Fair enough and last, outlook, somebody has touched base on this also, is it that the industry wide margins as a trend could actually go on the lower side on the MHCVs given the way the players are entering? It could be a three-year directional because how you are looking at that particular scenario in your internal 2015 kind of outlook?
- Siddhartha Lal** We have just discussed that, I think, so just to reiterate - certainly, when new players come in, there could be, not will be but there could be, pricing issues but I don't think the type of players that are coming in are going to be playing hard on price itself because it is difficult to out price the incumbents in the heavy duty market, particularly. So I think, it will be a much more a value game which everyone is playing and generally I don't think in the CV industry we will have that kind of cutthroat issues as we do in the car industry because CV industry operates very differently, it's a commercial products, it is capital asset, it is not a consumer good. So things are very different here and we expect that with the value selling approach that VECV has and Eicher brand is doing very strongly on the value selling approach, there will be pressures but I'm sure we will be able to manage and get out of those.
- Chirag Shah** Fair enough, this is very helpful. Thanks a lot.
- Moderator** Thank you very much. Our next question is from the line of Nishant Vass from ICICI Securities. Please go ahead.
- Nishant Vass** Hi sir. Sir, I just wanted to know on the bus segment, the gain of 300 basis point in market share, what would you attribute it to?
- Siddhartha Lal** We continue to perform strongly in light and medium duty performance. The second is of course, that we had a very strong performance in our core light and medium duty markets of school buses and staff segment which are our core areas, and we have increased our market share there also. In our bodybuilding capacity through third-party so there has been a lot of improvement in the way we have been working plus lower let's say highway duty and state transport sales for the year, so all those put together has given a good impact on our market shares.
- Nishant Vass** So continuing the question, the new 125 crores CapEx that you are doing on this, are you expecting your market share to grow to say 13% or 14% odd in the segment? What kind of traction are you seeing on your products?



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- Siddhartha Lal** Certainly, we will continue to look at to increase market share but of course, the basic reason for new plant is that is for quality and of course for in sourcing. So we believe we will be able to get much better quality from the new plant than existing bodybuilding quality and we will be able to get a lever on better pricing through that. We will continue to make some of our lower-end buses from third parties. And as we get into more to heavy duty platform sales, including coaches and city buses - with both of these we expect also to improve our heavy duty penetration in the coming years and certainly we expect to improve our market share over time.
- Nishant Vass** Thanks a lot.
- Moderator** Thank you very much. Our next question is from the line of Kunal Bhatia from Dalal and Broacha. Please go ahead.
- Kunal Bhatia** Thank you sir. Most of my questions have been answered, sir, I just have a question on what is your sense on the replacement demand in the M&M CV segment and how do you see like recent growth which came in CV segment, so what is your sense, how much more of replacement?
- Siddhartha Lal** I mean, the market works on a overall number of vehicles which are there in the market so it is difficult to say what is coming out of replacement, what is coming out of fresh sales but the replacement cycle continues as it has been and I don't think there is been any increase in scrapping or any increase in any other effect. It is a cyclical industry so we will see adding of capacity at some point and once there is requisite capacity, we will see some flattening out. Hopefully, whenever the cycle hits whether it is in 2012 or 2013 or 2014. I can't tell, but hopefully it would be more flattening out than downturn but difficult to say that now.
- Kunal Bhatia** Fine sir. Thank you so much.
- Moderator** Thank you very much. That was the last question due to time constraint; I would now like to hand over the conference to the management for closing comment.
- Siddhartha Lal** Well, I would like to thank all of you for listening in, and we are looking forward to a stellar year. Just to add that there is a tremendous amount of work, especially in the CV segment going on in Eicher Motors from the partnership with Volvo and I think, a lot of positive outcome which you have seen today are the result of very-very close cooperation and partnership and of course with still the tip of the iceberg. We are looking at a lot more improvements, more benefits to come out of the partnership over time, and that should certainly see a very strong commercial vehicle company in the coming years. So, thank you for listening in.
- Moderator** Thank you very much sir. We would also like to ask Mr. Chirag Shah to add his closing comments.



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Chirag Shah

Thanks Brinda. On behalf of Emkay, I would like to once again thank all the participants for joining in the call and management for giving us the opportunity. Have a great day.

Moderator

Thank you very much. On behalf of Emkay Global Financial Services that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.