



“Eicher Motors Limited Q2 CY12 Results Conference  
call”

**August 10, 2012**



**MODERATORS: MR. SIDDHARTHA LAL – MD & CEO, EICHER  
MOTORS LIMITED  
MR. LALIT MALIK – CFO, EICHER MOTORS LIMITED  
MR. SANKET MAHESHWARI – ANALYST, ICICI  
SECURITIES LIMITED**

**Moderator**

Ladies and gentlemen good day and welcome to the Eicher Motors limited Q2CY12 results conference call hosted by ICICI Securities Limited. As a remainder for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need 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. At this time, I would like to hand the conference over to Mr. Sanket Maheshwari from ICICI Securities. Thank you and over to you sir.

**Sanket Maheshwari**

Good morning everyone, I welcome you all to the Q2CY12 results conference call for Eicher Motors. We have with us Mr. Siddhartha Lal, the MD and CEO as well as Mr. Lalit Malik, the CFO. I will hand over the call to Mr. Siddhartha Lal for some opening remarks and then we can directly go into Q&A.

**Siddhartha Lal**

Yes thanks Sanket, and good morning to everyone and thank you for joining us on the Q2 update for Eicher Motors Limited. I am Siddhartha Lal and I want to start with an update on our sales volume actually for various segments in the industry for quarter 2 and after that I will provide you a brief update of the financial performance and then we can and take the questions.

So starting with the commercial vehicle, for quarter one 2012, the entire industry at 5 ton and above actually declined, so we started getting into decline. It declined by 11.3% over the same period last year and with the total volume of 88700, so that's the industry volume. But like in the past, our performance in Eicher has been much better than industry. Despite the decline as Eicher truck and bus division, we actually grew by 8.8% and therefore continue to gain market shares in the commercial vehicle industry. So from the top line front, or from the sales front it has been reasonably progressive again for Eicher.

Now looking at each segment – In the light and medium duty, so 5 to 14 ton, we actually sold 6472 unit is which is marginally less than quarter 2 of 2011 and that's due to the lower industry result. It would 2.5% less than last year, but we in fact continue to hold and even increase our market share marginally in the segment with the market share of 31.7% for the quarter, so that has been reasonably progressive, but the strong volumes number have actually coming in our heavy duty in any buses. In heavy duty, we continue to make excellent progress. In Q2, we sold 1906 unit is which is a 34% growth over the same period last year and despite down term in the industry. It is on a smaller base, so we were able to actually improve our market share to 4.8% which is the highest ever quarterly market share, so there is up swing as far as we are concerned. The industry numbers actually (-22.4%) so it has been a decided swing in our favor and it is another important step in our ambition to become a serious heavy duty player. So going in the right direction, in buses again we have a very solid growth. In Q2 we sold 2784 which is growth of over 30% over Q2 of 2011. Our market share was 13.4% for the quarter and it is again our highest ever market share for the quarter. And over

the last few years, we have actually been working very hard on our platform, bus strategy and we have been very successful in the products and in gaining new market. So in 2008, we have actually sold 2942 for the whole year, which is what we sold in approximately same as what we sold in last quarter and our market share in 2008 was 5.6% , while it has gone to 13.4% in Q2 2012..

So we were actually gaining tremendous market share in buses which has more than doubled in the last four year and that's the result of all the investment and all the work we are putting in and we continue to put in a lot of investment in the bus segment as well. We have got a new bus body plant coming up which will be ready in first quarter of the next year. So a lot of push on buses as well in addition to our push on heavy duty and in addition to our strategy in light and medium duty. Exports were at 702 units is which is marginally better than the last couple of quarters, but 4% growth in the same quarter last year. We continue to face issues on the entire coal mining segment and iron ore mining segment. Across the country, it is an industry wide issue and that continues to affect us in our Volvo trucks performance. Having said that the base last year was very low because the mining crisis was even worst last year, so we have still grown at 24% by selling 152 trucks of Volvo trucks in the last quarter, but that's on a lower base. So that's overall in our commercial vehicle and VECV business that has been the performance. Now we move on to our Eicher standalone business and which is Royal Enfield and therefore things have been going extremely solidly. We have been working tremendously to improve your supplies to improve our capacity in our existing plant and as a result of all the efforts we managed to sell to produce and sell 27519 unit is so the production and sales are very close to the number and which is 48% higher unit sales then Q2 of 2012 and Q2 of 2011 was also on the large growth so there has been a tremendous growth in the Royal Enfield business. In fact another very important milestone which we're extremely proud of is that last month, which is July, actually a monthly production in sales crossed 10000 units is for the months. So that has been tremendous achievement in our business. It gives us a good build up into the next year but we shall be able to ramp up our production and sales we got more a new plant coming in stream. So lets move on to the actual works on and VECV and Royal Enfield. We have got a lot of efforts underway so VECV, which is in the hard core execution phase right now for entire strategy, so our new products are coming more than 2014-15 which working very hard towards those. We have got expanding our distribution tremendously. We have been expanding our aftermarket spare parts business.

Our product development are expanding on manufacturing so all those works manufacturing within our current plant plus our new bus plant, so there is a lot of activity actually going on at this point. On capacity expansion as well so that's all very much underway and similarly in Royal Enfield as well so we have got the huge amount of activity going on with this so there is a lot of activity going on in order to get the new plant going but there is a lot of back end activity going on in order to get our supplier up to the type of quantity than the quality that we require to run our new plant and all these are very long term efforts that we are going through and we are putting a lot of investment behind these long terms efforts because we are certain

that we shall get a lot of returns from these investments and they will really impact us positively in the long term.

So then we move on to our financial outcome – on the consolidated basis, I will give quarterly numbers, our net income from operation after deduction of excise duties, 1585 crores which is a solid 23.6% over a Q2 of last year. Our operating margins are 11% up from last year so there is obviously some pressure on the margin but that has gone up to 139.5 crores and as a result, on a consolidated basis, our EBITDA is 8.8% versus 9.8% last year. So overall there has been some pressure and that's particularly in the CV segment on the pricing and incentives front. Apart from that we have had a solid growth, we have had solid financial performance and the company is managing to let's say navigate this economic slowdown in a reasonably good manner until now. There are certainly challenges in the commercial vehicle industry at least in the short term perspective and as at Eicher Motors, we will always be exceedingly tough in reacting to any economic situation or any downturn in the market. So as a general rule, we don't over produce, we don't keep too much inventories or that sort. So when we see a dip in market, the first thing you will see is in our volume, so we don't encourage any other form of let's say building up stocks of that. Now that's our overall Q2 update which I would like to talk to you about and of course we will take questions later.

Before I hand it over back to questions, I would like to just update you on something very important and something very exciting which has happened very recently in end of July where we signed the joint venture so Eicher Motors has signed the joint venture with Polaris Industries effective the 23<sup>rd</sup> July to give you the brief contour, it's a 50-50 joint venture that will design, develop, manufacture and sell a new range of personal vehicles, it's a full Greenfield project. It of course allows us to add a new line of business apart from commercial vehicles and motor cycles. We have been in discussion with Polaris now for some time now and we have been figuring out what type of segment we want to do and this is now the formal joint venture behind it, but the partner Polaris is absolutely phenomenal. They are a lean focused company, they have got a lot of capability and we are certain that this partnership is going to result in product and in strategies in the end of product should be extremely interesting for the Indian market. So the planned SOP is in 2015 where we planned to launch our product and start sales and of course over time we will continue share updates with you on the project.

Thank you for listening in and over to you Sanket for question and answer session.

**Moderator**

Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. Our first question is from Pramod Kumar of IDFC Securities. Please go ahead.

**Pramod Kumar**

My first question pertains to our MD & HCV market share because it is extremely sharp difference between what the industry is doing and what you are doing and normally we see historically that in a down cycle normally the market leader benefits and the smaller players tend to lose out on market share, so just wanted to understand what exactly is happening on the ground in terms of fleet owners as to what is really driving or is it led by more market

expansion and more customer expansion in terms of going towards and away from fleet owners to even now to single truck owners. So what exactly is driving this kind of a sharp difference in performance?

**Lalit Malik**

Of course as the smaller players, we sold 1900 truck in the last quarter. It is still the small part of the entire heavy duty industry. So the main improvement is coming because I think some of it more from the geographic angle that we are spreading into some newer markets and at the back of it, is really our products which are gaining much more acceptance. So especially in the few areas that means the 16 ton is continuing to do extremely well both 16 tons cargo and tipper to the extent that tipper market has come down but other than that we still continue to do well in that. What we have been able to really pull a weight in these is currently the larger growing in the largest market, in the commercial vehicle for the heavy duty segment, which is the A type of segment. So we are able to perform well and that's what giving us the traction and that's very hard thing for us that the weight segment the largest segment now in commercial vehicles. So in short the product strategy followed up with let say better geographic expansion, which is helping us in driving these volumes.

**Pramod Kumar**

And how far are we from a pan India, in term of all our dealers being able to sell our HCVs, so how far are we from that in terms of a timeline?

**Lalit Malik**

Let look at from a market point of view, in terms of how much of HCV, for a heavy duty market we are properly addressing in terms of geography and it still around from the geographic angle, I would say still around less than 50%. It is in the ballpark of 50%. So in order to go up to 80-90%, I think our ambition is that by the end of 2013, we should be heading to those numbers so that when our new range of heavy duty trucks start flowing in from 2014 onwards, we will have very large geographical coverage of our truck. So that's the intension at this point.

**Pramod Kumar**

And Siddharth now there we are talking about expansion, what about Royal Enfield as an I think the demand, if you can just throw some light, if the growth in volume is led by more market expansion or also you are seeing very strong growth even on the same existing markets as well and what is the sales point you are looking by end of the year once your production starting on the new plant next year. I mean in terms of what is the roll out in Royal Enfield now?

**Siddharth Lal**

The demand continues in existing market and is very strong so that means in some stores in current dealerships, it is very strong but we are also being able to get more and more orders in because of geographic expansion. The Royal Enfield franchise has become a very lucrative franchise. We get a lot of opportunities when we are trying to appoint new dealers and as we are penetrating into let say smaller or medium town, we are getting reasonable sales in those towns where earlier we would be selling where the dealership may not have been viable for 5 or 10 Motorcycles. Even in smaller town, we are able to get dealership which sell 20-30 which makes a dealers to viable so there is a bit of both and we are certainly not resting on our let say

on our current order book. So we are putting a lot of effort into market expansion into better distribution. We are putting a lot of effort into new products and into further improvement of supplier quality and everything else in order to give us the right traction. When we get into the new plant early next year and all including brand efforts so all of that should allow us to continue to sell it 100% hopefully even when we get into the new plant which is currently slated to, initial idea was to get 150000 on annual capacity which means around 12-13000 on the monthly capacity, but we are going to try certain pushes more if the demand continues to be as robust as it is today.

**Pramod Kumar** Okay, the other income on a console basis have already come up, so just wanted to understand because in the past treasury income has been a fairly big chunk of our earning. So what's going there as I mean what's driving down other income, is it the allocation of the money more towards FMPs from CP or what is exactly driving that decline in other income?

**Lalit Malik** The SMP income is the whole tailorship of the investment is staggered on a few quarters that's not deliberate that's way we are kind of invested in the past and that's way renewals also tend to have. We have always see this little bit of fluctuation as well as the other income is concerned the standalone book. Q1, we have a lot of redemption but in Q2 it was quite low. Q3 also it won't be very high.

**Pramod Kumar** But on a full year basis as rather commit, what would be the net cash currently on the standalone and the consolidated books?

**Lalit Malik** Standalone is about 590 crores.

**Pramod Kumar** So it has gone up.

**Lalit Malik** Yeah it has gone up yes.

**Pramod Kumar** And on consolidated rather on VECV?

**Lalit Malik** See if you look at our balance sheet also that we have kind of disclosed in half year, it about 850 crores.

**Pramod Kumar** So there is a bit of reduction because of ongoing CAPEX programs?

**Lalit Malik** It is about 590 in the standalone and about 850 odd in VECV

**Moderator** Thank you very much. Our next question is from Pratik Mehta of Bajaj Allianz. Please go ahead.

**Pratik Mehta** Congratulation to the management on a good numbers on the development of JV with Polaris. My question is regarding that in three CAPEX programs that we are undergoing one is Royal Enfield new plant setting up and second is on engine manufacturing in VECV, if you can give

some update in terms of how much money has already been spent? How much of that is capitalized and how much CAPEX are we likely to do in those projects individually over may be next one and one and a half year?

**Siddhartha Lal**

The overall prospective is that in 2012 to 2014 on the VECV basis, we are going to be spending approximately a 1000 crores. We are well underway on that program. I don't believe we are giving details of our balance sheet in this call here in the current level, but we are well underway into our CAPEX program and despite all these economic situations all we actually continue to press 100% on the pedal as far as all the investments are concerned, we are not pulling back at all. So these are all investments we believe for the medium and long term, then as we go into the Royal Enfield, we talked about approximately 150 crores which is putting into the new plant. Again we are well underway into the investments plan. A lot of money I would say some part of it is been spent and most of it is committed and we are deep into the program so it is now the matter of just nearly finishing of an executing. So that's way we are right now. Well Lalit anything further you would like to add to this.

**Lalit Malik**

Just about 1000 crores for the next two years in VECV and 150 Royal Enfield new plant.

**Pratik Mehta**

So the question essentially in VECV, have we already spent on the new program if you can help me that in detail?

**Siddharth Lal**

No if you actually compare the December numbers of the balance sheet with the numbers that we have just disclosed that you will come to have a fair idea, so this is the way accounting works is whatever money you spent in the part fit as...

**Pratik Mehta**

Just one more question on other expenditure there is sharp jump on a YOY basis and VECV and that led to consolidated numbers also reporting sharp jump in other expenditure, so is there any one off in that or is this to do with the decision of capitalization of some of the expenses or anything like that or basically are you expensing out more aggressively, or just wanted to know your comments on that?

**Siddharth Lal**

So firstly we are continuing to invest aggressively at the VECV level, so even if you see employment cost, even that is gone up reasonably sharply. We have adding a lot of people fairly large number of project which are ongoing right now in all aspects, so we are adding people aggressively and ours spends are reasonably aggressively at this stage. Having said that some of the sharp increased in other expenditures has come from increase incentives, which are coming in that line. So there is a pricing pressure in the market today because of the slow down in the commercial vehicle right now and that's forcing us to putting more incentive on the table, which is affecting the other income.

**Pratik Mehta**

The incentive meaning incentive to the customers in the form of discounts or incentive to the staff or sales people?

- Siddharth Lal** No mainly directly to the customer but in many different ways so it could be through let say better finance deal, it could be through other means and some of just has further discounts, so some of the deals about the in the net sales in the topline as well that quite of bit is actually coming into the other income part of the market spent.
- Moderator** Thank you very much. Our next question is from Saurabh Das of Tata Mutual Fund, Please go ahead.
- Saurabh Das** My question again pertains to a follow up to the previous answer you are giving on margins, so if I look at VECV margins which is essentially a deduction of the console in the standalone, it is comes at 7.3% which I guess is one of the lowest and the last two years so as you mentioned there was increased in competition and higher incentives, but is it only at the HD range or you are seeing pressure on the LCV range as well?
- Lalit Malik** Yeah the pressure is throughout. Even in the light and medium duty there is let say slow down from last year and results there are more incentives been thrown by the manufacturers as well on the table. So in order to maintain and continue to grow our market shares we are also putting more incentive on the table, but it across the board. It is not restricted to any one segment.
- Saurabh Das** Right and given that HD is ramping up at a faster pace and increasing in the proportion of our sales, has that also been a contributor in terms of mix adversely impacting our margins and the quick follow-up to that has the HD range broken even because you had broadly indicated that at roughly around 1000 per month is you would look at the break even, but has the breakeven levels come down?
- Lalit Malik** In the first question was about yeah the heavy duty clearly some of the mix asset will come into place because heavy duty is certainly not going to be pulling as much even at a gross margin level as light and medium duty at this point. So there is heavy duty grows in proportion, which is light and medium duty. There is going to be some adverse effect on the mix and therefore on the margin. I am not going to comment directly the profitability of any particular segment. Just to say that we still feel that consistent 1000 number is the first point which we are trying to accomplish and we hit 1000 number of couple of time till now, but we are consistently there is yet. So that to us this is very important milestone to be able to target the next level of volumes beyond that, so we are working towards hitting 1000 consistently. It happens when we come into bit of a downturn so that is also affected our ability to 1000 consistently right now.
- Saurabh Das** Great and just again on the margins on the two wheeler business which has come at an extremely healthy 15% I guess it could be one of our all time high, so do you think that given that you have achieved scale to an extend right now on the business, this number looks pretty much achievable and consistently maintained going forward if not improved from you all.



**Lalit Malik**

Yeah I mean as you can see with this 50% plus top line growth at least this is going to have a positive effect on the margin. You also got some price increases so even though we are aggressively expanding Royal Enfield in terms of people in terms of product development and other spends clearly the top line is growing much faster. So there were we have in the motorcycle business we are still expanding well in the margin front and of course, and as when we can continue to expand our volume, we should continue to get operating leverage. Having said that as we move into next year of course there will continue to be some positive effects on our margins, but there will also be new cost which will come into the new plant. So there will be some positive and some negative effect coming in but clearly in this set of business very well if you can keep pushing in the volume front it just add tremendously add on to the bottom-line and it should continue to have some operating leverage as long as we have volume growth.

**Saurabh Das**

My last question if I may this is on the CV segment and we have been hearing absolutely crazy levels of discounting in certain market given that Daimler has also come forth and it seems the market rumors are that they are offering 6 year free warranty products on the market. If you can give us some sense on what is the value offering right now on the HD range for you and where do you see a competition especially in the southern markets heading towards?

**Siddharth Lal**

Like I said this level of incentives and all is very high. At Eicher and VECV we are very clear that we take all the cost upfront of any incentives that we are giving out. So we are not pushing any cost back in terms of liability which could come up in the future and as a general rule we are not even giving futuristic promises to people. So we try and manage everything upfront. So if we need to increase the discount level we rather do that then we will give much longer warranties or buyback guarantees which some of the other manufacturers are doing which certainly could affect the future liabilities. So there is a lot of activity going on in these markets. I am not at a liberty to share few exactly what the numbers are but I mean that something you can gaze by the market it itself where everything is going. I would just say that at Eicher we continue to sort of as you have seen over the last many years, we put a lot of effort in our price realization. So we have been the leaders in the market to reduce the amount of incentives and which I keep at the level of incentives very low so we managed extremely well in light and medium duty over the last few years to reduce the amount of incentive tremendously, but now of course when the situation is weaker and there is a lot of incentive being thrown in the table by other manufacturers we also do participate to a large extent in that. We are not immune from that unfortunately.

**Saurabh Das**

Got it absolutely, sir what is the warrantee we provide on our trucks?

**Siddharth Lal**

Yes we have different warrantee terms for all our different trucks right now and I believe if I am right two year warrantee on heavy duty.

- Moderator** Thank you very much. Our next question is from Raghunandan from Avendus Securities. Please go ahead.
- Raghunandan** Just a question on the tax rate, what is the standalone business seems to have gone up, would that sustained going forward?
- Lalit Malik** Though the tax rate is really a function in the standalone books of R&D spend that happened in Royal Enfield so of course our income from SMPs and other investment that we made were lower tax rate basis kind of low so it is that fluctuation.
- Raghunandan** Higher tax rate was because of lower other income in this quarter?
- Lalit Malik** Because we taxed at a lower rate so tax will go up.
- Raghunandan** I just want general outlook on the industry whether are you seeing any signs of a recovery?
- Siddharth Lal** Unfortunately, no signs of recovery yet in fact this signs right now still weak and in the month of July, the market is weak and as you see IIP and other such indicators like. Monsoons. None of them are quite robust, so so there will be effects on CVs as it looks like. As you know, Eicher Motors we are going to react fast to whatever it is. So if the market is slowing down, we are going to react fast to reduce our production and if the market starts looking up again we are going to react fast to increase our production now. We are just looking and sort of seeing there may be reasonable uptick let say in the festive season. I don't think we are expecting anything substantial before that, but it is possible that in the festive seasons things can sort of at least start getting back to even key level or may be slight growth rather than the negative growth which is going on right but very difficult to say looking forward.
- Raghunandan** Sure sir thank you very much sir, this was very helpful.
- Moderator** Thank you very much. Our next question is from Amrish Mishra of JM Financial. Please go ahead.
- Amrish Mishra** I had just two questions, one is on if you can share your thoughts on how the raw material scenario is panning out because we are observing difficult either to improve it on a sequential basis or at least able to stabilize it at a lower level that is one and second is if you can share the price hikes if we have taken in the second quarter in any segment that would be helpful?
- Siddharth Lal** As far as raw material is concerned as such there is no upward pressure at this point from a pure raw material point of view. The commodities are sort of recently stagnant if not marginally declining in some cases, but there is no current major fear of raw material suddenly spiking up. On the other hand, the suppliers are facing a lot of problems with this downturn. So they are starting to show signs of weakness in their books and so there will be a pressure from supplier point of view to sort of increase prices likely. But certainly not from pure raw material point of view and price hikes we have actually done in the commercial vehicles, the

last price hike we took was in April where we increased the price by 1.6% and in motorcycles we had a price increased by 1% in, so that's the current price hike.

**Moderato**

Thank you very much. Our next question is from Sonal Gupta of UBS. Please go ahead.

**Sonal Gupta**

Yeah hi good morning everyone, just continuing with the sort of existing questions regarding the discount, etc., and the margin, I mean If you look at the July numbers, we have seen year-on-year decline for you on the heavy duty side as well on the light and medium duty you cannot be given your market share, but on the heavy duty given the small market share lower base in a way. Should we expect better numbers or are you seen that the discounts are going to unreasonably high levels and you don't want to participate in that? How should we look at it?

**Siddharth Lal**

I don't think that anything sort of extreme either way. There is no question in the market if I bring to the name on every orders, so basically on an order basis that we think and certainly there are some orders which we give up it is fine that going to achieve in terms of the want of discounts but there are some orders we want to take and we take the some orders that come to us. So there is a lot of play in the market. Clearly beyond the point even though we had a very good growth in quarter two over last year in heavy duty sales and if the market continues to works downwards we know when we have to keep that up for sure. Our ambition is to beat the market and continue to beat the market in some of the action so it is not that it is going to happen every single time but even if the market is falling by let say (-20), if we can restrict a the fall to (-5) we are actually better off. So clearly we would rather grow and we would like to grow but it does get way in sense the market in terms of each of the orders which is coming out. So yeah it is tough out there, there is no question about it but we are finding it tremendously hard to win each order. I would say we are also signing other revenues so for example we are pushing very hard on buses which are certainly not as cyclical as commercial vehicles and we have also got some big orders in buses. We have got the Gujarat State order over 1000 buses and we are working on our some of the other potential orders so there is a lot of work going on in let say de-risking this to some extent.

**Sonal Gupta**

What is your assessment of market share in the HD markets that you are present in because you are saying that you cover like less than 50%?

**Siddharth Lal**

We can try to remain where we were because geographically we are present in less than 50% of market. If you cut it from a product segment wise, we are there in around 75% of the market. But at the end of the day last quarter we have 4.8% market share so if you get into individual segments in 16 tons our market share is certainly much higher. I don't have the numbers offhand, but it is 7-8% if not 9%. In 16T Tipper, which is the larger segment in heavy duty trucks, we are now pushing 5% plus which is helping us to get to 4.8% market shares, so that is approximately where we are in two of the main segments that we are doing well in.

**Sonal Gupta**

Giving that you are coming of a small base that I understand you and the industry might be degrowing 15-20% and yes I understand that you want to grow but for you to capture the market share now and when things start improving then you can build on that much more

rapidly. It is sort of tough question but if you were to chose between market share and margins what would you chose really speaking?

**Siddharth Lal**

We are trying to both, it's difficult but as you can see we are very aggressive on market shares so we have grown last quarter to 4.8% which is our all time high and I believe it was less than 3% Q2 of last year. So there is substantial growth in market share. We are certainly pushing hard on doing that and sometimes it really depends B-to-B because there are some customers who really want to make an entry into and there we are willing to go bit further in terms of giving them a better deal and there are some which are not as important so we give those up. So certainly in situation where the market is weakening, we are not pushing very aggressively on first time users and a smaller customers because since our VE series launch in 2010, we are very active on delinquencies We make sure that there are I believe till now there is 0 repossessions of our VE series heavy duty truck which is saying a lot. Now in the downturn is coming things might change slightly but the financiers are very happy with our product because of that reason we are not repossessing our trucks. And as a result of our strategy to not sell to very small customers or to first time users which are the first to go belly up in a tough situation. So on one hand we are going very aggressive with some of our bigger customers and bigger potential customers but we are very conservative ongoing sharply with small owners.

**Sonal Gupta**

Right thanks and just anything on JNNURM side for the buses and if you could also just talk about export plans in the near term, what can we expect in the next 12-18 months?

**Siddharth Lal**

JNNURM in some sense it is bit more subdued but there are a lot of orders in the pipeline as far as state transport undertakings are concerned. We won a tremendous order with Gujarat State of over a 1000 vehicles and you can imagine there is a lot of pressure from the incumbent players to get in there but we were able win L1 and get a very big order. Our aspects perfect and it is well excepted so we are pushing hard on the bus side and we are doing well on the bus side. On exports all the markets are frankly not doing particularly well either so it is a flat export situation more as a result of the industry being very weak in most of the export market that we are in and again we are not seeing a large turnaround in any of the market segment. So I don't expect a sharp increase in the next few quarters in export performance at this point.

**Moderator**

Thank you very much. Our next question is from Ashish Nigam of Antique, please go ahead/

**Ashish Nigam**

My question is more on Royal Enfield. You mentioned that in a bid to increase production, there are certain jobs paint shop, etc., that are currently being outsourced. In your view how much are these costly outsourcing jobs suppressing your Enfield margins by?

**Siddharth Lal**

Overall if you look at the amount of outsourcing we are doing which otherwise we would have done had we had the capacity. It's not very substantial it is maybe 10-15% of a volume that we are getting. So if we are producing 10000 motorcycles last month on paint shop basis it will may be 1000-15000 somewhere around that. So there is certainly a small effect of outsourcing but it's not very large, let's put it that way. As we get into 2013, certainly we can start pulling

back some of this, but actually to us strategically that's less important if we have good suppliers in these areas as we want to continue to keep them alive and then keep them running. For us the most crucial thing firstly to be able to extract the new volume extremely well out of our new plant and of course paint shop will be moved there very soon. As soon as the paint is ready there. But other areas where we are outsourcing in other parts for example it is continuing to be in a lot of pressure. So our biggest concern is the growth that we have to be able to maintain and in fact drastically improve the quality there are lots of program on which we are working on. So let say if you talk about in-loading I don't think apart from paint shop I don't think we are going to be doing anything substantial in 2013 because we are trying to really establish our higher volumes and while we are growing I think the idea is to continue to outsource in the optimum fashion if possible and over time once we have got this degrowth behind us as it were then I don't think we are going to be remain at 50% for the rest of our life. But once this is behind us then we can start focusing improving our cost structure even more but that might come closer to 2014-2015 as I mentioned.

**Moderator** Thank you very much. Our next question is from Aditya Makharia of JP Morgan. Please go ahead.

**Aditya Makharia** Just wanted to check on your engine program for 2012, how is that shaping up and also you mentioned that the new truck you will move to this platform so just wanted some thoughts their?

**Siddharth Lal** The engine program is going exceedingly well, absolutely as per target, absolutely in line with our expectation. We are going to be turning out engine for 2013 for sure. There will be a long ramp up phase because we are not in a hurry to roll out these engines because they are very, very sophisticated machines and we want to make sure that we do it properly and installation as I talked about earlier takes time so you don't install it in all vehicles in one day. You are installing in one model and then you change over to another model to another model. So it takes many months to get it into all the models so there is a ramp up phase but we are absolutely on track. We are working exceedingly hard on all our full new truck platform developments that we are doing. Of course in the heavy duty range they would be coming in with the new engines but it is full new vehicles that we are talking about from 2014 onwards across the board by and large in trucks and in buses we are also going to let us way upgrade the entire buses it itself. That entire platform of new trucks and new buses starts in early 2014 and takes us all the way into 2015 so model by model we will be changing over to new platforms so that's the timeframe that takes us into.

**Moderator** Thank you very much. Our next question is from Chirag Shah of Enam Securities. Please go ahead.

**Chirag Shah** My question again a follow-up on the engine plant, is there any indication given by Volvo in terms of what kind of outsourcing arrangement offtake they are looking at? Any indications have come from there? Volume ramp up how it will happen from their sourcing arrangements?

- Siddharth Lal** Yeah extremely I would say finely detailed in terms of which products, which dates, what changeover so it is all extremely finely detailed. So we certainly have a very good visibility into when they will be requiring what engines and when the changeover will be and we know it is towards the Euro-VI implantation which is happening in 2014 so they will be building up towards that. So I am not going to get into exact number in terms of what the demand is but that's the general let us say indication from there. For Volvo it is a replacement engine in most cases. They have not used the engine. They are going to replace the engine so the risk factor is much lower for us so it is not like it is a new product and we have a new product risk as well, the new vehicle. The vehicle is existing, it is already selling in numbers. They are replacing the engine. So I don't see a volume risk on the Volvo front as such.
- Chirag Shah** So it is not a new engine platform also for Volvo? It is just a replacement from a different destination, is it something like that?
- Siddharth Lal** The engine platform is brand new. They are putting it into an existing model They already have customers and they are selling these trucks too. So it is not like there is a huge risk of the demand won't pick up for these engines so that is what I can say.
- Chirag Shah** What I understand was that some of the engine would be shift to Japan and some of the engine would be shift to Europe from India Volvo.
- Siddharth Lal** Actually, a large chunk of the engines which are going to be Euro-3 and Euro-4 are going to be fully buildup in India, one is for VECV's own requirement and second is for Volvo's requirement globally for Euro-3 and Euro-4 markets, we will buildup the full engine here, then we will be sending the base engines to Europe, where in the Volvo powertrain plant in France they will be doing the rest of the buildup of the engine that is the after treatment and fuel injection and all of that. And then they will be installing it in their vehicles there. So that the two lines of the way the engines are going to flow.
- Chirag Shah** So the demand from the Volvo for Euro-3 and Euro-4 engines could happen as soon as your plants start that is the right way and the engines which are more technologically advanced would happen at the time of implementation of Euro-4 norms. That is the Euro-6 norms in Europe, is that the right way of understanding? How the production ramp up would happen at your engine plant?
- Siddharth Lal** It is much more complex than that really Chirag. Basically it is based on the geography and is based on the models, all of that. But net-net Euro-3 and Euro-4 we will be producing the full engine here for our need and for their needs locally but even that will be have ramp up phases, it is not that from day one suddenly they will be sourcing their entire number from one day onwards That will also take a ramp up so it is all installation based so as and when they want to install it on their new vehicles they will start using this engine for that.
- Chirag Shah** And second follow-up question was on Polaris arrangement. Just wanted to understand why a personal vehicle and why not expand your horizon for SCV's small commercial vehicles?

**Siddharth Lal** As far as we are concern the entire commercial vehicles play is all going to be VECV's there is absolutely no question about it. We do not plan at Eicher Motors to compete in any form of fashion in commercial vehicles other than through our joint venture and that is our agreement also with Volvo. So that is what we were looking at opportunities outside. So tomorrow if you find it is an interesting opportunity for us to get into much smaller commercial vehicles it will be done through V series, it will not be done in any other fashion. So Polaris deal is really we plan to enter a new segment in India we believe that the Polaris is a phenomenal company with an excellent pedigree of trains and offroad vehicles so they have a great understanding of such terrain which of course very prevalent in India, so all those advantages that they come with and we are looking at how to get the right product, how to plan and strategize or develop the right products in order to meet, new requirements which we see feel are increasingly available in India, so it is a very exciting new project and the partnership is going to be very interesting to watch out for.

**Chirag Shah** Can you share anything on kind of investments in any initial thought process on, because this seems to be a pretty big project in terms of gamut of things that you would be doing that would also involve putting up capacity in India?

**Siddharth Lal** Yes, our current plan which is first we figure that we come up with internally is that the overall project will cost us approximately 250 crores over the three-year horizon till SOP or let us say in first six months of SOP we should be able to cover that 250 crores so then into, 2015. That is how we are looking at the project as of now.

**Chirag Shah** This assessment also includes the creation of physical capacity. This 250 crores would also include any physical assets, you will have to create?

**Siddharth Lal** Yes, absolutely. It is the whole project. Project development, it is toolings, it is factories, whatever is required to build these products and to get them into market and to start distributing them is approximately 250 crores. We are in very early stages, it could be plus-minus a little bit right now, but in that ballpark.

**Chirag Shah** This is a follow-up question, you indicated that discounting activities you are witnessing across the board in the MHCVs would it also be true for ICVs and LCVs also and would be of similar nature, the intensity is similar or it is higher, lower what it is?

**Siddharth Lal** On an average I would say that it is marginally low but it is not very different from heavy duty and there is reasonably large incentives being paid out throughout commercial vehicles at this point.

**Chirag Shah** And this would also include buses and not just trucks, the discounts has been witnessed in the private bus segment? You're talking largely from the trucks perspective?

- Siddharth Lal** I think by and large, this is across the board and it differs from product, it differs in certain geographies certainly and buses may not be as expected or let us say as we seem to incentive as some other segments but it is there, it is prevalent right now.
- Moderator** Thank you very much. Our next question is from Jinesh Gandhi of Motilal Oswal Securities. Please go ahead.
- Jinesh Gandhi** I just wanted to get the clarity on the SOP for engine project, that's January 2013 or that has been moved?
- Siddharth Lal** I believe the SOP Q1 of 2013, that is when we will be first rolling out our products. Like I said, it is going to be a relatively slow ramp up because ensuring the quality and installation of new trucks. We are still planning a Q1 SOP.
- Lalit Malik** We as always said that the commercial sales from this plant will only start from Q3.
- Jinesh Gandhi** So initial six months will be on for validating in testing the product?
- Siddharth Lal** Initial six months will have low volume, they will be sent to Europe, etc., but there will be very low volume. It is not going to ramp up very fast.
- Jinesh Gandhi** What will be the SOP for the two wheeler plant, Royal Enfield plant?
- Siddharth Lal** We have been saying the first half, but it is going to be probably closer to the end of first quarter is what we are looking at for the SOP of motorcycle plant.
- Jinesh Gandhi** And post new plant our capacity will go up from 10,000 right now to about 12,000-12,500 about 13,000 per month?
- Siddharth Lal** That was our original plan in fact we did not even envisage necessarily reaching 10,000 in a certain plant. So yes as of today we have around 12,500-13,000 coming out of the new plant and let's say jointly, but certainly we have the ability to expand much faster in the new plant and so it will not take us that much time just to add to this capacity there because the entire idea of new plant is to expand much further. So not withstanding engine assembly and suppliers which are probably going to be the bottleneck in any case as of right now so we are working on all of that. So as of now, yes 13,008, the market still buoyant for our bikes, we should be able to expand that a bit further.
- Jinesh Gandhi** What will be the maximum capacity which we should be expanded at that plant considering that it has a limited space?
- Siddharth Lal** It is not a limited space we have got a very large space we have about 50 acres. We are building up only the Phase 1 right now. And eventually, we can build out much more in that plant. Currently, the capacity which we have planned is 150,000, but we are already seeing



potential beyond that. So we are going to be figuring out let us say in 2014 we will have to be working 2013 to expand the capacity already in 2014 let us put it that way.

**Jinesh Gandhi**

So Phase-2 can be equally big about 150,000?

**Siddharth Lal**

There are no physical limitations in that plant right now, even to 3x or 4x of our current volume. We do not have a problem with the physical limitations. Now we just have to build it out and get the suppliers ready. Actually, the suppliers and other such things which will probably be the bigger bottleneck so we are working on that very hard now.

**Moderator**

Thank you very much, sir our next question is from H. R. Gala of Quest Investment. Please go ahead.

**H. R. Gala**

Just looking at the QOQ trend, there has been a downward of about 5% from Q1 to Q2. Going ahead, you did say that it is very difficult to judge how markets will pan out. But do you think that over a period of one year in this CY12, we can have double-digit growth, because in first half we have achieved 22% revenue growth?

**Siddharth Lal**

Honestly, I cannot say it really depends on where the market is going. Like I said we cannot predict the market, but we can follow it very closely and we make sure that we have got the pulse absolutely right. And secondly, our ambition will always be from an ambition perspective, to beat the market. If the market is growing close to double-digit is, absolutely we should try and beat the market there is no doubt about it. But it is not going to happen every single quarter but on a general level, we will be gaining market share and plan to continue to do so.

**H. R. Gala**

And there is no rethinking on the part of management to defer any part of the capital expenditure which you describe of about 1000 crores to be spent till 2014?

**Siddharth Lal**

As of today, there is absolutely no deferment of any capital expenditure plan. They are all deep into execution mode and we do not want to disturb them and frankly in any case we see very often downturn as a good opportunity to get very good rates on capital equipment. If you think there is a problem in our type of industry, the capital equipment industry suffers much more in the downturn because everyone pulls back and it is a great time to get good rates so we are certainly not pulling back at all at this point.

**Moderator**

Thank you. I would now like to hand the floor over to Mr. Sanket Maheshwari, for closing comments.

**Siddharth Lal**

Thank you, Mr. Lal and thank you Mr. Malik for taking the time out. Thanks to all the participants for joining the call.

**Moderator**

Thank you very much. On behalf of ICICI Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.