



"Eicher Motors Q4 CY13 Conference Call"

February 13, 2014





*Eicher Motors
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MANAGEMENT:

- **MR. SIDDHARTHA LAL – MANAGING DIRECTOR AND
CEO, EICHER MOTORS LIMITED.**
- **MR. LALIT MALIK – CFO, EICHER MOTORS LIMITED.**

MODERATOR:

SONAL GUPTA – ANALYST, UBS SECURITIES



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Moderator

Ladies and gentlemen good day and welcome to the Eicher Motors Q4 CY13 Earnings Conference Call hosted by UBS Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sonal Gupta from UBS Securities. Thank you and over to Ms. Gupta.

Sonal Gupta

Thanks Margaret. Good morning everyone. On behalf of UBS Securities I would like to welcome you all to the Eicher Motors Q4 CY13 earnings call. We are delighted to have with us today the senior management team from Eicher Motors Mr. Siddhartha Lal – MD and CEO Eicher Motors and Mr. Lalit Malik – CFO Eicher Motors to take us through the results. I would now like to transfer the floor to Mr. Siddhartha Lal for his opening comments over to you Siddhartha.

Siddhartha Lal

Hi very good morning to all of you and thank you all for joining. And Sonal thank you for arranging this conference. We are very happy to have you all here to share our quarterly and our annual performance for the calendar year 2013 because that's the cycle that we follow. What I will do is I will start first with an update on the sales volume of our businesses which is VE commercial vehicles representing the CV business and Royal Enfield from the motorcycle side. First on this commercial vehicle side, the industry has continued to as you all know battle and enormous downturn which is now gone on for over 24 months closed to 30 months. We see a significant pressure on the sale volumes in five ton and above segment of the industry which is where Eicher Motors is present. In Q4 the overall segment of five ton and above commercial vehicles recorded a sale volume of around 57,000 units which is a decline of 26% over the same period last year and for the entire year the industry clocked 2.97 lakh units which is 25% lower than 2012. The stress in the industry is very deep and it's continuing. The sale volume for Eicher truck and bus in Q4 2013 was 8052 which is 30% lower than Q4 2012 and for the year 2013 we did 40,550 which are compared to 48,262 in 2012 which is a decrease of 16%. For the year the industry fell by 25% Eicher trucks and buses fell by 16% and we have outperformed the industry. And now coming to segment wise performance within commercial vehicle industry in the 5 to 15 ton range of trucks we sold 4,957 units in the quarter 4 2013, which is 35% lower than what we sold in Q4 2012 and the industry fell by 31%. The overall industry declined from 94,000 approximately in 2012 for the full year to 76,300 in 2013 which is a decline of 19% and in 2013 as Eicher Motors we sold through VECV we sold 23,176 which is a decline of 21% and it's lower than our 2012 volume of 29,500. The market share for the year 2013 was 30.4 which is a percent lower than our 2012 market share that's in the 5 to 14 tons.



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In the 16 ton and above segment we sold 1024 units in quarter 4 which is 46% lower than what we sold in Q4 2012 which was 1887 units. The industry declined by 28% in the quarter from 36,000 odd units to 26,000 units and the industry is clocking at sub 10,000 units per month in the last quarter and at its peak it's been up to around 22,000 – 23,000 units heavy duty. We are talking about I would say 60% plus, 65% decrease in the industry volume. As a result and annual volumes in heavy duty we sold 5,741 units which is 25% lower than last year and the industry on the other hand declined by 33% from 195,000 to 131,000 for the year. Our market share was 4.4% for 2013 compared to 3.9%. We have had a marginal increase in market share in a year which has been absolutely awful for the heavy duty industry where it has fallen tremendously. The levels of discounts especially in the last quarter have gone absolutely through the roof to levels which are extremely disturbing now as we have not grown as fast as we wanted because we don't participate in every single deal but we will get to that later.

In the bus segment we sold 956 units in the last quarter which is October to December quarter 4 2013 calendar year as compare to 1368 units in the year previous which is a decline of 30%. While the industry shrunk from 11,648 units to round 8,859 which is decline of 24% and for the year we sold 8,333 units which is very similar to the 8,521 units which we did in 2012 decline of just 2%, while the market shrunk by 13%. From 71,000 units to 62,000 units our market share as a result was grown by 1.5% that was 12% to 13.5% in the year 2013. We had a good performance on exports that helped us quite a bit in our overall performance we clocked 1,115 units which is 60% higher than the same quarter last year of 696 units; during the same period the industry grew by only 2% from 6,800 units to 6,900 units and for the year we sold 3,300 units which is 32% higher than our 2012 volume whereas the industry actually declined by 21%; we have outperformed the industry tremendously as far as exports is concerned.

As far as the other division of VE commercial vehicles which is our Volvo truck division where we do the distribution in aftermarket for Volvo trucks in India we sold 215 of these extremely high value units which is a growth of 11% over the same quarter last year where we have clocked 193 units and for the year we sold 701 units which is 23% than the sales we had the previous year 2012 of 569 units, that's on the all the vehicle side.

On the medium duty engine plant which is our absolute world class plant we commence commercial sales in Q2 in April of 2013. For the year we shift 2,534 long blocks in engines which are all going out back to Volvo Group and these engines have been extremely well accepted and they measure up to the exact standards of AB Volvo. As in the recent past quarters the market conditions as we have seen in entire



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CV is extremely challenging, heavy duty industry sales are declining rapidly the 5 to 14 ton the industry sale were lowest for November which means that it's continuing to decline the industry. Under these circumstances our joint venture company with Volvo VE Commercial Vehicles Limited continues to move ahead and actively work towards realizing our vision of driving modernization of commercial vehicle industry despite all these two years of very weak performance of the industry itself we were absolutely banged on time first for our launch of our engine in April of 2013. This was extremely importantly for the launch of our new pro-series of trucks and buses that we had announced a while ago that we will launch in Q4 of 2013 which we indeed did in the first week of December. We launched our pro-series of trucks and buses with a new called to action or tag line for the Eicher truck and bus division which is called Go Pro and where we exhort all our customers that going from an amateur line up of trucks and buses, amateur service that the incumbents are giving you now it's a time to go professional. Go Pro is our tagline the pro series is enormous we call it the future of Indian trucking; from the start we have approved 1,000 series which is going to eventually replace our current like the medium duty trucks. It is an upgrade of our current light and medium duty truck. We have Pro 3000 series which is specific new medium duty range and Pro 6000 series which is an all new heavy duty range for the premium mass market, using our new engines from the global engine of Volvo. The Pro 8000 series which is a much larger premium for the Indian market heavy duty truck which is out there; you can please look at our website and look at any details or if you need any further details we can send you a brochure and all of that as well, it's really within the next 12 months 80% of this model range will be in the market and within the next 18 months we shall see the entire model range be in the market so that's on Eicher trucks and bus and that's on the commercial vehicle segment.

Now moving on to Eicher Motors Royal Enfield operations, our motorcycle division. Q4 was once again the best ever quarter for Royal Enfield in all parameters, we had a record sale of 55,101 units which is a growth of 72% over Q4 last year and for the entire year we sold 178,121 units which is 57% higher than the 113,432 that we did in 2012. In the middle of the year in April we had opened a new plant in April 2013 and when we opened our new plant of Royal Enfield in Oragadam at that point we had announced that we had upgraded our production estimate volumes for the year from quarter earlier pegged at 50,000. We had increased our estimate for 2013 at 175,000 and we have managed to meet those numbers and exceeded them marginally as well. In addition to that, at Royal Enfield we had our first extremely successful global launch when we did the all new Continental GT ground of new motorcycle that's built around the idea of café racing it is the lightest, fastest most powerful Royal Enfield in production. We believe that it is the most engaging midsize



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motorcycle out there. The bike has received a tremendous response from media all around the world in all the best motorcycles magazines and other publications. Even in general publications in UK, US, Australia, Europe, Japan we have got absolutely phenomenal reviews and of course in India and for its authentic styling for its performance for its trueness to the culture we have been able to get the cultural part also extremely spot on. We launched the Continent GT in the last week of November in India, Goa over a multiday event for the journalists and it all went off extremely well. We have been able to establish a new category which is a city café racer and it's not extremely in any form as a sports bike or anything but it's very interesting option for people who want more style and more power. We have already got a large number of booking for this bike, deliveries have started while ago and it's doing well.

Our new plant in Oragadam had commenced production in April this year and is now being able to produce some serious volumes. We are of course excited about the future of this business and we intend to make Royal Enfield the brand to recon within the midsize motorcycle market globally and we have lot of plans now how to spread in different markets. Of course we have huge plans for India as well because there is enormous trajectory that we have, there is an enormous wave of goodwill and the demand that we are riding right now and in the Indian markets. We want to continue to of course improve that also tremendously as there is a lot of work going on now to continue the expansion; to continue to create the type of demand; to continue to create a new segment which is essentially what we have been up to for the last few years. As a result we have also been working very hard on our manufacturing side and we have been further finding ways to improve our capacity and improve our deliveries for the year 2014, as oppose to our previously announced number for production of motorcycles in 2014. We had previously announced that we will produce and sell 250,000 we are now upgrading that and planning to produce 280,000 units for the year 2014. We are investing tremendously in expanding this capacity to that level in our manufacturing facility in Oragadam and of course while we are investing in a lot of the investments that we are doing in 2014 are for 2015 capacity. Eventually the expansion that we are looking at is the development of the entire Oragadam facility to its maximum capacity, which includes numbers that we haven't announced yet but will in the future. These will include our investments for 2014 and 2015 and the new products that we are working on. We expect that our capital expenditure is in Royal Enfield or in Eicher Motors standalone as it were will be in the range of Rs.600 crores for the two years calendar 2014 and calendar year 2015; as for the next 22.5 months long, including the last month-and-a-half as for 24 months starting Jan 1st 2014 our expectation is that we will be spending around in the order of Rs.600 crores in continuing to expand the Royal Enfield business.



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Eicher Polaris Private Limited our joint venture with Polaris Incorporated that's last of our business area that's progressing extremely well. Both of us as JV partners are actively engaged in what is still the start up phase of the company which is the project timelines are being met the production facility in Jaipur is looks in a very advance stage. And we are continuing to work towards our launch of in 2015 and we are on track for that for sure.

Moving on to financial results of Eicher Motors, we will first go through the consolidated financial results. First we will do the consolidated financial results. Our total income for the quarter has risen marginally from Rs.1654 crores to Rs.1680 crores and for the year our total income has risen marginally as well from Rs.6,390 crores to Rs.6,810 crores; that's about 6.6% increase. Our EBIT, our Earnings Before Interest and Tax has grown for the quarter from Rs.93.5 crores to Rs.127 crores of this quarter and last year from Rs.467 crores to this year Rs.583 crores as there is a growth of 25% in our EBIT from year-on-year and quarter-on-quarter Q4 2013 versus Q4 2012 our EBIT growth has been 36%. As a result as a consolidated financials our EBIT for the quarter has grown from 5.7% to 7.6% and for the year from 7.3% to 8.6% we have clocked the entire year now despite an extremely weak CV cycle, we have clocked the entire year at 8.6% EBIT margin and PAT, Profit After Tax margin level has increased from for the year from Rs.475 to Rs.525 crores. Quickly as a standalone performance which is reflecting the Royal Enfield business alone, we have had an absolutely scorching quarter and year. For the quarter the top line has grown from just shy of Rs.300 crores which is Rs.297 crores to Rs.528 crores which is a growth of 78% in total income from operations that's for the quarter and for the year we have grown from Rs.1049 crores to Rs.1,702 crores which is 62% growth over last year.

Our EBIT performance has been absolutely phenomenal as well from where we stand. From Rs.29 crores for the quarter last year it has grown to Rs.97 crores, Rs.96.6 crores which is a growth of 228% ; huge operating leverage as you can see and for the year from Rs.128 crores it has gone to Rs.283 crores which is an increase of 121% and for the entire calendar year our EBIT margin over our total income has increased by over 4% from 12.2% to 16.6% and for the quarter of course Q4 2012 was slightly weak it has grown from 9.9% Q4 2012 to 18.3% as we are clocking of very handsome EBIT margin now and of course in the standalone business the Profit After Tax has also improved tremendously from last quarter Rs.34 crores to Rs.74 crores this quarter and last year entire year Rs.145 crores to Rs.279 crores this year which is 92% increase Overall we believe that as a relative performance we have had an absolutely excellent year and it's really allowed us to show a business model in a way that, only a downturn in a commercial vehicle perspective can show. Even though we had when we go through the standalone performance of VECV. The EBIT

margin was now sub 4% for last quarter but it's still positive as it is more than any other CV businesses in India (the listed or unlisted ones). I think overall for EML what was a weak year for CV industry we have managed to keep ahead above waters there and of course on the motorcycle side we are continuing to pace extremely well and grow extremely fast and which has given us a very satisfactory overall performance for the year 2013 at least in our belief.

Now, we can hand it over to you to understand if you have some question and issues; thank you very much for listening in and back to you Sonal for questions and answers.

Moderator

Thank you very much. We will now begin the question and answer session. The first question is from the line of Jay Kale from IDFC Securities. Please go ahead.

Pramod

This is Pramod here. Congratulations on excellent set of numbers in the current context especially in VECV. Siddhartha my first question pertains to Royal Enfield, you talked about upping the volume or the production target for this year from 250,000 to 280,000 I just want to understand how is our current order backlog or in terms of rather the waiting period as you normally talk about and how is the incremental monthly demand in terms of, incremental order intake the dealerships from customers how is that trending up directionally? And second question related to RE is on your recently there was an article that you have done some price correction in the US market for your existing range; if you can throw some light on that as to in what, is it some kind of a readjustment of pricing or is it like probably the demand was not that great or what is happening in the US market and then I will come to the VECV part.

Siddhartha Lal

Pramod good morning to you as well! Yes we have been working hard on our manufacturing side to see if we can extract volume from our combined capacities in Thiruvottiyur and Oragadam and 280,000 is the number we have come up with now. We are continuing to try to push forward and push ahead and see if we can get some out because exactly your question because of the order backlog which is extremely high. It continues to grow in absolute terms, very sharply. The good news is that the number of months it is starting to trend down because our production has gone up to what nearly 20,000 now in December 2013; as a result the number of months waiting has come down marginally or to some extent for customers, which is good news. Order backlogs are continuing to grow and in the recent months also it's growing very well as we continue to take in a lot more orders substantially higher orders than we are delivering every month motorcycles and that continues to be a positive trend.

Pramod

Siddhartha sorry to interrupt but does that mean that the incremental network rollout is driving this kind of a demand ramp up or you are seeing increase in order intake even in the bigger cities on a month-on-month basis.

Siddhartha Lal

Both are contributing; of course the newer locations are also contributing but the existing stores sales or existing store orders are also going up substantially because as the waiting period starts coming down in some cases. In some cases the 500 CC motorcycles the waiting period is coming down because we put more energy on getting those out quicker; it has come down to maybe two or three months and that's helping to drive bit more demand even in the cities. That's on the Royal Enfield production and orders and all of that. On the price as you know our ambition now global in nature we want to be relevant, we want to be strong player in every single market in the world or in identified important markets in the world where we would like to be present, we want to be a significant player in the midsize market. One of the visible outcomes that you are seeing right now is that we have corrected our prices in the USA; we have reduced our retail prices to customers in the US ranging from around \$1000 to \$1400. Some of it is coming from our margin here as it were but yes there have also been a lot of increases in the past on prices which we have been taking. There has also been lot of improvement in the improvement from an export perspective at least on the foreign exchange. And also some of the reduction is coming from, more better distribution efficiencies in these markets and there is a combination of all of these things which is happening but the clear intent for this pricing also you can see is to drive up volumes in this particular case in the US market.

Pramod

And my second part is on VECV Siddhartha. As in it looks like HCV had become instead of market share it has increasingly becoming a loss share because everyone your bigger peers are bleeding they are deep in red as far do you see what is the end game and you mentioned in the opening remark that discounts have actually increased further in this quarter so I am just trying to understand according to you when do you see the stopping and at least in terms of the discount rates receding. And the second part is that in the peak of the cycle as in CY11 or around you used to make net margin of around 8% and our EBITDA margins were healthy double digit. In your assessment even if the cycle were to revive do you see for yourself those kind of margins getting recaptured or is it like a thing of a past given the competition intensity?

Siddhartha Lal

Well, the first question first the discount rate which is exceedingly high and when will it end; as far as HCV is concerned it's difficult to say because it's really being led by the market leader. As the normal case which has happened in the past is that as the market starts moving up, the discount start coming down because everyone is a bit

happier. I think it's only when in the heavy duty case it's only when incumbents or you don't realize that it's not going to be duopoly anymore and they have to start seeding market share that's the day that the discounts will start coming down because till then they are fighting extremely hard to try and keep other players out basically through their age old tactics of chopping prices. As long as that mindset continues and profitability is not an issue for our two big competitors in heavy duty then you know things will continue like this but as you rightly said yourself that the bleeding has come to a level where I am sure somebody is asking questions there as well that you know maybe we should look at making some money as well. Rather than just holding our market shares and that's really a question of what happens back at strategy levels in both our competitors areas in some sense. As far as we are concerned there is no waiting we just continue to plug on we have an excellent range of products which has been absolutely fortified. We have a very good distribution and aftermarket has really come up to speed. Quality is best in class everything is there as it's really we are plugging away, we are keeping at it and it's only a matter of time that things will start getting better and the realization that you cannot hold onto 90% of the market as far as two players are concerned. As far as margins are concerned of course when you see that levels of discounts right now if it comes back to and it should I think I mean there is no reason why it will not recede as a markets are improving and hopefully at some point in 2014 market starts improving we certainly see that the margins can come back really sharply because right now everyone that happens every time after a downturn because there is a lot of cost reduction which has been happening there is a lot of out of the huge amount of discounts which are out there if you can get 60% - 70% of that back the margins can come extremely strongly back. We believe it's a very profitable business in the long term but of course there is this intense competition and downturn right now which is hurting everybody.

Moderator

Thank you. The next question is from the line of Chirag Shah from Axis Capital. Please go ahead.

Chirag Shah

Some housekeeping questions one was on this tax rate in the consolidated is lower than the standalone; if you can just throw some light why it is in the quarter?

Lalit Malik

Yes, this is larger quarter VECV tax rate for each quarter at least for the first three quarters of the year we do provide for tax rate at a certain level, the real towing up of the tax rate happened only in Q4, R&D expenditures which were clearly on the higher side this quarter as we clearly had a double weighted advance and tour expensive. Availed of the tax that we got on the capital investment which was 15% of the capital investment you did for the year as both these things happened in Q4.

- Chirag Shah** Because the effective tax rate for full year in VECV is now 19% odd as is it the level that one should look at that it will actually inch up going ahead.
- Lalit Malik** Future tax rate – really depend on larger R&D spend there is no other tax break which is waiting for us to be grabbed as just a bit of the R&D has been spent.
- Chirag Shah** The second question was on the average realization both VECV as well as two wheeler business. First on VECV while on one side you highlight that discounts have been going up and I look at your average realization there is a reasonable amount of surprise even if I exclude the Volvo; And if I remove the Volvo to analyze the core Eicher performance so if you can throw some light what has happened on you have pulled down discounts because your mix is also trending on the lower side in the quarter?
- Lalit Malik** is this for standalone or for voluntary business?
- Chirag Shah** For VECV.
- Lalit Malik** For VECV look the level of discount is there but over the last year I don't have the exact number in front of me. For the Eicher range of trucks and buses I think we would have done a price hike for the last year almost 5%.
- Chirag Shah** When you say last year means '13 right?
- Lalit Malik** 2013 yes.
- Chirag Shah** You must have done a price hike of 5% fair point. And sequentially discount was stable for you or was lower if you can at least average discount in VECV were lower or were flattish or they had gone up sequentially.
- Siddhartha Lal** Last quarter was very high, we don't know the exact number but it was probably the highest in Q4 2013.
- Chirag Shah** But that could also be seasonality right because generally December month would have the maximum discount given the seasonal nature of the business?
- Siddhartha Lal** Really right now there is nothing seasonal about anything, this is what it is.
- Chirag Shah** And second question was just a clarification on CAPEX you highlighted Rs.600 crores CAPEX for total right for consolidate entity?

Siddhartha Lal No, for Rs.600 crores it's only for Eicher Motor standalone. For the VECV itself we have talked about we have done till end of 2014 it was Rs.1800 crores and there is going to be Rs.700 crores more in 2014; Rs.2500 crores will be total number for VECV from inception till the end and that's a different number altogether. Only for Royal Enfield Motorcycle business, only for Royal Enfield Motorcycle business in the calendar years or in the 24 months which is calendar years 2014 and 2015 we will be spending a CAPEX of around Rs.600 odd crores.

Chirag Shah If you can help us understand because that seems to be a huge sum. If I look at your gross block of say CY12 it was Rs.250 crores this year, and where is this spend happening in the sense?

Siddhartha Lal Yes, the largest amount of expenditure will be on capacity expansion. If you see 24 months from now, where our capacity needs to be at will include the 280,000 units by the end of the year. Post that there will be another big jump that we are planning, the numbers for which we haven't announced yet. We plan to continue to increase our production capacity over the next 24 months. So by end of 2015, the capacity for 2016 has to be set. This means by the end of 2016 the eventual production capacity will be what we have announced for 2014, what we will announce for 2015 and 2016. The Rs. 600 crore spend will be towards this production capacity by the end of 2016. That's the capacity that we are building out right now and it means the full new engine plant at Oragadam it means full new paint and vehicle it means there is a huge amount of build out that we are doing on all aspects at our Oragadam plant too. Basically by the end of 2015 we should be nearly there.

Chirag Shah Achieving their targeted capacity.

Siddhartha Lal Yes, the full capacity by the end of 2015 and close to that. Then of course we also have new platforms of motorcycles that we are developing which will start coming out the first of which will come out somewhere in 2015 – 2016 – 2017; we have the next order of magnitude of spend is on firstly is on capacity and toolings and dyes and as you start increasing volumes then even your replacement dyes and tooling's become quite big. Then of course as the R&D cost which are pretty high and there will also be some cost in terms of the commercial side of spare parts of warehousing of new stores. We actually run and operate quite a few stores ourselves as there is some CAPEX going into those as well.

Chirag Shah Till date on the new plant in the Royal Enfield what would the amount we would have spent which is lying in gross block as well as CWIP?

Lalit Malik In the new plant alone it was around Rs.150 crores.

Chirag Shah The large part of CAPEX is actually now coming on the new asset in that way. And second question was on exports you touched based you have global ambitions but I just wanted to understand at what point of time you will decide to really focus on export aggressively because yes I believe your top priority will be India as long as the waiting list that you are witnessing continues for two three months; how one should look at your export ambitions and your aspirations over there.

Siddhartha Lal The way you should look at it Chirag is, that you may see some increase here and there but for the next two three years don't hold your breath on exports in terms of volumes and also I don't think on investments and costs it's going to be material amounts that we are spending right now. Basically this is more in intent we are talking about because we are building up an organization and our own internal team we have got a lot of analysis; we have got a lot of ideas, we are doing a lot of understanding of the different markets that we want to enter. We are entering a few markets, we are learning, we are going to fail somewhere, we are going to succeed somewhere and more than anything else if we want to see how to look at it it's a journey that we have embarked on from an opportunistic way of exporting to a very strategic way of exporting. Hopefully we will make a few wins in a few markets and next in 2014 – 2015 we will have some wins but nothing of very substantial nature. I think in the next two years in terms of any numbers because right now our exports is rounding of our domestic right it's going to continue like that don't expect any changes, it's what we expect is that two to four years from now we should have one or two markets where we have strong positive momentum like we have in India that is our ambition.

Chirag Shah This was helpful and last on the Royal Enfield would be what would be the production at the new plant in the quarter. You generally share quarterly number in last few calls.

Siddhartha Lal No, we have not been sharing any quarterly numbers and of prospective quarterly numbers but as you know in the last month in December 2013 we did 20,000, and in Jan also it was 20,000 motorcycles.

Chirag Shah Of that in the new plant how much you would have been start manufacturing?

Siddhartha Lal I don't have an exact number in front of me on that but it's increasing as a percentage now as it's going up to.

Lalit Malik Broadly speaking last year since we began the plant only in April – as you can't count that as a normal number but.

- Chirag Shah** That's why I asked for this quarter, if you can at least have for the fourth quarter.
- Lalit Malik** Last year yes, but the year that has gone by those numbers are already in front of you the new plant we did about 16% of the total volume came from the new plant.
- Chirag Shah** For the full year?
- Lalit Malik** Yes, that only started-
- Siddhartha Lal** But Chirag like it started in April but I would say the first four five months were pretty slow in terms of ramp up, we didn't want to by design, I am not saying by any other means by design it was only maybe 1,000-3000 per month for the first four five months and then of course we picked up the pace in the last quarter.
- Chirag Shah** So, right now it would be at 40% - 50% levels that would be a right way of looking at it.
- Siddhartha Lal** I don't have a number on that honestly and I don't even have a number in front of me but it's increasing as a percentage next year it will certainly cross Thiruvottiyur because if you see our capacity at our TVT plant is kept at something like 13000 we are not increasing it further.
- Chirag Shah** Last question was on engines you highlighted 2200 engines have been shipped since April can you share some roadmap how next year is looking in terms of demand outlook for off take from Volvo on engines?
- Siddhartha Lal** In the engines the demand is, it's all as per plan as it varies depending on the market conditions but in terms of adoption on existing Volvo trucks everything is absolutely as per plan. We have had 2500 engine sales obviously a large chunk of that has come in the last quarter as well because again the same ramp up effect, the first four-five months was baby steps. It's a new plant for European requirements everything else and of course last quarter we ramped up a lot and that will continue to happen. We will continue to ramp up but 25000 for the year is our 1st Phase investment but of course all the other investments up to 100,000 have been incremental beyond that; but we are right now still working on realizing that first phase itself.
- Moderator** Thank you. The next question is from the line of Basudeb Banerjee from Quant Capital. Please go ahead.
- Basudeb Banerjee** Few questions your RE other expense seems to have moved up sharply Q-o-Q is it purely because of some Café Racer launch expense or something one off in that?

- Lalit Malik** Yes, Basu though one-off over there year was the Café Racer launch expenses.
- Basudeb Banerjee** So, what was the quantum of that?
- Lalit Malik** This line to line we can't talk about but largely as I said is just on the Café Racer launch.
- Basudeb Banerjee** Second thing if I see your two wheeler volumes moving up every quarter and your two wheeler margin also moving in sync with the scale now when you are talking of see that kind of volume plus in coming two years so the scale is expected to move up sharply further so where do you see the margins going ahead on a base of 20% now.
- Siddhartha Lal** Well that's really not for us to say right now but, Basudeb we are not going to give you margin numbers; of course we continue to get operating leverage on the business but we are also spending tremendously for the future. We have a lot of developmental work which is going on. We have a lot of people we are adding, and there is substantial spend also coming in because of what our ambition is in the future. For the current business to maintain it is not a problem but then maintaining current business is not our priority. Our priority is to create a very big business in the future. We are growing at a pace of what 60% - 70% last year there is no question but that there will be operating leverage our cost are certainly not rising in that pace and I don't foresee our cost rising at that pace anytime. Having said that the only thing I can say is that as we stand today for 2014 we certainly expect some operating leverage but I can't tell you exactly how much.
- Moderator** Thank you. The next question is from the line of Raghu Nandan from Asian Market Securities. Please go ahead.
- Raghu Nandan** Congratulations on reaching the 20% EBITDA mark in the motorcycle business. I had a query on exports on CV side, can you throw some color on the ramp up of exports using Volvo distribution network any timeline for markets that you will be entering, you had earlier indicated Africa and Middle East has one of the markets where you want to go and get in?
- Siddhartha Lal** Yes, certainly some of the improvement that you have seen is as a result of all the past work what we have been doing with Volvo Group in using the network. There had been some starts, there has been some progress lot of traction going on but again it's a very developmental work. But again we are on the right track as we are already outpacing and we are already doing reasonably well the markets that we are focused in like you said in Africa, Middle East in particular. Even there it is a particular market there is not the whole of Africa, as we are making solid progress but as I said

because this developmental it will continue to be like that then hopefully we shall see some big growth happening because the brand, the challenge is of course it has to truly establish the brand and markets in sustainable manner for product and for aftermarket that's the journey that we are going through, it's a journey and I think we are doing very well in that journey now.

Raghu Nandan

Can you also throw some light on the dealership network for motorcycles and CVs currently sir, you had earlier indicated 300 by the end of this year for motorcycles?

Siddhartha Lal

Yes, you are right it's 307 for the year, as of now we are at 307 points of sales for the motorcycle business and for VECVs about 260 to 262.

Moderator

Thank you. The next question is from the line of Hitesh Goel from Kotak Equities. Please go ahead.

Hitesh Goel

First question is on CAPEX can you detailed out the CAPEX for next year and this year that you have spent in engine and VECV and Royal Enfield so that we will get a proper indication what is the CAPEX?

Siddhartha Lal

Last year we said that we will in VECV we have separate numbers in VECV the overall CAPEX was for the two years 2013 and 2014 was 1200 crores of which we have already spent I would say 550 and last year which is 2013 we don't break out individual areas but of course it has got to do with capacities, it has got to do with new products was big one and there is another Rs.650 crores – Rs.700 crores which is going to be spent in 2014 in VECV that's one. On Royal Enfield side it's that the CAPEX to do with the new plant was Rs.150 crores which has been already spent that was in 2013 and now for 2014 and 2015 we are giving a comprehensive number for Royal Enfield as a business that we will spend Rs.600 crores across capacity addition, across new products and across our commercial side as well as that's Rs.600 is comprehensive number for the two years starting 1st January, 2014.

Hitesh Goel

And engine business, what will be the total CAPEX for say 50,000 capacity?

Siddhartha Lal

Well, we had announced that overall CAPEX for the (+500) crores for the terminal capacity of 100,000 engines in the medium duty engine plant and I believe to date it was because there is lot of the today; for 25000 it was around Rs. (350+) crores the reason is of course that the incremental capacities for the next 25 next 25 next 25 comes at a much lower rate because some of the machinery all the land and building, the land building facilities and some of the machinery is already there for 100,000 it is only the modular stuff which is going to be added in for the incremental investments required to get 100,000 level so.

Hitesh Goel

Basically, also can you give us a sense on where your spare parts business can move in both VECV and Royal Field it's at a very low level right now so what is your estimate of those revenue scaling up.

Siddhartha Lal

Well, you will see the numbers now in more detail in the annual report we don't have break out number right now on spare parts. But of course in VECV it's been we are very forward and progressive on our spare parts, it's a very important part of our business doing I would say well but it's still below our benchmark, global benchmark levels far below that and we are working on improving that but I don't have a number right now honestly to give you. In Royal Enfield the thing is that even though it's been going extremely rapidly the spare part business, but spare part is for a population and as a business when you are growing at a hyper growth of 60% - 70% in terms of revenue the spare part business cannot exceed that pace it will only be I would say less than that pace because the spare parts serves in entire population and we do very detailed analytics in terms of how on a base population what is our market share of spare parts, how can we improve spare part penetration, and how can we improve spare part consumption all of that. There is lot of work we now get into on both our businesses in terms of detailed analytics and understanding as there is good progress but the numbers you will see now only in the annual report.

Moderator

The next question is from the line of Siddhartha Bera from Edelweiss. Please go ahead.

Ashish Agarwal

This is Ashish Agarwal. I had two questions sort of related to each other the first is with respect to the competition in the RE segment obviously clearly today we know that we would not see too much competition in the next 6 to 12 months for sure but incrementally we do feel that there has been some launches by Harley Davidson which is coming closure to our ranges of products and Splendor has launched a product which is a Racer look alike do you see some competition increasing in this space that is the first question. Second question was with respect to the input cost which has declined by about 2% sequentially on a per bike business if you see that being sustainable thanks.

Siddhartha Lal

Yes, competition of course we have now created this market of above 250 cc where we have over 95% market share in the Indian environment and we have been growing rapidly over the three years. Our profitability has as you rightly said is last quarter reached 20% EBITDA margin and of course there are other people who are interested in the segment and there will be competition. We don't expect to be the only player in this segment but we are doing a tremendous amount of work on various sides in order to grow the market size and I think that's what crucial for us. And what a lot of the players who are coming in from the higher end and making new



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products which are still priced extremely higher I would say but what that is doing for us actually is extremely positive. It is growing the segment and the segments today is defined by us as the segment has reach high of 200,000 in the above 250 cc category if the segment grows fivefold I imagine we will grow very close to that I mean maybe not exactly that but we expect to continue to have a very large part of the segment share. Of course there will be a lot of competition coming in which will openly increase the segment side. The entire category grows when there is lot of players who are making noise in that segment also people start focusing on that category and we would like that to happen. On the other hand like you said we are doing huge number of initiatives - one is on our capacities as we are increasing that and right now we have unfulfilled demand as customers who have to wait for six eight months could move to another brand. Clearly that's an issue and we are trying to resolve very quickly. On the other hand from a product side we have got a new product it has just come out - the Continent GT; which is doing extremely well, we have full slew of products coming out in 2015, 2016 and 2017 onwards. We have a lot of interesting, exciting new products and the really important thing in all of this is our focus on our brand as we create an very alternative type of motorcycling which is not comparable to any other style of motorcycling and it's not that people buy us feature to feature or performance to performance it's bought because they have decided they want to own a Royal Enfield. We are focusing tremendously on developing our brand not necessarily through above the line TV and newspaper and all that kind of stuff. We do a lot of activations we do a lot of rides, we do a lot of other things but really it's a tonality of the brand, the way we interact to the customers as there is lot of work on brand. And if you see now the style of the brand, in fact I encourage all of you to go and I know most of you are not in Delhi but we have a new concept store which has come out in Select Citywalk Mall in Saket which is 1200 square foot really beautiful new store. If you look at our Facebook page of Royal Enfield, www.facebook.com/royalenfield we have an album for our new concept store which is very, very beautiful and exciting store. We are fine tuning that and once we do that we will roll it out to our entire network over the next (+2) years and we should have 400 – 500 stores which look like that in India. We are also rolling it out in international markets which actually changes the game, changes the way motorcycles are retailed globally. I think it's not just besting the Indian standards of motorcycle retail I think it's going to best the global standards of motorcycle retail. We are doing a lot of stuff on brand, whether it's on retail on rides or on product and identity or on tonality, a huge amount of stuffs especially on digital side and yes we are there, we are going to fight very hard, we are going to grow the segment and we are going to continue to be a leader in this segment.

- Ashish Agarwal** Related question you said about these 400 to 500 concept stores over what timeframe do you envisage to do this and whether this will be on an ownership or what kind of spend do you anticipate on this?
- Siddhartha Lal** No, what I meant is that we are fine tuning our new identity for dealerships which you can have a look at like I said on our Facebook page on www.royalenfield.com/saket that's where we have all the photographs. But we are fine tuning it now it will be rolled out to our franchise dealers over the course of the next approximately over the next two years it could be marginally more than that but the idea is that over the course of the next two months I would say 80% to 90% of our dealership should be looking like this.
- Ashish Agarwal** And just if you could also clarify on input cost the declining sequentially whereas most of your peers have increased the RM cost as a percentage on a per bike basis you have actually reduced that?
- Lalit Malik** This is largely from function of the mix effect. We have not done any significant price increases during the year. I hope you are talking about Royal Enfield?
- Ashish Agarwal** Yes, I am speaking about the Royal Enfield business.
- Lalit Malik** So, it's really question of mix effect and of course our cost realization plans are also very active in kind of kick in so both the things are showing up.
- Ashish Agarwal** How much of it would you anticipate on account of your cost saving effort and how much because what we are trying to understand is how much of this 200 basis points gain in gross margin maybe sustainable?
- Lalit Malik** We were also helped a bit by the fact that the commodity prices are bit benign for most of the year, for most of the commodity as that kind of helped and therefore we held the prices constant but really it's hard to give a number like that but really both these price management as well as of mix are in there.
- Ashish Agarwal** And is it like you gave your compensation to your vendors on like quarter-to-quarter or is it like with a delayed lag because I guess most of the OEMs have a quarter lag in which they pay their vendors and they are kind of saying their gross margins are bit of squeeze, so just want to understand, I mean how is it different from your side?
- Lalit Malik** Payment terms are separate but the cost given back to the vendors for the cost increases that he or she or may have kind of had in this establishment that is



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separate as for the closure of pricing yes there is a lag of about a quarter for most of them but in some cases it could be slightly more than that also.

Moderator Thank you. The next question is from the line of Pramod Amthe from CIMB. Please go ahead.

Pramod Amthe With the changing discount profile or the ICV growth versus the rest of the sector how are you seeing the competitive scenario in ICV versus your M&HCV segments.

Siddhartha Lal Well the competitive scenario is continue to involve as there are new players who are coming into the light and medium duty as well; yes there is certainly some activity there as well. There is going to be new players there but as they will be in heavy duty as well; I think overall we should be expecting that through the at least the segments that we operate in 5 ton and above in the longer term there will be four five players who are successful in this kind of overall segment and yes certainly there is competition in ICV as well.

Pramod Amthe And since you have unveiled your new products can you give some pricing indication in terms of how they will be place versus the existing products or the competition in a single bracket?

Siddhartha Lal I don't have the exact prices right now; we do have a price list only for the Pro-1000 series though which is what's being launched and which is now physically available in our stores in Eicher Truck and Bus area. Again I don't have the exact number with me but we can send that to you. The Pro 1000 Series is really an upgrade of our existing light and medium duty range, a very nice upgrade but still an upgrade. And that's only incrementally costing above the existing range of trucks and buses but I don't have an exact number in front of me.

Pramod Amthe And lastly for RE, what has been the marketing spend for the CY13 and considering your global ambition how do you expect that to behave in the next one or two years?

Siddhartha Lal If you see our entire campaign for Continental GT and all there was obviously some stuff that we did. We created a film, we did some ad works and all but this is more in magazines and more PR led from motorcycling events and launches and all of that. No real above the line spend. We don't do this huge type of marketing spends and we don't have an exact number. We don't breakout numbers on market spend and we don't intent to either it is all part of our other expenses. It's all embedded within that but our approach is more rides, digital and PR with of course the appropriate spends; of course in-store with the appropriate spends on media as well but that's very little media and it a is a very small part and it will never be a big part of our entire spend.

That's on the India side as we go to international markets also that's our approach which is that we are not a high visibility on TV and newspaper type of company and at least I don't see for the foreseeable future that we will be anywhere in that realm of how the mass market motorcycles do their things. We think of ourselves very differently and our marketing focus is also extremely different from any other company in terms of how we spend but again I am sorry I don't have an exact number on that.

Moderator Thank you. The next question is from the line of Pulkit Singhal from Treeline Investment. Please go ahead.

Pulkit Singhal I think most of my questions are answered just couple of more. On Royal Enfield just to confirm we are waiting this current for two to three months and how many dealers per month are you adding as well as in the last year what kind of percentage of growth have you seen on the same dealer basis?

Siddhartha Lal Pulkit our waiting list for overall is still much higher than two to three months, I was saying for certain models we have brought it down to two or three months. For some of our 500 cc models now the availability is less than three months. But say for a Classic 350 in Bangalore it's still over a year waiting period as it ranges from different products. On an average it's much higher than three months still.

Pulkit Singhal Same dealer basis.

Siddhartha Lal Again we don't breakout in such detail our percentage growth and you have seen the overall percentage growth and I have said that good amount of that has come from same dealers and a good amount from new dealers as well; we don't have exact numbers. But our same dealers are certainly growing. The same store growth is there. New dealer expansion, we have been expanding last year at maybe an average of 7 dealers a month, what we have added last year. We are continuing it at a similar pace this year. It might be plus minus one or two dealers, it could be 6 to 8 again, maybe even 9 dealers a month but we have a potential because we are able to on the one hand some of the C&D towns we are able to enter into where there is a potential of 20 – 30 motorcycles a month. On the other hand there are also and I think very importantly there are also catchment areas within cities which are not being served properly because cities nowadays are sprawling like if you see Delhi or Bangalore or even Bombay for that matter, there are such sprawling cities that we have done very focused work on catchment areas of where people want to go to buy, where people want to go to service and we are working on all of that and we are getting into depth to understand how far a person wants to go or not go and therefore we are adding a new dealership based on that even within big cities there is some new dealers which



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are coming in but yes the overall pace is going to be around 6 – 8 dealers maybe slightly higher this year as well per month.

Pulkit Singhal

And lastly number of new products that you plan to launch on a per year basis. Is there some kind of strategy on that front, I am just talking more from a five year basis like trying to add one or two products in the every year or more than that.

Siddhartha Lal

We don't think about that we don't talk about it like that either. It's not about having to launch one or two products a year that's not our approach either. It's just that we are going to launch new platforms, we are going to launch new products but the numbers per year is not the way we look at it and we don't have any other numbers either for you taking share with you right now in terms of what or when or why. But yes we have a very strong pipeline of a new product that we are working on.

Moderator

Thank you. Ladies and gentlemen due to time constraints that was the last question. I would now like to hand the floor over to Mr. Sonal Gupta for closing comments.

Sonal Gupta

Thanks everyone for joining the call and thanks a lot to the Eicher Management for taking time out to discuss the results in detail. Thank you everyone.

Siddhartha Lal

Thank you very much.

Moderator

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