

## Transcript

### Conference Call Eicher Motors Limited - 09 month/Q3 CY 2014 results

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#### *Presentation Session*

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**Ambrish Mishra:** Good morning everyone. On behalf of JM Financial, I welcome you all the post results conference call of Eicher Motors Limited. I also take this opportunity to welcome Mr. Siddhartha Lal, MD and CEO of Eicher Motors Limited and Mr. Lalit Malik, Chief Financial Officer of Eicher Motors. Before we start the Q&A session, I would like to invite Mr. Siddhartha Lal for the opening comments and then we begin with the Q&A. Over to you, sir.

**Siddhartha Lal:** Good morning and thank you for hosting this call. Just to give you an update on the Eicher Motors quarter three, quarter three is July to September quarter 2014. We have had an excellent quarter yet again. This is our best ever quarter in many ways yet again. So, I am going to give you the financial results first and then the numbers and some qualitative aspects. So, on the financial side the consolidated numbers which is our standalone our JV, with mainly the Volvo Eicher joint venture. Our top line has grown from 1736 crores, 1736 crores to 2275 crores, a 31% growth over the same quarter, last year. Our EBIT, operating margin, operating profit has grown from 176 crores last year, same quarter to 249 crores; that is a 41% increase, taking our EBIT margin from 10.2% to 10.9%. At a standalone level, Eicher Motors standalone where the results reflect the Royal Enfield business, our total income has grown by 79%, from 459 crores to 821 crores. And our EBIT has grown by 139%, from 81 crores to 193 crores, taking our EBIT margin from 17.5% to 23.4%. So, that is the financial results.

Moving onto the update on our business, the commercial vehicle industry is still battling a downtrend. But after many quarters of decline, nearly three years of decline we are witnessing some revival in the CV industry. The 5 tons and the above category where the segment has grown, has grown actually in Q3 2014 versus Q3 2013, by around 10% from just over 71000 units to just over 78000 units. And in the same period Eicher truck and bus has grown by nearly 4% to just over 9500 units.

And coming to segment wise performance, in light and medium duty trucks, we have had a, we continue to have a very good run. So, market has dropped by nearly 9%, but Eicher has grown by around 5%, taking our market share from 29.1% to 33.6%, which I believe is approximately an all time high. It is an all time high of market share in light and medium duty of 5 to 15 tons. In heavy duty we have lost some share from 4.3 last year, same quarter to 3.4 this year, same quarter. Market has grown by 29% and we have grown by only 1%. And having said that we are now in overdrive in launching our new trucks, so while our Pro 1000 and Pro 3000, which are the light and medium duty trucks have hit the market and that is partially why we have been able to grow our market share in light and medium duty by over 4%, the effect of the new Pro series amongst other things. Our Pro series for heavy duty is still to hit the market in November itself, this month. And December we are going to be launching lot of our new products, our 852 trucks, our tractor, trailer, all of that we are launching in these two months. And we believe that

that will help us in pulling back our market share and in fact taking it to new highs and new levels.

In buses, we have had a great run once again. The industry has fallen by 15% and we have stayed flat, as a result our market share has grown from 12.3% to 14.4%. That is all buses, 5 ton and above. And within that in light and medium duty sector, market share has grown very rapidly. So, it has crossed 25% for the quarter I believe for light and medium duty. Export is continuously strong. We have sold over 1200 units this quarter, which is a growth of around 6%. And, but the industry did grow faster at 28%. In the European truck segment we continue to have growth over last year. So, last year we sold 224 units and this year we sold 271, which is a growth of over 20%. These are our very high value trucks which we sell, the Volvo branded truck. They are typically 70 lakhs and beyond in terms of each individual truck price. So, they are high end trucks for mining and for over let's say for overload or indivisible cargo.

Our medium duty engine plant which commenced over a year ago is ramping up well. In January to March quarter one of this year 2014, we shipped 2600 units plus. In quarter two we shipped just over 3200 units. And in quarter three we have shipped nearly 3800 units. So, quarter on quarter we are increasing our shipments. These are all nearly 4000 units of last quarter are going into Euro 6 trucks in Europe. So, these are very, very high end, high technology engines which are going to the top class trucks globally. So, it certainly continues to be the most advanced plant in India for engines, for truck engines for sure.

Moving on to Eicher Motors Royal Enfield operations, quarter three 2014 was a best ever quarter with record sales of just high of 82000 units compared to just over 48000 units, in the same quarter, last year, which is a growth of 70%. Our order book remains extremely strong. We continue to take in more orders every month than our supplies and despite our continuous ramp up in the supply. So, we have of course grown our supply is also around 70% from last year, same quarter to this year, but our demand continues to grow. This is a great sign. Royal Enfield, we have set our sights on becoming the leaders in the global midsized motorcycle market and we are working towards it persistently. While we have ramped up our capacity at Oragadam plant, we are continuing to add new phases of growth or let's say new phases of capacity in the Oragadam plant. We have also recently acquired a plot of land 10 kilometers from our Oragadam plant, which is 50 acres in Vallam Vadagal near Chennai itself, of course. And while we have no immediate plans to start building there, this land prepares us for possible future expansion if required. We want to make sure we don't suffer like we did the last time around, where land acquisition became a big problem and we suffered from delay in land acquisition, which delayed our project, even though we were able to put up the project in less than eleven months once we got the land last time. So, this time we are prepared.

We have done a lot of events. Internationally we have been a part of amazing events in the UK, such as the Goodwood Revival Festival. In September we were participating in the Isle of Man Classic TT Race in August. We also participated in the Bonneville Speed Trials, which were held at the Bonneville Salt Flats in USA, in Utah. We had two, specially modified Continental GTs that were prepared by the ace tuner Matt Capri. In August we also announced the appointment of KSR Group as our distributor in Germany. It is an extremely talented team, KSR. We are very happy with them. And we believe that they can really take our sales in Germany very high. And it is the new crop of distributors that we have got in European markets. So, we have got good

new distributor in UK last year, in France and now in Germany. And they will certainly help in expanding our footprint in Europe very well.

I am also extremely happy to announce that we have very recently hired Pierre Terblanche, who has recently joined our team. He is one of the most, my belief, the leading industrial motorcycles designers of our times. He used to head, he worked on the Ducati motorcycle and with Ducati for just two decades really. And he was heading the motorcycle design for over a decade. And he has created some extremely beautiful motorcycles there and extremely well thought through motorcycles. And he is now on board with us to help us in our future motorcycles. So, that is a very interesting hire.

In India we have also just opened up our first new retail format. We have been planning this for a while, but then the first new one has just opened. It is primarily for retailing Royal Enfield in apparels and accessories, even though we do take bookings of motorcycles there. It is at the Elante Mall in Chandigarh, which is the top mall in Chandigarh. And the customer response is extremely positive already. We have got a new set of customers coming in and new set of customers buying our apparel accessories, but also interestingly our motorcycles, people who may not have gone to our other motorcycle dealership. So, that is a very interesting phenomena. We also have further enhanced our after sale service experience in Delhi by opening the largest and very state of the art exclusive service station in Okhla. We are doing a lot of development on distribution and then rolling it out across the country. And that is on Royal Enfield.

Moving to Eicher Polaris, our joint venture with the Polaris Industries of the USA, it is progressing very well. We are hiring, we are appointing dealers now. We are on track to meet our project timelines, which means that certainly we will be launching our vehicles in 2015 as announced at the commencement of our joint venture.

And to conclude, just to recap our financial highlights, at the consolidated level in quarter three, that is from July to September 2014, we have had the highest ever net sales at 2275 crores and then the highest ever quarterly profits at operating margin at 10.9%, that is for Eicher Motors consolidated. And for Eicher Motors standalone, we have got the highest ever net sales at 821 crores and a highest ever EBIT margin, operating margin at 23.4%. Thank you and that is from my side. And now we will open for questions.

**Moderator:** Thank you sir.

**Amrisha Mishra:** Mridula, let's start the questions.

**Moderator:** Sure sir.

### *Question and Answer Session*

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**Moderator:** Ladies and gentlemen, we will now begin the question and answer session.

Our first question comes from Mr. Arvind Sharma from Citigroup. Please go ahead.

**Arvind Sharma:** Hello. Good afternoon sir. And thank you for taking my questions. First question would be, if you can throw some more light on the revenue from the engine sales in both the units, is it possible to tell the revenues as well?

**Siddhartha Lal:** No sorry, we are not disclosing revenues from the engine sales.

**Arvind Sharma:** No problem sir. Sir, secondly what are the expansion plans in terms of capacity in the short term from the existing plants and what would be the current capacity for both the plants put together?

**Siddhartha Lal:** You are talking motorcycles?

**Arvind Sharma:** Motorcycles, right sir.

**Siddhartha Lal:** So, eventually when we build our phase two of Oragadam plant, our combined capacity Thiruvottiyur-Oragadam needs to be 600,000 units, 6 lakh units annually, that is around 50,000 per month. That is the current focus of the capacity in these two plants put together, without the new plant.

**Arvind Sharma:** Sir, any timeline by when would that capacity will be achieved?

**Siddhartha Lal:** Not by 2015, therefore closer to 2016 we should be able to build out the full capacity here.

**Arvind Sharma:** Right. Thank you sir. Just one last question, what is our outlook on exports for our Enfield bikes? Are there new markets or is there an increased focus on exports or right now the focus remains on the domestic markets?

**Siddhartha Lal:** There is a tremendous amount of work and focus on international markets. We have got, we are expanding the team tremendously and we are getting new partners and even doing a lot of work on brand marketing communication in the international markets in the few markets that we have chosen to enter, such as Colombia and of course some of our existing strong, relatively strong markets for us, such as the USA, UK and Europe. Lot of work is going on in the background. Lot of work is going on in innovative and new ways to enter these markets and lot of work is going on in product development, new products for these markets. But, you are going to see the real results in a few years time, not just yet. We are growing, so there is nothing, we are growing well, our Continental GT is doing well, very well in these markets. But, there is still reasonable growth on a small basis; it is not breakthrough growth like we have had in India. Hopefully if we can do our job and do some interesting stuff, hopefully that kind of big growth will happen in two-three years time or beyond.

**Arvind Sharma:** Sir, just one last question if I may just squeeze through. What is the model pipeline look? Are there any new models that we should expect over the next six to twelve months in the Royal Enfield side?

**Siddhartha Lal:** Perhaps just a bit beyond that timeframe which you are talking about and we are going to see, we have got, we have already talked about two new platforms that we are developing. So, closer to the end of 2015 and certainly in 2016 and 2017, we are going to see a lot of new models in motorcycles. So that is, but it is still little bit further out.

**Arvind Sharma:** Thank you sir. Thanks a lot for taking my questions. That is all from my side. Thanks.

**Siddhartha Lal:** Thank you.

**Moderator:** Thank you sir. The next question comes from Mr. Basudev Banerji from Antique Broking. Please go ahead.

**Basudev Banerji:** Thanks sir for taking my questions. Just taking ahead of the earlier question, so as you have added distributors in such major European markets other than your Colombia venture, so broadly and not I am saying in the immediate term, but in the next two-three years, where can we see the broader export volumes from the current sub 1000 units per month level? Any ballpark idea, it will be great sir.

**Siddhartha Lal:** It is sub 500 approximately right now. It is approximately that much. So, we don't have a number really, because that is not how we think or work. It is really got to do with building the right environment in the international market and in any market that we are into. So, the markets that you are going to see us act in is, on the one hand some of the developed countries which we are already there and we are going to increase our presence in USA, UK, Europe, Japan and Australia. But, that is not going to be the biggest numbers in the future. The biggest numbers in the future is going to be Latin America, South-East Asia. But in those markets honestly we are not even present in a meaningful way right now. The first market that we are entering in a meaningful way is still to start proper sales in Colombia and that is going to happen at the end of this year itself. So, it is still far out and the numbers will only follow. We don't have a great grip on the numbers. So, the way you can look at it is that we won't be happy till, number one, we become a significant player in the medium, in the mid-sized motorcycles in those markets, in Colombia for example, as we move into other markets. So, in two-three horizons we expect to become a significant player in those, in the mid-sized motorcycle markets in those countries. Beyond that we expect to become the leader in the mid-sized motorcycle markets in those countries that we enter. Beyond that we expect to in fact grow the market in those countries, like we have done in India. So in India we are the, not only are we the leader, we have actually grown the middle weight motorcycle market. And the fourth stage we look at is to become a significant player in the motorcycle market itself. So, we are not there in India right now, but over time hopefully if we can expand the size of the middle weight market, we can even become a significant player in the motorcycles. So, that is how we go, but we don't have an exact number that we want to X thousand in Y years or anything like that.

**Basudev Banerji:** Sure. And second thing sir, as couple of quarters back you said that this year your broader aim is to reach 3 lakh units. So, any ballpark such numbers you have already thought for the next calendar year as such?

**Siddhartha Lal:** Yeah, our planned production output for next year is going to be towards 4 and a half lakhs, so 450,000, around let's say between 430,000 and 450,000 is what we are looking at. So, that is our production output. So, hopefully our demand position continues to grow as it has and we can, the market requires so many motorcycles, but we will be able to produce approximately 450,000 next year.

**Basudev Banerji:** And sir, last question, on a sequential basis for VECV, on a sequential basis if I see your Volvo goods truck volume has increased significantly. So, typically as you have earlier said that they are traded goods, so they put a dent on the margin per se, though the realizations are much higher, so despite that we see gross margin has improved sequentially. So, any effect of better mix within core VECV portfolio or cutting discounts or anything on that angle?

**Siddhartha Lal:** Yeah, our light and medium duty trucks are performing very well. And of course those are higher margin for us. So, we have gained share and we have gained volumes. So, that is doing well. And that is probably the reason that you are seeing some margins there.

**Basudev Banerji:** But no reduction in discounts per se overall?

**Siddhartha Lal:** (Inaudible) It is still high discount market; let us put it that way.

**Basudev Banerji:** Sure sir. Thanks. That is all from my side.

**Moderator:** Thank you sir. Dear participants, we request you to please limit your questions to two. Dear participants, I request you to please limit your questions to two.

Our next question comes from Mr. Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.

**Srinath Krishnan:** Thanks a lot. You have been stressing on the point that you want to become leaders in the midsized segment. So, in the next three years would you want to diversify something into like what Ducati as well as Triumph has, something like an Adventure, Roadster or sports bike, Supersports bike?

**Siddhartha Lal:** Within the middle weight midsized market, we believe that at least in the next five-seven years horizon in the way of product planning looks is that we certainly don't plan to get into any extreme type of motorcycles. So, extreme means Supersports or it means super heavy or any of those sorts. But, with other than that of course we will look at, like a few years ago we could say that we didn't have any sportier motorcycles in our range, but now we have a classic sport Café Racer Continental GT. So, that is in the Royal Enfield way we have entered the sportier bikes segment. It is not a Japanese or Europe or America we have sporty motorcycles, but it is certainly in Royal Enfield way we have sporty motorcycles. So, what we will see is that certainly different models catering to different requirements and different genres from Royal Enfield. But, I can't tell you exactly which ones are coming when.

**Srinath Krishnan:** And Polaris in their conference call sometime back had mentioned that the JV would commence sometimes in the first half of 2015. It would really be helpful if you can throw some light on the product or the intent market and the timeline?

**Siddhartha Lal:** It is a full new product which is not comparable to anything else in the market. It is very different, but it is personal, it is utility, it is four wheels and it is very interesting. So, it is a breakthrough product. We believe it is concept sell to potential customers. So, that is about as much as we can say at this point. And it is 2015, the launch year.

**Srinath Krishnan:** Thank you.

**Moderator:** Thank you sir. Our next question comes from Mr. Pulkit from Treeline. Please go ahead.

**Pulkit:** Hi. Thanks for taking my question. On the two-wheelers you mentioned acquiring land, I think was it 50 acres, is that correct?

**Siddhartha Lal:** That is right, 50.

**Pulkit:** So, does that imply that it seems to be of a similar size to the Oragadam one, so does that mean it can produce 500,000 bikes if need be?

**Siddhartha Lal:** Give or take, yeah. That is the approximate that we can land in that plant as well.

**Pulkit:** Great. On the truck side, are you utilizing the Volvo distribution network currently at all?

**Siddhartha Lal:** In the (inaudible) market?

**Pulkit:** Yeah.

**Siddhartha Lal:** Yeah, we have very little right now, in the sense that we have been working with Volvo for couple of years now. And now I believe in 2015 and in 2016 we are going to see the Eicher brand, because actually we are also waiting for the new Pro series. So, in lot of the markets distribution is there. They didn't want to take our older trucks, so that wanted our newer trucks. So, we have now got the new Pro series for like medium duty and heavy duty is also coming out. So, that is when we will truly be able to activate the Volvo network. So, there is a lot of work going on in Middle East and South-East Asian markets. And we need to have our trucks and Volvo distribution 2015 itself in some markets to start with.

**Pulkit:** Right sir. From a three year timeframe, is there any kind of estimation of market size and kind of similar size trucks, through that network?

**Siddhartha Lal:** No, we don't have numbers. Again like I said, the focus is on Africas and South East Asia and some Middle-east markets so....and within that of course there are some markets we believe we can do better at, some markets we can do worse...I mean we can do well but we will not do as well in or....for various reasons, it is quite complex but we don't have a number on that, but it is a reasonably substantial. If you take all those African markets put together, they

are not very different from the Indian markets put together, so that's the opportunity in Africa. South-east Asia also if you combine all the markets it is not very far from the Indian markets, but again we are not going to reach into market levels anytime soon, but that's the long-term potential...ten, fifteen years.

**Pulkit:** Right sir and lastly on the engine; have you broken even on the EBITA front last quarter?

**Siddhartha Lal:** Sorry in the....?

**Pulkit:** In the last quarter did you break even on the EBITDA levels for the engines.

**Siddhartha Lal:** We don't don't breakout engine profitability numbers, we just got them VECV levels.

**Pulkit:** Right, I am just trying to see because last year in CY13, you said 6.9% kind of margins in VECV and although volumes have slightly reduced, I would assume realizations have improved out there. We are right now at around 6.3 for the year, so I am just trying to understand whether it is largely because of engine that it is depressed.

**Lalit Malik:** Pulkit, all the products in VECV whether it is fully made trucks, components, engine this that..., it is all coming under single segments; do follow the single segment reporting. So volumes, we unfortunately can't share the financials.

**Pulkit:** No problem.

**Siddhartha Lal:** Volumes are down, our cost structure....generally we are continuing to make large investments; we are hiring people, we are not reducing people so our cost structure have gone up this year and because we expect to....we are prepared for the upturn in the market; so a lot of it is for the truck business itself and a lot of it is for the heavy duty trucks. We have seen our costs in order to be able to grow our share.

**Pulkit:** Understood sir. Thank you, I am finished.

**Moderator:** Thank you sir. Our next question comes from Sanjit Doshi from Reliance Mutual Fund. Please go ahead.

**Sanjit Doshi:** Congrats on yet another strong performance. Sir thanks for the opportunity. My first question is on Royal Enfield. You mentioned in the initial remarks that we continue to have more bookings than our supplies despite the ramp up. Can you please spend some more time on what really is contributing to this growth? Is it more of reach or is it....what exactly is leading to this demand?

**Siddhartha Lal:** Well, that's a very complex question. I think in the very long-term it has been the dedication and focus to the segment itself that we've nurtured and grown our brand, our distribution, our product to serve a later motor cycle segment than it's been of eventually because the market has moved towards us and nobody else put in that investment and the time over the decade to do that. We have also modernized our product and distribution and systems and processes so that's....but it is very focused brand. On the other hand, it is a step up product

so people are willing to move up. So people who are riding commuter motorcycles want something nicer, want something more fun and more vocative and they buy Royal Enfield. Basically, we have created a segment which was not there, which may not have been there if we hadn't created the segment, so it was those things and therefore we will grow it as much as we believe it is possible to grow. I know that it is a vague answer but the question is also...

**Sanjit Doshi:** In terms of reach, can you help us....what is the addition in dealers and cities that you cover?

**Siddhartha Lal:** We have added on just over 100 dealers or so from 300 we have become approximately 400 by the end of 2014. We probably go on a similar pace next year as well add six to eight dealers a month. What's happened is that, earlier our focus was tremendously and still it continues to be strong in big cities; but what's happened now is that we are able to open up a dealership in a C&D town because the economics for a dealer works. He is having around 15, 20, 25 motorcycles a month in a small town also, in a D class town and that gives him viability to set up a store and therefore we can enter those towns and those are all incremental sales. So there is push down to smaller cities and towns, that is helping us grow as well.

**Sanjit Doshi:** Great sir, second question would be on VECV, especially on the LCV side, we have seen a little bit drop of market share; is it purely because we still have new products to launch and how do we see the medium term target of getting closer to 10% mark?

**Siddhartha Lal:** Few factors, one is that even now on heavy duty there is an enormous pressure on discounts so...and we have sort of left a few deals on the table because of that. Some of our strongest markets in heavy duty was 16 tons. 16 tons has not grown the same way that the other segments have grown right now, so as a result we have a product mix issue in heavy duty itself. Particularly if you see, we were selling nearly a 115 tippers a month in Goa and Kerala for mining and that came down to pretty much zero right now; not because of us but because the industry is down to zero right now because of crack down on mining and such other things in Goa and Kerala and that's affected us tremendously. So there's been a variety of factors where we've not been able to....let's say we've lost some shares due to it this year, but also of course is the fact that our new product hasn't come into place right now. So it's absolutely on stream, we are not making a heavy push with our new products. We are taking it step by step. We are making sure they perform extremely well for every single customer we sell it to, so it is a different approach for our new products but you will see traction by next year certainly with the introduction of our Pro 6000 and Pro 8000 which are absolutely state-of-the-art beautiful trucks which will take the performance level and the productivity level of our customers to much higher levels.

**Sanjit Doshi:** Okay sir thank you and all the best.

**Siddhartha Lal:** Thank you.

**Moderator:** Thank you sir. Our next question comes from Ameen Pirani from Deutsche Bank. Please go ahead.

**Ameen Pirani:** Hi sir thanks for taking my questions. Sir my first question is on your dealerships. You had mentioned that the newer dealerships which are coming up are in new retail format

and you are also working with your existing dealers to convert the older one also into the new format. So my question was, by when do you think all your 400 or 500 dealerships eventually would get converted into the new retail format?

**Siddhartha Lal:** There are a couple of things going on. A new retail look for our dealerships themselves is already rolling out so every new dealer we are appointing is with the new retail identity and I am calling that “identity” for a second as opposed to “format”; I will tell you why, maybe I’ve also mixed up the terms in the past but this is the new identity; the new look and feel. So all our new dealers with a new identity; all our existing dealers are coming over by the end of 2015.....(we are in the end of 2014). All of our existing dealers will also be up in that new format, so that means basically 500 stores by the end of next year will all be in our new retail identity for the asset format. Format we talked about earlier which is in the Elante Mall that was a new format. That was a smaller format in a high footfall area like a mall which is not typically where you sell motorcycles and that is a bit more geared towards apparel accessories of ours but we also take motorcycle bookings. I don’t think we do deliveries from there but we’ll take bookings from there because you can’t really deliver motorcycles in a mall. So it has a very different look and feel, you should look it up. I don’t know if it is online right now but it will soon be online and have a look at it; we can send you some links etc...

### Inaudible

**Pulkit:** Sure sir. That is helpful. And secondly sir, on your service network what would be your current reach and what is the kind of expansion you are planning there, because I am sure there your customers still continue to face some waiting period as they are facing on the sales side.

**Siddhartha Lal:** In fact not anymore. We have expanded our service tremendously in the last eighteen to twenty four months. As a result apart from very minor let’s say pockets here and there, which is really not significant, I won’t say 100%, but I would say 95%, these are not exact numbers, we have gotten over it as capacity problem in service. So, you can get your bikes serviced in pretty much the day you want it to be done. We are not, earlier two years ago, we used to have a, we used to call up and the guy used to say, come in a week and then get it and now we are doing it on demand by and large in most places. I am not saying it is everywhere it is the same, but by and large it is like that. So, capacity we are over the hump on service. Reach, basically other than some of the big cities where you can’t have service along with the dealer, in most other cities, the service is with the showroom. So, the reach is similar to the showroom reach. And it is growing. And the number of bays have grown. So, we have pushed our dealers to add new service, workshops with larger number of bays and all that and more automated and quicker, so the productivity of the bays also will increase tremendously, so that if he was doing one and a half bike a day from a bay, he is now doing two and a half. So, we have reduced the work content. We have improved the training. We have given better tools. Lot of sophisticated things we are doing in order to increase our aftermarket capacity, quality and turnaround time.

**Pulkit:** Okay, great. That is very helpful sir. Thanks a lot for taking my question.

**Siddhartha Lal:** Thank you.

**Moderator:** Thank you sir. Our next question comes from Mr. Chirag Shah from Edelweiss Securities. Please go ahead.

**Chirag Shah:** Thanks for the opportunity. The first question is on this capacity ramp up. Just wanted to understand where the key bottleneck is like, is it your vendor, is it engine assembly where the problem is or is it paint shop which is not ramping up or final assembly? It seems to be taking a slightly longer time for you to ramp up, essentially when you are parallel running your international markets foray plans. And when do you expect the new plant, the new 50 acre plot that you have looked at, finalize the decision of starting, doing the construction activity and start putting it in use? What would drive that decision also?

**Siddhartha Lal:** Okay. Clearly Chirag you are not happy with the 70% growth as ramp up.

**Chirag Shah:** I am not happy because the waiting is four-five (month), so I would...

**Siddhartha Lal:** You have to see it in perspective Chirag that if you see just a year and a half ago I am talking about pre-April 2013, only manufacturing was happening in a sixty year old plant in Thiruvottiyur. We never ramped up, I mean we ramped up that plant; we have never built a new plant. We weren't used to ramping up and that wasn't a terminology we used before that. So, it is a very, very sharp learning curve for us to even ramp up the volume we have. We are not the big players who are used to adding a million here and there just like that. But, we have learnt now. We have understood how to increase our capacity. It is like you said, it is across the board. It is not, if you ramp up one area, the other area falls back. So, it's the supplier, it is critical components within suppliers. We have taken in some components. We are doing a lot of our tanks are filled we are starting to frame some of them and we have got suppliers doing them. Then the basic capacity constraints we used to have was on paint shop, on assembly. Paint shop we have been able to really ramp up. We have understood how to put up new paint shops quickly and efficiently. Then basically it is all about suppliers. So, the ramp up is not only there. The ramp up is also in logistics. How to ship so many motorcycles across the country? How to give deliveries in the right time and at the right place? How to service so many motorcycles? So, it is across the board. And we are now mentally we are over the hump as far as the capacity is concerned. So, that means we can now put out without overstretching ourselves, we can, now as you have seen we can increase by 70% etc. And that is approximately the pace we are going to be able to grow at most. In fact it might even come down a bit, but because the units are going up a lot more. We have increased by 130,000 units from 2013 to 2014. We are planning to increase that number of units, increase next year. So, I think we are doing pretty well without breaking our backs or without really, while keeping the entire organization moving forward. So, there are no real major issues. We had major issues last time around and which has given us a big setback, because of the land acquisition. This time we have acquired land well in advance. Our phase two of Oragadam is well in track. We will have a new paint shop up and running in the middle of next year or before middle of next year. We will have a new vehicle assembly up and running before middle of next year in Oragadam itself, which will then redouble our Oragadam capacity. So, it is all on track. All the projects are on track or even ahead of time.

**Chirag Shah:** And just and the second part of the question, so the new plant that you are looking at, when you would decide to start the construction work, so that and how much time do you think you would need to start the production; the new 50 acre plot that you have looked at?

**Siddhartha Lal:** Thumb rule, now that we have the land, we believe twelve months is the turnaround time for us from decision to startup production, give or take. If we can shave off a month, then great, but it is approximately in that ballpark. So, with that in mind, obviously right now we have not decided to start, so if you are asking that decision. Probably somewhere in 2015, maybe in the middle of the year or something like that, as and when our, firstly we need to see that there is a demand also, we can't just assume that there will always be so much demand. So, we have to test the market for demand. We have to see that our order book continues to increase. We have to see how much and right now the entire focus of the manufacturing team is in getting the phase two of Oragadam up and running, because there is still a lot of work to be done on the new paint shop and the new assembly line. We have got the full new engine assembly which is starting in Oragadam as well next year, so that means more than half a million engines. Eventually we are going to roll out from there. So, all that work is right now underway. So, when we are over the hump on phase two of Oragadam, is when we may push the button on let's say the new plant, if required.

**Chirag Shah:** Fair point. And just a small observation. I was just looking at the standalone numbers, after a long time what has been observed is that your sequential margins have actually dipped despite your volumes being higher in the Royal Enfield and which is largely driven by other expenditure. So, are there any promotional spend which is there or any one off spend, lumpy impact in this particular quarter which has been normalized when it has come in this quarter?

**Lalit Malik:** Chirag, there is no lumpy thing over here and obviously there is no one off, which is lying over here. This is just with the expanding of the business; some (not clear) have come ahead of time. So, if you see most of these was happening in the other expenses. So, given the biggest kind of contributor in this number is the freight cost. Given the cost of shipping that is going up and so on and so forth, the freight cost is driven a bit of the travel, I think out of the ordinary which is.....

**Siddhartha Lal:** Then the thing is we are increasing our market spend. We are increasing our employee cost. There is, our head count is going up right now. So, we are, all that is going on. So, and I think I can't remember right now, but we had from sequential we have had only 10% top line growth.

**Chirag Shah:** Yes, 10% kind of top line growth.

**Siddhartha Lal:** Top line and our costs have grown similarly which is the first time in a long time.

**Chirag Shah:** No, I understand. So, I just wanted to understand whether, so it is just normal business promotion expenses or business growth expenses that are being shown there.

**Siddhartha Lal:** Yeah. The thing is that you are going to see, the point is that you are going to see us spending more. We are getting into the international market and we are doing international events, we are doing lot more things, so our spends are going up. We are not going to be shy about spending now, because we want to expand a lot.

**Chirag Shah:** Yeah. And just one last follow up on again this capacity, you are still producing roughly 12,000 units a month from the old plant. Now, any thoughts by when can it also shift to the new plant or that arrangement will continue for foreseeable time kind of thing, given the demand that is panning out?

**Siddhartha Lal:** I think you nailed it. We always said we might ramp down a little bit in Thiruvottiyur, but it is doing very well we can't see it in the foreseeable future coming down, because we need that capacity in any case. So, it is going to keep banking on the motorcycle unit in 2015.

**Chirag Shah:** Fair point. And just a housekeeping, the order backlog if you can just share the number in terms of the number of months it would be helpful.

**Siddhartha Lal:** Around five months.

**Chirag Shah:** Around five months, great. Thank you very much.

**Siddhartha Lal:** Thank you.

**Moderator:** Thank you sir. Dear participants, we request you to please restrict to two questions. I repeat, please restrict your questions to two.

Our next question comes from Mr. Sonal Gupta from Union Bank. Please go ahead.

**Sonal Gupta:** Hi, good afternoon. Thanks for taking my question. Just coming back to again the same question on what people asked earlier, your growth has been pretty dramatic on the RE side and while you have attributed to some factors. Could you sort of dwell a little deeper into this as to, given that India has a large population base of motorcycles, are we seeing a lot of upgrade demand really coming in? And what is really happening, because on the other side what we see is that these sort of sports bikes, above 150 cc is not really growing. It is really the Royal Enfield segment. I understand the investment in the brand and everything. But, is that what is drawing people or there is a significant trend in terms of upgrades within the industry, especially in your key markets, if you could throw some light on that really speaking?

**Siddhartha Lal:** Yeah Sonal, at the end of it, it is about desire from the consumer, what does he want. Because, after a commuter motorcycle, it gets discretionary, it is not about economics only. He has already made up his mind that he is going to upgrade to something different. Then it is about what does he really desire and that is where we step in, which is that, firstly, it is a very differentiated brand. So, if you see our motorcycles don't resemble any others physically. They don't look like any others. They don't perform like any of the other motorcycles. They are not high revving, sporty looking Japanese-ish idea, plasticky type of motorcycles. So, there are some kids who like that who want to go fast and there are motorcycles for them. But, obviously there are a lot more people who like more sophisticated, timeless, simple and not necessarily the quickest, but the more fun motorcycle and that is what people come to us for. So, it is very, very different motorcycle in many, many different ways. And we have cleared the market towards this. And people, you wouldn't guess that people would want something like this, but they do. So, we have steered the market towards that. And therefore it is differentiated not just at the positioning level, but at every single level as a product. So, and to some extent

popularity drives popularity. So, the more visibility you see over Royal Enfield, the more people want it. The more let's say difficult it is to get one, the more people want it. So, there are a lot of factors. And yet at the end of the day it is a very practical motorcycle. So, it is easy to drive in a city road. It is not very cumbersome to maintain. It is not very expensive to run. We are actually, it so happens now that there was never, ten years ago we were never in that position, but today amongst bigger motorcycles we are. The fuel cost on a motorcycle is also not substantially higher or anything else than any other let's say slightly larger motorcycles. So, all of those considerations, the young guys are saying, look that seems to be something that I like. And we focus a lot on the look, on the fit, on the finish and people obviously like that.

**Sonal Gupta:** Right. So, what would be the median age of your average buyer? Is it around thirty years, thirty five years, who buys it?

**Siddhartha Lal:** Much less. Median age is sub thirties; it is twenty five or so. It is basically a guy who has got, who has been working four-five years in a corporate job that is pretty much our base customer. So, he has got his second raise perhaps in his new job, in his job and he got his promotion or whatever it is and he is earning 4 lakhs, 5 lakhs, 6 lakhs a year. That is the median buyer.

**Sonal Gupta:** So, these guys are not buying an entry level car and they are buying a Royal Enfield, is that how you look at it?

**Siddhartha Lal:** Yeah, that kind of, if it is a single guy who is our basic customer and he is probably buying a nice, beautiful motorcycle rather than a cheap car.

**Moderator:** Mr. Gupta, I would request you to please restrict to two questions, to give an opportunity for other participants please.

**Sonal Gupta:** But, the 25 year old guy is not really an upgrade or in that sense, right?

**Siddhartha Lal:** A lot of them are and some aren't, but a lot of them are. So, that means very often they have had their first cycle of ownership. So, either a student, they bought their motorcycle and then they have held it in the first two, three, four years of their first job. So, they have a five, six year old motorcycle and now they are saying, look, I am earning enough to get something nice. Or when he got his first job and 25 is just a number, so he may have gotten his first job, got his first motorcycle and then three, four, five years when he thinks it is time to change. So, very often twenty five is already a second motorcycle in the audience that we are talking about very often.

**Sonal Gupta:** Okay great, thank you so much for taking my questions.

**Siddhartha Lal:** Thank you.

**Moderator:** Thank you sir. Our next question comes from Mr. Binay Singh from Morgan Stanley. Please go ahead.

**Binay Singh:** Hi team. My question was on the VECV side of the business. Even if I assume like a 70 lakhs realization for the Volvo range and around roughly 3 lakhs for your engine range, then

also the sharp uptake that we see sequentially in the ASP I think is pretty sharp. So, could you throw a bit more light as to what really drove that sharp uptake? And within that now as you were highlighting that we have changed here in the INV segment, so what proportion of Pro series now forms the other percentage of sales for you? Is it that in the Pro series, the ASPs are much better because there is no discounting and that is driving this thing? So could you share more about what drove the ASP expansion?

**Siddhartha Lal:** Yes. I don't know exactly to be honest, but because, as you can imagine we don't look at it as ASP back home or out here. So, I would, everything else is pretty much similar. I would imagine our real medium duty is 12 tonne and all we have gained a lot of share in that. So, we are doing well on the 12 tonne segment and that is probably a bit better average selling price than our 6 and 9 tonne. That could be a reason.

**Lalit Malik:** On the Pro series, earlier one, the ASPs are clearly better. So, on that you are right. In terms of the spread of Pro series, right now what has happened so far given our post unveiling the launch plans, the introduction plans? Of course we started with the Pro 1000 and 3000, which covers your LMD part. And in the next few months, maybe towards actually into the middle of the year, next year, you would see us doing Pro 6000 and 8000. And by the middle of the next year, then we will be done with our launch, in all the various segments and sub segments within the series.

**Binay Sigh:** Okay. In that sense, so basically because that is the only thing that seems to be a bit different. So, how is the percentage of your LMD sales is now for Pro series?

**Lalit Malik:** Percentages and all that, we don't have the number right now. But, it is gaining in terms of its spread.

**Siddhartha Lal:** Yeah. And basically Pro 1000 is in the process of replacing our light and some medium duty. So, overtime you are not going to see any of the old light and medium duty that is the Pro 1000 series. The Pro 3000 series is actually new purpose built medium duty only. So, that is the only going to be 12 to 15 tonne sort of truck. And that is slightly different segment altogether and that is new. But, overtime in light and medium duty, that is the old range will actually be out. So, the Pro 1000 is the replacement range.

**Binay Sigh:** So, in that sense broadly these are the Pro series introduction without reason or realization uptake on a sequential basis. So, for example for Pro 1000, could you just give us some average ASP or average price hike versus the old one which probably would be discounted versus the new one, where I assume are the price will be higher and the discounts will be lower, just to get a rough idea? And would the same thing play out when you launch the Pro series of higher horsepower range?

**Siddhartha Lal:** So, heavy duty trucks it will be a bit different, because it is absolutely ground up new platform in the Pro 6000 and the Pro 8000. So, there will be a difference there. In Pro 3000 also, which is a full new line up really, that is also quite different. Pro 1000 which is really a very big upgrade of our existing truck in terms of looks and performance and engines and all that, but it is an upgrade of the existing, there we have an increase of only around let's say 1% to 2% maybe price increase over the price realization, over the existing light and medium duty trucks. Of course all of that the prices are all out there in the market, so any dealer, we can get

you the dealer level information if you like in terms of prices. That is all public information. But, we will send that to you if you like.

**Binay Singh:** Yeah, because then just basically I am not able to understand what really brought the...

**Moderator:** Mr. Singh we need to give opportunity to other people. Could you please come again in the queue? I am sorry.

**Binay Singh:** Sure.

**Moderator:** Thank you sir. Our next question comes from Mr. Arjun Khanna from Principal Mutual Fund. Please go ahead.

**Arjun Khanna:** Thank you for taking the questions. Sir, my first question is in terms of the spare parts business for RE, given that the population has been increasing. How has that business actually has panned up for us? And one assumes that the margins in that would be higher, if you could care to talk about that?

**Siddhartha Lal:** Sure. We break out our numbers only at the end of the year. So, we have last year's numbers in our balance. The thing is that spare parts of course, is good contribution business, but in our case even our motorcycles are actually really good contribution business. So, normally in other places you have a big delta, a huge delta; maybe multiple times better margins in spare parts. And in our case our motorcycles are already doing pretty good margins, so it is not all that much different. So, it is not going to affect tremendously. On the other hand, when we are growing so fast in motorcycle sales, spare parts is entirely based on population of motorcycles, so therefore the population is not growing as fast as our sales is growing. So, as a result spare parts is growing, but I don't have the real number, but it is not, but I would say conceptually it is probably even won't be as fast as motorcycle growth. When motorcycle stabilizes or suppose let's say in our more stable businesses, in trucks for example, then of course the population plays a role and even if CV falls, that doesn't mean the spare parts falls. So, but right now it is not growing even as fast as our new motorcycle sales.

**Arjun Khanna:** Sure, fair enough. Sir, my second question was in terms of our platforms. Are we planning any export centric platform going ahead?

**Siddhartha Lal:** We have announced that we have got two new platforms in the coming years. And every platform of ours will be a global platform. We don't have any platform for one market or the other. Having said that, within that obviously export also is actually two parts, one is developing India like countries and which have India like requirements on power and other things. And then let's say richer countries which have higher requirement of power etc. So, while all the platforms will serve all the markets, obviously higher performance platforms will be slightly more geared towards the USA, Europe type of markets. So, but there is no one platform which will only serve any particular market, everything will serve everyone.

**Arjun Khanna:** Fair enough. And sir, lastly you spoke about the Polaris JV, you gave the characteristics largely of the vehicle. Any data in terms of the capacity?

**Siddhartha Lal:** Capacity meaning?

**Arjun Khanna:** Our plans, how much have we planned to produce or what kind of demand expectations we have?

**Siddhartha Lal:** No, no data on that.

**Arjun Khanna:** Sure. Thank you.

**Siddhartha Lal:** Thank you.

**Moderator:** Thank you sir.

**Lalit Malik:** Moderator, we will take the last couple of questions.

**Moderator:** Sure sir. Our next question comes from Mr. Kaushal Maroo from Emkay Global. Please go ahead.

**Kaushal Maroo:** Just wanted to understand whether new platforms which you are talking about, will the price point be greater than 2 lakhs and whether there are any portfolio gaps which we are seeing between 1 lakh to 2 lakhs, where new products would come in, in the future?

**Siddhartha Lal:** I am sorry Kaushal; we are not getting into details on our new platform.

**Kaushal Maroo:** Hello?

**Siddhartha Lal:** I am sorry Kaushal, we are not getting into any details on capacities and numbers and prices of our new platforms right now.

**Kaushal Maroo:** Okay. And sir, second on, by when do you envisage that the waiting periods will get over? Do you still think that will take another twelve months, the way the demand is shaping up at this point in time?

**Siddhartha Lal:** It is difficult to say again, because on the one hand our industrial team is working extremely hard to meet the demand and on the other hand our demand generation team is working extremely hard to continue to increase the order book, because you can't get down. So, it is difficult to say, but what happened is that, as you know from two years ago when our denominator was 100 or let's say 10,000 motorcycles a month we were making, now we are making 30,000. So therefore the waiting period has come down, crashed down from around ten months to five months, even though the absolute numbers have gone up in terms of order book. Over time this denominator will continue to increase as we said. And hopefully the number of months will continue to come down. But, we are not going to let up on our demand generation activities, because we want to continue to grow the market. And our supply will catch up eventually. It may not be in 2015, it could be 2016. But, we are doing as much as we can on the industrial side without breaking our backs like I said earlier.

**Kaushal Maroo:** Okay. And sir, the last question, do you think that Royal Enfield buyer when making the purchase decision, even considers the KTM bike or CBR150 or 250 or something or these customers are completely different set of users?

**Siddhartha Lal:** There is not one buyer and there is not one way anyone thinks. There are tons of different guys who are, everyone has unique purchase criteria. So yeah, some people consider, some people have set their mind that they want a Royal Enfield and they sort of figure it out. Some people want us, but they end up buying something else for various reasons including wait period and including other things. So, it is not that we have everyone is coming to us. We do track our dropout rates. We do track all of that and see why people are dropping out. So, there is enough of everything. But essentially a guy has, our brand is let's say more desired so let's say a guy puts his mind to say that look, one day I want to get this motorcycle. So, when that desire is in your mind, then it is got to take a lot for you to change your mind.

**Kaushal Maroo:** Got it. Thanks a lot sir and all the best.

**Siddhartha Lal:** Thank you. And we will wrap now.

**Moderator:** Thank you sir. Sir, would you like to take the last question?

**Siddhartha Lal:** Yeah, okay.

**Moderator:** Alright sir. Thank you so much. The last question comes from Mr. Hitesh Goel from Kotak Securities. Please go ahead.

**Hitesh Goel:** Hi Lalit. Hi Siddhartha. Just wanted to get a sense that you said the Pro series, increase in Pro series and the mix has actually led to improvement in realization. But, I would reckon that once the new platform is launched, the margins would be much lower. And as the volumes increase, the margin would improve in the auto industry. So, just can you give us a sense, something on the EBITDA margin side, why that has improved? Why would gross margin improve if that is the case?

**Lalit Malik:** You have assumed a whole lot of things. Basically we are still in that some kind of a stress on the HD side, because of all the market led conditions over there. So, while however LMD is the main kind of bread winner of the business as of now at least, while the HD kind of picks up. So, it is from a margin perspective it is largely coming from the LMD platform. Now LMD platform as we phase out the old trucks and bring out the new trucks, from a margin perspective it won't spring the margins to a different level, it will gradually only grow. So, that is all that happens.

**Hitesh Goel:** But Lalit, I was looking at second quarter and the third quarter LMD mix in the overall volumes. Actually it has come down on Q-on-Q basis and that is why I asked the question.

**Lalit Malik:** Because, HD is kind of on the lower side in the volume sort of....

**Hitesh Goel:** Yeah, but your mix, your LCVs are higher in terms of margin. If the mix has gone down, your gross margin should have come down, right? I am not able to understand that. If

you look at the Q-on-Q numbers in the ECV, LCV as a percentage of overall volumes have come down.

**Siddhartha Lal:** Look, I will tell you exactly. Our light and medium duty has gone up from 4500 plus to 5100 plus, Q2 to Q3. You are talking about Q2 to Q3, right?

**Hitesh Goel:** Yeah, Q2 to Q3, yeah.

**Siddhartha Lal:** LMD has gone up. HD has come from 1400 to 1300.

**Hitesh Goel:** Okay, I was looking at LCV and MHCV also you have that LMD, which has gone up, okay.

**Siddhartha Lal:** So, basically light and medium duty has gone up as a percentage of our overall numbers.

**Hitesh Goel:** Okay, fine. Thank you.

**Siddhartha Lal:** Thank you.

**Moderator:** Thank you sir.

**Lalit Malik:** Alright, thanks.

**Ambrish Mishra:** On behalf of JM Financial, I thank the management for giving us the opportunity to host the call and all the best. Thank you.

**Siddhartha Lal:** Thank you very much. Bye, bye.

**Moderator:** Thank you sir. Can we go ahead and conclude the call for you now?

**Ambrish Mishra:** Yeah.

**Moderator:** Thank you sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Shaba's conference call service. You may disconnect your lines now. Thank you and have a great day ahead.