



“Eicher Motors Limited Q4 Calendar Year 2014 Earnings
Conference Call”

February 16, 2015



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Moderator: Ladies and gentlemen good day and welcome to Eicher Motors Limited Q4 CY 2014 Earnings Conference Call, hosted by Motilal Oswal Securities Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jinesh Gandhi of Motilal Oswal Securities. Thank you and over to you Sir!

Jinesh Gandhi: Thank you Inba. Good morning everyone. On behalf of Motilal Oswal Securities, I would like to welcome you all to Q4 Calendar Year 2014 Post Results Earnings call of Eicher Motors. Eicher Motors is represented by Mr. Siddhartha Lal – Managing Director and CEO and Mr. Lalit Malik – CFO. We would like to thank the management for taking time out for this call. We will start the session with commentary from the management followed by Q&A. I would now hand over the call to Mr. Lal for his opening remarks. Over to you Sir!

Siddhartha Lal: Good morning everyone and thank you Jinesh for arranging this call. I am very happy to join this call along with Lalit and to share our updates on our financial performance of the calendar year 2014, because as you know Eicher Motors till now has been following a calendar year and because of the changes we will now have a 15 month year and then we will follow the financial year from next year onwards.

What I am going to do it first update you on the sales volume of our businesses, our two Indian business, Royal Enfield and VE Commercial Vehicles. Firstly on the Royal Enfield side we have had an absolutely stellar year once again both Q4 2014 and the calendar year 2014 were the best ever for Royal Enfield.

We had Q4 sales of over 82000, which is around 50% higher than Q4 of 2013, Q4 is of course October to December in this case and of just over 55000 motorcycles last year same quarter, so it has been a good growth.

In the calendar year that means the full year we sold just over 300000 motorcycles, 3 lakhs motorcycles and which is 70% higher than 2013 sales of just over 178000 motorcycles. So it has been a great growth in the full year and our order book remains extremely strong. We continue to take in more orders every month than our monthly supplies.

Now moving onto 2015, we are continuing to invest in a lot of strategic areas on the Royal Enfield business in order to strengthen our capabilities firstly in order to strengthen our capabilities in product development. We have committed to now building two technology centers, a larger one in India in Chennai, we have acquired a 4.5 acre land in Old Mahabalipuram Road and we are building a full technical center there.

Of course, the facilities will be new. A lot of the manpower will come from our existing PD team so we already have a PD team. They will all move over there and of course we will be adding more people. So that is on the main technology center in India.

We will have another technology center, satellite technology center in the UK and that is also in the works. We have already been hiring quite a few people and we are now settling on the exact location and various other things. The UK tech center will be ready by the end of this year. The India tech center will be ready by quarter two of 2016.

So that is on the Royal Enfield side where we are continuing to invest substantially this year in our technical areas, but we are also investing heavily in some of our new markets that we entering and a lot of retail area work that we are doing, so we are opening up lot of our own stores, we are doing a lot of market spend, a lot of new products are coming out so there is investments across the board, from design manufacturing, marketing, sales, after sales.

Commercial vehicles after a very prolonged downturn of around three years; Q4 is showing a little bit signs of recovery. The industry volumes in Q4 grew by around 38% so I am talking about 5 tonne and above industry. So it is over 78000 compared to 56000 of the Q4 in 2013. In Eicher Trucks and Bus Q4 which is October to December 2014 we have the sales volume of nearly 9500 unit is which is 15% higher than the 8200 unit is we did same quarter last year.

For the entire year, so calendar year 2014, the industry was just over it was 313000 or 3.13 lakhs which is 5% higher than 2.97 lakhs of the entire calendar year 2013 and for the calendar year Eicher Trucks and Bus was around 40700 which is just less than our last calendar year which is 41200. So we are trending just approximately similar to industry slightly lower in the calendar year.

Coming to segment wise performance the 5 to 14 tonnes which is the light and medium duty as we call it will be the industry was just shy of 16000 unit is in Q4 and which is

around 6% higher than the previous quarter Eicher was just over 5000 unit is so 5218 unit is which was 5.3% higher than the previous quarter. So we are tracking similar to industry. So the entire year the industry was over 62000 which is around an 18% growth over 2013 and Eicher was 20300 which is 12% lower than the previous year; sorry even in industry it was 18% lower than the previous year.

So we were marginally ahead in that case of the industry for the entire calendar year and in fact our Q4 market share around 33% and our entire year 2014 market share was 32.6% which is 2.2% higher than 2013 and our highest ever like and medium duty market share so if you see a trend line over the last eight, ten years you see in that our light and medium duty market shares gone from just over 20% to now well above 30%. So our light and medium duty story continues to perform extremely well.

In the heavy duty market 16 tonne and above, the industry was 62% higher in Q4, which is just over 42000 unit is were sold in Q4 October to December 2014. That is a huge growth. Eicher Truck sales in heavy duty was 41% higher so that was at 1439 unit is we have lost a bit of share there and for the year the industry was just over 1.54 lakhs which is 18% higher than the full year of 2013. Eicher was nearly flat sort of around 2% lower than 2013. So we have lost a bit of share for the year. For the quarter our market share was 3.4 versus 3.9 in the previous year quarter and our market share for the entire year was 3.6 compared to 4.4% for 2013.

Now in Eicher we have from 2009 onwards where our market share was 1% in heavy duty we will grow to 4.4% which is a peak last year we have slipped down a little bit in 2014 essentially because the revival, which happened and which is happened or the revival which is happening in heavy duty trucks, it is happening in segments where we are not present at all so we are talking about tractor trailer segment where we have a very insignificant presence. We have not got products in fact across the board.

In the very high multi-axle platform on the one hand it is a cause of concern because we have not grown or we have lost some share. On the other hand we were extremely positive there because we have now launched a full new Pro-series up to 6000 series, up to 8000 series which has not yet started affecting the market share so the sales are still just starting to rule in and we are taking it very cautiously. So you will see that our product lineup is now complete and in the year 2015 we expect that the new Pro 6000 series, Pro 8000 series will certainly help us in getting back into a growing market share position.

The bus segment as some of you may know we have had a phenomenal run over the last many years. The industry grew for the quarter by around 10% with 9700 vehicle sales and Eicher grew by around 13% with just over 1000 vehicle sales, buses sales. For the year the industry fell by 12% to 54000 unit is and Eicher fell by 2.5% to 8000 plus unit is. So our market share for the quarter was 11.1% as opposed to 10.8% last year and our market share for the year was 14.9% as opposed to 13.5 for 2013 so we have grown by 1.4% market share in buses but this is on the back of let us say in 2008 or 2009 we were around 5% market share so that 5% to 6% market share on five years ago has become 15%. So we have really had of the nominal run over the last few years in the bus segment and this is largely driven by our success in the light and medium duty buses, our market share in heavy duty business is still very low.

Exports, the industry was over 10000 unit is with nearly 50% growth. Eicher was nearly 1500 unit is for the 34% growth for the entire calendar year the Indian truck companies have exported around 41000 unit is which was 52% higher than last year and Eicher has exported 5800 unit is which is 77% higher than last year. So we are beating the market for the entire year on truck and bus exports as well.

For our other division which is Volvo Trucks, it is the high-end trucks which are badged Volvo and brought in from Sweden and done CKD in India those we sold 23% higher in Q4 at 264 unit is and 27% higher for the entire calendar year with just under 800 unit is. Our new business line of selling medium duty engines we exported in Q4 we exported 1600 CBU and long block so 2600 combined unit is and for the entire year calendar year 2014 we exported just over 12000 unit is.

Eicher Polaris which is our other joint venture so that is the third business area all together at Eicher Motors level continues to progress well. We continue to maintain our project timeline hence start of sales and start of production and sort of sales timeline of 2015 so the vehicles will be out in the market in this year.

Moving onto financial performance of Eicher Motors at the consolidated level so that means Royal Enfield which is EMLs loan plus VE commercial vehicles as well; our quarterly numbers our total income for the Q4 was up 37% to 2294 Crores. Our operating profit was up 90% to 243 Crores taking our EBIT margin to 10.6% from 7.6% in the same quarter last year and our profit after tax is 181 Crores for the quarter which is around 50% higher than the same quarter last year. For the entire area and that is the topline figures really that we have for the consolidated level of Eicher Motors we had a 28% growth on total income so that is just over 8700 Crores and our operating profit is just shy of 900 Crores at 895 Crores, which is a 54% growth over last year.

Our profit after tax is 702 Crores, which is a 34% growth and the operating margins, which is the EBIT margin was for the first time in Eicher Motors consolidated history was over 10% at 10.2%. So it has been in pretty much every single ways has been our best year ever once again at 2014.

Of course when you look at the standalone level of Eicher Motors, the performance has been even more impressive. For the quarter the total income was 828 Crores, which is 57% growth. The operating profit was 180 Crores which is a 102% growth we have more than doubled and our operating margin for the quarter EBIT percentage was 23.4% as opposed to 16.9% for the last Q4 2013 and profit after tax at the standalone level are 124 Crores which is an 85% growth.

For the year in the standalone level we have crossed 3000 Crores, which is a 78% growth over last year. We are close to 700 Crores on operating profit which is at 683 Crores which is the 137% growth for the year. So that is well over double of 2013 and the overall EBIT margin stands at a very handsome 22.5% and profit after tax is 559 Crores and our view is that the 22.5% is possibly the best in the for any single brand in the automotive industry globally.

Yes we are very pleased with our numbers; of course when we are talking about Royal Enfield has been a phenomenal year and we have got a run into a good year once again a very good year once again in 2015. In Volvo Eicher which is the joint venture even though the numbers look a little bit down in terms of when you look at the profit levels it is only around in the region of 4%, it is on the back of extremely weak industry and in a back of other commercial vehicle companies all of our competitive companies who have been making tremendous losses VECV is the only company throughout the downturn which has not even posted any loss. In fact it will continue to post profit is and has had decent cash flows in this very weak time. So really it is a testimony again to our business model that we hold very dearly to us of being a very asset light and very quick responding company and that has held us very well in commercial vehicles in the downturn and that helped us also very well in maximizing our profit is and returns in Royal Enfield when we have been going so phenomenally. So all in all it has been an excellent 2014 for us and we are looking forward to even better 2015 we have created a segment in optimism.

That is all from my side and thank you very much and over to you Jinesh so that we can have a question and answers.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. Our first question is from Jay Kale of CIMB Securities. Please go ahead.

Jay Kale: Thanks for taking my question. Sir my first question is regarding your assessment of the midsize motorcycle segment in India at what level do you think that the potential demand would be met and the industry would start tracking the normal motorcycle growth?

Siddhartha Lal: It is a very good question and honestly we do not have a definite answer for that because three years ago we would not have predicted that the market last year would have been over 300,000. Really the market is an outcome of let us say a right product at the right pricing with the right consumer sentiment and because we have been able to nail that in the midsize market it has been growing really well. Honestly in our opinion if the product was not there it would not have or let us say if Royal Enfield was not there, the market would have been tiny today in the middle weight market in India. So really, the longer term view is that we would like to look at is to say that how can we encourage more and more people who have been buying smaller motorcycles let us say, in the sub 250 cc category and in India that category is normally between 100 and 200 cc. The population of motorcycles in India is well over let us say 60 million and it is really an upgrading motorcycles, the midsize motorcycle market is really an upgrade fashion. So as long as we can continue to encourage upgraders, I think that the most exciting thing for us and as you know, I mean what we have started doing also on the other hand is also tracking what our overall motorcycle market share is, so it is very nice to say that we are over 95% of the market greater than 250 cc market but at some point that does not help in industry in understanding where we are going so right now in the largest scheme of things if you look at it we are still sub 3% of the entire motorcycle market today in India and there is room for growth I mean we believe there is room for growth as long as there is a desirability in our product, as long as people continue to feel that there is a value in our product and they desire it. So really it is very difficult to say at what time it is going to level off and we are not working towards a leveling off scenario. We are working towards a decade of growth, if it does level off well before that that is so be it but we are not going to sort of say that, "look we think the market is 500,000 and then we will plan only for after 500,000 to start leveling off" that is not how we are playing the game.

Jay Kale: Sir next question regarding R&D expenses, how should we see them going forward, would they significantly post their plants are setting up these facilities?

Siddhartha Lal: Yes, they will, in multiple ways. So one is that, we are bit under-invested in our R&D facilities in our product lineup; in the last couple of years even though we have been growing tremendously, our organizational effort has been creating teams, as you can imagine we come from a tiny organization three four years ago, so it is really about creating teams, creating talent it has been a lot about creating capacity so our organizational assets, it is not that we have not been putting R&D assets but the main thrust in the organization has been to create motorcycle capacity, to create sales capacity, to create service capacity, to create spare parts capacity in terms of distribution and so it has been a lot of our efforts in the last few years and I mean on all the different aspects of capacity, supplier capacity so now if we are getting into the next phase, we are looking let us say the most important thing, because we feel there is over the hump in some sales overcapacity so as you can see in our projections also what we had done is that give or take, as long as the market is there we plan to grow at give or take around 50% as long as the market can absorb that in motorcycle. We do not plan to go much faster in that and we will try in at least maintain that pace. So on the capacity side, we are pretty settled in, I mean still there is lot of work to be done, but we are over the hump in terms of troubles of capacity so really lot of the focus now is moving to R&D. There are few aspects one is that we are building these new technical centers which will take a lot of capital investment because we are building new facilities, new tests regimes and of that, that is one. Second is that we are from a single platform nearly single model type of company, we are going to multiple platform, multiple models on each platform type company so that is going to take heavy investment. On the international business side because the new platforms are building up a global markets that is going to take substantial investment so yes, overall our investments are going to go up substantially over next few years, we expect that in 2015 alone and we do not make out right now individual capex elements but from round 300 and sub 400 Crores last year, which we spent on entire capex for Royal Enfield so on every single aspect we will be probably landing it at around 500 Crores in the coming year in 2015 but that includes of course a lot of the R&D expenses but also includes a new capacity that we are creating but it also includes a lot of the front end investment we are creating with, putting up a lot of new stores, we are doing a lot of other initiatives also a lot of replacement capex in some of our old plant so all of that is probably invest around 500 Crores in 2015.

Jay Kale: Sir if I can just one last question if I may, on a pro-series HCV platform that you basically launched what would be the price differential with competitors and what is the USB that you are all offering since you all are making inroads versus the incumbents in terms of mileage or in terms of any other parameter that you all are looking?

Siddhartha Lal: The first part of the question I mean, typically it is around compared to our incumbent for the legacy trucks it is in the region of 7% to 10% depending on this model, the increase in price and that is already out there in the market. We are selling those stuffs we can give you an exact run down of truck to truck pricing that is available in the field. The second question is slightly more nuance, because there is not a single, let us say it depends on model-to-model and it depends on application-to-application in terms of what the USB really is but on the first hand what we have to see is these are extremely modern trucks that we are selling now. These are with our new medium duty engines which are base engines are used for Euro-6 levels so they are extremely sophisticated and these are brand new cabins which are absolutely high in levels and these are tested in the entire Volvo system of testing, which takes them to very different level of sophistication. So that is at a built quality level these vehicles, Pro-series are absolutely very different from the legacy vehicles in India. Generally what we have been very good at is in the Eicher brand and we continue to see that we are able to deliver that so even the Pro-6000 series the few trucks that are out on the road today, we are seeing approximately a 10% better fuel efficiency, we are seeing that of course the pay load is around 5% more because our trucks are lighter than the other trucks so that is also helping a lot and these are the two let us say headline areas, but then of course there are lots of other nuance areas in terms of speed and turnaround time which varies from application-to-application so I would not get into all of those, but really it is about we are able to deliver an extremely well built product with better fuel efficiency and with slightly higher pay loads than other products.

Jay Kale: Thanks a lot and all the best.

Moderator: Thank you. Our next question is from Ashish Nigam of Axis Capital. Please go ahead.

Ashish Nigam: Congrats on a good quarter and a good year. My first question was on Royal Enfield margins for this quarter, while it is a healthy growth Y-o-Y it has tapered slightly quarter on quarter, so was there any lumpy provision in other expenses because that seems on the higher side this quarter?

Lalit Malik: Ashish there was no one off provisioning or anything like that, it was just a question of fact that some of our expenses and some of the expenses Siddhartha alluded to will happen a little ahead of when they can actually translated it into revenue so it is only those front leg expenses which are over there.

Ashish Nigam: Sir is it also like typically your other expenses are generally higher December quarter, is it something related to that, is it like a seasonal things?

Lalit Malik: In the past you see, what was happening is if you are talking of some last two three years trend in the past most of our launches used to be in the December quarter, October to December quarter so nothing like that this time around so there is no seasonality into it.

Siddhartha Lal: But let us say, on the one end we have built up we are adding a lot of people and a bit of cost in the last quarter so our cost have gone up and on the other hand even on the material side, we have only taken a price increase now in January along with the excise duty increase, we also took a 2% price increase in the market so to that effect of course did not come in last quarter in terms of the improved margin. So generally if we look forward what it does mean that we are cranking up our investments in our business so the cost structures are going up, so we are putting a lot of effort in new markets so we are going to Columbia has been a big let us say the work that we been doing in terms of launching our products and vehicles there. We are hiring a lot of people in the U.S. markets to support Rod, who is heading our U.S. operations now so till now to the distributor market so the cost was not ours, now it is going to be a market company so there are a lot of changes in the air and those start costing us a little bit as well.

Ashish Nigam: Secondly on the blended waiting period right now for Royal Enfield Motorcycles what would it stand at approximately?

Lalit Malik: It still more than five months.

Ashish Nigam: What is the production guidance for the next year at least is it still what you mentioned last quarter?

Siddhartha Lal: Now we are planning to stretch ourselves and produce towards 450000 in excess so 4.5 lakh if what we are going to try and put through but that will be slightly lumpy in the sense that we are going to see that as you saw Q3 to Q4 that means last two quarters it was the production growth was slightly less, or the unit is are less so lot of our new, we have Oragadam phase II so right now all the production that you are seeing is basically from the phase I of Oragadam and the Thiruvottiyur plant, now the Phase II of Oragadam will be fully of little bit will start ramping up by approximately you can pay early Q3 of 2015 so that is when we should see a big spurt in production again.

Ashish Nigam: Okay the 450,000 is predominantly Phase I and the whole plant?

Siddhartha Lal: That is right. It is entirely not predominantly. It is entirely phase I and old plant. Right now the phase II is not even still at least four five months away from starting to deliver new motorcycle.

Ashish Nigam: Okay Sir, if I can just go one year ahead so phase II when it is launched and assuming that in the old plant is not completely phased out what is the total production you could hit once phase II hits is full stream?

Siddhartha Lal: What we have said in the past that Oragadam with both its phases as per our current thinking will be in addition of or let say will deliver at around 50,000 motorcycles per month that is Oragadam with both the phases fully kicked in. Thiruvottiyur continues to give us just over 10,000 a month so all in all with Thiruvottiyur and Oragadam in full swing, we should have over 60000 units per month. Then of course you know as you seen in the past our idea will be to continue to sort of extract and little bit more out of Oragadam so that 50000 could go up another 5%-7%-10% or slightly higher but it is in that order of 60000 per month which will be only the current Oragadam or let say Oragadam with both phases and Thiruvottiyur. Then we will take a decision at some point to see whether we want trigger the construction on our new plant which is Vallam Vadagal, which we bought the land already but that decision is not yet taken in terms of triggering the new capacity there.

Ashish Nigam: That is all from my side. All the best.

Moderator: Thank you. Our next question is from Vinay Singh of Morgan Stanley. Please go ahead.

Vinay Singh: Hello team, congratulations for good set of numbers. My question is largely on the export side. Recently in an article you talked quite extensively about the export side. Could you share now with us little more as to what are the key export markets that you have initially? How is the Royal Enfield brand recall into these markets and is it fair to understand that 2015-2016 because you will be running pretty much full capacity catering to domestic market exports is more of 2017, 2018, 2019 story even the new platforms come up, just broadly if you can elaborate on this point?

Siddhartha Lal: First you are extremely right that while organization we were doing a lot of work and effort and focus on international market, what I have also been saying, your guess is perfect in the investor community that we now are going to expect and even from our side we are not expecting too much which is well in terms of breakthrough sales numbers right now, so yes we have increased our sales numbers have gone up in exports by may be, I do not even know the exact numbers but still the tiny part of our total and we do not expect that as you rightly said in 2015-2016 that we are certainly going to become an enormous number. So the work is on and there is hell of a lot of work going on in the background which is really interesting so that this business can

become significant till 2017, 2018, 2019 and 2020 as you are rightly saying. So that is certainly point number one. Like you rightly said it also coincides with the launch of the new platforms that we are planning and but as we know that the new platforms which are going to come in they have to come in on the back of a strong distribution and our distribution is still let us say relatively weak in a lot of international market or not even, we are not even present in lot of market so on the one end we are doing a lot of work on the new product but in the meanwhile we are already building up distribution in a lot of markets so the key markets like you said is you can nearly divide that into two in international, one is let us say existing or you can say the more mature markets of USA, Europe and all of that. So now in those markets we are already there. Our brand recall is already good. That is another question. It is an historical brand. People are appreciative of it. We got a lot of very interesting or let us say a very good praise and a lot of very good feedback and our sales have also got reunited in these markets. We have gotten into duty where we learnt a lot in terms of what people are looking for and the excitement and all that. So we continue to press on in the matured markets. The biggest future potential markets that we see in the next that is 2017 beyond phase; however, is basically two markets you can say Latin America and Asean. These are the two markets that we are targeting and we are not yet present in except for a small way here and there, so Columbia we are making an entry into slightly bigger ways right now so in all the other markets right now the work-in-progress. We are still looking at the model. We are still looking at how to do it. As you can imagine Brazil and Asean are basically CKD market. So it is nearly impossible to go in there and do anything of interest or substantial nature without having CKD operations which brings in a lot of complication as well so there is a lot of work being done in terms of how we are going to enter and approach these markets so that is the background work that we are right now up to. In a nutshell our brand salience, our position in the world, our let us say the continued brand enigma that is going to come because we planned to be strong in UK, Europe and US markets so that helps us being a credible global brand and the sales numbers we expect in the long-term other than let us say the Indian market is of course going to large for us. It will be from Latin America and South East Asia we expect those be a largest two areas in the future.

Vinay Singh:

Sir it is quite surprising that you know I would have thought more than Columbia, UK will be your key market in that sense is that because the potential in UK is lower than the Columbia?

Siddhartha Lal:

It depends on what you are going after. In the long term, and I am talking if you look at 2020 we expect that unit sales a market like Columbia will probably be higher than unit sales or little substantially higher may be multiple times higher than a market like UK,

because the market sizes are very different. The market sizes themselves are 1:10 even now, I do not have the exact numbers but it is give or take it is in that order magnitude and also because basically our success and also future success we see is that all the big number for Royal Enfield will always come or we believe will largely come from markets where there is a large population of urban commuters who want to now move up to something more exciting. So, the countries which have a huge population of commuting motorcycles countries like India, Brazil and Indonesia those countries we are much more bullish about because there is a natural step up to Royal Enfield motorcycle. In markets like UK we certainly expect growth, but creating market there a little bit, we are pulling down the market a little bit, so people who are buying a 800 cc or 1000 cc we are telling them that looks there is an interesting market, so it is a very, very exciting opportunity U.K., U.S., Germany, France, do not get me wrong and we have very much behind those markets, because they give us the most credibility. If we are well known in UK and U.S. and let us say people from around the world see lovely stores in London, Paris and New York of Royal Enfield, we see motorcycles in the street of these big cities. Then they are going to go back home and buy these motorcycles as well. So, for us UK, U.S., Europe are extremely important market. But in the largest scheme of things unless something extremely exciting in breakthrough happens the general trend is that in numbers, they will still be much smaller or in order of magnitude smaller than the developing markets.

Vinay Singh: Thanks a lot. Thank you so much for answer.

Moderator: Thank you. The next question is from Srinath Krishnan of Sundaram Mutual Fund. Please go ahead.

Srinath Krishnan: Thank you for taking my question. Please correct me if I am wrong. Currently I can see about 300 dealerships in RE, now for the segment that you are operating and kind of demand momentum that you are seeing. What would be the optimal level of dealership that you want to have to complete that reach. The second question is on accessory sales. Like in some of the mature stores that you operate in what would be the proportion of accessory sales and lastly if I may you have been consistently saying how surprised you are with the order booking's that you are facing. I guess based on backlog which you mentioned the order booking would be on the monthly range of about 35,000 to 40,000 range, but looking at the demand momentum or order booking momentum and dealership expansion that you have. Sorry for asking this question. On the short-to-medium term, what levels do you could reach in terms of the monthly bookings without choking demand, because you have said that at some point you might have to come and

choke demand, you are not really sure how the market would react when you might have to do that?

Siddhartha Lal:

Your last question is absolute continuous process. I mean we are taking in much let us say higher order than capacities these days that is great for us, but that has not come out of nowhere. We are working extremely hard work towards continuing to increase that order intake every month, so there is a lot of exercises we are doing right now in terms of improving our dealerships in fine tuning them, as you know we have also now got very senior person in, Rudy Rudratej Singh who is now the President of the Royal Enfield business, who is a veteran of Unilever here to help us in really taking this entire demand generation and the entire brand and retail space to a totally different levels. So, they will lot of work going on the front and side to continue to understand that in the consumers let us say in the thought process where are the points where he is throwing us out and where we can come back in and all of that. So it is difficult to predict where this number is going to go, but we are working hard work towards continuously increasing it and the great thing for us is that we said we have a line of sight into out future with the way we are taking an order. So we know that if you do these three, four things, our order booking in this particular geography goes up, so then we can extrapolate that to other markets. So for us we are always looking six months ahead, because we already have orders into help us with these five months or so. So it is the helpful situation as far as trying to pace the market and gauge the market and to see what our future might look like.

On the dealership side, we have actually already at 400 I thing we ended the year with just over 390 which was in 2014 and we have already added few more in 2015. So we are facing very well on the dealership level. Again, I do not have a view on what is the natural point or numbers for Royal Enfield, because this is the dynamic process, we are going through the phase and some sense that people like the 100 cc manufacturers went through in the 90s and 150 cc manufactures through in 2000s. We are going through that phase of distribution expansion really and there are two parts; one on the number side, we are in fact even accelerating, so last year we added shy of 100 dealers, this year we will probably increase that numbers in terms of distance leaders. What is happening is that smaller and smaller towns are becoming much more lucrative, meaning that there are more towns where dealership becomes viable, so earlier particular size of town was viable for us, now we can go one or two steps below where a dealer can make good money by selling let us say 20 to 25 more cycles in a month and servicing them and creating a population and most interesting thing for us and we have checked that in a lot of different ways is that 80% plus of the sales in any new dealership in a new city, which we have not opened up before or incremental. So, it is

not like those guys are anywhere going to closest big city and buying the motorcycle, so these are largely incremental sales that we are getting. So, we continue to push further down in terms of smaller towns. We are also getting the opportunity to get into new catchment areas in bigger cities, so place like Chennai, I cannot remember the number now, we have got over 10, 12 dealerships now in a city like Chennai. In Delhi, NCR of course is even higher. It is around 16, 17 including Faridabad, Ghaziabad all of that. So there are smaller in smaller catchment or let us say there are more catchment areas that we are able to service within big cities, we have been able to go down to smaller cities and that is only numbers part and we are working tremendously hard on both hardware and software of dealerships as well. So our retail format is already hit over a 100 stores we have been able to roll it out pretty strongly we believe, so since we have launched the Saket store in second half of last year and we are able to very fine tune that stock concept and all of that now we have over a 100 stores which has full new retail identity and by the end of this year all of our stores that means if we have an order of 90 to 500 stores by the end of this year all of them will be after new retail identity. So that is the hardware side. Also the service we are upgrading, so the entire hardware of the service are upgrading and then the entire selling methodology in the sale system inside and follow up and these implemented DMS now throughout our dealerships and how people use it, so there is a lot of work going on to make at a true premium motorcycle distribution rather than Dookhan, like shop which most of the others dealership are like where you come in and you just place an order and go out. So, we want to make it much more interactive, much more interesting experience on that side. On the accessories, the question asked the answer is let us put it this way that right now it is still work-in-progress. It has been very early days for us in apparel and accessories business. Our spare parts are growing well, but I am not talking about that right now. That is the question that we can talk a little later, but spare parts is growing well. Apparel and accessories you can say a still pilot, still early stage, we are still learning on that front, we have get a new collection coming out right now, so it is very, very early. The number that still very small and we are going to take a couple of cycle of new collections and learning before we have good accessories growth in sales, still very promising. We have got large team now. Over 20 people working on accessory business, so it is not a small business anymore and this is a kind of costs, which has grown up in the last few quarters as we have seen, but we have excited about what outcome will come out, but still tiny right now and it is still going to take little bit more time and little bit more learning from our side.

Srinath Krishnan: Thank you. Thanks a lot Sir.

Moderator: Thank you. The next question is from Arvind Sharma from Citi Group. Please go ahead.

Arvind Sharma: Good morning Sir. Thanks for taking my question. My first question would be on Royal Enfield bike in terms of brand image we have. I mean we have always been known for a lot of handmanship that goes into it. Now since we are expanding manufacturing capacity so much with the new plant, where is the automation increase and hence the image that there is more handicraft sort of thing that goes into a bike go down or we are still sticking to a minimal level of automation, maximum level of customization or innovation on that part?

Siddhartha Lal: Royal Enfield is now in most of its processes has gone towards let us say established methodologies of manufacturing, so like as I said it is automation is one way of looking at it, but more than automation is particular type of process. So, there is enough human content also like in the assembly lines or in petrol tank, fabrication lines, there is a lot of human involvement of course in doing all of that, but generally on machining areas and on other areas we have gone extremely let us say automated in order to get the type of accuracies and repeatability that we want. So in one hand of course we move much more towards the modern and entirely towards they will say modern manufacturing technique. On the other hand, there are some innate processes, which we continue to project and use as what people find more interesting as handicraft, so it is the way we test our motorcycles, so we test them for longer kilometers than everybody else, so that is the testers are 30 years experience and that is part of the entire Enfield. The painting process is extremely automated but the last part which is the hand striping of the lines and the application of stickers, etc., that is much more handcrafted and as we move forward, we are moving the idea of handwork from to more which is areas which are less critical to be operations, so if you paint a lines slightly wrong or not wrong, if you paint a line, it is up to okay if it is millimeter off, but of course if we are doing machining you cannot have it a millimeter off, so that is what we have, but of course the positioning in the ideation of what Royal Enfield is, it still gives that warmth as you rightly saying and the brand positioning still excludes that warmth of a small company which is more handcrafted and that we will continue sort of work on our communication to ensure that people still see us in that light and it also helps us like as I said customization and all those efforts that are going on, still give that image to people.

Arvind Sharma: Sir, my second question would be on engines part in the Royal Enfield segment. Correct me if I am wrong, we basically have two or three different types of engines I mean it is in 350, 500, 535 cc, so just two subparts first is the 535 and 500 cc are two

variants of the same engine? Secondly, as and when we launch new models, will we have more numbers of variance of engines or will be tweaking the current engines for different sizes?

Siddhartha Lal: In fact if you were to look and study our engines, a little bit more in detail on our website also or if you go to a manufacture store, you will find that actually the 350, 500 and 535 all the engines right that we are producing approximately 30000 a month or 99% the same. So, basically it is the same platform, it is the same engine, there are only slight differences, so between 350 and 500 and between the 500 and 535 of course the piston is different, which changes the cc capacity, but everything else the running part, most other thing may be there are some differences in cams etc., but most of the parts including the gearbox, oil system, filtration system, all of those the entire crank cases, the entire cover everything is identical. So, there is very little things that we have to do. Then of course from the 350s to most of 500s there is also fueling change, so all of our 350s are on carbonators, most of 500s and 535s they are on fuel injection. So that is another change, but it does not change the basic engine at all. So basically we have one single engine right now with three variants, 350, 500 and 535. In future we plan to have at least two more platforms that we are planning in the next two to three year horizon, which will compliment us existing range of motorcycles.

Arvind Sharma: These two platforms also be the same engine type or will you be having another engine, but it will essentially remain the same engine on which you will launch new platforms, right, it would not be radically different engines?

Siddhartha Lal: No, we are saying that this is one engine which has three variants. In the future, we will have two entirely ground up new engine platform, which will all these still midsized engines, so they will be about 250, below 750 cc, but we will help entirely new engines also.

Arvind Sharma: If I am just squeeze in one last housekeeping question, what is the capex for 2016 - 2017 and how it will be allocated if you could throw some light on that?

Siddhartha Lal: We do not have number on that right now. Our capex for 2014, it was just shy of Rs.400 Crores which was less than Rs.400 Crores. Our plan for 2015 is 500 Crores and we do not have number yet for 2016-2017 and we do not have breakup of the numbers either even on 2015 we are not giving a breakup of how much is going in PD and capacity and frontend and IT and all of that.

Arvind Sharma: Thanks a lot for taking my questions Sir.

Moderator: Thank you. The next question is from Aryn Pirani from Deutsche Bank. Please go ahead.

Aryn Pirani: Thanks for the opportunity. Sir, I just wanted to ask on the Royal Enfield, you have been mentioning that there has been a reduction in the average buyer's age over the last few years. So, are you also seeing any increase in the first time buyers or is it still largely first upgrade or second upgrade market for you?

Siddhartha Lal: There is no increase in first time buyers, but there is still reasonable percentage. It is not that everyone was buying it is an upgrade customer. There are a lot of youngsters in fact as you only pointed out that let us say a youngster getting into college. Now the first time buyers and the real youngsters that will be 18, 19, 20 year also buying a motorcycle are generally people who are not salaried in some sense so they have got some parents are giving them some money for motorcycle or something like that. They have gone and bought this. So, it is still more in that realm and it is the upgraders were normally the people who already had one motorcycle now they are salaried or business people we have a lot of independent business owners, so the employed cases.

Aryn Pirani: On your motorcycle profitability, you have seen significant improvement in the gross margins and I guess that is also because of your scale and the ramp up in the Oragadam plant. I just wanted to get the sense as you add more capacity in Oragadam plant, do you think there are more efficiencies on the raw material cost or this is the level where I think you will be plateau for the medium term?

Siddhartha Lal: We have already pulled up quite a bit efficiencies, but it is constant endeavor and we continue to find more areas of improvement in terms of cost structures and material cost and all of that, so our material cost has trended really well. Of course material got percentage to net sales is also result of pricing, so we have also we have been able to take a little bit pricing of the market which has helped us in lowering that number overtime and it is also to do it our mix. So all of that is certainly helped us, but there is on the one hand there are more efficiencies which can be pulled out. On the other hand, we are also doing a little bit in fact after decades of outsourcing more and more in Royal Enfield, this point we have just sort of I think we have just crossed that let us say peak point of outsourcing and we starting in loading a little bit more which means that we are making earlier we should not make one fuel tank now we are making a lot of fuel tanks, we started making a proof of stream, we have started doing more of our engine machining in-house, so what that does is that will to some extent reduce our material cost also a little bit, but it will increase our investment and our operating cost a little bit more, that is where it is set into.

- Amyr Pirani:** 60,000 production capacity that you mentioned that is something that will come in by 2016 and/or in 2017?
- Siddhartha Lal:** Where are we right now in 2015? As we have said that the Oragadam plant the phase II will start producing by the second half of this year and it will ramp up, so on day one it is going to produce 30000, but overtime it will ramp up but of course it will take may be only two to three quarters may be to ramp up, so by middle of 2016 certain we should have fully ramped up phase II which means that so those kind of numbers we could start hitting by then if the market is requiring those kind of numbers, I think that, because production itself does not sell motorcycles.
- Amyr Pirani:** You have mentioned the capex for Royal Enfield, is there any capex separately for the CV business?
- Siddhartha Lal:** Of course, Lalit, you have a number on that with you?
- Lalit Malik:** This year for CY 2015 it will be Rs.500 Crores.
- Amyr Pirani:** Rs.500 for Royal Enfield and Rs.500 for CVs.
- Lalit Malik:** Correct.
- Amyr Pirani:** Thanks a lot for taking my question.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraint that was the last question. I now hand the floor back to Mr. Jinesh Gandhi for closing comments.
- Jinesh Gandhi:** Thank you Inba. On behalf of Motilal Oswal Securities, I would once again like to thank you all for joining the call today and I would also like to thank the management of Eicher Motors for giving us this opportunity. Thanks.
- Moderator:** Ladies and gentlemen, on behalf of Motilal Oswal Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.