Eicher Motors Limited Earnings Conference Call

May 5, 2016

MANAGEMENT:	**MR. SIDDHARTHA LAL – MD & CEO, EICHER MOTORS LIMITED** **MR. LALIT MALIK – EICHER MOTORS LIMITED**
MODERATOR:	**MR. MAHANTESH SABARAD – SBICAP SECURITIES LIMITED**

Moderator: Ladies and Gentlemen, Good Day and welcome to Eicher Motors Limited's Conference Call hosted by SBICAP Securities Limited. As a reminder, all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mahantesh Sabarad. Thank you and over to you, sir.

Mahantesh Sabarad: Thank you, Aman. Good Afternoon, Ladies and Gentlemen. We have with us the senior management of Eicher Motors, represented by Mr. Siddhartha Lal and Mr. Lalit Malik. Without wasting too much time, may I ask them to start with the initial comments? Thank you very much.

Siddhartha Lal: Thank you, Mahantesh for arranging the call. Good Afternoon, everyone and thank you very much for joining this call.

We are going to share information based on the Financials and Sales Performance of Eicher Motors Limited (EML) for the previous quarter January-to-March 2016 and for the 15-Month period ending March 31, 2016. I will start with an Update on EML's Consolidated Financial Performance for the 15-month period, as we have just recently shifted from calendar year to financial year, therefore we are adding another quarter, so this is for 1st of January 2015 to 31st of March 2016. So, for the 15-month period, we have hit an all-time high; total income from operations came at Rs.15,689 crores, operating profit came at Rs.1,996 crores, the EBIT margin stood at 12.7% and profit after tax of Rs.1,452 crores. So that is the consolidated level. At a standalone level for 15-months, we have a total income of Rs.6,188 crores and operating profit of Rs.1,593 crores and operating margin of Rs.25.7 crores and profit after tax of Rs.1,230 crores, so that is for 15-months.

For the quarter at a consolidated level, we have 47% growth of net income to Rs.3,765 crores, and an 84% increase in operating profit to Rs.531 crores and at a standalone level, we have had once again the best ever quarter of total income growing at 61% to Rs.1,545 crores and operating profit or EBIT at Rs.425 crores, which is a growth of 83% over the same period last year, translating into operating margin of 27.5% which is the highest ever.

Moving on to the Business Update: For Royal Enfield Motorcycle Business, we sold 1.48 lakhs motorcycles, which is around 60% over corresponding quarter last year. Our order book remains strong; we continue to take in more orders every single month than our supplies, so the order book in real terms continues to grow, but because the denominator which is the production continues to increase, we were able to reduce the number of months waiting for our motorcycles. We have also continued to expand our Retail footprint very well, so at the end of the last year our motorcycles were available at more than 500 dealerships across India and more than 80% of these stores also have our new Retail brand identity, which is in fact drawing in a lot more footfalls from earlier. So it is a very positive new retail identity that has come in to our showrooms and we continue to add a lot more showrooms this year. The last 15-months as a part of our growth strategy in global markets in the mid-sized Motorcycle space, we have expanded our footprint with exclusive stores in model cities across the world like London, Paris, Madrid, Bogota, Medellin, Dubai and we have also opened our first exclusive store in Jakarta in January 2016 and in Bangkok in February 2016 and amongst these two that is Indonesia and Thailand are amongst the largest Two-Wheeler markets in the world where we have not been present in the past and where there is a huge commuter base of Motorcyclists and we believe that these countries have enormous potential where the Motorcyclists can upgrade from their commuter Motorcycles to the next level of Motorcycles and we are very well poised to fill that gap with our beautiful mid-sized Motorcycles and this is our first step into entering Indonesia and Thailand.

In December 2015, Royal Enfield completed its transition from our erstwhile distributor in North America to our first ever market company outside of India where we now have approximately 15 people doing dealer development sales, after sales, marketing communication, the entire suite which is there and then that business is starting to pick up now.

Of course, big news hit note in February 2016, when we introduced the “Himalayan” which is a Motorcycle which is built for adventure touring in the Himalayas. Motorcycles were very well received by media, by customers and we have a good order book now and we are ramping up our production for this all new motorcycle with a full new engine in order to meet the demand, so we are in our ramp up phase now.

As far as production for the coming year is concerned, we have been working hard with our manufacturing team; we have now planned to manufacture 675,000 units for the year 2016-17, our previous announcement was in the order of 620 units for the calendar year 2016, but now we are upping that we believe to 675,000 units because we believe we can increase the capacity to that level as well as service the continuing strong demand for our Motorcycles.

At Royal Enfield, we continue to invest in our business for the future and we are building strong foundations for our business. Towards that the board has approved an investment of in the order of Rs.600 crores for this financial year 2016-’17 towards our product development efforts, towards the setting up of our two technical centers in UP and in Chennai and towards enhancing the capacity of our Motorcycle manufacturing in both Oragadam and our new plant in Vallam Vadagal and also the Rs.600 crores will go towards market development activities across geographies.

Our immediate business outlook for Royal Enfield remains extremely strong and we continue to have good growth, we continue to be very competitive, and we continue to see strong profitability in the coming months and quarters.

Moving on to our joint venture with Volvo VE Commercial Vehicles Limited, the Commercial Vehicles industry has grown well in 2015-16 over the previous year by 25%. In the quarter, the CV industry grew by 28% and Eicher grew by 41%, so beating the growth in the Commercial Vehicles industry and thereby increasing our market share from 10.9% to 12%.

In Light and Medium Duty Trucks that is 5 to 15-tons. The industry grew by 26% in the last quarter, so that is January to March 2016 and Eicher grew 32%, again beating the industry with Eicher sale with 7,132 units, taking our market share from 32.2% to 34% which is again an all-time high in terms of Light and Medium Duty market share for Eicher.

In Heavy Duty Trucks, the market grew 35% to nearly 72,000 units, which is a very good number and Eicher grew 72% to 3,163 units, our market share therefore grew from 3.4% in Q4 last year to 4.4% in Q4 this year and we continue to have strong growth in Heavy Duty now, our March market share was 5.2%, our April market share was 6.2%, so the momentum is certainly with us in Heavy Duty growth.

In Buses division, the industry grew 9% and Eicher grew 27% to 3,191 units, taking our market share from 13.7% to 16%. Industry Exports grew 32% and Eicher's Exports increased 65% to 1,653 units for the quarter.

Our Volvo Truck sales of high value Tippers and Tractor Trailers grew 8% to 277 units.

Last for VECV, our Medium Duty Engines which is the engines that we sell for Volvo's global requirements as a base engine for Euro-VI grew 53% to nearly 6,000 units and that of course is an extreme strategic advantage as well as adding to profits for the company, it is a huge strategic advantage because we are the only manufacturer in India producing Base Engines for Euro-VI in such vast number, so that is in the order of 2,000 per month. I do not think there is anyone else producing Euro-VI Engines, we are doing that, and of course that gives us a very strong footing for future emission requirements, where we will have all the knowledge and know-how available way beforehand.

Moving on to our Joint Venture with Polaris, which is Eicher Polaris Private Limited: We started commercial production of Multix which is India's First 3-in-1 Personal Utility Vehicle in the month of August last year in our Jaipur plant, Multix has received lot of interest amongst its target customers and has strong funnel of potential customers now, we have recently been adding a lot more dealers and our presence now in 34 locations across 8 states and we continue to add new dealers into the Multix family now. So all in all, a great year for Eicher Motors Limited and that is all from my side. Thank you very much.

Look forward to your Questions.

Moderator: Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Yogesh Agarwal from HSBC. Please go ahead.

Yogesh Agarwal: Siddharth, just one question on the growth. So our RE volumes have increased from almost 35,000 to 50,000 in the past 12-months. This growth what is the mix between the same-store sales for metros versus the new dealership you are opening up in smaller cities?

Siddhartha Lal: We have in fact got good growth coming from all areas, many years ago we could say that most of our growth was coming from metros, now the base has widened a lot, so same-store sales in metros is in the order of 15-odd-percent continued growth and the rest is coming either from slightly enhanced growth in big cities, medium cities and all of that and also from new dealers that are continuing to come into our fold. So there is growth coming from all fronts at this point.

Yogesh Agarwal: The next one was about the mix. In a smaller city, it is the mix significantly different than a metro for RE?

Siddhartha Lal: Not materially, there may be a few less 500s perhaps, it does not really affect us because Classic 350 is the biggest seller in metros, in smaller towns, everywhere, it is nearly uniform, it is nothing substantially different.

Moderator: Thank you. The next question is from the line of Kapil Singh from Nomura Securities. Please go ahead.

Kapil Singh: My question relates to your production guidance. We have talked about 675,000 units. What is the exit production run rate we are looking at in FY17? Related to that, we had talked about 900,000 units when we went last time by 2018. So do you see an upside to that as well or you are just bringing forward the production ramp up in some sense?

Siddhartha Lal: Again, I do not have exact numbers, but you can say the exit in March 2017 should be in the order of 60,000-odd units, we are not changing that number right now, meaning, we believe that 2018 is what we have said earlier is in the order of 900,000, now these are all still a bit far out and still a bit approximate, but we stick to that order of magnitude of units. Of course, as we have said, some of the investments this year that we are making will be directed into our new plant in Vallam Vadagal none of that investment is going to go towards the 675,000 units we are going to produce in FY16-17. So the investment going into Vallam Vadagal plant which is only going to go live after the current financial year that will start catering towards the 900,000 that you are talking about. While we increase the current year numbers to some extent, we still think that the order of magnitude of 900,000 is right for 2018.

Kapil Singh: My second question relates to the margins especially for Royal Enfield. We have seen some increase in raw material to sales. So some color on that why RM to sales has gone up and some decline in employee cost is visible as well, so if you can just help us understand that?

Lalit Malik: This was just periodic quarterly adjacency which is happening well, some cite to some steel price going up, but nothing at this point of time that is a cause of concern.

Kapil Singh: Yes, because we had raised prices as well and for most of the other companies we have not seen any increase in commodities at least not for this quarter. So I was just trying to understand what should be the steady run rate…?

Lalit Malik: It depends on when you are able to close vendor negotiations anything like that. So if you remember the last quarter we had material cost at 3.5 or 4% odd. I am sure some company would have given you higher number than that.

Kapil Singh: On the employee cost, we have seen some decline despite higher volumes this quarter. So any color on that?

Lalit Malik: Again, these are all marginal differences, employee cost will go up now in coming quarter and increase in other things. It is all in a sort of tight band, there is nothing dramatically. What happened on the last quarter which is December-end that we did spend a little bit extras of one-off because of the stuff that we had to do for our employees for Chennai floods and all. So there was that expense over there. Now it is coming back to that normal adjusted for our increase in manpower.

Moderator: Thank you. The next question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: I actually had two questions; one, pertaining to VECV, first one was on export, it is still early days, you are still rolling out the network and the brand is getting more familiar and the team is ramping up the locations, but I was just looking at the export market of premium bikes from India, it is like 650,000 a year and this is exactly the same computation set what you have in domestic market where you have ramped up market share to north of 20% against the same set of peers and in exports currently you ramped up the number to 2% in the last few months. I just want to understand what can be the kind of potential here in terms of as a share of exports from India for premium bikes because end of day you are targeting markets which are similar to what the other players are targeting and above that you have access to

US market which not many brands have from India, so to extent I just want to understand can this percentage on a 5-year horizon how one should look at it?

Lalit Malik: Firstly, Pramod, the numbers that you are asking for will be only an outcome, that is not our target, in the sense that we do not care about our share as a percentage of exports from India, we care about relevance in the market that we are in, so our market share in Columbia is important to us but our share of exports from India is not important to us. So therefore we do not track that, we do not care about that particularly. Having said that while we compete extremely strongly in India in Premium Motorcycles as we are calling it, obviously, that situation is extremely different in other markets because we do not have distribution and we cannot do anything without distribution and we do not have the type of obviously brand we build and the recall that we built in India we do not have any of that. So in India we can continue to accelerate in those markets we need to start getting traction. Our method of getting traction nowadays in a lot of markets that you have seen the biggest markets we are going to, we are not going with CKD first or with a plant first or with all that kind of stuff, we are doing stores first in order to set the brand to get interest in the brand, to get the right kind of people to be buying our Motorcycles in Jakarta and in Bangkok for example, amongst other markets, and once the salience comes in and once we believe the right customers are buying our Motorcycle we believe that there is viability at a dealership level, then we will expand. So it is still some time to come, I do not think you can see huge gains of growth in the immediate term, but it will happen in a course of time.

Pramod Kumar: My second question pertains to VECV, Siddhartha, as in the recent market share revival is very heartening to see. Just want to understand how much of this is led by more and more of your sales network selling HD which they were not selling earlier and how much of this is led by new product rollout and how much steam is left in terms of the various tonnage categories getting addressed, so just want to understand how much of the addressable market in HD is now getting captured in this particular 6% market share and also your aspirations in terms of where do you want to be 3-years down the line because you had shared earlier as Volvo Eicher the market share aspirations, so if you can just refresh that, that will be really great? Along with that, I just want to understand what is the VECV margin per se because I believe consul minus standalone would also include Polaris now. So I just want to understand what is the standalone VECV profitability in terms of EBITDA margin and if any other ratios which Lalit can share?

Lalit Malik: EML consolidated now comprises EML, it comprises VECV, it comprises EPPL and our two very small subsidiaries that we have right now small in US and Brazil, so they do not account for much in terms of top line and bottom line at this point in time but I just want to make it clear that this is our legal entity structure now, so we think specifically EBITDA margin is 8.5% and EBIT margin will be 5.7%.

Siddhartha Lal: Pramod, there are so many different factors in all of this, but I would say it is a factor of combination, we have done a lot in terms of product improvement, we can take cycles, right, so once customer sees the benefit only then he is going to repurchase our truck and that is what helped us now in our V-Series and in our Pro-Series to sell more Trucks in Heavy Duty, we have been working closely with dealers and doing various activities at dealer sales people level. Net-net it is a combination of vast number of activities across the board, but there is good traction therefore for our different products we have had like for example in 16-tons Rigid Trucks where we were always stronger, we have had really good growth now, I believe the market share has crossed 15% also in some months at least in that area and Tipper is also in double-digit, we have started getting traction in many other segments. So basically all the hard work at ground level work of ceding vehicles of making sure that customers are getting their value out of the Trucks is what is happening. Now that the demand really coming back to us. So when the demand was slow, they were perhaps going to a safer choice where the resale value was much more established which is the legacy trucks, but now they believe that they want a vehicle which can immediately deliver them better so they are coming to us. So there are a lot of different factors, really difficult to pinpoint but we are glad that we have got solid market share expansion now.

Moderator: Thank you. The next question is from the line of Basudeb Banerjee from Antique Stock Broking. Please go ahead.

Basudeb Banerjee: A few questions; out of overall dividend, how much was the Polaris if any of this time?

Lalit Malik: Specifically, we are not sharing it out. I will tell you why. These joint venture sensibility one has to keep in mind. So our joint venture partner is not breaking them out in their scheme of things. So it would be a little …

Basudeb Banerjee: Any major change in discounting structure in VECV?

Lalit Malik: No, the discounting still continues similar to the highest levels it has been till now, that has not updated yet.

Basudeb Banerjee: Second is 9 lakhs units which you are targeting in FY'18, how much of that internally you are targeting will be exports as such?

Lalit Malik: We only have internal target only no. It is nearly the same. From capacity stand point it really does not matter.

Basudeb Banerjee: No, the journey from 6 lakhs to 9 lakhs, incremental 3 lakhs, how much will be exports and how much domestic broadly on that aspect, if it is mostly domestic, still even in FY'18, then it is clear, that angle I was just asking?

Lalit Malik: Yes, so basically right now, it is not all of this, vast majority of all of this is domestic-oriented, then of course exports pick up, it is always fungible capacity and we can export 30% more, domestic would not even notice it if we put 30%. So always we will try our exports because we are trying to grow in those markets and if we get traction in the export market we are delighted to serve them quicker and better, so we would love to do that, but really it is not an issue at all because exports is still so tiny that it does not make a dent on India.

Basudeb Banerjee: As you said that 15% is the same-store growth in the metro cities. So broadly that presently covers what percentage of your overall volume?

Lalit Malik: Offhand I do not have all those numbers.

Basudeb Banerjee: In April, the volume again came below 50,000. Any specific reason or any color on the volumes in the near-term?

Lalit Malik: It is just small variations with regard to manufacturing and also this is year-end so the manufacturing was actually closed for a few days, we went for a SAP upgrade as well, so we lost a few days …

Siddhartha Lal: Upgrade, inventory hitting, supplier side stuff. So it is just marginal numbers. Normally what we do is once we get to a number… not an exact number but once we get to a certain hit rate we then try and steady that for a couple of months before pushing forward to the next hit rate whether it is for us or for supplier is another thing. So right now this is our slightly steady phase rather than growth phase in Manufacturing and then of course we will push it up a couple of notches in a few months' time.

Moderator: Thank you. The next question is from the line of Pulkit Singhal from Motilal Oswal Asset Management. Please go ahead.

Pulkit Singhal: Just two questions; one is on demand for Royal Enfield itself. Last two or three years we see Motorcycles sales have broadly been flat and we also have entire good monsoon as such, now, there is kind of increasing outlook of Motorcycles sales to revive and also better monsoon. But does Royal Enfield save in particular get impacted by either one of those, monsoon would be more say rural borne and overall motorcycles sales could be spread across, what is your sense on that?

Siddhartha Lal: Of course, we have grown despite some of those issues in the last few years but clearly there will be positive correlation if lower Motorcycle sales also grows because the larger ones have been growing over the last few years, that of course it continues to advantageous to us because that means there is a broader pipeline of customers coming into the market. So it certainly would not hurt us if Motorcycle sales grows and it certainly would not hurt us if monsoon is good and there is better rural income because we are starting to get into next level cities. So both of these can only be advantageous to us. But how exactly they will affect us? You cannot give a direct sort of correlation but it is certainly advantageous.

Pulkit Singhal: For instance, April was a good month across the board for all Motorcycles sales. Have you particularly seen any jump in demand for order book for Enfield during this month?

Lalit Malik: Month-on-month is very difficult to kind of find out what exactly happened where and all but as a general trend since we are now into D-class and depending on what kind of classification, E-class cities also, the rural impact will be positive if the rural economy were to grow. Month-on-month we have not seen flattening or any greater in seasonal order intake as well, it has been at that level of growth that we have seen in the last few quarters.

Pulkit Singhal: On VECV itself, if I see this quarter you have produced 15,500 kind of vehicles and that effectively is almost 90% of your capacity utilization. So I presume your capacity is around 66,000 which can easily increase. Now, it is kind of a bit surprising that despite a much higher capacity utilization we are not able to touch double-digit kind of margins on VECV. So can you help me understand that it is purely because of discounting and if that is the case should we be kind of moderate in our assumptions of what margins in this business could be?

Siddhartha Lal: Yes, there are many factors. One is of course our product mix is also changing to more as a percentage to more Heavy Duty which is clearly not as remunerative for us as Light and Medium Duty and it is difficult to say on the discount front if you ask. Normally, as the markets expanding let us say in the last cycle and cycle before that by now the discount start abating, this time around the discounts are still at a high level, now we are actively working especially in Light and Medium Duty where we are a strong brand in market players to be reducing the discounts and hopefully there will be other players also doing that, but in Heavy Duty it still continues and we imagine it should start, we should have seen the peak of discounts, but it is difficult to say what is going to happen in the future.

Pulkit Singhal: On QoQ basis, the ASPs for VECV have gone down from 1.6 million to almost 1.43 million which is quite sharper, almost 11%. So what exactly is the reason for that because I have not seen this 1.43 million figure for the last 10-quarters, I am just wondering?

Lalit Malik: It is largely got to do with the realizations around the stuff, it is basically the mix issue, you look at Volvo sales Q-on-Q they have gone down, L&T has of course grown, but it is slightly milder than as opposed to soft growth that we had in Buses as well as in HD, but the discounting is still hurting us.

Siddhartha Lal: We have also entered the 4.9 ton segments.

Lalit Malik: Yes, so that is a lower ASP.

Siddhartha Lal: Combination of factors.

Pulkit Singhal: Buses is lower ASP products, is it?

Siddhartha Lal: It depends, school Bus which we sell as a main count which we sell quite a few of, those are lower ASP, fully built bus would be higher selling price than a comparable truck.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: A couple of questions from my side. During the quarter both in RE and VECV, have we taken any price increase?

Lalit Malik: For RE, we did take a price increase in middle of January - we took a 1.5% increase. For VECV, we took a ~1% price increase, it happened in various points in time in Jan, yes.

Jinesh Gandhi: With respect to our sub-5-ton segment, can you throw some light on what is our strategy there and what kind of market share are we targeting in that category and do we plan to go as low as 1-ton or so or where do we stop?

Lalit Malik: It is certainly not like that; our sub-5-tons is only 4.9-tons, so it is just sub-5-tons, it is essentially just a de-spec or lower spec vehicle of ours like in Medium Duty portfolio, so it is not a full new truck, but with smaller Tyres with certain different parts with lighter parts, it addresses new segment which we have not been present in and it is the same way that we entered 5 to 6-tons market in over a decade ago and now we have a strong market share, we have got a strong gross income level in 5-tons, we believe that we can do that with sub-5 tons, which is a very different and shrink market, it is not the same as the above 5-tons market. So we are addressing it very early days, but we have got a very good traction in that market already in the first two-three months we have impressed.

Jinesh Gandhi: In terms of Himalayan, can you share what kind of order book we have built there and any difference in customer profile for Himalayan in terms of bookings from existing RE users, is there any trend there as well?

Lalit Malik: We do not break out any numbers on booking for Himalayan, but we have a lot of new customers coming in, of course, there are some who are considering buying Royal Enfield, but majority of who are new customers, who are not interesting in any of our existing models but they were positive towards the brand Royal Enfield, they saw the Himalayan and they said, "Well, this is now the moot sector for us." Because they identify with the touring aspect. So very largely new set of customers who are coming into our fold now.

Moderator: Thank you The next question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.

Ashutosh Tiwari: You mentioned that Rs.600 crores you spent in the RE. How much of that will go towards the new plant?

Lalit Malik: Again, Ashutosh, we do not break out individual numbers, but a sizeable chunk, I would say the #1 spend item this year will be if you combine Oragadam and Vallam Vadagal so Oragadam is an expansion of existing plants into Phase-II, so the last part of that is happening and the start of Vallam Vadagal it would be #1 item on our list but exact number I do not have with me.

Ashutosh Tiwari: What will be CAPEX towards VECV in the year?

Lalit Malik: We are planning CAPEX in the order of Rs.400 crores for VECV and Rs.600 crores for RE.

Moderator: Thank you. The next question is from the line of Jayashree from Karvy Stock Broking. Please go ahead.

Jayashree: Sir, I would like to know the current dealer number across India for RE?

Lalit Malik: The current number is 500 dealers and we are adding 100 plus in this coming year, we are adding more than 100 in Royal Enfield and already over 80% of our dealers have upgraded the dealership to a new retail identity by the end of this year 600 plus dealers that we will have will all have a new retail identity and we are getting strong increase of footfalls in our showrooms that means improvement over previous after dealer converting to the new identity. So it is really working well.

Jayashree: For VECV how many dealers would you be having there?

Lalit Malik: It is about 290.

Jayashree: About your Maltix it is called 3-in-1 utility vehicle. So what kind of customers would you be targeting?

Siddhartha Lal: The main target audience of course, there are other people who are buying it is also the independent businessman in India, that is the main target audience and it is really someone who owns a vehicle which can expand the utility for his business and that is mainly the reason why they buy it because they can carry cargo, they can convert the space and carry size and of course if they like more passengers and also they can use it for their personal use. But it is largely the independent businessman, we are also in some cases being able to touch the farmers community in some places, we are also able to sell to some transporters who are looking for a more flexible vehicle. So there are different segments. So right now we are touching many different segments to see where the traction is much higher and therefore we can focus on more.

Jayashree: So you have separate dealers set up for this vehicle or is it clubbed with the VECV dealers itself?

Siddhartha Lal: It is totally dealership network; we have 34 dealers as we speak right now, we have just been appointing a lot of dealers in the last couple of months.

Jayashree: So these dealers are mostly situated in the rural or more concentrated in the urban?

Siddhartha Lal: They are in medium sized towns.

Jayashree: You have all your three plants in Tamil Nadu and where you have presence overall in India. Is there any reasons for that?

Siddhartha Lal: While we were setting up our second and our third plant we did a tremendous amount of modeling and we found that while setting up a plant in a different part of India may help us reduce outbound logistics, but in fact, overall it will increase our cost due to much higher in-bound logistics because most of our supplier base continues to be in the south and for various reasons we did not want to create a new supplier base for our products. So really there were other considerations as well which approximately helps from management perspective it is easier to manage three plants in one location, etc., but amongst other things actually it is also financial, commercial-driven decision of overall better cost structure. Even though like I imagine your thinking, the outbound logistics of course higher going to North India.

Moderator: Thank you. The next question is from the line of Kevin Mehta from IIFL. Please go ahead.

Joseph: This is Joseph. I have three questions: First one is you mentioned about the 900,000 capacity. I just wanted a clarification; is it FY'18 or is it for the calendar year 2018? A couple of people who asked previously they were referring to FY'18 which is the year that ends March '18?

Lalit Malik: It is only three months' addition, from calendar year '18 to FY'18-19, we are only moving Q1 of…The 900,000 units that we talked about for calendar year 2018 and honestly that could as well apply for FY'19. That was the original intent. Like I said, therefore for one quarter we have not really applied our mind as much to see whether one quarter difference is there.

Joseph: Now, what is the average waiting period in months that you used to typically give out earlier?

Lalit Malik: For a higher selling model, it is in the order of 3-months is our average waiting period.

Joseph: You also see a lot of cancellations. The reason I am asking is because if I take the clock back 15-months, December 2014 quarter, if I remember it correctly you had mentioned that the average waiting month was about 5-months and then you we redelivering about 30k a month which gave me an order book of 1,50,000 and currently if your higher selling model has an average waiting period of 3-months and your monthly deliveries are about 50k, it still lands at 1,50,000. So the question that I had is if over a period of 15-months, your outstanding order book remains at 1,50,000, then where do the surplus of new orders over supplies over the last 15-months go?

Siddhartha Lal: Of course, order to delivery is not 100%, there will be some leakage there also and some of those customers postpone their orders. Paying Rs.5,000 is something, but paying Rs.1.5 lakhs is a different thing. We have a ratio of orders to conversion as well and there is some pipeline, but I cannot remember 15-months number, honestly the three months right now I am giving you is quite an average, if I said 3.5 or 4 months then that accounts for maybe higher, it is different in different models for different reason. You can try and extrapolate a little bit of course out of this in terms of order book, but it is not in fact the order book that we have, that is going to be slightly different, but like to obviously figure there is some leakage between order book and delivery as such.

Joseph: Your press release says that you were at 500 dealerships at the end of the year. How many more are you targeting adding in FY'17?

Siddhartha Lal: We believe around 100 plus we should be able to add, it can go up a little bit but it is in that order that we are looking at, so order of 8 to 10 plus a month.

Joseph: Would it be possible to tell us how many of these are in good locations say metros, Tier-1, Tier-2 and how many of them are really in the tail…Tier-3, Tier-4 where the sales per dealership may be much lower?

Siddhartha Lal: At this stage, I would say well over half are in Tier-3 and Tier-4 cities as we call it, that is where we have not been present, but of course even in big metros A Plus and A cities and B cities we have some catchment areas missing and we continue to fill those. So it is a combination but the majority now is in smaller towns.

I need to leave. Lalit is still here. So if you have any more questions, Lalit will answer them. So thank you very much for participating.

Moderator: Thank you. The next question is from the line of Amyn Pirani from Deutsche Bank. Please go ahead.

Amyn Pirani: I just want to check one thing; do you track something like how many of your buyers are right now first time buyers and how many of them are upgraded, especially the metro markets where your penetration is quite strong, do you track any such information as to how many are upgrade buyers or how many are buyers who have bought your vehicles say 5 or 6-years back and have come for an upgrade within Enfield itself?

Lalit Malik: Yes, we do track all kind of new customers that we acquire and those new customers would be first time buyers of Motorcycles, first time buyers of Royal Enfield or people trying to upgrade within Royal Enfield itself because it has been a few years since a few of our models have been striking well in the market and we now have a upgrade ladder as well as in terms of price and in terms of motorcycle features. Roughly, I would say about 10-12% of our new sales is happening to first time users of Motorcycles.

Amyn Pirani: I do not know, it is still early days but people who are upgrading within Enfield, any average time period as to like do they upgrade within three years or five years?

Lalit Malik: Of course, you will have to get into the finer points of the customer profile itself, where the customer is a little higher, then he is going to upgrade and in a hurry because he would like to cherish the motorcycle and bring down the ad and that all. Younger people in terms of who's applications for the motorcycles is more commuter-driven which is a very large base for us. Very early days is hardly a trend but it could be about four years.

Moderator: Thank you. The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta: First, wanted to clarify the 8.5% EBITDA margin for VECV is for this quarter or for the full year?

Lalit Malik: Quarter.

Sonal Gupta: Continuing on the last question, what is the percentage of sales and financing for RE now and how has this moved say last year to this year?

Lalit Malik: It has always been within 30-40%, barring a few months here and there.

Sonal Gupta: So you are not really seeing any change in that?

Lalit Malik: As we go in a little deeper into the country as well, the number is not really changing so much.

Sonal Gupta: But that is because in those locations where we are less financing?

Lalit Malik: I am saying, the reasons would be different within Tier-1 and Tier-4 but the number is pretty much the same.

Sonal Gupta: In terms of the dealership expansion, any thoughts in terms of to get closer to the customer, any sort of smaller dealer, smaller outlets or anything to sort of under the same dealership, sub-dealer or whichever way to sort of get closer to the customer?

Lalit Malik: As long as all our sales points can maintain the core elements of the brand identity which we rolled about two years back, we converted more than 85% of those into that DRI. As long as that is not compromised, we can look at catchments where the dealer industry is profitable. So just pushing the dealership here and there is really now to help out because customer experience will be compromised for sure and number two, the dealer has to be profitable at some point in time, right, so it is a calibrated number over there, but the sub-dealer model like it exists in India, that answer is a clear no. As long as sub-dealer can be a smaller mirror of the larger dealership which typically sub-dealers are not.

Sonal Gupta: I understand, that is what I said that something within the existing dealership itself, because I know for your brand image and identity does not make sense to go through the third-party route or anything of that sort.

Lalit Malik: Right.

Moderator: Thank you. Ladies and Gentlemen, due to time constraints, that was our last question. I would now like to hand the floor over to the management for his closing remarks. Thank you and over to you.

Lalit Malik: Not anything I would add beyond what has been discussed. Thank you very much. Great speaking to you. Talk to you next quarter.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of SBI Cap Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.