

**“Eicher Motors Limited June Quarter Earnings
Conference Call”**

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**MANAGEMENT: MR. SIDDHARTHA LAL – MD & CEO, EICHER
MOTORS
MR. LALIT MALIK – CFO, EICHER, EICHER MOTORS**

MODERATOR: MR. BINAY SINGH – MORGAN STANLEY

Moderator: Ladies and gentlemen good day and welcome to the Eicher Motors Limited June Quarter Earnings Conference Call hosted by Morgan Stanley. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Binay Singh from Morgan Stanley. Thank you and over to you Mr. Singh.

Binay Singh: Thank you Margreth. Good morning everyone and thank you for joining us today. We would like to welcome Mr. Siddhartha Lal – MD & CEO and Mr. Lalit Malik – CFO of Eicher Motors. I would like to thank them for joining us today. I would like to now handover the call to Siddhartha for his initial comments, followed by that we will have the Q&A session. Over to you Siddhartha.


Siddhartha Lal: Thanks a lot Binay for arranging this call and I am very happy to join you all and update you on the financials of Eicher Motors Limited for this quarter which ended June 30th, 2016 so that is Q1 of financial year 2016-17.

As I guess the company has adopted Indian Accounting Standard - IndAS from the 1st of April, 2016 and therefore the financial results that you are seeing right now have been prepared in accordance with the new recognition and measurement principles laid out by IndAS. So accordingly the corresponding previous period financial results have also been revised to reflect IndAS. So apart from other changes the principles of consolidation of accounts between the holding company and the subsidiary companies in joint ventures have been impacted in our case and the consolidated results of Eicher Motors Limited, which is what we have sent you will **not** reflect. The line by line consolidation of EML standalone business, which is Royal Enfield plus its 200% subsidiaries which are still very small, that is Royal Enfield North America and Royal Enfield Brazil. So really it is a reflection of the Royal Enfield business. Eicher Motors share of profit and loss in VE Commercial Vehicles and Eicher Polaris Private Limited which are both joint ventures will only now come under the line share of EML in profit-loss of joint ventures. So that is the only place that is going to actually reflect our joint ventures performance. In addition, of course we have sent memorandum information or additional information which is on VE Commercial Vehicles financial performance on its own. So that is also there as a side, IndAS in the accounting we do not have it anymore in our top line. So as a result I will not update you on the revised financials that we have according to IndAS and on EML's consolidated financial performance which again as I said reflects Royal Enfield's business along with its two subsidiaries in North America and Brazil. So that is for Q1 2016-17.

So Eicher Motors Limited has once again reported its best overall income from operations at Rs. 1556 crores as against Rs. 1096 crores in Quarter 1 of 2015-16 which is a growth of 42%. We have recorded our highest ever EBITDA at Rs. 470 crores compared to Rs. 286 crores in the same quarter last year which is a growth of about nearly 65%. We have recorded our highest ever and we believe absolute best in class EBITDA margin at 30.2% as against 26.1%

in the same quarter last year. So that is a growth of 4% on the margin front as well. And as a result we have recorded our highest ever profit after tax at Rs. 376 crores as against Rs. 237 crores in the same quarter last year which is a 59% increase in profit after tax. So that is on EML consolidated reflecting the Royal Enfield Business largely.

Moving onto consolidated financial performance of VE Commercial Vehicles Limited which is our joint venture business with Volvo for the same quarter, Quarter 1 2016-17 which is a period ending June 30, 2016, VECV has reported a total income from operations at Rs. 2139 crores as against Rs. 1785 crores in the same period last year. The EBITDA is Rs. 194 crores as compared to Rs. 146 crores in the same period last year, so it is a strong growth taking the EBITDA margin at 9.1% against 8.2%. And profit after tax is Rs. 108 crores versus Rs. 77 crores in the same quarter last year. So again growth on all fronts at VECV as well.

Moving onto the business update on Royal Enfield the motorcycle business, we sold a 147,483 motorcycles in the first quarter which is the period ending June 30th, 2016, which is 38.3% higher than the same quarter last year where we had sales of 106,613. Our order book remains very strong. We continue to take in more orders every month than our monthly supplies. In India Royal Enfield continues to increase its retail footprint. We are available now in more than 566 dealerships across the country and more than 80% of the stores also reflect our new retail identity. As a part of our growth strategy of leading and expanding mid-size motorcycle market globally, in June 2016 Royal Enfield has unveiled its new store in Manila in the Philippines. Philippines has amongst the largest two-wheeler markets in the world.  you are a large commuter base and Royal Enfield we believe has enormous potential where we can offer products to the existing customers to upgrade to the next level of motorcycles. In addition to that all our key projects in establishing our two technology centers for example are going on very well. The larger one in Chennai is on track but it is well over a year out whereas our UK Tech Center, large part of it is up and running and it will be ready early next year. We are working on our third plant now, so we have started initial work in Vallam Vadagal which is also on track. The ground breaking ceremony has already been completed. That is all on our infrastructural projects. On our new motor cycle, the Himalayan, Royal Enfield's first adventure tour and we believe the first proper adventure tour in India has been received extremely well by our customers, by media, by all the stakeholders and motorcyclists in the country. We have finally rolled out Himalayan and is available only recently now for bookings and retail across all of our stores in India. So it has taken us a few months to be able to fill the pipeline and yet motorcycles in the remote parts of the country as well to train up the sales people, the service teams and make sure that parts are available. So all of that has been done. The Himalayan is now well and truly available across the country and we are seeing a very good response for that motorcycle. Last week we completed the 13th Edition of the Himalayan Odyssey and we had more than 100 participants from 9 countries who rode from Delhi to Khardung La and back across Ladakh. This year we also introduced a special edition which is a women's only edition of the Himalayan Odyssey where there were 20 women riders and all women service and support crew as well, a lot of them who came from our plant right here in Oragadam. It was an extremely successful enterprise and both the Himalayan Odyssey and the women's edition as well went extremely well. In June Royal Enfield also participated in an

extremely popular motorcycle customization and surfing festival called Wheels and Waves organized in Biarritz in the south of France. A marquee with two factory made custom motorcycles which were really well appreciated got a lot of crowds and appreciation. So that is an overview of Royal Enfield. Our immediate business outlook for Royal Enfield continues to be extremely strong and we continue to growth the Royal Enfield business. We continue to expand the team, expand all the work that we are doing on the commercial front, on the product front, on the infrastructural front, on technology, on processes. So there is work going on across all areas of Royal Enfield in order to continue our growth and our differentiation in the market and towards continuing to be extremely profitable and leading the path to becoming a global motorcycle firm.

Moving onto the performance of our joint venture with Volvo which is VE Commercial Vehicles, the commercial vehicle industry and we are talking about the 5-ton and above industry has grown strongly in quarter 1, which is of 16% over the same quarter last year. The industry volumes were 106,379 units which is a 16% growth over last year. Eicher Truck & Bus in the meanwhile sold 16,071 units which is 32.5% growth over the same quarter last year. So beating industry by a large margin and therefore our market share has increased from 13.2% in Q1 last year to 15.1%. That is nearly a 2% rise in overall commercial vehicle market share in one year, which is tremendous in our opinion. We have newly entered the sub 5-ton market with a 4.9 ton vehicle, the Eicher 1049 and we have done extremely well in that segment as a new entrant. The market itself has grown to 2000 units which is a 26% growth over the same quarter last year and we have sold 307 units in this quarter which is as a new entrant we have immediately gained a 15% market share. It shows the latent demand for Eicher products in different segments and especially in the light and medium duty segment where we have an extremely strong brand and a franchise. So we are able to immediately garner a strong market share there. In the 5 to 14 ton truck segment, or 5 to 15 ton actually, which has been Eicher brands strength for a very long time, we continue to improve our position. The industry grew by around 17% to 17,100 plus units. Eicher grew by over 20% to 5871 units. Again we have been able to increase our market share from 32.9% to 34%, which is close to if not our all-time high in 5 to 15 tons. In 16 ton and above we have had a great run finally at Eicher on the heavy duty front. So after years of putting in enormous effort in the heavy duty market and we have now actually started making some serious gains in market share. So while the industry grew by 18% at 52,678 units we grew by 85% at 3205 units resulting in a market share growth from 3.9% to 6.1%. So that is an enormous increase from our side. In the domestic heavy duty truck front, we have crossed 3000 in a quarter, which means we have crossed 1000 average per month last quarter, which is a very big deal for us. This has been our ambition for a decade now to cross 1000 a month consistently and we believe we shall continue to do that in the time to come. And we have always maintained that once we reached this for us magical figure of a 1000 a month that starts the positive cycle as it were where visibility gets higher for Eicher heavy duty trucks where resale prices get higher, where customer acceptance gets higher, where our dealership viability gets higher. So of course it is a difficult market to crack and there are a lot of good competitors in this market but I can see that we are now certainly on a positive note and a positive spiral in heavy duty trucks which gives us immense pleasure. In the bus segment, the industry grew by 6% and Eicher

grew by 3.3% for the same period. So that industry was at 21,000 units, Eicher was at 4200 plus units. And we had a slight market share reduction from 20.5% to 20%. But again that is coming from a sub-10% market share only few years ago. So all in all we have had a tremendous run-up in the last few years on our bus segment as well. In exports the industry sales were at 13,000 plus units with a 22% growth over the same quarter last year and at Eicher we sold 2312 units in the quarter which is a 92% growth. Finally our Volvo Trucks segment which is a large mining and of course road going trucks as well, we had 157 units sale in quarter 1 which is a 41% drop over the same quarter last year. In medium duty engines which is the engines which fell out of our engine plant that we put up along with Volvo for their global requirements, we had a sale of 4622 units, that is over 1500 units per month, which is a growth of 6.2% over the same quarter last year. So that is on VECV our commercial vehicle division, our joint venture.

Moving onto our other joint venture which is with Polaris, Eicher Polaris Private Limited, we started commercial production of Multix, which is India's first 3-in-1 personal utility vehicle in August of last year. Multi-axle continues to receive a lot of interest in its target segments. We have been expanding our retail presence and are now present in 60 locations across 8 states and we are starting to gain momentum now in all of our target markets. So that is the overview of Eicher Motors financial performance and our market position for the last quarter. So overall it has been an absolutely wonderful quarter for us, first quarter for us and we look forward to the rest of the year with great excitement and optimism. So thank you all very much for listening and now we can take the questions.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar:

Siddhartha my first question pertains to the commercial vehicle of industry. I understand you guys have been doing very well and specially even crossing 1000-mark, I think a great job done. But just want to understand how should one look at the June industry numbers because they were like kind of flat at 2% kind of a growth. And we did hear that the freight rates also on major routes stopped despite diesel price increasing by well over Rs. 3. So I just want to understand how do you see the industry demand in the near term in terms of the next 3-4 months given the fact that you have had like 22-months plus of record growth on the industry and the underlying economic activity is not exactly that robust. So how are you looking at the demand on the industry side especially on M&HCV?

Siddhartha Lal:

From last quarter to this quarter there was a drop in heavy duty which is natural, which is sort of the annual phenomenon which happens. So in the March quarter the industry does sell a lot more and also it has been relatively sort of low growth as I said over the same quarter last year. But having said that there are both sides to it. So at an average what you are saying is approximately right, there is lot of growth but there are segments where the growth is higher. And we are also able to now pull in our weight in some of the multi-axle segments. Trailer seems to be picking up a bit of speed. There is a bit of traction and enough talk on the infrastructure side which is where we feel the tipper market will also strong growing. So there

is exactly not a pessimistic view moving forward. It is I would say cautiously optimistic in terms of growth for heavy duty, firstly. So there is still room for growth in our estimation opinion. Medium duty we are still at let us say one-year phase lag in terms of the growth. So while there has been strong growth for heavy duty in the last 18-20 months, in medium duty that has been more recent. That has been only for the last 10-12 months. So there we certainly expect some continued growth in medium duty and that is again where we are already very strong. So that is our outlook. In any case beyond a point as Eicher VECV, while we track and understand obviously the market and we have very quick ability to react to the market in terms of production and inventories and all of that. So that is a forte for Eicher and VECV in particular. Our ambition is to just continue to improve our market position. So regardless of how fast the market is growing we are very clear on which segments we are targeting and where we can provide an additional value to the customer. So in heavy duty in particular if you look at it, I mean while we have grown from 3.9% to 6.1%, we still have the other 94% to tackle. So for us there is still room for growth in heavy duty regardless of market growth, though of course market growth does help us as well.

Pramod Kumar:

Okay, that is very helpful and the second question pertains to Royal Enfield. Two parts there – as in one is of course you shared that the demand continues to track ahead of supply which is encouraging to hear but just wanted to understand if you can provide some more color on the semi-urban rural demand where you have opened up new stores because our limited channel checks because we work with a sample and there what we hear is like Royal Enfield demand outstripping probably even that of the #1 sports brand like a Pulsar. So just want to understand is that something which you are seeing on a larger number of dealers as per your understanding and how do you see that in a way driving or giving further legs to the growth beyond say year 1 and year 2 in terms of phase where probably demand may continue to be ahead of supplies?

Siddhartha Lal:

Yes Pramod of course, we have extending ourselves out so for the last decade nearly until may be a year or two ago, let us say 2014 or so our entire efforts were on big cities because we wanted to get the right share or let us get the right approach in the cities. And now as you rightly said over the last couple of years we have been extending into smaller and smaller towns. So we have got now 566 dealerships. A very large part of them are still in big cities because in a typical large city like Delhi, Bombay, Bangalore we have 10-15 dealers if not more sometimes, so there are different catchment areas and all of that. So while our city rollout is continuing we are not adding a huge number of new dealers in A&B cities now. It is only filling up few gaps here and there. The large part of the distribution we are adding is in smaller towns and we are seeing great traction as you said and as your research shows that the brand is extremely strong in smaller markets as a result of many factors including of course that in the bigger cities it is doing well also, so people in smaller towns are yet to see that and hear that. And therefore at the retail level each of our stores which we are adding in new small towns are viable from the word go. So we are getting more and more opportunities to open newer stores which is all incremental sales for us. It is not affecting sales in the large store nearby. Of course at some point that is going to saturate also but that is not immediate. I mean right now we are able to go to let us say deep-class towns and within a few months we are able to get 15 to 20 bookings in sales per month which makes a good business sense for that dealer and it makes

incremental sales for us. So that path which I would say some of the other mainstream or commuter motorcycle brands had taken a decade or two ago, which is the distribution proliferation. That is the path that we are on right now. We may not extend as deep as some of our compatriots but we do have space certainly to continue to grow our franchise in smaller towns for the coming year, two years, three years. We will see how long it lasts.

Pramod Kumar:

And lastly on customization Siddhartha. I saw the Wheels and Waves prototype sort of concept vehicles what you showcase there, but is there any thought on bringing customization to the customers in it? I know you have grown 10 times in volumes, so keeping up production is a big challenge but is there a thought on bringing customization to the Indian consumers as a choice somewhere down the line.

Siddhartha Lal:

You have answered the question already Pramod. Really there is no timeline. Actually you are absolutely right, in fact it is something I have been interested in for years. We had our entire senior team quarterly review in the last few days in Chennai and everyone talks about it but we are very clear that we do not have the time and bandwidth to do something like that today. We would love to do it. It is something very close to our hearts but as you said currently we have on the production side we have just been growing our capacity. So just to like you said 10x growth in the last few years, it has taken a hell of a lot to actually get on the plans up, get the supply-chain up, get the quality up, get people in. So we have had to look after the big one first. On the other side which is the product development side which also plays a big role in this. We have had to change a lot of our plans recently from perspective of BS VI norms coming in and the draft notification says 2020. So it takes that long to develop a new motorcycle. So all of our energies are now in developing motorcycles in order to meet BS VI norms and Euro V norms for 2020-21. So there are 100 things going on in the organization in commercial side and retail side we have got a lot of efforts going on and customization is one which we would love to have. But it is not unfortunately highest on our priority list. Today you will hopefully see a customization coming out at Royal Enfield at some point later but we have no timelines internally at all I can assure that. On the other hand, the important part there is that we do have a small team which works very closely with third party customizers. That is something that we take very seriously. We want to support, go out with third parties. There are chaps out there who do amazing job and our endeavor is to support our ecosystem, to support them to give our customers a wider range. We cannot give our customers a wider range at this point and some of the customizers do a job that we would never be able to do because it is a very-very detailed and time-consuming job which they do on these motorcycles. So right now we are focusing on supporting our customizers and building that ecosystem really strongly over the next couple of years.

Moderator:

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

Kapil Singh:

Firstly, on the order book could you give us a sense of what is the average weighting period you have now?

Siddhartha Lal: That is in the order of around 3 months. Of course like the rider always varies from model to model, city to city, town to town, so it varies but it is in the order of 3 months.

Kapil Singh: Okay, just to understand this clearly, ballpark the absolute order book has it moved up, moved down in the last six months?

Siddhartha Lal: The net order book is moving up gradually still.



Kapil Singh: And secondly regarding Himalayan I wanted to check there were some news reports of some teething troubles initially. So are those behind us and who would the Himalayan customers when we look at 2-3 years down the line? Would it be existing RE customers who would upgrade or would it be a completely new segment you think?

Siddhartha Lal: On the Himalayan we have had an outstanding response. Like I said we have just been filling the pipeline. We have got a full fleet of test ride motorcycles and media motorcycles although that is for which are going out there, so that the people can actually ride and feel the Himalayan which is a very different style of motorcycle to what people are really used to in the country. So that is there. What has across extremely well is that very early on, I mean with around 2000 motorcycles in the field at that time. We had a proactive service update which means there was not major issue at all but we just found some field issues very often in the order of 5 or 10 in a batch of 1000 or 1500 motorcycles where we had certain minor issues. That is the company we are now in the sense rather than waiting and prolonging things. We are out there proactively catching any motorcycles in the field and sorting our issues. And that has been appreciated tremendously by customers. They feel that that is the company that they want to buy product from which is going to proactively support them. And therefore I believe I got very good goodwill from our customers for doing that. The customers we are getting are largely new customers to the Royal Enfield family. These are customers who like the brand Royal Enfield but Royal Enfield did not have anything for them at this point and these are people who either are normally in the adventurous sort of mode or were thinking about it. So graduating from let us say a smaller motorcycle – 150cc or something to a motorcycle which was more in the adventure fold. So given as we go along we expect the core of our Himalayan motorcycle customers to come from the commuter, commuter plus segments of let say 100 to 200 cc that is very much the type of customer who is finding that this is an outstanding upgrade for him because it is what they want to do. They want to go long distance, they want to do adventure, they want to do on road, off road, but of course the reason why the additional reason is that it is actually really nice for the city roads as well. So it does the job really well in the cities and that is what, so it is not an extreme motorcycle and therefore it is really fun to ride in the city so that is on the Himalaya



Kapil Singh: Okay and just lastly on the raw material cost to sales ratio we have seen a strong improvement and also the ASPs have gone up, so did we take some price increase or is it just makes that cause the ASP to go up and the same thing for VECV as well what has caused the margins to improve.

- Lalit Malik:** Yes, no sir, there was no price increase this quarter, the last price increased we took was in January of this year, so no price increase, that was product mix which grown the ASPs and on the raw material wise I mentioned in the past also it is a continuous effort from our side to work better with our supply partners and thus the result you have seen this quarter as well.
- Kapil Singh:** Sir, because most companies have seen raw material cost increased this quarter, so I just wanted to check is it already there in the numbers or should we expect something to come in.
- Siddhartha Lal:** This is the number for this quarter yes.
- Kapil Singh:** Okay.
- Moderator:** Thank you. The next question is from the line of Chirag from Edelweiss. Please go ahead.
- Chirag:** Yes thanks for the opportunity and congrats for the good set of numbers Siddhartha. Siddhartha a basic query on the capacity, any updates you would like to share, any upgrade in the production capacity inroad Enfield.
- Siddhartha Lal:** No, nothing further from the last time really Chirag and thanks for the compliments but we have got we are on track to delivering 675,000 motorcycles from our Oragadam and PVT plants so that is our combined capacity for 2016-2017, so first quarter is tracked as per our plan and we believe so should the next three quarters, so there is no real uptake 675 that we said last quarter that remains for this full 12-month period for the financial year. We are on track to having Vallam-Vadagal which is a new plant to start by middle of next year, so September of 2017, so once that starts we should get further increase in capacity but that is all in capacity front right now.
- Chirag:** Yes and second question was on this EES Beijing and this RE Brazils there were notes mentioned some losses over there, what are these businesses and how should we look at this numbers.
- Siddhartha Lal:** Yes, I think both are extremely marginal, ES Beijing is a subsidiary of Eicher engineering services which is division of VECV which is a joint venture at EML but actually the numbers there are in my understanding they are all marginal or.
- Chirag:** It is a 12 Crore loss in Beijing and Brazil around 4 Crore losses for the quarter, so these are all, what do we do over there; at Brazil I understand you may have just entered over there and those are the expenditure pertained to that business in terms of your expanding the reach all that stuff.
- Siddhartha Lal:** Chirag, where are you quoting from the annual report or the quarter numbers.
- Chirag:** Quarter notes to accounts.

- Siddhartha Lal:** What are the numbers are nothing to do with Beijing. So this is basically two subsidiaries like Chirag was mentioning very small. The Royal Enfield North America subsidiary began operations just a few months back, Brazil is not even operational and these are marketing companies of Royal Enfield and there is no.
- Chirag:** They are marketing companies Royal Enfield.
- Siddhartha Lal:** Yes, correct.
- Chirag:** Yes, fair point and just one last thing, just an update on this buy back guarantee scheme you are running in VECV for the pro series so how it is progressing and how it is helping you to gain volumes and does it have any accounting effect under new IndAS.
- Siddhartha Lal:** I do not have a direct answer to that Chirag, I shall get back to you after consulting VECV.
- Chirag:** Because that is a unique scheme that you are running and trying to create and promote the brand and so it is a strong statement made by VECV so how it is helping us at the ground level, just wanted to understand that.
- Siddhartha Lal:** Like I said, I do not have an answer to that right now, so I can get back to you on that.
- Chirag:** Fair point and all the best.
- Moderator:** The next question is from the line of Raghu Nandan from Quant Capital. Please go ahead.
- Raghu Nandan:** Thank you sir for the opportunity and congratulations on a good set of numbers. Sir on Royal Enfield, certain portion of aspiring Royal Enfield customer shift to other brands because they do not want to beat  so with the increasing production and reducing waiting period, do we expect like demand  get some push because of this effect.
- Siddhartha Lal:** Yes of course there will be some we have seen some markets or some products where we have been able to reduce waiting period to very low levels. We are seeing some increase in such. There should certainly be knock on effect of availability improvement.
- Raghu Nandan:** Also certain portion of aspiring Royal Enfield customers shift to other brands due to lower price like one of your peer is offering a cruiser at a lower price so any strategy to target these potential customers by introducing a lower price product.
- Siddhartha Lal:** We do not think that would work so I mean in the sense that our focus is on the segment that we are in, so it is in a sense it is the 350 cc in a cc parlance 350 to 500 plus and so our strategy is very much continues to be that we stick to our goal, we continue to excel here, we continue to grow the market out here, if obviously there is some customers, who cannot who won't be able to afford our product and they go for a cheaper product that is fair enough. I think there are enough new customers who are coming here and who are coming to this entire area so there is we think we can continue to grow this segment tremendously, we have strong margins,

we are strong brand and really it would I believe not be wise to try and get into small commuter plus motorcycle.

Raghu Nandan: Understood sir, also directionally if you can update on strategies and progress for exports sir.

Siddhartha Lal: Export is again nothing is shifted from when we have all discussed last, there is we continued to move forward on entering into different international markets, really it is largely a retail first approach, so we gone into Columbia first with some stores and big brand launch and to ensure that or to get the motorcycling public to warm up to this idea of a very differentiated motorcycle which is not your mainstream Indo-Japanese style of motorcycle which most of the world is used to when they are coming from a commuting segment, so this is really very different in its look, in its feel, in its positioning, everything motor Royal Enfield is extremely different, so therefore, we go into this markets with our entire story with rides with the lovely store approach and then we get to understand truly rather than doing which market research will never tell you because here there is customers actually putting down money, so as a result we have got in addition to Columbia, we have entered Bangkok, we have entered Jakarta recently and Bangkok also recently, Manila also recently. We have got outstanding response from couple of these markets sometimes less sometimes more but in Bangkok for example it is going exceedingly well, so really what that means is we are getting an immediate understanding of which market what type of motorcycle why they like it and therefore we will be able to expand, so retail comes in first, retail and brand and all of that comes in first, followed by more stores, followed by then a manufacturing strategy which will come in later in case we need to localize in certain markets for tax reasons, of course that is something that we will follow but that will be done at a later stage.

Raghu Nandan: And extending the same question for exports on the VECV side, earlier there was that thought process of leveraging Volvos network, any progress on that sir.

Siddhartha Lal: Yes of course, we continue to work with Volvo and we are leveraging Volvo's network for sure, so we continue to enter new markets as in VECV we have gone into various new markets in Africa, Middle-East where we are on track we have some projects in Southeast Asia so we are on track to entering some of the markets in SouthEast Asia as well, so there is work going on, on all fronts, there is good traction because we have also got a new pro series which we are able to sell which have a better traction in these markets so as a result we have had phenomenal growth in exports as I said in VECV, the Eicher brand of trucks and buses, we grew from around 1200 units same quarter last year to 2300 units. So it is all going forward well of course some of our big export markets continue to be in South-Asia, so that is traditionally Bangladesh and Nepal have been good markets. We have recently started our own subsidiary called VECV Lanka, which is also now pulling in its weight and we are starting to do well in Sri Lanka as well.

Moderator: We will move to next question which is from the line of Pulkit Singhal from Motilal Oswal Securities. Please go ahead.

Pulkit Singhal:

Siddhartha just again on the whole distribution proliferation that you are talking about, I mean we are at around 566 dealerships, I mean when you look at any other two-wheeler company they are anywhere between 4000 to 6000 touch points across the country, now obviously we are at a different price point compared to any of those dealers competitors, but how do you see it envision over the next 3 years, I mean do you see this has a potential for 1000 because or 1500 or because income rise every year so I mean some of those catchment areas do get profitable and it is, I don't know how do you estimate which town to enter what is the potential in which new town.

Siddhartha Lal:

I mean of course, we have a very detailed and sophisticated way I believe of trying to understand which towns to get into, but of course one of the parameters is existing motorcycle sales because or one is existing motorcycle sales and because we get a large number of people coming up from 150 cc up to our motorcycle also, so we look at 150 cc plus sales in different markets around the country. We look at other factors of let's say other types of good also and other types of products and everything else and we are able to I mean we have a list pretty well sorted out for the next 12 months which all towns we are targeting and which all new catchment areas as we said in existing towns or cities which have opened up which continues to happen, so what was not big enough to have a dealership two years ago is some new catchment areas now big enough to have a dealership today. So, we are growing at a very healthy pace in terms of dealership, I think it is well over 2-week now in that range of 2 to 3 dealerships we are adding a week, so it is a lot of work, there is a lot of effort going on to actually do that. Our dealerships are much more I would say involved in sophisticated and what we demand out of our dealer in terms of his own time and his effort into rides and activation is very high compared to some of our competitors for their extended reach for example and we don't bound to have like you said that kind of extended touch point which is a sub-dealer network for example, that is certainly not in our current worldview, because we think that dilutes the brand tremendously, so if you actually look at some of the counter extensions where you can call some of the competitors I mean they are absolutely awful in some ways right, it is just a small hoarding with 3 motorcycles and it is not at all an experience, so we certainly don't want to get into that level of extension, we want to keep our the entire brand integrity and the role of the dealer and all of that, so while of course we continue to expand our service to slightly wider reach because sometimes people are willing to travel a little bit more to buy a motorcycle but would like service closer to themselves, so we are doing a lot of work on our aftermarket network to be able to reach our customers a bit closer, yet on the sale side and on the 3 sides sales, service, and spares we believe that the type of pace that we are growing at is absolutely adequate, it continues to feel enough new bookings into our system right now that we are well taken care of in terms of our growth requirements and we don't want to overheat anything either, so we are absolutely happy, I think for the next year two years we could possibly grow this pace, how it is going to pan out later, we will find it, it is not, the turnaround time is not so long that we need to actually think about 5 years hence on this quarter, if we are thinking 12, 18, 24 months down that is good enough. So that is on the one side which is just simple proliferation of stores as it were. On the other angle, we are also working on and experimenting on different store formats which could nearly co-exist with a dealership format, so just to give you one example we have other examples in the

pipeline of course but to give you one example, we have 5 plus 2 so 5 of our own what we call exclusive gear stores and two dealers have opened exclusive gear stores which are in high footfall zones. These are in places like Khan Market and Elante Mall in Chandigarh, in Linking Road so these are absolutely high retail points and in addition to getting our brand into these very strong retail areas, we are also taking booking from these stores so that is adding incrementally to our sales. Once we sort of got this format really well-sorted out, we could role this out as well so that becomes an additional format or channeled in addition to our dealers. So there are many things we are doing in order to extend our reach and it is not all linear so it is not only expansion of dealers. I have talked to you about the service side which could be different expansion strategies. The gear stores which also sells motorcycles but don't service motorcycles that is a different strategy and then there are other such things that we are doing to extend our reach.

Pulkit Singhal:

Thanks for that elaborate explanation, just on the service side, I mean given that we have already have a fairly good motorcycle population in the country, sir, I mean there would be various mechanics already in place even in the smaller areas to be able to service say even Royal Enfield right, so do you think that really is a constraint for say if I am in a rural village, I mean I would think my concern would only be to be able to get an Enfield bike rather than worry more about the servicing with some guy could do nearby.

Siddhartha Lal:

No not at all. For us it is an important issue, one of the benefits of Royal Enfield is that there are mechanics and technicians across the country who can do some let say Band-Aid service I can call it, but increasingly as motorcycles are getting a bit more sophisticated, if you look for anything more than just let say a bit of screwdriver job or something small, I think customers also realize and would like to go to an authorized service point where there is proper tools, proper spare parts, proper training of mechanics who understand the motorcycle well so that there are no consequential damages and other things on the motorcycle, so yes we do have an extremely wide network of third parties and of mechanics and we continue to benefit from that and we continue to support them but as it gets to anything more sophisticated than a small touch up people would like to go to an authorized point and therefore we need to extend our service reach because that also gives the confidence to customers that these guys are available here and their service is available here, so it is extremely important to have service reach even in smaller towns, so if you are selling in a small town, obviously the service would be there because we don't set up a dealer without service point but additionally sometimes depending on the size of the catchment area and all of that, he may have an additional service point let say in adjunct area which eventually once you see potential, that could blossom into a full dealership as well.

Pulkit Singhal:

Yes, got, sir my second question is on the gross margin front. I mean we have seen gross margins expand from say 33% to almost 46.5% now and broadly there are just three reasons one is ASP, one is really raw material prices coming down, and third is this aspect where you try to squeeze out as much as you can by consolidation of suppliers or may be on the design front and various things that you make a lot more effort on. Now, when I look at this third aspect of it, how much more do you think you could possibly do, I mean are we nearing the

end of that journey or do you think as we ramp up our motorcycles just by scale or some other factors, they are still more headroom out there.

Siddhartha Lal: Lalit would you like to go.

Lalit Malik: Nothing ever ends, so it is a constant process but just to give you over a period of time, over a span of specifically on supplier consolidation, we used to have more than suppliers at some point of time now from a critical parts supply base perspective a consolidation has happened around Chennai. Few of the vendors have moved actually very close to our manufacturing facilities as well and the number of more than 300 has now come down to less than 130, so with time with scale you can enter into very productive negotiations with the vendors, there you are not fighting for per kg price cost change on London Stock Exchange and therefore your income tax that is one battle to be fought on the sourcing front. For more strategic front I think a lot of changes have already been made but it is a consents of them with the new third manufacturing facility coming up at Vallam now we will have one more opportunity to kind of (Inaudible) 58.02 some of these things once again.

Pulkit Singhal: So, scale will help basically even further.

Lalit Malik: Scale have always helped us.

Pulkit Singhal: Got.

Moderator: The next question is from the line of Sumit Mangal from Goldman Sachs. Please go ahead.

Sumit Mangal: Sir, one basic question I wanted to understand is if I look at segment wise, if I look at as 500 cc use to be like 2 years back close to 16% of total topline has actually come to around 8% and even if I look at Thunderbird which used to be around 13% to 14% has actually come to 7%. It is a Classic which 2 years back used to be 40% of our sales, last year was like close to 50% and now probably as on June it is close to 60% and the way order book is it will be close to 70%, so just wanted to understand how do we because if I look at 3 years down the line the way things are growing the Classic could be like 80% of the one product will actually become 80% of sales, bullet as the percentage has actually come down from 42% to 25% sir how do we actually address this like?

Siddhartha Lal: Yes, good question Sumit. Of course it is a wonderful thing on the one end, I mean we have product of franchise which is growing even quicker than the numbers that we have here, so if our unit growth is 50% then obviously Classic is growing even faster as its share in our business is growing. So on the one hand it is a very very-very positive thing to have a really strong product brand, and franchise. The visibility is good, the resale price is excellent for Classic because of its demand, because of the quality of the motorcycle all of that. So we are extremely happy and extremely proud that the Classic is doing so amazingly well. On the other of course there is a lot of work going on in order to continue to support and to grow the other segments and to grow the other models let's call them and there is a lot of work going on so we

are working individually on let say for example Thunderbird which is a cruiser and it has it slightly has a different appeal and a different audience so we will be working at a micro level, at a macro level, there is work going on. Same with the 500 cc as you called out. Same with Himalayan which is really now getting traction as well but what is important to note your point about the 500 is well taken but what is important to note is that 500s have also grown tremendously over the last 5 years so from 200 to 300 a month we have grown to imagine see 5000 a month in that order and so we have had outstanding growth in the Classic or in our 500s also, which is bullet 500, Classic 500, Thunderbird 500, Continental GT which is 535, so we have had great growth but the growth has been less than our overall growth obviously because Classic has been growing even faster than that, so really it is a problem of plenty, we are not overly worried about it. We continue to support our individual models, we don't just push the Classic but if there is outstanding demand for a product, we are not going to push it down and naturally by producing less or doing something else. You know, we are going to continue to support the Classic of course.

Sumit Mangal:

Yes sir, why I wanted to understand it is let say when you talk about 500 cc, let say in September 2015, we were doing 11,000, today also we are doing closer to 10,000 to 11,000 one year down the line, I am talking about on a quarterly basis. Similarly, sir if you look at it like Thunderbird also, I mean to say the volume wise is not actually growing significantly so just to give an idea are you have the numbers with you but we were doing close to 350 cc Thunderbird, you are doing 11,000 to 12,000 on a quarterly basis, today also you are doing 10,000 and 11,000 on a quarterly basis, so my concern is like other brands are not scaling the way it would like to be and only that one product of 350 is actually becoming so big, so.

Siddhartha Lal:

Yes that I mean you are right in your observation and like I said we are certainly aware of that and we are working on strengthening our other brands through other means right, so to make sure that people understand what the benefits of those are, a lot of it also comes from our dealer training, so there has been an enormous program of dealer training because dealers also eventually sort of sell what is easiest to sell right so a guy walks in a show room he knows Classic is an easy sell, so he will quickly sell the Classic but we are training our dealers to be able to sell better to be able to understand the consumers requirement better and therefore right sell the product, it may still be the Classic but it may be something else that the consumer may want. So on the one hand there is a lot of work going on, on our side to continue to improve the performance of all of our models and so there is of course the other thing is that when as we get into smaller and smaller towns with good growth coming from there the purchasing power is also slightly less so the 500 repo perhaps suffer a bit, share of 500 of course less in the D town that we get into compared to a city, so that also gives the numbers a bit, but it is not, I mean while we are working on it, it certainly does not worry us beyond the point.

Moderator:

Thank you ladies and gentleman, due to time constraints that was the last question. I would now like to hand the conference over to Mr. Vinay Singh for closing comments.

Vinay Singh:

Thank you everyone for joining us for this call today, also would like to thank again Siddhartha and Lalit for taking out time and being with us, have a good day everybody.

Siddhartha Lal: Thank you.

Moderator: Thank you. On behalf of Morgan's Stanley that concludes this conference. Thank you for joining us and you may now disconnect your line.