



“Eicher Motors FY17 Post Results Conference Call”

February 1st, 2017



SPEAKER: Mr. Siddhartha Lal, MD and CEO, EicherMotors Ltd.;
Mr. Lalit Malik, CFO, EicherMotors Ltd.



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Moderator:

Very good afternoon, ladies and gentlemen. I am Sourodip, your moderator for this session. Thank you for standing by and welcome to the Eicher Motors Q3 Financial Year 2017 Earnings Conference Call. For the duration of presentation, all participants' lines will be in listen-only mode. We will then have a Q&A session after the presentation for which the instructions will be provided during the start of Q&A session. I would like to now hand over the conference to Mr. Kapil Singh. Thank you and over to you, sir.

Kapil Singh:

Hello, everyone. Thanks for joining the call. Today we have from the management team of Eicher Motors Mr. Siddhartha Lal, MD and CEO and Mr. Lalit Malik, CFO. We will have opening comments on the quarterly performance by the management followed by Q&A. Sir, congrats on a great set of results and over to you.

Siddhartha Lal:

Good afternoon, everyone. This is Siddhartha here and thank you very much, Kapil, for evening this call with the investors and analysts and I am very happy to join you and share updates on our financials and sales performance for Eicher Motors Limited for the quarter ended December 31st, 2016 that's Q3 for FY2016-17. I will start with an update on EMS consolidated financial performance for Q3 2016-17. At Eicher Motors Limited we reported the best overall total income from operations at 2071 crores as against 1452 crores in the same quarter last year which is a growth of 43% in revenue. Our highest ever EBITDA has been reported at Rs. 577 crores as compared to 358 crores in the same quarter last year which is a growth of 61%. And highest ever and industry leading EBITDA margin from EML this quarter is at 31.4% as against 27.9 in the same quarter last year. We also had a highest ever consolidated profit after tax at 417 crores as against 278 in the same quarter last year which is a growth of 50%.

Moving on to the consolidated financial performance of VE Commercial Vehicles which is a joint venture with Volvo Group for the same quarter Q3 2016-17 we have VECV reported a total income of from operations at Rs. 2026 crores which is against 2131 crores in the same corresponding period last year which is a decline of 5%. The EBITDA was at Rs. 130 crores as compared to 170 crores in the same period last year and EBITDA margin was at 6.9% versus 8.5% and profit after tax was at 57 crores versus 89 in



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the same quarter last year. So these are the financial highlights of both Eicher Motors Limited and VE Commercial Vehicles Limited.

Then moving on to a business update for Royal Enfield motorcycles, we recorded our highest ever quarterly sales of 173,838 motorcycles is 1.74 lakhs in the third quarter which is 38% higher than our previous corresponding period last year which was just under 1.26 lakhs or just under 126,000 motorcycles with a strong volume growth in the third quarter despite many issues that we had in the quarter macro issues and extraneous issues. There was demonetization which, of course, affected, in fact, the entire industry a lot. We were able to delve into our order book and were able to find customers who had the cash to buy the motorcycles, who we were able to pull through very well. There were other issues in political issues and other issues in Chennai as well, so all of those affected us to some extent, yet we were able to pull through and get strong production in the quarter which resulted in strong sales as well. So even around demonetization the bookings and sales were not affected because while there was, of course, for first many days, first couple of weeks there were some issues, but we were able to overcome those, as we said. And we did that without any change in our terms of trade with our channel or anything of that sort, so lot of people had to resort to giving lot of credit to dealers, et cetera, so we had none of that, so zero credit to dealers all of that. So we stick to our current business model but we were able to pull through, so we are very proud of that achievement for last quarter. And our growth trajectory in our order book continues to grow well and continue to be strong looking forward.

In India Royal Enfield continues to rapidly expand its retail footprint. We are available at more than 640 dealers now across the country as on December 2016 and all the stores now, all 640 of them I believe, are with the new retail identity which has helped tremendously in changing the profile of the brand with the consumers in upgrading the brand and our dealer, seller has also helped in increase footfalls and increase conversions. So the retail identify has been enormous uplift for us over the last few years that we were doing that. Royal Enfield, we also launched our Himalayan for the first time outside of India, so we launched it in Australia and Columbia both in November of 2016. We also



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showcased the Euro4 Compliant Himalayan in Europe for the first time at the EICMA show in Milan in Italy and at the NEC show in UK in November 2016, so that's in Himalayan. We launched our exclusive store in Australia and our first exclusive gear store outside of India in Jakarta in Indonesia, so these were both done in December of 2016, so that's all towards our international footprint expansion that we've been doing. Well, at the end of December, so beginning sales in January we introduced three new colour options which is the Redditch Red, Redditch Green and Redditch Blue for our refresh range of Classic 350 models. These bikes have been designed as a tribute to the retro look of British motorcycles in the post World War 2 era. Based on customer booking trends I am confident to say that they've been received extremely well by the customers and it created a new excitement in our showrooms and we've got lot more walk-ins as well into our stores with the new range that we have of Classic 350 which is our best-selling model. Our Oragadam capacity is absolutely on full stream and delivering as many motorcycles as we planned and even more, in fact, that we've planned when we first started Oragadam phase 1 and phase 2. Our capacity expansion in our new facility which is facility 3 at Vallam Vadagal, Chennai is on track and expected to be commission on Q3 of FY2017-18, so at the end of this calendar year that is. Our new technical centre near Leicester in UK is progressing very well and we intend to start operations in maybe end of this quarter, earlier next quarter itself, so in the next two months we will shift over to the new premises and we have all the industrial design, we have our entire bespoke facilities at Bruntingthorpe Airfield, so we have a huge test track available, we have engine and vehicle dynamo metres which will come a little bit later, but we have our entire team of now over a 100 people that we employ in our UK technical centre which is currently a rental premises; we will move to our own premises very soon. So we are very excited about that move. The major business outlook for Royal Enfield looks very strong and we continue to grow our order book and grow consistently and competitively, profitably leading to, of course, expanding the mid-size motorcycle both in India now and over time at a global environment.

Moving to an update on the performance of our joint venture Volvo that's VE Commercial Vehicles, the month of November and December were extremely hard on the commercial vehicle industry as a result of demonetization and there was a drop in the



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overall industry. VECV was affected in the quarter with a drop of 9%, even though on a y-t-y basis we outperformed the CV industry and where we've grown by 12% in the nine months to date as against a decline of the industry of 0.6%. So the industry stayed flat, VECV was grown by over 10% in this period. Situation currently in CV seems to be certainly improving because BS4 emission norms are coming all over India by 1st of April. We expect some pre-buying in this quarter as well, so there are lot of customers who want to trucks January, February, March, so that's what's going on right now. In the previous quarter industry sales volume were at just over 97,000 units for commercial vehicles over 5 tonnes which is a growth of 1.6% over the same quarter last year. And our truck and bus sales were 11,784 units which is 7% lower than the same quarter last year. So consequently a market share has declined slightly from 13.3 to 12.1% for the quarter, yet for the nine month period of y-t-d period it has grown. In segment-wise performance we've in the 3.5 to 5-ton markets so that's in the sub 5-ton market which is 3.5 and above 5 tonnes the industry sales were 24 plus units for the quarter which is 11% higher and Eicher sold 460 units taking a market share to 19%. Now, this is a segment that we've only very recently entered and we've been doing phenomenally well here. Really it's been in the last 18 months it's in the story of 0% to now really 20% market share in the segment of sub 5-ton, so it's a very good progress for Eicher in that industry. In the 5 to 15 tonnes which has been Eicher's traditional gold segment of LMD, we call it Light Medium Duty, as opposed to smaller commercial vehicle, so there industry units were down by 10% at 17,000 in the quarter. At Eicher our sales were down by 20% to just under 5400 units. So market share for the quarter has come down from 35.4% to 31.7% and though, of course, most of this has been made up for in the previous months, so the fall is not certainly as dramatic for the nine months period; it's only marginally down. 16 tonnes the industry was lower by 8%, again this is all demonetization effect which happened and Eicher sales were down by 12%, so our market is marginally reduced from 4.2 to 4%. And in busses the industry was up by 23% and we were up by 13%, which again means a slight market share reduction from 14 to 12.8%.

In exports the industry grew by 45% and we had a 6% growth only and in to 1954 units and in Volvo trucks which is a high end mining tippers by and large most of it is the mining tippers that we



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sell. We had a sale of 322 units which is 9% lower than same quarter last year. And medium duty engine sales were at 5845 units which is a growth of 24% over the same quarter last year. So that's on the overall commercial vehicles environment.

Moving on to a joint venture with Polaris which is EPPL, Eicher Polaris Private Limited, through Multix we continue to expand our distribution footprints and we've recently launched our BS4 variants where we continue to push forward in the market to popularizing this new concept of personal utility vehicles. Overall, another outstanding quarter for Royal Enfield where we've had record sales growth, profits, all of that. We've had a slightly weaker in VECV largely because of adverse market conditions and also with extremely high discounting scenario. We decided to stay out of few deals in the last quarter which has resulted in some market share loss, but for the year we are still on better ground on CV. So the year our CV performance is ahead of market, for the quarter it was behind. So that's all from my side. Thank you all for listening in and now we are open for questions.

Moderator:

Thank you very much, sir. So, participants, with this we open it for Q&A interactive session. Should you wish to ask any question, please press "0" then "1" on your telephone keypad and wait for your name to be announced. I repeat, to ask any questions, you need to press "0" followed by "1" on your telephone keypad. So we have the first question from Sonal Gupta from UBS. The line is unmuted. You may please go ahead and ask your question.

Sonal Gupta:

Yeah. Hi. Good afternoon. Thanks for taking my question and congrats for good set of numbers. Just wanted to get a sense on, one, really the raw material cost pressure that you are facing and do we see any further uptake on the raw material [technical error] and also could you talk about the cost pressure from the BS4 side and when do we expect to comply with that?

Siddhartha Lal:

Again, just to be specific, please, Sonal, in terms of which business you are talking about? You are talking about both or [multiple speakers]?

Sonal Gupta:

Mainly for Royal Enfield, sir.



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- Siddhartha Lal:** So raw material price you are talking about marginal increase in the raw material cost for the quarter, so this was in perspective this quarter, I mean, the last quarter that we discussed we did not take any price hike. So the raw material cost is materially, I mean, marginally gone up by 0.2%. So while the pressure is there and so much so forth, nothing at this quarter for we are successfully grading off all raw material prices and, of course, there is a scale in the volume that we have this always opportunities that we keep looking out for cost reduction and so on and so forth. So right now things are not out of control.
- Sonal Gupta:** Right. But we took about 1.5% price hike in August, right?
- Siddhartha Lal:** Took 1%, in fact, 0.9% in August.
- Sonal Gupta:** And in January have we taken anything?
- Siddhartha Lal:** No.
- Sonal Gupta:** So we haven't taken any price hike. And you don't really see because other players have been indicating that Multi prices are moving up, so Q4 you will see some further plus pressure?
- Siddhartha Lal:** That we will discuss in the Q4 numbers, you know. So as of now [multiple speakers].
- Lalit Malik:** There is pressure. I am not saying there is no pressure, but we are reasonably okay there.
- Sonal Gupta:** Okay. And just on the other question on BS4, so do we start production of BS4 compliance vehicles from 1st April or do we start before that and replace, I mean, so everything retail is from 1st April or [multiple speakers]?
- Siddhartha Lal:** As the law stands now, I know in the market they have been conflicting interpretations in that. As we understand things now, one can only sell BS4 vehicles from 1st April. So if there is any BS3 stock which is lying at the end of March, that can't be sold from 1st April. That's our understanding of the law. So, yeah, during the course of this quarter, of course, we will start the BS4 and when we start, we will make the price announcements also which is I think your earlier question that you asked.



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- Sonal Gupta:** Okay. Great, sir. Thank you, sir. Thank you so much.
- Siddhartha Lal:** Yeah.
- Moderator:** Thank you very much. Before we move on to further question, I would like to repeat. Participants, should you have any more questions, please press “0” followed by “1” on your telephone keypad. We also request all the investors to kindly restrict their questions and you can come for the followup questions as well. We have the next question from Mr. Sahil from Meryl Lynch. The line is unmuted. You may please go ahead and ask your question.
- Sahil:** Hi. Thank you for taking my question. I have one question regarding the demand that you are seeing on RE post demonetization and now in January are you seeing any kind of softness how is the waiting period looking for some of the products that you had earlier, can you please just elaborate on that?
- Siddhartha Lal:** So, as you see, we had a very good quarter and the demonetization, of course, had an impact and affected us in the sense that there was, you know, major scurry around as everyone had. Like I said, we were able to dig in to our order book and find customers who were able to pay up, et cetera. So, you know, there’s lot of work on the Royal Enfield teams, but we were able to pull through with good quarter. So we still have strong order books; our order book is still growing quicker than our sales. So for now we have an approximately three-month wait in for our highest selling model of Classic. The other models would be different from that, but that’s it’s still progressing well. So there was a hiccup, but it’s all certainly back to normal and good growth for our product range.
- Sahil:** Okay. Second question related on profitability that we are seeing in the standalone essentially for RE, the margins that we are today generating are the highest that you guys have been, have you done any work in terms of whether this is the peak margin or you think that this profitability can actually stretch further; I am just trying to understand here if there is, you know, a bulk case scenario here or anything to that effect that you would have done in terms of your profitability can go as far as our Enfield is concerned?



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Siddhartha Lal:

Yeah. We are now going to project forward, Sahil, so, you know, I think we are already much ahead of what our peak projections were, but that doesn't stop us from continuing to grow our margin. So if you asked us five years ago, we would have been our peak projects in, I mean, it was I can tell you now in retrospect it will be much lesser than what it is today. So like I said, we are not letting that constrain our thought process as to where you can go. Obviously, you know, on the one hand there are some cost pressures which continue to come in, as was discussed earlier on, you know, raw material now a little bit is starting to creep in, there is few other areas. On the other hand, we still have good growth ahead of us, so we are getting some operating leverage, so there are some benefits are getting. So there's a few plus and minus. We can't tell you right now where that's going to land over or we are at peak level or anything right now. There's no such that we can talk to you about. But we are just continuing to keep our head down, grow a strong business, make sure that there's great desire for our motorcycles, continue to grow our retail footprint, our international footprint, and if that continues to result in industry beating growth, then, you know, we should continue to do better as long as our cost be on the check. So things are going well, but we can't tell you, you know, where it's going to land at.

Sahil:

Okay. Thanks for that. One more quick question, if I may. On the CV side there is an industry expectation that there will be some pre-buy in Q4 before we go to April 1st, just wanted to get your sense on it, do you also expect a pre-buy, any kind of indication do you think, what could be the industry number I am just trying to get a sense of a number there?

Siddhartha Lal:

Again, I am not going to hassle or guess your numbers and we don't give forward numbers, so, you know, I can't. Please don't request that. But I did mention in my opening remarks that we are expecting a pre-buy effect because of BS4. So, yes, we will expect a pre-buy effect. I can't tell you what the quantum of that is going to be. I don't know either and even if I did, I mean, even if I had an opinion, I don't think I could share that right now.

Sahil:

All right. Thank you so much, sir.



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Moderator: Thank you very much. We have the next question from Mr. Dinesh Gandhi from Motilal Oswal. Your line is unmuted. You may please go ahead and ask your question.

Dinesh Gandhi: Hi, sir. First question on Royal Enfield, was it increased in financing proportion in this quarter vis-a-vis what you've seen in the past?

Lalit Malik: Not exactly increase in finance, I mean, as a margin it could have been also, but what we clearly saw a lot of people do is instead of paying in cash, they were paying through the banking channels which is not necessarily financing; they were paying through the credit, I mean, credit financing.

Siddhartha Lal: One is, yeah, not the traditional [multiple speakers] financing, I mean, people were swiping more credit cards or doing more bank transfers, perhaps, certainly.

Dinesh Gandhi: Okay. Second question pertains to the VECV side, can you indicate what kind of RM cost pressure we have seen in Q3 and based on the current commodity prices what kind of further pressures do we expect?

Siddhartha Lal: So the RM cost pressure here as opposed to Royal Enfield were its where our products are more similar. Here, it's always enormous product mix effect, so I wouldn't say there is as much through raw material cost concerns, you know, it's marginal at best, it's more the product mix which is driving the change in raw material cost.

Dinesh Gandhi: Okay. And we haven't taken any price increase in VECV in Q3?

Lalit Malik: In October I think we took a small price increase against the blended goods have been less than 1%.

Dinesh Gandhi: Okay. Okay, sir. Thanks and all the best. I will come back in queue.

Moderator: Thank you very much. We have the next question from Mr. Vinay Singh from Morgan Stanley. The line is unmuted. You may please go ahead and ask your question.



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Vinay Singh:

Hi, team. Thanks for the opportunity. My first question is Royal Enfield dealership expansion, now we are close to 640 dealers, we were around 500 a year back, where do you see the scope like, let's say, from 3 year out time period, are you still seeing a lot of a request for people to offer our dealership or do you think this is a fair number to be at?

Siddhartha Lal:

So we don't go by request, Vinay. We actually map the market very closely understanding where two-wheeler market is, where the motorcycle market is, where catchment areas are, where above 150 cc market is and if we represented, not represented, in bigger cities there might be new catchment areas that opened up and basically there is lot of expansion right now which we are doing in smaller town, so in D and E, well, more in D class, you know, so that's where the majority of the numbers are coming from. We have said in the past that we are looking at a 100 plus dealer addition and so we are pacing around, I would say, 8 to 10 a month and that pace is not changing, so that pace is continuing for the foreseeable future. We are seeing enough opportunities to continue that pace. Like I said, for the foreseeable future we might have a different opinion in 6, 12, 18 months I don't know. We will certainly tell you if we dramatically change our dealer expansion pace, but that's approximately the pace. Now, each additional dealers giving us less volumes because these are at smaller towns, so the potential is not in a big city we have 100-150 potential per dealer, in the small town it's 20 to 30 potential very often and, of course, there are some medium towns where it will be higher with 50 to 80. But the pace of growth is certainly growing. We map other motorcycle manufacturers, we map car manufacturers especially the ones that are proliferated like Maruti and Hyundai and we are seeing where, so we have, I mean, these are some of the data points in our distribution mapping model that we consider, but there are many other data points including, you know, other spend categories that people do and to figure out where most stores we would be able to run profitably, also map this thing population of Royal Enfield motorcycle so that there is a service income which could come into dealers as well. So there's a lot of things that we look at, but we will have continued growth in the coming months at least for sure.

Vinay Singh:

Okay. So we can expect like a 100 addition a year also for now and [multiple speakers]?



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- Siddhartha Lal:** Absolutely. That's our current pace, yes.
- Vinay Singh:** And the second question is when we talk about 3 months waiting for Classic 350 cc, is that coming from the number of customers who made deposits or is it more dealer's intention to get that bike?
- Lalit Malik:** No. We are talking about customer advances. Sorry?
- Vinay Singh:** Okay. So this is from customer deposits?
- Siddhartha Lal:** Yeah. We are talking about customer advances that they made a booking, it's on the back of customer booking that we are talking about. There is no dealer demand.
- Vinay Singh:** Because, you know, like during demonetization one would have expected that you would have dipped into your order books, but order book would have come off, but the number seems largely similar to what we discussed the last time in the last results conference call.
- Siddhartha Lal:** Yeah. Like I said, we did dip into our order book, but, you know, I imagine a lot of the customers who weren't able to pay during, let's say, November because of cash constraints, you know, maybe, I mean, they should be back on their feet by December, January, so the customer is still there, he has already paid the booking amount. He may have differed his purchase from November, but he is probably back on the market by now. So there was maybe a change in who took the motorcycle, but the motorcycles are still sold and the ones who didn't take, then we will probably take it now.
- Lalit Malik:** But most of the stock was wrapped around between November when the demonetization happened at the end of December, so whatever had to happen has happened in those whatever one month and three quarters of month. So now it's business as usual.
- Vinay Singh:** Great. Good luck. Thanks for that.
- Moderator:** Thank you very much. We have the next question from Amin from Deutsche Bank. The line is unmuted. You may please go ahead and ask your question.



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Amin: Yeah. Hi, sir. Thanks for your opportunity. Last time when you had done the call just, you know, after the month of demonetization, you had given out some numbers as to what's the percentage of cash versus, you know, banking channels, is it possible to share that number as it stands right now because I think it had changed significantly for a month, but is it continuing to be at those levels or has it diverted to?

Lalit Malik: Exact numbers I don't have, but largely the trend is still the same. So it keeps a lot using a whole lot of banking channels versus the shift that we are seeing between November and December.

Amin: Okay. Understood. And just coming back on the margin question, you know, all of my colleagues asked, going forward, I mean, do you think that, I mean, how frequently are you comfortable raising prices in case raw material, you know, continue to go up because they have gone up significantly over the past few months and actually the expectation is that they could, I mean, is there target as to how frequently or how much you are comfortable raising prices?

Lalit Malik: Now, as you know, so every time that we are being considered raising the price is always an analysis between our own cost, between the commodity cost pressures, our ability to liquidate the pressure in some sense through some of the intimation that we have on the engineering and manufacturing side, where is the source of growth coming from, where is the [indiscernible] 0:32:49 competition, how are they reacting to it and all the stuff, so it's really a composite of all these 5-6 things that we consider. So when the time is ripe to consider all these things, when we do consider and either take a price hike or don't take a price hike. So there is no one thing happening over here which kind of decide that.

Amin: Okay. Understood. That's all from my side. Thank you.

Moderator: Thank you very much. We have the next question from Chiragh from Edelweiss. The line is unmuted. You may please go ahead and ask your question.



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Chiragh: Congrats on good set of numbers. Sir, I have a question on the capacity, if you can help us understand for FY18 what is the production capacity that you would be having?

Lalit Malik: So, you know, so once we have done with the planning and when the board has approved the plan and all the stuff, in the next call I believe it will be out with us at least the capacity plan.

Siddhartha Lal: So, of course, we are changing, revising, upgrading everything based on what capacity we can take out based on the current position on Vallam Vadagal, based on our sales projections all of that we will consider while fixing our new capacity. But, you know, a lot of it, of course, are already under in the works, in the deployment, so we are already producing in the order of 60,000 a month. That's our... And that will remain flat right now, so that's our entry point into next year in any case, 60,000 a month.

Chiragh: Okay. And if you can also highlight, you are looking to shift, increase the chrome plating capacity at the oldest plant basically, so by shifting the production to new plant, so where are we in that process?

Siddhartha Lal: Sorry? We are shifting, coming from old to somewhere?

Chiragh: [Multiple Speakers] facility, right, because other plants are not approved in terms of pollution requirement, that's the only space where we can add more chroming?

Siddhartha Lal: So that's absolutely as per tack. So obviously our chrome plating requirements go up in the same proportion of our production and all of that capacity right now is coming and we've in-loaded stuff from quality perspective also, we've in-loaded more components. So all the capacities right now coming from our Thiruvattur plant which is our original and old plant, as you rightly said, increasingly we will have to free up more space in Thiruvattur in order to cater to more chrome plating, so that's all absolutely on tract under way in requirement with our motorcycle capacity requirement. So it's in line with our motorcycle capacity requirements. And, yeah, of course, eventually that's why we talk about capacity as a whole and it's not a direct arithmetic addition of the capacity we are adding because, as we increase in chrome



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plating capacity as you right said, in Thiruvattur the vehicle capacity eventually will come down there, so that's all related.

Chiragh: Yeah. And if I can squeeze in one more question on price hike and cost pressures, how do you decide whether you take pride or not because there is no demand pressure as some of your peers are facing or the industry is facing for you, commodity costs are going up, so what stopped because your gross margins are now flattening out since 2-3 quarters, despite our sequential volume improvement, so how should one look at this margin trajectory? This question was asked by some earlier participants also.

Lalit Malik: So the answer is going to be the same. There are [multiple speakers] have been looked at and we kind of decide, but I don't know where the flatness of gross margin is coming from. If you look at over a period of time [multiple speakers].

Chiragh: See, I am looking at last 2-3 quarters not y-o-y, but [multiple speakers].

Lalit Malik: [Multiple Speakers] little bit more. I am saying if you look at 9 months y-o-y, then we have come down from, I mean, I am talking about material cost, you know, just material cost line [multiple speakers] 52%.

Chiragh: Yeah. Fair point. And last thing on export if you can share some light because our export volumes have now gone up to 1500 units a month, so is it more a ceding of markets or you are seeing more traction in some of the existing markets, how should we look at this number?

Siddhartha Lal: Yeah. That's exactly how, I mean, we've been begging on about our exports first for years now, so finally there are some tractions which is coming in. And, yeah, so that's the continued investments that we've been putting in over the last few years in terms of ceding different markets in a strategic manner and all of that. So that's been some early dividends, I mean, let's say, small dividends right now. We don't think this is, you know, enormous amounts, but it's a good progress, so we are growing well in export markets; people are accepting us. These are, of course, a lot of them are primary sales; the important one that we track is the secondary sales to customers and that's also progressing similar as our



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primary sales are right now. So it's all in the right trajectory and track.

Chiragh: But any particular country or a cities rather where you are seeing increasing traction where brand acceptability has improved significantly what is the expectations, anything of that sort if you can share some highlights over there?

Siddhartha Lal: Yeah. So last year we had our first full year in both Jakarta and Bangkok, so we started, in fact, I would think January or...

Lalit Malik: March actually.

Siddhartha Lal: March 17?

Lalit Malik: 16.

Siddhartha Lal: 16, sorry. So it's nearly a year. It's nearly, you know, we've been actually not a full year, but we've been there for a while now and we are getting very good traction especially in Bangkok but also Jakarta is doing well for us much higher than what we had planned when we went into the market. So now we are assessing where the demand is coming from, why is it coming, is it sustainable all of that before we start expanding our footprint in Thailand, for example, where we are seeing outstanding demand for our motorcycle. So these are all early days, early experiments, some have worked very well, some have not worked as well, some cities or retail points have not worked in the same fashion, so in those days we are understanding why we are not selling enough or why it's sort of slow down or flatted out. So this is just a learning curve that we are on right now and some of the positive [multiple speakers] in our numbers.

Chiragh: Fair point. And if I can just squeeze in one last question on raw material, so on the two-wheeler front is it right to say that most of the cost prices till December are already there or Q4 can see significant because the cost prices are yet to be filtered in Q4?

Lalit Malik: Yeah, Chiragh, frankly we had talked about it and the Q4 numbers are out there, so.



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- Chiragh:** Yeah. Fair point. Okay. This was helpful. Thanks, sir, and all the best, sir.
- Siddhartha Lal:** Thanks.
- Moderator:** Thank you very much. We've the next question from Jayshree. It seems she has already left the room. We have the next question from Priya Ranjan from Systematix. The line is unmuted. You may please go ahead and ask your question.
- Priya Ranjan:** Yes, sir. Thanks for taking my question. Just on out of 640 retail outlets how many cities we are covering as of now?
- Siddhartha Lal:** We don't have the number of that?
- Lalit Malik:** 408 [multiple speakers].
- Siddhartha Lal:** And how much is that?
- Lalit Malik:** Just put together. It's there on the net actually. If you really go to the net, you will find that, but the number is more than 400.
- Chiragh:** Okay. And, sir, in terms of the gear showrooms or the gear how many outlets we have opened on that front?
- Siddhartha Lal:** We have hundreds of our leadership, you could say, more than half of a dealerships are carrying some sort of gear, maybe, Lalit has a better number on that. But in terms of exclusive gear stores that we have 5 of our own and we have 1 or 2 third party, I can't remember, one in Chandigarh I don't there is a second one, so maybe there's only one third party gear store. So there are 6 exclusive gear stores, but our gear is available in – how many stores are there, you have the number?
- Lalit Malik:** Out of 75% of our stores [multiple speakers] gear, I mean, it depends on the market and the weather condition, this, that; pretty much 75% of them are getting our gear.
- Chiragh:** So, I mean, there are the spare parts including gear, et cetera it used to be around 5-6% of sales, I mean, as of now, I mean, can we think of moving towards around 10% or so in, say, next one year, two years?



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- Siddhartha Lal:** Over time more than 10% also *yaar*. But right now the growth, I mean, they are growing quite fast, by the way. But they are still in terms of the value and in terms of the growth of the bike business also that is still not slowing down in the sense the number looks a bit small, but they will catch up quite fast. The spares is the other bike part grows, the spare business will naturally grow, mathematically it will happen. Next 2-3 years for sure I think the number should be much better.
- Chiragh:** Just one more thing on the mid-size bike launch probably, I mean, when do we start to think of, I mean, start dispatching that 650 or 750 whatever you are launching later part of this year, so should we start looking for that number on the third quarter of financial year 2018 or FY or it will go to the next calendar year?
- Siddhartha Lal:** I really don't have anything to add on that or I have nothing to answer at this point on that discussion.
- Lalit Malik:** But the next bike is planned by the end of...
- Siddhartha Lal:** We have lot of motorcycle. We don't like to comment on any one right now because we don't know what will, you know, work and what will hit the stores, so, yeah, maybe end of this coming financial year we will have something certainly in the works.
- Chiragh:** And, I mean, just coming back to one more question if I can squeeze on the CV side, I mean, the last quarter when we have discussed on the call that we are also participating in the discounting and now suddenly we have stopped participating in the discounting work, so, I mean, what is the sudden change in strategy, I mean...?
- Siddhartha Lal:** Firstly, there is nothing certain about anything; it's not suddenly stopped or certain change inside it. It's just that we have decided to back off a little bit. This is the outcome of backing of a little bit, backing off the outcome of suddenly stopping anything. So if we suddenly stop, the market share would have been 5% I think or something. So, yeah, this is just, you know, everyone has his own strategy and they are welcome to do what they want, but we are model, as you know, and VECV has always been one of profitable growth model, so while we continue to grow well or we plan to



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grow well, we plan to stay profitable in our growth journey as we move forward and, of course, this month has the competitive, let's say, discounts have increased tremendously and we've decided to not take some orders which would have really hurt our bottom line badly. We had opportunity because our brand is very strong and people want our truck especially a light and medium duty ones, but we decided not to take some orders that this does work in our case, so that's it. And we seemed to start evening out over time, so we had, you know, great couple of quarters in the beginning, so we decided to back off a little bit this quarter and, you know, that's the cycle of this, you know, this industry at this point.

Chiragh: And just one more thing on the Polaris JV, I mean, how much cash burning we are doing on an annualized basis as of now?

Lalit Malik: That, you know, we disclose only in the annual report. It's a joint venture, so we need to be exclusive about the other time also.

Chiragh: Okay. Thanks. That's all from my side.

Siddhartha Lal: Thank you.

Moderator: Thank you very much. We have the next question from Mr. Pramod from Goldman Sachs. The line is unmuted. You may please go ahead and ask your question.

Pramod: Yeah. Thanks a lot for the opportunity and congratulations on a good set of number. Siddhartha, my question pertains to demand in smaller cities and towns post demon because generally, as you go up north in interiors of Uttar Pradesh, Bihar, where we have expanding our network that the propensity to deal in cash is much more higher, so just want to understand how was demand in those states if you can provide some colour in terms of did you take longer for them to come back or did you see cancellation there because quite a bit of those customers maybe expose to the cash economy in a bigger way, I just want to understand beyond the metros and the top cities how exactly the demand or customers react to demon, if you can help that, that will be really great because looking at more from a future expansion perspective as well?



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Siddhartha Lal:

Good question, Pramod. I honestly don't know if I have the full answer for you. I just know that we were able to – there was a bit of regional differences for sure, but we've had no enormous swaying in any region, so it's not like, you know, let's say, we had 40% growth it's not like one had 60 and the other 20 there is nothing like that dramatic in terms of change that we've had; it's all reasonably secular across the country which included in November and December. So there may have been slight inter-state changes, there may have been, you know, certain other differences, but nothing to report back. So nothing that I even aware of honestly right now, so I don't have those detailed numbers in front of me and there was nothing so dramatic that we had to review any particular thing. So it was all relative streamline. We do have a much higher quality of customer at Royal Enfield just in terms of paying ability; there's no other qualitative factors and therefore, you know, they do have, you know, of course, some dealing cash but they do have bank balances also and if they want, we were able to get other customers. So I can't tell you which state or which part of which state we were able to, we had to dig in deeper into our order book which I honestly don't even know that often right now.

Pramod:

Okay. Or otherwise, to frame it differently, how the demand in smaller towns and cities where you are entering which are like practically new territories for you has it been kind of surprising on the upside or is more like in line?

Siddhartha Lal:

Not to do with the demonetization, I think, just generally.

Pramod:

Yeah. It's the effect of demon; effect of demon. Yeah.

Siddhartha Lal:

No. It's pretty much in line with what we expect, so we do enough work now and, you know, when we were entering 100 [indiscernible] 0:48:40 I am saying as a small town, you know, there's minor variation, so some don't pick up as quickly as we might have imagined and some are slightly quicker, but really if we expect it to be, you know, 30-bike-a-month category within 3-4 months which is, you know, that plus-minus of your motorcycle. So we are able to get reasonably well how much market potential they may be in a market, also because we already have our market share which we track in the close by big town, so it's pretty much follows that. So, you know, close by big town we have, let's say,



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25% share of 150 cc and above market. In the smaller town where we are entering now it's approximately lands at the same number always. So we have good proxies to see where we would be able to land that and that also helps us in choosing the towns for entering because we know that even though the market is maybe slightly smaller than a particular or a market of motorcycle slightly smaller in a particular area but our market share in the nearby town is very good, so therefore we probably get good market share in this town as well. So we have all the proxies available to get reasonably accurate on how much sales we will be able to get. And you didn't ask that, but I am sure that's implicit nearly in your question, 95% is new sales. There is negligible we can't get any effect, I am saying 95 but honestly we can't get any effect on existing dealers in the big town close by which you would imagine the customers in the small town were going to buy. So there's zero if any, I mean, or marginal if any cannibalization in the town, there are any way secular growth going on in the town in any case, so, yeah. You saw us driving new sales.

Pramod:

Excellent. That's good to hear, Siddhartha. And second question pertains to margins. There have been lot of questions around gross margins, so I wouldn't dwell there, but other expenses for a change has surprised positively in terms of for the first time in the last several probably years now it's below 10% mark as a percentage of revenue and has come down sequentially on absolute term as well, so, Lalit, if you can explain if it kind of sustainable or is also got to do with the trade off between the inventory movement or finished good stocks, so if you can just explain how sustainable this kind of a control on the other expenditure side?

Lalit Malik:

Sustainable in the sense *yaar* we are a pretty lean company in terms of we've seen not only our platform but also in terms of our spends, so whatever spend has to be done has to be done, but there were no "special events" so to say in this quarter like the Himalayan launch expense or the previous one, so it was largely a Q1 event, but kind of float a little bit into Q2 as well, so there were no such things over here; every things were intact. It doesn't mean we wouldn't spend when we have to. Thank you.

Siddhartha Lal:

So we get a bit lumpy expenses, so some of the drop is because we had some higher expenses in Q2 which were moved one time, let's call them, or more lumpy, let's call them, not one time because,



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you know, couple of times here you have an event or big expense which comes in. So nothing out of ordinary. We are continuing to, in fact, spend and continue to add, you know, in terms of people, in terms of new markets we are experimenting, we are doing various activities, so our spends are continuing to go up because of, let's say, expanding the market potential, so.

Pramod:

Excellent. And lastly on customization, Siddhartha, as in I know you guys have your plate full in terms of rolling out stock bikes at this point of time, but there has been a development that DC which is a very well established design has never done two-wheelers I believe has launched kits for Royal Enfield at a fairly premium pricing, so there seems to be kind of demand potential which they are able to see which I am pretty sure you guys are also looking at, but if you can just help us probably how as in probably in terms of year-over-year, say, from two years from now or something like that which can be a reality that you can look at customization at the company level the way Harley does which, of course, attracts favourably pricing as well, but is that a thought?

Siddhartha Lal:

Sure. The first part you answered yourself which is that currently or in the last many years while obviously customization is not loss on us and everyone is aware of the potential of that, as you said, all hands on deck is making stock motorcycle, so, you know, we are running to just meet our existing demand of stock motorcycles where we earn a fair margin as well. So, you know, currently as you rightly said, our energies are better served, it's just increasing that potential. Obviously, there's a possibility over time because we get into continuous businesses. We've got into gear business, we are getting much deeper into our motorcycle accessory business, so one is the rider accessory, motorcycle accessory, retail, but also obviously customization is something that if there in our minds over time, I can't give you a time and date when we may do it or if we will ever do it because there is nothing sign off right now. Having said that, in fact, we love to have third parties doing stuff like this for us, so we have some like you've talked about and there's many other excellent customizers across India and, of course, in the world also there is some very good customizers in other parts who are doing some excellent work on our motorcycle as a base. So that actually help us tremendously; it gives customers a very interesting choice, they have their own network, let's call it, not just customers but of promotion, so, you



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know, a lot of people, you know, they may sell very few numbers but it made a big splash this DC kit which helps our brand in any case because people see it as a brand which is worthy enough for customization jobs no other Indian brands really get that because they are more commuter-oriented, so there's lot of benefit and we have a lot of activity and excellent team actually working on third party customization supporting external ecosystem in improving and helping them in customizing better. They need access to part, they need, you know, bikes in a different way or something like that, so we support third parties; that's our objective. We are increasingly doing that. Eventually, we may do – even if we do get into customizations, it will be very shallow customization; it will never be the extremely big customization that a third party is able to do.

Pramod: Sounds great. Thanks a lot, gentlemen, and best of luck. Thank you.

Siddhartha Lal: Thanks, Pramod. Moderator, we will take the last question now.

Moderator: Right, sir. So we have one last question from the queue from Mr. Sonal Gupta from UBS. The line is unmuted. You may please go ahead and ask your question.

Sonal Gupta: Yeah. Hi. Thanks for taking my question again. Just a couple of things, one is on VECV again, so on the CV side also our understanding would be the same that, I mean, by 1st April retails of trucks will also be BS4 compliant?

Lalit Malik: Yes. That's right.

Sonal Gupta: So we would have to start production first way potentially all trucks being BS4, I mean, so you have to really run out of all the inventory you have during this quarter itself?

Lalit Malik: It was, like I said, you know, on the lowest that no trucks which is not BS4 can be sold or for that matter bikes.

Sonal Gupta: Right. Just on coming back to the Royal Enfield side, I mean, could you just talk about, I mean, what proportion of a sale is coming from top 15 or top 20 and what's the sort of things of sales growth you are seeing in those market?



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Lalit Malik: Like we always said, I mean, in the past calls also that we see no dip in the same store grades of 20 towns all dealers put together; we are still going at 15% plus year-on-year. So there is no dent or no change in the number. Your other question, sorry, was on?

Siddhartha Lal: Question of sales in the top 15. I don't have a number of that.

Sonal Gupta: Yeah. Okay. And just on given that we are expanding this dealership network into more smaller towns and cities, so could you just talk about how the customer profile is changing here because, I mean, earlier it was obviously more urban-centric and more salaried customers, I guess, the customer profile is now shifting, so do we see, I mean, what sort of shift are we seeing, are we seeing more students in terms of demographic and income levels, I mean, could you just talk about that and if there are higher financing or lower financing in those areas?

Siddhartha Lal: We've always had a good mix of customers and, of course, our new dealers, as we are talking about, a large proportion are in smaller towns, but the sales are still coming, let's say, the sales per dealer is maybe 3 to 5 to even 10x sometimes in bigger towns. So the majority is still professions now, it continues to be like that salaried chaps, youngsters still. There is always a proportion of students which are there and there is always a proportion of self-employed. I don't think that's changing dramatically; I think that's still relatively constant, of course, in the smaller towns there might be a slightly higher proportion of salaried employee, but not necessarily, you know, there's also some chaps who are buying motorcycle, so we are still at relatively younger crowd. It's in medium age would be in the 25 region right now. So, Lalit, anything to add? Is there...?

Lalit Malik: No. Nothing. That's it, I mean.

Siddhartha Lal: If the main occupation is lesser salary class like you have in Delhi, Mumbai and all and that number will proportionally go down. But the independent guy, the SME, the independent businessmen, professional, those are typically our buyers and that has not changed.



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- Sonal Gupta:** Okay. Great. Thank you. Thank you so much for taking my question.
- Moderator:** Thank you very much. I would like to now hand it over back to Mr. Kapil Singh for any final or closing comments. Over to you, sir.
- Kapil Singh:** Yeah. Hi. Thanks, everyone, for joining this call on behalf of Nomura and thanks to the management of Eicher Motors for taking out time for this call. You may all disconnect. Thanks.
- Siddhartha Lal:** Thank you.
- Lalit Malik:** Thank you.
- Moderator:** Thank you very much. I would like to thank all the investors and panel members who joined us today. Hope you all spent a useful time. With this, we conclude the session. Have a great day ahead.