



“Eicher Motors Limited Q3 FY2018 Results Conference Call”

February 07, 2018



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Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY2018 Results Conference Call of Eicher Motors hosted by Emkay Global Financial Services. We have with us today from the management, Mr. Siddhartha Lal, MD and CEO; and Mr. Lalit Malik, CFO. 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 this conference, 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. Raghunandhan NL of Emkay Global. Thank you, and over to you!

Raghunandhan NL: Thank you Mohsin. Good afternoon, everyone. Thank you all for attending the call. We thank the management of Eicher Motors for giving us the opportunity. I now hand over the call to the management for their opening remarks and then we can move onto the question answer session. Thank you very much and over to you, Sir!

Siddhartha Lal: Thank you Raghunandhan, thank you very much for arranging this call and thanks to all the participants for joining in. I am Siddhartha Lal and with me is Lalit Malik the CFO and very happy to share with you our financials and our business performance update of Eicher Motors Limited for the quarter ended December 31, 2017. We will begin the update of the financial performance of Eicher Motors Limited followed by an update on the business.

Firstly, we have had once again a best ever net revenue from operations at Rs.2,269 Crores in this quarter versus Rs.1,835 Crores in the same quarter last year, so that is a 24% growth. We have had our highest ever EBITDA of Rs.707 Crores versus Rs.577 Crores last year which is a 23% increase and that resulted in an industry-leading EBTIDA margin once again of 31.2% versus 31.4% in the same quarter last year. The quarter also witnessed high marketing and promotional activity spend because it was the unveiling of our 650 parallel twin platforms that we unveiled in Europe in the same quarter. We had our highest ever net profit after tax of Rs.520 Crores versus Rs.418 Crores which is an increase of 24% over the same quarter last year. So that is at the EML level.

Then at the VECV level, our subsidiary we have had a strong quarter in the back of robust growth in volumes and profitability. So the net revenue from operations was Rs.2,590 Crores versus Rs.1,885 Crores in the same quarter last year that is 37% increase. The EBTIDA is at Rs.226 Crores which is an increase of 75% for the same quarter last year, Rs.130 Crores previously and the EBITDA margin as a result is at 8.7% versus 6.9% for the same quarter last year, driven by favourable product mix, improved cost efficiency and of course better operating leverage. The net profit after tax is at Rs.133 Crores compared to Rs.58 Crores that is an increase of 129%.



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On business updates at Royal Enfield firstly, we have had our highest ever quarterly sales of over 2 lakh units so that is 2,06,736 motor cycles versus 1,73,800 odd motor cycles in the same quarter last year so that is an increase of 19% in unit sales. The strong performance in the domestic market continues in the month of January which has already ended January 2018 with the company posting its highest ever volumes of 77,878 units which is a 31% increase over January of last year. So we have had an excellent month actually in the previous month.

On international markets, we have also been having excellent response to all the inputs and all the strategic drive that we have been doing in these international markets. Our export volumes as a result grew by 68% to 5,578 units over the same quarter last year. We have had traction in older markets like Europe and other such markets but also we have been able to increase our sales in markets like South East Asia, Latin America which is our focus market for growth.

In the quarter, we opened six new exclusive stores taking our total overseas store count to 35, that exclusive store count to 35. For the first time we have entered Mexico, New Zealand and we strengthened our presence in U.K., France, Thailand, Colombia. We also had our first store in Vietnam that was perhaps over the previous quarter that was already announced in the previous quarter. So we are continuing our international expansion, store at a time but slowly and slowly it is adding up to more and more geographies and more and more stores.

Of course the really big news in the last quarter was the unveiling of our 650 parallel twin motorcycles. This is very highly anticipated motorcycles that we had. The response at EICMA, which is the biggest motorcycles show in the world, was absolutely tremendous. The crowd in our stores was unprecedented. At our press conference we did not have enough space and we had people spilling over. It was hugely interesting. I think from a global perspective, the global motorcycle media and related media are I think very interested in what we are doing and that same interest was carried on in all the other shows that we have done in the last quarter. So in the end of the year at our shows across the world and so we participated at the NEC in Birmingham, the IMS shows in USA, the Sydney Auto Show and various other shows, and in India we showed our 650 twins in our community event, our largest community event that we held in Goa, Rider Mania and basically the concept of our Interceptor and Continental GT 650 twins was extremely well received.

In addition to that, we have continued to make progress in our technical centers, so the second phase of the UK Tech Centre will be fully operational now after commissioning of the testing and validation equipment. So in the next month or so and of course, construction of our India Tech Centre is on and in the first phase that will be the huge product development part of it will be ready in the coming financial year. So that is still, let us say, nearly a year out, but it is on track.



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And back to – and on the team part, we have been growing our teams both in UK and in India, so our employee count in UK has now crossed 100 engineers and so that has become a very important of course lead development centre for us for our technical capabilities and all the state-of-the-art industrial design studio, workshop facilities, testing, validation. We opened it out to the trade media when they were coming in for the EICMA show, a lot of the lead editors were there and they had a look at our facilities and I think it is establishing us of course from the capability perspective and also from a perceptual perspective as a true innovator and leader in technical capacities also now in motorcycles and of course all of this integrates very well with our 200 plus engineering staff in our Chennai Tech Center. So these are UK and Chennai work very closely together.

In our pursuit of international markets and development of the Royal Enfield Brand and motorcycling culture of the way Royal Enfield sees it, we concluded our first marquee ride for Royal Enfield riders in Thailand which is called the Tour of Thailand 2017, so that was last quarter. The event had excellent response from the 30 owners and loyal fans who participated covering over 1,500 kilometers in 7 days and we have got excellent coverage in Thailand and created a lot of interest amongst potential customers so that went very well.

We launched or we opened our new Garage Cafe in Goa in end of December early January. It first opened its stores to the public. Again these are new ways where we are putting forward our take on new motorcycling culture and lifestyle and this is a spacious 120-seater café which integrates a museum, exhibition centre, exclusive gear store, motorcycle customization areas, and bays and an entire service workshop. So it is a very relaxed soft sell environment, where people can come in and basically are able to experience the world of Royal Enfield and immerse themselves in the brand but in a non-selling environment which has been our objective to get into other such soft sell environments where people feel comfortable with the brand and it becomes part of the cultural environment as well. So that is the Garage Cafe which has been a big work in progress over the last many years and is now opened to public.

We had an outstanding Rider Mania event which in fact was... we extended it this year in terms of number of days and lot more content. We had a highest ever participation over 6,500 Royal Enfield riders and enthusiasts coming in.

And we consider doing different kinds of events, which adds value to our brand but also to our associations of the past. So Royal Enfield always has an outstanding association with the forces. So last quarter, we had 15 NSG Black Cat Commandos, they went on a, we lent them our Stealth Black Classic 500 which is a new series that we have come out with, we had lent them limited editions 15 of those for an 8,000 kilometer expedition which they rode, we were able to capture a lot of content to them on that ride and subsequent to their ride, we auctioned off these 15 limited edition motorcycles which had a huge interest, we had 1,000s of people logging in and 10s if not hundreds of thousands of people seeing all of this event happening and we were able to sell out



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the auction motorcycles in 15 seconds, all 15 motorcycles and the proceeds were given to our NSG supported charity. So again these are kind of events that we do too which help the brand and of course work with very important stakeholders of ours, such as the armed forces.

We have an entirely updated BSIV, Bharat Stage IV Himalayan which was launched earlier in this financial year and in January, we launched an all new variant which is called the Himalayan Sleet. We had a new colourway, we had it pre-fitted with an explorer kit which has an assortment of Royal Enfield genuine motorcycle accessories which is the new division, which we have opened to have excellent panniers and windshields and other such things. So again we had a – there was 500 of these motorcycles which we sold in an exclusive online sales on the 30th of January and all 500 motorcycles were sold out within 12 hours. So on an average selling one of these fitted out motorcycles every 80 seconds, so as you see that we have been now exploring different ways of packaging, selling and creating interest behind motorcycles and again, there has been a resurgence of interest now in our Himalayan motorcycle due to this event and due to another event that we had in Jaipur with a lot of influencers and stakeholders coming together, so the Himalayan is continuing its growth and the interest is now increasing once again in the Himalayan and in the category of adventure touring from Royal Enfield.

Additionally on the pricing front, we have taken approximately a 1% price increase on all of our 350cc models effective from the 1st of February so that is from last week and yes overall it has been a very exciting quarter for us with Royal Enfield. On the one end we have strengthened our domestic market position in the 150cc plus segment and the response to our products in the global markets has been excellent. Along with that we have had a lot of new variants which have come out which again continues to keep the interest in our brand and in our motorcycles high-end, it keeps people coming into our stores. We had gunmetal grey, stealth black introduction that is of the Classic series, we have the Himalayan Sleet and of course the big launch which was of the 650 parallel twins the Interceptor and the Continental GT parallel twins which of course we believe will open an absolutely new chapter in Royal Enfield's journey and we are extremely excited about the future of Royal Enfield. So that is the key takeaways on Royal Enfield.

Moving onto our joint venture with Volvo, VE Commercial Vehicles Limited. There was a strong domestic demand driven by infrastructure development, mining sector, e-commerce which led to robust growth in volumes during the last quarter. We are making very steady progress at VECV and in fact we are currently operating at close to 100% capacity. So while total industry volumes including exports increased by 37% over the same quarter last year, VECV volumes grew by 38%.

In the sub 5 tonne segment where we operate, which is a 3.5 to 5 tonne segment where we just entered two years ago with our first product, we have had an outstanding development where from nil three years ago, we were 18.8% in the same quarter last year and this year we had 27.6% market share, so the sales volume increased by 80% and our market share has increased by nearly



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9%. So basically there is a huge traction in the... I believe it is a Pro 1049 is the model that we are talking about, so from just entering recently we have become a strong player in the sub 5 tonne which is a 3 to 5 tonne segment. In the 5 to 15 tonne which is we had a slight decline in our market shares from 31.7 same quarter last year to 30.7 and whereas on a sequential basis, of course we had a slight market share increase of 0.5% which was driven by growth in sales volume of 12.8% quarter-on-quarter. 16 tonne and above heavy duty segment the sales volume increased by 70%, which resulted in a market share of 4.4% during the quarter versus 4.0% in the same quarter last year. So it is a good increase in market share and in buses while the overall industry continues to be weak, VECV had a market share increase from 12.8% to 14.8%. Another enormous highlight in our busses is that very recently, this week itself, we have announced our entry into fully electric bus category, so we have had successful homologation of our 9 meter air conditioned zero emission fully electric intercity commuting application bus. So we are actively engaged now with customers to gain an early mover advantage. We believe this is the segment that will be one of the early segments that in electric vehicles that will take off because it has a commercial application and so we are very excited about this potential. Our market share in exports of commercial vehicles from India has increased from 12.5% to 13%. That is our share in total export of commercial vehicles from India. It is largely driven by demand in Bangladesh, Sri Lanka, and of course in Nepal, all of these post election, there was an uptake in demand and we are also now from this quarter shipping trucks to Indonesia which is the new market that we are entering. Our medium duty engines have had an excellent performance, where total sales volumes have been just shy of 9,000 units at 8,830 units for the quarter, which is higher by 51% over the same quarter last year. Quite a bit of this growth has been driven by the threefold increase in domestic volumes of this medium duty engines which were fitted largely in our Pro 6000 series of heavy duty trucks which is our high-value segment that we sell in. So that is the qualitative side of even the high-value trucks that are now increasing tremendously and we believe that the growth momentum should sustain on account of uptake in demand from the consumption sector, infrastructure development and restrictions on overloading in commercial vehicles.

So that is all from my side. Now I will handover back to the moderator to start the question and answer session.

Moderator: Thank you very much Sir. We will now begin the question and answer session. We have our first question from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: Hi Sir. Congratulations on good set of numbers. Couple of questions, first is on Royal Enfield, can you indicate about any updates on phase II of Vallam plant?

Siddhartha Lal: We have not committed to phase II of Vallam plant so there is no update on that. We are still in our planning cycle. So we may take a call on that this year, but we have not pressed the button on Vallam plant phase II as yet. Vallam plant phase I is working out excellent for us. It has now



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developed really well and we are getting up to peak capacity, still it is on its way, where in the next month or two, we should be up to peak capacity on Vallam phase I, but we do not have any decision yet on phase II.

Lalit Malik: Jinesh, I keep hearing that question from many people. There was a timeline to it also. So right now, we are in the middle of planning cycle. In the next few months, we will complete our planning cycle and like every year, it is around May that we announce our production capacity for that particular year. So let us stick to that protocol.

Jinesh Gandhi: So for FY2019, 9,00,000 is what we are working with?

Lalit Malik: As I said just now we will talk about it in the next few months. In a way you are right. If you just linearly add up everything that we are doing then the number is 6,00,000 at Oragadam and around half that number in Vallam - but that is not how production also works. So we have a TVT which is doing a big supply to these two plants now. There is productivity, there is always shifts adjustments possible, so the number can be up a bit for the same kind of facility. But like I said all this stuff is being done, so good question but wrong time. So we will talk about it in the next few months.

Jinesh Gandhi: Secondly with respect to the demand in couple of states like Maharashtra and Karnataka we have seen a fair amount of weakness in last few quarters, what is your read into it, I mean is it anything structural or it is more to do with the market, what is your reading of that?

Siddhartha Lal: Well, earlier these things did not affect us because we were a small part of the market. Now we are a sizable part of these markets and certainly in the above 150cc segment in some of these markets we are leader or second we are right there with 25%, 30% market share. So I am talking about the bigger motorcycle segment, so really it is where the market has come down I believe it was Karnataka where they have an enormous road tax above 1 lakh that has affected us. In Maharashtra again there has been other issues but basically our market shares are still high, so we are not losing share there it is just that the market for bigger bikes has dropped because of...let us say pricing issue in one place and other issues in other places but nothing... we have done a lot of studies and we keep studying all these kind of things and there is no concern from our Royal Enfield perspective. It is a market issue and now we are starting to get affected by market-related movements.

Jinesh Gandhi: And lastly on VECV you indicated MDEP volumes of 8,800 units. So what would be external sales of this because part of the supplies are now for domestic market as well so what could be the sales to Volvo if I have to put in the way?

Siddhartha Lal: Sorry I do not have a number off-hand actually. Yeah, I don't have it off hand.



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- Lalit Malik:** Jinesh we will come back to you on this one.
- Jinesh Gandhi:** Sure Sir okay thanks and all the best.
- Moderator:** Thank you. We have our next question from the line of Pulkit Singhal from Motilal Oswal. Please go ahead.
- Pulkit Singhal:** Hi, this is Pulkit from the Asset Management Team, congrats on a good set of numbers. Siddharth just I mean there has been some concern on the street regarding generally the demand environment and I understand this is specific to the two markets but if you see the other markets that you are there can you give us some anecdotes of how the demand is kind of shaping up for your products, is it kind of slowing down we are talking about demand growth, so right now we are doing kind of 20% kind of growth in the previous three quarters. So can you give us some flavour on that?
- Siddhartha Lal:** I can only tell you what our numbers are and you have the numbers in front of you. So we are not in the habit of pushing sales and all of that as you know. So December we detracted a bit because of year end change and the demand in all of that position. January on the other hand has been a spectacular month for us and we have sort of we have build a lot, we have had even higher retails and all of that. So, sure I think I do not have much more to add that is really for you to see what is going on. I can only give you our monthly numbers, but of course what has happened is that our overall growth is sort of regularizing now, let me put it that way. So there is some growth still coming from old dealers and there is some growth coming from new dealer additions but and it is pacing above industry levels now but certainly it is not the old age, when we were growing at 30%, 40% that is of course coming down now but there are so many different thing that we are doing now, so we are not sitting still. We are continuing to add the stores in places so there are still white spaces in terms of stores where we do not have stores but also in terms of new products so there is a lot of product developments and new products coming in, the twins will be coming in soon all of that, so that is bound to create more interest. I mean really it is for you to...there is nothing more I can add on the demand position.
- Lalit Malik:** I mean, just some colour on everybody is interested state wise market share, 150 CC plus growth, Royal Enfield growth and all of that. Just to give you I would not say headline thing over here but just to give you some colour, if you look at top 10 states in the country from a motorcycle industry standpoint in terms of numbers is the biggest, in seven of those and we can name those states also, our market share is between 2% to 4%. India wide it is around 5.6%, 5.8% or 6%. So I am saying that while we are strong in South and Maharashtra and other states and that is where from a distributors standpoint and from also the maximum amount of growth have happened so these are two polarities in some sense which does really indicate headroom for growth. Whether we grow or not grow, grow slowly, grow fast. It depends on things that we do and things that of course market will respond to us and then in the whole things India as a country there we see the



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regions of very, very high market share that we have that people think bike and they think us Kerala, Goa and Chandigarh and Punjab, Delhi also. I think in some of these states, our market share itself is more than 30% of the motorcycle industry. This is where we have achieved real, real pre-eminence. There are strong states where our market share is 10%, 12%, 15% or something I am not saying there is no headroom for growth over there but if we like I said most of it will be done by us over the next few years. So they are clearly states which are the kind of in the third ladder which are the stronger states or the bigger states in terms of the motorcycle industry itself and the uptake has been happening for us in those states over the last one and a half years since our focus kind of shifted both ways.

Siddhartha Lal:

Absolutely so in markets like Kerala where already one in three motorcycles is the Royal Enfield, then there is only so much headroom for growth but in markets like UP where in 1 in 50 motorcycles is Royal Enfield. That is where now the long-term we are adding and working on those markets. It is basically our curves fall squarely with the you could call it per capita income in a state, so where there are richer states like Kerala, Goa, Punjab, Chandigarh, Delhi all of these, in fact our motorcycle market share is 25%, 30%, 35%. Where there is very low per capita income like UP, Bihar, MP our motorcycle market is 2%, so we have motorcycle market share ranging from 2% to 35% and obviously now we are working on having worked on all the ones that are 35, we are now going down to next level and evolving those markets. Some of these, as Lalit said, take time to evolve it is not that the 2% will go to 5% immediately but that is our ambition of course.

Pulkit Singhal:

Absolutely I am just saying there is huge demand potential in the smaller market areas as UP seems to have grown 50%, 60% but the motorcycle industry itself seems to be reviving and we have seen almost 11%, 12% growth this year and next year also at least Hero is guiding to the similar, but then when we try to match with what you have indicated in terms of supply the growth seems to be more tapered towards 10%, 12% and this is as communicated by the management during our meeting, so there seems to be a bit of a divergence in terms of what growth rates you are witnessing versus what supply growth you are suggesting and that is what causing a bit of confusion in the investor's side, why is that happening?

Siddhartha Lal:

What we said is that we are going to, we have not said anything about 2018-2019 supplies as yet. That is the way we will work on and we will get back to in May as Lalit said, in terms of what our plans are for production in 2018-2019.

Pulkit Singhal:

Got it thank you and all the best.

Moderator:

Thank you. We have our next question from the line of Pramod Kumar from Goldman Sachs. Please go ahead.



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Pramod Kumar: Thanks a lot for the opportunity Siddhartha and Lalit, and apologies for the background music, I am at the expo, so apologies for that upfront. My first question pertains to the quarterly result, I see that other expenditure has jumped by like 20% sequentially to somewhere like 260 Crores which has otherwise kind of netting of the benefit what you got on the gross margin, which despite commodity inflation and no price hike, it has improved sequentially. So Lalit if you can throw some color on this other expenditure how much of this is kind of a lumpy launch related or anything which is one-off there.

Lalit Malik: See you know like Siddhartha just spoken in his opening remarks that Q3 in the month of November there were many activities and events around the unveiling of the 650cc twins. There was EICMA, there was something happening in UK, there was US and there was Birmingham and Australia and so on and so forth, so there was a whole rush of activates which has happened over there. I would not call it one-off because now given our product line up, there is something of and this is really big, nothing too be as big, but there will be something happening through various quarters through the years to come, so clearly that was one. The other piece you talk of one-off and we are going to cover the one-off over here is that, there was a change in accounting standard on the government grant so we accounted it for about Rs.8.5 Crores of higher depreciation but also compensated by Rs.8.5 Crores of higher operating income, it is a long story on the government grant and accounting for those. At a PAT level it is neutral. It is higher depreciation and higher other operating income.

Pramod Kumar: So, the EBITDA margin effect will be 31.7 as per the SEBI format at Rs. 718 Crores EBITDA is that right.

Lalit Malik: No it is the SEBI format only, it is what we are reporting 31.2 in terms of consolidated and 31.7 for standalone.

Pramod Kumar: Okay I was just referring with the standalone and now second question again going back to the series of questions what we are getting on the demand side and capacity more importantly, correct me if I am wrong in the past almost since launch of Classic, you have been operating way above your capacity and then like the 9,00,000 capacity for next year is like the minimum exit capacity what you have, so just keep it and correct me on this then I have followup question on the demand side.

Lalit Malik: So capacity we will announce production capacity for next year.

Pramod Kumar: Okay but you have been operating way above capacity for the last several years now?

Lalit Malik: Our ability to work beyond the stated rated capacity, I am sure you guys have seen here in the past that is what we have done for most part of the last six, seven years. But exact number is that and they will give us some time to kind of plan for the next year also.



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Pramod Kumar: And on the demand side given that there is a bit of a divergence which is logical between the mature state and the emerging state. Does it do anything to your dealer expansion plan for the next two years, we had this target of adding around 100 touch points or 120 touch points every year for the foreseeable future. Is there any rethink on that or do you see enough growth in the smaller towns where you can keep expanding your network and also close those white spaces in the dealer network share?

Lalit Malik: The idea is to cover about 825 points odd by March and another 100 points next year give or take. That plan is absolutely on track. Yes there is enough reach, we can see in this point of time, especially in tier C, tier D, tier E depending on what classification you are on and what you use. So that plan is unmitigated. People talk about demand and at such point of time. I mean we keep battling in demand in which states are there or not there and all the stuff, but I am not getting aggressive over here but it is the demand was such a concern with us then we do not have taken a price increase. We thought it is required to give a price increase we took one. We would not even take an unnecessary price increase and for that we have not done a price increase for the last one and a half years almost. We felt the need, number one and number two, this will give you one more we have a smaller point, but that is all I can help you with your demand question. We have a classic 350 regular and then about two months ago we have launched classic 350 with a disc brake, we also launched the Classic 500 with a rear disc brake, classic 500 was stealth black the name of the variant, and classic 350 is gunmetal grey. Now the demand for these two products which are higher than a regular classic was almost 12,000 bucks it is much more than a regular kind of classic, so I am saying personally when you see these customers, it of course comes with the benefit in some cases, in some cases it is feature, in some cases it is just the look and all the stuff. People respond to us in a very positive and a strong manner, please check for yourself as to whatever the demand is there for classic stealth black.

Pramod Kumar: No we have done the check and that was the related what I had on the... the tendency of the consumer to upgrade and premiumize sitting up the expo I am saying our scooters which have been talked about at a price point of Rs.1.4 lakh and these are like sub 150 CC scooters what I am talking about and the response what you got on stealth gunmetal grey which we have also checked on our reports is that it is much more higher than anyone's expectation right from the dealer level. So that is the other thing which I wanted to check on was like do you see that the premiumization of the entire motorcycle market across many other categories as well from a consumer perspective does not have a really long runway in India especially in the tier 2, tier 3 cities and towns.

Siddhartha Lal: It is difficult to call, that is our objective and we believe the way we see it happening in richer states therefore the possibility is that should be nurtured and done properly and it will come through people seeing real value. So of course that is our play and that is where we are heading towards and that is what we are betting on that but we cannot say for sure that 10% of the market



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or 20% of market or what percentage of market will turn to you that is impossible to say that it depends on the right product at the right time in the right place.

Pramod Kumar: Thanks Siddhartha and finally on twin, the launch – is it on track for international and domestic market.

Siddhartha Lal: Internally it is on track. We have not given a date for the market really. So yes of course it is continuing its progress towards let us call it as series production so that is what we are still working towards and once we do that, the things is that, then we will sell it probably, so that is still a few months out and we do not have an exact date right now but it is still a few months out.

Pramod Kumar: Sounds great thanks a lot and best of luck. Thank you.

Moderator: Thank you. We have our next question from the line of Chirag Shah from Edelweiss Securities. Please go ahead.

Chirag Shah: Thanks for the opportunity and congrats for good set of numbers. My first question pertains to other expenses. Now it is like almost three years or 12, 13 quarters where our expense range is around 10%, 10.5% to 11% range while the volumes have been growing at a healthier pace, we are not seeing any operating leverage benefit so can you give us indication where are we really in reinvesting the money and if you can just give us some breakup on how much is the spend on the international market, because despite such a fantabulous volume ramp up, the operating leverage is not really seen if you can share some light over there?

Siddhartha Lal: There has been a substantial operating leverage in the last, you are talking about the last 13 quarters?

Chirag Shah: Yes last two, three years it is around 10%, 11% as a percentage of sales every quarter if you see other expense is a percentage of sales ranges in that range.

Siddhartha Lal: Yes our overall margins have gone up that is what you are asking I do not know where this...?

Chirag Shah: So a large part of margins I have come primarily from gross margin improvement and commendable job we have done over there, so your raw material side the efficiency is clearly seen but a large part of that is actually consumed by stagnating other expense as a percentage of sales I am talking about.

Lalit Malik: The fundamental problem in the SEBI format is the way companies see their own numbers I am for sure we see the numbers that way, is that not all of your other expenses is a fixed cost. There are variable costs in built over there, so you segregate that out of other expenses now which you cannot because you do not have a view to them, you will find that from an expenses stand point we are exacting a fair bit of leverage.



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Siddhartha Lal:

Yes, but having said that of course the way we look at all of these things that on one hand I believe we are running a very efficient side of the business and there we are extracting a lot of operating efficiencies, on the other hand there is an enormous amount of investment going on in all sorts of different areas, some bear fruit in short-term, well in short-term nothing really, in medium-term some bear fruit, in longer-term some are not successful but we are still conducting an enormous number of different ideas, projects across the board so as you rightly said international markets they are certainly not born, they are not paying for themselves in that manner yet in the sense all the extra expenses that we are putting, we have not got all the outcome, because that is a long-term initiative and international markets do take quite a bit of cost because manpower cost, marketing cost as Lalit was saying all the events that we do internationally all of those cost lot more than the gains we are making. So yes we are making and even in India actually things like new projects, things like we started two new businesses, we started our gear business which is clothing we started our motorcycle accessories business, we started a garage café, we started all sorts of different areas, we are doing lot more ride events, so all of those are areas some of which are very long-term in nature so you are not going to see the effect today, some of them are all each individual matter does not sort of pay dividend but all of them seem together of what pulls the brand up and what helps us in beating the market in terms of volume growth, so this is difficult to explain it is just that I believe the core businesses is very efficient then there is a lot of additional cost that we are taking on basically to develop the brand and the future business potential in India and in markets around the world. That will continue. We are not planning to slowdown and we do not keep such a tight eye on the margins that tomorrow our margin is falling by 0.2% so we should cut our cost by 5% whatever it is we do not work like that as a company. So we continue to invest in long-term regardless of blips in short-term.

Chirag Shah:

And second question I had was on your comment on this maturing states like Maharashtra, Karnataka and one or two more of them. So is it right to assume that you are okay with the flattish growth over there or lower than average growth over there rather than going for a slight push strategy or creating more excitement, how do you look at it that demand because many premium brands have been able to do a good mix and match of push and pull demand without compromising on profitability or their brand visibility?

Siddhartha Lal:

We are not passive Chirag and I am not suggesting we are passive. It is that we are not in this for getting good quarterly numbers let us put it that way, so we are not going to push our dealers to take two extra bikes because that will reflect better on our numbers that is really not how we would like to operate and so if that is what pushes and certainly we are not going to be pushing but the way we look at it is improving efficiency Chirag that we are all after improving efficiency so we measure our funnel so based on conversions from enquiries to test rides, from test rides to booking, from bookings to orders and deliveries so those are the areas that we are constantly tracking and monitoring and let us say in states that you are talking about as well and we are working on methodologies to improve the conversions to improve firstly the number of enquires



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so that's what real stuff is. So if more people are enquiring and we are able to convert more of enquirers to sales and all the interim processes that is what it is all about so there is an enormous amount of work going on we are not at all passive, we are not at all sitting back and hoping and waiting, we are actively working but the active work is going in and not arm twisting the dealer to take two more bikes but is going in creating genuine demand that is what we are doing and of course we are not satisfied with flattish performance anywhere, we want to grow in all the markets that we are in but sometimes things work, sometimes they do not.

Chirag Shah: And one last question if I can squeeze in. so again if I look at your big markets like say Maharashtra, Karnataka and say Kerala for example would it be right as a statement that in Karnataka and Maharashtra your dealership would be more concentrated in few cities as compared to state like Kerala which would be much more widespread.

Siddhartha Lal: Yes in the case of Kerala...

Chirag Shah: Four, five cities versus Kerala which could be a much wider footprint.

Siddhartha Lal: Kerala is a peculiar state where it is quite it is not like Maharashtra where you have one big city or two big cities and everything else is very different, Kerala is much more evenly spread so therefore of course the distribution is also much more evenly spread compared to Karnataka, Bangalore is big but everything else is minor. So yes and no I do not know there is an accurate answer for that. Of course, we have more distributions strength in Bombay and Pune but we are well covered, we are well covered in Maharashtra.

Lalit Malik: It is out there and if go to the website and see state wise how many cities that we have, we are certainly not in only four or five in Maharashtra, Maharashtra is a very big state

Siddhartha Lal: We are well covered in Maharashtra it is just like what happens is that in much smaller towns the affordability is less, so in Kerala across the board the affordability is pretty good even in the relatively smaller towns in Kerala the the affordability is still very high, not very different from the bigger towns in Kerala but in Maharashtra the affordability when you go into much smaller towns it is much less than the affordability in bigger cities so it is an affordability issue and not a reach issue in these markets, there is very little reach issue that we have there.

Lalit Malik: Give the number to you, it is there on the site also and you can check the site I do not think you will find any medium level city also missed out.

Chirag Shah: Fair point and just one thing I missed on the price hike point what is the price hike you did, can you please repeat sorry for that?

Lalit Malik: 1% on the 350 CC



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- Chirag Shah:** And this was done in January right somewhere in January.
- Lalit Malik:** Feb 1st.
- Chirag Shah:** Feb 1st okay this was helpful thank you very much and all the best.
- Moderator:** Thank you. We have our next question from the line of Lakshmi Narayanan from Catamaran. Please go ahead.
- Varun:** Hi this is Varun thanks for taking my question. Sir firstly I think on the last con call you had mentioned that the new dealerships have been opened last year and a half have been opened tier C and tier D towns, regarding these dealerships, could you give us the sense of how volumes on a monthly basis have ramped up versus your expectation and what kind of monthly volumes are we seeing and over time let us say over a four or five year period, what proportion of volume at an overall level would you expect from these kind of?
- Lalit Malik:** I cannot breakup all the new dealership over the last one and a half years but basically they are as per track now in very, very smart towns like you are saying that at the lowest level we have not gone beyond that. Dealerships have a strength at a steady state it is typically achieved after six to twelve months depending on place and all the stuff because the dealerships should have the ability to sell anywhere between 20 to 30 bikes per month and that is what we are saying smaller space are being able to do so far on a steady state pretty much every dealership I can say almost every states but its tracking to that number as opposed to a much bigger place like top performing dealerships in a metro, Mumbai, Delhi, Pune, which could do anywhere between 150 to 200 that is the range pretty wide range.
- Varun:** And the addition has been about 100 dealers a year is that something that...?
- Lalit Malik:** Yes give or take it is in the same range that is what we are going to do this year and that is what the plan is for next year like at a similar range plus or minus 10.
- Varun:** And just on the international market and again as we expand into these markets over time which is South East Asia and LatAM and over a five- or ten-year period if you could give some colour on what proportions how big do you think that one India market can become on a 10-year period, what sort of the aspiration.
- Siddhartha Lal:** The aspiration is always four, five steps, the step one is to be able to in these markets to have a honestly just to enter it sounds silly but really there are potential markets where you enter and you just do not get any traction whatsoever so the first is just to have a starting point that means some traction, some process. Second is to have a strong position in the midsize market where lot of these markets we do not have a – there was small, midsize markets so we want to become strong player there. The third step is to become leader in midsize market. The fourth step which



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is where we are in India to become a relevant player in the overall motorcycle market so in India we are already 6% market share in motorcycles we are around give or take 12% revenue share in motorcycles, around 20% profit share in motorcycle, we would have 15%, 20% so we are now a significant player and we believe in motorcycle. So that the same steps that we have gone through in India we would like to conceptually follow those steps in these markets over the next ten-year timeframe so if we can become a big player number two, number one player eventually in midsize markets, in midsize motorcycles in three, four, five international markets that is the sort of direction we will be aiming at in the 8, 10 years, I think.

Varun: And I guess it is still early days on that thing on that journey but do you have sort of a market share number in mind that you think of overall volumes of let us say in South East Asia, let us say in Indonesia we have a market share number in mind that you feel given your experience so far if you feel it is possible over a period of time 6% here 12% on value is that something can be replicated there and if not what sort of maybe reasons why?

Siddhartha Lal: When you are a day one you cannot be thinking of day four, we are just thinking of day two right now it is what which we are at step two, step two is just to start thinking again, we have been seeing things are evolving. We have no idea how things will evolve. Of course our best emulation is India right now right if we can have an India like position in any other market that is our huge aim after that of course maybe some markets will be even better than Indian market share hopefully one day and all that so that is 10-15 years out. But till now we cannot do better than what we are doing in India than any markets as you know in the next five, seven years. So of course the ambition is to have an India like position in these markets in a certain amount of timeframe wherever that takes us.

Varun: One final question just more bookkeeping, give us some sense on margins on spares business margin.

Lalit Malik: We do not breakout margins like that, so everything is clubbed as one segment in our reporting.

Varun: We are done. Thank you so much.

Moderator: Thank you. We have our next question from the line of Dheeraj Dave, Individual Investor. Please go ahead.

Dheeraj Dave: Thanks for giving me opportunity and congratulations to team for a great set of numbers. Recently we understand from the press release that our Harley Davidson is also looking at E-bike and in that kind of changing dynamics how do Royal Enfield see and what are our efforts on that area, if you can share some light on that, that will be helpful?



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- Siddhartha Lal:** Sure, as we said earlier that we have a small team working on the future of future electric mobility possibility for Royal Enfield, it is still very early days but we certainly have some interesting thoughts but it is very early days, there is nothing more to announce in the fact that we are actually working on future electric mobility. Again it is a long-term strategy, do not expect anything in the next few years too much in terms of anything commercial which is available in a commercial perspective but we are certainly working on some ideas.
- Dheeraj Dave:** That is all from my side. We wish you all the best.
- Lalit Malik:** Moderator we will take the last question now thanks.
- Moderator:** Thank you Sir. The last question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.
- Ravi Naredi:** Sir why the bike is more costly in Thailand compared to India, any specific reason?
- Siddhartha Lal:** Could you please repeat that question?
- Ravi Naredi:** Our bikes are too much costly in Thailand compared to India so any specific reason?
- Siddhartha Lal:** Well India for us is a very different market and in fact it is not Thailand, everywhere else in the world our prices are quite different from India. Our volumes in India very high our distribution cost in India very low and therefore we are able to maintain a very strong fixed price in India but in all other parts of the world actually other than India the distribution costs are much higher, the transportation costs are higher, the duties are much higher and there are many others factors, of course we try and manage some of those so that we can because we are still targeting the same audience as in India which is an enthusiast audience and a commuter upgrade audience which we have in India so that is very much our target. Having said that even from all other brands there is a similar price differential in India and in markets such as Thailand or South East Asia or Latin America, Indian prices for similar models are much lower for all other brands also so it is not only in India, it is not only Royal Enfield phenomena, this is for most it is not all brands of motorcycles have a similar differential between India and International prices.
- Ravi Naredi:** And can you tell the new showroom in the world where we are opening now in our next three months?
- Siddhartha Lal:** I have talked about the previous three months I do not have a forward looking in terms of stores which we are opening of the next three months but previously we opened in at least two quarters ago in Vietnam but after that was... Actually I announced it earlier, it is Europe and... sorry I do not have it offline, it is somewhere in my notes. I believe there is one in...



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- Lalit Malik:** UK, France, Thailand, Colombia was last quarter, but we have a full year plan to something will keep happening every quarter....
- Siddhartha Lal:** So these are all exclusive stores of course in addition to that there are lots of multiband stores which we keep opening which we are not talking about those.
- Ravi Naredi:** But our bikes export are not growing it is stagnant since last one year so any plan to increase the sale in the world can you tell something about that?
- Siddhartha Lal:** You have not been listening clearly to our talk here today we said we had a 68% growth from 3,321 units to 5,578 units so where is that question coming from, of course we have growth. You did not see the numbers or you did not hear the first part of the presentation.
- Ravi Naredi:** This January figure in front of me export is 1,673 bikes only.
- Siddhartha Lal:** We are talking about last quarter there was a of course month-to-month there maybe variation of export, but the trend has been growing I mean nine months trend is 36% up but in any case this is not how to look At Royal Enfield it is not... what I am trying to say is that the developmental work that we are doing in markets it is not necessary that they will result in sales this quarter next quarter right, there is a lot of investment that we are doing in markets which is developmental in nature it might take three years for the market to develop into what we wanted to develop and the path to that is not linear, it is not like every quarter it will have 20, 20, 20% growth and then sort of that is not how it works, so when you develop the market, you commit to it and hopefully over the next three, five, seven years we will see the type of traction. So, sure we are doing well in exports we are growing but even if we would not be growing that is not a reflection of our efforts in market, it is just a reflection of what we have done three years ago perhaps is what comes out in this quarter right.
- Moderator:** Thank you. Ladies and gentlemen that was our last question I now hand the floor back to the management for closing comments. Over to you Sir.
- Siddhartha Lal:** Right thank you guys thank you all very much for attending this. As we said earlier, our best ever quarter once again at EML and started off with a good month in January, so thank you all very much and look forward to talking to you in three months' time.
- Raghunandhan NL:** Thank you Sir. Thank you very much for your time.
- Moderator:** Thank you On behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us and you may now disconnect your lines.