"Q3FY14 Earnings Conference Call of Eicher Motors hosted by Macquarie Capital Securities"

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SPEAKERS: **Siddhartha Lal, MD & CEO**
Lalit Malik, Chief Financial Officer

Moderator: Good morning, ladies and gentlemen. I am Sourodip Sarkar, you host for today's call. Thank you for standing by and welcome to the Eicher Motors Third Quarter Financial Year 2014 earnings conference call. For the duration of presentation, all participants' line will be in listen-only mode. And post that, we will have a Q&A session. So now without further delay, I would like to hand over the proceedings to Mr. Amit Mishra from Macquarie Capital Securities. Thank you and over to you, sir.

Amit Mishra: Thank you, Sourodip. Good morning, everyone. Welcome to the post result conference all of Eicher Motors. To discuss the results, today we have with us Mr. Siddhartha Lal, MD and CEO; and Mr. Lalit Malik, CFO. I would now like to request Mr. Lal to begin with his initial remarks on the results and then we can begin the question and answers. Over to you, sir.

Siddhartha Lal: Thank you, Amit. And a very good morning to all of you and, Amit, thank you for arranging this teleconference. I am very happy to join you this morning and to share the update for Eicher Motors Limited sales and financial performance for Q3 which is July to September Quarter 2013.

I will start with an update on the sales volumes and financial performance of our two businesses and business area which is VE Commercial Vehicles and Royal Enfield Motorcycles. To start with the Commercial Vehicle, industry concludes to battle a very serious extended down turn which has gone on for over 18 months now. We are continuing to see significant pressure on the sale volumes in the 5-tonne and above segment to the industry which is where VE Commercial Vehicles our joint ventures Volvo which is where we play largely. And in Q3 2013, the segment recorded a sale volume of 70,837 units which is a decline of 26.5% over the same period last year.

In Q2 2013, the decline was 12.5%, so the rate of decline is actually becoming even steeper now which is troublesome; however Eicher Trucks and Buses which is the division of VE Commercial Vehicles remitted in contrast. It continues to fair better than industry performance and improving market share. Our total sale volume for the quarter was 9204 units which is 13.7% lower than Q3 of 2012 compared to an industry poll of 26.5%.

Coming to segment-wise performance. In 5 to 14-ton range of trucks, we sold 4856 units which was 22.8% less than what we sold in Q3 2012 and the industry was down by 21.7% in the same period. So there was a marginal decline in market share and our Q3 market share was around 29.1%. In 16 tonnes and above segment, we sold 1319 units in this quarter which was 18.3% decline in the same period last year, whereas, the industry declined by 38.9%. So as a result of market share for the quarter was 4.3% versus 3.2% in the same quarter last year.

In the Bus segment, we sold 1858 units which is a decline of 20%, whereas, the industry declined by just 10.1%. And our market share was 12.3 versus 13.8 in the same quarter last year.

On a YTD basis, however, we've performed extremely well in Buses and our bus market share for the 9th month this year is 13.9% which is 2% more than last year.

Our performance in exports has also been very satisfactory as a result of lot of actions that we've been taking. We sold 1171 units which is over a 171.7% higher than Q3 of last year, whereas, the industry was largely flat.

On Volvo Trucks, we sold 224 of these high value trucks in Quarter 3, which is a growth of around 72.3 % over Q3 of last year. Our new medium duty engine plant, which is a global plant for the Volvo Group, commenced commercial sales last quarter. So far we've shipped 1250 long blocks in engines and these engines have had a very good response by AB Volvo and have made their very exacting quality standards and we continue to ramp up our engine production and shipments to AB Volvo.

And market conditions continue to be as challenging been over the last 20 quarters. The swing in the sales volume expected in the festive season did not kick in for Commercial Vehicles and also for the month of October sales volume have continued to be weak. But the agenda at VECV has cut out very strongly for the next coming periods. In the near term next month itself, we are going to launch our all new product range all the way from 5 tons to 49 tonnes. So we are having a full new launch of light, medium and heavy duty trucks and buses this year itself as we had announced long ago. We are extremely excited about this launch and we believe it will be an enormous step to driving modernity in the Indian commercial vehicle industry. So it's a very, very big steps for VECV that we are taking right now with the launch of full new range of trucks and buses.

Moving to Eicher Motors' Royal Enfield unit. Two-three years, once again, been the best of a quarter at Royal Enfield with the record sale of 48, 242 units, which is a growth in unit terms of over 60.6% compared to Q3 of 2012. We recorded an EBIT of 17.5%, which is a record at Eicher Motors and it's a growth of 32.9% over the previous quarter and 116.9% over Q3 2012. Very importantly, Royal Enfield had its first successful or its extremely successful global launch of our all-new Continental GT, which is built around the idea of cafe racing. We had over a 100 media from around the world from US, Europe, Japan, Australia and many other countries, of course, including India, who had come to the UK to be with us and to experience our bike and the entire idea of the Continental GT, which went down extremely well. The launch has absolutely put us in the place of, now, an international motorcycle company. And I urge you all to, in fact, go to our website www.royalenfield.com/continentalgt and have a look at all the extremely positive reviews that we've got from all the global motorcycle journalists. So it's been an extremely strong response that we've gotten. We've been shipping bikes over the last few months and we've started deliveries to customers in the international market. And we believe it's a start of a new era for Royal Enfield as an international motorcycle player.

In addition to that, we've announced recently that we are now going to be launching the Continental GT in India later this month. So that will open up our sales in India as well. Our new plant at Oragadam has commenced production in April this year and is now starting to pull in some sales volumes. We are very excited about the future of this business and we are continuing to invest very heavily with the type of growth that we are seeing and we are able to build on this brand and we believe that we are on track to becoming a leading player or even the number one player eventually in the mid-size motorcycle market.

As far as our last line of business is concerned, which is our joint venture with Polaris incorporated of the US, Eicher Polaris Private Limited, the project continues as per plan and is continuing to do well. It's still in start-up phase, so there's not much further news to add here, but we have a strong management team in place and industrial activities have started and the joint ventures continue to meet the timelines for the 2015 launches we had talked about earlier.

Moving on to financials. We've had a very good quarter once again, despite the performance or, let's say, despite the industrial climate in India. Our consolidated results – our total income from operations have actually resumed by 17.1% over Q3 of 2012 to 1736 crores. Our earning before interest and tax has increased by 95.8% from 90.1 crores to 176.4 crores and that has taken our EBIT percentage from 6.1% last year, same quarter to 10.2% this year. And as a result profit after tax has increased by 55% from 93.7 crores to 145.6 crores. And that's our overall consolidated performance and we are extremely pleased with the performance of Eicher Motors Limited in this week-time to actually have another record quarter. And we are continuing to maximize operating leverage and growth in our businesses to maintain a profitable growth environment. So this is all from my side for now. And thank you all for your interest in Eicher Motors and over to you, Amit.

Amit Mishra: Sourodip, we will start the question and answers now.

Moderator: Thank you so much, sir. So with this, we are going to start the Q&A interactive session. So I would request the attendees, if you wish to ask any question, you may press "0" and "1" on your telephone keypad, please. So, participants, if you wish to ask any question, you may press "0" and "1" on your telephone keypad and wait for your name to be announced. We have the first question from Mr. Raghunandan from Asian Market Securities. The line has been unmuted. You may go ahead and ask your questions, please.

Raghunandan: Congratulations, sir, on a very good set of numbers and wish you a very Happy Diwali. Sir, on the results, standalone has seen a very strong numbers and the realizations have increased sequentially in the standalone business. Is it due to higher export realizations or one kind of change in the product mix as well, sir?

Lalit Malik: No, not so much higher export realizations, but, definitely, a much better product mix.

Raghunandan: And, sir, on the R&C to sales, that has reduced in the standalone. Is it because of benefits coming from the new plant at Oragadam and going forward, is this high EBITDA margin sustainable, sir?

Lalit Malik: Yeah, it's a function of – Quite a few things over there. I mean, it's clearly a function of the Oragadam plant kind of, you know, pulls in more volumes. That is function number one. Number two, the general commodity cost environment still is pretty benign. It's not very adverse as of now. We are seeing some kind of a sparkle in some prices, but some parts, but largely still very low. And, you know, as the volume grows, your means of resourcing, your negotiating power and so on and so forth just out of a very different [indiscernible] 0:13:53 benefits that you are beginning to see now. Well, we have been seeing the benefits over the last almost 12-14 months. So I think those benefits are getting a little more entrenched as far as our supply chain is concerned.

Raghunandan: True, sir. True. Sir, on the CV business part, can you throw some colour on competition and the discounting trend you are seeing in a MHCV's?

Siddhartha Lal: Well, as we've discussed in the past, few quarters CV is continuing to have a very difficult period and therefore the discounting levels from the competition continues to be relatively high; it's not changed dramatically in the last quarter because it was very high in the last quarter as well. But it continues to be very fierce market really out there right now. But at Eicher Motors and VECV, we've worked very hard towards maintaining a right balance between unit sales, market shares and profitability. As a result, you can see compared to our peers, we are able to still, overall, gain market share, but we are also able to maintain, I would say, at the VECV level we still have very good profitability because compared to our competitors, we are nearly 6% plus EBIT margin, so which is, I would say, we are extremely happy with that type of EBIT even at the bottom of the cycle.

Raghunandan: True, sir. So the competitors are in losses. How are you seeing, you know, like the general outlook for exports and do you have any targets on the engine production, sir?

Siddhartha Lal: We are not giving any forward target, sorry, for engine production, exports, I think. And, of course, there's a lot of work being done on all these fronts and we have quarters in hand and we are working hard to improve our capacities and all that, but we don't have any particular numbers to tell you what will happen next quarter or further. But we are on the ramp up phase as far as the engine plant is concerned.

Raghunandan: And export, sir, the growth is being led by, you know, like, you are leveraging Volvo's network, is that what you are striving export, sir?

Siddhartha Lal: There's been a lot of focus on exports at VECV level over the last couple of years, which is resulting in good export growth. We also won some good orders, but the true effect of the collaboration that we are doing with Volvo in terms of entering into particular markets with the Volvo distribution, I believe, that is still to play out in the sense that the main sales of those in the ground, which we are expecting out of that is still going to come over the next couple of years. This is as a result of more focus rather than more, let's say, the volume of impact as yet.

Raghunandan: Sir, and just one last query. What is the nature of write back of provision in the VECV, sir?

Lalit Malik: See, what had happened was that, this is a local tax that had been imposed on all the industrial units operating out of Pithampur. This was imposed in April 2010 and it lasted till about November 2012. So during that period, we were not paying along with other industrial units also. It was providing in the books, but we are not paying to the government and we had kind of, you know, rallied around and petition to the government to withdraw the tax. So this tax was finally ended in November 2012, so it lasted for about two years plus to two-and-a-half years. We finally got a NOC from the local authority in July 2013 saying that this is all clear and you owe nothing on this account. So once you got the NOC, we have provision of 52 crores.

Raghunandan: Thank you, sir. That's all from my side. I will come back in the queue for questions. This was very useful. Thank you.

Lalit Malik: Thank you.

Moderator: Thank you, Mr. Raghunandan. The next question is from Mr. Chiragh Shah from Axis Capital. The line has been unmuted.

Chiragh Shah: Yeah. Thanks for the opportunity. Sir, housekeeping questions first. One, if I look at VECV financials, there is a sharp increase in other expenditure. So is it more to do with commissioning of the engine plant or how should one look at that number?

Lalit Malik: See, apart from the normal – So you have a follow up questions?

Chiragh Shah: For the VECV, if I subtract standalone minus consolidated, we get VECV results basically. If I look at other expenditure, it is coming to 14.1% of sales, which is a Y-o-Y as well as sequential by some 130 bips, it comes to 172 crores and this is among the highest number we would have seen in the recent past. So if you can just share some light over there, is there anything one-off and how one should look at this number?

Lalit Malik: See, apart from the general level of operating expenses, there is also a provision that we've made of 8.2 crores. If you look at our annual results for the last 17 years, the VECV result and as a result, the EMS consolidated financial results also carried a qualifications from the auditor on amount of 8.2 crores, which was a MODVAT balance. That was lying in our books because of CENVAT came into being and this was 1994. So I think most of the companies have provided for. For that, we have not because we've got a favourable verdict from the Supreme Court also for it. But for the subsequent month, the government change the law itself and overturns the Supreme Court orders. So we still believe we have a very strong case. Supreme Court also orders to go back to the High Court. So it's not only us, but I think there are large numbers of industrial players who have been hit by it. And everyone is contesting this claim, I mean, to the extent it had the MODVAT balance in our book. But at this point in time, we have decided to provide for it and we want to remove auditors qualifications from our book.

Chiragh Shah: So it has got nothing repercussion on the ensuing quarter, right, is the one-off event?

Lalit Malik: It's a one-off.

Chiragh Shah: Increased charge to the extent now every quarter is relevant to your revenue?

Lalit Malik: No. No. No. Nothing. Nothing. This was only the – Before we moved to the Cenvat regime, this balance was not allowed by the government for [indiscernible] 0:21:17.

Siddhartha Lal: It's very clear. The 8.2 crores is the one-off.

Chiragh Shah: Fair point. Fair point. It's nothing operational in nature which have impact in the ensuing quarter. Fair point. It's helpful. Second question was on two-wheeler business, again, coming back to the margins question that was raised earlier. If I analyze your results over your last two-three years, it appears that the margin expansion is coming from employee cost and raw material and not significantly from other expenses. So is that as and when – even the new plant comes in, your operational efficiency start playing out, would other expenses should also go to another percentage of sales? How should one analyze it or, again, it is more of a transitionary period because you are not at full utilization level at the new plant?

Siddhartha Lal: Yeah. Well, of course, the operating leverage is not extremely smooth in all the front because there are different cost that at different times. Of course, in the previous quarter, we had our largest-ever event which was the Continental GT launch, which Royal Enfield was a very big expense compared to anything that we've had in the past. So that was a bit of a lumpy expenditure in the last quarter. And in the last same quarter last year, we had also Thunderbird expenses. So some of the other expenses do get a bit lumpy once in a while, but generally the trend as you have seen even for other expenditures over the last ten years is downward. But having said that, right now we are operating two plants. It's not that we are only operating a single plant, so the [indiscernible] 0:23:11 of the plant is actually on – in order to churn out so many bikes that we have last quarters, the Thiruvottiyur plant is still on full throttle. And the Oragadam new plant is – it's kicking in. So right now let's see we are not in a bit to make sure that we are able to maximize the unit production. You know, we are not trying to optimise 100%, I would say on the cost structure because we have to make sure that we – It's much more beneficial to produce one more bike than to say one more rupee right now. But, of course, the idea is to, overtime, as we get more scale, there's always the opportunity to get even further operating leverage.

Chiragh Shah: Similarly, can you share what is the monthly production you are doing at the new plant right now? And how is the shift of the assembly lines moving from old plant to new plant? When can we expect the transition to span out completely? Can you share some light over there?

Siddhartha Lal: Well, the production at Oragadam is going as per our plans. In the last quarter we have produced nearly 11, 000 in Q3 and that's rising upwards. So in Q4, it should go substantially higher than that. And, yeah, but overall, as you know, we have the number out.

Chiragh Shah: Sir, ballpark number is also fine. It's more of a directional trend rather than exact number of…

Siddhartha Lal: Yeah. I mean, directionally, we are moving, I mean, as per plan we are ramping up extremely well in the Oragadam plant. But the news right now is that we are not ramping down [inaudible] 0:25:08 plant. We are continuing to maintain Tiruvatur and ramp up Oragadam. That is how the needle is shifting and that is how we are able to produce a lot more motorcycles than we had even originally envisaged.

Chiragh Shah: So does it also mean that because earlier if I am correct, your initial strategy was to move the entire old plant assembly lines to the new plant. That was the thought process. And look at more of engine assembly at the old plant.

Siddhartha Lal: But now we are probably moving that rate back a little bit right now because…

Chiragh Shah: A lot of demand, because of the high demand.

Siddhartha Lal: Yeah. So by now, as per our original plan, by Q4 which is what we are in right now, we should have started ramping down __________ [00:25:59.2] to some extent. But we are still running __________ [00:26:01.9] full throttle. So as it stands, we are going to continue to run both plants right now. And there is not tearing rush to shut down the other plant, the older plant. So of course, there are many other issues that in the production of engines themselves is a question with us, the suppliers base to the question in terms of how to ramp that up even faster, but we are trying to ensure that we can start producing as much as the market demand is so that we are able to satisfy the demand and able to actually reduce the amount of waiting period which – that is on the bike, so that we can serve our customers better. So there is an enormous, let's say, work going on our side to continue to ramp-up production as much as we can.

Chiragh Shah: And you had earlier indicated that you are looking at 250,000 units production capacity in **say** by 2014. Any revision of thoughts over there that it can be scaled up higher, if you can share something over there it would be helpful. Because my worry is that engine assembly, maybe, turn out to be a bottleneck for Enfield.

Siddhartha Lal: Well said. Yeah, we – obviously, our intention is always to try and maximise production at this point. And we don't have a number right now in terms of what we can take the capacity up to. So we are maintaining – or, if there is anything further beyond. So we are maintaining a 250,000 production for 2014. But we are obviously working very hard to try and see if we can improve that any level. But we don't have any, let's say, any firm number as of now.

Chiragh Shah: And one last question, if I can squeeze in, on this raw material cost improvement, there has been positive surprises, but if you can help us understand, what are the trajectory from hereon because if I look at RM to sales as a ratio, it has been coming [indiscernible] down. How should one look at when you are actually able to ramp-up the new plant to a better utilisation level? If there are significant scope of further pending down in this ratio? So assuming that the cost pressure, et cetera, are status quo, there is no major change over there.

Lalit Malik: Chiragh, frankly, new plant utilisation will not have a very significant dealing on the material cost utilisation. That is more [indiscernible] [00:28:56.1] with other things. So I don't think – but it is just the volumes and the pressure to do more, value-added-value engineering alternate sourcing negotiation, those kind of stuff. And those will only come through a better volume level. So to that extent, of course, a new plant will be a very critical role [indiscernible] [00:29:16.4] volumes have given us more leverage over the vendors. But as of now…

Chiragh Shah: So is it right to assume that there is still a good amount of scope for you bring out the ratio down. That is the right way of analysing in the next two years of Royal Enfield?

Lalit Malik: It is a continuous, constant, consistent effort. We have to manage the raw material that too without compromising the quality.

Siddharth Lal: Yeah, there will be pressures in both ways. What we have been to accomplish to some extent is that with the type of scale and numbers we are able to give to our vendors, we are able to improve the process, we are able to have dedicated lines at their end which means that their cost also come down and we are able to assure them higher volumes. So all of that is what is really helping us in doing this. But there is also a diminishing returns to increase volumes as far as cost are concerned. So there is a sweet spot at which you start which is, I believe, we are right now. And after that, of course, there will be further improvements, but there are also pressures on the cost which will start to come in.

Chiragh Shah: Yeah, but the intensity of improvement would start ascending down after you hit the sweet spot. Fair point. Yeah, and one last thing on commercial vehicles is, are you, in your own portfolio, are you witnessing rising, discounting pressure, because margins sequentially have rendered down for VECV. Even if I adjust for the increase in Volvo sales, there is a jump in Volvo with volumes. They are trading business. Margins are trending down. So is it a more of a pressure of discounting that is bringing it down?

Siddharth Lal: There is a lot of different process charges, like, you said there is the Volvo Trucks. They have different product mix. They have different realisation on that or different margins on a different product. So there is a lot of different things. But of course, discounts are still as high as they ever were. I don't they have not changed substantially, let's put it that way. So it is not like its…

Chiragh Shah: Sequentially results have not changed substantially.

Siddharth Lal: They are extremely high right now at the market level. So like I said earlier, it is very, very competitive market out there. Our competitors are throwing a lot of money on the table to maintain their market shares because they have been – or maintain their volume base. And as a result, we are all, gotten a bit of discounting situation right now. But yeah, it is not substantially different, let's say, from previous quarter.

Chiragh Shah: And which is the new product platform that you would be introducing, I presume, it would begin with our bread-and-butter product in this five to nine tonne segment because even competition is increasing over there. Leyland has introduced a new product over there. Can you just give a roadmap on what kind of products can we expect over the next 18 months in terms of sequencing broadly?

Siddharth Lal: Hold your horses, you have got one-month and we will tell every single thing about our product. And so, we have to leave something for the next month now.

Chiragh Shah: Okay, great, thanks a lot. Thank you so much and all the best.

Moderator: Thank you so much. We have the next question from Sonal Gupta from UBS. The line has been unmuted, you may go ahead and ask your question. And before we open our line, I would request all the attendees if you wish to ask any question, you may press “0” and “1” on your telephone keypad, please. So it is “0” and “1” on your telephone keypad to ask questions. Your line has been unmuted, Mr. Gupta, you can go ahead and ask your question.

Sonal Gupta: Hi, good morning, Siddharth and Lalit, thanks for taking my question. I mean, just to start with again coming back to this raw material cost for both the sides and starting with the motorcycle. So I mean, most of improvement, because there is a pretty sharp improvement quarter-on-quarter on the motorcycle side from 65.1% to 61.6% about a 350 bips. I mean, is that all coming out of better pricing or is there something else and better pricing from vendors or is there something else?

Lalit Malik: Sonal, it is a combination of many different things. There is also some product mix that of 500cc sales. There is some good cost reductions, we have been able to attain. We haven’t taken a price increase recently. So there is no real effect of that. So yeah, it is just a combination of more efficiency in our industrial system and better product mix.

Sonal Gupta: Right. And would it be possible to quantify the impact of the Continental GT launch because I think that would have been a pretty big expense, right, in this quarter?

Lalit Malik: Well, we don’t get into the line wise analysis. It was not very large. But it was large Royal Enfield quantity so forth in terms of – which is not out of way.

Sonal Gupta: Okay, so just coming to the Royal Enfield, the raw material cost, therefore, should be – I mean, you don’t see a major change to this. This is a sustainable level of raw material cost, right?

Lalit Malik: There is a constant struggle. We have to keep the raw material cost down. As I said, there are three or four levels that we constantly have to play with. And this, of course, is the probably issue also. So this is the level that we will face for the next many quarters. It is very, very hard to say.

Sonal Gupta: Okay, and again on the VECV side, we haven't really seen a significant increase in the raw material cost. Is this, I mean, despite the fact that in terms of product mix, it moved significantly, I mean, there is a much higher contribution from the Volvo Trucks business. So that should have pushed it up. But we haven't really seen on a quarter-on-quarter basis that raw material cost really increasing. So is this because of better margins in exports because I don't think the domestic mix has also really improved. So I am just trying on to understand…

Siddharth Lal: Proportionately, Volvo Trucks business is not a higher contribution business in that sense because you only get a distribution margin in that business.

Sonal Gupta: So that is what you think, then it should have come down where it is not so [indiscernible] [00:36:05]?

Siddharth Lal: Well, again, even in the VECV business, we have actually had very outcomes and results on cost reduction exercises that we have been doing. And also, of course, we – there is, of course, there is a little bit pressure, but not much on the raw material cost. So as a result of that we have been able to manage reasonably well. We had a price increase also last quarter. So that has also probably helped in the raw material cost to some extent.

Sonal Gupta: And discounts, you are saying it has not changed much quarter-on-quarter, right?

Siddharth Lal: Sorry.

Sonal Gupta: So the discounts have not really changed much on a quarter-on-quarter basis, right, I mean, on the average discounts per unit?

Siddharth Lal: Yeah, from the last quarter till this quarter its – we are basically at the peak in terms of discounts. So it has not changed substantially, yes.

Sonal Gupta: Right. Because the other thing is that your exports have gone up significantly and especially in this quarter. So clearly is there some benefit because of better realisation in exports especially given the currency as well. So is that sort of helping you?

Siddharth Lal: There is certainly a bit of that where the currency does help a little bit. In the scheme of things, the exports have done very well, but it is still relatively small volumes in our larger picture, but every little bit helps right now. And it has helped us in maintaining a reasonable margin situation which has helped us in a reasonable gross margin which has helped us maintain, let's say, a pretty decent operating margin as well.

Sonal Gupta: And just, my next question on exports for VECV. So is this volume sort of – which market side is this coming from? And secondly, are there any tender driven, I guess, a lot of it will be tender driven, but what I am saying is that is this something, like, you think close to this sort of run rate is a sustainable run rate or this is because some big order came in this quarter and that is why the number has shot up?

Siddharth Lal: Yeah, the exports are largely continue to be Africa, Middle East. So that's where our improvement is also coming from; South Asia and Africa, Middle East. And yes, there is a few smaller tenders which we have won and we are exporting stuff, but basically, the normal export sales through our distributors which is what continues. And we have been putting a lot of effort on – we have to market and on various other things in all these countries which has helped us in our growth. But we see that hopefully that becomes a much bigger part of our future in the next two-three-year horizon.

Sonal Gupta: Right. And just finally, on the Royal Enfield side, any colour that you can give on the demand side as to how you are seeing things, I mean, how is your order, what is the backlog now in terms of demand and how have you seen this festive season for your company, I guess, you still have order backlogs. It must have been good.

Siddharth Lal: Yeah, the good news is that orders continue to grow extremely well for us. But the other good news in some sense for the customer is that because our production base have shifted from around 10,000 odd last year, or just over 10,000 last year, this time there is now – 16,000; 18,000 is what we are sort of being able to accomplish. So the number of months of waiting have started to come down and we continue to push that. So typically, now, what was seven, eight moths, maybe, a year ago is now four to five months as waiting or in that sort of ballpark. So we are doing alright. And we continue to push up our production. We will hopefully be able to push down the waiting time. And that actually spurs more demand because currently we are losing quite a few customers because of this immense waiting period. They are not wiling to wait for long for a bike. So anyway you look at it, it is actually good right now for us.

Sonal Gupta: Right. And just finally in any colour you can give, I mean, now, at this Continental GT launch, what is the sort of export, any numbers on the export side that you are looking at or as a percentage of sales, any targets on the RE side?

Siddharth Lal: We don't give forward target, sorry, Sonal.

Sonal Gupta: But anything in terms of, I mean, what is your expectation from this model or what is the run rate you are looking at from this model?

Siddharth Lal: That is again a forward target, Sonal, so we are not doing that. We are not giving model wise and other stuff. But the other thing is that what you see in Continental GT is that one, of course, the unit sales from the Continental GT itself is very important to us. But the Continental GT also acts very strongly as a halo product which brings people into showrooms and allows us to sell other bikes as well. So the entire launch and the entire, let's say, aura that we are creating around the Continental GT is, of course, for the Continental GT, but we believe there will be a huge spin off or let's say a huge rub off effect on our other range of motorcycles as well for the international market and for exceptionally.

Sonal Gupta: Okay, and what is the pricing for this product?

Siddharth Lal: We have announced the pricing in international markets. It is basically £5000 on road that means after all taxes and road taxes, et cetera, £5000 in UK.

Sonal Gupta: That is a 20% VAT.

Siddharth Lal: 7200 on road in USA, but which makes it an MSRP price. Normally, US likes to quote MSRP of $6000. So it is $6000 MSRP in the USA.

Sonal Gupta: $6000. Great, thank you so much.

Moderator: Thank you so much. The next question is from Mr. Ajit Sethia from Centrum Broking. The line has been unmuted, you may go ahead and ask your question.

Ajit Sethia: Yeah, thanks for the opportunity. I have got two questions. One, can you help us understand how is the ramp-up on the dealership side both on the RE and VECV, how it has moved over the last three quarters as compared to the earlier year? And second, if you can help us export revenues for VECV this quarter and previous quarter?

Siddharth Lal: On the distribution side, we have 260 points of two and three years at the Eicher truck and bus levels of which 154 of these are three years. Volvo Trucks, we have 30 workshops and 158 site support workshops. That is in Volvo. In RE, we have over 290 dealerships now and we should, you know, we are adding many dealerships every month. We should cross 300 this year.

Ajit Sethia: Okay, and sir, how is the demand beyond the top 10, 12 cities because last time you had indicated that top 10, 12 cities account for 50% of volumes. Has that changed and how are you seeing traction on beyond the top 10, 12 cities?

Siddharth Lal: Well, the fact that it continues to be like that means that actually there is a good traction from all the cities. Now, what's happen is that over the last many months that – over the last year you can say that – year and a half, while most of the growth for the previous two, three years was coming from the big cities. And the big cities continue to drive the growth extremely, strongly. And we are seeing a huge demand position here. But what is happening is that now the smaller towns are becoming more active from the perspective that even a dealership is getting viable in the C and D town. And we are able to add good dealers in C and D towns. And as a result, a lot of the C and D's now, let's say, are certainly pulling its weight in our overall numbers. So there is a mix. So I think, now, as opposed to, let's say, a year and a half, suppose if you would ask the enormous will come in mainly from the A cities. Now, it is the entire A, B, C, D is all pulling in its weight and they are all growing pretty well weight out for us.

Ajit Sethia: Okay, great. And sir, my second question was if you can help us, what has been the export revenues this quarter and if possible for the previous quarter?

Lalit Malik: Well, we only talk of unit. We don't talk of realisation and all of it because it is all reported under a single segment. The units [inaudible] [00:46:12.8] because rather than opening…

Lalit Malik: Units is yes, once again, 1170 unit.

Ajit Sethia: Yeah, units I have got. I was looking out for revenues, maybe.

Lalit Malik: We don't give revenue number, sorry.

Ajit Sethia: That is fine. Thank you so much.

Moderator: Thank you so much. The next question is from Mr. Jinesh Gandhi from Motilal Oswal. The line has been unmuted, you may go ahead and ask your question.

Jinesh Gandhi: Hi, sir, congratulations on a very good set of numbers. Sir, my question pertains to in this quarter you indicated about 1250 delivery through Volvo. How do we expect this to ramp up and what would be the revenues for MDEP in this quarter?

Siddharth Lal: Again, Jinesh, we don't give forward looking in terms of numbers or we don't give revenues either. So sorry, I can't help you on that. We have said that our phase 1 in the MDEP plant will take us through 25,000 units. So we are ramping up 25,000 units per annum. So we are ramping up towards that number. But we don't have a – we are not giving a quarter-by-quarter break-up of how that ramp-up is going on. But we will tell you in future proceeding for the pervious quarter what the unit sales are.

Jinesh Gandhi: Okay, right. But response from Volvo has been quite encouraging on this account.

Siddharth Lal: Yeah, the response is excellent for Volvo. There are installing the engines in there. They are testing them thoroughly. They are installing the engines in their customer vehicles and they are on the road now in Europe. And they are doing well.

Jinesh Gandhi: Okay, so effectively, there should not be road blocks for – meaning ramp-up in this business as such?

Siddharth Lal: Yes, we don't expect anything. But of course, it is early days. There are still ramp-up going on. It is a mechanical product. They can be issue, like, what [indiscernible] [00:48:14.9]. But we are very confident that we have got a very good, let's say, a very good process and a very good engine and it should do what we expected to do.

Jinesh Gandhi: Right. And sir, second question pertains to Royal Enfield exports. Now, with the Continental GT being launched, can we expect a gradual, but consistent ramp-up in exports from here on and in turn should it also support our profitability to near levels from here on?

Siddharth Lal: In Royal Enfield, again, we are not – I mean, I am not giving you – I mean, on the Continental GT, I can't give numbers as I have explained earlier. Is that what you asked, right, on the Continental GT?

Jinesh Gandhi: Yeah, actually, my question is one can expect a consistent ramp-up in exports from here on or it will still take some time for us to invest in developing those markets?

Siddharth Lal: The way I look at it, Jinesh, is that right now this is the starting point of a new export strategy for Royal Enfield. And from our approach earlier which was likely more opportunistic, we had distributors and dealers and the pricing was high and all of that. So we are moving to a slightly different regime in our export market with Royal Enfield. And if you look at the numbers of the last, many years, actually, exports as a percentage of overall units sold have been coming down sharply. And number of units have continued to rise, but as a percentage it have come down. Hopefully, of course with Continental GT and other things, we should start rising again in terms of percentage but it's going to take sometime because - You know, while we now have a good product and we have a lot of good reviews and all those things, we are now really building-up our distribution network in these international markets which takes substantial time. So there is lot of efforts. That's the effort being put in right now. The results will lag on the effort.

So I don't expect any miracle in export numbers in 2014 either. I mean it's going to be organic growth really. But at some point with the all the efforts we are putting, we should see some breakthroughs in some markets and then the growth should happen. That's how we look at it right now. But it's really a long-term focus for us in terms of what we are trying to accomplish is very important for us to now really look at international markets is extremely strategic. And Continental GT, the bike itself and the way we launch it and type of reviews we got in is starting point of new a Royal Enfield for international markets. But again that's just the starting point. It will take us two, three years before we can start seeing from really solid results out of international markets. That's my take on it. Hopefully it will happen faster but at least that much time it will take.

Jinesh Gandhi: Okay. And currently we have only launched in UK and US?

Siddharth Lal: And Europe. And the shipment has started to other places as well. But these are the main markets, yes: UK, US, Europe. Soon we will start the shipments to Australia and Japan. And we are also launching in India now end of this month. So let's see. We are producing a lot of India specific Continental GT at this point in Oragadam so that all our stores can have display bikes, test-drive bikes at the time of launch.

Jinesh Gandhi: Okay. And sir, last question pertains to tax rate. It has gone up in this quarter and any particular reason for that and what should one expect for next year as whole?

Lalit Malik: Well, this quarter. As you can see from the financials also, our FMP income, which is the large part of the other income that we have, it was very, very low because the majority of the FMPs are not skewed to Q3. So that's the one reason. The other, of course, it really got to do how much we are doing on R&D on which we get 200% break. So that expense is higher and of course the tax rate becomes lower. So in this quarter that number was not very high.

Jinesh Gandhi: Okay, okay. But overall in R&D spend, one should expect significant increase in that over next couple of years?

Siddharth Lal: If couple of years, yes. But you know as a percentage of over all sales again may not be high but the sales also going on very fast. So in absolute sense, yes, you should expect higher spend from us on R&D.

Jinesh Gandhi: Okay. Any particular target you have in mind in respect to as percentage of selling how much you plan to invest in R&D.

Siddharth Lal: What we want to do in terms of hardware, software, in terms of product development expenses and all those stuff. So function of that, you know, we are not skewing the other way around that. This is our desired percentage level. But it should be around 2-3% at the secular level. It may not happen next year but that's what it is.

Jinesh Gandhi: Okay. And that should be in standalone or you are including VECV as well.

Management: Broadly both. On VECV, the depreciation impact is also a big driver in the tax. It is not so high in standalone. But R&D expense of course is the single biggest driver because VECV doesn't have any FMP incomes. So to that extent that tax shield is not there with them.

Jinesh Gandhi: Right, right. Got it. Sir, thanks and all the best.

Siddharth Lal: Thank you.

Moderator: Thank you so much. We have the next question from Mr. Ashish Banerjee from Quant Capital. The line has been unmuted. You may go ahead and ask your questions.

Basudev: Yeah, thanks. This is Basudev here. Most of the questions have been answered. I just wanted to know as you said indicative pricing, on-road pricing of Cafe Racer being some around Rs.3 to 4 lakhs in Indian currency. And on the other side, as per media reports, Harley and BMW are planning to come out with somewhere around 4 and 4.5 lakhs on-road price product. So how o you see your product positioning in compared to such global brands at competitive price?

Siddharth Lal: Sorry, you are talking about in India or in international market?

Basudev: The prices which you said in international market, so I converted to INR rates. It comes at around at 3 to 4 lakhs range.

Siddharth Lal: Yeah. Typically there is a pretty wide differential between our international prices and our domestic prices as you will see from our other products. So you have to wait for end of this month before we announce our India prices and then you can see what impact, you know, any other or let's say, on the competitiveness of our motorcycles. So we are very confident that it will be a very competitive motor cycle in the Indian market and type of draw that it's already had from the Indian audience in terms of the enquiries and in terms of the interest levels at our dealerships, on our digital platform is extremely high. Yeah, we are excited about the launch and we think it's the right product at the right time.

Basudev: Recently we have interacted with several dealers of RE across India. So the dichotomy like places like and Ahmedabad, a dealer is having waiting period of Bullet Electra somewhere around 2-3 months whereas places like Mumbai, Hyderabad, Bangalore people are saying nowhere below eight months. So can you explain why this disparity?

Siddharth Lal: Waiting period will be different for different product for sure.

Basudev: But on the broader basis?

Siddharth Lal: Yeah, it really depends on various factors. I can't get into here what is our reason for doing that. It depends on various things but let's say that our ambition is to try and maximise bookings and to maximise the sales in the different markets and to grow different markets in the manner that we would like to. So there is a lot of work that we do backend to make sure how this is being done and also of course if there are new dealers and there are existing dealers, the allocation to different dealers. So there is a lot of different factors that go into how many bikes are going to which region and all of that. But essentially the idea is now a lot of the product line we are seeing a good reduction in the waiting period already happening. So over the last two-three months the waiting period has come down by one or two months at least if not more.

Basudev: Sure. And, sir, my last question is like what is the current status of Capex guidance for this year and next year across VECV and RE?

Lalit Malik: For VECV remains the same that we announce at the beginning of the year which is 1200 over CY 2013-14. And for Royal Enfield or Eicher Motors specifically, we are still in the planning cycle. So once we have done with it, maybe in the next call we will talk about it.

Basudev: But broadly for this year how much you are doing? 3/4th of the year already over.

Lalit Malik: So we will talk about it once the whole year is through. We will talk about the last year gone by and also for the next couple of years also.

Basudev: Okay, sure. Thanks.

Siddharth Lal: Okay. Moderator, just have time for one last question.

Moderator: Sure, sir. So we have the next question. The last question for today's session would be for Mr. Pramod Kumar from IDFC Securities. The line has been unmuted. You may go ahead and ask your question.

Pramod: Thanks a lot of the opportunity and congratulation, Siddharth and Lalit, for a fabulous number and especially on the review what we are reading on Continental GT in the international press. My first question pertains to commercial vehicle side, Siddharth, you talked about the discount being very high, industry being very bad but we have also heard about some very innovative or very disruptive financing schemes or very bare minimum KYC and bare minimum down payments. So just want to understand how are we - Are we anticipating in any of those of schemes either through subvention or tie-up with other bank? And second part of the question would be how are the delinquencies faring for our VECV portfolio vis-à-vis what you are hearing for the industry as whole?

Siddharth Lal: Thanks, Pramod. Innovation is a nice way of putting it in terms of financing by some of our competitors. As you know, the way Eicher works and VECV works also is - While we are very aggressive, we are also very conservative in some matters and this type of KYC and all that stuff is certainly not in our street in terms of, you know… we are confident that these kind of things you know bite you back later. So anything that we do is always upfront. That means, as you know, we don't have in-house financing, so we don't take a future risk. Any work that we do with financiers and we do a lot of, I would say, truly innovative, I would say, schemes. But we do a lot of work with financiers on financial schemes for our customers this time, because financing is becoming a very big bottleneck right now to sales. But every rupee is agreed upon upfront and given upfront and it reflects on our P&L. There is no future liability or let’s say, issue which you will have in our books at any future time. The day we sell the trust we spend the let’s say the subvention or everything else as well. So there is a lot of subvention, there is a lot of schemes but that's all expensed off

Pramod: And delinquencies levels are up generally for the portfolio because earlier you had said how low the delinquencies for your VECV portfolio reflecting upon the product quality and customer acceptance?

Siddharth Lal: The delinquency levels have, of course – In fact, till recently we had close to zero delinquency in our heavy-duty portfolio. The delinquencies have started to come in but at a very manageable level, it is still better than the rest of the industry and we work extremely closely with all our financiers. We have corporate and regional financial teams who work with the financiers on a daily weekly basis and make sure that you know that we keep the delinquency to a very low level so that the financiers continue to be happy with the performance of the Eicher portfolio and we will continue to work with them very closely.

Pramod: So is it fair to say that we would be lower than the industry levels in terms of the delinquencies because most of the banks are talking about doubling of delinquencies in the industry as a whole.

Siddharth Lal: Yeah, generally we have been better off. Obviously, it is impossible to say from the captive finance firm, how much delinquencies they are getting, which is you know difficult for us to say, but at the bank level, yes, we are probably better off than our competitors right now.

Pramod: Great. And Siddharth, second question is for Royal Enfield. We had a Thunderbird last year and Continental GT now. And I understand that Continental GT, there has been lot of effort and time which has gone into that product for the international market. But what would be new launch pipeline at RE as in for the next year or two? How many launches would you be looking at? When I say launches also including some major update like what you did with Thunderbird last year.

Siddharth Lal: Nothing to announce right now, Pramod. There is a lot of work going on in Royal Enfield but unfortunately nothing to announce. Right now our focus, attention, energy is in making this new platform or let's say, this new motorcycle, the Continental GT which is entirely new except the engine which is upgraded. But every single other part is ground up new. The frame is extremely different. Everything else is new and there is a lot of work to actually establish Continental GT over the next year as the definitive classic sport motorcycle in India and in international markets. So right now our focus is entirely there but of course we have a pipeline. We haven't announced anything. So I can't tell you about any future products as of now but clearly we are working on it.

Pramod: Okay. And Siddharth, my last question pertains to RE. The going has been great, so I just thought what is your view on increasing noise or increasing launches which our major players like Triumph and Harley are talking about in 500cc or around that segment. Of course there will be competition coming in but how do you see it impacting the overall industry volumes or the niche category as a whole whether there is space for everyone in the industry to have fair bit of growth which is much higher than the mass market. Your view on that, Siddharth.

Siddharth Lal: Well, clearly, Royal Enfield's performance is encouraging others to enter into the higher or the midsize motorcycle space as it were and certainly there is room for different players and different ideas in the space. But our intention is really to take the space for totally different level in India and that's what we are doing. So right now we are building out what's by far the best premium motorcycle distribution network in entire country. Not just from a physical infrastructure point of view but also from our training, software, culture, point of view in terms of how bikes are sold in this category. So there is lot of work going on that. We have very outstanding range of current bikes and future bikes that we are looking at.

So I mean, we are very, very confident that we will continue to be very strong in the segment and that will continue to drive the innovation, drive growth of the segment itself. So as someone who is commanding, let’s say, I don't know now, certainly over 95% maybe 98% of the above 250cc market, our expectation is not to maintain that 95 or 98 or whatever it may be. Our expectation is that - What is more important for us is that we can grow the market multi-fold over the next many years. So if we can grow that market from, you know, what is currently, just have 200,000, we can grow it 5X and we still command a big market share. I think that's most important for us.

Pramod: And sorry for this but you talked about improvement in dealership quality, so it just occurred to me. A question on your accessories business, as in the non-vehicles business and Royal Enfield it has been close to nine months now since you rolled it out. Just want to understand how's been the ramp-up so far whether you have been able to have supply accessories across all your dealerships or what kind of stage have you reached in terms of number of dealers selling it? Is it like panning out as per expectation now?

Siddharth Lal: Pramod, I would still say, in fact we are in beta phase. So we are not in full phase right now for accessories because we are still trying and testing our models. Having said that, it's working extremely well because for our dealers, it's essentially an incremental business model. They already have a showroom. Now within that showroom, they are just dedicating some space and some working capital to apparel and accessories. And to that effect, it's extremely a good business model. We have piloted it initially in around 10 stores and we have had very, very good success in terms of customer's acceptance of the product. As you can imagine with 30 odd unique products that we had in the last collections and now that's increasing dramatically with the Continental GT collection that we have launched in the UK.

We have a very strong acceptance from – Let's say, the customers are pulling in a lot. So the store sales are actually really good in whichever stores we are selling. So we are ramping up right now. We have gone to over 50 stores, we are active now in and over time, you know, and we will of course the Continental GT range is going to hit the stores now. Any day now actually, they will be hitting the stores. So that will give us the further impetus to next year but we are still in the, I would say, beta phase of our apparel and accessories. We are still learning. It is our first full season really right now and we are in much in learning phase. We are adapting to some products we collect more, some people like less. So we are trying figure out all of that.

So now we are in very different category of business. So we want to be taking it very seriously. But we are confident that it will become very important part of our business in multiple ways. One, that it is a very big brand driver for us and that's the very important objective of us that it becomes you know very important part our brand story. And of course as a standalone business, it's very interesting business to be in any case.

Pramod: Excellent, Siddharth. Thanks a lot, both of you. Have a great new year. Thanks a lot.

Siddharth Lal: Thank you.

Moderator: Thank you so much. So with this, we are going to end the Q&A session for today. I would like to hand it over back to the management and Mr. Amit Mishra for any final or closing comments. Sir, over to you.

Amit Mishra: On behalf of Macquarie Securities, I would like to thank the management team of Eicher for giving us the opportunity to host the call. Thank you very, sir, and thank you all participants for being on the call. Have a nice day. Thank you.

Moderator: Thank you so much. With this, we conclude the Q3 FY14 Earnings Conference Call for Eicher Motors. You may all disconnect your line. Thank you so much.