"Eicher Motors Limited Q3 FY 2016 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Q2 FY 2016 Financial Results call of Eicher Motors Limited hosted by Edelweiss Securities Limited. As a remainder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chirag Shah, Associate Director, I.E. Research of Edelweiss Securities Limited. Thank you and over to you Mr. Shah!

Chirag Shah: Thank you Margaret. Good afternoon everyone and thank you for joining us today. We would like to welcome Mr. Siddhartha Lal, M.D. & CEO and Mr. Lalit Malik, CFO of Eicher Motors. I would like to thank them for giving us the opportunity to host this call. I would now like to hand over the call to Siddhartha for initial comments and then you can start with the Q&A. Over to you Siddhartha.

Siddhartha Lal: Thank you very much Chirag for bringing this call with the investors and analysts and I am happy to join this call with Lalit to share updates on financial and sales performance, so that for Eicher Motor Limited consolidated financials and first review of financial updates for Q3 from the calender year that is July to September quarter. We have posted our highest our net income once again at Rs.3122 Crores which is a 37% growth over same quarter last year. We have posted our highest ever EBIT of Rs.405 Crores which is an increase of around 63% and at a consolidated level we have 13% EBIT margin which is again our highest ever for Eicher Motors consolidated and for Eicher Motors standalone we have had excellent results once again, so that is reflecting the Royal Enfield business entirely. We have had our best ever quarterly total income from operations at just over Rs.1300 Crores which is an increase of nearly 59% over same quarter last year and we have posted our best ever EBIT of Rs.334 Crores which is a growth of nearly 74% over the same quarter last year translating into an EBIT margin or operating profit margin of 25.7% which is our highest ever and so Royal Enfield is continuing its profitable growth. On to the business updates, we have had best ever motorcycle sales as well in Q3, we sold 127,611 motorcycles which is nearly 56% higher than the same quarter last year. Our order book remains strong and we continued to take in more orders every month than we are supplying. Today, the board of Eicher Motors limited also quartered in principal approval of additional capacity at Royal Enfield. So the capacity will come from the first phase of our Royal Enfield third manufacturing plant. So, we bought the land last year earlier this year. We bought the land at Vallam Vadagal in October last year and we now have in principal approval to start the first phase of the new plant there, which will take our company capacity up to 900,000 motorcycles per annum by the year 2018 and we are continuing to increase our retail footprint. In India, we will have 500 exclusive Royal Enfield dealerships operational by the end of 2015 and all of these stores now will reflect our unified global retail identity. So, we have started rolling out our retail identity last year and by the end of this year will be complete with rolling out our retail identity. We have also taken a lot of steps in the last quarter towards our global plans in our international thrust in order to become the leader of the mid-size market globally and towards this, one of the big moves we have done is to announce our first direct distribution subsidiary outside of India which is in North America. We did that in August of this year. North America is a nodal market, it is one of the largest markets in the world I believe in value terms and Royal Enfield North America will be headquartered in Milwaukee, Wisconsin. The team which is already operational, there are over 10 members in the North America team an excellent team we have there is lead by Rod Copes who is the President of Royal Enfield North America and they will be directly responsible in conducting all market development, activity, sales, after sales all of that will be conducted by our own market company in North America, so that is the first time we have actually done anything like that outside of India. In North America, we used to operate for example via distributor, so now the market company takes over from the first of January as well. In August, Royal Enfield also announced, we also announced our entry into Indonesia, which is the third largest market by volume in the world. Our first exclusive store will be in Jakarta and that will start selling motorcycles later this month. We are also expanding our global retail footprint and have had many new exclusive store openings across the world in the last quarter that includes a second exclusive store in London and two more of those in Colombia where we already have three. We also opened two more of these standalone exclusive Royal Enfield branded stores in Paris and Madrid in October, so that is last month. We also participated in the extremely evocative and very popular Goodwood Revival festival in UK in September this year where we had in fact two retro-themed marquees attracting crowds in tens or thousands I believe and it gave us a really good visibility in the market in the right manner. All the projects for Royal Enfield are continuing on the desired track including our two new technology centers that we are establishing, the large one in Chennai and satellite one in UK, the work for that is progressing well. Our projects on development of new products are also tracking well. We continue to invest in the brand and in the front end and international market development in capacity and product developments, so investments are continuing across the board at Royal Enfield.

Now, an update on performance of our joint venture with Volvo which is the Volvo Commercial Vehicles Limited. The commercial vehicle industry has after years of recession; that really for the industry started showing signs of recovery in the last few quarters. The industry has grown well in the last quarter to just over a 100,000 units and Eicher truck and bus have grown to just over 11,600 plus units which is a 19% growth which is likely slower than the industry growth, but still a good growth. In our light and medium duty for the last quarter, we are tracking extremely close to the industry growth of just over 15% was the industry growth and Eicher was just over 14%, so the industry was just shy of 18,000 units and Eicher was just shy of 6000 units for the quarter in light and medium duty that is 5 to 14 tonne trucks. In 16 tonne and above, the industry has really picked up pace and grown to over 59,000 units for the quarter, which is a 50% growth over the same quarter last year and Eicher trucks have sold 1900 plus units which is 42% growth over the same quarter last year. In the bus segment for the quarter, the industry has grown by nearly 25% at nearly 16,000 units. Eicher is lower by 5.6% at 1747 units for the quarter. Having said if I recall right, the YTD number is tracking ahead of the industry because we have a large dependence in school bus segments, so our first two quarter had exceptional growth, Q3 was slightly lower. Exports were tracking well with around 1800 units of sales, a 45% growth over the same quarter last year. The industry grew by 6% to 11500 units. Volvo trucks have grown well. Volvo trucks are our high value mining trucks. We have had growth of 28% at 347 units for the quarter and finally for VCV, the medium duty engine plant that we had put up couple of years ago to cater to Volvo's global requirements of engines and base engines for up to Euro VI requirement for all their brands there we have had a solid growth of nearly 27% and we have shipped 4800 units for the quarter.

Moving onto our joint venture with Polaris which is Eicher Polaris Private Limited- we started commercial production of Multix, which is India's first three-in-one personal utility vehicle in August of this year in our plant at Jaipur. We have sold around 231 units till the end of October. We have received a lot of interest from the target audience and we have a strong pipeline of customers. We are now present in 31 locations across 7 States and by the end of 2016 Multix will be available in BS IV markets as well. All-in-all very good quarter for Eicher Motors Limited with record topline and bottom line and we are looking forward to continuing growth and performance. So, that is all from my side for now, so we can open the floor for questions.

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

Pramod Kumar: Good afternoon Siddhartha, thanks a lot for the opportunity, Siddhartha, my first question pertains to the demand environment, because every once in a while we get to hear that the wait list has come down drastically and at the rate of growth has started to decelerate and all that, so if you can help us to understand a bit more on how is the demand on a company wide basis in terms of what is the kind of current order book we have, current portfolio wait list, what do you have and also how is the order intake on a monthly basis if you can provide some more quantitative color on that, so how much is at like still significantly heard of the production run rate what we are running and so some more color on demand especially with a roll out what you are doing in smaller cities, how are the smaller cities reacting to your products?

Siddhartha Lal: Yes Pramod thanks for your question. The demand continues to grow for our motorcycles. We have seen traction across cities. The wait list has certainly come down, that has been part of the plan, for years we have been trying to increase our supplies so that we can give quicker delivery to our customers. We have reached a stage where we are actually able to do that in some markets for some models whereas in some markets for some models there is still reasonable amount of wait. So it varies between one to four months of wait right now that we have on different models and different markets and the order book continues to grow. Our monthly order intake is substantially higher than our monthly production. Our monthly production is in the range of 45,000 now and so the denominator from even quite recently has let us say two years ago has gone up many fold, so now therefore we are able to actually supply to a lot of markets reasonably well. So it is certainly the growth that you are seeing right now for 50%, 70% is not going to continue forever, but we still have a lot of pipeline, we still have a lot of new geographies we are getting into and that is growing so smaller towns selling 10 to 15 motorcycles year or two ago are selling double that number today, there is growth down the chain. We have new products in the pipeline. We have new markets in the pipeline. We are not sitting still, there is a lot of work going on continued demand generation, but in some sense it is of course good news that customers are able to take delivery sooner than they were able to because we were actually losing a lot of customers also in the past to competition or somewhere elsewhere the wait was up to nine months at the peak which was around a year and a half ago.

Pramod Kumar: Just a follow on to that Siddhartha as in lot of people track in consumers, what is like the same store growth, so in a way to show that even in mature markets is what is the kind of demand we are seeing incrementally so if you can throw some color like markets like Bangalore, Bombay and Pune which are like quite sizable markets for you. What is the kind of growth rate what we are seeing because we already are selling huge numbers in these markets and probably very close to the market leader from the mass market, so is the growth there even now double digit after the ramp of what you have seen?

Siddhartha Lal: Sorry, I do not have exact figure and because we have not got that number right now, but it is certainly in double digits probably in the 15% to 20% range, the same store growth in existing and that largely tracks the big markets that we are talking about but we are growing in pretty much across the board in all markets by those kind of numbers.

Pramod Kumar: Excellent and my second question pertains to export market, is there a way you can put a bigger number to the opportunity out there in the export market over a period of five years once you have the network rolled out once the brand you have the right new platforms coming out, so how should one look at export market from five year point of view and adjacent to that, we have talked about 900,000 capacity. Will it be available to you by start of CY2018, I am saying whether CY2018 as calender year will you be having that kind of capacity on which you can work on for the full year?

Siddhartha Lal: The answer to the second question is yes. The capacity we are talking about 900,000 is the available capacity for the year 2018, so the installed capacity may still be slightly higher because even in 2018, there will be some ramp up, but we will be able to produce 900,000 motorcycles in 2018 that is what we are trying to refer to. On the export side, you asked the right question I think because I cannot tell you the opportunity in a shorter term perspective very well, but it is a longer term perspective, the five year perspective which you asked about that is the important one that we look that as well. There the way we need to look at is really what we call as either the mature markets or the developing markets, so other than India we are talking about if you look at the entire world. While we are putting from many reasons and including brand and salience and various other reasons let us say the mature markets or the heritage markets are very important for us, but we expect much larger part of the growth to come from the newer markets or the developing markets or the white space markets as it were so from the developing markets which are slightly more India like which have very large base of commuters who in fact in our opinion do not have really good viable options in the middle weight motorcycle market. You could say if you are talking about South East Asia, Latin America, we are talking about 250 cc and above and approximately $3000 and $3500 and above. There are few options other than then when you reach 750 cc and above there are options and may be in the $8000 to $10,000 range plus there are options, but that middle section is quite vacant and we have to do really market creation activities in these countries as well and therefore the timeframe like you said five years, because that market really does not exist or it is still very small. It is a bit like India few years ago where that market did not exist and we have created that market, so we have to do market creation, market development in some of these markets. So some of it will take time, some of it may hopefully happen quicker, but it is a five year horizon where we can look at this and you guys do your numbers really well, so if you look at the way we look at it of course is that, if you look at the commuter market in all of these countries the type of growth and share that we have been able to accomplish in India which is to migrate consumers from commuters to middleweight, in the long-term we certainly expect to do that in these markets as well in the other international markets we will have some successes we may not succeed everywhere as we have done in India, we may have some better successes from there, that is still to play out, because we are just entering these markets, but generally if you look at the commuter base and the growth from the commuter base to middleweight that is what we are looking at in all the developing markets as well.

Pramod Kumar: Excellent I think that looks like fairly a big potential. Thanks a lot. Have a great day and great stay in India. Take care. Thanks a lot. Bye.

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

Kapil Singh: Good afternoon, congrats on a great set of numbers. Couple of questions, firstly on the production capacity if you could also spell it out that given the constraints we are facing, what is the maximum production we can do in 2016 and 2017 if of course there is no demand constraint?

Siddhartha Lal: Right now, we are tracking at around 45000 units per month and we are increasing that pace, of course, over the next year as well and without any constraints we should be able to land at 620,000 odd next year at the base. The production capacity should allow us then to produce that many in 2016 to 620,000.

Kapil Singh: And 2017?

Siddhartha Lal: Right now I cannot tell you exactly, you can draw a line between 620 we talked about in 2016 and 900 in 2018 and it is probably going to be somewhere in the middle of that.

Kapil Singh: Okay.

Lalit Malik: The planning for the next two, three years is we will only talk about when we are ready with the plans; we have not even started working on those plans and which will be in the next call.

Kapil Singh: Okay. We will definitely look forward to that.

Lalit Malik: We were doing it in the past also.

Kapil Singh: Right and second question was on the material cost, we have seen some improvement in RM sales in RE, not so much in VECV, if you could just help us to understand where are you in that cycle should be expect more benefit to come in?

Siddhartha Lal: Sorry Kapil, we missed the first part of your question.

Kapil Singh: I am talking about raw material cost to sales ratio, so I just wanted to understand that in terms of raw material cost for VECV, the improvement is at least on the reported number is not visible, so if you could just help us to understand in both the businesses whether we should expect more raw material cost benefit to come in?

Siddhartha Lal: In VECV, just to tell you we are getting benefit of raw material cost, but what this line also shows is the mix effect, which is where the heavy duty is growing faster than light and medium duty right now, so that is negating some of the effect as well as in fact if you see Volvo trucks is growing faster and Volvo trucks is an entirely distribution business where the margins are much lower, so therefore you cannot see the positive effect on the material cost there whereas you can in Royal Enfield which Lalit can tell you about.

Lalit Malik: On the VECV side of things, the Volvo truck business, on a YDT perspective, if you look at it, has grown more than 25% in YDT 2015 over the same period last year and the heavy duty has grown more than 30% over the same period, so this is a large mix effect over here. Royal Enfield is doing well as well as Royal Enfield on a YOY basis, it is down from 59%, the gross contribution level, from 59.1% to 56.5%, that is the serious extraction of material cost and the price increase also taken over there with the material cost impact extraction is still pretty heavy.

Kapil Singh: There has been a tremendous improvement, but what I was trying to understand is there more benefit that is likely to come given where the costs stand today or you would have largely realized most of it.

Lalit Malik: It is a constant thing which is going on over there, in some cases we have started earlier, some later, it is a constant commercial negotiation which is at play, but large part of the commodity price adjustment has been captured.

Kapil Singh: That is what I was trying to get at. Okay, that is helpful and on the other cost also we have seen for Royal Enfield, we have seed good increase, is it because all the store openings and various activities that we are doing and should we expect this kind of run rate to continue or are there any lumpy items sitting there?

Lalit Malik: Royal Enfield business and Eicher Motors standalone business, staff cost is down from 5.6% last quarter to 4.9% this quarter. Other expenditure is flat, 10.9% versus 10.9% but, there is a lot of investment that has done for which Siddhartha in his opening comments mentioned about the creation of the US company; where there are already 10 people on board, but the first sale in the US will only happen early next year. It is that kind of sales was spent lag which will always be there suppose as we grow internationally also which will always be there. So, there will be expenditure made ahead of time of realizations.

Kapil Singh: Basically at least for the next one year or so we should expect the other expenditure to sales ratio to remain around these levels?

Lalit Malik: The next one year, we will talk in the next four quarters.

Moderator: Thank you. Ladies and gentlemen, please limit your question to two per participants. The next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Congratulations everybody for good set of numbers. My first question is on the capacity guidance that you have given for 2016, if you sort of say that 620K units for 2016 then it implies on a monthly run rate of around 52000, so by end of the year, we Royal Enfield will touch around 50,000. So, is the reading correct that incrementally the volume run rate will sort of remain pretty range bound for 2016 versus what you exit this year at?

Siddhartha Lal: It is not as simple as that because the way we do it is we stabilize and then we move forward as far as capacities are concerned. So, right now as you can see from our numbers we have been spurting in capacities in the last few months because some of our new capacities is coming on stream and we are putting all that on stream, so that is why we have had such strong capacity growth, so now that will in the first half of 2016 slow down a bit and then the next capacities will start coming into play by the end of 2016, so it is not straight line obviously between the start to 2016 and the end of 2016, but there is a lot of activity going on and that is also reflecting how we want to build up our capacities based on various parameters for the company. So, we also do not want to overhead and grow at the right pace, so we believe from a lot of different fronts, we believe this is the right pace to grow so that we can continue our profitable growth and we continue to improve on our quality parameters and make sure that plants are stabilized before we continue to add more capacity. It is people issues, supplier issues, we have been growing exceedingly fast over the last few years but it takes a toll as well, so we have got make sure that we stabilize before we continue the growth. So, just to give you a little bit of color on the numbers that you asked about.

Binay Singh: And just further adding onto that it does seem that 2016 is a bit of stabilization year before you sort of again pickup. On the brand building side, we have seen a first from you in terms of new format of stores is very different from what competition offers so is there anything like firstly if you could comment little bit about how has been the consumer reaction like for the new format of stores and through the year, is there anything incrementally that you are thinking about how to sort of further strengthen the franchise before you sort of again look at next two, three years?

Siddhartha Lal: In our opinion, we have had an excellent response from the consumers on the new format and in fact we piloted the format, we got lots of reaction and then sort of improved on the format before we rolled it out all over the country and in fact you guys are the best judges of talking to peers and customers and to understand what type of response people have, but till now we have had nothing but really good responses on our new format and also if you see our modality and our way of selling the store looks less like typical automobile store and that is also to make it a bit more of a soft sell store rather than very hard sell store we want, so now while we have done the hardware, we are putting a lot of effort behind the softer areas of consumer experience of service, of training of people, automobile industry is notorious for huge amount of turnover at dealer staff level, salesman level all of that, so we are working on lot of areas to give much more refined experience and much more motorcycling experience to our customers who are coming into our stores rather than a very transactional experience which is what most automobile companies and motorcycle companies do, so you get in and straightaway hit with price and features sort of either purchase or don't purchase, so we are getting too much more into sophisticated and evocative selling area which is where we wanted to take the brand into and in addition to that, we have new products coming out next year so that should excite people a lot of bring a lot more people into stores. We are working on lot of new formats of events and activities and rides at national levels, rides at local levels, so there is a lot going on our demand generation and brand building front. It is all in the works, we will get to see a lot of it next year or so.

Binay Singh: Broadly, what I was trying to get at it is that selling and distribution expenses have been pretty low, so in a sort of stabilization here, can we expect them to inch up as a percentage of sales?

Lalit Malik: Binay, can you repeat?

Binay Singh: For example, Royal Enfield as a brand, you guys advertise very less, there is barely any advertising expenditure, even the overall selling and distribution expenditure is low, so with the new format of stores coming in which you will further ramp up with capacity sort of remaining similar through the year, so should we expect that your selling and distribution expenses as a percentage of sales would be higher next year?

Siddhartha Lal: Overall, we are putting a lot more effort and work behind our brand and selling and all of that and we have some launches which will take up as you have seen in the past whenever you have large launches that does take up more of our advertising and promotional expenses so all of that is going to be there, but again hopefully there continues to be some growth but I am not going to comment on exact numbers and all of that but to your previous question what we have seen is that in stores where we have put in the new retail identity, the new look stores our conversions have gone up by statistically significant amount, so that is certainly an indicator and we believe that the work we are doing on the softer side of improvement of the sales experience that should also further improve our conversions and of course with the new products and brand activities that we are doing next year we should increase footfalls as well. So these are all the kind of plans that we have and overall we are increasing our footprint with a number of stores and the number of types of stores, in the last year we have opened up a lot of exclusive gear stores which are in really, really high-end locations in the country, so in Bandra we have one, in Colaba that is linking road Bandra and in Khan market we have one and a few very high-end malls across the country in Bangalore and Chandigarh, we have stores. If you look at just to give an example, the Khan market store in Delhi which is one of the highest cost retail locations in the country or even in Asia I believe, the quality of footfalls and the number of footfalls is of a totally different order of magnitude that we get in a regular dealership, so we have been able to reach at different kind of consumer, we are able to reach a lot more consumers through these activities or through our retail environment as well, so there is a lot of things going on to continue to improve our salience, our footfalls and our conversions.

Binay Singh: That is a very interesting point in fact. Thanks a lot team and wish you good luck for the future. Thanks.

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

Sonu: Good afternoon, this is Sonu here. Siddhartha just persisting with the question on production capacity, because my understanding was that 50,000 you will do from your second plant I mean the whole plant is still doing 11,000, 12,000, you can really scale up to 60,000 starting next year versus 620 that you are guiding for. So, I just wanted to understand is there some plan in terms of closing the first plant or something or that sort?

Siddhartha Lal: As you said because phase two of order that is still coming on stream, so the full effect of the new plant, in fact, it does not going to be there for the whole year next year, right, so that is also going to come on stream and only then we will get the full effect. So, like I said at the end of 2016, the annualized or the monthly number which is going to be higher than obviously what we start the year with, but the ramp between it is going to most skewed towards stabilization of up to 50,000 in the first couple of quarters and then taking it up further. So in 2016, we are only going to have of course the Thiruvottiyur plant that is the old one and not even the full effect of Oragadam, so the full effect of Oragadam is only going to come by may be second half of 2016, so that is how the lay of the land, I hope to answer the question I do not know.

Interviewer: So, Oragadam, where are you in terms of current production run rate?

Lalit Malik: It is one of our factory now, it has become integrated that **(inaudible) 39.21.**

Interviewer: That is why I am asking.

Lalit Malik: You please ask for the overall capacity of the company. There has already as you know a plan to slow down the vehicle production from PBT, but we never had a chance a kind of even do the first thing on that plant, because this is a very high demand that we had. So as we have to balance both the plants also, so overall we will start the year and end this year at about approximately 48,000 and at the end of next year suppose you can pull on 2015 to give you on annualized monthly average of 50,000 plus.

Interviewer: Any thoughts in terms of given that the broader market if you look at it even for the premium motorcycles does not seem to be growing if I take out the Royal Enfield of course you might cleaaning some share out there as well, but I am just saying from a overall slowdown in the motorcycle space perspective, are you seeing some impact and does that really affect you and broader question I am trying to ask is in terms of the affordability of Royal Enfield and sort of the growth perspective in the next one to two years, do you see that getting impacted by the economic environment?

Siddhartha Lal: It is difficult. We cannot look out that for yet, we can only tell you what is going on today and like I said we are continuing strong order intake, we have very good orders much more than what we are selling every month on a monthly basis. As you see if you look at our implied numbers with 620 next year and 900,000 in 2018 that reflects change in the pace of growth from what was over 50% in the last five years to a lower amount in the coming few years from a production capacity perspective, so we do expect that flattening of the industry right now will certainly start affecting us that our 50% growth may not continue for the long-term, but again it is very difficult to say what the change of pace of growth will be and we do not spend our time worrying about that. We are continuing to differentiate our experience, our salience, our brand, our products to such a high degree that we should not be behaving like the market, we should be behaving differently from the market and we continue to focus on the fundamentals like I said, of salience of our brand, so that mind share and the brand recall is of a very high order, to continue with that, then get lot more footfalls in and to get a lot more people into our stores, to get a lot more into our digital properties which are already way, way, way better than any other motorcycle manufacturer in the country then to get them physically into our stores and then to have the processes to convert more customers, so I believe if you continue to focus on the fundamentals, we will continue to grow well, because it is not a commodity product, it is extremely differentiated, people are not buying it based on price and performance alone, it's based on many other parameters that people are purchasing our motorcycles, so hopefully we can continue to beat the market as we have been for the last many years.

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

Amyn Pirani: Thanks for the opportunity. My question was on the buyer profile. You had mentioned sometime in the past that unlike the past, now you are also seeing first time motorcycle buyers coming in and buying the Enfield. So just wanted to get a sense from you, is that trend accelerating in your view and could you throw some numbers as to what proportion of such buyers you may have?

Siddhartha Lal: What has happened is that various things have collided. Our motorcycles have become more popular, the affordability (purchasing power) of youngsters has gone up and also the perceived accessibility and safety of our motorcycle has also gone up a lot. So all of these have allowed a much younger audience, with their purchasing power, to buy our motorcycle which is driving the increase in first time motorcycle buyers. I do not have an exact number. Lalit do you have some numbers in terms of first time buyers as a percentage?

Lalit Malik: Most recent numbers I do not have but I think the last time we kind of, about 10% and growing, it used to be less than 3% few years back.

Amyn Pirani: Okay.

Siddhartha Lal: We can try and get more accurate numbers of recent, but it is certainly growing and the age profile has come down, so it is good in many ways, it also has other implications of the demands of customers and all of that are changing because of their profile and demographic, but it is essentially is all tracking from our perspective, it is tracking very positively, which helped us growing better because we got a wider and young audience.

Amyn Pirani: That is helpful Sir and secondly you have been talking about introducing two new platforms. So any updates on the timeline for those two new launches?

Siddhartha Lal: It remains as earlier, we have said we are working on two new different platforms. One of which will certainly be launched in 2016 and the next one of which will be launched in 2017, so I am talking about the first model out of these two new platforms then of course there will be subsequent models as well during 2016, 2017, 2018, so that remains constant that has not changed.

Moderator: Thank you. The next question is from the line of Akshat Saxena from Credit Suisse. Please go ahead.

Akshat Saxena: Thanks for taking my questions. Firstly, I wanted to know, what the current dealer strength is and what the target is for this year and next. Also, earlier you guys were indicating that 60% of our sales come from top 20 cities. Currently, what is the mix? And, also you have indicated that backlog right now is one to four months across the markets. What is the difference between our traditional top 20 markets and the newer markets? Are there some variants such as higher in some areas and lower in some areas?

Siddhartha Lal: Our dealer strength, the first question you asked, which was less than 400 at the start of the year, we will be at around 500 dealers by the end of this year.

Akshat Saxena: Okay, so right now you are close to 500 already.

Siddhartha Lal: We have guided in the past that next year it will be more than 550 by the end of next year.

Akshat Saxena: End of next year will be more than 550.

Siddhartha Lal: May be we will pace at around five odd dealerships per month in the next year additional dealership and what was the other?

Akshat Saxena: Sales proportion from the top 20 cities I think it was 50%, 60% earlier, is it still similar level right now?

Siddhartha Lal: It is not significant different from that. We continue to grow strongly in the top cities and especially if you broad base it to 20 cities that still a bulk of our majority of volume is coming from there. The smaller towns are beginning to sort of wane as well on our sales, but not significantly enough that they are outpacing the bigger cities as yet, so it still equal growth right now between the bigger cities and the smaller towns.

Akshat Saxena: And the backlogs which you are saying is it that you are still seeing a higher demand from your traditional markets or is it more or less uniform from the newer cities in terms of backlog?

Siddhartha Lal: The bigger markets in the country are continuing to grow very well for us as we said earlier. The same store sales are growing at 15% to 20%. We are also adding new stores in big cities currently. It is not enormous numbers like it was couple of years ago, but there are catchment areas which either we want present in or new catchment areas emerging in big cities, so we are adding new stores also, so the big cities are organically growing by 15% to 20%, then there are new stores are coming in which are making the city grow faster than that pace because there is obviously a new store growth also coming in. In smaller towns of course as we go into newer dealerships that is new sales- by and large it is not cannibalizing any other city, our neighboring city or anything of that sort, these are relatively you can say by and large all new sales, but the absolute numbers in the small town are much less per month, so therefore these things all get balanced out and as of now the proportion of sales is continuing approximately same between big cities and smaller towns right now.

Akshat Saxena: On the commercial vehicle side, so it has been quite sometime since we launched the Pro series, so what has been the acceptance of these products, the feedback on parameters like fuel efficiency on which we were saying that they stand much better as compared to the incumbent products?

Siddhartha Lal: On the Pro 6000 in particular which is slightly broader base in its offering compared to the Pro 8000, we have had outstanding response from our customers to the extent that and basically the color on this is that customers who have routes where they can fly the vehicle well over 10,000 kilometers a month, they are getting exceptional benefit and there are some customers, large customers who have some such routes for which we are selling them Pro 6000, but for the general route for medium haul or shorter haul where they are ending up doing let us say 6000, 7000 kilometers a month, they are still going for the traditional or legacy type of trucks. So, we have been able to establish ourselves really well in the premium routes where the turnaround time and all is much better, so there we have made tremendous amount of traction, but the environment right now is of still extremely high discounts. We do not discount on Pro 6000 and therefore customers, I am saying not just for us, but generally are not moving to the modern sized trucks as quickly as we would like at this point that is because of the heavy discounting on the traditional side of the truck, but slowly customers are moving up and we are getting the benefit of that. So all-in-all, Pro 6000 has been an excellent truck platform doing very well for the customers who have bought it but the growth into that segment is still a bit weaker and there are many factors which will help that segment grow also the new emission norms all of that which will augment the segment of modern trucks.

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

Jinesh Gandhi: Couple of questions on Royal Enfield. First is, we took price increase in this quarter right on Royal Enfield side?

Siddhartha Lal: Yes.

Jinesh Gandhi: How much was that?

Siddhartha Lal: 1.2% in the middle of the quarter, so around 15th or 16th August.

Jinesh Gandhi: Okay and from October we have not taken any price increase?

Siddhartha Lal: No.

Jinesh Gandhi: Okay, secondly with respect to dealer expansion in Royal Enfield, with 500 dealers we would be more or less covered in terms of top 20 cities right?

Siddhartha Lal: Top 20 for sure, let us say much higher proportion of the new dealers are coming up in smaller cities right now.

Jinesh Gandhi: Okay, by end CY 2016, we would be also very well catering tier 2 cities in the reasonable manner, the coverage can be further expanded, but we would have decent coverage there as well.

Lalit Malik: Yes, that is the thought.

Jinesh Gandhi: And lastly with respect to capacity from the current two plants after phase two of Oragadam stabilizing, what is the peak production we can do?

Siddhartha Lal: It should be in the range of 60 plus from the TVT and Oragadam put together. We should certainly be able to get over 60,000 per month from both of these put together.

Jinesh Gandhi: Okay, effectively phase one of the third plant will be at about 150,000?

Siddhartha Lal: It is going to be higher than that, because we are talking about the phase one along with the first two plants is going to us in the region of 900,000, so it should be higher than that.

Lalit Malik: Jinesh, we said in the past that we have couple of constraints, so you have to look at integrated number, it will be much better, for example plating we have discussed many times in the past that we can only do from TVT. So as capacity of Oragadam and as and when Vallam Vadgal comes in, the plating capacity of the entire company will be served from just one place. It is a very constrained area, so how much to expand over there, it will also impact some of the other things over there, so that is why I am saying look at the integrated number which we have announced to be 900,000.

Siddhartha Lal: So, we start reducing some functions and some processes in TVT in order to make more plate, do more plating plants there. There is so much fungibility right now, some frames which are being made in one place are going to another some pre-treatment of parts which is happening in Oragadam, for example is going to TVT, so there is enormous fungibility, if you are just talking about vehicle assembly, that is tip of the icebergs, that does not explain capacity very well actually.

Moderator: Thank you. The next question is from the line of Nishit Jalan from Kotak Securities. Please go ahead.

Nishit Jalan: Thank you for taking my question. You mentioned about capacity expansion, so what does it mean for your overall capital expenditure over the next couple of years. Can you give us some color on that?

Siddhartha Lal: Once the annual plan for the next year is approved by the board which typically happens in the February board meeting which is a full year assessment of the whole year and then the plan that we have made for the next two; three years also get approved over there. So that will be the time when we would have announced Capex plan as well as production plans and everything. Vallam got approval this time around, so that is why we made this announcement, but what we announced February this year for CY2015 for both the companies respectively which is Capex plan in manufacturing supply chain plus product development in both the companies separately, will be Rs.500 Crores each.

Nishit Jalan: That is fine. Can you give some color as to if you decide to set up a 300,000 unit capacity, what would be the total Capex which will be required for that?

Lalit Malik: It is just three more months; we will give the numbers when we are through with the plans including board approvals.

Nishit Jalan: My last question would be on other income, I think you have invested in FMP is that is why you are not realizing other income, is it correct?

Lalit Malik: Correct.

Nishit Jalan: And when would that those FMPs start maturing and would start adding to other income?

Lalit Malik: So, basically from CY2017 that is where we see some of the other income flowing into the P&L.

Nishit Jalan: Okay, thank you.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question. I would now like to hand the floor over to Mr. Chirag Shah for closing comments.

Chirag Shah: Thanks Margaret. Thanks everyone for joining on the call and we would once again thank Siddhartha and Lalit for giving us the opportunity. Have a great day and have a great Diwali everyone.

Moderator: Thank you. On behalf of Edelweiss Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.