



**“Eicher Motors Limited Q3 FY19 Earnings Conference Call
hosted by BNP Paribas”**

February 11, 2019



BNP PARIBAS



**MANAGEMENT: MR. SIDDHARTHA LAL -- MANAGING DIRECTOR AND
CEO, EICHER MOTORS LIMITED
MR. LALIT MALIK -- CFO, EICHER MOTORS LIMITED**

MODERATOR: MR. KUMAR RAKESH -- BNP PARIBAS



*Eicher Motors Limited
February 11, 2019*

Moderator: Ladies and Gentlemen, good day and welcome to Eicher Motors Limited Q3 FY19 Earnings Conference Call hosted by BNP Paribas. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kumar Rakesh from BNP Paribas. Thank you and over to you sir.

Kumar Rakesh: Thank you Aman. Good evening everyone on behalf of BNP Paribas I welcome you all for Q3 FY19 Post Results Conference Call of Eicher Motors. We are joined today by Mr. Siddhartha Lal – MD and CEO and Mr. Lalit Malik – CFO. Welcome Siddhartha and Lalit. I will now hand over the call to Siddhartha for his opening remarks that will be followed by Q&A Session. Siddhartha please go ahead.

Siddhartha Lal: Thank you. Good evening everyone and thank you for joining us for the Q3 call post our board meeting today. I am going to start with the consolidated financials for EML which reflect the business of Royal Enfield so that is for quarter ended 31st of December, 2018.

We ended the quarter with revenue of Rs 2,341 crores which is up 3% from same quarter last year. Our EBITDA was at Rs 680 crores which is down 4% and we had an overall EBITDA margin at 29% and that is reasonably healthy in our opinion, because it was despite 6% decline in volumes for the quarter. Revenues were up but the motorcycles sales were down and also, we had some additional expenses in the last quarter due to our launch cost in India and International markets of the Twins. Overall our profit after tax was at Rs 533 crores which is up by 2% from same quarter last year.

Moving on to business updates for Royal Enfield:

The update for Q3 is that motorcycle industry was down by 14% quarter on quarter and Royal Enfield was down by 7% so we were slightly better off than the industry. Our total sales volumes were close to 1.94 lakh and which is down 6% from same period last year. We continue to grow our dealers touch points with 20 more being added in the last quarter and total at 878 in India and we have added new stores in Colombia which has taken our store counter in Columbia to 8 and our exclusive store count outside of India to 42 with an additional 500 plus multi brand stores outside of India.

Another significant point for Q3 was the 650 Twins were launched in India during this quarter and we have had outstanding reviews of the 650 Twins during the launch which have come out subsequently and we have got amazing ratings, we have got a lot of awards including the most coveted which is the ‘Indian Motorcycle Of The Year’ award which is a single one decided by many publications all put together and also we had an excellent response on the price which is



*Eicher Motors Limited
February 11, 2019*

at Rs 2.5 lakhs for the interceptor. So therefore, we have got good orders coming in from India and we have got a lot of demand from International markets so now we are ramping up our production which should stabilize by around April. So last month we crossed 2,000 units of production and we should continue ramping up for the next two, three months.

Twins are also launched in various markets in of course US was earlier, UK, Europe, Thailand, Indonesia, Brazil, Columbia, Australia and shipments have commenced to many of these countries. So we have vehicles on high seas, we have some vehicles which have already landed in the first. In India we have started deliveries in January I believe or even a bit earlier in December a few deliveries, January more deliveries, February even more deliveries and in the next few weeks some deliveries in International markets will also commence. The initial reviews from customers has also been fantastic. They have really enjoyed the motorcycle. They are seeing a very different class of motorcycle coming out of Royal Enfield and that is an important thing for our future motorcycles as well. So it is really a huge step up and global level of motorcycle that we are getting. We continue to do very interesting rides and events. We had 16th edition of Rider Mania with over 8000 riders in Goa. This was just after the Twins launch in Goa and also many thousands of our customers were able to take test rides on Twins and give us amazing feedback on those as well. We had the second edition of our Tour of Thailand which was a 7-day ride of 1,500 kilometers with mainly 30 riders and lots of media publicity and interest in Royal Enfield in Thailand.

On our production side we have the Phase-II of our Vallam Plant underway. So the construction of the building is in progress and equipment and all will come underway so the production will commence at the end of the year. The Chennai technical center is also very much on track. The Phase-I facility is up. All the equipment is in final commissioning. Testing, validation of equipment is happening. A lot of it is being used already for our PD requirement. Our technical team is starting to move in already into the new facility from all the various facility that we had around in Chennai because of our growth, we have to expand to multiple locations so all this will get consolidated in our new facility and by the middle of this year we will also be ready with our administration blocks. So people other than product development will also start moving in by the middle of this year.

We have also had a big transition in our products this year. 85% of our portfolio is now shifted to ABS well ahead of the regulatory requirement and there was important testing, validation, ramp-up and suppliers have not supplied such levels of ABS in India before so we had to stabilize everything and it is doing well now. We had a good response to our ABS as well, but of course that also increased cost substantially which has been one of the reasons why we had a bit of dampening in our sales recently. But because of the very steep price increase to customers and we also had another small price increase of Rs. 1,400 due to factors like ABS as well as material cost increase so that was on 1st of February on most of our models expect for our Twins.



*Eicher Motors Limited
February 11, 2019*

In Q3, we resolved our strike at Oragadam which had lasted for about 50 days after starting in September, but we ended it in November, and we had a production loss of nearly 30,000 motorcycles during this period. So that is the overview on Royal Enfield.

On VECV, our joint venture with Volvo, we had revenue of Rs +2,800 crores which is a 9% increase. Our EBITDA margin was down from 8.7% to 6.6% some of it due to product mix but largely due to increase heavy discounting in heavy duty which still continues unabated even though the market has grown quite a bit, but the discounts are still very high. In sales, we had an overall volume of nearly 17,000 units for the quarter, up 4%. Light and Medium duty grew by 9% which was in line with the industry, and in heavy duty we grew by 4% with the industry being down by 13%. Therefore, we had a market share gain and went up to 5.2% for the quarter.

Of course, there are still issues and clouds in the air in commercial vehicle industry because of the NBFC pull back and credit drying up a little bit in certain segments. So that is causing some reversal of growth that was very strong in the first half, in the Q3 it was a bit slower it might continue to be slow in Q4.

Having said that on the Eicher Pro 6000 which is our value trucks that we sell. We are the first to have a 48-ton rigid truck due to the new GVW norms and we would be able to bring that in the market and the new 55-ton tractor trailer that 6055 recorded Pro 6055. So, we have really expanded our range of heavy-duty trucks and we have a relatively full range and we are able to meet a large part of the requirements of the entire heavy industry now and the products are doing really well.

So that is our quarter in a nutshell and now back to you for some questions.

Moderator: Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.

Ashutosh Tiwari: If we look at the realization in the standalone it has jumped around 5% from Q2 levels so what is driving that realization growth?

Lalit Malik: So Ashutosh if you have been tracking the company you know that around the beginning of Q3 and for the last so many months is that the prices of the motorcycles have gone up largely driven by the conversion of pretty much the entire portfolio barring a small piece left to rear disc brake as well as ABS and that means higher cost and therefore higher prices. So this is what is largely the reason we have not taken any general price increase barring we took one just now on 1st Feb.

Ashutosh Tiwari: Secondly on the 650 Twins did you say that 2000 was a production level last month so by April how much ramp up we can see in the production side not in the capacity can go to how much?

Lalit Malik: April, May that timeframe it can go to 4,500 to 5,000 bikes per month.



*Eicher Motors Limited
February 11, 2019*

- Ashutosh Tiwari:** Lastly if you look at depreciation charges going up for last two quarters and there is no change in any plant addition or something what is driving that increase?
- Lalit Malik:** So all that stuff, we have capitalized in the last so many years. All that will cost a depreciation charge that is happening but beyond that there is no one off over there. It is just a regular depreciation going up because we have been capitalizing each quarter as well for example Twins is being depreciated now.
- Moderator:** The next question is from the line of Pradeep Prakash from Utsav Consultants. Please go ahead.
- Pradeep Prakash:** I want to understand what has been the impact of launch of Jawa in India by Mahindra and Mahindra can you give us what could be the future impact on your sales in the coming quarters for that or maybe little more in the future?
- Siddhartha Lal:** In the last many years we have had as you know in the last 10 years we have had an excellent run of growth of nearly 20x and margin from 10% to 30% of EBITDA and that is obviously attracting a lot of people to enter our market and that includes all the biggest players in fact some of the global players I am saying have entered and initially there is always a hype because people are entering they make a noise, it is a new product there is excitement from people, but as you see we have managed to keep steady and stay our course and do well of course we take cognizance of all and deep cognizance of all competitors coming in and we have our own ways of managing that. But as you all know that an entrenched leader in a market which has a very good distribution, very strong aftermarket, very strong product from its residual value also parts availability, service availability I mean there are huge amount of things which are growing strong for Royal Enfield. New entrants of course there would be many and of course there would be even more coming up and they will all try and do that they will be copycat types, there will be people trying to do totally different things and that is part of competitive nature. I do not think that is going to abate. We have very strong plans I have to talk to you on the commercial side, but also on the product side. We are able to have much better product ranges. Our Twins are a case in points which is totally amazing products at absolute global levels of quality, fit, finish and response and everything else and much better than anything else which has come out in the market. I think we are on the great wicket, it is other who have to now try hard to even take a little nibble out of us.
- Moderator:** The next question is from the line of Prateek Poddar from Reliance Nippon. Please go ahead.
- Prateek Poddar:** Sir could you just talk about the number of dealerships we have added during the first 9 months and are we on set to achieve a target of 900 if I am not wrong?



*Eicher Motors Limited
February 11, 2019*

Siddhartha Lal: Give or take we are at 878 dealers we added 20 in the last quarter and I imagine similar pace in the first two quarters. So yeah we should be closing in 900 by end of the year give or take maybe give or take plus minus 5 dealers.

Prateek Poddar: Second Siddhartha if I were to look at the first 9 months, we have underperformed the motorcycle industry not the quarter three I think the quarter three we have done phenomenally pretty well, but if I were to look at first 9 months we have underperformed the industry, any specific thought is it only the price hike which has caused this, this could get normalize in the next 6-9 months is that what the thinking is or something else?

Siddhartha Lal: There are few factors. One is that till now we had a lot cushion of bookings and all of that so that has come down a little bit and therefore issues like Kerala which were extremely over indexed. We have a national average of 6% market share and we have a Kerala market share of over 30%. Kerala is down tremendously this year because of the unfortunate flood situation and the market has not come back in Kerala. So we are losing a few thousand numbers every single month because of Kerala. So compared to what it should have been. I mean these are kind of issues there are couple of more like that where we had some issues and then of course the price hike has been quite straining on our customers. We are starting to see some come back, but certainly it has had the negative effect on our sales for few months initially especially because it is not usual 3%-4%. On a motorcycle of Rs 1,30,000 going up to Rs 1,50,000 or something like that is a huge increase for someone who is mentally got ready to spend Rs 1,30,000 then to come back and say well it is Rs 20,000 more, some of them have pushed their decision back a bit and all that. So that has been the chapter but we are trying to I think it is sort of evening out now a bit.

Prateek Poddar: And just one last question Siddhartha you have always maintained that with competition coming in the market will expand are you really seeing the market expand or because if I were to go back the numbers which the competitors are throwing out and it is all here, I was just wondering I mean it makes me a bit suspect if the market is increasing or the market is stagnant and this is kind of taking market share from each other?

Siddhartha Lal: To be fair there, it depends on what slice of the market you are talking about, but if you are talking about 250cc plus there is nobody else right now. So what I am saying that there are many others but they have not been able to make an impact or grow the market or do any way of those sorts. So right now, it is still very much controlling this market. If you talk about 150cc plus which is the smaller bikes where we have around 25%, 26% share there perhaps the market is grown but largely for different reasons not because of the new entrants but because some of the entrants have come out with lower price or let us say de-spec'd models in order to increase their shares. We are talking about now at the Rs. 80,000 level or Rs. 75,000 level versus our segment. So the segment 150cc plus has those kind of dynamics but honestly till now there is nobody who



*Eicher Motors Limited
February 11, 2019*

is coming to really grow the market like we have done in the past and market is still defined by us.

Prateek Poddar: So just my question if I look at Jawa they sold out till September I do not know what would be I mean on what basis they are saying that, but we have degrown so I was just wondering is that the market is not growing and customers are shifting over there or this is just cyclic in nature what is really happening over here to the market and the industry overall which is 350cc plus?

Siddhartha Lal: Well like I said the market is what we are right now there is nobody else in the market I mean there is obviously new people who have come in but they have not really made an impact as of now in any form. I think other than us other than the 70 odd thousand or 75 thousand we sell there is 2,000, 3,000 more which have sold. There is no effect from any outside. It is really the effect of few of the factors which we have talked about in the past and previously which was this Kerala issue and all, and the price increase that our customer are getting bit more accustomed to now, but there is no other impact as yet for sure.

Moderator: The next question is from the line of Ruchit Mehta from SBI Mutual Fund. Please go ahead.

Ruchit Mehta: Just a couple of questions. One is on the price hikes in hindsight would you have done anything different and secondly was on the product side, would you be able to give us some idea of when would a replacement or completely new variation of the 350 actually be there and would you have preferred that to have come sooner than what current timelines you have for that product because it has been 7-8 years since you had a I mean complete refresh of the product in that sense?

Siddhartha Lal: So on the price front I guess the only learning is that maybe in steps you could do some rather than having major increase in one go, maybe you could do a small step earlier small step later so even it out a bit over time. But other than that on a quantum basis I think it is fine. The price increases are required and we have these levels of cost going up, so the price increases have to be done. And of course we are doing we are not telling you about any we have lot of new products in this pipeline I cannot tell you about all of that, but of course our products are going through major or minor changes depending on the product for BS-VI. So there will be various decrease of changes on our products and you will find out as and when we have announced the new products for BS-VI because there is nothing going to happen by and large. I mean there is nothing major is going to happen till our BS-VI launch.

Ruchit Mehta: If I may just add a follow up for a customer who say 5, 7 years would have bought a Classic 350 and was looking at either a replacement or upgrade. I mean at that point in time he would have paid Rs 1,20,000 something like that for the bike that is there and now for a true Royal Enfield upgrade and that is the Twins which is starting at Rs 2,50,000 which is like a more than doubling of the cost for him. He does not have a choice except to buy an existing 350 itself and is there a



*Eicher Motors Limited
February 11, 2019*

worry for a guy who does not want to spend or cannot spend for a Twins at this point, we do not have anything in the product portfolio. I mean if I draw the analogy of the car industry you have a same Dzire customer who will come in to buy the same Dzire car or something very similar in that price point because that is what he wants that is what he is looking for or he can afford?

Siddhartha Lal:

In fact, to the contrary what we have is really strong what we have is the 650 is absolutely there but the 500 has a strong franchise but there are very few 350 customers upgrading to 500 because it was basically a very similar product with just marginally higher power and torque. So, we were not getting the level of upgrades. So the idea of 650 is indeed that which is to be able to give the 3 million plus customers of Royal Enfield a very solid upgrade path. When you break it down into EMIs because also please remember that the residual value of Royal Enfield 350 is very high. So if he is already got a Royal Enfield 350cc which is 3, 4, 5 years old but he will get a very strong residual value which is really the down payment and more. So you can make a big down payment for the Twins and therefore the EMI has come down that is how we have structured the entire Twins and that is why even though it is very early days even other people who come into this segment and I am talking about 250cc plus have not been able to make honestly any serious impact. Whereas our Twins are already making more impact than other 300cc, 400cc motorcycles have made in the past. I am talking about motorcycles that were launched even 2, 3, 4 years ago by competition which has stagnated at 800, 1000, 2000 not even 2000 numbers. We are already surpassing them with our 650 because these are our customers our Single's customers who are upgrading they have a direct path and they do have alternatives and we have the Himalayan which is after let us say a bit of shaky start is doing really well now and if you see the reviews in Autocar India with reviews to foreign much more expensive adventure tourers and Royal Enfield Himalayan was number one and that is what we are getting across the board. The Himalayan is also amazing upgrade option for 350cc customer who wants to go more on the adventure touring side. So we do have options and we do have plans to give them an absolutely great upgrade path and actually I think we are succeeding in that plan.

Moderator:

The next question is from the line of Chirag Jain from SBICap Security. Please go ahead.

Chirag Jain:

Just wanted to understand the nature of demand weakness that we are seeing over the last few months or few quarters. Have we seen decline in customer inquiries or footfalls in the showroom or it is more of delay in conversion at their end because of which we are seeing weak demand?

Lalit Malik:

Again in pockets, there has been a decline in the walk-in inquiries. I mean some places we have grown, some places we have gone down for example Kerala just to go back to the same point. Though overall market has shrunk down, but in our case also we have also gone down. So there is we clearly see a decline on YoY basis on the initial inquiry and stuff, but if you look at other examples for UP which is other large markets for us. It is the second biggest market for us in terms of volumes. So there is not the case. So it all depends on which part of the country you are looking at.



*Eicher Motors Limited
February 11, 2019*

- Chirag Jain:** And how would be the channel inventory right now because most of the other two-wheeler OEMs have indicated inventory in the range of 6 to 8 weeks mainly because of the week festive season what would be in our case?
- Lalit Malik:** Well it is much lower than that I can assure that. So between the plants and between the depots and between what is lying with the dealers it would not be more than 30-35 days.
- Chirag Jain:** And just last thing from my side as you said that probably while transitioning to the safety norms we could have taken pricing actions in few steps in small steps probably on the BS-VI transition should we follow this kind of small steps in terms of price hike because again that would be again big cost hike for the industry as well as for us.
- Lalit Malik:** Chirag that of course you will see when the time comes. I think what Siddhartha was saying the question was what else could you have done. So option number was what we did option number two or scenario number two was what else could have been done it could have breakup the price increases into a few pieces and do them over a period of time. So those are the two options that exist on ground for any kind of pricing action as well, but it is no way indicative of what will happen in BS-VI. I mean that call will take closer to the time.
- Moderator:** The next question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.
- Pramod Kumar:** Continuing with the question what Chirag was asking in the walk in, is there something which you can breakdown say how was the retail trend in Q3 and the walk-ins trend in Q3 and how you have seen them kind of evolve in January or in the first few days of February anything which you can share because Q3 was if I can use what was the disaster for the entire industry particularly two wheeler and even passenger car. So everyone got impacted, but how is the recovery paves for us because I understand that some of the other brands in two wheeler distributor segments have still kind of not bounced back that meaningfully in terms of demand how are the high frequency data evolving for you in the current quarter?
- Lalit Malik:** If you can breakdown Q3 into, because it happened all in the middle of quarter, pre or post Diwali, our pre-Diwali October beginning to Diwali time was very strong, we had very strong retails. It is only after that, model year change which was not peculiar to us, which has impacted the whole industry, but December definitely was softer than they are not only pre Diwali which is expected but rather than our expectations also. But look in our case in a period of 3 to 4 to 5 months you will pretty much know what our retail is and what our wholesale is because our wholesale numbers track very well in a span of time to retail, some Diwali could be there where the stock levels tend to go up a bit because dealers ask for more stocks and we are not a liquidating company at the end of the year and all that stuff we have a stock pile up happening and let's discount and get rid of the stock make retail looks good and match up to the wholesale. Our terms of trade do not change and our retail track the wholesale. So in a year for example



*Eicher Motors Limited
February 11, 2019*

whole year or 10 months that you can see at a gross level the retail matches to the wholesale other than that I mean that you will comment on the other OEMs I can't.

Pramod Kumar: No, it is fine so you are saying that YTD retails are inline with the wholesale even with the impact of Kerala floods and Diwali surge and the correction after that?

Lalit Malik: Where all you see there is a sustained in a way softness in the demand kick. Kerala being a case in point where we have come down 1,000-1,500 bikes per month from our run rate basis. So clearly then we ease off the wholesale to that market till it comes back.

Pramod Kumar: Just a clarification on the inventory for dealers you said that the plant, depots, transit and dealers is 30-35 days, what would be the dealer inventory because I think Chirag was referring to the channel inventory the dealer inventory of almost 2 months for the rest of the two wheeler industry.

Lalit Malik: It was not more than 2 weeks.

Pramod Kumar: So you are kind of taking the hit on wholesale and not letting the system stock go up?

Lalit Malik: Correct and that has been the approach for the company for last almost 14 years since you do want this cash and carry form of the business. I think there is no reason for this to change. It keeps us healthy and honest, and it keeps the dealer also healthy and honest.

Pramod Kumar: Pertaining to the ABS, have you seen cases of cancellation if you have any data as to whether customers have said that the price has gone up too much, I would rather cancel my booking take the 5,000 back and go and buy something else which is cheaper what is the cancellation trend are they going up?

Lalit Malik: No nothing at all I mean cancellation used to be an important vector in the sense a few years back the booking was used to be 2, 3, 4 months and then we used to see about 10%, 12%, 15% case-to-case cancellation, but now is not the case.

Pramod Kumar: That is probably the reason why you guys are confident on demand will kind of come back to the normal pace over a period of time?

Lalit Malik: I mean our thinking or planning there are many things to be done on the brand side, marketing side so on and so forth, on retail side, at the BTL level, at the ground level all the stuff put together. We will go through this phase which I said was an aggressive phase. We finally took a Rs 25,000 jump on the price at a retail level on a best-selling motorcycles. Even the car guys when he takes about Rs 25,000 price increase they think thrice, but we are sure of the intrinsic strength of the brand equity that Royal Enfield enjoys in the country and hence we took that call.



*Eicher Motors Limited
February 11, 2019*

- Pramod Kumar:** Second operational question on the demand outlook or the volume guidance for FY19. I guess after the December number there could be a reset or a small haircut to that number as well, how we are looking at FY19 as a year whole now versus our earlier guidance?
- Lalit Malik:** Earlier we guided a production number of 9.5 lakh for 2018-19 and now the numbers looking close to 8.7 lakh to 8.8 lakhs.
- Pramod Kumar:** Are you ready with the FY20 outlook by any chance?
- Lalit Malik:** No, it would be more towards the beginning of FY20.
- Moderator:** The next question is from the line of Ronak Sarda from Systematix. Please go ahead.
- Ronak Sarda:** So first question was on dealership expansion criteria given we have a fairly penetrated dealer network how do we think about adding dealers is it more on what the addressable market could be or when a certain dealer crosses a threshold sales per month consistently. And second question was relating to Siddhartha's comment on replacement option for an existing RE owner, we are entering now on a fifth year of very strong sales in terms of per annum sales are we seeing sharp replacement per demand or most of our 650cc are driven by replacement demand?
- Siddhartha Lal:** It is still extremely early days I think we need a full year of sales of Twins to be able to give you that kind of information but as we plan we do have a large chunk I would say majority of customers are coming in from Royal Enfield itself. We still have customers coming in from other brands and first-time customers. So we have a mix of all three, but this skew is towards Royal Enfield customers, but you take this as a pinch of salt but it is still the first couple of months and the first few thousand sales so it is not necessarily indicative of what will happen in the future. But that is certainly the plan like you said you had strong sales 3, 4, 5 years ago and those customers are coming back.
- In terms of dealer expansion, it is a very sophisticated and well thought through concept of where we need more dealers. Most of the big cities are covered. There might be one neighborhood here and there where there is a potential for a new dealer so we are looking at that, but we have a lot of proxies a lot of ways of considering of course one of the things is existing dealer and their catchment area but there are many other factors that we used to be able to understand where the dealers need to come in and largely the dealers now are coming in very small towns where they were earlier being serviced by a dealer from a bigger town but if the distance is over 50 kilometers and if the potential of that market is higher and customers do not travel that much in our knowledge to buy and service a motorcycle so that is what driving the new dealers mostly in smaller towns.
- Moderator:** The next question is from the line of Jay Kale from Elara Capital. Please go ahead.



*Eicher Motors Limited
February 11, 2019*

Jay Kale:

Sir my question was regarding the waiting period I mean how important is the waiting period in your scheme of marketing things and do you think that now with waiting period going away mostly on almost all models, do you aspire to get that back maybe by curtailing. Is that a big thing in your scheme of marketing product and the brand of the product?

Siddhartha Lal:

It was never the main intent to curtail products and that is not our current methodology. What is coming around too is that I think the right approach is to have some products which are available of the shelf or nearly of the shelves and some product which you may have to wait for that still creates a bit of buzz in the market and the people who do not mind waiting but they want that other products. So for example on certain variants right now I cannot remember which all of hand, but let us say in the recent past we had Thunderbird X, Stealth Black, Signals and these are Stealth Black and signals both are classic 350 variants a bestselling product variant. They have had waiting period even though the 350 have been available nearly of the shelves now in most places, but then also for products like the Twins we have a waiting so that also from I think you are coming from the marketing and buzz angle that still creates an interest and a buzz in the market that some products are available, some are not. So that is the balance which I think is good and always if we have because you might have seen now over the last many years that at Royal Enfield what we have been able to do is have different level of product launches.

So one is full new product like Twins, the other is new variants like the Thunderbird X which was a different variant altogether from the Thunderbird, but then we also have interesting let us say changes like we had the what do we call the Himalayan Sleet, the Signals which are more in the range of color trim graphics and stories but they are also creating a buzz. So in a market when you have products like you know at different levels of variance those create the buzz in the market, bring people in, get the excitement going, but some products will be available off the shelf. We have enough production capacity now to be able to deliver for the basic requirements.

Jay Kale:

Just following up from the earlier question is on the dealer count so at what level do you think is the number of dealers or the penetration do you think it is kind of largely penetrated because if you see the mass manufacturer also have a similar primary dealer account while of course touch points are higher because we are after sub dealer network which we of course are mentioned of not adopting in the near future, but at what level do you think that this dealership count is somewhere that we are largely penetrated across key areas and then we might consider more on the throughput of per dealer viability?

Siddhartha Lal:

It is a good question and we are still working and evaluating. I do not think we reached the end yet and basically organic and replacement growth, we are still just a bit between just a bit more than that. You look at other proxies such as car manufacturers you look at Hyundai and Maruti these are also good proxies. For example, if Maruti, I do not their network details, they have a sales opportunity in a particular geography there is a 90% correlation that Royal Enfield also has



*Eicher Motors Limited
February 11, 2019*

a sales opportunity in that geography because if it can afford certain numbers of cars, they can also have that number of motorcycles. So it is not always 100% correlation, but we look at various different proxies including motorcycles sales above 125cc which excludes the mass market motorcycles entirely and this is a proxy. I think over the next few years of course our additions come down a little bit of dealers and the quantum sold per new dealer comes down clearly because instead of now the big dealers in cities are selling +200 the small dealers which were adding now are selling 20 plus. So that is the kind of number difference, 10x difference, but adding 100 dealers of 200 motorcycles a year is still 20,000, 30,000 units more in a year which is still substantial so that is our current modus operandi in India. I think we will tell you about 2019-20 what type of dealer addition we are planning, but there will be more dealers coming in.

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

Kapil Singh: I wanted to check on BS-VI what kind of changes in engine characteristics you think will take place after BS-VI I mean what I am trying to understand is there is a characteristic thump in the engine we are trying to introduce fuel injections, how will the engine characteristics change how much of a challenge is it for Royal Enfield compared to the rest of the industry because of that factor?

Siddhartha Lal: I mean the minimum change required in BS-VI for a carbureted motorcycle is a fuel injection and may be some more catalysts. Let me put it different way so of course that in itself does not threaten any engine characteristics. I think Royal Enfield is extremely close and cognizant of what makes a motorcycle successful and where we can have improvements on motorcycle and as you seen with the Twins our capabilities in Royal Enfield for new products has gone up, it is a sea change. It is absolutely no accuses global level of new products and when I say new products it is not just a new product development it is the early bit it is specifying the product, it is developing the product, it is testing and validating it, it being able to produce it in volumes at global level quality and that is what we are seeing already with the Twins that we are able to bring a refinement level in which is actually in fact notches above even some of the global manufactures. So what you are going to see is we are not just the BS-VI we are not using it only as an opportunity to meet emission norms but it is the opportunity for us to be able to take our refinement level up to very different levels. I mean that is our approach and of course we understand what people love about our motorcycles and we plan to retain the things that they love and we plan to improve the things that maybe they do not care about that much and that need improvement so we are on top of it let me just put it that way.

Kapil Singh: Secondly I wanted to check what kind of waiting period do we have currently on the 650cc Twins?



*Eicher Motors Limited
February 11, 2019*

- Siddhartha Lal:** If you order a 650cc Twins today and you can call up a dealer I hope and imagine I am sure you do that 6 months approximately is what we are promising. Imagine some dealers maybe able to give it in 5 months but based mainly on some of the colors are easier the basic color actually easier unfortunately there is low price but still it is the easier and the more expensive ones are taking a bit more time to ramp up, but yeah basically 5 to 6 months is what we are promising June, July is what right now our dealers are promising.
- Kapil Singh:** So just wanted to check another price hike related to ABS and then Rs. 1,400 after that, so one of the key things you mentioned is the price going up which affected demand so after these price hikes related to ABS and the one in Feb do you think there could be some more impact on demand?
- Lalit Malik:** Like I said our view on the strengths of the brand and all that stuff kind of almost dictated the earlier decisions, equity still remains very strong. Now how the BS-VI price the cost increase is managed is still about a year out there so we will take a call at that point in time.
- Kapil Singh:** What I was asking was about the ABS and Rs. 1400 that we have done in Feb?
- Lalit Malik:** This is like apples and oranges. Rear disc brake plus ABS and insurance price increase felt by the customer was Rs 21,000 to 25,000 this is only Rs. 1,400 so there is hardly any comparison with the two of them.
- Kapil Singh:** So Rs 1,400 includes the ABS?
- Lalit Malik:** This is nothing to do with ABS it was a general price increase that we have taken on all the models barring the Twins because Twin was just launched. The ABS price increase has been happening I mean the rear disc brake and ABS price increase has been happening for the last year as we move one by one all the SKUs in the portfolios to ABS that is nothing to do with Rs 1,400 price increase. We will show you a pricing, Dheeraj would send a mail across to you in to what the prices were and what they look to be now.
- Moderator:** The next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.
- Hitesh Goel:** So basically just wanted to understand if I look at raw material cost per bike it has gone up by Rs. 5,007 whereas realization has gone up by Rs. 11,000 now like you said these cost increases have impacted your demand I just wanted to get a sense from management if the demand does not revise say in 3 months, 6 months down the line and you still see a decline in trend would that emphasis be on volumes or margins for the company?
- Lalit Malik:** You will know the answer in 3 to 4 months no problem.



*Eicher Motors Limited
February 11, 2019*

- Siddhartha Lal:** Profitable growth is our mantra so we have to find the balance that is the internal question I think for all businesses and obviously we want to maintain good margins and we want growth. So we cannot say right now but we will have to take a call where if that eventuality comes you will find out for sure.
- Moderator:** The next question is from the line of Joseph George from IIFL. Please go ahead.
- Joseph George:** I have two questions of the motorcycle that you sell currently I am talking about the motorcycle that actually bought by customers, would you have a rough sense I am sure you have but would be able to share what is the rough percentage of model with ABS and without ABS and your portfolio is 80%, 84%, but I am talking about actual sales?
- Lalit Malik:** Actual sales I mean apart from like I said some SKUs on bullet which are left out everything is now ABS.
- Joseph George:** So all customers who are buying I mean except for those couple of models all customers are buying RE today are buying ABS?
- Lalit Malik:** Last two months yeah.
- Joseph George:** The second question that I had was when the new plant comes online towards the end of this calendar, I guess your capacity will go up to about 1.25 million. Now when I look at your history a company has always or at least in the last 10 years mostly operated at 100% capacity utilization and when this plant comes online suddenly it is going to drop substantially maybe 70%, 75% so in that context how do you think about margins and cost lines etcetera and in that context is there a possibility of you scaling down your initial plans or pushing out your initial plans with the new capacity or you are going to stick with that?
- Lalit Malik:** See I mean if we are able to create the demand and that is our job also the job of the company is not just to make new bikes it is always to sell bikes that are made. So the total demand generation effort is completely at play and you will see us do a quite a bit of things in the next two to three years' time as we have capacity coming upstream. The other issue of course then if the demand on a particular month or a quarter is not exactly as to what you can do then of course there is an issue of unabsorbed overheads, but like I said it is again our ways to find ways to manage it a liquidated or compensated in some other line and all that, but I do not expect the gap to be very large.
- Moderator:** The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.
- Sonal Gupta:** Just wanted to understand what is the ratio of financing for your sales now and how has that trended I mean what would be like average of last year versus Q3 or Q4 now what are we seeing now?



*Eicher Motors Limited
February 11, 2019*

Lalit Malik: Generally, over the last 4 to 5 months it has been slightly above 50% if you compare it YoY then I would say it was slightly less than 50% so it has been growing. Last quarter I think the number we have is 53%, 54% that is same as it was in Q2.

Sonal Gupta: I think given the sharp price increases I mean clearly the emphasis is that the customer can really fall back a little more on financing and in which case then he see EMI increase may be a more softened blow then the price increase that we are seeing, so any efforts in terms of how this number should trend going forward or anything you are doing there because obviously in terms of marketing your campaign is to publicize the EMI etcetera so just trying to understand that?

Lalit Malik: This is a marketing campaign like that we just put in a few ads in places where we are from a distribution standpoint our presence is still very new and hence we have got this feedback from the customers also that in some of the markets 1) not the brand is very new but the distribution is quite new and do you have 1 or 2 or 3 financiers which are ready with the finance options for those markets. So we just try to kills that awareness problem with what we have done. Generally, I think the number may go up, but I guess the number may go up slightly we have seen a lot of stabilization in this financing number. I mean what I am giving you the gross All India kind of level but across the states and regions within the states we have seen fair bit of stabilization around this number. So unless something is going to change in some micro event or some liquidity issues and all the stuff I presume the number will be largely this between 50% to 60%.

Sonal Gupta: But I mean just to add on that I mean in the sense as we go deeper into the country and up country markets I mean the level of financing ratio sort of tends to drop, so anything we are doing there in terms of tie ups to ensure that even in rural markets we get customers are able to get financing?

Lalit Malik: Without any kind of subventions back or in the front or that kind of stuff we do work that with the financiers to offer the customers options available from their end and make sure that people know about it that is what we can do, but it also depends on the purchase behavior and the way people have cash and use cash and all that decides for a region as to what the financing percentage is going to be.

Siddhartha Lal: But to add to that financing as a liver is of course very important for us now as we move forward because of affordability, concerns and because of the kind of people who are interested in our motorcycle. So one is we are putting much more attention behind that in the coming years. We have an internal team which works exclusively with financiers and we have regional teams which work exclusive with financiers and now we are creating more innovative packages, we are finding new ways because we are also sourcing motorcycle back for our and to be fair that is more for Royal Enfield motorcycle but we are sourcing them back for our some of our used motorcycle requirements, but because of the very good residual value we are able to work out with financiers some very good arrangements because it is a high ticket price, good residual value generally very good customers and the lowest delinquency in the industry. So you cannot ask



*Eicher Motors Limited
February 11, 2019*

for more from a financier point of view. So we are using to leverage this strength that we have at Royal Enfield to be able to get better packages, longer tenure and let us say different packages for a customer based on the requirements, based on all of that and also now for Twins where ticket price has gone up so we are looking at different schemes. So yeah there are certainly lot of work going on our side on the financing front.

Moderator: Ladies and gentlemen that will be the last question and I now hand the conference over to the management for their closing comments. Thank you and over to you, sir.

Siddhartha Lal: Thank you guys very much for attending this question and answer.

Moderator: Ladies and gentlemen on behalf of BNP Paribas that concludes this conference. Thank you for joining us and you may now disconnect your lines.