



**“Eicher Motors Limited
Q3 FY21 Earnings Conference Call”**

February 10, 2021



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Chirag Shah: Good evening everyone. Thank you for joining us today. On behalf of Edelweiss securities, I would like to welcome you all to Q3 FY21 post result earnings call of Eicher Motors. Eicher Motors is represented by Mr. Siddhartha Lal, Managing Director, Eicher Motors, Mr. Vinod Dasari, Chief Executive Officer, Royal Enfield and Mr. Kaleeswaran Arunachalam, Chief Financial Officer, Eicher Motors, along with the IR team. I would like to thank the management for taking out time for the call and giving us the opportunity. We can start the session with opening comments from the management and then we shall move to Q&A. For Q&A, I would request everyone to use the raise hand option and accordingly, we will take questions. I would like to hand over the floor to Mr. Siddhartha for initial comments.

Siddhartha Lal: Good afternoon to you all. Welcome to our Q3 FY21 results earnings call for Eicher Motors Limited. As you know, the automotive industry has finally had a good festive season, after a very tough period previously and we're seeing signs of growth coming back and further demand in this coming period. At Royal Enfield, we saw strong demand from across the country. Of course this was really aided by the new launch of Meteor which has turned out extremely well and has gained a lot of traction in the market. We had a very good launch of our motorcycle. In addition to that, our international markets are also now rebounding well. We opened our first standalone store in Japan and it's a flagship store. We intended to take on the middleweight market in the home of the biggest motorcycle manufacturers in the world. So it's a very proud moment for us to be in Japan and to get the kind of response that we've had in Japan. Moving over to commercial vehicles, the truck industry, especially the medium and heavy-duty segment is rebounding well after a long downturn, and then the COVID-19 downturn which added to it. Finally, we're seeing some rebounding in medium and heavy duty as well as a good pickup in economic activities. In VECV, which is our joint venture with Volvo, we have gained market share in the segment with our wide range of offerings and our extremely solid BSVI switch over that we did and it's absolutely best in class. We've done well in BSVI and therefore gained share and margins on the BSVI products, so it's been a very good BSVI transition for us in trucks.

On our financials, talking about the consolidated financials for EML for third quarter ended December 2020, these don't include our VECV numbers, so these are only for the Royal Enfield business in EML. It's been a promising quarter. We've had our highest ever Revenue at Rs 2,828 crores, that's up 19% from Rs 2,371 crores last year. Our EBITDA was at Rs 672 crores which is up 13%, EBITDA margin is at 23.8% versus 25% last year and profit after tax is Rs 533 crores which is up 7%. That's the overall financials for the quarter. Now I hand it over to Vinod Dasari, the CEO of Royal Enfield to speak about the performance of Royal Enfield.

Vinod Dasari: Thank you Siddhartha. As far as the motorcycle sales go, we did 199,000 odd motorcycles, up 5% over last year. Our exports were up almost 30%, at 10,800 motorcycles. In India, the demand was very strong



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and the overall bookings were substantially higher than last year, especially aided by Meteor as Siddhartha said. We've had a healthy booking run-rate, which has resulted in a very large order book which we are very pleased with, and the demand was across the country. Now the mature states like Tamil Nadu, Maharashtra, etc have also started to come back. In India, the market share that we look at, greater than 125cc, actually improved from 25% to 27%.

Our production which was having trouble, picked up quite nicely and we increased the production run rate to 75,000 in the month of December. We picked up production in Classic and Bullet. Hence, the waiting period is coming down a little bit. We are ramping up the production of Meteor and there continues to be very strong demand, and the waiting period is high. The supply situation has been a bit of a concern. It was for some parts earlier. Now it's on electronic component occasionally. Something or another keeps coming up which is holding us back. We could do more. The recent commodity price cost increase has been a cause of concern. This has increased our input costs. We've taken 3% to 5% price hikes over the last few months. We've actually taken one again two days ago, and we will continue to do so that we can offset these commodity price increases. Even for UK and Europe, because of the success that we've had in India, we also transitioned there to Euro V w.e.f. January 1.

As far as our network is concerned, we opened 43 large stores in India and 129 studio stores during the quarter. Now we have a total of almost 1,900 touch points across 1,500 cities in India. Outside India, we opened 13 exclusive stores during the quarter. Now we have nearly 100 exclusive stores and we continue to focus on LATAM, ASEAN. We added 1 in Dominican Republic, 4 stores in Argentina, 3 in Colombia and 2 in Thailand. We're very proud of the fact that we became possibly the first automobile company from India which has a standalone flagship store in Tokyo. This is a matter of pride, not just for Royal Enfield but also for Indian auto industry.

The Meteor launch was a very successful digital launch of a fantastic product. We got an outstanding response from customers and media. As you know, it's an easy relaxed cruiser but it's also a ground up thoroughbred motorcycle, all new and we got such great feedback from the customers on how comfortable it is, smooth riding quality and a very refined technology of the engine. The new Tripper navigation pod that we had was doing very well. The booking rate of Meteor continues to trend at a much higher level than Thunderbird and we see potential in expanding the middleweight segment, both in India as well as international markets. We have now launched it in Europe, Australia as well as in Thailand. But the key thing with Meteor was that it was launched in a new initiative called digital solution called Make it Yours. We launched it first with the Twins and then we went with the Meteor. This takes us much closer in redefining the customer purchase experience. It is one of a kind to and it is nowhere done in the two-wheeler industry. It allows the customer to personalise and accessorise a motorcycle to his requirements using a 3D configurator on the RE app or the website, the customers



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can choose from a huge variety of permutation and combination. To give you just an example on the Meteor alone, they can have 500,000 permutations and combinations. It is significantly different than anybody else. The key difference, however, is it's not that we keep an inventory of all these vehicles, we actually make to order. So right now the demand is very high. Otherwise we have said that whatever is ordered, we will, within 24 to 48 hours, manufacture it and ship it.

A large portfolio of motorcycles, the Twins, the Meteor and the Classic have moved to MiY and we're getting a very good response. Penetration of personalisation and accessorisation is increasing and almost all the customers of Meteor opt for it since it gives them a wider choice. Since the launch of RE app in August, the daily usership of RE app is now tripled and the amount of time that the customer is spending on our app has doubled in the last one quarter. So very excited about it, both the RE app and MiY. This new digital frontier is helping us leaps and bounds so we decided that all new models in future will now come with the MiY feature. Inspired by how successful MiY was on motorcycles, we launched MiY on apparel also. So the Make it Yours initiative is now applicable to our entire range of gear and apparel as well.

One minor product launch that we had was the Classic CTG launch, the Colour, Trim and Graphics change. Now available in two new colours. It is looking very nice, the Orange Ember and Metallo Silver.

We continued on the digital engagement pick up in the last quarter, for example, the share of online inquiry has increased 3 times the pre-COVID level and the booking is 5 times the pre-COVID level. The web site visits is now at almost 8 million compared to 3 million earlier, tripling in every aspect. Our voice of share because of the digital engagement has gone up by 8% to 34% on the motorcycles. Interestingly, we just launched a rewind to 2020 video on YouTube and it won the top 10 most watched videos on YouTube and the best videos on YouTube. We are very excited about the kind of work that we're doing on the digital front.

We won many awards. The Interceptor was awarded MCN's Best Retro Bike of the Year, second time in a row and it also won the bikesales Bike of the Year award in Australia. So strong endorsement of the popularity and the customers' confidence. In India, Meteor has started to win awards just three months since its launch, and it was adjudged the best motorcycle in the category by almost all the top auto publications, so we're very excited. One sad point about all of this is that all the marquee events and our rides have been put on hold due to the present situation, but we are hopeful that things will resume soon and as soon as the situation improves. Back to you Siddhartha.



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Siddhartha Lal:

I will just take you through the financial and business update for VECV, which is our joint venture with Volvo. The revenues for VECV were at Rs 2,615 crores which is up 24% from same quarter last year. The EBITDA was at Rs 226 crores, which is up 67% and the EBITDA margin was at 8.6% against 6.4% last year, resulting in a profit after tax of Rs 58 crores which is up 89%. The total sales of trucks and buses stood at 12,800 units, which is up 3.3% which is better than the 7% decline that the industry had in this quarter. VECV therefore gained market share in heavy duty and bus segment. Our exports volume grew at 2% percent against an industry drop of 17%, so that's on the sales.

Some large developments - VECV inaugurated its all new fully digital and state of the art manufacturing unit in Bhopal. We've been working on this for a couple of years and it will deliver the entire light and medium duty range of Pro 2000 series which is coming to market recently to amazing reception largely replacing our Pro 1000 series in India which is our mainstay product. Pro 2000 has come in and is doing exceedingly well, and these are being made at Bhopal. We're delighted about that. These will all be BSVI trucks and buses and will be supplied to 40 countries, so that's our Bhopal plant which is up and running and doing really well.

We also had an extremely strong digital focus in the last couple of years, culminating in very strong activities last quarter as well. It's really helped us in improving our market penetration and customer response. We're the only company in India now, only CV company to have 100% connected trucks. Every single one of our trucks since August 2020 is 100% connected so that means we have data coming from those trucks at any given point based on the customers' acceptance and we're able to support the customer based on signals from the truck and the ECU and the management. So it's a very advanced level of trucking and connectivity that we have, at this point. What it also helps us do is have advanced diagnostics coming in from the trucks which comes into India's first and industry first uptime center as we call it. For better customer response, we're able to predict customers' problems even before some of them happen. So that's the direction we are going in. Before a breakdown we're able to support the customer, so that's how we're trying to do these things. It's very progressive and it really feeds into our into our concept of modernising of commercial transportation in India and emerging markets.

We've also been able to advance tremendously our digital sales and marketing including our much improved website experience, our product content enrichment and online customer engagement and we're able to really meet a hundreds and hundreds more customers due to video conferencing rather than traveling as much so I'm saying from the top management. So as a result, we were able to have face time with these people and understand their issues and resolve them and do extremely well with that.



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We expect that the industry will continue to improve over the next few quarters. We've had a long downturn and then COVID also further cut volume, so there is a pent-up demand in our opinion. We've added a strong network of 41 touch points for the 9 months that means YTD December 2020 and we continue to expand and add service and parts and reach through introduction of new digital tools and enhance customer experience. So that's really our focus.

There's another big news. We acquired Volvo Bus India business last quarter, which was completed last quarter. Volvo Bus, as you know, has an extremely strong brand presence in India; the absolute premium brand of buses in the country, without any shadow of doubt. VECV has acquired that entire business, so the plant, the distribution and the business from our partner, Volvo, who were running it by themselves in India, but now VECV is running it. We started the integration process and the unit is in Hoskote in Bangalore and we will be working on really taking the Volvo bus business to the absolute next level in India but also in working jointly with Eicher trucks and buses because it gives us the most comprehensive range of buses in the entire country in VECV between the two brands that we run now which is Volvo and Eicher, so we're delighted that Volvo Bus has also joined the VECV family now. That's the updated news from us, so over to you for questions, please.

Moderator: Thank you, Sir, we now move to the question and answer round. Request all participants to please restrict yourself to 2 questions per participant. When we call your name, request you to please unmute yourself, go ahead and ask the question. The first question is from the line of Kapil Singh from Nomura. Please go ahead, your line has been unmuted.

Kapil Singh: Hello, can you hear me? I am sorry about that I think I was on mute. Thanks. Firstly, could you share, how are the bookings trends, what is the booking on hand that you have currently?

Vinod Dasari: We don't give out specifics on booking but all I can say is that it is very healthy and it's more than a month but I don't want to give out much more specifics.

Kapil Singh: We had shared it last time.

Vinod Dasari: Yeah I'm still new to the company so I'm allowed to make some mistakes.

Kapil Singh: Alright.

Vinod Dasari: Kaleeswaran is even newer so I didn't let him answer that question.



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- Kapil Singh:** Okay, secondly, I wanted to check in terms of demand, over the last two years we have seen that for the industry and Royal Enfield, has been somewhere in the same zone for last 20 years. Your thoughts on what has been the key reason for that and how are we planning to address that.
- Vinod Dasari:** Demand has been strong so the way to address that is through increases in capacity, de-bottlenecking and managing our supply chain but the three reasons I would say why our demand has been strong is first and foremost an incredible pipeline of gorgeous motorcycles. The Twins was a huge hit; Himalayan upgrade was a huge hit and then of course the Meteor that you are now seeing. In the whole range of products that we're talking about, if you recall our previous chats, we have said that we want to have now a new model every quarter from here on, so that's been lined up. Despite the challenges of COVID, we have been able to execute that. The second major thing is our expansion of network, both in India as well as overseas. We have more than doubled our network in the last 2-3 years and we are growing internationally also very well. The third is the huge focus on digital that's been truly transformational. Digital is not just about digitalizing internally or having factory automation but also enhancing customer experience by leveraging digital. So those three things in short have been the key reasons why our demand has been going up.
- Kapil Singh:** Sorry, my question was actually over a slightly longer period if I look at last 2-3 years, the industry and Royal Enfield volumes are somewhere in 65,000 per month range. So that's what I was trying to understand, what do you think is the key reason for that and how are we addressing that and how do we head to 70,000 to 75,000 per month.
- Vinod Dasari:** December, we were at 75,000 a month.
- Siddhartha Lal:** I think the answer is the same Kapil, to what Vinod said, and I think the three points are absolutely spot on in terms of what all we're doing and those activities are only accelerating. The products are improving, more and more products let's say, new and better products are coming out, the distribution is improving and our ability to reach people digitally and engage with people digitally has also gone up multi fold. So these are the main parameters. There's been a lot of turbulence over the last 6-8 months which is not showing the exact picture, obviously, because we're also not able to make enough motorcycles at this time, as we would like to. But yes, the demand picture is strong and that's what is fueling the growth from the 60,000 level to the next levels that we are working on. All the products, the distribution, the digital and people reach, customer reach, it's all working very strongly in our favour and generally we're seeing that the upgrading is continuing in a strong way, that means people are continuing to want to upgrade to better motorcycles.



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- Vinod Dasari:** When I said new model. I don't mean new colour option. That colour option is available on MIY. For example, the Meteor comes with 14 colour or maybe 16 different badges and graphics and all of that. So when I say a new model, it's fundamentally a different vehicle. It may share some aggregates from here and there, but it's not the same vehicle.
- Kapil Singh:** Thank you.
- Moderator:** Thank you, the next question is from the line of Nitin Arora from Axis MF, sir please go ahead.
- Nitin Arora:** Hi, thanks for taking my question. A question on the demand. Like you said in the last quarter, our backlog was 120-125k plus, I'm not asking the number for this, as you said you don't want to give it but we thought that it's like a two-month waiting period and RE would be doing some 75,000-80,000 retail because that kind of a backlog was shared. But when we look at the retails which is trending around, you can correct me if I'm wrong, I think, on an average whether festive or non-festive period has not crossed 50,000 and the backlog was 125k something like that. Now when we speak to the channel, the waiting periods are almost back to 5-7 days or even zero days in case of Classic, and Bullet, I'm talking about ex-Meteor. So just want to understand, you always guide us in the right way, who are these customers who are booking and the booking numbers which were shared are actually not taking the bike, how we should read this? That'll be helpful. That's my first question.
- Vinod Dasari:** I think you've got some facts wrong somewhere. If what you're saying is true, we should see a very high level of cancellation. We are not seeing that. The cancellation is low single digit numbers that we always had, it's the same level. So, bookings continue to be high. Our channel inventory continues to be very low; less than two weeks and I don't know where you're saying 50,000 retail I think in December we reported...
- Nitin Arora:** 60,000 retail on an average.
- Vinod Dasari:** No, December we're at 70,000 retail. January, we had nearly 70,000 retail and we continue to have a very strong booking pipeline and backlog.
- Nitin Arora:** Okay. What is the reason the waiting period is coming down?
- Vinod Dasari:** While waiting period on some models is coming down, some models is very long. And we're working towards resolving the waiting period and customer wants a bike, we want to be able to deliver the bike, we don't want the customer to be waiting forever.



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Nitin Arora: And these retails that I'm talking is more on domestic, not on the total exports, so when you say 70,000 that is including exports, is that right?

Vinod Dasari: Experts is very less.

Nitin Arora: Ok. So my second question is, you know we talked about making-The Customization, you know as a theme, people will order what bikes they want, they will make it. So generally you know, we have increased our capacity, you know, few years back, and obviously there was a demand issue and then again as you guided demand is coming back, but generally don't you think that the making customization actually halves your capacity utilisation if that trend goes up. Because already, we have never done our full capacity utilisation in any year so don't you think it's like a challenge, taking such orders? I understand orders will be very minimal, but this kind of a thing really works? Just need your guidance on that.

Vinod Dasari: Absolutely, I mean we had the best December and we did a lot of Make It Yours, both on Classic as well as Meteor, as well as on Twins, so it's how you do it. We're not saying that you can choose your engine or gearbox or something. A lot of it is accessories in all of that. So some of them are colour changes, graphic changes, trim changes, seat changes, sometimes wheel changes, to us, picking the right wheel, the right component from the bin and making the right motorcycle as chosen, is the art of doing more MiY properly. If you go to a restaurant and order something customized and personalized for you, he doesn't take extra-long, he just continues, just pick the right amount of spices and right amount of ingredients to make it right just for you and that's how we do it.

Siddhartha Lal: I would just add to that, this is what in the industry is called is late commit personalisation, this is only the peripheral items that we're personalizing, one. Second, it would be within, I am guessing I'm not sure, have not been to the lines. The new bikes coming out in all the MiY bikes there they're going alongside the regular bikes so there's no difference like that, the same cycle time so it's within 1-2% of cycle time, so this is not adding to any capacity constraints it's probably even 0.5% or something in terms of plus minus cycle time. So, there is no change in cycle time. These are binned, sent and assembly is putting them the same way that they would put a normal product. If there is an additional item like a windshield to be added or something, that's actually great revenue for us, it may take a few seconds more to add but that's an amazing revenue for us so it's not an issue at all.

Vinod Dasari: And that doesn't take up the time of the conveyor. Yes so, it doesn't hurt capacity.

Nitin Arora: One last question. Why the ASPs are going down when we are so excited on the apparel sales and customisation, something we should read from here on the ASP? Thank you so much.



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- Kaleeswaran A:** No, we did not see the ASP going down and not sure as to where are you referring to, the ASPs are going up, and as you look at it, it's a combination of one, mix, also the price increases, also been taken up.
- Vinod Dasari:** I would say ASPs are actually going up, I don't see why it is going down.
- Nitin Arora:** I mean on a QoQ basis, I think, ASPs are just flattish versus other two wheelers are way higher, so I thought, I'll just ask you. No problem I got your answer. Thank you.
- Moderator:** Thank you, the next question is from the line of Pramod Kumar from Goldman Sachs, sir please go ahead.
- Pramod Kumar:** Thanks a lot. Siddharth and team congratulations on the great response to Meteor. I'll actually start the question on that point. Given that we've just introduced the 350 Meteor in Thailand. And, and if you can just help us understand how the response has been there and by when do you expect Meteor to see more foray into emerging markets because historically the 350 hasn't been a big export push for us. Though it's the most affordable and the most accessible within our price line, it hasn't been a big export thrust right, so if you can just help us with the learning there, and the response there and what it means in terms of a future export potential for the 350cc family? That's my first question, thank you.
- Vinod Dasari:** Thanks Pramod for the nice words on Meteor. It has done exceedingly well and we're very pleased with it. We've already launched it in several countries in Europe and Australia, in Thailand as well, so all markets where we play, there is a 350cc demand and maybe we'll take it to all the markets, where we want to be in the world.
- Pramod Kumar:** Vinod is there something in terms of quantification? Historically it's been 1/5th of our exports, but now with the new platform which is far more superior, is there a potential that this can be a much bigger export opportunity for the 350cc family?
- Vinod Dasari:** Well, I won't say just on the 350cc. I think not specifying what model will give us a higher growth in export markets, I think even the Interceptor did fantastically well right. So 350cc is also doing well and I think, maybe we didn't do as many 350cc in some of the European markets, but in the ASEAN market we were doing very well with the 350cc and in LATAM market we're doing well. Hopefully this will help us do even more in 350cc. Long run, if you recall Pramod, we had said that international markets, we should target 20% of our revenue. That's just a target for us to remind ourselves that we need to grow faster in international markets than we've ever done before, so I don't know if I answered your question, Sid if you'd like to add something.



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Siddhartha Lal:

Yes, I can certainly add because there's a lot of historical element to this also. 350cc traditionally was a type of product like our first Himalayan also which is meant for Indian market and 350cc we never developed with fuel injection for example in the past right, so we used to only sell 500s overseas, now as we've come up with our premium product let's say our highest products are the 650s, the Twins, the Interceptor and the GT. And we've had great off-take, amazing response for the Himalayan around the world as well, of course, that was only initially it was covered then after that it was always fuel injected, the Himalayan. There was a space, which was always going to be there because of the Classic singles not being available and the 500s and all of that eventually going out of the market, which was very popular segment, but also from a price positioning perspective, we had to change the game in international market, so when you see now the 350s, they are also priced as city plus motorcycles right they're not meant for highways really in western market. So in India, a Meteor 350 is meant for the highway because it is going at you know 100-110 kilometres an hour, but that's not adequate for international markets where these are more positioned as city plus. And the price positioning is different. It's less than what we were selling our 500s at in those markets because the 650s have come in just above the 500s what the 500s were at right. So there's a space below which we are able to do we are still making great margin on the 350s. I'm talking about Meteor sorry because that's the only one which has fuel injection and is ready for EuroVI and BSVI, and all of that. So absolutely we think we can open up new markets. One the 650s were always meant for international market so there's no question. Those are our lead products for most international markets. Second, the Himalayan is already, despite our initial reluctance to sell Himalayan overseas, it has really picked up and people love it across the world. I just got a photo from Berlin of people in snow riding our Himalayan. So, it's really to me, it's gone much beyond what we had ever imagined the Himalayan would have been in the international markets and now the 350s as well, we believe will be strong players, especially in the city, city-plus markets in western countries but in countries like Latin America, Southeast Asia, it's for upgraders like it is for India who may go long distance as well. So it's certainly an important segment that we are opening up internationally, which is not available in some markets internationally for 350s, which you rightly said.

Pramod Kumar:

Thanks Sid. The second question is on the domestic business. If you look at Meteor, the Thunderbird used to do 5,000-6,000 units a month. Now you have opened up Meteor with close to 10,000 units production a month. What I understand talking to dealers is 35-40% of the incremental bookings are from Meteor and the waiting periods extend up to more than four months. So what is the lesson here, is it entirely pent up demand of Thunderbird which is coming and hitting you now or you see the opportunity to expand the portfolio volumes? So the volume share of the cruiser segment within your volumes, what it means for incremental new launches? Whether we should be prepared for higher demand, given the fact that Thunderbird in the new Avatar has seen a much higher offtake and is



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attracting far more new customers as well? So how should one read Meteor for the incremental new launches?

Vinod Dasari: If Meteor is any example, I don't think any of our launches will be incremental in nature, I think all of those will hopefully be...

Pramod Kumar: Sorry, Vinod I meant the upcoming launch. Okay, sorry about that.

Vinod Dasari: So, I think a lot of learnings from Meteor. One, the product is absolutely superb, and we did a fantastic job in development of that product. When we were thinking about launching Meteor, we used to say Twins like quality or better. Now I would say that Meteor has set a new benchmark and anything that we will launch henceforth, we will say Meteor like quality or better. So keep getting the product to be even more refined and do better. Second thing is how we launched it. The first time we did it digitally, it was a fantastic launch. The response we got, the rides we organized and so on. We learned quite a few things on Meteor and the final element was the launch with MiY, these are things that are different from the past. Having a great product, having a digital launch and digital engagement with the customer that's ongoing, these are the three things that will allow us to grow new products to be better than their predecessors.

Pramod Kumar: Thanks a lot and wish you all the best, thank you.

Moderator: Thank you. The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: Yeah hi team, thanks for taking my questions. I had two questions, firstly, just follow up on the earlier discussion on Meteor. Now clearly this is doing very well versus what the earlier model used to do. But if I look at the overall retails, they remain in the range of 65 to 70k a month, you know here and there excluding export. Is it that Meteor is cannibalizing into some of our existing models? I mean how big is that impact if you can talk about that.

Vinod Dasari: I wouldn't say that Meteor is cannibalizing because we are not able to produce as much as Meteor as we'd like. As somebody has pointed out to the months long backlog, if we were able to produce all of it and retail largely Meteor, then you could say that there is a cannibalization. So no, there isn't an element of cannibalization. We haven't lost sales of other models for example.

Gunjan Prithyani: Okay. But underlying growth in some of the existing models has been relatively less than as the overall retails pretty much remain in the range of 65-70k and you know if 30% odd is coming from Meteor then is it that the rest of the models are growing relatively less?



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- Vinod Dasari:** Where you're getting the 30%. I don't know it's nowhere near.
- Gunjan Prithyani:** I'm just working with several you know, it's above at least 10,000 is what my sense is. But that's not a worry for you, you aren't seeing a big.
- Vinod Dasari:** No.
- Gunjan Prithyani:** Okay, the second question I had was on the production which you did mention that there are issues on the semi-conductor and all of these new challenges coming up, can you give us some sense that should we still work with that you know 70,000 to 75,000 odd monthly production number that you had indicated in the last call and is semiconductor really an issue, is a big issue that you're seeing right now for RE?
- Vinod Dasari:** It's not a big issue. These are the issues that keep coming up and suddenly delay production. I don't want to give forward looking information, which is why we had said that this is our target that we will try to get to this level, and we were at that run rate, even in January, although the number of working days was lesser; same thing in February, but I think there will be some supply chain constraint or another. I hope that we can do better than that.
- Gunjan Prithyani:** Okay got it. So, the range should be pretty much similar barring the working days here and there, or any new shock which comes your way. Okay the last question from my side.
- Moderator:** Sorry, I would request you to please fall back in the queue.
- Gunjan Prithyani:** Okay no worries.
- Moderator:** The next question is from the line of Jinesh Gandhi from Motilal Oswal, please go ahead sir.
- Jinesh Gandhi:** Hi, so my question pertains to RM cost, so we have seen a considerable RM cost or commodity cost inflation in 3Q. RM cost has gone up despite the price increases. Can you indicate the impact in third quarter and what to expect in the fourth quarter and the magnitude of price increases taken already?
- Kaleeswaran A:** Jinesh from our raw material commodity costs for Q3, the impact on gross margin is roughly about 80-100 bps largely falling in the month of December. As we move into Q4, we continue to see a commodity cost inflation continuing trend. So, in Jan and Feb between both the months put together, already about 2-3% of price increase has been factored-in, which is something that has been communicated also and as we move forward, pricing actions you will see on an on-going basis as a combination of how much we can recover through VAVE and how much we can pass on as pricing.



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- Jinesh Gandhi:** Okay, and the second question pertains to the supply side issues which you talked about. Do you see that as a possible disruptor for our upcoming product launches considering one would be around the corner?
- Kaleeswaran A:** So, from a ramp up perspective as we talked earlier, we have already hit about 70,000 to 75,000 units and that's steady. We don't see any challenges into it. As Vinod was explaining on the previous question also, there could be issues that are coming up here and there. Right now, we don't see any of them as a major challenge to stop anything that we are planned for. Let us see how the respective quarter pans out and we will update.
- Jinesh Gandhi:** Good thanks. I'll fall back in the queue.
- Moderator:** Thank you, the next question is from the line Sonal Gupta from UBS, please go ahead.
- Sonal Gupta:** Hi, good evening, thanks for taking my question. Just following up on the production thing, not from a short-term perspective, but given that I mean effectively your assembly capacity or plant capacity is almost like 100,000 a month. So I mean what is the constraint here in ramping this available capacity? Do you need to make additional capex or what will sort of de-bottleneck this to say 85,000-90,000 a month sort of run rate?
- Kaleeswaran A:** So, from an overall capacity perspective, step one we have gradually moved up, we have already hit about say 75,000. Wherever we need to do de-bottlenecking for certain incremental revenue that we can get on international models like Himalayan etc is ongoing and there is headroom available within the same capacity, without any incremental capex to be invested significantly for us to reach the number and you would see that as we move forward.
- Sonal Gupta:** But any timeframe for this?
- Kaleeswaran A:** Allow us not to commit on a forward statement, but on a quarterly basis we will communicate as to how are we progressing.
- Sonal Gupta:** Sure, and lastly just on the 2-3% price increase that you just mentioned, does that more or less take care of the commodity pressure for Q4?
- Kaleeswaran A:** Not really, considering the overall commodity cost increase that is happening, but also we need to balance out how much of this needs to be passed on. How much of this can be recovered through a value engineering, but also we have seen commodity cycle that goes up and down, so we need to balance



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out all the three and then take a pricing call. That's an ongoing review that's conducted on a periodic basis.

Sonal Gupta: Okay great. Thanks a lot, I'll join back the queue.

Moderator: Thank you, the next question is from the line of Kumar Rakesh from BNP Paribas, please go ahead.

Kumar Rakesh: Hi, good evening, thank you for taking my question. My first question was around MiY program. Can you help us quantify the benefit? How it is helping RE or maybe in terms of, say, higher conversion compared to other products or higher realization? How much higher or any other metrics which you would be tracking internally.

Vinod Dasari: That would be too much of a detail that I'd like to not comment on. I'll give you one example, a customer who wants to convert from a spoked wheel to a cast wheel. In the past, what he would do is he would buy the vehicle with a spoked wheel and then go to a dealership, ask them to buy local cast wheel, replace the spoked wheel, throw it away, put the cast wheel and then take it away. So the customer would pay for the full bike plus the cost of the cast wheel plus the cost of the labour. Now using MiY he could choose the vehicle with the cast wheel directly and we will make it, so he doesn't lose money and I gain the profit that was otherwise lost on selling a cast wheel. So, both of us benefit and the inventory levels are much lower. In that sense, there is a lot of benefit for us on the accessory side and the customer benefits. This was done primarily to help the customer, engage the customer. I learned something in the last two years. Nobody buys a Royal Enfield just to commute. It is a statement of their personality. It makes them look much more Royal when they are riding compared to the other two-wheelers. So we would want them to be having as much ability to personalise it to their tastes and choices rather than what I offer, and that is what is driving us. And because of that, the engagement with us on our app is significantly higher and hopefully that is why he chooses to buy from Royal Enfield versus somebody else.

Siddhartha Lal: Just to add, I think Vinod has been slightly modest here but I think Vinod and the team, have done a wonderful job because this is only the starting point, MiY. So, it's firstly from a consumer perspective for them to personalize, as he said, and eventually what it does is that they put extra parts they, you know as one does they put touring seats, they put windshield, they'll change the colour. Some things may not cost them, something is going to cost them, but at least they can personalize. They can add lots of things as they want. So, there's an enormous benefit for the customer. The implications for the company are that over time as we convert more and more people and, in fact, eventually Vinod's aim is that I think to try and have all customers, I mean all is a big word but most customers let's say buy through MiY and order through MiY, then it changes the entire dynamics of the supply chain. We know



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every single bike that we need to produce and therefore we produce only what is required by customers in the market, not what a dealer is ordering on us. So it changes the entire dynamic our inventory, our costs everything becomes much better and we are able to personalize so it's really a transformational concept which starts with and the beauty is the customer values it tremendously and it helps our entire supply chain tremendously as well overtime.

Kumar Rakesh: Thanks Sidharth, I'll make note of that. My second question was around margin and I recall, Lalit used to say that we haven't fully squeezed the brand equity of Royal Enfield and 25% of EBITDA margin, something the company will be targeting on the lower band. So how do you see that now in the current context? Do we still hold on to that and will we be getting back?

Siddhartha Lal: Firstly when you said, that's why he has gone to the commercial organisation now to squeeze all inside out, so that's what he's going to do, but I leave the rest of the question.

Kumar Rakesh: Yeah so how do you see the margin expanding here through price increases or the trajectory of margin improvements back to 25% or any other target which you have in mind?

Kaleeswaran A: So Rakesh, to start with, as always we don't want to commit or specify an exact number of EBITDA that we are going to look at, but let's look at what are the levers that we are working upon to see how can we go through it. One is pricing, of course, yes to start with how much more that we can do, as a part of the transition that moved from BSIV to BSVI, the cost increase and inflation that we have seen over a period, leverage that to brand equity and see how much more we can do. Second, we can also work around non-motorcycle business and how do we leverage that for the margin. So that's another focus. We talked about MiY, how much accessories are going to add to the business and how much more EBITDA can be generated through that. Third, international business, we have seen strong performance on a YoY basis, let it be 2019-20 or even in the current year, inspite of pandemic impact, we have seen business rebounding quite fast. Take for that matter, RENA, LATAM or APAC. Then coming to the cost bucket there are levers around VAVE which is a continuous ongoing program. We are trying to see what more can be done through that. The pandemic has also given an opportunity to re-look at our fixed costs by saying structurally can we intervene and change some of our cost models. So that's also work on progress. So all the levers available to work on this is at action. You are seeing some of them as we go into every quarter and as we move forward, you'll hear more about it.

Kumar Rakesh: Thanks, Kaleesh, I'll fall back in the queue.

Moderator: The next question is from Raghunandhan from Emkay, please go ahead.



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- Raghunandhan:** Thanks for the opportunity. My first question, you alluded to improvement in demand in mature markets – Tamil Nadu, Maharashtra. Can you share some trends and also indicate whether the share of top 10 cities has increased now versus 15% it had touched earlier?
- Vinod Dasari:** Go ahead Kaleesh.
- Kaleeswaran A:** Pre-COVID our top 10 top 20 cities used to contribute somewhere around say 27-30% of business. That had fallen to about 20% in the first two quarters, largely because the opening up was pretty late. Now we see this already going up to 25%. As things open up, the demand is getting streamlined in the tier-1 cities also.
- Raghunandhan:** Thanks Kaleesh. My second question was on Meteor. Given the personalisation options approximately how much would be the accessories revenue per vehicle? Would it be closer to Rs 10,000 per vehicle? I was comparing with around Rs 6,000 per vehicle for the existing portfolio last year.
- Kaleeswaran A:** From an average billed value perspective, I don't think so that it was Rs 6,000 earlier from a Thunderbird perspective. Meteor is clocking almost about 1.5 to 1.7x of what Thunderbird used to be.
- Raghunandhan:** Thanks. Just a question on employee costs and depreciation. They have increased in Q3 versus Q2. Can you throw some light please?
- Kaleeswaran A:** Employee costs, there are two parts to it. Largely it's on account of the increments that we have announced, considering that business is back to almost normal from Q3, that has taken a large part of employee costs increase, plus the production ramp-up means there has been increase in terms of temporary manpower that comes in, to help us ramp up. Depreciation it's more about the Meteor line getting capitalised. On account of that, you see the depreciation rate going up.
- Raghunandhan:** Thank you so much, I'll fall back in queue.
- Moderator:** Thank you, everybody. Due to time constraint, this was the last question. We take this opportunity to thank the management of Eicher Motors for taking out the time and attending the call. Thank you everybody and hope you have a good day.
- Siddhartha Lal:** Thank you all very much. Bye.