"Eicher Motors Limited
Q3 FY22 Earnings Conference Call"

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Raghunandan: Good evening, ladies and gentlemen. We welcome you to the Eicher Motors Results Earnings Call. On behalf of Emkay Global Financial Services, we are pleased to invite you all. From the management team, we have Mr. Siddhartha Lal, MD and CEO, Eicher Motors and soon we will have Mr. B. Govindarajan, Executive Director, Royal Enfield; and Mr. Kaleeswaran Arunachalam, CFO, Eicher Motors Limited. We would request management for opening remarks and then we will open the floor for Q&A session. Over to you, Siddhartha.

Siddhartha Lal: Thank you, Raghu, and thank you Emkay for hosting this. Hello, everyone, and welcome to the Q3 earnings for Eicher Motors Limited for FY 2021-22. I wish you all a very Happy New Year and as we all recover from this third wave, I do hope that all of you and your families are doing well. This quarter saw us strengthening our commitment towards becoming a truly global company at Eicher Motors and a truly global brand from India. Both Royal Enfield and VECV continued their strong growth momentum in international markets. Even amidst a challenging backdrop, owing to the global semiconductor shortage and the onset of Omicron, we still registered a 28.1% sequential increase in Q3 revenues. The benefits of operating leverage and alternate sourcing were also visible in the sequential margin improvement. During Q3, not only did we commence operations at Royal Enfield's CKD facility in Thailand, which is a really promising market for us, we also registered stellar growth in international volumes during this quarter. With this, Royal Enfield has now three assembly units outside India; one in Argentina, the other in Colombia, and the third in Thailand now.

Our continued focus on aligning the next stage of growth with a renewed ESG vision at Eicher Motors Limited, Dow Jones positioned us as one amongst only 10 global automotive companies to feature in its elite list of Dow Jones Sustainability Indices 2021 (DJSI) in the Emerging Markets category.

Our manufacturing prowess was also recognised by Frost & Sullivan as Royal Enfield's Vallam Vadagal plant received the 'Frost & Sullivan Gold' Award for Manufacturing Excellence. With the CV industry continuing its recovery, VECV delivered strong growth in all parts of the business, including a 25% growth in top line and in volumes, with a market share of over 30% in light and medium-duty segment. We also continued to strengthen our product range through the launch of an industry leading Eicher Heavy-Duty Coach & Sleeper bus range during this quarter. These are the intercity buses. At an overall level, there seems to be continued turbulence with the ongoing supply chain challenges and inflation. However, we expect the situation to gradually start improving over the next many quarters.

To give you an update on our consolidated financials for Eicher Motors Limited, our revenue was at Rs. 2,881 crores, which was a sequential growth of 28% versus Rs. 2,250 crores in Q2 and up 1.9% from last year. EBITDA was at Rs.582 crores, a sequential growth of more than 35% and around 13.4% lower than Q3 last year. And our EBITDA margin was at 20.2%, up 1.1% QoQ and 3.6% lower than the same quarter last year. And our PAT was at Rs.456 crores, up 22% QoQ and lower by 14.4% compared to last year. So that is the overall financials for Eicher Motors Limited.

Now over to Govindarajan, Executive Director and in-charge of Royal Enfield, to give us an update on Q3 FY 2021-22. Over to you, Govind.

B Govindarajan: Yeah. Thank you, Sid. Hi, everyone. Happy New Year. Hope you are all safe, and your family is also safe.

Let me just take you through Q3 of Royal Enfield updates. At Royal Enfield, we continue to remain steadfast on our strategic vision of becoming the premium global consumer brand from India. Coming specifically to this quarter, let me share with you the updates and the highlights for Q3 FY 2021-22. Totally we sold about 167,664 motorcycles with a sequential growth of 35.7% against 123,515 motorcycles in Q2 FY22. The ongoing shortage of the semiconductor chips has impacted our performance in this quarter. We are down by about (15.6% YoY), we are working towards developing alternative suppliers' ecosystem to minimise the effect of the shortage. In fact, we have onboarded one more supplier and the third supplier is also in pipeline, thereby, the supply situation will be easing out.

Demand continues to stay resilient aided by the launch of the new products and the festive season. Our market share in the motorcycle segment of more than 125cc engine size increased by ~2% to 27% in this quarter as compared to 25% in Q3 FY21; Royal Enfield had a market share of 9% in the overall motorcycle segment for December '21.

As far as the network is concerned, we are continuing with our path of increasing, optimising the network and we have added about 12 large format dealerships and the total footprints as of now it stands about 2,118, of which 1,065 are in dealership formats and about 1,053 are studio formats.

You all would have seen the international success has been outstanding for us. We have been continuing to have a growth and the momentum is very good. Our exports during this quarter stood at about 17,036 units as against 10,833 units during the same period last year - a growth of 57.3% and more than 2x increase when compared to Q3 FY20. Robust performance in EU and the Americas with a market share in mid-size segments hitting ~7.1% and 5%, respectively. Consistent growth in the market share from approximate less than 2% in FY18- prior to the launch of 650 Twins. The product which we have launched had very good traction in the international markets. Strengthened our international presence with the commencement of operations of our local CKD unit in Thailand. Overall, we have added 7 exclusive stores in France, Philippines, Argentina, and Germany and 11 multi-brand outlets during the quarter. We now have 150 exclusive stores and 660 multi-brand outlets outside India. Non-motorcycling business (apparel, accessories, spares and soft products) altogether we continue to grow consistently. We have witnessed a sequential growth ~8.2% on YoY growth of more than 29.2% in the quarter. Total non-motorcycle revenue for the business currently stands at around 15% of overall revenue. Our constant endeavour to deepen the rider's engagement with his/her motorcycle have resulted in GMA and Spares verticals growing consistently MoM.

Launched in India in September last year, all new Classic 350 has witnessed a very enthusiastic reception from all our consumers. Since then, it has been unveiled at EICMA 2021 for Europe and launched in countries across the Asia-Pacific region. During this time, we have rolled out more than 100,000 units of the New Classic 350 motorcycles, which continue to receive an overwhelmingly positive response across the markets.

The global motorcycle show EICMA 2021 showcased the best from Royal Enfield's 120 years journey. A major centrepiece of the show was unveiling of the Project Origin, a working replica of the first motor-bicycle from 1901, the machine that represents a seminal chapter of Royal Enfield's illustrious history. We also showcased 12 iconic motorcycles from our history, one for each decade of our history in a unique showcase called Through the Ages. Also celebrating our history was the 120th year anniversary edition of the brand's flagship 650 Twin motorcycle, the Interceptor 650 and the Continental GT 650. These were very premium, limited-run, special edition motorcycles looking stunning and 120 of these units were sold in a record time of 120 seconds in India in an online sale. The SG 650 concept motorcycle that we showcased created a lot of excitement. It is a futuristic concept that demonstrates our product design and development capabilities. Also celebrating 120 years of exploration and adventures was 90° South, a quest for the South Pole. Our teams successfully completed a 28-day, 310 kilometres, first-of-its kind motorcycle expedition to the geographic South Pole. It was a moment of inspiration and pride for all of us as we saw two Royal Enfield Himalayans at the very end of the earth.

Exciting initiatives in motorcycling apparels, we have collaborated with the prestigious British heritage brand Belstaff to introduce an exclusive range of riding apparel. We commenced the second season of Art of Motorcycling, our marquee creative campaign which sees a huge participation from artists and creator community and motorcycling enthusiasts.

With a focus on enhancing awareness on the road safety and increasing adoption of helmets when we are riding, Royal Enfield partnered with Helmets For India, a non-profit organisation, creative initiative aimed at bringing about a positive change in the mass perception of wearing a helmet in India. We have partnered with the renowned global artists to create the unique and evocative expressions of helmets, which will then be auctioned to raise funds for the cause. To conclude, consumer preferences for the personal mobility and premiumisation continues to drive demand for the segment and for our products. As supply chain constraints are gradually easing out, we expect production to scale further soon. With a slew of new launches planned in the near and the mid-term future, we are excited about what is in store for enthusiasts of pure motorcycling in India and in the global markets.

Now I will hand over to Siddhartha to take us through the VECV performance and the updates. Over to you, Siddhartha.

Siddhartha Lal: Yeah, so this is the update for VE Commercial Vehicles Limited, our joint venture partnership with Volvo. So, in VECV, we had a revenue of Rs.3,626 crores, which is up 35% from last year. The EBITDA was Rs.242 crores, which is up 7% and an EBITDA margin of 6.7% versus 8.4% last year. The lower EBITDA margin was largely due to higher discounting and input cost pressures in the commercial vehicle industry. All of this is resulting in a PAT of Rs.66 crores.

Overall, there has been strong industry growth. We are witnessing a QoQ growth in CV industry and VECV continues to perform better than the industry backed by higher demand for CNG trucks and a solid response in our new export markets where we have been working on for the last many years. So that is paying good dividends. VECV sold 16,044 vehicles in the quarter ending December 2021, registering a growth of 25% against 12,805 units in the same quarter last year.

And LMD segment consistently performed well, maintaining a 30+% market share and over 50% market share in LMD CNG segment, so that is a segment which is actually growing a lot in these days. There we have been able to get a very good market share. Our heavy-duty market share grew to 8%, which includes Eicher and Volvo Trucks. So that is a very substantial increase in market share.

Our exports have grown by 72% and we have added new markets in Southern Africa, Latin America and the Middle East. So there has been a lot of progress on that as well. And we have had some very good new product introductions with the leading intercity coach and sleeper buses that we have built in our Volvo Bus India facility in Hoskote on Eicher chassis. As you know, we recently acquired the Volvo Bus business from Volvo into VECV. So, in the plan that was part of this deal, we have now built the Eicher intercity bus, which we believe has an enormous potential in the coming years. And Volvo Bus launched India's first 13.5 meter and 15 meter chassis for intercity coach and sleeper application. In addition to that, we launched the My Eicher App. Within the My Eicher App, we launched a gateway for connected vehicles-based services to key accounts. So that has been also a very interesting addition to our services.

We have added 37 new touchpoints in commercial vehicles this year and focused on improving presence in very large industry volume markets. So, as a result, our growth and market share continue in VECV. There are some concerns on industry-wide issues and profitability. Having said that, we are still ahead of others where some of the other much larger CV players are making losses, we are still in profitability. And that is reflected with the high discounts that others are making. We have to also match up to some of them to maintain our shares. So that is the industry outlook.

Having said that, we are still doing very well. We are growing in market shares and generally, as a brand, also performing very well in customer satisfaction and in brand salience. We have done studies recently where now we are number two in a lot of markets for brand salience as well. So that is it for now. And thank you very much for joining and now over to you Raghu for conducting the question and answers. Thank you.

Raghunandan: Thank you, Siddhartha for the opening remarks. As we go to the question-and-answer session, couple of questions from my end. Firstly, exports have been robust. Can you provide some colour on which markets hold strong potential ahead over the medium term and what portion of sales would you be targeting from exports over the medium term?

B Govindarajan: That, I will take. Raghu, exports market especially RENA, Royal Enfield North America, Thailand, LATAM, EU markets, in all markets, Royal Enfield is doing outstandingly well. Primarily, about two years back when we were talking about when the new products come in and we prepare the market and we went in for the brand pull as a strategy, so when we have actually gone in for one store, one location, the brand gets accepted, then we will improve. And today it is actually the success story which we created in India is one of the success stories which we can create in the International markets. First with the global product, which we launched which is the 650cc Interceptor and Continental GT 650 which got accepted very well and now with the Meteor 350 launch and the Classic 350 launch, we see our growth in the international market is going to be very good and this is the starting point.

K Arunachalam: Raghu, on the forward guidance, we do not provide any colour as you would know, so allow us to discuss this as we move forward in the respective quarter for respective quarter numbers.

Raghunandan: Thank you, BGR and Kalees. Just the second question from my end. Dealers indicate a good waiting period for Classic 350 and Meteor 350 models, especially for the dual channel ABS vehicles. Considering the healthy order book, how do you see the production ramp up in coming months? By when do you see production consistently being over 70,000 units now that you are adding multiple vendors?

B. Govindarajan: Yes, Raghu, you are right. We had only one vendor and subsequently we started adding the second vendor and now we are looking for other vendors also. For understanding purpose, it is slowly ramping up, with the automotive industry you would have seen, it is not completely behind us. But it will not be the situation, which was earlier, it is going to continuously improve, the ramp up will be happening. Yes, as you mentioned, we have a very good healthy order book. MoM, we see now with this wholesale's addition, our production will be ramping up.

Raghunandan: Thank you BGR, wishing you all the best. Now starting with the Q&A session, we have the first question from Pramod, please go ahead.

Pramod Kumar: My first question is on the quarterly result. I normally do not like to discuss the margins, but there seems to be a sequential drop in ASP and also a drop in the gross margins QoQ, I am talking about September quarter versus the current quarter. If you can help us understand because the volume run rate did improve and there were pricing actions, which were there, and you did talk about our very strong non-vehicle revenues as well. So just trying to understand, is it just a numerator-denominator effect because of larger volumes and lower non-vehicle revenues numerator which is hurting ASP? And related to that is the gross margin point, is it also because of lower percentage of non-vehicle revenue in the quarter compared to September quarter here, because gross margins have slipped QoQ?

K Arunachalam: Yeah. Thanks, Pramod. I think to start with, if you look at what we delivered in Q2, it is about 125,000+ volume on which our exports was about 18,000. If you look at this quarter, the export revenue continues to be strong at about 18,000 on a base of 168,000. India business has gone up, where the ASPs are lower compared to our international business. So that is why you see -- it is more to do with the percentage of international business on the overall business leading to the ASP drop.

Now second point in terms of the GC, 80-90% of that is also more on account of the mix that we talked about. But at the same point of time, there was no large pricing actions in Q3. The pricing actions happened effective 1st January 2022, but there was aluminium inflation that we factored in Q3. Now coming on to the overall summary financials, we do see an operating leverage kicking in already. After seeing the financials compared to last quarter and after adding in the investments that we have done in marketing, the EBITDA margins have already started moving up. Last quarter we had the one-off, at 19.1%, this quarter we are already at 20.2% which shows that the operating leverage has started coming in.

Pramod Kumar: And on the export side, I understand ASPs are higher, but I think you made a mention that it is not still accretive because we need some more scale benefits on the export side. Is the understanding right? And that 10k or closer to 8k-9k per month, will exports be accretive on the EBITDA margin front?

K Arunachalam: It is Pramod. I think different markets are at different levels of maturity. Some of the markets have already hit the accretive numbers and some of the markets are still in growth phase, where you will see margins further getting added as we look at the forward quarters.

Pramod Kumar: Sounds great. Second question on the demand side and I think Siddhartha, BGR both of you can chip in. If you can help understand because if you look at Vahan data, your retail market share is 4.6%-4.7%, which is one of the highest ever. Speaks a lot about demand for your brand in premium segment. It is in a backdrop of a very weak industry demand environment. So just want to understand from our perspective on demand tracking as to where you see the demand in terms of monthly bookings and other activities which should track like customer inquiries, conversion everything? How is the tracking over the last few months, especially given Omicron in January, and if there is any recovery in February? And looking forward what could be the impact of new launches and also some colour on the new launch pipeline? Is it getting delayed, or you will have backlog or just any colour on the product action as well? Thank you.

B. Govindarajan: Of course, on the demand side Pramod, it is slowly inching up. The dealership openings are taking place, even in as good as last month, there were some dealers which were not open, fundamentally because of the local restrictions and all those things. I think, the booking rates are slightly going up. I would say rather, in a week-on-week basis, I am just seeing it is in the positive sign. Second, it is also supported by our new launch Classic 350 which we have launched it in September-October. It has been a fantastic reception and the booking for those numbers are also going steadily across MoM, the booking numbers are going up.

Pramod Kumar: And on the new launch pipeline Govind, do we still stick to our one launch every quarter as a timeline?

B. Govindarajan: We have a very good pipeline of new products, which are lined up. So, at a particular interval where we have to launch those motorcycles into the market, we will be doing that. Siddhartha, you want to add something?

Siddhartha Lal: I will just add that we do have a very strong pipeline. We are not going to tell you any further details at this point, but it is a very strong pipeline. We are very excited about it. It is all out there, and we are ready with a lot of products. For now, it is just a matter of sequencing stuff over the course of the next year, 18 months follow that.

Raghunandan: Next question from Jinesh Gandhi. Jinesh please go ahead.

Jinesh Gandhi: Sir, my first question is on the supply side. So, you indicated we are seeing a recovery. Would it be fair to say that the month of December'21 was a proper reflection of normalisation of supply chain where we did 70,000+ or that was primarily a play between single versus dual channel?

B. Govindarajan: Look, so it is what is available, the combination of dual channel and single channel ABS. As I mentioned earlier, we had only one source. We actually inducted one more source. There is an initial ramp up, which was just coming up. And now the second source have to actually source the subcomponents across. So, over a period of time, as I mentioned, between the last quarter and this quarter, there is a substantial growth. And I see that MoM, it will be ramping up. So that is the confidence, which we are seeing in the supply chain as of now.

Jinesh Gandhi: Okay. And secondly, with respect to the distribution network expansion, so are we largely done with our studio network expansion considering that we have added substantial number of stores in the last two years on the studio side?

B. Govindarajan: As of now, as I mentioned, studio stores, it is almost about some 1,100. So, these are which are already there. Apart from that, what we are looking at is, we keep on looking at where is the cluster, what is the kind of a growth which is available, how can we go close to the consumer. That is the endeavour. It is not just a number, but we can say, the growth, which is taking place, especially in the rural economy, which is just getting opened up now, there is going to be more clusters and where we are not present, which we have to be present and then keep moving on. So as a strategy, studio stores is here to continue, but it is not blindly going behind some numbers, it is to see where exactly it has to be there and the quality of the place has to be very carefully chosen and installed.

Siddhartha Lal: Yeah, to add to that, the huge addition that we have done, there is not a huge addition ahead of us. Of course, in strategic locations, we will continue to add and continue to work with our dealers. Also, last two years have been very tough for our distribution for all dealers everywhere because sales have been down. Service has been down, so service revenue has been down. Our job and what we are doing is to ensure that our dealers are doing well - their profitability is secured. We do not want to add a lot more channel before we ensure that all our existing dealers are doing well.

Jinesh Gandhi: Okay, great. And couple of clarification for Kalees. One is on the commodity side. What kind of inflation we saw in Q3 versus Q2? And the second question is on the staff side. Staff cost, was there any one-off in this quarter as well?

K Arunachalam: There is no one-off in staff cost, Jinesh, and from a commodity perspective, roughly it is about Rs.2,000 per bike that we saw for Q3. It is just that on the ad spends we had larger spends of about Rs.60 crores towards launch of Classic 350, the South Pole and Continental GT Cup that Govind talked about, that was also incurred in this quarter.

Raghunandan: Next question from Nitin Arora. Nitin please go ahead.

Nitin Arora: Hi, sir. Thank you so much for taking my question. Just on the demand side, is it possible to share the waiting period across new models? If you can share. Sir, when we call the channel, they tell us that the bikes are available and especially the single-channel ABS are available in abundance. Are there some specific models? Wanted to know whether the waiting periods are very low, because we are getting everything when we speak to the channel whether it is New Classic 350 it is available, whether it is Meteor 350 it is available. If you can throw some light on this fast-moving model that will be helpful. Thank you, sir.

B. Govindarajan: Yeah, Nitin. Fundamentally, what has happened is when we added the second source, their capability was in the single-channel supply. So that is when the single-channel numbers were slightly better. But it is only a question of some 30-40 days in which they have to come up and then prime their line for the dual-channel. Now what is happening is, the other source is also priming for the second dual channel. In the combinations, all these things which have to be homologated, we are quickly doing the homologations and we will be ready soon for the dual channels which will come in more. So, you saw the single channel slightly more in the pipeline only because of that.

Nitin Arora: So, for the waiting periods, the bikes are available. I mean, if one has to buy, despite the strong order book, you have the availability at the stores?

B. Govindarajan: No, Nitin, that is not. I think single channels were available fundamentally because of the single channel supply due to this, whereas all other models, we are still, they are in a very healthy waiting period or very healthy order book, thereby, there is a waiting period.

Nitin Arora: Why I am asking this is, when we look at your production data and when I see your retail, there is a big mismatch happening? Mismatch in the sense, your retails are not crossing your wholesale, despite the strong order backlog. Is it because of covid that suddenly in the third wave without any impact the retails are not matching up to the wholesales? Just need your comment on that, sir. Thank you.

B. Govindarajan: Retails are healthy. I do not think there is a huge mismatch.

K Arunachalam: That is right. Let me add to what Govind said. The first point that you said, Nitin, is I think in terms of single channel, that is one model and that is in Classic 350. The contribution of single channel within Classic 350 for the overall portfolio is limited. There is a waiting period that is across Meteor 350 and all the other brands in the portfolio and within Classic 350, the rest of the models within and outside single channel continues to have a strong waiting period at this point of time. And that is largely on account of the supply constraints that we talked, which we think will get even out as we move into Q4 FY22, Q1 FY23 onwards. Now from a consumer demand perspective, we can look at it in two parts. December is more a transition period and therefore there is a year-end transition that you also see. That is where you see a little bit of slowdown in terms of retails compared to December'21 to other months onwards. We do not see that as a major concern at this point of time. The demand and the overall booking trend continues to be positive.

Raghunandan: And next we have a question from Hitesh Goel. I am taking the question from the chat. Yeah. First question is, what are the outstanding bookings of Royal Enfield? Can you share this number for past three quarters? Second question is, can you tell us about your plans for electric motorcycle segment?

K Arunachalam: Hitesh, as a process, as we called out few quarters before, we do not comment on the actual booking number that is available. At the same point of time, the booking is extremely healthy what we hold in hand and we talked about the booking. Let me hand it over to Sid and Govind to talk more about EV.

Siddhartha Lal: On EV, as we have said in the past, we have a strong team, internal team. We have built a team capability, the infrastructure, the product roadmap, there is a lot of work going around in the background that we did. We did a lot of prototyping, a lot of work on new ideas, models and there are models in the pipeline. But, as we have said in the past, at Royal Enfield, while we are working very hard on EV, we are not coming out in the very near future at all or in the near future also or with any product anyways. It is all in the works. We think that it requires a lot more thought than what is perhaps being given currently to stick an electric driveline into an existing type of vehicle. It is much more complex than that.

As you have seen, in our new products from the last five years, every single new product that Royal Enfield has come out with, has been successful and has done what it was supposed to do in the market. We are talking about the Twins 650, Himalayan, Meteor 350, and our Classic 350. Our concept is that we put a large amount of time, effort, energy, capability behind the product that we have chosen to go after or the range of products that we have chosen to go after and we make them extremely ready for market rather than just putting something and hoping for the best. So that sort of growth, it is a deliberate approach. It is a long-term approach. We may not have an immediate product in the market like some competitors perhaps and that does not worry us. We think it is a long game for EV and that is how we are playing it out.

Raghunandan: Next question from Amyn Pirani. Amyn please go ahead.

Amyn Pirani: Thanks for the opportunity. My question is for Kalees. A clarification, you mentioned that there was a Rs.60 crore extra cost in this quarter. But in general, if I look at the other expenses, at Q2 and Q3 FY22 combined and if I compare it to Q2 and Q3 FY21, because Q1 FY21 and Q1 FY22 this year, both were impacted by COVID, despite volumes being down, the other expenses are materially higher. Is there some new kind of marketing expenses that you are doing right now? Is there some activity that you are doing, or should we assume that this is the kind of expense levels that will be there going forward?

K Arunachalam: So, Amyn, two parts to it. One, we talked about the marketing spend of Rs.60 crores. These are specific towards launches that happened in the quarter and investment that we did into activities as part of our 120-year celebration, which is the South Pole ride and Continental GT Cup. I do not think so this is a recurring one that we need to look at. Now sequential quarter, the other increase is also on account of the production ramp up that happened last quarter to this quarter, we have moved up from about 1.25 to almost 1.7 in our Q3. That is the second thing that has happened. And third is, we have to incur about extra warehousing charges of about Rs.7 crores – Rs.8 crores, more to store the vehicles and keep it ready for Classic 350. We talked it about in last quarter where we planned for launch in such a manner that the vehicle was available to the customer on day one rather having a large amount of waiting period and retailing of 25,000 was done almost in early October and September. These were the three major things, of which I do see the Rs.60 crores or something not a recurring one.

Amyn Pirani: Understood. Thank you. And just to go back to the production, so we saw a significant recovery in November-December. In December, in fact you did hit that 70,000 and in January, the number was again lower. Is this the volatility from the supplier or which is just a matter of time as the new suppliers ramp up or is there something else happening at your end? Because after December the expectation was that at least it will remain in that range of November-December level, but then January was even lower than November in terms of production.

B. Govindarajan: It is supply situation only, Pirani. As I mentioned, when the new supplier was on-boarded, in that month, they were also having the back end, because it is being developed. So, they also thought it will take some time, but they could be able to quickly come back and then give it. Now, they also have the ramp up. They are also ramping up. So, it is only a question of the supply situation. As I mentioned, from here on, it will be actually a ramp up, which we will see.

Having said, for everybody's clarity, not that the situation for everyone is completely cleared off, globally the chipset availability, there is no extra capacity which is added. So mostly it will be the disruptions which were there. Some plants up in fire there, there is snow storm, which has happened in some other places, and Malaysia flooding, all those disruptions which actually caused issues in the supply chain of that, that will not be there hopefully. And that will have a linear supply situation. And that is why I am saying that it will be a ramp up from here on.

Raghunandan: Next question from Chirag Shah. Please go ahead.

Chirag Shah: I had a follow-up question on the single-channel and dual-channel. So, be it specific product-wise or at company level, how do you look at the contribution of single and dual channels? Because it will have an impact on our ASP, it could have an impact on how consumers are viewing those two offerings? It would be interesting to shed some thoughts on that.

Siddhartha Lal: Govind, let me try and do that. Look, I think the main thought is that we will have dual and single-channel available for our Classic and Meteor and Bullet. And we will let the market decide. Currently, the supply side is deciding. It is slightly more bent towards what is available and therefore we are putting that in the market and sort of the market is pulling whatever is available really as such. Over time, as availability is not an issue, it is really for market to decide. We are not here trying to make decisions for the market in terms of what they should buy. And it will fall into a normal pattern. We do not know that pattern yet, because it is controlled by the supply-side right now. It will eventually fall into a normal pattern. So, once supply is there, it does not matter to us. Then it is really up to the consumer to see what they want.

Chirag Shah: And second is for Kalees. No more under-recoveries left on the commodities, right?

K Arunachalam: Roughly, it could be about the Q3 FY22 inflation that we talked about, which anyway, we have taken up a price increase in Q4 FY22 also. We will take it forward as it goes from now onwards.

Chirag Shah: And what was the price hike?

K Arunachalam: About 1.5% on an average, Chirag, in Q4 FY22.

Chirag Shah: Thanks a lot.

Raghunandan: Next question from Pramod Amthe. Can you unmute?

Pramod Amthe: Couple of questions on the export side. Seems like it is stabilising at a particular number on monthly basis. Will you be able to give the geography mix for your export either for last quarter or for the nine months, how it is mixing up in terms of regions? Second, how do you work on the export side, because for us it looks difficult to predict your export momentum considering that you already might be having a demand pool. Do you work with monthly/quarterly/yearly order book which we try to fulfil? Can you give a colour how the actual execution of export happens?

K Arunachalam: On the first part, Pramod, while we do not give a specific numbers guidance, At this point of time, part of our revenue is led by EMEA and UK, followed by LATAM markets leading us followed by APAC and North America. Now in terms of demand, I think it starts with the same way that we work with the Indian market. It starts with creating the aspiration for the product, which is what we have been working for over a period of time. It started with the launch of Twins. That was a very big success for us in the international market. And then we started the trend moving towards Himalayan and now Meteor has also been very well accepted in the international market. It is not about chasing a particular demand number or an order book for a particular month, it is more about having a longer-term view, how do we invest in these markets, how do we look at creating the aspiration level for those markets and then fulfil the demand out of that.

B. Govindarajan: Just to add, Kalees was just mentioning about the aspiration. At Europe, we actually started what is called as a Riders Club. Within about a month's time, 8,000 odd consumers actually they signed up to that. That is how we wanted to create the market. That is how people have to become a community. There is a pull. That is what we are doing in India and that is what is happening. So as even in APAC region, there are rides, people are coming in. So primarily what is happening is, it is an aspirational pull rather than a push. So that we would like to continue even in the international markets.

Pramod Amthe: Thanks. And might be this is to Siddhartha Lal. Considering that Harley has separated its EV division and has been able to create excitement with this fat deal. And also, you guys are now closer to the couple of markets which might be right for the EV in this segment. Are you advancing your timelines for EVs considering the way the market is shaping up or are you getting more confidence now that the ecosystem is developing, and hence you can plunge in much earlier than what you thought?

Siddhartha Lal: I hope you heard me earlier. We do not plunge in. That is not our approach for anything. We do not plunge in. We are very deliberate. We do a lot of understanding of market, consumer, and huge depth on all those areas before coming in with the right product hopefully at the right time. The market is certainly evolving, the competitors are also doing a lot of things, some more visibly, some lot in the background in any case. I do not think there is a case for enormously advancing anything as far as we are concerned. We are working on certain projects for the market.

We have a new product introduction process. We are improving it. We are adapting it of course for EV, but it is a very genuinely amazing process. As all of you have seen, the kind of product which has come out, which is truly world class. I am talking about the new product introduction processes which includes the product strategy, the program management, the engineering, the supply side, the manufacturing, the quality, all of that, it is absolutely tremendous and world class. And we are not shortcutting that in any form or manner for EV, especially which is an unknown commodity in the market.

If you look at motorcycles, there is no EV success story right now in motorcycles. Scooters, there is some trickle of scooters happening, certainly. It is not yet mainstream, it is not yet established, but the traction there will probably happen a bit earlier. Motorcycles, it is still a way out. The technology is not fully ready yet. It will be in a few years. And we are working towards that. And like I said, even while there have been so many players in international, India and all sorts of markets, there is no success story of motorcycle two-wheelers. Not to say that we are not doing anything. We are doing a lot, but it is not that the market is available or is there already. We have our take on it. We are working hard towards that. The thinking that we have in mind being what will be successful in the market commercially, what will be successful for the long term and that is how we are going about it. We are not plunging in any market quickly, either from a visibility perspective or from any other perspective. That is not our approach to business anymore.

Raghunandan: Next, I am taking up a question from Binay Singh of Morgan Stanley. It is from the chat. Other two-wheeler OEMs are seeing weak demand. How is demand for Royal Enfield? How is the demand in top 10 cities? How are the monthly bookings? Secondly, other expenses are up 35% YoY while volumes are down 15% YoY. What is driving other expenses?

B. Govindarajan: First is about the other two-wheelers demand situation. If you actually look at what is happening in the entire two-wheeler industry, even though the 125cc and below, which normally say it is a very highest number, there the traction is slightly lower, whereas the higher cc premium motorcycles in a way, so that particular area is constantly growing. To that extent where we are playing, we do not see it to be a tough situation for the demand.

K Arunachalam: Binay, as we discussed earlier, that includes the spends that we talked on marketing of about Rs.60 crores. If I adjust for that, the overall EBITDA from 20.2% moves to 22.2%. And we also talked about the sequential quarter performance and the operating leverage kicking in.

Raghunandan: Next question from Kapil Singh. Kapil please go ahead.

Kapil Singh: Yeah. Hi, sir. I just wanted to understand how you are thinking about pricing right now. Do you think it is at the right level more or less or you need to take it up significantly? And also, how do you think of the trade-off between volumes and pricing? Do you think there has been an impact on demand because of the price increases that we have seen or in your segment it is not really significant?

K Arunachalam: Yeah. I think too early to look at from a demand perspective, Kapil. We have been supply constrained, we need to see as to what fully blown supplies, where does this stand in terms of a demand impact. Now coming back to the other question on how we go about this, are these the price increases that we wanted to take, as such, these are cost pressures and not that we could give any consumer benefits to it, but largely, the cost pressure that is on table, that needs to be passed on. If you look at the industry as a whole, the amount of price increase that has been taken across all players, we are in line. It is not that we are too off from that perspective. And the methodology that we use is a proper structured manner where we look at what is our relative price index to the competition and where is the source of the growth coming from, how do we benchmark and then we take a holistic call on pricing as such.

B. Govindarajan: Just to add on what Kalees is talking about on the pricing, what we have to look at is (Technical Difficulty)… actually help the consumer to navigate through this is about making finance availability at the locations where it is required at right interest rates and how do we support, is what we are all working constantly on in every outlet of ours.

Raghunandan: Next question from Ronak Sarda. Please go ahead.

Ronak Sarda: The first question is on setting up the assembly lines beyond India. So, can you help us understand what is the cost to benefit framework here? Why I am asking is because we have capacities in India. One is, I understand the duty structure, but based purely from the capacities? And second, do we have to set up a dedicated supply or a vendor base as well? So how does that shape the profitability for exports?

B. Govindarajan: Hi, Ronak, any facilities are not for building any capacities. Primarily, what is happening is, every country has what is called as a minimum work content, which has to be there. And there is a share of business, which you have to source some components to some percentage, and you have to manufacture some components and you have to employ so many people. That is how the duty structure have to come in. And that is the reason for which we are doing it. As far as the dedicated lines which you are talking about, probably depends on the depth of manufacturing, it varies country to country. So, what we have done is, all our exclusive subassembly stations, which are required only for our product, there we have put dedicated where we can actually share it. For example, a conveyor line in which we do not need to invest or not the partner need to invest, in those areas, we have used the common lines. Testing anyway, it has to be different. So, to that extent it is dedicated. Product specific, which are to be specific, that has been made as a separate dedicated line. Wherever possible common lines which can be used, we have used the common line.

Ronak Sarda: Okay. Second question for Siddhartha on VECV. One, we have seen the LCV segment doing very well in the last few quarters and again, the CNG portfolio has done very well there, which has helped Eicher gain market share. How do you see Eicher's market share moving ahead, especially with competition launching their products and how does Eicher differentiate in terms of the product portfolio, especially in the CNG segment?

Siddhartha Lal: In the CNG segment, of course, we have an advantage on product and on how we position ourselves and how we have been a relative early mover in that market. We have really been able to do well in the CNG market. Like I said, in light and medium duty, we have around 50% share versus 30% for diesel. So, we are doing exceptionally well there. In the larger scheme of things, as you are asking about the positioning and market share evolution, obviously, the big focus for us from last many years has been on the heavy-duty part to get to a particular level on the heavy duty, and we are really getting there now. Our view has always been that at 10% heavy-duty market share, we are a very substantial player from many different perspectives. That is what starts a very strong virtuous cycle in the market for us. And we are very much heading towards that. Our entire product portfolio is ground up new. Our Pro2000 series is ground up new, light and medium duty doing exceptionally well in the market. Even the people I talk to on the road in India, just the look of the truck also people stop. It is like that level of interest that people have. Of course, that is only at the skin level. The performance is absolutely outstanding. The Pro3000 has really set its mark as the ICV type of product, medium and heavy, perhaps a low heavy-duty product doing exceptionally well as well. And same with Pro6000 to Pro8000, I am talking about truck side, we have got all that under our belt.

We have taken the advantage of BSVI, which others were struggling a bit more and we were able to make more headway. We are getting the type of foot in the door or the number of times we get invited now to customers to work with them or where they are bidding for trucks or whatever is very high now. We have got our head into place in most of the deals that are happening now. Obviously, as someone who is growing and doing so well in the market, some of the incumbents are not delighted about it, as you can imagine, they are throwing money at deals, at such ridiculous levels that you can see their profit margins.

A company which is 4x our size should not be making losses at this point, right, we are making profits, right. And that’s because they are throwing money at deals at ridiculously low levels, and we take some deals, but we have to leave a lot of deals for them. They know we are there. They know we are a better product. They know we are a better offering. And our uptime of our vehicles is what we really consider as the biggest selling point, which is the highest uptime in the market for heavy duty. So that is what is happening. We are actually doing so well against the competition that they have only one tactic left, which is to throw money on the table and to get deals at very low prices. So, if they can sustain that forever, that is unfortunate to their shareholders. But from our perspective, you know one can see that we are making headway because we are able to actually be successful and still grow our share even though we are profitable compared to the others. So that is really the outlook, which gives me hope for the future that we are doing the right things and our competitors are left with only one solution, which is, I guess, for the long term not the ideal solution for them either.

Raghunandan: Next question from Joseph. Please go ahead.

Joseph George: I just had a couple of questions. One is, you mentioned that you increased prices by 1.5% in Jan'22. I wanted to understand whether in Q4 FY22 over the December quarter, are you seeing incremental raw material pressure or is this 1.5% something that will flow through to the gross margins?

K Arunachalam: Joseph, we will discuss about the Q4 FY22 numbers as we (Technical Difficulty).... We do not give any specific guidance on how that pans in. But (Technical Difficulty)… in Q3 FY22. That is still (Technical Difficulty)…

Joseph George: Sorry, did you mean that in Q4 FY22 there is incremental RM pressure, forget the gross margin expansion part? Is there incremental RM?

K Arunachalam: Sorry, Joseph. I referred about the Q3 inflation.

B. Govindarajan: Raw material pressure (Technical Difficulty) be there, not that it has gone off. But the intensity of the raw material inflation pressure I am seeing (Technical Difficulty) but it will pan out the next one or two quarters to actually stabilize (Technical Difficulty)… which was there in the commodity pricing (Technical Difficulty)…

Joseph George: Understood. Thank you. The second question that I had was on the Rs.60 crores of lumpy marketing spend that you mentioned in the third quarter. But is not marketing spend something that will continue because even in the future, you mentioned that you will have maybe one new launch every quarter, would not this continue every quarter, maybe to a lower extent, but something that will be recurring going forward or should we look at about Rs.300 crores as the right OPEX number for the level of production that you had in Q3?

K Arunachalam: I think, Joseph, there are two ways to look at it. One is, (Technical Difficulty)… the brand creates the desire and aspiration (Technical Difficulty)… and that is where large part of the marketing spend goes in. We will be curating (Technical Difficulty)… the percentages will average out considering the demand and supply that we have today (Technical Difficulty)… coming in considering supply challenges. We do not see that as a significant concern as we look at the forward quarters also.

Raghunandan: Thank you. That brings us to the end of the session. Participants whose questions were unanswered, please reach out to the IR team. Handing over back to the management for closing remarks. Over to you, sir.

Siddhartha Lal: Thank you very much for joining us for this session and look forward to talking to you in a few months. Thank you.