"Eicher Motors Limited Q1 CY14 Results Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Eicher Motors Limited Q1CY14 Results Conference Call hosted by Morgan Stanley India Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing * then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Binay Singh of Morgan Stanley. Thank you and over to you sir.

Binay Singh: Thanks Inba. Good afternoon everybody. On behalf of Morgan Stanley, I would like to welcome you to the Eicher Earnings Call. We are delighted to have senior management team from Eicher with us today. We have Mr. Siddhartha Lal – MD & CEO and Mr. Lalit Malik – CFO to take us through the results. I would now like to transfer the floor to Mr. Lal for his opening comments. Over to you sir.

Siddhartha Lal: Very good afternoon to all of you and thank you for joining the call today and Binay, thank you very much for arranging this call. We are happy to share with you the upgrades on Eicher Motors Limited quarter one which is January to March quarter performance and I am going to give you a quick highlight of our financials followed by our sales numbers and then some more details around our financial numbers after that.

So firstly this quarter has been once again the record quarter for Eicher Motors Limited at the consolidated level as well as the standalone level. So we have had a highest ever total income from operations at consolidated level at 1,924 crores and highest ever EBIT at 174 crores and highest ever PAT at 156 crores. So that is our overall performance and I get to the details later. As far as sales volumes are concerned, I want to talk to you about commercial vehicle industry first and then motorcycles. The commercial vehicle industry continues to battle at downturn which is now in its 30th month. So it is a very prolonged downturn. At the industry level, it is five tonnes and above. The five tonnes and above segment recorded sales volume of just over 80,000 which is a decline of 12% over the same period last year. However, it was 40% better than Q4 2013. So there has been some growth sequentially, but there is still a decline year-on-year. Within that, of course Eicher commercial vehicles had a tough quarter as well. Our sales volumes for Eicher trucks and buses were down 21% to 9,814 units.

Now coming to segment wise performance: In the light and medium duty 5 to 15 tonnes truck range, we were down by 29% with 5,413 units is what we sold last quarter which is slightly better performance in the industry which was down by 32%. So we were down by 29 and the industry down by 32. As a result, our market share was up by around 1.2% from the same quarter last year. In heavy duty, however, we had a greater fall than the rest of the industry where our drop was 33% and the industry declined by 11%. So our market share as a result declined from 4.9% to 3.7% in this quarter. The buses, we sold 1859 units which is a decline of 15% over last year and the industry declined by 17% giving us a marginal market share increase of 12.6%. In exports, we had an excellent performance. We had around 150% growth to 1,122 units over same quarter last year whereas the industry grew by 71% and in Volvo truck where we sell the very high value trucks largely to the mining segment. We had a growth this quarter of 18% and sold 167 units. So there was a good performance here as well and we continued to have to make progress in our medium duty engine plant and for the quarter, we had shift over 2,630 long blocks in engines we have been able to shift to very high standards at Volvo Group set for us and they have been extremely well accepted these engines. So the market condition in CV continued to be extremely poor and VE commercial vehicles continues to battle in this prolonged slowdown extremely well because we continued to invest a lot in our long-term initiatives while maintaining, I would say acceptable and decent profitability. So we continue to invest tremendously in our distribution and our industrial areas in quality and of course very much to the new products we launched. In quarter one 2014, we actually had commercial availability of our Pro-1000 and Pro-3000 series of light and medium duty trucks and they are getting excellent customer response. We are on track to launching our first trucks from Pro- 6000 series also this quarter. So a lot of developmental work going on preparing for let us say the period on the market starts coming back and then we can clearly start growing faster than the industry which is our objective always. So that is the update on commercial vehicles.

Moving onto the Royal Enfield operations which is housing Eicher Motors standalone business. Q1 2014 was another absolutely outstanding quarter where we sold 64,268 units which is a growth of 85% over last year quarter. So excellent growth on the Royal Enfield motorcycles front where our order book continues to be very strong and we continued to improve our capacity as well and we have to expand our dealerships and expand into international markets, so there is lot of work going on there. Our Oragadam plant which commenced production about a year ago is now really churning out a lot of motorcycles. We have crossed let us say 10,000 per month around the first quarter and we are continuing to track upwards and continued to have increased production and capacity at our new Oragadam plant. Our Continental GT which was launched end of last year and has met with great success. We have got excellent reviews around the world. It is for the first time we are seeing some waiting periods and orders even in other markets. Of course we ramping our production in Continental GT. So once we ramp up, we should be able to service international markets very well, but there is good demand pull in international markets as well for the Continental GT. So that is from the motorcycle business.

A quick word in our JV with Polaris. The Eicher Polaris Private Limited is progressing well. We are on track with on our project on the timelines and we are placing for launch as we announced before in the year 2015. So that is certainly going to happen in the year 2015.

Moving onto our financial results: At Eicher Motors consolidated level, we had a total income from operations at 1,924 crores which is 11.6% increase. We had an EBIT, Earnings Before Interest and Tax of 174 crores which is a 22% increase over the last year and this is at the consolidated level. Being our EBIT margin at the consolidated level increased from 8.3% up to 9.1% this quarter, so we have increased our EBIT margin and moving onto our standalone financial results which reflects the Royal Enfield business. We had a topline growth of over 90%, so from around 334 crores to 636 crores. We had an EBIT increase of 156% from 53 crores to 136 crores and resultant EBIT margin has gone up from last year Q1 from 15.9% to this year Q1 21.4%. So overall we believe we had yet another great quarter. There are lots of interesting things in the pipeline also going on in Eicher Motors for continued growth and success and we are quite excited about all that is going on. So thank you all for listening in and over to you Binay for starting the question and answer session.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Pramod Kumar of IDFC Securities. Please go ahead.

Pramod Kumar: Siddhartha, my first question pertains to the commercial vehicle side. We are increasingly saying that LMD, the segment decline has been expanding and HCVs have started to see some bit of a moderation in the decline rate. So just wanted your view on that and how does it affect and do you see it as a secular long-term trend and in either of the cases, how do you see yourself positioning as VECV given your historical tilt which was more towards LMD.

Siddhartha Lal: So we have seen this in the past also Pramod. If you study the past couple of downturns in this, it is a very cyclical business that we are in the CV business and basically what we by and large seeing is that the HD declines a lot more and a lot earlier and when the HD sort of bottoming out as we hope and believe it is now as you also rightly said. At that point, we see LMD coming down. I do not know why that happens, may be because of primary phase versus secondary phase and all of that. So there are some explanations which is not extremely clear honestly, but that seems to be the general trend. So that could also be a signal that we are possibly on the way up now because HD like you said is now starting to behave slightly better than LMD and till now in the last 24 months or 30 months, LMD has behaved slightly better than HD. So we can only take some signals out of this. In no way do we believe that this is long term secular demand change or pattern change or anything of the sort. It is a short-term phenomenon in our opinion and it is particularly the upper end of the light and medium duty which is the 9 to 15 tonnes. It is absolutely here to stay, the regional transportation in India is extremely robust and will continue to have require a lot of trucks. So we do not see any major long-term concern. Of course we are increasing also invested in heavy duty and we are certainly looking forward to growth in the industry where the industry pops back or industry starts bouncing back and we believe we can also start absolutely, at least from our perspective, our timing is absolutely right that our Pro-6000 series is also coming out of this time and the industry is trending back upwards hopefully. Hopefully it will start coming back upwards.

Pramod Kumar: Fair enough. Siddhartha, my second question pertains to the Pro series, just wanted to understand couple of things there. As you introduced this 1000 and 3000 series, was there a bit of a cleaning up of the previous generation inventory or because I believe you may be replacing some of this products altogether right, am I right?

Siddhartha Lal: This Pro-1000 replaces by and large the previous E2 series.

Pramod Kumar: So there will be some kind of an impact on the wholesale numbers in March when you cleaned up the previous model inventory in the system right?

Siddhartha Lal: The only hit honestly we have taken in CV last quarter was to do with the excise duty hit that we have, but I do not think there is any material effect as you calling it on any cleanup.

Pramod Kumar: When I say cleanup, it is basically running down of the existing dealer inventory of the older model so that when….

Siddhartha Lal: It happens mainly online. There is no issue or no issue pileup of old….

Pramod Kumar: No, I am not talking about that. I am just saying that the wholesale numbers may be muted to an extent because you need to get that.

Siddhartha Lal: I do not think the wholesale numbers are muted right now honestly. It is pretty reflective of our retail sales. We have not added any substantial stock in the business. Rather we at least moved substantial stock in the field. So it is status quo really.

Pramod Kumar: And Siddhartha now that you launched Pro-1000 and 3000. What kind of a claim are you making with these products over the existing peers because around the launch time, the management did not want to talk much about the product differentiation, but if it is now in the public domain and if you can share that it will be great.

Siddhartha Lal: Look the Pro-1000 and if you see the vehicle etc., it is a real step up from our previous generation. It is an evolutionary product. So it is based on our existing proceedings, but the interior is entirely different. There are a lot of other upgrades, but it is an evolutionary product. So it continues to have good performance change over the peers. As far as 3000 is concerned, it is a totally new animal. You can call it as a dedicated medium duty platform that we have developed because like I said earlier, we believe extremely solely medium duty truck that regional transportation will be very strong that in fact overtime as you have seen this range we have come out now with, it was earlier 10 tonne, it became 11, 12, 14, 15. Those kind of tonnages are coming out in medium duty which basically means you are taking over 9-10 tonnes of payload which is basically what a heavy duty truck is doing. So it is replacing some of the lower end of the heavy duty. They are more agile, they are more easier to maintain, and they are more fuel efficient. So the market size we believe in the long-term. I am not talking about the current situation, but we believe the market size in the long term for medium duty is extremely strong and therefore the Pro-3000 is a dedicated vehicle. It also has, for example, a sleeper in the medium duty truck which is a limited option, but you could also buy one with a sleeper. That is really very interesting for customers who are doing serious medium duty travelling that means 400-500 km distances, it really helps them.

Pramod Kumar: And finally on the dealer hit Lalit as in if you can just throw some light on that as to where you are provided and the quantum on the excise duty.

Lalit Malik: They are lined in the other expenditure lines as adjustment to the stock lying with the dealers really. So the quantum is also not noted extremely high.

Pramod Kumar: But because other companies are also being disclosing this because it is a one-off. So it will really help to make an apple-to-apple comparison if you can disclose it as in?

Lalit Malik: So as of now, we are not disclosing the number, but we can get back to you on this front.

Moderator: Thank you. Our next question is from Chirag Shah of Edelweiss. Please go ahead.

Chirag Shah: Thanks for the opportunity. Siddhartha, I have a question on two-wheeler capacity. You have highlighted there is a huge amount of CAPEX likely to happen in the two-wheeler business. Wanted to understand how will the capacity addition different going ahead versus your earlier phase. Just to clarify earlier we were adding aggregates and taking incremental capacity up, I wonder whether now there will be huge chunk of capacity addition that would happen suddenly because of the nature of CAPEX. Can we expect that the addition of capacity could be in terms of 200,000 units as an addition of capacity?

Siddhartha Lal: Yes Chirag, of course it was a capacity addition let us say around before a year ago was bit slow mainly because we were operating out of the single plant and with huge constraints there. Now of course because the plant which is much larger, 5 times the size of our old plant and we also have road plan to lean upon whereas the physical availability of land is there which was obviously the constraint earlier and our sales approach of let us say we built our phase I which is our paint shop and vehicle assembly, now we are building out the other phases. As we said, we have got CAPEX of overall that means including product and manufacturing and other areas. We have got CAPEX of 600 crores in the motorcycle business over this year and next year. So it will potentially be much faster. The growth, we have already seen that we have grown 85% in sale and in production approximately is the same over last quarter. So the growth has been extremely substantial over Q1 of last year and we continue to add capacity at a very rapid pace. So Chirag, so you will see continued rapid capacity expansion. Of course I think we are over the hump as far as our capacity catching up with demand is concerned. It is still obviously a few months out or may be 6 months or a year out, but I think we are over that hump which means that we will add the requisite capacity to service our order. So of course the actual work that we are doing now, we have shifted. Yes, it continues over the last year or so. We have been doing a lot of work on future demand generation. So that becomes our key because capacity beyond a point we will not have to worry about capacity. So maybe one or two quarters you will ask us about capacity, after that hopefully that question not be there and will be all focus only on demand generation.

Chirag Shah: So I was asking this from perspective you have indicated something like 280,000 units production target for CY14. So as you enter CY15, this kind of 100,000 units ramp-up that we have been seeing over last 2 years will not necessary be in that way. It could be in the manner in which demand shapes up right? Suppose there is a huge chunk of demand continues for you, will again there would be a capacity constraint beyond this phase of CAPEX?

Siddhartha Lal: Who knows Chirag. It depends on what the demand is. Right now we have got much more demand than we had earlier and as we are going into new markets, as we are going into new geographies, as we got new products coming out, we expect that demand to increase, but like I said I see that probably within a year may be even before that, our supply demand situation should be very similar and anytime beyond that, I do not think supply will ever suffer really in our opinion. Unless of course we see surges of demand that over 100%, we are happy with that, but I am just saying at a pace that we believe demand to grow at this point to as we can see forward, I think we are covered after 6 to 12 months, I do not think we will have any real capacity issues.

Chirag Shah: Fair point and second question I had on commercial vehicle side, if you can share some thought over last 3-4 years you have been working to build a strong brand for your HD products. If you can give that we are at the bottom of the cycle and maybe on the hope for you on the onsite of a new demand cycle. What are the push backs as of now you are getting from the key institutional clients and if you can help us understand what steps you are taking over there which gives us confident that your HD portfolio could actually grow much faster than the industry demand cycle.

Siddhartha Lal: It is an extremely complicated question to us Chirag because it can take honestly, it is not a subject that I can cover perhaps cover in a few minutes. It is a very complex situation. There is the distribution, there is the product, there is the demand, there is the resale price, there is the aftermarket availability, there is financing and then enormous number of factors out there, but I think approach is most important. One for VECV, we are a dedicated team, dedicated company, dedicated workforce on commercial vehicles and our partner Volvo has now become after they acquire 45% of downstream commercial vehicle, they become globally the number one heavy duty truck manufacturer in the world. So we are absolutely focused, absolutely relentless on the one thing of making heavy duty break through. Whatever it takes, we are doing that, but we are doing a long-term game. We do not care about short-term hit or miss. As long as we are very clear that our entire approach in the long-term is good. Now in order to do that, the first all the building blocks which have been putting into place over the last year is basically on the industrial side. So having excellent top of the line world class manufacturing setup, world class engine service setup, world class supplier base that is now I can assure that is best in the country and benchmark to the best in the world. In addition to that, it was all about our distribution. So we have got a very strong distribution, very strong system, very strong availability, parts, after markets. So all that is now over the hump on that as well and then it was about customers connect, understanding, brand building, working with them, understanding, all that work is also done and now on top of all of these, when we also include our relationship with financiers, our resale prices have gone up tremendously on heavy duty and we have got positive steps now moving forward. It basically means that now the new product is coming, they have to now deliver and we believe they will deliver because they are really world class products for the

Indian market. All of this work that we have been doing over the last 4, 5, 6 years and that is what we will hopefully and that is what we believe will take our market share much higher than what it is today like and as you know these things happen in the manner where you keep pushing and one day the floodgates open. So we do not know when that date is, but there will be one day when customers figure out that the Eicher heavy duty product is; and not only product, the Eicher heavy duty offering that these products and everything put together is very superior and then they will **….(inaudible)…..** to us and then will take our competitors 5, 6 years to start figuring out what we have done. So I do not know when that is going to happen, but that is the way we work and yes, we are confident that literally payoff.

Chirag Shah: And last question was on two-wheeler margins in the quarter. We have seen a sharp jump in EBITDA margins coming largely from in terms of operating leverage. Is there anything one-off in the margins or this is the kind of trajectory that one is looking at. You have delivered strong 23% EBITDA margins in the quarter and if I look at it while your gross margins have suffered at least sequentially, there is a good improvement YoY and sequentially on the other costs, be it other expenditure or staff costs. So is this the efficiency gains of the new plant that has started coming in given the way the volumes are shaping up or is there any one-off lumpiness impact which is over sitting the margin in the particular quarter.

Lalit Malik: On the EMS standalone side, there is no one-off at all in the EBIT lines and above. The only one-off that I think speak off is only in the dividend that we bought from VECV which is written in the other income and that is only thing over there. Now we continue to exceedingly well on our material costs, on the staff costs is in perfect shape. In terms of its overall, if you sketch it 2 years trend line for all these costs, all costs have shaped up exceedingly well. There was a one-off in last quarter that we had which was the launch expense was for a new bike that of course is not there this time around. So I do not see a problem in any of these lines.

Siddhartha Lal: We continue to improve our gross margins and all of that, which is happening. I guess the only thing which we will start seeing more of is more spend in fixed costs. Now it is still not rising at the pace that our topline is having. Our topline grows by 19% and Q1 was a bit silent. From a cost, from a spent perspective, it was not very heavy. So you are going to start seeing more spend because we are going to international markets, we are doing more brand, ride activities. We are hiring a lot of people right now in our R&D and in other areas. So there is going to be increased spend. I still do not think it is going to be the pace of our revenue growth, but you will start seeing of course spends going up.

Moderator: Thank you. We will take our next question from Basudeb Banerjee of Quant Capital. Please go ahead.

Basudeb Banerjee: Thanks for taking my question. Just to continue with the query of the previous person, we saw gross margin improving by 150 basis points last quarter and back to square one this quarter. So for last three quarters, there is volatility in gross margin. So is it sheerly due to better raw material deals which you got last quarter and it went adverse again this quarter or something else.

Siddhartha Lal: You are talking about consolidated or….?

Basudeb Banerjee: No, only RE Q1 sir.

Lalit Malik: RE Q4 for 13, the material costs as a percentage of topline was 61%. This quarter which is Q1 14, it is 61.3%. So which volatility are you really referring?

Basudeb Banerjee: From September to December, there was a sharp drop and again taken recovered back slightly this quarter.

Lalit Malik: It is because that we are still in the range of 61%-62% at the material cost kind of level.

Basudeb Banerjee: QoQ if I see, VECV blended realization that is VECV revenue by number of CV sold; there is a sharp drop QoQ, so how one can expect that Volvo being a higher realization product? So is there was a sharp drop in volume this quarter? Is it only because of that or there is some rise in discounts?

Lalit Malik: No, there is no rise in discounts, just a product mix, issues between LMD, HD and the Volvo truck.

Basudeb Banerjee: Sir last thing like in last quarter, you broadly gave a vision statement of 0.28-0.29 million units this calendar year. So are you sticking to that or one should expect that to move up further from those levels?

Siddhartha Lal: We are very confident of achieving 280,000. It could be marginally up, but there is nothing more right now, but we tell you next quarter in case we see that we will be able to further increase, we have done over 63,000 this quarter, so 64,000. So we are certainly on track to hitting that. Obviously we will try and do more than that if we can.

Moderator: Thank you. Our next question is from Srinath K of Sundaram Mutual Fund. Please go ahead.

Srinath K: Thanks for the opportunity sir. For the last couple of months, you have been selling about 23,000 in the RE side, wanted to understand how incrementally how the book-to-bill ratio has been? Understand that you have lot of levers in the Tier-2 and Tier-3 regions where ramping up or refurbishment of the existing dealers can happen or sales can also improve dramatically, but with the existing dealership front, maintaining for a product like RE doing a 25,000-26,000 on monthly basis. Do you think it is sustainable without dealership addition or substantial incremental marketing spend.

Siddhartha Lal: We are adding dealers every month. We are adding 5-6 dealers, sometimes more every month right now and at every location that we are looking for a dealer, we have a lot of really good applicants because it is a pretty slow and lucrative franchise that we have got. So yes, the dealers are increasing that will certainly help in fueling the growth. The marketing activities are increasing and that has also been a help in fueling the growth in Indian market and of course in international also, but international, I get slightly longer term timeframe, but we are actually working a lot on the distribution and we are also upgrading our dealerships like I said in terms of we have got a new store format in Saket. We have been testing that out and it is working really well. Lot of customers are very interested and excited about the new store concept and we are rolling that also for the next couple of years in all our dealerships across the country. So there is a lot of work going on to ensure that the demand pull continues to be strong.

Srinath K: Sir for the last couple of months, how have the bookings been in terms of just a ratio approximately sir, book-to-bill how would it be because that is when the ramp up has actually happened.

Siddhartha Lal: Book-to-bill, we do not have the kind of ratio, but we are still taking more orders and we selling bikes. Is that what you are asking? Well we are taking in more…..

Moderator: Thank you. Our next question is from Srinivas Rao of Deutsche Bank. Please go ahead.

Srinivas Rao: Wanted your feedback on the buyer profile for RE and any color on the sales mix of RE. Any proportion which you sell at the traditional Bullet that would be helpful and buyer profile in terms of age or what is the extent of financing which you kind of see during your purchases?

Siddhartha Lal: Srinivas, our buyer profile has been extremely interesting for us because in fact our average age is dropping dramatically. Our urban buyer base has gone up a lot. So by and large all the growth which is coming in the last few years has been from urban customers and now of course the dealerships are also coming up in smaller locations. So lot of the growth has been coming from metro markets and now there is also good growth coming from the smaller cities and smaller towns, but basically we have a pretty young profile**.** Earlier it was second bike very often. Now we are also seeing enough number of first bikes coming up. So the earning power of our graduates whose couple of years is dropped and 23 years old or whatever is good enough to buy our motorcycle these days. So that is the kind of profile that we are getting. Our sales mix is quite robust. We have good demand for all of our models and star still is our classic bike which is over half of our sales and the rest half is between the other three models that we have.

Srinivas Rao: Fair enough sir. Just extent of financing would be usually what 70% odd or would be lower than that?

Siddhartha Lal: I do not have an exact number, but our is certainly the last time we have done the study which is a while ago or let us say got some good numbers on this, it was much less than industry and less than half of our customers are actually financing it. Very often, they just pay up. They find their own means of financing or they just pay up right. So they got the cash in their bank or whatever it is and of course that means that there is more potential for us to grow from a financing angle.

Because you had such torrid demand over the last few years, we have not really put enormous energy behind that side of the business but overtime of course we can thrive up that engine as well.

Moderator: Thank you. Our next question is from Hitesh Goel of Kotak Institutional Equities. Please go ahead.

Hitesh Goel: Thank you for taking my question. Sir first question is can you give out the engine sales, engines sold to Volvo this quarter and second would be if I look at other expenses to sales, this is in standalone operations, this is the lowest in your history. So is it purely due to operating leverage and you see this expenses going down further as volumes increase purely due to operating leverage or there is some one-off expenses out there, just wanted to clarify that.

Lalit Malik: Sorry, which line on this standalone you are talking about?

Hitesh Goel: See, other expenses to sales is 10%. This is the lowest in your history, so just wanted to get a sense this is purely due to operating leverage or there is some one-offs in this other expenses?

Lalit Malik: No, it is low, so it cannot be one-off. But basically some of the expenses that will be introduced in the course of the year did not happen in the first quarter, so there is some deferral over here. Like Siddhartha mentioned in one of the earlier questions that there will be some spends on the marketing side, on the brand building side nationally and internationally. Some of it will surely kind of come in there, but then the topline will also kind of grow strong for sure over the next near term at least. So from a percentage point, I think we still should be quite okay.

Hitesh Goel: And secondly wanted to understand, the figure on the engine sales to Volvo?

Siddhartha Lal: We have sold 2,630 engines last quarter, engines and long locks.

Hitesh Goel: So sir this was 2,534 in the last quarter right and this has increased…..

Lalit Malik: Last year we operated the plant only for commercial phase which was only for half of the year, so we really started in June end.

Siddhartha Lal Last year was 2,534, though it was not a full year of engine sales.

Hitesh Goel: Yes, this was only last quarter. This is the total orders which Volvo has ordered because we had heard that Volvo has ordered for around 30,000 engines for CY14. Is that the number that you are looking at or it will be much lower than that?

Siddhartha Lal: I am not giving forward numbers on this. We can just tell you what we have done and I do not know where you got your information from about what orders Volvo is placing on us, but we are not giving out numbers. This is a ramp up plan. This is according to the plan and of course because it is still relatively new, we are facing it in this manner. This is not lower than what we had planned. Approximately 2,500 is what we planned in this quarter and we have delivered that because it takes time to establish engine line of such high quality requirement.

Moderator: Thank you. Our next question is from Nimit Joshi of Reliance Securities. Please go ahead.

Jimit Doshi: So just wanted to check on the margins, I am assuming that you have a better product mix in terms of you have been selling more of Thunderbird 500s and 535. So that is the reason your margins have increased. Is that assumption right? And you have a better product mix because you are waiting for your Thunderbird 500s for month and waiting for Thunderbird 350 is around 3-4 months. So you have been selling high margin bikes, is that right?

Siddhartha Lal: Well, I do not have the numbers in front of me in terms of –

Jimit Doshi: The channel checks that we have done across, so that suggests that the waiting period at least for the Thunderbird 500 is less.

Siddhartha Lal: It is generally the trend over the last 2 years and that 500s have been marginally growing as a proportion to 350. I do not think that is a huge factor honestly. We have not **….(inaudible)…..**it in that angle yet, but I do not think it is a very big factor at all in our margin growth. Our margin growth is improved because of various other reasons that we have been able to get good pricing in the market, we have been able to and then of course is all the operating leverage factor which is below the material cost level. So the product mix has not been a very substantial part of the margin improvement, let us put it that way.

Jimit Doshi: Okay and the second question is as in you mentioned that there are lot of urban buyers, lot of young people now, first-time buyers, but with the other bikes like Triumphs, Harleys and lot of other launches also coming going forward. How do you face that? I know Bullet has a fiercely loyal customer base in fact across the world, but you have a lot of competition also coming in, so would you have any plans to upgrade the fittings or the quality because we have been hearing a lot of the parts expensive and the quality is not that great for the older Bullets probably, as in not for the Thunderbird, I am talking about the standard or the classics. So do you plan to have any brush overs in terms of qualitative fittings?

Siddhartha Lal: I think our analysis, our understanding, our market feedbacks, and of course our sale volume and customer acceptance so that our quality is absolutely up to the mark in terms of compared to all other bikes available in the market. So there are no issues or problems or reasons.

Jimit Doshi: I am not questioning about the engine, engine quality. Engine quality is very good.

Siddhartha Lal: I am saying the entire bike. There are absolutely no issues and by and large, a lot of the components that you are talking about is absolutely identical between Thunderbird like on the wiring and suspension units and all of that and the Bullets. So there are no major differences also there in running parts. So we have no concerns there. Of course having said that, we are now I think a very strong team on our industrial and quality and current engineering departments and areas. So we are continuously improving. There is a lot changes continues to happen on a regular basis and as far as other brands are concerned, of course today in 250cc and plus market, I believe we have over 95% share I do not know the exact number, but it is certainly very high and what we are doing is that we are working extremely hard on growing the market by adding. We have a lot of new products in the pipeline, we are expanding our distribution dramatically, and we are increasing the quality of our distribution and lot in the infrastructure, in the training, in the reach, in various other ways. We have got a lot of rides events, activities, launches and basically community activities which we want to make sure maintains us as the thought leader in motorcycles in India and of course overtime makes us the thought leader of midsize bikes globally. So we are doing a tremendous amount of work in the back-ending so that we continue to maintain a very strong position and I certainly cannot assure you that we will have a 95% plus market share in 250 cc plus segment. It is not going to happen because there will be 5-10 players coming in at some point and we are going to go down but our intention is certainly to be a very large player, number one for sure and certainly controlling the market and really it is about market expansion. So we believe that if many more players come into the market that will really expand the market as well. So there will be two sides when the people coming in. There is lot of action in the market and we expand the market, but it would rather be let us say 70% of the market which is 5x of the size of the market today. That is our attempt to grow the market let us put it that way.

Jimit Doshi: So you have any new launches in the 350 and 500 in the next 1 or 2 years?

Siddhartha Lal: We have lots of products in pipeline, but nothing to launch right now in terms of specific.

Jimit Doshi: Okay and my last question is we just come to know that you discontinued black color in your Thunderbirds. So now there is stone, marine and lightening, so there are three colors. So you have discontinued that Teflon coating black color. Any specific reason for that?

Siddhartha Lal: We are a bit ahead of this curve. Everyone changes colors all the time. So you add some colors, you delete some colors which you are not doing as well. We still have black very much so in our Thunderbird.

Jimit Doshi: You have the stone black, right? The stone black is there, but the shiny black is discontinued because I just visited one of the dealerships. So they said.

Siddhartha Lal: Black is the one that pulls in all the numbers, we are really excited about that. The other one was a traction of the volumes. So people are more interest. But we have got some other very excited colors. In fact probably tomorrow morning itself will be able to see all of those in our new website.

Moderator: Thank you. Our next question is from Kunal Mehra of **….(inaudible)…..**Please go ahead.

Kunal Mehra: Sir I appreciate the opportunity. Two questions. One, you mentioned earlier in the call about the second hand realizations for the CVs coming under the company are actually improving. Qualitatively, could you just help us understand how does that improvement stack up versus some of your peers because I am trying to separate increase in second hands just because the markets bottoming out versus a combination of all the efforts you made across the parameters you called at which is product, distribution, service, so on?

Siddhartha Lal: For relatively new products or let us say product with relatively more population, typically the markets for second hand product does not exist right because there are no people who used to buy second hand Eicher heavy duty trucks. So basically we have been working over the last few years to create a market for second hand products. So earlier our differential on a second hand vehicle was over 50% if you track, let us say about Shriram Finance has been tracking of second hand products. So it was over 50%. So similarly Tata vehicle if it was 100, we were 50 at that time. Now that is going to be let us say 75-80. There still is a gap, but we may be half the gap from a few years ago and that is largely because we worked with a lot of customers, we worked with a lot of fleet owners to create a second hand market. Otherwise what was happening was that any trucks which were in the market and specifically trucks which were from financiers which were repossessed or something, they are going in the market, they were being sold to brokers through away prices and that was ruining our second hand markets. So we worked tremendously. So like I said, we worked on every single aspect and this is one aspect and lots of initiatives in quite a few parts of the country to make sure that there is an actual demand. We did not want to do it in the fashion that we buyback the trucks, so we create the demand that does not help anybody. So we are actually quite happy with our outcome there and the fact that now customers are getting more confidence when they buy a new Eicher truck that it will hold its value reasonably well.

Kunal Mehra: Certainly it is a very notable achievement. The second one, a lot of our channel checks have given us feedback that you guys have made incredible sustainable improvement and in inroads with the dealer network which is a huge, you are talking about the tipping point factor and my view is with that we will become the core essence of one of the tipping points for your business. If I have to ask you, let's talk of two years, and what are the two matrixes that you would like us the outsiders of the company to observe and monitor in order to understand how you are progressing along this path from here on, what could they be?

Siddhartha Lal: On the heavy duty?

Kunal Mehra: Yes. Largely the CV business. I am bucketing all of that together if provided that is the right way of looking at it.

Siddhartha Lal: You commented on the dealer network that is in the two parts – reach and the quality and I think in reach, we are about not very different from the other two big heavy duty players and there is a huge gap between us and everybody else. So we are totally up there. In terms of quality, a lot of cases and a lot of geographies where I would say even better in terms of quality in terms of our distribution and that is improving tremendously. So it is the trickiest one to get right really and I think it is even trickier than the product on industrial side. So we are very happy about the progression of our dealer network and our service network. The metrics as we look at and we think are important are really in terms of professionalization of logistics. So when people are willing to pay a bit more for let us say if it is in quality in time, that is when the fleet owners start buying more reliable and better performing trucks. So till the time the market is going to be bit more retrograde which means that they are going to continue to buy basically 1950 technology of commercial vehicles. Till that time for newer players and I am calling us a newer player right now that in the heavy duty we can claim back, it is a slightly newer. Till that time, it is always going to be selling truck here and truck there, but when the markets are shifting and you are going to see that with some of the lead indicators of, some of the largest leads, some of the specialized areas. So tippers, you start seeing that they are more modern vehicles. In tractor trailers, you start seeing that they are more modern vehicles. So tractor trailers and tippers are much higher revenue generating, much better economic for both type of vehicles. So therefore people are going in for better quality and better performance vehicles. So it is really about modernization of the fleet and when customers start moving in that directions, then really we have the natural poise. So then of course the business can grow multifold in our opinion.

Moderator: Thank you. Our next question is from Himanshu Sharma of JM Financials. Please go ahead.

Himanshu Sharma: Thanks for the opportunity sir. If possible, can you talk about the customer segments that we plan to target with the Polaris tie-up?

Siddhartha Lal: We are keeping a lid on everything right now Himanshu, unfortunately for you only. We really do not want to open out anything more than we need to at this point because we are trying to keep things to ourselves. So I cannot give you on that unfortunately.

Moderator: Thank you. Our next question is from Kaushal Maroo of Emkay Global. Please go ahead.

Kaushal Marooo: I just wanted to understand in your product lineup, could you be considering other segments in the premium category like touring bikes, naked bikes, etc., or are you going to just focus on cruisers?

Siddhartha Lal: Kaushal, basically if you see our lineup currently, we do not call our basic bikes as cruisers cruiser or street bikes, the Bullet Rattle Street bike which is a classic one. You have a cruiser, tourer which is the Thunderbird and of course all of those are tangible that means we can certainly use a classic Bullet for touring as well. So categorization does not really matter that much and of course we have what we call as a poor classic or a Café Racer which is the Continental GT. Now our ambition is to globally to become the largest player in mid-sized motorcycles. So this means that we are going to potentially get into any areas that we fit, but actually resonance and consistency with our brand. So I can pretty much assure you that for the next few years, at least for the foreseeable future, not even in next few years, the Royal Enfield brand for example is not going to get into super sport bikes or is not going to get into extreme of floating bikes because that does not resonance with our brands philosophy what we call it pure motorcycling. It is out of our current realm of thinking. So it is slightly more practical, but with the Royal Enfield ethos of retro vintage type of bike we still believe is there is a lot of room in this market for growth.

Kaushal Marooo: Thank you sir and on your EBITDA margins, you still have room for more upside because lot of your products are still being produced at the old plant and given that most of the competition are nowhere near the price points where we are. Could these 23% plus margins look sustainable on a next 2-3 years' basis to you?

Siddhartha Lal: I cannot tell you so far that way. That's to you to figure out. We are doing everything in our scope to ensure that we continue on a very profitable path. Of course we need to slightly change course to increase costs then we can do certain changes. As long as it is towards the sustainable business model, we are going to do that. Right now we are quite comfortable with as things go on.

Moderator: Thank you. Our next question is from Sonal Gupta of UBS Securities. Please go ahead.

Sonal Gupta: Thanks for taking my questions. Just wanted to check, one was this QoQ jump in the realizations in Royal Enfield. So is there some shift in product mix, is there some price increases, just wanted to get.

Lalit Malik: We had a price increase in Royal Enfield of about 2% in middle of January.

Sonal Gupta: And just also on how much was the dividend from VECV in this quarter?

Lalit Malik: 40.8 crores.

Sonal Gupta: So where is the rest of the other income coming from, the other operating?

Lalit Malik: Most of the investments that we have which are largely into debt mutual fund. Most of them are staggered in a manner that they are redeemed during the Q1 time. So that is where the interest and the dividends flowing from the redemption of the FMPs. That is where we are largely invested in.

Siddhartha Lal: It is a bit lumpy that because it comes you only recognized within the quarter whether income comes in. So that is why it is a bit lumpy.

Sonal Gupta: But then ideally we think should have brought down your tax rate. The tax rate seems pretty high for the quarter, so just….

Lalit Malik: The difference that we got from VECV and large part of this income of mutual funds and all that are largely tax free products, but the only other expenditure in that sense that could have brought down the tax rate was R&D spend. So that was on a slow rate for the quarter, but I do expect it to pick up quite nicely over the next two quarters in terms of actual spend.

Sonal Gupta: But any guidance in terms of overall tax rate for RE business for the full year and the VECV?

Lalit Malik: Overall not to be measured from the quarter-to-quarter basis, but overall for the year we should track between 20% and 22%.

Sonal Gupta: And on the VECV side?

Siddhartha Lal: It should be in the same realm. There is no benefit in terms of FMP income and stuff like that. So there the effective tax rate is largely driven by R&D spends and depreciation between the companies and the income tax act. It should be in the same realm around 25% or so.

Sonal Gupta: VECV should be 25%.

Lalit Malik: Yes.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question. I now hand the floor back to Mr. Binay Singh for closing comments.

Binay Singh: Thanks everyone for joining us for this call. Thanks Siddhartha, thanks Lalit. Thank you everyone and have a good weekend.

Siddhartha Lal: Thank you.

Moderator: Thank you. On behalf of Morgan Stanley India Company Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.