“Eicher Motors Limited 1QCY15 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, good day and welcome to the Eicher Motors Q1CY15 Earnings Conference Call hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashvin Shetty of Ambit Capital.Thank you and over to you, sir.

Ashvin Shetty: ThanksShyma.Good evening ladies and gentlemen.On behalf of Ambit Capital, I welcome you all to the First Quarter Results Conference Call of Eicher Motors. The company is today represented by Mr. Siddhartha Lal– Managing Director and CEO; and Mr. Lalit Malik– Chief Financial Officer. I would now like to hand over the call to Mr. Lal for his opening comments and then we can start the Q&A session.Over to you,sir.

Siddhartha Lal: Yes, thank you so much Ashvin, and thank you for hosting the call. I am very happy to join you all and share more updates on the Financial and Sales Performance of Eicher Motors Limited for Q1 2015, i.e., January-to-March quarter. We still follow the calendar year; we will be switching according to company law to financial year in 2016.

Just to firstly update you on our Financials**:**At a consolidated level it has been our best-ever performance at Eicher Motors Limited for any quarter. In terms of net income we have had a growth of 34% from Rs.1,924 crores to Rs.2,568 crores. At an operating profit level, we have had 66% increase, that is good operating leverage from Rs.174 crores to Rs.289 crores taking our operating margin from 9.1% to 11.3%. All of these are all-time high numbers and of course the Volvo Eicher business is doing well and in particular the Royal Enfield business is performing extremely well. The Financial Performance of Eicher Motors standalone has also been absolutely outstanding and best ever in our history, and of course that reflects entirely the Royal Enfield business.So the top line, the total income from operations grew by 51% from Rs.636 crores to Rs.961 crores. The operating profit grew 71%, so that is the operating leverage we have got in the Royal Enfield business from Rs.136 crores to Rs.232 crores, with an operating margin increase or let us say increasing from 21.4 % in the same quarter last year to 24.1% this quarter and this of course is best in the industry and best-in-class operating margin.

Moving on to the business update for both our main businesses, Royal Enfield and VE Commercial Vehicles.On the Royal Enfield side, Q1 even from a sales volume was the best ever, we clocked just shy of 93,000 motorcycles, so that is an average of over 30,000 motorcycles per month, which is around 45% higher than Q1 of last year, when sales were 64,000 motorcycles approximately. Our order book continues to remain extremely strong. We continue to take in many more orders every month than what we are able to supply. So, as we stand today, our order book is also at the highest level ever, even though the denominator has increased dramatically over the last couple of years, and we are now producing approximately

35,000 motorcycles, I believe it was just shy of that last month, so therefore the number of months waiting has come to around 4-5 months, so the actual waiting period has shrunk a little bit because of the denominator, but the numerator keeps increasing as well very strongly, so that the increased order intakes. Our projects are all on-stream and continuing strongly;we have two technology centers under-development, the larger one in Chennai,we bought the property earlier this year at Old Mahabalipuram Road in Chennai, and we are building our large tech centre there; we are finalizing our location and starting work on our UK Tech Center which is going to be in the Midlands, and even all the new projects are working well and going according to our plans and you should be seeing new products next year and a year after from Royal Enfield.

We have been expanding our footprint at a steady pace in the Indian market;we have been growing at 6-8dealers a month, and in fact that pace is starting to increase now. We also have for the first time an e-commerce offering; we have got store.royalenfield.com where we sell our accessories and apparel from and it is the beginning of our journey in that business, where we have already seen some good starts to that e-commerce platform. We continue to make investments in our brand and in our global market development. We have opened up flagship stores or brand stores in the two biggest cities in Colombia,wherewe are already having very good response there;Columbia could very fast become one of our largest markets with the type of response that we are seeing there. We have got new distributors in Australia, in Spain, and in other markets.Finally, the exports is catching up with the India market, and we are growing at around 50% on the exports front as well, and, of course, the entire objective, as you know, is to work towards creating an extremely differentiated motorcycle experience, which is what Royal Enfield is all about, and extremely evocative pure motorcycling as we call it, and we continue to go down that path and in India at least dominate the mid-sizedmotorcycle market and of course we try and spread our brand and learnings to other international markets as well.

Moving on to our joint venture with Volvo, which is the VE Commercial Vehicles Limited…the commercial vehicle industry is seeing a bit of revival now;5 tonnesand above industry grew at about 23% in Q1, which is January to March 2015 at nearly 100,000 or 1 lakh units. Eicher trucks and buses also grew, but only by 10%, so that brings us to around 11,000 units, which was nearly 10,000 of last year.And when we get into segment-wise performance, in 5-14 tonnes, the market has remained flat, and that is why we lost a bit of share at the overall level, because our share continues at 32%, same as last year, which is an excellent market share. We are up from just over 20% a decade ago to 32%, and so we continue to gain share in 5-14 tonnes, but we have held steady from last year same quarter to this year same quarter at around 5,400 units vs the industry growth of nearly 17,000 units for the quarter. In heavy duty trucks, which is 16 tonnes and above, we have had an impressive growth of 29% of 1,838 units. The industry has grown by even more impressive of 39% at 53,348 units. So our market share has taken a slight dip there to 3.4% vs the 3.7% same time last year, but we are continuing our growth and we are continuing to be very bullish about the heavy duty in fact. In the bus segment the industry grew by an impressive 24% to over 18,000 units. Eicher grew at an even more impressive 35% to around 2500-plus units,and so our market share has grown from 12.6% to 13.7%.

In Exports first, we sold around 1,000 units in Q1, which is around 11% lower than the same quarter last year, whereas the industry was flat at around 10,600 units. In Volvo trucks we have had great growth of 54% over last year, clocking 257 units, which are of very high performance and high price Volvo Trucks and this 54% growth reflects the improvement in mining segments largely. Our medium duty engine plant which was made to serve Volvo's global requirements is now picking up the pace. We have had a growth of over 50% from last year same quarter to this year, where we have done 3,900 units, that is a growth of 50%, and our Pro-6000 and 8000 series which is our VECV's Heavy Duty offerings, which we unveiled in end of 2013 and we started sales late in 2014, and these are the Trucks that we have designed very closely with Volvo, and our full new breed of Heavy Duty Trucks which are absolutely modern, have global technology, but absolutely fit for the Indian market.

The initial response has been absolutely fabulous; plying with customers, we are getting really good customer response, some of the customers are getting double the number of kilometers that they used to get from the old trucks, they are getting in this truck in terms of amount of kilometers they are able to run every month. So fuel efficiency is dramatically better than any product in the country right now. So while we are opening out to markets very slowly, we are making sure we take baby steps and we are making sure that every single customer gets an excellent response or let us say gets an excellent performance and profit out of our Trucks and then only we are expanding the sales of our Pro-6000 and 8000, but we are now very convinced that these trucks represent the future of VECV Heavy Duty and they represent the future of modern Indian trucking, which really is a very opportune time that we have launched these vehicles because the market is coming back, the freight operators are looking at more modern vehicles because they are going to have to replace their fleets, they are expecting less obstructions because eventually in a year's time, if GST comes in, then they are already modernizing the fleet in anticipation of that. So we are going to see pro-6000 and 8000 really modernizing the fleets of truckers in India.

Moving on to our 50:50 joint venture with Polaris Industries, when we started our joint venture over three years ago, we had announced that we will launch our products in 2015. I am happy to say that we are absolutely on track for that launch and in a few months' time, certainly before the end of this year, we shall see the new offerings from the Eicher-Polaris joint venture. So that is by and large our performance of 1Q2015; it is our best-ever quarter at a consolidated level and at a standalone level, the biggest highlight of course is that the operating margin at a standalone level has risen all the way beyond 24% for the quarter.

So that is all from me for now, and now looking forward to some questions from you all.

Moderator: Thank you very much, sir. Participants, we will now begin with the question-and-answer session. Our first question is from the line of Jai Kale from Elara Capital. Please go ahead.

Jai Kale: Sir, my first question is regarding the Commercial Vehicles segment. There seems to be a industry view that once the GST comes in, you could see LMD segment coming under threat and that being one of the highest in terms of volumes for you. What is your assessment of the situation?

Siddhartha Lal: Certainly there will be positive play for Heavy Duty Trucks, but much more for the modern style of Heavy Duty Trucks, in our opinion, our view of the company is that the Medium Duty segment is going to continue to be extremely important because of regional transportation, so the regional transportation does not stop, and we are talking about middle distance, 400 to 500, 600 kilometers, that absolutely does not stop, it in fact also gets bolstered with state borders being more open. So, there is absolutely no issue or concern there from our side. In addition, our offering, if you see our Pro-3000 series, that is a new truck platform, the pro-1000 is an upgrade of our old platform, but the Pro-3000 is a new platform, is a larger cabin, it is a bigger engine, it is a full new offering, which is of true Medium Duty, spanning all the way from 12 to 15-16 tonnes and that is really our offering which we think will go down extremely well in the middle distance segment. So where the speed and turnover time is extremely crucial, very often middle distances are for perishables and they want speed and turnaround time more than anything else. So long and short, we are extremely bullish about the continued growth of the Light and Medium Duty segments as well.

Jai Kale: Regarding your gross margin at the standalone level, they have seen a substantial increase sequentially as well as on a YoY basis. Do you attribute this more towards raw material prices coming down or there is a substantial increase in your product mix or Spare Parts revenues going up, something like that?

Siddhartha Lal: With the type of scale that we are able to achieve, we are able to reduce, we are able to get leverage in terms of better costs from our suppliers and better variable costs. So that has been one. We had a very good price increase in the year, in fact, we were able to take 6% from the market, 4% was due to excise, and we added 2% more because we had not increased our prices because of raw material, etc., in 2014.So we have also had a good effect of price increase. On product mix, spare parts, it has all been maybe slightly plus or minus, nothing much to say there.

Moderator: Thank you. We will take the next question from the line of Kapil Singh from Nomura Securities. Please go ahead.

Kapil Singh: My question is related to VECV.Is the full rollout of Pro-series 6000 and 8000, is it complete or by when do you see that getting updated?

Siddhartha Lal: The rollout is not complete at this point in multiple ways. So at the product level, we have rolled out only let us say the starting products from the Pro-6000 and 8000, which covers the 852, it covers some aspects of 654, and there are many more products still to be rolled out over the next 12 to 18-months. We are going to see a lot more segments being covered from the

Pro-6000 and 8000 Series.So that is point #1. From a distribution angle, we have been extremely cautious in rolling out for 6000 and 8000, so we really would need a handful of dealerships in handful of cities right now, including Delhi and Mumbai, which are big markets but also in a few other big cities or big Commercial Vehicle markets. We have a very rigorous process before we start selling Pro-6000 and 8000 Series in any market, there were 7-stage process, which includes lots of checks to make sure that the selling ability, the aftermarket ability, the financing, and all the support systems which are required to make a successful launch there. So we are certainly rolling out rapidly, but we are still making sure that it is done at a very manageable pace so that the customers are getting us absolutely stupendous experience before we move on and open out newer markets. So that is on the rollout of Pro-6000 and 8000.

Kapil Singh: When I look at the VECV margins, there also we have seen pretty growth of 25% in revenue terms but the gross margins there have sort of stay flattish. So just wanted some colour on that that going forward do you expect that as now you are expecting the industry to grow as well? Will there be any kind of vendor discounts, etc., or commodity benefits that you see? Secondly, on the other expenses as well, ideally, I would imagine that half of these are more fixed in nature. I am sure there will be launch cost right now. So once that full rollout is complete, do you see a sharp reduction as a percentage of sales over there?

Siddhartha Lal: On the gross margins, of course there is still heavy discounting, that has not come down substantially since the market was lower, and, of course, kind of various factors in terms of product mix, is a big factor there, then, of course, there could be some commodity, let us say price benefit that we could get over time and other things, but there are certainly many pluses and minuses, obviously, eventually higher volumes will help in many ways, especially the fact that competition may also start reducing the type of heavy discounts that we have seen in the market, which will certainly help in the gross margins, but that is still to be seen, it is not yet, let us say, played out in the market. Lalit, could you answer on the other expenses, launch cost, and other things?

Lalit Malik: So launchingexpenses are not so high that they will kind of blur or put a dent on the margins at any different level.Like Siddhartha has mentioned, the bigger issue is still the discounting and till that ends, the gross margin will not really expand. I am sure there will not be any jump inflection over there at the very least. Other expenses are in line; if you like at YoY, the staffcost is down from 9.2% to 6.8%... I am talking for VECV now, and the other expenditure is also flat, so it has not really gone up as a percentage, on absolute terms it may have gone up.

Kapil Singh: I would think that nearly at least 40% of that other expenditure should be more fixed in nature. Is that the right way of thinking about it more in the longer-term, not looking quarter-to-quarter? If the revenues grow at 25%, there should be some benefit visible over there as well.

Lalit Malik: No, there will be, with the growth of revenues over time first, if you look at the past, about 2-2.5 years back, before the beginning of the slump, the other expenditure for this business would never be more than 12%, it will always be less than that. Now of course the scale has changed, it is a very different business now. So there will be some expenditure to that extent, but all should flow at some point of time into the topline expansion.

Moderator: Thank you. The next question is from the line of Basudeb Banerjee from Antique Finance. Please go ahead.

Basudeb Banerjee: A few questions: If I see for VECV on a sequential basis, your blended realisation is down significantly and this kind of volatility really we see of this quantum. So despite your MDP revenues inching up, is it purely due to mix change or lower Volvo sales or the quantum of discount increase was too high?

Lalit Malik: LMD was starting on the higher side, but with each Heavy Duty increase that we do, and HD volumes were high on a sequential basis, and given the fact that they are still being heavily discounted, was really the issue.

Basudeb Banerjee: So broadly that is the prime reason that HD mix was on the higher side and that is why the automatic discount mix moved up?

Lalit Malik: Yeah.

Basudeb Banerjee: If I see on both VECV and RE depreciation, has moved up significantly on a sequential basis?

Lalit Malik: Basically, with the new Companies Act, and the depreciation rates which are now in play, the rates will be applied w.e.f. 1st January, so in both VECV and EML you would see this increase, so in place of EML in the P&L we have had to take additional depreciation hit of about Rs.5.5 crores for the quarter. So it is only on account of change of the depreciation rates.

Basudeb Banerjee: So broadly, these levels are anyhow going to be the rates down the line?

Lalit Malik: Yeah, if we do not capitalize anything further, then this is the rate you have now.

Basudeb Banerjee: Will it be right to expect this kind of gross margins in RE to sustain assuming the commodity prices remaining similar, because on a QoQ basis, the improvement has been significant; combination of your price hike and as you said the raw material benefit.

Siddhartha Lal: As a business, our attempt is always to increase it, and I cannot assure you which way it is going to go, but there are forces both ways and always which are playing.So as we continue, we try and improve it, but then there are different factors which play out as well.

Moderator: Thank you. Our next question is from the line of Pulkit Singhal from Motilal Oswal. Please go ahead.

Pulkit Singhal: I just wanted to check on the VECV side, what sort of plans on the exports front utilizing Volvo distribution chain, my understanding was that the new platform, the new trucks can actually be sold through that distribution?

Siddhartha Lal: Our exports have already grown at a rapid pace, this quarter was slightly weak, but generally last year we have had a very good growth, and we are seeing a good growth coming up as well.So that is basically our effect of working with Volvo Group's distribution network in Africa, which is starting to kick in already. So there is already some markets that we have opened in Africa. We are also working on some markets in Southeast Asia, which will start opening out later this year and next year as well. So the work is very much on, a lot of the specially slightly more developed market like Southeast Asia where the performance requirements of Trucks is higher, they were waiting for the newer products to come into play. So now that the Pro Series and especially the Pro-3000 and 6000, and 8000 have come into play, those are the ones that are much more interesting for markets like Southeast Asia, and therefore we are able to now make a larger play there, again these things take a little bit of time to start paying out, we have to set up a full distribution, the brand has to get known in these markets.So it is not an on/off switch, but the work is very much on obviously South Asia and Middle East and Africa.

Pulkit Singhal: On the Two Wheelers side, can you share some of your plans on the new product launches? I remember you mentioned about two different platforms – one for the emerging markets and one for the developed side. But are you trying to answer the question of what could be the next step for a classic bike rider as a replacement and when are you coming up with the launches?

Siddhartha Lal: Firstly to clarify, we do have two new platforms, which are under development in addition to what we have currently, but it is not as if one is solely for emerging markets and one for developing markets, both of these platforms are for global markets. All of our new products in the next three to five years as we can see it, are in the 250 to 750 cc category, so they are in the mid-size space, and yes, so that is where we are going down, we do not have much more particulars, expect that certainly we are going to see new products coming out in 2016 for sure.

Pulkit Singhal: The engines one, is it breaking even the EBITDA level of this quarterly run rate?

Siddhartha Lal: We do not break out individual numbers, sorry.

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

Chirag Shah: My first question would be on this waitlist. You highlighted around 4-5 months, but just wanted to have an understanding from you how is this waitlist behaving because when we do a ground level check at least in metros, the waitlist is 2 months or less than 2 months for Bullet and Classic, and we understand dealers though they are saying 4-5 months of waitlist with the deliveries do happen in 2-months' time? Which markets are having easier supply then where are the bottlenecks for you in terms of regional mix or city wise mix that you may be looking at internally?

Siddhartha Lal: On a blended average, our wait-list is still in the region of five months, and there are certain products and certain markets where it is less, and we have a model by which we do this, in terms of the growth and existing dealers, so a lot of it is also dealer-led, which is that we want to allow the dealers to grow and the new dealers to also grow, so therefore we control the supplies in that manner.So typically you are going to find that in the southern cities and in the western cities, especially for Classic you are going to have a much longer waiting list than five months, so I cannot remember off hand really, but if you do a dipstick in Bangalore or Pune, it is much higher than that, I did not know it was 2 months in any market, I thought it was still 3-4 at least in some of the Northern and Eastern markets, but yes, that is the thing, the gap is still large on a monthly level in terms of order intakes and in terms of delivery. So at an absolute level the order book today is the highest ever, so that is for sure.

Chirag Shah: That is why we need to see a lower waiting list in that sense even 4-5 months is a reasonable number. Second question, I wanted to understand on this tech centers that you are working on. What are the key roles that we will be looking at, be it the UK one as well as the Chennai one that you highlighted, is it more on designing front, it is more on engineering front, engines, transmissions, how, what we should understand when you say tech centers and when can we see those benefits flowing in terms of models?

Siddhartha Lal: Firstly, the work on the new models is happening in spite of the tech centers are not being up and running, because we our existing let us say engineering center in Chennai and we have a temporary location in the UK, where our engineer sits.So the work is carrying on, so there is no stoppage to the work, it is just that the facilities and the access to test rigs which we already have some in Chennai, but we will have much more in other markets.So right now as you can imagine our test rigs and our engine development cells are basically geared up for maybe one or two different platforms, but then if you have multiple platforms, but then you have multiple platforms coming in, we are now using other resources from outside, very often for development testing, etc., So on the product development, things are going on without any hesitation.

The way the tech centers play out, firstly, for the long term, really, so, it is for newer products, and obviously, as soon as the tech centers are developed, even the validation of some of the products which are already under development will happen in those tech centers. The UK tech center is largely, you can call it, nearly as a satellite tech center, we have already industrial designers who are designing motorcycles for our platforms which are all global in nature, but some of them are let us say more higher powered and more focused towards western markets. So those are the ones that are getting designed and the lead engineering is being done in the UK for those as well. That is for the sum of our motorcycles. Then for other platforms which are also for global markets, but geared slightly more towards India and other developing markets, the lead and the design is being done in India. The backend for all of our operations including our UK operations, that means a lot of the analysis work, a lot of validation testing, which is long duration, and lots of hours required, and a lot of the detailed design work, all the sourcing development work, tools, dyes, all of that has been still done in India. So therefore the bulk of the numbers of people will be in India. The lead design and development for some of our new products will be done in UK.

Chirag Shah: Just a house-keeping question; On Eicher Motors Royal Enfield business, since two quarters, we are seeing other expenses in standalone on the higher side. So, is it more to do brand promotion in the international markets? And if you can highlight geographies where you are really spending money apart from Columbia which you have highlighted, if you can share some flavor, because despite the strong top line and the operating leverage seems not to be filtering on the other expenses?

Lalit Malik: No, if you look at Q4'14, OPEX was about 12% of the topline, and now it is about 11.5%, so it is not trending up by any means.

Chirag Shah: But if you look at the previous three quarters – Q1, Q2, Q3 – there is a jump of maybe 70-80 bps or in an absolute amount there is a reasonable amount of jump, from an average run rate of say Rs.70-80 crores we have now moved to Rs.100 crores kind of a run rate?

Siddhartha Lal: Of course, as we have said, that we are continuing to invest in brand building, promotion, we are opening up new markets, we have been adding more people and doing a lot of work in USA market, for example, where we are building up a team, we are doing events like you said in Columbia, was a lot of stuff that we did in Q1 when we launched the new stores, we had other stuff going on in UK and other markets. So there are generally high levels of activity and that is going to continue. Earlier it used to be a bit more bumpy, but generally you are going to see a high level of activity from our side, because that is what is required to be done, and even in UK tech center we have got a lot more people in, and the costs are going up in some of those areas, so the tech center is not up, but the people are there, and they are working, there are rents going out, there are bills which are coming in. So that is part of the costs that you are talking about I imagine.

Moderator: We have the next question from the line of Vinay Singh from Morgan Stanley. Please go ahead.

Vinay Singh: I have two questions: firstly, on the VECV side, on the Heavy Duty side, what are the challenges that you guys are facing or you expect in the coming year or two? And secondly, I remember earlier you guys used to give a market share target of 2-3 years down the line. Would you have any market share target in mind now?

Siddhartha Lal: The challenge is in Heavy Duty, continue to be similar in terms of the fact that the more immediate terms the challenges are really more about the discounting levels and other such things, and the longer-term challenges are really around getting that very positive word of mouth for our new products, that is really what we are after, and that is what we are working towards. So as a smaller player to build a positive momentum in the market, there is a positive word of mouth, and positivity with the financials, the positive cycle is what we are really trying to create and then it attracts our dealers to do better.

So all of that is the ecosystem that we are creating and we are able to do that now very well in pockets. Therefore we are going after certain cities, our market shares are extremely skewed, so in certain places we have much higher market share, maybe three times our national average, and that is because our focus is there. Our market share targets in the long term remain the same. We are obviously behind by a couple of years, but in the medium term, the way we look at what we want to accomplish we would still like to hit 15% market share, but we are still inching towards 4%, like, for example, last month, we crossed 4% market share, so Q1 was 3.4%, last month was 4.2%, things are steadily improving, but it is still let us say, certainly a few years away, maybe 3-years away before we can even work towards the 15% market share.

Vinay Singh: In terms of how do you think the competition will react to this because on one side like in the market where you now have a higher market share, so taking those markets as an example, has the competition resorted by further discounting to your models?

Siddhartha Lal: That is the usual tactic, and that is how it works, so we are not cribbing about it, we are just making sure that the customer really sees what he is getting and what is very interesting and we have become very sophisticated value sellers, especially for our Pro-8000 and 6000.What is very obvious is that if your turn around time improves by an order, then the advantages that our customers are getting cannot be made up by another lakh or two of discounts by the competitors. So it is really the productivity of the vehicle that is going to be the profit driver for the customer, not lakh or two less. So, that is what we have learnt extremely well and we have internalized that extremely well. Volvo is globally excellent at value selling, that is what they do, they are extremely high value selling organization and Heavy Duty Truck. So we have really imbibed that, and learnt that, and that is the way we are going in the market.

What happens is that, the market with the right products and with the right companies doing the right things, the market will shift to more modern products, it is a matter of an inflection point, when the customers do not want those shoddy old style of in fact 1950s design of trucks which some of our large competitors have, and they will want more modern trucks. As the market moves to more modern trucks, the playing fields is totally leveled for all of us, right, because currently larger competitors or the legacy competitors we can call them, are banking on their larger base and their lower cost structure in some sense and their distribution muscle in some sense to continue to let us say try and hold on to their market shares, but as the customer preference moves to modern trucks and it is going to happen because with GST coming, with more roads coming, with the customers really able to get the benefit of better turnaround time, and better fuel efficiency, and better driver comfort, that is what is going to happen. And when the market moves, it is going to move only one way; you are going to move to modern trucks, you are not going to come back to the legacy trucks. And when it moves to modern trucks, I am pretty sure that it is not going to be the legacy truck makers which are going to make the gains, we are on the forefront of the modern trucking business really. So we are very bullish about it, and we are working very hard towards that time in Indian trucking when the truck operators want a more modern higher performance fleet.

Vinay Singh: On RE side, could you again remind us what is the exit capacity this year and next year?

Siddhartha Lal: This year it is very much 50,000, we do not have an exit number for 2016 as yet, so we are working on it, typically we have been trending towards 50% plus/minus type of number in the last five years, and we certainly have some plans, but we have not got an exact number because we are still working on the exact number for exit of 2016.

Lalit Malik: Moderator, I will just complete my unfinished answer which I was trying to give to Chirag Shah. So I do not know he is not there at this point in time, but other expenditure is in our case for now for the last few quarters is not led by marketing spend, it is basically the increase of the scale of the business; so if the travel cost of our folks, is the freight cost, which has gone up tremendously in line with the shipments, the whole industrial cost which is going up, over a few stores in India, there is rent for that. So that kind of overhead kind of expenditure will be largely there, I am not saying that the market spend is not there, but it is not as if market spend is leading this increase in the cost.

Moderator: Our next question is from the line of Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.

Srinath Krishnan: Sir, you mentioned in your initial comments that you are seeing a strong discounts from Columbia. Generally, in products like ours, when an inflection point is there is an exponential increase in volumes. I have been reading a lot about your focus on North America, appointing important people, have you reached an inflection point in any of the markets that you are in and is it reasonable to assume lakhs of volumes maybe 3years down the line from exports?

Siddhartha Lal: I cannot give you a number firstly on what we want to do in 3years' time and I cannot see we have reached a inflection point in any other market other than India as yet, so we are working towards that, but they are still early, like in Columbia, we have just started selling motorcycles right now, there is no way to say that we have reached inflection point there. In the bigger markets like the American and European markets, for example, where we have been around for a long time, we have not hit inflection point, US market grew to around 1000 units from 600 units, so that is still a small number at the end of the day.

I would say we hit inflection point when the buzz and demand is really high. If I were to put my money on it, I would bet that we would hit that in Columbia before any other market, but it is still awhile to come, to see that we hit a real inflection point and that the growth starts in too earnest. So, it is still early days and therefore I cannot say about our two to three-year plans in terms of what we can expect, that is our absolute objective, we are working on it day and night to make sure that we do get to a position exactly like you are saying that we can achieve one more market, so right now we are only a single market play, we have got all our successes out of the Indian market. So we certainly want to make sure that to start with at least one more market where we are very successful.

Moderator: Thank you. Our next question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: Siddhartha, my first question is on Royal Enfield. There have been some investors' queries, I do not know whether emanating, but I am increasingly getting more worried on the Royal Enfield incremental volume momentum or demand momentum. So I just wanted to check with you if you can provide some color on your incremental growth on your older stores in terms of order intake and the order intake as the overall company in terms of specially led by a new dealership role test to how the momentum is, and especially in the last 2-3 months where there has been a bit of slackness which come into the two-wheeler market. So just want to understand the incremental volume momentum or the order intake momentum from your side, and also probably a split between how your older stores of the top-20 cities are doing for you and how are the new rollouts are working for you at this point of time?

Siddhartha Lal: That is a very detailed question, I do not have all the answers with me, so maybe I will ask Lalit to chip in later, when he can, and maybe you can also just after I answer a few of your questions, describe to me a little bit more about where the concern is coming from, in fact, are there any numbers that are concerning you because from our side the way we are looking at it right now, there is no, let us say, the gap between order intake every month and production every month is staying constant or increasing, it continues to increase. So we are adding to our order book every single month.

There is a good healthy split between the growth coming out of existing markets or same stores, and the growth coming out of new stores, which are the markets which have been opened in the last 18 months, we have seen good growth from both these areas. So for us at least there is no major point of concern there. We are able to continue to penetrate in fact at an increasing pace in terms of new stores. Now some of these stores are in smaller, smaller towns, like they are in D-towns, so therefore just the numbers of stores may increase but their potential of a D-town is probably less may be 15, 20, 25 motorcycles a month, a new store in a A-city or A-plus city could be 100, 150, 200 motorcycles, so we are adding dealers across the board today, in A-towns, B-towns, C-towns, D-towns. The sheer numbers are coming from C and D, but in terms of numbers of dealers being added, but the number of motorcycles are still very strong in A and A+ and cities as well. So overall the way we are looking at it, is that it in fact continues to surprise us, the demand momentum continues to be very strong. So I am not exactly sure where or what data points or numbers or …inaudible 53:55

Pramod Kumar: No, it is not about my concern, because I am equally bullish honestly and you do know our forecast, we have actually gone for a million over a period of time. So we are definitely not worried. It is probably about extrapolating say order book or waitlist for a continental GT to the overall company which exactly is not the right thing to do, but when you extrapolate, probably one or two per cent of volume of the overall pie, that wait list to the overall volume, probably that is where these consensus are coming across, but I just wanted to hear it from you as to how you are seeing things on ground because we may be able to cover some 10-dealers but honestly we want to know how is it shaping over the >250-odd locations what you are already covering. So it is great to hear the demand momentum is fairly strong at RE and it has been pretty helpful.

Moderator: Thank you. Our next question is from the line of Himanshu Sharma from J.M. Financial. Please go ahead.

Himanshu Sharma: Just to carry forward what Pramod touched upon, as far as demand is concerned, can you also share how the customer let us say age bracket is changing for us, what would be an average buyer customer age that we sell now and how was it let us say a couple of years back if we have the data?

Siddhartha Lal: I do not have the exact numbers with me, so I can give you a flavourof what we have been, let us say discussing with our teams. One is that the median age has in fact dropped very sharply, we were in the late 20s, early 30s, maybe 4-5 years ago, we are now in the early 20s. Median population is a guy who is in a big city and he has got let us say his first job and maybe in his second or third year, so his first motorcycle, which he bought in college, which was a 100 cc or 150cc, he has gotten rid of that and he has got a Royal Enfield, so it is very early into his career, he is able to afford a Royal Enfield. So that is our median customer. Of course we have customers on both ends of that spectrum, that means we have let us say relatively indulgent parents who give their son normally a Royal Enfield even when they just join college, so we have got a bunch of 18-20year olds also buying a motorcycle, and we also have a bunch of 30-year olds plus who are in their jobs or self-employed but also maybe on their second or third motorcycle now. So, we have got a variety but the median has in fact fallen dramatically for us into the early 20s now.

Himanshu Sharma: On the other issue of after sales service, I think we have been in the past also mentioned about improving our after sales network given the kind of growth we had seen in the new to Royal Enfield sales, can you share some thoughts as to what are we doing on the back end, where customers do not get disappointed after buying the bike and how the after sales network is improving in terms of whether it is manpower or service-based and also if you can share some thoughts on our store renovation program that we probably understand is going across pan-India?

Siddhartha Lal: We had a situation maybe around 18-24months ago, which we have talked about I think in one of the past investor calls, where we had waiting even for service, and that is now not an issue at all. We have increased our service capacity, that means the number of days tremendously, last year I don't have the number in front of me, but I can share the number with you, but the number of service base has gone up around 50% last year, whereas our population has not increased by 50%, so our sales grew, let us say by 50%, but the population of course did not grow by 50% but our number of bays have increased dramatically last year and right now there could be an odd location where on an odd morning, mornings are peak hours when people want to drop their motorcycles off for service before they go to work, so there is a bit of people waiting out in the morning sometimes, that still happens, which is normal for any company, really it is not peculiar to us, but other than that, by and large there is no capacity issue.

So the first issue we have been working on like we did in the motorcycle front, on the service front the first issue we worked on the capacity front. The second issue we worked on and we have got to global benchmark levels now, is on the parts availability front from the warehouse. So earlier it was let us say a typical old Indian company mindset was still very, I would say lackadaisical nearly on the parts availability, in fact that is one thing we have learnt from the Volvo side when I was working closely or running the Volvo JV and we brought those best practices here in terms of first week parts availability at warehouses. As soon the dealer orders parts, by and large we were able to get every single part immediately. So that is the kind of improvements we have done, it is absolute global level benchmark we have done now on parts availability from our central warehouse, then we tracked the parts availability at dealer level which is basically what the customer requires that has also reached very-very good levels which we wanted to accomplish. We continue to improve it of course all the time, but we are actually very happy with the capacity issues which are on service right now, these are the capacity issues we are talking about, including in the capacity issue also the number of mechanics.

So we tied up with ITIs across the country, we have many service technicians coming out of these ITIs and so that solves by and large our capacity issue. Then on the excellence issue we moved I believe 100% now to deal a management system where all the job cards are dealt with by a dealer management system, we continue to make improvements there, but it is all professional, it is all done in a manner which is transparent and easy for the customer to follow, we have got tremendous amount of repeat training programs for our existing technicians, we track the number of paths required for vehicle offload and that has improved dramatically.

So any vehicle which is standard, that means it is not it has got a small problem, it has got a problem that it is in the workshop and it cannot work, we track all of those motorcycles extremely well, we are tracking well on warranty, call frequencies have halved over the last two years. So we are tracking our service extremely well. Now we are going into from a capacity mode, our organizational effort is moving into an excellence mode in service, that means how to then give for the type of premium product that these customers bank, how to give a much more premium level of service. So right now on an ad hoc basis, dealers who customer pickup of motorcycles, etc., how do we institutionalize products and services for the customer, where he is absolutely delighted with Royal Enfield service that is the next leap we have to take, because I believe on the capacity front, we are by and large there.

Himanshu Sharma: And the attached question that I asked for store. Our store up gradation program, I think where are we today and how long will you take to cover the whole network?

Siddhartha Lal: On the stores, that means that the front part, there are multiple things that we are doing; so one is hardware side which is the look and feel of the store, last year if some of you gone and seen some of our new format of retail identity which is I believe really interesting, so that was started in Saket in Delhi first, I do not know the exact number as we stand but it is well over 150 stores in the country now which are with the new retail format, we have 400 approximately stores in the entire country, we are possibly going towards closer to the 500 mark by the end of this year, but I believe may be 95% or 100% of our stores by the end of this year will also have a new retail identity. So by the end of this year in India, we should be by and large on track, of course any new dealer which are coming in or also in the new retail identity. So by the end of this year, you should see all source have the new retail identity. So that is only on the hardware side.

In international markets, of course, all new stores are being developed with a new retail identity, but in international markets, you also have a lot of multi-brand stores, shop in shops, we are also now working on the identity or the retail experience for the multi-brand stores which will be rolled out subsequently. On the softer side, we have been working and we have a lot of programs right now… we have one large program which is working on the retail experience so which means on the type of sales people, on their training, on how they sell, and how they operate, I know these are standard things to say, I am sure everyone does that, but the way we are going about it I believe is very different to create an experience when you go into the store, just talking to any ordinary sales person which is very often we experience today in any two wheeler or even automobile or even white goods type of segment wherein really a very average experience, we have got pilot program already, where we are able to hire a totally different type of person and they are able to give us a much better in-store experience where there are two motorcyclists and they are able to talk in a motorcycling language, they are not just trying to push numbers. So there is a lot of work going on an entire retail front, we are a very retail-oriented company I believe so which means that we focused tremendously on our front end retail experience and that is paying off already in terms of how customers view us.

Himanshu Sharma: Can you share the CAPEX for CY'15-16 and how much of that would be towards capacity and how much for R&D or product development?

Siddhartha Lal: Calendar Year '15, our plan is to spend around Rs.500 crores and that is for everything put together, we are not breaking out individual capacity and all that, of course there are some large investments in that, we bought land in Old Mahabalipuram Road, which is slightly expensive, it was in the city of Chennai, 4.5 acres, that is what our tech center… Lalit will remind us, Vallam Vadagal I think last year we bought but then the large expansion of Oragadam Phase-2 is happening including the new engine shop, then of course by the second half of this year, this spends for the tech centers and stuff and the spends for the new products is already happening. So these are the larger CAPEX spend heads that we are going through. And because some of it includes land, that increase the quantum to that extent.

Himanshu Sharma: So this 5 billion is only for the standalone business? Can you share this same for VECV?

Siddhartha Lal: Yes, this is for the Royal Enfield standalone business.

Lalit Malik: I will just come back to you what exactly the last year was.

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

Dinesh Gandhi: A couple of questions: One is with respect to Royal Enfield realizations in this quarter. The entire increase of about 3.5% quarter-on-quarter basis is due to price increase and mix change. Is there also some impact of higher space sales?

Siddhartha Lal: I believe its price increase and other such things. Spare sales because of population is not as you can imagine growing as fast as our motorcycle sales, we are keeping up, our spares are growing really well, but certainly not growing faster than motorcycle sales by any serious margin or anything. I imagine then largely the former.

Dinesh Gandhi: Second question pertains to the Phase-2 capacity expansion at the Oragadam plant. When we can expect that to start contributing to our volumes?

Siddhartha Lal: Early second half already we should start contributing, how we do it is that the paint shop comes on line first by June itself but then of course we do not ramp up to the full 30,000 per month which is the new Phase-2 capacity of paint shop is 30,000 per month, we do not ramp up to the full 30,000 per month immediately. We phase it usually and then we increase the number of shifts in our vehicle assembly in the Phase-1 to cater to the larger demand and then by end of Q3 - early Q4 our vehicle assembly also comes on stream. That is how we plan the sales lag so that the construction and all is also planned accordingly. So there is not too much construction happening at the site at the exact same time. That is how it all planned. We will see the start sometime by next quarter itself, so that means by July we will see some improvement in the volumes because of initial part of Phase-2 getting into the program. But, of course, it will take another, I would say 6-9 months before we can realize a larger part of the capacity of Phase-2.

Dinesh Gandhi: Currently, the Phase-1 is working on two shift basis because of constraints at the paint shop right?

Siddhartha Lal: Basically, I believe how we work in the industry works well is that the paint shops are normally run on a three-shift basis, it is process plant, so we run them through the day and vehicle assembly because it is very highly manpower-intensive, we run it in two-shift basis, but of course it is possible to run that also in a three-shift basis. So when required when Phase-II paint shops starts kicking in, temporarily we can run Phase-1 vehicle assembly for three shifts and then as and when the Phase-2 vehicle assembly comes into play, we can reduce this also to two-shift basis because we want to keep the operations in the middle of the night as little as possible if possible.

Dinesh Gandhi: Last question pertains to VECV tax rate in the quarter had gone up to about 34%. Is there anything one offing that or one should expect similar tax rate going forward in VECV?

Lalit Malik: No, it is just truing up for the financial year, there is one-off over there, it looks to be on the higher side because I think VECV as a group is conservative in estimating the tax benefits and all thestuff, but over a long period of time we expect a lower one.

Dinesh Gandhi: It should be close to 21-22%?

Lalit Malik: Around 30% or so.

Moderator: Thank you. I now hand the floor back to Mr. Ashvin Shetty for any closing comments. Thank you, and over to you sir.

Ashvin Shetty: On behalf of Ambit Capital, I thank all the participants for joining in the call. Also, I thank the management for giving us this opportunity to host the call. Goodbye.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Ambit Capital, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.