# "Eicher Motors Q4FY17 Earnings Conference Call"

# May 05, 2017

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**Moderator**: Ladies and Gentlemen, Good Day and Welcome to the Eicher Motors Q4 FY'17 Earnings Conference Call hosted by Edelweiss Securities Limited. We have with us on call today, Mr. Siddhartha Lal – M.D. and CEO; Mr. Lalit Malik – CFO. As a reminder, all participant lines will be in the listen-only mode, and 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chirag Shah from Edelweiss Securities Limited. Thank you and over to you, sir.

**Chirag Shah**: Thank you, Aman. Welcome everyone and thanks for joining in for the call. We also thank Eicher Motors for giving us the opportunity to host the call. I would like to hand over the call to the management for initial comments and then we can start with the Q&A. Over to you, sir.

**Lalit Malik:** Thanks, Chirag. This is Lalit Malik here. Siddhartha is running a few minutes late. So I will just start with the "Opening Comments" and by the time we are into Q&A he should be back. Chirag, thanks for having the call done for us.

I really talk about the Q4 '16-17 numbers; I will start with P&L consol. So P&L reported is quarterly net income of Rs.1,888 crores, this is as a consol basis as against for the same period last year it was Rs.1,532 crores, there is a growth of 23% at the top line on YoY basis. Operating margins EBITDA was highest ever as Rs.585 crores and it was 31% higher than same quarter last year when it was Rs.447 crores, in percentage terms it was 31% as opposed to 29.2% same quarter last year. At a consol PAT level, we recorded Rs.460 crores as against Rs.342 crores in Q4 of '15-16, that is a growth of 34%. So on all these three-four parameters, like I keep saying, I will call this as a best quarter ever.

Moving to the Financial Numbers for Volvo Eicher for Q4 '16-17: VECV reported a top line at Rs.2,554 crores as against Rs.2,074 crores in the same quarter last year and that is a growth of 23%. The EBITDA at 209% more than 100% higher as opposed to EBITDA which recorded in the same quarter last year which was Rs.93 crores. In percentage terms, this translated into 8.2% EBITDA for Volvo Eicher as opposed to 4.5% same quarter last year. Profit after tax grew a lot actually; it was Rs.116 crores for the quarter as opposed to Rs.6 crores was reported in Q4 of '15-16, so that is 2000% growth.

On the Business Update, Royal Enfield in volume terms we recorded a volume of 178,345 Motor Cycles in Q4, it is about 21% higher than 147k that we reported in the same quarter last year. Our retail footprint continues to expand as of March end; we were selling at 675 points across the country. Our unified retail identity something that we launched about 2.5-3-years back is now fully done up in all the stores. So all the stores from Asia, from internal standpoint kind of look exactly the same and reflect the Royal Enfield brand.

In January of '17, we announced three changes in colors of our Classic model, we are calling them Redditch which has really been inspired by the paint scheme of 1950s era Royal Enfield, that were produced in Redditch in United Kingdom in the 50s, that is where Royal Enfield originated from, more than half a century back. These colors have done exceedingly well; appreciated by the customers and a large part of the booking is also now reflective of the booking done for these colors.

In April '17 we conducted One Ride which is one of the largest global community rides that not just we, but any motorcycle brand does around the world, one by 2017 we had more than 500 registered rides, participation was 13,000 in India, and apart from the big cities of Delhi, Mumbai, Chennai, Kolkata, and Bengaluru there were 50 other cities that joined in this ride, including 23 locations outside of the country also and these include London, Paris, Madrid, Barcelona, Dubai and Bangkok.

Coming on to some of the CAPEX spends: This year like last year we are increasing little bit around all the parts of the world and not just capacity but both capacity and capability put together we will be spending about 800 crores in CAPEX in financial year '17-18. This includes some of the large things like our third manufacturing facility, Vallam-Vadagal, which is in Chennai, our two test centers in UK and India and also in product development. These are the large four areas of which Rs.800 crores will be spent this year. The Vallam-Vadagal facility has been in construction for almost 1.5-years now and we expect to commence operations of this facility in August of '17. So that is another three months out from now. With these two existing facilities plus Vallam-Vadagal as start in August, all of them put together this year we will deliver production capacity of 825,000 Motorcycles for '17-18. Just a couple of weeks back, we also opened worldwide second direct marketing and distribution company in Brazil. It is a 100% subsidiary owned by Eicher Motors. The first one if you recall was Royal Enfield in North America and obviously Royal Enfield in Brazil and we launched our first store over there in Sao Paulo. Brazil, as you know is the fourth largest motorcycle market in the whole world. So it is about time that we enter into this market.

Our tech center in Leicester in UK is now ready for our teams to move in. So while the teams will relocate this month, the full array of the entire testing, validation equipment will only be done around Q3 of this year. So it is still about 5-6-months away before really and truly speaking up and running while we offer in shift this month. So overall the business outlook looks very strong. The numbers I shared with you are fairly indicative of business and profitability.

In Volvo Eicher side, a couple of sales outcome numbers, for Q4 VECV outperformed the commercial vehicles, grew by 10.4% over same quarter last year whereas the industry grew by 5.3%. When I say industry, I am talking of 4.9 tonnes and above. So that is the industry which is relevant for us and that is the industry we would refer to. In Q4 of '16-17, the industry at a volume level was 137,000, that is a growth of 6%, overall number for same quarter last year at

129,000. In Eicher Trucks and Buses, we did about 70,300, which is about 12% higher than Q4 volume of 15,500. Overall, therefore at a company level, the market share increased to 12.6% from 12%.

Specifically, within the segments, in Commercial Vehicles industry, in 3.5 to 5 tonnes, where we have a single proposition of 4-4.9 tonnes truck. The industry volumes were 2700 and these were 12% higher than same quarter last year of 2400 and we sold 307 trucks, so there we have a market share of 11%. In 5 to 15-tonnes, which is the Light and Medium Duty segment, the industry volume for the quarter was 20,533, this is in fact almost 3% lower than same quarter last year, same quarter last year the volume was 21,121. Eicher sales in this segment was 7,300 which is 3% higher than same quarter last year when the sales were for us 7,100. Overall market share increased to 35.6% for the quarter as opposed to 33.8% last quarter, that is good performance going in here. In Heavy Duty segment for the Trucks it is 16-tonnes and above, the industry recorded sales of 76,700, 7% higher than same quarter last year of 71,900. Our sales was also 15% higher this quarter as opposed to last one, so we recorded sales of 3,600 as opposed to 3,100 that we did same quarter last year. So therefore, our market share for the quarter went up to 4.7% from 4.4%.

Buses: Industry was growing 1,500, 8% higher than same quarter last year of 19,900, our sales was 3,700 which was 18% higher than same quarter last year of 3,100, and therefore our market share increased from 16% that it was last quarter of last year to 17.5%, so market share jumped from 16% to 17.5%.

Exports: The sales was 15,900, 13% higher than same quarter last year where our exports were 14,900, this is for the industry and for Eicher, we did 1,800 in Q4 this year as opposed to 1,653 which was about 14% higher this quarter. So really all round with the industry has been flat or rising, we have been a little ahead of the industry in all the segments on the Eicher branded Trucks and Buses.

Coming to Volvo Trucks: In Q4, the sales was 425 units; this was 53% higher than Q4 of last year when it was 277 units. On the Medium Duty Engine manufacturing and sales that we do, our sales at Volvo was 7,217, growth of 21% over Q4 of last year when the volume was 5,986.

Eicher Polaris, a joint venture with Polaris, Inc., US, we continue to do well, we continue to expand our distribution and right now we are present in 85 points of sales for this company.

So, with that, all I had from my side a quick update on the sales volume and corresponding financials. I hand over to Chirag now to coordinate the Q&A Session.

**Moderator**: Thank you very much. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. We have the first question from the line of Kapil Singh from Nomura Securities. Please go ahead.

**Kapil Singh**: First sir, one small clarification; we have talked about 825,000 units production capacity. That is for calendar year or financial year?

**Lalit Malik:** Financial year, this is for April '17 to March '18. We have moved out of calendar year a few years back.

**Kapil Singh**: On VECV side, we have had a very strong performance. So just some of your thoughts on the same especially on margin front given that there were concerns that there will be heavy discounting on the BS-III stock but the number seem to suggest a very strong performance, so some of your thoughts on that as well as how we are progressing on new emission technology and any kind of thoughts you have there?

**Lalit Malik:** We are a BS-III to BS-IV moved last month, but overall between now and the next three years when the country moves from BS-VI perspective, we are very well placed because that is the technology and the experience we have including experience around cost structures, warranties, run periods, everything pretty embedded in the company because that is the technology that Volvo Eicher has been doing in making the Medium Duty changes for Volvo. So it is all good over there. We still have to launch at the right time. That is the only thing but we are extremely well settled for that period. On the BS-III hits for the quarter and all the stuff, look, our stock was extremely low yaar, it was a few hundred and that also would be managed quite well through exports and all the stuff. Especially on the margins because of the pressure on the pricing continues to be as just about as good or as bad as it has been for the last many quarters. Siddhartha has joined in. So the question is on Volvo Eicher. The numbers are good. From technology perspective from BS to be a safe **(Inaudible) (technical difficulty) 15:56-15:57** how the company is placed.

**Kapil Singh**: What I was looking for is some color on we are using EGR or SCR and any thoughts if you have there?

**Siddhartha Lal:** I am not going to let the cat out of the bag just yet on the technology part, of course, as VECV we have an outstanding and enormous competitive advantage due to two things – One is that Volvo has been making Euro-VI engines for some time now. All the learnings and understanding and cost and technologies and risks, all of that is knowledge that we have and we may use the exact same, we may use slightly different solutions. So we have an enormous advantage there. The other thing is that our MDE 5 and 8 engine is the platform where they have already…so it is not just general technology, it is that engine has been running in tens or maybe in hundreds, thousands, I do not know the exact number, but in Euro-VI guys. So that engine has all the capabilities. It is only a matter of adaptation of getting the right cost structure for the after-treatment and all of that in the Indian markets. So all the work is on. We have extreme confidence both for our light, medium and heavy duty engines that we will be well in time and much better prepared than any of the competition both from emission perspective, from drivability perspective, from cost perspective; I believe we have a lot of advantage. We think that there will be huge shifts in the market because of BS-III and BS-IV already, but by the time BS-VI comes in, the superiority of the VECV technology will hopefully shift the market tremendously in our favor.

**Kapil Singh**: Second question was on RE. If you can give some color on what is the kind of growth we are seeing in order book on YoY basis for last quarter or last few months and also the waiting period?

**Siddhartha Lal:** So the order book firstly continues to grow and the waiting period continues approximately in the same level, marginally here and there now, but I believe for Classic 350 which is a higher selling model, we are in the range of two months now, depends from market-to-market but that is the general rate.

**Lalit Malik:** Order intake, Kapil, is very strong, so for last so many years and so many months, our order intake is higher than our production and that continues even last month and the growth in top-20 markets or so, which will comprise about 40-45% of the volume that continues to be still very strong and at aggregate level for these markets and these stores, it continues to be more than 15%. So the momentum is pretty intact.

**Moderator**: Thank you. The next question is from the line of Pulkit Singhal from Motilal Oswal Asset Management. Please go ahead.

**Pulkit Singhal**: I just wanted to again go on to the Royal Enfield our capacity 825,000, so just 24% kind of growth YoY and similarly if you take the exit run rate, it seems the next year is somewhat around 20% kind of growth as well. So how confident are you of being able to meet your capacity targets as you are saying your top-20 markets are growing at 15% kind of thing, so do you think 20-25% kind of growth over the next two years is achievable given the scenario in the two wheeler industry from a sales perspective?

**Siddhartha Lal:** Sales is a more difficult question to answer. The production is quite clear that with the margin of 10,000-15,000 here and there we should certainly cross 800,000 and 825,000 should not be a major issue. So that is on production. Like you said with the mathematics on exit figures and all of that, there will continue to be increase. So on the one hand, our production for the next two years is relatively now understood and set, because our plant is also now coming on stream, in fact, a month or two early, in August we will have the plant starting up and then it will take a bit of time to ramp up to its full capacity. So we are absolutely confident of production. Sales, obviously, all the discussion and let us say work moves on to sales. So we do not even want to give long-term sales outlook. Basically our objective is to continue to try and beat the market which we have been for a while and to continue to grow profitably and steadily. If we are not able to sell every bike we produce, we are not going to start doing anything silly in the market, but I think the time is still a little bit further away.

**Pulkit Singhal**: When I look at the last four-five years or six years there was a phase where we had all supply constraint and therefore we just constantly trying to bring up supply and we had enough waiting list. I think we are possibly entering a phase now that the waiting list is around 1.5-2-months, your supply has come up. What are the kind of demand creation measures you could take in case …?

**Siddhartha Lal:** There is a tremendous amount of work that we are doing. The background what you do not see but I guess you can see it in some of our cost figures, our employee cost and overhead cost, we are doing a tremendous amount of work in the background. The teams that we are building, the work that we are doing, I think is foundation building and things that perhaps I believe way ahead of the industry in terms of the sales and marketing side. So for example the work we are doing on distribution are just on numbers but on our dealership experience, our retail identity, our retention of sales staff which is much better than anyone else in the industry. So there is a huge amount of work being done on retail excellence, huge amount of work being done on service excellence. We cannot again tell you exactly but we have a great plan or let us say stream of new products coming on including renovations or let us say variance and full new products. So all of that we believe helps create new demand and I am not even gotten into all the marketing and rights and activities and all of that, that we are doing. So again it is difficult to predict how that will actually pan out, but we are clear that we have set up the infrastructure in the last couple of years to be able to put together a very strong foundation base of demand creation which is really what Royal Enfield is all about, it is about an idea.

**Moderator**: Thank you. The next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

**Binay Singh**: My first one is on the exports side. We are seeing good growth obviously on a very low base. Could you talk a little bit about what are the key markets, what are the anecdotal evidence you are seeing, how do you see that number plating out?

**Siddhartha Lal:** Again, we look at this as a slightly longer-term endeavor, we are delighted to have growth in numbers, but that is not the short-term numbers is really not the objective because right now what we are really doing is understanding and experimenting if you look at across some of the key markets that we have identified in the world which we think would be the highest potential markets for us. So to give you a sense we have last year full year was our first year actually in Thailand. But when I say Thailand it was actually only Bangkok one store and in that store we achieved actually much higher than we had ever planned to achieve in a single store, there we crossed 100 units in a month in a single store. Like I said, that is more experimentation. So what that does is it gives us a direction whether our dealer economics is good, whether the right type of people are buying our products that means on the one hand we have some influences who are buying our products, on the other hand we want upgraders to be buying our products. So we are getting a sense of that. We are getting a sense of that in the dealership level do the economics work. We are getting a sense of all of these aspects before we actually start CKD or assembly. We want to understand the market not just on paper, we want to physically understand it by selling Motorcycles to customers and then when we plan to expand in a country like Thailand for example from one or two dealers that we are going to be at soon, when you want to expand to 5, 10, 20, 30, then what we will do is we will consider assembly and all of that in these markets. Similarly, we have done the same experimentation in Jakarta where we have had a single store for last year, again, we have done very well. We have had our second full year in Columbia where it was stabilizing a bit the volumes, but now it started growing again due to introduction of new products and lot of improvements that we have done and how we work. So again, these are all learnings that we have got, but all successful till now. I am focusing actually only on the developing market side whereas on developed countries slightly different strategy. Similarly, we just entered Brazil market, we have a four member team, we have a market company, these are people who work directly for Royal Enfield but we have only one single solitary dealership in Sao Paulo which we inaugurated last month and again it is really to get a proper understanding of that market. If we do not see traction as an example, then we can focus more on Thailand and get that going. But if we see traction in Sao Paulo then we will add a second store in Sau Paulo, third store in Sau Paulo, we will then scale up in Brazil but obviously import duties are very high. So if we see traction in year one in Sao Paulo dealership, then we will consider CKD assembly. But right now, we are actually selling CBU motorcycles, but we are selling the motorcycles at the right price… at the price that we would if it were CKD. That is mainly to understand and assess the market potential. That is going on in our international markets right now.

**Binay Singh**: Just between like developing markets and developed markets, so the bulk of the sales are now coming from developing markets because I gather you have a strong presence in US and UK also were focus markets for you.

**Siddhartha Lal:** Actually the few countries where we have some traction is through very limited number of dealerships in developing markets. So while I was focusing on that, our units are still much higher from developed countries right now. We just expect that over the next five years the developing markets will be on a different order of magnitude, therefore our retention is much higher there. But today we are selling very well in Europe. Our North America market which was our first owned subsidiary in North America, so taken us a little bit of time because we have just been adding dealers and getting up to speed in US market. So this year we expect US to also be a very good market, but Europe is doing well for us. So we have in the big five -- UK, Germany, France, Italy and Spain – each has about 50 dealers, most of them are multi-brand, we have some exclusive dealers, but we have approximately 40-50-60 dealers in each of these countries. So we are selling well in some of these markets. But the size of the market is low. We are normally geared up or let us say the market is normally slightly higher powered motorcycles which we do not have in our portfolio as yet. So all of that means we are still a niche player here rather than a mainstream player which we plan to be in developing markets.

**Moderator**: Thank you. The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.

**Sonal Gupta**: Sir, just want to understand first on like you mentioned top-20 cities somewhere around 40-45% of volumes, could you just tell us like year-on-year how this would have trended like last year where were you in terms of share of this? Then also in terms of really just to understand like you have 675 dealership outlets now, so what is the plan in terms of expansion… do we see more sales outlets as such, how do we expand because we are still relatively very small compared to say Europe which has like 6,500 touch points, to that extent just to extend the reach, what is the strategy if you could just talk about that?

**Siddhartha Lal:** On the cities we do not have stratification of top-20 cities growth but generally in same-store sales we are growing very well, so we have the order of 15% growth in same-store sales. So when we have to just look at when the store started but all the stores which were already let us say running before the last financial year started if we count those it is in that order and growing. Of course, some markets move, some markets do not, but on an average it is growing reasonably well, and of course the new stores are adding the delta growth and that will continue, so the new stores will continue to add delta growth. We thought about this question in a lot in terms of how many touch points we want, and if we look at some of the supposed touch points that some of the competitors have, some of them absolutely awful, and we would not ever sell our motorcycles through a channel like that, imagine we reached a touch point, it means even service points sometimes, and very often they sell motorcycles through within one of those also, but we have taken a call that we have a quality constraint also on our touch points and we do not want to proliferate in that manner at also, in fact, these things can change but in fact, as of now, we have a clear idea that we will not get into sub-dealers. We believe that if we do not have direct contact, we do not want to sell through anybody else. So we do not have a sub-dealer network. The majority of so-called touch points which the other chaps have come through sub-dealer network. It is not to say we are not open to ideas. We certainly look at the next deed. Currently, we do have a pipeline of dealers already which we think will take us over the next couple of years, we still have room to add dealers in the kind of pace that we have been going in the last year or so. So we have added nearly 150 less maybe slightly but in the order of 150 and that pace should continue over the next couple of years of adding dealers. We have a slightly different format because we are adding a lot of dealers in much smaller towns now. So the size of the showroom is relatively smaller or it does not need to have the full range of motorcycles necessarily and the investment in many ways, so the fit out investment and the inventory investment and the service investment only in terms of number of days can be less in smaller markets. So we have got a very compelling package which means an investment in returns package you can call it for a dealer who will be selling even as much as 20 motorcycles but he will be our direct dealer, we are now going to have sub-dealers as of now. So that is the route we are going down because we want to be directly in touch with the guy who is selling our motorcycle, we do not want to be too steps removed from our customer. So that is how we are going about it and that is really to ensure quality of experience which we are extremely focused on and as a premium brand in the mass marketplace you can call it or whatever it is, but it is the premium brand let us say, that is super important to us and that helps us keep gain direct experience, it helps us in retaining lot of other things including in fact, something which is extremely important to our franchise and to our customers which is a residual value of a let us say three year old Royal Enfield is in percentage terms is depreciating and nearly half of competitive motorcycle. So, these are the kinds of things that we are holding on to strongly so that we do not want to increase touch points, we have no vision yet to increase touch points to 5000-6000 numbers as you suggested.

**Sonal Gupta**: No, sorry, I did not mean that way, but what I meant to was like, do we look at the three years dealerships or do we look at having the sales outlets under the same dealership, like just to cover more geographies as such?

**Siddhartha Lal:** Yes, that is case-to-case, we will have the same dealer or other people may have sale outlets, may have separate service outlets depending on what is required. But we feel as we get on smaller towns, it just makes sense to have a **CS 37.07** store, because they do not have the restriction actually that you have in big cities. So the module that we have which is running really well for us is a small store attached to a small service workshop. When I am saying, small, it could be even two-three day, it does not have to be 20-day workshop. So two-three day workshop with four-five motorcycles display in the dealership but really beautifully done and very responsible to the customer on the service side. We are still more on the three-years mode I would say. In fact, only addition is that we are doing a few more service networks where it is required but those end up being more in cities actually where you do not have the flexibility to do service sometimes along with sales because of the industrial requirements and all that.

**Moderator**: Thank you. Next question is from the line of Ashish Nigam from Axis Capital. Please go ahead.

**Ashish Nigam**: So just coming back to waiting period, as you are ramping up capacity, is there any waiting period that we will be monitoring, so let us say before capacity ramps up from 60,000 to 85,000, would we want the waiting period to increase from the current two months to may be three months, is there something we are monitoring?

**Siddhartha Lal:** We already have an order intake and we believe as we ramp up capacity, we will be able to service those orders better. With the current information that we have, we are adding the capacity without looking at further milestones to achieve. So we are august, we will have new capacity coming in, we will ramp it up to whatever extent we think is required, actually to the full extent and of course if the demand starts at some point in time, not that starting immediately, but at some point if it starts being lower than supply, we will restrict supply to that level, we will not produce more than the demand is, but we do not see that is an issue for the current year at least.

**Ashish Nigam**: If a capacity is currently 60,000 till September, ideally, our waiting period should also go up the way we are growing right now, so till September, out waiting period should actually go to maybe, I do not know, 3-3.5-months is that something you are all expecting?

**Siddhartha Lal:** No, in fact, September, October, November, we traditionally lost sales because there are a lot of consumers who want to have motorcycles here in now either because of wedding or because of gifting or because of Diwali or because of something else, festive season. So we miss out on lot of customers during these kind of seasons because motorcycles are not available here and also we believe we shall in fact as motorcycles become increasingly available, actually, it should help us grow. But we have an order book. So we can start dipping into order book as soon as our capacity goes up.

**Ashish Nigam**: Secondly, the current volumes that we are doing, what per cent are upgrade buyers, what percentage are replacing the old Royal Enfield bikes, or there any new two-wheeler buyers if any? Just a rough color, the current 60,000 we are selling a month, how do you break that up into these 3-4 buckets?

**Siddhartha Lal:** The majority is upgraders from other motorcycles, majority of our customers are upgraders from 100, 150 cc and the way we look at it is that the population of 100, 150 cc motorcycles in the market is gigantic, many tonnes of millions, 56, maybe less, I do not know but in the order of that. So that is the universe of potential customers is normal. Obviously, some of them are totally not interested in a bigger bike, some of them are totally not affordable, and so it does funnel down a bit. But the majority of our customers are coming from other brands and other motorcycles. The percentage of customers coming in from without having the motorcycles, so new customers to motorcycling is increasing actually now. The entry age for our customers is reducing, the number of first time buyers is increasing and so that is the current trajectory. So there is not that much Royal Enfield replacement riders or buyers, of course, there are a few but that is not a big number right now for us.

**Moderator**: Thank you. We have the next question from the line of Shirish Guthe from HDFC Standard Life. Please go ahead.

**Shirish Guthe**: I have two questions; first is on, can you tell us how much is your R&D headcount in UK and in India and what are the plans for this year and the next in terms of headcount addition? Second question is in terms of export markets, what are the plans for this year and the next year in terms of addition of geographies or addition of volumes and which are the top two geographies currently?

**Siddhartha Lal:** Really, we do not have a R&D headcount number right now, but that will come out in our annual report. On export markets, actually, the biggest ones are exactly what we are doing right now. So like I said, outside of North America, Europe and Australia which are more mature markets which will be on a hopefully good but not exclusive growth trajectory. Basically, the four identified markets for us where we are going to invest over the next many years is Thailand, Indonesia, Columbia, Brazil, and in Columbia, we have 5-6 stores, but in the rest we only have one store each right now. So it is very early days. Right now, we are just learning and expanding in these four core markets for us. Any of these or all of these could become very large markets for us over the next decade. So really it is these four core markets that we are expanding on. But as we have done in some of these markets, we put one store here, one store there. We are adding in the next level markets beyond these four developing markets which we think are the biggest potential market for us. We are adding single stores in couple of other markets also, which hopefully by a year or two they will mature so that we can then take action in that country and expand. So we are putting in enough pipeline also so that once some of these four markets are growing properly, then we will have some pipeline of other markets which we can also grow. We are also pretty aggressively adding to exclusive source in international markets. So in the last many years till now, we have got around 25 exclusive stores that are current count and it should work by 45 to 50 exclusive stores this year, so we will be adding 20 to 25 exclusive stores in international markets this year, and that pace of adding exclusive stores should continue as we get into the coming year as well. So that is really how we are going on exports.

**Moderator**: We have the next question from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.

**Jinesh Gandhi**: My question pertains to Royal Enfield. One is can you throw some light on the new product launch, Himalayan now we are done with, what kind of new other product launches we can expect next 1 or 2 years? Second question pertains to dividend. One is did we receive any dividend from VECV in this quarter? Secondly, dividends from Royal Enfield seems to be flat on YoY basis despite such a strong performance, any reason for that?

**Siddhartha Lal:** On new products, I still consider Himalayan is a new product even though it has been in the market for year. That is because it is still early days for Himalayan, only from the perspective that there is a huge growth opportunity. It is a new segment that we have created and we expect a bit of let us say deep effort or so… more than effort, I would say for the early riders to give the ride verdict which they are and then more and more people will enter into this segment of adventure touring. So we are really creating round up segment of adventure touring like we did in a very different way for our Classic and other models. So that was nearly a decade ago and now this time we are trying to do something extremely different. So that is a lot of work that we are doing to fit that entire IP of adventure touring up. We do have a lot of new products planned in the coming years as lot of major developments on our existing products, we had Redditch series recently which came out really well in the market, and we have other such variants and developments of existing products coming out over this year, next year. But of course, we said we will have a full new product coming out in this financial year and hopefully, you will see something from us by the end of this year which is addressing totally new segments as well. So we will have to wait for that.

**Lalit Malik:** Jinesh, VECV just declared dividend and our share of the dividend we hold 54.4% in Volvo Eicher, so our share of dividend was Rs.52 crores.

**Siddhartha Lal:** On EML, it seems flat but the last year the 1000% that we declared was for a 15-month period because we plan to change the financial year to April to March Financial year, we used to have a calendar year, so for the 15-month period, we declared 1000. So if you take pro rata for 12-months, it is more like 800%. So we think of it has increased from 800% to 1,000% this year, which is a 25% increase in our dividend percentage, let us say for if you take like-to-like period.

**Moderator**: Thank you. We have the next question from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

**Pramod Kumar**: Siddhartha, my first question pertains to the **(nutrine) 49:24** cylinder. Just wanted to understand the way it has been for RA like almost 90% of the customers are commuters. Would you expect that trend to be broken with this particular bike or would you still expect that most of the customers for this bike as well may be commuters?

**Siddhartha Lal:** Thanks for this question, Pramod. As you know, we have not declared how many cylinders as we call it our motorcycle will have, but certainly we have said it is going to be let us say high powered than our existing motorcycles. The idea is two-fold, that it will be absolutely highway worthy and therefore it will bring us out of a niche segment in a lot of faster international markets, even in markets like Brazil and all where we are going to which are quicker roads than India, our futuristic motorcycles will help us in being extremely highway-friendly and worthy. On the other hand, the idea is to whether it has to be extremely relevant for the upgrading market in India. I think there was a question earlier also on how many Royal Enfield customers are upgrading to existing motorcycles. Certainly, we already have a pool of many million customers, two and a half since launch, so let us say in the order of customers and certainly we have to have something substantially different from our existing offering to capture the imagination of existing customers who like you rightly said Classic launched in 2009, it has been eight years, and, of course, Classic has 500 also but it is very similar in looks, 350. So yes, certainly, our new offering should catch the imagination and fantasy of a lot of our existing customers also. That is the idea.

**Pramod Kumar**: One brief remark on the dividend. On the reach side, as you actually said, you cannot think of having a distribution reach like anywhere close to the mass market guys, that would be quite dilutive. But in that sense is that right to look at some of the higher price categories like say, cars and look at the footprint of say, Maruti Suzuki, the market leader or even Hyundai to begin with. Is that a more right way to look at it in terms of where RE could be given the ticket sizes of those product categories and the income levels or affordability in those markets, is that probably more right way to look at it in terms of what could be the potential expansion plans for RE or the limitation in terms of expansion?

**Siddhartha Lal:** Absolutely Pramod, we study in fact Maruti's and Hyundai's distribution very clearly. The first question we ask ourselves is Maruti as a dealer in a market where we also will be there if somebody can sell cars and get returns in a dealership environment selling cars, they can certainly sell Royal Enfield. So there is no questions, with very little exception, any market sells Maruti or Hyundai, should be able to take Royal Enfield dealership. So that is certainly point #1 and it is in fact you are right, it is a better proxy than some of our two-wheeler compatriots who actually may have 30,000-40,000 motorcycles or mopeds or something which really is not relevant for our audience. So it is a better proxy but we take a lot of proxies, we do not just take cars or motorcycles, we take a lot of different parameters, consumer goods, ideas and also we are developing totally different retail formats to serve different markets. So on the higher end of the scale, we have plans of very different formats even for official compliment at current leadership format in big cities but we have much smaller formats like we set for smaller towns and different retail concepts. We have exclusive gear stores which we have signed locations now in India which we are developing before we roll out further where we also take bike bookings, so in Khan market, in Elante Mall, linking road in Colaba, and Bangalore we have gotten a small, we have exclusive gear stores which again appeal to different person and we also sell motorcycles out to those. So, we are extremely active and imaginative I think on our retail idea, formats and proxies of trying to figure out where all we need to be present and how we need to be present. It is not just that 'where' it is the 'how' part. That is it.

**Moderator**: We have the next question from the line of Jinesh Gopani from Axis Mutual Fund. Please go ahead.

**Ashish Nigam**: Hi, this is Ashish. Just wanted to check in terms of capacity expansion in the Vallam-Vadagal facility, beyond 0.9 million which obviously will get used up by March. What is the next phase of capacity expansion plan if you could just elaborate on that a bit more?

**Siddhartha Lal:** Basically, in addition to Vallam-Vadagal Phase-1 which will get us in the order of 75,000 to 80,000 per month by the terminal level. So that is what we will get to now. We have opportunity for one more phase in Vallam-Vadagal. So same is Oragadam has two phases. Vallam-Vadagal this is only Phase-1. We have the opportunity, but we are not triggering that right now at all. So eventually of course we can add another module in Vallam-Vadagal which will take our production to well maybe closer to the order of 100,000 plus a month, but we are not triggering the last phase yet at all. I do not think we will trigger it this year actually. We do not know if the demand is exceptionally high, we might trigger it this year itself. But currently, we think we will trigger it next year or beyond, these two markets whenever it is ready. But we are not in a rush, let us put it that way. We are happy where we are right now.

**Ashish Nigam**: In terms of expansion, that would be another 12 to 18-months, what sort of timeline should we look at once it is triggered?

**Siddhartha Lal:** Actually because it is on an existing property it takes slightly less. Phase-1 of Vallam takes a bit longer because you have to do a lot of property development work, the amount of soil we have to import from other parts of Chennai I mean into the land and do all the fixing of the land and do all the utilities and all of that takes a huge amount of time. So Vallam Phase-1 therefore takes a lot of time, so Phase-2 will take less, I do not know the exact number with me, depends on actually the capital equipment's at that time. If there is a huge capital cycle at that time, it will take slightly more because paint shop is normally the biggest timeline but if it is a lean capital cycle and the paint shop guys are dying for business, then it can be much quicker than 12-months or so.

**Moderator**: Thank you. Ladies and gentlemen, due to time constraints, that was our last question. I would now like to hand the conference over to Mr. Chirag Shah for closing comments. Thank you and over to you, sir.

**Chirag Shah**: Thank you, Aman, and thank you, management once again for giving us the opportunity. Thanks all the participants for joining in today. Have a great weekend everyone.

**Moderator**: Thank you very much. Ladies and gentlemen, on behalf of Edelweiss Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.