"Eicher Motors Limited Q4 FY2018 Results Conference Call"

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MODERATOR : Good evening, everyone. And welcome to the 4th Quarter FY 2018 Results Conference Call for Eicher Motors. Today's call is being recorded. At this time, I would like to turn the conference over to Mr Arvind Sharma from Citi. Please go ahead.

ARVIND SHARMA: Thank you, Moderator. Hello everyone. On behalf of Citi, I welcome you all to the 4th Quarter 2018 Conference Call for Eicher Motors. We thank Eicher Motors management for giving us the opportunity to host the conference call.

From the management, today we have with us Mr Siddhartha Lal, MD & CEO and Mr Lalit Malik, CFO. I will now hand over the call to Mr Lal and Mr Malik for opening remarks, post which we will start the Q&A session.

Over to you, sirs.

SIDDHARTHA LAL: Good evening, everyone and thank you all very much for joining us. I am Siddhartha Lal and I have Lalit here with me, Lalit Malik, CFO.

And we have concluded our Eicher Motors Limited board meeting today and I am delighted to announce that we have had another extremely good quarter and another extremely good year. And a record quarter and a record year at Eicher Motors Limited.

So I am going to give you a quick update on financial performance and then on the business. For the quarter, we had the net revenue at EML of Rs 2,528 crores, so that's a 34% growth in revenue. And for the year, it's Rs 8,965 crores, it's a 27% growth. And on the EBITDA level, we had a growth of 36% at Rs 797 crores for the quarter. And 29% growth to Rs 2,808 crores for the year. So for the quarter, the EBITDA margins have gone up to 31.5%, which was of course way ahead of anyone else in the industry.

Our profit after tax, we had an impairment of Rs 187 crores at the consolidated level, you can see that. And due to the closure of Eicher Polaris business, so this is the losses as well as some projected closure costs, all of that put together is, we have to take an impairment of a one time, of course, of Rs 187 crores was Eicher Motors Limited's share of that loss.

So that resulted in by and large flat profit after tax, because of that one-time event. Same quarter last year was Rs 459 crores and this year was Rs 462 crores, but adjusting for the loss, we have a profit after tax of Rs 649 crores, which was a 38% increase over the same quarter last year.

And similarly for the year, of course, that same Rs 187 crores come in, so we've had very few, if you adjust for that loss, the continuing operations had a profit after tax of Rs 2,180 crores, it's a 27% increase over the same quarter last year. So same -- sorry, over the whole of last year.

Moving on to financial performance of our joint venture with Volvo, VE Commercial Vehicles Limited, revenue for the quarter was at over Rs 3,300 crores, which is a 30% increase. And for the year, we crossed Rs 10,000 crores in revenue, which is a 17% increase. And the EBITDA was at Rs 315 crores for the quarter, which is a 51% increase, taking the margin up to 9.5% from 8.2%, so that's a good growth in the margin as well.

And for the year, the EBITDA grew from Rs 678 to Rs 905 crores, that's a 33% growth in EBITDA. And in profit after tax, for the quarter, we have Rs 177 crores, which is a 52% increase. And for the year, we have Rs 472 crores, which is a 35% increase. So that's on the financials.

On the business update, it has been an amazing year for us at Royal Enfield, so I'm talking about Royal Enfield first. For the quarter, we sold 2.26 lakhs motorcycles, which is a 27% increase over the same quarter last year. And for the year, we sold 8.2 lakhs motorcycles, which is a 23% increase. We continue to have strong growths in our distribution network. We have now 825 dealers at the end of March 2018.

And internationally, we have 36 exclusive dealers, and 540 overall including all multi-brand dealers as well. We started operations in Argentina for the first time last year or last quarter. That's in a new store in Buenos Aires. So that's all on the distribution and market front.

We showcased our new twins, a new twin motorcycle to the world, the interceptor 650 and the continental GT 650 to outstanding reception. We still have to get the bikes on the market for people to ride and to buy. But we've had equivalent reception of the twins, and they will be in the market this year for sure.

We also had an excellent traction for our new variant. So we had the Himalayan Sleet and Explorer Kit and we had the Thunderbird X, and both of them have performed really well for us. The Himalayan got extremely good interest and now bookings and sales have started increasing a lot for the Himalayan, so this is with the new BS4. Himalayan, and so that's got a resurgence in the Himalayan franchise. And the Thunderbird X has also spurred the entire Thunderbird franchise to grow very well for us. So that helped us in expanding our sales and bookings as we had in the last quarter.

We have also initiated some new retail formats, so we have a new 'Garage Café' which we opened in Goa, which is again a very interesting environment for people to experience the brand Royal Enfield and we are now working on that model on the garage cafe, so that if we can expand it in the future.

And we have a new pre-owned motorcycle store format called Royal Enfield Vintage. So that's pre-owned, restored, refurbished motorcycles. We have opened the first one in Chennai, and we plan to open ten more stores this year. And as we work on making them successful, these are all dealer stores. So these are franchised to the dealers. We will expand these to many more, so we believe the opportunity for this is to scale up nationwide over the next ten years, but it's we planned to do ten this year, consolidate, make sure that they are doing what they are supposed to do and then we will scale this up as well.

As a result of all of this, we have planned a lot of investments in the coming year, so we have a new Chennai Tech Centre, which is where investments are going in this year, some part of it will be ready by this calendar year, and the rest of it by early next financial year.

And we have new products and we have also decided to start on Phase 2 of Vallam Vadagal plant, all of which will result in Rs 800 crores capex for 2018-19, and will result in an annual production of 950,000, i.e. 9.5 lakhs for the financial year 2018-19. So that's on Royal Enfield.

On VECV, we've had great growth in VECV. In the quarter we grew by 33% versus the industry growing by 21%. So we have been outpacing the industry again.

And annual volumes were at 66,000 units versus 58,000 units, which is in 2016-17, so there's been a good growth as well. And as a result, our market shares have been slightly lower in light and medium duty, than last year, and our market sales in heavy duty have been slightly higher than last year. But it's from the market share perspective, it's been rather flat, which is not bad, considering the enormous pressures on discounts which continued in the market despite the growing market.

And our ability to then improve our margins as well. So it's a balancing game really in the CV industries on margins, market shares, growth and investment in new areas such as heavy duty for us. All in all, we expect to invest an additional Rs 500 crores in capex in this year 2018-19 in VECV.

So, thank you, that's all from my side. Now we can get to the questions.

MODERATOR: Thank you very much, sir.

Ladies and gentlemen, we will now begin the question and answer session. If you would like to ask a question, please press "*1" and to get to your question, please press "*2".

In order to enable maximum participation, we would request you to please restrict yourself to only one question initially. If time permits, you may please join the queue for more questions, we will wait for a moment for the question queue to assemble.

Once again, if you would like to ask a question, please press "*1".

Our first question comes from Pramod Kumar from Goldman Sachs.

PRAMOD KUMAR: Hey, yes, thanks a lot for the opportunity and congratulations on the excellent set of numbers. Siddhartha my question pertains to the Royal Enfield side of the business, wanted to understand (a) how's the demand or the order book looking in terms of incremental order intake versus incremental despatches, especially given the feedback that we are getting that Maharashtra and Karnataka kind of probably bouncing back after a bit of a soft patch.

And also the response to the premium variants, what you have launched i.e. the Gunmetal Grey and the Thunderbird X. Because that's again, we believe is getting a very good responses. So if you can provide some colour on both these aspects, that will be really helpful.

SIDDHARTHA LAL: Yes, thanks, Pramod. Thank you very much. The demand picture is quite buoyant. I mean we are continuing to see results from all the actions that we are taking, and whether it is of course the distribution expansion, but also new products and new initiatives that we are doing.

So we have, you know, give or take, we still have a month and a half of wait for our main models, but you know, it varies of course a little bit here and there. And but the order intake is now, you know, it continues to be strong. Of course, it's been spurred, as you said, by some of the new models and we have been extremely positively surprised by the Gunmetal Grey, for example, which is just a variance of the classic, but that's got a rear disc brake and it looks really nice and that's really picking up a lot. So it also helps us a lot because of such transitions and, you know, it's a higher, we say, priced product as well. So it's good to see that there's a lot of demand for something like that.

And the Sleet, the Himalayan Sleet has helped us in let's say bringing more energy behind the Himalayan franchise which is now starting to grow again. And then of course the Thunderbird X has been extremely successful in not only getting us a good spurt of bookings and interest for the Thunderbird X, but also for other Thunderbirds, quite interestingly.

So both the Thunderbird franchise is, you know, is also in good spirits, as it were. So, yes, all of it is going on the right track, I mean we have extremely strong now methods and processes, even in our sales and distribution and at regional levels, there's a lot of work being done. So we have large and empowered regional teams which are doing a lot of groundwork in order to continue to get more interest in our motorcycles. So we are doing a lot of events and activities at local levels, which is helping us in creating ground level demand as it were.

PRAMOD KUMAR: And the Maharashtra and Karnataka, any comments on that, and also UP being great up on demand so far, is it kind of surprising on the upside?

LALIT MALIK: That's on the -- so Q4, Maharashtra and Karnataka as supposed to Q3 were also extremely strong. So the Q2, Q3 in both these states were slightly weak, they had local issues kind of and those are being worked at.

Yes, there are some places where we were lower than India average also and UP being one very large state where the motorcycle business of course is very large, but we were quite small in our market share, of course, you know. So those are the places that you see us grow continuously, so it's not one-quarter here and there, but generally speaking, large parts of the north belt where we were little weaker in terms of the distribution. And now with the muscle of distribution as well as new products, they are doing very well.

PRAMOD KUMAR: So the dealer count should increase by 100 per annum, the rate what you have been maintaining, right? That should happen, that should continue?

LALIT MALIK: This year, yes. Give or take, yes.

PRAMOD KUMAR: Thanks a lot, I will come back in the queue. Thank you.

MODERATOR: Thank you. Our next question comes from Amyn Pirani, from Deutsche Bank.

AMYN PIRANI: Yes, hi. Thanks for the opportunity. My question is actually on your initiative with the vintage, you know, set of dealerships. So, just any initial, you know, feelers as to, you know, you only have one, you know, dealership right now. But is there a demand for, you know, a second-hand bike or is it like -- I mean are you opening these dealerships to capture the second-hand market which is largely unorganised in the case of Royal Enfield or is it a very strong tool to drive existing, you know, buyers who have bought in the last five, six years towards your 500 cc and probably towards your twins. I mean any initial feelers you can give us?

SIDDHARTHA LAL: Yes, there are many objectives for our pre-owned motorcycle business, and there are different levels. So of course, one of the big ones is to be able to give our customers a really good experience of buying a pre-owned Royal Enfield. There is a big demand for pre-owned Royal Enfield and there is a supply, but of variable quality and in terms of, you know, what the agent is doing and what type of checklist and all that. So we are going to give a warranty, we have 117-parts checklist, if I remember right, there're some numbers like that. We change a lot of the parts, a lot of the wear and tear parts, and we give an outstanding experience to the customers. They walk in and they feel really nice about the entire store and the experience. So one is that.

The other is that it helps us over time as we grow in the vintage business, it helps us in being a part of the entire value chain, which post sale, and it's a also very important tool for us to maintain strong residual value of our motorcycles, and our resale price of Royal Enfield is an extremely important purchase criteria and it's, and as you know, our residual price of Royal Enfield is extremely high already. So a 3-year old motorcycle is often selling for just below what the person actually purchased the motorcycle for, right.

So we want to maintain that price by having very high quality second-hand motorcycles in the market. We want our dealers to be able to increase their business. So it's our dealers who earn tremendously in Royal Enfield, they want to expand, and here's an avenue for them to expand and to invest more and earn more.

But also, as you rightly said, very much for our twins, because we expect certainly quite a few Royal Enfield customers to be coming in, who wants something bigger, there is some who love these 350s and that's perfectly brilliant for us. But there will be some who have been asking us for a bigger motorcycle. They want to come in for the twin. This is a great place for them to dispose of their single, then to buy twin. So there are many different objectives, but we are extremely excited about this businesses. And we have created an environment, a store environment, a retail environment which is extremely different from any other unorganised but also in the other organised retail ownership pre-owned. Our store, you walk in, you feel really, really nice about buying a pre-owned Royal Enfield, and that's the impression we want to give people and that's what they get, the people, the customers we talked to, walk into our store, they like it. This is absolutely lovely and amazing and it looks even better than our -- you know, not better, but it certainly matches the experience of our regular stores, but in a totally different way if you know what I mean. I believe you have been there, so you will.

AMYN PIRANI: I have been there to Chennai, yes, yes.

SIDDHARTHA LAL: Yes, you know how it looks. It's a nice environment.

AMYN PIRANI: Absolutely.

SIDDHARTHA LAL: But it's done on a low cost, so it's still done on a very low cost basis, so that it's very scalable for our dealers to take up nation-wide.

AMYN PIRANI: Fair enough, that was very helpful. And just one housekeeping question. The other expenses in the last two quarters have actually risen, you know, sharply, so I think last quarter, you had some one-off related to the launch of the twins, I mean is this the new level where we should see the other expenses or is there something, you know, which is causing the other expenses to go up in this quarter as well.

LALIT MALIK: I mean lot of these expenses of course are the P&L kind of thing, but you can almost think about it not from an accounting sense, but more from an economic sense, it's almost like investment, you know, the benefits of this kind of thing will be up in the long term. So there will be such things that we continue to do, in the international markets as well. So the new high, new level or not, well, that only time will tell, but we will continue to invest.

AMYN PIRANI: Sure, sure, understood. I'll come back in the queue for more questions. Thank you.

MODERATOR: Thank you. And our next question comes from Sahil Kedia from Bank of America Merrill Lynch.

SAHIL KEDIA: Hi, thank you for the opportunity. I have a question about your non-motorcycle revenue switch are essentially all gear and spares. Can you give us a sense of what that number was in the quarter and in the year? And now with the introduction of the pre-owned motorcycle, etc, is there a sense that you can or a target that you have to what you want this number to get at. And I know you've spoken about this earlier as well, just wanted to get an update here on that.

LALIT MALIK: Yes, so well, the number has really grown, and you just wait for a couple of weeks and we will be publishing all these things in details in our annual report, so just wait for the time. But the number has grown, so we don't generally breakout the numbers at this point in time.

SIDDHARTHA LAL: And the pre-owned business will not reflect in our revenues because this would be done directly by the dealers, the motorcycles purchase and sale. Of course, it should help our revenue by selling more spare parts because they will be seen, but that only comes from the spares then. Actually the motorcycle sale of pre-owned will not come to us at all.

SAHIL KEDIA: Sorry, is this the pre-owned, is it more to try and improve the economics for, in particular for dealers and obviously the experience of it? I am just trying to get a sense of it, because it doesn't seem that it's probably going to be a very large revenue/margin or profit contributor for you.

SIDDHARTHA LAL: No, it's more an indirect benefit for Royal Enfield. It's certainly going to help the dealer by expanding more. So it helps the dealer by having a new business opportunity and being able to buy Royal Enfield bikes to sell new Royal Enfield bikes. It's going to help the customer by having a very good experience. But it's going to help the company basically in two ways, one is residual value, we get to sort of control and maintain a very high residual value and a very high quality of second-hand motorcycles and therefore, the brand. But also because of spare parts sales, they will expect to get very good spares sales also out of this.

There are also some others, let's say, smaller, let's say monies that we could make of this kind of an environment. But that's once we roll out the entire franchise. But it's not, in itself it's the vintage motorcycles is not going to be a huge revenue spinner or profit spinner for Royal Enfield, but it's more for brand and consumer experience.

SAHIL KEDIA: Thank you for that. And one follow-up question, if I may? You have said that you have 36 dealerships, exclusive dealerships abroad, given that you have the launch of the twins this year, is there a sense of what this number would look like in FY2019 and FY2020, even directionally, that we can expect?

SIDDHARTHA LAL: So, order of magnitude, we'll have maybe 25, 30 new exclusives over the next two years. And it could be a bit higher, it could be marginally lower, but that's what we are working towards. So let's say let's target once a month or so, maybe a bit more. But it's not just about exclusive stores. Of course we track that, and it's very important to us. But what we are also doing is in the multi-brand franchises that we are in, we have a full new retail identity. So when you see Royal Enfield stores today in India, you will see a full new retail identity. We have the modules now for the multi-brand stores where within a store, so it's like a shop-in-shop environment. It will be entirely Royal Enfield look and feel, so we put a lot of effort behind that, as well as behind the entire merchandising and visual merchandising of our twins, which will also be, you know, for very high levels.

So you will, even in the six hundred multi-brand stores that we will be present in international markets. In addition to the 36 plus 30, let's say, of the exclusive stores, so there will be a very strong Royal Enfield experience in the multi-brand stores also.

SAHIL KEDIA: Thank you so much.

MODERATOR: Thank you, and our next question comes from Pulkit Singhal from Motilal Oswal Asset Management, India.

PULKIT SINGHAL: Yes, hi, thanks for taking my question and congrats for a good set of numbers. Siddhartha, I have two questions. Number one, I mean the last thing that you see is the Uttar Pradesh is probably the second largest market for Royal Enfield, but I presume no one would have expected that two, three years back. And that possibly, this becomes the largest motorcycle market going ahead. I am just wondering how you are looking at addressing that opportunity. Has it taken you by surprise, and if so, how are you changing the strategy to address the opportunity in the hinterland in terms of say distribution focus or, you know, addressing the marriage markets out there or whatever, some other initiatives if you can throw some light on?

SIDDHARTHA LAL: Yes, I have to confess you are right, I was a bit surprised that it actually hit number one market for us. I think it was in the last quarter or one month in the last quarter. So one month in the last quarter, UP was the number one market for Royal Enfield, I certainly never expected that, or not never expected it. But of course, it’s because UP is the biggest motorcycle market in the country and, you know, eventually that was going to happen to Royal Enfield, I mean. So really, it’s, you know, as we do everywhere and that’s been our playbook throughout for the last 10 years, and we have been expanding our distribution, we go top down. So we do the big cities first, have a very strong distribution and multiple strong dealer points in big cities, create the franchise, create the demand, create the interest, create the ecosystem around of whatever is required, and then we fan out into the smaller satellite towns and then going to the next level towns.

So that’s been our playbook, it’s worked very well for us and that’s what’s been happening in UP as well. So we don’t want to go too far too quickly, because then we will saturate or we won’t get traction in the few locations which we don’t want to happen. So as and when we see that there’s a location which is now right for a Royal Enfield store, we will only go in then. So it’s a very controlled strategy and that’s what’s helping us in making so that we are not spreading too quickly either. You know what I mean? There could be fear of that.

But it’s merely, it’s the correlation between the prosperity of a location and I won’t even say state, we are talking about states, but a location and Royal Enfield’s market share is extremely high, the correlation. So in big cities which are generally which have a rich population, our market share is really there. So within UP, you know, Lucknow and Agra and maybe a few other cities will have extremely -- I mean much higher than the state market share.

So, and then of course there are states like Kerala and Punjab, which are very high on the per capita income and there we have one in three motorcycles being Royal Enfield, not just in bigger bikes. So whereas, in a lot of the UP, Bihar, Madhya Pradesh, Rajasthan, there were states that were 2 to 4% of the market share of all motorcycles.

So really, we see a progression, whereas in bigger cities, we have higher market shares, in smaller towns we have less. And in richer states, we have higher market shares, it’s a process of just fanning out as we see the opportunities and as we feel it's right to continue to improve our distribution. So it's really now it's all a distribution game that we have to continue to play without being over-exposed.

And as a result, what we are doing is we are also getting extremely local. So now at Royal Enfield, we have nearly, you could call it, increased our regional count to 17. So it's 17 regions which are nearly akin to states. I mean most states are one region, there are some which of course are clubbed. And as a result, the regional teams are not just sales and after sales teams, we have rides and community managers and marketing and PR and HR people who look after dealers training and dealer staff and we have more strategic financial people who support not just in the accounts of the region, but also in financing and other areas. So we are creating very strong local level teams so that they can do local level understanding and activities, and within of course, the very sharp brand guidelines of Royal Enfield, so like you said, you know, how do we address the various markets in UP in particular or how do we look at all these situations.

So we are very local now. We are creating very strong and deep local teams with funds and resources so that they are able to actually tap into all the opportunities at the local level in the manner that is required. So the way we deal with the section of UP where our penetration is still low will be extremely different from how we treat let's say a section of Kerala or Punjab where one in three motorcycles is a Royal Enfield.

So yes, that's our progression, and therefore we see over the next five, ten years that kind of growth opportunity in Royal Enfield, just coming out of, you know, these under-represented states for us, which are still the largest states in the country for motorcycle sales.

PULKIT SINGHAL: Got it. And I personally have first of all, that the last second question is on the export side of things. I mean I think we have kind of been there for around five, six years, if I am correct. And I am just wondering how do you keep the progress at what point, and what are the metrics that you are looking to kind of see whether the investments you are making in the exports are kind of delivering the kind of, you know, results you are expecting from them? I mean when is it that you look back and say, in a particular country, "Okay, this had worked out" or "This hasn't worked out"?

SIDDHARTHA LAL: To be fair, we are still in most places, I would say we are still at pretty early or nascent stage as in our longer term gain or the entry strategy that we are playing out. So in no places we are right now at a place where we are mature by any standard. It's we have also spread out a little bit because we are experimenting different things in different countries and markets. It doesn't mean we will have the same focus on all these places. We are now putting much more energy behind a few places, like we've said this year, we will put an inordinate amount -- not this year, the next few years, we will put in much more energy, which means resources, capital, team members behind Thailand and Indonesia. We feel these are the ones that's most right for the growth story that we are looking for.

So, but we are still at very early stages. We have three stores in Indonesia, two in Thailand and but we are getting very good response. We have been in mature markets for a couple of decades. So in Europe, we have been there for a while, in USA we have been there for a while, for a few decades. And there, of course we are doing well. Europe is still our biggest market by far, but the growth opportunity is not as tremendously high, which is in let's say in Thailand or Indonesia. So our efforts are much more in the emerging markets.

And so while we are now putting huge amounts of energy behind Thailand and Indonesia over the next few years, we are now cultivating Latin American market so that they will reach a point in the next one to three years where we can then put a lot more effort behind those.

So really, for us it's still a five, ten-year out process of just investing, learning, because the ambition is to be a global brand. It's not about selling a few more bikes than we are today. And you know, if you look at our numbers, we have sold 800,000 motorcycles in India and 19,000 internationally. So it's not going to make a dent, till we have markets where we are selling, you know, thousands and tens of thousands a month. And that's where we want to go to. So we are at very early stages still. And so we are at various investment stages, let's put it that way, in international markets for sure.

PULKIT SINGHAL: Thank you. Just a suggestion, a few years back you had a Chennai Meet which was very useful for the investors, it will be good if you can --

MODERATOR: Excuse me, Mr Singhal, please limit your question to one, due to time constraints. Sorry about that. And --

PULKIT SINGHAL: Sorry, sorry, no worries.

MODERATOR: Sorry about that, thank you. We will now move on to the next question. Mr Hitesh Goel from Kotak, Singapore.

HITESH GOEL: Yes, hi, thank you for taking my question. Basically, I just wanted to get a sense that what is the minimum sales per year that a dealer needs to sell to be viable for RE. Basically, what I'm trying to get to is that, you know, in a Metro -- if I look at the overall sales divided by dealers, right, you are selling around thousand units a year, per dealer. Obviously in Kerala in these kind of states numbers would be much higher, and UP, it will be much higher. So does that constrain your distribution reach in as you move to states like UP and, you know, lower income states? How will you, you know, so basically I just want to understand your strategy on that.

SIDDHARTHA LAL: It's there's no one answer to that because in a -- and I don't have numbers offhand really, but in very small towns where the rental is very low and we have a very compact store with small number of base of workshops, the breakeven, not the breakeven, he could make good ROC at even net about 25 bikes a month. Whereas in a high rental high space requirement, with a big workshop type of environment in the metro, it's you know, certainly 60, 80 sometimes, it would be the point at which the guys would make ROC, maybe 100.

So it differs really from operator to operator, but or let's say dealer to dealer and store to store. But of course, I imagine all of our dealers are making very good returns right now. So all of them are making strong ROC, we support them tremendously, we make sure that -- we keep it very tight, we keep the business tight. We are not loading people with inventories, we are keeping them, you know, we have a lean value chain. And the idea is to keep a small outstanding store which has great experience, not to over-invest anywhere, to have the right number of base for -- so that you have a bit of redundancy but not enormous amounts because we want some expansion in the future.

So, and that's the way we've constructed our stores and as a result, our dealers are extremely profitable and able to re-invest and able to grow and, you know, and delighted with us. I mean dealers don't leave us at all, we don't -- you know. So, I think our retail strategy and how we even look at our dealer economics and how we make sure that they are earning well, it's working really well right now, which is helping our expansion. Because every new town that we want to go to, we have a long list of potential dealers who would like to invest in our business, and you know, we are able to attract the right type of dealers therefore.

HITESH GOEL: So maybe I will just follow up on that. So is the dealer margins also very different for a rural dealer and not a rural basically, a tier 2 town dealer versus a metro dealer? Is dealer margin higher in say UP second tier towns versus --

SIDDHARTHA LAL: No, the margin is the same, margin is the same across dealers. A metro guy, his costs are higher but he sells a lot more and it all evens out by and large. And it's not like they have dramatically different ROCs either between dealers in a small location, large location. It's just the absolute amount of returns that the guy makes at a small town is obviously much less, right. So but then his investment cost is also much less or his investment in the business is also much less. But the margins are similar -- or same, sorry. They are about the same.

HITESH GOEL: And just a final question. So can you give me the number for stocks and --

MODERATOR: Excuse me, Mr Goel, due to time constraints, we must move on to the next question, I'm sorry.

HITESH GOEL: Okay, okay. Thank you, thank you. Thank you for that.

MODERATOR: Thank you. And the next question comes from Mr Basudeb Banerji, from Ambit

BASUDEB BANERJI: Thanks for taking the question and congrats for a good set of numbers. A few questions. One is like the whole industry is now very much concerned about the raw material inflation where anyhow across last six, seven years, your numbers have hardly been impacted by metal inflation.

But at current terms, sir, what's your commentary on that? Any risk from a gross margin angle or you are confident of maintaining at present levels?

LAILT MALIK: So sorry, just repeat the last part of your question?

BASUDEB BANERJI: Last part, how do you see the gross margins in the coming quarters where the whole industry is so much concerned about metal inflation? Though historically, we haven't really seen any metal inflation pressure on your gross margins, because of many other factors. So presently, how do you see that panning down in terms of gross margin, because that EBITDA level at the record number, how do we see the gross margin down the line, at least in the near future?

LALIT MALIK: Well, the general idea, I mean, you know, this thing will happen one quarter, two quarters, three quarters, then die down. So you know, with all these gyrations and raw material prices going up and down, also can't really disturb the way the business model is to develop. So general, for in the short term would be to protect the gross margins. Of course, if inflation is really harsh, then of course I don't know what we are going to do about it. But the general idea is raw material price, variable cost, all put together, so the GM should be protected as much as it possibly can and through price increase, so all put together.

Generally speaking, given time with operating leverage also thrown in, efforts should be to improve the margins only, of course it won't improve the way the pace have been in the past, for the large base now.

BASUDEB BANERJI: So any requirement for immediate price increase to maintain gross margins?

LALIT MALIK: Nothing immediately.

BASUDEB BANERJI: Okay. Next question, so like if I missed out your total FY 18 dividend per share was 110 rupees?

LALIT MALIK: FY18 was 110 rupees, correct.

BASUDEB BANERJI: Yes. So largely in 2016, 2017 and 2018, it has hardly changed whereas your earnings have moved up significantly, despite your rising capex plan, like as you said, Rs 800 crores for the Royal Enfield in next fiscal, which will be largely the cash flow for one quarter itself. So, and cash on books is also increasing, so now any sense on why payout is not getting enhanced or any acquisition plans you have, anything on that angle, sir?

LALIT MALIK: Really no acquisition plan at all, but basically, we are still holding on to our dividends payout ratio. I think you will take 20% over the last few years, so and that's likely the --

BASUDEB BANERJI: So for example, your bottom line increased by almost 30%, whereas payout dividend per share merely increased by 10%.

LALIT MALIK: Yes, but I am saying profit dividend payout as percentage is still the same, so that has not gone down. So right now, that's where we are. Some cash needs to be preserved there for bad times like rubber prices going up and all that.

BASUDEB BANERJI: Sure, sure, sure. And last question, sir, like --

MODERATOR: Sorry, Mr Banerji, we just move on due to time constraints, I'm sorry.

BASUDEB BANERJI: Sure, okay, okay. Thanks.

MODERATOR: Thank you. And our next question comes from Binay Singh and from Morgan Stanley Hong Kong.

BINAY SINGH: Hi, team, congratulations for a very good set of numbers and the business continuing to do well. My question is that, I know Siddhartha also talked about, you know, your market share is higher in higher income states. Is the wallet share per customer also different in high income states versus low income states, like your wallet share per customer will be defined by the mix of bikes they buy, accessories they buy? So in that sense, are you seeing that in, you know, states where you have higher market share, there is more sale of accessories and a better mix versus lower income states?

SIDDHARTHA LAL: Well, in accessories it's still very small. The bikes, you know, you might have slightly higher value by selling in, so that there are more Thunderbirds, more 500s, more Himalayans selling in urban centres and more higher variants of classic, for example, versus more bullets and more electras and more -- you know, so the mix will change, of course -- no, not will change, it is very different in smaller towns and in the cities or in poorer states to richer states. The mix has changed.

But the thing is we don't have an extremely wide portfolio in terms of our -- the bike sector is around, you know, Rs 1.3 to 1.6/7 lakhs, you know, or something like that. So there are not that much variability also. I mean of course when new products come in, that should expand a bit more a range of -- so there we will see people in cities and in richer states, you know, being able to spend more on their motorcycles. And so there is a bit more spend on gear. But gear is still so small that it's, you know, not going to move the needle one way or the other beyond a point. So yes, the gear sales are from bigger towns and bigger cities, of course, by and large.

But of course, the propensity to spend is more. I can't say we are tapping all of that propensity to spend more right now. But that's being made up by larger number of people buying a motorcycle.

LALIT MALIK: So, you know, like, the financing percentage as a proportion of the total guys who were buying us, so that number in the last one and half year has really gone up form some 33-35% odd or to 45-50%. Now these fellows, when they are buying a motorcycle, they will throw in the accessories and the gears as a part of the same loan in that sense, and buyers are very happy to do that.

So share of wallet is not really coming in the way when the person is financing purchase of motorcycle because then he is financing purchase of other things that he wants to buy at the time.

BINAY SINGH: Correct, correct. So the overall spending is rising, but yes, not from his own pocket necessarily.

LALIT MALIK: Yes, overall spending is to --

BINAY SINGH: And I am just telling --

LALIT MALIK: I mean, you know, the issue of costing you thousands of bucks will really show up in a large ASP if that's what you are looking for in the P&L. But in time, as the number grows, as the penetration grows of these things, of course they will show up.

BINAY SINGH: Right, right, and just a follow-on question from one of the earlier discussions on vintage. Could you share any detail about what sort of customers buy the second-hand Royal Enfield bikes? Are they first-time buyers, are they, you know, switching from a Hero or an entry level bike into Royal Enfield? So what sort of customers are -- because the resale values are quite high, right, so the gap is quite narrow. So what sort of customers buy the second-hand Royal Enfield?

SIDDHARTHA LAL: It's a mixed bag, currently, there's both, I don't have numbers, I mean in terms of what percentage and all, but we do have new buyers coming in aspirants of Royal Enfield brand. In the past, we've also have a lot of people who wanted a bike soon and, you know, couldn't get, you know, they had to wait for too long, so you know, there are many other considerations. But we also have upgraders coming in and wanting to buy Royal Enfield, but maybe not able to quite get the money required or they don't have the sort of papers to get financing or they don't have the income stream to get right financing options, so they have to go in for pre-owned motorcycles. But I mean it's not a very different profile, because you know, typically, a pre-owned motorcycle is 70, 80% of or maybe 60, 70% of a new motorcycle price. It's still over a lakh by and large, right.

LALIT MALIK: And you know, we just open one store in one city right now, so you know, six, seven, eight months down the line and there are a few more stores. And then a few months to see, then I think then you can kind of read the trends and call them out.

BINAY SINGH: Great, great, thanks a lot. And good luck for the coming quarter.

MODERATOR: Thank you, Mr Singh.

SIDDHARTHA LAL: Thank you.

MODERATOR: And given the time constraints, we will take the last question. And the last question is from Mr Kapil Singh from Nomura.

KAPIL SINGH: Yes, hi, sir, thanks for the opportunity. Firstly, I wanted to check in terms of sales for same stores, what kind of growth are we seeing for, you know, markets where we have been present for a few years?

LALIT MALIK: Yes, I don't have the number right now with me, but like as I said, after -- in the mature stores, there's a bit of a softness in Q2/Q3 because some of them are more, if you want to call it, more established markets, having been there for some time. Basically the South market and Maharashtra there were softness, but Q4 was very strong.

Maybe if you write me a separate mail, you know, and I could share with the whole group of course.

KAPIL SINGH: Sure, we will do that. And a question, how did you check on your capacity --

LALIT MALIK: It is lower double digit.

KAPIL SINGH: Okay, okay, that's helpful. What is the exit capacity we are looking at when we touch, you know, Feb/March 2019, monthly capacity would be around what level?

LALIT MALIK: So right now we announced 9.5 lakhs. So there will be some growth, of course, through the year, as the number rise up and there's more, you know, the pre-planned structure that we have kind of -- so there are more opportunities. But between the starting and the end, there won't be a lot of change.

SIDDHARTHA LAL: This year is more stable. So last year, we had delta growth. Next year we will have the delta growth when the new plant comes in. So this year is more, I mean largely stable. Of course, we are getting some improved productivity, Vallam Phase 1 is we are able to eke a bit more out of it, but yes, there's not an enormous difference between the start and the end this year. That's more from productivity gains, because we have no new capacity in 2018-19, yes.

KAPIL SINGH: Okay. Then I just wanted to check, you know, in terms of capacity for a last few years demand has always surprised positively, so is there a thought process that when you plan for the next phases, you plan for, you know, having 5-10% excess capacity?

SIDDHARTHA LAL: You are right, we have always, it's a good thing actually, we've always been surprised, but we are slightly conservative. I mean on that front. We still have good growth I mean over the last many years, so I think this strategy of the kind of capacity we have been adding is serving us pretty well, it plays the demand/supply situation exactly the way we want it. And while it's not extremely orchestrated, it's sort of, you know, works for us. And of course, 5-10% here and there is not an issue at all. And I think we are pushing very hard to now start getting that kind of increases through productivity gains, right, through better machining rates, through better reduction in, well, as in lower rejections, all of that. So we are working extremely hard on improving capacities from productivity. And but yes, but really we are quite locked in right now in terms of our future capacities in the sense that what we have right now and what we have projected, basically for the next 24 months, there's nothing going to change really, because you know, we are starting Vallam phase 2. That's going to give us the capacity that, you know, that we can get out of that space and that location, and by the time we ramp up and go forward, it will be 24 months from now, right.

So I think that we believe that's approximately where we would like to land at in the next 24 months' timeframe. We don't have a plans for beyond that as yet. We don't even have space, honestly, for beyond that. So yes.

KAPIL SINGH: Alright, so thanks for that and wish you all the best.

SIDDHARTHA LAL: In the next 24 months, other than the new capacity, productivity is the new game for us.

KAPIL SINGH: Got it. Thank you, thanks a lot.

SIDDHARTHA LAL: Thank you. Thank you all, thank you very much.

MODERATOR: Thank you, everyone. And that was the last question. And I will hand over the conference to Mr Arvind Sharma.

ARVIND SHARMA: Hi, thank you, Moderator. I will request Mr Lal and Mr Malik for any closing remarks? Over to you, sirs.

SIDDHARTHA LAL: No, thank you very much, Arvind, and to Citibank for hosting this call. And look forward to talking to you all in three months. Thank you very much.

ARVIND SHARMA: Thank you, sir. On behalf of Citi, I would like to thank the Eicher Motors management and participants for joining the call. Moderator, may please close the call now.

MODERATOR: Thank you. On behalf of Citi, let's call a close to this conference call. Thank you for joining us and you may now disconnect your line. Goodbye.