“Eicher Motors Limited Q2 Calendar Year 2014 Results Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Eicher Motors Limited Q2 CY'14 earnings conference call, hosted by Kotak Securities Limited. As a reminder all participants' 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 this 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. Hitesh Goel from Kotak Securities. Thank you and over to you Mr. Goel!

Hitesh Goel: Thanks Karuna. I would like to welcome the management of Eicher Motors for Q2 CY'14 earnings con-call. We have with us Mr. Siddhartha Lal who is the CEO of the company along with Lalit Malik, who is the CFO. I would like to hand over the call to Mr. Siddhartha Lal for his opening remarks. Over to you Sir!

Siddhartha Lal: Good morning everyone and thank you for attending this tele conference with the investors and analysts, and Lalit, and me are very happy to join this call and share with you the updates what happened in the last quarter in our sales, financial performance and other highlights.

So what I am going to do, I am going to start with an update on the sales volumes on both of our businesses. First is about our commercial vehicle business, VE Commercial Vehicles which is the joint venture with Volvo.

In commercial vehicles, the industry continues to battle the downturn and we see pressure on sales continuing in the 5-ton segment of the industry. In Q2 which in our case we are talking about April to June quarter of 2014 the segment recorded sales of just over 75000 units, which is a decline of around 2.5% over the same period last year. So it is a marginal decline, but the industry is still declining somewhat as opposed to that the Eicher branded trucks and buses which are housed in VECV actually did slightly better than markets at below 3.7% growth going up to just over 11300 units, so we have marginally beaten the market, the market is still very weak.

Coming to segment wise performance, in the 5-ton to 14-ton range, the industry fell by 28% in the last quarter. While heavy duty is not falling as sharply the light and medium duty is starting to fall much sharper now, but we dropped by only 20% that is all, so compared to 28% of the industry and therefore we had a market share gain of 32% market share has gone up. So that is a significant improvement in the market share that we had 5-ton to 14-ton.

In the 16-ton segment, we sold 1432 units which is 11% gain versus the industry of 8.5% gain, so we had a marginal market share increase from 4% to 4.1% for the quarter. Though our half year market share is marginally down from last year, so our first quarter was worst, our second quarter is starting to improve again now.

In buses, we have sold 3300 plus units in the quarter which is actually it is approximately same as what we sold in same quarter last year, so we have not grown, but the industry fell by 14% and therefore we have had a market share gain of 2.8% to 19.4%. There is a rider here that the exceptional gain in market share is perhaps not sustainable only because heavy duty industry has declined tremendously and our exposure to the heavy duty bus industry is much less, so as and when the heavy duty bus industry comes back that could certainly have effect on our 19% market share.

Having said that bus business is performing exceptionally well because may be five years ago we were at around 5% odd and now we are at 16% to 18% and in this quarter 19% but more sustainable will be slightly below that, but still enormous improvement that we had in our bus business. Some of the investments and activities we have been putting in over the last year or two have started to pay dividends in our exports where we had an exceptional performance.

We have grown by over 250% from Q2 of last year to this year and we sold nearly 2000 units this year in exports. The industry also grew by 73%, but we have grown 250%, so it is an excellent performance. Our markets in South Asia which is Bangladesh, Nepal and Sri Lanka also picking a bit and our some of the new markets we opened up and the new strategy we got in Africa, it is still very early days, but they have also started to pickup some good numbers on trucks and buses in exports.

Volvo trucks over a very low base of last year because the mining industry was extremely weak. The low base was 121 units in the quarter, very high value trucks in Q2 of 2013 and we have grown by 56% to 189 units, so there is a good growth, still not at a peak level of Volvo trucks, but it is a good growth from last year.

On our medium duty engines, the commercial sales which had begun in Q2 of 2013 they continued to grow and track very well. We had in the whole calender year of 2013 we shift just over 2500 units, in Q1 which is January to March quarter of 2014 we shift just over 2600 units which is more than the whole of the previous year and now in Q2 we shift over 3200 units of long blocks and engines. So it is continued growth we have a good order book and we expect to continue to grow in our engine business.

Moving on to star performer of the quarter is Eicher Motor standalone business of Royal Enfield where the Q2 has been yet again a best ever quarter with record sales of over 74000 units now, compared to just over 40000 units last year same quarter which is a growth of 85% in vehicles and in Eicher Polaris Private Limited which is the joint venture with Polaris which is still in preproduction phase still in development phase, all the project timelines are going as per plan. We continue to be phasing for a 2015 launch, no change in that date at all and we are confident of achieving that.

Moving on to the financial results, I will first go through the consolidated results which include both standalone in our VECV joint venture and then I will talk about standalone performance. In the consolidated we had a best ever total income from operations at just over 2245 Crores which is the 34% growth for the quarter. At the EBIT level, we had a 67% growth so there is some increase there of course largely aided by the motorcycle business at 229 Crores and the EBIT percentage at the consolidated level has now gone into double figures of just over 10% to 10.2%

which is amongst the highest level it is not absolute highest, but it is close to highest numbers in percentage terms and in profit is it highest level, profit after tax is 178.5 which is the highest level of profit after tax for the quarter.

Moving on to a standalone results we had absolutely exceptional performance on financial as well. So the total income has grown from 382 Crores by 95% to 746 Crores. The EBIT has grown from 60.6 Crores by 188%, so that is an enormous operating leverage we have been able to accomplish this quarter to 174.6 Crores at the EBIT level and the EBIT percentage has grown exceptionally for a year by 7.5% from 15.9% to 23.4% and for the half year the EBIT percentage is also very good 22.5%. So it has been exceptional result once again for the motorcycle business. So on the VECV side if you extrapolate from the consolidated minus the standalone results, the EBIT has been 3.6% for the quarter, which is in our belief is the very respectable profitability number for a market which is in severe downturn and where all the competitors are at extremely weak positions on the profitability scale so we are at least positive still and that is the quarter from our side.

Thank you for listening and for your interest in Eicher Motors Limited. Over to you Hitesh for the questions!

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Akshay Saxena from Credit Suisse. Please go ahead.

Akshay Saxena: Thanks for taking my question and congrats on good set of numbers. My first question is on the two-wheeler capacity, now we have seen steady ramp up here and you did something like 27000 units in July. Going forward what kind of capacity addition can we expect for this year and next, also with this ramp up in supply how has the number of total backlog of motorcycles moved how does the figure looks like compared to the last quarter's level?

Siddhartha Lal: We have actually been tracking slightly ahead of what we had planned in our production numbers so first I will answer your question on production. So our supply team and our manufacturing team has done exceptionally well now like I said to get us to close to 28000 in the recent months and continue to track well. So we are certainly on track and to even better our 280000 now performance for the year, it is probably closing in a 300000 type of numbers that we are expecting. Again it is subject to various let us say supply chain issue constraints being removed, but it is not a huge problem or let us say now we can confidently say we should be in the line of sight of 300000 numbers for this year that is 2014 in production terms, we will get the orders and all of that in later. In 2015 with a starting point of approximately the 30000 units per month we expect to cross let us say 40000 plus by the end of the year and at a linear scale we are expecting to go to above 400000. In linear scale, we should take 30000 as a starting point, 40000 plus let us say the end point we should be tracking over 400000 or over 4 lakh units in 2015 for sure, then of course we are continuing to work on other capacity enhancements, we have got a lot of capex plans on the way. Right now if you know in Oragadam plant we have got the paint shop and vehicle assembly line on the way, but our engine assembly still only is going to come on stream next year, so by end of Q1, early Q2 we are going to have some traction on our engine part. So the constraint is not only the supplier and vehicle and all of that, the engines are also right now we are working in our Thiruvottiyur plant on making engines so that is the entire may be 20000 square meter area of engine plant, which is right now coming up that should be on stream next year. So there are some supply chain challenges which we are also facing. We have got a very strong team. We feel we can sort them out, but that is approximately where we are tracking. On the order position we continue to have higher orders than our production right now, so we are still adding on to our order book today, but the number of months will come down because our base have gone up to about 28000. So we still have around five months of orders plus and for next year onwards in any case as I have been saying the last many quarters we have enormous efforts going on the demand creation side. So we are not letting that sort of standstill in this keep going on. So we have enormous efforts on the demand creation side. It is big effort on adding the relevant dealers because we have now new process, cities and towns where we are able to sell more vehicles, so we are adding a lot more dealers in bigger cities, but also in smaller towns we are doing a lot of works on the brand and marketing. We are in the process of converting on retail stores over the next 18 months to new identity retail stores. We are doing a lot of sales people training because we are selling let us say more premium product, so there is a lot of work going on. There are new products in the pipeline, so we are not standing back the demand creation there is a tremendous efforts going on there because we need to keep that engine moving forward because eventually supply cannot be a constraint. It has been a constraint since a couple of years coming up and it may be constraint up till some part of next year, but at some point I do not when supply will not be the constraint, so we will have to make sure that our demand creation is working very strongly.

Akshay Saxena: Also as for your margins in the standalone business, if I see you on a sequential quarter-on-quarter basis, your gross margins have seen a big improvement, but no significant operating leverage benefit, now this is the reverse of previous quarter that is Q1 of this year when your gross margins are declined, but you saw reduction in fixed cost, so do you see these kind of gross margins are sustainable and can we expect more margin benefit as a production in new plant is further increased?

Lalit Malik: Leverage and gross margins has only expanded if you look at, if you tried our numbers on standalone basis for the last five to six quarters.

Akshay Saxena: Yes, on a sequential basis yes, I am saying on the sequential basis quarter-on-quarter basis you have seen a big gross margin improvement, but fixed cost are broadly similar as a percent of sales, so first of all the question is this kind of gross margin benefit is that sustainable, the 200 BPS gross margin quarter-on-quarter benefit which you saw or were there any one-off here like the mix was very good or something like that?

Siddhartha Lal: The gross margin it could be a big lumpy moving forward, I do not predict that really, but I think it is more as a net outcome what you are seeing is that of course our revenues are rising extremely sharp right now and what we certainly expect is that our costs are going up, so we have added a lot of people, we have added a lot of R&D spends, we have added a lot of new markets that we are getting into, so there is a lot of developmental work going on the background which is adding to that increases let us say the fixed cost which is, but some of them would may also be some launch expenses and eventually we would not be talking about those because they used to be a bit more lumpy but overtime I expect that our spends will go up on a quarterly level, so it is going to be spread out over the year. I do not think I have really answered your question.

Lalit Malik: Which is specifically if you got the star cost, the staff cost although as a percentage, stocking has moved from 5.5% to 5.4%, so there is a jump of 15% in value terms that is because it is a time that we announced our increment out of the **(inaudible-20.34)**. On the overhead side, a large side of the overheads will lead to a brand and marketing dividend expenses and some part of it given for the plant overhead expenses also which are not very high, but the investments in the brand, the marketing, front end the sales and distribution in India and abroad I think will continue to happen. We are a growing company and there is a lot of investment to be done there.

Akshay Saxena: Thank you. That is it from my side.

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

Binay Singh: Thanks for the opportunity. Congratulations on very good set of numbers. First question is on the RE business, so currently you are doing roughly around 25000 or let us say this 28000, planning to go to around 40000 by end of next year, how do you see the mix changing during that time like where is the growth going to come from? Is it going to be largely the same mix or if you could throw some light on the new wide spaces that you have always been talking about new platforms what segments are you planning to tap on that will be the first question?

Siddhartha Lal: It is difficult to predict the mix we had our mix had skewed more in terms of the classic bike over this year and certainly now other motorcycles are picking up stream as well, our Continental GT is starting to do well. Our Thunderbird is also continuing to do well. So there is marginal mix in the margin, but I cannot really predict for the mix year or so in terms of a current product range mix changes and really honestly I cannot say much more for using any new product when it is coming in how that will effect the mix and all that that is too let us say forward for us to comment on. It is only that generally when we look a product I can tell you our philosophy of product is that we are looking at products which is adding value which is in the similar lines of margins etc., we do not like very low margin product or anything in that sort, so its all additive in the long term and there is nothing more I can say unfortunately about that.

Binay Singh: When can we expect that next model or when can be expect the information on the next model, I just wanted to know how far are we from that?

Siddhartha Lal: We have got a lots of new developments underway and possibly by the end of 2015 we will start seeing some new things coming out of the table and after that the pipeline is evenly strong, so we will continue to see more and more vehicles coming out.

Binay Singh: Secondly on the VECV side if you could share with us some of your experience post there is a long term growth and also comment a little bit about key environment how have been the price hike discounts trending for you because we have seen a pretty sharp improvement in the Q2 growth just your views on that?

Siddhartha Lal: Because like the medium duty now showing a negative traction that of course affects us more, so we are continuing to hold our own in terms of on both market share and on profitability we have got some reasonable numbers out, but of course it is still a weak market, so there is no question. It is not like the market has turned around or come back or anything on the sort and even though we hope that it will there is no solid signal as yet, talking about now mediators, there is no solid signal yet we do not have a reversal of the market situation in the next few months. It could happen but there is no solid signal as yet. So we do not swing so much in our let us say in our price realization and other such things, so you have seen the number that 3.6% is what we have got at the EBIT level which is I think still a reasonable level and of course if LMD stops falling and starts improving that should certainly help on a profitably front a lot because our exposure still like there are percentage of our revenue coming from LMD still pretty high.

Binay Singh: Anything on the Pro Series any initial?

Siddhartha Lal: Pro Series had an exceptional sorry I forget to answer that is that an exceptional launch on the light and medium duty front. We got very good customer feedback. We believe it really hit this quarter for a strategy is concerned because we Pro 2000 series is a very significant upgrade of our legacy range and that has hit a very sweet spot for customers and Pro 3000 series which is a pure medium duty player it is not really light duty, it is not 8-ton and all. The first truck, which has come of 3013 that is the 13-ton truck that is really now going to be exceptional range of trucks for 3000 series because it is something that not even there in the market today, it is a too medium duty truck, it is a 2.1 meter by travel (**unclear**), it also got an option of a sleeper, we believe we can take a lot of 16-ton traffic because actually the payload is over 9-ton. The typical 16-ton truck in the used **unclear** to be 9 tonne as well and it has gone up to around 10 times. We have got around the same payload as a heavy duty truck in our medium duty offers, so that is tracking very well and they are getting very good response from that. On the heavy duty side we have seen the launch now in this quarter of 6000 series with the largest segment which we are entering into immediately which is the 31-ton 852 segment, so the 6031 is coming into stream and we are working extremely closely with our initial customers, with our market to make sure that it is able to deliver and customers are able to experience let us say the increased performance and they are able to actually get in bottomline. So we are seeing that customers are able to see a tremendous benefit and then therefore of course we should have good word of mouth and spread this new Pro series which gives us an opportunity to really reinvent Eicher in heavy duty once again. So it is a starting point, it is still got some time to go before we see the real outcome on the heavy duty side, but in the light and medium we have seen good traction.

Binay Singh: Thanks a lot team and all the best for the future.

Moderator: Thank you. We move on to the next question that is from the line of Mr. Hitesh Goel from Kotak Securities. Sir please go ahead.

Hitesh Goel: Thank you for taking my question. Sir this was regarding Royal Enfield if you can also give us some sense of the split between gross margin improvement in product mix and also from the operating leverage that plays on in raw material cost, so if you can give some sense on that and also you had also talked about certain efficiencies improvement in the new plant which is yet to play out in margins so if you can give us some sense on that because your fixed cost structure seems to be still laterally high than competition in the Royal Enfield business, so if you can give us some sense on what is the fixed cost to sales and what you would like to bring it down to with the improvement of sales?

Siddhartha Lal: Look our business model is slightly different because even though volumes are now reaching pretty interesting levels of 28000 and beyond, it is still a different business model that we run, so we do a higher gross margins then let us say most other motorcycle players and that is continuing to improve as a result of better efficiencies on our material purchases so we are getting economies of scale, we are getting lower cost even in our let us say other variable costs of our plant which are already kicking in so you said the efficiency has not kicked in, I think some part of the efficiency is certainly already coming into the bottomline from the Oragadam plant. It is now well over 50% may be close to 60% plus of our vehicle production is coming from Oragadam, so therefore that is helping us certainly on the gross margin level by and large as I would say we are also pretty happy with our let say fixed cost structure tracking because now it just fixed up 10% in this quarter, so in last quarter, it is in the 10% region, it does matter exactly where, but and anything that is for a business model of our kind that is what something which is bad level at all, then of course it may go slightly up, go slightly down, it is not that our idea is not to maintain it at 10%, our idea is to make sure that we are doing all the right things for the long term investments, but we still work extremely high hard on efficiency improvement, so it is not that we are going to continue to add people all of that, so there is both sides to the fixed cost, but there may be some scope, but that is not our focus to reduce it further, our focus is to continue to improve our operating leverage our margins in different means, so by better product realization by lower material costs that is our focus.

Hitesh Goel: Can you also talk about the components which are used in different platform, so what percentage of common parts is being used in different platforms, so to give a sense on how you working on that strategy which is also one driver of improving margins?

Siddhartha Lal: Today very, very large chunk and that is what we did that actually was the trigger for all of this that you are seeing today and we are seeing a very interesting margins that the trigger for all that was 2010 when we actually, we had three different engine platforms that we were running, we had unit engine then, we have the lean-burn engine and we had the cast-iron engine. These are our internal names, but just to give an idea and we consolidated on to one engine platform. Today all four of our models they absolutely run only on a one engine platform so a lot of costs are let us say be the same cost structure then of course we have variations, we have some carbureted, some fuel injected, and on chassis on electronics there is a lot of commonality so we like to try commonality in today and in future products as well that we are making so of course we will have more diversity as we multiple platforms, but the idea is to try and keep it very tight so that we can get the type of economies of scale because now I think that 30000 as we approach 30000 levels for a single platform it is probably amongst the highest scale in the world for a medium duty motorcycle. Of course there are some players who are bigger than us in the medium duty, but they have multiple platforms that they are operating out of to serve the medium duty segment, so I have not really got the number but I imagine we are amongst the best in class now.

Hitesh Goel: Thank you very much sir and all the best.

Moderator: Thank you. We have next question from the line of Jay Kale from CIMB. Please go ahead.

Jay Kale: Thanks for taking my question. Sir my question was regarding your accessory business. How do you plan to ramp it up and what work have to done in terms of what is your target going forward as a proportion of sale?

Siddhartha Lal: We have got a very solid team now working on the accessories product and this winter you will see very interesting names of clothing between apparel as well as motorcycle accessories coming out, so do look at for it later this year. It will be extremely difference current range, very evolved and we are going to certainly take it out to lot of markets. Now, having said that accessories in the current term in the next one or two year horizon are not going to make enormous dent on a topline or bottomline honestly, so what it is going to do is many other things in the immediate term. On the one hand, it puts us into category of product with the type of sophisticated apparel and all that we are putting forward it accelerates and it accentuates our **(unclear-35.48**) items but it develops the brand tremendously on the one hand. On the other hand, it develops our retail presence tremendously. So, the new stores, if you look at our first concept store of our new retail identity which was in Saket. If you go to royal enfield.com/saket and we will see the entire new retail identity and go to royal enfield.com/london, we will see the first London store and these stores will have a lot of apparel accessories and the retail experience certainly changes for the customer tremendously. So, one of the big drivers for us is to have very nice retail experience to be able to put stores in locations where motorcycle sales alone may not be viable, but motorcycle plus accessories will be viable, let us say in a high cost location like London for example or in other big metros around the world where accessories actually have a great pull and much higher margins for the dealer that actually gives the great business to run. So, what you have to understand is the accessories is of course we are looking at being additive to our revenue and our bottomline, but with the type of revenues that we got right now it is going to make only few basis points difference in the near term at least then of course in the three, four, five year horizon we have much bigger plans right, but we also have much bigger plans for motorcycle part. So it is doing multiple things for us, not just on the topline and bottomline.

Jay Kale: On the dealer expansion, what are your plans as in how much penetrated are you in the rural market and how long would it take for you to kind of almost be present at almost all the districts currently?

Siddhartha Lal: In India, we have got lot of traction now. As you can imagine the brand is shining right now, everyone is really excited about it. Basically our strategy of top down has worked really well. In the last decade our very clear strategy was that just focus us on metros and big cities and the rest will follow. That has pretty much worked out for us that the traction and demand that we got in bigger cities like Delhi or Chennai the Chennai has helped us if people from Tamil Nadu are coming to Chennai and we see lots of Royal Enfield bikes which is what is going on or from Karnataka, you see Bangalore all are biggest markets, then of course in the smaller markets like Mysore and much further down, I mean, I am talking now not just level two, but level three, level four markets as well, some of them I do not know the name of the markets, but really now they have seen the bigger city then they are picking up from there, so there is a demand pull. So, we are now rolling out as fast as we believe is right. So, in order to continue tracking better orders, but not so much that our order book becomes more difficult to handle and give more resemblance to dealers and to customers. So, we are trying to balance that, but the growth opportunity is still very large, some of the other players were able to do in the 1990s and in the 2000 in terms of rolling out the network that is pretty much the stage as they are rolling our network very strongly but any new dealers and there are lots of new dealers which has started from four, five months ago. Every new dealer has a new retailer identity, so if you go and see on the website and we also got photographs to the dealers, it is a very, very different look and feel and service level that you get at a Royal Enfield dealer from any of the what we call as commodity motorcycle. So, the entire customer experience has taken through a very different level, which is also very important for us.

Jay Kale: On your HCV side, I understand that you have not yet taken out the pricing for the Pro-Series going forward, but how would you position yourself, would it be at a premium to the competitors and what value proposition would you offer on the table? What different would you offer?

Siddhartha Lal: The Pro-Series is a new let us see the upgrade trucks. There is absolutely no question about that and in fact right now, I am going to talk about prices of 2000 or 6000 etc., because that is going to be revealed shortly by the VECV team. Having said that if you see that we have done in 3000 which is basically similar idea which is a new mass market we are calling it. If you track Chinese market, it move from legacy trucks to the modern mass market in the course of two years. So our belief is that those series may start the transition of the Indian trucking industry. That is our ambition at least to the new mass market. So it is a higher price, but it is a much higher value and it is price value equation that we are very certain that the truck owners can totally understand. So it is not out of his grasp that look I am putting in too much of the returns come in much later. It is something that we can see returns at a much shorter term level of paying slightly higher price similarly to what we are seeing in 2000 series. So to answer your question, it is higher than legacy trucks, but it is not at an extremely different price which is what we are looking at.

Jay Kale: Any plans in the service network that you plan to rollout, because that would player very big role in that segment?

Siddhartha Lal: We already have in the Eicher brand, we already have 265 points, where it is close to the other big players let us say in our service rollout, so we have few white spaces and gaps and we covered those with container workshops with other methodology of serving those markets. So we are really up there. We are able to service. Our service coverage will be extremely high on the roof that all of our customers are following. So, it is we continue to develop, we continue to add lot of service points, but that is certainly not the issue right now from our perspective. We have talked to a lot of the customers and we understood from them and availability of service points is really not the issue right now.

Jay Kale: That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Krishna Kumar from Sundaram Mutual Fund. Please go ahead.

Krishna Kumar: Thanks for the opportunity Sir. If I look at your RE sales for the last two to three year as proportion of sales from south and Maharashtra has been steadily increasing and an optimistic way to look at it is that you have lot of room to grow in other markets, but as a performance of non-South and Maharashtra markets in line with expectations. How do you see those markets becoming bigger or maturing Sir?

Siddhartha Lal: The way I would describe it is that we have had enormous main growth engines have been top 8 cities, 10 cities that were our huge growth in the last few years have come from. So, I would say Bangalore, Bombay, Delhi or top three then we move to very close to Chennai, Hyderabad, Pune and other six markets, Calcutta is also coming up. So really we track it in many different ways, but it has been the cities which have performed exceptionally well. It is in the big metros that the demand pull is very strong and that translating now into a very strong demand pull and the second level cities, third, fourth level. So, it is not north, west, east south type of growth that we have been even looking at or it may happen to be one way the other because there are more cities in south or north this was more to do with that I mean in the south we have may be three well cities which are growing well for us like Hyderabad, Chennai and Bangalore. So then perhaps compared to east it is growing faster, but it is not about east and south, it is about city.

Krishna Kumar: You have been guiding that expert not to expect much from the exports may be next for the couple of years. So, post the launch of new series have launches in Royal Enfield will there be significant fillip in terms of export volumes that are they more of targeting export markets?

Siddhartha Lal: There is a lot of starting with the Continental GT and then of course then we get in a new platform in the future and new products. We are working lot on an India-out strategy on product that we make a product to India and then try and send it everywhere else. The products have a global idea and global in type of approach, but all products as we see in the future, because like we said we are totally wedded in some sense to the mid size segment in the foreseeable future. We believe that all our new products lines that we are coming out with are all global products. None of them are market centric products. So, they should sell well in developed and developing market. Towards that again in fact because when you are seeing while we are doing a lot of work in international market, so we have just opening out on the process of doing that in Columbia, and just to give you an example of Columbia, which is one of the big ones that we have entered right now the approach is very different. So, right now we have not announced pricing and other such things, but it is going to be our approach on the group that we have chosen Corbeta Group that is one of the largest business groups in Columbia. Their ambition and non-ambition is not to sell few hundred motorcycle just to go that way, it is to sell many, many thousands, it is not tens of thousand in the motorcycle, so that is the kind of relationships and models that we are setting up in these kind of markets and then the price thing, the marketing, the activities and all of that will be commensurate with market that we want to have a very large presence in and we are going to track these markets not as a percentage of our revenue, but we are going to track them as a percentage of initially as a mid size market in that country and eventually as a percentage of the entire motorcycle market in that country. So that is how we are looking at tracking future markets. It will grow, but again these are all steps. We are going to mixed steps in a certain markets, so we are going to see it goes, we will have some wins, some misses and we will keep at but it is a very big effort as we said we have also got new management in place in Royal Enfield which is looking after international market, so there is a lot of action activities going on there. It would not have if our percentage has come down to work on sub 3%, unfortunately or fortunately whichever we look at it that the 60%, 70%, 80% growth that we are seeing right now in Indian market, that percentage is not going to make a big increase immediately.

Krishna Kumar: One last question if I may. The growth in volumes over last two years and the guidance that you are providing for the next couple of years have been much higher in our expectations, pretty strong performance, but maybe a year and year-and-a-half later you might start looking at putting up new capacities. So, when you start thinking will it be more in lines of someone like mass market players like Honda or Hero who think of 1 million capacity in the next, you have lot of visibility that you have had may have considerably increase in the last one-a-half-years. So, when the next round comes up will it be more like one million capacity which you might put up?

Siddhartha Lal: It is a very good question. I do not really have exact answer to you right now, because right now, it is a question that we are working on right, because by the end of 2015, I would say by middle of 2016, we are basically going to be speaking out in current Oragadam facility at give or take 50000 units then of course we are going to push to get more productivity out of it, but that 50000 may go up by some amount. It is basically you can take round number of 50000 units per month is where the Oragadam unit sort of peaks out at. So obviously we are having discussions now on what next and we have to start thinking early, because we cannot be in a position like we were in a few years ago, actually where big late on the realizing the demand position and therefore on increasing the supply position. So we are starting the work early, we have got lot of internal work going on and we are going to see whether it makes more sense to do it in phases like we have done in Oragadam or we will do it one shot or follow that so it is a dialogue which is going on internally we do not have answer get unfortunately to tell you.

Krishna Kumar: Congrats and thanks a lot.

Moderator: Thank you. We have next question from the Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: Congratulations on a good set of numbers. I had a couple of questions. First thing is on the price increases which you have taken in Royal Enfield and VECV in this quarter?

Lalit Malik: In Royal Enfield, we have not taken any price increase, but in VECV, I think April we took a price increase of about 1% odd.

Jinesh Gandhi: Any further price increase in July?

Lalit Malik: None in both the companies.

Jinesh Gandhi: The second question pertains to our MDEP project, we have seen a very good scale up in our throughput. Can you indicate about what kind of profitability this project is now earning vis-à-vis last year and what is the target for full year in terms of volumes?

Siddhartha Lal: Profitability at a segment level, we do not talk about. To us the entire VECV business is about one segment. So we cannot really break up into various pieces of lines that we run. Volume wise right now the only customer for the changes is Volvo. So anything that we are making right now is on the (**inaudible-52.32**) and the stages are being shifted to Volvo. So, very it is really dependent on Volvo's demand for or need for these long (**inaudible-52.41**) engines.

Lalit Malik: But you seen from Q1, it was about 2500, 2600 I think it was and in Q2, it was 3200, which around 25% increase. So we are seeing good uptick in terms of one more picking up more and more units and our ability to be able to service those in the sense actually produce them, because it is a very sophisticated supply chain, so, we do not want to from either side, from Volvo or VECV side we do not want to strain the supply chain and go whole hog very quickly, because it is a very, very delicate sort of product. So, we are taking it like this, but we have grown by 25% over last quarter and we are seeing good pipeline of orders from Volvo.

Jinesh Gandhi: So should we expect at least ramp up to 5000 by exit of this year or can be higher than that?

Lalit Malik: We are not giving a number on exact numbers, but we are growing that is all I can say.

Jinesh Gandhi: Last question pertains to Royal Enfield where we have been continuously delivering much more than expectation and in the past year indicated that margins might peak outer at around 21%, 22%. Now I mean considering that we have seen significant benefit mix improvement as well as operating leverage and expected investments in the business over the next couple of years. What kind of margin level should be look at on sustainable basis?

Siddhartha Lal: That is for you to figure out. We do not give forward looking margin, so I cannot help you on that actually.

Jinesh Gandhi: Related question, we were expected to see significant ramp up in investment on the marketing side and on R&D side, so have we started investing in these two areas, this calendar year have you already started investing or we will do forward?

Siddhartha Lal: The work is all on the way, it is not like there is a one big thing happening, because it is also ability to be able to invest and ramp up your scales the team, the people all of that, so all that is an ongoing process now. But for us again, it is about activities and making sure that on the marketing front for example, it is not like suddenly changing our strategy and pushing into mass media and all of that that is not we rule. Basically it is about making sure that we have the right type of traction in us largely. We still are largely of below the line type of marketing company. Obviously, the spend that we do our lot in the sort of league of let us say heavy spenders in mass media, but, when you are going into many more markets, when you are going into smaller market in India as well into smaller geographies, the type of spends that we need to do as necessitate increase. In short lot of activities is underway, but more planned for the next year, two years, three years on marketing. I would say R&D marketing are the two biggest and the other one of course is our capacity requirement.

Jinesh Gandhi: Thanks and all the best.

Moderator: Thank you. We have next question from the line of Nishit Jalan from Nomura. Please go ahead.

Nishit Jalan: Thank for taking my question. My question pertains to VECV business. We have seen a weak market in mid series almost last two years now. So overall the last few months, are you seeing some kind of on the ground pickup in the market? Secondly this is particularly for Eicher in the heavy truck which is 16-ton of segment we are launching new products. What kind of market share are we targeting to have in this segment over say next three, four, five years?

Siddhartha Lal: In the last few months, we have seen the market continuous to be weak. We have seen very little sustainable traction in the market. There is one or two routes which are showing slightly better freight rates and all of that, but it is still sporadic. It is not like major shift is happening yet. We believe it is the bottom of the cycle, so things should start looking up, but we have not actually seen the traction. We get some indication, because normally when heavy duty sales are tracking slightly better than light and medium duty that is when we say that may be cycle is ended and now it should come up, so that is the only thing. These are very difficult indicators to really judge. On heavy duties very clear, we have talked about it before where the downturn has of course put some dent in our aspiration of growth, because as the market has fallen from nearly 250000 to 130000 in heavy duty even to 90000 it is now half of the peak of course, it has also taken in a bit of dent our market share aspirations because of the extreme position that everyone else has been also, so which you maintain that at Eicher heavy duty, we are going to accomplish, we are going to achieve 15% market share in the next we talk about three, four, five years horizon, so that is the type of time horizon by 2017 and 2018 that we want to certainly accomplish 15%.

Nishit Jalan: My second question is on Royal Enfield, you mentioned like top 10 cities, metros, other big drivers, growth drivers of the company. So what kind of volumes will be getting from these top 10 markets that we are talking and how have we ramped up our distribution network in so-called tier II, III and IV cities, which will hopefully be better growth drivers going ahead?

Siddhartha Lal: I do not know the exact numbers to you right now, but we could estimate that in the catchment area of the top 10 cities, which includes like NCR and Delhi, and Greater Bombay let us say whatever. We are trying to approximately 50% of our sales are coming from these markets. So that will probably change a little bit towards smaller markets, but it is not saying significantly in the last year or two. We are adding more distribution even in the bigger market, so there are gaps let us say in some catchment areas, so we are adding more and more dealers in bigger markets. But we are seeing a huge interest in smaller markets, so there is heavy market that we are going to, we are looking for dealers. We have got a line of people wanting to join us up. So it is a very good position that we are in. We can choose the really appropriate dealer in smaller market and I think we are adding what we continue to add it on five, six dealers a month. We did that last year we added over 80 dealers last year, we are may be on a similar track this year, so I think 70 to 80 dealers may be a bit more. So, chunk of these are now coming from the smaller markets probably more than half of these are from mid size or smaller.

Lalit Malik: We want to go to top 20 towns of India.

Siddhartha Lal: There will be lot of new cities, towns that we are adding. So thing is that we have pretty viable dealership, we have very viable dealership, small business can really good business with 20 to 25 motorcycles in a month type of traction, now suddenly a (**unclear-1.01.06**) third or fourth tier town is able to sell 20, 30 motorcycles in a month so the viability is coming out for those certain markets.

Nishit Jalan: What are the total numbers of dealers we have?

Siddhartha Lal: We have 340 dealers in Royal Enfield and growing around may be five, six months.

Nishit Jalan: Thank you.

Siddhartha Lal: Operator, just take a last question now.

Moderator: Sir that was the last question from the participant, so Mr. Hitesh Goel, I hand over the conference to you Sir for the closing remarks.

Hitesh Goel: Thanks a lot for giving us the opportunity to host this concall. Thank you very much.

Moderator: Thank you. On behalf of Kotak Securities Limited that concludes today's conference. Thank you for joining us. You may now disconnect your lines.