



## “Eicher Motors Limited Q2 FY-25 Earnings Conference Call”

**November 13, 2024**



**Avendus<sup>^</sup>**  
SPARK 



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**MODERATOR:** **MR. MUKESH SARAF – AVENDUS SPARK**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Eicher Motors Limited Q2 FY2025 Earnings Conference Call hosted by Avendus Spark.

This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participants' lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during this conference, please signal for an operator by pressing "\*" followed by "0" on your touchtone telephones. Please note that this conference call is being recorded.

I now hand the conference over to Mr. Mukesh Saraf from Avendus Spark. Thank you and over to you sir.

**Mukesh Saraf:** Thank you, Farah. Good evening everyone. Welcome to this 2Q FY25 Post Results Conference Call of Eicher Motors Limited.

From the management team we have with us, Mr. Vinod Aggarwal – MD and CEO of VE Commercial Vehicles; Mr. B. Govindarajan – CEO of Royal Enfield; and Ms. Vidhya Srinivasan – CFO, Eicher Motors Limited.

I will now hand over the call for "Opening Remarks" from Mr. Vinod Aggarwal first and then Mr. Govindarajan. Over to you sir.

**Vinod Aggarwal:** Hello everyone, and welcome to the Eicher Motors Limited earnings call for the 2nd Quarter ended September 30, 2024. Before getting into the updates for the quarter, we would like to thank our shareholders for the strong support towards the resolutions presented during the AGM that was held in August.

During Q2 we have seen continued momentum both at Royal Enfield as well as at VECV, and we will talk you through that in a while. I will first begin with a broad summary of the overall financials.

Coming to Eicher Motors consolidated financials for 2nd Quarter Financial Year 2024-25, our revenue, Eicher Motors clocked its best ever quarter two revenues at Rs.4,263 crores, marking a growth of 3.6% over Rs.4,115 crores from Q2 of last year. EBITDA margins Rs.1,088 crores versus Rs.1,087 crores in Q2 of last year. EBITDA margin percentage for the quarter stood at 25.5% as against 26.4% last year. Profit after tax Rs.1,100 crores, which includes 114 crores, as Eicher Motors' share of profits from VECV up 8.3% from 1,016 crores, which includes Rs.102 crores as EML's share of profits from VECV in quarter two of last year.



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I will now hand over to Govindarajan to take us through the business highlights for Royal Enfield. Over to you Govind.

**B. Govindarajan:**

Thank you, Vinod. Hello everyone. At Royal Enfield we had a very busy and an exciting Q2 with several significant launches and announcements. During the quarter, we sold almost 225,000 motorcycles, as against 229,496 motorcycles in Q2 FY24. Out of this, in India, we sold almost 206,199 units. In the international markets, our volumes stood at 19,118 units. In the backdrop of the uncertain macroeconomic scenario, our retail volumes maintained the growth momentum in the international markets, 12% retail growth over the last year. This is the strong legwork that we put in Q2 of this year. We were able to achieve a very special milestone for Royal Enfield in terms of our festive sales performance this year, last month, that is in the month of October, we recorded our best ever sales performance in a month with more than about 100,000 plus 1 lakh units. This is a testament that our existing and the new motorcycles continued to perform very well.

We had a very busy quarter with a slew of product launches across multiple platforms. We launched the Guerrilla 450 Roadster on the Sherpa 450 platform. It's an amazing motorcycle, and we believe it's the best in the category. We have received great reception from the riding enthusiasts across the world. Earlier in August, we launched the 2024 Classic 350 in new colorways, and with upgraded features. The response has been overwhelming, really, and the new Classic is doing very well across India. With this, we also announced a very unique factory custom program, which is a bespoke, first of its kind motorcycle personalization program done at our factory in Thiruvottriyur.

Recently, you all would have seen at EICMA 2024, we launched two new motorcycles on our globally renowned 650 CC twin platform, the Bear 650 and the Classic 650. The Bear 650 is our new Scrambler, a motorcycle that perfectly combines authentic scrambler styling with versatility and agility. It is based on our Interceptor 650 platform and has been launched in America and India and Europe as of now. We also launched the new Classic 650 our newest addition in the classic family offers riders a powerful new blend of old school aesthetics and effortless power delivery. We have launched the motorcycle in the UK and Europe. Retail in India will commence in January 2025.

EICMA this year saw a very special presentation from Royal Enfield as we showcased our all new electric motorcycle brand, the Flying Flea and our first electric motorcycle, the FF C6. We are approaching EV with the same singularity, focus and unconventionality with which we have grown the global mid-size market in the ICE world. We have made huge investments in growing our capabilities and capacities in the EV world. We have almost 200+ strong, competent EV team, dedicatedly working for design, engineering and dedicated commercial teams. We have already filed almost 28 patents in the EV world. Flying Flea by Royal Enfield is our new brand that will house our electric mobility ideas and is a blend of heritage and



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modern tech, which makes urban mobility effortless, exciting and fun. Under this we currently have two models, the Classic Styled FF C6 and the Scrambler style FF S6 which will be coming later. We are gearing up for the launch in early 2026.

Strengthening our global footprint, a new CKD in Bangladesh and Brazil has been established. We expanded our international presence and strengthened SAARC commitments by launching our first manufacturing and flagship showroom in Bangladesh. There is an incredible response from the riding community in Bangladesh and that has surpassed our expectations, in fact. With a growing interest in the brand, and as a reiteration of a resilient commitment to the market, we are happy to announce the establishment of our second CKD facility in Brazil starting January 2025. We continue to bring engaging rides and events for our community. We concluded the 13th edition of one ride, which has witnessed record participation of more than 41,000 riders from 66 countries. And as we are gearing up for the next edition of Motoverse later this month, on the 22th to 24th of November, I am very happy to share with you all that we have lots of exciting updates for the motorcycling community. We also have a very special motorcycle launch planned during this Motoverse time. I take this opportunity to invite you all to join us at Motoverse in Goa.

To conclude, we are halfway through the tremendously exciting year full of new launches. Started with the Guerrilla 450 launch, we are now excited about the customer response to our diverse portfolio, and we are focused on sustaining and further growing this momentum. Now I will hand over to Mr. Aggarwal to talk you through an update on the VE commercial vehicles. Over to you, Vinod.

**Vinod Aggarwal:**

Thank you, Govind. I am very happy to share that at VECV, we recorded our highest ever 2nd Quarter sales of 20,774 units, exceeding our previous record of 19,551 units in Q2 of 2023-24 with a growth of 6.2%. This was even more commendable given the context of the relevant commercial vehicle market that shrunk by 10.8%. So, as against the CV industry dropping by 10.8% we grew by 6.2% in quarter two. At the overall level, the Indian economy has remained resilient through this period of geopolitical turmoil and delays in projects and tenders during the elections and uneven monsoons. With the pro-growth budget prioritizing investments in infrastructure, we expect commercial vehicle demand to rebound in the second half of this fiscal year. We recorded several best ever 2nd Quarter milestones across segments. We are at number one position now in light and medium duty trucks, which is 5 ton to 18 ton segment with the sale of 9,565 units in Q2 and a market share of 36.5% in the segment. Our heavy-duty sales grew 8% in quarter two versus the same quarter last year. Our market share in this segment now is at 10.2%. We made sales of 3,984 units in our bus division and against 3,214 units in the same quarter last year.

In our parts business, both Eicher and Volvo combined, we recorded a robust growth of 27% over Q2 of 2024. Exports in Q2 were 1,130 units up 12.2% over Q2 of 23-24 despite



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disruptions in traditional markets. Margins remain under pressure in a competitive market as we successfully continued to invest in growing our heavy-duty truck presence. During this quarter, we also entered into an MOU with Baidyanath LNG Private Limited for the deployment of 500 Eicher pro 6355 LNG trucks. So, this is alternate fuel with LNG as a fuel, which we have introduced in the market. Deliveries have already started, and we will ramp up during the coming quarters. The MOU aims to facilitate the development of the LNG station network across various locations, to fast track the development of the overall supply side ecosystem, thereby aiding the long haul transport segment to switch to cleaner fuel.

Coming to VECV financial performance, for the 2nd Quarter the revenues for quarter two are 5,538 crores, against 5,126 crores in last year of quarter two with 8% growth. EBITDA for Q2 are 395 crores as against 402 crores last year, with margins at 7.1% in Q2 as against 7.8% last year. Profit after tax for Q2 is 209 crores as against 187 crores last year. So, thank you all for being with us on this call today. We can now move to the question-answers. So, back to the anchors.

**Moderator:** Thank you very much sir. We will now begin with the question-and-answer session. Anyone who wishes to ask a question may enter “\*” followed by “1” on their touchtone telephones. If you wish to remove yourself from the queue, you may enter “\*” followed by “2”. Participants are requested to use only handsets while asking a question. Ladies and Gentlemen, we will wait for a moment while the queue assembles. The first question is from the line of Chandramouli Muthiah from Goldman Sachs. Please go ahead.

**Chandramouli Muthiah:** Hi Good evening and thank you for taking my question. My first question is just around the average selling price on the Royal Enfield side this quarter. We've had a relatively stable mix in terms of domestic versus export quarter-on-quarter also, relatively stable mix in terms of 350 cc quarter-on-quarter. 450 has improved slightly quarter-on-quarter, but there seems to be moderation in ASP quarter-on-quarter. So, just trying to understand what were the factors that might have driven it?

**Vidhya Srinivasan:** So, ASP as you know, we haven't taken any price increases from last year to this year. However, our product mix and some share in the higher than 350 cc has come in, all of that is reflecting as far as ASP is concerned. So, largely it's all connected to product mix.

**Chandramouli Muthiah:** Got it, that's helpful. Second question is just around some of the launch related costs that we might have had around the Guerrilla during this quarter, just want to understand, there has been a visible pickup in other expenses quarter-on-quarter. Next quarter we have Motoverse as well. So, how should we think about sort of the run rate on the other expenses line item for Royal Enfield heading into the back half of the year?



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**Vidhya Srinivasan:** You are right. We have had new product launches wherein Guerrilla came in, we had the new classic 350. So, some of those expenses are booked in this quarter. And next quarter, we would be having some amount of festive season spending as well. Having said that, we have had about 12 crores, which is one off expenses related to warehousing costs which we built up as we move towards the festive quarter.

**Chandramouli Muthiah:** Got it, that's helpful. And my last question is just around the monthly trajectory. I think for a long time, Royal Enfield has been between that 70 to 85,000 units per month sort of trajectory. Festive season this year, we were able to exceed, sort of the 100,000 monthly trajectory. So, just want to understand the factors involved there, was there some tail wind from the ability to stock up ahead of the festive season on some of the new launches, and going forward into the back half of the year, how we think about channel inventory and potential monthly run rates?

**B. Govindarajan:** Too many things which we really bundled up to go to the market. First, let me talk about the product. We brought the new Classic with the fantastic new colorways, with features getting added into that, like USB chargers, LED lamps and all those things, which has a very good response from the consumer. Second in the heartland of the Bullet market, especially Punjab, Chandigarh, UP, Haryana areas, the Bullet sale was slightly coming down when we launched the Bullet with the J platform engine. And with the market feedback which we got, we also brought one more product which is Battalion Black. So, that also helped, so there are product interventions we brought in, and as Vidhya was mentioning, we built up inventory, we hired extra space, and we really thought that there is going to be a lot of traction this year. In the last call also I was mentioning that we will amp up the marketing initiatives in the coming months. So, we actually went ahead with full blown market activation which we called it as a "360 degree market activation" now, that has helped. We also worked on inventory funding for the dealers, the floor funding was also taken up. So, all these things have really helped in bringing in an excitement into the market. The Classic has started having very good response. The Bullet has actually surpassed some models, and that's also having a very good response. So, the new product and marketing activations, floor funding, all those things came together, and that's why the excitement got rekindled in the market.

**Chandramouli Muthiah:** Got it, that's helpful. Thank you very much and all the best.

**Moderator:** Thank you. The next question is from the line of Kumar Rakesh from BNP. Please go ahead.

**Kumar Rakesh:** Hi, Good evening and thank you for taking my question. My first question was on your international business, has there been any inventory built up during the quarter because changes in inventory have gone up in your P&L?

**B. Govindarajan:** Changes in the inventory is predominantly on the domestic side, we have been always looking at not to build inventory in the international markets, we are very cautious about it. We are not



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that sort of a company. Which we will always stand up and say, we won't build inventory. You will see the wholesale retail difference also, even in the domestic market we have the lowest inventory built in the entire system. We never do that. In the international market, retail is picking up, and our growth also has been in the high single digit. We are not building up too much of an inventory. I must also tell you why we are also going very cautious about it, is that there is a OBD2B transition which is going to come in from 1st of January of 2025. So, we also have to keep that in mind when we are building that inventory. So, it's not too much of an inventory on the international side.

**Vidhya Srinivasan:** Yes, it's just a little bit of launch inventory.

**B. Govindarajan:** Yes.

**Kumar Rakesh:** Understood, got it. My second question was on your accessories, merchandise and spare part business. I understand that you don't give specific numbers, but directionally can you give a sense that, has the mix changed from last quarter to this quarter for the better or worse?

**Vidhya Srinivasan:** It's more or less steady.

**B. Govindarajan:** Yes, it's a steady business, we should understand one thing, I have explained earlier also. Our motorcycle accessories is directly proportional to the motorcycle sales, because most of - 98% of the conversion takes place only when the motorcycles are being bought. It is not during the life cycle. So, that goes along with that, when more SKUs are getting added, probably non motorcycles will keep going. Spare parts we work on a fundamental principle is that, parts availability even if it is a washer in the remotest corner, it should be available when it is required. So, customer satisfaction is the driving point for us in the spare parts business. But incidentally, the business is also in a very stable run, so both spares and GMAs are in a good run. In the apparel business, we took one more strategic review of the whole business, and we see the growth which is bouncing back even in this. In fact, some of you would have seen we also opened up an exclusive apparel store in Pune. As a pilot, we wanted to see the retail outlet, because people do want the brand to be experienced. So, we are also looking at an apparel retail strategy. How do we reach out to the consumer? They actually get us a business also but first is, how will we make our people to be the brand carriers of Royal Enfield and enjoy the brand motorcycling. That's what is the thought, so in a nutshell, all the business are stable, and it is growing.

**Kumar Rakesh:** Great. Thanks a lot for the detailed answer, just one clarification so you spoke about the one-off cost of about 12 crore for warehousing. Can you just explain what that cost was and what's the strategy behind that?



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- Vidhya Srinivasan:** So, basically, the cost is on account of additional warehouse space. Obviously, while we might need it for a month or two, they will obviously give a contract for three months or four months. So, it's basically an account of that.
- Kumar Rakesh:** And this is for Northern India, for the festival period?
- Vidhya Srinivasan:** Wherever required, it's spread across India.
- B. Govindarajan:** The warehouses cannot be built for a peak capacity. So, it is normally done through the entire C&F area sign off. As Vidhya was explaining wherever it is required, where there is a peak demand which will come up. So, you have to keep it on a variable basis. So, that's what she mentioned that we will actually have where the locations are, and we add it for three months time..
- Kumar Rakesh:** Understood and the units being kept here would be the dealer inventory, is that right?
- Management:** What, sorry, we didn't get that?
- Kumar Rakesh:** So, you would be keeping the vehicles here. That would be on the dealer's book, or our books for whatever period this would be?
- Vidhya Srinivasan:** So, this would be, the way we do this is we move from our warehouse to depot and depot to dealer. So, typically this would be some portion of it where we are just waiting for dispatch to dealer locations and we mix a bit, but largely our inventory.
- Kumar Rakesh:** Understood, Got it. Thanks a lot for that.
- Moderator:** Thank you. The next question is from the line of Pramod Kumar from UBS. Please go ahead.
- Pramod Kumar:** Thanks a lot for the opportunity. Vidhya, before I start with my questions, just a clarification on this warehousing cost. It should be an annual phenomenon in that sense, because you will have to anyway have to pay it, say, every year or this time it was very different because you are calling it a one off. So, just wanted to understand?
- B. Govindarajan:** Pramod maybe, Vidhya you would like to clarify, then maybe I can even add, probably it is an every year phenomena. So, what we normally do is, we look at inventory overall and we always look that inventory should not be built. So, warehouse sizing, we would look at, how do we reduce. Every year when we are picking up the market momentum, the size of the variable warehouse which we are talking about as an add on for the festive season or marriage season, we size it slightly differently every year depending upon the market pool. So, this year, we really wanted to build more inventory, so we have gone in for slightly higher space in terms of warehousing.





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**Pramod Kumar:** Okay. So, ideally would we expect this will continue next season as well or? I am just trying to understand?

**B. Govindarajan:** Ideally, sorry Pramod you are asking? Pramod, the highest sales season, "season-season" sale is one this, that's what is the Diwali, Dhanteras.

**Vidhya Srinivasan:** Diwali, Dussehra, Ganesh.

**B. Govindarajan:** And we normally do. We also mark the marriage season and the good times season across all the locations and wherever it is required we do that. For example, if I have to tell you at Onam, if in case we have to have a warehousing extra capacity required around the Kerala area we do that. So, it's a round the year phenomena, but whenever it is required, we will do that, we don't take it and then keep it idle.

**Pramod Kumar:** Yes, fair enough. And going back to the demand questions, basically the demand that came in for Royal Enfield was actually very, very surprising and we could see the marketing efforts, what you had with the full page ads and all. But I am just trying to understand how is the momentum after that, because is it like just they were customers on the sidelines who and with your marketing input, they came and made that purchase, and now we go back to the normal run rate or are you seeing the demand trajectory changing, or in terms of the walk-ins, the inquiries and conversion rates picking up even after the season and will you kind of sustain this marketing efforts, given the fact that once inventory rebuilds. Because what we understand from dealers is, many of the dealer locations had total stock outs of vehicles and I believe we have a very strong order backlog even for the marriage season in the up north market. So, I just want to understand how big was the marketing impulse on its own, and whether you will sustain it, and also on the financing schemes which are offered by the banks. Do you expect some of these to kind of continue as standard practice going forward, because I believe even that was a kind of a demand catalyst for the season.

**B. Govindarajan:** Yes. So, Pramod, I will go one-by-one. Question number one which you asked, how is the demand even now, was it only a festive time. Very certainly, from festive to post festive, there will be a change, but if we have to compare pre festive to post festive, how is the demand, pre festive to post festive now, the demand has gone up. So, the marketing interventions and the product intervention has really worked, and it is sustaining. Obviously, if you are looking at, will it be the same as the festive time, will not be. But pre festive time with the old Classic, old Bullet and not having enough stock in the respective areas. Floor funding not fully signed up, and the marketing activity is not there. With all those activities I am seeing now, in the month of November, in the last 10 days, the traction is very good, inquiries have been very good, walk-ins are also very good. So, that's a very positive sign which we are seeing, that's on the demand side. Second, you talked about the funding.



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**Vidhya Srinivasan:** Bank offers and the bank schemes, Pramod as you know a lot of our financing is basically through the retail financing options, not so much the bank financing option. So, we really didn't have anything specific which is bank offers or something like that for the festive season.

**B. Govindarajan:** And the third Pramod, you are asking about the sustenance program of the marketing initiatives. Even in the first quarter call, which I was mentioning, we will be doing "mother brand" level marketing campaign and a "product" level. During festive, you would have seen the first time we came with the range advertisement, because we wanted the consumers to see the full range of motorcycles of 350 cc and 450 cc platform, this has really worked. And we also have the cadence which is done up now for this quarter and coming quarter on all the products which we have launched already, and some of the products which are just getting launched, or almost launched about a week back, for all those things the marketing and market activation will continue in time to come.

**Pramod Kumar:** Okay, and Govind just want to elaborate a bit more on the demand response, because it was surprising to see that in a city like Mumbai or Bangalore or Pune, which are mature market, pretty mature market, dealers had the best ever Diwali in terms of the kind of run rate they had, the kind of order books they had. So, I am just trying to understand, what is the read from you guys in terms of whatever analysis you did or feedback you got from dealers, as to what is driving this kind of comeback, and is it like and the certainty or sustenance of this, because this is something which is not expected by even many Royal Enfield dealers, the older dealers. So, I am just trying to understand what has worked, just the marketing on its own or I am just trying to understand, because we understand this better we have better visibility on future demands. So, please.

**B. Govindarajan:** Pramod, during this time, the middle weight segment had a lot of activities and actions and noise. So, last time also I was mentioning that any amount of marketing effort which we would have done would have been an over emphasis on the same point, it would have gone into, saturated place. So, we held back market activations and all those things, but we wanted to enter into proper market activation activities around September time onwards. We also clubbed it because we had to go to the market with the good news. That's why we launched our Classic, with all the new fresh colors, with the additional features added into the motorcycle in Classic, we launched the Bullet in the market where we were losing market share because of the Bullet dominant areas. Floor funding was not available at some places, and the market activations, including what we have not done, like radios and print ads and whatnot, all those things have rekindled the interest in the brand Royal Enfield, which predominantly for us the proxy is Classic. So, the Classic interest has brought back the consumer more and more into the showroom, and that has helped us to the conversion. It is supported by the funding and supported by the finance available, all those things. We also came out with an incentive program of the retail for our front end staff, not Royal Enfield, through the dealer principals and that also has worked. So, we packaged everything and we really thought that let's go all



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out and see how the interest can be kindled and the desire is brought back. The demand is only an outcome. So, the desire is back, there is an interest which I am just seeing once again with a lot of positivism, and that's why the brand is actually now vibrant once again.

**Vidhya Srinivasan:** Just to add to that, if you remember Pramod, let me just add, last call BGR has pointed out that while retail may not necessarily be showing it, but the inquiries have been up, and they have been consistently up, so there is always curiosity but there's a little bit of wait and watch type situation that was happening as we believe as far as consumers were concerned, and all the launches came in and we are looking at all the options available. But during the festive season, when they have to, essentially or, want to buy, at that point in time, there was enough call to action which came together and which kind of, culminated in the numbers.

**Pramod Kumar:** And Vidhya related to that, how do you see the margin outlook given the volumes are back, hopefully we will continue, there's a bit of shipping mix, but exports will come back as well, and there's marketing effort. So, as a blend of all of that, how do you see the margin trajectory from here on because this quarter, there has been a bit of a waiver on, there has been a flavor of margin, but not a big one, but if you can just help us understand how should one look at, think about the volume versus profitability?

**Vidhya Srinivasan:** There are two, three parameters to margin. Of course, I have heard plenty from all of you on how you know absolute margin is what we should look at, and that's what we are looking at, but the two, three parameters to that is, from a product mix standpoint we are seeing the international mix doing quite well, which would be helpful as far as margin is concerned, commodity prices, we are not seeing any major pressures, what we are doing is that, wherever we are doing specific interventions at a product level, we are not necessarily reflecting that in the margin. We are just making sure that we are passing on benefits to customers where we can and that is also kind of showing up in some of the traction that we are getting with customers. So, frankly, I am not chasing positive margin, but absolute margin. We are happy, and the trajectory is quite okay.

**B. Govindarajan:** The key takeaway, which has to be as Vidhya was mentioning, is growth is the focus and what we are looking at as she was mentioning is, add value back to the product, to the consumer, and get the value proposition better more and more, and use all the levers which are available for getting the growth is what we are looking at, scale, value engineering, anything which is required we will continue to do that, as the commodity is not at the head width, which is also helping us in keeping it in margin also.

**Moderator:** Thank you. The next question is from the line of Aryn Pirani, from JP Morgan. Please go ahead.



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**Amyr Pirani:**

Hi, Thanks for the opportunity. Actually, my first question is on VECV, we have seen a strong market share growth in the business, but margins have remained a bit under pressure especially in this quarter. It's down both Y-o-Y and quarter-on-quarter whereas most of your peers are actually showing, improving margin. Now, obviously every company has a different strategy, but how should we think about margins going forward in this business and what cost line items are impacting the margins here, is it gross margin which is impacting it, or are there some fixed costs or other expenses, which we are investing in, which are leading to this decline in margin despite the revenue growth?

**B. Govindarajan:**

No, we are gearing up for a larger growth. If you look at first six months, the industry has dropped in 3.5 ton and above industry, It had dropped by around 2%, even though we have grown by 3.5% and quarter two of course, our growth is much better than the industry dropped by almost 10.2% or 10.3% and we grew by 6.2%. So, we are doing much better than the industry, but still there is more leveraging that we are looking forward to and we are very sure that the industry has more potential to grow, because the first half has not been so good for the industry because of government's over spending on CAPEX and uneven monsoon and few other factors, but the second half we are very confident that the industry should do better. So, therefore, there is no concern as far as the gross margins are concerned, but the expenditures we have to leverage more, and I am sure we should be able to do better, and we should also see that we are more of consistent performers on the margin even when the industry had not been doing so well in past, during COVID period or otherwise, we were the only one who were making it. So, therefore the sight that the competition has improved margins in a better manner. But of course, we should also have better impact in the future period with more leverage. That's what it should be.

**Amyr Pirani:**

That's helpful, sir. And, if I can, maybe ask a follow up. Is there a broad target for margins that you can share with us, are you looking at 8% as a level, are you looking at double digit maybe going into next year any broad idea targets would be helpful.

**B. Govindarajan:**

No, we don't give any targets on the margins. But of course, fundamentally the margins have to be better, so there's no doubt on that.

**Amyr Pirani:**

Okay, understood. And just going back on the Royal Enfield bit, I am just wanting to get back to that pricing and margin question. So, if I look at the mix, quarter-on-quarter, it is largely stable to slightly improving. The Himalayan mix is definitely improving. So, as you think of margins going forward, I know you are now focusing on growth and on the per vehicle EBITDA. Is there a kind of a mix that we are seeing, within the Classic lower variants or are we, how should we think about the variants within Himalayan and Classic, which are driving the growth at least right now and what is the initial response to the Bear and the Shotgun and the Classic 650 as well?



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**B. Govindarajan:** I'll go from the reverse, Bear 650 cc I'm sure all of you would have read, what is that, it is a 1960 inspiration from Eddie Mulder race at California that's an inspiration on a 500 cc of Royal Enfield. And that's an inspiration so we thought that we should get that momentum back into the motorecycling world. So, we launched Bear 650. Just launched, so I don't even know how many days now, from EICMA to now, maybe about a week's time. It's an outstanding product, so people who want to have his own path, and he wants to ride in his own space, and there is a lot of social media buzz around that product. Classic 650 is another thing, it is in high demand, which has been there for quite some time, from all the consumers, even from international markets, that we need a Classic 650. So, both the products have come in and are answering that call. As far as the model mix which you are talking about, in every product we have varianting, so our varianting strategy is always depending upon the CTG, depending upon the features which are there. And we have always seen our higher variants sell better. So, when it is not that we are saying the lower variant is bad or something like that, but always we have found in all the models, the higher variants sell better. So, to that extent, the margin we do see a betterment because of the higher variant selling.

**Amin Pirani:** Okay, Thanks for that.

**Moderator:** Thank you. The next question is from the line of Kapil Singh from Nomura. Please go ahead.

**Kapil Singh:** Good evening sir, congrats on a strong festive performance. My question was on, when we look at demand, you do sense that industry demand is also good or showing signs of revival, or most of the improvement is more attributable to the actions you have taken, and also between rural and urban what would be your rural and urban mix currently and are you noticing any different trends over there?

**B. Govindarajan:** So, two questions which you have asked, am I seeing the market growth, if I have to tell you about the market growth, the market has grown for during this festive time, maybe about 6%, 7% that's the market growth in the ICE during the festive time, and our retail has been almost 26% growth. So, that's the kind of traction which we had in our retail. The second, which you asked us, on urban and rural. Rural, the demands are going up and you all know, let alone the two wheeler or overall also, the urban growth rate is slightly lower that we are seeing it even in all including our motorcycles. But now, there are some products which are urban centric too like say, Guerrilla 450, now we are picking up those areas where it has a higher traction, and we are going to work on it during these two quarters on that product, because it is being a new brand, new product. We have to work on that product, and we are seeing it, especially in an urban context. It has a higher traction and a higher interest, and that's where our focus is also going to be there, on the market activations.

**Kapil Singh:** And may I know your mix also, how much is the rural and urban mix?



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- Vidhya Srinivasan:** It's very difficult to comment specifically, I would say that about, one third I would say is.
- B. Govindarajan:** It's a rural one.
- Vidhya Srinivasan:** Yes.
- B. Govindarajan:** And also it varies from product-to-product.
- Vidhya Srinivasan:** Geography-to-geography, because for example we have got pretty good traction in the East.
- B. Govindarajan:** For example, Himalayan might be having a higher traction in the urban market, and Bullets and Classic has some good traction in the rural market. Hunter used to be very high in the urban market, now I am seeing there is a traction which is coming up in the rural market. So, product-to-product it varies.
- Vidhya Srinivasan:** Some of our top 10 cities are continuing to do quite stable. Bangalore, Pune and all that.
- B. Govindarajan:** We don't cut it as an urban rural and then see how it is working. Rather, we will start looking at which product has what sort of a traction on the interest in which area, depending upon that, what is that the market activation to be done is, what is the focus which we are bringing in from September onwards.
- Kapil Singh:** Okay, great to hear that. Just a small one, if you could just share what is the current inventory level that you have?
- B. Govindarajan:** It's about three weeks max, that would be two and half to three weeks as an inventory. It has actually, some of you have raised now, there is some stock out situation which has happened. So, now we are actually going back to building some inventory in locations. So, because our retail during the festive season has been very, very good, we are positively surprised to be honest, and that has really made us to do an MRP run and at faster pace, which we did it slightly ahead during this time, and seeing the momentum of retail, which was taking place now, the production is getting amped up an inventory build will take place at a faster pace where it is required. Having said that, we are not a company, we will build excess inventory, we have what is called as a replenishment model, what is taken out has to be replenished. So, now wherever it is below the replenishment norm level, that's where the focus is, there to build back that norm quantity.
- Kapil Singh:** Okay, great. Thank you very much and best wishes.
- Moderator:** Thank you. The next question is from the line of Binay from Morgan Stanley. Please go ahead.



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**Binay:** Hi team, Thanks for the opportunity. My first question is, a few things that we talked about on the Royal Enfield side, our market intervention, some support for retail staff. Are these costs already reflected in Q2 or will they come more in Q3 because Q3 is the more retail heavy quarter?

**B. Govindarajan:** It is mostly flooded into Q2, some amount will flow into Q3 too, because some of the, for example, the incentive payout has to be calculated only after the incentive is completely there, the retail is squared off, and the reconciliation is done. So, probably some payment will go in this, and some areas which we have closed the entire billing on the 30th or something like that, few areas which we have already closed, so some amount may flow into the Q3.

**Binay:** Right. And the second is more an observation, it does seem that the company's and it's a right strategy it is pivoting a little bit away from margin to growth, because when we look at some of the margin drivers which is increasing export, rising 350 cc share on a Y-o-Y basis, we have seen them move up quite sharply, but yet the EBITDA per unit is flat. So, is it fair that now you guys are in a way focusing more on absolute volume growth, and that's why these initiatives have come in, then just targeting something on margins?

**B. Govindarajan:** Bang on, we are an absolute growth and absolute EBITDA value, not on the percentages.

**Binay:** No, I think that's the right strategy to sort of make the brand more affordable, accessible. Thanks team. Our best wishes for the future.

**Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Ambit Capital. Please go ahead.

**Jinesh Gandhi:** Hi. My question pertains to this marketing step up which we have done during the 2nd Quarter and beyond, any sense on what could be the impact of that in our 2nd Quarter performance, and how should we see sustenance of that?

**B. Govindarajan:** So, marketing activations are two, one is the total launch. During a launch, what happens is, you create an interest, so there will always be a spike on the general inquiries. The second is about sustenance. So, what do I sustain over the period of time thereby the call to action is becoming better. So, the funnel is becoming better, the conversion is becoming better. September was a step up time. That's what, even in the last quarter, I was just telling, that we will step up the marketing activities in the next quarter, and we bundled everything during the festive, which has really worked. What does it mean, any desirability is created, It's not an overnight phenomenon. So, the actual top to box of their brand recall is becoming better, and the consideration is becoming better. And now I am going to actually support it with the sustenance activity, more product level. That's how I am seeing even in the first 10 days of November, pre-festive time to now, I am seeing a good growth. So, that's the positivism I am



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seeing for the kind of an activity which we have done, and it will be supported with the sustenance activities to time to come.

**Jinesh Gandhi:** Okay. And this sustenance of growth post festive, would it be also attributable to the marriage season, which is expected to be fairly large in November this time, is marriage season a big catalyst for growth, retail demand for Royal Enfield as well. We know it's a very large contributor to the commuting segment, but for Royal Enfield is that very large, does it lead to a spike in demand?

**B. Govindarajan:** Yes, motorcyclists also get married, isn't it?. So, it's not that we are married to only motorcycles.

**Jinesh Gandhi:** Yes, fair point. And lastly, with respect to, there is stability in mix – both in domestic product mix and export contribution as well, but we have seen decline in ASPs and gross margins. So, what are we missing there, why is this divergence in terms of mix and gross margin, commodities also should have been stable on Q-on-Q basis. What are we missing over here?

**B. Govindarajan:** Vidhya explained that our ASP is actually controlled by two things. One is about the model mix and the higher share of 350 cc in the Q2. That's predominantly the ASP drivers, there is somewhere it is an increase, somewhere it is a decrease. Better product mix, more than 350 has increased something and international market has, it's predominantly a model mix.

**Jinesh Gandhi:** Okay, got it. And on exports are we seeing you mentioned 12% retail growth in broader exports is what we have indicated in 2Q?

**B. Govindarajan:** Yes.

**Jinesh Gandhi:** And any market share?

**B. Govindarajan:** The retail in the international market has been better, which is almost about retail is actually growing, which is higher than the wholesale by about 12%, inventory stocking is not taking place too much. But as I mentioned, for everybody the market internationally, especially in Europe, is going to be very different because of the OBD2B situation. There will be a lot of pre-bookings and pre-registrations, all those things which will take place. So, we are very cautious about those inventory buildup, because that's what has happened in one year. We don't want to repeat that, so there should be no inventory, it should be a pull. The way we are looking at a market activation in India, even in the international market, market level, product level, the mix which we are trying to do, and then see what sort of a marketing initiative which has to happen. And we are picking up one by one. EICMA is a starting point, every year which takes place. Now we have some areas where there won't be any riding season, so we will slightly lower it. Some areas where there are a lot of international trade shows, which will





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continue there, we are going to have our set up in a bigger way. For example, in EICMA this year, we have actually taken almost about 7,500 square feet of area because we really felt that it's an important marketing activity for us as a brand, and it has got accepted very well. In the month of November, we have a big Thailand show which is coming up. That's an important thing for us. So, like that, country wise we are picking up and then start working on the market activations, even for the international markets.

**Jinesh Gandhi:** Got it. Great. Thanks and all the best.

**Moderator:** Thank you. The next question is from the line of Arvind Sharma from Citi. Please go ahead.

**Arvind Sharma:** Hi, Good evening sir and thank you for taking my question. Just one clarification in the inventory part, where you did say the current inventory, is it possible to share the inventory going into the festive season. Say September end versus where we are now?

**B. Govindarajan:** You want the exact number, I can tell you.

**Vidhya Srinivasan:** Obviously, we built up before the festive season, and now we are down to two, three weeks for those dealer inventory. So, we have liquidated quite a bit.

**B. Govindarajan:** We have to accept that, if I remember right Pramod was raising, there is a stock out situation in some of the dealer points which we are filling the inventory back. That's an inventory situation. We have drastically reduced inventory.

**Vidhya Srinivasan:** But having said that, even when we went up to the festive season, we didn't do too much of an inventory build-up, at max our wholesale to retail inventory was very limited. So, we did what was right, and we kind of maxed out our inventory completely.

**B. Govindarajan:** If the question is to figure out, if the inventory is so low, will the wholesale be like that, and how is that and all, I can tell you very straight, because December is coming, because OBD2B is going to come, so we have to be very cautious about inventory. We will not actually build inventory anticipating anything. And now that our system, which we explained to you even in the third quarter last year, about the replenishment model, the replenishment model has also taken routes, and now it will be actually on a replenishment basis, so that we will hold the inventory and the dealer will pull the inventory whenever it is required, within almost about 48 to 72 hours. That's a SLA which we are signing with all of them. So, 48 is what we are driving for more and more.

**Arvind Sharma:** Got it, sir. Thank you so much for this. And this thing has been referred to in the previous part of discussion as well. But if you see the other expenses on a quarter-on-quarter basis, they have gone up. You said, part of it is for warehousing, but going forward, taking into consideration



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the various programs this quarter including the Motoverse, how much of this increase on a quarter-on-quarter basis is something that will sustain?

**B. Govindarajan:**

In the second quarter, maybe Vidhya can add more, 2nd Quarter obviously we had launches, and there are expenses around that, and some amount of EICMA expenses which were booked on that. Quarter three once again, as I mentioned we will continue to have sustenance expenses for the marketing, may not be very high like the launch expenses, but there will be marketing expenses more and more. Somebody asked a question about the calculation and payout, whether it has been done for the entire incentive scheme, which will happen in this quarter. So, it may not be spiking like what has happened in the previous quarters, but there will be expenses on the marketing related thing continue, because we want to continue the sustenance of market activations for the product and the brand in time to come. But if that's what we say - growth.

**Arvind Sharma:**

Got it, sir. That's all from my side. Thank you for taking my question.

**Moderator:**

Thank you. The next question is from the line of Raghunandan NL from Nuvama. Please go ahead.

**Raghunandan NL:**

Thank you sir and congratulations on the strong festive season. My question is on the Bullet model. Bullet had a decline in H1 but in the festive period there was a growth, dealers indicate Punjab, Haryana, UP, Rajasthan, the launch of battalion black, which highlights vintage design, supported sales. So, can you talk about the importance of launching this product and do you see the pent-up demand which was coming back?

**B. Govindarajan:**

Two things, first is as an organization, we were quick to accept the fact that maybe the product intervention is required. Normally, our product intervention takes a longer period of time. But the Bullet dependency on a few markets was very high. One is to the consumer second is to the dealer viability. When the dealer spoke to me, in fact we all sent a team there to understand more what is it they want, then we have understood that, there are some things on the Bullet, few features which they really felt is what they can relate to as a Bullet, like a bench seat and a rear shrouded tail lamp holder, these two are the major things for them. In the absence of it is not reflecting like a Bullet. I am not buying. In those areas did we lose the market share, may not be, did we lose the business, Yes, we started losing business because the consumers were not taking a decision to buy. So, the dealers were also having a huge pressure on their profitability. When we launched in those markets, and the Bullet 350 got a very good response from all of them, which you are also mentioning, was there a pent-up demand which has helped us during the festive season? Yes, undoubtedly, yes it has helped because, as I mentioned we have not lost the market share, the people are not taking a decision. Those people took a decision during their festive season and the availability of Bullet, but in the month of November, which is hardly about say about 8, 10 days in this time also, the inquiry



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of the Bullet in those markets continued to be positive. So, it does mean the product got accepted, the peak would have been because of the pent up but now earlier to the Bullet decline, now the decline will not be there the decline is arrested let me put it like that, with the introduction of the battalion black.

**Raghunandan NL:** And dealers indicate they hardly have one week of inventory here. So, is it fair to assume that going forward with the battalion black plus low inventory, the outlook seems to be good.

**B. Govindarajan:** Yes, that's why I said. We run the MRP normally, we do it around the 25th to 26th. So, this time around the 20th and 21st we found that the traction had been very good, so we started running it. So, we also started working with the vendor base, and our plan to build up production numbers higher and the team is working on it to build the minimum norm quantity of the inventory in all the locations, and we are on top of it.

**Raghunandan NL:** Thank you, sir. My second question was on the financing ratio, has there been any increase in that and financing schemes like 5.99% interest rate, would the cost of the scheme be borne by the financiers?

**B. Govindarajan:** Finance penetration is somewhere around 61.5% to 62%, around 62% is the finance penetration. What is the second question you are asking whether we will bear, we don't bear any costs.

**Raghunandan NL:** Yes, that was the clarification. So, it is borne by the financiers?

**B. Govindarajan:** Yes, we don't subvent, we don't do all those things, we don't bear any expenses.

**Raghunandan NL:** Got it sir, thank you very much and wishing you all the best.

**Moderator:** Thank you. The next question is from the line of Priya Ranjan from HDFC AMC. Please go ahead.

**Priya Ranjan:** Just a couple of questions. One is on the international side, so we are seeing some kind of pickup. And some of the geographies we have been doing exceptionally well, particularly Latin America, et cetera and you have entered, probably Turkey, last year sometime, earlier this year probably and Mexico, these two are very large two-wheeler markets. So, if you can throw some light on the ramp up potential in these markets, and these are, since, large two-wheeler markets. So, can we see the new peak in the export market very quickly, or it will take some time, it will grow at its own pace. And secondly, on the dividend policy, now we have a substantial chunk of the cash pile up and every year we are probably throwing up more than say (+5000) crore, in terms of broadly in free cash flow, et cetera. So, can we expect better dividend policy going forward?



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**B. Govindarajan:** So, maybe you can go from the rear, dividend policy Vidhya can add, then I will come to the wholesale India market.

**Vidhya Srinivasan:** Our board has been very receptive to whatever investors are looking at, et cetera and we have kind of revisited our divided policy, and I am sure the board will continue to keep looking at it and seeing wherever steps need to be taken and now to the next question.

**B. Govindarajan:** So, on the international market, if I have to tell you, we have almost retailed around 59,000, 59,500 motorcycles in this year compared to last year, it is almost about 12% growth, which is also there, in fact 20% growth. What is happening, market-by-market once again, because if I paint the picture for all the international markets there is a problem, first let us go with Latin America, Argentina, Colombia you all know, still there are some weaknesses in the market, because there are issues which are going around in that area. We are also consciously looking at it. We have our CKD plant, our team is there, products are there, local developments have done up. But the market is not so positive, or I don't see it as a very jubilant market. So, it has to stabilize. So, when it stabilizes, we are there with the full thing. Thailand, you all know the banks are slightly tightening so more and more. So, we have started working with a bank, in fact we are going there to talk to them and figure out what is that we have to do and all. You talked about Brazil, Brazil to overcome the quota issue, we have come out with the second CKD plant also, which is required for us to get a higher quota. Because the quota was not available, I have actually asked the team not to go for a further retail outlet increase. Now that our CKD plant is coming into operation by December time frame. We are opening up the retail outlet also. So, that's going to give growth, because as a company we are very touchy about our ecosystem's profitability for the long term. So, now, we will go for expansion of the retail outlets in the Brazil market. So, that's going to be a growth which is going to come. And the products are also very well accepted. Himalayan, just got launched, and it's getting accepted, it is a market for those sorts of products. In the outside market, New Zealand and other markets are not very high, but Australia is a very good market for us. Australia had all the interesting issues and all those things now, I am seeing the green shoot. So, the acceptance and the product, there is a bit of a velocity which is taking place in the market which is a good sign, in the SAARC our focus had been, how do we enter into the market. How do we grow the market, we entered Nepal, which has been stabilized now and this quarter, we went into Bangladesh, and all these unrest issues and all those things, I can happily say that there is a huge booking backlog at Bangladesh, which is a very good situation, which it is very positive surprise for us, also that in terms of number of bookings of motorcycles out of Bangladesh for Royal Enfield. Europe, still it has a bit of an issue. But now what is happening is, because the inventory corrections are done in all those areas now, their vehicles are getting filled, there is a retail momentum which is taking place. So, time to come. I don't see a major jerk in the international market, but the growth will be gradually going up. It won't be that there will be a blip in one few quarters to say, wow it has doubled, that's not the case. But will it have a



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positive trend, Yes it will have a positive trend in time to come, because all the activities are actually aligned to that, and the market is also showing like that.

**Priya Ranjahan:** And just specific on Mexico and Turkey, because these are two large two-wheeler markets where the potential is there, you have also entered. So do you think those markets can become much bigger than probably Brazil itself is right now?

**B. Govindarajan:** Possible, you are absolutely right. Mexico, we have been managing it from our North America subsidiary. And now what we are looking at is, looking at the growth pattern in Mexico and the potential which is there in Mexico. Now we are moving a team exclusively to focus on the Mexico market. It's just a few months back activity in that particular market. You will see the results which are coming out of it in time to come.

**Priya Ranjahan:** Sure. And just on the Guerrilla, it looks like more of an international product also, apart from the up mark the bigger city product in India. So, now we have a number of the name plates in various motorcycle segments, and the end customer is very, very different, the classic customer is very different. The classic customer is very different than the Bullet customer and the Guerrilla customer will be very different. Similarly the Himalayan customer will be very, very different. So, how do we try to tackle the marketing because, now we have a plethora of products the moment anybody enters your showroom, you have around 10 to 12 name plates, or maybe nine to 10 at this point of time, but eventually it will keep growing. So, how do you want to tackle the marketing of different segments, different sub segments, of consumers?

**B. Govindarajan:** It's a lengthier point to be honest, maybe we can have a chat when we meet up also, but for everybody's understanding, because you asked specifically about Guerrilla. Guerrilla is a roadster on a 450 cc Sherpa Engine platform, and this is we said, a real roadster without any flashy frills and not very plastic and it should look like a good bike to ride, and those who want a motorcycle with a bit more power, bit more speed and a different kind of an authority to ride this. So, we brought in this, and the consumers who are actually looking at this are not the Classic consumers, Classic and Bullet consumers are very different consumer set. They are looking at a particular form factor and particular riding stance. And those consumers are not considering Guerrilla. Guerrilla is being considered by young guys who have a thought process of comparing it with the rest of the motorcycles which are also available in the market, where Guerrilla stands up as the best motorcycle. So, when somebody walks into the showroom, first and foremost is, on a digital level we also are on a customer 360 platform. So, someone who comes in and then gives his phone number, we actually know what is his interest, and our conversation starts from his interest, from the cookies which he left with us at different locations and where he has visited, what he has actually worked and talked to us on, and all those things, with all those things only we are actually talking to them and then making them to take purchase decisions. So, it's a very different product, every product I can explain to you, that will be a huge discussion point. Maybe we can pick that up whenever we meet.



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**Priya Ranjahan:** Sure, great and thank you all the best. Just lastly, just to try to squeeze one so, now we are probably close to a million odd sales and annually our annual capacity is 1.2 so when can we see the next review of the annual capacity?

**B. Govindarajan:** Every year during the budget cycle, I am sure Vidhya will be asking how much money you guys want to enhance capacity, which she will also say, don't put too much money into productivity. So, that's a continuous discussion, which happens in the company. In the coming year also, it will happen. But as I mentioned, it is about 1.2 build capacity in most of the areas. In some areas, we have gone up to 1.4 also. So, it is possible for us to enhance that capacity with a short notice, with an investment.

**Priya Ranjahan:** Sure, Thank you and all the best.

**Moderator:** Thank you very much. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

**B. Govindarajan:** Over to you Vinod.

**Vinod Aggarwal:** Thank you very much for very good participation. And of course, we look forward to Q3 now. Thank you very much. We sign off with that.

**B. Govindarajan:** Thank you all.

**Moderator:** Thank you everyone. On behalf of Eicher Motors Limited and Aventus Spark that concludes this conference call. Thank you all for joining us and you may now disconnect your lines. Thank you.