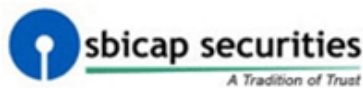




“Hero MotoCorp Limited Q1 FY18
Results Conference Call”

July 25, 2017



ANALYST:

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MANAGEMENT:

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- Moderator:** Ladies and gentlemen good day and welcome to Hero MotoCorp 1Q FY18 Results Conference Call hosted by SBICAP Securities. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Chirag Jain of SBICAP Securities. Thank you and over to you Sir!
- Chirang Jain:** Thank you Vikram. On behalf of SBICAP Securities, we would like to welcome the management of Hero MotoCorp to discuss the 1Q FY18 results. I would now hand over the call to Mr. Umang Khurana, Head Investor Relations at Hero MotoCorp to introduce the management and for opening remarks. Over to you Umang!
- Umang Khurana:** Thank you Chirang. Hello everyone. We have on the call today with us the CFO, Mr. Niranjn Gupta and Head of Sales, Marketing, and Customer Care, Mr. Ashok Bhasin. Unfortunately, Mr. Chhabra has not been able to join us today. We will have this call for an hour and we will begin straight away with Q&A. We can start now Vikram.
- Moderator:** Thank you very much Sir! Ladies and gentlemen, we will now begin the question and answer session. We have first question from Aryn Pirani from Deutsche Bank. Please go ahead.
- Aryn Pirani:** Good evening. Thanks for the opportunity. My question was actually on two aspects a) obviously during the June month we saw a kind of destocking and some offers given by every player, so what are the kind of inventory levels and up-stocking that you are witnessing in July that is my first question and my second question was on what kind of raw material pressure you are seeing because in a difficult quarter? Also, your gross margins have been relatively quite resilient, so what are the pressures that we are seeing going forward?
- Niranjn Gupta:** So I will take that. Niranjn here. As far as we are concerned, we did not face any destocking on the two wheelers in June quarter. Our inventory levels in June end have remained by and large same as the March end except for the parts business where a bid of destocking we witnessed. Second thing, coming to your raw material thing, yes, our margins have been good despite the raw material cost headwinds. Most of the increases that have happened have been absorbed in June quarter and you are aware that we took price increases from May 1, 2017, which helped partially. Moving forward, right now commodity seems stable, but we will have to see as it moves forward and we will be taking necessary action looking at both topline and bottomline.
- Aryn Pirani:** So for now obviously the assumption would be the pricing hike that you have taken are completely offsetting the raw material hikes that have taken place till now?



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- Niranjan Gupta:** Mostly.
- Amyr Pirani:** Any other pricing action you have done in this quarter or in the coming months?
- Niranjan Gupta:** No, so we did drop the prices to an extent the GST benefits from July 1, 2017, which you all are aware.
- Amyr Pirani:** Fair enough. I will come back in the queue for more questions. Thank you.
- Moderator:** Thank you Sir! We have next question from Jay Kale from Elara Capital. Please go ahead.
- Jay Kale:** Thanks for taking my question and congratulations on a good set of numbers. Sir, my first question was pertaining to what kind of volumes we have done from the Haridwar plant for this quarter versus what it was, maybe in FY2017 and second would be what is the outlook of the benefits of Haridwar say under GST and what are you hearing from the government?
- Niranjan Gupta:** So as far as our volume ratios are concerned they have broadly remained the same as it was earlier, so the mix has not changed significantly as far as Haridwar versus the rest of the plants are concerned. As far as the benefits are concerned as you know the rules for refund have not yet come in, so we are awaiting the rules, which we are expecting to come in in the next month or couple of months. Once the rules come then we will assess the impact. Right now our going in assumption is that the government will ensure that it is neutralized.
- Jay Kale:** Sir, you have spoken of raw materials maybe increasing in Q4 and then further in Q1 for us. But, if I see your RM per vehicle it has largely remained flattish from Q4 to Q1. So is it that the recent decline in raw material prices are aided, or is there a mix change in terms of RM per vehicle? If I look, it has been largely flattish Q-o-Q, so your comments?
- Niranjan Gupta:** It is not really flattish. There may have been some calculations, because our revenues or the volumes include the export volumes. As far as cost is concerned, there maybe some adjustment there. If you look at the underlying cost sequentially, the material costs have gone up. They have not remained flat.
- Jay Kale:** Sir the last question on your volume growth outlook for the current year and how are you seeing retail spanning out post GST. How has been your experience on that side be and your inventory situation currently?
- Ashok Bhasin:** Starting with GST, our transition has been smooth. I think we have proactively prepared ourselves adequately on all fronts both internal and external stakeholders including our stake partners, etc., so that worked out very well. I think we were very well prepared. It has been a smooth transition. In the market place, the first few days of July have been a little soft because of the downstream adjustments

and getting used to the GST. As we go into the future, we are expecting the quantum to pickup. As far as growth outlook for the year is concerned, we maintained that the industry in a year would be looking at a growth of high single digit and Hero would be growing in line with and in fact marginally better than the industry. On the inventory question, my colleague has already answered that we pretty much stay in the same situation as we were at the end of March more or less.

Jay Kale: Great. Thanks and all the best.

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

Kapil Singh: Congratulations on a great set of results. My first question is on dealer compensation for some of the taxes lost. Do the current results factor in any number for that?

Niranjan Gupta: Yes, the current results factor in provision that we have made towards the compensation of dealers, but that has been affectively neutralized by lower overheads or lower other expenses during the quarter, so effectively the underlying margins have not got impacted.

Kapil Singh: Would you be able to quantify that?

Niranjan Gupta: It is close to around Rs.50 Crores that we have made a provision. But, as I said the underlying margins have not got impacted.

Kapil Singh: So how should we look at the overall other expenditure? Will the ad spends rise from current levels or they will remain in the current range?

Niranjan Gupta: No, while there is always a phasing as you are aware involved as far as the other expenses are concerned, we do not guide expense by expense. We are, as far as ad is concerned remain around 2.5% of our revenues and as far as our margin is concerned we also do not give quarterly guidance. But, essentially we give a long term outlook, which we have given in our business model, we operate or comfortable to operate in a range of 14% to 15% margins, that effectively what we get guided by in all our actions.

Kapil Singh: Sir, lastly I wanted to check on the scooter side we have seen strong recovery in June with strong growth finally after we did the relaunches, so are we expecting this momentum to sustain? How has been the feedback on the new scooters after the upgrades?

Ashok Bhasin: The new scooters have been backed up with a strong go to market plan in the quarter that has just ended. We have received good feedback both from our channel partners and most importantly our consumers. We see that in the balance year, scooter momentum will further buildup bolstered by the two products that have been brought to the market recently and some upcoming launches later in the

year in other segments as we go along. So, we are pretty optimistic on our growth momentum and its build up in the year in scooters.

Kapil Singh: Last question from my side. On the raw materials, sorry to come back to this, but I would have expected some increase because we have moved to BS-IV and I thought there will be at least Rs.400 to Rs.500 cost of that, which would be ideally visible. But, maybe spares mix has skewed this, so if you have it like Q4 to Q1 how the spares makes a change in revenues? Could you share that or other thoughts if you have on why this number looks so low?

Niranjan Gupta: So the material cost has moved up sequentially, which you are looking at Q1 versus Q4 and that essentially is almost to the tune of around Rs.800 to Rs.900 per unit. It has moved up, which includes the BS-IV cost as well as the commodity cost. The way you are calculating could be a mix of the spare parts play, but you are absolutely right the material cost has moved up and it is visible as far as the numbers are concerned.

Kapil Singh: Thanks. I will take the rest of it offline. Thank you.

Moderator: Thank you Mr. Singh. We have next question from Karthik Chellappa of Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Thank you for the opportunity. Sir two questions from my side, firstly, if I were to look at our scooter market share over the quarter, it is still down year-on-year and we are still a number three to Honda and TVS. How do you see this going forward? If I were to look at it brand wise, this quarter both Maestro and Pleasure, thanks to a good activation campaign have seen volumes come back, but the Duet seems to be struggling, so is there anything specific plan for the Duet and your thoughts on the overall scooter market share. My second question is on the premium segment, as of now the 150cc and above we are not represented, so we might have a new upcoming launch and in the 125cc to 150cc we are starting to build some traction with the Achiever. But, there are already enough number of brands there with sizeable market share. In the medium term what kind of market share aspirations and growth in the premium segment would you look at?

Ashok Bhasin: Let me speak to the premium segment first. I think as you rightly said that the premium segment is made up of multiple subsegments and with the recent progress made with the Achiever, we are already sort of growing faster than the industry in that segment in the last few months and our numbers are gradually building up. Going forward, in the balance year and the subsequent quarters, there are new launches planned. We look to share the details of those closer to the time of the launch and all of these together will build our scooter portfolio and will help us grow our business and our market position in those segments. Currently, we are underrepresented in all and now with the 150cc Achiever, we are gradually moving up and we expect that both Achiever and the new product

launches together will help us build a good position in the premium segment where we have a very limited presence at this point in time. As far as scooters are concerned, we do have the portfolio of Maestro Edge, Duet, and Pleasure. Our go to market is an integrated strategy where we expect each of them to play a role in the portfolio. Yes, Maestro Edge has gotten off the block with some good results and we are confident that Duet will follow as well. All of this will be back with 360 degree activation plans both on communication and very importantly below the line on the groundwork, which we do in customer engagement, test drives, and advocacy programs, which will deliver strong results in the balance part of the year.

Karthik Chellappa: Sir just one followup. Do you think that the Duet in the sense that it has some kind of positioning problem because it is pitted directly against two very strong brands, like Activa and Jupiter whereas the Edge and the Pleasure actually have some kind of distinct positioning. Do you think that is like an issue for the brand?

Ashok Bhasin: I would just reiterate, we see a distinctive position for all our three brands Maestro Edge, Duet, and Pleasure. It will be fair to recognize at this stage that while Maestro Edge was a build extension of the previous Maestro brand, Duet is a completely new brand and therefore it is in the process of building itself in the market place. It is an early stage of the brand's journey and we are confident that as time passes, like many others in the Hero portfolio, Duet will also build a compelling proposition and market share in time to come in the scooter business.

Karthik Chellappa: Got it. Sir one data point. Can I get the volumes financed by Hero FinCorp this quarter?

Niranjan Gupta: 10% of our total volumes have been financed by Hero FinCorp.

Karthik Chellappa: Thank you very much Sir and wish you all the best.

Moderator: Thank you Sir! We have next question from the line of Pramod Amte from CIMB. Please go ahead.

Pramod Amte: Can you give some colour in terms of how have been your retail market growth for the first quarter and second have you seen any distinct growth patterns for rural and urban markets?

Ashok Bhasin: The markets in the first quarter have seen a positive growth momentum, which is reflected in the industry numbers as well. While we do not speak to specific retail numbers, I think it is important to note that in the first quarter overall as an industry a large volume was added in the dispatches much above retails, so the growth numbers that you see on dispatches, which are looking more close to 8%, the retail growth of the industry would be lower. For Hero as my colleague already mentioned, our inventory position at the end of June has been pretty similar to end of March, so our retails have been growing in line with our overall dispatches. In between urban and rural, clearly in the first quarter urban markets have performed slightly better than rural, but both urban and rural are back on the

growth trajectory. We expect that as we get into the festive season in the second half of the year the rural growth momentum will also build up further also backed up with a good monsoon trajectory. Of course, there are some pockets that are still exactly on the rainfall recede, but overall on a national picture monsoons should work out well. I think as the year goes by, the rural momentum will pick up further, but it is already positive like urban part of the market.

Pramod Amte: And second, considering that your manufacturing, other expenses look relatively subdued. Are there, just as a clarification, are there any provisions written back or any of those things to be taken care of?

Niranjan Gupta: No it is all pertaining to the current quarter, there are no one offs or such things in the quarter.

Pramod Amte: Sure. Thanks and all the best.

Moderator: Thank you Sir! We have next question from Kaushal Maroo of DSP BlackRock. Please go ahead Sir!

Kaushal Maroo: Just wanted to hear your thoughts on the weakness in Glamour volumes for the last few months?

Ashok Bhasin: Glamour, as you know has been a poster child because in the 125cc segment over the last six quarters with the exception of the quarters that has just gone by, we built a leadership position. We are back on a good path. We did have some supply constraints in that product segment, which are getting behind us and you will see much stronger numbers because the underlying footprint and the consumer expansion program that we have built for Glamour is very, very promising. If the supply constraints were not there you would have seen stronger numbers and you will see those coming back as well and overall both from a 125cc segment we are still sort of 50% plus in market share now, so we are the number one company, but you will see stronger 125cc shipments including Glamour with the supply issues getting behind us.

Kaushal Maroo: Right Sir! Thanks a lot and all the best.

Moderator: Thank you Sir! We have next question from Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: Thanks a lot for the opportunity and congratulations on a good set of numbers. My first question is actually addressed to Ashok. Generally Q1 is a marriage season market where 100cc motorcycle portfolio tends to do well and seasonally this quarter is where Q1 is normally where scooter share is probably the lowest for the year within four quarters, but this quarter surprisingly scooter share over last year Q1 is up by like 400 bps and probably the best ever what we have seen in the marriage season. So, just wanted to understand your thoughts is scooter also kind of gaining more traction in rural and also has it become a play in the marriage season market?

- Ashok Bhasin:** I guess when you say scooter share you are referring to the share of scooters as a part of the total two-wheeler market and not the market share right?
- Pramod Kumar:** Yes it is the total share of, the basically pie of the overall two-wheeler industry?
- Ashok Bhasin:** I would just refer back to what I said in response to another question a few minutes ago that in the first quarter in the industry there has been a substantial stock buildup by some of the players that has added to the growth numbers seen for the first quarter for the industry, which are about 8%. However, if you see scooters the first quarter industry dispatch has grown by about 20%. Without speaking to specific brand it is some of the large scooter brands that have added more stock and that has impacted the growth numbers that you see for the quarter. That said certainly scooter is a growing category and we do see a good double digit growth in that category to continue for the rest of the year, but the first quarter is slightly affected due to the dispatches or the additional stock buildup in that quarter by some of the players.
- Pramod Kumar:** So in a way you are implying that practically 100,000 to 150,000 plus of inventory buildup in scooter segment, which is kind of inflating this particular share of scooters in the industry numbers if I just do the math based on the percentage increase what we have seen?
- Ashok Bhasin:** We would estimate that the total inventory buildup in the scooter segment would be around 150,000 in that quarter.
- Pramod Kumar:** But on the second point or the first point rather are scooters getting more popular in the rural part of the country and even in the up North market?
- Ashok Bhasin:** Scooters are growing. Before rural I would say they are slowly growing in the smaller urban towns depending on the geography, depending on the road conditions, depending on the usage patterns. But if you see the first quarter of the fiscal that we are talking about the 100cc motorcycle segment has seen very, very strong double digit growth as an industry and Hero of course continues to dominate that if I may say so with a market share of more than 70% actually with a market share gain in this quarter.
- Pramod Kumar:** Thanks a lot Ashok and my second set of questions is for Mr. Niranjana. Sir one clarification on the GST compensation if my understanding is right it would have been set off from the revenue or rather than being added to the other expenditure is that right?
- Niranjana Gupta:** Set off from the revenue.

- Pramod Kumar:** Yes it is from the revenue and the second thing on finances basically on the spares part revenue as you have been sharing it in the past can you kindly share what is the spares revenue this quarter and what was it in the same quarter last year?
- Niranjan Gupta:** Our spares revenue has grown by 5% year-on-year basis and sequentially if you see in Q4 they were 10% of the net sales and this quarter it is 6.5% of the net sales.
- Pramod Kumar:** Thanks a lot Sir and finally on the margin outlook say longer term guidances are 14% to 15%, but given the way the strong volume momentum, what you are having in Q1 and second quarter should be definitely meaningfully better. So will it be optimistic to assume given even the commodity has kind of stabilized that margins can kind of go beyond 17% again the way we saw last year in Q2 and Q3?
- Niranjan Gupta:** I would reiterate that we would not provide a quarter guidance, but I can point you to a few factors. One is that as I mentioned earlier also in response to a question that it is not that the entire commodity cost has been absorbed in the quarter because by phasing it comes a part of that would come in the next quarter right, but a large part has been absorbed in the quarter. Second is as I mentioned that the other expenses have been lower in the first quarter due to phasing. So I would just point out to these two and third is that we are of course as we grow our volumes will also need to keep investing behind the brands, so just a few pointers, but we do not give quarterly guidance and we do try to manage our topline and bottomline within a range of 14% to 15% margin, which we believe creates shareholder value.
- Pramod Kumar:** Thanks a lot and best of luck. Thank you.
- Moderator:** Thank you Sir! We have next question from Raghu Nandan from Emkay Global. Please go ahead.
- Raghu Nandan:** Thank you Sir for the opportunity. Just wanted to understand the Leap program benefits in the current quarter and expectation for the full year thank you.
- Niranjan Gupta:** The Leap program benefits are similar to last year and same way as far as this full year is concerned our current expectations are similar to what we delivered last year.
- Raghu Nandan:** Just to clarify last year the benefit was about 90 basis points is that correct Sir?
- Niranjan Gupta:** Yes, we have had as far as the quarter is concerned, the Leap program benefits on the quarter basis are close to around Rs.45 to Rs.50 odd Crores, which is similar to what the last year first quarter level was and full year we would be expecting again closer to last year level, cannot specify a number right now.
- Raghu Nandan:** Thank you Sir!

- Moderator:** Mr. Nandan do you have any further questions?
- Raghu Nandan:** That is all from my side. Thank you very much.
- Moderator:** Thank you Sir! We have next question from the line of Ashutosh Tiwari from Equirus. Please go ahead.
- Ashutosh Tiwari:** Sir we do not get the number of the Super Splendor volumes separately, is it running higher than Glamour now or how the volumes on a monthly basis roughly?
- Ashok Bhasin:** Both Glamour and Super Splendor underlying position is very strong and both Glamour and Super Splendor as I said in the first quarter we had some supply constraints, so you have to wait for the year to unfold, but we have a very strong momentum for both the brands.
- Ashutosh Tiwari:** But is Super Splendor volumes similar to Glamour volumes on monthly basis?
- Ashok Bhasin:** They are similar by, we do not speak to specific models wise numbers, but they are similar.
- Ashutosh Tiwari:** Sir secondly demonetisation had impacted rural says a lot, so had we seen some bit of demand playing on to the Q1?
- Ashok Bhasin:** Like I said rural demand is coming back at least in some parts of the market and first quarter weaker momentum did indicate that particularly markets in parts of North and some markets of the East has started recovering much better than some of the southern hemisphere markets.
- Ashutosh Tiwari:** So you mean to say the southern market was weak in the quarter?
- Niranjan Gupta:** The North and East markets have responded better also because they had the benefit of the marriage season for larger part of the first quarter unlike the South where the marriage season did not have the kind of impact for the quarter sales, so benefiting from that and the underlying improvement the North and East have shown stronger trends in the first quarter.
- Ashutosh Tiwari:** Thanks a lot.
- Moderator:** Thank you Sir! We have next question from the line of Mukesh Saraf from Spark Capital. Please go ahead.
- Mukesh Saraf:** Thank you for the opportunity. Sir my first question is regarding the GST input credit, we are spending about 2.5% on advertising and maybe some more on other services that we are taking, so we are obviously paying about 18% GST on that, we will be taking credit of that, which you earlier

obviously could not take. My question was primarily the pass through that we have done for this GST does that include this kind of benefit also or that was just the plain benefit of the rate change?

Niranjan Gupta: As I said benefits which we could assess that is what we have decided to extend the GST benefits on July 1, 2017, so that includes the offsets, the cost, all that sort of stuff mitigative, so these are very smaller marginal stuff. The bigger change was the outward taxes, which were effectively reduced and that is where you see the significant impact that is in the pricing.

Mukesh Saraf: Alright and secondly on the Haridwar facility while you said that you will get clarity later. Currently or prior to GST you could not take the input benefit also there, so assuming that you do not get the entire kind of a compensation from the government, would this input credit be able to offset some bit of that, which you might not be getting?

Niranjan Gupta: We are awaiting the rules of refund, which will specify everything related to the area based exemption units, so once those rules come out because the devil will be in the detail and how those are framed and then we will accept and then we will take necessary actions, if required.

Mukesh Saraf: Alright. Thanks a lot. That is it from my side.

Moderator: Thank you Sir! We have next question from the line of Saurabh Kumar from J P Morgan. Please go ahead.

Saurabh Kumar: Thanks for the opportunity. My question was fiscal 2019 we essentially see two cost heads one is on the Haridwar plant benefits going off and then also on the cost increases related to BS VI, so in that light do you still see your margins holding up at about 15% odd levels next year and what will be the impact of these?

Niranjan Gupta: Not this fiscal. You are talking about FY2019.

Saurabh Kumar: Correct.

Niranjan Gupta: You are very right FY2019 we have these cost headwinds both of them, which will be there. However, margin is not just a function of cost it is also a function of what the competitive costs are and to the extent of BS VI, one would expect that as long as the cost are competitive then they could be passed on in the pricing and as far as the fiscal is concerned. Yes, we have outlined earlier also there will be impact, but equally, we will be ramping up alone as well. So therefore there will be a partial offset to their extent and therefore we remained comfortable with our margin range of 14% to 15%.



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- Saurabh Kumar:** So the early guidance of basically from do you essentially have 100 basis points odd decline in margins that essentially stays right?
- Niranjan Gupta:** Yes.
- Saurabh Kumar:** Your second comment was essentially that your dispatches were higher than retail, so that comment was mostly for scooters and not motorcycles right?
- Ashok Bhasin:** For ourselves we said that our dispatches were in line with our retails. Our dispatches are in line. We did not add any significant stock in this quarter unlike the industry where we estimate that there was a significant stock buildup in the quarter.
- Saurabh Kumar:** But the stock buildup would have been more on the scooter side?
- Ashok Bhasin:** Yes.
- Saurabh Kumar:** Sir one final question, so Honda has launched bike I mean scooter called Cliq for the rural market. Early days, but do you think that this could overtime be a competitor to Splendor or something?
- Ashok Bhasin:** I do not want to speak specifically on a competitive brand or product, but I would just go our reference to the entry segment in the market where Hero has visit portfolio of brands starting with HF at a very strong position and our market share now is at 70%. We have seen over a period of time that despite multiple launches of multiple competitors Hero's strength in that market visit brand and value proposition and our distribution and service network has stood the test of time and vindicated our position. In fact actually we have not only maintained our position we have actually gained, so we are pretty confident of our portfolio and our go to market and change some service network to hold our sales against any competitor without speaking more about Ather and the model.
- Saurabh Kumar:** This is helpful Sir! Thank you and all the best.
- Moderator:** Thank you Sir. We have next question from Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.
- Srinath Krishnan:** Good evening Sir! Thanks a lot for the opportunity. In your annual report, there has been a lot of increase focus on export markets, you have specified about separate facility at Bangladesh and Columbia with 150,000 capacity, but in terms of monthly volumes we seem to be around 13000, 14000, when can we expect some sort of ramp up from the current run rate?
- Niranjan Gupta:** As far as our global market is concerned, you would have already seen press release that Bangladesh has commenced commercial production in this quarter and Bangladesh volumes are ramping up. So

we do see traction in few of the countries and while we are present in 35 countries, some of the countries have global headwinds, macroeconomic headwinds, some others we are seeing there is growth traction especially countries like Bangladesh. We are also accordingly disproportionately focusing more on those countries to grow while of course continuing to build and nurture the other countries. We do see that the volume should see now traction moving forward.

Srinath Krishnan: Thank you Sir! Thanks a lot.

Moderator: Thank you Sir! We have next question from the line of Hitesh Goyal from Kotak Securities. Please go ahead.

Hitesh Goyal: Thank you for taking my question. Sir, I just wanted to get a sense on the Haridwar benefits. So basically if you can give again some sense on the benefit that is coming on the EBITDA margin from Haridwar plant. If you can just tell us again about it? Thank you.

Niranjan Gupta: We have mentioned it earlier that the Haridwar benefits expire on March 31, 2018 and that has 100-basis point contribution to EBITDA margin, which goes away from FY2019, but gets partially offset by ramp up of Halol, so this is the entire clarification or reiteration on Haridwar.

Hitesh Goyal: On that point in Gujarat or Halol and you also have some other benefits, will both of these benefits will you able to offset Haridwar impact or not?

Niranjan Gupta: If you notice what I have said, I said partially offset and not fully offset and that is where our long-term margin range guidance of 14% to 15% comes in.

Hitesh Goyal: My last question is on entry level segment, recently Bajaj has released results and they have indicated that in the entry level segment they are actually making EBITDA loss now. What would be the position of Hero in that segment or we making decent margin in that segment, if you can give us some colour?

Niranjan Gupta: While we do not speak to profitability of each segment I think Hero has judiciously managed and demonstrated over a period of time. The balance between revenue topline growth and margins and my colleague has reiterated that today as well and we will continue to do that and we have done that successfully both with how we go to markets and how we balance the bottomline, so we are pretty positive about it.

Hitesh Goyal: Thank you very much.

Moderator: Thank you Sir! We have next question from the line of Basu Banerjee from Antique Finance. Please go ahead.

Basu Banerjee: Thanks for taking my question. Congrats for good set of numbers. Couple of questions. One, if I see on a long-term basis, bulk of your free cash flow is getting distributed as dividend with rising dividend per share. Now what is the focus on R&D capex down the line as you said that the 150cc plus segment is a void in your portfolio and you will be working on that How will you be focusing on the R&D expense specifically ramping up to focus on such new models where competition is already there and what is your guidance on capex down the line, how much will be on capacity addition and how much will be on R&D?

Niranjan Gupta: Let me take first question on the R&D. It is not that we have not been investing. If you see the investments that we have done in R&D and would have seen our annual account. a) We have build full facility there and second you have seen the investment both on revenue and on capex that we have been doing. We are actually now fully invested as far as our R&D is concerned. It is not that it is getting under invested and we will increase the investment. So whatever is required we are even investing today behind the pipeline of products and will continue to do so in future as well, as far as the R&D investments are concerned. Your next question on the capex split, we would not be able to give split on how much on capacity and how much on this, but our overall capex guidance has been that over the next two years around Rs.2,500 Crores, which will have a lot of things like capacity additions, digitalization, it has greenfield plant, it also has R&D, tools and product development, it has Andhra plant, which will be somewhere down the line coming up, it has also full capitalization as far as Halol is concerned. So that is essentially the stock and last time we have said that our current capacity if you see is around 8.9 million and with Halol and with Andhra that should go towards 10 million mark, that should give you a sense of the capacity and other investments.

Basu Banerjee: Maybe this Rs.200 Crores, Rs.180 Crores odd investment in Ather for electric vehicle development, so that is also quasi investment on substitution of R&D indirectly one can assume because that is also for the next gen products? Such kind of developments anything envisaged as such in your plans?

Niranjan Gupta: We do not comment on M&A or alliances or part of that, but obviously as a business we continued to look for what creates value and have been taking necessary actions like Ather and will be taking necessary actions in power in future as well.

Basu Banerjee: Last question is like scooterization has been great for last four, five years, how do you see now the next level of scooterization in the rural market because bulk of the scooterization is to the urban markets, the metro city infra, how do you see that happening in the rural markets were road infra is yet to be comparable?

Ashok Bhasin: We have already addressed I think a similar question regarding this in rural, as I said scooter should see a double digit growth in the current year that is a positive trend and some of that would obviously include some of the lower order towns or the smaller towns in the last two, three, four and that trend

will continue, but I think given the overall penetration levels in this market which are only 35% as I said frequently on such calls where we see a strong growth opportunity for the motorcycle format and the scooter format in the two-wheeler market in the country.

Basu Banerjee: Thank you.

Moderator: Thank you Sir! We have next question from the line of Priya Ranjan from Systematix. Please go ahead.

Priya Ranjan: Thanks for taking my question. My question relates to when we look at this 100cc market my Splendor volume and HF Dawn volume gap between both are coming down any reason do you see why Splendor has been static at around Rs.2 lakh or so, but this segment is going down from some one-and-a-half year back to now 1.5 lakh every month?

Ashok Bhasin: I think we have to look at it our district level from an integrated perspective for the Hero portfolio. So when you look at the 100cc segment you are referring to two brands HF and Splendor; however, unlike HF, Splendor actually extends its franchise at 125cc segment with model Super Splendor, which is one of our faster growing. I think we spoke about the very good track record in the last six quarters of Glamour and Super Splendor. So some of the Splendor franchises now are being addressed through the 125cc product, which is the super Splendor. I think you have to look at the holistic picture.

Priya Ranjan: In that case I mean now the HF Dawn number and Splendor 100cc will be almost equal in terms of all?

Ashok Bhasin: At 100cc level, they will be close, but then if you look at a total picture of the integrated portfolio you will see a very strong growth and that is vindicated by the fact that our market share between 70% to 80% in the entire place from 100cc going right up to 125cc just short of 125cc they are not at 50% now.

Priya Ranjan: I am not doubting that I am just trying to understand the market, why the market is behaving like that because I think Splendor is more aspirational compared to HF Dawn that is why?

Ashok Bhasin: I would say both, sorry let you complete first.

Priya Ranjan: That was my thought I mean just.

Ashok Bhasin: I would just say that for all our brands on the Hero portfolio including HF and Splendor have an aspirational value to themselves. It is which brand is aspirational for which segment of consumers and which brand addresses the value proposition desired by which consumer better. So we are fortunate

that we have successfully built a portfolio of brands and with that play we are being able to address both the consumers those who aspire, seek and actually go and put their money, Similarly there are consumers who go and buy Splendor, I think both are extremely strong brands. Both have demonstrated that they are not only leader, but they have sort of dominant leaders in their segment and that trend continues.

Priya Ranjan: And just one question on scooter side, have we ever thought of separating our sales force on the line of motorcycle and scooter separately to get more better yield from the scooter side?

Ashok Bhasin: I think our integrated go to market strategy with between motorcycles and scooters is working effectively and you see that in the strength both in motorcycles and improving momentum for scooters. So we believe that integrated strategy is working well.

Priya Ranjan: So, no need to actually separate the sales because probably my sense is that if dealer says somebody is happy selling the Splendor because it is easily saleable?

Ashok Bhasin: As I said, I would not comment on your question and observation.

Priya Ranjan: That is all from my side.

Moderator: Thank you Sir! We have next question from the line of Jinesh Gandhi from Motilal Oswal Securities Limited. Please go ahead Sir!

Jinesh Gandhi: Couple of clarifications. First is with respect to GST compensation about Rs.45 Crores - Rs.50 Crores has the entire compensation or we could have some more in second quarter?

Niranjan Gupta: Going forward we do see that some of the costs may come and some of the benefits may come, but we do see the cost and benefits to neutralize as far as moving forward is concerned.

Jinesh Gandhi: Secondly with respect to Haridwar plant impact in the past we have indicated about 100-odd basis impact so this is after set off of Halol plant or 100 basis point would be lower after the Halol plant benefit?

Niranjan Gupta: No this is the gross impact.

Jinesh Gandhi: 100 basis points is gross, understood.

Thirdly with respect to Ather Energy Investment, which we made about Rs.20 odd Crores so this will result incremental stake or this is just to maintain our stake?

- Niranjan Gupta:** It is just as far as Ather is concerned, now our stake is 30%.
- Jinesh Gandhi:** Okay, and lastly can you indicate what kind of price increase we took in May?
- Niranjan Gupta:** I think that we have covered in the last call and subsequent PR as well so as far as May what concerned it was ranging from moderate between Rs.400 odd to almost around Rs.1,800-Rs.2,000 so that was covered in the last financial itself.
- Jinesh Gandhi:** Thanks.
- Moderator:** Thank you Sir. We have next question from the line of Ankit Merchant from KR Choksey. Please go ahead.
- Ankit Merchant:** Thank you. My question has already answered.
- Moderator:** Thank you Sir. We have follow on question from the line of Aryn Pirani from Deutsche Bank. Please go ahead.
- Aryn Pirani:** Thanks for the opportunity again. Just to go back to their benefits that you get at various plants, the GST related clarification that you are waiting for applies only to the benefit at Haridwar or also to the VAT related benefits that you get in Rajasthan and Gujarat because there also the state government has promised you a VAT refund as I understand. But what clarification would you need for that as well or at least that part is clear?
- Niranjan Gupta:** So everything gets covered in the rules for refund that will come. It is not just about clarification. It talks about mechanics. How many days there will take to refund, what document they will need so all those rules they are framing.
- Aryn Pirani:** Just to go back to your market share in motorcycle. Obviously, while we have seen that your 100cc to 110cc motorcycle market has remained quite resilient and actually become stronger, Passion has a brand has been declining for two years now and even in 1Q we are seeing Y-o-Y decline. Just want to understand is it because is it getting sandwiched between HF Splendor and Glamour and hence does not have any unique positioning or is there something else which is happening which is bringing down the brand?
- Ashok Bhasin:** Two things about Passion. I think Passion by itself, while on relative basis which is running close to flat, actually versus last year at this point in time and in the Hero portfolio because we have more than one brand obviously. You must have seen the other thing that we have to remember is that the 125cc expansion that is taking place for the Hero consumers are directly entering that. Going forward, we continue to see a strong future for Passion. We brought in the i3S special features in that which is a

Hero unique feature and benefits the consumer and that has brought us from additional volumes some Passion. We do expect that in the balance part of the year Passion will see further momentum with reaction that we have planned for brand.

Amyr Pirani: Thanks for the opportunity again.

Moderator: Thank you Sir. We have follow on question from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Thank you for the opportunity again. Sir on the scooter portfolio have you noticed any distinct demand preference for your brands geography wise like say Maestro more in the North and the West whereas Duet is more in the South that kind of any demand preference?

Ashok Bhasin: I think Duet is at very early stage in its journey like I said. We expect national footprint for Duet to expand and that is how we see it going. Obviously for legacy reasons because as far as the legacy we have had a stronger presence for Maestro in parts of the country saw the Hindi belt markets in east and parts of south and west, but if we look out into the future, I see an equally expanded portfolio of consumers and franchised for Duet brand.

Karthik Chellappa: Does the GST accelerate your spare parts growth in the medium term?

Niranjan Gupta: In the long-term yes. Now how to define the long-term we will have to play out, but as you know that any sector where you have an organised versus unorganized sector play there it is beneficial for the organised sector in the long-term.

Karthik Chellappa: Thank you very much.

Moderator: Thank you Sir. We have the next question from the line of Pulkit Singhal from Motilal Oswal Asset Management. Please go ahead.

Pulkit Singhal: Thanks for taking my question. Sir, just wanted to get a bit of clarity on the gross margin. I think this question was asked before, but I could not understand it clearly. It is commendable that despite raw material price hikes and the costs are going to BS-IV, which you mentioned has resulted in Rs.800 increase in the raw material cost per bike, we are seeing a very flattish raw material cost per bike. So what is the reason for that and I am talking about sequentially?

Niranjan Gupta: Sequentially you will have to take out the mix because when you take out the material cost they include also the parts and spare parts were in Q4 10% of the net sales while they are in this quarter they are 6.5% of the net sales.

- Pulkit Singhal:** But Sir, that explains it but then the margins have also gone up sequentially, 31.5% to 32.3% and my understanding is spare parts is a much higher margin business.
- Niranjan Gupta:** As far as margins is concerned, I think this will also be an effect of the discounts, which is there in Q4, so it will be difficult for you to compare like that, but if you just see the bottomline is that our margins for the quarter is 16.3% and if you were to gross up the Q4 for the 193 Crores it would have been 16.2%. So they have remained similar and within that you have a material cost per bike going up and you have selling price going up and then you have the other expenses coming down. So all those are neutralizing against each other, which is giving the same margins.
- Pulkit Singhal:** This is Y-o-Y comparison. Actually I was doing more of the Q-o-Q comparison to understand gross margins increase.,This is more sustainable now because I mean in the sense that without getting into the guidance as such, because you have already absorbed the raw material cost increases part and the regulation part going ahead we should not be expecting much variability in the RMC?
- Niranjan Gupta:** I repeat that we would not be able to give a margin guidance whether they will be stable or not, but we can point out to a few factors and I will just repeat them again. As I have said commodity cost is absorbed not fully, but I said most of it has been absorbed. Second is that we will have to see looking forward how the commodity behaves and third is, I have already mentioned that the first quarter also you have the other expenses which were lower, which will move moving forward you will see. It will depend on some of these factors and therefore we only include the long-term margin guidance.
- Pulkit Singhal:** Thank you Sir.
- Moderator:** We have the next question from the line of Jinesh Gandhi from Motilal Oswal Securities Limited. Please go ahead.
- Jinesh Gandhi:** Thanks for this opportunity. For Halol plant by when does we expect ramp up to happen?
- Niranjan Gupta:** It is getting progressively ramped up. We should see in a year's time the growth coming through. That said, but it is getting progressively ramped up as we speak.
- Jinesh Gandhi:** We have not yet started to trace to planning now?
- Niranjan Gupta:** No, not right now.
- Jinesh Gandhi:** Secondly, the capex guidance you gave of Rs.2,500 Crores this includes Andhra Pradesh plant, right or is it excluding Andhra Pradesh?
- Niranjan Gupta:** It includes Andhra.

Jinesh Gandhi: Lastly in terms of tax rate what kind of tax rate should we see this year as such, about 29% to 30% or more than that?

Niranjan Gupta: For the first quarter you would have seen 29% is the effective tax rate. Moving forward we will have to see, but it looks like that should be the tax rate effective overall basis. Some bit of changes here and there may happen depending on the composition and sourcing of volumes from different plants. Just as a clarification, Andhra is part of the capex guidance we have given is for two years, which is Rs.2,500 Crores. So it includes part of Andhra, while the other part may come up because Andhra plant will take time to come up.

Jinesh Gandhi: Understood. Thanks and all the best.

Moderator: Thank you Sir. We have our next question from Hitesh Goyal from Kotak Securities. Please go ahead.

Hitesh Goyal: Thank you for taking my question again. Sir, this was on electric bikes. Basically our understanding is that the new products by Ather and Tork. They do not have much capacity to really make an impact in the market, but my understanding is that that bike has already reached a point where it could take off, but the issue is more electric charging infrastructure which is not available right now. So is Hero doing something on those lines or what are your thoughts on that?

Niranjan Gupta: As far as EV is concerned, yes there is a lot of things happening around it and everyday almost new research report comes out on EV. What we are doing is we have a two-pronged strategy. So one is you have seen our investment in Ather, and you have seen again statements by Ather, so you know what their plans are, and the second is in-house also we are building up the capability. What time and when we would not be able to give a guidance, but this is a two-pronged strategy that we are following.

Hitesh Goyal: But anything from the government side on the electric charging infrastructure, which you can share, anything government is thinking on those lines?

Niranjan Gupta: It is actually all in the public domain, which the government is working very closely and along with a lot of players and industry in order to think as to how to create a charging infrastructure along the lines of what China has done.

Hitesh Goyal: But you do not see any major impact due to electric vehicles in the near term?

Niranjan Gupta: It would take time though the field is moving fast, but it is not like it is coming tomorrow, but yes the whole development on electrical vehicles from the government side, from the macro side and on the player side is moving fast.



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- Hitesh Goyal:** Thank you Niranjan.
- Moderator:** Thank you Sir. We have the next question from the line of Pramod Amthe from CIMB. Please go ahead.
- Pramod Amthe:** This is with regard to your spares business. If I look at your last year the spare parts growth was hardly around 3% and this year also you are talking about just a 5%, is there any real issue there? Why are you struggling to grow compared to the other peer players, which are at double-digit growth? What are the challenges you are facing in the spares side?
- Niranjan Gupta:** As far as spares is concerned, there is no singular issue that we are seeing. Our Q1 has grown 5% and we do see as far as long-term is concerned, and in fact long-term can be medium term because as the GST settles down we should see a higher growth moving forward on spares.
- Pramod Amthe:** But what is your outlook in the short-term with the GST? Is it going to be a further challenge for sales or how is it?
- Niranjan Gupta:** As far as this is concerned, the current destocking pattern should settle down by end of this quarter. So it takes a couple of months to settle now as far as wholesaler traders are concerned. But we do expect that by the end of this quarter things should settle down and then thereafter the benefits in terms of growth should start flowing in.
- Pramod Amthe:** Thank you.
- Moderator:** Thank you Sir. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Chirag Jain of SBICAP Securities for closing comments. Over to you Sir!
- Chirag Jain:** Thank you everyone. On behalf of SBICAP Securities thank you all for joining the call today. Thanks again to the management of Hero MotoCorp for giving us the opportunity to host this call. I will hand it over to Umang for any closing comments.
- Umang Khurana:** Thank you Chirag. Thank you SBICAP. It was good to speak to all of you. We are happy to take your calls offline, now. Bye-bye.
- Chirag Jain:** Thank you Sir.
- Moderator:** Thank you Sir. Ladies and gentlemen on behalf of SBICAP Securities that concludes this conference. Thanks for joining us. You may now disconnect your lines. Thank you.