"Hero MotoCorp Limited Q4 & FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Hero MotoCorp Q4 and FY2019 Earnings Conference Call hosted by HDFC 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aditya Makharia from HDFC Securities. Thank you and over to you Sir!

Aditya Makharia: Thanks Stanford. We have with us today the senior management of Hero MotoCorp on the call. I will now request Umang Khurana, Head Investor Relations to take the proceedings from here on. Thank you and over to you.

Umang Khurana: Thank you Aditya. Welcome everyone to the Q4 and FY2019 post results conference call. We have with us today the management represented by Mr. Niranjan Gupta, our Chief Financial Officer, Mr. Surender Chhabra, Vice President, Corporate Finance, and Mr. Sanjay Bhan, Head Of Sales and After Sales. We will begin the call with opening comments from the CFO and then take your question. We have budgeted an hour for the call. Over to you Mr. Gupta!

Niranjan Gupta: Thanks Umang. Thanks for joining the call. It is a bit late, but let us hope we make the most of it. As you would have seen the results it has been a tough quarter overall for auto industry as such, which has been due to various factors. We have been talking about insurance costs, liquidity and other factors. Our results are no different. We have delivered a volume of 17.8 lakhs, a revenue of Rs.7,885 Crores, an EBITDA margin of 13.6%, which, given the circumstances shows the resilience of the portfolio and a PAT of Rs.730 Crores. There are quite a few positives for us in these results.

One, on the entry segment there is significant market share recovery that has happened in Q4. Our market share in Q4 is now 65% plus, which means that we have recovered most of the lost market share of the three quarters and staying true to our strategy and at prices and value, which are higher than industry.

Second 125cc scooters where we launched Destini and the last time we talked about the shares that are moving up. We have moved beyond 10%, we can say moved beyond 15% and probably a little more as Sanjay will talk about later. Further, we are fortifying this 125cc by launching Maestro Edge, which will come in the next month itself. Coming to premium, you are aware, we did launch Xtreme 200R and now we are launching XPulse, which again you will see next month and therefore we will have this premium portfolio, which we will be building up. So these are the positives which are quite significant for us, which augur well moving forward.

As far as the parts business is concerned, again for the full year we have grown 13% while for the quarter the numbers are Rs.791 Crores for Q4 FY2019, corresponding for Q4 FY2018 was Rs.746

Crores and Q3 FY2019 was Rs.730 Crores. FY2019 full year Rs.2,836 Crores versus FY2018 of Rs.2,508 Crores, which is a 13% growth, so overall while for the quarter the industry has had a tough going, but there are, as I said quite a few positives. Moving forward we do expect FY2020 to be a tale of two halves, which is probably some of the challenges may continue into Q1 as we correct the inventory. But, thereafter, we do expect pickup and moving on to festive and then thereafter prebuying because of BS-VI.

Also, some of the negative factors that we have talked about liquidity and other things are easing out. RBI did the swap auction and infused liquidity plus they have done the open market operation and they have done a rate cut and there is an expectation in the market of another rate cut. So, that and probably with good monsoon moving forward and then the festive and prebuying, things should start looking up from Q2 onwards. Overall for the year, we do expect industry to be in the mid single digit, tale of two halves probably first half flattish, second half closer to 10% growth, 5% to 7% one would see and on the back of our launches and other things that we talked about, we would expect ourselves to do better than industry. Over for questions.

Moderator: Thank you very much Sir! Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Thanks for the opportunity. Could you talk about what is the volume outlook for next financial year? Where are the inventory levels and you also talked about BS-VI challenges where company plans to launch the BS-VI models well before the timeline. Could you throw some colour on how do you plan to navigate that tough period?

Niranjan Gupta: Over to Sanjay.

Sanjay Bhan: Like Niranjan explained that the next fiscal will be a tale of two halves, so we do expect that the first half will be from a growth point it will be little sluggish, but we do expect some recoveries in the second half of the year. So right now there was another part of your question, which is about inventories. I think you all understand that the overall situation on inventories is pretty much consistent across most manufacturers. Everyone has clearly made an effort to correct their stocks and I think this has also been spoken by several other players. I think we are pretty much in line with what exactly is happening in the industry. We have also made some significant corrections in the month of March and expect some more in Q1 as well. From that point of view, I think we are getting things pretty much under control. I think most of this inventory pile up happened because of a relatively poor festive season. I guess this is not something that happened in Q4. It started well into the festive season. The buildup for the festive is something that we are correcting now because that did not really get consumed at that point in time. I think that is primarily the overall narrative for most manufacturers and that is exactly what has been going for the past few months. That is why the growth numbers have been muted because of corrections and inventories.

Kapil Singh: That is the reason I was asking. If you can quantify in terms of full year what kind of growth you are looking at and where is the inventory level after the corrections right now?

Sanjay Bhan: I think the answer to your question on inventory levels, we are, like I said pretty much in line with industry number. I think we are between 45 to 50 days of inventory of our forward retails, which is the way we look at it.

Inventory has got no bearing on what has been the past track. It is more relevant from what is going to happen in the subsequent period. So, like I said 45 to 50 days is what we are operating on and obviously the intention is to try and make further attempts to correct it and possibly bring it down to just about 45 or under.

Kapil Singh: And volume growth what are we projecting for full year?

Sanjay Bhan: Right now, like I said this is going to be a tale of two halves. I think the first half will be muted, but overall for the year we do expect a mid single digit number that is what we have discussed in the SIAM meeting as well. The industry overall would see about a mid single digit kind of a number and we will grow in line with the industry. Our expectation is to stay a bit ahead of the industry growth.

Kapil Singh: Because if we launch the BS-VI models as well, where I am expecting significant price increase, then that would also be a bit of an issue. How do you think about that? Why is the company looking to launch the BS-VI models well ahead of the timeline as per the press release, just trying to understand that?

Niranjan Gupta: Because you have to transition to BS-VI you cannot launch BS-VI on March 31, 2020 and then hope that all the models will fire. There is a certain ramp up time that is required. There is a certain testing time in the market that is required and also we need to remember that from April 1, 2020 even the dealers when they sell they can only sell BS-VI. Therefore, in the market you need to build the BS-VI inventory and that is what we mean by saying ahead of time. We are now in a situation where we are rushing somehow to that finishing line. It is important that we are planning well and are planning for all our models, but we do not see any big impact of that in this year. If at all any pricing impact or any volume impact of that will happen in FY2021 and not at FY2020.

Sanjay Bhan: Just to add to what Niranjan said and this is largely for everyone here not just for Kapil,our strategy primarily is driven by consumers and we would want to ensure that the consumers enjoy the maximum benefit. Therefore, not exposing them to any increases to the extent that we can, and, like Niranjan mentioned the transition has to be driven by two critical variables. One is our overall plan for the year and second is the fact that you know the timing of each of these models has been done in a sequential manner so that it does not really hurt our volumes on one side and also impact consumers from a price point of view. So, the larger point therefore is that most of the impact of the so called increase or expected increase in pricing from BS-VI would actually be seen only in Q1 of next fiscal.

Niranjan Gupta: Also it is more about readiness in time, well ahead in time rather than being market in time, so that is something that we will trade off close to the event.

Kapil Singh: Thank you.

Moderator: Thank you. The next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: Thanks for taking my question. Sir I just wanted to get a sense on this gross margin. If I look at it from a Q-on-Q basis, it has not deteriorated Q-on-Q. You had launched this insurance scheme as well in this quarter and could you also talk about if you received any commodity cost benefits?

Niranjan Gupta: No, we keep managing our margins through various means. There are multiple levers of this: insurance scheme is only one part of that. There are the element of expenditure, there are cost savings, there are commodities, there are LEAP savings. All put together is what the combination is and we did run few schemes in order to ensure that we can push out retail and as Sanjay explained to reduce the inventory, which we successfully did.

For instance, for the month of March, while our dispatches were 5.5 Lakhs, our retail was 7 Lakhs plus, so we were successfully able to reduce the inventory in the month of March by 1.5 Lakhs. That is where it stands and our EBITDA margin as you know is 13.6%. As I mentioned displays again that with our size and scale the ability to manage different levers even in times like this.

Hitesh Goel: This insurance scheme is still continuing in April or it has been discontinued and also in future quarters will you get commodity cost benefits or it is almost over now?

Niranjan Gupta: All these schemes are for short period, so they are never for long periods. The scheme is not continuing anymore, but there are different schemes, which operate at different points in time and as far as commodity is concerned currently it looks like crude seems a bit volatile, it has spiked up, but then it could come down again because fundamentally the global growth is expected to be slower. Overall, macro economic growth, we will see as we move forward, but there could be headwinds and tailwinds, which cancel out each other.

It is difficult to say which way commodities will move moving forward, but as of now we do not see the whole basket of commodity spiking up anytime soon.

Hitesh Goel: Just one more question, can you just tell us the cost increase on the FI system which will happen because of BS-VI, because that number is not given by you guys as of yet and we are moving towards BS-VI, so some indication on the cost increase on the BS-VI?

Niranjan Gupta: Right, so I am afraid you will have to wait.

Hitesh Goel: Okay Sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Jamshed Dadabhoy from Citigroup. Please go ahead.

Jamshed Dadabhoy: Sir, could you give a sense of what your net price increase was for the quarter and how you are you thinking about pricing for FY2020?

Niranjan Gupta: As far as pricing is concerned, we keep taking our price up from time to time, Q4 sequentially we did not take up big time I think it was around 100-150 odd that we took in Q4. As far as moving forward how do we see pricing as you know our stand has been to take gradual increases, which partially offset commodity cost or cost increases that happen, we try to offset them through our LEAP saving and other savings programs and then try to pass on as less as we can to the customer ensuring that the value proposition is kept intact. So that is what our pricing strategy has been and that is how we look at pricing. As I mentioned earlier also we have stayed true to our pricing strategy, which has actually resulted and now you can see the entry market share coming back. So we will stay consistent to our strategy as long as it keeps winning.

Jamshed Dadabhoy: Sir, on this inventory destocking, which happened in the month of March, could you give a sense which segments it was in, was it mostly on the entry side or mostly on the executive side?

Niranjan Gupta: Well it was on the overall basket.

Jamshed Dadabhoy: Alright okay. Thank you Sir.

Moderator: Thank you. The next question is from the line of Ronak Sarda from Systematix Group. Please go ahead.

Ronak Sarda: Question on scooters, we have been highlighting that 125 cc has grown faster than the 100 cc segment, can you highlight for FY2019 what was the growth for 100 and 110 cc and what is the growth for 125 cc and in continuation to that has the Destiny 125 being launched pan India now and what is the launch plan for Maestro Edge as well?

Sanjay Bhan: Sorry, what was the second part of your question?

Ronak Sarda: The launch.

Sanjay Bhan: Destini like I think Niranjan mentioned already, is an unqualified success. We started off with Delhi because you can have the ramp up at that stage, but immediately thereafter we opened up in the entire country. We started in Delhi I think in mid October, October 20, 2018 if I am not wrong, immediately after October 21, 2018 and then we opened up nationally on November 15, 2018. So after that we have gone national and we have started peaking on numbers there, we hit a 19.2% market share in Q4, so it is pan India now. I think it is overall looking quite fine. It is building volumes and it has really helped us to take some market share.

On scooter, the growth between 100 and 110 has not been there, in fact the Q4 you would know the growth in 100 and 110 cc has been pretty bad, it has been 23% decline. Overall for the fiscal it has been about 8.5% down, but the 125 cc like we had mentioned if you recall, even in the earlier earnings call we have mentioned that within scooters there is a churn that is happening. It is not just I think to a question that was asked is motorcycles coming back, scooters not coming back sort of a discussion, that is one aspect, one way of looking at it.

The other way of looking at it is within scooters there is a churn happening from 100, 110 to 125 and that is exactly how it is played in terms of the growth that 125 cc has seen, 55.7% or 56%. That is significant and the good news really from Hero standpoint is that we are I think perhaps the fastest kind of ramp up in terms of the number of models that we have sequentially going to be launching in this fastest growing scooter segment is perhaps the best ever that the industry has seen. Nobody has really been able to pump in absolutely three different models in such short span of time, within six months of each other.

From that point of view, strategically this plays pretty fine for us and as well as the question on Maestro Edge launch plan and date I think we are getting into it sometime next month. We are yet to conclude the dates, but like Niranjan mentioned it will happen sometime middle of next month.

Ronak Sarda: Okay and just a followup on margins, I mean, we are at almost at a four-year low now on EBITDA margin trend, can you just provide, I mean given the cost increase happening for BS-VI can you provide us the roadmap for margins over the next two years?

Niranjan Gupta: It is very difficult to provide a road map for the next two years. All I can say is that, moving forward in the short term, one would probably say that the margins should hover around in a narrow range around the current levels because the headwinds and tailwinds are neutralizing each other. As we move into the BS-VI world and I have said this before a lot will depend on how the pricing settles down and how the cost settles down in the industry and then we do the volume price trade-off. It will depend all those strategies because eventually the goal will be to maximize revenue and the bottomline and not percentages per se so when the BS-VI world comes in FY2022 very difficult to say and we will see how it pans out across industry.

Ronak Sarda: Thank you.

Moderator: Thank you. The next question is from the line of Raghu Nandan from Emkay Global. Please go ahead.

Raghu Nandan: Sir firstly, has there been any price increases in April?

Niranjan Gupta: Yes, we did take a price increase in April.

Raghu Nandan: Can you please quantify?

Niranjan Gupta: Close to around Rs.300 to Rs.350 rupees.

Raghu Nandan: And Sir what has been the capex for FY2019 and expectation for FY2020?

Niranjan Gupta: In FY2019 our outflow on capex has been close to around Rs.800 Crores on a cash basis and next year we would expect this number to go up to close to around Rs.1,500 Crores, next year meaning this FY2020 because we have the Andhra plant, which will be coming up plus some of the BS-VI lines in manufacturing so I think a combination of these two will lift the capex to close to around Rs.1,500 Crores for FY2020.

Raghu Nandan: Sir one last query, on working capital there has been increase in both receivables and inventory days any colour or thoughts you can share?

Niranjan Gupta: Yes, it is a resultant of the inventory that we have been talking about. The inventories have gone up and I did allude this probably in the last quarterly call as well, therefore the receivables have gone up, but as the inventory levels come down the receivables also will be coming down.

Raghu Nandan: Thank you Sir.

Moderator: Thank you. The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: Firstly on this quarter just had a followup the new 125 cc has done well, but some of your earlier model seem to be seeing a sharp run down, is there any specific reason for that if you can give some sense on that?

Sanjay Bhan: Yes, I think the key here is we must all recognize the fact that at least we at Hero recognize the fact that scooters is something that we have to build. It is not something that has been our natural area of strength earlier because we are very extremely strong motorcycle leaders. We have been two-wheeler leader for 18 years now and scooter is a something that we have obviously been striving to build over a period of time, so we are relatively new in this space. Therefore it is going to take a lot of hard work, from our side to build the portfolio.

The good news clearly is that some of our more recent launches are getting extremely good traction and I am quite hopeful that once you see the new set of scooters, the Maestro that is getting launched and something more, you will see some really exciting stuff coming in, which therefore will support the entire portfolio.

With respect to scooters that have seen some amount of let us say a little bit of a slow down, or, has had some degrowth in terms of loss market share. Some of the existing models I think a primary reason is that they needed a refresh. Obviously we have seen one trend that seems to be there in scooters in particular as did the expectation of consumers just to have faster refreshes and that perhaps is the reason why some of the scooter brands have also struggled in the 110 category this year and overall as a space. Since we would have primarily operating in the 100, 110 scooter category, overall market like I explained has gone down about 4.5% and since we were primarily operating there, we also took an impact.
However, in the 125 cc, which is the segment that is fastest growing right now contributes close to about 25% to 30% of the market. We are getting aggressive and we are coming with more offerings so we do expect that there will be huge amount of headroom for us to gain share there.

Gunjan Prithyani: And 125 cc of the overall industry is how much in terms of percentage?

Sanjay Bhan: The exact percentage is 25%.

Gunjan Prithyani: Okay and second question I had was in the second half clearly we are going to see everybody trying to get growth ahead of BS-VI transition and there is clearly going to be far more competitive pressure because nobody wants to end the year with inventory, which is pre BS-IV. So do you see that the competitive environment would get more aggressive going into second half margins could continue to stay under pressure even in second half when the growth comes back?

Niranjan Gupta: I mean that is one way of looking it at, the other way we are looking at it is that there will be a value anyway because when the BS-VI comes in and BS-VI versus BS-IV the price differential itself would attract the buyer. I do not see actually need for actually any discount on BS-IV because the price differential itself would attract the customers.

Gunjan Prithyani: So you think the OEMs would kind of advertise that is going to be the price increase starting from April onwards and that is the way most people will approach it?

Niranjan Gupta: That is the way auto industry does anyway, where in any case any significant price increase you see even the four-wheeler players, they announced ahead that is the price increase coming and this is your last chance to buy, etc., etc. Those are the various things where you actually allow customers to buy that look and give some information in advance that this is what is coming your way and it is your choice, the choice that customer has to make.

Sanjay Bhan: Just to add to what Niranjan said, I think he made a very important point and I just want to qualify, I think for larger measure because this is something that is going to keep coming back from your side, just to put all that to rest. Unlike the BS-III to BS-IV there was not any particular incentive to the customer to buy within that timeframe. Here the case is absolutely different, there is a huge incentive for the customer to buy the BS-IV option well before the BS-VI is in, so it is a natural built in sort of scheme without the OEMs having to spend anything. It will be for the customers to kind of figure that out. I think it will naturally progress that way and that is the assumption everybody is working on, there will be prebuying and now customers are aware enough or informed enough so they will obviously use that lever and that is huge amount of incentive for them to pre-buy. Therefore, we do expect some action happening in Q4, but that action may be naturalized on account of the incentive that they have buying before March 31, 2019.

Gunjan Prithyani: Okay and lastly just the financing penetration if you could share how it has been in the trend, has it moved up meaningfully in the last two quarters?

Sanjay Bhan: Yes 37% to 40% is the kind of movement.

Niranjan Gupta: If you really look at on a full-year basis that is more relevant the total financing has moved from around 37% to 40%.

Sanjay Bhan: To your larger point the financing overall has been a bit weak relatively speaking in the rural market because of a lot of distress in the last quarter, rural markets have really tanked big time, as you already know and I think the penetration of finance, which was aggressively happening before that has had some setback. There was a period also because of the NBFC challenges during Q3 there was a bit of liquidity issue and financing was little tight. Post that there has been some recovery in urban centers, but rural has not taken off as we would have expected. It could have been 40% to 42% overall, but that has not happened. We see there is some recovery now in the first few days or the first three weeks of April, we have seen some improvement although marginal at this stage, but at some point we do expect financing to play a role closer to about 42% to 45%.

Gunjan Prithyani: Okay got it. Thank you so much.

Moderator: Thank you. The next question is from the line of Amyn Pirani from Duetsche Bank. Please go ahead.

Amyn Pirani: Just moving ahead with the financing question, can you just quantify what was Hero Fincorp's share in the overall financing for you this year?

Surender Chhabra: I think the Fincorp is improving its market share from time to time and now at this point of time they are 43% in the quarter of the total financing.

Amyn Pirani: Okay, can you give the number for the full year as well Sir?

Surender Chhabra: Full year it is 40%.

Amyn Pirani: Okay, and you also mentioned about the financing becoming soft in rural areas and I think this is somewhat in line with the commentary that we are getting some other financiers, who are saying that in two wheelers the kind of aggression that was seen last year, now may be, some delinquencies are rising at the margins. How do you look at financing for the next 12 to 18 months specifically, because I think it would become even more important with the price hikes in BS-VI. Just want to get your views on it?

Sanjay Bhan: The answer to your question is very simple, actually you answered your question. The fact is there is certain amount of challenge in terms of overall liquidity in the market. When you have a liquidity issue it would have a huge bearing in terms of the reason for people to opt for finance because the overall cash situation is not very good. But the trouble in the period so far that we discussed in the last six months has been the liquidity issue with the NBFCs who were very aggressive in the market, so the true reason for financing not being as aggressive at this time around is not much to do with the overall NPA situation or the collection problem, it is more to do with the overall availability of financing the footprint.

The good part of the benefit that Hero has is virtually an in-house financing arm we are able to leverage some of that and some of those pockets, which typically were kind of financially not sort of blacked out with some other people we have been able to make some inroads, which is what we are trying to do in terms of horizontal deployment of finance.

We are also trying to go deeper and that is the reason that I share with you the confidence that we have at some point of time we hit numbers of 45% of overall financing.

We do expect that a liquidity situation Niranjan mentioned about the RBI intervention earlier on, with those kind of interventions in place, once we are out of the entire election cycle we do expect some recoveries and therefore overall better liquidity situation from availability of finance, opportunity to finance from private financiers, NBFCs that should improve the overall financial culture and therefore help us drive demand even better.

That is why we said the first half will be little slower because the overall liquidity and availability from finance is likely to be slow, but once we get into second half things should start looking much better.

Niranjan Gupta: I think just to add couple of more points on this financing. First of all, the sector has a huge opportunity given the financing penetration is relatively pretty low and there are clear reports pointing out that over the next three, five, seven years there is no reason why financing cannot move up to 70% to 80%, I think there is a huge opportunity lying out there.

Second, thing is the primarily problem like Sanjay said has been liquidity and clearly there are a lot of actions happening from RBI on infusing liquidity, you can see an inflation numbers, which have been coming down and therefore we do see things improving on that front as well.

Third, there are other financiers also, which are entering; in fact there are new financiers, banks also which are looking at this sector because in fact delinquencies is not such an issue that is an issue more for the long term financing, construction industry or LAP or housing.

In fact this one is the one where actually the short term and asset liability mismatch is very easy for NBFCs and we have other financiers as well while our associate company Hero Fincorp like Sanjay mentioned, we have Sriram, we have HDFC, IndusInd, there is PNB coming in. I think this field will see more action moving forward and as liquidity comes in one would see if there is more of opportunity for growth rather than a derailer.

Amyn Pirani: Okay Sir that was helpful. Sir just lastly, going back to the BS-VI question as you said you will get a lot of questions on that even that the industry has entered this year at a high inventory level even if we do have a pre-buy, is there a risk that, it will mostly be seen on the retail side and wholesales may actually disappoint for the full year not just for you, as an industry?

Niranjan Gupta: So it is very difficult to say how it will pan out. Currently, in our best judgment that one is looking at a broad forecast and which is why one is looking at a flattish first half because of the inventory correction and then thereafter it normalizes. One would look at normal growth and the other thing is on BS-VI since we have talked about it, while the cost will go up and there are a lot of things around that. GST is another area where we have represented and some of the other players have represented and clearly the classification of two wheelers at 28% is not justified, you cannot have two-wheelers in the same category and luxury category by any definition and I do understand some of the people have talked about that compared to the previous regime, the revenue or the tax rate is same. I think that is a very, very unusual argument because the whole point of GST was to actually classify it where it should belong based on sin, luxury, necessary, etc., etc., and so 18% is the right bracket. With BS-VI low emission, 90% emission cut coming, I think government needs to relook at it and we all will be working towards it so I think that is again another lever that could play a lot into this game positively.

Amyn Pirani: Thanks for the opportunity Sir and all the best.

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

Sonal Gupta: You mentioned that in March you did destock quite significantly but on overall basis for Q4 did we have a net destocking or were whole sales more than or in line with retail how would you look at that?

Niranjan Gupta: Overall there has been destocking and as Sanjay mentioned our inventory levels are now at 45 to 50 days. We do hear estimate some of the reports, which talk about 90 and 100 days and that is way off. We are in line with the industry at 45 to 50 ranges and as Sanjay mentioned we will see whether we can shave of another 5 to 10 days moving forward in Q1.

Sonal Gupta: Just historically going back, like as we enter the festive season, typically what is the level of inventory that you want to have by that time?

Niranjan Gupta: No there is no quantification of inventory level in terms of number of weeks, etc., etc., it is a planned inventory buildup that happens for festive based on what production capacities you have and what the sales plan you have. It depends on those and our general level in normal times as we have spoken about is four to six weeks so that would be around probably 40 days is a comfortable level. We talked about 45 to 50 days, which we are having so I think this is where may be a scope for another 5, 7, 10 days of reduction.

Sanjay Bhan: Okay just to add to it, and I think to put that curiosity to rest typically the exit inventory post festival is something that you need to be tracking and this is true for almost everybody. I think everybody would like to be between 21 days to 30 days post festival, which means whatever you build up during the festival typically 30 to 35-day period or 40-day period actually of the festivals is when you sell almost 2X of the typical average per month volume. So to that extent, it does not really matter what you are building up, what matters is what you end up with. I think that is where the industry got into trouble because the festival did not do as well as it was expected to. Had it done well, then we would not be discussing the issues or inventories because you know typically everybody would be in 21 days to about 30 days post festival.

Sonal Gupta: Okay Sir and just on the rural weakness point you mentioned at last quarter as well, but given that I think it is fairly relevant for you, what percentage of the sales is coming from rural now and given that we have a very mixed forecast on the monsoon side are you taking that into account when you are making this forecast on the growth for this year.

Sanjay Bhan: Yes.

If I was to just share with you our rural sale in the first, just to give yourself number, the growth in rural in the first half was close to 17%, it is just that in the Q3 and Q4, Q3 tripped by the fact that there was this whole piece on insurance hit the market bad and then subsequently the overall rural that everybody has been talking about I think there are enough and more reports available where the Rabi sowing overall seems to be about 40% downwards in last year. That itself is an indication of the continued kind of distress in rural. I think we do expect this situation to be a bit of a challenge for the first half, but as we get into Kharif and sowing of Kharif and the eventual season sale, the monsoons are expected to be about normal for the year.

We do expect our recoveries there, the moment that starts happening. That is why we mentioned that the first half is not likely to see much action, it will be a little muted from a growth standpoint primarily because even though the liquidity in the market will improve it is going to take care of some of the urban demand, which is great, but the rural will take a little longer and rural demand will kick in after the post Kharif harvesting happens, which is closer to the season therefore the second half there could be resurgence in rural.

Sonal Gupta: Could you just tell us what is the full year number for rural growth for FY2019?

Sanjay Bhan: FY2019, full year growth for rural.

Niranjan Gupta: We do not give out rural or urban growth separately from our side.

Sonal Gupta: Thank you so much.

Moderator: Thank you. The next question is from the line of Jatin Chawla from Credit Suisse. Please go ahead.

Jatin Chawla: On your March 700,000 retail number, that looks very impressive given that Navratri this time was in April. So I just wanted to get a sense on what is the kind of growth range you are seeing on retail. Is it flattish? Is it slightly declining or some growth, what are the kind of exact trends that you are seeing on the retail side?

Sanjay Bhan: See, despite the fact that last year Navratras were in the month of March, and this year they were in April. The Navratras - the March retail was virtually about the same level as last year, no decline.

However, April, despite the fact that there has been Navratra. The overall sentiment has not really kicked in that is why we do not expect to get a growth there. We will try and be as close to the number that we had last April. Broadly that is where it is. It is not going to be a big growth month from the current trends that we see despite the fact that Navratras and Gudi Padwa in Maharashtra was in the month of March last year and this time, it was on April 5, 2019, so, despite that we do not see a growth for April. But some of the markets in the northern belt seem to be responding slightly better because of festivities and the marriage season. So, yes - we do expect May to be a good strong month. We expect some amount of recoveries in June as well. But like we said from our dispatch point of view we will still be very cautiously trying to push this as hard as we can so that we get more and more of further stock correction possibly in Q1.

Jatin Chawla: Okay. Just one quick thing on the inventory bit. There have been kind of at least what we are reading is that the company has provided support from Hero Fincorp to the dealers for the higher level of inventory that they are carrying right now. Does some of that flow through to first is that correct and second if it is correct then does some of that flow through as a financial impact to Hero MotoCorp as well?

Niranjan Gupta: It is not unusual. There is nothing unusual in this period that you see. In terms of even in festive season when it builds up, then FinCorp do on their own, we do whatever we can to support the dealer in terms of a bit of a lower interest, etc., etc., on the receivables that they hold. So it is not anything which is significant or unusual that we do.

Jatin Chawla: And just one quick question on your capacity strategy maybe because you would have a fair bit of empty capacity and you still keep adding capacity and next year you talked about spending Rs.1,500 Crores to further add capacity, so I just wanted to understand what is the thought process there?

Niranjan Gupta: We do not have a fair bit of empty capacity. I would love to have our supply chain head admit that there was spare capacity. As we outlined, our plan is to go to around a 10-million capacity because we expect that while there maybe a couple of quarters here and there, with a close to 8-million volume that we delivered and if you factor in a couple of years of 7%, 8%, 10% growth, you could easily cross capacities and you cannot operate at 100% capacity.

So I think the capacity addition that we are doing in Andhra is in line with our medium-term plan.

Secondly, it also gives us logistics benefit as we have more spread-out plants. Therefore, when we went to West, now you will have one which is kind of South and also serving East, it gives significant benefits as far as logistics is concerned and of course whatever you sell locally there are fiscal benefits available in both these plants. It is therefore, a very well thought out strategy.

Jatin Chawla: Great. Thank you.

Moderator: Thank you. The next question is from the line of Aaron Armstrong from Aviva. Please go ahead.

Aaron Armstrong: Congratulations on the FY results in a very challenging environment. You mentioned some of the entry level segments and some market share recovery. Could you describe what you would put that down to - is that low levels of price competition from competitors?

Sanjay Bhan: Yes. Thanks, Aaron. Yes, surely. I think there has been some action in that particular segment. It is one of the fastest growing because of price discounting by some of our competition and they were able to correct the prices or drop the prices, etc., and I think this is one question that has been asked of us several times around. What we have done is we have not necessarily gotten into the price correction mode. However, we have launched a variant, which is obviously extremely affordable and that has helped us get customers in and we have primarily been able to upgrade them to our regular price point.

Niranjan Gupta: And also as we had spoken earlier as well that the discounts and the gains from discounts are always short lived and therefore after a period of time customers do come back to the established brands and that is again something that we have seen.

Aaron Armstrong: Great. Thank you. My followup question was with regard to market share data as sell investors sell out on the Destini 125 and the Xtreme 200R. If you could talk us through the kind of trend rate that you are seeing there. I know we were around 10% on the Destini 125 and things improved from there, but if you could break that down, retail versus wholesale in Destini, Xtreme it would be very grateful please?

Umang Khurana: Sorry. Aaron, the question was market share data on Destini. Is that what you are asking?

Aaron Armstrong: Yes, please, and for Xtreme 200R.

Umang Khurana: Could we please take that offline because there will be a number of data points and we have a lot of queue online. If you are okay, just drop us a line and we will do a call right after.

Sanjay Bhan: What we have readily available is something that I have already talked about, Destini is 19.2% in Q4 and for Xtreme 200R; again, for Q4 we are at about 10.4%. That is readily available and I think that we can share that happily, but offline we can discuss if you want further details.

Aaron Armstrong: That is fine. Thank you.

Moderator: Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Thanks for the opportunity. Sir, two questions. One was on the scooter slowdown that we are seeing. Is urban slowdown is the primary reason or the traditional hypothesis that more women are driving and that penetration seems to be now reaching, the low-hanging fruits have been absorbed, is that the primary reason for the scooter slowdown?

Sanjay Bhan: Look, I think Chirag, the answer to that is not a linear one. The jury is still out trying to figure out, but exactly whether it is the urban side, the rural consumption side or it is the women versus men, all of that - there are multiple factors involved and I think you missed out on a very important fact that scooters are not as fuel efficient as bikes.

I think in a year where the fuel prices have gone up absolutely they have just been going through the roof, at least in the first half, significant increases, we saw a maximum setback to scooters during that period. There could be a linkage there as well, but yes the relative situation if you were to kind of piece that information together is that the urban consumption of scooters is significantly higher than the rural consumption.

In the urban markets, the penetrations are significantly higher. Therefore, with higher penetration level obviously the demand impact or the headroom for demand is not that high. It is only a natural thing that will happen every now and then where there will be some amount of a pushback there, but there are other factors environmentally that have also played around this, and therefore, I think it will be a little too premature.

We said this in the last quarter call as well that it is not about reverse of scooterization happening, but yes one data point we can certainly share with you, in markets where scooters were not very strong and obviously their trajectory has been to get into those markets where they have not been playing very strong to try and penetrate there. The penetration levels of scooters in those markets have not gone up, but in markets where they were relatively stronger they have been stable, but in markets where they were not strong and I am talking about the UPs and Bihars where scooter is not as predominant as strong, they have not been able to make any fresh inroads.

Chirag Shah: Okay. This was helpful. The second question and a related question with BS-VI actually is that is it right to make a statement that the price hike in scooters or the cost increase in scooters is lower than in motorcycles for you would it be a right statement?

Sanjay Bhan: You would need to check the source given you that information to find that out.

Chirag Shah: On a qualitative basis is the technology gap similar or the technology gap bridge require is higher motorcycles or scooters?

Sanjay Bhan: The technology gap between BS-IV scooter and BS-IV motorcycle is exactly the technology gap between the BS-VI motorcycle and the BS-VI scooter. So, really speaking I do not think we have an answer to that. It is just that you will have to figure that out, but I do not think there is any data available, which tells you to or it helps you to assume that scooters will have a lower price.

Niranjan Gupta: Yes. There should not be a significant difference between the two, yes.

Chirag Shah: Yes and just a clarification on the spare parts revenue for the full year. We just missed out that number if you can indicate it please?

Niranjan Gupta: Yes. So Chirag, FY2019 is Rs.2,836 Crores versus FY2018 of Rs.2,508 Crores, which is a 13% growth.

Chirag Shah: This is helpful. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Vivek Kumar from JM Financial. Please go ahead.

Vivek Kumar: Actually, I am trying to ask what Chirag just asked on the BS-VI impact between scooters and motorcycles. I know, I mean you are not answering that question right now, but does the powertrain difference between the motorcycle and the scooters or manual transformation motorcycle versus a CVT scooter, does that effectively create a meaningful difference between the BS-VI hikes between the two products?

Niranjan Gupta: Fundamentally, you would be familiar with technology, Vivek, and you would know that the change or regulatory change is not to do with the body contours or for that matter the suspension systems or drivetrains it is to do with the engine and the technology therein.

So, primarily to meet those regulation requirements the change is fundamentally to the engine, not to some of the stuff that you talked about the drivetrains versus the CVT. I do not think that is the difference. The core is with the engine. The BS-IV compliant engine versus BS-VI compliant engine would necessarily have the same level of detailing differentiation in a scooter as it will have in a motorcycle.

Vivek Kumar: Alright. Thank you.

Moderator: Thank you. The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

Shyam Sundar Sriram: My question is around the receivables, which have significantly increased. Is there any change in terms of trade with dealers can you talk about that a bit Sir?

Niranjan Gupta: No. There is no change in the credit terms with the dealers. The increase is primarily on account of the inventory increase that has happened in the market and therefore the fundamental credit terms remain the same.

But, what we have done is that because when the inventory goes up then you give the extended credit term, which is also within our credit framework. We do that during festive and we will do it if there is unusual hike in the inventory and as it comes down you will see it is coming down moving forward as well.

Shyam Sundar Sriram: That was helpful. Sir, you spoke about the prebuy that could come in Q4 wherein customers might choose the slightly lower priced BS-IV over the higher priced BS-VI, does that mean you are pulling in demand from the next year and therefore FY2021 could see a lull in terms of say demand per se?

Niranjan Gupta: Yes, possibly. So obviously whatever prebuying happens where customers bring forward their requirement that could have an impact, but equally we also need to remember that because of insurance a lot of people have deferred their buying as well.

People who have deferred their buying into FY2020 and then whether they are the guys who will prebuy or the guys who will be brought forward will do the prebuy we will need to see how the equation pans out.

Shyam Sundar Sriram: One last question Sir. With this BS-VI change, would you launch completely new models with probably better features that could be more attractive to customers that they will be willing to shell out the extra cost or would that be only the engine change that we are talking about?

Niranjan Gupta: So we would not be able to give any specifics as of now. All we can say is that we would be trying to package various things, which can also provide value to the customers.

Shyam Sundar Sriram: Okay. Thank you Sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Basudeb Banerjee from Ambit Capital. Please go ahead.

Basudeb Banerjee: In the call, you said in April you have taken price hike of around Rs.350, so is that independent of safety norm price hike or that is the blended price hike because of CBS coming across your portfolio?

Niranjan Gupta: No, it is all blended one. We do not take price hikes separately for separate things. So this is a blended one.

Basudeb Banerjee: So largely because of safety norm transition?

Niranjan Gupta: Some of those actually, safety norm is like the CBS model went in much before, so they went in, in January itself. It is a combination of whatever you see as regulation, commodity, all put together is what you do and most of our portfolio actually migrated on CBS in January, February, March itself and all those models carried a CBS price increase of Rs.400 to Rs.500.

Basudeb Banerjee: As you mentioned earlier I might have missed out. Time line of BS-VI models coming out in FY2020. Did you share that in the call earlier?

Niranjan Gupta: No. We will be in time for the transition and all we said is that we are well prepared in terms of our readiness. For the models they are moving through various stages and we will be ready well in time.

Basudeb Banerjee: Okay. So unlike a few other car companies who are launching them now itself so you will be looking at fag end of the fiscal as such?

Niranjan Gupta: We would not be giving out the timeline right now. We have our own strategy in terms of when to launch, but one is to be ready to launch and the second is to actually launch. What I am talking about is readiness for launch and readiness for these products will be well in time and that is what we are gearing up towards and launch timing will depend on the strategy that we adopt.

Basudeb Banerjee: Sir, last quarter where whole industry was guiding that benefit of lower commodity cost will start trickling in from Q4, so what is the scenario from that respect now or has that subsided or it is still going to come next quarter how to look at that?

Niranjan Gupta: See, it will all depend on how the commodity pans out. All we can say is that it looks like the period of significant commodity spikes is behind us probably and therefore you could count that in a bit of a tailwind and all combination as I said provides good headroom for neutrality of margins.

Moderator: Thank you. The next question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: Thanks a lot for the opportunity Sir. Just before I move to the question just a clarification on the inventory side, the inventory number what you normally talk about, does it include the sub-dealer inventory that is the second tier of the dealership because probably that is the confusion between the 90 days and 45 to 50 days?

Niranjan Gupta: We do not carry 45 days of aftermarket or this one inventory that you are talking because then it will mean that another channel of dealer inventory would be same as that, so that cannot be difference between 90 and 45 days.

It is the inventory that we track. There is a part of probably the subdealers carry maybe 10% to 15% of the dealer inventory, but whatever we are tracking with all the dealers and some of the subdealers, which is what 45 to 50 days is, it is all like-for-like in terms of even our four to six weeks norms versus where we are.

Pramod Kumar: Okay and Sir my question is about the engine transition as in - we do have a legacy, inherited engine, the horizontal engine, which plies on the most of the models like it is a HF Deluxe, Splendor, Passion and given that is a fairly old engine, which is fully depreciated and very cost effective, does this engine actually kind of can be ramped up to a BS-VI version. What we understand is that this engine probably may not from engineering wise it may be difficult to do that and probably you need to need to have a new family of engine for the 100cc version. I just wanted to confirm that because it is a pretty dated horizontal design and most of the world has moved to a vertical engine, same as the case with your recent new bikes and even 125cc. So I just want to confirm that, whether will we need a full engine makeover when we transition BS-VI?

Niranjan Gupta: So do not worry about that. All our models will transition to BS-VI successfully and we are well geared for that. The technology, the engine, all is a part of our IP that we have and obviously we are not going to take that out on a call.

Sanjay Bhan: I do not know of customers who buy a bike because of where the engine is mounted on the frame, so on a lighter side really.

Pramod Kumar: Yes. It is just about that whether the cost advantage will continue because it is a very cost effective engine for us, right, it has been in operation for probably more than a decade now. So I just want to understand and as I listened to your answer. It looks like it is going to be affirmative that you will need a full engine makeover and you are all geared for that. Thanks a lot and congrats again on March retails, FADA says the retail for the industry is down 7% and you guys are flat that is very impressive. Thanks a lot.

Niranjan Gupta: And by the way, we have not affirmed that it will be a full scale new engine.

Pramod Kumar: Just for record.

Niranjan Gupta: That you have put the word. Our technology, how we are doing, that is left to our R&D and technology and you will see when the model comes out, whether it is outside the cost frame or inside the cost frame.

Sanjay Bhan: Our ability to develop on frugality is what really is the core essence of how we do our manufacturing, so you will see the results. I think it will be out there in the open for everyone and I think most important is how the customer really sees that and that are very critical for us. So we are very highly focused on that, like we said earlier.

Pramod Kumar: Thanks a lot Sir. Best of luck.

Moderator: Thank you. Ladies and gentlemen, we will take the last question from the line of Varun Bakshi from Equirus Securities. Please go ahead.

Varun Bakshi: Can you throw in some colour how the demand is in different states or regions, where we have seen pickup now versus earlier?

Sanjay Bhan: Look, Varun, I think the demand overall has been pretty strong in the north - eastern side, parts of East, most of North, and I think the entire Central has been pretty strong in the first month. I am talking about April. Including March, I think if I were to look at these states they have been predominantly strong. We have seen some recovery in West this month, I think, owing to the fact that there was Gudi Padwa in Maharashtra. So we have seen some recovery there this month. South seems to be a little lower than expected for most players, but I think rest of the country seems to be just about getting there.

Varun Bakshi: Considering the high base of last year in especially Northern India and wedding season, do you think that in Q1 you could see a retail growth or that is not a possibility?

Sanjay Bhan: Like we said, Q1 was a very high base last year. So to look at the growth on top of that, maybe a bit of a challenge, but yes we do expect some recoveries and I think given the kind of base that we had, even if we are able to get to flattish growth, it will be interesting, but we do expect that in May we will see some growth because last year in May versus this year we will be doing a little better than what we did last year in May, for sure.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Aditya Makharia for closing comments.

Aditya Makharia: Thank you very much. On behalf of HDFC Securities, that concludes the conference. Once again, thank you for joining us in this late hour of the evening.

Umang Khurana: Thank you everyone.

Niranjan Gupta: Thank you everyone.

Sanjay Bhan: Thank you very much.

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