



“Hero MotoCorp Limited Q4 FY 2014 Results
Conference Call”

May 29, 2014



MANAGEMENT: **MR. RAVI SUD – SENIOR VICE PRESIDENT
AND CFO – HERO MOTOCORP**

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Moderator: Ladies and gentlemen, good day and welcome to the Hero MotoCorp Q4 Financial Year 2014 Post Results Conference Call, hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashvin Shetty of Ambit Capital. Thank you and over to you Mr. Shetty!

Ashvin Shetty: Thank you. Good afternoon ladies and gentlemen. On behalf of Ambit Capital I would like to welcome you all to the Q4 FY2014 post results conference call of Hero MotoCorp. From the management team today we have Mr. Ravi Sud, Senior Vice President and CFO and Mr. Anil Dua, Senior Vice President, Marketing and Sales. I would now like to hand over the call to Mr. Sud for his opening remarks and then we can have the Q&A session. Over to you Sir!

Ravi Sud: Thank you Ashvin. Thank you very much everybody for attending this call. As you aware we had declared the numbers yesterday late evening because our meeting continued till 06:00 to 06:15 and the numbers are already with you. Without wasting any time, I think we would like to go straight to the questions and answers.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Kapil Singh from Nomura Securities. Please go ahead.

Kapil Singh: Good afternoon Sir. My first question is to Mr. Dua actually. Sir, what is your outlook for demand for next year for Hero Motocorp as well as for the industry and what kind of capacity are we geared for?

Anil Dua: Kapil, thank you. I think that is the most important question on mind of everyone today. The industry has been depressed for some time now. The industry has had only 6-7% growth last year and prior to that it was 2-3%. So it has been sometime the industry has spoken about good figures and high figures. It is our belief that now with political certainty already there and good policy interventions hopefully on the horizon there should be better economic atmosphere. We are hoping that we will see better news on all economic fronts: on GDP front, on inflation front, on interest front but we know that there is no magic. Nothing is going to happen overnight. It is going to take some time and gradually industry is going to come back even if we look at the revised GDP forecast, the best forecast we have seen are strictly about 6.5%-odd. So there will be a recovery, but a gradual one. Now the good news is that two-wheeler industry always leads such a recovery and already we have seen last quarter, industry has done relatively well and in anticipation of good times, I think the industry will actually move up rapidly. We feel industry will grow this year finally on double-digits. We are looking at, at least 10-11%. That is our outlook for the industry.

Kapil Singh: Sir, any colour on the new product launches? Like how many are you targeting for next year?

Anil Dua: I think we showcased 32 models at the Auto Expo including the 15 models we had showcased earlier, 12 new models and 5 other launches including concepts, etc. So there is no dearth of new bikes and new models as far as Hero MotoCorp is concerned. We have actually launched quite a few out of these already, in fact the 15 that we had showcased in September last year are all in the market now. The latest ones, which have gone into the market are the new Xtreme, the new ZMR, the new Karizma and the new Pleasure. In addition, a bike which has really got everyone's imagination is Splendor I-Smart, which has been selling for the last 4-5 months or so. This is doing extremely well. We are doubling its capacity and we are hoping that this will give us significant incremental volumes and all others of course will also shore up our market share position and consolidate our leadership further.

Kapil Singh: One more question to Mr. Sud. On the margin front, we have seen some improvement on the gross margins, at least the raw material to sales has seen some fall. So any colour on, is it because of the cost reduction initiatives that you have been taking? And how should we look at this going forward?

Ravi Sud: Kapil, my stand remains the same. There are two or three parts to your question. Let me answer all. Number one, as far as raw material and imports are concerned, they are function of two or three things. Number one is the commodity, which directly leads to increase or decrease in the cost. Second is on the conversion cost. There have been pressures on the conversion cost particularly on the labour and power in the last four to six quarters and the third issue is relating to our initiative on what we call Leap and I am very pleased to inform you that in FY 2014 we accrued more than 150 Crores which got added to our bottomline and this is a figure which will keep on increasing progressively and effective April 1, 2014, the monthly accrual is 25 Crores per month.

Kapil Singh: That is quite a big number.

Ravi Sud: Yes.

Kapil Singh: Sir, for this quarter's decline, was it the commodity cost which came of as well and how did they move quarter-on-quarter?

Ravi Sud: As far as Q4 is concerned, the commodities had been quite soft and we did not see much volatility in the import prices.

Kapil Singh: It remains so even now? Is there any change?

Ravi Sud: As of now it has changed. That is the word I will use.

Kapil Singh: Thank you very much and all the best.

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

Pramod Kumar: Good afternoon Sir. Thanks a lot for the opportunity. Sir my first question pertains to the category growth as in how would you see for the last 2-3 years scooters have been way ahead of motorcycles in terms of growth rate. Now how should one look at in FY 2015 when you are expecting industry growth to revive or improve from the last year levels? Do you expect that the scooters will continue to outperform motorcycles in a meaningful way or what is your reading?

Anil Dua: Pramod, I think, again that is a very topical issue because scooters have been consistently growing. Motorcycles have been flat to very low single-digit growth. Last year's figures, if you look at scooters have grown at 22.5% in the domestic market. Motorcycles are at 3.5-4%. Essentially, you know, this trend is likely to continue as we going forward. Today, scooters are contributing almost a quarter to the entire two-wheeler industry. Over the next couple of years, this number is likely to move up to 30% and this is in line with what we have said in our earlier investor call as well, industry is moving in the right direction because scooters are becoming more stylish, they are offering better mileage, they are very good for short distance commute in congested traffic conditions and they are multipurpose in the sense that all members of the family can use them and therefore scooters are the trendy thing currently.

Motorcycles are also growing as I said 3.5-4% in a depressed year in a more buoyant year like this one, they should grow faster than that. Also many of the new launches which are hitting the market place now as I spoke for Splendor iSmart our motorcycle or the new premium bikes that we are launching, I think all these will also spur the motorcycle growth and that is likely to go up. The scooter growth, however, will outpace that because you saw in the Auto Expo also there are many scooter launches planned across the industry also given the reasons that I have said and the current momentum that these scooters have we are likely to see them continuing to grow. The good news is that Hero MotoCorp has been growing faster than even that 22% growth that the scooter industry has seen last year. We are actually growing by 25% on scooters last year and this is just with regard to two models, Pleasure and Maestro. With these two models we have been really able to get close to 20% share of scooter segment and outpacing scooter industry growth with several new scooter models planned in the coming year and beyond, we are looking at strengthening this position well beyond the current situation. So I think that is good news both on the industry front and Hero MotoCorp front.

Pramod Kumar: But if I am not wrong the data suggests that at the beginning of the year you had a very high market share. You were actually clocking more than 20% of the scooter segment, but of late for the last six months, I think, the average market share hovers around 18-18.5%. So how much of this is probably led by capacity or reach improvement at Honda's level or even by TVS new launches and where would you ideally see your market going say by the end of FY 2015?

Anil Dua: Pramod, I think, you do have the inclination of what has happened. We have had capacity issues. We have spoken sometime back that our scooter capacity has been 60,000 and we are increasing it to 75,000. So that is going up this quarter from March and April onwards that capacity is moving up. The sales last year if you see have mostly been 55,000 to 60,000 every month. They

have been static for us. There was clearly a room to grow 70,000-75,000 but these are huge lead times that we need in order to build this capacity. So that has come up now and therefore because the market is growing, but our capacity was capped at about 60,000, therefore you see the trend we are describing, but despite that overall for the year we have grown 25% against 22% and consequently about 8.9% share we have gained for the year as a whole. Now that we have the capacity and we have the new models in the offing we are going to cut back this trend.

Pramod Kumar: Sir, my last question is for Mr. Sud. Sir, if you can just share how the R&D expenses have shaped up for FY 2014 and how particularly in 1Q given the new launches what you have started to do and also on your marketing spend, how it has behaved in the last six months and how do you expect it in FY 2015?

Ravi Sud: May be first to answer your question on the marketing spend, you know, as far as the marketing spend is concerned, we have been just over 2% and you have the data for the last many years and even in the current year the spent is below 2%. As far as FY 2015 is concerned the same trend is going to continue. Coming to your second part on R&D expenditure yes, now as and when what I have said earlier that we have got some advances lying in our books, as and when the models start getting productionized the expense will start getting amortized or getting charged and that is what has started now. R&D as percentage of our turnover that part was close to 0.47% in FY13. It has gone up a bit in FY14 and it will continue to grow in years to come as more and more models will come into production and hence the amortization.

Pramod Kumar: Sir, and the final question; sorry for this, but exports how would you see exports going forward, because I think, we have lagged. We have not been able to keep up pace with the targets what we have set in terms of there were twice 17-18% targets. So how would you and you have done few launches in the key African markets in the last quarter? So how should one read your export growth in FY 2015 and FY 2016 as well?

Ravi Sud: Pramod I think those are fair observations. I think last year has the big markets around the world have been facing various kinds of peculiar situations from economic downturns to banning of motorcycles taxes to other geopolitical reasons and that has definitely put pressure on exports; however, we have used this year FY 2014 as a year of launching and setting up signature infrastructure in more than one and a half dozen markets around the globe and these pan across South Asia, Latin America, South America, and Africa, where we put up best-in-class infrastructure on showrooms and workshops. We have done tie-ups with your distributors and established very good dealer networks in all the countries that we have gone into, done the initial launch, but we have not clearly looked at last year as a year of doing volume in global markets. It has been a year of setting of our presence as infrastructure in these markets. Going forward FY 2015 we are looking at a year of volumes growing and building market share in all these markets. I can tell you confidently that we are going to see very good growth in FY 2015 over FY 2014 as we going forward the figures will be really good, but we will talk about them once we have them under the belt.



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Pramod Kumar: Sounds good, Sir. I will come back in the queue for further questions. Thanks a lot and best of luck.

Moderator: Thank you. The next question is from the line of Dinesh Singh from Morgan Stanley. Please go ahead.

Dinesh Singh: Thanks for the opportunity. My question is with regard to the competitive pricing in the industry, like your key competitors are talking about margins in domestic motorcycle going down by 100 basis points to 150 basis points because basically Bajaj and everyone is offering more for the same price. At the same point of time, you are embarking on a very aggressive cost-cutting program, wherein you are guiding for 200 basis points to 250 basis points of margin expansion. So combining the two, what is your view on competitive pricing in the industry and where do you see your margins, like do you maintain the 200 basis point, 250 basis point of expansion based on cost cutting from the 14% level that you are at?

Anil Dua: I will start it off and let Mr. Sud add to that. Very clearly, yes. We have seen competition running freebies, even lowering prices, running discounts and there has been the downward pressure on the prices in the markets which we are seeing, but you will also notice that Hero MotoCorp has stood firm and we have not got into any freebies and any discounting on our models. We have been selling it full price and indeed we have even aggressively taken up our prices. There has been a minor price increase even some time back and we have actually focused on strengthening our models as you know we refresh almost our entire range last year. I spoke about 15 models that we have showcased; many of them are refreshes of the current models which we have launched with new colours, new graphics, or new features like we have introduced Integrated Braking System in our new Pleasure. We have introduced an immobilizer in new Xtreme, and we have introduced i3S, idle Stop and Start System in our Splendor iSmart bike. These all three examples that I have given are patents that Hero has applied for.

So our focus has been on a lot of our products to feature up our products, to build our brands and to have a premium pricing position in the market. In fact in most of the segments we hold that position including scooters and premium segment of course in the 100 cc and 125 cc space. We have that kind of a pricing power. Our Hero brand and our model brands have that kind of pricing power because this combined with the cost initiatives that Mr. Sud is going to talk about is definitely the right recipe to go forward.

Ravi Sud: Dinesh thank you for your question. I have myself gone on record and shared that this Margin Transformation Programme, which we had started in May last year wherein there was about 250-300 basis points extra margins by April 17 or 18, what I shared just at the beginning of the call is that we have already come to a stage where our runrate is about 25 Crores a month as on April 1, 2014. So if you add or take a one quarter view of Q1 of FY 2015, we expect over 75 Crore of additional bottomline with this programme itself. Of course there are certain changes, that other things should remain constant if there is volatility in commodity market or in the currency

fluctuation violently, but that share is beyond, which we are not able to pass on, otherwise we are well on track as of now to achieve our target of 250-300 basis points.

Dinesh Singh: And sir, just like the upgrades that you have done to your recent bikes like highlighted by Mr. Dua, have you been able to pass on the prices to the consumer like for all the new features that you are adding to your bikes?

Ravi Sud: Yes, 100%, may be more than 100%.

Dinesh Singh: Sir, what are the price hikes that you have taken like in the last one year?

Ravi Sud: The latest one I can tell you in the month of March, we have taken a marginal price hike of around Rs300 to the customer, prior to that we had taken in October 2013.

Dinesh Singh: Sir, just a general comment like assuming that the industry recovers, in the past, we have seen that the industry used to take like Rs1,000-Rs1,500 kind of a price hike during good years. How do you see the pricing environment, like do you see that in a recovery environment? Also, the price hikes have narrowed down, like you are taking Rs300, your competition is not even taking that. So, do you see that sort of as a structural change in the industry?

Anil Dua: Dinesh, the earlier price hikes that we have taken whether October or May you know the last four years that I can think off has been in the region of Rs1,000-1,500, but there are those costs, which keep coming up, let us say diesel price is going up regularly, and there are some other costs, commodity costs, which suddenly come now and then and we try balancing that through these smaller price increases off and on, but let us say once in a year if not more, we have been taking a Rs1,000-1,500 kind of a price increase for the last two years as well.

Dinesh Singh: And sir, just lastly, sort of a question on scooters, we know the demand is very strong, you are adding more models, but when I look at your capacity, you are only taking it up from 60,000 to 75,000. So, what is the long-term plan over there on capacity addition?

Anil Dua: 75,000 may go up to 100,000. We have to also see our overall capacity we are now coming up with new plants, so we will have probably more slack available as we go forward but Neemrana is yet to start. Gujarat is yet to start. So, the current plans obviously they have been around for a long time and there is a limitation to what is said, you can build surplus. The capacity between the three plants has been about 6.9 million and that did put a cap on how much scooter capacity we can go up to, but as we go forward, I do not see a constraint, as we get into Neemrana, as we get into Gujarat, we should build capacity ahead of demand and we are fairly comfortable on that.

Dinesh Singh: Great. Thank you, sir. Thanks a lot for the opportunity.



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- Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.
- Jinesh Gandhi:** Couple of questions from my side. First is on, in this quarter, did we charge for any excise-related expense in our P&L, primarily the loss on excise on inventory?
- Anil Dua:** No.
- Jinesh Gandhi:** So entire burden was taken by the dealers, is it?
- Anil Dua:** Yes.
- Jinesh Gandhi:** Sir, second question pertains to the costing initiatives, which you have indicated I mean the exit rate for FY 2014 was about Rs25 Crores. How do we see this building up over the next 12 months? Do we see a meaningful ramp-up in this year or the next leg of ramp-up will come in FY 2016?
- Ravi Sud:** Let me tell you we started this programme in May 2013, and we started in a very, very small way and as far as going to Q3 we had run rate of about 10 Crores a month. In the Q3 call, which we had in January, we had said we had accrued about 50 Crores to our bottomline. In Q4 now, YTD for full year we have accrued more than 150 Crores. So, now the opening runrate, which I shared with you is close to 25 Crores a month and it will keep on growing as we keep on implementing the ideas at different points of time. My own expectation is that the exit runrate for FY 2015 which is at the end of March 2015 could be anything between 50 Crores and 60 Crores. It is too early to say. We are working and it will keep on increasing.
- Jinesh Gandhi:** And sir, last question pertains to the new plants, primarily at Rajasthan and Gujarat along with R&D facility. Can you give an update in terms of the timelines for these plants?
- Ravi Sud:** As far as the Neemrana plant is concerned, we have already completed a pre-production run last week and we plan to start the trial production in the month of June and by the end of June the plant will be fully operational. As far as Gujarat is concerned, we have started the building of boundary wall and our expectation is it will take 12 months for the plant to be ready.
- Jinesh Gandhi:** So, maybe by June 2015 that this plant will also be ready?
- Ravi Sud:** I would say second quarter end, may be September 2015.
- Jinesh Gandhi:** Neemrana would be 700,000 capacity and Gujarat?
- Ravi Sud:** 7,50,000 annual capacity.
- Jinesh Gandhi:** 750,000 and Gujarat will start with 1.2?



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- Ravi Sud:** Yes, 1.2 - 1.5 million annual capacity.
- Jinesh Gandhi:** And sir, update on the R&D centre at Kukas?
- Ravi Sud:** R&D centre, the construction has already started and we expect it to be operational by Q2 FY 2016.
- Jinesh Gandhi:** Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.
- Hitesh Goel:** Thank you, Sir. Sir, my question is more on the scooter portfolio. Have you started to see improvement in profitability because in Maestro, I believe you give a higher royalty to Honda? So can you give colour on how the profitability on the scooter segment is increasing with volumes?
- Anil Dua:** Maestro is one part and you are right on Maestro we do have a royalty payment to Honda, but as has been clarified by Mr. Sud several times in the past that these royalties are very reasonable. They are in line with the royalties we used to pay when we were a joint venture. So it is not of a magnitude that seriously dents our profitability, it's a profitable product after paying royalty, and we are growing on volumes there.
- In addition, we have Pleasure where there is no such royalty. Only the amortised payouts, which are finishing now and which are not model specific which are for the company as a whole. So, Pleasure is without any royalty and therefore is profitable conceptually as any other model that we have and also we have refreshed it recently and as Mr. Sud said, that we have actually passed on the prices 100% or even beyond 100% and indeed in Pleasure that is the case. We have taken a steep price increase on Pleasure where we have introduced some patented technology that is like Integrated Braking System etc., and provided new features like mobile charger, boot light, and so on. And therefore, new Pleasure is profitable. Also more importantly we are adding many new scooters on our own as we go forward into this year and beyond, which will also be at good prices and will make good margins.
- Hitesh Goel:** So, Sir, say, for example, Pleasure, just to give a sense, is Pleasure a double-digit margin kind of product at these volumes?
- Ravi Sud :** Yes.
- Hitesh Goel:** And sir, on the exports side, can you talk about the pricing that you are following in the African market? Are your prices in line with Boxer 150 for the CD product? How is the pricing versus Bajaj or other players in the market?



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Anil Dua: Prices are very competitive in these markets. In one of the key market, since we refer to some specific competitive models, in one of the key markets we are yet to launch which is Nigeria, but in the other markets where we are there, Uganda, Tanzania, and Angola, we are very competitive and we are getting a very good response.

Hitesh Goel: So sir, your pricing would be 30-40% higher than the Chinese product?

Anil Dua: It is true for all Indian brands. We are very competitive vis-à-vis Indian models. So we have similar price as Indian models, yes, vis-à-vis Chinese products we are all at a higher price.

Hitesh Goel: Sir, are you seeing any activity from Honda in the African market for a model, because now if I believe that the pricing already for the Indian players has gone up substantially over the last 3-4 years? So, are you seeing any activity from Honda to target this market?

Anil Dua: I would not comment on any specific players, but essentially you know everyone is pretty active around the world, but we are right now focusing on our own brand launches and our own signature infrastructure. There is enough opportunity in these markets to focus on doing some good work on after sales and service and get a very good foothold. So, there is action all around, but I think we are happily able to focus on what we want to do.

Hitesh Goel: Thank you, Sir.

Moderator: The next question is from the line of Kaushal Maroo from Emkay Global Financial Services Limited. Please go ahead.

Kaushal Maroo: Just wanted to understand that, does a better demand environment give you opportunity to take out-of-turn pricing action in your most successful models like Splendor and Passion for a higher quantum than what the competition is taking in those categories?

Anil Dua: I think we are in a very competitive market. There is a lot of action. I have spoken about, freebies and discounts being run by the competition. There is huge advertising expenditure being incurred by the competition as you can see daily in the newspapers as well as on TV. So, I think while we are in a very good situation as far as our pricing power is concerned, and strength of our brands is concerned, but I do not think we can randomly take price increases at will, because ultimately we have to make sure that customers are happy and is delighted with what we are offering even if customers pays a little more he should feel that he is getting much more, but if we take out-of-turn price increase etc., I think we will upset the delicate balance. So we do not do that.

Kaushal Maroo: My second question is that historically, it has been very difficult to dislodge the leaders in every category, whether it be Splendor, Shine, Pulsar, or Activa. What kind of initiative except apart from product launches, are being taken to gain market share in scooters and the premium segment motorcycles?



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Anil Dua: Lot of action, because as we said launches is just one thing, but there are several other things that we can do. For one on the branding front, if you look at the scooters as a category, you know, it was languishing. When we launched Pleasure scooter as a category was just 10% of the market. It was declining by 10%. We launched Pleasure. We created a new brand. We created a new category for women and scooters started to grow and then again about two and a half years back when we looked at the market we found that while women are now happily buying scooters and scooters have moved up to 15-16% of the market and they are growing but men are still shying away from buying scooters. Therefore our dream for Maestro was that can we create a product which guys find it very cool and therefore the brand Maestro stands for such a boy thing and you would have seen the TV commercials that Ranbir Kapoor which has made scooters look very cool and very stylish and this is the same results that we repeated clearly showed us that many guys who are today not shy of being seen on scooters and they are happily considering scooters as one of their choice vis-à-vis other motorcycles.

So I would not say the whole thing has got completely transformed or revolutionised or turned around, but certainly it has started moving in that direction where scooters from being not cool are now not, not cool and probably next stage will be cool. So that movement has started happening, which is the branding effort I will say ascribable solely to Hero MotoCorp because we have done that with brand Maestro. So branding is one effort other than launches.

The third effort is of course the marketplace effort, which is the test drives that we do, the activations that we do. Right now in 29 cities around the country, we are running Maestro activation where we are inviting young guys to come and take test drives and we are saying that many of them will get a chance to meet Ranbir Kapoor. So one fine day we are going to get all of them together in one location along with Ranbir Kapoor and that is an activity which is running right now across the country. It is being advertised also in papers; you will see good outdoor on Maestro around the country. So, certainly products, volumes, brands, shares are not built just by product launches, they are built by a whole lot of 360 degree effort, which Hero knows how to do that well and we are pretty much putting all our minds behind scooters right now.

Kaushal Maroo: Sir, the last question is the timeline for the launch of your 125cc scooter that you showcased at the Expo?

Anil Dua: It is planned in the future. I will not be able to share the exact date with you right now. We have not only under 125cc scooter planned, we also have 100cc, 110cc scooter, we also have 150cc scooter. It will not be right for me to give away the exact dates right now, but over the next two years you will see all these launches hitting the marketplace.

Kaushal Maroo: Thank you, sir, and all the best.

Moderator: Thank you. The next question is from the line of Ashish Nigam from Axis Capital. Please go ahead.

Ashish Nigam: There have been some concerns of rural demand slowing down in the wake on an El Niño risk. You are already seeing some of its impact on tractor volumes. So what feelers are you getting about rural demand in this backdrop?

Anil Dua: I think that is a concern for future certainly because even we have seen the monsoon forecast for this year generally there have been reports that it may be below average. So that is definitely something, which does dampen rural sentiment, but as we stand right now, I think the rural sentiment is fine. Last year if you look at 6-7% industry growth I will say that about 4% or 5% is in the urban and about 10%-odd is in rural because we have had a retail growth of 7% last year and that is roughly our split on our sales, about 10% growth on rural and about 5% growth on urban. So clearly rural has had an edge over urban, but last year certainly monsoons were good and in general the rural sentiment was fine. This year I think the positive national sentiment on political front etc., should have a positive rub-off all across, which should transmit down to rural areas as well. Yes, monsoon if it is bad and offset that a little bit but I think increasingly as we go forward we have seen there have been of cost of few not so good monsoon, but in the last few years, the rural economy has still managed to do well if the overall economic sentiment has been positive. So, I still say that the 10-11% industry outlook that I spoke about should still stand.

Ashish Nigam: Okay, thanks, sir, that was helpful and just a couple of housekeeping questions. What is the dealer inventory at the moment?

Anil Dua: Dealer inventory is very comfortable. In fact at the moment our plants are running at almost 100% capacity. These months of April and May if you recall last year as well, there were record non-festive retail months for us. I think in the month of May we should be breaking that record. We should be doing better than the records that we have created last year in April and May. So, you know dealers want more and more stocks and factories are stretching to give them what they want. So we are at a very good level of dealer stocks but that is pretty comfortable.

Ravi Sud: To be more specific, if we say the dealer stock as of now is close to 4.1 weeks of the May'14 retail.

Ashish Nigam: Thank you, that's all from my side.

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

Sonal Gupta: This is Sonal here. Sir, just wanted to understand again, coming back to I mean what sort of the split in terms of rural and urban demand now for you and for the industry, really speaking? And the other thing is, in terms of because the urban is growing slower, but scooters are clearly growing faster. So, are we seeing a very significant shift in terms of I mean the urban demand shifting towards scooters or...?

Anil Dua: I think I have addressed most of these points, but I will try and resummarise. I think till last year certainly rural demand was outstripping urban demand for the last couple of years. As I said 7%

overall was split as 5% urban growth and 10% rural growth. Going forward I feel urban should improve because of various reasons. Number one the overall political environment, the overall news on economic front, besides that urban has been down for two-wheelers are almost a necessity, not a luxury and that must bring back two-wheeler volumes in the urban areas as well. I think however, with as positive news on GDP etc., comes the rural areas will also continue to grow and it is not that they are going to lag behind, but I think the news going forward will be that while rural areas are doing well, urban areas have started looking up. That is how the news on rural and urban is going to change in tenure.

As far as scooters are concerned, certainly scooters growth is actually not only helping urban areas, it is also helping a lot of small towns and I have seen Pleasure being bought by women in Chhattisgarh, in very small towns, so as a product, because I said it is a unisex product, it can be used by young and old, by men and women, it is very good for short distance commute. There is lack of let us say public transport in many of the areas, so scooter becomes a good vehicle across urban and rural. So that is why this 20%-plus kind of a scooter growth has translated not nearly to urban growth, which as I said, was 5% last year, but it is also translated to rural growth, but yes as of now primarily it has contributed to urban growth and therefore motorcycles probably have been almost stagnant in urban areas or very marginal kind of growth 1%, 2% but it is scooters which have contributed significantly to urban areas but going forward, scooter is also contributed to small towns in rural areas.

Sonal Gupta: Just to clarify you said in the beginning that you expect the scooter share to go up from 25% to 30% in a couple of years, is that timeframe you are looking at?

Anil Dua: That is true. I think the direction in which is moving and should be there.

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

Aryn Pirani: Thanks for taking my question. Just wanted to come back on your capacity, you have already increased your scooter capacity 75% per month and with the Neerana plan coming in from the next month, would that further increase scooter capacity or this is what you have for scooters for the time being?

Ravi Sud: As Anil said earlier, we have capacity at 75,000 per month and we will increase up to 100,000 depending on the growth of the market and as Anil said once again scooter is likely to grow faster than the industry and make us 30% in one or two years, so we are working on that and we will increase the capacity in line with the demand.

Aryn Pirani: Can you just share the volume number for the New Honda product on which you pay royalty, because last quarter you had mentioned that for the first nine months the number was 5, 50,000 or so. Could you just share the number for the full year Sir?



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- Ravi Sud:** The question is about the royalty. I can share it with you for the full year of royalty about Rs115 Crores.
- Amyr Pirani:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Ambrish Mishra from JM Financial. Please go ahead.
- Ambrish Mishra:** Thanks Sir. Congratulations on a good set of numbers. Sir, just one question, you mentioned about R&D amortisation as we start launching our product. Can you just throw some more light as to what kind of spend we would have made on the products that we are going to launch from our captive R&D facility and what kind of I would say amortisation that one can expect over the next 1-2 years?
- Ravi Sud:** As I said earlier, R&D spends was 0.47% in FY 2013 and it will continue to grow depending on as and when we amortize the cost. Now, there are two types of charges which will come to P&L. Number one is, charge is related to refreshers or any minor modification which will get charged to P&L and certainly as and when we launch a new platform or a brand new product which will get amortized. Our own expectation is the next two years, our R&D as a percentage of net revenue should be close to 1%.
- Ambrish Mishra:** So that would be on the refreshers you mean to say?
- Ravi Sud:** No. Total R&D spend as a percentage of our net revenue should be close to 1% in the next two years.
- Ambrish Mishra:** This will include whatever we amortise?
- Ravi Sud:** This will include total R&D expenditure as a percentage of our net revenue.
- Ambrish Mishra:** Sir, just a last question. Can you give some idea about or guidance on the tax rates that we are going to have for FY 2015 and FY 2016?
- Ravi Sud:** We used to have a tax rate of 16% or 17% in FY 2013 because of Haridwar benefits. In FY 2014 the tax rate is 26.45% and we expect similar tax rate to be continued in FY 2015 and FY 2016 due to tax exemption being reduced to 30%.
- Ambrish Mishra:** So there would not be any change from FY 2014?
- Ravi Sud:** There could be very, very marginal change may be 15-20 basis plus or minus otherwise it should be in the same range.
- Ambrish Mishra:** Thanks, sir, and all the best.



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- Moderator:** Thank you. The next question is from the line of Chirag Shah from Edelweiss Capital.
- Chirag Shah:** Thanks for the opportunity. Sir, a basic clarificatory question, first on the Leap programme, can you make us understand what were the benefits for the fourth quarter you recorded?
- Ravi Sud:** Benefit for the fourth quarter was close to Rs.60 Crores.
- Chirag Shah:** Second was this amortisation of R&D, it would be below EBITDA line, right, it will be a part of depreciation and amortisation?
- Ravi Sud:** Certain parts will be amortized, while some expenses relating to minor modifications will be charged directly to P&L .
- Chirag Shah:** Sir, just to takeup on the Leap programme. So is it right to assume that a large part of this margin expansion we have seen is attributable to the Leap programme or lower commodity costs and currency were also a reason for you?
- Ravi Sud:** Let me once again clarify. The Leap programme is that we have taken the base of April 2013. So any reduction in commodity or any benefit or loss on account of commodity is not part of it. This is the programme which is concentrating on all aspects of the organisation, not only raw material consolidation, e-sourcing, designing or pricing optimisation or feature optimisation or looking at your operating expenditure, looking at effectiveness of marketing spend. It is a huge programme, we had clarified earlier that this is now a typical and conventional cost-cutting programme or cost reduction programme. This is a margin transformation programme, which will continue for at least three years and we have just completed year one. We had started in May 2013, we have just completed one year, where we at a run rate of overall Rs.25 Crores per month now.
- Chirag Shah:** Sir, is it possible for you to highlight what would be your total spares revenue for FY 2014?
- Anil Dua:** Sorry.
- Chirag Shah:** Spare sales for FY 2014 as a year, is it possible for you to share that number, broadly?
- Anil Dua:** This is close to Rs1,700 Crores net of excise duty.
- Chirag Shah:** Thank you very much Sir. This was helpful.
- Moderator:** Thank you. The next question is from the line of Jigar Shah from Maybank. Please go ahead.
- Jigar Shah:** Good afternoon, Sir. My question pertains to exports. Can you share with us the export volume and breakup during FY 2014, breakup in terms of geography?

Anil Dua: Let me share the overall figure of 130,000. But as I said for this year this was not so much important, bulk of these volumes have come from South Asia, which is Nepal, Bangladesh, and Sri Lanka; and the other countries have added very small volumes because they have got added actually right till the last month of last year and the whole focus has been not so much on volume, but to kick start the operation to have good infrastructure in place. Going forward as I said we are looking at a significant jump on these volumes and we will start getting almost equal terms as we go forward from South America as well as from Africa. I think Africa will become a major volume contributor as we go forward. Just to give you a feel of our target for FY 2015, as we are talking close to 250,000 export volume.

Jigar Shah: That is very helpful. Thank you Sir and all the best.

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

Raghu Nandan: Thank you Sir for the opportunity and congratulations on a good set of numbers. Sir, like historically, when the economic growth picks up, like the sales in premium segment also picks up. So with reference to that, like when can we expect the launches of the 250cc motorcycle, 150cc motorcycle which was previously like showcased by you in the Auto Expo?

Anil Dua: I think you are absolutely right in good times when the premium segment does get better, but we have seen over the last two years, the premium segment has been going up and down depending upon the business cycles. Definitely I think going forward there should be some growth, some pick up in this if the economy really starts looking up. I think we are ready for that, because as we speak, we are just launching three new premium bikes into the market. The new Xtreme was the first one to go and new ZMR and Karizma are going now. These have gone up almost a gap of 3-4 months and we have seen because of that in premium segment, we did lose shares in the last quarter when we did not have these bikes to sell it, but this quarter we started selling them in and we see a good number coming around these bikes as we go forward. As regards the other new bikes that we showcase that the Auto Expo we should soon be coming in with another 150cc bike that we have drawn at the Auto Expo which was Xtreme Sports. That should follow soon and before the end of the year, the 250cc bike is also at the anvil. So you will see a lot of action this year.

Raghu Nandan: Thank you, Sir. Just a couple of clarifications; on the capex side for FY 2015, earlier, you had indicated Rs15 billion to Rs18 billion kind of a capex, that stays, right?

Ravi Sud: Yes, it does.

Raghu Nandan: R&D expenses for FY 2014 would be closer to 0.75%, Sir?

Anil Dua: I am not very sure as of now, but that is what I have said, it will increase to about 1% in next 2 years.



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Raghu Nandan:

Thank you very much, Sir. That is all from my side.

Moderator:

Thank you. The next question is from the line of Joseph George from IIFL. Please go ahead.

Joseph George:

Thank you for the opportunity. My question was on the network expansion. The last number that I have read of the total touch points is close to 6,000 for you. Can you give me an update and in the same context, just wanted to highlight that Honda is talking about expanding their network by more than 30% in one year. So going from about 2,800 dealerships to 3,800 dealerships in FY 2015 and kind of closing in on your number. So in that context, can you give a sense of what your expansion plans are on the network side?

Anil Dua:

I think because on the sense that the net worth numbers by themselves are enabler, they have noted end in themselves. There are smaller players you will see number three, number four who have larger network than the number two player and in fact much larger, so that does not mean that there should be therefore rightfully number two. I think it is the combination of what kind of throughput you can have per outlet what kind of viability you can ensure, what kind of total 360 degree revenue model that you have for your dealership including after sales parts, workshop revenue and other revenue streams. So it is a combination of all that and it is not nearly the number of network points which guarantees success. Having said that Hero MotoCorp is always believed in getting closer to the customer making it very convenient to the customer to buy, get Hero bike serviced and so we have been adding almost 500 touch-points every year for the last now I will say 7-8 years and therefore we ourselves have if I recall we used to 2,300 kind of touch-point universe in 2006 or so and today in 2014 we are talking of more than 6,000. We plan to add more than close to 500 touch points even this year as we go forward and take this number to beyond 65,000 which will be a fair clip ahead of any number that we have spoken. But having said this is not a race for just these numbers.

I think ultimately, we must ensure that our first customers, our channel partners are viable, are happy, are being treated in a fair manner, are being given opportunities to grow further and more importantly all the new touch-points that are opening or not just sales only outlets because most customers buy a bike once in three, four, five years, but they service their bike three, four times in a year and therefore it is important that all these outlets have service infrastructure. Almost all our outlets, all our 6,000 touch-points are backed with a workup with a service backup with therefore capital sunk into ground with trained manpower, with workstations at every touch-point. So, these are quality touch-points and these are not just numbers that we are adding up and we are committed to continuing with that philosophy as we go forward. This is a huge competitive advantage that we enjoy.

Joseph George:

Got it. Sir, just one follow-up. Internally, have you worked out a potential number of touch-points where the network will likely max out? Is such a number identified internally?

Anil Dua:

This is a very dynamic issue, because it depends upon several situations and depends upon what is the future growth that we are expecting it depends what we are the absolute volumes you are

expecting. It depends upon the format of network that you are looking at, if you are looking at large format stores then you will have different number, but if you want to increase the smaller-format stores, then, the number will change significantly. We are at Rs6 million kind of a volume and we have said that our vision is to go to Rs10 million. So to say that maps out etc., it is probably not correct, India is a very vast country, there is a huge scope you know to get closer and closer to the customers, but that is the balanced out by the viability considerations as long as the volumes are growing, the market is growing I think we can we have scope to add more network.

Joseph George: Got it, sir. Thank you.

Moderator: Thank you. The next question is from the line of Sahil Kedia from Barclays. Please go ahead.

Sahil Kedia: Thank you. Can you help us understand what are your export revenues for FY 2014 and also, there were certain news articles suggesting that you are considering putting up an assembly unit outside. So, your capex numbers that you have mentioned today include that, how is it changing, please?

Ravi Sud : Let me first tell you what is exports revenue, i.e. US\$100 million which is not very significant. As far as the assembly unit is concerned we recently announced a joint venture in Bangladesh - that capex will not be directly through this company, it will be through our 100% subsidiary. And just for your information that the equity part of that our share is not very significant. It is close to US\$9 million.

Sahil Kedia: Only US\$9 million, right?

Ravi Sud: This constitutes about 55% of our equity and balance we will leverage it by borrowing in the local market.

Sahil Kedia: Sir, one house-keeping question. The finance arm that we had started is that still a separate company or has that been merged that it will be merged at some point?

Ravi Sud: It has been a separate company for the last 23 years and we plan to be a keep it that way and since you since you raised that question, I can share with you some numbers. You would remember we had started this two-wheeler financing in June 2013 and we closed the year with 52,000 two wheeler financing and at 286 locations and our plan is that in the current year which is FY 2015, we plan to finance about 200,000 two wheelers and be at about 590 locations.

Sahil Kedia: So, this 200,000 is volumes financed, right?

Anil Dua: Yes, up from 52,000, so almost four times.

Sahil Kedia: Alright, Sir. Thank you so much.



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Moderator: Thank you. The next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao: Sir, thank you very much. I just wanted Mr. Sud did mention about the cost savings programme. Sir if you could throw some light as to where we are right now and which areas of the company are the initiatives right now? You did indicate logistics in the past and raw material costs. Is that still the focus?

Ravi Sud: Let me repeat once again. This is a programme which is not on a particular area or function in the company. That is why we call it Margin Transformation Programme not the Cost Reduction Programme. Cost Reduction Programmes are basically in some pockets of the organisation and this is a programme which covers all parts of the organisation. Just to update, the focus as of now after one year is on price optimisation, feature optimisation, raw material consolidation, e-sourcing, outbound logistics, design, operational excellence within the organisation, operational excellence with our suppliers everywhere. So, when I say we are come to a runrate of Rs.25 Crores a month which means this is a combination of all the factors which have been contributing to that improvement.

Srinivas Rao: This is really helpful, Sir. Thank you.

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

Jamshed Dadabhoy: Thanks for taking my question. Mr. Sud, you mentioned that the premium segment would pick up in an economic revival, but last year also you saw the premium segment growing by about 7% or so. So, (a) what are your thoughts on that? And (b) when you look at the overall growth of 10% or 11% for FY 2015, could you split this up segmentally, i.e., how much you expect the commuter segment to do, premium and the economy?

Ravi Sud: I think the last year growth that you are referring to 7% if you notice it has been lying with the overall growth. The overall growth also as I said about 6-7%, so it is not that it has been disproportionately different, but in some sense even last year was some revival, because the previous year was only 2-3%; therefore it was going up to 7%. In fact to the best of us memory, I think the industry that the premium segment almost 8-9% last year overall including exports and it is about 5.5% in the domestic market. So in the domestic market, so if you were to really separate it out a lot has gone into exports but in the domestic market is actually even lower than the overall domestic two-wheeler growth which is in the region of 7%. So more or less what I said when the GDP is really high then the premium segment does well and vice versa.

Now going forward, if I look at all the segments and also look at Hero MotoCorp I think I would like to make a special mention of 125cc. The 125cc segment grew very well in the previous year and it was almost flat about probably 2.5% kind of growth this year in FY 2014. The good news is that we outgrew the industry even it was going by high double digit previous year. We outgrew

and grew by 24%, 25% and even this year where it has grown by only 2.5% we have grown by 17%. So, we already consolidated our position in 125cc. We used to be number two and number two player, in the segment a few years back, but over last two years, we have become a clear number one player in 125cc segment with close to 40% kind of market share. So, this segment we do not see a segment to watch out for because it can get positively impacted for various reasons although every other year and we have two brands, Super Splendor and Glamour which are doing extremely well. We had also launched Ignitor, which is also adding good volumes to the segment.

Now the 100cc segment, despite the action that has seen from 110cc launches, it is really not been very hot, I think the growth in the segment has been about 4% or so, but I think we are going to really hot of the action here through our iSmart launch which has recently happened, we are taking up our capacity, we are almost doubling our capacity on Splendor iSmart and going forward probably we will take it up when beyond that as well. So, I do see with the economic revival more people joining the two wheeler segment, 100cc segment will also see some fill it. So, generally if a good growth year comes like we seen 20%, 25% kind of couple of growth a few years back, all three segments actually grew pretty well and specially after two years of downturn I think this is the good opportunity for all these segments to do well as we go forward.

Jamshed Dadabhoy: Thanks. That's very helpful. Just a quick follow-up on that what is your current capacity on the iSmart on a monthly basis?

Anil Dua: Currently 25,000 including some exports that we are doing and this is up from 10,000 to 12,000 that used to be about a month back. So, April-May we have moved to this kind of a number.

Jamshed Dadabhoy: And where do you plan to take this business?

Anil Dua: 50,000 per month.

Jamshed Dadabhoy: Thank you very much.

Moderator: We have the last question from the line of Pramod Amte from CIMB. Please go ahead.

Pramod Amte: This is with regard to your export strategy. In Bangladesh, you said, you are going through a joint venture plan where you are investing. Will you be following the similar strategy everywhere else or how does it plan out?

Anil Dua: It is all a function of size of the market, type of investments required and basically these two considerations. Bangladesh we know as of now it is not a very big market. It is about 250,000-275,000, but our assessment is that this market will grow exponentially in times to come and also there are certain physical considerations, if you do the manufacturing within the country, so your custom duty on import of CBU or CKDs comes down very, very drastically, because most of the countries have the condition of local content, that is one. As far as other countries are concerned,



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we are exploring whether be it Latin America or be it African countries that is why we are evaluating and will let you know as and when some plans are finalised.

Pramod Amte: Second is, with regard to your finance business. Even though in terms of volumes which you finance does not look to be so aggressively adding out. But what value proposition you are offering to the customer is one, and second, in the sense of the risk of handling this business, how are you taking that looking at the experience of other two-wheeler finances in the past?

Ravi Sud: As I said earlier we started this business only in June 2011. Within nine months, we are at 286 locations. This is the fastest ramp up in the history of two-wheeler financing in this country. Number two, we have done 52,000 numbers. I mean in the period of nine months and that also we started with zero and most of our locations we have added in the third and the fourth quarter and we are going to add another 290 locations during the current year. As far as risk is concerned, I think we have started with a very, very robust risk management system. We wanted to start this business in April 2013 but we postponed it by two months because the system was not ready, technology base was not ready and we started only once we had confidence in our processes and our system and that is what at this point that I can tell you.

Pramod Amte: And what value proposition to the customer in the sense or sales solutions?

Anil Dua: I think it is about giving them a very good service from deliveries, competitive rates, and really a reliable backbone, so essentially there are also special schemes that they have run special finance schemes during festival time in smaller towns, I think that it the advantage you have with them they are willing to look beyond the traditional ways of doing financing business and experiment a little bit, ultimately it boils down to giving commercially a very sound proposition to the customer which is competitive.

Pramod Amte: Sure. Thanks a lot Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to Mr. Ashvin Shetty for closing comments. Please go ahead.

Ashvin Shetty: Thanks. On behalf of Ambit Capital, I thank all the participants for participating in the call. I also thank the management for giving us this opportunity. Thanks and bye.

Moderator: Thank you to the management and Mr. Shetty. Ladies and gentlemen, on behalf of Ambit Capital that concludes this conference call. Thank you for joining us and you may now disconnect your lines.