



“Hero MotoCorp Q1 FY14 Earnings Conference Call”

July 24, 2013



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MODERATOR: **MR. ANIKET MHATRE – ANALYST, STANDARD CHARTERED**
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Moderator

Ladies and gentlemen good day and welcome to the Hero MotoCorp Q1 FY14 Earnings Conference Call hosted by Standard Chartered Securities. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Aniket Mhatre from Standard Chartered Securities. Thank you and over to you, sir.

Aniket Mhatre

Thank you Maryann. Welcome to you all to the Post Results Conference Call of Hero Motor Corp. From the Management Team we have with us Mr. Ravi Sud, Senior VP and the Chief Financial Officer; Mr. Anil Dua, Senior VP, Sales and Marketing. I would now request Mr. Ravi Sud to begin with his initial comments on the results and then we can begin the question and answer session. Over to you, sir.

Ravi Sud

Thank you very much and welcome to all on this conference call. First, our results have just gone about 5 – 10 minutes back. I would like to give you a few highlights of the results.

You all are familiar with the volumes. The volumes for the quarter have been 1.56 million compared to 1.527 million of the previous quarter and 1.642 million for the corresponding quarter of the previous year. This way there is a decline of about 5% in volumes compared to FY13 Quarter 1. However, there is an increase of about 2% compared to the previous quarter. Though volumes are down by about 5%, revenue has just dropped by about 1.4% because we had taken a price increase in end of April which has increased our turnover.

The other highlight is that the average realization in the quarter is down compared to the previous quarter. In the previous quarter the average realization was about Rs. 39,750 per two-wheeler. This quarter it is Rs.39,293. The main reason is basically the product mix which when Anil comes on line will explain to you all segments where the percentage has increased or where the percentage has decreased.

And another important highlight is in spite of volumes being down by about 5% our profit before tax is about 750 crores versus 735 crores for Quarter 1 of FY13 and 685 crores for Quarter 4 which is our previous quarter.

The major highlight has been the tax rate. I think as all of you know that we had 100% tax exemption for our Haridwar profits which expired in FY13 so effectively now for next five years starting FY14, we will have this exemption only for 30% of the profits and also what we have been communicating in our earlier calls is that our tax rate going forward should be in the range of 23% - 24%. The tax rate for the current year anticipated is about 26.9% or 27%.



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In the current quarter this is 26.87%. It would have been about 24% but for the surcharge which has been levied in the Union Budget in February. In spite of the fact that our PBT is high at 750 crores versus 685 crores in this quarter compared to Quarter 4. Because of the high tax rate which used to be 16.25% in FY13 which is anticipated to be close to 27%. The PAT is down to about 549 crores versus 615 crores of Quarter 1 of FY13. With these comments, we will start the question and answer session.

Moderator Thank you very much sir. Participants we will now begin the question and answer session. We have the first question from the line of Chirag Shah from Axis Capital. Please go ahead.

Chirag Shah Sir the first question would be on RM to sales ratio as well as your average realization. RM to sales has actually declined for you as ratio, gross margins have improved. Can you throw some light because I presume the product mix is slightly adverse given the lower contribution of Splendor franchisee? So can you throw some light over there? Is there benefit of raw materials and also if can you share some thought on converging cost? How they are behaving? Whether the impact is visible in the current quarter or not?

Ravi Sud As we have stated in the last quarter earning call we were very clear that we were expecting the commodities to be soft in the first quarter. One of the biggest negatives has been the currency movement.

Chirag Shah Sir your voice is slightly not audible and I missed it. So you are saying that the impact of currency is yet to filter in the P&L, adverse impact. Is this the right understanding I have?

Ravi Sud Listen what we have always been stating is that 70% vendors we work with lag of one quarter. So whatever is applicable in the first quarter will come in the second quarter and whatever applicable in the fourth quarter would have come in the first quarter. You see the major currency fluctuation has taken place in the month of May and June so you may expect the adverse impact in Quarter 2 and Quarter 3, if commodity prices don't move.

Chirag Shah Would it be possible for you to roughly quantify? It would be significant the impact or it would be like 20, 30bps or 50bps?

Ravi Sud No. Let me just clarify. In our case the imports content is not very significant. Our direct import is 5.5% and indirect import is about 9.5%. Our direct import is basically the cast wheels and that constitutes about 90%. This is in dollars.

Indirect import, 50% of that is yen denominated and yen has depreciated to 100+ levels. So with depreciation of yen and with depreciation of rupee we feel that should be compensated. All of the impact for dollar to rupee that impact will be seen in the next quarter and quarter 3.



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Chirag Shah

And on the converging costs has been the hikes given to the vendors?

Ravi Sud

Well as per the hike or reduction in the conversion cost or input cost is concerned that is an ongoing exercise and every quarter there are negotiations and every quarter there is finalization so all that had to be given, has been taken into account in the Quarter 1, whichever is applicable.

Chirag Shah

And sir lastly on your product mix and its impact on your average realizations as well as your margins. Splendor contribution would have gone down in the quarter versus the last quarter as well as the immediate previous quarters? Despite that we have seen very strong margins as well as average realization. Can you throw some light as to what would have been contributed? Is this more of an indirect discounting which gets accounted in the top-line or not there or how is it?

Anil Dua

I think basically Splendor and Passion continue to be very strong and you must remember if you are talking of margins and if you are talking of 100 cc it is not only Splendor but it is also Passion which are our very high volume brands and which is a very good contributor to both top-line and bottom-line. So actually on 100 cc our volumes have grown well but it is a combination of all our 100 cc brands. I think there in terms of realization, in terms of their 29,000 odd figures which Ravi spoke about I think fundamentally if you look at 150 cc segment that is the segment which actually in the market conditions as this as versus the segment that is declining the most, this segment has declined by about 8% and that's where our premium end bike are actually are therefore falling in contribution and therefore you know that the realization in terms of rupees per bike sequentially which Ravi has talked about has gone down. So contrary to this what I would say actually 100 cc is doing well, of course we have 125cc giving better for us but it is the 150 cc which is under pressure at the industry level itself and scooters are doing fairly well for us once again. So I will say that the product mix has basically shifted more towards 125 cc and 100 cc, and the contribution of 150 cc has gone down and that is why you are seeing a slightly lower average realization.

Chirag Shah

And one lastly, sir, is it possible for you to share the amortization amount in the quarter? In the depreciation what would be the royalty related amount?

Ravi Sud

Are you talking about one time amortization ??

Chirag Shah

Yeah, one time royalty. The regular depreciation royalty is it clubbed in depreciation and depreciation amortization, right?

Ravi Sud

Yes.

Chirag Shah

What is that amortization of royalty amount for the quarter?



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Ravi Sud It is 202 crores.

Chirag Shah And what it would be in FY13?

Ravi Sud Total in FY13 was 860 Crore.

Moderator Thank you. Our next question is from the line of Mahantesh Sabarad from Fortune Equity. Please go ahead.

Mahantesh Sabarad Firstly in the last quarter you had talked about Hero Fin Corp, your finance arm wherein at that point in time you held 40% stake, what is the stake as of now?

Ravi Sud That stake continues same. It is 40.38%.

Mahantesh Sabarad And what are the brief financials of the company for FY13? Sir, what is your proportionate share of profits in that company?

Ravi Sud What I stated last time was this was basically a captive company which was floated in 1992 and a very small company but highly profitable. Just to give you an idea. PBT used to raise between 25 crores to 35 crores every year and the company was giving a dividend of 100% continuously for about four years and even this year, I mean, FY13, the company came out with a right issue of 1:1 and equity has doubled to 200 crores. In spite of that the company has given a dividend of 30% on the enhanced capital.

Mahantesh Sabarad Sir, what is the profit and what's the dividend income for you from this?

Ravi Sud We holds 40% of equity of the total equity of 18.10 Crore.

Mahantesh Sabarad But I don't get the profits of the company.

Ravi Sud Yeah.

Mahantesh Sabarad I don't have the profits of FY13 for Hero Fin Corp?

Ravi Sud We should be concerned only with the dividend and share capital.

Mahantesh Sabarad That's 18 crores, you mentioned.

Ravi Sud I am saying 18 crores is the total capital, 40% is held by this company and dividend is 3 rupees per share.



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Mahantesh Sabarad My second question is about this merger that you intend to have with Hero Investments. What is the update? There is a note in the results that's mentioned.

Ravi Sud The merger has been completed. The shares have not been allotted as yet and hence we have to give the note in the published results today.

Mahantesh Sabarad Does that change the shareholding pattern for Hero Fin Corp?

Ravi Sud No.

Mahantesh Sabarad And finally what are you anticipating for the motorcycle industry in the current year now in terms of outlook?

Anil Dua Actually this year has started on rather a brief mode in terms of the industry because last year also was not a great year for the industry. There has been a double digit growth for a few years before last year and last year the industry saw a growth of only about 2% to 3%. This year therefore the growth has been 7% - 8% growth but we knew that the first quarter actually the base is pretty high for the industry post the first the base drops. So majority of the growth was to come after the first quarter so that is in line with what has happened. But the first quarter after starting pretty well in April and May because of the early rains in June as to fall in numbers declined in June and therefore the industry as a whole has declined by 2.5% in the first quarter. Now this is against 7% to 8% estimate that we had for the full year for the industry and against which we would have put 3% to 4% kind of growth estimate for the first quarter but against that estimate because of the June month and I think stock correction in several segments of the industry I think we have seen the actual numbers coming down to minus 2.5%.

Now going forward I think it is too early in the year to actually change any outlook at the moment. What is very clear is that there is not a double digit growth there. What is very clear also is that it is not going to exceed the original estimate of 7% to 8%. Whether it will fall below that will fairly depend upon how now the next quarter goes. We are hoping that the monsoons will be normal or better than normal and that's why in the short-term it is putting a break from the momentum but in the medium term what this means is that with good agricultural income, with good cash in the economy, good festival period and therefore the industry may spring back. So we are pretty optimistic in the second half of the year as of now and we will therefore say that depending upon how things go from here onwards we should still look at a maximum of 7% to 8% growth in the industry this year.

Mahantesh Sabarad My question also relates to you must have seen how agricultural tractors have grown for the quarter. They are up for the industry something like 25%. So your industry is also closely



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linked to the rural economy so why is this disconnect with respect to tractors and two wheelers? You seem to be painting a fairly a dismal picture?

Anil Dua

It sounds like a dismal picture with almost say it once again that the industry has grown by only 2% to 3% last year and this year we are talking of 7% to 8%. So that certainly saying that the industry will do better than what it has done last year. And since the industry has declined by 2.5% this year those are such. There is no painting picture. It is an actual fact. The figures are there. All companies have declared their numbers and the industry is actually down by 2.5% in the first quarter. So if you have to do 7% to 8% for the full year then the industry may have to grow close to 10% atleast for the rest of the year. So if you put those numbers together it is not really a dismal picture but we are painting because as a market leader. We actually always making a effort to see how we can pull the industry up. We have done several things in this quarter which has actually helped and actually if I turn now from Hero Motorcrop point of view because these are the industry numbers but if I talk about Hero Motorcrop numbers we had a fantastic quarter in terms of retail numbers. We had some stock situation to correct which we have been able to do but if we look at our retails we started the year in the month of April with a record retail in the month of April itself in terms of non-festival time if I leave out the months of October and November and the balance 10 months if I take any time in the history April month this year was the highest ever month in the non-festive period. And if that was very good and may be even better in the month of May we were able to actually improve upon that record and post even better retail numbers which was once again the record number of retail highest ever outside of October and November. In fact on back of that we were able to record a highest ever dispatch numbers including that of October and November and the dispatch numbers that we did in May was the highest ever in any month ever but the early rains, heavy rains in the month of June slowed down the momentum and we had to roll back some of our plans in June and that has actually did break the momentum. But again talking about Hero Motorcrop I think the five year warranty that we started in the month of April its clearly tilted the balance in our favor because we have done in the quarter with 7% - 8% retail growth so against 5.5% that Mr. Sud spoke about in terms of the dispatch numbers going down, actually our retails have gone up over 7%. So actually it has been pretty good quarter for us from retail point of view and that's what really matters in terms of what the end customer is buying.

Mahantesh Sabarad

And your inventory plus situation then got corrected by this 12% gap from how much? From what to what levels?

Anil Dua

Well we have corrected by about 50,000 bikes during this period. We are down by about 50,000 bikes from where we started. Definitely going forward as we move towards the end of the quarter we will again have to start building stocks because you know the festival period then comes in. Right now because of the rains the volume levels are relatively low but as we go forward into September once again we will have to need to build stocks. So I will say the



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stock situation is fine but coming back to the original question of tractors I think one has to see the level of necessity between the two categories and one has to see that one is the means to prosperity and the other is the end. You know in the sense that if you have the money you go and buy motorcycle but to make money you do need a tractor. So there is a lead in the life cycle which has been historically also noticed in this but I will tell that let's not read any short trends which has just over a quarter. Let's look at it over a longer period and that paints better story. Coming back to the motor cycle industry the underlying CAGR is around in the region of 10% to 12%. So we are confident that it's not this year it will be the coming year that the industry has to come back to double digit growth because the penetration levels are still low. We have had two years of single digit growth, last year and this year so certainly we will have to get back to that kind of numbers. So it is inherently strong industry with a huge potential to growth because urban areas our penetration is around 54% and rural area is around 30% which means that 70% of the rural household is yet to buy a two-wheeler and increasingly a two-wheeler is becoming a necessity for them. So there is a huge potential for growth. The sentiment has to be positive, good monsoons will bring in that sentiment, good cash flows purchases are a lead indicator of that and therefore that is positive news for the motor cycle industry going forward and if the festival season is good we will be talking in very different terms.

Moderator

Thank you. Sir the next question is from the line of Akshith Gandhi from AVIVA Life Insurance. Please go ahead.

Akshith Gandhi

My first thing is that we have indicated in the last con call we will be increasing our R&D expense from 0.4% to 1.25%. So my first thing is when will we be reaching this and will this be an expense from the P&L?

Ravi Sud

Let me just reiterate what I said last time. See what I had stated was the R&D expense particularly in our case now is through a lot of advances given to our technology partners, we have three partners **EBR, Engine Engineering and EVR**. These advances are given based on certain milestones which get completed. Accounting treatment will happen once the model gets introduced. So depending on other policies whether this is just a research, whether anything is coming out of this model, whether it is worth launching or not launching that will be expense straightway. In case the model gets productionized then we have a policy of amortizing over certain number of years.

Akshith Gandhi

Also what I wanted to know is that from the next year onwards we will have a huge savings from the one time royalty payment. So how much of that should we assume will be going back again into expenses for certain product development and everything from the P&L point of view?



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Ravi Sud

Well I had said R&D expenses will be maximum to the tune of 1.2 to 1.4% and that was a terminal figure. And if you look at as per FY13 it will be close to 0.4%, 0.45%. So what will happen is the moment we will start launching the products which Anil will share with you the plan that from this quarter and quarter 3 and quarter 4 onwards, 0.4% which will fast inching up depending on the productizing of the previous models. What I said is since our balance sheet size is pretty large because we have a turn over close to 25,000 crores. Our R&D expenditure may not exceed more than 1.2% or 1.4% because 25,000 is the figure today and if you are looking at next three years it may go up to 35,000 or 40,000 crores so even if taking 1.2% it is close to 500 crore in the R&D expenditure.

Akshith Gandhi

Also in this quarter we saw that the tax rate was quite higher against the guidance which we had indicated in last quarter.

Ravi Sud

That is what I had clarified in the beginning in my opening remarks. What we had stated in the past earning calls is that was tax rate in FY14 was to be between the range of 23% to 25% but there is a new element of surcharge which is 10% so if you take that tax rate earlier I said 23% to 25%, if I take the tax rate of 24% you add another 10% surcharge it goes to 26.5%. So 10% surcharge is something which I think many people may not have factored in because that is the new element in the current financial year.

Akshith Gandhi

And just one last question last quarter what was our one time royalty payment, the yen payment which we had of 202 crores this quarter?

Ravi Sud

This is not a quarterly payment. These are yearly payments. We have already paid two payments, one in March 12 and the second in March 13 and the next payment is due in March 14. But only for purpose of accounting we charge it every quarter.

Akshith Gandhi

So if I may ask what is the accounting amount?

Ravi Sud

I said the amount was 202 Crore for the quarter.

Moderator

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

Sahil Kedia

I have one question regarding your other expenses. We have seen that on a sequential basis the run rate has come off from about 622 to 630 crores this quarter being 567 crores. Can you explain to us what has led to this drop in the other expenses figure, please?

Ravi Sud

One of the biggest components is marketing costs. Marketing cost at the moment is publicity and other marketing related expenses.



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And some of these expenses are relating to certain events like in this quarter, there was no major event. But overall you know our advertisement, publicity always stays within a range. This is anywhere between 2% to 2.25% for the full year. which we still maintain.

Sahil Kedia

Sir if you would elaborate on that point, how much of this quarter would you have spent? Just to understand if there was no major event, was it substantially lower, how do we assess that?

Ravi Sud

I don't think it is substantially lower or higher. This is in line with last year's Quarter 1.

Sahil Kedia

Sir if that is the case then on a QOQ basis that should not represent the 70 crore drop? I am just trying to understand have you undertaken certain cost reduction measures or is there certain one off or anything in other expenses lying which is resulting in the other expenses being lower quarter-on-quarter by 60 crores despite volumes being in fact higher. So that's the point I am trying to get at?

Ravi Sud

To answer your question let me first say as far as cost reduction is concerned which I have shared even in the quarter 4 earnings call that we have taken massive cost rationalization initiative, which will spread over 2.5 years. So I am not saying that any benefit would have come-in in Q1. But this cost reduction program not only involves looking at material cost but also looking at design cost, also some of the major items of expenditure like logistics cost, power cost, labor cost and marketing expenses. But I am reiterating once again the benefits if any in the 1st quarter would be very negligible and we expect the impact from next 2 quarters onwards.

Speaker

One more question if I may, you mentioned that there is a bullet payment that you do to Honda for the provisions that you have made. So similarly you would have provided for cost through the year and made a payment to Honda in March. But given the Forex volatility was there any gain that we had because at the end of the year, the Yen was substantially weaker than what it was at the start of the year and if there was such gain was it booked in Q4?

Ravi Sud

Which year are you talking?

Speaker

I am talking so if you made a payment in March 2013. Was there any gain that we got because we would have provided for at a higher Yen rate and towards the end of the year Yen became substantial favorable? Was there any amount that we had probably provided for in the previous quarters which was reversed?

Ravi Sud

If you are talking about FY13 in April '12 the Yen started at about 76 to a dollar, it went up to some 94-95 but we had a policy of covering and during the year part of the amount we had covered at certain levels and just to give you an example if I am giving a results for September quarter or quarter 2 of FY13 and up to that time if I cover 50% of my liability through forward



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cover or through some option I would provide for that but you are right at the end of the year Yen had depreciated to 94-95. So whatever was unhedged portion the benefit came in quarter 4, not anymore. Now as far as the payment for March '14 is concerned you have already covered up to 70% of our liability payable in March '14 as of now.

Speaker If you were to just elaborate the last point you mentioned that the benefits come in Q4, can you quantify? Is there a number there?

Ravi Sud I cannot share this specifically.

Moderator Thank you. The next question is from Yashesh Mukhi from Morgan Stanley, please go ahead.

Binoy This is Binoy from Morgan Stanley. Actually 2 questions: Firstly could you throw a bit of update of update on exports like we have been guiding for around 350,000 for the year, the momentum is pretty slow in Q1. How do we see that ramping up if Mr. Dua or someone could give more detailed update as to which are the geographies where we are targeting and secondly again for Mr. Dua like you mentioned that there are going to be new launches possibly coming this year with some inputs from our technology partners. Could you throw some light on that also? Thank you.

Anil Dua I think on the export fund it has been really a dismal story for the industry because after you know in that case probably first time last year we saw the industry declining in terms of 1% decline of exports of two wheelers from India which had never happened even if you look at some of the worst years you know where industry might have declined actually the exports have grown. So last year was (-1%) which was pretty bad news for a exports from India but that was bad enough in this 1st quarter actually the exports from India have declined by 13%. So very clearly it is not been the best time to get into international markets in terms of you know the momentum that witnessed in these markets and the current state of affairs. So, mostly as you know in neighboring countries duties have been raised and markets have as a result gone down significantly and that is affected a course of the industry as well as our exports. We had early plans to get into the markets much earlier but given the situation last year and even this year we finally made the plunge in this quarter. So it has been an important quarter for us that we have actually entered new geographies in Latin America and in Africa.

In Latin America we got into Guatemala, El Salvador and Honduras. In Africa we have gone into Kenya, Burkina Faso and Ivory Coast. Going forward we plan to get into Peru and Ecuador in August. So we will now from here onwards continue to add markets. Currently mainly focus on these two geographies which is Africa and South America, Latin America and we are certainly hoping that now as we go forward volumes should build up as these markets start giving us incremental sales. We are still committed to our vision of one million buyers in international business in 2016-2017. So we are working towards that, the start of the year has



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been very slow because of the industry situation that I just outlined to you, not only in south Asia but even in markets like Nigeria. The markets which is a very good market for many exporters from India, the market has been declining and however, going forward we are hoping that 2 wheelers in many of these markets being necessary items. They will see the purchase happening plus the new markets that we are added will give us incremental sales. So we hope to see on course for our 1 million by '16-17. That is all on exports, on your 2nd question on new launches.

Binoy

Just one export sir like in the 2 markets Latin America and Africa how well known is our hero brand and secondly with the yen depreciating are you seeing pricing pressure from Japanese in these markets?

Anil Dua

On the Hero brand first of all it is new brand going in to these markets but a few years back in some of these markets we were sold few motor cycles under over earlier brand name also we being the largest player and we being present in some of the nearby markets for example in South America we have been present in Columbia for some time. There is some awareness of the brand but that I will say marginal at the moment and that is the reason why we are actually taking care of that by doing reasonably high voltage launches in these markets accompanied with some solid PR and good visibility we are building state of the art infrastructure in these markets that show rooms and workshops with our standard visual identity guidelines. These are really standing out in these geographies, if you go there they are kind of helping cement the brand name even though it is a marginally base we have started with wiping you are rapidly building on that base as you are going forward. But still it is early days and therefore we are not overestimating and we are investing in these markets between us and distributors to build the brand name. As far as the competition is concerned from Japanese players and even from Indian players and Chinese players certainly when the markets are sluggish irrespective of currency fluctuations the market are sluggish the players are trying harder but we are not playing the price cart. We are interested in building our brand in most of these markets and selling on back of a brand and on back of our office in service and the model that we have used so successfully in India where we are not really dependent on any promotions or price wars to really get into the leadership position. So we went to replicate that while there is competitive question in these markets, our approach is one investing behind the brand and getting the right price for our models. On the new models I think we have for last 2 years followed a strategy of bringing out 7 to 8 new news to the customers every year. I feel this year would be better, will bring much more than 7 to 8 new news. So that is the new news itself because people have been waiting for Hero to come out with new models with new models for some time, we have done a few things but I think starting festival this year we have plans of introducing models across our range, refreshing our models, relaunching some of our models, variants of models and also introducing new models. Since I am talking of more than 7-8 new news on that basis that we will have things happening across our price range. So you will see action in entry level segment, you will see action in dealer segment then the premium segment as well as in



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scooters. So we will have launches or re-launches across our ends as we go forward starting with our festival time.

Binoy And then sir how many will be new models like without variants and refreshes?

Anil Dua One or two would be new models.

Moderator Thank you. The next question is from the line of Nishith Jalan from Nomura, please go ahead.

Kapil Sir this is Kapil. Just had a follow up question on the exports topic itself you know when we would have started making our plans the rupee the rupee was at 55 now it is close to 60. So how do you think about the benefits which comes to, do you think that exports have now become more profitable in margin terms or would you try and utilize that benefit to gain more volumes?

Anil Dua I think you see we will not play that game we will stay with our original plan currently it can sometimes benefit you, sometimes it can work otherwise. So we have our plans, our investment plans, etc., you are right if anything this year it looks like better situation from its exports point of view but our plan is to stay with our original plans because they have substantial plans in terms of whatever investment we planned, whatever pricing we planned and we will take these fluctuations as temporary and recalibrate our plans only when we look at annual plans but not take any cost correction on this basis because I think that will be short sighted.

Kapil And sir are there any near term targets like next 1 to 2 years where would you like to be in export volume terms?

Anil Dua Well I think our MD has stated a figure of 350,000 for this year recently in exports that is the number which we need to get to our 1 million vision for '16-17. So the system will definitely be working towards that target but it depends upon the export industry after a (-1%) last year everyone was open that there will be very good double digit growth this year because last year is the only year I shall recall where it is (-1%) otherwise it is actually always been double digit growth. Most of the year's where industry has been single digit domestically these exports have been 30% - 40% growth. So we were all hoping that this year will be a good double digit export growth so far in the first quarter it is down (-13%), so you know depending upon how the overall exports market shapes up we plan to get as close to that number as possible.

Kapil I believe we had taken some price increase in the April month so what percentage would that be?



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- Ravi Sud** The price increase was effective 1st of May and this typical price increase was from Rs. 500 to Rs. 1,500.
- Kapil** Despite that we have actually seen a dip in realization so it is entirely due to mixed change?
- Ravi Sud** It is entirely due to mixed change. I think Anil has already explained in earlier questions premium segment particularly 150 cc segments. Entry level the contribution has slightly gone up in the mix.
- Kapil** One final question just production from Haridwar how much was it in unit terms in previous quarter and in Q1?
- Ravi Sud** You see I do not have the figure in terms of absolute numbers but Haridwar produces about 35% to 36% of overall production.
- Kapil** And it has been sort of the same QoQ basis?
- Ravi Sud** Yes.
- Moderator** Thank you. The next question is from Aditya Makharia from JP Morgan, please go ahead.
- Aditya Makharia** Just checking products: just the Maestro scooter and Passion Xpro, are these products on which we pay full royalty to Honda?
- Ravi Sud** Yes.
- Aditya Makharia** In the quarter what would be the royalty payment I am not talking about amortize but the normal royalty in this quarter?
- Ravi Sud** Well these are the figures which are not in the public domain and we have stated very clearly there are 4 products on which we are paying royalty. Two you have already named, third is Impulse and 4th is Ignitor and what we have also stated is early the royalty on all these models is not exceeding 5%.
- Aditya Makharia** And sir you mentioned that you will be launching new products in the festive season. Will these again be products on which we would be paying royalty or these would be from your initiatives with AVL?
- Ravi Sud** Let me just clarify, as part of our arrangement with Honda when we separated in 2010 there were certain products which Honda had agreed to give us and these were 4 products which we have already launched. Now what we launch now onwards, will be our own based on our own R&D or working with our technology partners. So hence there is no royalty payable to Honda



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on any other products which we are going to launch or to any other technology partner, there is no royalty.

- Moderator** Thank you. The next question is from Sonal Gupta of UBS Securities, please go ahead.
- Sonal Gupta** In terms of exports would you have the size of LATAM and Africa markets and what is the approximate size of these markets?
- Anil Dua** The African market is around 2 million per annum and South wales market to the best of my memory is around 4 million per annum. So these are big markets and they also have products like typically 100 cc to 150 cc are fairly big volume contributors in these markets and that is why these are the lower hanging fruit for us and we are getting into these markets first. Now again this market prices that I told you we are targeting as I said 1 million in international business and that includes South Asia which is Sri Lanka, Bangladesh, Nepal and so on. So the targets are doable and the requirement is that these markets have to grow and they need to have positive sentiment.
- Sonal Gupta** Coming back to the new model – so you will be launching your own product this year, right?
- Anil Dua** Yes.
- Sonal Gupta** Sometime probably in the 2nd half of this year, is that when we should expect?
- Anil Dua** May be earlier. Let me say if it was a completely new model we said 2014, we said that so I will not further split that but certainly a lots of re-launches, refreshes, new news which start coming starting with festival.
- Sonal Gupta** Finally on the EBR stake that you have taken of 49%. What is the strategy in thinking behind it and what is the sort of benefit you are expecting from EBR in the next 1 to 2 years, if you can just elaborate on that?
- Ravi Sud** First of all, this stake of 49.2% will happen once the 2nd tranche of investment happens because we have just made the 1st tranche and the 2nd will happen sometime in February or March 2014. That is number one. We already have a relationship with EBR where EBR is working with us as a technology partner but taking the stake may help HMC. 1) EBR over a period of time may strengthen R&D of HMC; 2) It is possible that some of the products which are producing may be launched in America, what are those products? These are all long term issues which has not been sorted out because there could be issues of IPR a distribution or similarly some EBR products may come to India. It is too early to comment anything beyond this.



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- Sonal Gupta** So you could potentially take a majority stake?
- Ravi Sud** Our first priority would be to complete our investment and work jointly with EBR to strengthen our product pipeline. In the short/medium term, there is no possibility. No further comment.
- Sonal Gupta** But my understanding is EBR is more in the higher end bikes, is that a segment that we are actively looking at?
- Anil Dua** Yes, if you look at Indian market there were been several high-end bikes which has been launched in this market. Our largest highest cc bike is 225cc ZMR so certainly in course of time there seems to be potential for higher cc bikes which we could bring to India. Also if you look at the global markets, a few of the markets we are going to in the first phase and many of the markets we are going to in the second phase. Have these you know models as their high volume models. So these collaboration and the work that is going on right now is keeping not only the immediate Indian requirement but also keeping in mind the long term requirement, medium term requirement both this India and in global markets. Certainly that's one clear objective of working with EBR.
- Moderator** Thank you. The next question is from the line of Pramod Amte from CIMB, Please go ahead.
- Pramod Amte** Where do you stand for the dollar hedges for the year FY'14?
- Ravi Sud** As far as the dollar is concerned we have not covered it at all. As far as Yen is concerned as I said our exposure versus whatever our due till March '14 we are covered up to 70%.
- Pramod Amte** So, when you say Yen it is Rupee Yen or the Dollar Yen side?
- Ravi Sud** Dollar Yen.
- Pramod Amte** Second is with regard to your export policy there seems to be some press reports stating about you are looking for some assembly operations and hence the CAPEX involved for the same. So want to know what is your thought in terms of in next three years? Are there a threshold volumes which you are looking at individual markets to put up these assembly lines so if that is the case what type of CAPEX you are looking at in these fields?
- Anil Dua** I feel it is too early to get into too many details on that. All that I can tell you Pramod is that every market that we go to, we look at what is the best business model to operate with in that market. There are many markets where the difference is in CKD and SKD structure is so big that we prefer to go in for CKD to avail of the duty benefits. There are still on the markets where local content becomes very important and therefore full scale manufacturing becomes important and therefore full scale manufacturing becomes important. Already in Colombia we



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have over 20% local content. In Bangladesh we have an assembly line which is a CKD assembly line. These are run by our distributor at the moment these are not ours. As we go forward we could follow either of the two models our distributor could be running our assembly line if that is possible or we could get into full-fledged manufacturing definitely you know you will invest and will set up those plant. But I think this will happen as we roll markets after markets. We recently put one assembly line in Kenya. That is the only addition that we have done to the assembly lines as we do more we will keep you posted.

Pramod Amte And specific to Kenya, was there an investment involved from your side or how does it actual operate when you put?

Ravi Sud Through the distributor Pramod. It's not our investment.

Pramod Amte Specific to EBR what are the EBR financial as you have taken a stake there currently standing. And second again there are reports about some of the technical arrangement to be converted into a JV format similar to EBR. So what are you actually looking at when you are trying to move these from a technical arrangement to a JV and what we can look forward in a next two three years' time frame for your equity investment related to these technology ventures?

Ravi Sud Well Pramod I think last 2.5 years we have been saying that we are open and we will continue to look at options either through technology supplier arrangement or through acquisition or merger or anything. I think EBR as you know first investments which we have made so far and as far other investments are concerned I think it is too early to comment.

Pramod Amte Would you disclose EBR financial sir? Are there any P&Ls numbers to look at or it's a?

Ravi Sud You see EBR is a very small company. it has total strength of +70 people but in case you go to the website and you know Google and search for Erik Buell, I think you will come to know. He had a brand called **BUELL** which was part of **Harley Davidson**. But in 2009 he separated from there, so as of now the company is small. But with this investment, and use of their technical skill and the IPR which he owns or which has been licensed to him by Harley to produce motor cycles of higher end which will be sold in America as well as in Europe.

Pramod Amte The only reason to ask is my concern was – are they accumulated losses sitting in that.

Ravi Sud No.

Pramod Amte Nothing?

Ravi Sud Nothing.



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Moderator Thank you. We will take our final question from the line of Jamshed Dadabhoy from Citigroup please go ahead.

Jamshed Dadabhoy You know in this festive season especially the marriage season do you see this kind of down trading which you all have experienced this quarter for the industry? Is it a normal phenomenon or because normally if you think about it – a bike which is bought as a part of a marriage the price differential between an economy bike versus executive bike will be Rs.5,000, Rs. 6,000, Rs. 7,000 as a part of your overall marriage expense it would not be meaningful. Have you all seen down trading specifically in that marriage segment or is it the overall the rest of the market has seen such a severe down trading that has impacted the mix?

Anil Dua No, I think you have to look at the overall state of the economy when you are talking of 5%-6% kind of a GDP growth we will see that year after year that whenever GDP goes down your entry segment takes off, diesel segment does next best, and premium segments comes under maximum pressure. So this year start has been no different, entry segment is booming and it is a premium segment which is under pressure. And that is not only in the month of May which was a marriage month you can see it pretty much in April and June as well and that may continue till the sentiment really improves. A 100 cc bikes in India are almost 2/3rd of the market so these bikes whether marriages you know whatever calculation you did Rs. 5,000 – Rs. 6,000 they do not see the incremental as a percentage, the bike cost which is the percentage of the total budget and 100 cc is always a big buy during this period but it is not just to do with marriages. In this quarter it is a harvest period, people have cash in hand and that is why you see more sales and many of the 1st time buyers prefer to buy 100 cc bikes. And so I will not say that this is very different from what we have seen in the past but your observation is right that entry segment has done much better in quarter 1 than the premium segment. But it happens in years of low GDP growth.

Jamshed Dadabhoy 2nd question – Could you give some timelines on when your cost cutting initiatives will start bearing fruit?

Ravi Sud Well you know as I said earlier this is a program which will not run into couple of months. It will run into 7-8 quarters. So we are talking, this program has started end of April and it will continue till July 2015. We have very high involvement here about 300 people have already been involved in this program and you know a few initiatives like e-buying of some of the fasteners have been completed and certain savings have been identified. I expect you know the benefit of this program started coming into our bottom line from quarter 3 onwards. But again some of the big ticket ideas like where you have to do some design changes and do some testing and then fix those components on to the bikes that may take anything between 12-15 months. But I think in a smaller base I think we will start seeing a very small savings in the quarter 2 but quarter 3 onwards particularly on items like logistic cost may be some power and fuel cost also labor cost and productivity should start coming from quarter 3 onwards.



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- Jamshed Dadabhoy** When we think about savings should we think about it is 2-3 percentage points of sales or more like 100-200 basis points sort of impact over a 2 year timeframe?
- Ravi Sud** Well our target is anything between 400-500 basis points over a period of 3 years.
- Moderator** Thank you. I would now like to hand the conference over to Mr. Aniket Mhatre for closing comments.
- Aniket Mhatre** Thank you Brain. On behalf of Standard Chartered Securities I would like to thank the management team of Hero Moto Corp Mr. Ravi Sud and Mr. Anil Dua for taking their time out and patiently answering all the questions. Thank you very much gentlemen. Thank you to all the participants for being there on the call. Have a nice day everyone.
- Ravi Sud** Thank you very much.
- Moderator** Thank you. On behalf of Standard chartered securities that concludes this conference. Thank you for joining us you may now disconnect your lines.