“Hero MotoCorp Limited Q1 FY 2016 Results Conference Call”

August 4, 2015

MANAGEMENT:	**MR. RAVI SUD - SENIOR VICE PRESIDENT AND CFO – HERO MOTOCORP LIMITED** **MR. SURENDER CHHABRA – VICE PRESIDENT-FINANCE – HERO MOTOCORP LIMITED** **MR. A. SRINIVASU – HEAD OF NATIONAL SALES – HERO MOTOCORP LIMITED** **MR. ASHOK BHASIN – HEAD OF MARKETING – HERO MOTOCORP LIMITED**
ANALYST:	**MR. ASHVIN SHETTY – AVP – AMBIT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Hero MotoCorp Limited Q1 FY 2016 results conference call hosted by Ambit Capital. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashvin Shetty from 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 welcome you all to the Q1 FY'16 results conference call of Hero MotoCorp. The company is today represented by Mr. Ravi Sud, Senior Vice President and CFO, Mr. A. Srinivasu, Head of National sales and Mr. Surender Chhabra, VP Finance. I would now like to hand over the call to Mr. Sud for his opening remarks and then we can start the Q&A. Over to you Sir!

Ravi Sud: Hi Ashvin, Good Afternoon and welcome to all for joining on this conference call. We also have with us Mr. Ashok Bhasin our Head of Marketing apart from Mr.Srinivasu. Since the results were declared yesterday, all of you would have seen it and dissected it and mostly willing to ask the questions. So we could start straightaway on the question and answer session rather than giving any run-down on the numbers.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: Thanks a lot for the opportunity Sir. I have two questions, one pertaining to your volume performance and the second is on the margins. Coming to the volume performance first, in the first four months your volumes have declined by 5% and this is despite you launching several new variants and all that and also probably some bit of network expansion, how do you explain this kind of under-performance given that the market is weak and where the market leader generally tends to benefit, so we are seeing the opposite right now and in particular your performance in scooters and premium motorcycle is something which is a cause of concern so if you can explain the performance over there and how do you plan to revive that, that would be my first question?

A. Srinivasu: The thing is, one of the key reasons why -5% is largely on account of the rural demand, the slowdown in the rural demand being a large volume player in the motorcycle segment almost about 88% of our business comes in from motorcycle so the impact is largely on account of the rural demand. So that's how I would explain the -5% performance.

Pramod Kumar: The second question was in the particular weakness in premium and scooters which are more urban and which are doing much better than the rural and the executive motorcycle the weakness over there?

A. Srinivasu: So in terms of premium yes, our performance is not up to the mark in terms of the industry. We have just launched Xtreme Sports in the market and we expect to do it slightly better with Xtreme Sports that is one and we do have some plans in the long term. In scooters, as we had said earlier we have two models in the scooter segment so that is a shorter portfolio, so shortly within the next two quarters as Mr. Sud had explained earlier we would be launching new models and that should improve our performance in the scooter segment going forward.

Pramod Kumar: Yes and is Maestro the new products are going to be anyway replacing the Maestro by FY'16?

A. Srinivasu: I think last time also I had mentioned this we are not discontinuing any of our existing models.

Pramod Kumar: And so finally my second question is to Mr. Sud on the margin front. Sir we have seen in Hero's case that the first half margins on lower volumes are generally higher whereas we go into second half the volumes, despite the volumes going up the margins come up this has happened in the last three fiscal consistently so just want to understand given that you have started the year with 15% margin how should one look at your margin going into the rest of the year especially given the fact that you will have the festive season in the second half also with the other marketing activities what you do on the sports side like the golf tournament with Tiger Woods and all so how should one look at the margins as the year progresses?

Ravi Sud: Well! Before I answer this question, let's analyse the increase in margin in Q1. There are two or three reasons which you must appreciate and then I think we can take it forward the margin should pan out according to the company plans. If you look at from 13.4 to 15.1, there is an increase of 170 basis points. Now I can dissect into three parts, number one is the anomaly of the excise duty which was prevalent till December 31 last year and this was rectified effective January 1, that has contributed to about 70-80 basis points number one; secondly the input cost has been pretty down and they continue to be down and 50-60 basis points has been contributed because of that which I have repeatedly said over the calls and also in personal interactions that we work with a gap of one quarter, so whatever we have seen in Q1 benefit of input cost relate actually relate to Q4 and may be 20 to 30% relating to Q1.

In Q1, all of us know the prices have gone down further so I would expect even going forward in Q2 the margins would be healthy. I don't know how much scope would that be but there is a scope to increase the margins beyond 15% in Q2. Now coming to Q3 and Q4, you know marketing spend is more skewed towards second half of the year but overall within 2.15-2.2% my assessment is as of now looking at the current situation we should definitely improve on the margin what we had in the previous year.

Moderator: The next question is from the line of Jay Kale from Elara Capital. Please go ahead.

Jay Kale: Sir thanks for taking my question. Sir, my first question was regarding your export market, could you just throw some light which are the markets that you intend to enter in the next few months and do you still maintain your target of 50% growth for FY'16?

Ravi Sud: Even in the last concall I had stated that the three big baskets which we are targeting in the current year, are Nigeria, Argentina and Mexico, all these markets put together are close to 2 million. As far as Nigeria is concerned we have already shortlisted our distributors and we should be starting the activities sometime in the third quarter of this fiscal. As far as Argentina and Mexico are concerned, our search for a good distributor is already on and we have identified three or four parties, which we are in the process of interviewing and our expectation is by end of third quarter we should be entering these two markets also.

Jay Kale: Sir my second question was if the festive season is not as expected and if monsoons are not as expected do you see a scenario where the industry would have to kind of pass on the lower commodity prices in terms of higher incentives to dealers either or offering more value for the same price in that effect passing on the benefits of lower commodity prices?

Ravi Sud: Well that is definitely a distinct possibility, I will not rule it out but at this point of time all of us are keeping our fingers crossed and watch the monsoons in each every district of the country and hope that the festival season turns out to be good.

Moderator: Thank you. The next question is from the line of Yogesh Agarwal from HSBC. Please go ahead.

Yogesh Agarwal: Good afternoon Sir. Just two questions from my side, if I may, firstly going back on margins if I look at the past six months and compare it let us say the third quarter actually the other expenses are almost the same and most of the margin expansion has come from raw material cost so is it just a commodity cost or some other cost cutting like your Leap Programme and things like that have contributed to this margin expansion?

Ravi Sud: Well, as far as Leap is concerned, it is an institution as far as the company is concerned. All of you know that we had started this programme in May 2013 and we have come a long way. Let me once again share with you the results. In FY'14 we had added about 169 Crores to the EBTIDA; in FY'15 we had added 329 Crores. I mean in terms of basis points it works out to about 67 basis points in FY'14 and 119 basis points in FY'15. In the current year, our plan is that we should be adding about 175 to 200 Crore which will work out to about 65-70 basis points. So it is not only the fall in commodity prices it is also the savings which are continuously accruing from this Leap Programme and we keep on implementing more and more ideas which we have identified. As I share with you, we had ideas worth 2300 Crore which are duly approved signed by everybody and out of it so far we have implemented ideas worth about 1050 Crores annualised sale in the last two years and this year we are trying to implement another idea worth about 450 Crores till March 2016 which will add about 175-200 Crores to the EBIDA.

Yogesh Agarwal: Secondly on urban demand so firstly yes, rural has impacted our sales, but how are you seeing urban demand, has there been some signs of pick up in the large top 10 or top 20 cities and secondly related to that with the Seventh Pay Commission next year we all talk about cars but is there benefit you see for the two-wheeler demand as well?

A. Srinivasu: I will start from the second question. Surely the Seventh Pay Commission will help, so did the sixth pay commission, we saw a huge surge in demand even for two wheelers because the demand helped us all across. The first question in terms of urban rural demand, yes the rural demand has impacted, the urban there is some impact in the urban demand in Q1 that we are seeing, this was not that bad in the Q4 of last year so there is some slackness in the urban demand as well but nevertheless urban market if you look at it is marginally growing compared to the rural counterpart. That is how you would see the scooter performance being much better than that of motorcycle. That is my explanation for this.

Yogesh Agarwal: But still urban has slowed down as well sequentially is what you are suggesting?

A. Srinivasu: Over last year scooters grew at 25% moderated down to 7%, to be precise 6.6% in Q1 there are some signs of revival in July in scooters but June – July are largely scooter months because of the schools and colleges opening up, but nevertheless in H1, we should look at close to 8-10% growth rate for scooters. There should be some pickup going forward during the festive season, we are all hoping for a good festive season.

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

Kapil Singh: Hi Sir, congrats on a good set of results. Firstly I wanted to check on retail sales, I saw in your press release that you mentioned that retail sales have been better in August as well as in the first quarter so some color on how much has been the retail growth for the first few months of the financial year and also where are we on the inventory levels please?

A. Srinivasu: Yes, see retail is better than dispatches as we have said and on dispatches we have declined 5%, the decline is lesser in retail around close to 3%, so that is the overall scenario of the dispatches detail, stocks are between 5 weeks and 6 weeks including transit stock.

Kapil Singh: Sir, are we comfortable at those levels or we would be looking to bring it down further?

A. Srinivasu: It is comfortable as of now. We are making efforts to bring it down further but going forward into the season the industry will make an attempt to stock up.

Ravi Sud: Just to add to what Srini was saying between April to June we have reduced our dealer stock by about 60,000 but as you are rightly saying now since we are approaching the festival season I think the process of reduction in stock in August and September will not be possible whereas there will be a stocking to take care of October and November peak demand.

Kapil Singh: Sir just in terms of some colour segment-wise, what will be the strategy over the next 2-3 years in which segment do we see ourselves gaining market share and where would we want to sustain market share because just in light of the fact that competition is looking to gain share, heard about market shares targets of 23-24% on competition, so in your view where would, which segments or where you see yourselves gaining market share?

A. Srinivasu: Specifically talking about motorcycles, I think we have done fairly well in motorcycle, we have held our share over last year in Q1 though we are a tad lower in the month of July. However the growth opportunity partly has been taken by the launch of CT100, in the sub 40,000 segment, in the entry level so that is one positive, on the other side if you look at it there is some volume gain with Enfield which has done very well in the premium areas. These are the two areas probably, two players of model, which has done well. We continue to do well in the deluxe segment, we have a 71% share in deluxe and the important thing is we have done very well in the 125 cc segment, in the 125 cc deluxe segment we hold 51% share because we have three models in the 125 which is Glamour, Super Splendor and Ignitor so these three models have 51% share in the 125 cc segment, so in Deluxe we are doing well, premium as I had mentioned earlier with the launch of Xtreme Sports we plan to increase our market share. It is very low as of now at about 6%, so we plan to improve it so that is one. Deluxe we have a very high share and we plan to intend to hold on to that share and entry, we need to wait and watch the CT100 because the sub 40,000 segment where there has been a loss in share and we plan to get back some of the share and we are working on some market specific strategy for the same.

Kapil Singh: That is very helpful and Sir, on the scooter side as well, if you could share your thoughts.

A. Srinivasu: Yes, as I said in the next two quarters we are looking at some new launches, which would help us significantly gain share. That is my comment on scooters.

Kapil Singh: Okay and these would be in segments which are different from where we are operating currently?

A. Srinivasu: Yes, sort of.

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

Vinay Singh: Thanks for the opportunity. My question is PAT on your advertising and publicity expenses you said that you target to keep them at around 2.1 for the year, what was it for this quarter?

Surender Chhabra: For the quarter we are in the range of 2-2.15%.

Vinay Singh: So in that sense, because in Q1 we usually see that the publicity expenses are the lowest as a percentage of sales so PAT, so if you are annually targeting 2.1…..

Surender Chhabra: We should not compare it with the last year, last year, yes, in the first two quarters our spends were less as compared to the last two quarters. But this year the third quarter we will have some committed expenses like football league and that PGA Tournaments apart from the no more public spends, but within this quarter we are in the range of 2-2.15%.

Vinay Singh: So, to that extent this time around you are targeting annual also at 2.1%?

Surender Chhabra: Yes, second quarter will be the lesser spend.

Vinay Singh: Okay and my second question again is if I look at on your annual expenses in publicity and R&D they went up pretty sharply last year, almost 36% from 490 Crores to 670 Crores like for the next two years or so one to two years do you see this numbers stabilising or could you just share with us what drove that very high growth, what kind of growth in absolute amount do you see in this number?

Ravi Sud: Vinay it is very, very, erroneous to look at these figures in absolute terms. What we look at it is as a percentage of net revenue. As Mr. Chhabra said that even in the current quarter we had 2.1% add now your question is if it is 2.1% in current quarter how could it be 2.1 and 2.15 for the whole year, so two or three things we should look at. If you look at our revenue, revenue in the current quarter is down even sequentially as well as correspondingly, so hence 2.1% in the current quarter may look high, going through the Q3 the revenue is going to very high, if not more I would expect a jump of anything between 15% to 20% in the revenue in the Q3 and Q4 because of the festival season. As far as percentage is concerned, I remember in the last conference call we had said we have a policy that we spend between 2% and 2.1% but as far as FY'15 was concerned it went up to over 2.4%, the current year we are pegging it at 2.15-2.2%.

Vinay Singh: So Sir, in absolute terms roughly because then it seems if you are assuming a 3% or so volume growth in absolute terms it will almost be the same?

Ravi Sud: I do not know in absolute terms what it would be, you mentioned some figures of 494-674 but I look at it only as a percentage because if your revenue is growing 10% if your ad spend is growing by 3% I think the percentage will come down but since the revenue has been growing so in absolute terms also the spend will increase.

Vinay Singh: And just lastly on the Seventh Pay – Sixth Pay Commission, would you have any sort of insights into what like in case of Maruti we know that government sector employee share went up from 8% to almost 15% of sales during that time period would you have something similar for you, any numbers on that Sixth Pay Commission and its impact?

A. Srinivasu: See honestly we do not track specific to government segment unlike Maruti because a huge amount of the institutional sale happens; in two wheelers it is unlike four wheelers it is not government segment and private. We generally track our numbers in the two-wheeler segment overall and more of urban rural rather than in terms of the class, but yes the overall purchasing power is growing up substantially, results in demand all around because its not just, we put money in the hands of the government servants obviously it impacts everyone, its not just that particular person who gets the money ends up buying. The overall money supply goes up in the system and that results in demand.

Moderator: The next question is from the line of Trilok Agarwal from Birla Sunlife Insurance. Please go ahead.

Trilok Agarwal: Good afternoon and congratulations on a good set of results. I had two questions, one is on other expenditure, is there any one-off item in this quarter in terms of other expenditure?

A. Srinivasu: As compared to the previous quarters no.

Trilok Agarwal: There is no one-off item?

Ravi Sud: There is no one-off item.

Trilok Agarwal: Neither in terms of any refunds or something in terms of incentives, right?

Ravi Sud: No, if you are comparing with the corresponding period yes, Rajasthan plant has incentive but with the previous period it is more or less same because we started getting benefits from mid of January 2015.

Trilok Agarwal: Could you quantify the benefits?

Ravi Sud: In the last Balance Sheet which is in the public domain, we had 31 Crores in the fourth quarter last year and this quarter we had 42-43 Crores which is an increase now as the despatches in Rajasthan have increased.

Trilok Agarwal: And second is, on the Seventh Pay Commission which you just highlighted the purchasing power capacity goes up, what is your benchmark number like beyond this income level, people tend to buy two wheelers so what is the number because what I understand is more than 80% employees or 85% government employee so who will be eligible for Seventh Pay Commission are already kind of beyond that bracket of purchasing capacity?

A. Srinivasu: See if you generally speak if you look at a scooter buyer for example, they may be having a car but then it becomes a second vehicle, so that is one and again government segment employees they straddle across level. The pay scales are anywhere from 15,000 – 20,000 going up to Lakhs. There are all kinds of people in the government at all levels so that is one fundamental thing and second is the demand would be for all products, it is major only for two wheeler or for four wheelers, it cuts across segments, just like better money availability resulting in demand so it happens the demand spread is pretty good across categories and we are seeing that demand last time also coming into two wheeler. This time also I think personally I am confident that we will get good demand surge, it depends of course on what gets implemented. When there is a decent jump like last time I think it would have an impact on demand, because two wheelers are being bought as second vehicles increasingly.

Moderator: The next question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Sir in terms of demand over last 3-4 months do you see any pockets where demand is better in terms of states and some states where the demand is very bad?

A. Srinivasu: See when you say last 3-4 months I am including the marriage season, clearly we saw a surge in demand in the Eastern and the Northern zones primarily on account of marriages, the entire Hindi belt, partly also in central zone though the demand was lower in central zone unlike the previous years. The impact was largely felt in Madhya Pradesh and Rajasthan and this because of the bad incessant untimely or you want to call it hailstorm, impacted performance in the rural market very badly in our central zone which is Rajasthan and MP and demand surge was largely in North and in East. South and West, no significant change in demand because there affinity towards substantial increase in marriage season generally does not exist.

Ashutosh Tiwari: So what kind of growth you saw in Eastern and Northern zone?

A. Srinivasu: We saw a double-digit growth.

Ashutosh Tiwari: And did that continue in July as well or you seeing some softening now?

A. Srinivasu: We saw a softening in July because marriages ended in the first week of June this time and after that we are seeing some softening, also the rains added to that the rains started very well in most of the region, so we did see a softening of demand going forward. Like specific to states you had good demand coming in from the place like Bihar, Jharkhand, and Uttar Pradesh so these are some of the states which did very well.

Ashutosh Tiwari: Sir second question if I look at FY'15 annual report, there is a big jump in the miscellaneous expenses by 27% Y-o-Y, what is the reason behind that?

Surender Chhabra: That particular head has service cost, warranty cost and last year we had gone and revised service charges for the dealers. Others are miscellaneous small administrative expenses, because service and warranty expenses relates to the number of vehicles sold and that is why you are seeing the jump is there.

Ashutosh Tiwari: No Sir, the jump is almost by 27%, I don't understand what you are saying.

Surender Chhabra: We are providing six free services to the customers through dealers and dealers are reimbursed for the service cost, from October we have gone on revise those service charges for the dealers.

Moderator: The next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Sir, I had couple of questions, first one is a clarification, you guided that we will be targeting around 1.2 million in exports by 2020, since we are present across segments in two wheelers say scooters and motorcycles how much of this will come from scooters vis-à-vis motorcycle?

Ravi Sud: My answer is simple; you know each country is peculiar. We have some markets which are only motorcycle markets; there are some markets which are predominantly scooter markets. So like if you look at Sri Lanka, Sir Lanka is basically a scooter market, now if you go to Bangladesh, Bangladesh is only motorcycle market, if you go to Colombia it is only motorcycle market, scooter market is very, very insignificant, so you know when we set the target we had set the target after studying all the possible countries where we want to go and came to a number of about 1.2 million, when we launch a product, like I said initially that we are planning to go to Nigeria very soon Nigeria is only taxi market, 95% of the motorcycle are sold as taxis, so there are no scooters so at this point in time very difficult to tell what is a breakup between scooter and motorcycle when the overall numbers remains 1.2 million.

Viraj Kacharia: Okay, no I was just actually trying to get a broader portfolio since we are looking at 1.2 million just wanted to get some thoughts in terms of guidance which we looking at. Second question if we see the three major markets which you outlined Nigeria, Argentina and Mexico the latter too we are seeing the market itself shrinking quite a lot in the last 2-3 years, Argentina it was around 8 lakh units a year, it is virtually down to 4.5 and competition is quite a lot, so is it right that bulk of the growth for next one or two years will primarily come from Nigeria and second follow up to that is are we looking and revisiting our targets by 2020?

Ravi Sud: Well, you mentioned something about Argentina yes, this market was about 750,000 because of some political reasons and currency impact the market has shrunk but as far as FY'16 is concerned, the market has started rising again and this year we expect the market to be over 550,000 units.

Viraj Kacharia: So are we still holding to our target of 1.2 million?

A. Srinivasu: Yes.

Viraj Kacharia: Given our strong focus on exports and if you look at Indian players in general they are very competitive on a INR basis, how do we aim to differentiate in market where both large Indian and

Japanese players operate, you talked about Argentina you talked about Nigeria so what is the key differentiation for us?

Ashok Bhasin: Hi, this is Ashok. I think I would just speak from my broader experience globally having worked in many of these markets in my previous jobs and now understanding Hero I think the big difference will not be about price alone, in each of these markets there are unique consumer and product characteristics, what I have begun to understand already in Hero is that the effort is to understand the consumer segment those market and design the product as appropriate to those needs which will not only make the cost right but also make a stronger appeal to the consumer I think it is that combination along with putting local manufacturing and assembly operation which will make it commercially viable it is this triple element that I would say this will determine Hero's success which is consumer focus differentiating and designing right therefore keeping cost in control and yet being appealing and thirdly making it commercially viable with a combination of manufacturing local assembly etc., based on the tariff structure and the scale of the business and I do believe that given where Hero is today in the country having been the largest producer for a long time with quality and at a very competitive cost which is even vindicated by our latest EBITDA margin we should at least be as competitive if not more and better consumer focus in those market that we need to be, so my sort of fresh view is that we would be pretty confident of executing this, that is what you can add.

Viraj Kacharia: So what I really meant is you know given some players on plus 20% EBIT margins in exports would we be comfortable with placing our products relatively more …….

Ravi Sud: Okay, since you are talking about 20% EBITDA margin I think I have said it many times that I will repeat it again. You see in any country where we go we are going to be number four, fifth or sixth, as Ashok said I think our focus is basically on understanding the customer, his requirement and designing a product and building our brand so if expectation is that, Hero will have EBITDA of 20% in next two years, I don't think that will happen. I think as I always been saying we have started our journey just about one-and-a-half, two years ago, I think it may take another two two-and-a-half years to get the significant numbers as acceptance of this brand and then ride the journey of increasing our EBITDA to a level which is higher than the domestic EBITDA.

Moderator: Thank you. The next question is from the line of Pramod Amte from CIMB Securities. Please go ahead.

Pramod Amte: Congratulations on a great set of numbers. With regard to the scooter market, if we look at the non-Honda performance, especially for last three, four months, it seems to be a decline of anywhere between 2% and 12%. Can you give more color in terms of what's happening in the scooter market?

Are you seeing some substantial slowdown in urban markets or is there acceptance for the non-Honda is coming down drastically or is there an inventory build-up there?

A. Srinivasu: See at the outset scooter market is not declining in quarter one it grew at 6.6%, of course I think some of the players did well for various reasons the base effect and things like that you would have the data yourself. In terms of urban-rural demand yes, there is a slowdown in urban also now rural is clearly known urban also there is a slowdown in demand in quarter one and we expect these demands to pickup during the festival season.

Pramod Amte: And in the Annual Report, you had talked about entering the European and US markets. Can you give more color what is the mode of entry? Are you planning through JVs or alone and whatever spends you will be doing in these developed markets in next one or two years?

Ravi Sud: Well Pramod, that is a vision which is part of 2020 vision of 1.2 million but if you are looking at next 12 to 18 months or 24 months, I do not think this is a priority for us as of now because priority for us as of now in the next 12 months or 18 months is to enter the markets which are large in numbers which as I stated three markets Nigeria, Argentina, Mexico large numbers and get the numbers, these markets are still in our focus but not very, very sharp focus has given.

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

Sahil Kedia: I wanted to get a little bit of color on what Bangladesh and Colombia the two assembly facilities that you started, what should that target be number one? Number two, in terms of new model launches what can we expect and what is your sense of the industry growth for the year across motorcycles and scooters?

Ravi Sud: You have basically three questions. Let me answer the first question. We have two joint ventures one in Colombia second one in Bangladesh. As far as Colombia joint venture is concerned the plant is getting inaugurated on September 9, 2015 so the production will start from September 9, 2015 and the initial capacity of a plant is 78000, in the second phase it will go up to 150,000 per annum. As far as Bangladesh is concerned the construction has already started and we expect this plant to be ready by March end or beginning of April which means the production will start sometime in April 2016. The capacity of the plant is 84000 in the first phase which will again go up to about 150,000 per annum in the second phase.

Ashok Bhasin: Let me come out on the new launches, we have shared before we are working on bringing in the new launches in the scooter market in the next couple of quarters around the festive season along with that we would fully support our recent launches of Passion Pro and Xtreme Sports to drive our market share in those segments and in addition to these there will be some additional launches coming at appropriate time in the year. Your second question regarding industry growth situation it is never possible to perfectly read but we all know that at the end of the first or few month of the fiscal the industry is flat with motorcycle declining at 3%-odd and scooters growing at about 7%, that said our current view would be that even in the second half goes through good growth which is recovering from this in third quarter, because we really have left only six months because the first thing we will push through November 11, that really means that you are left with only four-and-a-half months after that. If the second half picks up substantially both in motorcycles and scooters the year could end up at an average of somewhere around 3% total growth, obviously with some differences between scooters and motorcycles but that is the current reading over the next 3-4 months so therefore our expectation is that things will improve both on the rural income side monsoon and also several other steps that are being taken at a macroeconomic level and which could all percolate to a good festival and then a continued momentum after that, for us as a player obviously all our current strength and new launches together will position us to exploit this upward momentum as it develops.

Moderator: Thank you. The next question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Sir, first question is specifically for scooters, if I look at your urban rural split of sales for scooters specifically, how different would it be, say, versus for the industry? Would you be significantly towards rural side even in the scooters or rather non-urban side even in the scooter?

A. Srinivasu: If you look at the industry, the industry is largely a scooter industry it is big time in the urban part of the country. While we do have certain have good presence in the urban but I think our volume if you look at it our market share is better in the rural part of it.

Mukesh Saraf: Could you indicate some broad mix, like 60-40 kind of it, or how it could be?

A. Srinivasu: Sort of close to if you look at the volume that we are selling maybe 60-40.

Mukesh Saraf: So given that and the what we are reading now with the weak monsoons and probably the rural markets not improving immediately, given that, would you say despite your new launches on these scooters, could you still under perform the industry growth?

A. Srinivasu: The first thing is I think we are all hoping for a better monsoon, monsoon is not yet over it has been decent excepting for a few part of UP, you look at part of Maharashtra, part of Andhra, part of North East there are some deficiency in rainfall on these areas, by and large it is not very bad one, second we are clearly hoping for a revival in the festive season so that is one, second, new launches are not going to be focused only on rural markets we would obviously pitch it up all across and probably lay more focus on the urban markets as well. So I think with the new launches we should do better.

Mukesh Saraf: My second question, sir, is on the refreshing all your current models with your own engines, how is the status of that and so could your royalty which is may be close 0.5% of sales, could that become extremely minuscule, say next year?

Ravi Sud: You see there are only four models on which we pay the royalty one of which is out of production, there are three other models on which we pay our royalty. Two new scooters, which we should launch in next couple of months not quarters, in September or October. There is a likelihood that Maestro volume may come down slightly, so as far as your concern on royalty is concerned will be answered. We expect royalty to come down.

Mukesh Saraf: So that can come off significantly?

Ravi Sud: I really do not know whether significantly as you know of course presently, we have got Pleasure and Maestro, once we have four models apart from getting additional volumes there is a possibility of minor cannibalization of existing products.

Mukesh Saraf: And just my last thing a very quick one. Your CapEx plan and your investment in subsidiaries what is the plan for that equity investment in all your overseas subsidiaries?

Ravi Sud: As far as overseas investments are concerned they are not very significant As far as Colombia is concerned total equity investment what we had envisaged is about $13 million, out of it we have already done $10 million. As far as Bangladesh is concerned, our share of equity there is about $7 million and out of it we have done $2.5 million and balance, as I said the plant is in the phase of construction, we have already done the financial closure with the local banks and the limits will be in place after the getting the approval from local regulatory authorities in Bangladesh. So the total investment in overseas subsidiaries is 13 plus 7, i.e. $20 million, of this, we already invested about 12.5 and depending on the requirement of funds, we will continue infuse equity. .

As far as other capex is concerned a major part of capex in current year will be Gujarat plant and new R&D Center. We had earmarked a total capex of around 3000 Crores for two years between FY16 and FY17 out of which 1650 was for FY16 so depending on our market condition the way we had suggested a market to grow at about 6-8% now likelihood as Ashok said it maybe 3-4% I think there is a possibility that some of the capex may have to be postponed.

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

Raghu Nandan: Most of my queries have been answered. Just one query on the EBS Consulting Business, how do you see them helping in our product development plans and how do you see the road ahead there?

Ravi Sud: You are aware that the company went into Chapter 128 of Wisconsin Law sometime in April that affected us, otherwise we had to launch a 250 cc motorcycle sometime in October 2015 or January 2016. The latest is that we have worked out an arrangement with the Receiver in Wisconsin to give us the consulting assets, these were the assets which were used for our business as well as all the intangible assets. We have signed the deal but it is subject to the approval of the court. Once that happens, as we have stated earlier we would like to complete most of the projects with our own internal resources and taking any outside assistance where possible but this is very clear that some of the models on which we are were working will see the light of the day except that there has been some delay because of this Chapter 128 filing by EBR.

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

Kaushal Maroo: Couple of questions. First, I just wanted to hear your thoughts on why Passion as a brand is under performing Splendor in terms of growth? And second is, what we can expect from you in the next one to two years in the 150 cc and above category?

A. Srinivasu: I will answer the first question in terms of Passion brand; yes there was a decline in the brand. We have refreshed the brand and launched it about two months back, we are working on building the brand further and we are confident we will be able to do it, because we bought it in nice refresh with fresh look and different styling, so the initial acceptance of the product has been very good in the market so we are working on a good brand strategy for this product so we can grow this brand well. In terms of next two years I think it is too longer timeframe to be stating. All I can state is that we do have plans but we may not be able to give out the entire plans or the numbers of models that we can come up with 150. I can only tell you that we have plans.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.

Jinesh Gandhi: I have couple of questions. One is, you mentioned something about royalty, I missed that, the line was not clear. So do we expect royalty to further moderate, especially on products upgrade by Honda after 2010?

Ravi Sud: Yes definitely, it will.

Jinesh Gandhi: And this is for of period of seven years from 2010, right?

Ravi Sud: There is no period defined. As per agreements we can produce this product still June 30, 2017. The option is with us. We want to continue these products even today or we want to discontinue and what Srini said that we have no plan to discontinue Maestro at this point of time, so it will continue but assessment is that maybe volume may come down with the introduction of brand new platform which we are launching in next couple of years.

Jinesh Gandhi: So if we continue beyond June 2017 then we continue to pay royalty at 5% or so?

Ravi Sud: Well our arrangement is still June 2017 if it has to be continue beyond 2017 I think separate negotiation will have to be done, the existing arrangement is still 2017 June.

Jinesh Gandhi: Sir, last question pertains to our market share in entry level segment; we have seen reasonable market share erosion over last few months because of new launches by competition. So how do we protect that market share and try to regain some market share there? What's our strategy on that side?

A. Srinivasu: See fundamentally the impact is largely from one brand which is CT100 which came in at a price point of 35,000 so that is where we saw an erosion in the market but then you also need to factor in the first sell that happens across several network channel partner so they peaked at 66,000 and are now down to almost in the mid 40 if that is around 45, 46 for the month of July, so we expect it to even stabilise it little lower most of their volume gain has come in from their own existing model which is Platina. We had not lost volumes but we have lost the growth opportunity and we have lost share, so our plan is obviously we have made some internal market specific strategy to counter the onslaught so we are confident we will get back in terms of market share.

Jinesh Gandhi: So does it mean that we will have to offer a much better value proposition as compared to what we are offering now?

A. Srinivasan: Yes, value proposition yes while we are talking about a price cut no we are not looking at that as a solution, because I think we have very, very strong brand with us called HF Deluxe, it's a million brand with which we have so we will leverage that brand to counter the volumes of CT100, that is what we planning to do.

Moderator: Thank you. We will take the last question from the line of Jiten Doshi from Enam Asset Management. Please go ahead.

Jiten Doshi: My question pertains to your exports. What is your export target going forward over the next five years?

Ravi Sud: 1.2 million.

Jiten Doshi: Sir, what are the major markets that you are seeing in the next two years, where you can achieve these volumes?

Ravi Sud: I stated in the beginning of the call, in the current year we are planning to enter Nigeria which is the market of 1 million, Argentina which is about half a million now earlier used to be 750000 it has declined because of certain political reasons and currency fluctuation third is Mexico which is another half a million these are the three major markets which we are planning to end up this year.

Jiten Doshi: Are you going to put up any manufacturing facilities there?

Ravi Sud: Well the options are open. We are in the look out for good and reliable distributors as well as if there is an opportunity we will not hesitate to have a manufacturing facility if it makes more business sense.

Jiten Doshi: And sir, this would include what export of scooters and motorcycles or only motorcycles?

Ravi Sud: As I said to one of the questions that each country is peculiar in its own requirement. If we consider Nigeria there is no market for scooters, it is only motorcycle and that too specifically for taxi. So the product has to be designed looking at the requirement of each particular market. To answer your question it could be both scooter and motorcycle depending on the requirement of each market.

Jiten Doshi: Sir, is your entry strategy more based on differentiating the product, or are you going to be competing purely on price?

Ravi Sud: It has to be differentiated based on the product, and what I said earlier in one of the question was that our focus is basically to study the market, design the product which is required in that particular market so that whatever we launch becomes acceptable and we are able to gain the numbers and the brand gets accepted.

Jiten Doshi: So my next question to Mr. Chhabra, can you tell us what is the inventory that you're holding currently with dealers in the marketplace sir?

A. Srinivasu: Five to six weeks depending on the dealership this includes done with stock also.

Jiten Doshi: So, if we can translate that into numbers would that that mean about close to 600,000 or?

A. Srinivasu: No, it is little over that number.

Jiten Doshi: So how do you, what do you think is a normalised level of stock that you would be happy to hold in a normal situation?

A. Srinivasu: May be a week less is the normalized situation because we running SKUs if you look at it for most auto companies in the range of 150 to 250 that kind of SKUs and our network is 6000 plus so that kind of network that you need to cater and with the kind of SKUs that you have the least we want to do is lose a sales at any given point in time, so decent inventory the industry works on a pretty decent inventory level.

Jiten Doshi: So, do you believe that let's say by the end of the year, you would able to bring this down to what about four weeks or so?

A. Srinivasu: Four to five weeks I guess.

Jiten Doshi: So, you believe five weeks is a normal inventory sort of…

A. Srinivasu: Transit time itself is about six to seven days across the country at an average.

Jiten Doshi: Well, I think some of your competitors are holding about three weeks or two to three weeks of inventory.

A. Srinivasu: Who is this competitor can I know?

Jiten Doshi: No we have been told; TVS and maybe Bajaj and lot of other players are there.

A. Srinivasu: Let me explain. TVS has depots across every state so they carry inventory to the extent of 10 days to 12 days in their warehouses, we have got to add that stock over the transit stock plus the dealer stock so if you add all that it is in the similar lines.

Jiten Doshi: Sir last question where do you see the margins on the longer-term you had cost cutting program et cetera which you are very confident of enhancing margins I believe part of that is plaid out in this quarter so how long Mr. Sud have we to go for this cost cutting programme and where do you see the margins ultimately.

Ravi Sud: Let me repeat once again, this has been one of the most successful programs which we are running and it is not the ordinary cost cutting programme, this is a transformation programme now we have a full-fledged department which runs this programs and in the last two years which I stated on the call about half an hour back that we added about 68 basis points in FY14 and 119 basis points in FY15 in the current year we plan to add about 65 basis points, but this is on standalone basis but if there are some leakages on account of extra employee cost or price increase not being taken or some benefits being passed to the dealers there is a likelihood that it may get negated that is what happened in FY15.

Jiten Doshi: But this quarter you have a great cushion compared to one year back because your royalty payable is not that high right so there is nearly 200 Crores of savings on the royalty itself if one adds that back then actually on a like-to-like basis what would be the improvement in the margin if you just add back royalty to the last year's profitability and compare the margins can you give us throw some light on what would be the incremental improvement that you have recorded.

Ravi Sud: Before I do that we need to understand that our volumes are down by about 4.5% compared to last year when there were 1.745 million, this year we have 1.675 down by about 4.5%, but even if I add the royalty to last year PAT of 563 Crores, the comparable PAT would have been around 700 Crore.

Jiten Doshi: But at the operating level how much would you have improved your profitability, at the operating level?

Srinivas: Well I take the figures of the June results analysis so we can talk offline.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question, I would now like to hand the floor over to Mr. Ashvin Shetty for closing comments.

Ashvin Shetty: Thank you. I thank all the participants for joining the call and I also thank the management for giving us this opportunity. Thanks and goodbye.

Moderator: Thank you. On behalf of Ambit Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.