



“Hero MotoCorp Limited Q4 FY16 Earnings
Conference Call”

May 05, 2016



MANAGEMENT: **MR. RAVI SUD – SR. VICE PRESIDENT & CHIEF FINANCIAL OFFICER, HERO MOTOCORP LIMITED**
MR. ASHOK BHASIN – HEAD (SALES, MARKETING & CUSTOMER CARE), HERO MOTOCORP LIMITED
MR. SURENDER CHHABRA – VICE PRESIDENT (CORPORATE FINANCE), HERO MOTOCORP LIMITED
MR. UMANG KHURANA – HEAD (INVESTOR RELATIONS), HERO MOTOCORP LIMITED

MODERATOR: **MR. RAHUL ARORA – RESEARCH ANALYST, NIRMAL BANG EQUITIES PVT. LTD.**



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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Hero MotoCorp Limited Q4 FY16 Earnings Conference Call hosted by Nirmal Bang Equities Private Limited. 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. Rahul Arora from Nirmal Bang. Thank you and over to you, sir.

Rahul Arora: Thank you. Good evening to all the participants on the call. On behalf of Nirmal Bang Equities I would to thank the entire Management of Hero MotoCorp for taking time out this evening to discuss the Financial Year 2016 and Q4 Results. The Management this evening would be represented by Mr. Ravi Sud – Sr. Vice President & Chief Financial Officer, Mr. Surender Chhabra – Vice President (Corporate Finance), Mr. Ashok Bhasin – Head of Sales, Marketing & Customer Care and Mr. Umang Khurana – Head of Investor Relations.

I believe the Results have just about been out so I would hand over the floor to the management through Umang and the Rest of the Team to make initial couple of comments and I guess we can dive into the question-and-answer from there on. Umang and the Team, over to you guys.

Umang Khurana: Thank you, Rahul; thank you, Nirmal Bang for hosting us. We have just shared the Financial Results as well. Happy to take your questions. We have budgeted an hour for the call, so over to you, looking forward to your questions and interacting further.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of KarthikChellappa from Buena Vista Fund. Please go ahead.

Karthik Chellappa: Just two quick questions from my side, firstly, what is your outlook on commodity costs going forward because I think we have got a lot of gross margin tailwind over the quarters on account of soft commodity cost, but given that I think prices of commodities like steel are starting to inch up, what is your outlook on the commodity costs in the first half of this fiscal year? That is my first question. And my second question is, can we get an update on your scooter capacity and what are our market share targets for this year? Thank you.

Ravi Sud: The answer to your first question is, according to us I think we have reached the bottom of this commodity cycle and as you rightly said the steel prices have already started moving up and partly which we had shared in the last Earning Call also because of the anti-dumping duty. And the impact will start coming as far as we are concerned in the second quarter of the year because we work with a lag of one quarter which is a well-established policy. So otherwise our own assessment and looking at the global environment and the consumption patterns is that commodity prices should start rising but it will take them maybe six to eight quarters or maybe more to come up to a level where they were at the peak.



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Karthik Chellappa: So that means from the second quarter onwards the higher commodity costs will start to reflect in your P&L?

Ravi Sud: Yes.

KarthikChellappa: And Sir on the scooter capacity?

Ravi Sud: Well, as we have shared earlier our scooter capacity now is 100,000 per month which works out over 1.2 million.

Karthik Chellappa: Sir the reason I ask this question is if we look at both our domestic plus export sales in scooters, I mean we are almost close to say (+90,000), so does it mean that going forward in case if the demand turns out to be good we maybe capacity constraint?

Ravi Sud: Well, what I told you is the figure as of 1st of April, within May this capacity will go towards 125,000 a month.

Karthik Chellappa: And sir just one more last question, if I may, if we were to look at in the last two years where the industry volumes have generally been sluggish and if we look at our own top brands, most of our top brands whether it is Splendor or HF Deluxe or Maestro or Glamour, they have still managed to grow but one brand in the last years which has actually not grown is Passion, what would you attribute this to, is this because of some cannibalization impact from our other models or what else would you attribute this to? And is there any specific strategy we have in mind going forward to improve our volumes in Passion?

Ashok Bhasin: So, from a portfolio perspective as you rightly said I think in a relatively sluggish market our portfolio of brands has been doing very well and Passion is one of our (+1) million brands along with the Splendor and HF Deluxe. In the earlier months Passion numbers were a little bit soft but there are couple of different things happening, I think some of the consumers are also moving up to 125cc segment where actually our Glamour is going at 23%, far outperforming many players in the market and Passion still is going strong but in the 100cc Deluxe segment some consumers are moving to the 125cc and also there is a parallel consumption taking place in the scooter segment of the 100cc consumer where we are now very strongly present with Maestro and Duet. So we anticipate that all these brands will continue to do well and strong and we will perhaps add more of them as we go along.

Moderator: Thank you. Our next question is from the line of Kapil Singh from LIC Nomura. Please go ahead.

Kapil Singh: My first question is relating to other expenditure, we have seen a pretty sharp increase on a year-on-year or QoQ basis as well, much faster than the sales growth. So any color you can give here that are there any lumpy expenditures reflecting here?



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- Ravi Sud:** Yes, you may recall after separation we are focusing largely on our R&D expenditure and if I look at last year FY15 expenditure which was charged to P&L, I think only the revenues expenditure was about 0.45%, in the current year the revenues can has gone up to about 1%. So that is one of the main reasons for the other expenditures going up.
- Kapil Singh:** And Sir, how would this trend going forward?
- Ravi Sud:** I think what we have said last three-four years as I continue to reiterate, since our balance sheet size is pretty large, we are at a revenue of close to Rs.30,000 crores, we expect revenues expenditure to be in the range of 1 to 1.5% at best.
- Kapil Singh:** And second question was relating to the average realizations, we have seen a 1% increase this quarter, is it because of the better mix and whether we have taken any price hike in last few months?
- Surender Chhabra:** As far as average license is concern this improvement is because of the spare part sales higher in the quarter which I think attribute Rs.400 for motorcycles has increased particularly in this quarter.
- Kapil Singh:** What were the spare part growth that we are seeing?
- Surender Chhabra:** Spare part growth we are seeing on year-to-year basis 15% to 20%.
- Kapil Singh:** This is for fourth quarter?
- Surender Chhabra:** No, I am saying annually but fourth quarter is higher.
- Kapil Singh:** And one more question was relating to JD Power Customer Satisfaction Rankings, traditionally we have known Hero products to be the most reliable, I do not know if you track this internally but I was a little surprised that the rankings do not reflect that. So any thoughts you have on that?
- Ravi Sud:** We have asked for the full report to understand, as you know these research reports need to be better understood but we do know that on our service network not only our infrastructure but also in terms of delivery we are actually at even a higher standard now than before.
- Moderator:** Thank you. Our next question is from the line of Ashish Nigam from Axis Capital. Please go ahead.
- Ashish Nigam:** Just wanted to get a sense on the benefits from the Leap Program, how much benefit have we seen this quarter, this year and how much we envisage for next year?
- Ravi Sud:** Ashish, I think this is your favorite question. In FY16 we have added Rs.278 crores which works out to about more than 90 basis points for the full year and our target for FY17 is about 90 basis points once again.



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- Ashish Nigam:** Also, if you can just remind us of your import content both direct and indirect, if you can highlight any impact from the recent JPY movement this quarter?
- Ravi Sud:** As far as direct import and as far as JPY is concerned is negligible, there is definitely some downstream import which is done by our vendors but I remember we have shared our total imports figure which is about 14% out of which 5% is our direct and 9% is indirect. That impact is absolutely negligible.
- Ashish Nigam:** Sir this quarter it was on direct which was negligible and next quarter could come on indirect which could be slightly higher?
- Ravi Sud:** Well, out of 9% Japanese imported, I do not have the exact number, but I do not think it will be more than 25% to 30% out of 9%. So if at all there is an impact it is going to be very-very negligible.
- Ashish Nigam:** Sir there is then some margin headwinds otherwise, commodity prices, maybe slightly on currency and export market is tough, the share of scooter is rising, so are we still looking to at the target margin of 17% - 18% which is the number you had mentioned in the past?
- Ravi Sud:** You had hosted our Earnings Call last time and we had given a guidance of 14% to 15% margins which the company will try to maintain.
- Ashish Nigam:** Just one more housekeeping question, the royalty paid on new models during FY16 and Haridwar production for the quarter and the year?
- Ravi Sud:** Royalty paid to Honda?
- Ashish Nigam:** Yes, for the new models which you are paying royalty on.
- Ravi Sud:** Okay. Last year FY15 it was Rs.120 crores, this year it is Rs.80 crores because the volumes are coming down and in FY17 we expect that to be absolutely negligible.
- Ashish Nigam:** And Haridwar production?
- Ravi Sud:** Our dependence on Haridwar is about 38%.
- Moderator:** Thank you. Our next question is from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Sir wanted to understand on the export side how easy or difficult it is for you to find distributors and what are the key challenges that you face, why it is taking more time for us to get distributors?
- Ravi Sud:** Chirag, you would remember in quarter two and quarter three Earning Calls what I had stated was that we were looking at Nigeria, Argentina and Mexico. Nigeria we were able to appoint a



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distributor in the month of January and we sent our first consignment which is a small number in the month of March. But as far as outlook is concerned, this is not only for Nigeria but for many oil dependent countries where currencies are under tremendous pressure, either they are depreciating very-very sharply or because of its availability of US dollars the markets are shrinking. So I think in a nutshell what I would say is very-very strong headwinds in many-many global markets which is impacting not only us but also other players in the industry. There are serious challenges and we are working our strategy for each market separately.

Moderator: Thank you. Our next question is from the line of Ambrish Mishra from JM Financial. Please go ahead.

Ambrish Mishra: I just wanted to check on two things – one, can you give a sense on how the last couple of months have been in terms of demand between urban and rural markets given that we have been clocking double-digit growth for the last couple of months. And my second question was on the margins, now for the last couple of quarters we have consistently maintained a margin of 15% - 15.5%, how do you see that panning over next two to three quarters assuming the kind of commodity price increases that you are forecasting and how easy or difficult it will be to pass on? Thank you.

Ashok Bhasin: So let me speak to the consumer sentiment – I would say that in the last couple of months given seasonal factors like festivals, particular in West and South and also marriage season which from the calendar this year is little bit brought forward instead of May and June it is in March and April, both these factors have helped the business both in urban and in rural and I would say there is an improvement in consumer sentiment which is reflected in the higher sales. Some parts of the country have been doing better, particularly North and East and there are pockets of central zone and West which are still sort of relatively soft. But for sure urban is still leading ahead in terms of how the market demand is. And rural still has opportunity to pick up which we hope will happen as the quarter goes along.

Ambrish Mishra: By saying that sir do we mean that the rural market is flat-to-negative will that be a fair comment?

Ashok Bhasin: I would say it is still sluggish, slight improvement in the last couple of months but it is still sluggish. There is a lot of headroom for it to happen which will only happen progressively I do not expect it to happen at vertical front.

Ambrish Mishra: And the question on margin sir?

Ravi Sud: Well, we have clarified many times, also at the last Earning Call that long-term or medium-term sustainable margins would be anything between 14% to 15%. Now this year we have declared or we have published margins of 15.5% and if you look at “majority” of this margin improvement has happened because of very low commodity prices throughout the year which I have also said in one of the earlier questions that we have, the cycle is at the bottom, what we should now be looking at is only the increase in the commodity prices. So if you are saying next two or three years, at this point of time I can give a guidance that we will try to sustain our margin between 14% to 15%.



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- Moderator:** Thank you. Our next question is from the line of Vinay Singh from Morgan Stanley. Please go ahead.
- Vinay Singh:** My question is on the scooter side, we are almost seeing that now you have been clocking around 86,000 - 87,000 units per month, is that also reflective of retail sales that you are doing or is it that because of Pan-India launch the scooters are reaching every dealerships and all?
- Ashok Bhasin:** Certainly as the launch has got rolled out there is an element of first-fill, but I would say at a retail level we are trending at a market share of around 18% - 19% at this point in time.
- Vinay Singh:** So even on a retail basis the numbers are pretty strong for you on this side?
- Ashok Bhasin:** Certainly our retail outlets and retail market share as well is higher now in the last four months than it was say in the start of last fiscal.
- Vinay Singh:** And secondly relating to scooters only, like we are seeing markets like Uttar Pradesh and all the share of scooters is rising, for your case do you think your scooter buyer is coming more from competition or because you are the leading motorcycle brand that a customer in markets like UP and all is just migrating from your motorcycles only to your scooters?
- Ashok Bhasin:** I think as a leading two wheeler brand whom the consumer sort of really puts their trust in, both things will happen. Given that some of the competition has larger market share, our superior offerings and execution and dealer network will lead to us leading into the market share. And secondly, given our reach and our brands appeal to the consumer we will help grow the market as well which is also reflected if you see, our growth rates in the last two months has been higher than scooter category growth I think we will do both the things as a brand, get some share and also help grow the market.
- Vinay Singh:** And just last question, when we speak to all your competition they have given pretty aggressive motor cycle growth guidance for the coming year based upon various product launches that they all have announced and launched. What would be your model cycle on the motorcycle side look like this year?
- Ashok Bhasin:** So as you know we do not speak to future launches, we talk about them when we launch them, but at this point in time I would not speak about that on this call.
- Moderator:** Thank you. Our next question is from the line of Jatin Chawla from Credit Suisse. Please go ahead.
- Jatin Chawla:** The first question is on your balance sheet I see on the loans and advances side there is a significant increase from almost R.600 crores to close to Rs.800 crores, could you just clarify as to what is that pertaining to?
- Surender Chhabra:** Loans and advances on liability side or on the asset side?



Jatin Chawla: On the asset side.

Surender Chhabra: Asset side, because there are certain accruals on that because if you see that Rajasthanplant has started fully in the last year, so we are receiving some subsidies from the government and part of that is on the accrual side, so that is why loans and advances on the higher side as compared to previous years. And the subsidy generally gets realized after about three to five months of close of each quarter.

Jatin Chawla: And sir in terms of your CAPEX guidance for next year and in terms of overall capacity additions, how are we thinking about that?

Ravi Sud: Our next FY17 CAPEX would be in the range of Rs.1,100 to Rs.1,300 crores and in terms of capacity addition we already have 8.2 million capacity, we should be adding another 750,000 with Gujarat plant, that would happen in the latter half of quarter two.

Jatin Chawla: So you will end basically with 9 million capacity?

Ravi Sud: Yes.

Jatin Chawla: And I joined the call a little bit late so pardon me if you have already answered this, what is your volume growth outlook for next year, what are you guiding for?

Ashok Bhasin: In the first half we would be looking at low to middle single-digits and there are a lot of other factor including monsoon goes well we would expect the second half to be better.

Jatin Chawla: So for the full year high single-digit number?

Ashok Bhasin: I think it is a tale of two cities, as talked about this is the first half and the second half we should review it as we get into second half of how we can go out with. So at this point in time I think we are focused on the first half and then expecting some other things to kick in which is monsoon and lot of other factors. So we should we review it as we go along.

Jatin Chawla: And do you expect scooters to continue to outpace motorcycle growth?

Ashok Bhasin: Yes.

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

Pramod Kumar: Sir, my first question pertains to premium segment, it is slightly longer term as well, the premium segment of motorcycles has ramped up to 21% of motorcycle volumes as we speak and there has been a fair bit of acceleration there, but our market share in that category has dropped to as low as 4% in the recent months. And if I am not wrong, based on what you guys said in Auto Expo I do



not think there is anything coming in a hurry in the premium segment, so what is the strategy because you continue to be strong on the 100cc to 110cc or 125cc as well but beyond that there is not much strength in terms of your market share and that is where the market is moving gradually, rather its actually moving pretty fast. And on the other end you have scooters where you have launched two products but there is nothing much coming in the next one year or so and market share is already at 18% - 19%. So I am just wondering in terms of the two big growth drivers which are scooters and premium, and specially in premium what will be your strategy going forward?

Ashok Bhasin:

So let me start with the second one first, I think first of all I would say that on scooters we have had a positive start and I expect this to continue in the new fiscal both the growth and the market share. So I do not think it's the end of the journey, I think it is a positive start and we will grow further. As far as the premium segment is concerned, there is work happening on multiple segments and new products etc and we will talk about what we are launching as we come closer to them. In the meanwhile we will drive our business through the portfolio that we currently have, in fact it depends on how you look at it but we were predominantly 100cc, 110cc but in the current fiscal which is fiscal '16 we have significantly expanded our 125cc franchise, actually our Glamour model is the market leader now for the third month in a row and we are gaining both growth and market share in that. So it is moving towards the higher end and I think we will progressively make this journey with the current products and then exploit if further when the new products come.

Pramod Kumar:

Any market share aspiration for scooters and premium motor cycles?

Ashok Bhasin:

We do not like to speak to specific market share forecast but I think we will continue to do by the scooters and grow further.

Pramod Kumar:

And second question pertains for Ravi and Chhabra sir, regarding the tax efficient plants in what we have, just want to understand, just if you can remind us again as to given the current dependence and the new plants coming through how do you see the dependence on that plant in FY17 and when does the tax breaks come to an end or phase down and what is the likely impact on profitability?

Surender Chhabra:

Pramod, as we have told in last conference calls also that our dependence on Haridwar plant is decreasing, now dependence is 30% and with the new plant coming up like Neemrana and our second Halol plant will come, so our dependence will get further decreased on Haridwar plant. So my effective tax rate will start marginally increasing, if you are seeing the last two years also there is a margin increase on that front also from 28% something it has gone to 28.73% of earlier. Coming years we are seeing that effective tax rates will be slightly higher.

Pramod Kumar:

If you can guide on that sir, as in what numbers are we talking about here for FY17?

Surender Chhabra:

We cannot guide on that, depends on that overall market as well as the profitability and then we work out the tax liabilities.



- Pramod Kumar:** Because I believe, that is what I want to refresh again, what was the kind of expected percentage hit on margins what would come in once this plant becomes fully taxable, that is what I was trying to understand.
- Ravi Sud:** I remember in Q2 I had clarified that once these benefits go away from 1st April 2018 there would be an impact of about 100 basis points on the EBITDA.
- Pramod Kumar:** I just double checked that given that dependence on that plant is falling pretty fast. And Sir in terms of growth number, what Mr. Ashok talked about, that is for the industry or you are guiding for your company's growth?
- Ravi Sud:** We are guiding for HMCL.
- Pramod Kumar:** And industry what do you expect sir?
- Ravi Sud:** Similar.
- Pramod Kumar:** So market share remains intact. And one housekeeping question on your price hikes what you talked on commodity, just curious as to what is the extent of hike are we looking at on a per kg basis for steel and aluminum here?
- Ravi Sud :** If I remember correctly the steel price of Rs.3.50 has already come in and I think it will start impacting from Q2 onwards.
- Pramod Kumar:** And aluminum, anything you can share there, Sir?
- Ravi Sud:** Aluminum as of now is soft and if at all there is something its very-very marginal, not worth talking as of now.
- Moderator:** Thank you. Our next question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.
- Ashutosh Tiwari:** Sir what would be the inventory level with the dealers as of now?
- Ravi Sud:** In the third quarter we have said that inventory level was about six weeks and now inventory levels are between 5 to 5.5 weeks.
- Ashutosh Tiwari:** And Sir you discussed something about the growth drivers state wise, you mentioned that West and South is doing well as of now?
- Ashok Bhasin:** I said in the last two months there has been a bring forward of the marriage season and there has also been some seasonal festival which have occurred in these two months, particularly in April which has helped the retail outlet these zones more than the others. So we had some East has the



New Year, South has Ugadi, there is aGudi Padwa in the West and those elements do help the consumer outlet typically depending which part they fall in.

Ashutosh Tiwari: And marriage season must have helped North also, right?

AsbokBhasin: Yes.

Ashutosh Tiwari: But how is the underlying scenario, I mean removing this acute wedding season this year how is the underlying market per say in North India and Eastern part of India?

Ashok Bhasin: I think I have spoken to the underlying scenario and we are seeing in the coming quarters, so we would continue to stay with those, we do not have anything additional to say.

Moderator: Thank you. Our next question is from the line of Basudev Banerji from Antique Stock Broking Please go ahead.

Basudev Banerji: Couple of question. Even if one adjusts for that 50 basis points are in the expensing as you said in the call earlier, still other expenses to sales at 13.2 is almost like eight quarter high, so how to look at that, typically your ad marketing expenses tend to be highest in the December quarter, so still it is like higher than even the previous quarter. So how to look at it going ahead sir?

Surender Chhabra: Yes, in comparison to previous year my ad spend is slightly high, 8.25%, as the full year I am saying you. And I think R&D expenditure we have told that this year are at 1% as to revenue. Other expenditures are not high, are comparable with the previous year.

Basudev Banerji: But barring the expense you said that 50 bps increase from a full year perspective?

Surender Chhabra: Yes, overall as a percentage of sales.

Basudev Banerji: But sir in reported numbers if I see on a QoQ basis your other expense quantum is up almost 11%, so anything specific, 11% QoQ jump typically is on the higher side it looks?

Ravi Sud: See, majority of it is R&D expenditure which has been charged in quarter four only. So if you are talking of the comparisons between Q3 and Q4 there was a large chunk of R&D expenditure which has been charged as revenue in quarter two.

Basudev Banerji: So some normalization in coming Q1 and Q2 is possible?

Surender Chhabra: Yes, if we say for the full year from 11.39% to 12.49% is the total expenditure this year compared to quarter-on-quarter basis.

Basudev Banerji: Yes, this quarter it is looking at inflated at 13.7%.



Surender Chhabra: On year-to-year basis it is only 1% higher.

Basudev Banerji: And sir second question, last quarter if you remember there were some provisioning for bonus tact somewhere around Rs.12 crores - Rs.13 crores, so even if I adjust that so staff cost is up around 6%, 7% on a sequential basis. So any bonus payout or one-off in the staff cost like that sir, because your typical wage hike happens in December quarter.

Surender Chhabra: As far as the employment cost is concerned, yes because of that bonus provision which has come for the previous year as well as the current year, in this particular year the percentage is higher, on the other hand add-on of R&D patterns, man power increase the expenditure is slightly higher in the current year.

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

Sonal Gupta: Sir, just first to begin with is, want to understand for the full year as a whole for FY16 what sort of growth have we seen in rural and urban markets, if you can just tell us?

Ashok Bhasin: I think overall from a domestic business perspective business is flat and I would say from urban and rural standpoint urban would be trending at about 5% to 7% and rural would be between 1% to 2%.

Sonal Gupta: And sir, somebody asked this thing, but what do we expect in terms of scooter penetration in rural areas and what sort of growth momentum are we seeing there, so are we seeing a significant increase even in rural on the scooter side or you think on a low base it is still a more steady sort of growth?

Ashok Bhasin: There is a very small base in rural right now, it is an emerging phenomenon but as we go along obviously in the higher rural part of the market wherever the infrastructure is good and the incomes are better and the roads are better I think some consumers will look at scooter as an option, but this is going to be a slow and progressive phenomenon.

Sonal Gupta: But would you have some sort of number for rural penetration of scooters in FY16?

Ashok Bhasin: Overall penetration in the country for two wheelers stands at 30%, I do not have scooters specifically because scooter penetration has really developed in the last two years and there is not a fresh lead on the penetration number that has come, but I would say it must be running at about 10% of motorcycles.

Moderator: Thank you. Our next question is from the line of KarthikChellappa from Buena Vista Fund. Please go ahead.

Karthik Chellappa: Can you share the units that Hero Corp financed this quarter?



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- Ravi Sud:** Well, I can share the total numbers for the year. In FY16 we have done about 470,000 units. And the March number were more than 50,000, so the monthly run rate starting from April will be 50 and the target for FY17 is about 650,000 to 700,000.
- Karthik Chellappa:** And sir on the scooter capacity when you said that it has been expanded to 125,000, is it starting this month?
- Ravi Sud:** Yes.
- Karthik Chellappa:** And is this at the Neemrana plant?
- Ravi Sud:** We make scooters at various plants, Neemrana plant also we make the scooter. So Gurgaon and Neemrana and Halol.
- Karthik Chellappa:** So the 125,000 has effectively started from this month. Okay sir, thank you very much.
- Moderator:** Thank you. Our next question is from the line of Govind Chellappa from Jeffries. Please go ahead.
- Govind Chellappa:** What is your stake in Hero Fincorp now?
- Ravi Sud:** 48.4%.
- Govind Chellappa:** My second question was, whenever you start the Gujarat Halol plant would you get sales tax benefits the way you get in Rajasthan?
- Ravi Sud:** Yes. We get VAT benefit which is more beneficial than Rajasthan.
- Govind Chellappa:** And lastly on ad spend, I did not catch the number, what was the ad spend for the year and what is the sustainable number we are looking at?
- Surender Chhabra:** Govind, as compared to last year which was 2.39% this year it is 2.50% of the sales.
- Govind Chellappa:** And how do you look at it going forward? In the beginning of the year you had guided to 2 to 2.2.
- Surender Chhabra:** Because of launch of these two new scooters our spend is slightly higher, but I think next year we will be were under control.
- Moderator:** Thank you. Our next question is from the line of Jamshed Dadabhoy from Citigroup. Please go ahead.
- Jamshed Dadabhoy:** Sir for the full year could you give us a sense what the growth in spares was? Its my first question.
- Surender Chhabra:** The sales has grown by 16%.



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- Jamshed Dadabhoy:** And given the way you have rejigged the whole distribution chain for spares would you expect 10% - 15% growth at least for the next couple of years?
- Ravi Sud:** Yes, we are targeting a similar type of growth what we have achieved for last three years which are in the range of 14% to 17% - 18% and we expect to grow at the same pace.
- Jamshed Dadabhoy:** And sir, will these VAT benefits in Gujarat and Rajasthan continue even under this new GST regime assuming the GST regime comes through?
- Ravi Sud:** All these existing benefits generally get grandfathered, so they should continue, I mean the state governments cannot back out of their commitment and the agreements which they have with us.
- Jamshed Dadabhoy:** And just to understand, this is only for instate sales, right?
- Surender Chhabra:** Yes, within the state sales.
- Jamshed Dadabhoy:** So sir is it fair to assume that by the time the Haridwar benefits expire, both these put together should sort of offset that?
- Ravi Sud:** Haridwar benefit was not only on element, it was excise duty and direct tax also and that was a huge benefit to the company. But in these two plants, yes incentive will be there but I think would be lower than Haridwar plant.
- Surender Chhabra:** The other difference between Haridwar and these locations is Haridwar benefit was sales linked benefit, that for the first five years you do not pay any income tax, next five years you pay income tax on only 30%. And excise benefit was for 10 years. So irrespective of your volume or numbers which you could use you will get these benefits. But the state benefits, these are linked to investments so VAT benefit will be restricted to the extent of your investment.
- Ravi Sud:** And investment and sale within the state itself.
- Jamshed Dadabhoy:** How long do you estimate the benefits will last, sir?
- Ravi Sud:** Seven years for Rajasthan.
- Moderator:** Thank you. Our next question is from the line of Gokul Maheshwari from Allard Partners. Please go ahead.
- Gokul Maheshwari:** Just one clarification, your stake in Hero Fincorp 48%, are there loans have any recourse to HMCL?



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Ravi Sud: No, not at all. Let me say one thing very clearly, HMC does not have the policy of giving any corporate guarantees to anybody, we have subsidiaries in Bangladesh, we have subsidiary in Columbia, we have not given any guarantees so far.

Gokul Maheshwari: And what would be the outlook for the exports business this year?

Ravi Sud: As I stated earlier there are very strong headwind, I mean we had a couple of years back said that export would be 10% of our volume and I have stated in the last earning call that we will be reviewing that strategy once again looking at the overall global environment which has become very hostile, particularly the large markets where we want entry, the markets like Nigeria, markets like Columbia, markets like Egypt, markets like Argentina, very-very large markets. And we had a plan to enter the Brazil sometime in 2017 but looking at the state of the economy and the depreciation of the currency so somehow things did take a backseat. So we are working out our strategy very shortly and share our new plan in the next earning call.

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

Jinesh Gandhi: My question pertains to margins, while our long-term target of sustainable margins is 14% to 15%, in FY17 should we expect margins to improve considering 90 basis points target of cost cutting which would be slightly diluted by commodity prices?

Ravi Sud: Well, Jinesh two or three things. As I said the commodity cycle is at the bottom so anything which will happen from quarter two onwards will eat into your margins, number one. But our dream program of 90 basis points, very strictly speaking should add to the margin. But generally it does not happen because what will happen is our R&D spend this year in the revenue side is about 1%, next year it may go up to 1.2% - 1.3%. Similarly, looking at the sluggish growth of the market for the last four years the ability of any manufacturer to pass on the increases is very-very restricted. And you would have noticed that the price increases which have been taken by the competition as well by HMC which we are implementing tonight are very-very insignificant. So I will not make a statement today or give a guidance that FY17 our margins will improve, I am saying anything between 14% to 15% should be sustainable margins.

Jinesh Gandhi: And price increase indicated we are taking from tonight, can you quantify the average price increase?

Ashok Bhasin: It is on all models. It varies from Rs.200 to Rs.675.

Jinesh Gandhi: And last question pertains to in terms of scooters, because of Maestro Edge have we seen significant decline in Maestro volumes one which comes from Honda?

Ravi Sud: Yes, the volumes of Maestro have come down very-very substantially and our plan is that by July 2016 that model may not be available or we will stop the production and dispatch.



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- Jinesh Gandhi:** And on Haridwar plant can you just remind us what products do we make right now in terms of large volumes come from which products from Haridwar?
- Ravi Sud:** There we are manufacturing 100cc products such as Splendor, Passion Pro and 150cc members which are coming from Haridwar plant.
- Moderator:** Thank you. Our next question is from the line of Aryn Pirani from Deutsche Bank. Please go ahead.
- Aryn Pirani:** Just some clarification on certain numbers, you mentioned that Haridwar is around 38% of your production right now?
- Ravi Sud:** Yes, Mr. Chhabra said was last year if we look at, last year total dependence for the full year was about 38% and now it is coming down.
- Aryn Pirani:** And sir the dealer inventory that you mentioned around five to five and half weeks, that was around the end of March or is it the level like right now?
- Ravi Sud:** End of April.
- Aryn Pirani:** And Sir, you said that 470,000 was the number that Hero Fincorp financed last year, but on an overall basis what percentage of your sales would be financed, can you give an indication?
- Ravi Sud:** Well, let me give you some figures. Hero Fincorp is the largest two wheeler financier for HMC, they do about 50,000 now, HDFC does about 30,000 to 35,000, then IndusInd does about 15,000, then Citi Union they do about 15,000. So these are four guys whose numbers we track. Now overall if you add up these this will work out to anywhere between 12% to 13% of our total sales. Now the general factor which is taken is multiplied by two, I am saying it could be anything between 25% to 26%.
- Aryn Pirani:** And Sir just one more thing, you mentioned the increase in R&D in you other expenses, so is it that your total R&D expenditure is increasing or is it that your capital expenditure, I mean you are charging more to P&L than you were in the past?
- Ravi Sud:** No, there are two things. See, R&D expenditures are of two types, one is the revenue which includes all the chargeable expenditure which go to the P&L, second is the capitalization. I am not talking of capitalization, capitalization is separate. If I give you figures for FY15, if we take a total R&D expenditure including capitalization it was 2.84%. But this year I have given you 1% which is only revenue, last year revenue was only 0.45% but this year figure for both revenue and capital as up to 1.53%.
- Aryn Pirani:** So you are saying the capital one is not increasing basically?



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Ravi Sud: No, no, we started construction last year so last year there were lot of expenditure on building, I think the right way to look at R&D expenditure is what you are spending on the revenue side, on the research and development efforts.

Moderator: Thank you. Our next question is from the line of Deep Shah from SBI Cap Securities. Please go ahead.

Deep Shah: Most of my questions have been answered, just an update, I mean we have been reading a lot about Andhra unit investments in the media, just update what is it actually?

Ravi Sud: Well, we had announced that we have signed an MoU with the Government of Andhra Pradesh, but if you look industry has been absolutely sluggish for two three years and we have also reduced the size of investment in Gujarat plant, we were planning it earlier at 1.2 million capacity in the first phase and taking it to 1.8 million. Now the plan is we are investing for a capacity of 750,000 in the first phase, second phase will be 1.2 million and third phase would be 1.8 million. And our plan is that by 2018 end calendar, we should be commencing some production in Andhra Pradesh also, but that capacity will be small capacity.

Deep Shah: This will be your capacity with motorcycles which can produce scooters or is there any product specific thing?

Ravi Sud: As of now very difficult to say because we have just got the allotment of land and nothing has been planned as of now, the size of the plant, how much is the capacity and how much is the CAPEX and what type of products will be produced here. I think that might take some more time for us.

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

Chirag Shah: Sir, wanted to understand between HF brand and Splendor Passion brand if you can share the urban-rural mix, would it be right to say a Splendor Passion would be more rural, maybe 60% of your volumes would be rural for Splendor Passion?

Ashok Bhasin: I do not think we would like to comment on the urban-rural split by brand model level.

Chirag Shah: So the other way to put around, which models do you see a faster recovery or which were affected the most due to this rural slowdown and the expected rural recovery?

Ashok Bhasin: I think the entire motorcycle segment will tend to benefit as rural picks up slowly.

Chirag Shah: And the second question on scooters if I can take, if you look at the commentary given by the top three-four players and the aspirations on the growth and market study, it appears that industry growth seems to be around 20% - 25% at least, but is it the right way of looking at it, is that kind of growth still possible over a long-term or the last five-year growth phase is behind for us?



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Ashok Bhasin: I think the growth rate will certainly slowdown from what it has been in the last few years, we are just coming out of a year which has been close to 10%, so I think that should tell us that those dizzying scooter growth rates are no longer in the near term. But for sure scooter growth rate will be faster and higher than motorcycles.

Chirag Shah: And one last question, what will give you confidence to pass on, assuming there are commodity cost pressures from Q2 onwards, what will give the industry confidence to pass on because in the past we have seen a good amount of pricing discipline in the industry.

Ashok Bhasin: I think as the market picks up in any case one round of price change is happening as we speak, like just Ravi Sud mentioned, I would subsequent increase in the mid-year and in this round. And as the market improves I think the capacity to move that down to the market place changes.

Chirag Shah: And one question for Mr. Sud on financial side, so other income, the treasury book, can we expect a significant jump because of new accounting standards or the current run rate factor in the kind that we can keep?

Ravi Sud: So as far as accounting standards are concerned, yes you will see there are improvement in that financial income because then it will be mark to market and I think improvements will be there.

Chirag Shah: But what kind of one-off jump we can expect, it would help us in our escalation.

Ravi Sud: There 8% to 9% will be there on an average.

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

Pulkit Singhal: Just one clarification, so when I see one of the news item on the Andhra Pradesh plant, it says that state government accepted request of HMCL to divest suffice manufacturing activity into three wheelers, aerospace and defense and technology relating to green tech. So are there any such plans to get into three wheelers in defense and aerospace?

Ravi Sud: One would not like to comment on these because these are not the statements made by the company.

Pulkit Singhal: I was just clarifying, I mean is this a strategic five year kind of entry point for HMCL?

Ravi Sud: Well, I would not like to comment anything around this as of now.

Moderator: Thank you. Our next question is from the line of Kapil Singh from LIC Nomura. Please go ahead.

Kapil Singh: Sir, there were some news reports regarding some ruling regarding helmets in Rajasthan, any color on what is happening?



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- Ashok Bhasin:** So discussions are going on with the transport department by the dealer community and DGM as well and we are expecting that through this process of dialog good and effective solutions will be arrived at. So conversations are happening where CM is involved, leaders are involved, the government is involved, so I think I am sure suitable sustainable solutions will emerge out of this discussion.
- Kapil Singh:** There were some news of strike, so are the sales happening or the strike is continuing at this point?
- Ashok Bhasin:** Strike happened just for one day, the dealers took a rest for a day.
- Moderator:** Thank you. Our next question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.
- Pramod Kumar:** This pertains to the comment made by Mr. Bhasin regarding scooter growth rates not holding on to the dizzying heights of around (+20%), in that context now we are making a push for higher market share and higher growth and Honda's also new capacity coming on-stream and other players also launching scooters, so is there any way that the price based competition in the segment can really increase considerably in FY17, is that kind of a expectation one can have given that where Honda has recently made statements regarding the kind of growth what they expect for the full year given the Gujarat plant coming on-stream. And as we understand there are no more any scooter brands which are on the weight list as such in the market place, so supply is kind of equal to demand or probably higher and it looks like it is going to accelerate considerably. So what does it do to our scooter plans and also within that the fact that scooter profitability for us to begin with is like lower than the motorcycle profitability?
- Ashok Bhasin:** I would just say that Hero being them leader I think if you look at Hero's track record with the previous years' including both recent ones, we are always focused on the value proposition with the consumer, in several segments our proposition is better, not just the product but the service, the network, the reach of the brand and therefore we command the pricing. So I think the focus is on the value proposition and not on pricing, that is our strategic intent and I would not like to speak to any competitors' comment.
- Moderator:** Thank you very much. Ladies and Gentlemen, as there are no further questions from the participants, I now hand the conference over to Mr. Umang Khurana for closing comments.
- Umang Khurana:** Thank you, everyone, for joining in. It has been a late evening, so if there is anything else left we will be waiting. And yes, look forward to connecting soon. Thank you.
- Moderator:** Thank you. Ladies and Gentlemen, on behalf of Nirmal Bang Equities that concludes this conference. Thank you for joining us and you may now disconnect your lines.