



“Hero MotoCorp Limited Q4 & FY2017  
Earnings Conference Call”

May 11, 2017



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*Hero MotoCorp Limited  
May 11, 2017*

- Moderator:** Ladies and gentlemen good day and welcome to the Hero MotoCorp Q4 & FY2017 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing ‘\*’ and then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Hitesh Goel of Kotak Securities. Thank you and over to you, Sir!
- Hitesh Goel:** Thank you Inba. On behalf of Kotak Securities we would like to welcome the management of Hero MotoCorp to discuss the 4Q FY2017 and FY2017 results. Now I hand over the call to Mr. Umang Khurana, Head of Investor Relations at Hero MotoCorp to make for the opening remarks and also introduce the management. Over to you Umang!
- Umang Khurana:** Thank you Hitesh. Thank you everyone for joining in, good day. On the call today, we have Niranjana Gupta who is the Chief Financial Officer at Hero MotoCorp so we welcome Niranjana to the first call as CFO at Hero. We also have on the call Mr. Ashok Bhasin, you have heard from him Head of Sales, Marketing and Customer Care, as well as Mr. Surender Chhabra – Vice President, Corporate Finance. As usual what we’ll do is get together online and start with Q&A directly. Look forward to a healthy discussion.
- Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Kapil Singh of Nomura Securities. Please go ahead.
- Kapil Singh:** Good morning. My first question is regarding the growth outlook more from a medium-term perspective if you can throw some light on the various segments: motorcycles, premier motorcycles, scooters, and exports. What kind of medium-term growth outlook you have, especially on scooter? What is the strategy because despite the launch of two models we have not seen so far the kind of success we hoped for?
- Niranjana Gupta:** Thanks Kapil. We will have Ashok answering the questions on your growth part of it. On the exports, I will come back and take your question.
- Ashok Bhasin:** Good morning again and from a growth perspective we expect the industry to be high single digit growth in the current fiscal and Hero growth would be double digits. We expect to further consolidate our market leadership in motorcycles. On scooters, supported with the new scooter launches the advance performance scooters Maestro Edge, Duet and the 10<sup>th</sup> Anniversary Pleasure that we have just rolled out towards the end of the first quarter and now going into the market, we expect our growth to be much higher than the industry and strong market share gains in scooter as well, in the current fiscal.

- Niranjan Gupta:** As far as exports are concerned, as you know, we are already in 35 markets. As far as the bigger markets are concerned, in some of the markets we are growing and some we are taking headwinds like in Columbia etc. because of the economic situation in those countries. As far as outlook is concerned, we do plan to be consolidate our position in some of the markets like Sri Lanka, Bangladesh, Nepal, which we expect to grow faster. We have also launched in Argentina and Nigeria, recently, so those benefits will accrue moving forward. Basically, as we move forward while we will be in these countries, in the bigger markets we will focus more disproportionately, as we see growth chances more there. That is what our export blueprint is going to be about.
- Kapil Singh:** Sir about the premium motorcycles?
- Ashok Bhasin:** On the premium motorcycles, we will have very good fiscal 2018, much better than the previous years. As you know, we are currently under represented in that segment while our overall market share of motorcycle is ranging between 50 and 51. We have already launched the new Achiever towards the latter part of last year. Now it is going national and volumes are looking good. We will support all of that and drive growth. Also, in the latter part of the year, as shared at the Auto Expo, we will have the 200cc new bike coming towards Q4. That will be a further short in the arm of premium. Subsequent to that, our R&D Department and products department are working on several new products across segments including premium, which would take our journey forward.
- Kapil Singh:** Sir second question was on the cost, if there are any onetime items which are there in staff cost or other expenditure because we have seen a Y-o-Y decline and in fact other expenditure is towards the lower end of what we have usually seen in fourth quarter? So any guidance going ahead on these items as well?
- Ashok Bhasin:** So, we do not give guidance on expenditures. Our margin guidance has always been that medium to long-term we aim to be in a range of 14% to 15% EBITDA margins; some year it could be higher some year lower, but, specifically if you are asking the question on why the employee cost or the other costs are down, I can ask Mr. Chhabra Ji to answer that.
- Surender Chhabra:** Kapil, I think we have to look for annualized cost in comparison in the results. On quarter-to-quarter, some variations in the other expenses will be there, but as far as the Q4 versus Q4 is concerned there is no one time cost. On the other hand, as far as employee cost is concerned, because of the government securities rates, treasury rates, the actuarial valuations gets changed for the gratuity and that is where there will be minor variations. There will be ups and downs on quarter-to-quarter basis, otherwise there is no onetime cost in these expenses.
- Niranjan Gupta:** Thanks Chhabra Ji. I think you should turn over for some other questions.

- Kapil Singh:** Thank you.
- Moderator:** Thank you. Our next question is from the line of Samantha Khan of ICICI Prudential Life Insurance. Please go ahead.
- Samantha Khan:** Sir, this quarter your other expenses sequentially, went up very high. Is there any one off out there, or, are you seeing this kind of run rate sustain going ahead?
- Niranjan Gupta:** So as far as the other expenses are concerned, I do not think we should look at it sequentially because some quarters are low, some quarters are high. You know other expenses have fixed as well as the advertisement as well as the warranties various kind of expenditures. If you look at on year-on-year basis, it is a fairly secular trend. As we move forward we should see the operating leverage coming into the picture. That is how I would suggest on other expenses, beyond what we have already answered.
- Samantha Khan:** Just one more thing, there has been some increase in RM to sales. Again, I am looking at it sequentially, if you look at Y-on-Y also, do you think it has more or less captured the entire RM cost increase that we are seeing in the environment? Also the does it capture the cost of moving from BS3 to BS4?
- Niranjan Gupta:** So BS3 to BS4 is all captured in. As far as the cost environment is concerned, we all know that it is not captured in fully because we have a one quarter's lag on the commodity cost; however, you have seen the price increases we have taken on the 1<sup>st</sup> of May as the market leader which is to offset the cost that will be coming in, in the fiscal.
- Samantha Khan:** Thanks a lot for taking my questions.
- Moderator:** Thank you. Our next question is from the line of Karthik Chellappa of Buena Vista Fund Management. Please go ahead.
- Karthik Chellappa:** Thank you for the opportunity Sir. My first question is delving a little more on scooters. So, effectively this year, we have ceded the number two to TVS and our volumes are also quite weak. Now, I understand that you have taken some product related improvements in both Edge and Duet but at a big picture level where do you see the problem? What are the additional things that we need to do to consolidate your number two market share in scooters?
- Ashok Bhasin:** Karthik, if you look at the full year picture of the market share for the fiscal 2017, in scooters, we were at 14 point something and the competitive player that you are mentioning was also 14 point something. I would not look at the last 10, 20, 30 basis points for the full year picture we were about 14, but that is not commensurate with our ambition in the scooter segment. As I said, we made a

beginning last year, we had some growth, we got the momentum and now with the support of the improved product performance and the new elements in the scooters both Maestro Edge and Duet as well as the 10<sup>th</sup> Anniversary Pleasure we see that in the fiscal 2018, our growth in scooters will be much higher than the market. That would consequentially lead to a market share gain in the current fiscal. Also, in the latter part of the year we will have new launches in scooters. We will, of course speak about the specifics closer to the date. So we see, this is a journey where in fiscal 2018 there was a growth in market share and in absolute volumes and this will further pickup in the next fiscal. We are committed to scooter growth as this will help overall consolidate our market leadership in two wheelers.

**Karthik Chellappa:** Sir just two data points, would you be able to share roughly what would be the percentage of Glamour sales is coming from the East and why is it that our market share in the fourth quarter in the 125cc segment has come down a lot?

**Ashok Bhasin:** So, we do not give state wise information here. But, as you know Glamour in the 125cc segment was market leader in most months of last year which is a new leadership that we attained and we are extremely optimistic about Glamour in the fiscal 2018. You will see very strong growth trends in the 125cc for Hero where we are overall market leaders in that segment just like we are in the other segments of motorcycles 100cc, 110cc etc.

**Karthik Chellappa:** Sir finally can you share the number of units that have been financed by Hero FinCorp this quarter?

**Niranjan Gupta:** Chhabra Ji will answer that.

**Surender Chhabra:** Karthik we have full year figures for financing from Hero FinCorp. This has contributed 10% our total sale in this financial year as compared to last year when this number was 7% only. We have more than 670,000 two wheelers financed by FinCorp in the last year.

**Karthik Chellappa:** So 10% this whole year compared to 7% last year?

**Surender Chhabra:** Yes correct.

**Karthik Chellappa:** Thank you very much Sir. Wish you all the best. I will come back in the queue for more questions if any.

**Moderator:** Thank you. Our next question is from the line of Jay Kale of Elara Capital. Please go ahead.

**Jay Kale:** Thanks for taking my question and congrats on a good set of numbers. Sir my first question was regarding our raw materials if you can just help us through that how should we see the raw materials going forward? We have seen the raw material per bike increasing substantially in Q4 versus Q3.

How should one look at it going forward? Is the incremental raw material cost expected to go up in the following quarter, or how else are you seeing raw material prices?

**Niranjan Gupta:** Right, so first of all I have not seen anyone who can forecast raw materials right throughout my career. So I would not venture into that area; however, all I can say is that the commodities impact us with one quarter's lag and therefore you would see some impact coming of the cost increases in this fiscal. That is very obvious and precisely that is the reason why we have taken the price increase on 1st of May. We will continue to do the active cost management along with judicious price increases as we move forward to be in the margin range and actively manage margins and market share both. So, that is going to be our strategy. I would not put a forecast on this but we have already taken a price increase in order to offset the impact of the cost partially.

**Jay Kale:** Sir, my second question just on the last two days of March discounts I agree those were exceptionally high discounts but has it in a way, for the first time, tested the price elasticity of demand in the two wheeler market, which could maybe possibly lure some manufactures in engaging in some price irrationality? That is, for some models in future, in the sense could this influence to certain extent the pricing discipline of the industry? Because, I assume that the demand in the last two days would have been way higher than what most companies would have thought of even with the discounts that we had budgeted for?

**Niranjan Gupta:** Good question, but I do not see that as a testing of price elasticity because as an industry we also need to manage share, growth and margins all at a same time. We do not see that the demand is a reflection of price elasticity: some of it is pre-ponement of purchase. In any case, those were discount to get rid of the stocks given the regulatory deadline. So, we do not see that having an impact on the pricing trend in the industry. Ashok would you like to add anything?

**Ashok Bhasin:** No I would take that and concur with you.

**Jay Kale:** Sure. Just the last one on the demand side, from the last quarter we have been saying that we would see our growth of high single digits, now we are kind of attempting towards the double digit growth. Is that confidence of maybe how the marriage season has started and the forecast of monsoons?

**Ashok Bhasin:** Ashok here. Yes, in the new fiscal 2018, which is April and the current trends of May, have started very strongly for us. If you look at our retail and consumer offtake trends, which is what we track closely, which is a true reflection of demand, it has started very strongly and we anticipate that this momentum will be carried forward to the second quarter. The festive this time in the middle of September onwards and that is reflected in our comments that we are looking at double digit growth for this year.

- Niranjan Gupta:** Just to add to what Ashok has said, the three-four factors that are playing out are likely to play out in favor of the industry are monsoon as you said, second is the infra spend, which government had announced in the budget and third is the recovery, full recovery post demonetization. I think these three factors will aid industry growth. This is what the entire industry is expecting and it is on the back of that is we are saying what you are saying.
- Ashok Bhasin:** If I may add to the specifics, I think the recovery in the rural will strongly contribute to this overall industry growth. As we do know that as rural momentum picks up, Hero as the dominant market leader in that segment gets a disproportionate benefit to the cost so that will also add momentum to Hero outlook for the year.
- Jay Kale:** Thanks and all the best Sir.
- Moderator:** Thank you. Our next question is from the line of Pramod Kumar of Goldman Sachs. Please go ahead.
- Pramod Kumar:** Thanks a lot for the opportunity. Sir, my first question pertains to the financing arm's stake. We have seen that our financing arm stake, if I am not wrong, per media release has come down to around 40% from 48% while the promoter family, I think, continues to invest and maintain the stake. I just want to understand the reasoning because, as Chhabra Ji highlighted on the call, it is still only 10% of financing for Hero's annual volume. Still, I believe there is a lot of potential in terms of ramp up of this business. So, I just want to understand what kind of level are we comfortable in terms of holding and what is the rationale for not participating fully in the fund raise and keeping our stake as close to as possible at 48% which was in FY2016?
- Surender Chhabra:** Pramod, as far as the Fin Lease is concerned, if you see that we started operations from 2013 only. Now, within three years this company has gone and contributed 10% of our sales. I think it is good growth in the three years period, because not only we have to finance, we also have to maintain the back office and strengthen that. Gradually, we are increasing our contribution to our own subsidiary/ associates and our target is, I think to achieve more than 20% or 25% from this company itself.
- Pramod Kumar:** Exactly that was the question Chhabra Ji. I said that there is lot of potential from growth here and could be a very good value unlocking potential for the Company. Given all that, why would the Company choose, given the comfortable cash position that you are sitting on, to not participate to the fullest extent possible on the fund raise and let other stakeholders increase or maintain the stake is that is what I am trying to understand? Our stake has come down from 48 to close to 40 with the last fund raise. So I want to just understand what is the rational for not participating in the fund raise to the fullest possible extent?

- Surender Chhabra:** Pramod, you see, the past history also from the financial point of view, unless you have a strong back office support, you cannot, I think distribute further. You cannot finance, so we have to improve gradually, step by step; which we are doing since last three years.
- Niranjan Gupta:** Pramod, let me just add on to what Chhabra Ji is saying, as far as our stake is concerned into the business, that is what you are asking, is why 40 and why not 50 or why not 60 is that the question?
- Pramod Kumar:** In a way why not participate to at least to maintain the stake of higher level when other stakeholders are investing?
- Niranjan Gupta:** Our investment decisions in our subsidiary in our associates are obviously guided by not just one business but by all the other aspects that we consider and then at appropriate times and balancing all the stuffs whether it is that opportunities, whether it is organic growth in our own business is what we did the decision and I think 40% is a very strong share of any company as you would know right.
- Pramod Kumar:** So you would look to maintain that is that understanding right?
- Niranjan Gupta:** Well, we will see going forward, because as you know investment is all based on all alternative opportunities and where the best returns come and where it better aligns to the strategy.
- Pramod Kumar:** My second question pertains to the rural market, I think it is good to see the demand coming back but just want to understand how are the sub-segmental trends like? Are you seeing that just like the urban markets and the south and the western part of the world, these markets have also started to move towards scooters and more premium motorcycles? Because we have seen that in the market share data from state wise data about the earnings releases and also the commentary from Eicher and other companies that they are seeing fairly good demand in the smaller interior markets. If that is to be the case, how should one look at Hero strategy on the premium motorcycle and the scooters where I think definitely the performance has been below even your expectation for the last couple of years?
- Ashok Bhasin:** My comment on that would be that everything north of 100 is new normal for the market in terms of growth. So, the first big step that we took was over the last six quarters or so was we put disproportionate focus on our 125cc segment where we are vested the market leadership. We went almost to the 59%, 60% of that segment. We see that segment growing as one of the fastest segments even in the some of the non-rural markets. As far as participation in this scooter segment is concerned, I have already answered the question earlier that with our new advanced performance scooters and all the other sales and marketing actions that we will take corresponding to that we see growth coming. In fact there are markets in north and east where there is a strong rural component where our market shares in scooter are much higher than our national average already which already indicates that given the strength of the network, the brand equity the customer trust, Hero actually



starts to gain even in a segment where it is sort of relatively newer player in scooters. So I think we will benefit from both ways. But, I see growth coming even in the higher-end motorcycles and 125cc, I think it is sitting in that sweet spot part of the medium growth, which will drive the industry. That is why we have a very strong double-digit growth in that segment versus the overall industry, which was lower last year.

**Pramod Kumar:** Thank you.

**Moderator:** Thank you. We will take the next question from the line of Mukesh Saraf from Spark Capital. Please go ahead.

**Mukesh Saraf:** Sir, my first question is again regarding the employee cost and the other expenses this quarter. I just wanted to know is there a lower portion of employee cost because you have kind of cut down on your temp staff and also lower other expenses because you had cut down and ads and promotions. Is there that kind of phenomenon in the fourth quarter?

**Niranjan Gupta:** Not really. We continue to invest behind our brands and markets as per our market activity plan depending on what the activity plan and launches are. So there is no conscious cut there and equally we have not taken any cuts or any as far as employee numbers are concerned, so there is none of these two.

**Mukesh Saraf:** Sir, this A&P spend, like you guided at the start of the mid of the year, you said it will be around 2.4% to 2.5% of sales. So, were we be able to kind of maintain that number for year FY2017?

**Surender Chhabra:** Yes Mukesh we are in the range of 2.5% of the A&P.

**Mukesh Saraf:** Sir my second question is on your Capex you have announced Rs.2,500 Crores. So, could you just give some breakup and some more colour on the Gujarat expansion- when exactly you will start and when would the Andhra plant also begin? When will you start, when will that be commercialized what is the plan there?

**Niranjan Gupta:** You have already seen Mukesh in the release that we have sent out that essentially it is into three four brackets. While I would not give any specifics of individual brackets, but essentially it is around the Halol plant which would get ramped up as our growth picks up, there is Andhra, which will come in, and therefore part of our expenditure will come in the next two years. There is Bangladesh, where once we commission there would be expansion there as well. Then we have of course the upgradation and modernization of the existing plants, so now we have far more plants than what we had three - four years back. So, there is always a sustaining capital expenditure that happens and then there are new product developments, which will form a part of it and finally digitalization which is again an initiative which will consume a part of it. So, I think, put together all these things which is around

physical unit, which is around capacity expansion, which is around modernization, which is around sustaining capital, which is around new product development and around digitalization. So, that is our estimate, that put all together, over the next couple of years Rs.2,500 Crores is what the capex number seems like.

**Mukesh Saraf:** Just the final one, like you had mentioned two sort of developments- so you also mentioned about half a dozen products in FY2018. How many of them over there would be refreshers and how many of them would be completely new brands? If you could just give some kind of color there?

**Ashok Bhasin:** Like before we would speak to the specifics of those closer to the launch. We would share those at that stage. The only thing we are focusing on is taking forward what we have recently launched which is the new Glamour, the three new scooters and then of course later on the 200cc model. More will be shared closer to the dates of the rest of the launches.

**Mukesh Saraf:** Thanks a lot.

**Moderator:** Thank you. Our next question is from the line of Sahil Kedia of Merrill Lynch. Please go ahead.

**Sahil Kedia:** Thank you for this opportunity. A couple of housekeeping questions: Sir, in your consolidated accounts there is a Rs.55 Crores share of net profit of associates and a gain on dilution of interest of associates of about Rs. 262 Crores. Can you please explain to us what that is?

**Surender Chhabra:** Sahil, Chhabra here. In regard to FinCorp, which is an associate, valuation of investment is done based on equity basis. One is that during the period we had investment in FinCorp which was Rs. 600 Crores and of the balance Rs. 400 Crores Rs. 200 Crores came from Hero MotoCorp and Rs. 200 Crores from the family. Our own share is now diluted from 48% to 42% of Hero MotoCorp.

One is the book value, as one side that at rate the PE inducted the differential of that is goodwill. So because of this fee induction in FinCorp and our share dilution from 48% to 42%, plus book value increase from last year that we have to marked-to-market, the investments. Accordingly, that is why we have shown that gain from FinCorp in the consolidated accounts.

**Sahil Kedia:** So that Rs.262 Crores is entirely due to Hero FinCorp marked-to-market of the investment is that correct? And the Rs.55 Crores that is there on the share of net profit of associate, what is that Sir?

**Surender Chhabra:** No, this is an associate FinCorp because this is an element. This is element of goodwill difference between the price, which the PE offered, and the book value, the differential of that is goodwill.

**Sahil Kedia:** Thank you for that Sir. The second question is there is a lot of comments around R&D in the press release can you have help us understand what was your R&D cost in FY2017? How many people do

we have? How do we expect this to change over the next two - three years as R&D capabilities go up? That is question number one. Question number two is, can you also in the demand-side, help us understand where inventory levels are? We understand that inventory levels post demonetization had increased quite materially? How are they trending now? Thank you.

**Niranjan Gupta:** On the R&D percentage and the current trends, but the overall R&D percentage Chhabra Ji can answer and then I take the outlook moving forward.

**Surender Chhabra:** We started this new R&D center in the last year itself. Last year there was a major expenditure on that Capex as well as plant and machinery there. In the year under review, we had investment of Rs.200 Crores further in this R&D center. As far as the headcount is concerned, we are coming out with multiple production in the future. So we are adding new strengths in R&D center. So, in the coming two years you will see our R&D spends will further increase. At this point of time, I will say in the year under review, the R&D is 1.3% of our revenue.

**Sahil Kedia:** So this is basically 3%, is in the P&L under various heads right? That is what I wanted to check.

**Surender Chhabra:** It is 1.3% is on the total R&D spends as a percentage to revenue.

**Niranjan Gupta:** As far as your question on demonetization growth is concerned, could you just repeat that question?

**Ashok Bhasin:** It was an inventory question, I will address it. Our current inventory levels are between four to five weeks and I would say on an annualized basis we would stay at a normalized level of five to six weeks. This is a healthy level of inventory to feed our wide distribution network and also to feed consumer demand; so that is where we are.

**Sahil Kedia:** Thank you so much for these questions.

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

**Jinesh Gandhi:** Hi Sir, a couple of clarifications, firstly on commodity cost inflation, do the price increase which we have taken covers for entire cost inflation which we have seen and which we are expecting based on the current commodity prices?

**Niranjan Gupta:** So, I would not be able to give you a very specific answer to that, but let me state that in the commodity costs you are all aware there are aluminum, steel and crude oil and then there is the rupee dollar. So some of these things, which had gone up have also started to soften, now you can see that the rupee is appreciating, you can see that crude oil has come down a bit of the highs and you can see aluminum is also off the highs. What we have done is taken the price increase which is fairly

significant to cover significant part of the cost and moving forward we will see the direction of the cost and then take appropriate calls on the pricing judiciously because we have to manage both margins and market share. Then obviously there are cost initiatives in place to ensure that we are in the margin range that we would always like to be.

**Jinesh Gandhi:** Okay, understood. Secondly would you be able to share update on our LEAP program in terms of what kind of savings that we see in the quarter and for the full year and our target for next year?

**Niranjan Gupta:** As far as LEAP concerned for the full year our savings were similar to FY2016, no different as compared to that. As we move forward, we will have to be not only look at LEAP but also all other cost revenues as well on the fixed cost and all other the costs in line with our margin management plan.

**Jinesh Gandhi:** Couple of clarifications with respect to the line items: we have seen depreciation going up in this quarter. Any particular reason for this or are there any one offs?

**Surender Chhabra:** Jinesh, we had started Halol plant in this quarter that is why the depreciation cost is higher.

**Jinesh Gandhi:** Any indication the level of utilization of Halol plant?

**Surender Chhabra:** It will start increasing its production from this year. I will say for the full year we have started from October the commercial production, we have less than 100,000 numbers from there. So we will start producing now from April onwards in full capacity.

**Niranjan Gupta:** So, it has just started. So, in a sense that capacity utilization right now is not really a measure. It will keep ramping up to its capacity.

**Jinesh Gandhi:** Lastly, tax rate seem to be quite low in this quarter. Again any one offs there, can you clarify on that?

**Surender Chhabra:** In regard to tax rate, if you see, our R&D is as BSI approved and depending on the R&D spends we have to take an annual call what would be the annual tax rate in the beginning. Based on the budget growth of the year, we forecast our average tax rates, but at the year-end whatever is the final spend on the R&D and what are the benefits are accordingly revised. That is why the effective tax rate is better than the previous three quarters.

**Jinesh Gandhi:** Thanks.

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

**Amyr Pirani:** Thanks for the opportunity. Sir my first question is what is the kind of capacity that you are looking at three years down the line because you have this big expansion in Gujarat and have the Andhra plant coming up at the same time. I think Gurgaon and Dharuhera will see, I think, significant changes. We are spending some money there, so what is the kind of capacity you are looking at say three years down the line?

**Niranjan Gupta:** We would not be able to give you a number on the capacity. But, suffice to say that you have heard Ashok talking about growth, therefore you can do the math. We have heard about the economy as how we see it shaping up and you can see that. You can also see that one of our unit's fiscal benefits will expire in a year's time and therefore it needs to be augmented with the other units. So combining that you, can arrive to a level of what you should be considering. That is what I can say at this point in time.

**Amyr Pirani:** So, should we assume that production could actually be diverted from the Gurgaon, Dharuhera, Haridwar to the newer plant because to like augment the impact which will happen next year?

**Niranjan Gupta:** We keep optimizing our sourcing and our supply chain based on both the factors one is the cost, fiscal benefits and the closeness to the market. So, it is in all a combination of all the three that we look at in terms of optimizing our supply chain and sourcing. The units provide us a flexibility to do that and that is what we will keep doing.

**Amyr Pirani:** Any early indications of when the Andhra plant what could actually be ready sale two years or three years, broadly?

**Niranjan Gupta:** We cannot commit a date now because it is early stages. We would not be able to give a date on the Andhra plant right now.

**Amyr Pirani:** Just one more, again, sorry slightly longer-term question- you are developing electric scooters on your own and you have an investment in another company as well. So again, are you looking at a product say five years down the line or is it sooner? Any broad indications and what are you looking at for that segment?

**Niranjan Gupta:** You are aware that we have investment in Ather Energy who is developing the electric scooters, electric vehicles. They have themselves also put out what their plans are, which is in the public space. Plus, paralelly, we are also working, but we would not give a definite timeline or a guidance on that. Suffice it to say that we are adequately proposed on this segment.

**Amyr Pirani:** Thanks for the opportunity.

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

**Hitesh Goel:** Sir, can you just tell us something about the retail trend you have written in your press release? What the retail volumes have been much higher in wholesale? Can you tell us something about your retail growth, because as far as I know, last February and March it was around flatish and there has been a pickup in retail growth since then is my first question?

**Ashok Bhasin:** Yes there is pickup in the retail offtake. As I said earlier on the call, both in the month of April this year and for the month to date, May is showing very strong trends of the retail. This is also good marriage season so it is a very positive trend.

**Hitesh Goel:** Is it double digit growth can you tell us that?

**Ashok Bhasin:** Usually we do not talk specific, but yes it is double digit.

**Hitesh Goel:** Sir, continuing with the question that Aryn had on the electric vehicles, I was just understanding the space. Can you give us some sense what is the electric vehicle, electric bike annual size currently? Also, you have a company in the group called Hero Electric, right, which has been making electric vehicles for some time, so why was this investment made in Ather Energy and why not developed in Hero Electric?

**Niranjan Gupta:** It is at a very nascent market first of all, so I do not think we should look at market size or the segment right now. So, that is the answer to your first question. As far as second question is concerned, obviously we are Hero MotoCorp so we would look at as Hero MotoCorp to invest in something which creates shareholder value for us. So that is exactly my answer for the second one and towards that there are two plans what you said investment in Ather Energy plus developing our own. I think that is the right strategy moving forward.

**Hitesh Goel:** Thank you.

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

**Chirag Shah:** Sir I had question in the raw materials. Somebody had last touch based on this, so sequentially we have seen 4% increase in RM per vehicle. Now this seems to be a reasonably big jump and our earlier commentary was that a large part of commodity pressures is likely to come in Q1 not Q4. What kind of an increase we can expect in Q1? If you can just share how big is the impact spread out for us?

**Niranjan Gupta:** Chirag, we would not give any specific guidance on really what exactly is the impact that you would see in Q1. I would just repeat what I have said is that the material cost, which has gone up, as you yourself have seen, seems to be softening from the highs that they had reached. We have already taken a price increase which covers a significant part of the cost increases that we are likely to see. Then the balance will be made up through cost management as well as through any judicious price

increases that we may have to take. But, right now as we see from what we had thought, the cost have softened down for now.

**Chirag Shah:** Sir what is the percentage hike that you have done because the range is very wide Rs.500 to Rs.2,200?

**Niranjan Gupta:** Chhabra Ji.

**Surender Chhabra:** Chirag, I think we have to see from that revised Ind-AS accounting standard. We have seen this quarter in the financial that cost of Rs.193 Crores has been adjusted from the revenue. If we add on that to the revenue and then work out that percentage of metal cost, then you will get the reply easily. Because with the change in the presentation, with the change in accounting standard, revenue is affected by the trade discounts or any discounts offered by the company and that is why this percentage is distorted.

**Chirag Shah:** So I was just looking at this Rs.500 to Rs.2,200 price hike that we have done in May; on an average basis it what percentage of our ASP broadly speaking is this price increase?

**Niranjan Gupta:** Chirag we can not give out the percentage. You have the price circular. You know what the price increases are. You guys also have the model wise sale. So you can work that out as far as what percentage of overall sales that it would cover. But suffice to say that it is a significant increase that we have taken; that you are aware of, so it will protect our margins.

**Chirag Shah:** One question on scooters, for Mr. Bhasin basically, in the rural markets or smaller towns how is the regional disparity in terms of acceptance of scooters? Is it catching up? Is it still very diverse and can all India level scooter demand as a mix could be proportionate enough? Or can it stay very diverse for a long period of time?

**Ashok Bhasin:** Scooter ratio to the industry has been moving on an average, over the last four years, by 200 basis points or 28 to 30, 30 to 32, 32 to 34. That is the average rate at which the structure of the industry mix has moved. Even in last year, the motorcycle segment was impacted much more because of the mass impact of things like demonetization and loan on accounts the overall sale in the market touch about the 200 basis points. So we anticipate the scooters will continue to grow, but the market will have a large enough opportunity for both motorcycles and scooters. India's penetration levels are running only at about 35% on an average. There will be consumers and there will be segments and to some scooters will appeal more because there will be more suitable to the needs and the environment in which they operate and to some motorcycles will appeal more. As far as the disparities are concerned, the towns which are more urban and metro towns and some of the towns in west and south and some select markets of north have shown a much higher swing in favor of scooters because the distances, the travel, the traffic, the congestion, multi-use in the family, the women usage, all of those

are driving factors both at infrastructures and at personal levels, which are driving scooter growth. So we expect that as an organization, scooters will continue to grow, but I add, again similarly we see a simultaneous growth opportunity for motorcycles in the period to come.

**Chirag Shah:** Thank you and all the best.

**Moderator:** Thank you. Our next question is from the line of Pramod Amthe of CIMB. Please go ahead.

**Pramod Amthe:** Thank you and congrats on a good set of numbers. The Chairman's statement talks about aggressive market share gain. Can you give some more color, because if you look at your own market share trend, last four years you have been holding-on very well with the motorcycles? The loss is predominantly with the way the scooter proportion has been moving and you did not participate. So can you give some more color? You want to be more aggressive in motorcycles or you want to be more aggressive in scooters and hence shift it over to you. Will it come at the cost of the margin profile?

**Ashok Bhasin:** Couple of comments: one at an overall level, we have been the clear and dominant market leader on overall two wheelers. Of course, we have kept a very strong position of motorcycle where we are still short of 50% and plus on an annualized basis and once even higher improving growth in new segment was 125cc. As we said, we will consolidate the market leadership further, but scooters in specific I have said earlier on the call we anticipate that in fiscal 2018, we will see a growth for Hero scooters higher than the industry and that could lead to the scooter market share gains as well. As far as the margins comment is concerned, or the question of yours my colleague Niranjana has already mentioned that we will always judiciously manage the market share, overall growth and margins and I think we are a company we just committed to that and we have a good track record and we have continuing do that in the future also.

**Pramod Amthe:** A follow up question is even though you have been taking literally a price hike once in a quarter for last three quarters if I look at your blended ASP realization they seem to have been flattish would you like to give more color is it more of product mix or is it more of weakness in spares or any of the sub-segment situation?

**Surender Chhabra:** We are looking some quarter-to-quarter ASP prices.

**Pramod Amthe:** No Sir. If I have to look at full year FY2017, it is like ASP has been flat. While you literally took 1% hike in October, Jan and now?

**Surender Chhabra:** Last year we did not have any pressure on the competitive prices and that is why we have taken marginal increases. Therefore, only the lowest cost increase benefit of that was taken in the price increase. Otherwise there was no price increase change in the last year and compared to previous



year. Yes, it was because of the product mix our contribution that HF Deluxe has increased in the year end of review and that why the ASP is slightly affected.

**Pramod Amthe:** And would you clarify what was your spares growth for the full year?

**Surender Chhabra:** Spares growth because of the demonetization was affected. Roughly it is 4%.

**Pramod Amthe:** Overall spares value.

**Niranjan Gupta:** Yeah.

**Pramod Amthe:** Thanks Sir. That is it.

**Moderator:** Thank you. Our next question is from the line of Deepika Mundra of JP Morgan. Please go ahead.

**Deepika Mundra:** Firstly, Sir, for FY2018 you mentioned that the industry is expected to grow in a high single digit. Within that specifically, what is the outlook for the entry level motorcycles where you have a dominant market share?

**Ashok Bhasin:** We do not give segment wise guidance for the industry but certainly the entry and the deluxe segment where we have a very strong position, we will participate very well in this growth because a lot of this growth would also be driven by Tier III, Tier IV, Tier V towns where we out-distribute any other brand in the market and of course the rural uplift. So certainly, as I said to our earlier question, it would help Hero's current space to grow faster than the industry and consolidate our market leadership.

**Deepika Mundra:** Second question, are you looking forward to any improvement in mix next year because you have been highlighting that the 125cc segment has been growing faster? So any improvement in mix that we expect for FY2018 next quarter?

**Ashok Bhasin:** 125cc will be one of the fastest growing segments. Precise numbers on mix this would be not the right opportunity to talk about the guidance, but 125cc will be one of the fastest growing segment of our business as has been the case in the last five months.

**Deepika Mundra:** Last question, regarding RM to sales in the fourth quarter even if you adjust for the onetime cost on BS-III inventory, there is the pickup in the RM to sales ratio so and you are saying the commodity cost inflation is yet to be passed on in the next quarter. So any other reasons for the spike in RM to sales?

- Niranjan Chhabra:** Let me just answer that. We did not say that it is yet to come. We said that the part of the cost has come in Q4 and then the part of the cost that you will see in will come in Q1, right. So what you see which is not 3% - 4% like Chhabra Ji explained that is adjusted as an uptick of around 75 to 100 basis points sequentially and then some part will come in Q1 as well. That is precisely why we have taken the price increase. It is not that the whole of increase will come in Q1 and there is nothing in Q4.
- Deepika Mundra:** Thank you so much.
- Moderator:** Thank you. Our next question is from the line of Aniket Mhatre of Haitong Securities. Please go ahead.
- Aniket Mhatre:** I just wanted to check on in 4Q what is your spare parts sales growth on the absolute numbers, if you can share?
- Niranjan Gupta:** Sorry what is your question Q4?
- Aniket Mhatre:** Yes.
- Niranjan Gupta:** Q4 on what you are saying is on quarter-to-quarter basis.
- Aniket Mhatre:** Yes, on our spare parts growth on a year-on-year basis basically?
- Niranjan Gupta:** Yes for the Q4 it is around 7% to 8% growth.
- Aniket Mhatre:** Sir is it fair to say that the growth in average realization has come mainly because of higher spare parts? Because if I look at your mix, it has actually gone adverse as lesser of executive segment bikes and more of economy segment bikes have been sold in Q4. So as you mentioned that largely the spare parts growth has led to the better realization?
- Surender Chhabra:** In comparison to quarter-to-quarter, yes, because of spare parts higher sale the ASP has improved. But on the other hand why we are excluding that one time cost of BS-III which has been reduced from the revenue because it is distorting all percentages on the working what we are doing.
- Aniket Mhatre:** I have added the revenue I have added that the Rs.193 Crores and after that and getting of a blended average realization of 43,800?
- Niranjan Gupta:** Let me just answer in short, as Chhabra Ji explained, the price increases have been very mild as far as FY2017 is concerned. So they have not been very significant in any case, and spare part growth if you see full year basis is 4% which is not really a big mix change between spare parts and/ or two

wheeler. So yes, partly you may be right, some part of it with the increase getting offset by mix getting favored by spare part sales, but it is not a very significant number in terms of the mix.

**Moderator:** Thank you. We will take our next question from the line of Ashish Nigam of Axis Capital. Please go ahead.

**Ashish Nigam:** You mentioned the inventory is four to five weeks currently. Just wanted to understand how was retail growth been in April because I am guessing inventory was very low end of March and then April was more channel filling. Can you help us understand that?

**Ashok Bhasin:** April was not channel filling. April had lot of consumer offtake, good retail and of course a lot of replenishment channels we could feed the next set of consumers, but our retails are currently running higher than dispatches is all I would say in the current fiscal.

**Ashish Nigam:** If you can just help us with this number what is your inventory levels end of March because of that three-day clearance?

**Niranjan Gupta:** Suffice to say that we are running at an inventory of four to five weeks because a) inventory clearance and because b) the retail sales being higher than dispatches in April and our normalized inventory level is five to six weeks.

**Ashish Nigam:** Secondly, just on more longer-term question this BS-VI which is coming up, will be a new challenge for two wheelers because of fuel injection. What kind of cost increase do we expect and also what is the expected cost increase for ABS and CBS norms?

**Niranjan Gupta:** So as far as ABS and ABS is concerned, I think we have said earlier as well that on the CBS it would be of the order of around 2,500 to 3,000 while on the ABS it is around 5,000 to 6,000. Now that the current estimate that we have obviously closer to the date because some of these are coming in April 2018 and on the portfolio by April 2019. Obviously all the players will keep working towards the cost optimization but ABS will impact our premium segment more because obviously that is the higher cc bikes while CBS the industry players who have a lower percentage of the premium are more in the core will be impacted less with the CBS.

As far as the BS-VI is concerned, we would not be able to give a cost estimate as of now. We do know the date on which is coming is April 1, 2020 and we are working on that, but as we do with all the regulatory changes, we would work on what the optimized cost levels are and our teams are working on that.

**Moderator:** Thank you. Our next question is from the line of Jamshed Dadabhoy of Citi Group. Please go ahead.

- Jamshed Dadabhoy:** My first question, just want to understand what is going on with Passion sales because every year for the last two years or so we have seen the model on a downward trajectory. Whereas Splendor seems to be holding out quite okay and Glamour seems to be moving up steadily year-on-year. So is there some particular issue with Passion at the consumer-end that you all are seeing?
- Ashok Bhasin:** So, still Passion continues to be one of the largest and strongest brands in the country, yes. The trends in the last few quarters have not been as strong as we would like them to be. You will see in the current fiscal, news and further impetus on Passion. Also, if you see the overall dealer segment where both Splendor and Passion operate together, with the all our brands, now we are a dominant market leader in that segment, part of that also upgrades to 125cc. So, when a lot of Glamour and Super Splendor sell, those are people who are upgrading within the Hero portfolio and some of course are migrating from competition as well and moving up because that is the new aspiration even in some of the lower order towns or in rural market. It is a combination of the segment growth the dynamics of the consumer aspiration and that of-course further activity that we will do to drive Passion sales in the current fiscal which will manifest itself.
- Moderator:** Thank you. Our next question is from the line of Sonal Gupta of UBS Securities. Please go ahead.
- Sonal Gupta:** Just a couple of questions, one is could you give us a sense of what will be the rural and urban market growth like for FY2017 and secondly what is the Haridwar production for FY2017?
- Ashok Bhasin:** On the market growth, and say that the overall industry, we know was about 6% is motorcycles and scooters to the extent that mopeds grew very well. Some parts of the country rural segment would have grown well with moped because moped overall growth of 24% but overall there is no hard tracking of rural - urban at an industry level which is published data. I would just say that in the first half both the segments are doing well in the second half of rural become soft, post the demonetization but it should come back in this year.
- Surender Chhabra:** As far as Haridwar is concerned there was 36% contribution from Haridwar in this year.
- Moderator:** Thank you. We will take the next question from the line of Raghu Nandan of Quant Capital. Please go ahead.
- Raghu Nandan:** My question was on GST. Before the implementation of GST dealers may choose to reduce inventory levels do you expect temporary impact on wholesale sales in May and June due to this trend?
- Niranjan Gupta:** So, as you are aware the GST is a moving object. First of all I would say that we are gearing up like other players on the GST transition not only ourselves but along with the partners of the back end and the front end. Closer to the date when the GST transition is happening that is when we will know how it will transition out because that clarity will not emerge right now. Currently we do not expect much



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of the impact coming. As we know that medium-term GST is beneficial for companies like us where a lot of spare parts, services all will move from unorganized to organized sector. In the interim we will need to navigate and see how it works out.

**Raghu Nandan:** Thank you Sir.

**Moderator:** Our next question is from the line of Kunal Bhatia of Dalal and Broacha. Please go ahead.

**Kunal Bhatia:** Sir just want to know the price increase of 500 to 2200 on what will be the average price increase across which we have taken?

**Niranjan Gupta:** This question was asked earlier in the call and we did say that we would not be able to give you the average price increase. The range of price increase is available including the model wise price increase which is there in the market. Also, you all have the mix of the product so you can work that out. We would not be able to give you a number on the call.

**Kunal Bhatia:** Thank you.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the call back to Mr. Umang Khurana for closing comments. Over to you Sir!

**Umang Khurana:** Thank you everyone for coming in and I am sorry if I have to rush a few people through. We just want to close on time so everybody can go for their lunches, very happy to take your calls after this. Have a good day.

**Moderator:** Thank you. Ladies and gentlemen on behalf of Kotak Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.