



“Hero MotoCorp Q1 FY17 Earnings Conference Call”

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*Hero MotoCorp Limited
Q1 FY16-17 Call/ August 08, 2016*

- Moderator:** Ladies and gentlemen, good day and welcome to the Hero MotoCorp Q1 FY17 Earnings Conference Call hosted by IDFC Securities Limited. As a reminder, all participants' 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Deepak Jain of IDFC Securities. Thank you and over to you Sir!
- Deepak Jain:** Thank you Karuna. Good evening everybody. This is Deepak Jain from IDFC Securities. We are delighted to be hosting this conference call to discuss Hero MotoCorp's Q1 FY 2017 results. I now hand the floor over to Mr. Umang Khurana – Head, Investor Relations. Thank you. Over to you Sir!
- Umang Khurana:** Hello and welcome to the Hero MotoCorp post results conference call for Q1 FY2016-17. Unfortunately Mr. Sud, the CFO is under the weather and Mr. Bhasin, Head of Sales, Marketing & Customer Care is travelling. So we have Mr. A Srinivasu – Head of National Sales and Mr. Surender Chhabra - Vice President, Corporate Finance here to take all your questions. Thank you again for joining us. We will begin straight into Q&As.
- Moderator:** Ladies and gentlemen, we will now begin with the question and answers. We have first question from the line of Jai Kale from Elara Capital. Please go ahead.
- Jai Kale:** Thanks for taking my question Sir and congratulations on a good set of results. Sir my first question was regarding your margins. I mean you have seen consistent performance on the margin front and you have guided for medium term margin of 14% to 15%. So given the outlook on the volume side and the current margin run rate, would you be revising that or what would be the outlook on margins?
- Surender Chhabra:** Jai, I am Chhabra here. In regard to the margins I think these margins are basically presenting for the quarter and we have to look for the full year and we have stated that in the earlier calls that margins will be in between 14% and 16%, which we will always try to maintain at that level.
- Jai Kale:** Sir my second question was regarding the volume outlook. What would be your rural growth in YTD FY2017 and going forward with good monsoon, what kind of growth are you expecting for the full year?
- Surender Chhabra:** I think marketing will reply on that. Our rural growth in the range of 7% currently. So going forward without putting a number to it we expect a better growth rate going forward into the second quarter and the third quarter.
- Jai Kale:** Thanks and all the best. That is all from my side.



Moderator: Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management.

Karthik Chellappa: Thank you very much for the opportunity. Sir two questions from my side. Firstly our scooter volumes have seen some moderation this quarter compare to the last two quarters. So can you take us through what is the kind of competitive intensity you are seeing in scooters and what are your inventories right now at the dealer level as far as scooter is concerned and outlook for the full year and my second question is in the recent past we have seen some kind of subvention and discounts by Honda with respect to their Shine brand, given that we have been consistently gaining share in the 125cc segment, how do we see this move and how do we hope to respond? Thank you very much.

A Srinivasu: I am Srinivas here. Let me take your first question in terms of scooters. The volumes are significantly higher in quarter four especially Q2 initial spills that we had when we went across the 6000 outlets in the country. Our retails though have remained constantly around 70,000 numbers over the last four months or five months. So we have not dropped numbers on retail yes the dispatches are close. We are deliberately slowed down the dispatches and the quarter four was largely a question, but we are working on a lot of actions that you would have seen we have launched a national campaign and we hope to build further on these volumes going forward. We have clearly become the number two players in scooters now and we will further build on this. Competitive pressure yes is all across segments not just in scooters but we expect to do well going forward and the second question was specific to subvention. We have been doing very well due to a lot of actions on Glamour and Glamour has become the largest selling 125cc brand currently and if you add Super Splendor we are way ahead of Honda in 125cc segment. Shine numbers would be available with you because it is a published number and to get back to numbers we have discounted the brand by about Rs.7,500 but we still continue to lead as the market leader in 125. Glamour continues to do very well and we expect Glamour to pick on the next million brand that we have. We already have three brands which are million plus and Glamour should become the fourth brand going forward.

Karthik Chellappa: Sir just one clarification. You mentioned that the scooter retails are somewhere around 70,000 monthly, has this remained constant in April, May, June?

A Srinivasu: We have made some improvements. Month to month marginal differences are there but by and large we have seen steady gains over the market.

Karthik Chellappa: Thank you very much Sir. I will come back in the queue.

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



- Raghu Nandan:** Thank you Sir for the opportunity and congratulations on a good set of numbers. Realizations seem to have dropped by about Rs.1100 quarter-on-quarter. Is it due to lower spare revenue or is it due to mix?
- Surender Chhabra:** As far as the ASP is concerned, even in the previous quarter we told that ASP varies from quarter-to-quarter basis of spare part sale within a quarter. Normally in a first quarter after completion of the previous year our spare parts sales is slightly down. It improved subsequently in the third and fourth quarter. So that is why the ASP sales reflection as compared to the previous quarter yes it is down but as far as the corresponding quarter is concerned it is better than that.
- Raghu Nandan:** Other expenses seem lower. The company was sponsor for Caribbean League and Hockey Trophy, was there no major impact from these sponsorships?
- Surender Chhabra:** These sponsorships are not costing so much except for during festival season than those other events come like Football League or other activities. The major spends that increased in the third quarter otherwise if you see in the first quarter and the second quarter there is a reasonable expense in the publicity.
- Raghu Nandan:** Lastly the expiry of excise duty benefits in Haridwar Plant is due in March 2018 or so. So contribution of production from this plant and possible impact on margins you see or do you expect to take price hikes to offset this impact in FY2019?
- Surender Chhabra:** As far as with respect to the Haridwar Plant is that effective April 2018 yes will be under excise duty regime. Presently the Haridwar is contributing if I say in this quarter it is 36% and the effect of that will be reflected in the first quarter of 2018-2019 no doubt and at that point of time we will take a call. At this point of time it is difficult to comment on that whether the price correction will be taken or not.
- Raghu Nandan:** Thanks a lot Sir.
- Moderator:** Thank you. Next question is from the line of Amin Pyrani from Deutsche Bank. Please go ahead.
- Amin Pyrani:** Thanks for the opportunity. Sir my first question is on raw material. In last quarter you had mentioned that this year you could see some increase in raw material cost especially on the steel side. So just wanted to get an update as to what is the kind of price increases you have seen and do you think that this could increase further given that the government had decided to extend the MIP and is talking about an anti-dumping duty.



Surender Chhabra: Yes as far as the raw material prices are concerned, if you see that marginal upward trend is there in aluminium and steel prices, but that is not major which can affect the bottomline. Subsequently yes we are seeing some pressure will be there on the raw material front. We are expecting that after this though it was expected on second half we have seen some pressure but now I think the recent change in the global markets have, Britain's exit from that European Union I think some ease is there in the market. So immediately we are not seeing any major pressures to come up the raw material prices.

Amin Pyrani: Any recent price hikes that you have taken?

Surender Chhabra: Yes. We have taken in the month of April beginning of the year.

Amin Pyrani: Secondly just an update on what is the extent of financing right now and how much of that would be done by Hero Fincorp.

Surender Chhabra: It is I think normally we have to consider that on the annual basis that how much growth has been done by Fincorp. Last month they have captured about 35,000 to 40,000 and they are I think watching aggressively to increase their presence and their numbers in the domestic market.

Amin Pyrani: Lastly, I think you mentioned that the rural growth was around 7% which is broadly in line with your overall YTD growth, so is it fair to say that urban and rural markets are growing equally?

A Srinivasu: No, overall for the industry the urban market is growing a little better. However in the next two quarters we expect rural to pickup due to good monsoon, should expect to grow better in the rural areas.

Amin Pyrani: That is helpful. Thanks for the opportunity.

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

Sonal Gupta: Sir just carrying on from those questions. Good afternoon and thanks for taking my question. Just on the raw material cost we do not really see any further increase on the steel or cost pressure right in subsequent quarters as of now?

Surender Chhabra: Sonal I think the probably in this quarter, yes, the marginal increase affected there but subsequently we are seeing upward trend. I am not saying it is a steep upward trend. Upward trend will continue. So in the coming quarters, yes, some pressure will further come up for the raw material cost. Anywhere on that we are part of the conversion cost also labour and power so some marginal pressure will come subsequently.



- Sonal Gupta:** So this quarter you mean this Q2 quarter?
- Surender Chhabra:** Q2 and coming quarters I am saying yes.
- Sonal Gupta:** Sir if you could just tell us I mean what sort of retail growth you see in Q1 and if you could anyway split for the industry what are the rural and urban growth has been there?
- A Srinivasu:** So, I would not like to pull out an exact figure to that but retail has been definitely a little bit slower in this quarter, both for the industry and ourselves because all of us there is some level of stock buildup for the industry players. Some of them have started building stocks in Quarter 1 and in our case we did not build the stock in Quarter 1. So we should do that in Quarter 2 so retails are not being very behind but a tag lower than this.
- Sonal Gupta:** Could you just highlight I mean what sort of growth we saw in rural in Q1 I mean any?
- A Srinivasu:** Rural growth was around 7% as I said whereas the urban growth has been a tag better. The industry grew at 14%. So the urban growth is around 15% to 17% and that is why you find scooters growing better at 26% in quarter one. So however in Q2 you will find scooters moderating and motorcycles also picking up which we have already seen in July that motorcycles have grown by 12%. So it should become better going forward on account of good monsoon.
- Sonal Gupta:** Justly following up in that Sir so on the scooter side are we seeing that I mean for the industry as a whole the demand is still growing at that healthy pace or it is more of the retails are much slower than the whole sale that we have seen for the industry?.
- A Srinivasu:** As I said retails are slower than dispatches. However it depends on manufacture to manufacturer. Currently Quarter 1 is growing at 26%. It is already moderated in July. We expect from a ballpark around 15% to 18% growth to the whole year.
- Sonal Gupta:** Thank you so much I will join back in the queue.
- Moderator:** Thank you. Next question is from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Thanks for the opportunity. Sir two questions. One on the LEAP program. So what kind of benefits we got especially as our gross margin sequentially has come down significantly. So apart from spare parts what is the impact of LEAP program on gross margins?
- Surender Chhabra:** Chirag every quarter I think we get this question and every quarter we reply on that if we quantify on quarter-to-quarter basis that will not make any sense. You have to see that for the full year how much

benefit we have got. As far as the Quarter is concerned yes we have got Rs.45 Crores of cost advantage there but that is not the major advantage. For the year I think will come up and share with you. Last year we had shared for the full year LEAP advantage likewise for the full year we will share with you that advantage whatever will come on that front. Otherwise depending on what type of variance we are introducing and how much benefit we are getting under the LEAP program.

Chirag Shah: Second question was on the advertisement spends. We generally have a very low spend in Q1 and then it goes up significantly in second half. So can we expect the similar trend or we had some reasonable amount of spend in 1H this year. How should we look at the ad spend trajectory?

Surender Chhabra: Normally ad spends come during festival period.

Chirag Shah: So that trend so there is no major one-off in the numbers on that side?

Surender Chhabra: Yes there is no major one-off on that one because apart from the normal advertisements we also during the festive period certain events which happen the Football League which we are sponsoring and other events which come during that period with the one time activities, and at that time, that quarter have some slightly higher spend as compared to the other quarters.

Chirag Shah: One question if I can squeeze on in which is on Splendor and Passion. We have now multiple options in the family different price point. Can you share your thoughts on how has been the cannibalization impact because despite having increasing the options our volumes over a period of time have not really gone up the way the options have or the variants have been introduced. So what kind of cannibalization you are seeing in the family and what kind of up trending you are seeing in the family the Splendor - Passion family.

A Srinivasu: Srinivas here. There is some level of cannibalization definitely within any product range that will happen. When you have a range of products people do upgrade some of them into 125cc. Some of them from a basic 100cc Deluxe into little more stylish product but it is better they upgrade into our own portfolio instead of them going in over the competition. To that extent having the range is really tough. We have a dominant 75% plus market share in the segment, which you have been holding on for quite some quarters now. So it is a positive thing. It is not negative in my view. Yes the industry, the rural economy has been bad for the last two to three years and we have seen pressures in the 100cc models which we expect to revive going forward in Quarter 2 and Quarter 3.

Chirag Shah: But would it be right to make an assumption that over the 100cc Splendor or a Passion customer preferring more of 125cc product within the family or that trend is not really visible. What I am trying

to understand is if the value growth far higher than the volume growth within the family within the Splendor - Passion family.

A Srinivasu: You are right the volume growth is higher because we are doing very well in the 125cc segment. I mean the value of those is higher, so having said that we expect all our brands to do well in the forthcoming quarters.

Chirag Shah: So it is a normal step from 100 to maybe a higher cc product or a higher variant product and that is a sustainable trend irrespective of the demand cycle because we may be in a slightly weaker demand patch for those two brands given the economic environment even if the tide turns around this shift continues, is this the right understanding?

A Srinivasu: The shift will continue but.

Chirag Shah: From 100cc to 110cc product or a 125cc within the family.

A Srinivasu: 100 or 110 is not a significant change in my view but 125cc yes it does make a difference.

Chirag Shah: Fair point. This was helpful.

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

Jinesh Gandhi: Sir, couple of clarifications. First is with respect to RM cost as reported seem it have gone up by about 100 odd basis points on QoQ basis. Is that a mixed impact or there is actually any impact of commodity prices.

Surender Chhabra: In regard to the percentage of RM as compared to the previous quarters yes a marginal increase is there, no doubt. That is partly because of the aluminium and steel price effect which is impact is there apart from that based on the product mix change which reflects the percentage in sales.

Jinesh Gandhi: Secondly in this quarter what is the level of marketing spend percentage of sales.

Surender Chhabra: Basically you are asking for the advertising spends.

Jinesh Gandhi: Yes.

Surender Chhabra: Advertising spends for the quarter is in the range of I can say 2.20% to 2.25%.



- Jinesh Gandhi:** So previous quarter also I think it was 2.5.
- Surender Chhabra:** It was 2.5 but this quarter I am saying it is 2.25 only.
- Jinesh Gandhi:** What would be other reasons for such a sharp reduction in other expenses on QoQ basis expense is just about 30 basis points, we have already seen about 120 basis points QoQ reduction, is there anything one-off in that or this is more to do with our LEAP program impact in other expenses as well.
- Surender Chhabra:** CSR expenses I think which if we compare with the corresponding period last year in the quarter one we are negligible but this quarter we have balanced it to achieve our full year target of spend of the CSR activity. Apart from that, packing and forwarding to how the domestic cost which is there. So these are the two major heads where expenditure I think as compared to the corresponding quarter it is slightly higher.
- Jinesh Gandhi:** Last question on Ind-AS impact I mean what are the areas where we have seen impact apart from mark to market of treasury which are the retails have we seen?
- Surender Chhabra:** I think you have seen the reconciliation of published results for the previous quarter also the two quarters previous and the corresponding quarter. The major change because of the Ind-AS is on the active investment which is marked to market. Apart from that whatever forward basis forex is there, that again we have to book a gain and the revenue is reduced because of certain I think initiative which we have. The dealers have target discounts which we offer to the dealers, earlier was treated as an expense but from the Ind-AS point of view that is to be reduced from the revenue that is the other major the second head apart from the investments is where the Ind-AS effect is reflected.
- Jinesh Gandhi:** Lastly Gujarat front has started now?
- Surender Chhabra:** We are expecting to inaugurate in the month of September.
- Jinesh Gandhi:** Month of September. Thanks and all the best.
- Moderator:** Thank you. Next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.
- Kapil Singh:** My questions have been answered. Thanks.
- Moderator:** Thank you. The next question is from the line of Pramod Amte from CIMB. Please go ahead.



Pramod Amte: Congrats on good set of numbers. Two questions. One you recently launched the BS-IV Splendor 110 iSmart if I am not wrong. Can you give some color in terms of what is the actual cost increase you have incurred on the BS-IV upgraded and what technical changes you have made and have been able to price it fully into the market place.

A Srinivasu: Srinivas here. The BS-IV implication is Rs.600 or plus and yes we have been able to drive it into the product price.

Pramod Amte: Second question is with regard to the 125cc leadership. It has been pretty sticky now. How much of it is coming through your own customers existing customers converting into the 125cc and in the sense are they sticky in the Hero family and they upgrading or have you been able to attract a decent chunk of the new customers into your fold because of the 125cc leadership position?

A Srinivasu: I think we have done both. There have been some upgrade internally and we are able to get customers from outside. If you look at the numbers of the other competitive 125cc you will see a significant drop over last year in terms of the numbers, which clearly is an indication that we are gaining from them.

Pramod Amte: But is it more from your design and stickiness or more of a competition sale?

A Srinivasu: It comes from I think our positivity without putting anything wrong about competition. I think overall as a Hero brand we have been very reliable, trustworthy durable, the benefits that we offer to the consumer in the consumer service also. The entire packaging, value packaging is what matters to the consumers at the end of the day.

Pramod Amte: The last question is with regard to 125cc fuel injection with magnetic mirror kicking out production how are you planning to bring this technology to market place more attractive pricing points or it will be in a superior technology play how do you like to play it through?

A Srinivasu: Currently will be a superior technology play but over a period of time I guess we might look at other options.

Pramod Amte: Thanks and all the best.

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

Pramod Kumar: Thanks a lot for the opportunity and congratulations on a good set of number. My first question pertains to the rural growth which quite a few participants asked before me and the reason I think we wanted to get some more clarity on the rural growth was that right from FMCG companies which deal

in small items to Maruti Suzuki and other two wheelers companies have clearly said that rural as a industry is declining. So in that context your 7% growth really looks good. So just want to understand how is that how your performance is divergent from most of the other players in the industry and also across different categories. Just wanted to understand which part of the rural is working very well for you?

A Srinivasu: I think across the country rural has picked up probably due to good sentiments all around. The northern part of the market and the central part of the market are a little slow due to a weak marriage season in quarter one. The rest of the rural market across the country did well. When I gave out this 7% I am talking about the industry too and industry also it is around 7% ballpark.

Pramod Kumar: I am looking at retail Sir I am not looking at the wholesale number because as you said lot of guys are already prepositioning their inventory for the festive season way too early but I was looking more of the retail color. I think that is what other participant wanted to get. So what is the retail growth in the rural side?

A Srinivasu: The retail growth as I said without putting a specific number is tad lower but closer to the dispatches. Inventory buildup whatever you are seeing will happen only in Quarter 2. Quarter 1 largely is more of retail, Quarter 2, yes, there will be an inventory buildup for the forthcoming festival season.

Pramod Kumar: So you are saying directionally you had a growth in retail because it does not exist with Maruti, TVS and other companies and even consumer space they are clearly talking about a decline in the industries for their categories. So just want to double check on this as to what exactly is driving this all performance?

A Srinivasu: So without commenting on competition for ourselves our retail number has been higher in Quarter 1 than dispatches we have corrected stocks.

Pramod Kumar: That is great and second question pertains to scooters. I think in the previous calls you talked about having capacity constraint on scooters and growing market shares beyond 18%, 19% what you had and of late the market shares fall into 13.5 in the month of June and you share that retail has been at around 70,000 and more stable at those levels in that sense. So as I say new products so initially the demand is higher. So I just want to understand what is going to be the strategy for you to take back market share to the higher levels what you have been aiming for and also probably go beyond the 100,000 mark which you have been talking about on the monthly basis.

A Srinivasu: Retail market share if you look at it has been almost constant in the last four to five months.

Pramod Kumar: What number that would be Sir?



- A Srinivasu:** I would not put out retail numbers as I shared with you earlier but it has been constant and currently the market share is not 13.5, it is 16%. It is 15.54 to be precise.
- Pramod Kumar:** I was actually referring to the month of June. Sorry I may be wrong in the month of June it is showing 13.5
- A Srinivasu:** YTD is about 15.6 actually. So closer to 16% is our market share. Yes we have got good plans to scooters and we are confident we will be able to do it.
- Pramod Kumar:** So what is the market share target here if I may ask?
- A Srinivasu:** We do not share our market shares as you are aware.
- Pramod Kumar:** This is for Chhabra Sir I mean your first quarter margin is 16.6 full year 2014-2015 means fair bit of deceleration in margin going forward. I am just wondering what kind of costs will kind of drive COGS head winds because volume ideally should be if not better at least should be on par with 1Q levels. So I am just saying what can drive on margins by almost 100 odd bps or so from the current level?
- Surender Chhabra:** Pramod, we are building with margins in the range of 14% to 16% not 15%.
- Pramod Kumar:** 14% to 16% right.
- Surender Chhabra:** Yes 14% to 16%.
- Pramod Kumar:** Fair enough I heard 15% so I just want to clarify so 14% to 16% is the guidance right.
- Surender Chhabra:** Yes.
- Pramod Kumar:** Thanks a lot then that is all from me.
- Moderator:** Thank you. Next question is from the line of Govind Chellppa from Jefferies. Please go ahead.
- Govind Chellppa:** Just a followup on that when you say 14% to 16% there are lot of references of margins to gross sales or net sales. I mean first quarter you did 15.4 of gross sales and 16.6 of net sales. So when you say 14 to 16 is it gross sales or net sales?
- Surender Chhabra:** Good question. I think the impact of IND-AS come from this quarter itself and within the range of 14% to 15% because we considering about first quarter one quarter only and where it is a normal

expenditure if I say this may happen. Expenses are in the third quarter which balances it. So even if we go with our net sales or with the gross sales margins will be in the range of 14% to 15%.

Govind Chellppa: Because that is a wide range so 120 basis point different from each other that is why I checked. My second question was on the cost impact of CBS and ABS and there are two sub-questions to that. One at expected industry volumes next year because what industry volumes of CBS and ABS it will go up a lot. What is the kind of per bike impact you see and second given that most scooters already are on CBS. Would the price difference between motorcycles and scooters go up and then what is the due to scooter realization?

A Srinivasu: The cost impact of CBS, ABS on scooters is relatively lower whereas as far as motorcycles are concerned it is pretty significant. It could have an impact of up to Rs.4,000 but economies of scale might lead to lower cost that is one. So partly these cost could get offset with the hopefully GST getting implemented.

Govind Chellppa: So 4,000 is ABS is it?

A Srinivasu: Both CBS, ABS ballpark would be in that range.

Govind Chellppa: Most scooters already have CBS?

A Srinivasu: Yes, scooters the cost is relatively lower also.

Govind Chellppa: So, if I understand this right the price difference between motorcycles and scooters will go up further?

A Srinivasu: It depends yes volumes of scale can bring down the cost, which I am sure will reduce the cost little bit.

Govind Chellppa: Thank you.

Moderator: Thank you. Next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Thanks for the opportunity. My question is on the relationship between market share and margin. So we have seen your competition on the motorcycle being more aggressive on pricing that now gaining on market share but losing on margins whereas when we look at Hero Motors on a Q1 basis it is probably one of the highest margin you had in Q1 in last five, six years and similarly in terms of motorcycle market share this is one of the lowest which is actually the lowest Q1 market share that you are seeing on the motorcycle space. So going ahead through the year how do you see that will



Hero Motors will enter into some bit of an aggression or how do you see a market share playing out from these levels especially on the motorcycle side?

Surender Chhabra: Binay, since last three years we have seen that because of the demands in the country the motorcycle market has not grown whereas we have not seen any decline in the motorcycle segment. Overall I can say as a two-wheeler yes we were at the flat but in the motorcycles we are not declined. On the other hand, what you are saying market share as well as the margins is concerned we always get top price of the market share but on the other hand also see the margins should also maintained. So our priorities are always there for maintaining and going the market shares as well as maintaining the margins also. It is not that for maintaining margins that we have to lose the market shares.

Binay Singh: The reason actually like in the past we discussed with the reason I asked it again this quarter is that some of your competition is using margins sacrifice to gain market share?

A Srinivasu: Yes, I do agree that some of them are buying market shares so that is a larger call whether you want to buy market share by erratically cutting your price we have not got into that so far. So, I would not like to comment whether we will get into the space going forward but as of now we have not done that.

Binay Singh: So, all in all it seems you are comfortable with your market share move and the margin obviously is not the higher end of your range but currently you do not see any stress on either of them?

A Srinivasu: On market share we will keep our effort in terms of gaining it on a regular basis with the rural demand picking up in my view we should do better.

Binay Singh: Lastly, I am not sure if you have already answered or spoken on exports could you share your export outlook? We understand market is very volatile environment but how do you see exports playing out for you for the year?

Surender Chhabra: I think whatever indications that we have given in the beginning we are having a same target 300,000 that we have said in the beginning but I think the global market the Latin American, African market where that currency pressures or, market is not growing overall global market is declined by 10%. We have seen in the first quarter itself. So we are still going with our own targets and we will hopefully that will able to achieve that level. Now we are going to enter in the two new countries like we have told Argentina and Ghana in the next quarter and I think by end of this year till fourth quarter we will have our presence in the Mexico also.

Binay Singh: Thanks a lot.



- Moderator:** Thank you. Next question is from the line of Raunak Sarda from Axis Bank. Please go ahead.
- Raunak Sarda:** Thanks for the opportunity. Couple of clarifications; first on Ind-AS are there any adjustment in the expenditure especially in the other expenditure are neglected from your sales lines and hence the realizations looks weak even after restating both YoY and the current quarter numbers?
- Surender Chhabra:** As far as Ind-AS effect is concerned we have scheme of trade discount to the dealers which we book as a line item as expense in past but with that Ind-AS effect that expense it will net off from that revenue. So one is the major expenditure where we are netted off from the revenue otherwise in the revenue element because we have free services to the customers, six free services we provide and marginally the service cost has been deferred. So there is a reduction on that front. Otherwise in case of other expenses like warranty cost, we are offering five year warranty yes we are booked as a discounted cost of the future expense the company has to incur then the next element the lowest that we are looking on that retiral benefits of employees that is actuary valuation. This is negligible. If you say all these heads are reflected in the previous quarter in the published results under the reconciliation part. On the other hand, your second point was on the realization. If you see the Quarter 1 to Quarter 4 if you see our gradual ASP improved from quarter to quarter basis and that is only because of the spare part sales.
- Raunak Sarda:** I was looking both from the YoY perspective?
- A Srinivasu:** YoY I think there is an improvement there.
- Raunak Sarda:** Yes but the improvement is marginal at 1%.
- Surender Chhabra:** Yes we are going to increase the prices effective April this financial year.
- Raunak Sarda:** If I look at your notes to account where you have just reconcile your PAT from early account standards to Ind-AS. What is the line item impact of revenue deferment and why is that positive. I thought it should have been a negative impact. Can you just explain that?
- Surender Chhabra:** We have to align the previous quarter's results also. So effective April 1, 2015 were aligned this expenditure and this revenue deferment is only of we have free service. The service claims with free services customers have six services so that revenue deferment is there on that front and if you aligned it from quarter-to-quarter basis previous year and this year for the quarter somewhere it is plus, somewhere it is minus also.



- Raunak Sarda:** Second was on the CBS and ABS. As per the regulation less than 125cc would have CBS and more than 125 would have ABS. So can you highlight what is the cost increase separately and second have we tied up with any suppliers on ABS and CBS front?
- Surender Chhabra:** The cost increase whether it is 125 or 150 will almost be the same ballpark. Marginal differences could be there. I really would not be able to comment on the supplier side of it but I am sure we are working on it.
- Raunak Sarda:** So you mean to say for CBS, which is more of a mechanical application. The cost increase would add as high as and ABS would have electronic chip in it?
- A Srinivasu:** Very close to it as far as the more prices are concerned.
- Raunak Sarda:** 100% of scooters have CBS or that is not correct statement?
- A Srinivasu:** Not exactly 100% is very close to it. More scooters are CBS.
- Raunak Sarda:** Thank you Sir.
- Moderator:** Thank you. Next question is from the line of Aditya Makharia from JP Morgan. Please go ahead.
- Aditya Makharia:** Congratulations on a good set of numbers. The first four months we have grown at 7% and now obviously you are mentioning monsoons are good, rural should pick up fair to assume a double digit growth for the rest of the year?
- A Srinivasu:** Yes because putting an exact number for it we should be really good and double digit and the rest of the year should be a high single digit.
- Aditya Makharia:** Thanks.
- Moderator:** Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management.
- Karthik Chellappa:** Thank you for the opportunity again. Just one followup on scooter. If I were to look at the product wise sales although we have corrected inventory in 1Q the Duet seems to be doing pretty well even compared to the 4Q level it is the Maestro that has fallen off. So is that like a geography mix issue or is that like a metal body versus fiber body issue or is there anything more to it as far as the model mix of our volumes are concerned?



- A Srinivasu:** The overall numbers both scooters in terms of retails are almost very similar to each other. So dispatches could be up and down a few months or in a quarter. So yes there has been some cannibalization of Duet taking over Maestro volume because earlier we just had one brand which was Maestro and then Pleasure we had. Now we also had Duet so some of the customers are migrated from Maestro to Duet. So overall net-net we have gained.
- Karthik Chellappa:** You do not attribute that to some kind of a metal body preference or anything of that sort?
- A Srinivasu:** Some markets yes you are right there is preference of metal body also and those markets we do well in Duet.
- Karthik Chellappa:** Thank you very much.
- Moderator:** Thank you. Next question is from the line of Yogesh Agarwal from HSBC. Please go ahead.
- Yogesh Agarwal:** Sir good evening sorry I missed some part of the call. I have just a question on GST assuming the rates are close to 18%, 19% what kind of impact you expect on the overall market. Will that significantly increase the several markets because of reduction in prices and secondly does have a bigger impact on the premium market or more in the mark to market and the executive segment.
- Surender Chhabra:** As far as the GST is concerned net is really the percentage. There is no fixed rate come up from the government. Government is yet to define that rate for the GST as presently if you see 24% - 25% is the gross rate tax rates are there. If any decline is there in the GST rates I think that is going to be benefit to the customers. This benefit I can see with that mark to market low income people I think MM Rs.500 to 1,000 make a significant effect. So there I think the benefit will be there as per the premium segment is concerned marginally 1% or 2% downward GST rates does not affect that market because customers buying power. So any benefits which will come under GST remain lower than 23% - 24% will increase the mark to market of 100 to 130bps.
- Yogesh Agarwal:** That is helpful. Thank you.
- Moderator:** Thank you. Next question is from the line of Pulkit Singhal from Motilal Oswal Asset Management. Please go ahead.
- Pulkit Singhal:** Thank you for taking my question. Just wanted to understand the Glamour growth 125cc are we seeing this largely in the urban or the rural market and also as the percentage composition of the same is it much higher in the urban market?



- A Srinivasu:** It is almost equal. There are pockets that we are doing extremely well in the rural market. There are stages where it does well in the urban market. There is a good mix of both.
- Pulkit Singhal:** As a percentage of volume it is equal in both sides?
- A Srinivasu:** Almost equal.
- Pulkit Singhal:** The growth is also equal on both sides.
- A Srinivasu:** Yes it will be tad higher in the rural.
- Pulkit Singhal:** In industry what percentage of sales would be first time buyers at this point?
- A Srinivasu:** First time buyers are around 65% ballpark.
- Pulkit Singhal:** Also just trying to understand the impact of premiumization and I am just talking about say 150cc plus. I mean is this how it happens that customer seen in urban market goes to that 150cc plus and is bike is sold and goes to the rural areas and therefore I mean the kind of growth that one could see in the entry level in the rural is not as high because of that replacement kind of bike coming from the urban?
- A Srinivasu:** Not really. Actually premium segment does well in the urban markets definitely. There is no doubt about it but it is also picking up in some parts of the rural hinterland. So overall premium mostly even if you look at the premium volumes it is the commuter part of the premium it is doing well accepting entry between the 150 and 200cc it does well and that constitutes about 75% of the overall premium business. So it is not necessarily that the bikes are getting sold and that is why the entry is not doing well. Entry is also doing well in the rural market.
- Pulkit Singhal:** What I meant is say over the next three to five years this 150 to 200cc was to become much bigger. Would that cause of pressure at the entry level because those guys who upgrade it is because of premium I believe would have been say largely a replacement demand and they would be coming from some existing bikes in the urban areas 100 or 125cc and those bikes will have to find some way in the system?
- A Srinivasu:** The 150cc customers are not necessarily always upgrade especially in the urban market there are lot of first time buyers who go on the 150 segment college goers, young professionals. So they do not go through the typical cycle of 100cc to 125 to 150. They start straight with 150 or even 200 plus sometimes. So I do not really see a pressure on the entry. Second India is largely underpenetrated market. If you look at parts of India the penetration levels are less than 20%. So with that situation I



really do not see a major pressure on the entry segment just that rural need to do well. So that 100, 125cc will then do better.

Pulkit Singhal: Lastly is first time buyers you said was 65%. How much would this be in rural versus urban I mean broadly?

A Srinivasu: Urban could be a tad lower and rural it will be a tad higher.

Pulkit Singhal: Thank you.

Moderator: Thank you. Next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Thank you for the opportunity. Just have two questions. Just following from the previous participant if you look at the premium commuter segment that is above 125 that is largely being a very niche segment so far. Lot of players have tried to launch 135, 150cc product even 150cc but that is not really able to become a mainstream segment as such. So is it because consumer above 125cc primarily sees sports as a particular mix upgrade or a person watches and therefore premium commuter per se as far as never been a mainstream concept. I mean what has been restricting this shift?

A Srinivasu: Premium commuter is doing well. If you look at the 150cc what we call as a commuter is bikes, which generally has a flat seat which very comfortably even a family can travel, which is not very aggressive in look which gives you combination of power and mileage. These are all factors and convenience of driving. These are all factors of commuter premium not completely a sport style bike which probably has step seats and things like that could qualify into the sports variant of premium. So the commuter part of it is doing fairly well.

Viraj Kacharia: That is seen clearly if you see the 125cc if the Shine or the Glamour, the Super Splendor but if you look at say 150cc or 160cc you had Discover earlier you had Unicorn 160cc and now you have also V but that as far as the segment not been a mainstream?

A Srinivasu: If you look at the motorcycle industry in quarter one it is completely driven by premium segment growth. Premium segment has grown by 34% in Quarter 1 driven by commuter premiums like Model V, Avenger 150, Bullet Enfield is an exception to that because it really would not qualify as a commuter premium so these two models which is Model V and Avenger 150 has largely driven the growth in the premium segment and those are commuter vehicles.

- Viraj Kacharia:** Second question was on the exports side we have been making consistent effort in the penetrating large market. We had plans of getting into Argentina, Mexico, and Nigeria sometime last year as well. Given a kind of challenges which we are seeing in those markets at the moment are we kind of contemplating making a JV type of approach or a co-investment approach like what we have done in Columbia or even Bangladesh to speeder our plans of export on those large markets?
- Surender Chhabra:** I think in regard to that distribution model which is we had in Columbia and Bangladesh we are grown because their local regulations were required to have an local manufacturing house partly so that is why in Columbia and Bangladesh we have set up our own subsidiaries. In other countries wherever we are presently entrants we have gone with the distribution model and in future if you see the Brazil where I think the regulation requires a local manufacturing also. In case if we go in future in Brazil then you will see the same set up will be there like Columbia and Bangladesh. Otherwise depending on the countries regulations where we are exporting we have to set up our exports.
- Viraj Kacharia:** So we do not have any plans like for other large markets as well like you have Nigeria, you have Mexico and Argentina we now looking this kind of model?
- Surender Chhabra:** No these countries we can say we can export in the reasonable duty element through distribution model itself so why to have and set up there.
- Viraj Kacharia:** We have been having issues in terms of distributor tie ups initially and also there is certain issue of distributor capability even it comes to investing for new brands uncertain time. So that is what the thought?
- Surender Chhabra:** I think if you see the other manufactures also were doing a distribution model. So when it is not restricted by any countries with the reasonable duty elements of import I think distribution model is the best to do export in that country.
- Viraj Kacharia:** The last question was on the overall export target. Now we have this around close to 1 million target by 2020, how much would be looking to come from scooters or vis-à-vis motorcycles?
- Umang Khurana:** Viraj, this is the number that over and over again spoken about revisiting and that was based on certain domestic as well as export market projections, which have not held up. Since we have not been able to connect in the recent past, may be this something that we have not spoken about but the management has been saying that is the number that will get revised.
- Viraj Kacharia:** What I really meant was for scooters there are lot of other developed markets you have US, Europe and you also have Asian market where a big opportunity for scooter. So when we look at one million



we also look at scooters as also one of the avenues for those markets that is broadly a thought process?

A Srinivasu: Our R&D is working on that model. I think in the next two to three years we will see revenue markets where we can enter with the scooter model.

Moderator: Thank you. Next question is from the line of Deep Shah from SBICAP Securities Ltd. Please go ahead.

Deep Shah: Good evening. I have question on fee of the traditional markets of Hero Motocorp that is Rajasthan or the Northern markets or the Northeastern markets where if I understand correctly Hero Motocorp is sort of changing its position there or may be market share contraction. So just wanted a though is that right understanding or is it due to what is your take?

A Srinivasu: Firstly not correct. We are further entering into the north in markets like Rajasthan and east. In fact in east there are certain markets we are market leaders even in scooters. That is the power that we have in markets like eastern part of the country where we have an extremely dominant motorcycle market share of 60% and so is the case with central markets where our market share is 50%. So we are holding really strong and stronger.

Deep Shah: Sir but off late have you not seen any contraction in market?

A Srinivasu: Talking about YTD figure.

Deep Shah: Second question I mean on capex what is your capex guidance for FY2017?

Surender Chhabra: As far as capex guidance is concerned I think within this year the cash outflow will be in the range of 800 to 900 Crores we are going to have that operation from Gujarat plant by end of first half.

Deep Shah: Thanks a lot.

Moderator: Thank you. We take the last question from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Sir you said the volumes size of dealers it has seen very strong growth over the last five, six months and despite the fact that lot of launches which happened in the aggressive pricing by competitors. So what was reason behind this and do we expect this to continue?



- A Srinivasu:** Yes we expect to hold these volumes. There are lots of marketing and sales actions that are put in place without cutting price I think it has worked very well for us and we expect the volume to continue and hold at this level.
- Ashutosh Tiwari:** This volume is mainly come from rural segment or urban also has done good volumes size of dealer?
- A Srinivasu:** Dealers largely if you look at it 65% is on rural segment. We have done well both in rural and urban as far as dealers pickup is concerned.
- Ashutosh Tiwari:** Secondly on the inventory level channels how that would be currently?
- Surender Chhabra:** Specifics to the inventory level that we holding. At the channel level it would be about 4 to 4.5 weeks because the rest is in transit. So channel inventory would be 4, 4.5 total inventory would be 6 weeks and this is it.
- Ashutosh Tiwari:** Thanks a lot.
- Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand over the floor to Mr. Deepak Jain for his closing comments. Over to you Sir!
- Deepak Jain:** Thank you. Special thanks to the management of Hero Motocorp for taking time up for this call. Thanks to everybody else also.
- Umang Khurana:** Thank you everyone.
- Moderator:** Thank you very much Sir. Ladies and gentlemen on behalf of IDFC Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.