



“Hero MotoCorp Limited Q4 FY2018
Earnings Conference Call”

May 02, 2018



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*Hero MotoCorp Limited
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Moderator: Ladies and gentlemen, good day and welcome to the Hero MotoCorp Limited Q4 FY2018 Earnings Conference Call hosted by Nirmal Bang Institutional Equities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rahul Arora from Nirmal Bang. Thank you and over to you, Sir!

Rahul Arora: Thanks for that Stanford. A very warm welcome and a good evening to all participants of this call. On behalf of Hero MotoCorp and my company, Nirmal Bang Institutional Equities, I welcome everyone to the Fourth Quarter earnings call of Hero Motocorp. I would like to handover the call to Mr. Umang Khurana; the Head of Investor Relation at Hero Motocorp for an introduction to the management after which they make some comment then we can take the questions and answers. Umang over to you!

Umang Khurana: Thank you Rahul. Thank you for hosting us. Good day everyone. It is good to have you online to discuss the Q4 and full year results. From Hero, we have with us on the call, Mr. Niranjn Gupta, CFO, Mr. Ashok Bhasin, Head of Sales, Service & Customer Care and Mr. Surender Chhabra – Vice President, Finance. We will begin with first comments from our CFO, Mr. Gupta and then open the line for all the questions. Over to you Mr. Gupta!

Niranjn Gupta: Thanks Umang. Thanks everyone for coming to this Q4 call. Just a few points, you would have seen the press release that we sent out on our results a while back. As far as Q4 is concerned the headline numbers or the volume growth has been 22.4% and our revenue growth net off excise and GST is 23.7%. If you see the underlying growth because we have the Haridwar GST accounting stuff then the underlying like-for-like growth is 26% on revenue. EBITDA margin is 16% for the quarter and PAT growth you have seen is 35%. Here if you exclude the Q4 FY2017 one-time BS-IV impact, which is absorbed, then the like-for-like PAT growth, is 13%. So these are the Q4 numbers. Effectively if you see full year the volume growth is 13.8% and the revenue growth is 13.1% again on a like-for-like basis the revenue

growth is 16%. EBITDA margin we have delivered 16.4% and PAT growth is 9.5%. So again as far as full year is concerned, a healthy EBITDA margin overall while commodity costs have gone up for the year they have been offset by the operating leverage and the other initiatives that the company has taken.

As far as within the global business is concerned, which some of you already know, we have done in Q4 close to around 40% growth, for the full year it is 13% growth at 204,000 units. With this I hand it over for your questions.

Moderator: Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Congrats on a good set of results. A couple of questions on the financials; first, I wanted to check, if you look at the raw material cost not much of an increase from Q3 to Q4 so if you could help us understand whether this is due to cost reduction initiatives or do you expect more increase to come in Q1 and secondly, first many of the companies we have seen that there is a set of gratuity cost so just wanted to understand that whether gratuity cost is there is a one-time adjustment, which is also there because staff cost has actually fallen quarter-over-quarter?

Niranjan Gupta: I will take the question on the material cost and then I will hand it over to Mr. Chhabra for the gratuity part. On the material cost, yes you are right, there has been a marginal uptick as far as the sequential numbers are concerned, but we do operate on some of the commodities with one quarter lag and some commodities with two quarter lag in terms of when it translates into our costing and therefore some of those could reflect moving forward. For the gratuity part, Mr. Chhabra you can answer.

Surender Chhabra: Kapil, if you remember that the last year there I think some actual valuation were changed because of that government security rates went down. So that is why we have provided higher provision at that point of time. But this year there is no major change so that is why there is no effect that is our one-time effect last year, which I

think is reflecting some reduction in the current year otherwise there is no change in the salary element.

Kapil Singh: Okay. So there is no adjustment in gratuity cost for us?

Surender Chhabra: The adjustment is based on actual valuation whatever the cost has come that has been provided. Last year because it was slightly higher so that is why it seems there was the one-time effect.

Kapil Singh: Just one more question on the volume growth side. We have been hearing that real sentiments have improved. Is there anything that you are reading on the ground that you would like to share and also scooter market share build-up seems to be better in the second half. Should we expect market share improvement that you are targeting for next year? Thank you.

Ashok Bhasin: I think so two things, yes, industry momentum has been good as we have said on the previous calls as well, and that has been contributed by the rural uplift as well which is also reflected if you see in the product mix. The motorcycle industry has after a long time come back to double-digit growth, of course, significantly led by Hero, which has grown higher than the industry and there is marginal expansion in a market share in motorcycles. So, in summary industry momentum is good, rural is also contributing in a very healthy way and motorcycle growth is reflecting that and our own market share improvement. To your second point on scooters, clearly in the latter part of the year, as we have said earlier, with the actions that we were taking we expect improvement and that has happened. I would just say that the current product line up and our new launches that are expected to come later in the fiscal, we would continue to improve our position in scooters.

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

Karthik Chellappa: Thank you very much for the opportunity. Just two questions from my side both model specific. If you look in FY2017 the gap between Glamour and Shine was

about 20,000-odd units but if I look at FY2018 that gap has widened considerably it was almost about 100,000 units plus in favour of Shine. I am curious to understand what was the reason for this and how do we hope to correct it?

Ashok Bhasin: On our previous calls, as well, this question has been asked. I would like to remind all of us that in the early part of the fiscal 2018, we did have supply challenges for more than one quarter actually impacting our 125CC availability. Glamour which was really on an upward trajectory in the preceding six to eight quarters got adversely impacted in the beginning of fiscal 2018 for the first couple of quarters. That was the large volume loss for us and an opportunity obviously some of the competitors managed to sell more during the same period. As you look at the some of the current trend, Glamour is back on the growth path and our market position in the 125CC segment is back to a market share of leadership and we expect this to go forward and continue to go up even further.

Karthik Chellappa: On the scooter side specifically on the 125CC where we will actually be launching sometime in fiscal FY2019, I am just curious to understand the thought process: if you look at the number one and number two player they have chosen to launch completely a new brand under the 125CC segment whereas we have chosen to launch both Maestro Edge and Duet. Now specifically Duet has been one of our weaker brands. It has been two years since launch but the market share is still in kind of low single-digit, so I am curious to understand why are we launching a 125CC under a brand, which is yet to establish itself?

Ashok Bhasin: I would respond at two levels. Within the space of 125CC there are both things happening. Number one, there are our existing brands for which a 125CC extension has been launched including by one of the large market share player brands of the competitor and then there is a second player in that segment, which actually does not have presence of in 110CC segment and therefore they have obviously gone for a new space. As far as our strategy is concerned, I think we have to recognize that Duet is a relatively new brand, it is growing steadily. We did have some slow start and some headwinds in the beginning but with the new BS-IV scooters that we

have launched in the fiscal 2018, if you see the last two three quarter trend line the run rates are improving. In fact I would say that the addition of another product under the brand name, will help build the brands stronger because we would have a product offering in a segment that is fast growing. 125CC segment is today growing at almost 55% to 60% and the 110CC segment is growing only around 15%-17% so the expansion of our scooter offerings under the two brands, which is Maestro Edge and Duet will actually help. There is after all the investment and the brand building efforts, the activations and the advertising dollars, you do not need to do justice to that. Sorry, I interrupted you. You had a comment.

Karthik Chellappa: Got it. Just one data point, what was the volume of units that was financed by Hero FinCorp this quarter?

Niranjan Gupta: Hero FinCorp contribution in the company's total kitty was 11.5% for the full year, last year it was 10.5% so this year there is an improvement of 1% otherwise on FinCorp point of view there is growth on year-to-year basis.

Karthik Chellappa: Thank you very much and wish you all the best.

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

Raghunandhan: Thank you Sir for the opportunity. Congratulations for the good set of numbers. Firstly on the market share, for the overall two-wheeler segment would it be fair to assume that like we sustained market share in FY2018, in FY2019 also we would be able to sustain share given few factors like new products like Xtreme, Duet and Maestro? Secondly, on the benign mix because I think north and east segments would continue to grow at a faster pace than the south segment. North and east we have a high market share. Thirdly, we have a strong presence in the rural your comments please? Thanks.

Ashok Bhasin: It is correct that in fiscal 2018 we continued to lead the two-wheeler market place with a market share of 37%. Going forward, we expect the momentum not just for

the industry but also for the Hero brand to continue including some of the factors that you have mentioned of rural and motorcycle and some of the geography mix benefits. To top it all, we will be entering new segments with new products and all of this should certainly help in making sure that we consolidate our leadership position in the fiscal 2019.

Raghunandhan: Sir, on a related note, could you share the rural and urban growth for FY2018 and what is your expectation by how much will rural out-pace urban in FY2019?

Ashok Bhasin: Overall if you look at the two-wheeler industry space, there is no scientific measure of a rural and urban divide. But, I would just say that this motorcycle industry, which has grown at 15% has certainly grown at the back of rural because the mix in rural is much higher in favour of motorcycles and the scooter growth has only been about 20% so I would say that the national industry growth was 15% the rural is probably grown atleast 200 to 300 basis points higher than that average.

Raghunandhan: Understood Sir. And the new products, which are being launched this year, what would be your internal estimate as to how much they can add to the monthly volumes?

Ashok Bhasin: I would not give a volume guidance, I think the most important thing is that they are both coming in segments in which we do not have presence whether it is the 200CC or it is the 125CC scooter. So, it is pretty fair to conclude that they are strategic entries and volumes will expand over a period of time but certainly the net gain to Hero brand would be positive and accretive.

Raghunandhan: The CGST benefit of 64 Crores, which came in the current quarter I mean that, relates only to the Q4?

Surender Chhabra: Yes, that figure is related to the fourth quarter and total is 176 Crore for nine months.

- Moderator:** Thank you. The next question is from the line of Aryn Pirani from Deutsche Bank. Please go ahead.
- Aryn Pirani:** Good evening everyone. Thanks for the opportunity. My question was again on that CGST benefit, so this 64 Crores is included in the revenue line or is it deducted from some expenditure line?
- Niranjan Gupta:** It is an income element, which has been accrued on the income head; it is part of the total turnover.
- Aryn Pirani:** If I just do some rough calculation because from next quarter, I mean this revenue line will not continue. If I remove this from your topline your margin impact would have been around 60 basis points, which is much lower than the impact that you mentioned that could be around 100 basis points when the Haridwar benefits go away?
- Niranjan Gupta:** Three years back we have indication of 1%, yes.
- Aryn Pirani:** Is this the correct way to look at it that 60 basis points around the broad impact or is that the something that I am missing?
- Niranjan Gupta:** Let me just answer that, this 100 basis point was correct what we have said. Now out of that you know that 42%, which is the other part of the benefit SGST benefit that we are not accruing because the notification has not yet come out and we are still pursuing it so obviously the current quarter have already absorbed the 40 basis point impact. Therefore what you will see remaining moving forward sequentially will be 60 basis point and not 100 basis point because 40 has been absorbed already.
- Aryn Pirani:** Even though you have absorbed the entire 100 basis point the impact is much lower than what one would have expected two years back because of the inherent improvement in profitability that you have been able to achieve?

Niranjan Gupta: No, not really. The gross impact is 100 basis points but in the current year itself we have not been accruing that 42% and therefore to that extent the 40 basis point impact has been absorbed. Now the remaining impact is offset by various other savings and operating leverage etc., etc., as far as FY2018 financials are concerned. But, sequentially as you move forward, the remaining impact that you will see will be to the extent of 60 basis points that you have rightly said.

Amyr Pirani: Understood. Sir just on your volume growth this year, a lot of the growth come from the HF Dawn, HF Deluxe models and while Splendor and Glamour and Passion have also grown but I think the bulk of the growth has been driven by these entry level motorcycles. Now going forward do you expect the change in mix in the next one to two years and does it matter which segment grows from a profitability point of view or is it similar across the board for you?

Ashok Bhasin: I think profitability is always blended because there is a leverage across the line of whether it is manufacturing side or whether it is go-to-market so that is the broader platform because we do not have either dedicated manufacturing facilities or a dedicated go-to-market. So I think it is an overall leverage that we get from expanding volumes and go-to-market. Speaking through the growth clearly, when there is an uplift in rural and in motorcycles entry segment would get the opportunity. What we have done successfully, is effectively led that growth and exploited the market opportunity. As far as the 100CC segment is concerned as I said on a previous call that segment where we are market leader, clear market leader with more than 35% market share is clearly the segment which has also seen migration upwards towards 125CC motorcycles. Also, to some extent an alternative product format scooters. Therefore, if you look at the 125CC segment our growth there has been significant. I mean we have grown by more than 20% in the 125CC segment as well and that is despite the fact that we have supply challenges in the first couple of quarters. I think it is a pretty balanced growth situation and therefore it also allows us to deliver strong results on both topline and bottomline and of course market share leadership continues.

- Amyr Pirani:** Sir just lastly on this Splendor model how much of it is 125CC right now?
- Ashok Bhasin:** We have the Splendor Plus which is the 100CC segment and the Super Splendor is almost 50:50 in the 125CC segment for us, so in the 125CC segment where we sell large number 57% market share, the split is between Super Splendor and Glamour almost half and half. So your question within the Splendor brand portfolio, clearly I mean we sell a lot more in the 100CC segment because that is the big number. Motorbike numbers you can look at the month wise details from the release.
- Amyr Pirani:** Thank you Sir.
- Moderator:** The next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.
- Jinesh Gandhi:** Hi Sir my question pertains to our other expenses which have gone up substantially in this quarter on Q-o-Q basis, is it only due to higher volumes and auto-expo related expenses or there is not any one-off in that?
- Surender Chhabra:** Jinesh, I think we have to see YTD figure. We are not seeing any major gap there but on quarter-to-quarter I will say that there are certain activities, one is based on the volume, variable cost, second is certain events of advertising. I can say sports sponsorship activities, which fall in the Q4 as compared to earlier Q3, so these type of shifting from one quarter to the other quarter has affected. Otherwise for the year we are within our budgeted plan and there is no major change for the full year.
- Jinesh Gandhi:** Okay, and similarly other income has been also higher is there any mark-to-market impact there considering that yields were more or less stable on Q-o-Q basis?
- Niranjan Gupta:** As far as other income is concerned one of the things is that when you look at sequentially there was actually a mark-to-market negative impact in that quarter which was not that visible as far as this quarter is concerned. So these are the movements of the bonds that have played out, which is reflected as far as the other income is concerned.

Jinesh Gandhi: You have indicated about Andhra Pradesh plant where you have started work so what are we looking at in terms of timeline and in terms of capacity and capex there?

Niranjan Gupta: We have already in fact issued a press release on Andhra actually when we launched that but broadly speaking it is the FY2020 or a second half of FY2020 is when we expect the plant to get commissioned.

Jinesh Gandhi: Okay and capacity would be about 750,000 to start with?

Niranjan Gupta: Between 500,000 and 750,000 initially.

Jinesh Gandhi: In terms of our overall capex for 2019 and 2020 would you have any projected numbers on that side?

Niranjan Gupta: As far as, and let me add to that Andhra that is the starting capacity, obviously the plan is to go a million plus just like we have on any other plants and as far as capex is concerned while we do not give annual guidance it is for the next two years we do expect around Rs. 2,500 Crores of spend.

Jinesh Gandhi: Thanks. I will come back in the queue.

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

Jamshed Dadabhoy: Good evening Sir. Thanks for the opportunity. Just one housekeeping question could you give the number for spares revenue for the full year?

Niranjan Gupta: Yes, so the parts revenues for the full year is Rs. 2,478 Crores and that is 12% growth.

Surender Chhabra: Sir let me correct the figures Rs. 2,640 Crores which is 13% growth.

Jamshed Dadabhoy: Sorry this is 2,640.



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Niranjan Gupta: 2,640 and 13% growth.

Jamshed Dadabhoy: Thank you Sir.

Moderator: Thank you. Next question is from the line of Arun Kumar from JP Morgan. Please go ahead.

Saurabh: Sir this is Saurabh. Sir what were the LEAP benefit, which were accrued during the year and the second question is on BS-VI once the OBDs come 'on board diagnostics' what is the expected cost increase you are anticipating, as of now?

Niranjan Gupta: As far as LEAP is concerned the overall annual number continues to be between 50 and 60 basis points which is what have been in the previous years as well.

Saurabh: This will continue for fiscal 2019 as well Sir?

Niranjan Gupta: There are various initiatives that we keep doing across boards on the costs, whether it is material cost or fixed cost other expenses everything. We will continue to drive savings in more ways than one. As far as your other question on BS-VI, as far as BS-VI is concerned at this point in time, we are not in a position to give any cost estimates, but fair to say that that we are on a roadmap to transition and we expect to achieve it from a cost point of view competitively.

Saurabh: Thank you.

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

Chirag Shah: Thanks for the opportunity and congrats for the good set of numbers. Sir my first question is on price hike, if you can just indicate what kind of price hike you have taken Q4 as well as in this current financial year?

Ashok Bhasin: As far as pricing is concerned, the Q4 we had actually released as far as April, if the question is Q4 we had taken around January, which would also be around

300 per vehicle and a similar sort of in terms of net back would have been there from the April itself as well.

Chirag Shah: But Sir, would it be right that discounting activity is largely constant so this is the net price hike that you would have taken?

Ashok Bhasin: Yes, broadly yes.

Chirag Shah: That is the right way to look at it, right, the discounting activity, when I say discounting various schemes that we run either in topline or which accounts its, fair point. Sir, second question is on the spare parts revenues for this particular quarter what that number is if you can share?

Surender Chhabra: Chirag, for the full year we have given 12.90% growth quarter-to-quarter it varies, for the quarter because now the figures are not in the public domain so what is the use to have it.

Chirag Shah: But Sir, because generally you share for last quarter also you had shared?

Surender Chhabra: Yes, for this quarter the Q4, Rs. 774 Crores.

Chirag Shah: And it would be more kind of flattish on the spare parts side, the quarter?

Surender Chhabra: The previous quarter is Rs. 722 Crores.

Chirag Shah: Yes, but the growth on Y-o-Y basis would be flattish kind of a thing?

Surender Chhabra: Quarter-to-quarter the growth is there marginally.

Chirag Shah: Sir, generally to understand on the spare parts side, what is the reason of this volatility in the spare part revenue? How do we, because generally the spare part revenue should reasonably be smooth for us and, given the counterfeiting effort that the industry in general is doing it should be moving up. Generally why there is such a volatility for spare part revenues?

Surender Chhabra: Normally volatility is only during the peak period the festival period, supplier gives us to the OE instead of the spare parts so supply constraints come during peak period so that is why you always see the gap.

Chirag Shah: Okay so that is the primary reason for that?

Niranjan Gupta: That is the primary for that. Just to add that the growth numbers are around 10% to 12% on Q4 to Q4 basis as well pretty similar to the full year basis.

Chirag Shah: Sir one last question if I squeeze in on the tax rate so how should one look at the tax rate for next year?

Surender Chhabra: Tax rate, let me tell you, depend on the capex, how much capex we do within the year, but the current year gap you are saying that the previous year is only because of that R&D benefit, which was earlier 200% this year it is 150% apart from that investment also withdrawn by the government so these two elements had a negative effect plus on the deferred liability 1% cess element have come up from April 1, which you have to accrue on the future liabilities. Coming year depending on how much capex we will have within the year based on that effective tax percentages can be worked out.

Chirag Shah: It should be broadly in the current range right, 1%-odd here and there?

Surender Chhabra: At this point of time, I cannot comment that but yes, we will try to I think we will have effective tax rate instead of that, depending on that how much capex we are targeting there.

Chirag Shah: Sir, just a clarification in the last call you indicated that we are getting a certain benefits from the new plant, which to a reasonable extent you can compensate for this expiry of tax benefits at our Haridwar plant so can you throw some light how that will work for you in that sense?

Niranjan Gupta: We did not say it would compensate for Haridwar. What we said in the last call is that while Haridwar fiscal expiry will have an impact adverse in FY2019 but as we

move towards FY2020 then the ramp up of Halol plant and with the commissioning of Vadodara plant, we should be able to offset. That is what we had said and which is what we maintain.

Chirag Shah: Fair point. There could be some timing difference. This was really helpful. Thank you Sir and all the best.

Moderator: Thank you. The next question is from the line of Sahil Kedia from Bank of America Merrill Lynch. Please go ahead.

Sahil Kedia: Thank you for this opportunity. Most questions have been answered just a two house-keeping questions, one in your consolidated profit we see a share of associate what is that related to Rs. 50 Crores for the full year and would you be able to give us a sense of what was the total finance book at Hero FinCorp and profit for the year?

Niranjan Gupta: Can you repeat your question?

Sahil Kedia: First question is around the consolidated numbers that is Rs.50 Crores profit, which is a profit from associate what does it relate to? Number two, if you can give us the size of lending book that you have at Hero FinCorp and profit for the year FY2018?

Niranjan Gupta: The share, as far as the associate is concerned we have the associate company from where this profit comes and on the financial book side, Mr. Chhabra you can answer.

Surender Chhabra: You see that you know FinCorp is there, which is associate and we have the two subsidiaries, Bangladesh and Colombia. On associate front, that is part of the mark-to-market consolidation but as far as subsidiaries are concerned, their profits are clubbed with the Company's profit so Bangladesh is growing, we have the profitability, Colombia yet to contribute. Overall, the profit consolidation is only on the basis of all these three entities.

- Sahil Kedia:** Is it possible for you to then split it and give us atleast a broad directional figure in terms of that if this is sum of your operating entities and finance of FinCorp what would be the breakup between the two?
- Surender Chhabra:** Complete details come in the balance sheet for subsidiary as well as asset valuation also.
- Sahil Kedia:** I will wait for that. Thank you.
- Moderator:** Thank you. The next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.
- Hitesh Goel:** Thank you for taking my question Sir. Can you just give us some sense on the price hike that you have taken will it totally compensate for the commodity cost hike. Also to the Haridwar incentive that is going away. Basically my question is you will be able to maintain the gross margins which currently you are reporting?
- Niranjan Gupta:** Couple of things, one is that price hikes are not to offset any fiscal benefit expiry. They are more combination of not only the commodity cost but also various other factors. We take into account the product competitiveness, our pricing strategy. It is all a combination of that and not standalone either linked to commodity or linked to any other factor. Second, will it offset the entire commodity cost movement, we will have to see how it pans out. Commodities are on the rise, we do continue to take judicious pricing action with our clear objective of growing both topline and bottomline, and we will continue to navigate that space judiciously.
- Hitesh Goel:** Sir can you tell us in FY2018 versus FY2017 what has been the increase in commodity cost?
- Niranjan Gupta:** So that you can see from the ratios itself where the material cost have gone up by 100 basis points, which got offset to the operating leverage, which is what I mentioned in the call in the beginning as well.

Hitesh Goel: So this is purely because of commodity cost and not because of the mix because you have CT100? So it is purely because of commodity cost.

Niranjan Gupta: Yes. That has not played out yet.

Hitesh Goel: Okay and because the commodity cost has gone up much more you have seen more, delayed hikes of commodity cost in next two quarters. Is that how we should look at it?

Niranjan Gupta: Potentially, we will have to watch this space closely in terms of how commodities behave and accordingly we will continue to navigate that space, what FY2018 number shows that we are able to navigate that space by taking the right cost right time.

Hitesh Goel: And Sir what would be the dealer inventory of Hero MotoCorp currently?

Ashok Bhasin: We have already given a range so it is between four to six weeks.

Hitesh Goel: So basically retails are growing in line with the wholesales and the Q4 also?

Ashok Bhasin: Yes, certainly.

Hitesh Goel: Congratulations. Thank you.

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

Pulkit Singhal: Thanks for taking my question. Sir I was just trying to see the changes in the on-road prices for Splendor and Passion over five years at a consumer level on-road price. I notice almost a 4% kind of annual inflation 48000 bike cost now 58000 I wanted to firstly reconfirm that with you is that what you also seeing because mine is based on certain data points from some magazines etc.?

Ashok Bhasin: You said 4% then if I heard you correctly you said 48 going to 58, I am not sure if I heard you correctly?

Pulkit Singhal: Yes, 48,000 going to 58,000 roughly so that translates to 4% consumer price inflation annually for five years.

Ashok Bhasin: Over the five years, certainly there has been inflation, no doubt, I do not have the motorbike number right in front of me at the moment but yes, if you see from latter part of fiscal 2017 to 2018, I mean the average ex-showroom price increases that we would have taken would be close to Rs.2800 per two-wheeler and that is obviously a substantial increase we should take the ex-showroom price of 50000 so that already talking about 5%-5.5% over the last 18 months but that number we would not be in a position to confirm on the call, probably you could take it offline with Umang.

Pulkit Singhal: Sure. I just also wanted to get a view whether you think, while we know people are upgrading from Splendor and Passion is it possible that they are downgrading to accept Dawn Deluxe because of such level of inflation? Or because they also find the products atleast the engine is same etc., so do you think that is also happening?

Ashok Bhasin: I think there is no one is to one comparison here because if you look at a market, which is growing 50%; say in the last fiscal. Obviously, a lot of first time buyer coming so then there is no reference point. They are just entering through the model and the price point value proposition. And therefore, obviously the entry segment is growing strongly. But, like I said if you look at the 125CC atleast for us, which we are the market dealers in that segment we have grown north of 20% in that segment as well which is a very strong growth trend. Similarly you have entry segment consumers coming particularly from the rural markets who are first time buyers they obviously do enter the category in large numbers at those entry price points.

Pulkit Singhal: So their behavior more like, okay, I have Rs.50000 let me see what I can buy or is it more like you know I have to buy a Splendor or Passion, I mean I just try to get how price sensitive versus brand sensitive they are?

Ashok Bhasin: I do not think it is either or because for a consumer the price sensitivity is really important. They see as a value proposition. In the two references which you make which is Passion and Splendor, is getting a lot of intrinsic value for the consumer beyond the product, which is the brand, the trust, the reliability and what the value it offers. I think the consumers clearly do that, and that too Hero has a dominant share if you see in the 100CC segment. There are a lot of competing models which sell at price which are significantly cheaper. Yes, Hero through HF brand and then through Splendor and then through Passion continues to lead the market with 70% because the consumer sees a lot of value not just in the product proposition but in the overall value proposition including the product, the customer service, the reach and the brand, I think, we have indicated that significantly even in the last year.

Pulkit Singhal: Thanks for sharing your views.

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

Pramod Kumar: Thanks a lot for the opportunity. Sir this question is actually for Mr. Bhasin on the market share front. This data from SIAM suggests that our leadership on a state wise basis is down to 13 states now compared to 16 at the end of FY2017 and 20 around end of FY2016. So just wanted to understand, though we still remain a market leader and our share have not moved a much last year, it is fairly flattish. How as a company you are looking at this distortion in terms of where you slipping on state-by-state. It just happens geographically, north is growing faster so you have been able to hold on to the market share last year but if you look at the number of shares, states where you are the market leader is clearly dipping. Are there any thoughts on where would you, is there a target where you would like to come back on few states in terms of market leadership. In terms of a more balanced spread across the country and part of this is also linked to a scooter strategy. Wanted to also understand your longer term thoughts on the micro breakdown of the leadership position?

Ashok Bhasin: I think the micro breakdown is being driven by multiple factors. First of all if you see even in the market where we are strong, actually becoming stronger, but clearly from a market structure standpoint the two things that we have to deal with in the future is scooter segment where are expanding our portfolio and brand proposition so when the market have converted significant to scooters and we have been a much smaller player, market share in those states obviously gets affected, which are parts of market in south and parts of market in west. But at the same time in our expanding portfolio, in scooters as well as of now in premium segments you will see some of that move forward. Strong thing is that even in some of those markets, for example, even in the west if you look at our market share progress in motorcycle it has been a pretty story in the last fiscal. I think clearly with the 125CC uplift and expansion in 200CC and scooters we clearly will see improvements in those markets. Otherwise, from a market structure standpoint over the last two to three years was not working most favourably for us because we were not present in certain segments.

Pramod Kumar: Fair enough. And the second question pertains to the international market. It is good to see some bit of improvement in the volumes in last fiscal, just wanted to understand how much of this is driven by Bangladesh? In terms of the local joint venture there, also given the increasing tilt towards probably the subcontinent in terms of export shift just want to understand the rationale for progressing or with the Golf Sponsorship for Tiger Woods and extending it to Europe now? Now we have gone from North America to even the European tour? So just wanted to understand because these are clearly not the markets we have seen volumes and markets clearly in subcontinent regions or in the Africa, so just wanted to understand what was the thought process behind that?

Niranjan Gupta: As far as the global business is concerned, substantial part of growth does come from Bangladesh. We would not be able to give out exact numbers on this call but Bangladesh is firing well. Actually the central American countries are firing well and there are other markets where we need to pickup. We do see macro-economic environment also moving favourable sequentially and therefore we would be in a

position to scale up market-by-market as we move forward in the coming years. As far as our advertising strategy, brand building strategies are concerned, these are part of the overall corporate strategy, which move beyond certain markets, geography etc., there is a whole sort of brand building part of it the imagery, the premium etc., so you can call for various aspects, power brand building into it and that is the strategy that we are following.

Pramod Kumar: Fair enough Sir. Thanks a lot and best of luck Sir. Thank you.

Moderator: Thank you. The next question is from the line of Mahesh Bendre from Karvy Equities. Please go ahead.

Mahesh Bendre: Thank you for the opportunity. Sir during this year we have grown by 14% in terms of volumes, so what is the outlook for the current year do you expect similar momentum to continue?

Ashok Bhasin: For fiscal 2019, which has already begun we expect the momentum of industry grows to continue and we expect close to double-digit growth for the industry and Hero certainly will stay on top of the game and consolidated our leadership growth will also be pretty strong.

Mahesh Bendre: Sir would you like to share any details regarding the exact launches of new models that we are planning this current year?

Ashok Bhasin: We have already talked about entry in the premium segment with the 200CC start which is Xtreme 200R and then we have the 125CC scooters and then we also have the Xpulse so all of this products will see getting us into the market in the current fiscal in the next few months.

Mahesh Bendre: Sure. Sir last question on export side, do you see substantial given the base that we are operating now do you see a substantial growth in the export side over next two three years?

Niranjan Gupta: Yes, I think the momentum is picking up. As I have mentioned a couple of clusters have started firing. We are sitting on a small base so therefore the opportunity for growth is significant and we should be building it out over the next two three years as you said rightly.

Mahesh Bendre: Thank you Sir.

Moderator: Thank you. The next question is from the line of Jatin Chawla from Credit Suisse. Please go ahead.

Jatin Chawla: Good evening Sir. Most of my questions are answered. Just one question on we have seen in the last couple of months one of your competitors very heavily discount its entry level product. What is the kind of impact you have seen on the market of that? Is there a share shift or is there people expecting more kind of price incentives from your side as well? What is the kind of impact of such an aggressive scheme that you are seen in the market?

Ashok Bhasin: Clearly some of the competitor's moves on pricing on more than one model have been extremely aggressive as well, as remarked by you. We clearly will be focused on the value proposition game, which includes the product, the service, the brand and all its values and therefore you will see us continue to charge a premium in every segment including entry. Beyond that I would not like to speculate on the outcomes of the competitor moves. But yes, the competitors have done deep discounting in the market and our strong trend on topline and bottomline is reflected by our proposition strategy versus just a product and price discounting.

Niranjan Gupta: Just to add what Ashok mentioned if you look at the full year and you would have obviously the data our entry segment we have grown almost 30% compared to the industry growth of 20% so that supplements that it is about all the fives and six Ps are not just the one P alone.

Jatin Chawla: In that context how do you see that cost of customer acquisition be it subvention or other schemes going forward and what was the kind of impact of that in FY2018 so

would you say for you also the cost of customer acquisition went up in FY2018 or for you it remained kind of similar FY2017?

Niranjan Gupta: I think both by looking at the holistic level our profitability and some of the key line items, which have been shared in the financials you will see that ourselves in a pretty prudent game that we continue to create value and not by deep discounting either on price or on other things. We do a healthy mix of actions but make sure that will create value not just for the consumer but also for the shareholder, which is reflected in our financial results currently shared.

Jatin Chawla: Thanks a lot.

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

Jamshed Dadabhoy: Thanks again. I just wanted to circle back on this comment, you all made on material cost. Is it fair to say that like-for-like if topline growth was 16% the GP margin would actually have been may be another 100 basis points lower? I mean just like-for-like because this year from the second quarter onwards material cost have deflated to the extent of I think about 200 basis points or so and there has been the corresponding impact in the revenue so I just wanted to get your sense of how we should think of gross profit margins, the material cost sales on a full year basis like-for-like?

Niranjan Gupta: So, I am not sure I got your question fully, but I just repeat what you have said that over the full year we have seen material cost moving up, which has been offset by operating leverage. That has been the story of our margins. As far as moving forward is concerned, we have also said that some of our material cost operate with one or two quarters lag and therefore we are likely to see an uptick in the material cost moving forward. Consequently, various actions on pricing, on cost saving, on various other things as we keep navigating, we will continue to explore those options going forward.

Jamshed Dadabhoy: Okay, I think I will take it offline Sir. Thank you.

Moderator: Thank you. The next question is from the line of Bharath Gainani from Sharekhan. Please go ahead.

Bharat Gainani: Thank you very much for the opportunity Sir. Just understanding on the fiscal incentive that expired in this financial year, in your earlier comment you said that because of the timing difference Halol and Andhra Pradesh plant also coming up so may be is it right to understand that say not immediately but in the next two to three years it will fully offset the loss of incentives that Haridwar?

Niranjan Gupta: We should be able to, not only combining fiscal benefit but combining also the logistic benefit that will accrue by disbursing the plant locations to west and south. It is a combination of the benefits coming out of logistic and fiscal, which we should be able to offset over the next two to three years.

Bharat Gainani: Thank you very much. That is all from my side.

Moderator: We take the next question from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: You have talked about new technology so developments underway on strategic priorities specifically engaging with external ecosystem so any, you know about Ather but anymore details if you can share that what exactly are trying to do?

Niranjan Gupta: Nothing, we can share at this stage. The statement is more about that we continue to evaluate and explore all collaboration, new technologies whether it is electric vehicles or anything else and the statement is made in that regard, and also that we invest in technology within the plant.

Kapil Singh: Okay. You know typically such businesses in initial stage would not require more capital so would we look to maintain our stake?

Umang Khurana: Is that question about Ather specifically, Kapil?

- Kapil Singh:** Yes.
- Niranjan Gupta:** So as and when they come up with the funding round or whatever we will take appropriate decisions, which we take after evaluating everything. That is basically something that we cannot comment specifically but we continue to take the right decisions.
- Kapil Singh:** Okay, can you share anything like in terms of timeline when are they looking to launch?
- Niranjan Gupta:** As far as their launch timing is concerned, they have already come out with the press release where they have announced recently on their go-to-market strategy. As far as exact timing of launch is concerned that they would be in a better position to share because we are one of the investors only in those.
- Kapil Singh:** One more thing I wanted to check, as far as new buyers are concerned, first time buyers would we have some information like how much are they currently, how much were they last year, how is that moving and also the financing proportion how is that moving?
- Ashok Bhasin:** New buyers continue to be around 70%-75% of the market and as far as financing is concerned, my colleague has already shared the ratios, overall consumer financing runs at about 40%.
- Kapil Singh:** Thank you.
- Moderator:** Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Yes, thanks for the opportunity again. My question is on Halol utilization levels so how should we look at utilization levels for Halol?
- Niranjan Gupta:** What do you mean by utilisation levels?



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Chirag Shah: Sir, as the plant ramps up etc., so when do you aim to achieve full production over there how fast you can achieve?

Niranjan Gupta: It is not about how fast we have achieve the expansion itself is being done in phases and as far as the current year is concerned Halol produced around 300,000 numbers and next year we expect to double the numbers through the phase wise ramp up.

Chirag Shah: Fair point. This was really helpful. One question on the revenue front again, is there a positive impact of mix on this average realization on the revenue side for in the quarter?

Niranjan Gupta: No.

Chirag Shah: Thank you very much Sir.

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

Raghunandhan: Thank you Sir for the opportunity again. There was a thought process to possibly relaunch Karizma any comment on that?

Ashok Bhasin: Karizma with some changes is getting into the market now and the broader expansion on Xtreme portfolio we have already talked about, our strategy would be more sort of led by the Xtreme 200R in that segment.

Raghunandhan: Sir for the exports what would be the revenue number for FY2018?

Niranjan Gupta: We have given out the volume numbers. We do not exactly give out the revenue numbers by segments in our quarterly result.

Raghunandhan: That is all from my side. Thank you.

Moderator: As there is no response we take the next question from the line of Ashish Nigam from Axis Capital. Please go ahead.

- Ashish Nigam:** I missed your volume growth guidance for next year?
- Ashok Bhasin:** I indicated that the momentum of fiscal 2018 should continue in fiscal 2019 and we expect the industry growth to be close to double-digits and Hero would certainly grow strongly and consolidate its leadership.
- Ashish Nigam:** Close to double-digit could be I mean high single-digit at the moment?
- Ashok Bhasin:** I think it would be anywhere around the double-digit border mark. It is difficult to predict with decision but I think we do see a strong year in fiscal 2019.
- Ashish Nigam:** Fair enough. For all the new launches that are coming out in FY2019 have you to have compulsory ABS or CBS depending on what CC it is what is the cost increase all are seeing safety norms. I know the emission norms are far out but the safety norms are upon us right now?
- Ashok Bhasin:** CBS typically would be around Rs.500 and the ABS could be somewhere around Rs.3,500 and Rs.4,000 depending on the market.
- Ashish Nigam:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.
- Jinesh Gandhi:** Sorry I got disconnected. Sir you mentioned about 70%-75% of buyers, are the new buyers so this is motorcycle or overall two-wheeler?
- Ashok Bhasin:** It is overall two-wheelers, but I must add here that both for motorcycles and scooters it is closer to that number. Motorcycles are just a shade higher but 70% of the buyer even in the scooter is a first time buyers.
- Jinesh Gandhi:** Secondly with respect to the Hero FinCorp book size, are you sharing that number or let us wait for the annual report?
- Niranjan Gupta:** We never share those numbers.



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Jinesh Gandhi: Lastly we have invested further in Hero FinCorp so that is to maintain our stake at 48% or our stake has gone up?

Niranjan Gupta: Pardon.

Jinesh Gandhi: In Hero FinCorp we have invested further in this financial year so our stake has remain stable at 48%?

Surender Chhabra: But our stake in FinCorp is 42%, and we are maintaining that stake. That is why you are seeing that mark-to-market gain is coming in the P&L account of that share.

Jinesh Gandhi: So other income includes that mark-to-market gain?

Niranjan Gupta: Not the other income, it is consolidated figure.

Jinesh Gandhi: Thanks and all the best.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Rahul Arora from Nirmal Bang Equities for closing comments.

Rahul Arora: Thank you. I would like to extend my thanks to the management, Mr. Gupta, Mr. Chhabra, Mr. Bhasin and of course Umang for taking time out this evening to do this call and to all the participants who joined in to hear the management comments as well. Thanks once again for everyone and hope they found it informative.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Nirmal Bang Institutional Equities that concludes this conference. Thank you for joining you and us may now disconnect your lines.