



"Hero MotoCorp Limited
Conference Call"

October 23, 2012



ANALYST: MR. RAHUL ARORA

**MANAGEMENT: MR. RAVI SUD
MR. ANIL DUA**



*Hero MotoCorp Limited
October 23, 2012*

- Moderator:** Ladies and gentlemen, good day and welcome to the Q2 FY'13 Earnings Conference Call of Hero MotoCorp hosted by Nirmal Bang Equities Private Limited. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing "*" followed by "0" on your touchtone phone. I would now like to hand the conference to Mr. Rahul Arora from Nirmal Bang. Thank you and over to you, Sir.
- Rahul Arora:** Thank you. Ladies and gentlemen, good afternoon and thank you so much for being part of this call on behalf of Nirmal Bang Institutional Equities and Hero MotoCorp. We have the members of the management with us Mr. Ravi Sud, CFO, and Mr. Anil Dua, Senior Vice President, Sales & Marketing to discuss their second quarter numbers. Gentlemen, good afternoon and over to you.
- Ravi Sud:** Good afternoon everybody. First of all, our apologies for being late. In Delhi it has been raining quite heavily. We were stuck in the traffic and then there was some problem in the telephone line. I would say, we start with the question and answer straight away.
- Moderator:** Thank you very much. We have the first question from the line of Kapil Singh from Nomura. Please go ahead.
- Kapil Singh:** Good afternoon Sir. Just wanted to check, we have seen an improvement in realizations by about Rs.900 per vehicle. If you could help us understand that?
- Ravi Sud:** Basically two or three reasons. Number one, Anil will explain to you later I think in 125cc our market share has gone up. Number two; scooters have been doing very well. Thirdly, though our overall volumes are lower, but when we compute the average realization you get the total turnover divided by the number of two wheelers. Our spare parts have been doing very well and spare parts margin is high. Those are the three reasons according to my mind for improvement in the ASP
- Kapil Singh:** Can you tell us how much would be spare part revenue?
- Ravi Sud:** As far as first six months is concerned, it is about 800 Crores. I am talking about gross of excise duty.
- Kapil Singh:** For the quarter would it be roughly half?
- Ravi Sud:** You can say that.



*Hero MotoCorp Limited
October 23, 2012*

Kapil Singh: Sir secondly in the press release you talked about 2 lakh retails for the Navaratra period. Can you help us understand how does it compare with the same period last year?

Anil Dua: Essentially if you look at Navaratri they just started around 16th and the time right up to actually Dussehra. Today is the last Navaratri and tomorrow will also be a big festival day. So, essentially what we are saying that up to today we will be doing at least 200,000 sales. If you want a comparison roughly this averages to around 25,800 or so per day. So say 26,000 a day. In the preceding period, we were averaging around 10,000 a day. So from 1st to 15th October we were averaging 10 and we moved up to 26 or so, and if I compare it with last year's festival period the same Navaratri period actually it is absolutely similar. So, it is good news that from a negative region for the industry, as you know industry last quarter has declined by 5%, at least in the festival time it is looking like even with what it was last year. So this initial period of the festival as you know it goes right up to some Dhanteras to Diwali but even for this period, it is a good early sign that probably the customers have come back and we are at least going to see an even territory or slightly positive growth.

Kapil Singh: Thanks Sir. That is good to hear. Lastly on Haridwar production if you can tell us what we have done for the quarter? What is the target for full year? Do we plan to increase production further next year? What will be the maximum output that one can expect from that plant?

Ravi Sud: As we have stated in the Q4 and Q1 earning call, our capacity had to go up to about 9500 per day by August and September that capacity of 9500 is in place now, so that is the maximum, which we can produce there and presently we are producing close to 8000 per day.

Kapil Singh: So 9500 is the absolute maximum or it can be increased even further?

Ravi Sud: It is the installed capacity. Our plan is not to increase the capacity beyond that as of now and hence we announced two new plants in Rajasthan and Gujarat.

Kapil Singh: Thanks. That is very helpful. Thank you very much.

Moderator: We have the next question from the line of Pramod Kumar from IDFC Securities. Please go ahead.

Pramod Kumar: Thanks a lot for the opportunity Sir. If you can share that growth number for spares revenue during the first half and the growth in spare sales during first half?

Ravi Sud: As I said, the revenues from spares in the first six months is close to 800 and you can take 50-50.

Pramod Kumar: No, I am talking about the growth Sir, growth over last year?

Anil Dua: We are actually in the region of about 15% growth, Pramod.



*Hero MotoCorp Limited
October 23, 2012*

Pramod Kumar: Other thing Sir, in terms of what will be the implication on our tax rate given that at the beginning of the year we were looking at a particular volume range and given this because of the slowdown in the industry we may not achieve that. Are there going to be any implication in the tax rate either going up or going down?

Ravi Sud: As experienced many, many times we work out a tax rate for each quarter based on the annualized volume and the production in each plant. If you notice the tax rate in the current quarter, which is by 16.25 and our expectation is it should be in the range of 16 to 16.75 for the full year depending upon the overall production at Haridwar.

Pramod Kumar: What would be the revised volume target for this year roughly in terms of growth for the industry, in terms of the growth and for ourselves?

Anil Dua: As you know, this quarter has been a surprise quarter for the industry because the previous quarter the growth was in the region of 9% or 10% so the industry was expectant that it will be in similar region or maybe a little lower because this typically is an off-season, but against the expectation of 7% to 8% growth in this quarter, the industry has actually seen a decline of 5%, and as a result SIAM is already on record. They have lowered the forecast for the industry for the year from about 10% to 12% growth to about 5% to 6% growth. Our estimation will be similar for the industry, we will have a low single digit kind of growth and our endeavor will be to be at least in line with that.

Pramod Kumar: Which actually implies that your asking rate for the next six months is going to be significantly higher than 550000 so just wanted to understand does it look to be a fair target to look at?

Anil Dua: That is a good question but you see we do not want to repeat what happened in quarter two which is that you get your forecast absolutely wrong and then there have to be strong corrections and strong adjustments, so we will play it as the industry improves. So, we are not going to suddenly jack up our production and capacities without sensing the upsurge in the market.

Pramod Kumar: When is Passion xPro getting introduced? Is it going to be on the eve of Diwali or you are looking at December, January?

Anil Dua: We have started dispatching Passion xPro. So, that is, one big news that we have for festival for our customers, our entry into 110cc segment. So, in the month of October we have already started dispatching Passion xPro and it will be available to our customers before Diwali.

Pramod Kumar: That is good news. This one is for Mr. Sud, Sir, fist half balance sheet there seems to be a fair bit of increase in our receivables if you just could throw some light on that segment?

Ravi Sud: Even in the first quarter conference call, we have said that the inventory at the dealers end is going up. Generally, for the second quarter before the festival season, we do build up stock but



*Hero MotoCorp Limited
October 23, 2012*

now this year rather building up stock in the month of August or September, it was built up a couple of months earlier. So, you will see a receivable of around 780 Crores but with the festival season and retail picking up, it is a very good sign, and we expect this receivable to come in line.

Pramod Kumar: What is the rate of interest? What we normally charge the dealers for this kind of receivables? What is the kind of interest rate that we charge the dealer for the outstanding payments from them?

Anil Dua: This is linked to the market rate and we have a credit policy, which is in place i.e. for first 15 days we do not charge interest. After that we charge interest, which is linked to the market rates, it is 12% to 13.5% as of now.

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

Moderator: Thank you. We have the next question from the line of Sanjay Doshi from Reliance Mutual Fund. Please go ahead.

Sanjay Doshi: Good afternoon Sir. Thanks for the opportunity. Sir one question is on the inventory levels. Can you help us understand what would be the total inventory levels and do we feel now the inventory correction is already done now?

Anil Dua: Sanjay these inventories are normally built up ahead of festival as was explained just now that actually this time we started building up a little earlier because the market was actually not growing in line with the expectation of the industry. So, the stock levels that we arrived at ahead of this festival are primarily the stock level we would have wanted to have ahead of festival. So this is typically four weeks at dealers and two weeks in transit is roughly the stock level that we have. As I just explained that the retails are looking good in festival, they are looking better than what was happening in the first fortnight of October more than doubled, we had 10000 a day as I said in the first 15 days and now we have 26000 a day so that is certainly now pulling down dealer inventories. We have already seen dealer inventories go down and we are assuming and we are hoping that this trend will continue and we will be at normal inventory levels as it happens every year post festival, but it entirely depends upon the full festival panning out in line with this expectation. Currently the signs are that it is going reasonably well.

Sanjay Doshi: Second can you help us understand a bit on the finance schemes that we have looked with HDFC Bank. So, what kind of benefit can this bring in, in terms of how much is our financed portfolio and what kind of incremental sales can come?

Ravi Sud: This is actually something, which is not really what I call a scheme. This is a finance program that it is a zero cost program to the company. This is a collaborative scheme between our dealers, HDFC Bank, and this scheme has been worked out to really see that customers have window of finance because the customer sentiment has been down as you know over the last one-quarter or



*Hero MotoCorp Limited
October 23, 2012*

so. So, finance is certainly a big enabler as we have seen in the past, and this is a very effective 6.99% offering. Certainly we are hoping that this will lead to a significant increase in financing and at least expecting doubling of the number of vehicles that HDFC normally finances at our dealership and that will certainly help us to get to the numbers that we have earlier spoken that we planning to get to more than 500,000 sales in this month and beyond. So that will certainly be helped in a large measure at least in the festival month by this financed program.

Sanjay Doshi: Overall financing would be 35%, 40%?

Ravi Sud: In our case it is close to 20%.

Sanjay Doshi: Thank you very much.

Moderator: Thank you. We have the next question from the line of Vaishali Jaju from Ageon Religare. Please go ahead.

Vaishali Jaju: Good afternoon Sir. This is first on the demand side, if we see going forward after the festive season also if demand is not picking up to the extent you are looking at even if 4%, 5% growth. Is there a possibility of the discounts coming on the vehicle, which right now I presume that there is nothing in the market? So how do you see the pricing thing happening going forward if the demand does not pick?

Anil Dua: Vaishali, there is absolutely no plan of discounts, or freebies, or price off. Our marketing expenditure is really focussed on brand building, and we do not spend any money on these. We have not spend so far and we do not plan to do so in near future, but in terms of pricing, I think that at industry level movement it depends upon overall industry dynamics on commodity price movements. I will say, that right now, nothing is in the offing and certainly price-offs and discounts are not in the offing. As I just said currently the sales situation is looking pretty good. It is 26,000 a day that we are doing currently during the festival season and we hope that because two-wheelers are essential product, customers can postpone their decision but they cannot just knock it off and therefore we are hoping that some momentum will continue even beyond festivals. So when SIAM says 5% to 6% we are not just saying it for post festival period we are saying for the year. So, given that the last quarter has been -5% and given that festival is going well there is a hope that you will see that momentum continuing even beyond festival.

Vaishali Jaju: I am just presuming that if it does not then is there a policy that the marketing strategy will have certain discounts offering in the market?

Anil Dua: There are no such policies, at least in Hero MotoCorp we do not plan to give any price-offs. I think we will stay with our strategy of strengthening our brand, improving the customer experience, offering new products that are what we will stay through.



*Hero MotoCorp Limited
October 23, 2012*

Vaishali Jaju: The second one is on export side. On the export, if you see after the duty drawback scheme again coming forward. So for the exporters the benefit is again going down and especially for the Hero being a new player in the market how do you see that into the changing strategy because initially maybe you have to compete with the existing players, which are there already in the market for the export? So can you just draw how are you planning to go in that sense?

Anil Dua: Hero is not fairly new. Yes, exports are a small percentage of our portfolio, only 3% or so, but we have been exporting to Nepal, Bangladesh, Sri Lanka, and Columbia for quite sometime. So, certainly I think these pressures have been coming off and on in terms of duty structures. The thing about them is they apply to the entire industries, especially in the markets we operate in, the Indian brands are very strong and they are the key competition in the markets that we operate in, and some of these policy changes affect all of us equally. Therefore competitively that does not really change our position too much in some of these markets that we operate in. So our strategy will be to actually the customer facing to look at the market and see what the right pricing is and do what is good both for the customer as well as for the business.

Vaishali Jaju: I am just asking because the other Indian players are already established in the market and because we will be new. So we may have to put a little bit more efforts than what is required, so that way?

Ravi Sud: Yes, so in the markets that I have mentioned that is to be South Asian markets, actually in some of the markets we are at number one or number two position but in the new markets that we are yet to go to for example Africa, Latin America, yes I will agree with you that as a new entrant we will have to plan for marketing investments in these markets. So they have been pretty much built into our annual plan and already when we launched Hero brand overseas in markets like Sri Lanka and Nepal last quarter, we have brought into play some of those marketing investments and similarly as we go into Africa, Latin America, we will go with a plan. We certainly will take into account that we are a new entrant that therefore we will have to try harder.

Vaishali Jaju: That is all from my side. Thank you.

Moderator: Thank you. We have the next question from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Sir my question is again on exports only from a customer point of view how does the market for example buying a Hero bike in Sri Lanka now versus earlier buying a similar brand via Honda dealership, how is the customer experience changing in terms of the number of outlets where you are available now versus earlier or number of brands that you are offering now versus earlier? So how exactly has it changed?

Anil Dua: I think we have taken this as an opportunity and we have grabbed it with both the hands. We have put together a very aggressive plan for these markets. To start with, we put a state-of-the-art



*Hero MotoCorp Limited
October 23, 2012*

infrastructure because the earlier system that we had some of their infrastructure was what we had inherited and we had carried on with that but now this was an opportunity for us to put in place absolutely new infrastructure so in these markets new showrooms, new workshops have come up which are very state of the art. They use the latest technologies, they have the latest equipments and they provide the best in class experience, besides that of course we have also built up a dedicated network and that work is in process as we speak. We have new distributor arrangements in these markets. Earlier most of the outlets used to share because these were common distributors of Hero and Honda but now these are dedicated Hero outlets. So we still will be able to provide more uniform brand experience to the customers across the network and we are aiming for larger outlet numbers and larger sales numbers in future as we go forward.

Binay Singh: For example, in a market like Sri Lanka you currently have I think around 50 outlets. So, is that fair to assume that with Honda the number of outlets would have been much higher?

Anil Dua: That is not true. Essentially you know 70% of the business used to be from Hero and I am including the other products like power products etc., so we were the dominant support for the dealers' business and whatever network existed, existed mostly on the back of Hero business and therefore I will say that that really is not the case. We are, as I said, in the process of building our network to its eventual position and eventually without getting into specific number at the moment but eventually we see our network at least 1.5 times the network that we had earlier.

Binay Singh: Sir secondly, could you give us a bit like the ramp up in exports that we will see probably from a more near-term one or two year perspective? We are currently doing around 10,000 units a month and I understand in the next one year we will enter Africa and Latin America. How do we see that monthly sort of runrate? What are the targets that we are aiming at?

Anil Dua: International situation is not very different from the domestic situation as well as the Indian two-wheeler industry is concerned because if you look at exports then YTD while industry is marginally positive on domestic front, on export front the industry is actually negative. So if you look at SIAM numbers, I think you will find that industry is negative 4%. In a situation like this, I think it will be difficult to forecast near-term numbers but what I can certainly say is that the short-term numbers remain the same, the short-term commitment remains the same which is to get to that 1 million international business numbers in five years' time.

Binay Singh: Great Sir. Thanks a lot. I will come back with further questions. Thanks.

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

Jinesh Gandhi: Good evening. Sir my question is first on some data points; what was the royalty amortization during the quarter?



*Hero MotoCorp Limited
October 23, 2012*

- Ravi Sud:** The total amount is JY 45 billion for the full duration upto June 2014.
- Jinesh Gandhi:** Sir but there is this forex element, which also comes, so if you can?
- Ravi Sud:** During the quarter we got some benefit of forex, because if you remember on March 31, Rupee was 49.80 and June 30 it jumped up to 54 plus and current quarter it is at 52.67 so compared to previous quarter we got a benefit of 14 Crores.
- Jinesh Gandhi:** 14 Crores is what we received. Sir secondly you indicated that during the quarter there were no meaningful price increases. Have you taken any price increase recently?
- Ravi Sud:** Yes, we have taken a minor price increase effective October 1, which is basically to cover the diesel hike.
- Jinesh Gandhi:** What would be the quantum?
- Ravi Sud:** We have increased by Rs.300 to the customers on all models.
- Jinesh Gandhi:** Sir we have seen constraints on our scooter supplies. Are we looking to increase capacity there?
- Anil Dua:** Yes, Jinesh we are doing pretty well on scooters. Pleasure is already doing very well and with now launch of Maestro, we are almost doubling our volumes on scooters because Maestro is also already touching close to 20,000 kind of volume. So, last month, we reported almost 50,000 sales between Pleasure and Maestro, so we are in the process of increasing our capacity in the first round to at least 60,000 to take care of the increasing demand.
- Jinesh Gandhi:** This would be at Dharuhera?
- Ravi Sud:** Gurgaon.
- Moderator:** Thank you. We have the next question from the line of Sahil Kedia from Barclays. Please go ahead.
- Sahil Kedia:** Thank you for taking my question. I have a question regarding your other expenses, if you see on a sequential basis they are largely flat despite volumes coming off. Can you give us a sense of why the other manufacturing expenses have relatively remained constant in absolute terms?
- Ravi Sud:** During the quarter we had Supply Chain Partners Conference onetime expenditure and this is not a small amount. It runs into Crores. That is one event. Otherwise most of the expenses would be in the nature of fixed except as Anil said, our marketing spend is about 2% of the turnover and that has been retained within that.



*Hero MotoCorp Limited
October 23, 2012*

- Sahil Kedia:** Sir, lastly just wanted to double check, are there any discounts that are being today offered because of festive season?
- Ravi Sud:** No, there is nothing.
- Sahil Kedia:** So there is no discount that is being currently offered to boost volumes right at all?
- Ravi Sud:** Not at all. There is no discount.
- Sahil Kedia:** Thank you so much.
- Moderator:** Thank you. We have the next question from the line of Ajay Sethia from Centrum. Please go ahead.
- Ajay Sethia:** Sir my question was again on realizations. If one knocks off the impact of the spare part sales what would be the effective increase on a sequential basis?
- Anil Dua:** I may not have those details immediately but as I said our overall volume is down but spare part sales continue to grow and spare part margin is definitely higher than what you get on the two wheelers, but certainly even two wheeler realization is up. The figures are not be there immediately, but since 125cc portfolio we have been growing very well Ignitor as we have buy that we have launched in 125cc plus we had Glamour and Super Splendor and in the 125cc portfolio today we are larger than one third of the market. In fact we are the largest player in this quarter in 125cc. Also in case of scooters we are now the number two player in the market and thanks to both these categories growing fast and we growing faster than these categories, our realization has improved.
- Sahil Kedia:** Sir, because where I was coming from is based on the SIAM numbers, you can correct me if I am wrong. The contribution in second quarter was at 75% from executive segment as compared to 79% in first quarter. So given the lower contribution from let us say Splendor and Passion still you got a better realization. So that is what I was sort of trying to understand.
- Anil Dua:** The dealers segment actually comprises both 100cc and 125cc. It comprises the high price kind of 100cc so it does not have the entry segment 100cc bikes and it also has 125cc. So a Splendor and Passion are of course the 100cc bikes and the 100cc part of dealers segment has of course behaved slightly differently from the 125cc part of the dealer segment. Since overall we have seen some shrinkage of volume in this quarter and since 100cc is a larger segment so that has bore the burnt of this, but other segment say 125cc like even the entry segment or scooters have grown very well and we have gained share in all these segments.
- Sahil Kedia:** Thank you so much Sir. That was quite helpful.



*Hero MotoCorp Limited
October 23, 2012*

Moderator: Thank you. We have the next question from the line of Hitesh Goel from Kotak Institutional Equities. Please go ahead.

Hitesh Goel: Thank you Sir. I just wanted to have clarity on this gross margin. Actually the gross margins have improved by 100 basis points quarter-on-quarter like you have said scooters, Ignitor and spare parts sales have been higher so this has been the prime reason or you have taken some effective price increase also in this quarter or anything on the raw material side that we have been missing on?

Ravi Sud: As we said earlier, we did not take any price increase during the quarter and we have taken a marginal price increase effective first of October which is Rs.300 to the customer. As far as material cost is concerned, if you see the material cost as a percentage of the net revenue is down and that has definitely increased the gross margin and once again I come back to the same answer for spare parts. Spare parts have continued to grow during the quarter, which has a very high margin. That is one of the main reasons of material cost being lower compared to the previous quarter because overall numbers are down where the gross margin in some of the products in the two wheelers is lower but the spare parts is high. So, that is the main reason for this quarter.

Hitesh Goel: Are you seeing any raw material cost inflation or conversion cost increase from the vendors because the power cost has gone up and finally also I wanted to touch base on the staff cost and negotiation that you would be having with the workers so anything has happened there?

Ravi Sud: Well as far as staff cost at Dharuhera is concerned, the agreement is already in place and as far as Gurgaon is concerned the negotiations are on and what we do is we provide in our quarterly results a ballpark figure. We do not know what the exact amount would be, but to avoid any volatility in quarters to come, we have already provided even in the current quarter. Coming to the second issue of inflation, the commodities are stable except I think it is all depends on the currency if at all there is an impact on account of positive or negative that should come in the quarter three or quarter four.

Hitesh Goel: Okay, sir finally on the localization that we have been talking about what is the progress on that. What is the plan going forward? Localization of imported parts, your imported content is quite high as the percent of sales so what is the plan going forward?

Ravi Sud: Our direct import is about 5.5% and the biggest part which is of any significance is the "cast wheels" and our volumes are very high. We had started an indigenization about two to two and a half years back and our percentage of indigenization is increasing, but as far as other direct imports are concerned they are absolutely insignificant.

Hitesh Goel: But indirect imports you have been indicating that you will reduce it over a period of time?



*Hero MotoCorp Limited
October 23, 2012*

- Ravi Sud:** Yes, I had stated earlier, we have anything between 9% and 9.5%. The plans are in place and I think as and when something happens we will share with you.
- Hitesh Goel:** Thank you very much.
- Moderator:** Thank you. We have the next question from the line of Deepen Sanghvi from Enam Asset Management. Please go ahead.
- Deepen Sanghvi:** Just wanted to check with you this inventory in the system you gave, which is lying about four weeks with dealers and two weeks in transit. So what would be roughly the number of that six weeks combined?
- Ravi Sud:** When we say four weeks or two weeks it all depends on your base. I mean if you take a base of that 5 lakhs then one can say it is about 7.5 lakhs. Actually it is not correct, but if you take the base of last couple of months like August or September where it has been for 400,000 even we say it is four weeks plus two weeks it will be about 600,000.
- Deepen Sanghvi:** With the slowdown in the industry is there any change in your capex run, any deferment. Would you like to share some details on that?
- Ravi Sud:** As a company, we always follow a policy of building our capacities just ahead of the demand and that is why we had announced the plant number four and plant number five in June 2012, but as a plan our policy will continue to stay as it is and if there is any change in the capital expenditure because of the market condition I think that will automatically get adjusted.
- Deepen Sanghvi:** So what would be the capex in FY'13?
- Ravi Sud:** The first six months our total capex is about 250 Crores and for the next six months it is an estimate as of now. It could be another 300 to 350 Crores.
- Deepen Sanghvi:** Roughly 550 to 600 Crores?
- Ravi Sud:** 550 to 600 Crores.
- Deepen Sanghvi:** That is it. Thank you Sir.
- Moderator:** Thank you. We have the next question from the line of Amin Tarani from Deutsche Bank. Please go ahead.
- Amin Tarani:** Thanks for taking my question. My question is more on your tie-ups with the various associates of yours. First of all, I just wanted to understand how is the tie-up with Engines Engineering different from the one from AVL because as I understand Engines Engineering is also in full



*Hero MotoCorp Limited
October 23, 2012*

vehicle design, engineering consultation and all that as the same at AVL. So can you explain what is the difference in the two tie-ups?

Ravi Sud: AVL is basically for engines. As you rightly said Engines Engineering is also for full design so that is our main difference. This is based on our existing platforms and we will also develop new engines. AVL will work on existing engines and develop new platforms Engine Engineering will work on end-to-end products.

Amin Tarani: Which you would include engines as well?

Ravi Sud: It may or we will put an engine developed by AVL on new developed product.

Amin Tarani: Sir just also wanted to understand is it in terms of the payout to these companies would it be in terms of a royalty or a license fee or a onetime payment or what could be the quantum of its payments for the next two to three years?

Ravi Sud: What we are doing is we have the arrangements, which are in the nature of an umbrella agreement. Now as and when we have to develop some aggregate or a new product, we will place a letter of intent or as you can say what we call the purchase order. So there will not be any royalty that I can confirm just now, all the IPR, which will come out of the development, will belong to us. It will be linked to certain milestones as far as total project is concerned. I can just give you a hypothetical example because our total cost is 5 million we have to divide into 5 or 6 milestones as and when the milestones are achieved, the payments will be released.

Amin Tarani: But it would not be linked to final volumes so it will not be linked to your revenue performance?

Ravi Sud: No, not at all.

Amin Tarani: One more thing Sir the Passion xPro that you have just launched now that is also from the Honda stable like Maestro Ignitor or is it from your own stable that we have launched this one?

Anil Dua: This is one of the agreements that we had with Honda.

Amin Tarani: Sir, could you just give a sense as to the Maestro, Ignitor and the Passion xPro what is the kind of royalty or a model fee that you would be paying for Honda for these new products?

Ravi Sud: This is something, which we have stated earlier that even in the 26 years of our relationship with Honda we have never paid a royalty of more than 5% on any products and I am repeating same thing even on these products that royalty will not exceed 5%.

Amin Tarani: Thanks a lot.



*Hero MotoCorp Limited
October 23, 2012*

- Moderator:** Thank you. We have the next question from the line of Ravi Baid from Union KBC. Please go ahead.
- Ravi Baid:** Thank you. All my questions have been answered.
- Moderator:** Thank you. We have the next question from the line of Supriya Madye from HSBC. Please go ahead.
- Supriya Madye:** Thanks, most of my questions have been answered. Thank you so much.
- Moderator:** Thank you. We have the next question from the line of Kaushal Maru from Emkay Global. Please go ahead.
- Kaushal Maru:** I just wanted to clarify on this tie-up with HDFC, is this just for the period of the festive season or this will continue beyond that?
- Ravi Sud:** Presently, it is for festival season. HDFC Bank and we have been working together for a very long time so we have the central tie-up with them so on a routine basis also they provide a financing window at our dealerships along with the other similar tie-ups that we have. This particular program that we have of 6.99% has been worked out specially considering the festival in mind.
- Kaushal Maru:** Even at this point the dealers are also not bearing any cost of this lower interest rate, am I right?
- Ravi Sud:** The dealers actually benefit whenever financier operates at the premises, dealers are a part because dealers are providing business to financiers so they actually receive some consideration for providing that.
- Kaushal Maru:** But there is no subvention cost to the dealer for a lower interest rate?
- Ravi Sud:** No, I think Anil had already clarified that it is a zero cost scheme as far as company is concerned. So it is a program, which is being run jointly by the company, dealers and the financiers. I think it is possible the financiers may bear some of the cost. If he is charging rate of interest as now is 6.99%, we will work out to something like 11% or 12% or 13%. If he is charging 18%, he may charge lower rate of interest and it is possible dealer may contribute something.
- Anil Dua:** So dealer as actually physically I just would like to clarify the point Mr. Sud made. A dealer is not contributing in terms of being out of pocket at all. Dealer receives a certain consideration so that consideration can go up and down but dealer is not out of focus so this is as I said it is not really a cost to us and certainly it is not a burden on the dealer as well.
- Kaushal Maru:** Thank you Sir.



*Hero MotoCorp Limited
October 23, 2012*

Moderator: Thank you. We have the next question from the line of Jamshed Dadabhoy from CITI Group. Please go ahead.

Jamshed Dadabhoy: Thank you for the opportunity. Sir, could you give some explanation in terms of what exactly happened in 2Q against an expectation of 7%, 8% growth if retails were -5%. Where did you see the demand collapsing? Was it in urban, rural could you shed some light on that?

Anil Dua: Certainly Jamshed, I think, the overall economic sentiment in last quarter was at a low. If you recall the situation that prevailed from July to September, the GDP figures that have been coming for the last six seven quarters we are no longer talking about 9% we are talking of 5% and 6%. Secondly, if you look at inflation data, which used to be in 2011 in the region of 9%, 9.5% even this year, it has been in the region of 7%, 7.5%. If you consider the typical two-wheeler target growth that is something, which is definitely going to impact us primarily, 7% and 7.5% of inflation means there is pressure on the disposable income, there is pressure on the monthly household budget and therefore they are going to prioritize the essential purchases like foods, etc., over all the durable purchases. So, those macroeconomic parameters will certainly impact in the sentiment. In addition to that, the monsoons were expected in the season. They were delayed by time. Eventually, they have arrived and that is why I think we are seeing an upsurge again in festivals, but certainly during the quarter, with monsoons being delayed, the rural sentiment was impacted adversely and a combination of all these factors meant that the demand from especially smaller towns and rural areas got impacted far more adversely that you would have imagined. The good news is that some of the sentiment is coming back with monsoons having arrived and with some positive news on macroeconomic front and with festival, which precipitates the decision for a product, which may not be absolutely essential but it still is essential in medium term plan of a customer. So, I think, really the rural areas and the overall economic sentiment took a toll on the industry in the last quarter.

Jamshed Dadabhoy: Sir, what would your rural-urban split be today?

Anil Dua: We are 46% rural and 54% urban.

Jamshed Dadabhoy: So it continues, rural-urban for you all collapsed in the same ratio?

Anil Dua: As I said, rural was a little more adversely impacted, but we will not relook at this contribution on a month-to-month basis because as I said, some of these purchases can be postponed, but cannot be knocked off, so we have to see ultimately the full year position because many of your customers will precipitate their decision and will come into the fold, but in this quarter I can safely say that rural was impacted more adversely than urban.

Jamshed Dadabhoy: Second question, can you comment, because we have been hearing a lot and reading in the press that Splendor is being impacted due to the removal of the Honda badge, customers are not taking deliveries. Can you comment on that please?



*Hero MotoCorp Limited
October 23, 2012*

- Anil Dua:** I will repeat what I said that these kinds of claims, which are propaganda claims, are absolutely baseless. They are really malicious claims, they are willful, wrong information in the market. Let me give you some facts and figures. The numbers that Splendor has sold in the sixth month this year are 1.2 million. Almost all of it is Hero badge. These numbers are more or less in line with the numbers that we have sold last year. So out of 1.2 million almost 1.1 million are Hero badge because we started selling Splendor with Hero badge in April. We have been selling them for the last six months. When we met last quarter, you know, there were no such doubt because industry was positive, we were positive, this particular quarter, industry has gone negative, we have gone negative, so there is a correlation being drawn between change of our badge and you know the overall numbers, which is an absolutely fallacious correlation. There is no cost effect relationship between those two. The real reason for our numbers is that there is an industry slowdown. Splendor with Hero Badge has huge demand and it has done extremely well. It has sold 1.2 million, the second largest brand in the country is Passion, which is 700,000, and anything else is way behind these two brands.
- Jamshed Dadabhoy:** Sir Splendor 1.2 is retail, right?
- Anil Dua:** These are dispatch numbers. The retail numbers are close to that. All the numbers that you see are being quoted are dispatch numbers.
- Jamshed Dadabhoy:** Dispatch is in line with retail broadly?
- Anil Dua:** Broadly, yes.
- Jamshed Dadabhoy:** Thank you Sir.
- Moderator:** Thank you. We have the next question from the line of Harsh Mehta from Shah Investors. Please go ahead.
- Harsh Mehta:** Sir, all my questions have been answered. Thank you.
- Moderator:** The next question is from the line of Pramod Aamte from CIMB. Please go ahead.
- Pramod Aamte:** Sir, this is with regard to the exports. Are you planning to take any currency hedges?
- Ravi Sud:** We have a well laid out forex policy, which is approved by the Board and we have a policy of not 100%, we leave certain positions open, looking at the overall portfolio what we have and try to balance both imports and exports. We will continue with that.
- Pramod Aamte:** As compared to the expectation of exports ramp up, last couple of months your exports volumes have actually contracted. What is happening there? Is it just a correction before you take a jump or how to look at it?



*Hero MotoCorp Limited
October 23, 2012*

- Anil Dua:** It is a combination of both. You see first of all, yes, we are running down our old batch stocks in these markets and launching new batch and therefore some correction happens, for example, in Sri Lanka and Nepal. Secondly, the fact of the matter is as I was stating that domestic has actually done better than exports for the industry because industry exports are down 4%, so we are part of the industry and the industry exports are down because taxation has moved up adversely in many of the markets around us. There has been uncertainty in some of the markets. There have been regulatory confusions in some markets you know, without getting into market wise details, but all these things were there in the last quarter, which has impacted the exports of the industry and we have also been impacted. So both these factors in terms of slow down in exports market as well as our own change over from old to new have both contributed to this.
- Pramod Aamte:** Specific to your new product response, which I think has been encouraging. Both Maestro and Ignitor are they bringing new customers into the portfolio or how is it happening?
- Anil Dua:** The way we have formulated and positioned these products, I think, it is inbuilt into them because if you look at Maestro, our existence in scooter is Pleasure, which is positioned very sharply on women, “Why Should Boys Have All the Fun” is the proposition and if you look at Maestro, it is positioned very sharply on men. Its proposition is, “It’s Such a Boy Thing.” Actually we position them so sharply on boys and girls that they pickup their respective products rather than cannibalizing each other. So, we are getting definitely additional customers for Maestro, which we were not getting for Pleasure. Similar thing is true for Ignitor because if you look at 125cc segment we have two existing offerings; one is Super Splendor, which is very sharply positioned on commuter segment. The other is Glamour, which is positioned on style segment and the third one is Ignitor, which is positioned on power, because it has higher power than the other 125cc bikes in our portfolio, so these three are catering to three different kinds of customer types, three different kinds of mindsets and therefore bringing in additional customers.
- Pramod Aamte:** Thanks and all the best.
- Moderator:** Thank you. Participants due to time constraints from the management that was the last question. I would now like to hand the floor back to Mr. Rahul Arora for closing comments. Over to you Sir.
- Rahul Arora:** Ladies and gentlemen thank you so much for taking time out and being on this call. On behalf of Hero MotoCorp and Nirmal Bang Equities, once again thank you so much.
- Moderator:** On behalf of Nirmal Bang Equities, that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.