



"Hero MotoCorp Limited
Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Hero MotoCorp Q4 Financial Year 2013 Earnings Conference Call, hosted by Nirmal Bang Equities. 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. If you should need assistance during the conference call, please signal an operator by pressing "*" followed by "0" on your touchtone phone. Please note that this conference has been recorded. At this time, I would now like to hand the conference to Mr. Hemindra Hazari from Nirmal Bang. Thank you and over to you, Sir.

Hemindra Hazari: Good morning everybody. On behalf of Nirmal Bang Institutional Equities I would like to welcome all of you to the Hero MotoCorp Q4 and financial year 2013 results conference call. I would like to hand over the call over to Mr. Ravi Sud, Senior VP and CFO, and Mr. Anil Dua, Senior Vice President, Marketing & Sales of Hero MotoCorp.

Ravi Sud: Thank you, Hemandra. Since the numbers are already out, may we suggest that we start with Q&A straightaway? Keep one thing in mind that we got to close this conference latest by 11:55, as Anil has to take a flight. His flight is at 1 p.m. So he has to leave. So we can start with the question and answer straightaway.

Moderator: Thank you Sir. We have the first question from the line of Pramod Kumar from IDFC Securities. Please go ahead.

Pramod Kumar: Good morning Sir. Thanks a lot for the opportunity. Sir, my first question pertains to your full year spares revenue in terms of absolute value and the YOY growth size? If you can help us with that?

Ravi Sud: In the published results we do not mention this, but in the balance sheet this will definitely come. One can say that our spares revenue has grown by about 10%.

Pramod Kumar: What is your volume and margin outlook going forward Sir, because on margin if I am not wrong last quarter you had guided that the margins will remain in the range of last quarter whereas I think there has been a considerable beat or improvement in the margins. So if you can just throw some light on what is driving that and how do you see it panning out for FY'14 and also what is your volume outlook for the industry and for yourself and hence your market share aspirations as well?

Ravi Sud: What I will do is I will give you our perspective as far as margins are concerned and then I will hand over to Anil. He can talk to you about the industry, and the volumes, and our market share etc. In the Q3 conference call what we had said was the margin is likely to be more or less stable, but between Q3 and Q4 three or four important things have happened. Number one, Japanese Yen has depreciated by more than 20% and part of the benefit has come in the material cost. Now looking at our margins in Q3, I think, we in the company have worked hard to make sure that wherever there is an opportunity to do the improvement that gets incorporated in our results in Q4 as well as in the future. There are three or four initiatives, which we have taken. Number one is as far as material cost is concerned, as you

know, which is our most significant part of our cost, I think, has come down by more than 100-basis points at this quarter, but there are three factors, which have contributed to that. Number one is as I said earlier, the depreciation of Yen. Number two; we are seeing some softness in the commodity prices, which to a very small extent has come in the Q4. Number three, you know, we have started a very, very comprehensive margin improvement project in the company with a full time team of about 25 employees from different department and we expect that the results of that should start reflecting in the next three to eight quarters.

Pramod Kumar: So, in that sense there is a further room for margin improvement on the gross margin level given all the initiatives and currency benefit and RM prices coming down. Is it fair?

Ravi Sud: Yes.

Pramod Kumar: You would expect that this should flow down to operating margins level or do you expect the market spent incrementally will eat into those?

Ravi Sud: I think what I said is Comprehensive Margin Improvement Program, which not only covers raw material cost or the input cost. This is an overall improvement project looking at all costs in the company. Be it marketing spends, be it our employee spends, be it our logistics, anything. That program has just been initiated in the first week of April and is a comprehensive program, which will continue for about 8 to 12 quarters, and we will start seeing the benefits as far as low-hanging fruits in terms of logistics or areas which do not need much effort very shortly, but as far as input costs are concerned, I think, we will start seeing the benefits three quarters down the line.

Pramod Kumar: On the market share and the volume outlook?

Anil Dua: Good morning everyone. I think this has been a tough year for the industry if you look at the growth of the industry in this fiscal gone by it has grown by only 2%. Now that has really not been seen for a few years now. Last year was 15%. Two consecutive years before that it had been around 25%. So this was really a very depressed year for the industry 2012-13. Within that even domestic industry was only 3%. So, clearly you know it was a major slowdown of the industry last year. Now clearly if you project this into future, it is not looking like style of operating back to earlier high double-digits kind of growth. It looks like we are going to see single-digit growth but may be higher single-digit growth than what you have seen last year. As far as our market share position is concerned, I think, we have done well with a very large base to kind of stay above 50. If you look at the domestic market share, you know motor vehicle in market share is about 53%. Now this is for the year as an average. If you look at Q4, actually our share is 54%.

So, we have excited at kind of upward trend and we maintain 50% plus kind of a share on a very large base, and in motorcycles, which has been a very competitive area. Scooters our success is well recorded. We have done extremely well. Scooters have grown much faster than the industry. Scooter industry has grown by 14% this year. We have grown by 53%. As a result, our market share is 18.5% for the year with just two scooters and in fact the Q4 share is more than 20%. So two key messages that our market share on motorcycles continues to be about 53%, on scooters we continue to continuously gain share and Q4 our share is a percentage point or more even better than the year as a whole.

Pramod Kumar: Are we looking at the option of having a captive financing arm?

Ravi Sud: You know the company Hero Fincorp Limited, which has been in existence for last 20 years, was catering for captive requirements for some of our dealers and vendors. We were doing working capital financing and medium-term financing and also financing our transporters of trucks. In the month of September 12, we decided that we will also go in for captive financing and I am very pleased to inform you that we did a soft launch at one of the dealerships in Delhi in April 13. We should do about 60 numbers at this dealership and the plan is that by end of May, we should be in total NCR, which should be at about 30 to 35 dealership, by end of July we should be at about 95 dealerships and at the end of 2014 fiscal we should be at about 196 dealerships. Plan is that FY'15 we should be at about 450 dealerships. I think this is a serious initiative, which the company has taken. We are pursuing it with all the vigour.

Pramod Kumar: How much, what would that mean to our balance sheet in terms of capital, which we will have to set aside for financing, and how does it tie up with our capex program and also at increased dividend payout?

Ravi Sud: There was a rights issue of this company, where Hero MotoCorp owns now about 40.3% of the equity. We can leverage it up to four to five times, which mean we can build a book of something like 1000 to 1200 Crores. But our plan is that we should have a book size of close to a billion dollar or about 5000 Crore by FY'17. This is not only the two-wheeler retail financing, but also SMEs and corporate finance activities. I would feel the total equity required by FY'17 could be about 1000 Crores and 40% would be around 400 Crores, out of which we have already contributed 40% of 200. So, which means, our requirement for next three or three and a half years could be anything about 300 to 350 Crores.

Pramod Kumar: What is the thought process in taking exposure to even SMEs and corporates? This is outside automobile or is it basically...?

Ravi Sud: As I said earlier, this company was doing financing for our dealers as well as our vendors and also our tier 2, tier 3, tier 4 suppliers and that activity will continue but it was being done very, very passively. But we were just looking at our own ancillaries and their suppliers, but the idea is to expand this activity into the automobile sector, not only to HMCs flag, but also outside also.

Pramod Kumar: On first half balance sheet that you had talked about the receivable days or receivables actually easing off post festive season, but I think between then and now I think the receivable portion has not improved much, so if you can throw some light on that? That will be my last question Sir?

Ravi Sud: As far as receivables are concerned, receivables are a function of the inventory at dealerships, and you have March 31 receivables, which are in the vicinity of Rs.650 Crores and one thing, I would just like to state that the days of two days or three days receivables are over, because the more we expand more dealerships we have. Receivables will go up, but I can say that our dealer inventory was at 5.5 weeks as on March 31 is now close to 4.5 weeks because the retails in the month of April have been extremely robust.

Pramod Kumar: Sounds good and thanks a lot. Best of luck.

Moderator: Thank you. The next question is from the line of Rashi Talwar from Ashmore India. Please go ahead.

Rashi Talwar: Good morning Sir. How are you?

Ravi Sud: Hi Rashi.

Rashi Talwar: Couple of questions and then one complaint.

Ravi Sud: Complaint you can do off line. I think because we are short of time, so you can ask your questions.

Rashi Talwar: So basically on your free cash flow, because that was something that I was calculating. We have seen obviously a significant decline in your free cash flow because of the working capital generation for this year as well. My point is where do you expect working capital to stabilize, because one of the key things of this business used to be the negative working capital that you all used to manage, which used to give you the extremely superior ROEs that you had?

Ravi Sud: Okay, my answer will be very simple. If you do your computation, even I think this is eighth year in running that we are still having a negative working capital. It is still negative.

Rashi Talwar: Sir, the delta, I mean, as you know, for us when we look at things, we look at the delta swing, because when you have gone, you say your payables have decreased by 18% for the current year. Your receivables have gone up by about 145%?

Ravi Sud: I must clarify, as far as payables are concerned, there were holidays as 29, 30, 31 of March were bank holidays. So we had about Rs.250 Crores of cash, which was the collection. So we paid our vendors on 29th March vs April 2.

Rashi Talwar: So that is a temporary function?

Ravi Sud: Yes.

Rashi Talwar: Fair enough. Sir, just one more thing, Sir, I think access to you all has become extremely difficult, all of us we have been tracking the Company. You have known me for an extremely long time. We never had so much difficulty in meeting with the management at Hero and chatting with you all. We do realize it has been an extremely tough year for the industry, but from our side there is just a request that we also track you all and have been looking at the Company for a long time and sometimes we need to just have access to you all through this course of things.

Ravi Sud: Well, the only thing I can say is that we are very, very regular as far as our earnings call is concerned; Number two; we do participate in some of the conferences that are generally in Bombay. If I do not go or Anil does not go, maybe Surender Chhabra goes. I remember very recently he was there in Bombay for one of the conferences. As far as meeting one-on-one is concerned, I think we will keep that in mind, but you must appreciate that we guys are really in a state in the expansion mode and there are hundreds of activity in which the top management is involved.

Rashi Talwar: Totally appreciate it. Just request from our side because as investors we also sometimes need to have regular meetings with the companies we invest in. Our investors expect that from us.

Ravi Sud: That is appreciated. Only thing requested, in case you have any queries, the mail is always open. You can always send a mail and I can assure you that I always reply on the mail.

Rashi Talwar: Fair enough, we will do that as well. Thank you Sir.

Moderator: Thank you. We have the next question from the line of Govind Chellappa from Jefferies. Please go ahead.

Govind Chellappa: Good morning. I have two questions, one, can you explain the recently introduced warranty scheme. One in terms of how many people were taking the extended warranty on your vehicles prior to the announcement of the scheme, what it means to the consumer and to the dealers and to you, and how much it would cost you incrementally in terms of warranty provision? That is a first question. My second question was on other expenses, during the full year, other expenses have gone up Rs.300 Crores. Now this in the year when volume has been slightly negative, so I just wanted to understand other than the ad spend that you spoke about in the last quarter, how much ad spend has gone up by, how much is the recurring royalty on the new products and what explains the rest?

Anil Dua: Maybe I can start with warranty and then Ravi will take on spends part. On warranty Govind, I think this has been a big initiative from our side, the five-year warranty that we have just announced. It is a renovation in the industry because this is the first time that any manufacture is offering is five-year warranty. We have done it after years of data now available with us on amazing performance of our products, amazing durability of our products, reliability of our products, that will keep on giving trouble-free service for years, we have testimonials from customers of usage of years without any kind of hassles and that is also evident in the fact that the retail value of our products is the highest in the market after five-years, after four-years and so on. So that is the basis of our confidence of giving this

five-year warranty. It has been received extremely well in the market as we just said that the retail in the month of April has been very good and I think it is a lot to do with the fact that people have embraced this initiative with open arms. They are really delighted with this proposal of ours.

Coming to your question of what was happening on extended warranty, in fact that is one of the basis why we have gone ahead with this five-year warranty. We found that in our extended warranty, we were more successful than anyone who has offered paid warranty on a payment basis kind of a warranty earlier. We had got very good response and we said therefore this is something, which customer wants and why not to therefore offer it to the customer in any case, so that you know they can really see it as yet another differentiator and as yet another indicator of great quality of Hero products. So really the advantage scheme that we had which was the extended warranty scheme, it is a huge success of that scheme that has prompted us to get into this five-year warranty offer. So, it is got a tremendous response and we are, as you know kind of in the process of creating awareness around this at the moment. You will see the outdoor across you would have seen different ads and this is something, which we plan to take further in this year to our advantage.

Coming to your second question of spend, I will just make one point, and then leave it to Ravi, the marketing spends while we had indicated last quarter that you know we have had marketing spend, I think I had made clear even at that time that it is not a great idea to look at marketing spend year-to-year because our plans coincide with festivals and therefore, certainly spends go up in festival and then they go down in other quarter. For the year as a whole, our marketing spends are still within 2% of sales. So our marketing spend are very much in control. They have not gone up. They are as per our norms and on the rest of the spends, I will just hand over to Ravi.

Ravi Sud: Yes, you know your question on our other expenses have gone up by about Rs.300 Crores. I think, as Anil said, there are few things, which we do not have to look at quarter-on-quarter or year-over-year basis, though there is an increase of more than Rs.100 Crores in our advertisement expenditures, compared to previous year, but we have a norm of keeping it within 2% and as he confirmed, it is within 2%. Other Items, which have hit the expenses adversely are basically power and transportation. Transportation means outbound logistics. Secondly diesel prices had gone up. Thirdly, we launched new products. So, element of royalty is another thing, which goes to Honda on these four products has gone up significantly. These three or four issues or points which I have mentioned cover more than Rs.250 Crores of expenditure increase.

Govind Chellappa: My estimate is your warranty cost; recurring royalty cost at assuming 5% on the new products would be about Rs.55 Crores to Rs.60 Crores. Is that a fair estimate?

Ravi Sud: Yes. Against the last year about Rs.3 Crores.

Govind Chellappa: Would you also comment on the incremental spend you will have to do on the warranties, on the new warranty scheme? I mean you do forego some revenues that you were collecting on Advantage scheme and now you have the warranty on the entire base of sequel year?

Ravi Sud: Right. We have done the workings, and since we had that extended warranty, we have the experience as to what actually has been the cost of giving this extended warranty for fourth year and fifth year. Our estimate is that our loss of revenue and additional cost of warranty put together will be about Rs.60 per two-wheeler what we sell. That is why in order to cover that and also rise in logistic cost and the power costs, which have impacted the bottom line, we took price increase effective April 26, and which according to us is very, very aggressive price increase, keeping in mind the current market conditions.

Govind Chellappa: So you mentioned Rs.60, so that will be about Rs.35 Crores?

Ravi Sud: Yes.

Govind Chellappa: It would have probably cost you more to put those ads in Times of India?

Anil Dua: Not really. Prior to that we need to do our planning, we do buy Soddently one morning, we buy as per our plan and we are very efficient buyers.

Govind Chellappa: I have a few more questions. I will come back in the queue.

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

Hitesh Goel: Thank you Sir. Sir, I just wanted to get a sense what is the kind of benefit you are getting on Japanese Yen. So basically as far as declared the 10% of your sales are imports in terms of Japanese Yen. So what is the kind of benefit that you are going to get? On indirect, have you got the benefit already?

Ravi Sud: That is what I stated in the beginning. As you know, our direct import is about 5.5%, our downstream import is about 9.5%. Our direct import is very, very insignificant as far as Yen is concerned, because our main imported item is cost steels. which is imported in dollars. As far as the indirect is concerned, about 50% of import is Yen dominated. As I said, a small portion of the benefit has come in the last quarter because we work with a lag of one quarter with about 60% of the vendors. So if you say what is the impact per unit to my mind it could be anything between Rs.100 and Rs.125.

Hitesh Goel: So, Sir major part of the benefit has it come through commodity cost reduction then in this quarter and how do you see commodity costs spending out now?

Ravi Sud: You see, as I have stated in the last quarter earning call that we were finding commodities very, very subdued and they remain subdued, and we are seeing some more softening of the prices, which have happened in the fourth quarter and also going forward. As we have stated many times, about 60% to 70% of our vendors, we worked with them with a lag of one quarter. So if any increase or decrease has happened in the quarter four, majority of it will come in the subsequent quarter. That position holds.

Hitesh Goel: Sir, also you had said in the last quarter on the new models that you had launched, the margins are lower. So, can you shed some light on that? And also on your export plans on the new launches that are coming up, if you can shed some light on that?

Anil Dua: You know, as we had also said last time that when new models are launched, yes they are on higher cost and lower margins, but as we build volumes and as happens with all our brands, as we build volumes, as we get economies of scale, our margins start improving on these products. You will also remember that we have spoken about the product mix previous quarters. This quarter, I think, even product mix has been favorable. That has also played a role in higher realization per unit. So, certainly the answer to your first question is that we are moving in the positive direction.

Coming to exports and brands or new products; on exports last year has been a very tough year for two-wheeler industry. I think for the first time the exports from India have declined in last many, many years. In fact, there was a decline of 1% last year. So accordingly, seeing the global situation and global conditions, especially in our vicinity, also in some big markets elsewhere, we have gone a little slow on our international plans, because we want to get our timing right. It is our first entry into many of these markets. We do not want to get at a time when things are really subdued. However, having said that in the last quarter, which Q4 of the last fiscal, we have initiated our dispatches to several new overseas markets, both in Latin America as well as in Africa. These are products which are being made for these will talk about these products only closer to the time when we are either launching in these markets which is planned in this quarter, in the first quarter of the new fiscal, we plan to get into both Africa and Latin America and start our retails in new markets. We have done our dispatches last quarter, as I said.

Coming to the kind of products that we are exporting as new products that we are launching, so for example, and if an African market requires a taxi product, then we have customized our product to be suitable for our taxi usage. So that kind of customization has been done in-house where R&D tested and doing extremely well competitively and that is just an example. Similar terms of, let us say, regulations of specific countries or typical requirements of specific countries, they have also been taken care of before dispatching these products.

In terms of new products overall whether domestic market or overseas, as we just said that last year we have launched two completely new products, which are Ignitor which is a new 125cc bike from us and Passion Xpro, which is first 110cc bike from us, and both these products have got excellent response. Besides this, in the last fiscal, we refreshed our entire range. So there has been new news on almost everything. This is not just refreshing in terms of outlook, but also, say, products like Xtreme and Hunk. We have added kick as a standard feature and this has really been received extremely well and the results are showing in Q4. Going forward, again, as in the past, we will look at a combination of absolutely new products as well as variants and refreshes to bring at least seven to eight new news to the customers and even more, now that we are getting into our own products and also getting into overseas markets, this frequency will only go up and this process will only accelerate.

Hitesh Goel: Thank you very much.

Moderator: Thank you. The next question is from the line of Samridh Poddar from Steinberg Asset Management. Please go ahead.

Samridh Poddar: Yes, I had two questions one was if, is it possible for you to give me the breakdown of your volumes based on your segments like the price segment, deluxe segment and premium segment for the whole year? Also the growth, I mean what it was last year and this year?

Anil Dua: I will give you some idea, though, you know lot of this stuff is not public knowledge, but I will give you some idea that you know hopefully should give you direction in which things are moving. So, essentially, you know there are two big segments at the two-wheeler level, one is scooter; other is motorcycles. As I said, you know just last year has been a tough year for the industry, so actually if you look at the growth of motorcycles has been flat. It was 0% exactly for the year as a whole and if you look at scooters, it has been 12%. These are overall figures including exports. If you look at the domestic market than motorcycles have been flat 0%, but scooters have grown slightly better at 14%.

Samridh Poddar: At 14%.

Anil Dua: Right. Now coming to specifically us, as I said scooter is the growing category and the good news is that in the growing category we have grown much faster than the industry. As I have said sometime back, again, 14% growth of scooter industry, we have grown by 33%.

Samridh Poddar: 33% growth.

Anil Dua: That is right. So as a result our share has improved to 18.5% this year from 16% previous year and in the last quarter as I mentioned that has been 20%. Coming to motorcycles, as I said that our market share is over 53%, there are three key segments there. One is entry segment, you know which is actually in a year when the economy has been subdued, we are talking out of 5% kind of a GDP growth, and it is not surprising that entry segment is a segment which has grown the fastest. Again, the good news is that in this segment, entry segment, which is low price 100cc segment, I think there is a high price 100cc segment, which goes into the dealer segment, but the low price 100cc segment where we have HF Dawn and HF Deluxe, this category has grown by almost 5% and we have grown in this category by over 20%. So, overall, the rest of the segment have really either been close to flat or declining like the premium segment, 150cc and above, has actually declined as an industry last year by 7%. You know, therefore, the two main segments which are growing in overall two-wheeler industry are scooters, which have grown by 14%, we grown by 33% and entry segment low price 100cc, that is, which has grown by 5% and we have grown by 20%. So as a result, as I said, we are at a 53% market share in motorcycle and we will exit it at 54% in Q4.

Samridh Poddar: So one more question I had, Sir, regarding your tax rate. Right now, your tax rate is roughly about 17%. Can you tell me for how long this will be an effective tax rate and when is it expected to go on the higher side?

Ravi Sud: Well, FY'13 was our last year when we used to get 100% benefit on Haridwar profits. Effective FY'14, which is the current year, we will get the benefit only on 30% of the profits of Haridwar, which means 70% of the income will get taxed at normal rate. Our tax rate effective FY'14 will go up from 16% to anything between 22% and 23%

Samridh Poddar: And for FY'15 and FY'16 it will be roughly 30%, then?

Ravi Sud: No. For next five years, we will keep on getting benefit on 30% of our profits. So for next five years the tax rate maybe between 22% and 24%. It all depends on the profit, which we will derive out of Haridwar plant, and volumes, which we produce there.

Samridh Poddar: Last question if I may ask. Can you just tell us about your capex plan for FY'14 and FY'15, Sir?

Ravi Sud: FY 14 or FY 15 ??

Samridh Poddar: FY'14-15?

Ravi Sud: Hope you have clarity on FY 13 and FY 14

Samridh Poddar: Yes, Sir.

Ravi Sud: Let me just give you a head up here, FY'13 we had started Neemrana plant and we expect it to be commissioned by quarter four of the current fiscal. Then we also started Global Parts Centre, which should be operational by end of FY'14. So, our capacity will go up close to 7.7 million. Now, as far as the other capex, which we have initiated that was on our R&D center near Jaipur at Kukas; as you know, we have already acquired the land and part of the expenditure will happen in the current year, but the majority of the expenditures will come in FY'15. As far as plant number five, which is at Gujarat, is concerned, we have already been allotted and we have paid for about 50% of the piece of land and balance land is to be given to us. We expect that to happen in the current fiscal as well as maybe expenditure of around Rs.75 Crores to Rs.100 crores will actually come in FY'14 and balance expenditure will go in FY'15. Apart from this, we have routine capex, which is relating to our existing plants which is replacement or expansion of capacity, particularly for scooters as Anil has said that we have been growing faster than the industry, so that would be ongoing expenditure of anything between Rs.250 Crore and Rs.300 Crores both in FY'14 and as well as FY'15.

Samridh Poddar: Thank you Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Bhagyesh Kagalkar from HDFC Mutual Fund. Please go ahead.

Bhagyesh Kagalkar: Can you be slightly be more specific on – means how much extra capacity you are setting up for scooters or is that the case that the new capacitors are flexible? Can you just throw more light on this?

Anil Dua: So on scooters, we have increased our capacity to about right now 60,000. We have been doing just sort of 60K last three months or so. Going forward, we plan to take it out further. I will say that we have a flexible manufacturing system and, certainly, within motorcycles, within scooters we maintain flexibility, but we do need to create separate capacity for scooters and motorcycles and given scooters are doing well depending upon our new plants on new models in scooters which we will share in course of time certainly we will be looking at much higher scooter capacities.

Ravi Sud: I can add here that since your question is specific, I will give you a specific answer. You see from 60,000 a month, we are adding 800 per day of capacity in Neemrana, which will be available to us as I said by the fourth quarter of this year.

Moderator: Thank you. The next question is from the line of Pramod Amte from CIMB. Please go ahead.

Pramod Amte: This is with regard to your dividend policy, especially in a year where your dividends, your profits have been on a down, you seem to indicate relatively higher dividend. What is a thought and is it more a confidence on next year or have you changed your dividend payout ratios?

Ravi Sud: Pramod our dividend policy has been anything between 35% and 50% and even last year we were at 44% and as we look at last six, seven years, I think we are in the range to 40% to 46%. This time the Board of the Company has taken a very, very conscious call and a few initiatives, which the Company has taken like Five-year Warranty, where we have got excellent response which is being reflected in our retails. As far our customer is concerned, for customer it is a lifetime warranty, because two-wheeler get changed after 4 – 5 years. So it is a lifetime warranty. So that is one statement of confidence. Second statement of confidence, which the Company has made, is about the price increases, which we took last week. Third statement of confidence, the Board has made about dividend. This year the profits are down, but I think as far as next couple of years or three years down is concerned, the management has full confidence and hence this is the third statement of confidence. So you may find it in terms of payout, the payout has exceeded 50% while the stated policy of the Company is 40% to 50%?

Pramod Amte: You feel these are sustainable?

Ravi Sud: That is the statement the Board and the management of our Company has made.

Pramod Amte: This is to Anil Dua. In terms of there have been some rumors about Splendor pricing issues, especially considering the way the competition has priced the product and you taking the price hike last amongst the peers. What is your thought on pricing situation in the two-wheeler industry now and how you will be acting in next couple of quarters?

Anil Dua: As Ravi said, I think what the market required was to know clearly and squarely that we know what we are doing and we are confident of our business, our products. All these three things that you spoke about are actually trying to aggressively show that confidence to the market and to the customers. You are absolutely right. There has been some competitive launch, which is pegging itself very close to Splendor. That is not new to us. That has happened at absolutely great frequency again and

again. Therefore, we are not stranger to that kind of happenings. Splendor and our 100cc and Hero business has weathered all these competitive launches. We have our own findings from our customers and our surveys, our research, and we felt confident that looking at the overall pricing situation in the market, Rs.500 price increase that we have taken on Splendor, as you know we have taken price increases from Rs.500 to Rs.1500. So Splendor and Passion are at Rs.500 price increase. We think this has called for in the market and the market will welcome it and this is something, which customers will not have an issue with and which will be good for business. Therefore that is reflective of the way we are looking at our brands. Going forward, you must have been noticing the brand building going on around Splendor, (indiscernible) 42.47 quite a catch line. With our customers, it is working very well, it is truly reflective of the legacy of Splendor this is also by the way 20th year of Splendor and we are celebrating it by launching a special limited edition within price set another Rs.1000 premium on Splendor range which is Splendor Gold. It is special color limited edition, which is being given to celebrate the 20th year of Splendor. So I think there is a huge traction around Splendor and there is a huge customer reference and that is reflective in either this brand building or price activities that we've seen recently.

Pramod Amte: Thank you.

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

Sonal Gupta: Sir, two questions, one was if you could just explain the ASP improvement this quarter? Then I had just a couple of industry-related question in terms of if you could talk about your dealer network and expansion plans in there in terms of – and just finally on fuel emission norms which you expected to see in couple of years what sort of technological changes do you see happening if you were just talk about these few things?

Anil Dua: So Ravi will talk about ASP after I answer your two other questions on dealer network and fuel emission. On dealer network, we have had continuous expansion of our network. We have the largest network in the country and we will make sure that we get closer and closer to the customers every year. So the good news is that last year, again, we have added more than 500 touch points to our network and today we stand at almost 5,500 touch points across the country comprising of sales service parts outlet across the country authorized network of the Hero MotoCorp. Against this 5,500, which is the largest in the country, we are not relenting, we are going forward again planning to add another 500 as we go forward, thereby building further on the strength that we have acquired over the years. Besides this, our rural vertical is doing activities at 'Service Har Jagah', which is covering the last mile to the customer. So we have done over 1 million of doorstep service in the rural areas last year, where the service is walking all the way to the customers rather than the customer walk into the service shop. So this is one area, which has been big focus for us of providing this convenience to the customers of an outlet of a Hero authorized outlet close to the customers and the numbers I have spoken about. Coming to your second question about fuel emission, yes, the whole industry is gearing towards the new emission norms, the BS IV emission norms, which should be effective April 2015 onwards. These are the

norms, which, of course, require technological changes. They are still couple of years away. I will not be able to at this moment share any specific cost etc., of this add on, but I can only say that this is something, which is already on our line up and something that our teams are already working on and we are confident of delivering Hero products, meeting the new emission norms well in time. And I will hand over to Ravi for ASP.

Sonal Gupta: Could you just tell me the dealer year-end number, how many dealers you have?

Ravi Sud: Yes. Did you hear my response?

Sonal Gupta: No. Sir, I heard – just a follow-up question was on, what is the total number of dealers as of end of FY '13?

Ravi Sud: As I was saying out of 5,500, the 4S dealers are around 800 they are close 800 numbers out of this 5,500, which is fully fledged, sales service, spare parts and ASP outlets.

Sonal Gupta: Sir, on the ASP improvements?

Ravi Sud: Now what was your specific question?

Sonal Gupta: Sir, we have seen about 1.7% quarter-on-quarter improvement in ASP and given that there was no change in the price et cetera, what has been the reason for this sharp improvement in mix?

Ravi Sud: This is basically on account of product mix. As Anil stated in one of our responses, the product mix in quarter four has been quite favorable. And that is why this average sales realization has gone up. As you know, we have not taken any price increase except a minor one of Rs.300 in October 12, but basically it is on account of favorable product mix.

Moderator: Thank you. The next question is from the line of Sumanta Khan, ICICI Pru Life Insurance. Please go ahead.

Sumanta Khan: Good morning Sir. Thanks a lot for the opportunity. Just wanted to ask, do you say that your current scooter capacity is around 60,000 a month?

Ravi Sud: Yes.

Sumanta Khan: So if we look at SIAM numbers roughly, you are doing 50,000, 55,000 a month?

Ravi Sud: Right.

Sumanta Khan: So is it fair to conclude that there can be some constraint in the near-term because you are saying your next capacity is coming only in...?

Ravi Sud: No. What I said was that 800 scooters capacity will come from Neemrana from the new location. This should be available to us by quarter IV, sometime either IN December end or January beginning. But as far as existing locations are concerned, the work is already on to increase the capacity.

Sumanta Khan: So capacity constraints would not be a problem?

Ravi Sud: No, not at all.

Sumanta Khan: Thank you Sir.

Moderator: Thank you. The next question is from the line of Amin Virani from Deutsche Bank. Please go ahead.

Amin Virani: Thanks for taking my question. Sir, my first question is on your technology partnerships with Erik Buell and AVL and Engines Engineering. Can we get some update as to how as in what is update on that and what are the things being done, whatever you can share? Is there any timeline for any completely new product from the Hero's table?

Ravi Sud: Well, at this point in time, the only thing I can say is that in FY'14, in the latter half of the year, you will have a lot of excitement.

Amin Virani: Just something on there I mean, obviously your other Indian peers, all of them are doing some tie-up with some existing global company in two-wheelers whereas you have decided to take on a consultant and do it on your own. So I mean can we see something from your end as well or you are saying that you will completely do it on your own without any partnership with any other global player unlike your peers?

Ravi Sud: Well, let me reiterate what I have said earlier, maybe three or four conference calls back that idea is to build R&D capability. Now the five options, which I have stated, I am repeating once again that we will hire people within India and take built up strength from 271 as on December 31, 2010 to more than 425 engineers in our R&D. Number two what I stated is that we will hire or employ some consultants who are experts in their respective fields. I can say it today we have got four experts who are working with us. Number three we have said we will do these consulting arrangements, which we are done with AVL, Engines Engineering and EBR. Number four, we have said that we will always look around for opportunities either for merger or for acquisition. So I am not ruling it out even today.

Amin Virani: Just coming back to your capex, Sir, this year your capex, could you give us the number for your capex for fiscal '13?

Ravi Sud: I am already on record that as far as – I have stated as well over Rs.1100 Crores that is our cash flow. That is basically for Neemrana plant, Global Parts Centre, Kukas, partly for Gujarat purchase of land and maybe building a boundary wall and some replacement of capex in the existing locations and

build-up of small capacity for scooters in Gurgaon etc. In case there is an opportunity and the deal gets finalized during the course of a year that will be anything extra over this.

Amin Virani: But in fiscal 2013, you would have spent something like Rs.400 Crores, right?

Ravi Sud: I think it is over 450.

Amin Virani: So just lastly coming back to the pricing thing, actually it was a positive surprise that you and your peers took successive price hikes in April, given that demand scenario continues to be weak as you mentioned and competition is obviously increasing. How are these price hikes, I know it is too early but how are these price hikes being taken in the market, given that the demand environment itself continues to be weakened. How do you see it panning out?

Anil Dua: I think this price hikes were called for and given the festival and the fact that last year was subdued and therefore this price hikes had actually were postponed. So they have finally happened now. They should have actually happened much earlier, but industry and especially us as the market leader seeing the situation of the industry last year decided to postpone it, so that we continue getting whatever little juice is there in terms of demand. This year certainly, there is an expectation you know the government has said that the GDP growth will go up from 5% to 6.5%, so hopefully there are going to be activities in the economy which are going to lead to demand distribution and are going to help the efforts being put in by industry. So this was the opportune time, I think for us certainly to taste the long awaited time with the price increase.

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 two questions regarding the other expenses. Firstly, there was a piece of news that you are now not sponsoring the IPL teams and that was a pretty large cost with advertising. Could you help us understand what could be the lightly savings in terms of your costs in that? Secondly, Sir, the payments to Honda, are they yearly payments, if yes, is there a benefit of the weaker yen for the previous quarters which has come in to place in Q4 as well?

Anil Dua: With regards to the other payments that Ravi was just addressing your first question on cricket spends. Yes, that news has been right. We have rationalized and relooked at our sports spend, but this is something that we do every year. I will say that this should not be seen as something which is a major strategic shift in our thinking and we have clarified that earlier also, for example if you see the ongoing IPL, we are there on air, big time on IPL with that advertising and that is not diluted at all from the previous editions of IPL that we have had. So sometimes we take on hockey, sometimes we taken on Commonwealth Games, sometimes it is ICC, there are other requirements, we are also into racing, now in US certainly and we have plans for India and elsewhere. So certainly, this is something that we look at our full year plan. We look at our next three-year plans and these are directions in which our investment should be moving. So it is in line with our long-term plan. I will not say that except any major savings

that this is straightaway going out of advertising spend, so this may get rerouted into some other brand building activities, but what we will ensure and what we are focused on is that when things may vary from quarter-to-quarter over the years, we stay around 2% of our sales in terms of our marketing spend. Ravi will talk about Honda business.

Ravi Sud: Yes. these are yearly payments. The yearly payments were in March 2012, March 2013, March 2014 and the last payment is in June 2014. Yes, if the Yen has depreciated, it has given us some benefit and just for your information that March 2014 and June 2014, payments which is about JPY16 billion. We have already covered over 40%.

Sahil Kedia: Sir, can you quantify what was the benefit that you got in your FY'13 and would it be fair to say that all of that benefit would have come in the Q4 number?

Ravi Sud: No, it does not happen. You see what happens is if the Yen depreciates, so appreciates depreciates, either it gets capitalized or if it depreciates, it will get decapitalized, so then whatever the amounts gets decapitalized or capitalized, only a portion of that for the remaining period comes in that quarter. As far as decapitalization is concerned in the quarter ending March, the total decapitalization because of depreciation on Yen is to the tune of around Rs.48 Crores. So, now, if you see the quarter swchich are remaining, we have six more quarters, so which means the benefit which would have come in the quarter would be one sixth.

Sahil Kedia: Just to understand this correctly, for the first, second and third quarter of this financial year, you would have made some provision of payments to Honda, considering that the Yen is at a different rate at the end of the year versus what it was through the year?

Ravi Sud: As I said, if you go back to April 2012, the Yen was hovering at about 76, 77. Every quarter we do the mark to the market and change capitalized or decapitalized and relevant impact comes in the particular quarter. Now, our average rate for the FY'13 because we started covering when the Yen was at about 80. Our average rate for FY'13 has been about 84.

Sahil Kedia: This Rs.48 Crore is what amount, Sir, the amount you just mentioned?

Ravi Sud: When I do mark-to-market as on March 31, 2013.

Sahil Kedia: So this is the decapitalization for the previous three quarters, is that correct?

Ravi Sud: That is right. Absolutely.

Sahil Kedia: Thank you so much.

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

Vaishali Jajoo: Good morning everyone. A few question on, one is on vendor rationalization we had decided for. Could you just give us an indication on what's happening on that front and is there any benefit, which has come in the current quarter?

Ravi Sud: What is your question, sorry.

Anil Dua: Vendor rationalization.

Ravi Sud: I do not know what is your question is, is it relating to a number of vendors, or rationalization means what?

Vaishali Jajoo: No, it is relating to the more localized vendor, and accordingly we were supposed to save some cost on the vendors, which we will be, I mean, taking away the Honda's vendor, which are coming from Japan?

Ravi Sud: Okay. I had mentioned this to your question in the last or maybe last to last conference call. As far as this exercise is concerned, this is an ongoing exercise. We keep on looking at the vendors and to see what is the impact on our bottom line if you take a new vendor. So this is a continuous exercise. I have stated at the beginning, there is a very, very comprehensive margin improvement program, which the Company has undertaken now. I think that you'll start seeing the benefits of that maybe in the next couple of quarters.

Vaishali Jajoo: One small question on, Sir, how much is your R&D cost as a percentage of sales in the current year?

Ravi Sud: Well, it should be close to 0.4% for FY 13, but do not go by that because I have got advances of about Rs.125 Crores, which have been given to some of the technology partners and they will take the shape of R&D cost as and when the models start getting launched.

Vaishali Jajoo: How it is expected to flare up in next one or two years?

Ravi Sud: Well, I would expect that it should go in the range of 1% to 1.25%.

Moderator: Thank you. I would now like to hand the floor back to Mr. Hemindra Hazari for closing comments. Over to you, Sir.

Hemindra Hazari: I would like to thank all of you for attending this call by Hero MotoCorp and, in particular, Mr. Ravi Sud and Mr. Anil Dua. Thank you everybody.

Ravi Sud: Thank you.

Anil Dua: Thank you guys.

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