



“Hero MotoCorp Limited 3Q FY2018
Results Conference Call”

February 06, 2018



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*Hero MotoCorp Limited
February 06, 2018*

Moderator: Ladies and gentlemen, good day and welcome to the Hero MotoCorp Q3 FY2018 Earnings Conference Call hosted by Motilal Oswal Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing “*” and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jinesh Gandhi from Motilal Oswal Securities. Thank you and over to your Sir!

Jinesh Gandhi: Thank you Raymond. Good evening everyone. On behalf of Motilal Oswal Securities, I would like to welcome you all to Q3 FY2018 post results conference call of Hero MotoCorp. Hero MotoCorp is represented by Mr. Niranjana Gupta, Chief Financial Officer, Mr. Ashok Bhasin, Head Sales Marketing and Customer Care, Mr. Surender Chhabra, Vice President Corporate Finance and Mr. Umang Khurana, Head Investor Relations. We would like to thank the management for taking time out for the call. I would now handover the call to Mr. Khurana.

Umang Khurana: Thank you Jinesh. Good day everyone. We welcome you to our Q3 financial call. We will begin first with an update from Niranjana, our CFO and then open the house for Q&A.

Niranjana Gupta: Thank you Umang. Good evening everyone. Just to highlight a few points on our results, which released little while back: our volumes have grown at 16% for the quarter. Within this we have seen motorcycle and scooters both growing ahead of industry in the domestic market. That is the headline on the volumes.

As far as revenue is concerned, it has registered a robust growth of 14.8% on coming on the back of the volume growth. As far as our EBITDA margins are concerned we have reported 15.9%, which is a healthy EBITDA margin albeit a bit lower quarter-on-quarter comparison; however, a margin of 15.9% amidst all the commodity challenges that the industry faces reflects resilience of our portfolio and also the management action on savings and judicious pricing. We continue to regulate and monitor our topline and bottom-line growth.

As far as PAT is concerned we announced PAT ₹805 Crores that reflects 4% growth compared to an EBITDA growth of 7%, a tad lower because it got affected by high depreciation, which is due to capitalization of Halol and CIT over the last four quarters and also lower other income which is due to MTM losses on the back of rising bond yields, which has affected most of the corporates. So that has been the highlight. We have declared interim dividend of Rs.55 per share, which is 2,750%, and it is one of the highest dividend payout ratios when you look at overall dividend payouts.

Overall our results reflect a very strong franchise and a continuous growth momentum and healthy profitability while facing challenging cost environment, navigating and balancing between the topline and the bottomline. Thank you, over to you Umang.

Umang Khurana: Thank you Niranjan. We will open the floor for questions. Raymond could we get participants to ask questions now please?

Moderator: Thank you very much. We will now begin with the questions and answers session. We have the first question from the line of Aryn Pirani from Deutsche Bank. Please go ahead.

Aryn Pirani: Good evening Sir. Thanks for the opportunity. Sir my first question is on notes to account that you have mentioned regarding the ₹112 Crores of budgetary support on Haridwar that you got from central government so just wanted to clarify this is the 58% of the benefit that the central government is supposed to give you is that understanding correct?

Niranjan Gupta: Yes.

Aryn Pirani: Okay. And so for the whole nine months have you accrued it only in this quarter so how does the accounting work for that?

Niranjan Gupta: It is quarterly accrual.

Aryn Pirani: So the 112, is for this quarter?

Niranjan Gupta: For two quarters.

Surender Chhabra: We started from July and till December so it is for two quarters.

Aryn Pirani: Okay, so actually it should be equally distributed if you looking on a like-to-like comparison?

Niranjan Gupta: No, it is distributed it is not only this quarter we have accrued 112, it is the cumulative effect of ₹112 Crores for the nine-month which has come up in the two quarters which is Q2 and Q3 distributed based on the volume.

Surender Chhabra: Yes, it is a combination for six months and that is how the cumulative figure has come for six months YTD figure.

Aryn Pirani: And is there any clarity or progress on the remaining 42%, which the states have to compensate for?

- Niranjan Gupta:** So we continue to represent at both central government and state government forums in the ministry as well as in the bureaucracy, right now there is no clarification which has come.
- Amyr Pirani:** Okay and the second question was on the other expenses relative to the volumes it looks like a higher number compared to the past few quarters so any details would you give on that?
- Surender Chhabra:** Amyr, you see for the actual period and because the retail was higher so that is why our spend on marketing advertising I would say was slightly higher as compared to the other quarters, otherwise there is no major, I think, change in that expense, on quarter-to-quarter because the marginal increase is there.
- Amyr Pirani:** I will come back in the queue for more questions.
- Moderator:** Thank you. The next question is from the line of Pramod Kumar from Goldman Sachs.
- Pramod Kumar:** Thanks a lot for the opportunity. Sir, my first question pertains to the industry outlook now, if you can help us understand in the quarter gone past, which especially the festive season and also the start off the auspicious period post January 15, 2018 how are you seeing demand behavior both on a pan-India basis and if you can provide any color on the regional side and urban-rural side that is my first question?
- Ashok Bhasin:** As far as the industry is concerned, we have all seen that as the year has progressed, the industry growth has also evolved, festive was of course very strong and January has been pretty good as well. So we continue to see the growth momentum continuing into the balance part of this year and carrying forward. As far as the geographic color is concerned, the key thing is that there are states both in south and west, which have been slower to improve. It includes large parts of Maharashtra, it includes parts of Tamil Nadu it includes part of Karnataka, which have been slow. The central belt the Hindi belt and parts of east have shown much stronger growth trajectory.
- Pramod Kumar:** Relative to that Sir how would you be seeing growth, because FY2018 has been a phenomenal year for the two-wheeler industry and even for a commuter motorcycle after year of stagnant numbers we have seen a fairly good growth so is it some bit of this momentum kind of, trickle down to FY2019 as well so I am trying to understand what could be the expected growth rate for FY2019 industry level?
- Ashok Bhasin:** The way we view is that the FY2019 should see a carry forward of this momentum and should be closer to the double-digit growth numbers that is what it should be that is how we are seeing the situation as of now and it would be both motorcycles and scooters. As you have rightly pointed out that this year has seen a strong growth trajectory for motorcycles actually in double-digits and we expect this twin engine growth of scooter and motorcycle to continue to progress in the next fiscal.

Niranjan Gupta: Just to add to what Ashok has said when you look at the budget that has been announced, there is lot of focus on the investments in the rural and infra sector that augers well for industries and players like us where the volumes are coming from that sector in a good and substantive amount. So that would be another positive that would add, fuelling the momentum that Ashok has just talked about.

Pramod Kumar: Secondly, on the market share, Sir, because especially on scooters and premium motorcycles forgive me for asking this but there our performance has been bit short of what even you would have expected so how should we look at that especially on scooters and with premium motorcycles with the new launch what you just got into the market. So, how should one look at how the investor or analyst in terms of outlook for these two segments in particular from a Hero's perspective? Thank you.

Ashok Bhasin: I think the way we should look at both these segments should be very much consistent with what we have covered on these calls before which is that we do recognize that both in scooters and in premium we have under representation, in terms of portfolio and in terms of market presence and they are priority areas for the company both in terms of products and go to market and we did indicate in the early part of the year that with the actions that we are taking and the new products that we launched pretty much coinciding with start of fiscal, we expect growth to come in scooters and therefore if you see the Q3 position, our market share has already moved up from what was more closer to 12% at the beginning of the fiscal and Q3 was closer to 14% and in fact in Q3 Hero's scooter growth almost sort of led the industry growth in scooters and we were actually ahead of the industry growth in scooters. So I think it is building up and we are pretty confident that with what we have done and subsequent launches that are going to come we will continue to expand our portfolio for scooters and the franchise which will reflect in market share as well. As far as the premium segment is concerned, I think we talk about product portfolio and you have seen in media that we have already launched one Xtreme 200R a few days ago which will get into the market in the next few months and all I would say is that in the balance part of the fiscal including the Auto Expo you will see more launches coming around in that segment and these would together again then help us build up our position in premium. So we stay on track to our strategy and we are pretty confident of improving our position in both these segments.

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

Moderator: Thank you. The next question is from the line of Arya Sen from Jefferies. Please go ahead.

Arya Sen: Good evening Sir. Firstly coming back to the point on exercise the CGST benefit of ₹112 Crores last quarter it was ₹70 Crores and this quarter ₹42 Crores and so why that much lower is it because of lower production there?

- Surender Chhabra:** Yes, one side if you see the quarter-to-quarter comparison the numbers are less, on the second hand because of the GST returns whatever the net input was there after adjusting this percentage did rise, so first quarter I think complete reconciliation's are not there with any industry so whatever returns was netted off 15% was accrued, this time more or less the reconciliation was complete numbers were less so that is why the accrual is ₹42 Crores.
- Niranjan Gupta:** Also the production is lower as you see because that was the complete season quarter and you can see from our overall volume as well but the basis of accrual remains the same.
- Arya Sen:** Right. Secondly Sir on pricing what pricing action have you taken both in Q3 and so far this quarter and is there a difference between how much you have increased prices of scooter versus motorcycles?
- Niranjan Gupta:** As far as pricing is concerned, you would have seen in our announcement that we did. We took our prices in our motorcycle and in certain markets we did correct our scooter prices strategically. So those are the actions that we took towards the end of the quarter so the effect of that you will see in Q4 only.
- Arya Sen:** Right. So scooter prices have not been increased at all is that correct?
- Niranjan Gupta:** Yes, it has not been increased.
- Arya Sen:** Right. Also last quarter you had shared the GST implementation you had shared the numbers in terms of what is the adjusted number relative to last year can you give a similar, even last quarter you talked about ₹330 Crores adjustment in the topline is there a similar number you share for this quarter?
- Niranjan Gupta:** This quarter if you look at sequentially then they are same because as I said Q2 also same GST accounting and Q3 is also GST accounting and you will have to just take the similar number for the year-on-year basis albeit on a lower volume. So, therefore, if you look at in terms of the revenue growth which is at let us say 14.8% adjusted for GST accounting or the like-for-like basis it would have been close to 16% so that would be the differential on the underlying basis.
- Arya Sen:** Right. And Sir last thing that ₹112 Crores is entirely coming into revenue right?
- Surender Chhabra:** Yes, it is part of other operating income.
- Arya Sen:** That is all from my side. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.

- Chirag Shah:** Thanks for the opportunity. Sir any colour on the spare parts revenue in the quarter it would be helpful, that is first question?
- Niranjan Gupta:** Sorry can you repeat your question?
- Chirag Shah:** What is the spare parts revenue in the quarter? How has that moved quarter-on-quarter?
- Niranjan Gupta:** Spare part revenue for the quarter is ₹690 Crores, which is a growth of around 35% Q3 versus Q3.
- Chirag Shah:** Okay. And Q2 number is it possible to share? Further that number in Q2, QoQ how it has moved?
- Niranjan Gupta:** We would have given out but sequentially it has grown by close to 20%.
- Chirag Shah:** Okay and second question was on the raw material side can you just help us understand what kind of cost pressures are likely to come in the ensuing quarters it could be helpful?
- Niranjan Gupta:** While, as we have been saying we would not be able to give out exact numbers, nor do I think anybody can, but essentially the commodities are on the up, as they have been over the last four quarters. So we have seen the cost inflation as reflected and as you would have heard in the call, the same cost increases are continuing even now. So we expect the commodities to keep rising for some time, the quantum the magnitude etc., we will know only when it translates.
- Chirag Shah:** The last question if I can squeeze in is on again the scooter and premium motorcycle strategy. So how different is our product quality and our brand positioning in scooters as well as in premium motorcycle that gives us confidence that we will gain reasonable market share this time because now in scooters from being No.2 we are No.3 and the No.2 player has taken a reasonable lead in terms of creating the brand perception about its product. So how, what different things you will have to do internally as far as positioning is concerned to regain your market shares in both the category? Any thoughts over there?
- Ashok Bhasin:** I would speak to scooters, it would be similar to and consistent to what I have just said earlier on the call. We have seen that with the new improved products that we have launched at the start of the fiscal, our position in scooters has been gradually improving. In Q3 the growth has been very good and our market share is now closer to 14%, which had gone to about 11% at one time, and even within this fiscal it had gone up by almost 200 basis points. We expect that with this and subsequent launches that are going to come in other segment of scooters as well and the 110cc. This could further grow and that would build our position both on volume and in market share. As far as the premium segment is concerned, we have been quite under represented in that segment but now with the new launches coming Xtreme 200R we already revealed a few days ago and you can expect some more launches in the Auto Expo. With that in the next few months as the products start rolling out we

expect that our position and our positioning in the market will develop and that would give us room for both on volume and in market share.

Chirag Shah: Fair point. This was very helpful and all the best.

Ashok Bhasin: Thank you.

Moderator: The next question is from the line of Mahesh B from Karvy Institutional Equities. Please go ahead.

Mahesh B: Thank you for the opportunity. The first question is that the two models we planned to launch one in scooter and one in premium segment when those will be actually formally launched?

Ashok Bhasin: Could you repeat your question please?

Mahesh B: The two models we plan to launch one is scooter and one in premium bike segment when will be the formal launch I mean when it will be available in the showrooms?

Ashok Bhasin: There are more launches coming and I think Auto Expo is tomorrow morning we should all look forward to seeing what we reveal there and new launches getting revealed there it would be both in scooters and motorcycles. I cannot share more details at this stage but Auto Expo will have more launches from Hero both in scooters and motorcycles.

Niranjan Gupta: But if you are referring to the 200CC Xtreme, which has been launched, we will have availability in the showroom by April-end. That is what Ashok had said.

Mahesh B: Sure. And Sir you have mentioned that possibly next year industry growth could be near to double digit given the two new launches and further launches you are talking about will we able to achieve a double digit growth next year? Will you be outperforming the industry growth rate?

Ashok Bhasin: We would not give a specific guidance to a number but we expect the growth momentum to continue for Hero in the coming fiscal.

Mahesh B: No my question is will we be better than the industry in terms of growth?

Ashok Bhasin: We would stay strongly in our leadership position and you would see growth in what certainly in terms of segment where we have no share, as you know we are a dominant market leader today I would not expect the numbers beyond that, but we are pretty confident of strong fiscal 2019.

Mahesh B: Sir last question is export contribution has been less than 3% for us we have been talking expanding that segment but what is the outlook for this business for next year?

- Niranjan Gupta:** So, yes, as far as the export segment is concerned the numbers have been soft; however, within that there are pockets of excellence, for instance Bangladesh where we have almost doubled our volumes on year-on-year basis and it is clocking almost now 60,000 to 70,000 per annum run rate. So that augers well and similarly there are couple of other markets which are doing well, we will be taking up the learning from these countries and then putting into the other key countries, and moving forward. So we do see a positive momentum, which will start building up from coming quarter. However, it is difficult to give any number at this stage in terms of forecast for exports for the year.
- Mahesh B:** So will these new launches that we have planned, will they also help in expanding an exports market?
- Niranjan Gupta:** Some of them yes.
- Mahesh B:** Sure. That is helpful Sir, thank you.
- Moderator:** Thank you. The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.
- Saurabh Kumar:** Sir on this motorcycle business as regarding your premium strategy, will it mostly revolve around the 200cc or will you look at a higher cc as well?
- Ashik Bhasin:** We will begin with the 200cc which is obviously a good part to start because that is where a large volume of market is and is also a very natural progression from here as you know we were legacy leaders in 110cc 100cc we built up a strong leadership position in 125cc over the last two years and the natural progression is to go for that segment but we are not going to stop with that progressively you will see our launches going beyond that as well.
- Saurabh Kumar:** So at some point you will do a 300cc right?
- Niranjan Gupta:** We will cover more segments beyond 200cc but 200cc is a good start.
- Saurabh Kumar:** Okay and second Sir what is the percentage of sales, which is being financed now, I mean and if you can divide how much will be urban and rural?
- Surender Chhabra:** As far as financing from our own company associate FinCorp, we had continued it for the year till nine months 12%, last year they were 10.5% there is a growth of 1.5% from their side, so overall it is one company is doing 12% and others are supporting like HDFC and Indus Bank, total 35% financing.
- Saurabh Kumar:** And this number Sir what will be this one-year back?
- Surender Chhabra:** One year back it was I would say 34%, one percent growth is there.

- Saurabh Kumar:** Okay and Sir just one question on margins so we have the launch activity for the new scooters and motorcycles and with this Haridwar excise benefit also going out next year so should we think about reduced margin from fiscal 2019 I mean just to guide us how much you think it is comes out there?
- Niranjan Gupta:** We do not give guidance on margins. Our long-term guidance on margins are always been 14% to 15% if you go through our calls. This year we have done better than that and moving forward we have also said, yes, Haridwar fiscal benefit expiry will impact margins adversely but equally we also have Halol, which will be going for expansion and we will also be looking at actions on savings and product mix through premium and various other actions to ensure that we stay on a healthy margin track. But beyond that we would not be able to give, we do not give, any margin guidance as such.
- Saurabh Kumar:** Okay, and one final question, can you quantify what will be the LEAP benefit this quarter?
- Niranjan Gupta:** LEAP benefit will be this quarter approximately 50 to 60 basis points.
- Saurabh Kumar:** Thank you.
- Moderator:** Thank you. The next question is from the line of Bharat Gianani from BNP Sharekhan. Please go ahead.
- Bharat Gianani:** Thank you for the opportunity and congratulations for a good set of numbers. Sir, just my question was based on what the earlier participant asked. I know you do not give a margin guidance but given the headwinds which are there in the form of RM cost which you alluded to is on a rise then your Haridwar plant benefits will also expire in the next fiscal year and then there is an increased pressure on the pricing because of the competitive intensity and on the other hand you have the benefits like the LEAP expansion which is there and the LEAP of benefit program which is there and the mix you just alluded to and obviously Halol ramp up is also of help, so my point was that will all such benefits to the margins which are there, will that be sufficient to offset the headwinds which are there in the form of increased RM prices, increased competitive intensity and so will that offset largely or do you see this benefits would not be adequate to counter the headwinds?
- Niranjan Gupta:** It is round-about way of asking the same question like earlier question but since you have asked, I owe an answer to you. So whether they offset or not offset it is a management responsibility to ensure that they navigate both topline and bottomline and maintain a balance. And commodity headwinds are not new we have seen them over the last four quarters as well that they have been spiking up and obviously we have been managing them so moving forward also we expect to manage those headwinds and can manage our topline and bottomline and do the necessary trade off which then creates the shareholder value.
- Bharat Gianani:** Okay Sir that is really helpful, thanks and all the best.



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- Moderator:** Thank you. The next question is from the line of Raghunandhan from Emkay Global. Please go ahead.
- Raghunandhan:** Thank you Sir for the opportunity. One clarification the sales which are being financed would be 12% from FinCorp plus 35% from others so total would be 47% is that correct Sir?
- Surender Chhabra:** No the 12% from FinCorp and 23% from others, total 35%.
- Raghunandhan:** Thank you Sir and FinCorp in how many dealers would be currently available wanted to understand what the penetration currently is and what is the further scope there?
- Surender Chhabra:** If you see that FinCorp was incorporated to support our dealers of financing and now they are available to all across the dealers 800 to 900 dealers.
- Raghunandhan:** Sir, like in one of the interviews the management had alluded to possibly a new channel for premium motorcycles just wanted your thoughts on the same?
- Ashok Bhasin:** As far as the premium is concerned as you know we have just talked about I think from segments what we do expect is that the immediate premium product that we are going to bring which are closer to 200cc post we would leverage our existing channel with suitable customer experience and as we go into the larger cc premium products in the future we will have an appropriate channel and retail experience strategy as suitable to the launch of those products at that time.
- Raghunandhan:** Any timeline for this thought process Sir?
- Ashok Bhasin:** It would be in time for the launches and the specific timing of future product launches we do not indicate in advance but from a distribution and retail experience and customer service perspective we would be well in time for the appropriate launches as and when they are coming to the market.
- Raghunandhan:** Thank you. And you have said Bangladesh volumes are like 60,000 to 70,000 units on an annualized basis wanted to understand whether it is coming from the local manufacturing in Bangladesh or exports from India?
- Niranjan Gupta:** Now it is coming from local manufacturing in Bangladesh where the commercial operations were commenced around June of this year so entirely it is coming from the local manufacturing.
- Raghunandhan:** And what would be the capacity there?
- Niranjan Gupta:** Capacity is upwards of 1 lakh.

- Raghunandhan:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Ashi Anand from Allegro Capital Advisors. Please go ahead.
- Ashi Anand:** Thanks for taking my question. The question was with relation to your traditional areas of strength in the 100cc or 125cc categories just understanding how market dynamics are shaping up there we hearing about Honda trying to get more aggressive in that segment, so just if you could give some insights to give us on how you seeing a market share and core competitive actions on those segments?
- Ashok Bhasin:** Our overall market share in motorcycles as you know has been pretty strong for this year, we are closer to 51% which is by any definition very, very commendable position and that has been accomplished by significantly succeeding in multiple segments which includes the 100cc-110cc and also in 125cc wherein the earlier part of the year actually we had some supply constraints and despite that our overall market share position is pretty strong. So, in summary we are in a leadership position on motorcycles across the segments where we are present which is 100-110 and 125cc and we continue to see that momentum growing for us across these models. It is the higher cc segment for the premium that we have talked about where we have to build and overall in the play area that we operate we are on an average between 69% and 70% market share versus an overall motorcycle market share of about 51%.
- Ashi Anand:** Sir, do you see any threats on there in terms of competitive action as in are you seeing competition is getting more aggressive in those segments?
- Ashok Bhasin:** I think it is a large segment so competition would obviously participate in that and we have seen that in the market. For about last two years we have demonstrated is that despite multiple launches by a multiple competitors in all these segment Hero has consistently not only stayed on road, but kept a very strong position and actually captured new ground by 125cc. So, I think you know Hero strength of brand, trust of distribution, customer service, our go-to-market, how we sell in the stores all of that I think is working and that is why we are able to expand the franchise even into 125cc segment where our market share is now north of 50%.
- Niranjan Gupta:** Just to add to that, more competition also means more growth in the category as it heightens the entire intensity around the category so that is the positive side of it.
- Ashi Anand:** Thanks a lot Sir for the answers.
- Moderator:** Thank you. The next question is from the line of Jinal Sheth from Multi Act. Please go ahead.

- Jinal Sheth:** Good evening. Considering motorcycle is your strength and you also spoke about the rural incentives, if there is a pickup in the rural spend, should that lead to a higher growth vis-à-vis the outlook which you have given?
- Ashok Bhasin:** The outlook has been double digit and we are staying with that at the moment. As far as rural is concerned, yes it does contribute motorcycle and that is why we are pretty confident of the new fiscal as well as we going to into it and we are talking about the momentum carrying forward.
- Jinal Sheth:** Sir, somewhere you are factoring in that there will be an uptick in the rural spend and that is where you are saying you will stick to a double-digit outlook?
- Ashok Bhasin:** Certainly all those factors are part of our overall consideration.
- Niranjan Gupta:** Those are not the only factors though.
- Jinal Sheth:** Right. Sir I am just trying to understand if is there any a positive surprise to that outlook, if certain things change and there could be a positive surprise is what I am trying to understand?
- Niranjan Gupta:** We need to wait for that to get delighted but it is one of the many factors that translate into growth and the current budget augers well for continuing the momentum in this segment.
- Jinal Sheth:** Thanks.
- Moderator:** Thank you. The next question is from the line of Satyam Thakur from Morgan Stanley. Please go ahead.
- Binay:** Thanks for the opportunity. This is Binay. Two questions, firstly when we look at Bharat Stage VI implementation do you think it will have an impact on industry mix because we understand that fuel efficiency of bikes could be impacted as all the upgrades gets loaded-up. So the first question is on that, second question is on the scooter side: a lot of the start-ups and in fact a lot of industry experts all are guiding for very sharp electrification on the scooter side. What would be the Hero's strategy on that? Are you guys going to be aggressive on that? How is the company internally looking at electrification? These are the two questions. Thanks.
- Ashok Bhasin:** Let me speak to the second one first, I think we have said on a previous call as well that Hero is taking a pan portfolio approach in the market and electric is a part of that and we do have investments in Ather and we have our own internal program so we are looking at more than one part to go and participate in that market segment and we would be well prepared to do that, through these alternative routes.

Binay: Just a sort of question to that we broadly know the news flow that Hero was launching and all but we do not really see any sort of capex commitment numbers or anything that you can show just to get a sense as to are you guys going to be aggressive, do you think that this is actually 50% of the industry by 2030 or so can be electric on the scooter side or are you going to more play the wait and watch strategy in this?

Niranjan Gupta: Clearly we are not on the wait and watch mode, because we are pursuing development in plans both internal and through other companies so that is not a wait and watch. As far as capex piece is concerned we do not have a talk about capex numbers specifically to specific projects but developmental costs are part of an overall investment plan the company had shared in the past. As far as the BS-VI is concerned, I would just say that as the market leaders Hero would be well prepared to be well within the timeframe that has been stipulated and like any good company in fact better than most we would be well placed in terms of the solutions that we will bring to the market. As far as the specifics of what the performance characteristics would be and what the cost characteristics should be it would be our endeavor with our R&D capabilities and product development capabilities to offer to a compelling proposition both on performance and on cost. Specific numbers on cost, this is not the time to talk about it.

Binay: Even in terms of mix changes at the industry level like you do not see any impact in terms of 100cc segment coming down or anything because of the BS-VI yield?

Niranjan Gupta: It will all depend on what solutions are brought to the market, at what pricing and what performance because the market would shape itself based on the solutions that are provided because the cost dynamics and the value proposition dynamics and the performance dynamics would determine the choice that the consumer would make. So it is too early to forecast that I think the key is to focus on appropriate solutions well on time and as cost efficiently as is possible and that is what we are pursuing.

Binay: Great thanks a lot.

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

Sonal Gupta: Thanks for taking the question. The scooter market Sir, could you tell us how much is 125cc of the scooter market and I mean basically I am coming from the point that over the last few years we have continued to see fragmentation within the motorcycle market 125cc has grown and the other segments has grown and overall I mean if you look at the scooter market, its gone in the opposite direction where even the 90cc and the smaller segment has got bunched into that 110cc segment where you are speaking and today if you look at in terms of the industry volume is probably that is already in line or

almost exceeding the 100cc motorcycle segment overall. So, I mean just your thoughts in terms of whether that segment really fragment from here or how does that develop really on the scooter side?

Ashok Bhasin: Coming back to the question I am saying the broad market structure we all know is 65%: 35% broadly in favour of motorcycles, now as the scooter market has grown in size with almost 200 basis points turning in favour of scooter market structure year-over-year obviously there is opportunity to segment that market and that segmentation is coming through the 125cc offerings in the market. Currently the 125cc approximately 12% of the market; however, if you see the growth in this it is the faster growing segment. On YTD basis the 100cc would be growing around 17% and the 125cc would be growing closer to 45%-50%. We would expect that that growth of 110cc-100cc scooters along with the 125cc and any other larger scooters would continue to develop simultaneously because as volumes grow segmentation will happen and appropriate solutions will be brought as we have seen that in motorcycles and there is no reason why could not happen in scooters.

Moderator: Thank you. We move to the next question. The next question is from the line of Aryn Pirani from Deutsche Bank. Please go ahead.

Aryn Pirani: Thank you. My questions have been answered.

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

Mahesh B: Sir last two months, November – December we have seen the Hero Passion volumes had come off from 80,000-odd on an average to below 50,000, is there anything to read into this?

Ashok Bhasin: On a YTD basis if you see Passion has been doing quite well. I would say do not look at any specific numbers and now you know we are also putting into the market the new Passion launches. It continues to be a strong brand for us and we are pretty confident of how to pan out along with the new launches that are coming in the market.

Mahesh B: Sir this quarter end what could be our current dealership network I mean what are the plans of expanding it further?

Ashok Bhasin: We are at about 6,500 plus touch points and we progressively expand the project in terms of dealers and also in secondary network. We are focused more on not only the numbers but also the quality of experience so the work that we are doing on secondary network transformation has been pretty massive and that has actually significantly contributed to our exploiting the market and actually despite all the competitive launches not only staying in the game of motorcycle but actually building on our leadership. Both of those will happen so we have a few network partners typically between 300 and 400 depending on the market needs, based on distribution mapping and market intensity and

coverage, the key is to be accessible to the customer to the consumer at the right place at the right time both for sales and service, but currently we are approximately 6,500 plus points and obviously by far the best distributed both in sales and service as compared to any other players in the market.

Maresh B: Sir, sorry to harp on the same point, on the margin front you mentioned that you do not guide for the margin, last nine months our operating margin EBITDA margins are around 16.5% at least on a qualitative side next year could be maintain this or the margin could be lower or higher than this, any qualitative indication?

Niranjan Gupta: The short answer is no, but I will just give some more qualitative answer. As somebody outlined in the call earlier, there are a few things which are headwinds equally there are few things either tailwinds or action whether you talk at operating leverage whether you talk in terms of the Leap saving, whether you talk in terms of our ability to take on pricing, etc., and the last four quarters has shown the resilience of our portfolio and also our ability to actually counter these cost challenges to appropriate actions and will continue to take judicious and appropriate action between volume and margin because eventually the final absolute profits have to grow and our market share has to grow. So we have displayed that and we would continue to navigate in a balanced way.

Maresh B: Sure Sir. Sir last question how much capex we have incurred so far and what are the plans for next year?

Niranjan Gupta: As far as the capex plan for the next year is concerned we do not guide for a year as such but over a two years I think our guidance has been around ₹2,500 Crores, which is what we stick to and that is what we expect our spend should be around those numbers.

Maresh B: That is helpful Sir. Thank you.

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

Pramod Kumar: Thanks a lot for the opportunity again. Sir my first question pertains to the premiumization of the motorcycle market. You alluded to that with the fact that a lot of 100cc customers moving a lot to 125cc and that segment expanding in that context are you optimistic about the prospects of say higher displacement motorcycles like 200cc and above even 300cc-350cc particularly in the states of the northern markets where these segments really not seen much a penetration yet, whereas in south and west they are fairly visible the population share is dramatically high and therefore in some market majority of the premium motorcycle sale so is that a thought which you would agree with or there is a long runway on the premiumisation of the entire motorcycle market particularly in the laggard markets of North India?

- Ashok Bhasin:** I would just qualify that by saying that we see the runway not just in premium but also in the segments where we are currently in a strong position. If you see even in the current fiscal as there has been growth in the 125cc and other segment but the 100cc and 110cc which is the first time buyer coming into the market that is also expanding and when you look at the overall economic progress and the comments that my colleague made regarding rural etc., so they would be the consumer for that so it is not just that the premium segment would grow. I think the growth come in both these constituencies. The overall penetration level in the country is less than 40% we are at 35% average penetration for two wheelers so they will be the first time buyers who need the entry segment could be they would be the deluxe in between segment and they would deeper who would seek the higher cc.
- Pramod Kumar:** Sorry I meant that the trend of existing customers upgrading to more bigger motorcycle that trend is what I was looking at so you kind of answered it?
- Ashok Bhasin:** I think both would happen they would be some existing customers who would upgrade and some of the new customers may straightaway enter at that segment based on the demographic and psychographic profile and preferences, but a large proportion would be the upgrade and that is the Hero get well placed because we already have recruited that franchise we have a very critical equity with them and then as they go to the higher segment we become their preferred choice because of their trust and the experience they we offer so both could happen but large it would be upgrades.
- Pramod Kumar:** In the northern states as well where penetration is historically for premium segment has been lacking and it is a large 100cc market even there these customer upgrade you see enough opportunity to you to sell those premium motorcycles to them and affordability is there?
- Ashok Bhasin:** I think the rate and taste would vary because even within north it is not one market so I am not going to get into a detailed segmentation of the market so we see headroom's in multiple geographies but it would vary by state, by pocket, by town cost, etc.
- Pramod Kumar:** Okay, and the second question pertains to the spare parts, I think 20% quarter-on-quarter growth is fairly strong though it was a given that the Y-o-Y number is effected by the demonetization base so how should one look at the full year growth or is to I am just thinking can we extrapolate the robust growth what we have seen in the Q3 to the Q4 or is it like some bit of seasonality here which is for lumpy jump in spare part revenue?
- Niranjan Gupta:** So, unfortunately we do not give a quarterly guidance on either volume revenue or our margin.
- Pramod Kumar:** Sir, full year guidance for spare part if you can provide that?

Niranjan Gupta: Full year guidance now will constitute Q4 guidance. So what we can say is that in the Q2 and subsequent quarter it was affected by GST before it was affected by demonetization we can say that it has come out of both and shown growth so this is what we have been saying in our call also that we see part growth to pickup as the GST disturbance or the effect that happened wanes out so that has happened and obviously our endeavor will be to continue to grow beyond that we would not be able to share any numbers unfortunately.

Pramod Kumar: Can I squeeze one more question on the technology side, more from a industry perspective, we have seen in other sectors like wherever technology which is seen more of an optional choice like ABS in cars or air conditioning in car once it moves to the mark-to-market and because it is mandatory the cost have fallen dramatically which is making a far more affordable and also lighter in terms of the cost inflation to the consumer and we still have some time before we have norms like fuel injection norm like mandatory in two-wheeler so would you expect that given that the JV with Magneti itself is it can one be optimistic that the cost hit to the consumer finally will be far more measured or moderate than what analyst are expecting at the current level?

Niranjan Gupta: So we would not able to give any number at this stage, because of BSVI transition from April 1, 2020 and we are working towards to make sure that we transition on or before that date and also at competitive cost. So that is all we can say at this stage and we are pulling all the levers all the cost drivers in that direction.

Pramod Kumar: But is it something which can because it has happened in other sectors and two-wheelers fairly largest Sir, 20 million plus market what you are looking at so it is unrealistic totally to not expect any meaningful cost reduction for the industry in totality?

Niranjan Gupta: Cannot comment.

Pramod Kumar: Thanks a lot and all the best again.

Moderator: Thank you. The next question is from the line of Kapil Singh from Nomura Securities. Please go ahead.

Kapil Singh: Thanks for the opportunity. I wanted to check what is the mix of scooter sales currently between urban and rural so if say the market size of urban is 100 how much is scooters and how much is motorcycle and same for rural?

Ashok Bhasin: There is not a precise measure of the urban and rural space particularly for segments like scooters, which is currently not as widely spread but I would think that urban would be close to 70% to 75% and rural would be more like 25%. And rural here is by a liberal definition of the small town class because those consumers come and buy they live in rural but they come and buy in the neighbouring

districts, etc., but if I have to look at a consumption pattern and that would predominantly be more in the south and west states where you know, for example in a state like Kerala or in a state like Goa you know it is one sort of continuous market share and or those markets have converted significantly to scooters.

Kapil Singh: Okay and in case of motorcycle it would be more 50:50?

Ashok Bhasin: Yes, closer to 50:50.

Kapil Singh: The second question relates to long-term margin guidance, now our long-term margin guidance is reasonably lower than where we are today. This is quite different from what we hear from a competition, which is either looking to guiding to flat margins or actually looking at margins going up so I just want to understand that is this a conservative guidance or there are factors that you think will margins down in long-term to the product mix or just that commodities are towards the lower end of cost cycle? Especially in a context that Hero has been the company, which has been leader in terms of margin expansion over last few years. Thanks.

Niranjan Gupta: The reason is we do not give any specific guidance and therefore we give in a broad range, which is what was given and which is what we stuck to which was I think 14% to 15% is the up 15% is what we said, I mean looking at the margin profile looking at what we have been through also looking at how are with our portfolio we been able to counter neutralize the cost inflations of course there will be more moving forward. I think one can say on a long-term one could even if have to up it probably put around 15% to 16% range, now obviously that is a range so there will be the endeavor will always be to do as much as we can without hurting the volume and without hurting the market shares and that is where all combined and balanced actions we have been taking to ensure both topline and bottomline growth.

Kapil Singh: Thanks a lot Sir. That is quite helpful.

Moderator: Thank you. Next question is from the line of Pulkit Singhal from Motilal Oswal Management.

Pulkit Singhal: Thanks for taking my question. You had earlier mentioned about some issues in specific markets like Maharashtra, Karnataka and possibly Tamil Nadu can you give us some more colour on it I mean are the issues related to high penetration in these markets or is it more rural urban or is it more scooters motorcycles if you can just share some light on that and the second part is are you seeing these issues fade away as we enter January and February?

Ashok Bhasin: It is a couple of broad factors. There is of course an impact of the penetration level, if you see some of these states have been higher on penetration cost and also it is a combination of what has been happening on the economic front, on the disposable income front, on the sentiment front in these

states, if you see Maharashtra in terms of south of Maharashtra particularly belt and parts of Vidharba the whole crops situations the support price changes, the cooperative banks getting impacted so that has impacted the cash flow and the economic activity. Similarly Karnataka has seen more than one sort of weak year of rains and that has impacted parts of Karnataka's agricultural activity and Tamil Nadu has been a mixed bag as well so each of these a combination of penetration levels but in addition to that the market factors as well as the economic factors as well as things like monsoon agriculture and improvement, etc. so it is a bundle of things.

Pulkit Singhal: See because interestingly we see the same kind of weakness even the passenger car market particularly for these states and quite clearly passenger car is not a penetrated category so it seems more from macro issue, I am just surprised you are saying that there could be penetration angle to this in case of two-wheelers?

Ashok Bhasin: I mean if you over lay the overall situation whether it is economic or agricultural income or economic activities and then you overlay on that the penetration level particularly for a two-wheeler buyer where there is a huge impact of purchasing power and disposable income it comes into play and I am sure to some degree it would play even in a category like passenger vehicle while I don't run that category but just is that the number are quite different and the scale is quite different.

Pulkit Singhal: Sir your comment seems to indicate it's more rural led I mean so I am just wondering whether the IT sector demand weakness is also to be impacted in cities particularly.

Ashok Bhasin: I would not break it up into every sector of job employment, but I would say overall if you see the broad trends of these states that I have mentioned and couple of others you would see that there has been a softness in sentiment and you would see that across multiple categories as you yourself are saying but we are all working towards improving these markets as well and bringing the right solutions to the consumers.

Pulkit Singhal: Sir is it improving I mean as we enter into January & February or is it remaining same as of now?

Ashok Bhasin: I think we have to give it a few months.

Pulkit Singhal: Okay got it. Thank you.

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

Chirag Shah: Thanks for the opportunity again. Coming back to scooter and the premium motorcycle I was just trying to understand from you in terms of the marketing are you looking to ramp up your marketing spends to create more visibility, traditionally we have been in the range of 2.5% give or take few basis



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points as a publicity cum marketing spend, so if this number likely to stay over there or there is a particular decision to take it up?

Surender Chhabra: Chirag, I think the total spend of 2.4 or 2.5 whatever it is on annualized basis is not only for the domestic market we have a global market exposure also, we have events for the branding also the Hero brands spends are also there, our focus is also there so I think spent proactively on the product which requires sports and that will continue in future also but overall spend will be in the range of but we normally give the guidance between 2.25% and 2.5% not more than that.

Niranjan Gupta: Having said that Chirag the benefit of the increase in the revenue growth so while on the percentage it may seemingly look same but on the absolute amount that gives much more headroom plus if you see comparable spend across the industry we would be amongst the top quartile in a similar range so I think we have enough fire power in the amount that we provide for and this range to be able to accommodate our activities launches and all our momentum.

Chirag Shah: Fair point. This was really helpful and also if you can indicate that over last two three years, which segment has required a higher support within the broad segment that we operate? Is there a perceptible change that is happening where you need to give a higher support which was not there few years ago or two three years ago how the industry dynamics from that side?

Niranjan Gupta: Chirag, we do not comment on segment wise support expenditures. We keep doing dynamic movement between segments and between models within our overall mix.

Moderator: Thank you very much. We will take that as last question. I would now like to hand the conference back to the management for closing comments.

Umang Khurana: Thank you Raymond. Thank you Jinesh and everyone else for attending the call. We look forward to taking your questions in person and over the phone later in the day. Have a good rest of the day everyone. Bye.

Moderator: Thank you very much. On behalf of Motilal Oswal Securities, that concludes this conference thank you for joining us, ladies and gentlemen. You may now disconnect your lines.