



“Hero MotoCorp Limited  
Q3 FY2019 Results Conference Call”

**January 31, 2019**



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*Hero MotoCorp Limited  
January 31, 2019*

**Moderator:** Ladies and gentlemen, good day and welcome to the Hero MotoCorp Limited Q3 FY2019 Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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. Umang Khurana, head of Investor Relations. Thank you and over to you, Sir!

**Umang Khurana:** Thank you Raymond. Welcome to the Q3 FY2019 post results call. We have with us today our management represented by Mr. Niranjana Gupta our Chief Financial Officer, Mr. Surender Chhabra, Vice President, Corporate Finance and Mr. Sanjay Bhan who is the head of sales and after sales at Hero Motocorp. We will begin the call with opening comments by the CFO and then take your questions. We have budgeted an hour for the call. Over to you Mr. Gupta!

**Niranjana Gupta:** Thank you Umang. Thanks everyone on the call. You would have received our results by now. The key highlights from our quarterly results are, our revenue has grown by 7.5%. We have delivered EBITDA margin of 14% despite the various headwinds. Our PAT delivery has been Rs.769 crores. Within our revenue, the parts business has grown 5% for the quarter. On a year to date basis, it has grown 15%. The revenue for the parts, as we disclose every time for this quarter is Rs.730 crores. For the immediate preceding quarter was Rs.713 crores and last year, which is Q3 FY2018, was Rs.692 crores. On a year to date basis, the nine months is Rs.2045 crores versus Rs.1757 crores a growth of 16%. That is about the overall results. As you know, we had two key launches last quarter, Destini 125 scooter and Xtreme 200R in the premium segment. Destini has been off to a great start. We have already picked up more than 10% retail market share in 125cc segment in three-month period itself and Xtreme 200R is also building gradually.

Apart from this, you would have also received our communication yesterday, which is about the setup of a Tech Center in Germany. This tech center we believe will allow us to further take us on the journey of our R&D and delivering technically superior products in the future. That is about the results. Over to the participants for questions!

**Moderator:** Sure. Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Ronak Sarda from Systematix Group. Please go ahead.

**Ronak Sarda:** Thanks for the opportunity. First if you can highlight the volume outlook for Q4 and especially FY2020 given the initial thoughts could there be a strong pre-buying and given cost increases, what is the outlook now and some geographical as well?

- Niranjan Gupta:** First of all, congrats on your job movement. As far as answering your questions on Q4 and outlook, I will just give a bit of flavor and then leave it to Sanjay to elaborate more. As far as Q4 is concerned, we saw a soft Q3 and we do expect Q4 to be better given the various marriage dates and festive dates, so there is a pickup that we are seeing and we hope this quarter to be better than Q3. As far as FY2020 is concerned, our outlook remains that we do see pre-buying coming in the latter half of FY2020 and we do expect a high single digit growth for the industry. Now with this, I will just hand over to Sanjay to add anything more that he would like to.
- Sanjay Bhan:** I think the fact is that Q4 traditionally is and historically is a strong quarter. It generally is a very positive quarter and we are already seeing some tailwinds in the past 10 to 12 days of this month post January 15, 2019, so we do expect some recoveries in Q4 and it should be a certainly a better quarter than the past quarter.
- Ronak Sarda:** Sure and anything on the geographical flavour North and South, which is doing better than the other?
- Sanjay Bhan:** I think the overall so called setback or slowdown in the industry as you are familiar with across the sectors in automotive has been right across. I do not think there has been any major change from the geographical point of view on a zonal slice or zonal cut there has been any major difference, but yes there is clear evidence that rural demand continues to be little muted at this stage. I think that as we know for the reasons known to all of us there has been much lesser Rabi sowing also as the sentiment has not really taken off there, so like Niranjan mentioned with the festive season kicking after the January 15, 2019, we do expect some momentum to come from the rural markets.
- Ronak Sarda:** The second question was on the technology side on BSVI what is the situation there and how is the transition, the plan and is it now clear that the FI would work or are we still contemplating e-carburetors at least at the economy segment level?
- Niranjan Gupta:** We are well on our way to transition by the deadline that has been set out and as far as technology is concerned, there are various options. There are things that we are doing, which we probably can disclose closer to the date as we launch, but I think suffice to say that we are well geared for transitioning on the deadline and just in that context also want to say that as far as CBS to ABS transition is concerned, which is supposed to kick in from April 1, 2019, 50% of our portfolio from our production and dispatch perspective has already migrated to the new regulation, so yes gearing up for BSVI as well.
- Ronak Sarda:** Sir the last quarter on the raw material side if you can highlight any tailwinds now that commodities have softened and when that should benefit us?

- Niranjan Gupta:** Over the last I think seven to eight quarters, there have been headwinds of commodities that the auto sector has been facing and in Q3 we have seen a bit of softening of the commodities, so if this softening trend actually continues then one could get some tailwinds out of commodity of course, which I think should allow them to set off against the other cost headwinds like regulatory and the other bits and therefore it is a good trend. We will have to just wait and watch, but definitely the headwinds seems to have gone and on better pedestal as far as commodities are concerned.
- Ronak Sarda:** Sure Sir all the best.
- Moderator:** Thank you very much. The next question is from the line of Kapil Singh from Nomura. Please go ahead.
- Kapil Singh:** Just a clarification I wanted to check you mentioned that Q4 is going to be better than Q3 do you mean that volume growth in Q4 will be better than 5% that we have seen in Q3?
- Sanjay Bhan:** Well what we are hinting is that there will be a sequential pickup in Q4 versus Q3.
- Kapil Singh:** Is it absolute volumes pickup or growth pickup what should we understand from that?
- Sanjay Bhan:** Absolute volume pickup.
- Kapil Singh:** Second we have seen some dip in raw material to sales ratio this quarter, so can you help us understand whether you have already got some benefit on commodities or we should expect some more going ahead?
- Niranjan Gupta:** No I think moving ahead we should see more benefits coming through. If you purely look at the material cost as a percentage of revenue when we are talking about because fundamentally our commodities reflect in our P&L with some lag, so as I said if the trend of commodities continues then we should see benefits moving forward, which will then allow us to offset against the other headwinds.
- Kapil Singh:** Have we taken any price increases during Q3 or Q4 what would be the average?
- Niranjan Gupta:** We had taken a price increase in Q3, which is beginning of October, which we had actually outlined in I think in the last call itself, which was close to around Rs.500 to Rs.600 at the ex-showroom level and you can see from the realization perspective also therefore that is reflected in the increased realization this quarter sequentially.
- Kapil Singh:** And Q4?

- Sanjay Bhan:** Q4 no we have not taken a price increase so far.
- Kapil Singh:** Thank you Sir. I will followup in the queue.
- Moderator:** Thank you very much. The next question is from the line of Aryn Pirani from Deutsche Bank. Please go ahead.
- Aryn Pirani:** Thanks for the opportunity. My first question is actually on the Glamour brand this year we have actually seen a decline in the brand whereas it is basically a two player market I would say the other player has shown a growth, so is there any model changes or upgrades changes that are happening, which is causing that or what is the reason for the Glamour to actually be declining in a year where motorcycles growth has actually seen a revival?
- Sanjay Bhan:** Thanks Aryn, I think it was a very good question. It has a bearing on a whole bunch of stuff that has happened in the market. Just for the record while the 125 segment for the industry is almost stable, there has been no change. There is virtually no growth in 125cc, but just to share with you, we are growing in that segment and we have gained our market share also. We are sitting at 58% market share in 125cc, so when we look at each of these brands, I think what seems to be happening is that there is a lot of downgrade that we are witnessing wherein because of increased cost, there is a certain consumer type, who is probably settling for a lesser probably moving towards Splendor or 100cc instead of 125cc. There is a bit of a trend that we have seen there. I guess that is because of the cost implications and because the cost or the prices have gone up owing to the insurance increase that has happened sometime in September onwards, so that is primarily the reason, but within the segment we are doing much better than industry. We are gaining market share.
- Aryn Pirani:** So you are saying that the Splendor 125cc whose numbers we actually do not get is actually doing much better than in terms of growth?
- Sanjay Bhan:** Yes of course it is doing very well.
- Aryn Pirani:** Can you give a broad number as to the Splendor numbers that we know what percentage of that very broadly would be the 125?
- Sanjay Bhan:** Percentage you could say ballpark anything between 25% to 30%.
- Aryn Pirani:** That is helpful. Secondly just on this news flow and some commentary from your side also, which has been happening on the GST side so my first question is that, realistically, do you believe in a year where the government is looking at shoring up finances can we expect a reduction in GST on two wheelers and B have you like formally pitched this to the government or do you think what is the way forward here do you realistically think would happen sometime in the near future?

**Niranjan Gupta:** I think what we are doing is it is not a question of government finances or election year or, etc., etc., it is more of a principle where 28% bracket is more for luxury and sin goods and as far as two wheelers are concerned, you know better that these are mass mobility vehicles and they are income enablers for rural areas. They are essentially a necessity rather than luxury or sin goods, so this is what we are pitching for and plus auto sector also provides a lot of jobs across the chain right from top to down, so it is a strong case for the rates to be brought down and most of the items have been moved out of the 28% slab, so I think there is a strong rationale. As to the timing, as to when it happens, that is anybody's guess. But I think the logic is strong and we are, along with other industry players and everyone, trying to put the right frame to the people who actually decide the policy and I am sure at some point in time, one will look at this and balance the revenue and rationale, and then get to the 18%.

**Amyr Pirani:** Okay. Understood and then lastly, just one thing on this notes to accounts. You mentioned this tax demand, which you mentioned that you do not expect any impact. But can you just help us understand, give the background of this?

**Niranjan Gupta:** In short, because otherwise it might take a lot of time. In very short, like we have elaborated in the note., this pertains to assessment year 2011--2012, and this is related to HIPL income, which was the company holding shares in the group, Hero Honda Motors Limited and basically the income has been reassessed by reopening and there is a tax demand. Yes, so there is a normal assessment done. The reassessment on which they have picked up this demand and which is being contested. As we have mentioned in the note, we believe our grounds are strong. The opinions point to that. In any case, we have indemnity. So there is no financial impact that we see as far as Hero MotoCorp is concerned.

**Amyr Pirani:** Understood okay. Thanks for the opportunity. I will come back in the queue.

**Moderator:** Thank you. Next question is from Mihir Jhaveri from Avendus Capital. Please go ahead.

**Mihir Jhaveri:** Thank you for the opportunity. I want to ask what is the inventory level currently in the system?

**Niranjan Gupta:** The inventory levels, we used to have 4 to 6 weeks. They are now between 6 to 8 weeks. So the inventories have gone up, not just for us, but I think across industry and the reason is simple, which is the festive offtake that everyone was expecting did not happen. But as Q4 picks up, and you have already heard Sanjay saying, we do expect inventory levels to come down.

**Mihir Jhaveri:** And Sir, just a clarification on that. You said that Q4 will be better than Q3, which has been predominantly the case. So would we see anything on a Y-o-Y uptake this quarter? How are we looking at?

- Niranjan Gupta:** Difficult to give a guidance exactly on the Y-o-Y side, etc., etc., but I think we are seeing positive uptake vis-a-vis the 3, 4 months that we have seen, which started from the festive period, okay?
- Mihir Jhaveri:** Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Jay Mehta from Edelweiss Financial. Please go ahead.
- Chirag Shah:** This is Chirag here. Thanks for the opportunity. Sir, two questions from my side. One, on the margin front, what is the kind of discounting impact? Is there any significant abnormal discounting in this, given the weak demand, which has had a bearing on margins for the quarter, which may be in a sense non-reoccurring in nature?
- Niranjan Gupta:** Well, Q3 always has the usual festive schemes, the media, the promotions as you would have seen. And they happen once as far as a year is concerned. To that extent, yes. But overall, if you look at the year-to-date picture, then you would see that our ratios are by and large similar to last year, not changed much.
- Chirag Shah:** Fair point Sir. Second was can you throw some light on what kind of retails you were able to do in Q3? Were they higher than the wholesales that have been reported and by how much?
- Niranjan Gupta:** Well, we do not give out retail numbers, Chirag. But all I can say is, obviously, the inventory has gone up from 4 to 6 to 6 to 8 weeks. So the retails have been lower than the dispatches in Q3.
- Chirag Shah:** And just one last clarification on other income. So how should we look at this other income number? Is this a normalized run rate or there is any mark-to-market impact on this and it is inflated or deflated because of that for the quarter?
- Niranjan Gupta:** So as far as the other income is concerned, there is nothing called a normalized runrate because what happens, as you know, is when you invest in debt funds, which is where we invest in, every quarter, they are marked-to-market linked to the yields. That is how it happens. So when the yields actually move up, then you have a mark-to-market loss. When the numbers actually go down, yield numbers go down, then you have mark-to-market gain. So overall, it is a movement along with the market that happens and that is how you see the treasury income this quarter has been good for us and probably anyone else who would have been more on debt fund.
- Chirag Shah:** So on an annualized basis, what is the effective pretax yield we should work with? Because on quarter, it is difficult, but on, can you help us that is it 8% numbers or better? Or how should we look at that pretax yield for our treasury was?

**Niranjan Gupta:** Extremely difficult to give out the numbers because the numbers move as per what the market moves on the yield and the bond market yield is very difficult to predict. So it moves along with that, so that is all I can say, but as - treasury, we keep managing that in a way that it gives decent returns, at least around the GSEC level.

**Chirag Shah:** Okay, this was helpful. Thank you very much and all the best.

**Moderator:** Thank you very much. The next question is from Aaron Armstrong from Aviva Investments. Please go ahead.

**Aaron Armstrong:** Thank you for the chance to ask the question. Just wanted an update- please on some of the new launches, the Destini 125 and the Xtreme 200, 200R and your take on the early volume numbers, the competitive environment. Do you think that it may be slightly underwhelmed in terms of your expectations? And how do you see that changing going forward? Thank you.

**Sanjay Bhan:** Thanks, Aaron. I think this is a very important question. Happy to answer that. We have two launches in the recent past. One, of course, the more recent one was the Destini 125. As you know, the 125cc scooter segment is growing at a very rapid pace, close to 70% growth year-on-year, and we are now participating in that growth. We have had a fairly, fairly strong, and I would say very robust start to that. We are already hitting close to 14% market share, like Niranjan mentioned, in the first three months itself of a category, which is very good and pretty much in line with what our expectations were and so far as the Xtreme 200R is concerned, as you know, the model was launched somewhere in September. It has been almost about for months post the launch. The response has been fairly decent. We could have done better with a few more numbers surely, but there is a lot of - for us, this almost a re-entry into the category. Obviously, a whole bunch needs to happen around it. It is not just going to be one model for us like we have been maintaining in the past as well. For us, premium is about a portfolio strategy. So we will need to keep on supporting Xtreme with its other siblings, some of which you are familiar with, which we have talked about are going to be coming in shortly enough. So once all the range is complete, we will have a far better play in the area. So we are very confident that we should do very well in both these segments and hopefully in the fast-growing 125cc and in the premium segment where we are virtually not present today, we should get some windfall benefits.

**Aaron Armstrong:** And with the Destini, its impressive market share figure for such a recent launch, where do you think you have been taking that share from? Any particular product that you targeted and taken those customers?

**Sanjay Bhan:** Our thinking was very simple. The strategy on Destini was to basically give a very compelling proposition to consumers who want to kind of upgrade from, both in terms of performance, in terms of styling, in terms of features, who wanted to just upgrade to another category. So I guess it is



working there. We are getting a whole bunch of customers from upgraders of the 100cc category and I guess at the price point, at the kind of sweet spot, it is really holding on to the interest of those consumers. So we are very happy that it is really working for us as a strategy and going forward, we would be able to consolidate this particular position. It is uniquely positioned, as you know. It is the first scooter for families, which is positioned for families, we are very happy that we are getting a whole lot of traction from multiple ownership households where this scooter seems to be working very well.

**Aaron Armstrong:**

And the Xtreme 200R, I think there is some concern in the market, or a little bit of skepticism there. When you compare it to similar products, it does okay, but it is not hugely impressive. Can you talk a little bit about those challenges, please? Whether you are happy with how it is positioned, the kind of reviews the bike's been getting and any action that you can take going forward?

**Sanjay Bhan:**

So as far as Xtreme 200R is concerned, I think the way to look at this, Aaron, is not just about what the product stands for or the features its got. I think if you were to kind of look at it as a feature scan feature-to-feature for models across, there will be something missing in one and something else in another one. So I guess the best way to look at this is how does the brand kind of settle itself in the minds of consumers. And if there is enough and more interest created by the brand, its imagery and what it offers to the consumers, we know that we have a success story going. These are early days in the brand's life. We do expect a whole lot of traction coming in. The brand is uniquely positioned. It is the first brand or the first product for that matter, which only came in with the ABS variant. We had the option of having a non-ABS as well. But we chose to take the position on this one, and we went ahead with just the ABS variant. I am sure when the ABS variants for others would become a necessity, starting April 1, the brand will again see some new level of traction. So the way we kind of treated the consumers or the way we are approaching this new set of customers, the millennials as we call them, our approach has been that across 300 dealerships that we launched at the initial phase, we moved to 400-odd dealerships. We have increased that to now by another 300-odd dealerships. So almost about 725-plus dealerships across the country. There are premium consultants exclusively dedicated to deal with those customers, speak the same language, who are able to interact and engage with them very differently. So the idea really is to enhance the performance, enhance the experience quotient for this category of customers. This is a very unique customer from a typical otherwise a commuter set that buys two-wheelers. This consumer is very, very discerning, and obviously needs very different treatment and engagement. So that is the play that we have, and that is what we are doing right now. These things take time catching up and I am sure that over the next 3 to 6 months, we will have far better news on this one in terms of the numbers overall. So that is it. It is doing fairly well. We are quite satisfied with the way it has moved thus far. Yes, it can do better, and hopefully, it will do better once we have the entire portfolio in place.

**Aaron Armstrong:**

Excellent. Just final one for me; if I may, any comments on the new launches, please?

- Niranjan Gupta:** As far as new launches are concerned, we have said that we would have Maestro Edge 125cc coming in on the back of Destini's success and that places us well in the very fast-growing 125cc scooter segment and then we have the XPulse in the premium segment that will be coming and like Sanjay mentioned, we have articulated a role for each of our premium motorcycles. So we have Xtreme 200R. We have XPulse, which is coming and then we will see more launches as we have announced coming in the first half of this calendar year.
- Aaron Armstrong:** Excellent. Thank you very much. Thank you.
- Moderator:** Thank you. The next question is from the line of Basudeb Banerjee from Ambit Capital. Please go ahead.
- Basudeb Banerjee:** Congrats Sir for descent performance in difficult times. Just going through the brand-wise sales, as you have said Destini has done fabulously well, almost 17,000 units in it's third month, raising every month. So just wanted to understand where all other scooter bands of yours and rest of the industry has literally capitulated significantly and Destini has moved up to that level, how much of it is on a retail basis? And how much of it is in initial inventory supply at the dealer level?
- Sanjay Bhan:** Thanks for the question, Basudeb. The whole point is when you have a new model being launched at a time when the industry in scooters has been struggling, as you know, the scooter growth has not been there for quite a sometime now. We have also had various people talking to us about scooters not doing too well with respect to motorcycles and so on and so forth. In that situation, the very fact that we were able to get the dispatches going has a very simple relationship with the retails. And like I said earlier, there is no joy in building stocks of new models. It is always a challenge. So our retails have been pretty much in sync. Yes, of course, when you are building up a pipeline, there is a ramp-up plan. So not everything that you build gets sold immediately, but yes, we have very strong retails going on, and that has been the reason why we have been able to ramp-up our supplies to the market on a regular basis.
- Niranjan Gupta:** In fact, that is why we said that on a retail basis itself, our market share in 125cc segment is more than 10% for Destini now.
- Basudeb Banerjee:** Sure and sir for Duet plus Destini combined as such, we can see Duet has again fallen to almost 5500 levels from average 20-odd thousand. So Duet plus Destini as a brand of various cc's combined has not changed as such. So should we expect the erstwhile Duet to recover back post bad numbers in December?
- Sanjay Bhan:** Look, I think the context in which you need to look at this question is that overall, if you look at the 100cc scooter segment, there is a decline. There is a decline on a YTD basis of 4%. The 100cc, 110cc

scooters are declining at an overall level. The good news for Destini is that the segment that it offers to the consumers is the 125cc, which is growing at a very rapid pace. So I would not see them together because at the end of the day, whenever there is going to be a push back or there is going to be some sort of a recovery on the 100cc, all models, all our models will obviously benefit from that recovery and we are very hopeful, and there is enough and more that we have done in terms of building the brand Duet and hopefully, we will see some recovery there as well.

**Basudeb Banerjee:** And small question, Sir. In other expenses, how much was related to launch expense this quarter?

**Niranjan Gupta:** Well, so we would not be able to give out the exact specific number on that. What we can say is on a year-to-date basis, our A&P expenditure remains by and large in the zone that we invest, which is around 2.5% of revenue.

**Basudeb Banerjee:** Sure. That is it from my side.

**Moderator:** Thank you. The next question is from the line of Hitesh from Kotak. Mr. Hitesh Goel from Kotak Securities. Please go ahead.

**Hitesh Goel:** Sir, can you just shed some light what is the retail growth, which you saw in third quarter, in January? What is the trend after especially just wanted to understand after the insurance cost increase, how is the market shaping up?

**Sanjay Bhan:** Are you asking about post-January retail movement, etc?

**Hitesh Goel:** Basically, what I am trying to understand is in September, this insurance cost increase came in. So your third quarter, what was the retail sales, and how is January panning up so as to get the trajectory?

**Sanjay Bhan:** In fact, till the insurance bogey hit the market, we were going at about 11% on retails. So that tells you the story. I think the retail momentum was absolutely spot on. The industry was doing extremely well. We were pretty much holding up our market shares and moving forward and driving the motorcycles industry. Once the insurance thing happened, as you know, the industry went into tailspin coupled with some of the other issues of the market in terms of liquidity issues or from NBFC point of view, and some other challenges in the rural economy. Obviously, there was bit of a tailspin in the retail growth. So as we got into January, things started looking a little better. The first 15 days, however, were not as good as we were expecting them to be. But the recovery, post-15, is almost like if I was to put a percentage increase from January 15 onwards versus 1st to 15 January, the improvement in retail is anything between 35% and 50% across various zones.

**Hitesh Goel:** That is first half or the second half? That is first half January, which...



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**Niranjan Gupta:** There is a good pickup momentum that we are seeing right now. We will have to see moving forward, I would say.

**Hitesh Goel:** Sir, my second question is on the scooter slowdown. Any reasons you can highlight. You would have spoken to your dealers. Any particular reason why this sudden slowdown has happened in this year?

**Sanjay Bhan:** Yes, okay. Scooters have had a bit of a setback, I guess. A lot of that could also be attributable to the fact that by and large scooters are not as fuel-efficient as bikes. And the fact is that fuel prices went through the roof as we all know. So somewhere, the customer does see all these things. And therefore from a value prop point of view, it got challenged as far as scooters is concerned and demand got compressed. And the second thing I think perhaps you know it better than we do is that the categories and segments where the leaders or the market leader does well move along with the leader, and categories where the leader itself is struggling, the category takes a hit. And in this case, we know the leader was struggling in 100cc category. So therefore, it brought the industry down. It is as simple as that.

**Hitesh Goel:** Sir, my final question, if I can one more. Sir, in the economy segment, Bajaj is very, very aggressive. You and TVS have not responded to that competition at all, but they are gaining market share. So do we expect any pricing action at least in the economy segment from Hero? Or you are happy with the market share there?

**Niranjan Gupta:** Yes. As far as we are concerned, if you look at it, what has been our entry segment growth? We have grown by more than 20%, right, whether it is quarter or year-to-date. Now any day, if you want me to take that growth, we will take that growth of 20%. The other thing is our growth is actually coming at higher price points. So this growth, obviously from a quality of growth perspective, from the price point that we are getting is far better up in terms of the growth that is happening, that is proportionate growth that is happening at a lower price point. So I think I would say overall from a balance perspective, we are happy with the growth that we are getting. It doesn't mean that we are complacent there. We have various actions lined up. But the actions are not necessarily pricing. You have seen our pricing strategy. We are staying consistent with that. Our focus is on new launches. Our focus is on making scooters work. Our focus will be on getting deluxe segments to grow faster. And of course, keep doing in the entry segment our bit, even sequentially, we actually gained market share in the entry segment if you see. So in a sense that we are already seeing things improving for us and moving forward yes it should be better.

**Hitesh Goel:** Thank you.

**Moderator:** Thank you. The next question is from Gunjan Prithyani from JPMorgan. Please go ahead.

- Gunjan Prithyani:** Thanks for taking my question. Just 2 questions from my side; firstly, on the financing side, have you seen any change given that you mentioned there has been some down trading? Are you seeing more people taking financing now? And also, of the total share of financing, how much would be Hero FinCorp for you now?
- Surender Chhabra:** Overall, if it is a quarter-to-quarter basis in the festive period, when the retail momentum was there, the financing from that financiers have got an increase. Hero FinCorp has recorded 3.96 lakhs of motorcycle as compared to 2.48 lakhs. And the quarter growth I can say in 9 months is of 59%.
- Gunjan Prithyani:** Okay. But how has the share of financing for Hero overall moved in the last 6, 9 months?
- Niranjan Gupta:** It is around 37% to 40%.
- Gunjan Prithyani:** Second question was on exports. Now we did see some pickup in the first half of the year, and again, there has been some moderation in Q3. Is there something to read into it? And if you can throw some light on how should we look at this export strategy, and how are you thinking of growth for the next 2,3 years on that side?
- Niranjan Gupta:** As far as exports is concerned, and I have said this earlier also, Gunjan, that it is a question of building brick by brick for us. We have few countries where we are getting success. Bangladesh is doing well for us. Of late, we also got pickup in Colombia, where sales have started to pick up with various actions. We have had some setbacks in Sri Lanka this quarter, so that pulled the volumes down. But gradually, we are getting more countries and more segments to fire for us. Currently because of the low scale, 1 or 2 problems in 1 or 2 countries itself pulls us down back to the level. But we are getting it, and we will keep investing in it. We will keep building the scale and also keep putting right products for the ride geography. For instance, as we have mentioned earlier, we went into Nigeria with the same products that we sell here and then we figured out that the product that sells there requires a different spec. It's more of taxi bikes. So those are then getting developed for that market. And that will be out there soon as well. So for market-by-market, we are considering. For some markets, it is working, and there has been, as I said, a couple of offsets, which is what has led to this quarter. So nothing much to be read, I would say we are at it and we will build the scale.
- Gunjan Prithyani:** Okay. Just one more question, if I may, more from a strategy perspective now. Of course, you have not, we do not really know the impact of BS VI on the cost with certainty at the moment, but just clearly going to be a significant cost impact. Now with insurance, we saw the demand slowing down and kind of down trading that you mentioned. Do you think that as an industry, you guys will be able to pass through this cost increase, or how are we going to approach the cost increase that we will see because of these changing regulations over the next 12 months?

**Niranjan Gupta:** I think for BS VI; the first priority is to transition the portfolio into the new technology before the deadline because that is the entire business. So I think that is the first part. The second part is to make sure that the cost at which we land BS VI is competitive vis-à-vis other players and we are working on that and quite confident on that. Then the third part comes to actually what would be the pricing at that point in time, how much we will pass on, how much the industry will take the volume hit. All those are questions that we will get answers only closer to the time. And we will see how it pans out vis-à-vis the value that is offered, the value equation that is offered vis-à-vis the price. So I think various things. All of us are working on it. And closer to the time, we'll need to see as to what will need to be the pricing strategy for BS VI.

**Moderator:** Thank you. The next question is from Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.

**Jinesh Gandhi:** My question pertains to the Germany R&D center. So what kind of investments are we looking for that R&D center?

**Niranjan Gupta:** To start out, I mean, difficult to give a number right now. But we have just setup that center, so essentially that will create R&D capability working with design houses, etc. Closer to one in Europe one is in Italy, Germany, all that kind of stuff. So it is a kind of a Greenfield R&D center, which is being setup with an extension of the current one and it will be built up gradually. So right now, initially, to start with it is not so much about the investments, it is more about the people and resourcing because the tools, the equipment are all there in the current CIT itself. So I think it is more about designing the products, the more futuristic, premium range, electric vehicles, all that sort of stuff and we'll build that gradually.

**Jinesh Gandhi:** This R&D center along with CIT, do we expect a step up in our investments in R&D as a percentage of sales?

**Niranjan Gupta:** I would say that if you look at the R&D, there is already expenditure, for instance, which is happening by outsourcing to the design houses today, right? So a lot of those things then start moving into our own tech center in Germany. So in a sense, I do not see a significant pickup or a meaningful pickup in the percentage of spend in terms of R&D as a percentage of overall spend.

**Jinesh Gandhi:** Second question pertains to our investment in Ather this quarter. We have invested over Rs.130 Crores. So what would be our stake now in Ather after this Rs.130 Crores?

**Niranjan Gupta:** This was a bridge round. So therefore, the stake remains what it was, which is close to 30%. And it is only when the bridge round money converts. Once they do the next series funding, it is only then that you will see this money getting converted into stake.

**Jinesh Gandhi:** Thank you.

- Moderator:** Thank you. The next question is from Sahil Kedia from Merrill Lynch. Please go ahead.
- Sahil Kedia:** I have one follow-up question on the cost of BS VI upgrade. Since we have already, you said, moved 50% of our production, can you give us a sense of what the estimated cost of, of the safety norms upgrade, please? Can you give us a sense of what the cost is for both the 125 and the less than 125?
- Niranjan Gupta:** Yes. This is the 50% of our portfolio that has migrated, not to BS VI but CBS, ABS. As far as CBS is concerned, the overall price impact that we see is around ₹500, and for ABS, we see around ₹5000. So this is the price. And this price is broadly margin neutral.
- Sahil Kedia:** For the ABS is a single-channel ABS cost and with the disc brake, or this is just the ABS itself?
- Niranjan Gupta:** It is a single channel.
- Sahil Kedia:** When do we expect the inventory levels to normalize? Is there a view that we can carry higher inventory into the changeover and kind of nullify the effect post that by effectively having old inventory, which is potentially cheaper?
- Niranjan Gupta:** Well, I mean, because our portfolio is not so much into ABS because ABS is more and our portfolio applies only probably to Xtreme 200R. So this is on CBS. And there, the price differential is not significant between CBS and non-CBS. So that does not have a bearing on our inventory strategy or our sales strategy. But yes, our endeavor would be, like Sanjay said, to bring down the inventory moving forward as the sales pickup from now until March.
- Sahil Kedia:** Last question, Sir. Have you, as a company, provided any help to dealers because from whatever checks we have done, it seems that given that the inventory levels are at 8 weeks, there is a fair bit of stress in the dealer system. Have you guys extended credit periods or something like that to the dealers to try and kind of reduce their pain or something to that effect?
- Niranjan Gupta:** Yes. We do keep doing this not just now but actually from time to time. Whenever the inventories build up, then there is an extension of credit period that happens. And in various ways, we support our partners in terms of navigating through the space. So it's not the first time. We keep doing it. And you are right, the extension of credit is there, which has also led to a bit of increase in the receivables in the company.
- Sahil Kedia:** Could you help us even, not getting into too much specifics, but just help us understand what the extent of that may be, or something to just help us understand how much of that has been extended?
- Niranjan Gupta:** So will be difficult for me to give out a number, but yes, I mean, close to, you can say, around probably around 10 days of receivables have gone up.

- Sahil Kedia:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Shyam Sundarsri Ram from Sundaram Mutual Fund. Please go ahead.
- Shyam Sundar:** Thanks for the opportunity. Looking at scooterization as a trend, your earlier answer that it could be due to the fuel price increase. But I mean, the scooter has the mix of the new vehicle fees, which kept growing over the last few years; this year, it has pulled back. Is it also because of urban market reaching a certain level of saturation? And if so, how do you look at the scooters and motorcycle mix going into the next 2 years?
- Sanjay Bhan:** I think these are trends that we would not want to pre-conclude at this stage. Yes, there are certain headwinds that scooters have seen. There is plausibility of all things that you mentioned. Clearly, yes, there is, this whole piece about urban, I think, probably not working as hard for them as it used to work earlier on. There is also the plausibility of multiple ownership going a little stagnant now with penetration going up in some of those households, so things like that obviously seem to have worked as headwinds, but I would still caution all of us not to kind of completely conclude that scooters are going to continue declining or may not grow any further. These are early days. I think we should watch it over the next 2 quarters to take a final call. My sense, I think they will just about stabilize. I think motorcycles have a very strong case for themselves, as particularly the entry commuter bikes. Like I mentioned, after these cost increases, etc. The biggest beneficiary has been the entry segment. And then the growth that we have been gathering both in Splendor, which you are already aware, for the past 4 months, is now the largest selling brand of 2-wheeler. This is 4 months counting now. As in every month, we have been doing more than anybody else on Splendor as a franchise. Now whether it is a Splendor or the HF Deluxe, in our entry, both of them are growing at a very rapid pace. So yes, therefore, there are certain tailwinds that these categories are seeing on scooter, but I guess these will be early days to conclude anything of substance on the scooter versus motorcycle story. The jury is still out. I think the jury needs to be out for a little while longer, before we conclude anything on this.
- Shyam Sundar:** Sir, you mentioned that from 1st April, when the market transitions to ABS, probably you alluded that the due to price hikes on the competing models, our model might do better. Now my question is do you think customers see ABS as a functional aspect as opposed to a cost other than insurance? What would be your take on that? And do customers prefer in the premium segment to have ABS as a feature? Thanks.
- Sanjay Bhan:** Look, if that was the case, then in the premium segment and in all high-end bikes, 100% ABS options would have been sold by manufacturers. But that is not the case. Even in the 180cc category, you see only about 15% to 20% contribution comes from the ABS version, the ABS variant of bikes. Despite that, knowing that fully well, we still went ahead and only launched the ABS because we just wanted



the familiarity and we obviously did not want then the government had already indicated that 6 months down, there is going to be only ABS, we did not want that kind to come in that variant, which was not meeting those norms. So we therefore launched with an ABS variant, and we believe, in this category, it would require a bit of hard work for everyone to work on the side of educating and informing customers and creating some amount of excitement around consumer safety because ABS is a very strong safety feature. It allows the customer much better ABS I just said anti-lock braking system is extremely useful, more so in 2-wheelers even better than 4-wheelers from a safety point of view. So therefore, I think customers who are on the premium bikes, which are relatively faster in terms of the speeds, etc., that customers operate on, I think this will increasingly get traction. Yes, of course, it's more of a push from the government side, but I guess, increasingly, customers will see value in the future.

**Shyam Sundar:** So that is very helpful. Sir, pardon me if this question has already been asked. Given that rural demand, you are seeing slightly muted, as we go into the first half of next fiscal, FY 2020, do you think the slowdown might continue? What is your sense as of now?

**Sanjay Bhan:** Look, I think the one indicator, which I would not want to completely put my entire money on, because I think one mistake that all of us end up doing is look when you talk rural, you talk about agriculture. I think that is the biggest misplaced notion, really. Rural is not only about agriculture. There are other avenues of income in rural. There is a lot of investment, which is happening in rural, up-country markets. There are some government schemes, on construction schemes or infrastructure developing schemes. There is a whole bunch that is happening and there is non-agri based income that is also getting supplemented. So my personal take is while the whole story that is being played on the rural is about the agriculture, investment in terms of the seeding and sowing during the Rabi season has not been very high, so we saw some reports on that. But that is not all about rural, that's part rural because there is a lot much more that is happening in rural today. So my sense is that there is a certain momentum, which is building. Like I said, in the last 10 days of this month, the last 15 days now, we have see some uptick. There is some improvement definitely in rural as well. As things will progress from here, I would assume near to normalcy situation from a rural demand point of view. So I guess, if we talk more at quarter one, I think I will see rural back in action.

**Shyam Sundar:** Okay, that is very helpful. One last housekeeping question, Sir. On the spare parts, I guess, if you can just help us with the spare parts revenues for this quarter and the comparable for the last year as well?

**Niranjan Gupta:** I think I have outlined at the outset in the call itself. So this quarter, the parts revenue is Rs.730 Crores. Last year, same quarter was Rs.692 Crores that reflects 5% growth. And year-to-date, it is Rs.2045 Crores. Last year was Rs.1757 Crores, and that reflects 16% growth.

**Shyam Sundarsri Ram:** Thank you. That is it from my side Sir.

- Moderator:** Thank you. The next question is from the line of Pramod Amthe from CGS-CIMB. Please go ahead.
- Pramod Amthe:** Couple of questions again related to the rural economy. If I heard you rightly, you were saying it is more subdued. But how do you look at scooter slowdown versus the entry level bikes are moving much faster? So is there something else, which is happening, which we are unable to comprehend when we see your numbers versus the commentary?
- Sanjay Bhan:** Well, I guess, again, like I said, these are all misplaced notions. Entry level only sells in rural. I think that itself, is not actually correct. The fact is that entry sells across SECs, entry sells across geographies and entry sells across rural and urban and town types. So it is not about rural versus urban. Yes, rural has been relatively more subdued because of the recency on some of the cash crunches on account of crop not getting sold in time, some lags there, etc., but I also mentioned that there has been some uptake in the last 15 days. We are seeing some improvement. And like I also mentioned in an earlier response, that rural is not agriculture fully. There is an agriculture part of the rural side, but it is also non agri-based income, which seems to be quite stable and is gaining some traction. So as I said, rural is going to come back. Like I said, by first quarter, we have a near to normal rural demand come kicking in.
- Pramod Amthe:** A follow-up to the same is there have been some talks about central government following similar footsteps of Telangana rules in terms of supporting the farmers. What has been your experience in terms of consumer spending when these guys get such payments on a sustainable basis? Where do they spend, and in what hierarchy the motorcycle spending comes in? Have you seen surge in the past when these states have moved in? Any color on the same?
- Sanjay Bhan:** I am tempted to hazard a guess on this response. I really do not have an answer to this question because, but you may have to ask the government why would they want to do this, and if they are doing it, what do they expect from a demand uptake? I get the sense I have is essentially they are loan waivers that are done for people who are unable to pay their loans off, right? It is not to give more money to people who already have money. So I do not think there is a demand side to it. It is just that it will provide some sort of relief to those farmers who are struggling. And I guess to that extent, it will just give a better sentiment to the market at an overall level. I do not think it is going to make a reasonably adequate or rich farmer richer, and therefore, he'll have higher disposable levels. It is only going to make the farmers who are struggling get some relief from the government, if that would be the case. So we do not have a correlation out on this one. As to whenever there is a farm loan waiver, does it really have a for example, the states that you have talked about, we have not seen any exceptional jump in demand from these states. It's just going to be a little bit of a relief to those farmers who are struggling to pay off their debts.

**Niranjan Gupta:** Equally, I think if I were to just add to this, and Sanjay is right, the jury is still out as to this waiver, whether it creates more capital and more spending power. But what may happen and what does happen is that once you waive and the current debt is gone, then a new loan comes in. And that new money then brings in more capital and therefore, that rejuvenates. Now that cycle may take a bit of time and we will have to wait and watch.

**Moderator:** Thank you. The next question is from Jay Kale from Elara Capital. Please go ahead.

**Jay Kale:** One question regarding, you mentioned in your earlier remarks that the reason for softness in demand was also because of liquidity issues during this period. I just wanted to understand that, is liquidity issue for getting a 2-wheeler a problem, or is it that just liquidity issue in the market is a problem with which maybe SMEs and others that are getting funding for their businesses and hence the sentiment is down. So is Hero FinCorp not filling in the gap for the kind of lack of liquidity to fund a 2-wheeler?

**Niranjan Gupta:** It is more of what you have said about the SME and the cascading impact. FinCorp is filling that gap in terms of the funding and stuff. So that is happening. But equally, a lot of these are associated into various businesses, SMEs, linkages. So when you have a liquidity crisis one way or the other, then the appetite of someone to take a loan or take EMI also goes down. So I think that's where it actually plays out.

**Moderator:** Thank you. The next question is from Kumar Rakesh from BNP Paribas. Please go ahead.

**Kumar Rakesh:** My first question was around scooter and your performance in that segment. After Destini launch, it has been doing really well. But it appears it has been cannibalizing your products like Pleasure and Maestro. Your overall market share has not seen any improvement. So this was one of the last strategies left, which we were looking for to improve our market share in this segment by launching into 125cc segment? It, so far, does not appear it has been helping. So what do you think your assessment is that what is not working out in scooter segment for Hero to improve the market share?

**Sanjay Bhan:** Kumar, I think I have said this earlier, so I am going to repeat myself a little. It has just been about 2.5 months that we have seen Destini in the market. In these 2.5 months, it has been doing extremely well. It is already garnering share like we talked about, even at retail level, a high of more than 10% share. The fact remains that most of the catchments, most of the customers who are buying the Destini are not new customers. The issues with our current set of scooters have been there for a bit, in fact, for the past 6 months. So there has been some amount of distress in the 100cc segment overall. Like I said earlier, I think that is also evident from the market leader who's almost got about 60% lion's share of the market. Even the market leader is struggling and the entire 100cc segment is struggling. In the 125cc, which is the fastest growing segment, we did not have a representation, and therefore, naturally, we did not have the kind of gain in market share. But having gotten in there now, we do



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expect over the next 3 to 6 months, we will have a major recovery coming in from riding on Destini on the entire scooter portfolio. We look forward to that, and hopefully, we will have some good news to give to you.

**Kumar Rakesh:** Okay. So essentially, what you are saying is that it is not a case of internal cannibalization, rather it is 2 separate stories that 110cc is declining or however you are entering into 125cc, and that is expanding your overall market presence?

**Sanjay Bhan:** Broadly, yes. Some amount of cannibalization is natural. So to that extent, yes, a bit of that could be possible, but it is not very evident as of now. It is too early. We will have to watch it for a longer while. We do expect this. For now, I think clearly, it is getting us consumers, who were not likely to buy it.

**Niranjan Gupta:** Just to add, another 125cc scooter is coming, which is Maestro Edge. That should help not only gain further reinforcement in 125cc but will also actually rub off on the entire Maestro Edge equity. So I think that will help even the Maestro Edge in the 100cc segment. And our 125cc scooters are having higher margins than the basic segment. So I think overall, the strategy seems to be right, and we will get there.

**Moderator:** Thank you. Due to time constraints, we will take that as the last question. I would now like to hand the conference back to the management team for any closing comments.

**Niranjan Gupta:** Thanks all for participating, and we would like to make an announcement that Umang Khurana, who has been handling this portfolio, is moving on. And we have Shweta Jain, who will be handling this portfolio. I am handing over to Umang for a couple of statements, and then we can close the call.

**Umang Khurana:** Wonderful. Thank you, everyone, for coming on the call. Thank you for all your affection and working closely with us. I look forward to keeping in touch, not from Hero, but I wish everyone all the very best, so we will keep connected. Shweta, you want to say hello?

**Shweta Jain:** As some of you may already know me. We have already been talking over the last few months. I hope to work more closely with you and represent Hero effectively. Thank you.

**Moderator:** Thank you very much. On behalf of Batlivala & Karani Securities Limited, that concludes the conference. Thank you for joining us. You may disconnect your lines.