



“Hero MotoCorp Limited
3QFY2020 Post Earnings Conference Call”

February 06, 2020



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Moderator: Ladies and gentlemen, good day, and welcome to the Hero MotoCorp's 3QFY2020 Post Earnings Conference call hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the Conference Call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. We have with us today the senior management on the call. I will now hand the conference over to Mr. Umang Khurana, Head of Investor Relations, Hero MotoCorp. Thank you, and over to you, Sir!

Umang Khurana: Thank you, Bikram. Welcome everyone to the 3QFY2020 post-results investor call. We have our CFO, Niranjan Gupta on the call with us today. He will begin with opening comments and then we will open the house for questions. Mr. Gupta will start, and then let us collate the questions.

Niranjan Gupta: Welcome everyone to the call. You would have seen our results by now. Good morning, and good evening, depending on which geography or which part of the world you are joining from. As you would have seen, we have delivered an EBITDA margin of 14.8% for the quarter, which is up 80 basis points year-on-year and a profit after tax growth of 14%. These results are driven by cost savings and the corporate tax cut as well.

Overall, revenue stands at ₹7,000 Crores. We have also declared an interim dividend of ₹65 per share, which is 3,250% and as you all know that as far as the dividend is concerned, we have always been in the top decile of the companies that declare dividends.

Finally, as far as BS IV and BS VI transition is concerned, all our models are BS VI ready. We are well geared for the transition, and you would have read, we would be stopping our BS IV production by middle of February itself and we are completely geared for a smooth transition to the BS VI regime.

With that, let me just open for the Q&A.

Moderator: Thank you. We will now begin the question and answer session. We have a first question from the line of Vimal Gohil from Union Mutual Fund. Please go ahead.

Vimal Gohil: Congratulations on a very good execution on the margins front. Sir, first question is, could I get some data, can I get the spare parts revenue for this quarter? What was it the same quarter last year?

Niranjan Gupta: Yes, the spare part revenue for this quarter is ₹800 Crores. And for the same quarter last year was ₹730 Crores, which reflects a growth of 9.5%.

Vimal Gohil: Sir, on BS VI, if you could just share how has been the reaction with the customers? Have you passed on your entire cost and plus your margins? Or your margin is still to be recovered as far as BS VI cost increase is concerned?

Niranjan Gupta: Yes, as far as the customer reaction is concerned, it is too early to say anything. Really speaking, we will start picking up the customer reaction in terms of the volume and the price acceptance as an industry itself from the Q1 of next fiscal. But whatever has been sold or whoever has bought it, the response has been positive as far as the product and the quality are concerned. But overall, in terms of the reaction to the pricing and the volume elasticity, you will figure out only in Q1 of next fiscal. On your next question of the passing on the cost, yes, on an absolute basis, we are able to pass most of the cost.

Vimal Gohil: Have you recovered the margins on it?

Niranjan Gupta: As I said, that we are passing it on an absolute basis in terms of cost per vehicle, most of it. There would, of course, be whatever is the resultant mathematical impact of numerator and denominator on the margins.

Vimal Gohil: Right, Sir. Sir, my last question was on your cost savings. I see your opex has gone down by 9%, and this has been consistently coming down since last four quarters. Adjusting for Ind AS, what would be your cost saving in the last 3 months? And how sustainable is this? I mean are we still left with some steam as far as cost savings are concerned? Or we could see some normalization going ahead?

Niranjan Gupta: So yes, we have been driving savings program as you know earlier on the material cost side, which was LEAP program and thereafter, we have embarked on programs on the overheads and all the other opex and all the other spends as well. So it is part of the drive for the cost savings and driving return on spends and productivity of spends that you see these results. Ind AS impact is very minimal. Overall, Ind AS impact probably would be not more than 10 to 15 basis points on the EBITDA.

Vimal Gohil: Sir, could you just break up your gross margins improvement on a Y-o-Y basis. Or on a Q-o-Q basis of 100 basis points into how much has come from commodities and other efficiencies?

Niranjan Gupta: I think I would not detail out so much into mathematical variances. But suffice it to say, it is a combination of commodities, LEAP savings, both.

Moderator: Thank you. We have next question from the line of Aryn Pirani from Yes Securities. Please go ahead.

Amyr Pirani: What is your outlook on the commodity costs, especially in a BS VI environment where the proportion of some of the commodities like palladium, which have gone up significantly, goes up quite a lot. So how should we look at commodity cost environment over the next maybe 2 to 3 quarters?

Niranjn Gupta: See, it is very difficult to, I mean, guide on commodities. But if you look at it, there are multiple factors at play, which are happening right now. Yes, precious metal is a new kid on the block for BS VI, but if you see, there are other core commodities, which still will constitute almost 70%, 80% of your material cost and most of those commodities will depend on the outlook for the global economic growth and various other factors. If you see crude has been range bound for a while, aluminum has been soft for a while. Now, of course, you can see a bit of corona virus impact on the commodities. So it is very difficult to say. We have seen years of high commodity prices. We have seen years of low commodity prices. I think as a company, we are well geared to navigate through this cost inflation, and we have adequately demonstrated that to the market as well. So I think rather than forecasting commodities, I would say that we have seen the times of high and low both, so we know how to navigate through these volatilities that happen in the market.

Amyr Pirani: Okay. Just on the financing bit, can you share what has been the share of financing for you in the quarter or for the 9 months, whatever number your comfortable sharing? And what has been the share of Hero FinCorp within that?

Niranjn Gupta: Yes, financing, as far as the financing penetration is concerned, 46% of our sales have been on financing in Q3 and this has been the trend, by and large, last year also, same quarter, it was 45%, 46%. It used to be around 40% sometime back, but now it has gone to a range of 45%, 46%. Fincorp is almost 50% share of the financing.

Amyr Pirani: Great. I will come back in the queue for more questions.

Moderator: Thank you. We have a next question from the line of Gunjan Prithyani from JPMorgan. Please go ahead.

Gunjan Prithyani: I have two questions. Firstly, on this margin thing. If I look at last 2 quarters, your gross margins have improved pretty meaningfully. Last quarter, if I recall, there was an inventory adjustment, which was a positive adjustment. So it seems surprising in that context that we have even seen further improvement from second quarter levels. So if you can just share what is really happening? Where are the cost savings really coming from? I mean, directionally, where should we see this moving if we are projecting our FY2021 number?

Niranjan Gupta: Thanks, Gunjan, for the question. Yes, our margins have improved over the last couple of quarters. If you see, again, this is a combination of commodities because the commodities impact us with a lag per quarter, and if you see the trends in the aluminum or the steel or the other commodities over the past couple of quarters. So the benefit has come into this quarter because when it comes with a lag. Of course, commodities have now stabilized, and moving forward, like Aryn said, there are a couple of headwinds that you could see, whether it is steel or precious metals, but these things keep playing out. Apart from that, yes, there are cost-saving programs. There is a bit of inventory adjustment as part of this saving as well, because for December end probably as far as client side is concerned, we had inventories, though they were pretty similar to the September end inventories. So once they wind down, some part of the savings should get wound down in coming quarters.

Gunjan Prithyani: Okay. Will you be able to quantify that how much will it be because last quarter, I think it was fairly sizable?

Niranjan Gupta: Oh it would not be, I think, a big number. Probably 20, 30 basis points would be on account of that if you actually wind down the entire inventory itself.

Gunjan Prithyani: So this 20, 30 basis points reverses and whatever commodity on the precious metal side, we are seeing increases. Barring that, the only meaningful headwind would be the percentage hit that you see because of BS VI.

Niranjan Gupta: Sorry, that can only be in the FY2021.

Gunjan Prithyani: Yes. Okay. Otherwise, you see pretty much in this range ex-BS VI impact margins should stay in this range.

Niranjan Gupta: No, Gunjan, I would not give a guidance on the margin. So you can make your math. But yes.

Gunjan Prithyani: Okay. Second question I had was on the growth and the inventory levels. How are we looking at growth for next year, given these steep price increases that BS VI products are having? Where are we in terms of inventory levels now move after December quarter?

Niranjan Gupta: As far as growth for next year is concerned, it will be extremely difficult to give a number right now, simply because as you know that with BS VI, the prices have gone up anywhere between 12% and 15%. Really, the retails of BS VI will start in March and maybe meaningfully from Q1. So we will have to see what kind of volume elasticity plays out and in different segments, how differently it plays out. It is very difficult to say that, that is one big variable which is there. Second, of course, we know that as far as the overall economy is concerned, there has been a slowdown.

Yes, there have been a lot of measures announced by the government, in this budget as well as earlier. But some of these will take time. So again, the time that it takes for the economy to pick up and of course, for customers to absorb the new price table to stabilize is when one can say. So realistically speaking, you will have to wait for the H1 of the new fiscal and let demand settle down and then one can be in a position (to talk about growth expectations). But of course, sitting today, if you were to ask me directionally, then I would say that probably H2, we can reasonably expect positive trends to emerge on the back of the economy, the effect of slowdown having waned off, and the positives of these actions coming to play. The BS VI prices would have settled down, plus, of course, the better Rabi crop, the water reservoirs and the water table level should help the farm crop and farm incomes as well. But I think we will have to wait out realistically speaking, for H2 for any positive trends to happen. As far as inventory is concerned, we were down to close to 6 weeks at the end of December and by January end, we are down to actually 5 weeks of forward retail. So effectively, inventory is a non-issue. And pretty much we are geared for a transition.

Gunjan Prithyani: This is largely the BS IV only, right because BS VI has only been more signaling launches rather than distributing it?

Niranjan Gupta: Yes. It is largely BS IV inventory.

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

Chirag Shah: Sir, some clarifications. First, one is the tax rate as well as the treasury income, tax rate seems to be extremely low. So is the treasury income. Can we just clarify what would be the normalized tax rate for next year that we should look at?

Niranjan Gupta: Treasury income is not extremely low. I do not know why you are saying that?

Chirag Shah: As a trend, if you look at your cash flow generation in general, but it is okay. It could be seasonality. My question was on the tax rate.

Niranjan Gupta: Yes, Chirag. So treasury income, as you know, our size of treasury has grown, but equally, the rates of returns have been coming down, with the rate cuts the G-Sec, the yields and even the liquid funds. We have overall around ₹182 Crores of other income versus ₹187 Crores, I think, in the same quarter last year. So I think that is the treasury income part of it. On the tax rate, why you see lower rate is because the change happened from Q2. So therefore, the whole adjustment of the rate happens for the forward 3 quarters, yes? That is why you see the rates which are lower for the quarter. Of course, as you move to the next year, you will stabilize at a nominal rate of the 22% plus surcharge, which will be close to around 25%.

Chirag Shah: Okay. Just again, on the inventory side, so you said 5 weeks of forward was not much of BS VI inventory right? That is what I heard?

Niranjan Gupta: Yes. Absolutely, and we are stopping BS IV production by mid-Feb. So therefore, you can see that we are well positioned to transition, and we do not see at all any issue or a need for any excessive discounts for selling this off. In fact, it is a good opportunity for any buyer today to actually pick up BS IV because he gets to buy a two wheeler at Rs. 8,000 to Rs. 10,000 lower than on BS VI price and the more he delays, the more he will run out of this opportunity.

Chirag Shah: Just one, again, clarification on precious metals because of BS VI, what is the content jump from industry perspective that is happening because of precious metals? Because if they were x% earlier, how much that content is going up for precious metals in general because of BS VI transition?

Niranjan Gupta: So overall, if you see that precious metals will be comprising probably around 4% to 5% of the overall material cost. So really speaking, if you look at a percentage basis, on the material cost composition, it is still not sizable. But it will depend on the quantum of increase, yes, it has sharply increased of late in the last couple of quarters. But some of these things can be volatile when suddenly there is demand and then thereafter, they may stabilize. So we will have to just watch the trend a bit more.

Moderator: Thank you. We have next question from the line of Kumar Rakesh from BNP Paribas. Please go ahead.

Kumar Rakesh: I am looking at the spare parts revenue this quarter, which you noted is around ₹800 Crores. Now the mix in your total revenue contribution coming from spares is one of the highest. It is actually the highest in whatever record I could see. Both sequentially and YoY it has jumped by around 200 basis points. So am sure that would have also helped in your gross margin performance during the quarter. Any help with understanding two parts: One is how it helped on the margin front and (b), what are you doing over there that its performance is a bit disconnected from the retail weakness which we have seen?

Niranjan Gupta: Right. So you picked up, right, that these spare parts growth is 9.5% versus 2-wheeler, which has gone down by 14%, so the ratio of parts to the overall revenue has gone up to 11.4%, and that does help the margin, given that the parts margin are typically higher than the 2-wheeler sales.

There are a couple of things happening. One is, of course, as a percentage, it looks higher simply because on a dispatch basis, the volumes are 14% down, right? So that is one effect.

The second effect, of course, is on the Parts - what we are doing is we are going deeper with our distribution system through micro distributors. And therefore, that has started giving us some results. Early days, but yes, we are structurally trying to penetrate more because potential in the Parts business is huge, and what we capture is not more than 35%-36% of the potential.

Kumar Rakesh: That is encouraging. My second question was around your Andhra plant. Can you just help us with the update and when is it going to ramp up and start production and when we should start seeing the cost and the P&L effect of that?

Niranjan Gupta: As far as Andhra plant is concerned, we do have plans to commission it this quarter. As far as P&L is concerned, it would not have a meaningful impact because it will start producing, it will take time to scale up. And also, given the FY2021, BS VI transition volume projections, and initially, we would be manufacturing at Andhra only for South or only for Andhra. So yes, in terms of the fiscal benefits and logistics, we will have advantages. But not a significant or any meaningful P&L impact in FY2021 because of Andhra.

Kumar Rakesh: So what kind of volume we would be expecting from that plant, at least in the first year?

Niranjan Gupta: It would be difficult for me to give out a volume projection right now. But as I said, it will not have a meaningful impact on the top line or on the P&L, but we can talk about it in the next quarter, once we actually commission it.

Moderator: Thank you. We have next question from the line of Jayesh Chandra Gupta from JM Financials. Please go ahead.

Jayesh Chandra Gupta: Sir, my first question is regarding today's announcement by MPC, saying that they do not have to keep CRR for the auto disbursal until July of this year. So do you see financial penetration increasing and maybe supporting sales despite BS VI cost up? And what is your outlook regarding that?

Niranjan Gupta: See, liquidity has not been an issue in the last 6 to 9 months, right? It was an issue earlier, so it was not an issue of liquidity. Yes, I mean, low CRR helps in the liquidity improvement. But liquidity is not an issue. And also this helps banks more and not NBFCs, while most of the financing penetration in 2-wheelers happens through the NBFCs. So I do not see this as a factor driving finance penetration. But if I just take the question a little deeper that finance penetration, can it be a big driver for growth? The answer is yes. So I think innovative financial products and finance penetration can actually help offset some part of BS VI headwind, which may come due to volume elasticity. Definitely, we are on it, and we will try to see how much of this factor can be played out when we get into the BS VI regime.

Jayesh Chandra Gupta: Sir, my last question would be you see some of the competitors are coming with e-carburetor, where they are saying they can control the air flow and mix and do the same as FI. What is your view on this technology e-carburetor? Is it effective? Do you plan to do it some time? Is it an effective product to save cost in BS VI, technologically clean and efficient, what is your view Sir?

Niranjan Gupta: So you have already seen that now e-carb has been launched by one of our competitors. And the price differential between the e-carb launch and the FI that we have launched is not more than around ₹1,000. So the entire concern that probably a lot of you had, that maybe e-carb will come at a ₹2,000 or ₹3,000 price, while compared to FI of ₹7,000-₹8,000, I think that concern has gone now. Now coming to the technology part of it, FI certainly is a premium technology. It is proven on a more stable technology. It is more fuel efficient. It can give better acceleration. It does not have a start-stop issue, which sometimes the carburetor technology can have and also the start-stop issue in the cold weather I am talking about. Also remember in the next two years, the OBD II is coming, which is onboard diagnostics regulation. Clearly FI is well placed and compatible with the OBD II technology. The carburetor technology is yet to prove itself to be compatible with OBD II. So I think there are lots of ifs and buts about that and in comparison FI is clearly superior, and therefore we do not have any concerns about actually this price differential, and we believe it is the best technology to go through with the product.

Jayesh Chandra Gupta: Thank you.

Moderator: Thank you. We have next question from the line of Pramod Amthe from CGS-CIMB. Please go ahead.

Pramod Amthe: Two questions. First one is with regard to BS VI, the price hikes have already been announced and they look steep. Looking back at the insurance experience, it really came as a shock and the system took time to adjust. What are you doing differently with financiers and the entire ecosystem to take care of such steep hike in pricing?

Niranjan Gupta: Right, Pramod. So one thing, remember, insurance came as a shock. So it came as a shock to OEMs as well. And there was no time for even OEMs to prepare or for them to prepare their dealers or the customers. So even to understand the reasons, the story and the logic, there was a lot of confusion. And in fact, insurance came and then one part was rolled back and then for the other part there were representations and a lot of uncertainty and a lot of logic issues created as to why the customer should pay. Compared to that, if you see BS VI, everyone knows, yes, so the BS VI has been there in communication and interactions with the customers right from the last 9 to 12 months, that yes, BS VI is coming, they know that there is a price hike coming. And now the models have started getting launched in the last couple

of months. And therefore, a transition happens by March end. So there is enough time. So in comparison with insurance which was a shock, while BS VI, which is planned and known, the reactions would be different.

Second thing is, of course, along with BS VI, everyone and we are also doing, we are trying to offer a better product. So you would have seen our Pleasure scooter, which went out a week back, and we said it has a 10% better fuel efficiency. Now if you just take 10% better fuel efficiency that saves you almost ₹2,500 a year. And the capital value of that could be ₹7,000, ₹7,500 over a 5-year NPV. So I think, of course, customers won't to NPV calculation, but they can see some part of savings coming. Also when you see acceleration, better technology, futuristic technology, better technology has a premium associated with that. So I think these are the things that can help BS VI price landing in a softer manner as compared to the insurance price landing. Apart from that, of course, we will have to do some work on financing products in order to make it easy as far as the upfront payments are concerned.

Pramod Amthe: The second one is with regard to the top management. In spite of the company taking up ESOP programs to retain the key performers, we have seen a substantial change in CY 2019. Do you think you need to install a much stronger program and a much more attractive program to retain employees? And how do you plan to and what is your observation in terms of how to come out of it handle BS VI better?

Niranjan Gupta: Right. I think what happens is that when 2 or 3 movements get bunched together so that actually seems to be like a big issue that is happening. However, if you see in isolation, we had a CTO moving and that was part of the plan because he completed his 5-year contract. That was the contract period. And in that time, Markus actually established the Jaipur R&D center, with ₹1,000 crores investment. We have 1,000 engineers. We have the second, third line in place. So the whole organization is established that way. And then it has been seamlessly in a sense of taken over by Vikram Kasbekar, who also handles manufacturing. And you can see it has not affected our BS VI transition at all. And all the models are ready, they are moving into the market. Equally, if you look at the transition of Sanjay Bhan, he served the company for 30 years. So it is not like people are coming and going, it is just that probably 2 or 3 moves have got bunched together. So we do not see an issue on that front and of course, the organization, the structure, the systems are all institutionalized. So we do not see any impact as far as short and medium term is concerned.

Pramod Amthe: The last one, if I can ask, what is the likely impact in the context of changing dividend tax rate? Is your broader payout policy likely to remain intact? Or how do you look at it?

Niranjan Gupta: The broader policy does not change because of the change in taxation. We continue to be a company which believes in paying out on a progressive basis. We continue to be a company

which is in the top quartile, and will remain there and therefore, we do not see any significant change as far as the dividend policy is concerned.

Pramod Amthe: Thank you. All the best.

Moderator: Thank you. We have next question from the line of Ronak Sarda from Systematix Shares. Please go ahead.

Ronak Sarda: Thank you for the opportunity. Sir, first question on the rural sentiment last quarter, and during the previous call we were hopeful that the Rabi sowing should be strong, and it has actually been pretty strong. But, any change on ground? I mean are we seeing any improvement in the sentiments? Any spending change?

Niranjan Gupta: Ronak, so thanks for the question. Yes, early days. But I would say that there are some hints that are coming. For instance, when we look at our January retail, we can see some areas, some states, right? UP, Rajasthan, Maharashtra, parts of Gujarat, we can see actually growing 10%. We had double-digit growth in retail in January. Now these are early days, but it is a positive that we take out. But, I guess, once the Rabi crop is harvested and the incomes go in the hands of the farmers, and of course, people who are dependent on the farm sector, then one could start seeing these green shoots as getting more established. Apart from that, of course, a lot of programs have been announced by the government for rural and infrastructure development, that all of you have seen. I think if they are executed well in time and in full, which means the amount that are intended, then, of course, the dividends of those initiatives should start coming in 6 months' time. So I would say a good crop followed by the output from the initiatives implemented should auger well for the rural sector.

Ronak Sarda: Sure. That is helpful. So another question here, again, how is the financing in the rural I mean you gave the overall financing numbers, I mean, have you seen a major jump in the rural? Are the financiers happy to do two wheeler financing in rural areas now?

Niranjan Gupta: See, I would not be able to give out a split of rural financing and urban financing. But I can say that, look, in this area, the financing companies have a job to do. Right now, they are also risk averse. Actually, the whole financial sector is risk averse, right from the banks to NBFCs, which is why you do not see liquidity converting into lending. I think as the economy picks up a bit, along with technology intervention, and with better financial inclusion and integration, there is a big opportunity as far as rural is concerned. So I think the finance companies also have a job to do in this area. But the potential is there. That could actually give a lot of boost. In fact, there have been new products, which we have experimented, and we have introduced whether it is flexi cash or whether it is low LTVs, etc., we continue to innovate around that as pilots, and we are seeing good results. But I think for a big jump on

that, the confidence from the NBFCs and finance companies is also extremely important. And confidence as far as they are concerned is dependent on the confidence of their own lenders. So therefore, the whole financing sector, right from banks to the NBFCs to the entire ecosystem has to get a little more confident before they can actually take a jump here.

Ronak Sarda: Okay. So basically, the 10% retail growth is without financing for sure. That is helpful. Sir.

Niranjan Gupta: I am sorry. Sorry, Ronak, it includes a bit of financing but yes, there are other drivers as well.

Ronak Sarda: Sure, sure. Sir, second question, I mean, we were also working on the e-carb technology, and we were hoping to launch it later in the year as an option. So I mean can you assume now we are not working on it, given the pricing is not very different and to have the challenges with the e-carb technology? Is E-Carb still a go? Are we still working on it? And other part question to this is, how the BS VI pricing feedback from the retail side - because we have launched 2 of our largest selling products in BS VI. So any customer feedback that you can share?

Niranjan Gupta: So as far as the carburetor technology is concerned, we had said that as part of our cost optimization plan, one section of our team is also working on that, right? And of course, the technologies can be improved over a period of time. And we will see how it goes. And if it works out, if something where the customer wants a far lower cost versus the modern technology, one could always have an option of an SKU or a variant or a product. So I think that is where I would say we see that going. As far as BS VI is concerned, I think I told earlier also in this call, right now, it is very early to measure any pricing feedback meaningfully because the retails of BS VI are far, far lower. So you cannot really gauge from that. It is only from April onwards that we will be able to gauge the reaction of the customers.

Moderator: Thank you. We have a next question from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: Thank a lot for the opportunity. Congratulations on a great margin performance. My first question is on the BS VI transition. Sir, so if you can just help us understand, out of the 16 brands, what we have in our portfolio, how many brands have already moved to BS VI production? If you can share a time line, actually, by when do you see 100% BS VI production across all your 16 brands, sir?

Niranjan Gupta: Pramod, thanks for the questions. So first of all, you would have seen that we have already started dispatching HF Deluxe. We started with iSmart much earlier. And at that time, also, we said that we will calibrate our dispatches as per our transition plan. We have also started the dispatching Pleasure and you will see more and more products coming. From an R&D

and production perspective there is complete readiness. From selling and dispatch, as I said, it is all calibrated as per our BS IV - BS VI transition. What however I can say is that we are stopping BS IV production by middle of February. I think that should give you enough indication of our transition and the volumes.

Pramod Kumar: Related to that is what happened with the Scooter portfolio? Because is it just the BS IV ramped down that is why our numbers have fallen to 7% because that number looks abnormally low, even from a dealer support and sales perspective, sales continuity perspective on the end market. Because we had much higher volume ambitions there, thanks to the new launches on the 125cc. We heard in the past that we had almost 15%, 20% retail market share in the 125cc category, but the volumes of the wholesaler have been slipping, and last month was kind of an absolute shocker. So can you just explain a bit of that, sir?

Niranjan Gupta: Okay, Pramod, you are absolutely right. It is basically because we are stopping the BS IV. And therefore, all the scooter production was stopped in December itself. Therefore, you would not see them in dispatches. When you plan a transition from BS IV to BS VI you ramp down the BS IV product and you ramp up the BS VI product. There is always going to be some gap between when the BS IV gets ramped down, and BS VI gets ramped up. So you are absolutely right, it is because of the transition and not something that is adjusted to sale.

Pramod Kumar: So in a way, we should expect a sharp comeback from February, March itself and then from February ideally because the channel must be really like dry right now, given the heightened momentum.

Niranjan Gupta: Hopefully. I hope you also go and buy couple of our scooters, Pramod.

Pramod Kumar: I am waiting for the electric one, Sir.

Niranjan Gupta: Do not buy electric. Then you will be searching for the charging stations. Go and buy something that you can fuel and drive right now.

Pramod Kumar: I was thinking about the carbon footprint. Sorry, last one, Niranjan, as on the export side, Sir, again, we have seen extremely good performance from Bajaj and TVS on a much larger base, but some of these seem to have not benefited from the boom in the export side in many of the markets, so if you can just help. This has been a sustained issue what we have been facing on the export side, even with the joint venture in Bangladesh. So if you can throw some color on that, sir? And this is my last question.

Niranjan Gupta: So admittedly, Pramod, exports is taking time to pick up. There is no denying that. Having said that, Colombia has started doing very well. For instance, in the last quarter, we grew

18% in Colombia versus market, which grew by 10%. Colombia is one of our strategic markets, because it is 0.5 million market. As far as Bangladesh is concerned, there have been some fiscal changes in the regulatory space there. So there is some adjustments happening there. But we are not worried there, the Bangladesh company is profitable. We have 20% market share there, but having said that, there are enough opportunities, which are there. It is taking time for us to pick up. We are configuring our products also to suit the markets. So it will take some time, but we are at it.

Pramod Kumar: Thanks a lot Niranjan. Best of luck. Thank you.

Moderator: Thank you. We have next question from the line of Aniket Mhatre from Haitong Securities. Please go ahead.

Aniket Mhatre: Could you talk a bit about your working capital? How has it moved and about the asset generation this quarter?

Niranjan Gupta: So as far as the working capital is concerned, I would not give you a number, maybe off-line, Umang can help you, but all I can say is that one of the things that we have been pointing out is the receivables in the past. And our receivables have come down in December to the normal levels.

Aniket Mhatre: Okay. And any sense on the FCF generation this quarter?

Niranjan Gupta: Sorry?

Aniket Mhatre: Any sense on the FCF, you would have done this quarter?

Niranjan Gupta: We do not give out FCF numbers on a quarterly basis. You can connect off-line, of course, with Umang.

Aniket Mhatre: Sir, my final question is, you alluded to the fact that part of the gross margin is because of commodity cost benefit. I mean have you got the benefit on a retrospective basis? So second quarter's benefit has also come in this quarter or it is entirely third quarter benefit?

Niranjan Gupta: So it is always with a lag. So there are no accounting adjustments here. It has always been like that, that the commodities for us impact us with the lag of a quarter.

Aniket Mhatre: No, what I am trying to understand is whether even H1 benefit is in this quarter? Or you have got the benefit for only this quarter?

- Niranjan Gupta:** No, it is only the quarter benefit.
- Moderator:** Thank you. We have next question from the line of Aditya Jhavar from Investec. Please go ahead.
- Aditya Jhavar:** Yes. Then my question is about what is the share of rural in our overall portfolio?
- Niranjan Gupta:** Let me just hand over this question to Mr. Naveen Chauhan, who is the Head of National Sales, and he is with me. Naveen, would you like to shed some light on rural and urban?
- Naveen Chauhan:** Sure. I think rural has been doing good for us. And consistently, I think that is a positive number that we are getting this and I think in excess of around 50% that we get from rural market. I think there is continued focus there, which is helping us harness the opportunities which are there. Yes.
- Aditya Jhavar:** Okay. Yes. And Niranjan, are you guys seeing any increase in delinquencies in Hero FinCorp? And does it have any kind of recourse on Hero MotoCorp?
- Niranjan Gupta:** No, there is no increase in delinquencies and also no recourse to Hero. Hero is only an equity shareholder. There is no underwriting of any debt or any other obligation whatsoever. It is on an arm's length basis, so there is no recourse. They operate as an NBFC in their own right.
- Aditya Jhavar:** And there is no increase in delinquencies that we are seeing there?
- Niranjan Gupta:** I mean they manage their own business, honestly speaking. You can take it off-line also with Umang. But the business is progressing well. Their loan book has gone to ₹23,000 crores there. Their profits have increased on a year-on-year basis. So I think the company is doing well. But you can connect off-line with Umang for anything more that you want on FinCorp.
- Aditya Jhavar:** Is there a differential in credit period offered in spare part versus our main business?
- Niranjan Gupta:** Not meaningfully. I mean there is a bit of difference here and there. But honestly, spares is 10% of our revenue. And I would say broadly, spare parts would be close to around 30 days of credit on an average. And 2-wheelers operate on a 15-days interest free credit.
- Aditya Jhavar:** Okay. That is it from my side and congrats on great set of numbers, especially in this environment.
- Moderator:** Thank you. We have next question from the line of Rajat Rajoria from Angel Broking. Please go ahead.

Rajat Rajoria: Sir, my question is regarding our product mix is the highest in the 75cc to 110cc segment. In the past 9 months, April to December, we have actually lost market share by 1.2% volume-wise. So may I know the specifics here? And also the export growth has been down by 36%. So can you throw some colors on this one?

Niranjan Gupta: Yes. So basically, overall, there are two reasons for that. So one is you are kind of looking at this, just the CC classification on a stand-alone and one segment does not help because customers do migrate from one together. The way we look at it is, look, on a year-to-date basis, 9 months, motorcycle, we have gained 70 basis points market share. So I think that is the way we look at it and with whichever mix we have been able to do, our margins have gone up. So I think there is a mix and as a margin management and that is what we navigate. Having said that, since you asked a specific question within that, Passion is a brand where we have talked about earlier as well that has lost some share because in the past, we have not done enough refreshes on that. We are addressing that in BS VI, and you will see soon once the Passion BS VI gets launched, that the changes have been reflected in that model. As far as exports is concerned, I have already answered that, yes, exports is taking a bit of time for us to pick up. We are customizing products for the specific markets and building it brick by brick. Some of the markets have started showing positive signs. But currently, export business is a very small percentage of our revenue, but it gets the full focus. Xpulse, which we have launched in most of our export markets, has been received very well. So again, early days, it will take time to build into these markets. So we are at it.

Rajat Rajoria: My next question is on the GST front, sir as we all know that the segment in which Hero is, that is a mass category product. But they have been charged with the rate, which is of luxury item, 28%. So may I know is there is any possibility of probability that how the government will take it or whether they will revise the rate from 28% to 18%. Is there any hint or any assurance from the government side? What is the status of that, sir?

Niranjan Gupta: First of all, thank you for this question. Maybe you could also help us represent. So I think we have represented multiple times to the government. But finally, look, we have to run our own business with what we have and that is what we are doing. Government probably also would have constraints as far as fiscal space is concerned. So we will see how it goes. Right now, we are not really focusing on that. We are focusing on that with the current cost, pricing and margin structures, how do we make the auto industry grow and ourselves grow as well.

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

Chirag Shah: A question on exports, while it has been asked, so I just wanted to understand why is it taking time because some of your peers who have been the late entrants have been able to expand

reasonably well over the last 2, 3 years. While some of them established well in advance, but some of them have been late entrants. We were focusing on exports since a reasonable time. So is there anything specific that we are not able to address while somehow others are able to address or we are not going to take risks as much as others are taking. Is that the reason? How should we look at this opportunity? Sir, I do not think the product is the issue in most of the markets from your perspective?

Niranjan Gupta:

Yes. So Chirag, you rightly pointed out, it is a big opportunity for us and an opportunity that we know. If you see, there are 2 places where we have put in our manufacturing centers and our fully dedicated teams. Both places, Bangladesh started growing earlier itself well, 20% market share. It is a profitable company. In the first year itself has paid off all its loans and everything. And if you look at Colombia, it took time to get our act together there. But now in the recent quarters, we have started growing. If you look at again, Nigeria, we launched with our product. But then in Nigeria, the taxi market, and therefore, that product can do well so we actually finally paused and stopped selling into Nigeria. So therefore, that base has gone out and now we will be putting out a completely customized product, which is suited for that market. So similarly, there are examples. There are multiple examples of different countries. It is about understanding each country in its isolation. We started with this journey 4, 5 years back. Yes, we have an ambitious target. We still have that target for GB to be 10% of our revenue in fullness of time. There is a dedicated team working on it. We can see success in a few geographies, but yes, it has taken time, but I can tell you that there is a lot of focus on this because it is a huge, huge opportunity from a Hero portfolio perspective, and we will get it right.

Moderator:

Thank you. We have next question from the line of Bharat Gianani from Sharekhan. Please go ahead.

Bharat Gianani:

Thanks for the opportunity and congratulations on a great set of numbers in such a challenging environment. I just have one query, if you can throw some light on the same. Do you see oil marketing companies increasing the cost of fuel of BS IV to BS VI, do you have any sense on or what you would like to share at this moment would be helpful, so just wanted your views on that. Thanks.

Niranjan Gupta:

It is difficult to comment on that because, yes, we have also seen oil marketing companies announcing increase for the BS VI. I think they have announced a Rs. 1 per liter, which amounts to probably 1%, 1.5% in terms of the price per liter. So it does not seem to be significant. Equally, fuel actually, parts on this one would actually depend largely on the crude oil, which is more volatile and actually can take away or give in more than that ₹1 by its movement itself. So honestly, at this point in time, we do not see that as an area or a topic to focus on, and we will see how it moves.

Bharat Gianani: That is really helpful, Sir. I was thinking like it might have had an impact, but given the huge fuel efficiency increase that we see under the BS-VI regime, it should not be a problem, I think. Thanks a lot.

Moderator: Thank you. We have next question from the line of Sabyasachi Mukherjee from Centrum Broking. Please go ahead.

Sabyasachi Mukherjee: Thank you for the opportunity. Congrats on good margin numbers. Two questions from my side. First, you mentioned that YTD we have gained 70 basis points market share. Is this only in motorcycles or both put together motorcycles and scooters?

Niranjan Gupta: It is in motorcycles.

Sabyasachi Mukherjee: Similar, what would be the market share in scooters?

Niranjan Gupta: Overall, if you look at our scooters, we have lost the market share on a YTD basis by 280 basis points. Our scooter market share is at 8%. Overall, our 2-wheeler basis, both put together, we are, by and large, flat as far as market share is concerned on a year-on-year basis.

Sabyasachi Mukherjee: The second question is on the discount trends. What has been the discount levels in Q3 and how has it has been trending in January and going forward, what it would be?

Niranjan Gupta: So as far as discounting is concerned, Q3, of course, was a festive period and our margins factor in that so the margins are after factoring the discounts, and you have seen that. Even at that time, we have said that we are doing the schemes in line with what we have been doing in the earlier years and no meaningful change, no substantial change on that and it has evident in our numbers. As far as the Q4 is concerned, again, yes, you do run schemes here and there in specific geographies, and you would have seen that. But you would not have seen any substantial jump there simply because the inventories are low, and we are geared up. So we do not see a reason for any substantial or a significant hike in discounts.

Sabyasachi Mukherjee: I mean the Q3, the discount levels have been more or less similar to what it was in last Q3?

Niranjan Gupta: Yes, you can assume that. I mean it will be probably slightly higher, but not significantly higher. In fact, we had said that earlier as well. In our last quarter call, we have said that we would not be going with significantly higher discounts. We have said that, yes, it will be up, but it is not like "mother of all discounts" or "father of all discounts".

Sabyasachi Mukherjee: If I can request, would you like to put in a number for a discount per unit?



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Niranjan Gupta: No, no, no. We would not give out a specific number.

Moderator: Thank you, Sir. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Umang Khurana, Head of Investor Relations, Hero MotoCorp, for closing comments. Sir, over to you.

Umang Khurana: Thank you, everyone, for coming in. Lovely getting all your questions and let us connect after this as well. Have a good evening. Bye.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Ambit Capital that concludes this conference call. Thank you for joining us. You may now disconnect your lines.