



“Q1 FY13 Earnings Call of Hero MotoCorp Hosted by  
Motilal Oswal Securities”

**July 19, 2012**



**MODERATORS: MR. RAVI SUD – SENIOR VP & CFO, HERO MOTOCORP  
MR. ANIL DUA – SENIOR VP – SALES & MARKETING,  
HERO MOTOCORP  
MR. JITESH GANDHI – ANALYST, MOSL SECURITIES  
LIMITED.**



*Hero MotoCorp  
July 19, 2012*

**Moderator**

Ladies and gentleman good day and welcome to the Q1 FY13 results conference call of Hero MotoCorp hosted by Motilal Oswal Securities Limited. As a reminder for the duration of the conference, all participant lines are in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call you may signal for an operator by pressing \* and then 0 on your touch tone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Jinesh Gandhi of Motilal Oswal. Thank you and over to you sir.

**Jinesh Gandhi**

Thanks Laveena. Good afternoon everyone. On behalf of Motilal Oswal Securities, I would like to welcome you all to this 1Q FY13 post results conference call of Hero MotoCorp. Hero MotoCorp is represented by Mr. Ravi Sud – Sr.VP & CFO and Mr. Anil Dua – Senior VP, Sales and Marketing. We would like to thank them for taking time out for the call. I will hand over to Mr. Sud for his opening remark. Over to you sir.

**Ravi Sud**

Thank you Jinesh. Good afternoon everybody. Since the number has just gone to the exchange I will just give you a run down for the quarter. In this quarter we had done 1.64 million 2 wheelers versus 1.572 million 2 wheelers in the corresponding quarter last year which is a growth of 7.4%. In terms of our turnover, our turnover in the quarter is 6,247 crores versus 6,034 crores which show a growth of around 10%. In line with our turnover, PAT is also grown to 615 crores versus 558 crores which show a growth of around 10.32%. And other highlights i.e. the tax rate for the quarter is about 16.25% versus 19.19% of the previous quarter and 16.99% for the full year FY12. Now here I just want to give a clarification because tax rate when we compute tax rate is based on the estimated income at the beginning of the year. And you would have noticed even in the last year, in the first 3 quarters, we were hovering at about 16.5% but in the last quarter, the tax rate went up to over 19% where the overall tax rate was about 17%. So the 16.25% may vary to some extent in the quarters to come. The other highlight is that we have booked an other income of 104 crores plus which is again a growth of more than 10% on our treasury income. And with these remarks, I think we can start with our questions and answers.

**Moderator**

Thank you sir, participants will begin their question and answer session. We will take our first question from the line of Mr. Pramod Kumar from IDFC, please go ahead.

**Pramod Kumar**

Sir my first question pertains to what's your current outlook on demand in terms of, we had initially aimed at the beginning of the year growth of over 10% for the industry and a similar growth for our self. So given the first quarter has not been so strong, and considering all the risks in terms of macro and monsoons as well, is there any change in the thought in terms of what growth could be for this year including the industry and for yourself?

**Anil Dua**

Pramod, this is Anil Dua here. Yes, if you look at the industry figures this quarter the growth of industry is 9%. So it's not a way off the 10% figures as we said in the past. We had always



*Hero MotoCorp  
July 19, 2012*

predicted that this year is not going to be at the same level as the previous years. It means the last 2 quarters industry had grown by around 12%. The 2 quarters before that the industry had grown by 18 – 19% and we had said that this year it may not be beyond 10%. The first quarter has turned out in line with that at about 9%. So as you know industry growth we are maintaining what we had said that as you know it's not like to exceed 10% this year.

**Pramod Kumar**

Similarly for ourselves sir, any change or any increase or decrease in the growth of ourselves?

**Anil Dua**

We had said that we are targeting outgrowing the industry. This quarter our growth has been about 7.5% against the 9% growth of the industry. If you look at it by segment, motorcycles which are our bread and butter we have actually gained share, we have grown faster than the industry. In scooters, where we are in the process of launching a second scooter which will be bulk of the action in this quarter which is micro scooter which we started selling this quarter and we will start advertising this quarter. In the scooter segment, that we have grown less than the market and we are hoping to catch up with that in the big way in this quarter.

**Pramod Kumar**

Any production constraints in scooter?

**Ravi Sud**

In June there was some production constraints. We couldn't produce what we wanted in the month of June. We have upped the capacities from July on scooter especially on our new scooter Maestro. So we are hoping to see far better dispatches of Maestro in the current quarter.

**Pramod Kumar**

Sir Pleasure volume actually started coming down after the launch of Maestro. And segment seems to be a bit different that what, they are not overlapping to that extent, so any particular reason why Pleasure volumes are under pressure, Pleasure all of sudden – at least that was visible in the last few months?

**Ravi Sud**

Okay I won't say pleasure volumes are under pressure. But certainly some amount of cannibalization is bound to be at specific when there are 2 scooters in the same showroom, you should expect some cannibalization but I will not say that is out of line with other expectations and our plans. Pleasure is still selling very healthy volumes and in fact going forward we hope to see growth on pleasure as well. You will see soon a new print campaign on pleasure and a new TV campaign on micro. So we are definitely connected to both the scooters because they cater to 2 very different segments. One is focused on women, which is pleasure and micro is very single mindedly focused on men. As you will see it as the advertising starts this quarter. So our reason for them to really grow at the cost of each other, we hope to grow them together.

**Pramod Kumar**

And finally your quick comments on trend on passion line premium segment performance because these are 2, your passion volumes have declined on a 6% on the wholesale levels this quarter. And premium segment market share is down 25% last year same quarter to around 18%. Your quick comments on these, because otherwise your CD Deluxe and Splendor continues to



*Hero MotoCorp  
July 19, 2012*

do pretty well. The standard growth is coming under pressure. So quick comments on the market share of the premium and passion decline?

**Anil Dua**

I think we need to check this result carefully. If you look at 100cc and 125cc and we have started changing of brand to HERO and we actually gained share in 100cc and in 125cc we are holding share. In 150cc again deliberately we have held back because our models were due for a re launch which is happening this quarter both Extreme and Hunk are under going a refresh with product changes in this quarter and that's why it's a deliberate ploy to downplay on our current dispatches in this quarter. So yet in premium segment it's a deliberate strategy. But in entry and deluxe we have actually grown share and that is why overall in motor cycle, we have actually gained share.

**Pramod Kumar**

Splendor volumes have done reasonably well considering the environment, CD Deluxe has gained significant traction so is there a concern in fuel prices hike inflation?

**Ravi Sud**

No certainly our bikes are gaining because of the increase in the petrol prices that has certainly given flip to our 100cc range specially the lower end. That's why you are seeing, this disproportionately better response on deluxe and splendor. But this is something which you always observed because whenever petrol prices goes up, given the high mileage of our bike, our 100cc range always benefits.

**Moderator**

Thank you. We will take the next question from the line of Mr. **Hitesh Goel** from Kotak Equities, please go ahead.

**Hitesh Goel**

Sir just want to get a sense on the net average realization, did we see on Q-on-Q basis this is more or less flat, you had taken a price increase in this quarter. Is it a pure mix impact and how do you see this mix moving, going forward?

**Ravi Sud**

I think there are different factors one is you already mentioned one is on account of mix and second part of the question is on account of premium segment which in our case has slightly gone down.

**Hitesh Goel**

The second question is also on other operating income, that has also come down on a Q-on-Q basis, so if you can give us?

**Ravi Sud**

No comments on that because this as when the income comes, when we don't have much flexibility in other operating income. If the question is relating to other income, which is non - operating other income there I can answer your question well that is something where we book depending what we needed to book in our financial books. Otherwise it is accrued income, which is about 200 Crore as on 30th June.



*Hero MotoCorp  
July 19, 2012*

**Hitesh Goel** And sir can you give us the royalty expense for this quarter?

**Ravi Sud** Royalty expense is very negligible. As you know royalty is only on new products – like Impulse, Maestro, etc.

**Hitesh Goel** We had expense that goes into depreciation because these are always on impact of the Yen on net.

**Ravi Sud** It is 220 odd crores.

**Hitesh Goel** which was close to 208 crores in the last quarter?

**Ravi Sud** That's right.

**Moderator** Thank you. Our next question from the line of Mr. Ameen Pirani from Deutsche Bank, please go ahead.

**Ameen Pirani** Sir on the other operating income can you at least tell us what are the component which go in to that so that we have a better idea of what are the items which go in there?

**Ravi Sud** There I can tell you all export incentives go in there. That is a major item and we have this customer CRM program. So whatever is the charge we take from the customer that gets booked as an income and corresponding expenses go in the overall operating expenses.

**Ameen Pirani** And sir can you give any indications of what are the inventory levels right now at the dealer level and may be at your end as well and are you seeing from the customer side any expectation of discounts as the demand environment has become quite weak.

**Ravi Sud** Yes on the dealer inventories across the industry retails are actually lagging the dispatches and therefore dealer inventories have gone up across the industry. No longer are the dealer inventories at 2 week levels, the dealer inventory are about 4 week levels across the industry. And so is it with us. However from our point of view a lot depends really upon this quarter because we being put in together, our re-launch plan, as you know we are moving our entire range from Hero Honda to Hero. And that's also a work in progress that is getting completed in this quarter and therefore in the last quarter we did not advertise much. If you look at our other expenses which include marketing expenses that actually the positive impact on the bottom-line this quarter because we actually did not spend on the re-launches which we are going to spend in this quarter, so we are hoping to really drive our model retails and model sales, so model focused advertising in this quarter and if we have a great plan and we are happy that we have adequate stock at dealerships to take care of the demand that will arise due to their advertising.



*Hero MotoCorp  
July 19, 2012*

- Ameen Pirani** So would it be fair to say that retail sale going forward would actually outplay whole sale and, from the dispatches side volume momentum could see some kind of a weakness?
- Anil Dua** That may not be true because a) overall sentiment is low as you know monsoon deficit and in general there is a low sentiment in the industry. So I will not say that will be the case, but more importantly that may not be desirable also because post this quarter you get into the festival season. Therefore in any case the industry does build up stocks to take care of the huge festival demands that pours in. So having a situation where as you know you end up down stocking big time may not be a desirable thing from the festival point of view.
- Ameen Pirani** Sir on the discount is there any demand or any expectation of discount from customer because of the environment as it is?
- Ravi Sud** I can't say for the industry but certainly for Hero I can tell you very clearly that we have not encouraged any discounts for last 4 years. We focus on building our brands and making our brands the preferred choice for the customers and we do not plan to run any discounts.
- Ameen Pirani** Sir lastly any price increases you have taken? I think the last price increase was in May, so after that have you taken any price hikes?
- Ravi Sud** No after that we have not. That was the last price increase that we took.
- Moderator** Our next question from the line of Aditya Makharia from JP Morgan Chase, please go ahead.
- Aditya Makharia** Yes sir, just had a couple of questions, what is the volume of Haridwar in current quarter?
- Ravi Sud** Haridwar contributes to about 38% of our volumes.
- Aditya Makharia** Okay and we are likely to maintain at these levels?
- Ravi Sud** Yes. It will remain at this level only. That's what in my opening remarks I just said that the tax rate varies from quarter on quarter just on the basis from contribution from Haridwar because in the last fiscal in the fourth quarter the volume of Haridwar has slightly come down and hence for the 4<sup>th</sup> quarter the tax rate went up. As of now it's close to 38% and is expected to continue at the same level.
- Moderator** Thank you. Our next question is from the line of Jamshed Dadabhoy from Citigroup, please go ahead.
- Jamshed Dadabhoy** Sir could you just shed some light on what your cash CAPEX is like for FY13 and FY14 because your website carries something saying 2500 crores, I just wanted to confirm that number?



*Hero MotoCorp  
July 19, 2012*

- Ravi Sud** Yes that is confirmed. Because that's the announcement that we had made on 4<sup>th</sup> of June that this CAPEX of 2500 crores would be over a period of 18 – 24 months because it includes 2 new plants, one plant is in one in Neemrana and second plant in Gujarat because as far as Neemrana plant is concerned majority of the CAPEX will come in the current fiscal and may be one – fourth will go to the FY14. As far as Gujarat is concerned, very small portion of the expenditure basically relating to acquisition of land and some expenditure around building will come in the current fiscal and majority of that will go in the FY14. Then on the R & D, the work is already on. We expect that expenditure to be split stay 50 – 50 in the current fiscal and in the FY14. Apart from that, normal expenditure in the existing Plants, IT, etc. will continue.
- Jamshed Dadabhoy** Okay and sir secondly do you see any sort of increase in advances to either vendors to support them through this soft period of the industry or any sort of advances to players like Erik Buell, etc?
- Ravi Sud** You see as far as vendors are concerned we have payment terms of around 45 days and I am still maintaining 70% of the vendors are paid after 15 days and so far our vendors are concerned there is not even a delay of a single day and in case there is a mismatch at any particular vendor level it always dealt either through the main company or through the finance company which is Hero FinCorp Limited.
- Moderator** Thank you sir. Our next question is from the line of Kapil Singh from Nomura, please go ahead.
- Kapil Singh** Sir just wanted to check are you expecting any further cost pressures through second half of the financial year either due to rupee depreciation at current levels or due to compensating vendors for Yen or dollar movement?
- Ravi Sud** You see our outlook is as follows. If you look at the commodity, more or less they are stable or they are declining. They are down but I think our worst enemy as of today is the currency. And if you remember on 31<sup>st</sup> March rupee was at about 49 – 80 / 49 - 90 levels, which in the current quarter has again depreciated to Rs.56 – 57. So part of the impact is that has already come in the current quarter which you were discussing and part of that impact will come in the Q2. Because with some vendors we work with a lag of one quarter, and some vendors we work in the same quarter. So with whom we work with the lag of 1 quarter we will see the impact on the second quarter.
- Jamshed Dadabhoy** Sir what would be their percentage roughly?
- Ravi Sud** Percentage of what?
- Jamshed Dadabhoy** Percentage of the vendors which we work with a lag?



*Hero MotoCorp  
July 19, 2012*

- Ravi Sud** I don't think that will be relevant in terms of numbers I think what will be relevant would be, percentage of purchases we do. I think we had done some working and the working needs to be finalized but I think it could be an impact of about 70 – 80 basis points as far as the currency is concerned even in the quarter 2.
- Jamshed Dadabhoy** And any updates on the export plans and also the new launch plan?
- Anil Dua** So all the new launches first because we are looking at re launch of our entire premium range in this coming quarter and there are few launches with closer to the time will take about but certainly the entire range moves Erstwhile Hero Honda to Hero. And the process started last quarter and finishes this quarter. But with special focus with premium segment as we are making some product changes as well. On the other part which is on exports, on the new market we are pretty much moving as per our road map. We plan to get into Africa as well as Latin America in this calendar year in line with our plans. That's just a few months away now.
- Moderator** Thank you. Our next question from the line of Vaishali Jajoo from Aegon Religare, Please go ahead.
- Vaishali Jajoo** First is on your R&D plan if you can give me what is going on in the back end for the product development side from Hero Honda desk, is there any JV talked about in the desk or are we moving on our own from R&D of the new product which is going to be launched after 2014 from Hero Honda's desk or Hero MotoCorp's desk rather?
- Ravi Sud** Well Vaishali I think this is a standard question which you ask every quarter and my answer is also very standard. What we are saying for last 3 – 4 quarters, is that 4-5 firms we are working. Number 1) idea ultimately to build your own capacity. The number 1 step which we had taken I think this is more than a year back to strengthen our internal R&D capability by hiring and recruiting engineers and I can say the figure as of 30<sup>th</sup> June is more than 300 engineers and we already have, number 1. Number 2, was to get some experts in to the company who are specialist either as consultants or as our own employees. So we have some expats who we have hired full time employees who are working in a R&D centre and working on the modification of our existing product. Number 3 was that we have done some tie ups which we have shared earlier, one is AVL for engine who are working on existing engine to modify and also new platform. Number 4, we have also tied up with the Erik Buell in US for modification of existing product and development of new model. Apart from this, the company is always open for new tie ups, either through acquisitions or through technology agreements as and when they come and which falls within our requirement.
- Vaishali Jajoo** Apart from this, your cash flow side as you said the plan of 2500 crores will be spent in next year, so will it have impact on your treasury income going forward if I am not wrong?



*Hero MotoCorp  
July 19, 2012*

**Ravi Sud**

Yes if you analyze our financials, we generate more than 2500 crores of free cash every year. I am saying just the ball park figure. If we have a PAT of say close to 2000 crores, just as an example and we add that as depreciation we generate over 2500 crores of cash every year and so the question is whether we are going to be a net borrower in the next 12 – 18 months, my answer will be no. As it is, over a period of time our treasury has shrunk now. We used to be more than 6000 crores about 18 months back. We are now close to 4000 crores. And in the treasury income is a function of interest rates in the market. If you look at last, 12-15 months the interest rates have been very high and that's what we have been able to book healthy treasury income. But if 6 months or 9 months down the line the interest rates come down to a level which they were in 2009, 2010 automatically yields on some of that investment will also come down.

**Vaishali Jajoo**

Apart from this, just a general question on what incident happened yesterday in Maruti's plant because our plant also is there is the same belt? How do you see that event as a risk to the whole industrial belt in that particular area and if you can give your perspective on Hero Honda's working style on that front?

**Ravi Sud**

The only comment on this I have to make is this belt has been pretty volatile and you have seen our track records for many years, many things have happened in this belt and many companies in and around our plant also. We moreover to a large extent are insulated just because of our good industrial relation policies and I think these policies will continue and as far as we are concerned our operations are running normally.

**Vaishali Jajoo**

Can you give a break up how many workers are there on a permanent basis and how many are there on contract?

**Ravi Sud**

I may not have these results with me now, I am sorry Vaishali.

**Moderator**

Thank you. Our next question from the line of Mr. Srinivas Rao from Deutsche Bank, please go ahead.

**Srinivas Rao**

My question also centers on 2 issues. One is on the technology side, should we make a largely assumption you would be largely be going alone and developing institutional competency within Hero to match up when your agreement with Hero expires. Secondly the same agreement, correct me if I am wrong, but do you have an option to extend it?

**Ravi Sud**

To answer the first question I already said 4 – 5 things in the earlier question, what we are doing on, building our own capacities. One is to build own capacity and second is you already have tie-up with AVL and Erik Buell, who are really working as our partners and as I also said we are open to further tie ups if it fall in to our game plan. So that's what our plan is. Secondly as far as our agreement with Honda is concerned this is till 30<sup>th</sup> June, 2014. As far as new products, which we are launching, Impulse, Maestro and Ignitor, these products and further products which will



*Hero MotoCorp  
July 19, 2012*

come, that agreement is till June 2017. Just to clarify this to you while the agreement is till June 2014, we continue to use all the product range stays with us whether it is Splendor or Passion or Pleasure or Hunk, the entire range stays with us. So if your question is whether there is some pressure on product development from that point of view no, there is no pressure. That is our range and we have the rights on that but certainly in parallel we are developing several new products through the tie ups that we just spoke about and also through our own developments in-house, to further supplement the change, to further strengthen our leaderships in India.

**Srinivas Rao**

Two questions on demand side, would you like to throw some light on any particular regional imbalances within the demand side, I mean we have seen some commentary on the truck side that the southern states were weak and they have revived in the first half of this year. Any such color would help and secondly the rural versus urban which has been a big factor for you, is there any insipient signs to suggest the rural demand has kind of softened in the last 2 – 3 months.

**Anil Dua**

I will briefly touch upon those. India is a very large country. You do not expect the same movement of the industry everywhere. Clearly what we are seeing is that East seems to be growing very well and better than all the other 3 regions. That's from a two-wheeler point of view, the South follows close after East and North and West I will say are the ones which are lagging behind at the moment. So there are regional differences and there are several reasons which you may not have time to get into at the moment, but it led by local economic conditions, the local climatic conditions, the local sentiments and festival seen because there was power demand in automobiles as well as durables. So a lot of these things make temporary differences from one month to previous month, one quarter to the previous quarter. But currently that's the pressing order. East is growing the fastest followed by South, followed by North, followed by West. To answer your second question on rural versus urban yes, rural is something which has been our strong hold and our rural contribution has today gone up to about 46%, if you recall it used to be around 42% a few years back. So certainly we strengthen ourselves with rural activation program and our rural vertical. Currently whether there is any softening of demand, yes the demand has gone down as I outlined right at the outset from 18-19% to 12% levels to now 9% levels. This has of course happened across rural and urban. But I will still say that rural areas are slightly better off at the moment but the monsoon deficits could change it. But I think we have our presence across the regions of rural and urban still 53% of sales 54% coming from urban areas with premium segment re-launch planned with scooters stocks moving up, we are hopeful of being there where the demand is.

**Srinivas Rao**

Sir one last question, we have always wondered, could you have thrown a light on the percentage of sales in two-wheelers which is re placement sales and any light on any replacement cycle we keep wondering and what are the data points around these aspects?



*Hero MotoCorp  
July 19, 2012*

- Anil Dua** So this is not government data, I can officially tell you we are our internal estimates. The internal estimates clearly point out that today broadly one in two customers is a first time buyer and the balance 50% are buying either a second bike in their houses or upgrading or replacing the bike that they already have. So there is a 50-50 split broadly speaking between the first time hand buyers and either additional buyers or up-graders.
- Srinivas Rao** Within that additional versus upgrade is it more additional or is it more upgrades?
- Anil Dua** Our experience is slightly more on up-graders, so you can see they are 30 – 20 kind of a split.
- Srinivas Rao** And the replacement cycle any light on that, as you mentioned upgrades did it happen every 5 years, 6 years or something like that?
- Anil Dua** That cycle was actually a direct consequence of growth of the industry. So in the last couple of years when the industry had grown by high-double digit and 25%, the ownership cycle has started shrinking and it was coming under 5 years. I will say that now with growth assuming in the region of 9%, the ownership will again be 5 plus.
- Srinivas Rao** Thank you. Our next question from the line of Shreya Gaunekar from Morgan Stanley, please go ahead.
- Abhinay** This is Abhinay form Morgan Stanley. Just a broad question firstly given a free cash flow generation, any thoughts at relooking at our pay out ratio?
- Ravi Sud** We have a policy of dividend which is anything between 40 – 45%, I think that should continue. There will be investments coming like Exports, R&D, etc. in the future apart from Rs.2500 Crore expenditure plans announced in 4<sup>th</sup> June for capacity expansion.
- Abhinay** And sir, when you mentioned investments relating export businesses, could you sort of specify or give some numbers as to what kind of investments could go into building an export network?
- Anil Dua** Binay I think it is little premature for me to talk about these investments at that moment. I can say that 2500 crores investments that Mr. Sud spoke about does not really include at the moment any investments in the international market. So anything that will happen that will be over and above that. So clearly those are very small plans at the moment because a lot of our businesses is going to be distribute around as we get a broad in to international market. And yes in course of time since its not just export, it is international business, we will be putting money on the ground, but right now we expect our partners to be investing in the small assembly line that we are going to put around the globe, the result of which you will see as I said in this year itself.



*Hero MotoCorp  
July 19, 2012*

- Abhinay** And sir secondly sir for exports the first few markets we are targeting Africa and Latin America, so any product is going to be a entry level portfolio driven growth.
- Anil Dua** Yes it's mainly going to be 100cc and 125cc bikes.
- Abhinay** And sir lastly as we know that in the domestic environment the inventory levels have gone up. So does it mean that we are doing the more of dealer financing?
- Anil Dua** Well as a company we don't do any financing. We have our financing arm, Hero Fincorp and also we have tie up with various banks that we have IndusInd Bank, HDFC Bank and some of the NBFC like L&T Finance. So we have organized lines of credit and dealers are now availing them.
- Moderator** Mridul Shah from Karvy, please go ahead.
- Mridul Shah** My question pertains to new plant in Gujarat and Rajasthan, when do you expect operation to begin commercial production?
- Ravi Sud** Okay as far as Neemrana plant is concerned what I had stated earlier was that it will be operational in the first half of FY14 which is as per the plan and we expect the plants to be operational by August or September of 2013. As far as the Gujarat plant is concerned, we expect that to be operational by about last quarter of FY14.
- Mridul Shah** Next year festival demand would that be met by this plant?
- Ravi Sud** Yes could be because we are talking about the capacity of about close to 700,000 at Neemrana and adding capacity of something like 1.5 million for Gujarat which will be in 2 phases. The first phase would be 750,000 and in the second phase it is going to 1.5 million. So if you add up all the capacities I think by 2014 March we should have a capacity of more than 9 million.
- Mridul Shah** But this first capacity of Rajasthan that 700,000, that will come completely by August or it would be initially lower than?
- Ravi Sud** These are all modular plants. So the first module is 750,000. 750,000 will translate in to something like 2500 per day. You may not produce 2500 per day. But it can be ramped up very fast like what we did in Haridwar depending upon market requirements.
- Moderator** From the line of Jiten Doshi from Enam Asset Management, please go ahead.
- Jiten Doshi** Couple of question, what are your export targets for the next 2 years?



*Hero MotoCorp  
July 19, 2012*

**Anil Dua** I will not really mentioned it year by year what we have said that in 5 years' time we plan to get to about 10% of our turnover and the overall volumes that we are targeting at 10 million as the business and therefore roughly about a million is what we are targeting as part of our international business in 5 years' time. Currently let's say as we speak we are looking at about couple of 100,000 numbers. So we are planning to go 5x in 5 years.

**Jiten Doshi** The second question is what is your outlook on the ad spends in the current year and next year?

**Anil Dua** So if you look at our ad spends, marketing spends have been pretty stable within 2% of total in fact has been lower recently. And we hope to keep it within that but there may be some quarterly differences while quarter 1 has been lower as I explained earlier in this call. Given that our re-launches, our refreshes are happening in this quarter. So this quarter is likely to be heavy. But overall for the year as a whole we will pretty much stays within our ballpark figures.

**Jiten Doshi** Sir what about your tax rates? What is your expected tax rate for this year and next year total?

**Ravi Sud** This year tax rate would be in the range of what we had in the first quarter, which is about 16.25%. Ultimately it may be fine tuned to the minor extent by the overall production what we get from Haridwar because the tax rate is exempted and this is the last year of tax exemption as far as Haridwar is concerned because we are in the 5<sup>th</sup> year. And next year only 30% of the income will be exempted. So we expect this tax rate to go up to, this is only an estimate anywhere between 23 – 25%.

**Jiten Doshi** As you have been mentioning as Mr. Dua mentioned that the inventory on the dealers end has actually gone up for the overall industry for about 2 weeks to probably 3 – 4 weeks. Has that affected the working capital of the company sir?

**Ravi Sud** As I said yes, our receivables have gone up but as I said in one of the earlier question, as far as my vendor payment is concerned, all our vendor payments are on **time** even today.

**Jiten Doshi** So that means how much would there be a shift in the working capital sir?

**Ravi Sud** There are two elements, one is the receivables, which has gone up, we generally used to work between 2 – 4 days of receivables, we are now close to 7 days of receivables. As far as vendor payments are concerned, the vendor payments are 45 days which used to be on an average 33 – 34 days because lot of payments will release after 15 days if we continue to do so which are still at 33 – 34.

**Jiten Doshi** So can you give me your actual outstanding debtors figure as on 31<sup>st</sup> March and 30<sup>th</sup> June?

**Ravi Sud** 31<sup>st</sup> March it is already in the public domain. June figure I may not be able to give it to you.



*Hero MotoCorp  
July 19, 2012*

**Jiten Doshi**

And sir what is your margin outlook for the rest of the year?

**Ravi Sud**

Well you see in the beginning of the year we had said the industry will grow at about 10% and so far in the first quarter it's more or less in that range, it is at about 9%. But the patchy monsoons and consumer sentiments, we have to just see how the overall industry grows as I said our assessment is it could be high-single growth for the full year and it is growing in line with the industry growth I think you have current quarter margins. In the next quarter I have couple of things which will be impacting the margin, one would be ad spend. Part of the advertisement expenditure could come in quarter 2. And as I also said part of currency fluctuation which has happened in the quarter 1 may come in the second quarter.

**Jiten Doshi**

My last question for Mr. Dua is that what you really think of Honda Motor and HMSI, because they have been consistently taking their share up year-on-year and quarter on quarter. In fact their sales have surpassed expectations in the first quarter. And what do you think about the new launch which is a Dream Yoga which we keep reading about in the paper and their aspirations to become leaders in the market in India?

**Anil Dua**

See I can only comment on our company and our operations I cannot comment on any competition. All I can say is that as Hero we have been used to competition over the years we have had competitions in new forms and new ways and new segment it has always been very challenging and very exciting. So we are in excited times. I can only say that 100cc segment which we have seen some action we roughly gained share in this quarter. As you know overall motorcycles we gained share this quarter. So this is what we clarified the scooters where because of our plans in next quarter and because of stock issues in June, we have not grown in line with the industry but we have grown ahead of the industry with all the competition happening and we gained share in 100cc segment, where a lot of action is happening. So competition is welcome and we have been used to competition and we have been gaining market shares despite of competition. We are targeting to strengthen our leadership further. We have our plans in place.

**Jiten Doshi**

So do you see HMSI as another competitor or a major threat?

**Ravi Sud**

As I said I am not going to comment on the rest of the industry. We do not dismiss even the smallest competitor to the largest competitor. We have a healthy respect for our entire competition. We, however, do not base our plans on the basis on what competition is doing. We base our plans on basis of our understanding of the customers. We look at long term trends then we make our plans for customers, that has worked for us in the past and hopefully that will continue working for us going forward.

**Moderator**

Thank you. Our next question from the line of Ronak Sarda from MFSL, please go ahead.



*Hero MotoCorp  
July 19, 2012*

- Ronak Sarda** Sir, can you just give an outlook on how commodities have been shaping up because of the rupee appreciation they have not come down. But any guidance for next couple of quarters, how they are shaping up?
- Ravi Sud** I think I answered this question earlier but let me tell you, as I said commodities are stable or down. However, the worst impact is from the currency. INR appreciated to 57 during the quarter from 50, we are still lobbying around 55/60 so that is what is impacting. And I said earlier part of the impact has come from this rupee depreciation in the first quarter and part of that will come in the second quarter because of working ways of some of the vendors on a lag of 1 quarter. To answer your question very specifically, looking at the overall macro scenario or as a worldwide scenario I think the outlook is generally sluggish and we don't expect commodity to go up.
- Ronak Sarda** And how are the next month contracts shaping up? Is that the same price or they have been slightly lower?
- Ravi Sud** You see as far we are concerned, our direct import of commodities are very negligible. We don't import much. It is basically the vendors who import the raw materials. So as far as we are concerned we are not in month-to-month basis.
- Ronak Sarda** Okay I am sorry if I misded but other income has not increased much in this quarter, any specific reason?
- Ravi Sud** Other income is something where one has the flexibility to book how much you want to book. Balance remains in other accrued income. Because these are the investments whatever income you want to book you would divest it and reinvest or use it for your operations. So as a matter of policy we have been very consistent, you can check our records of last 40 quarters, we are very consistent in booking other income otherwise it starts impacting you quarter-on-quarter bottom-line. We try to minimize the variations Q o Q.
- Ronak Sarda** Because dividend payout was lower this time around, so we were expecting other income to be a bit on the higher side.
- Ravi Sud** As far as dividend payout is concerned the money I still sitting in the company here. The money has to go sometime in the middle of September after the AGM.
- Moderator** Participants we will take the last question from the line of Mr. Srinivas Rao form Deutsche Bank, please go ahead.
- Srinivas Rao** I wanted to just ask you on the relative difference in the CAPEX per unit for Rajasthan versus the Gujarat plant. You have kind of 400 odd crores for the Rajasthan plant and about 1100 odd



*Hero MotoCorp  
July 19, 2012*

crores for the Gujarat plant. Of course the other one is bigger but per unit basis the Gujarat plant seems to be coming at a higher CAPEX per unit. Any particular reason for the difference?

**Ravi Sud**

As far as capacity is concerned, I will divide it in to two parts. One is the cost of land which is a one major element of the CAPEX. Second is the building & plant and other facilities. As far as Rajasthan plant is concerned the land is already with us which we bought it 5 – 6 years back. As far as Gujarat is concerned is something we are going to buy now. So that would be the main differentiating factor as far as going by per unit is concerned. The second would be, the kind of operation which we want to do within the plant is it going to be assembly plant or you want to do some machining or value adding activity. As far as Rajasthan is concerned because it is very close to our existing location we were just going for only an assembly type of plant. Hence the cost per unit will be lower.

**Ravi Sud**

And finally just Gujarat land will be acquired by the government and given to you, is that the actual process?

**Ravi Sud**

Yes.

**Moderator**

I would now like to hand the conference over to Mr. Jinesh Gandhi for closing comments.

**Jinesh Gandhi**

Thank you Lovina. On behalf of Motilal Oswal Securities, I would once again want to thank all of you for joining the call today. Thanks Mr. Sud, thanks Mr. Dua.

**Moderator**

Thank you. Participants with that we conclude the conference. Thank you for joining us and you may now disconnect your lines.